

**ECONOMIC REFORM PROGRAMME  
(ERP)  
2022-2024**

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

After the EC established in its regular annual report in October 2021 that it had managed to preserve macroeconomic stability during the pandemic, BiH prepared its eighth Economic Reform Program (hereinafter: PER BiH) in limited conditions. This PER is specific compared to the previous ones because it was done in conditions of delay in decision-making of the Council of Ministers and institutions of Bosnia and Herzegovina (without the adopted Action Plan which is the basis for drafting the PER BiH) and in the circumstances caused by the Covid-19 pandemic.

Bearing in mind that at this time the Law on the Budget of BiH Institutions for 2021 has not yet passed all the necessary adoption procedures in the Parliamentary Assembly of Bosnia and Herzegovina, at the level of BiH institutions in 2021 four Decisions of the Council of Ministers of Bosnia and Herzegovina were in force. on temporary funding. The draft budget of the Federation of BiH is currently in the Parliamentary procedure (parliamentary session scheduled for 24 and 25 January 2022), while the budget of the Republika Srpska was adopted by the NARS (15 December 2021) in the regular procedure. The budget of the Brčko District for 2021 was adopted in December 2021.

Meanwhile, the consolidation of public finances achieved before the pandemic is once again the focus of action at all levels of government. The decline in revenues and the financing of socio-economic measures to support the economy, citizens and health systems at all levels of government have led to a large deficit at the level of the general government in Bosnia and Herzegovina. The original budget plan, for 2021, at all levels of government in Bosnia and Herzegovina was done very carefully, given the impact of the 2020 pandemic. However, in 2021, a favorable trend was achieved in the collection of all types of public revenues (the projection of consolidated revenues for Bosnia and Herzegovina is 42.3% of GDP). On the other hand, all levels of government managed to finance their expenditures, which was certainly reflected in the primary balance (the realized deficit is much smaller than planned). All of the above, along with the favorable development of macroeconomic indicators, has led to the need for a rebalance of the budget at certain levels of government. This situation required the implementation of fiscal adjustment measures at all levels of government, which should lead to the consolidation of public finances as early as 2022, when a surplus is expected. This coincides with the fiscal goal of Bosnia and Herzegovina, which is still to achieve a primary surplus, ie in 2022 to reduce the primary deficit or even achieve a primary surplus, with control of public spending so that consolidated public spending at the level of Bosnia and Herzegovina would not exceed 40% of GDP.

Structural reforms are the main instrument that can enable better disposition of factors of production. Therefore, in BiH we are determined to continue the activities started in all areas. The focus is on structural reforms that can identify what has been done so far and what still needs to be done. The key areas for which all levels of government are committed and which respect the EC recommendations for BiH are in accordance with the document, the Framework for the Realization of Sustainable Development Goals in BiH. In order to ensure the coherence of sustainable development policies, all levels of government in BiH have taken responsibility for the implementation of the Sustainable Development Goals and the 2030 Sustainable Development Program. and Public Sector Governance, Equal Opportunities Society and Smart Growth. The commitment of all levels of government in Bosnia and Herzegovina is to base their work on sustainable development.

According to currently available data from the national accounts (GDP, expenditure approach) of the Agency for Statistics of Bosnia and Herzegovina for the three quarters of 2021, it is estimated that Bosnia and Herzegovina achieved economic growth of 7.7% compared to the same period last year. If we look at the structure of economic trends in 2021, we can say that this GDP growth is due to the simultaneous growth of both aggregate supply and aggregate demand due to improving epidemiological and economic conditions in the country and the external environment.

In the middle of 2021, the Directorate for Economic Planning of BiH, in the role of technical coordinator for the development of PER BiH, prepared the set of documents for all institutions involved in the development of the Economic Reform Program. The information contained originals and translations of all documents arising from the process of drafting the BiH Economic Reform Program (European Commission Assessment, Joint Conclusions, Guidelines for drafting the Economic Reform Program). This Information was not adopted at the session of the Council of Ministers.

All relevant institutions involved in the development of the Economic Reform Program were acquainted with the content of the mentioned documents through the coordinator, with the aim of using the suggestions and recommendations from the mentioned documents in the preparation of the new Economic Reform Program 2022-2024. Furthermore, the Directorate is in the period of preparation of the Economic Reform Program 2022-2024. consulted with them in the form of online or live meetings, where possible.

In the previous period, within the coordination role, several meetings and trainings were held with PER coordinators, as well as trainings conducted by CEF. The meetings have repeatedly stressed the importance of complying with the new EC Guidelines when it comes to wording, description, costing, proposing new measures, meeting deadlines and conveying the views of the EC from the PER Launch Event 2021 held on 24 and 25 June this year. which also presented the new PER Guidance Note for 2022-2024 (European Commission Guidelines for the preparation of PER 2022-2024).

In accordance with the recommendations of the EC, the Directorate for Economic Planning of BiH sought to strengthen the coordination role. Unfortunately, we must emphasize that this year's PER BiH was done in restrictive circumstances of the Council of Ministers of Bosnia and Herzegovina, and such a situation resulted in non-adoption of the PER Action Plan, which is the basis for coordination and development of PER BiH. Despite everything, the Directorate continued to play the role of technical coordinator for the development of the BiH PER.

Final document Economic Reform Program 2022-2024 was prepared on the basis of attachments submitted by the competent institutions.

The Entity Coordinators submitted to the Directorate for Economic Planning contributions to the ERP Economic Reform Programs for 2022-2024 following the adoption procedure by the entity governments. The Program of Economic Reforms of BiH for 2022-2024 was adopted by the Council of Ministers of BiH at the \_\_\_\_ session held on \_\_\_\_ 2022.

## 2. IMPLEMENTATION OF THE POLICY GUIDANCE

In order to achieve inclusive and sustainable development, Bosnia and Herzegovina has aligned its vision and strives to be institutionally developed with a more competitive and dynamic economy and greater opportunities for sustainable economic growth, more and better jobs, and stronger social cohesion based on skills development and business environment. The vision is fully in line with the main purpose of the preparation of the ERP BiH and the reform measures it contains.

The implementation of reform measures from the Economic Reform Program will contribute to removing obstacles to competitiveness and inclusive growth. The implementation of the reform measures envisaged by the Economic Reform Program is monitored primarily by the relevant institutions responsible for the activities and the coordinators in charge of coordinating the development of the BiH Economic Reform Program. At the Ministerial Dialogue held in June 2021, the European Commission, together with the representatives of BiH and the Coordinators of the ERP of BiH, agreed on certain recommendations for further development of the document.

The short-term fiscal response focused on measures to prevent imminent job loss due to measures to combat the spread of coronavirus does not include informal sector workers and other categories of employees. Depending on the entity and the concept of measures, certain categories of enterprises are excluded, while some large firms that offer higher wages on average and operate in low-contact sectors are likely to benefit from support. The redistribution of budget funds was accompanied by financial arrangements with international financial institutions. Public investment, which is an instrument with a medium-term countercyclical potential, has not been sufficiently exploited. Monetary policy options are limited, given the currency board. During the crisis, the currency board performed well as it provided monetary stability, anchored inflation expectations and provided confidence in the system. The currency board must be preserved in order for its positive role to continue.

As part of the response of the Government of the Republika Srpska to the crisis caused by the Covid 19 pandemic, assistance was provided to all affected sectors in order to mitigate the negative economic consequences. In 2020 and 2021, the Government of the Republika Srpska took a number of measures aimed at helping the health sector and economic entities and entrepreneurs - carriers of economic activity, to successfully overcome the consequences of the global pandemic covid 19 through preserving jobs, paying salaries and maintaining liquidity. Those whose economic activity was reduced.

The most important measures were:

- determination of tax measures that included delays in filing tax returns and deadlines for settling tax liabilities, and
- Measures related to the support of economic entities for the implementation of which 74.8 million KM were paid for March, April and May 2020 and March 2021.

The state of emergency and the decline in economic activity led to a reduction in revenues, and measures taken by the Republika Srpska government in response to the pandemic reflected an increase in expenditures, ultimately reflected in a high share of the consolidated budget deficit in GDP. 2020) of 5.1%, and crossed the threshold of consolidated budget deficit of 3%, which is prescribed by the Law on Fiscal Responsibility. According to the above, the rules of the consolidated budget deficit were violated, while the rule on debt was not violated.

The legal framework for the exchange of information on taxpayers between tax administrations in BiH is defined by the Memorandum on Institutional Cooperation, Exchange and Transfer of

Data on Taxpayers signed in June 2016. The cooperation and data exchange so far has been uninterrupted in recent years, but there is room for further improvement of this cooperation.

In order to further improve the exchange of data between tax administrations in BiH, the Tax Administration of Republika Srpska in the past period within the Project to support revenue administrations in BiH, through technical assistance from the International Monetary Fund, identified areas where it is possible to improve existing data exchange, with an emphasis on further strengthening internal capacities to make better use of the information exchanged.

The amendments to the Law on the Republika Srpska Guarantee Fund enable the Republika Srpska Guarantee Fund<sup>1</sup> to manage guarantee programs organized by the Republika Srpska in the general economic interest in order to facilitate access to finance and mitigate the consequences of special circumstances on the Republika Srpska economy.

In its work, the Republika Srpska Statistical Office, in accordance with strategic, program and planning documents, continuously strengthens statistical capacities, and strives to ensure and increase the coverage of statistical data.

In the Republika Srpska, non-performing loans (NPLs) have declined in recent years, thanks to many years of activities. Business registration procedures (for both legal entities and entrepreneurs) in the Republika Srpska have been significantly simplified, which is continuously reported. Since 2013, the one-stop registration system has been in operation, the number of days, procedures and costs has been significantly simplified.

The Government of the Republika Srpska has adopted the Public Financial Management Strategy of the Republika Srpska for the period 2021-2025. (hereinafter: SUJF RS) at the 124th session held on June 3, 2021. SUJF RS is a reflection of the commitment of the Government of Republika Srpska to implement public financial management reform as a segment of reforms defined by the Joint Socio-Economic Reforms for the period 2019-2022. years.

Monitoring and anticipating the needs for skills on the labor market with the aim of harmonizing the education and training system and providing retraining and additional training with the needs of the labor market is a regular activity that is still carried out by the Employment Bureau of Republika Srpska. This activity is one of the measures in the mentioned strategy in the form of improving the system of connecting education with the needs of the labor market.

The Law on Preschool Education stipulates that the Program of Preschool Education is conducted in preschool institutions, primary schools, schools for children with disabilities and centers for social work in underdeveloped and extremely underdeveloped local self-government units where there are no preschool institutions. and social welfare institutions housing children without parental care, with the aim of providing access to preschool education services.

For the full efficiency of the electronic procedure of company registration in the Republika Srpska, it is necessary to enable a mass service of issuing qualified e-signatures and e-seals by the certification body of the Ministry of Scientific and Technological Development, Higher Education and Information Society (MNRVOID). In this regard, the Government of the Republika Srpska, by the Conclusion of March 11, 2021, instructed the Ministry of Finance and MNRVOID to undertake activities to provide funds for the purchase of qualified smart cards, the implementation of which was slowed by the negative effects of the Covid-19 pandemic.

As part of the drafting process, technical assistance was provided in the form of workshops organized by the Center for Excellence in Finance (CEF) from Slovenia, held within the project

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<sup>1</sup> "Official Gazette of the Republika Srpska", No. 53/20.

Strengthening the capacity of line ministries to assess fiscal implications of structural reforms, funded by the IPA .

Register of socially-owned enterprises in FBiH established, fully functional and publicly available. Registration is available on the FIA website. The FIA is the state agency in charge of state registers. Given the complex administrative structure and competencies of different levels of government over the management and governance functions in SOEs (FBiH entity level, cantons, cities and municipalities), the FIA is recognized as the most suitable solution for registration.

Following the initial establishment of the FIA register (supported by an IMF study and further assistance), follow-up activities included reviewing the accuracy of the register, as well as ensuring that some non-financial data was included in social enterprise profiles. The FIA has signed numerous agreements on cooperation with courts, statistics, etc. in order to be able to collect and publish additional data, in addition to the main financial KPIs.

The PMO and the General Secretariat benefited from technical assistance and training, as well as tools, all provided by the IMF. In particular, the IMF has provided a tool for checking the financial condition of social enterprises, which is used to analyze the performance of social enterprises and a tool for assessing fiscal risk, which is very important given the huge tax debts of social enterprises.

The OECD has completed an analysis of the state-owned enterprise dimension for the Competitiveness Report and, apart from the area of ownership policy and ownership rationale, all other areas have been assessed as a “solid framework”. The OECD has also made recommendations to improve certain areas, and EBRD assistance has been provided to develop an Action Plan.

The General Secretariat of the Government of the FBiH is preparing the necessary regulations for the establishment of a unit within the Secretariat in charge of monitoring social enterprises. It is expected that this work will be completed by June 30, 2022. and after the establishment of the unit, the work on monitoring social enterprises will be transferred from the project-based function in the Office of the Prime Minister to a formal unit within the General Secretariat.

Determining fiscal risks, as well as financial supervision over the operations of public companies are measures determined by the Public Financial Management Strategy of the Republika Srpska for the period 2021-2025. (Decision on the adoption of the Proposal of the Strategy for Public Financial Management of the Republika Srpska for the period 2021-2025 was published in the "Official Gazette of the Republika Srpska", No. 54/21). In October 2021, the Government of the Republika Srpska established a system for coordination of supervision of public enterprises in the Republika Srpska (Decision on Establishment of a System for Coordination of Supervision of Public Enterprises in the Republika Srpska - Official Gazette of the Republika Srpska, No. 92/21). contribution to the economic development of the Republika Srpska. The coordination system implies the establishment of an organizational unit for the coordination of the supervision of public enterprises in the General Secretariat of the Government of the Republika Srpska.

After the establishment of the coordination system and the establishment of the Central Unit for Financial Supervision of Public Enterprises, a new register of public enterprises in the Republika Srpska will be established.

The Decree on the Exercise of Ownership Rights in Socially Owned Enterprises Owned by FBiH is currently under revision and will be revised by the end of the first quarter of 2022, in terms of the List of Socially Owned Enterprises, but a proposal for a statement on ownership policy.



### 3. MACROECONOMIC FRAMEWORK

#### Macroeconomic indicators 2019-2024

Indicator	Official data		Projections			
	2019	2020	2021	2022	2023	2024
Nominal GDP in Million KM	36,527	35,436	36,806	38,447	40,094	41,907
Nominal growth in %	4.6	-3.0	3.9	4.5	4.3	4.5
GDP deflator (previous year = 100)	101.8	100.2	100.8	101.0	100.7	100.8
Real GDP in million KM (previous year = 100)	35,885	35,359	36,520	38,051	39,803	41,577
Real growth in %	2.8	-3.2	3.1	3.4	3.5	3.7
Inflation measured by Consumer Price Index in %	0.6	-1	1.1	0.9	0.8	1
Consumption in million KM	32,809	32,360	33,205	34,174	35,085	36,120
Real growth in %	2.0	-1.8	1.7	1.7	1.5	1.6
Government consumption in million KM	6,862	7,129	7,272	7,504	7,744	7,992
Real growth in %	0.9	1.3	1.3	0.7	0.7	0.7
Private consumption in million KM	25,947	25,232	25,934	26,670	27,341	28,127
Real growth in %	2.3	-2.6	1.9	2.0	1.7	1.8
Investment (Gross) fixed capital formation in million KM	8,129	7,779	8,252	8,916	9,664	10,624
Real growth in %	5.8	-3.0	4.8	7.0	6.9	7.9
Government investments in million KM	929	1,674	1,719	1,939	2,130	2,449
Real growth in %	7.2	82.6	1.2	10.8	7.6	11.7
Private investments in million KM	7,200	6,105	6,532	6,976	7,535	8,175
Real growth in %	5.7	-14.0	5.8	6.1	6.7	6.8
Imports in million KM	19,492	16,601	18,594	19,915	21,326	23,119
Nominal growth in %	1.7	-14.8	12.0	7.1	7.1	8.4
Real growth in %	1.3	-13.6	10.1	4.6	4.1	4.8
Exports in million KM	14,320	11,820	13,928	15,238	16,635	18,280
Nominal growth in %	0.5	-17.5	17.8	9.4	9.2	9.9
Real growth in %	0.4	-16.2	16.0	6.7	6.9	7.4
National Gross savings in % of GDP	21.4	19.6	20.2	20.8	21.6	22.4
Current account balance in million KM	-1,087	-1,090	-844	-950	-1,032	-1,223
Growth in %	-1.5	-15.4	-7.8	12.5	8.7	18.5
Current account balance in % of GDP	-3.0	-2.6	-2.3	-2.5	-2.6	-2.9

In accordance with the previous agreement between the representatives of Bosnia and Herzegovina and the European Commission, during the preparation of this Programme, the baseline scenario used for the development of the BiH FBD in September 2021 was retained. This approach was used to ensure consistency and compatibility of the macroeconomic and fiscal framework. On the other hand, an alternative scenario for the needs of the ERP was done in November 2021 on the basis of available data.

### **3.1. Recent economic developments**

#### **Economic developments in 2021**

Both in health and economic terms, 2020 was marked by the global pandemic of the Covid 19 pandemic, which led to a real decline in GDP in Bosnia and Herzegovina of 3.2% compared to the previous year.<sup>2</sup> However, as early as the beginning of 2021 (especially in Q2), the gradual stabilization of epidemiological conditions and the improvement of economic activity in the main trading partners (EU and countries in the region) stimulated the growth of economic activity in Bosnia and Herzegovina. Namely, the gradual opening and recovery primarily of export markets (EU countries) has significantly improved export demand and enabled the recovery of production and exports of goods (double-digit growth rates), so that Bosnia and Herzegovina already in Q1 2021 achieved a positive economic growth rate of 2.5%. During Q2 2021, due to the base effect and stronger recovery of domestic demand (private consumption), there was an additional strengthening of economic growth in the country with an economic growth rate of 11.6% compared to the same period last year.<sup>3</sup>

Thus, based on the available quarterly data of BHAS, it can be concluded that in the first half of 2021, Bosnia and Herzegovina achieved real GDP growth of over 7% compared to the same period last year. This relatively high rate of economic growth is in the range of the regional average of the Western Balkan countries, which was 7.7%. In the absence of data from national accounts, and based on short-term statistical indicators for Q3, it can be concluded that the positive trend of economic growth in Bosnia and Herzegovina continued, albeit at a much lower intensity compared to the previous quarter. Previous analyses of economic developments in Bosnia and Herzegovina have confirmed that the external environment is a very important if not the most important structural determinant of economic developments in the country, but this year they are further conditioned by the development of epidemiological conditions. Accordingly, the development of the epidemiological situation related to new strains of Covid 19 virus, the degree of immunization of the population and the economic trends in the external environment (EU and region) will largely determine economic developments in 2021.

The improved epidemiological situation in EU member states in recent months has resulted in improved EC growth projections. Namely, according to the latest available projections of the DG ECFIN (*European Economic Forecast, Autumn 2021*) from November 2021, EU countries are expected to see a real GDP growth of 5%.<sup>4</sup> Observed by countries that are both major foreign trade partners and investors in Bosnia and Herzegovina, the expected economic growth rates are as follows: Germany 2.7%, Italy 6.2%, Austria 4.4%, Croatia 8.1% and Slovenia 6.4%. Assuming the achievement of these growth rates in EU countries and the favourable epidemiological situation related to Covid 19, according to the projections of the BiH DEP, Bosnia and Herzegovina can expect real GDP growth of over 3% in 2021.<sup>5</sup> In this way, Bosnia and Herzegovina, already in 2021, thanks primarily to the strengthening of domestic demand (private consumption and to a lesser extent investment) with a positive contribution of net exports, should reach if not exceed the level of GDP achieved in 2019.

#### **Labour market**

After the number of employed persons in 2020 declined, the labour market gradually stabilised in 2021. The average number of the employed persons in the period January-August 2021 stood at about 815.7<sup>6</sup> thousand and is higher by 0.4% y-o-y. By areas of activity, the most significant

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<sup>2</sup>BHAS, Release, Gross Domestic Product for Bosnia and Herzegovina, expenditure approach, preliminary results 2020, 27/07/2021

<sup>3</sup>BHAS, Release, Gross Domestic Product for Bosnia and Herzegovina, expenditure approach, quarterly data for Q2 2021, 04/10/2021.

<sup>4</sup>DG ECFIN, European Economic Forecasts Autumn 2021: From Recovery to Expansion, Amid Headwinds, November 2021.

<sup>5</sup>BiH DEP Projections, September 2021

<sup>6</sup>Provisional data.

increase in the number of employed persons was in the field of information and communication, health and social work and manufacturing industry. The growth in the total number of employed persons was reflected in the decrease in the number of registered unemployed persons. In the period January-August 2021, the number of registered unemployed persons in Bosnia and Herzegovina decreased by 3.2% y-o-y and amounted to 401.5 thousand. The survey unemployment rate in Q1 2021 was 19.1% and in Q2 18.1.<sup>7</sup> In the period January-August 2021, the average net salary was nominally increased by about 4% and amounted to about KM 986. Based on available data in 2021, a similar trend in the number of employed persons can be expected by the end of the year (around 0.5%). In the area of wages, the nominal growth rate of net wages could be around 4% y-o-y by the end of the year.

### **Inflation**

After the stagnation of prices in Q1, Bosnia and Herzegovina registered price growth since Q2 2021. Inflation measured by the consumer price index in the period January-August 2021 amounted to 0.6% compared to the same period in 2020. The most significant increase in prices in the period January-August 2021/January-August 2020 was in the sections of food and non-alcoholic beverages, transport, alcoholic beverages and tobacco. Prices in the food and non-alcoholic beverages section, accounting for the largest share in the CPI index, increased by 1.5% y-o-y. In addition, due to higher prices of oil and petroleum products in the period January-August 2021, prices in the transport section were higher by 2.5% y-o-y. Prices in the section of alcoholic beverages and tobacco increased by 1.9% in the observed period, which was affected by excise duties<sup>8</sup> on cigarettes and tobacco in 2021. By contrast, prices in the clothing and footwear section were lower by 9.6% y-o-y and this section continuously exerts significant multi-year deflationary pressure on the overall price level. In the latest available EC projections (summer 2021), the price of crude oil in 2021 is expected to be significantly higher than in the previous year and amount to \$ 68.7/barrel (58.3% y-o-y) with faster inflation growth of 2.2% in the EU and 1.9% in the euro area. In September 2021, the ECB also projected faster crude oil prices growth in its projections, as did the IMF. Taking into account the domestic factors that determine prices (utility prices, excises, etc.) in Bosnia and Herzegovina in 2021, we can expect inflation to stand around 1.1% y-o-y.<sup>9</sup> However, it should be taken into account that inflation will be determined by the stated risks.

### **Bank loans and deposits**

In 2021, the growth of total loans at the end of the third quarter of 2021 was by 2.9% higher compared to the same period last year. The largest contribution to growth was made by loans from the household sector with 2.1 percentage points, while loans from non-financial corporations contributed 0.5 percentage points. The balance of total deposits at the end of the third quarter grew by 11.6% y-o-y, with household deposits contributing to the growth of 4.7 percentage points. The contribution of deposits of non-financial corporations was 4.9

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<sup>7</sup> In the period of preparation of the document data for Q1 and Q2 were available. In 2021, the Labour Force Survey in Bosnia and Herzegovina is conducted continuously according to a new, redesigned methodology in line with the new Regulation of the European Parliament and the Council, which entered into force on 1 January 2021. Due to the transition to the new, redesigned methodology of the Labour Force Survey in 2021, the data series was interrupted. The results of the Labour Force Survey 2021 are not comparable with the results of the continuous Labour Force Survey 2020 and the results of annual labour force surveys conducted in the period from 2006 to 2019.

<sup>8</sup> The Governing Board of the Indirect Taxation Authority issued a Decision on establishing special and minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2021. The minimum excise duty for a pack of cigarettes containing 20 pcs is KM 3.25 (KM 3.04 in 2020) while a special excise duty amounts KM 1.65 for the same package. The excise duty for a smoking tobacco is set at 80% of the minimum excise duty for cigarettes set in Article 3 paragraph 3 of this Decision and amounts to KM 1.30 per kilogram (KM 121.6 per kg in 2020). Source: Decision on establishing special and minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2021

<sup>9</sup> If strong price growth continues by the end of the year, inflation in Bosnia and Herzegovina in 2021 could be higher (alternative scenario table).

percentage points. Due to the slower recovery of the employment level in 2021 as well as the fact that non-financial private enterprises still record high growth rates of deposited funds in 2021, a moderate recovery in lending activity is expected in 2021 and faster in the coming years. A slower recovery in the demand for loans is estimated in 2021, which could achieve an annual growth rate in the intervals from 3 to 4% y-o-y. Further faster growth of total deposits is expected as a result of growth in deposits of non-financial corporations, but also recovery and faster growth of household deposits due to improved labour market conditions and recovery and growth of income.

## **External sector**

### **Balance of payments**

According to official data from the balance of payments of Bosnia and Herzegovina for Q1 2021 and DEP projections for the remaining three quarters of 2021, the current account deficit within the balance of payments of Bosnia and Herzegovina would amount to about KM 850 million, which would be a 7.8% decrease (y-o-y). This narrowing in the current account deficit would be mainly due to somewhat better economic activities in the EU (partial market recovery after last year's decline caused by the Covid-19 pandemic) and thus a more favourable impact on foreign trade in goods and services of Bosnia and Herzegovina. In Q1 2021, the current account deficit amounted to about KM 114 million, which is a decrease of 64% compared to the same period last year. This decline in the current account deficit was largely determined by the foreign trade deficit in goods and services (which recorded a decline of 21.5%), i.e., an increase in imports by 0.7% and an increase in exports by 10.4%<sup>10</sup> (y-o-y). Current net inflows of money from abroad in Q1 2021 decreased by 7.6%, as a result of a decrease in current inflows by 7.1% and a decrease in the outflow of money abroad by 5.5%.

### **Foreign trade in goods**

Despite the presence of the Covid 19 virus, as early as of the end of the previous year and throughout 2021, a relatively good recovery of foreign trade with the world has been observed in Bosnia and Herzegovina. Namely, according to BHAS data for the period January-September 2021, Bosnia and Herzegovina recorded an increase in total foreign trade by about KM 5.5 billion compared to the same period last year, which is an increase of 27.6% or more than ¼ compared to the same period last year. Based on these indicators, it can be stated that foreign trade in Bosnia and Herzegovina is recovering quite well, which was suggested in previous reports. Namely, at least within the framework of foreign trade in goods, Bosnia and Herzegovina managed to fully compensate for the losses from the previous year, and even surpass the results of foreign trade from 2018 and 2019, which were relatively successful. On the other hand, according to currently available projections, the EU countries are expected to have a somewhat stronger economic recovery in 2021 with a projected economic growth rate of 5%, which should lead to an increase in total foreign trade in Bosnia and Herzegovina too.

According to the latest available projections of DG ECFIN in 2021 at the EU27 level, exports are expected to grow by 9.7%, while the expected growth of imports is set to 8.6% compared to the previous year. This recovery of export markets is very likely to have a positive impact on BiH merchandise exports and later on imports of goods and overall foreign trade in Bosnia and Herzegovina. In accordance with these trends and the DEP assumptions from the baseline scenario for 2021, Bosnia and Herzegovina can expect a relatively good recovery within the overall foreign trade with the world, especially in the field of trade in goods. Namely, according to DEP projections, in 2021 Bosnia and Herzegovina can expect growth in total exports of 16% in real terms, driven by growth in exports of goods with a growth rate set to 18.8%, while the

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

growth in exports of services is set to 5%. On the other hand, in 2021, the real growth of total imports is set at around 10% with uniform growth rates of imports of goods and services. Such developments in exports and imports should ultimately result in a reduction of the foreign trade deficit by about 4.5% at the end of 2021.

### **Foreign direct investments**

After the easing of sharp restrictive measures in the second quarter of 2021, there was a significant economic growth in most leading economies in Europe and the world. This also caused an increase in the value of the world's leading indices, which, looking at the situation in September compared to the end of 2020, recorded a significant recovery (DJIA, Nasdaq, StoxxEurope600). These positive developments in the world and the EU, along with the current economic growth, will certainly determine further investments in Bosnia and Herzegovina. Thus, the total FDIs in the first half of 2021, according to the latest available data of the CBBiH, reached KM 773.6 million (net financial liabilities), which is 64.4% more than the amount achieved in the same period last year. Reinvested earnings increased by 25.2% y-o-y, reaching KM 429.7 million. With this amount, they achieved a share of 55.5% in the total FDIs. When making assessments of investments in 2021, the emergence of a new wave of pandemics in the last quarter of the current year should certainly be taken into account. The new situation will certainly have an impact on the scope and deadlines in the implementation of already announced energy and infrastructure projects (TPP Ugljevik 3, TPP Gacko 2<sup>11</sup>, Banja Luka-Prijedor highway<sup>12</sup>). Based on this, the share of FDIs in GDP in 2021 would stand around 1.9%.

## **3.2 Medium-term macroeconomic scenario**

### **Economic development projection 2022-2024**

The key stronghold for economic developments in Bosnia and Herzegovina in the period 2022-2024 will be the development of the situation related to Covid-19, trends in economic activity in the external environment, as well as the contribution of internal dynamics in creating economic growth. Relevant international institutions in the world such as the IMF - International Monetary Fund, the World Bank and the European Commission forecast the complete normalization of economic conditions in the world during this period. In line with this, according to the latest available DG ECFIN projections, the EU countries in 2022, can expect economic growth of around 4.3%. When it comes to Bosnia and Herzegovina's main trading partners, the projected economic growth rates in 2022 are as follows: Germany 4.6%, Italy 4.3%, Austria 4.9%, Croatia 5.6% and Slovenia 4.2%. In this regard, the main stronghold of the DEP medium-term projection are forecasts of these international institutions and are based on the assumption of improving economic activity in the external environment, which would stabilize economic conditions and stimulate economic growth in this period.

In addition to this improvement in the external environment, a very important precondition for the recovery of economic growth in the country during this period will be the country's institutional capacity in implementing structural reforms to strengthen the contribution of internal dynamics in creating growth. Assuming the materialisation of these circumstances according to the DEP projections in the period 2022-2024 a somewhat stronger economic recovery is expected in Bosnia and Herzegovina with an average economic growth rate of about 3.5% annually (2022: 3.4%, 2023: 3.5% and 2024: 3.7%). It is assumed that the key pillar of economic growth during this period should be domestic demand through an increase in private consumption and investment. Namely, the expansion of overall economic activity in the

<sup>11</sup> <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mper/media/vijesti/Pages/Potpisan-sporazum-o-izgradnji-TE-Gacko2>

<sup>12</sup> <http://www.autoputevirs.com/aprs/Doc.aspx?cat=5&subcat=24&id=24&lang=cir&txt=295>, potpisan ugovor o koncesiji sa kineskom kompanijom „China Shadong Int. Economic & technical cooperation Group Ltd.

country with the expected rise in industrial production and construction works accompanied by an increase in the number of employed persons and export revenues (goods and services) should result in an increase in disposable income of citizens and thereby an increase in private consumption which will, the same as in previous years, represent the key pillar of economic growth. Thus, in the period 2022 - 2024 an average growth rate of private consumption is set at about 1.8% (2022: 2.0%, 2023: 1.7%, 2024: 1.8%).

On the other hand, given the high level of public consumption within the GDP of Bosnia and Herzegovina and the activities undertaken through the fiscal consolidation process, during this period gradual stabilization of public finances is expected by cutting public expenditures down and at the same time increasing public revenues in order to restrain growth of public consumption. A significant burden on public finances in Bosnia and Herzegovina could be a very likely increase in public debt, which is a direct consequence of Covid-19 and will be more visible in the medium term. Thus, in the period 2022-2024, public consumption is expected to see a steady growth of 0.7% on an annual level. If we keep in mind that during this period the projected rate of economic growth would be higher than the growth of public consumption, its share in GDP would partially decrease to below 20% at the end of 2024. In this period, it is expected that part of the funds from current expenditure should be channelled through fiscal policy measures in order to strengthen investment spending in Bosnia and Herzegovina. Therefore, with the improvement of the business environment, investments, unlike in previous years, could have a significant growth and thus give a greater contribution to the expected GDP growth. In the period 2022-2024, Bosnia and Herzegovina is expected to see an increase in gross fixed capital formation at an average annual growth rate of about 7.3% (2022: 7.0%, 2023: 6.9%, 2024: 7.9%). Within this time frame, in addition to the increase in private investment, which makes up the majority of total investment (about 80% of total investment) as mentioned earlier, a more significant contribution of public investment is expected too. It is believed that progress in the European integration process combined with the improvement of the business environment through reform processes could increase the interest of both domestic and foreign investors in investing in Bosnia and Herzegovina.

On the other hand, given the structural composition of the economy of Bosnia and Herzegovina, it is considered that public investment will be a somewhat more important lever to stimulate economic growth in the medium term. Road infrastructure projects and energy projects, as well as the availability of funds from international financial institutions, with adequate and timely implementation, could result in an annual increase in public investment of around 10% in the period 2022-2024. Thus, in the medium term, the share of public investment in GDP in Bosnia and Herzegovina would increase to about 5% of GDP. A stable external environment with the improvement of the industrial base and raising competitiveness in the country are a prerequisite for improving foreign trade with the world. Only under the condition of materialisation of the stated both internal and external assumptions the period 2022-2024 can expect an increase in foreign trade with the world. In that case, an average annual export growth of over 7% can be expected in Bosnia and Herzegovina, with the projected growth of goods and services being fairly even. Thus, during this period, thanks to this export growth, the share of exports in GDP would increase to about 44% at the end of 2024.

On the other hand, imports are expected to move at a slightly slower annual growth rate of 4.5% over this time period. Growth of imports of goods and imports of services is expected to be fairly balanced during this period. The effect of this development in the import growth would be the stabilization of the share of imports in GDP to about 55% of GDP at the end of 2024. A slightly stronger growth of exports compared to the growth of imports in the medium term would result in a gradual stabilization of the foreign trade balance as a share of GDP to about

12%, i.e., a mildly positive contribution to economic growth, while the coverage of imports by exports should be close to 80% by the end of 2024.

### **Labour market**

Labour market developments are significantly determined by the business environment as well as the length of the COVID-19 pandemic. Therefore, as in previous years, the preparation of the baseline scenario for labour market indicators in the period 2022-2024 is based on the assumed economic growth, i.e., on its components (level of demand, trade, investment). According to the ECB's projections (September 2021), the number of employees in the euro area is expected to grow by 1.2% in 2022, which is a significantly faster growth rate compared to the previous year. At the same time, the unemployment rate in the euro area could be slightly lower than in the previous year and amount to 7.7%. However, the mentioned unemployment rate will still be higher compared to the year just before the pandemic. In Bosnia and Herzegovina in 2022, according to DEP projections, economic growth is set to 3.4%. This economic growth should have a positive impact on the number of employed persons, especially in the sectors that employed the largest number of people in Bosnia and Herzegovina in previous years. In general, a better business environment in the field of industry, trade and some service activities could have a positive impact on the number of employed persons.

In the period 2022-2024, Bosnia and Herzegovina is expected to see increase in the volume of demand, investment and trade, which should have a positive impact on job creation and increase average net wages. With a better business climate, both in Bosnia and Herzegovina and in the region and EU countries, the number of employed persons is expected to go up in the period 2022-2024 by about 1.3% -1.6% y-o-y along with a parallel decrease in unemployment, as well as continued increase in net wages around 2-3% y-o-y. However, it is important to consider the risks<sup>13</sup> for materialisation of this projection that could affect the assumed employment and wages growth in Bosnia and Herzegovina. The epidemiological situation and the overall business environment will most likely determine the movement of the number of employed persons as well as net wages.

### **Monetary and exchange rate policy and inflation**

During 2021, there were no changes in the area of monetary and exchange rate policy. Currency Board rules stipulate that reserve money (monetary base) should always be 100% covered by foreign exchange reserves, which has been complied with based on available data in 2021 (fixed exchange rate of convertible mark against the euro, i.e., 1KM or BAM=0.51129 EUR). The reserve requirement policy has not changed since last year's Economic Reform Programme, so in 2021 the required reserve rate was 10%.

Inflation projections in Bosnia and Herzegovina in the period 2022-2024 are based on changes in crude oil prices on the world market, food prices, excises on certain products, utility prices, etc. In its summer forecast, the EC expects slower inflation growth in the EU in 2022 of 1.6% compared to the previous year (1.4% in the euro area) with a modest 0.6% y-o-y reduction in crude oil prices to \$68,3/ barrel. Similar projections on inflation and crude oil prices were presented by the ECB (September projections) according to which the price of crude oil in 2022 would be lower by 0.7% y-o-y. In 2023, the ECB forecasts crude oil prices to go even lower compared to the previous year by 4.8% y-o-y (\$ 64.1/barrel), while the inflation rate in the euro area could be 1.5% y-o-y. When it comes to the movement of the food index on the world market, the latest available projections<sup>14</sup> of the World Bank indicate that the food price index could grow nominally by about 0.9% y-o-y in the period 2022-2024. Assuming stable oil and

<sup>13</sup> These risks will determine whether the employment and net wages growth rates will be faster or slower than assumed in the baseline scenario.

<sup>14</sup> Source: World Bank Commodities Price Forecast (nominal US dollars), April 2021

food prices as well as utility prices in the period 2022-2024 inflation in Bosnia and Herzegovina is expected to stand at 0.8% -1%.<sup>15</sup>

### **Financial sector**

Growth in public and private investment, better economic conditions, employment recovery and growth in consumption would lead to faster growth in lending activity. Acceleration of economic activity (growth of foreign trade and investment) that will need to be supported by new loans may lead to an increase in demand for loans. The growth rate of total loans in the period 2022-2024 is estimated to grow between 6.5 and 8% y-o-y.

In the period 2022-2024, the growth of total deposits at moderate rates (from the pre-crisis period) is projected between 8-9% y-o-y with a larger contribution to growth by the household sector, while deposits of non-financial corporations will be a few percentage points lower due to increased investment activities.

### **External sector**

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

Based on DEP projections, the volume of foreign trade in the period 2022-2024 would increase, so that in this time interval, the foreign trade deficit would record a nominal growth of 0.2-3.1%, as a result of rising import rates (7.1%-8.4%) and the growth rate of exports (9.2%-9.9%).

As a share of GDP, the current account deficit for 2021, according to DEP projections, would amount to about -2.3%, while in the coming years the current account deficit could be expected to gradually increase (the deficit in the period 2022-2024 could range from -2.5% to -2.9% of GDP). Current net inflows from abroad, in the period 2022-2024, are expected to range between 8.6% and 9.7% of GDP.

With regard to the sources of financing the current account deficit, it can be expected that, as has been the case so far, the current account deficit will continue to be financed by inflows of financial resources from abroad (through trade credits, foreign direct investment and possible new borrowings on the international financial market).

#### **Foreign trade developments projection 2022-2024**

Developments in economic activity and the epidemiological situation in the country and the external environment in the medium term will certainly be the main determinant of the developments in foreign trade in Bosnia and Herzegovina. Only under the assumption of improving economic activity and addressing the emerging global economic challenges of Covid-19 facing the world economy can we expect an improvement in foreign trade in Bosnia and Herzegovina.

Therefore, if these circumstances are overcome, the DEP projection is that in the period 2022-2024 Bosnia and Herzegovina can expect an increase in total exports at annual growth rates of 6.7% in 2022, 6.9% in 2023 and 7.4% in 2024 in real terms.<sup>16</sup> This increase in exports is conditioned by stable export demand, expansion of the production base and raising competitiveness in the country. Projections of an increase in imports in the EU during this period also support these expectations.

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<sup>15</sup> It is important to note that the identified risks in the alternative scenario could have a significant impact on inflation projections "upwards" if the growth of crude oil and food prices on the world market continued in the observed period.

<sup>16</sup> Detailed overview of **export growth rates**: 2022 total exports 6.7% (goods 7.4%, services 3.8%), 2023 total exports 6.9% (goods 7.4%, services 4.5 %), and in 2024 total exports 7.4% (goods 7.3%, services 7.5%).



On the other hand, the increase in economic activity in the country, i.e. the growth of domestic demand within the household and corporate sectors through somewhat faster growth of consumption and investment should result in increased imports to Bosnia and Herzegovina. According to DEP projections, import growth rates are expected to be slightly lower than export rates and should range from 4.6% in 2022, 4.1% in 2023, to 4.8% in 2024.<sup>17</sup> Higher export growth rates than those of imports in the medium term should result in an increase in the share of exports in GDP to about 44%, while total exports (goods + services) would amount to around 55% by the end of 2024. The result of such trends in exports and imports would be a gradual stabilization of the total foreign trade deficit to about 12% of GDP, with a slightly positive contribution to economic growth of 0.5 percentage points on an annual basis and improved coverage of imports by exports to almost 80% by the end of 2024.

### **Foreign direct investments**

A higher vaccination rate with a mass acquisition of immunity in the world will inevitably lead to a gradual end to the pandemic and bring about the normalization of world economic flows in the coming years. Significant investments in the hydropower sector are also expected. The joint investment of the Republic of Serbia in the project HPSS Gornja Drina has been announced<sup>18</sup>. Based on the joint investment, the construction of three hydropower plants is planned in the total amount of EUR 520 million. The first to be constructed is HPP Buk Bijela<sup>19</sup> for the construction of which EUR 200 million would be invested. The joint investment of the Republic of Serbia in the Trebinje Airport in the amount of EUR 30 million has been announced too, and there are plans for investment in the field of solar energy by Italian investors<sup>20</sup>. Thus, FDIs would reach 2.2% in 2022 and around 2.1% of GDP in 2023 and 2024 respectively.

## **3.3 Alternative scenario and risks**

Indicator	Official data		Projections			
	2019	2020	2021	2022	2023	2024
Nominal GDP in million KM	36,527	35,436	37,266	38,689	40,087	41,633
Nominal growth in %	4.6	-3.0	5.2	3.8	3.6	3.9
GDP deflator (previous year = 100)	101.8	100.2	100.5	101.4	101.1	101.2
Real GDP in million KM (previous year = 100)	35,885	35,359	37,068	38,166	39,667	41,123
Real growth in %	2.8	-3.2	4.6	2.4	2.5	2.6
Inflation measured by CPI index in %	0.6	-1	1.6	1.9	1.2	1.1
Consumption in million KM	32,809	32,360	33,486	34,490	35,412	36,459
Real growth in %	2.0	-1.8	2.4	1.4	1.3	1.6
Government consumption in million KM	6,862	7,129	7,272	7,504	7,744	7,992
Real growth in %	0.9	1.3	1.3	0.7	0.7	0.7
Private consumption in million KM	25,947	25,232	26,215	26,986	27,668	28,467
Real growth in %	2.3	-2.6	2.7	1.6	1.5	1.8
Investment (Gross) fixed capital formation in	8,129	7,779	8,252	8,516	8,912	9,358

<sup>17</sup> Detailed overview of import growth rates: 2022 total imports 4.6% (goods 4.7%, services 3.6%), 2023 total imports 4.1% (goods 4.2%, services 2.7 %), and in 2024 total imports 4.8% (goods 4.8%, services 3.4%)

<sup>18</sup> <https://www.srbija.gov.rs/vest/497512/srbija-od-2014-godine-ulozila-u-rs-59-miliona-evra.php>

<sup>19</sup> <https://www.vladars.net/sr-SP-Cyrl/Vlada/media/aktuelnosti/Pages/11.zajednickasjednica.aspx>

<sup>20</sup> <https://www.vladars.net/eng/vlada/ministries/MIEM/news/Pages/Italian-company-interested-in-construction-of-solar-power-plants-in-the-Republic-of-Srpska.aspx>

<b>million KM</b>						
<b>Real growth in %</b>	5.8	-3.0	4.8	2.3	3.2	3.0
<b>Government investments in million KM</b>	929	1,674	1,719	1,788	1,881	1,975
<b>Real growth in %</b>	7.2	82.6	1.2	2.2	3.1	1.9
<b>Private investments in million KM</b>	7,200	6,105	6,532	6,728	7,031	7,383
<b>Real growth in %</b>	5.7	-14.0	5.8	2.3	3.3	3.3
<b>Imports in million KM</b>	19,492	16,601	18,971	19,640	20,454	21,357
<b>Nominal growth in %</b>	1.7	-14.8	14.3	3.5	4.1	4.4
<b>Real growth in %</b>	1.3	-13.6	9.9	1.1	1.6	1.7
<b>Exports in million KM</b>	14,320	11,820	14,484	15,288	16,180	17,172
<b>Nominal growth in %</b>	0.5	-17.5	22.5	5.6	5.8	6.1
<b>Real growth in %</b>	0.4	-16.2	18.5	3.0	3.7	3.7
<b>National Gross savings in % of GDP</b>	21.6	18.5	19.7	19.4	19.4	19.5
<b>Current account balance in million KM</b>	-985	-1,286	-939	-1,063	-1,180	-1,257
<b>Growth in %</b>	-8.3	29.5	-27.7	13.1	11.0	6.5
<b>Current account balance in % of GDP</b>	-2.7	-3.7	-2.5	-2.7	-2.9	-3.0

Risks to the materialisation of economic growth projections in the baseline scenario can be classified into two groups (external and internal). Previous analyses and currently available data (of international and domestic institutions) indicate that in 2021, economic developments both in the external environment and within the economy of Bosnia and Herzegovina were much more favourable compared to the period when the baseline scenario was prepared. Namely, the economic recovery of the EU countries, which was better than expected, the stabilization of epidemiological conditions and the immunization process, among other factors, improved the outlook for economic developments in Bosnia and Herzegovina in 2021. Thus, the economic growth projection in the alternative scenario improved by 1.5 percentage points compared to the baseline scenario. Continued double-digit growth within the manufacturing and export sector (manufacturing and exports of goods) with a strong recovery in domestic demand (mostly private consumption) despite some inflationary pressures called for an improvement in Bosnia and Herzegovina's projected economic growth rate to 4.6% in real terms.

On the other hand, the structural composition of economic growth has not changed significantly since domestic demand would continue to be a key pillar of projected economic growth. Within domestic demand, the most significant contribution to projected economic growth is expected within the final consumption of 2.2 percentage points (private consumption 1.9 pps., public spending 0.3 pps.), while the expected contribution of investment is much more modest and amounts to about 1 pp. On the other hand, from the very beginning of the year, there has been a relatively good growth trend in foreign trade with the world, with an especially important increase in exports of goods from Bosnia and Herzegovina. BiH companies appear to have adapted relatively well to the new post-Covid business environment and made good use of disruptions in global supply chains. Although double-digit growth rates of exports and imports are partly influenced by the base (low base from the previous year) and price effect (increase in export and import prices of about 10%) in 2021, these trends are encouraging. Therefore, due to the twice higher growth rate of merchandise exports of 21.9% compared to imports of 9.9%, a reduction in the foreign trade deficit is expected, i.e., a positive contribution to economic growth of about 1.5 percentage points.

**On the other hand, in the period 2022-2024,** external risks such as the challenges of aggregate supply (broken supply chains of European industries, increased transport costs) as well as the consequent inflationary pressures pose a **secondary threat** to the baseline scenario in Bosnia and Herzegovina. Namely, the primary risk for the materialisation of economic growth projections in Bosnia and Herzegovina in 2022 will be internal challenges, i.e., internal risks in Bosnia and Herzegovina. Internal risks are a complex decision-making system, institutional paralysis and general political instability in the country and the region. The possible complication of the political crisis with regard to the election year would further slow down the process of implementing structural reforms in the country and jeopardize the projections of economic developments from the baseline scenario. Possible materialisation of internal risks in the period 2022-2024 and increased political uncertainty would primarily lead to a decrease in investment (both foreign and domestic), which would consequently affect production, exports, employment, private consumption and ultimately economic growth itself. In this way, Bosnia and Herzegovina would be quite far from achieving potential economic growth and the process of converging to a higher standard of living of citizens would be completely stopped.

There are several risks that determine the presented **labour market** projections. The business environment in Bosnia and Herzegovina as well as neighbouring countries and the EU has a significant impact on the labour market. It is especially important to point out the uncertainty of the COVID-19 pandemic duration, in terms of health factors (vaccination of the population) and the business environment, which could further slow down Bosnia and Herzegovina's economic activity and thus delay labour market recovery in an alternative scenario. With slower economic growth, lower investment, trade and generally worse business conditions, employment growth as well as wages could be lower than assumed in the baseline scenario. Reduced business activity of companies could make it difficult and delay the creation of new jobs, and the unemployment rate could remain high. In addition, labour market emigration as well as the scope of implementation of structural reforms (political uncertainty) have a significant impact on labour market developments.

The main risks to **inflation** projections for the period 2021-2024 are based on external and domestic factors affecting prices in Bosnia and Herzegovina. Among the most important factors are the length of the COVID-19 pandemic, followed by the prices of crude oil and food. Any deviation of the prices of these products on the world market from the ones assumed in the baseline scenario could affect the level of inflation in Bosnia and Herzegovina. If we take into account the EC forecast (November 2021) where crude oil prices are expected to rise in 2022 compared to the previous year (which is contrary to the assumptions in the baseline scenario), inflation in Bosnia and Herzegovina can be expected to rise. In general, if the growth of energy prices is higher than expected, this may affect the transfer of cost pressures to consumer prices. Among the domestic factors that determine inflation, one should take into account possible unforeseen changes in the price of utilities, excise duties<sup>21</sup> on certain products etc. Based on this, the inflation level in the alternative scenario could be higher.

In the alternative scenario, with the possibility of significant growth in private consumption, growth in imports and growth in disposable income in general, in 2021 there would be a slower **growth of deposits** than projected and faster growth of loans. For the entire projection period,

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<sup>21</sup> In the period of alternative scenario development, the Governing Board of the Indirect Taxation Authority issued a Decision on establishing special and the minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2022. The minimum excise duty for a pack of cigarettes containing 20 pcs is KM 3.33, while a special excise duty amounts KM 1.65 for the same package. The excise duty for a smoking tobacco is set at 80% of the minimum excise duty for cigarettes set in Article 3 paragraph (3) of this Decision and amounts to KM 133.2 per kilogram. Source: Decision on establishing special and the minimum excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2022.

the health crisis and its duration will have a significant impact, as well as the possibilities for new, stricter measures to combat the spread of the virus, which would affect population mobility, consumption and new investment and thus the movement of non-financial corporations and households' loans and deposits. Based on the mentioned risks related to the pandemic, slower recovery of consumption and investment and possible political instability and uncertainty in Bosnia and Herzegovina, in the alternative scenario for the period 2022-2024, there would be a decline in lending activity and faster growth of deposits due to increased savings out of caution.

Part of the risk for changes in the **balance of payments** of Bosnia and Herzegovina is in the foreign trade deficit of goods and services and in inflows of money from abroad. Also, in addition to these risks, there are the consequences of the Covid-19 pandemic, problems in international supply chains, political uncertainty and insecurity in Bosnia and Herzegovina. As significant risks in financing the current account deficit, it is worth mentioning the reduced inflows of foreign direct investment, difficult access to trade loans and the inability to borrow on the international financial market. What could be identified as potential risks in Bosnia and Herzegovina's external borrowing in the medium term are the following: negative economic growth, negative budget balance (deficit), increase in total public debt, rise in the share of entity-level direct debt in total external debt, increase in public debt service (especially domestic), interest burden, interest rates, exchange rate risks, refinancing risk, as well as credit rating. All of these could lead to significant disruptions and implications for the domestic economy. The greatest risks in the coming years could be in the reduced inflow of foreign direct investment, difficult access to trade loans as well as the impossibility (or difficulty) of borrowing on the international financial market.

Economic recovery in EU countries was stronger than expected, disruptions in global supply chains (increased costs of transporting goods from China), and relatively rapid adaptation of BiH companies to new circumstances as well as financial support to BiH exporters enabled a fairly good recovery in **foreign trade**. This is especially true for exports of goods, given that Bosnia and Herzegovina recorded double-digit growth rates throughout the year, while the process of recovering imports of goods was somewhat slower due to the slower recovery of domestic demand (private consumption and investment). Accordingly, the projections of foreign trade indicators in 2021 in the alternative scenario have improved compared to the baseline scenario. Thus, in Bosnia and Herzegovina, by the end of 2021, the growth of exports of goods is expected to be 21.9%, while the expected growth of imports of goods is set to 10.3% compared to the same period last year. Twice as high growth rate of exports of goods compared to imports should ultimately result in a reduction in the trade deficit by about 10%, so that net exports are expected to make a positive contribution to economic growth of about 1.5 percentage points.

On the other hand, although the external risks to the foreign trade developments in Bosnia and Herzegovina in the period 2022-2024 are relatively moderate, the primary risk for its developments could be internal challenges in the country. Namely, further complications of the political crisis due to the general elections in 2022 could result in additional difficulties in the country's economic governance processes, which would have a particularly negative impact on both economic activity and institutions responsible for foreign trade in Bosnia and Herzegovina. The possible materialisation of these internal risks would further complicate and jeopardize the operations of export-oriented companies, and further weaken the already insufficiently diversified export supply of Bosnia and Herzegovina. In line with this, according to the projections from the alternative scenario for the period 2022-2024, this would lead to almost complete foreign trade stagnation, with annual growth rates of exports of about 3.5% and imports of about 1.5%. The indirect harmful consequences of the possible materialisation

of internal risks would be reflected in the reduction of the market share of BiH companies in world markets and the loss of competitiveness of both companies operating in export markets and the economy as a whole.

Carrying out mass vaccination of the population and easing restrictive measures brings about significant economic growth that began at the end of the first quarter and will continue until the end of 2021 in most leading economies in Europe and the world. This was reflected in the situation in Bosnia and Herzegovina through the continuation of already planned investment and infrastructure projects, which will result in the share of total **FDIs** in GDP up to 2.8%. In the alternative scenario, it is assumed that there could be a deterioration of the health situation in early 2022 and, unfortunately, insufficient implementation of immunization of the population. Additional increases in the price of energy and raw materials on world markets and a deterioration in the health situation with the introduction of restrictive measures will inevitably affect the reduction of economic activities. Unfortunately, there is also a risk of worsening political situation, which, along with endangered macroeconomic stability and deteriorating credit rating, will affect the reduction of FDIIs (about 1% share in GDP in the coming period).

## 4. FISCAL FRAMEWORK

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

The decline in economic activity in 2014 due to natural disasters (floods) was followed by a period of more intense economic growth. Thanks to fiscal consolidation measures at all levels of government in BiH, already in 2015 we entered a surplus zone that remained until 2020. Then there was a drastic decline in economic activity due to a pandemic caused by the COVID-19 virus. Declining revenues and financing of socio-economic measures to support the economy and citizens and the health system at all levels of government have caused a large deficit at the level of general government in Bosnia and Herzegovina. This situation required the implementation of fiscal adjustment measures at all levels of government, which should lead to the consolidation of public finances in 2023, when a surplus is expected.

*Table 1: Fiscal indicators in BiH for the period 2020-2024*

	2020	2021*	2022	2023	2024
	Execution	Plan	Plan	Plan	Plan
	in mil. KM				
Total revenue	14,143.7	15,579.7	16,039.2	16,607.3	17,271.7
Total expenditure	14,975.6	15,903.0	16,135.0	16,184.0	16,671.8
Net borrowing/lending	-831.9	-323.3	-95.8	423.3	599.9
Interest expenditure	234.6	284.5	331.3	367.0	415.9
Primary balance	-597.3	-38.8	235.5	790.3	1,015.8
	% of GDP				
Total revenue	39.9	42.3	41.7	41.4	41.2
Total expenditure	42.3	43.2	42.0	40.4	39.8
Net borrowing/lending	-2.3	-0.9	-0.2	1.1	1.4
Interest expenditure	0.7	0.8	0.9	0.9	1.0
Primary balance	-1.7	-0.1	0.6	2.0	2.4

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

*\* Refers to the revised plan in accordance with the execution*

Given that the structure of total revenues is dominated by tax revenues and social contributions, which account for, on average, 89.8% of total revenues (53.2% are tax revenues and 36.6% are social contributions), the main goal of fiscal policy in the medium term refers to the creation of conditions for the gradual recovery of public revenues in accordance with the projected growth of macroeconomic indicators. According to the data of the Indirect Taxation Authority, the total collection of revenues from indirect taxes for the nine months of 2021 exceeds the collection in the same period in 2019 by 4.4%<sup>22</sup>. Also, the trends in the collection of revenues from direct taxes in the first three quarters of 2021 show signs of recovery.

The structure of total expenditures is dominated by social transfers with an average share of 38.5% in the programming period 2022-2024, employee benefits with 26.6% and capital expenditures and outlays with 6.9%. Control of current expenditures and gradual reduction of discretionary public spending is envisaged.

Given the pronounced fiscal decentralization and the fact that over 90% of total aggregate public expenditures are consolidated public expenditures of the Federation of Bosnia and

<sup>22</sup> Due to the negative impact of the COVID-19 virus pandemic on the collection of indirect taxes, 2020 cannot be a reference year for comparison, but the comparison is made with the record 2019.

Herzegovina (hereinafter FBiH) and consolidated public expenditures of Republika Srpska (hereinafter: RS), the following is an overview of the most important measures which the entities intend to undertake in the programming period.

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

- improve the protection of the most vulnerable categories of the population by ensuring timely payment of social benefits from the budget, improving targeted social assistance and establishing a register of cash benefit recipients, increasing benefits for displaced persons and returnees, adjusting pensions, increasing incentives for agriculture, etc.
- implement more efficient employment and wage policies and measures in the public sector that will enable fairer and more transparent employment,
- increase capital investments that will have a positive effect on the entire domestic economy,
- implement active labour market policies and measures in order to eliminate key problems in the employment process and prevent the migration of the working age population,
- improve the budgeting system, in such a way as to ensure the implementation of the defined goals of strategic and medium-term government policies, and to approve the allocation of funds according to the expected goals and results.
- continue with measures to combat the gray economy, focus tax policy on preventing tax base erosion and profit shifting and thus protect the efficient collection of public revenues, while creating fiscal capacity to provide new benefits to the business environment.

The RS Fiscal Consolidation Program, adopted by the RS National Assembly in September 2021, defines measures on both the revenue and expenditure sides.

Along with the gradual recovery of the economy over the next period, a gradual increase in revenue can be expected. Also, it is necessary to further accelerate activities related to improving tax discipline and combating the gray economy, which will lead to better collection of public revenues. The urgent need to significantly improve the business environment and ambience to attract new investments, both foreign and domestic, requires a review of the existing large number of tax and non-tax benefits, as well as simplification of administrative procedures. Also, the RS Government is committed to introducing a new system of fiscalization, which is expected to reduce the gray economy and reduce tax evasion, improve tax discipline, as well as increase tax revenues. The new Law on Games of Chance plans for the RS Ministry of Finance to directly supervise the organizers of games of chance through the computer system of the organizers in real time, which will reduce the gray zone and monitor total turnover in this area, which will lead to revenue growth from taxes and fees for organizing games of chance.

In order to increase the budget revenues of local self-government units, it is planned to intensify activities on the registration of properties located in the area of local communities, given that the property tax is their budget revenue.

Regarding expenditures, it is necessary to rationalize public spending on the items of material costs, subsidies and grants, as well as other unproductive expenditures and expenses, guided by the principles of savings and rational redistribution of funds. In the circumstances of reduced economic activity, investment in unproductive investments, i.e., investments that are not crucial for the functioning of institutions, should be reduced to a minimum. Public procurement processes need to be reduced too. On the other hand, credit borrowing of local self-government units should be carried out only for economically justified investments.

Budgets of local self-government units and financial plans of social security funds should be planned with a surplus as of 2022, while the budget of the Republika Srpska should be planned with a surplus as of 2023.

For employees in local self-government units, it is necessary to harmonize the price of labour defined by the Special Collective Agreement with the price of labour applied when calculating salaries for employees in RS administrative bodies. Also, by the Special Collective Agreement for employees in the field of local self-government, it is necessary to agree on the amount of compensation based on other personal income (allowance for annual leave, meal allowance, compensation for transportation costs when coming to work and returning from work, etc.) in a way to reduce it to the currently prescribed minimum amount.

It is planned to analyse the required number of employees in local self-government units, and accordingly adopt a new systematization of jobs, in accordance with the provisions of the Law on Local Self-Government, which regulates the maximum number of employees in city i.e., municipal administration.

The commitment of all levels of government in BiH is that budget spending, in the observed period, reflects priority policies that are in line with the total level of available funds and aimed at ensuring a realistic framework within which line ministries and budget users can operate, taking into account the fulfilment of legal obligations. and all this guided by the principles of rationality and austerity.

In support of this commitment, at all levels of government in BiH, the implementation of the IPA project "Further Support to Public Financial Management in BiH" is underway and relates to the improvement of medium-term planning and the establishment of programme budgeting. The implementation of this project will enable the visibility of the effects of the most important cost programmes that are being implemented, the impact of the programme on users and citizens, as well as increasing the transparency and accountability of governments. In addition, the Comprehensive Strategy for Public Financial Management Reform in Bosnia and Herzegovina for the period 2021-2025 with technical assistance funded by the EU is being finalized. This strategy is based on the adopted strategies of each level of government (Institutions of BiH, FBiH, RS and Brčko District).

## **4.2. Budget implementation in 2021**

The original budget plan at all levels of government in BiH was done extremely cautiously and conservatively, based on an extremely weakened base in 2020 and a completely uncertain course of recovery. However, the favourable trend in the collection of all types of public revenues in 2021 as well as the favourable forecasts of key macroeconomic indicators have caused the need for budget rebalance in RS and DB.

Aggregately, compared to the budget plan for 2021, there was an increase in almost all categories of public revenues and expenditures, with higher growth in revenues (6.2%) than growth in expenditures (3.3%). The estimated execution of the total deficit is much lower than planned, and the estimated primary balance is in surplus already in 2022.

The increase in the estimate of the execution of total expenditures is based mainly on the methodological adjustments of mandatory expenditures as well as the further application of certain measures to mitigate the consequences of the pandemic.

These measures have been adopted at individual administrative levels in BiH within their competencies and capabilities. Thus, in 2020, the Institutions of BiH provided savings in their budget in the amount of KM 41.93 million in order to repair the economic damage caused by the pandemic and remitted it to the entities, DB and their health care institutions.



**Table 2: Budget plan and execution for 2021 (in KM mil.)<sup>23</sup>**

	Plan 2021	Estimated execution 2021	Estimated execution - Plan (abs. difference)	Estimated execution - Plan (% difference)
<b>Total revenue</b>	<b>14714.9</b>	<b>15625.5</b>	<b>910.6</b>	<b>6.2</b>
Current revenue	14714.9	15625.5	910.6	6.2
- Tax revenues (direct and indirect)	7609.9	8245.1	635.2	8.3
- Contribution revenue	5387.5	5606.3	218.8	4.1
- Other revenues	1717.5	1774.1	56.6	3.3
<b>Total expenditure</b>	<b>15334.5</b>	<b>15836.5</b>	<b>502.0</b>	<b>3.3</b>
Current expenditure	13818.3	14235.6	417.3	3.0
- Gross wages and compensations	4025.7	4126.2	100.5	2.5
- Material expenditures	2514.2	2716.1	201.9	8.0
- Social security transfers	5816.3	5904.1	87.9	1.5
- Interest expenditures	292.7	284.4	-8.3	-2.8
- Other expenditures	1169.4	1204.8	35.3	3.0
Capital expenditures	1516.2	1600.9	84.7	5.4
<b>Balance</b>	<b>-619.6</b>	<b>-211.0</b>	<b>408.6</b>	<b>-65.9</b>
<b>Primary balance</b>	<b>-326.9</b>	<b>73.4</b>	<b>400.3</b>	<b>-122.5</b>

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

FBiH adopted the Law on Mitigation of Negative Economic Consequences, then the Decree on Intervention Measures to Support Vulnerable Sectors of the FBiH Economy, and established the Economic Stabilization Fund to mitigate negative consequences in the field of economy.

The Law on Mitigation of Negative Economic Consequences in the FBiH introduced temporary measures to subsidize contributions for compulsory insurance, various suspensions of calculation and payment such as default interest on public revenues, advance income tax, advance payments of income tax from self-employment, default interest, forced collection, and established the Guarantee Fund. The goal of establishing the Guarantee Fund at the Development Bank is to strengthen the credit potential of entrepreneurs to provide sources of financing for the economy in the fight against the negative consequences of the pandemic.

The Decree on Intervention Measures to Support Vulnerable Sectors of the FBiH Economy provides financial support to the tourism and hospitality sector, support in the field of transport and communications, agriculture and food industry, and export-oriented companies. In 2021, with a new set of measures, the FBiH Government provided financial support to craftsmen, the energy sector, mining and industry, the agri-food and health sectors.

As part of measures to mitigate the negative effects of the corona virus pandemic, in 2020 the RS Government issued a Decree with legal force establishing tax measures to mitigate the economic consequences of Covid-19, which include: extension of the deadline for filing annual tax returns, extension of the deadline for settlement of tax obligations, reduced amount of tax for a small entrepreneur, extended the deadline for payment of real estate tax, "free

<sup>23</sup> The revised consolidated budget of the General Government of the Republika Srpska for 2021 in the table also presents an estimate of execution for 2021. The same applies to the Brčko District. Also, given that temporary financing is in force for the Institutions of BiH in 2021, the data for the "Plan 2021" are from the Draft Budget for 2021 adopted by the Presidency of BiH, but not the Parliamentary Assembly of BiH, so Institutions of BiH are in the regime of temporary financing.

moratorium" on the payment of annuities to tax debtors during the state of emergency. In 2021, the Law on Amendments to the Law on Deferred Payment of Tax Debt was adopted, with the aim of paying income tax for 2020, income tax on self-employment for 2020, fees for improving public utility functions of forests for 2020 and fire compensation for 2020 being postponed until 30 June 2021, with the provision that payment may be further delayed by making six equal monthly annuities until the end of 2021.

In addition to tax measures, measures were implemented to support business entities in order to preserve employment and wages, i.e., assistance to business entities to meet obligations for salaries, taxes and contributions, assistance to entities in international transport, agriculture, tourism and arts, as well as assistance to bank clients and microcredit organizations.

Decisions on temporary measures for banks and microcredit organizations to mitigate the negative economic consequences caused by the Covid-19 virus allowed clients of banks and microcredit organizations to use special measures to mitigate the negative effects of the pandemic.

The Guarantee Programme for Economic Support has been established, with the aim of facilitating access to finance for small and medium-sized enterprises and entrepreneurs, by issuing a guarantee for securing receivables on a loan approved by a financial organization.

New circumstances due to the corona virus pandemic required increased involvement of the RS Government through increased expenditures for the health sector due to the purchase of medical equipment, disinfectants, containers, tests, vaccines, support to health care workers in the form of one-off compensation, etc. Given the reduced revenues of local self-government units during the corona crisis, the RS government also approved aid to municipalities and cities. One of the measures was the increase of salaries for workers in the Ministry of the Interior, health, judiciary, education and culture from the second half of 2021, and there was also an increase in the amount of lowest salary.

The Government of the BD passed the Law on Mitigation of Negative Economic Consequences Caused by the State of Natural Disaster Due to COVID-19 in the BD, which prescribes the exemption from the obligation to pay advance income tax, tax on income from self-employment, tax on gambling in a lump sum, deferral of real estate tax, exemption from rent of business premises and public space owned by the District, way to solve the problem of unrealized tourist trips paid to travel agencies, payment of the full amount incentives in agricultural production for 2019, postponement of the application of regulations determining the intended use of funds and state aid.

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

Aggregately observed for BiH for 2022, total revenues are planned in the amount of KM 16,039.2 million, which is 2.9% higher than the estimated execution in 2021 (FBiH KM 9840.2 million, RS KM 5048.8 million, Institutions of BiH KM 927.6 million and DB KM 222.6 million)<sup>24</sup>.

The FBiH has the highest growth in total revenues, which is 4.7% higher than the estimated realization in 2021. It should be borne in mind that the FBiH did not rebalance the plan in 2021. RS and the Institutions of BiH planned total revenues almost at the level of the revised plan from 2021, while in DB the plan of total revenues is lower by 4.1 percentage points compared to 2021.

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<sup>24</sup> For amounts referring to individual levels of government, see Tables 1a-FBiH, 1b-RS, 1c-Institutions of BiH and 1d-DB, in the Annex to the ERP.

Tax revenues account for 53.6% of current revenues. The planned increase in tax revenues (direct and indirect) is 4.3% compared to 2021 or by KM 356.5 million. Indirect taxes are planned in the amount of KM 7,519.2 million and are higher by KM 284.4 million or 3.6% compared to 2021.

*Table 3: Estimated budget execution for 2021 and 2022 plan (in KM mil.)<sup>25</sup>*

	2021	2022	2022-2021 (abs. difference)	2022/2021 (% difference)
<b>Total revenue</b>	<b>15579.7</b>	<b>16039.2</b>	<b>459.5</b>	<b>2.9</b>
Current revenue	15579.7	16039.2	459.5	2.9
- Tax revenues (direct and indirect)	8245.1	8601.6	356.5	4.3
- Contribution revenue	5606.3	5819.6	213.3	3.8
- Other revenues	1728.3	1618.0	-110.3	-6.4
<b>Total expenditure</b>	<b>15903.0</b>	<b>16135.0</b>	<b>232.0</b>	<b>1.5</b>
Current expenditure	14305.1	14170.4	-134.7	-0.9
- Gross wages and compensations	4143.5	4295.0	151.5	3.7
- Material expenditures	2746.7	2736.0	-10.7	-0.4
- Social security transfers	5904.5	6108.8	204.3	3.5
- Interest expenditures	284.5	331.3	46.8	16.4
- Other expenditures	1225.9	699.3	-526.6	-43.0
Capital expenditures	1597.9	1964.6	366.7	22.9
<b>Balance</b>	<b>-323.3</b>	<b>-95.8</b>	<b>227.5</b>	<b>-70.4</b>
<b>Primary balance</b>	<b>-38.8</b>	<b>235.5</b>	<b>562.4</b>	<b>-172.0</b>

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

Within direct taxes, a significant increase in income tax is planned by 8.4% or KM 55.9 million (FBiH by 7.3% or KM 33.4 million and RS by 10.9% or KM 26.3 million). This increase is generally the result of expected wage and employment growth. Although in the RS it is planned to increase the personal deduction from 700 KM to 1000 KM and reduce the income tax rate from 10% to 8%, the increase in income tax revenues is a result of the expected effects of the new legal solutions; increases in the minimum wage, increases in the salaries of public sector workers and changes in the base for calculating income tax (the new base will be gross wages). It is also planned to increase the rate of income tax on copyright, rights related to copyright, capital and capital gains and other income from 10% to 13%.

Contribution revenues account for 36.3% of current revenues. The planned increase in contribution revenues of KM 213.3 million (FBiH KM 178.9 million and RS KM 34.4 million) or 3.8% compared to 2021 is based on positive forecasts related to employment and expected gross salary trends. In addition, in Republika Srpska, the expected effects of the implementation of planned new legal solutions are included (amendments to the law on public sector salaries, increase of the minimum wage in RS, as well as reduction of the health insurance contribution rate from 12% to 10.2%). Due to the mentioned reduction of the contribution rate, the income of the Health Insurance Fund in 2022 is planned to be reduced too. However, the growth of

<sup>25</sup> The Fiscal Council of BiH has not adopted the Global Framework of Fiscal Balance and Policies in BiH for the period 2022-2024. Accordingly, the Ministry of Finance and Treasury of BiH still does not have a legal basis for the preparation of the Document of the Framework Budget of BiH Institutions for the period 2022-2024 and the Draft Law on the Budget of BiH Institutions and International Obligations of BiH for 2022. Data from the Framework Budget Document 2021-2023 were used.

salaries in the private and public sector, the growth of the number of insured persons and the growth of the minimum wage, will mitigate the decline in these revenues.

Aggregately, the planned other revenues are lower by KM 110.3 million, with the Institutions of BiH planning an increase of KM 0.4 million, the FBiH an increase of KM 53 million, while the RS planned a decrease of KM 159.1 million and the BD a decrease of KM 4.6 million.

Total aggregate expenditures for BiH in 2022 amount to KM 16,135.0 million and are higher by KM 232 million or 1.5% compared to public expenditures in 2021. With the exception of the Brčko District, whose expenditures are lower by KM 48.5 million, all other levels of government have an increase (BiH institutions KM 0.7 million, FBiH KM 125.9 million and RS KM 153.9 million). The largest increase was recorded in gross wages and compensations, social transfers and capital expenditures, while the largest decrease was in other expenditures.

Gross wages and compensations are higher by KM 151.5 million or 3.7% compared to aggregate total public expenditures in 2021, of which BiH institutions account for KM 29.4 million, FBiH KM 9.9 million, RS KM 101.1 million and DB KM 11.1 million. The biggest increase is in RS, and the reasons are the increase in salaries in the public sector, the introduction of 15 health care centres and one institute in the treasury system of operations within the general government of RS, then the increase in allocations due to past work and harmonization of the lowest salary in the public sector with the planned growth of the lowest salary.

Social transfers are higher by KM 204.3 million, of which KM 139.9 million refers to FBiH, KM 52.4 million to RS, KM 11.3 million to BD and KM 0.7 million to BiH Institutions. The increase in social transfers in the FBiH refers to the further application of support measures of the FBiH Government for pensioners in order to improve their financial situation and due to additional health care costs incurred as a result of the pandemic. In RS, the increase in social transfers is the result of regular harmonization of social benefits. In addition, funds are planned to mitigate the negative effects of the coronavirus pandemic, through assistance to the economy/agriculture and support to the health care system, but significantly less funds are planned compared to 2021. Due to the gradual strengthening of economic activity, the level of other current expenditures was reduced due to the abolition of certain discretionary measures related to aid to the economy in the conditions of a pandemic.

Capital expenditures are higher by 22.9% or KM 366.7 million, of which KM 331.1 million refers to FBiH, and KM 88.6 million to RS. BiH institutions show a decrease of KM 9.5 million due to the regime of temporary financing and the impossibility of realizing capital investments. BD has a reduction of capital expenditures of KM 43.5 million. The increase in capital expenditures in the FBiH is the result of increased investments in the construction of motorways and roads, railway infrastructure and air transport, investments in water supply and sanitation, and in the energy sector. In RS, due to the faster recovery of the economy than planned, space has opened for new investments and allocations in the positions of expenditures for non-financial assets, both at the level of the central government and at the level of local self-government units.

In 2022, a total deficit is set at KM 95.8 million. Observed by individual levels of government, the FBiH projected a surplus of KM 296.3 million, while the RS projected a deficit of KM 291.2 million, and the BiH institutions projected a deficit of KM 94.4 million and DB a deficit of KM 6.5 million. RS projected a larger deficit in 2022 by KM 126.2 million compared to 2021 due to changes in wage agreements and tax regulations, which will lead to lower revenues (more precisely, revenues from contributions) and increased expenditures due to increased salaries in the public sector and higher investment.

#### 4.4. Medium-term budgetary outlook

In accordance with the macroeconomic framework which envisages further growth and strengthening of economic activity, an increase in public revenues is projected for the period 2023-2024. In 2023, the projected total public revenues amount to KM 16,607.3 million (FBiH KM 10230.4 million, RS KM 5210.2 million, BiH Institutions KM 936.5 million and DB KM 230.2 million) and are by 3.5% higher than projected public revenues in 2022.

*Table 4: Medium-term budgetary outlook (in KM mil)*

	2020	2021	2022	2023	2024 <sup>26</sup>
<b>Total revenue</b>	<b>14143.7</b>	<b>15579.7</b>	<b>16039.2</b>	<b>16607.3</b>	<b>17271.7</b>
Current revenue	14143.7	15579.7	16039.2	16607.3	17271.7
- Tax revenues (direct and indirect)	7318.2	8245.1	8601.6	8930.4	9277.6
- Contribution revenue	5314.1	5606.3	5819.6	6065.2	6345.0
- Other revenues	1511.4	1728.3	1618.0	1611.7	1649.1
<b>Total expenditure</b>	<b>14975.6</b>	<b>15903.0</b>	<b>16135.0</b>	<b>16184.0</b>	<b>16671.8</b>
Current expenditure	13457.9	14305.1	14170.4	14684.0	15084.1
- Gross wages and compensations	3910.3	4143.5	4295.0	4310.8	4408.2
- Material expenditures	2412.8	2746.7	2736.0	2764.8	2823.7
- Social security transfers	5553.7	5904.5	6108.8	6292.6	6480.3
- Interest expenditures	234.6	284.5	331.3	367.0	415.9
- Other expenditures	1346.4	1226.0	699.3	948.8	956.0
Capital expenditures and outlays	1517.7	1597.9	1964.6	1500.0	1587.7
<b>Balance</b>	<b>-831.9</b>	<b>-323.3</b>	<b>-95.8</b>	<b>423.3</b>	<b>599.9</b>
<b>Primary balance</b>	<b>-597.3</b>	<b>-38.8</b>	<b>235.5</b>	<b>790.3</b>	<b>1015.8</b>

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

The average annual growth rate of indirect tax revenues for the FBiH in the period 2023-2024 will be 3.3% following the projected growth rates of total collection in the ITA Single Account. Within direct taxes, income tax revenues will achieve a stable average annual growth of 6.49%, while the average annual growth in the collection of income tax revenues, following the expected increase in the number of employees and the assumed nominal salary growth will be 7.89%. Based also on the positive forecasts of the labour market in 2023 and 2024, the growth rates of the collection of mandatory social contributions in the FBiH will be 4.73% and 4.91%, respectively.

As a result of projected growth in consumption and imports of goods and services, and the expected effects of introducing a new fiscalization system in RS, indirect taxes will grow at an average rate of 3.3% while maintaining an average GDP share of 18.5% over the observed period. Based on projected positive developments in the labour market, growth in public sector wages, and increased collection in the period 2023-2024, direct taxes are growing at an average rate of 6.4% with a share in GDP of 3.7%. Social contributions are the second most important public revenue besides tax revenues. Social contributions increase in the period 2023-2024 at an average rate of 4.4% while maintaining a stable share in GDP of 15.1%.

<sup>26</sup>For the Institutions of BiH, the data for the plan 2022 and 2023 are from the adopted Framework Budget Document for 2021-2023, while the data for the plan 2024 are based on the data for 2023 adjusted for interest expenditures under the external debt repayment plan and local elections.

In 2023, the projected total public expenditures amount to KM 16,184.0 million (FBiH KM 9803.9 million, RS KM 5133.1 million, BiH Institutions KM 1010.4 million and DB KM 236.6 million) and are higher by KM 49 million of projected public expenditure in 2022. On the side of projected total public expenditure, mandatory expenditures (gross salaries and social transfers) dominate, accounting for approximately 64% of total projected public expenditures. Their cumulative growth is on average 2.3% and is influenced by the growth of the gross wage bill on the basis of annual adjustment of past work, regular adjustment of pensions and expected growth in the number of pensioners and funds allocated in FBiH to finance the rights of families with children.

The capital budget in 2023 amounts to a total of KM 1,500 million and is lower compared to capital expenditures and outlays in 2022 by KM 464.6 million. All levels of government reported lower capital expenditures (FBiH KM 228.5 million, RS KM 235.6 million and BiH Institutions KM 6.8 million) except BD, which projected an increase of KM 6.3 million. The reason for the significant reduction in capital expenditures in the RS is mostly related to the reduction of public investments within the central government, as well as local self-government units, because it is necessary to plan a larger amount of funds for debt service due in 2023.

In line with the trends in revenues and expenditures, in 2023 and 2024 the balance of public finances is expected, i.e., a surplus of 1.1% of GDP in 2023 and 1.4% of GDP in 2024. The main adjustment was made on capital expenditures and outlays and other current expenditures.

#### *Financing of the budget and consolidated budget during the programme*

Observed by individual levels of government in BiH, FBiH is already entering a surplus zone in 2022. BiH institutions will partially finance the deficit from the undistributed surplus of revenues over expenditures from the adopted Reports on Budget Execution of BiH Institutions and International Obligations of BiH, which are two calendar years preceding the year in which the funds are used. The uncovered surplus of expenditures is updated every year through the adoption of the Global Framework of Fiscal Balance and Policies in BiH. Given that RS is entering a surplus zone in 2023, the plan for financing current and future deficits with an explanation is given below.

In the period 2022-2024, total financing (new borrowing) is planned in the amount of KM 2.6 billion, of which KM 0.9 billion in 2022, KM 1.1 billion in 2023, and KM 0.5 billion in 2024.

During the given period, financing is mostly done from external sources, whereby the share of external sources of financing in 2022 is 76.5%, in 2023 94.0%, and 8.3% in 2024. Planned financing is realized through long-term (domestic and external) instruments. The share of financing through marketable debt instruments (both long-term domestic and external) is dominant during the given period, and in 2022 it is set to 68.0%, in 2023 to 75.6%, while in 2024 it is set to 63.5% of the total planned financing.

**Table 5: Deficit financing plans in Republika Srpska. (in KM mil.)**

	Execution	Estimate	Projection		
	2020	2021	2022	2023	2024
<b>Surplus / Deficit</b>	<b>-565.6</b>	<b>-165.0</b>	<b>-291.2</b>	<b>77.1</b>	<b>188.6</b>
Loans	241.9	85.3	-67.7	-207.3	-289.2
Bonds	95.3	326.6	433.6	377.3	150.3
Treasury bills	224.8	0.0	0.0	0.0	0.0
Net receipts from financial assets	44.5	-126.9	36.4	-146.0	43.3

Other financing <sup>27</sup>	-41.0	-120.0	-111.1	-101.0	-93.0
<b>Total financing</b>	<b>565.6</b>	<b>165.0</b>	<b>291.2</b>	<b>-77.1</b>	<b>-188.6</b>

Source: Ministry of finance of the Republika Srpska

Investment projects will be fully financed from external sources, as a result of maximizing access to concessional sources of financing (World Bank, EIB, EBRD, IFAD, KfW, etc.). Domestic and external sources of financing will be used to finance budget expenditures<sup>28</sup>.

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

To calculate the cyclically-adjusted (primary) consolidated general government balance for the period 2015 to 2023, the cyclically-adjusted budget balance was calculated on the basis of the European Commission's semi-aggregate method. The calculation of the cyclical part of the balance carried out by the European Commission is based on the usual two-step procedure: (i) assessing the aggregate production gap as an indicator of the economic cycle; and (ii) assessing the elasticity ratio of total revenue and expenditure to this gap.

The first step is the assessment of the cyclical position of the economy (the output gap) by comparing the actual and potential GDP. Given the lack of availability of data, we could not use the method of output function to assess the aggregate output gap. Thus, the estimate of the potential GDP is based on the adapted Hodrick-Prescott filter due to its transparency and simplicity, with smoothing coefficient ( $\lambda$ ) for annual data, 6.25<sup>29</sup>. According to Bruchez, P.-A. (2003), the adapted Hodrick-Prescott filter solves the problem of bias at the beginning/end of the sample, which was the main flaw of the original HP filter. Using such an adapted filter, there was no need to artificially extend a series of data outside the projected period.

The second step is the assessment of the effect of cyclical developments on the budget by applying the budgetary elasticity. The total elasticity of revenue/expenditure is derived as a weighted sum of the elasticity of individual categories of revenue/expenditure<sup>30</sup> which are sensitive to business cycle developments, where weights of certain categories present their shares in the total revenue/expenditure. The elasticity of the individual component of revenue/expenditure is first calculated considering its relevant macroeconomic base and then we calculate the elasticity of macroeconomic base to the aggregate output gap. These two elasticities are multiplied to obtain the elasticity of individual component of revenue/expenditure to the aggregate output gap.

As a standard in assessing elasticity of revenue and expenditure, it is assumed that the elasticities of the consumption tax, income tax, corporate income tax, social contributions and the unemployment expenditure in relation to the corresponding tax base, are equal to one. This way calculated overall elasticity of the budgetary balance of the consolidated general government is 0.34, where revenue elasticity equals 0.33 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.

<sup>27</sup> Other financing refers to liabilities under the Law on Internal Debt that are settled in cash, issued guarantees and liabilities from previous years.

<sup>28</sup> Of the total financing through external sources, 57.9% in 2022 refers to the financing of budget expenditures, 74.0% in 2023, while, for that purpose, it does not exist in 2024.

<sup>29</sup> Morten O. Ravn and Harald Uhlig: "Discussion Paper No. 2858 on adjusting the HP – Filter for the frequency of observation, CEPR, June 2001 © 2002 by the President and Fellows of Harvard College and the Massachusetts Institute of Technology

<sup>30</sup> Cyclically sensitive components determined on the revenue side are the revenues from VAT and excise duties (consumption tax), income tax, corporate income tax and revenues from social contributions whereas on the expenditure side, only the unemployment expenditure is taken into consideration.

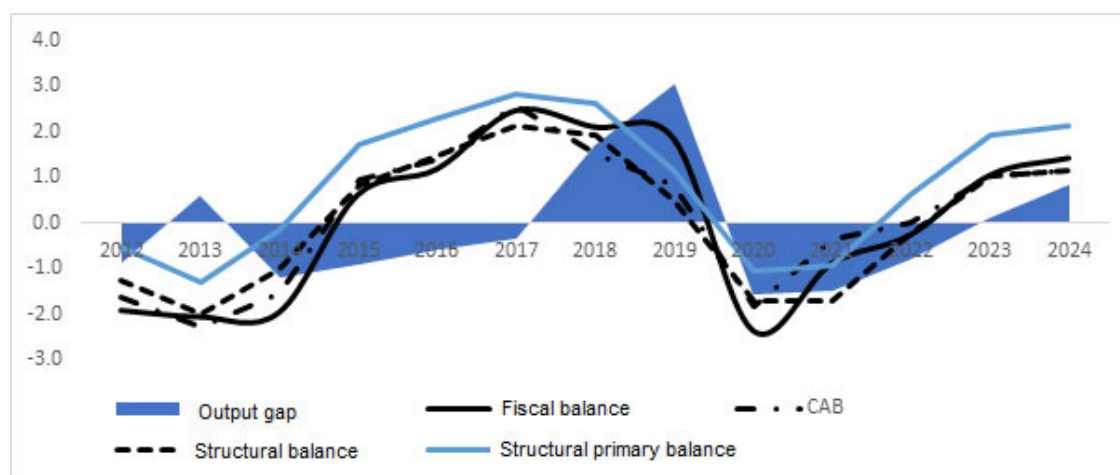
After calculating the overall sensitivity of the budgetary balance, the cyclical component is then obtained as the sum of the output gap and the overall cyclical sensitivity. In order to show the true character of discretionary fiscal policy, we calculate the fiscal stance. It is measured as the annual 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. Thus calculated structural primary balance shows the structural fiscal position.

**Table 6: Fiscal balance and components for calculation of cyclically adjusted balance 2012-2024, in % of GDP<sup>31</sup>**

Year	Output gap	Fiscal balance	Primary fiscal balance	Cycl. Comp.	Cycl. Adjust. Balance (CAB)	Cycl. Adjust. Prim. balance	Struct. balance	Struct. prim. balance	Fiscal stance
2012	-0.9	-1.9	-1.2	-0.3	-1.6	-0.9	-1.2	-0.5	0.8
2013	0.6	-2.0	-1.3	0.2	-2.3	-1.5	-2.0	-1.3	0.8
2014	-1.2	-2.0	-1.1	-0.4	-1.5	-0.7	-1.0	-0.2	-1.1
2015	-0.9	0.6	1.5	-0.3	0.9	1.8	0.8	1.7	-1.9
2016	-0.6	1.2	2.0	-0.2	1.4	2.2	1.5	2.3	-0.6
2017	-0.3	2.5	3.2	-0.1	2.6	3.3	2.1	2.8	-0.5
2018	1.7	2.1	2.8	0.6	1.5	2.2	1.9	2.6	0.2
2019	3.0	1.9	2.5	1.0	0.8	1.5	0.5	1.2	1.4
2020	-1.5	-2.3	-1.7	-0.5	-1.8	-1.2	-1.7	-1.0	2.2
2021	-1.5	-0.9	-0.1	-0.5	-0.4	0.4	-1.7	-0.9	-0.1
2022	-0.8	-0.2	0.6	-0.3	0.0	0.9	-0.3	0.6	-1.6
2023	0.1	1.1	2.0	0.0	1.0	1.9	1.0	1.9	-1.3
2024	0.9	1.4	2.4	0.3	1.1	2.1	1.2	2.1	-0.2

Source: Ministry of Finance and Treasury of BiH

**Graph 1: Actual and cyclically adjusted fiscal balance in 2012-2024 in % of GDP**



Source: Ministry of Finance and Treasury of BiH

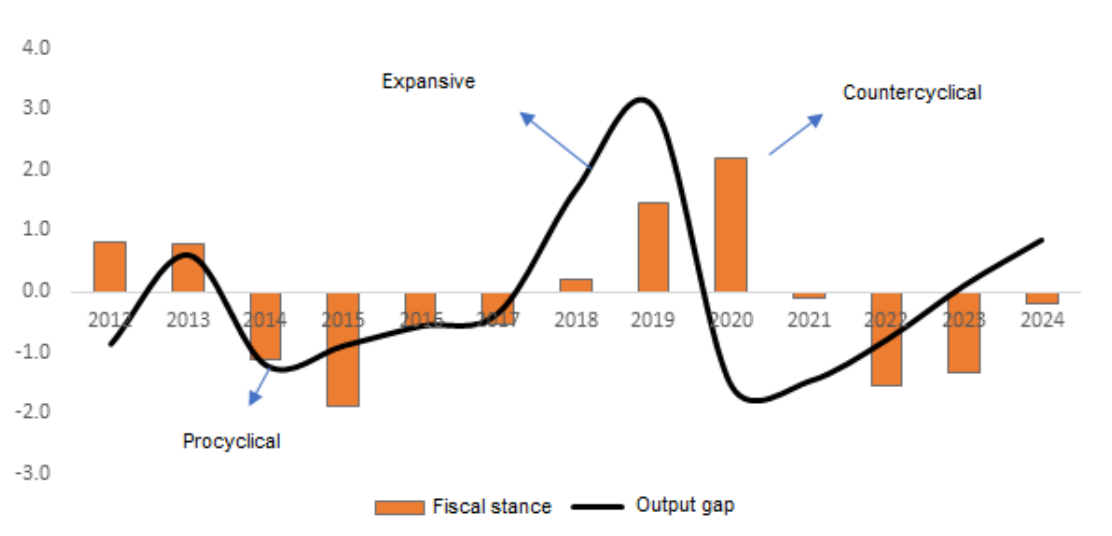
The analysis of the structural primary balance indicates that in the period 2012 and 2013, the fiscal position of the general government sector deteriorated. After the stabilization of

<sup>31</sup> For the period 2012-2019, the CBBiH data were used while for the period 2020-2024 data were provided by the ministries of finance (institutions of BiH and Entities) and the BD Directorate for Finance.



economic conditions caused by the economic crisis of 2008, there was a stabilization and then an increase in revenue. The positive upward trend in revenue was maintained in 2011, and already in 2012 there was a slowdown, and then a decline in revenue. This trend continued in 2013, when despite the modest economic recovery, the effects of collecting indirect taxes in 2013 were negative. In addition, in May 2014, BiH was hit by natural disasters (floods) that led to a slowdown in economic activity compared to 2013 and when negative values of the output gap and a higher actual deficit than the cyclically-adjusted deficit were recorded. The mismatch of public spending leads to an increase in public debt and the structural fiscal position deteriorates and takes on negative values. In order to stabilize the fiscal position in 2014, a procyclical restrictive policy is being taken in the form of measures to restrain current spending at all levels of government (salary freeze and restriction of employment in the public sector). On the revenue side, in addition to measures to improve the collection of tax revenues (direct and indirect) and combat the gray economy, amendments were adopted to the Law on Excise Duties in the field of tobacco taxation (in force since 1 August 2014) and beer taxation (in force since 1 September 2014). In addition, the Law on Special Solidarity Contribution for Remediation of Damage Caused by Floods was passed in the RS, which was extended by amending the mentioned law in 2015 and 2016.

**Graph 2: Fiscal stance in BiH the period 2012-2024**



Source: Ministry of Finance and Treasury of BiH

Restrictive policy has given visible results because in the period 2015-2019 there was a positive and stable growth of indirect taxes, which with the continuation of fiscal consolidation measures and control of current expenditures leads to a surplus and a significant improvement in the structural fiscal position. The following 2020 brings a turning point where there is the strongest decline in economic activity caused by the COVID-19 pandemic, which recorded the greatest negative impact of the cycle with high negative output gap values. Due to falling revenues and rising expenditures because of measures taken to help health, the economy and the population, the fiscal stance is deteriorating and taking on negative values. The created fiscal space (surplus) in the period of fiscal consolidation 2015-2019 enabled the authorities at all levels in BiH to implement a counter-cyclical policy in 2020. According to projections, stabilization will occur in 2023, when positive effects of the cycle and higher growth of real GDP than potential are expected.

Gradual stabilization of epidemiological conditions and improvement of economic activity in the main trade partners (EU and countries of the region) in 2021 lead to an increase in economic

activity in BiH. As a result of a stronger recovery in domestic demand (private consumption), a significant increase in revenue is expected. This trend is projected for the period 2022-2024. However, the significantly worsened fiscal position in 2020 requires the re-conduct of restrictive fiscal policy, so that the positive effects of fiscal consolidation are expected as early as 2023, when positive values of the structural primary balance are expected again. The projected continuation of economic growth in 2024, together with a restrictive counter-cyclical fiscal policy, which includes a reduction in one-off expenditures related to pandemic interventions and expected revenue growth, leads to a significant improvement in the fiscal position of the general government sector in BiH.

#### **4.6. Debt level and developments, analysis of below-the-line operations and stock-flow adjustments**

##### *Institutional arrangements and borrowing limits*

In accordance with the constitutional structure in BiH, a legislative and institutional framework for debt management has been established at all levels of government. According to the legal framework, public debt management in BiH is performed by the Ministry of Finance and Treasury of BiH, entity ministries of finance and the Directorate for Finance of BD. Debt management is performed through the implementation of procedures for borrowing, recording, monitoring, servicing and preparation of debt management strategies and preparation of external and internal debt plans. Special laws regulating debt and borrowing have been enacted at the level of BiH, both entities and the BD. This legislative framework, among other things, regulates the limits of borrowing for the appropriate level of government. Thus, pursuant to the Law on Debt, Borrowing and Guarantees in the Federation of Bosnia and Herzegovina<sup>32</sup> (hereinafter: the Law on Debt in the FBiH), the FBiH may borrow in the country and abroad in domestic or foreign currency. The Law on Debt in the FBiH determines the borrowing limits of the FBiH, cantons, cities and municipalities, as well as the purposes for which it can borrow on the foreign or domestic market, and issue guarantees. Borrowing limits for the total public debt of the FBiH have also been defined, which is being consolidated at the level of the FBiH. It stipulates that the FBiH may borrow in the long run if at the time of borrowing the amount of debt service, complete internal and external debt and guarantees due each subsequent year, including servicing of proposed new borrowing and all loans for which FBiH has issued guarantees, with debt limits of the cantons, does not exceed 18 percent of the consolidated revenues of FBiH and cantons generated in the previous fiscal year. Cantons and cities and municipalities can borrow in the long run if at the time of long-term borrowing the amount of debt service for total internal and external debt and guarantees due in each subsequent year, including servicing for proposed new borrowing and all loans guaranteed by cantons and cities and municipalities, do not exceed 10% of revenues generated in the previous fiscal year. When determining the above limits, guarantees are calculated in the amount of 30% of the nominal value of the guarantee. In accordance with the FBiH Law on Debt, the FBiH Government has also established a Debt Commission, which includes representatives of the Federation and Cantonal Ministries of Finance. This commission is, among other things, responsible for monitoring the sustainability of total debt in the FBiH.

The Law on Borrowing, Debt and Guarantees of the Republika Srpska (hereinafter: the Law on Debt of RS)<sup>33</sup> regulates in detail the scope of borrowing and issuing guarantees of the RS and local self-government units, as well as the methods and procedures of borrowing, which together with the existing laws in the budget system and the Law on Fiscal Responsibility in Republika Srpska represent a comprehensive legal framework for improvement and control of

<sup>32</sup> Official Gazette of FBiH (86/07, 24/09, 44/10 and 30/16)

<sup>33</sup> Official Gazette of Republika Srpska, 71/12, 52/14, 114/17, 131/20, 28/21 and 90/21.

budget discipline. Pursuant to the Law on Debt of RS, the restriction on the amount of debt is set so that the total debt of RS <sup>34</sup> at the end of the fiscal year may not exceed 60%, while the public debt of RS may not exceed 55% of realised GDP in that year. The debt of RS which was incurred under borrowing for financing the repair of damage from the Single Register of Damages, prescribed under the Law on the Solidarity Fund for Reconstruction of RS, is exempted from these restrictions prescribed for the total and public debt of RS. Short-term debt of Republika Srpska may not exceed 8% of the amount of regular revenues realised in the previous fiscal year. The total exposure of RS under issued guarantees may not exceed 15% of the realized GDP in that year. In addition, the RS Budget determines the amount of short-term and long-term RS debt that may arise during the budget year. The RS National Assembly, at the proposal of the Government, decides on: total short-term and long-term borrowing that may arise during the fiscal year, as well as its purpose, the total amount of RS guarantees that the Government may issue during the fiscal year, <sup>35</sup>, and approving capital investment, as well as the amount of debt to finance that investment. Local self-government units may borrow in the long run only if in the period of debt creation the total amount due for repayment, under the proposed debt and total due arrears in any subsequent year does not exceed 18% of its regular revenues generated in the previous fiscal year. The short-term debt of local self-government units may not exceed 5% of their regular revenues generated in the previous fiscal year, while the exposure of local self-government units under issued guarantees may not exceed 30% of the amount of their regular revenues generated in the previous fiscal year (all rules applicable local self-government units also apply to social security funds, except in the part concerning guarantees - social security funds may not issue guarantees). The Assembly of the local self-government unit makes a decision on borrowing and issuing a guarantee of the local self-government unit, and the Ministry of Finance gives its consent for borrowing, i.e., issuing a guarantee. The Steering Committee of the Social Security Fund makes a decision on borrowing of the Social Security Fund, the Ministry of Finance gives an opinion, and the RS Government gives its consent to the borrowing of the fund. The Law on Fiscal Responsibility<sup>36</sup>, within the general fiscal rules, establishes a rule on debt which implies that the public debt of Republika Srpska at the end of the fiscal year may not exceed 55% of the realized GDP in that year, while within the specific fiscal rules it defines the debt threshold, which means that if the public debt of Republika Srpska at the end of the fiscal year reaches 50% of the realized GDP in that year, the next year's budget must be with a budget surplus. The Ministry of Finance reports annually to the RS Government and the National Assembly on borrowing.<sup>37</sup>

Limits on the amount of internal debt of BD are determined by the Law on Internal Debt of the Brčko District of BiH. Short-term debt may not exceed 5% of regular revenues collected in the previous fiscal year in any period of time. The District may incur long-term debt obligations only if, at the time of the debt, the amount of the debt repayable in any subsequent year for all of the District's outstanding long-term internal debt and proposed debt will not exceed 10% of the regular revenue collected in the previous fiscal year. There are no, by law or other regulation, established limits on the amount of external debt of BD to foreign creditors, but only through BiH, i.e., the competent Ministry of Finance and Treasury of BiH. The analysis of the current situation in the field of public debt of the Brčko District of BiH, and especially the analysis of the existing legislative framework for public debt has shown the need to improve it in terms of passing a new law. Therefore, there is a need for BD, as well as the entities, to

<sup>34</sup> In accordance with the Law on Borrowing, Debt and Guarantees of the RS, the total debt of the RS Srpska consists of the public debt of the Republika Srpska, the debt of public enterprises, IDB RS and public sector institutions. Public debt is debt of Republika Srpska, debt of local self-government units and debt of social security funds.

<sup>35</sup> Article 1 of the Law on Amendments to the Law on Borrowing, Debt and Guarantees of Republika Srpska (Official Gazette of Republika Srpska, 114/17).

<sup>36</sup> Official Gazette of Republika Srpska, 94/15 and 62/18.

<sup>37</sup> Document [Information on debt, state as on 31 December 2020](#) available at the website of the Government of Republika Srpska.

implement planned reforms, both in terms of establishing fiscal rules for debt and borrowing, and in terms of coverage and measurement of public debt in line with EU statistical reporting methodology (so-called ESA - 2010 standards).

#### *The state and characteristics of public debt in Bosnia and Herzegovina*

According to the available information, the public debt of BiH as on 30 September 2021 amounts to KM 12,516.2 million<sup>38</sup>, of which the external debt is KM 9,278.1 million or 74.1%, while the internal debt is KM 3,238.3 million or 25.9%. Compared to 31 December 2020, the public debt increased by KM 474.1 million, with the increase in external debt by KM 660.2 million, and the internal debt decreased by KM 186.2 million. In the total state of public debt, RS participates with 49.2%, FBiH with 49.9%, Institutions of BiH with 0.5% and BD with 0.4%. According to estimates, the total public debt as on 31 December 2021 will amount to KM 12,825.2 million, of which KM 9,705.3 million or 75.7% refers to external debt and KM 3,119.9 million or 24.3% to internal debt. BiH's public debt, according to historical data and projections, remains within the Maastricht criteria and BiH remains a moderately indebted country.

Observed by individual levels of government, the state of public debt in the FBiH as on 30 September 2021 amounts to KM 6,247.5 million, of which KM 5,105.7 million relates to external debt and KM 1,141.8 million to domestic debt. The most represented currencies in the FBiH debt portfolio are EUR (48.02%), SDR (25.86%), USD (11.01%) and KM (14.57%). With the decomposition of the SDR, the share of the EUR currency grows to 56.02% of the total debt, and the share of the USD to 21.80%. The currency risk of the FBiH external debt portfolio is relatively high. Over 35% of external debt is sensitive to changes in foreign exchange rates taking into account its currency structure (EUR - 56.21%, SDR - 30.27% and USD - 12.89%), in which, after the decomposition of SDR, the share of EUR currency in total external debt is 65.57%.

Refinancing risk is significant for both domestic and external debt and is concentrated in the short and medium term. The average maturity (ATM) for domestic debt is 3.3 years and 6.2 years for external debt. The average maturity of total debt is 5.8 years.

The share of the debt portfolio that is refixed within one year is 46.02% and is a result of the fact that almost half of the external debt portfolio is contracted with a variable interest rate (approx. 40.0%) and short maturity of marketable securities issued on the domestic market. Increasing the reference interest rates by one percentage point would increase the debt repayment by approximately USD 14 million per year (approximately KM 22 million). The average time for re-fixing the FBiH debt portfolio is 3.69 years, of which it takes an average of 3.75 years to re-fix external debt and 3.30 years to re-fix internal debt. The weighted average implicit interest rate of the debt portfolio of the Federation of BiH is relatively low and amounts to 1.45%. The weighted average implicit interest rate for domestic debt is 1.68% and for external debt 1.41%.

The state of public debt of RS on 30 September 2021 amounts to KM 5,081.0 million, which is 42.7% of GDP<sup>39</sup>, while the state of total debt of RS amounts to KM 6,159.9 million, i.e., 51.8% of GDP. The state of total external debt amounts to KM 4,064.7 million, while the state of total domestic debt amounts to KM 2,095.1 million. As on 30 September 2021, the total debt of RS subject to legal restrictions amounts to KM 6,093.7 million (51.2% of GDP), while the public debt subject to legal restrictions amounts to KM 5,014.9 million (42.2% of GDP).

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<sup>38</sup> This amount includes the "total debt" of the Republika Srpska

<sup>39</sup> It refers to the GDP of Republika Srpska. The estimated value of GDP for 2021 is KM 11,894 million

The currency structure of the total RS debt is dominated by three currencies: EUR (45.1%), KM (34.0%) and SDR (14.8%). Of the total debt of RS, only 0.6% refers to short-term debt (original maturity), while the entire remaining debt is long-term and its share is 99.4%. Most of the total debt, i.e., 78.2%, is repaid at fixed interest rates. 72.2% of the total external debt is repaid on fixed terms, while 89.9% of the total domestic debt is repaid on fixed terms. When it comes to the structure of total RS debt from the point of view of instruments, the marketable part of the debt (bonds and treasury bills) is 36.7%, while the remaining debt represents the non-marketable part of debt (loans and debt settled through action plan or cash).

The average weighted interest rate of the total debt of RS for 2020 is 2.3%, namely of external debt 1.9% and domestic debt 3.1%. Average weighted interest rate of total debt estimated for the period 2021-2024<sup>40</sup> is 2.5%, 2.5% 2.7% and 3.2%, namely of external debt 2.2%, 2.3%, 2.6% and 3.2%, and of domestic debt 2, 9%, 3.0%, 3.0% and 3.3% per year, respectively. To convert the estimated external debt of the RS from the original currencies<sup>41</sup> into KM the estimated values of exchange rates were used based on the assumption that by the end of 2021 there will be an appreciation of all currencies against the KM in the amount of 0.89%<sup>42</sup> in relation to the values on 30 September 2021.

**Table 7: Public debt state and projections (in KM mil.)**

	2020	30/9/2021	2021	2022	2023	2024
<b>1. EXTERNAL DEBT (1+2+3+4)</b>	<b>8,617.9</b>	<b>9278.1</b>	<b>9705.3</b>	<b>10,543.8</b>	<b>10,827.6</b>	<b>10,523.3</b>
<b>1 Institutions of BiH</b>	66.4	62.5	65.3	62.6	48.7	46.6
<b>2 Federation of BiH</b>	4,973.8	5,105.7	5,402.0	5,761.1	5,673.2	5722.1
<b>3 Republika Srpska</b>	3,526.4	4,064.7	4,190.2	4,662.3	5,055.0	4,714.3
<b>4 Brčko District</b>	51.3	45.2	47.8	57.8	50.7	40.3
<b>2. DOMESTIC DEBT (2.1+2.2+2.3)</b>	<b>3,424.2</b>	<b>3,238.1</b>	<b>3,119.9</b>	<b>2,990.6</b>	<b>2,750.1</b>	<b>2,961.8</b>
<b>2.1 Federation of BiH</b>	1,115.3	1,141.8	1,144.8	1,119.7	1,098.3	1,070.9
-Government of FBiH	849.9	864.3	864.3	828.7	792.9	775.3
- Cantons, municipalities and cities	265.4	277.5	280.5	291.0	305.4	295.6
<b>2.2 Republika Srpska</b>	2,307.1	2,095.1	1,974.0	1,870.4	1,651.8	1,890.9
- Budget of Republika Srpska	1,723.8	1,529.9	1,433.0	1,415.8	1,283.1	1,602.8
- Local self-government units	370.7	350.6	337.5	290.8	244.5	199.8
- Social security funds	212.6	214.6	203.5	163.9	124.3	88.3
<b>2.3 Brčko District</b>	1.8	1.2	1.1	0.5	0.0	0
<b>TOTAL (1+2)</b>	<b>12,042.1</b>	<b>12,516.2</b>	<b>12,825.2</b>	<b>13,534.4</b>	<b>13,577.7</b>	<b>13,485.1</b>

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

According to the available information of the Ministry of Finance and Treasury of BiH on 30 September 2021, from the point of view of the purpose of investing new external debt (external debt of BiH incurred after 14/12/1995) 54.2% refers to infrastructure, 33.6% to the public sector while 12.2% refers to economic activities. BiH's external debt is characterized by a relatively low average weighted interest rate. The weighted average interest rate on the total

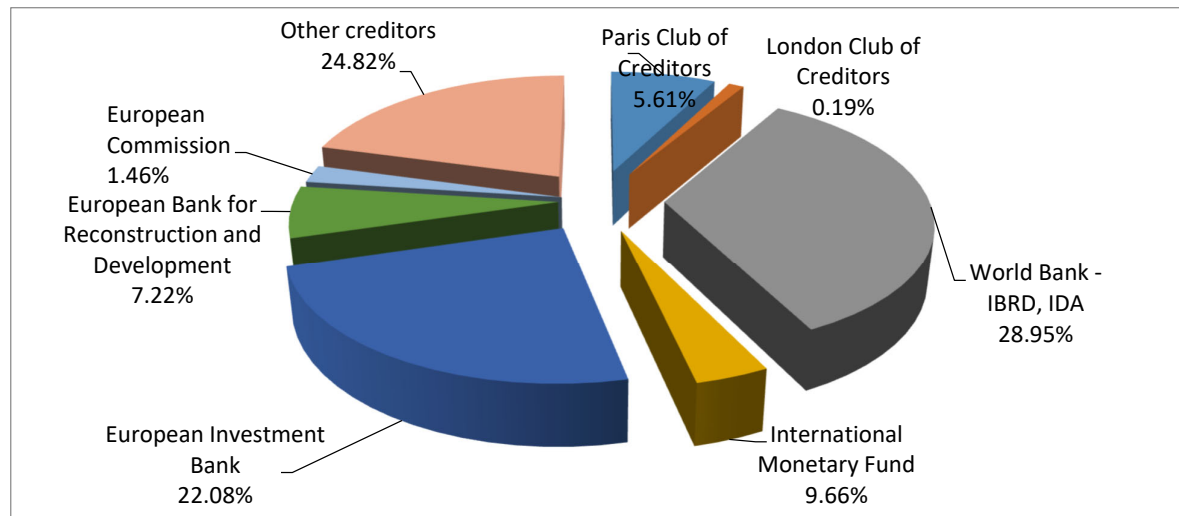
<sup>40</sup> The values of interest rates are obtained by comparing the estimated amount of interest for a given year and the balance of debt in the previous year.

<sup>41</sup> The projected balance of external debt in the original currency in 2021 is based on the amount of withdrawn loans on 30/09/2021 increased by estimated withdrawals for investment projects in implementation and withdrawals to finance budget spending, and reduced by the estimated amount of external debt principal service.

<sup>42</sup> The coefficient of 0.89% represents the ratio between the estimated value of SDR for the period 2021-2024 (1 SDR = 2.39 KM, which is the average of annual averages of SDR values in the period 01/01/2016 – 30/09/2021) and its value on 30/09/2021 (1 SDR = 2.37 KM).

external debt is 1.56%. This is largely the result of external concessional borrowing and a significant share of external loans with variable interest rates.

**Graph 3: Structure of BiH external debt as on 30 September 2021 by creditors<sup>43</sup>**



Source: Ministry of Finance and Treasury of BiH

**Table 8: Public debt repayment and projections (in KM mil.)**

	2020	30/9/2021	2021	2022	2023	2024
<b>1.Total F BiH (1.1+1.2)</b>	<b>734.9</b>	<b>644.0</b>	<b>769.6</b>	<b>859.6</b>	<b>956.9</b>	<b>969.3</b>
<b>1.1 External debt of F BiH</b>	431.6	339.6	462.8	425.8	668.6	655.2
<b>1.2 Domestic debt</b>	303.3	304.4	306.8	433.8	288.3	314.1
<i>Government of F BiH</i>	245.0	242.6	242.6	362.6	212.8	235.7
<i>Cantons, municipalities and cities</i>	58.3	61.8	64.2	71.2	75.5	78.4
<b>2.Total RS (2.1+2.2)</b>	<b>584.1</b>	<b>562.0</b>	<b>808.9</b>	<b>699.6</b>	<b>1,165.1</b>	<b>894.9</b>
<b>2.1 External debt of RS</b>	261.6	192.2	289.0	322.4	812.7	549.5
<b>2.2 Domestic debt of RS</b>	322.5	369.9	519.9	377.3	352.4	345.4
<i>Budget of Republika Srpska</i>	220.6	288.2	402.3	271.9	250.7	251.6
<i>Local self-government units</i>	74.5	42.8	57.0	59.1	56.8	53.9
<i>Social security funds</i>	27.4	38.9	60.5	46.2	44.9	40
<b>3.Total BD (3.1+3.2)</b>	<b>9.8</b>	<b>3.6</b>	<b>8.5</b>	<b>8.6</b>	<b>10.8</b>	<b>11.5</b>
3.1 External debt	9.2	3.4	7.9	7.9	10.3	11.5
3.2 Domestic debt	0.6	0.2	0.6	0.7	0.5	0
<b>4. External debt of Institutions of BiH</b>	<b>8.5</b>	<b>3.1</b>	<b>7.1</b>	<b>5.6</b>	<b>16.2</b>	<b>4.2</b>
<b>TOTAL BIH (1+2+3+4)</b>	<b>1,337.3</b>	<b>1,212.7</b>	<b>1,594.1</b>	<b>1,573.4</b>	<b>2,149.0</b>	<b>1,879.9</b>

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

<sup>43</sup> Other creditors are: the Kingdom of Spain, the Republic of Portugal, the Government of Japan, the Export-Import Bank of Korea, the Austrian Bank, the Republic of Poland, the Council of Europe Development Bank, Raiffeisen Bank AG, Kuwait Fund, OFID (OPEC) Fund, Saudi Development Fund, Economic Bank and Austrian Post, Government of Belgium, Republic of Serbia, Eurobonds RS, Erste Bank, IFAD, KfW, Unicredit Bank Austria.

### *Debt flow information*

In the first nine months of 2021, in aggregate terms, the external debt in BiH increased by KM 660.2 million, with the increase in the FBiH and RS, which was affected by the withdrawal of contracted loans, while in the Institutions of BiH and DB decreased because only principal repayments are included.

The external debt of the FBiH in the first nine months of 2021 in relation to 31 December 2020 is higher by KM 131.9 million. The increase refers to the withdrawal of contracted loans in the specified period in the total amount of KM 422.4 million (of which, for strengthening the banking sector KM 15.6 million, and KM 406.8 million for financing investment projects) and repayment of principal KM 339.6 million, as well as the depreciation of the KM against other currencies. Of these KM 422.4 million, KM 377.6 million was withdrawn from multilateral creditors (EIB, WB-IBRD, EBRD, OFID), and KM 44.8 million from bilateral creditors (KfW).

The assessment of the state of external debt of the FBiH on 31 December 2021 includes planned withdrawals by the end of the year in the total amount of KM 305.0 million, repayment of principal in the amount of KM 124.0 million and depreciation of KM in relation to other currencies.

In the first nine months, the total external debt of RS increased by KM 538.3 million, which is the result of the withdrawal in the amount of KM 673.1 million (of which KM 591.8 million refers to budget support, and KM 81.2 million for financing investment projects), repayment of principal in the amount of KM 151.0 million, and depreciation of KM in relation to other currencies. Of these KM 673.1 million, KM 78.8 million was withdrawn from multilateral creditors (WB, EBRD, EIB, IFAD, CEB), KM 7.5 million from bilateral creditors (KfW, JICA), while KM 586.7 million was withdrawn from commercial sources (Eurobonds).

The projected balance of the total external debt of the RS at the end of 2021 includes planned withdrawals by the end of the year in the total amount of KM 170.0 million (of which KM 94.7 million refers to withdrawals for budget support, and KM 75.3 million for financing investment projects), repayment of principal in the amount of KM 59.3 million, and appreciation of the value of all currencies in relation to KM in the amount of 0.89% compared to the value on 30 September 2021. Of these KM 170.0 million, KM 167.1 million is planned to be withdrawn from multilateral creditors (EU, WB, EIB, EBRD, IFAD), and KM 2.9 million from bilateral creditors (JICA, KfW).

**Table 9: Public debt indicators 2019-2024** Table **: Public debt indicators 2019-2024**

	2019	2020	2021	2022	2023	2024
GDP current prices (KM mil.)	36,527	35,436	36,806	38,447	40,094	41,907
Total public debt <sup>44</sup> in BiH (KM mil.)	11,109.3	12,042.1	12,825.2	13,534.4	13,577.7	13,485.1
Export of goods and services (KM mil.)	14,320	11,820	13,928	15,238	16,635	18,280
External debt (KM mil.)	8,133.6	8,617.9	9,705.3	10,543.8	10,827.6	10,523.3
Total debt servicing (KM mil.)	1,426.9	1,337.3	1,594.1	1,573.4	2,149.0	1,879.9
External debt servicing (KM mil.)	736.2	710.9	766.8	761.7	1,507.8	1,220.4
Net revenues from indirect taxes (KM mil.)	6,135.6	5,565.6	6,399.7	6,590.4	6,771.3	6,981.9
Total revenues (KM mil.)	15,018.1	14,143.7	15,579.7	16,039.2	16,607.3	17,271.7
Total debt/GDP %	30.4%	34.0%	34.8%	35.2%	33.9%	32.2%
Total debt servicing/Total revenue %	9.5%	9.5%	10.2%	9.8%	12.9%	10.9%

<sup>44</sup> For RS, total debt is included in accordance with the law

External debt servicing /Revenues from indirect taxes %	12%	12.8%	12.0%	11.6%	22.3%	17.5%
External debt /Export of goods and services %	56.8%	72.9%	69.7%	69.2%	65.1%	57.6%

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

### *Debt management strategy*

Every year, the Medium-Term Debt Management Strategy of BiH is prepared, which contains individual medium-term debt management strategies of the RS, FBiH and BD, including the external debt of the Institutions of BiH. The development of the BiH Medium-Term Debt Management Strategy implies that the entity and BD governments prepare and adopt their debt management strategies based on their gross financial needs and funding sources and macroeconomic indicators, using the same shock scenarios and joint initial projections in terms of interest rates on external debt and exchange rates, while different projections of interest rate movements on the entity's internal debt are used. The Medium-Term Debt Management Strategy of BiH for 2021-2024 was not prepared during the period of preparation of the ERP, and will be made after all levels<sup>45</sup> submit their adopted medium-term debt management strategies.

When drafting the Medium-Term Debt Management Strategy, each level of government sets its own debt management objectives, risk management guidelines and strategic targets as indicators of the level of risk exposure. The draft Medium-Term Debt Management Strategy of Bosnia and Herzegovina for the period 2021-2024 contains operational guidelines for external government debt:

- For new external borrowing, where possible, choose the type of interest rate, prefer a fixed interest rate (unless the analysis indicates a strong argument for choosing a variable interest rate.).
- For new external borrowing, where possible, choose the repayment period and grace period, prefer external borrowing with a longer grace period and a longer repayment period.
- When planning borrowing, take care to maintain balanced repayment structure per year in order to minimize the risk of refinancing.
- In order to reduce currency risk in new external borrowing, where it is possible to choose a currency, the EUR currency should be preferred.

The draft Medium-Term Debt Management Strategy in FBiH for 2021-2024 contains the following debt management guidelines:

- When planning borrowing, take care to maintain balanced repayment structure per year in order to minimize the risk of refinancing;
- In order to reduce currency risk, maximise borrowing in EUR and KM;
- In order to reduce the risk of debt refinancing: the share of the debt portfolio maturing within 12 months/one year should amount to a maximum of 15% of the total outstanding debt;
- In order to extend the average maturity of the debt portfolio above 6.5 years, contract future debts with a longer grace period and a longer repayment period. Extend the average weighted maturity of the debt portfolio to at least 6.5 years.

<sup>45</sup> On January 27, the RS Ministry of Finance submitted the adopted RS Debt Management Strategy for the period 2021-2024. to the Ministry of Finance and Treasury of BiH.



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

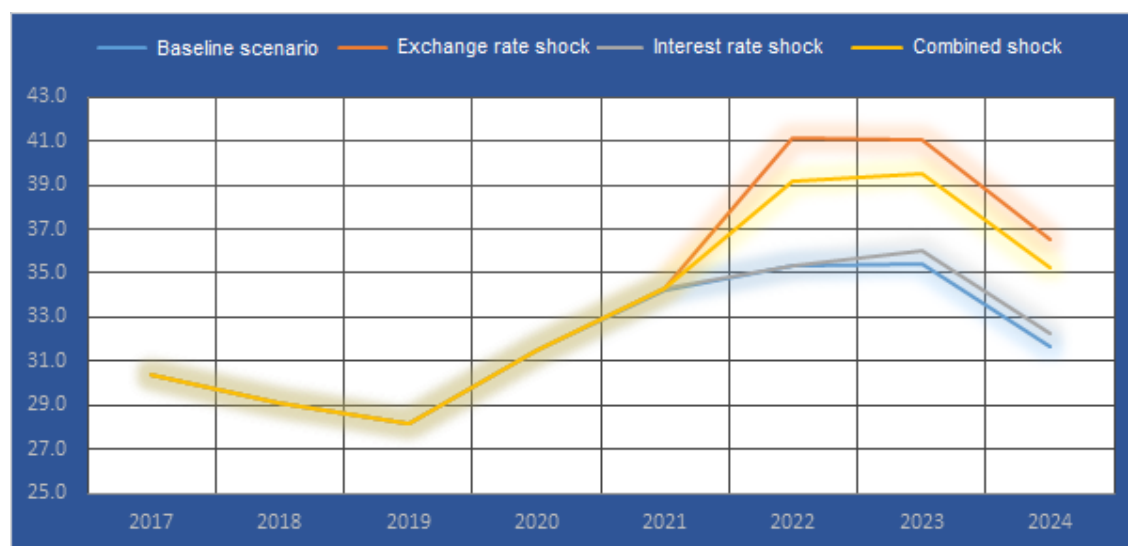
- Average time to maturity (ATM) should not be below 6.7 years;
- Average time to re-fixing (ATR) should be 3.49 years;
- The share of interest-based debt servicing in revenues should be less than 15%.

The RS<sup>46</sup> Debt Management Strategy for the period 2021-2024 defines the main goal of the RS debt management, operational goals and principles to meet the main goal of debt management, strategy to achieve these goals, tasks of the RS Ministry of Finance, and identifies indicators, i.e., guidelines to achieve the debt structure with an acceptable level of costs and risks and their estimated value at the end of 2024, as follows:

- in order to manage currency risk, debt denominated in foreign currency (excluding debt in EUR) should be lower than 35% of total observed debt (estimated value at the end of 2024 is 12.0%), while in order to develop the domestic market domestic debt should be higher than 20% of the total observed debt (e. v.<sup>47</sup> at the end of 2024 is 22.4%);
- in order to manage refinancing risk, the average time to maturity should be longer than 4 years (e.v. at the end of 2024 is 5.5 years), and short-term debt should be less than 8% of revenues generated in the previous year (e.v. at the end of 2024 is 0.0%);
- in order to manage interest rate risk, debt under fixed terms should amount to more than 60% of the total observed debt (e.v. at the end of 2024 is 82.5%), while the average weighted interest rate should be lower than 3.5% (e.v. at the end of 2024 is 2.7%).

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

**Graph 4: Movement of the debt-to-GDP ratio by applying certain shocks**



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

Shock scenarios:

<sup>46</sup> The RS Debt Management Strategy 2021-2024 was adopted on 30 December 2021 and it is available at the website of the Government of Republika Srpska.

<sup>47</sup> e.v. means estimated value

- Exchange rate (currency) shock: 30% depreciation of the KM/USD exchange rate in the second year;
- Interest rate shock: 4% increase in interest rates on external and domestic long-term instruments and 2% on short-term domestic instruments in the second year, which contributes to the smoothing of the yield curve. Instruments that include old foreign currency savings and war claims remain unchanged;
- Combined shock: 20% depreciation of the KM/USD exchange rate combined with a 2% shock on all domestic and foreign instruments except short-term domestic ones where the shock is 1% in the second year. Instruments that include old foreign currency savings and war claims remain unchanged.

The baseline scenario is based on the most likely market conditions and in the medium term the highest debt-to-GDP ratio under this scenario would be 35.4%. Increasing the value of interest rate parameters and the exchange rate ratio to the values stated in the observed shocks would increase the share of debt in GDP in the observed period with interest rate shock to 36.0%, combined shock to 39.5% and currency (foreign exchange rate) shock rate at 41.1%. As can be seen in the graph, the greatest risk for debt increase in terms of debt-to-GDP ratio is currency risk in the event of a sudden change in the exchange rate or appreciation of the USD against the KM and EUR (shock of 30% in the 2nd year). These parameters, both according to the baseline scenario and the shocks, indicate that BiH is a country with a medium-term sustainable public debt, which is within the debt limit in GDP according to the Maastricht criterion of 60%.

#### *Contingent liabilities*

The total state of debt according to issued guarantees in BiH on 30 September 2021 amounts to KM 830.1 million, of which KM 53.9 million refers to FBiH, and KM 776.2 million to RS.

**Table 10: State of contingent liabilities in the period 2020-2022**

	2020	30/09/2021	2021	2022
Federation of BiH	8.9	53.9	90	290
Republika Srpska	654.0	776.2	799.8	699.6
Total	662.9	830.1	889.8	989.6
% of GDP	1.9		2.4	2.6

*Source: Ministry of Finance of the FBiH, Ministry of Finance of the RS*

As on 30 September 2021, the total state of FBiH debt on issued guarantees amounts to KM 53.9 million (0.24% of FBiH GDP realized in 2020) and refers to guarantees issued within the credit guarantee programmes of the Guarantee Fund established in 2020 for the purpose of economic recovery from the effects of the COVID-19 pandemic.

As on 30 September 2021, the state of debt under issued guarantees of RS amounts to KM 776.2 million, while the total exposure of RS under issued guarantees amounts to KM 867.6 million (7.3% of GDP of RS estimated for 2021). Of this amount, KM 3.5 million refers to RS guarantees issued for domestic borrowing of local self-government units, KM 188.7 million for domestic borrowing of social security funds, KM 606.2 million for borrowing of public enterprises (of which KM 340.8 million external, and KM 265.4 million domestic), and KM 69.2 million for domestic public sector debt.

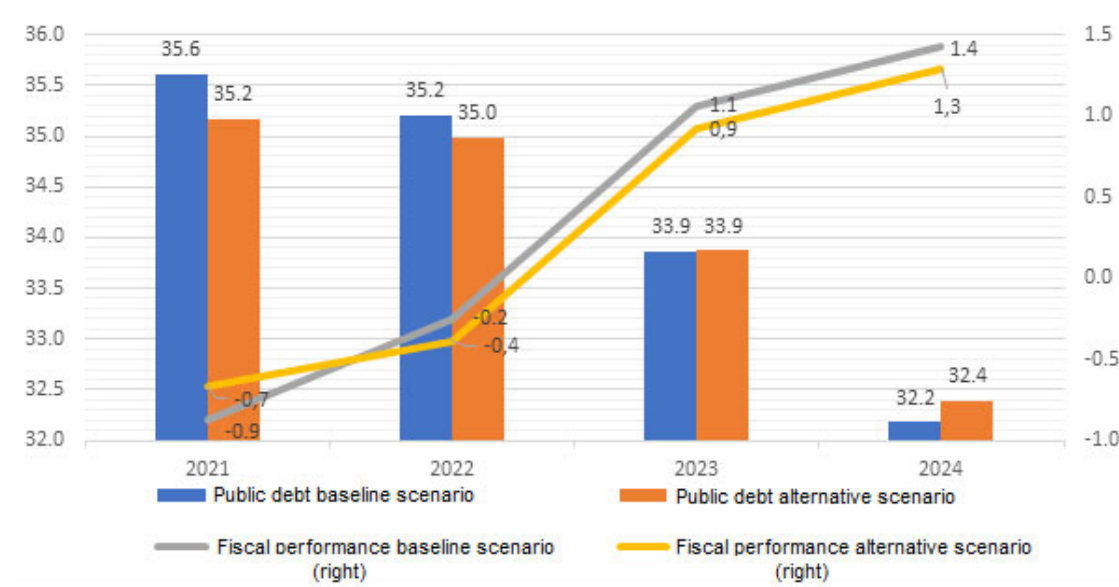
## 4.7. Sensitivity analysis and comparison with the previous programme

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

The main risks to achieving the baseline scenario of fiscal projections in the medium term can be divided into external and internal ones. External risks that may significantly affect fiscal projections are natural disasters and global financial crises which, given the fiscal capacity of all levels of government in BiH, would lead to an increase in the cumulative deficit by the end of the observed period. Of the internal risks, the most significant is the deviation of macroeconomic indicators from the values projected in the baseline scenario. Realization of assumptions from the alternative scenario of decelerated growth would lead to lower revenue growth than projected in the baseline scenario. Expenditure projections are made on the basis of requests from budget users and obligations arising from laws and bylaws.

The alternative macroeconomic scenario starts from the assumption that in 2021, economic developments both in the external environment and within the BiH economy were much more favourable compared to the period when the baseline scenario was prepared (September 2021). Thus, the projection of economic growth in the alternative scenario for 2021 increased by 1.5 percentage points compared to the baseline scenario. On the other hand, in the period 2022-2024, lower growth is forecast than in the baseline scenario. Taking into account the sensitivity of revenues to changes in real growth, each change in real growth by 1 p.p. leads to a change in revenue of 0.33%, and without adjustments on the expenditure side, the cumulative fiscal balance will decrease by KM 92.4 million.

**Graph 5: Public debt and fiscal performance in the baseline and alternative scenarios in the period 2021-2024**



Source: Ministry of Finance and Treasury of BiH

### *Comparison with the previous programme*

There are significant differences between the current and the previous programme. However, the difference in revenues in 2020 between the previous and the current programme is conditioned, among other things, by a methodological (technical) error. Namely, the revenues in the previous programme did not include a part of the revenues from indirect taxes which were used to repay liabilities on external debt in FBiH, so last year's programme projected lower revenues and consequently a large deficit.

**Table 11: Comparison of fiscal performance with the previous programme**

	2020	2021	2022	2023	2024
	ERP 2021-2023				
Total revenues	13329.0	13362.6	13854.3	14354.7	
Total expenditures	14709.0	14277.6	14373.5	14602.9	
Net borrowing/lending	-1380.0	-915.0	-519.2	-248.2	
	ERP 2022-2024				
Total revenues	14143.7	15579.7	16039.2	16607.3	17217.7
Total expenditures	14975.6	15903.0	16135.0	16184.0	16671.8
Net borrowing/lending	-831.9	-323.3	-95.8	423.3	599.9
	Difference (ERP 2021-2023 minus ERP 2022-2024)				
Total revenues	-814.7	-2.217.1	-2.184.9	-2.252.6	
Total expenditures	-266.6	-1.625.4	-1.761.5	-1.581.1	
Net borrowing/lending	-548.1	-591.7	-423.4	-671.5	

Comparing the data on the total revenues of the current ERP and the previous ERP 2021-2023, it can be seen that the projections were very cautious and based on uncertainties regarding the intensity and duration of the pandemic and related rigid measures to limit the spread of the epidemic (lockdown). Significantly higher revenues generated in 2020 and an estimate of revenues generated for the period 2021-2024 are the result of a faster economic recovery than expected.

On the other hand, there is a significant difference between the projections of expenditures in the previous ERP compared to the current document due to the financing of measures to support citizens and businesses in dealing with the negative consequences of the pandemic and financing the health care system in a pandemic. However, higher growth in revenues than expenditures already in 2022 results in a much smaller aggregate deficit in 2022 than projected in the previous document. The previous ERP envisages a significant deficit for the entire observed period. However, in 2023, according to the current projections, a significant surplus will be achieved.

If we look at different levels of government, it is important to note that all levels of government in BiH in the previous ERP projected a significant deficit. Institutions of BiH and BD have projected a deficit for the entire observed period in this year's ERP as well. Unlike the previous ERP, based on the current trend of revenue growth as well as the planned recovery and economic growth in the coming period, FBiH projected a surplus for the period 2022-2024, while the RS projected a surplus for 2023 and 2024. In addition, RS has projected a higher deficit in 2022 in this year's programme than projected in the previous ERP. The reason for the increase in the planned deficit in this programme, compared to the previous one, is the planned increase in salaries in the public sector, a significant increase in pensions (due to adjustment to significant wage growth and price growth) and further increase in investment. Also, given that the changes in the method of contracting and the Law on Contributions lead to a loss of income from health insurance contributions, a significant increase in transfers to the RS Health Insurance Fund is planned.

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

Due to the importance and impact on maintaining a sustainable fiscal position, efficient allocation of resources and efficient delivery of public goods and services, public financial management is a segment of public administration to which special attention is paid at all levels

of government in BiH. In that sense, reform activities, within various subsystems of public financial management, are included, in accordance with constitutional competencies, in individual strategies of public financial management of all levels of government in BiH. A comprehensive Strategy for Public Financial Management in BiH for the period 2021-2025 is being drafted. All levels of government in BiH have adopted Joint Socio-Economic Reforms for the period 2019-2022, so individual public financial management strategies, in addition to serving as the main guideline for strengthening the legal and institutional framework and public financial management system, reflect a strong commitment to their implementation

Given the competencies in the entity public finance management strategies, special attention is paid to fiscal risks related to public enterprises (SOEs). The Strategy of Public Financial Management Reform in FBiH for the period 2021-2025, as one of the priority reforms, planned the reform of public enterprises that represent a significant source of fiscal risks, both on the side of budget revenues and expenditures. Sustainability, efficiency and profitability of public enterprises affect budget revenues, i.e., the amount of profit they pay into the budget or increase expenditures due to their illiquidity. In the FBiH, it is planned to establish a Unit for Oversight of Public Enterprises at the Office of the Prime Minister of the FBiH, i.e., within the General Secretariat of the Government of the FBiH. In the RS, in addition to the establishment of the Central Unit for Financial Supervision of Public Enterprises in the Office of the Prime Minister of the RS, activities for defining and classifying public enterprises in accordance with international standards and drafting the Register of Public Enterprises are planned. Also in the coming period, special attention will be paid to monitoring, analysis and reporting in terms of fiscal risks related to public enterprises within the RS Ministry of Finance. Establishment and publication of the register of budget users and public enterprises is envisaged in the Institutions of BiH and BD. As planned in the RS Public Financial Management Strategy, the RS Ministry of Finance will monitor, analyse and report on fiscal risks related to public enterprises, guarantees and macroeconomic projections in the coming period. Also, the Government adopted the Decision on the Establishment of a System for Coordination of Supervision of Public Enterprises in the RS, which initiated activities to establish centralized collection and processing of information on public enterprises defined by the Government as enterprises of special interest, as well as those in which the Government performs the function of the shareholders' assembly. At the same time, the coordination system implies the establishment of an organizational unit for the coordination of the supervision of public enterprises in the General Secretariat of the Government.

In connection with relieving the economy and creating more favourable conditions for business entities and increasing their competitiveness in both entities (FBiH and RS), measures to reduce the tax burden on labour are envisaged.

The FBiH Government has sent the Draft Law on Income Tax and the Draft Law on Contributions to the parliamentary procedure. These draft laws in the package represent a reform that is primarily aimed at reducing the fiscal burden on labour by reducing the cumulative contribution rate by 9 percentage points from the current rate of 41.5% to 32.5%, which could not be done without expanding the base for calculating income tax by including in the base previously non-taxable benefits (allowance for meal, transportation, annual leave, etc.) and other exempt income of individuals. In order for such a wider tax coverage not to reduce the income of workers with lower wages, the Draft Law on Income Tax increased the amount of the non-taxable part of income. On the other hand, the expansion of the tax base on which contributions will be calculated will give greater future rights from the basis of pension insurance to employees, i.e., higher pensions. The current income of workers, which makes up almost 50% of non-taxable income, reduced the worker's future rights under the pension insurance. The proposed laws are designed with a neutral fiscal effect on the sustainability of

budgets and extra-budgetary funds at the beginning of implementation, and a positive effect on taxpayers in terms of higher disposable income after tax (with special emphasis on lower incomes) and lower labour costs on the part of employers. In the long run, the application of such a solution would affect the increase in employment and the level of income, which should gradually lead to an increase in the fiscal capacity of the budget and extra-budgetary funds. The implementation of labour tax reform, through reducing the fiscal burden on employers, is expected to increase the competitiveness of domestic businesses in the long run, as well as increase the competitiveness of the workforce, and thus nominal growth in net wages, increase in employment and positive impact on private investment.

In the RS, the tax burden restructuring measure includes activities related to the expansion of the tax base and the base of income tax and profit tax through changes in the legislative framework and related bylaws. Depending on similar decisions adopted in the FBiH, the Republika Srpska will introduce taxation with income tax and profit tax on all dividends and income from shares in the profit of legal entities, and taxation of income based on interest on citizens' savings. From 2022, the method of calculating salaries was changed and the taxation of total (gross) salaries was introduced, and the basic personal deduction was increased from 700 KM to 1000 KM on a monthly basis, the income tax rate was also reduced from 10% to 8% and cumulative contribution rates from 32.8% to 31%. Regarding the restructuring of the non-tax burden, at the end of 2020, amendments to the Law on Communal Taxes, Administrative Taxes and Special Republika Srpska Taxes were passed, which reduced or abolished certain non-tax levies. From 2022, the communal tax for highlighting the business name of the company was abolished, the exemption from the payment of the fee for changing the purpose of agricultural land was expanded, and the special Republika Srpska tax was further reduced.

Having in mind the oversized administrative apparatus in organizational and personnel terms<sup>48</sup> and expenditures for employees within current expenditures, the Strategic Framework for Public Administration Reform in Bosnia and Herzegovina 2018-2022 adopted by all levels of government in BiH envisages measures to improve human resources management functions, all with the aim of precise and automated planning of funds for employee expenditures. In that sense, institutions responsible for the human resources planning process will be established at all administrative levels (except in RS, where this issue has already been resolved) and will provide the necessary resources for the establishment of functional registers of civil servants. Also, the standardization of the human resources planning process at each level and the connection of HR planning with budget plans and the programme budgeting system will be performed, bearing in mind the need for constant optimization of the number of employees in administrative structures.

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

**The budget process** in Bosnia and Herzegovina begins with the adoption of the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina (GFFBP) by the Fiscal Council of Bosnia and Herzegovina for a period of three years. The Fiscal Council in BiH coordinates fiscal policy in BiH to ensure macroeconomic stability and sustainability at all levels of government. The GFFBP document is based on the Law on the Fiscal Council in BiH, which defines the content of the document. The document contains all the necessary elements that fiscal policy makers in BiH need to prepare their framework budget documents as well as annual budgets. These elements are: fiscal targets defined as the primary fiscal balance (primary surplus or primary deficit), projections of total indirect taxes based on macroeconomic projections, and their distribution for the next fiscal year, and the proposed ceiling on budget

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<sup>48</sup> 2016 Bosnia and Herzegovina Report, European Commission, Brussels, 2016, p. 10.

borrowing of the institutions of BiH, RS, FBiH and BD. These elements, the harmonization of which is the basic prerequisite for budget planning of fiscal policy makers in BiH, constitute the essence of fiscal coordination in BiH.

GFFBP for the level of BiH institutions determines the budget framework and the precise level of revenues from indirect taxes for the next three years. GFFBP is evaluated annually according to macroeconomic projections and projections of total indirect taxes. The procedure is the same for the Framework Budget Documents at other levels of government in BiH. Given the strong fiscal decentralization and independence of each level of government in BiH in determining fiscal policy, the structure of budget expenditures presented in the GFFBP tabular overviews is indicative for each level of government, and each level of government determines the final structure of expenditures and revenues in its Framework Budget Documents and annual budgets. In addition, in this process, each level of government in BiH has and applies its own laws.<sup>49</sup> At each individual level of government in BiH, the drafting of the Framework Budget Document for the next three years has been defined, which sets the strategic framework and upper limits of resources within which the annual budget is prepared. The key objective of this document is to ensure the coherence of the identified priority policies of each individual level of government and the allocation of available public resources.

**Fiscal rules** in BiH are determined at the entity level (FBiH and RS) and apply only in the territory of a particular entity. The introduction of fiscal rules in BD is one of the measures envisaged by the adopted Strategy for the Reform of Public Financial Management of the Brčko District for the period 2021-2025.

The FBiH Law on Budgets stipulates that:

- The planned current budget balance must be positive or equal to zero, except in cases of a catastrophe or natural disasters declared by the legislative body, when the amount of determined damages exceeds 20% of realized expenditures in the previous fiscal year.
- Short-term debt incurred by borrowing to temporarily finance the cash flow deficit will be repaid in a period of one year and in no time period during the fiscal year will exceed 5% of revenues without receipts in the previous fiscal year.

The Law on Debt, Borrowing and Guarantees in the FBiH stipulates that the FBiH may borrow in the long run so that:

- due liabilities each year do not exceed 18% of consolidated revenues from the previous year,
- annual liabilities of cantons, cities and municipalities may not exceed 10% of revenues generated from the previous year.

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

General fiscal rules in the RS are given below.

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<sup>49</sup> Law on Financing of BiH Institutions, Law on Budgets in FBiH, Law on Budget System of RS and Law on Budget of Brčko District of BiH.

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

**Impact of COVID-19 on deviations from fiscal rules.** In the FBiH, the provisions of the Law on Budgets and the Law on Debt and Borrowing apply to all levels of government and they are obliged to fully apply them. Measures related to the Covid-19 mitigation in the FBiH have not led to deviations from fiscal rules, nor are they expected in the coming period. The Government of the RS has taken a number of measures aimed at helping the health sector and business entities and entrepreneurs - holders of economic activity, to overcome the crisis caused by the emergence of COVID-19 as successfully as possible. The goal was to preserve jobs, pay salaries, and maintain the liquidity of those whose economic activity was reduced. These measures were also reflected in fiscal indicators, through a reduction in revenues and increased expenditures, which ultimately reflected in the high share of consolidated budget deficit in GDP in 2020 of 5.1%, and crossed the threshold of consolidated budget deficit of 3%, which is prescribed by the Law on Fiscal Responsibility. In accordance with the Law on Fiscal Responsibility, the RS Government prepared a Report on the temporary deviation of the consolidated budget deficit from fiscal rules, and the RS National Assembly passed a Decision approving the temporary deviation of the consolidated budget deficit from fiscal rules. In accordance with the Law on Fiscal Responsibility, the Government of the RS has drafted the Fiscal Consolidation Program (adopted by the National Assembly), which defines measures and the period of return within the framework of fiscal rules.

**Independent fiscal institutions.** For the purposes of fiscal policy coordination in the FBiH, the Fiscal Coordination Body has been established, consisting of the FBiH Minister of Finance, cantonal finance ministers and a representative of the Association of Municipalities and Cities, in order to ensure macroeconomic stability and fiscal sustainability. This body is, among other things, responsible for controlling the implementation of fiscal rules and monitoring the implementation of set goals and criteria in the adoption and execution of the budget.

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

**Financial reporting.** All levels of government in BiH have regulated financial reporting by their bylaws. Accordingly, all levels of government in BiH prepare and publish quarterly and annual reports on budget execution. Consolidated quarterly and annual reports are prepared in FBiH and RS, which include lower levels of government and extra-budgetary funds. In addition, in the area of financial reporting, and in accordance with the Rulebook on Financial Reporting of Budget Users starting from 2017 on the website of the RS Ministry of Finance are published consolidated financial data in accordance with GFS 2014 manual, monthly for central and quarterly for RS general government, available in Serbian and English. Regarding consolidated reporting for BiH, the Central Bank of BiH (hereinafter the CBBH) publishes reports on government operations for all sectors of general government in BiH in accordance



with the GFS 2014 Manual. The methodological explanation is published on the CBBH website and is available in local languages and English.<sup>50</sup>

There is no roadmap for the application of Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European System of National and Regional Accounts in the European Union. However, significant progress has been made because the BiH Agency for Statistics, in cooperation with the FBiH Institute of Statistics and the RS Institute for Statistics, has published a list of units (business entities) classified in the General Government Sector. The list was prepared in accordance with internationally accepted standards (European System of National and Regional Accounts - ESA 2010, Manual on Government Deficit and Debt - MGDD), and the Decision on Determining the Statistical Classification of Institutional Sectors (Official Gazette of BiH, 19/17). The purpose of the list of general government units is exclusively statistical, i.e., to create preconditions for the development of Sector Accounts, Government Finance Statistics, and other related statistics, in accordance with the stated methodological framework.

In the FBiH, the Rulebook on Financial Reporting and Annual Budget Calculation is in force, which is partly harmonized with the European System of Accounts and the State Financial Statistics. Reporting is in line with the FBiH Analytical Chart of Accounts (ESA2010) and (GFS2014), which ensures the quality (up-to-datedness and reliability) of fiscal data. In RS, the development and implementation of treasury GFS and ESA books is underway, which will provide a higher level of automation, consistency and accuracy in the process of translating and reconciling accounting data from the Treasury System (SUFI) to GFS 2014 and ESA 2010 classifications.

In addition, within the implementation of the IPA 2017 project "Further support to public financial management in BiH", a gap analysis of the implementation of IPSAS standards was performed with recommendations for all levels of government in BiH. The report contains detailed analytical data for the analysis of gaps in the application of IPSAS at all levels of government in BiH (BiH institutions, FBiH, RS and BD), recommendations for improving the implementation and implementation plan of IPSAS standards for all levels of government in BiH. Furthermore, within this project, at all levels of government in BiH, work is being done to establish programme budgeting and its harmonization with the process of medium-term policy planning.

**Reforms in the field of public finances** are contained in individual Public Financial Management Strategies for the period 2021-2025, which were adopted at all levels of government in BiH, and a comprehensive strategy for public financial management in BiH for the period 2021-2025 is being drafted. All strategies are based on analyses and recommendations of relevant international institutions and aim to ensure fiscal and macroeconomic sustainability and improve the public financial management system.

Within the planning and budgeting at all levels of government in BiH, it is planned to expand the scope of users/institutions in accordance with international standards. In addition, the implementation of the IPA 2017 project is underway, which refers to the improvement of budgeting in the programme format, the purpose of which is to improve the prioritization of budget expenditures, that is, to provide assistance in the allocation of limited public funds to those programmes from which citizens will benefit the most, and on the other hand to improve the efficiency and effectiveness in the provision of services by budget users to whom these funds are allocated. Adoption of the budget in the programme format is planned for 2024 at all

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<sup>50</sup> <https://www.cbbh.ba/content/read/1108?lang=en>

levels of government except the FBiH, which plans to adopt the budget in the programme format for 2025.

One of the important segments of improving the quality of public finances contained in individual public financial management strategies are activities aimed at improving planning, management and monitoring of public investments through improved evaluation procedures, prioritization and selection of public investment projects and reporting on capital project implementation.

#### 4.10. Sustainability of public finances

Capacities for assessing the long-term sustainability of public finances in BiH are gradually being built. To assess the long-term sustainability of the pension or health care system in BiH, separate analyses and projections should be prepared for each entity (due to the constitutional system, special legislative frameworks and rules related to financing and exercising rights from these systems). However, awareness of the need to conduct analyses of the long-term sustainability of public finances is unquestionable, and the administrative capacity to conduct analyses is gradually improving. In this context, a pilot project of analysis of long-term sustainability of the RS pension system was made for the purposes of ERP development, the results of which are presented below. In the coming period, the methodology will be gradually improved and expanded to other social security systems (and other sources of long-term fiscal risks), but also to other levels of government in order to get a complete picture of long-term sustainability of public finances in BiH.

The demographic picture, in the long run, is a key problem that RS is facing, and it remains a challenge in the future. Negative demographic trends worsen the position of the labour market in the long run and the fiscal position and sustainability of all budget allocations, reducing labour supply and leading to an aging population. Negative demographic conditions cause special problems for social protection funds and affect the adequacy of total social benefits.

The existing pension system has a significant impact on the sustainability of public finances, given the permanent deficit of the RS Pension and Disability Insurance Fund (hereinafter: RS PDI Fund) which requires payment from the budget to ensure regular servicing of pension and disability insurance rights. Since, due to the aging of the population and the migration of young and working age people, there is a decreasing number of contributors, in the long run the pension system will be endangered and the budget system will be overburdened. Projections of long-term trends in revenues, expenditures and deficits of the RS pension system are shown in Table 14. Analyses and projections were performed in the statistical language R or in MS Excel (deterministic model) and were performed for a period of 50 years. When making projections for RS, projections of population mortality, population growth projections, projections of basic economic indicators (inflation, growth rate of net salaries, etc.), projections of the number of pensioners and insured persons, estimates of salary function and projections of income from contributions and pension expenditures of the PDI Fund were taken into account.

**Table 12: Impact of aging costs within the RS pension system on long-term fiscal sustainability (in KM million)**

	2021	2025	2030	2040	2050	2060	2070
Revenues	1,015.9	1,117.7	1,192.8	1,228.2	1,050.2	843.3	755.0
Expenditures	1,105.0	1,164.7	1,232.1	1,408.9	1,671.8	1,797.6	1,694.2
Deficit	-89.0	-47.0	-39.3	-180.7	-621.6	-954.3	-939.2

Source: Ministry of Finance of RS

The table shows the projections of income from contributions, but also the movement of expenditures for net pensions. Both items are influenced by 2 sets of factors: macroeconomic

and demographic. The growth of contribution income is primarily influenced by the growth of employees' salaries. Namely, due to the bad demographic situation in the projected period, there is a reduction in the workforce, and all the growth in income from contributions can only be explained by an increase in employees' salaries. Thanks to the increase in the number of employees and high wage growth during the first 10 years, the deficit of the pension system is projected to decrease, but after 2030 the growth of the pension system deficit is evident, which is primarily due to demographic factors:

1. Due to the constant negative balance of net migration (-5.3 ‰) and low fertility rate, there is a reduction in the labour force.
2. The number of pensioners is continuously growing, and is conditioned by a constant increase in the number of new pensioners, as well as an increase in life expectancy (for men in 50 years there will be an increase in life expectancy by 8.84 years, while for women life expectancy will increase by 6.84 years).

Due to demographic trends, it will be necessary to monitor the parameters of the pension system very carefully in the coming period, especially in the segment of pension adequacy, in order to be able to react in a timely manner to negative demographic or economic trends. As the number of contributors decreases due to the aging population and the migration of young and working age people, the pension system will be endangered in the long run and the budget system will be overburdened.

Challenges for the next period in the field of health care systems are especially related to the aging of the nation, the growth of malignant diseases, monitoring of modern medical equipment technologies and treatment methods and revising the network of health care institutions. The strategic commitment of the Government of the RS is to ensure the settlement of outstanding arrears of public health institutions and the Health Insurance Fund from the previous period, and to introduce public health institutions into the treasury operations system<sup>51</sup>. The aforementioned will preserve fiscal discipline within the health care system, and create preconditions for structural reform of the system, which will be based on standardizing the network of health care institutions and finding new models of health insurance financing. The reform of the health care system will establish a financially sustainable system, which will enable more efficient health care.

In accordance with the document *Public Financial Management Reform Strategy 2021-2025*, the Government of FBiH plans the process of including the extra-budgetary fund of the Institute of Health Insurance and Reinsurance of FBiH, in the budget of the Federation of BiH. This process is planned to be guided by the experience gained through the process of integrating PDI into the budget, which was longer and more complicated than originally envisaged. The process is expected to take a year and a half. The same process needs to be carried out at the cantonal level, where cantonal health institutes at the level of all 10 cantons would be integrated into cantonal budgets. The goal of these activities is to better control public spending at the health care level, support conscientious health management in a stable and financially sustainable health care system, invest in human resources in health, enable continuous quality of health care services, enable investment in human resources, etc.

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<sup>51</sup> From 2021, 3 institutes were introduced into the treasury system at the level of the Republika Srpska, while from 2022 another one was introduced (out of a total of 20). Regarding the level of local self-government units, 3 health care centres have been introduced in the treasury system since 2021, while another 15 health care centres have been introduced since 2022 (out of a total of 55).

## 5. STRUCTURAL REFORMS IN 2022-2024

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

#### 5.1.1. Main obstacle No. 1: Increase employment, especially of young people, women and other vulnerable groups

##### a. Analysis of the main obstacles:

The employment rate for Bosnia and Herzegovina in 2020 was 40.1% with a significant gender difference, 50.9% of the employment rate of men and 29.9% of the employment rate of women. The Labour Force Survey still records a significantly low activity rate (47.7%), especially for women (36.7%).

The high difference between the survey unemployed and the unemployed registered in employment bureaus indicates the existence of the gray economy, which further complicates the creation and implementation of active employment policies. In the Republika Srpska, the Law on Amendments to the Law on Employment Mediation and Unemployment Rights (December 2019) was adopted in order to strengthen the mediating role of the Employment Institute, and enable better planning, determination of target groups and implementation of active labour market measures.

The ratio in the spending for active and passive employment measures was significantly disturbed in 2020, because after continuously allocating more for active measures in 2018 and 2019 (about 11 million more for each year) in 2020, there was a larger allocation for passive measures by almost 38 million. Regarding active measures, almost KM 5 million less was spent than in the previous year. As a result, the coverage of unemployment benefits increased from 3.2% in 2019 to 4.4% in 2020. The reason for this is primarily an increase in the number of newly unemployed persons, and not a decrease in the total number of long-term unemployed, i.e. persons who do not exercise the right to cash benefits.

It is necessary to further regulate relations in the field of labour law, especially when it comes to regulating the work of economic and social councils, employees' councils, social security, employment mediation, especially in defining and implementing effective active employment measures.

In the Federation of BiH, in 2020, a new Law on Occupational Safety was adopted. A number of bylaws that were applied before its adoption remained in force, of which many of the above-mentioned regulations were surpassed in the context of the emergence of new measures, methods and technologies applied in the field of occupational safety. In order to overcome barriers in the labour market, it is necessary to ensure greater efficiency of public employment services, improve the employment system, reduce the number of unemployed persons, especially young people, women, long-term unemployed persons and Roma, and inactivity of the working age population.

The analysis of data on the state of unemployment in the Republika Srpska shows a declining trend in the number of unemployed persons on the records.<sup>52</sup> The continuation of the Covid 19 pandemic, inactivity of the labour force and migration, especially of young people, as well as inconsistency with the needs of the economy, have a negative impact on the labour market of the Republika Srpska. In the field of social dialogue, despite the large number of initiatives

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<sup>52</sup> When it comes to the employment of persons from the records of the Institute, in the first seven months of 2021, 29.2% more persons were employed compared to the same period in 2020, which shows an increasing trend in the number of employed persons in the Republika Srpska..

of representative unions, no agreement was reached on the text of the General Collective Agreement.

## **b. Reform measures**

### **5.1.1.1. Increasing the labour market efficiency and institutional strengthening of the Employment Institute through the improvement of user services**

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

The Employment Institute of the Republika Srpska, after separating the administration of the right to health insurance, strengthened the mediating role and provided more precise data on active job seekers.

The Government of the Republika Srpska has adopted the Employment Strategy of the Republika Srpska 2021-2027 and the Employment Action Plan for 2022.

In the FBiH, the new regulations in 2022 will be aligned with EU regulations, detect possible changes in the health status of workers who perform jobs with increased risk, in order to prevent occupational diseases, harmonize reporting on occupational injuries and diseases, creating conditions to prevent injuries at work, occupational diseases and work-related illnesses. The new Law on Mediation in Employment and Social Security of the Unemployed will, among other things, strengthen the mediation function of public employment services, as well as improve the material and social security of the unemployed, strengthen the labour market, with priority given to reducing inactivity and unemployment, especially long-term, creating conditions for the availability of labour in the labour market, by including inactive and unemployed people in active employment policies, standardizing the system of monitoring and evaluation of employment policies, maintaining a functional system of financing public employment services and the Federal Employment Institute and ensuring optimal implementation of services and programmes.

#### **a. Activities planned in 2022:**

- Preparation of the Occupational Safety Action Plan for 2022 for the implementation of the Occupational Safety Strategy 2021–2024 (MLPWVDV RS),
- Improving social dialogue by strengthening the role of the Economic and Social Council and the work of other tripartite bodies in the preparation and drafting of regulations and strategic documents in the field of labour, employment and safety at work in order to create a favourable environment for decent work and increase living standards (MLPWVDV RS),
- The Law on Amendments to the Occupational Safety Law prepared and sent to the parliamentary procedure (MLPWVDV RS in cooperation with social partners),
- Continue implementation of the Programme for social welfare for workers who lost their jobs in the process of privatisation, bankruptcy and liquidation of companies (MLPWVDV RS in cooperation with social partners),
- Continue activities to improve services to key users and enable better interaction between employers and the unemployed in the Republika Srpska.
- Rulebook on the procedure and deadlines for preliminary and periodic medical examinations of workers performing jobs with increased risk (FBiH MLSP)
- Rulebook on the content and manner of submitting reports on injuries at work and occupational diseases (FBiH MLSP)

#### **b. Activities planned in 2023:**

- Preparation of the Occupational Safety Action Plan for 2023 for the implementation of the Occupational Safety Strategy 2021–2024 (MLPWVDV RS in cooperation with social partners),

- Preparation of the Action Plan for Employment for 2023 (MLPWVDV RS in cooperation with social partners),
- Preparation of the Law on Termination of the Law on Records in the Field of Labour and Health Insurance and sending to parliamentary procedure (MLPWVDV RS in cooperation with social partners),
- Preparation of the Law on Amendments to the Law on the Economic and Social Council and sending to the parliamentary procedure (MLPWVDV RS in cooperation with social partners),
- Preparation of the Law on Amendments to the Law on Employment Mediation and Rights during Unemployment, and sending to the parliamentary procedure (MLPWVDV RS in cooperation with social partners),
- Preparation of the Law on Amendments to the Law on Peaceful Settlement of Labour Disputes, and sending to the parliamentary procedure (MLPWVDV RS in cooperation with social partners),
- Adoption of the employment programme in accordance with the Employment Action Plan for 2023 (MLPWVDV RS).
- Continue implementation of the Programme for social welfare for workers who lost their jobs in the process of privatisation, bankruptcy and liquidation of companies (MLPWVDV RS in cooperation with social partners),
- Continue activities to improve services to key users and enable better interaction between employers and the unemployed in the Republika Srpska.

**c. Activities planned in 2024:**

- Preparation of the Occupational Health and Safety Strategy 2024-2032 (MLPWVDV RS),
- Preparation of the Occupational Safety and Health Action Plan for 2024 for the implementation of the Occupational Safety and Health Strategy 2024–2032 (MLPWVDV RS in cooperation with social partners),
- Preparation of the Employment Action Plan for 2024 (MLPWVDV RS in cooperation with social partners),
- Preparation of the Law on Amendments to the Law on Employment of Aliens and Stateless Persons and sending it to the parliamentary procedure (MLPWVDV RS).
- Continue implementation of the Programme for social welfare for workers who lost their jobs in the process of privatisation, bankruptcy and liquidation of companies (MLPWVDV RS in cooperation with social partners),
- Continue activities to improve services to key users and enable better interaction between employers and the unemployed in the Republika Srpska.
- Law on Mediation in Employment and Social Security of Unemployed Persons of FBiH

**2. Results indicators**

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Total number of active job seekers in the territory of RS	75,000	73,000	71,000
Number of registered collective agreements in RS	4	3	4
Number of workers who passed the Social Welfare Programme on the territory of RS	2,000	2,200	1,500
Number of beneficiaries of the right to cash benefits in RS	4,200	4,100	4,100
Number of beneficiaries of the right to payment of pension and disability insurance contributions (unemployed persons in accordance with Article 37 of the Law on Employment Mediation and Rights during Unemployment) in the RS	780	770	770

An improved system for the employment mediation function has been established	No	No	Yes
Number of employers who have been assessed for the risk of injuries and occupational diseases and for whom an act on risk assessment has been prepared.	0	300	700

### **3. Expected impact on competitiveness**

By separating active from passive jobseekers, the mediating role of the Employment Institute of the Republika Srpska has been strengthened with the purpose of mediation for persons actively seeking employment, and improved cooperation with employers.

Implementation of labour, occupational safety and employment laws should have an impact on creating fair and secure working conditions for workers. Also, the implementation of strategic documents and projects in the field of employment should have an impact on increasing the employment rate. The adoption of the Law on Amendments to the Labour Law, which is currently in the parliamentary procedure in the form of a Draft, and which contains provisions relating to the organization of work and certain rights and obligations arising from employment during the declared state of disaster or state of emergency in the Federation of Bosnia and Herzegovina should also have an impact. The mentioned Law on Amendments to the Labour Law was prepared as part of activities to mitigate the crisis caused by the outbreak and spread of corona virus (COVID-19).

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

Additional funds from the World Bank and the Budget of the Republika Srpska need to be provided in the event of an increase in the number of beneficiaries of rights to cash benefits. Funds for beneficiaries who are entitled to payment of contributions for pension and disability insurance for up to three years, if they meet the requirements for old-age pension with their length of service, are provided in the budget of the JU Employment Institute of the Republika Srpska in the amount of KM 1,600,000 KM per year.

The costs of monitoring the implementation of legislation within the competence of the FBiH Ministry of Labour and Social Policy are provided in the Budget of the Federation of Bosnia and Herzegovina, while funds for the implementation of employment projects are planned and provided by the financial plans of the Federal Employment Institute and cantonal employment services.

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

Active measures on the labour market of the Republika Srpska and regular payments of cash benefits are aimed at mitigating the social and economic consequences caused by the pandemic.

The implementation of legislation in the field of labour, occupational safety and employment and the implementation of strategic documents and projects in the field of employment can be expected to have a positive impact on increasing employment and reducing high unemployment and inactivity, especially of young people, women and long-term unemployed as well as the those most vulnerable in the labour market, promoting quality employment, with the aim of achieving equal opportunities in access to the labour market and more equitable working conditions.

### **6. Expected impact on the environment**

This measure has a neutral impact on environmental protection.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
No collective agreements have been concluded in RS	Low	Re-intensify the dialogue with the social partners with a view to reaching an agreement on the conclusion of collective agreements
The Law on Amendments to the Law on Labour in the RS has not been prepared	Low	Timely implementation of the process of consultations and harmonization in the preparation of the Law on Amendments to the Law on Labour with all relevant participants in the process
The Law on Amendments to the Law on Occupational Safety in RS has not been prepared	Low	Timely implementation of the process of consultations and harmonization with all relevant participants in the process
The Employment Strategy 2021–2027 in RS has not been drafted	Low	Timely implementation of the process of consultations and harmonization with all relevant participants in preparation of the Employment Strategy 2021–2027
Untimely adoption of laws in FBiH	High	Preparation of preliminary drafts and draft laws in accordance with the plan
Disagreement of the social partners in FBiH	High	Encouraging social dialogue, consultations with social partners

### 5.1.2. Main Obstacle No. 2: Improve the business environment through closer cooperation and coordination at all levels of government

#### a. Analysis of the main obstacles

The emergence of a pandemic in the world has highlighted the institutional role and its efficiency in overcoming the negative consequences for the state of the economy. Active, mostly direct assistance to business entities in addition to existing structural reform programmes, improvement of the business environment, legal security are the basis of the programme to overcome the crisis caused by the pandemic. Accessibility of financial resources, simple administrative procedures without unnecessary obstacles, along with the implementation of adequate legislation are the basic precondition for the progress of business entities in accordance with the agreed goal of obtaining candidate status and full membership in the European Union.

After 2020, and a decrease in economic activity due to the COVID-19 pandemic and the introduction of restrictive measures, there was a gradual economic recovery in 2021. All levels of government in Bosnia and Herzegovina have taken many measures to preserve existing jobs and stimulate a more favourable business environment (legal, financial assistance and a moratorium on loan repayment, etc.).

According to the adopted priorities in the Strategic Framework until 2030, Bosnia and Herzegovina should achieve greater competitiveness with stronger economic development through clearly defined policies, innovative, competitive production, knowledge distribution and quality international promotion and development of tourism (based on sustainability principles).

The importance of drafting and implementing the BiH Smart Specialization Strategy was emphasized, which would be the foundation and encourage investment in research and development in prosperous sectors. The strategy would be implemented through stimulating



innovation in entrepreneurship, modernization and adaptation of the business sector as well as the adoption of innovative solutions in public administration.

Development and strengthening of entrepreneurship and business environment in Bosnia and Herzegovina is one of the priorities.

In order to build and strengthen the business environment and entrepreneurship, both entities will work to reduce and restructure the tax burden on wages and reduce parafiscal levies by amending existing entity regulations and continue with measures to support recovery in entrepreneurship after the pandemic.

In addition, the Republika Srpska will continue activities to improve the work of inspections and effective inspection supervision. Furthermore, the observed shortcomings of the existing model of the fiscal cash register system in the Republika Srpska require their improvement. The purpose of this is to reduce the gray zone in economic traffic. By-laws are being drafted with the aim of better regulating this area. Improving the business environment is also a recognized challenge, and attention will be paid to the implementation of anti-corruption activities, organized crime of money laundering and prevention of terrorist financing as important aspects of improving the business climate contained in strategic documents of Republika Srpska. One of the key challenges in the area of labour tax relief and reducing parafiscal burdens identified by the Republika Srpska government has been to increase the competitiveness and productivity of the economy. In this regard, the need to carry out further activities with the aim of continuing the relief of labour taxation and reducing parafiscal burdens was identified, all with the aim of encouraging competitiveness and enabling further wage increases. Activities in the area of simplification and/ or elimination of unnecessary administrative procedures and inspection procedures and control items will also be continued.

In addition to the already mentioned measures to restructure the tax burden, the Federation of BiH intends to pay attention to procedures to facilitate the establishment and closure of companies and take activities to facilitate the development of entrepreneurial infrastructure through amendments to the Law on Encouraging Small Business Development. There are also activities for drafting regulations in the field of social entrepreneurship, which for the first time regulates this area in the Federation of BiH.

In order to equalize the way of labour taxation with the European Union and the OECD, the Federation of BiH has undertaken activities to reform the field of labour taxation, which includes reform of the existing income tax system and mandatory social security contributions, which would also be the first step towards labour tax relief. Given that the proposals of the new Law on Income Tax and the Law on Contributions have not yet been considered by the Parliament of the Federation of BiH in the expected period, during 2021, the implementation of all planned activities related to the implementation of this measure is postponed to 2022. At the same time, the taxation of property and trade in the territory of the Federation of BiH is regulated at the level of cantons and local self-government units, which currently has more than 20 legal acts related to regulating the same area and is a hindrance to business. Also, digitalisation imposes difficulties in monitoring the legality of the work of organizers of games of chance, prize games and compliance with regulations on the prevention of money laundering.

An unfavourable business environment is characterized, among other things, by an expensive and time-consuming process of company registration, which has a disincentive effect on existing as well as future entrepreneurs. Additional problems in the business environment are the inability to register businesses in one place, the lack of online registration and obtaining the necessary permits in one place, etc.

Insufficient budget allocations to encourage the development of small and medium sized enterprises, as well as difficult access to favourable financial resources is a significant problem in raising the competitiveness of small businesses in the Federation of Bosnia and Herzegovina.

The current Law on Encouraging the Development of Small Business in the Federation of BiH did not provide for the obligation to allocate minimum funds from the Budget of the Federation of BiH, which is, in a sense, an obstacle to faster and better development of small business, therefore, we are working on its changes, especially in the part related to the increased and prescribed minimum financial allocations from the Budget of the Federation of BiH to the SME sector.

When it comes to entrepreneurial infrastructure, there is a problem of non-existence of legislation that would regulate this area, which would enable a systematic approach to the development of all forms of entrepreneurial infrastructure as one of the most important segments of economic development and business climate in the Federation of BiH.

Also, it is planned to initiate activities within the framework of social entrepreneurship on the development of legal regulations in order to have this area of entrepreneurship legally regulated for the first time in the Federation of BiH.

## **b. Reform measures**

### **5.1.2.1. Restructuring the tax burden and relieving labour taxation and reducing parafiscal burdens**

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

With the aim of further relieving the economy and improving the entire business environment and climate in the Republika Srpska, the RS Ministry of Finance planned changes in the next period within the taxation of personal income, in order to make redistribution and increase salaries. In this regard, it is planned to introduce the calculation of salaries according to the gross methodology<sup>53</sup>. On the other hand, the tax rate on capital income, capital gains, copyrights, rights related to copyright and industrial property rights, as well as on other income, is increasing. Taxation of other types of income, except income from self-employment, is planned to be done at a rate of 13%, while taxation of income from self-employment remained at the current level of 10%. Also, it is planned to introduce a simplified way of engaging in seasonal jobs, which would lead to an increase in income tax and contribution revenues. In this part, it is important to emphasize that the consequence of the simplified way of hiring workers for seasonal jobs will be a simplified and flat-rate taxation and payment of contributions for these jobs. Due to the nature of this engagement, simplified taxation and payment of contributions should contribute to revenue growth, given that taxes and contributions from these engagements are very often in the gray zone.

When it comes to planned amendments to non-tax laws, the RS Ministry of Finance conducted preparatory activities and prepared analyzes based on which activities are planned for the next three years in connection with: distribution of funds for financing special fire protection measures; certain exemptions from the payment of the fee for changing the purpose of agricultural land and the abolition of the communal tax for displaying the business name.

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<sup>53</sup> The implementation of this activity would involve a change in the income tax base, where the base would be the gross salary. In that case, the aggregate contribution rate would be reduced from 32.8% to 31%. Also, it is planned to reduce the personal income tax rate from the current 10% to 8%, and increase the basic personal deduction from 8,400 KM to 12,000 KM annually, i.e. from the current 700 KM to 1,000 KM per month.

In the Federation of BiH, the proposed improvement of the legal framework in the field of labour taxation introduces progressive income taxation, and a zero tax rate for all incomes up to KM 800. On the other hand, in order to combat various payments in the so-called "gray zone" and equalize the way of labour taxation with EU and OECD countries, as noted earlier, the tax base is being expanded to all hitherto non-taxable sources of personal income (allowance for meal, transportation and annual leave, etc.). In parallel with the tax reform, the calculation and payment of mandatory social contributions is also being carried out, which according to the proposed measure will be paid on all taxpayers' incomes, with a significant reduction in the cumulative rate of mandatory contributions from 41.25% to 32.5%. During 2021, the Analysis of existing regulations in the field of property taxation in the Federation of BiH was prepared, and based on it, the preparation of a new model of property taxation in the Federation of BiH began as a new solution in this area, with prior support from lower levels of government. Also, through amendments to the Law on Games of Chance, a business environment will be created based on the principles of fairness, legality and transparency of work, and in accordance with international regulations and standards.

**a. Activities planned in 2022:**

- Implementation of legal solutions (MoF RS, MIA RS, MAFWM RS);
- Adoption of laws and bylaws (MoF RS, MLPWVDV RS);
- Preparation of the Analysis of the introduction of minimum contribution bases by economic branches/ industries (MoF RS);
- Development of a methodology for determining the lowest salary in the Republika Srpska (MoF RS);
- Preparation of an analysis of the Law on Incentives in the Economy of the Republika Srpska, with special emphasis on the application and effects of incentives to increase workers' salaries (holder of activities MEE RS).
- Law on Income Tax of FBiH
- Law on Contributions of FBiH

**b. Activities planned in 2023:**

- Updating the Register of Tax and Non-Tax Benefits of the Republika Srpska with the aim of implementing further activities to reduce parafiscal burdens (MoF RS),
- Analysis of further potential reliefs in the form of reduction, i.e. abolition of non - tax benefits (MoF RS),
- Analysis of the effects of the implementation of laws that reduce the tax burden on labour (MoF RS).
- Law on Property Taxation in FBiH
- Amendments to the Law on Games of Chance in FBiH
- Adoption of bylaws for the implementation of the Law on Income Tax and the Law on Contributions in the FBiH

**c. Activities planned in 2024**

- Development and publication of bylaws based on Amendments to the Law on Games of Chance, development of IT systems in the Tax Administration in the FBiH for the implementation of new legal solutions and education of taxpayers on the application of new regulations
- Adoption of bylaws for the implementation of the Law on Property Taxation in the Federation of BiH

## 2. Results indicators

Indicator	Baseline (2021)	Intermediate target	Target (2022)
Law on Amendments to the Law on Income Tax RS	X		
Law on Amendments to the Law on Communal Taxes RS	X		
Law on Amendments to the Law on Contributions RS	X		
Law on Amendments to the Law on Fire Protection RS	X		
Law on Amendments to the Law on Agricultural Land RS	X		
Law on Simplified Engagement in Seasonal Jobs RS			X
Law on Amendments to the Law on Income Tax RS			X
Decree on the Tariff of the RS Administrative Fees RS			X
Analysis of the introduction of minimum contribution bases by industry RS			X
Adopt laws and bylaws in FBIH		Laws and bylaws in FBIH adopted	
The activity of organizing games of chance and prize games is adjusted to the fiscal rules in accordance with international regulations in the FBIH		The activity of organizing games of chance and prize games is adjusted to fiscal rules in accordance with international regulations	Effective supervision of organizers Increased collection of public revenues

## 3. Expected impact on competitiveness

In the Republika Srpska, it is planned to introduce the calculation of salaries according to the gross methodology, i.e. there will be a change in the income tax base (the new base will be the gross salary). In that case, the aggregate contribution rate would be reduced from 32.8% to 31%. In this way, the net salary of workers in the Republika Srpska would increase by KM 54 million.

Relieving the economy by reducing and abolishing certain non-tax benefits will have a positive impact on the operations of business entities, and thus increase tax revenues in the amount of KM 20.2 million as the effect of abolishing communal taxes on highlighting business names and reducing special RS tax by an additional 30%.

Information on proposals for reduction or abolition of tax and non-tax benefits from the Register of Tax and Non-Tax Benefits of the Republika Srpska has been prepared and will be sent to the Government of the Republika Srpska for consideration, within which proposals for the reduction or abolition of non-tax benefits planned in 2022 were given, while other proposals will be included in the Economic Reform Programme for the next programme cycle.

In the Federation of BiH, the informal economy and its impact on the business environment will decrease. Reducing the fiscal burden of labour, harmonizing property taxation in the FBiH, is expected to increase the competitiveness of domestic businesses, which will have a positive effect on increasing new investment and overall economic growth.

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

In Republika Srpska, distribution of funds for financing special fire protection measures. The implementation of these activities does not require additional costs, and the new solution aims

to more rationally and efficiently determine the parameters for the allocation of earmarked funds.

Collection of the fee for the change of use of agricultural land is aimed at exempting all production activities from the payment of the fee.

Abolition of the communal tax on highlighting a business name. Considering that the income from communal taxes fully belongs to the local self-government units, and through the planned changes in the tax laws (which refer to salaries), the municipalities would receive additional income from the income tax. For that reason, it was determined that it is justified to abolish the mentioned tax, which will reduce the income of local self-government units from communal taxes by about KM 17 million.

In the Federation of BiH, activities related to the adoption of laws and the preparation and adoption of bylaws will be carried out within the regular salary costs of employees of the Federal Ministry of Finance and the Tax Administration of the FBiH. It is necessary to additionally hire new employees, provide technical assistance and software in order to build and adjust the IT system in the FBiH Tax Administration, for the implementation of new legal solutions in the field of games of chance. The proposed reduction in the total contribution rate, as well as changes in income taxation, will be compensated by expanding the calculation base and will not negatively reflect on the level of revenue collection on this basis (neutral effect on revenue collection is expected).

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

The implementation of the measure in the part related to the taxation of the income of natural persons, where the redistribution would take place, would increase the net salary of workers in the Republika Srpska by about KM 54 million. Also, there will be a decrease in income from health insurance contributions by about KM 80 million, and in the budget of Republika Srpska there will be an increase in income tax revenue by about KM 19.5 million. For that reason, it is planned to increase transfers from the budget of the Republika Srpska to the Health Insurance Fund of Republika Srpska. Also, there will be an increase in income tax revenues at the local self-government units by about KM 6.5 million.

These measures have a positive effect on the social environment and society as a whole, given that this is an activity of public interest for the Federation of BiH. Reducing labour taxation, discouraging employers from hiring people on the basis of fee contracts and other similar contracts (related to the planned inclusion of such sources of income in the calculation of mandatory contributions) is expected to increase employment levels. Furthermore, progressive taxation, i.e. reducing the tax pressure of people with lower incomes, will improve their living standards.

#### **6. Expected impact on the environment**

There is no impact.

#### **7. Potential risks**

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Non-implementation / abuse of the measure by employers in the Republika Srpska	low	Increased inspection supervision and control
Non-adoption of proposed legal solutions by the Parliament of the Federation of BiH	high	Low level of mitigation opportunities by the proposer of the Law

Non-acceptance of the solution by the cantons	high	Public consultations with lower levels of government
Lack of planned funds in the budget of the Federation of BiH for informatization of the FBiH Tax Administration	low	Plan funds in a timely manner

### **5.1.2.2. The Reform of the Inspectorate of the Republika Srpska**

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

The Economic Reform Programme envisages the reform of the Inspectorate, in two phases. After the activities of additional analysis of the situation were carried out in the first phase, recommendations for the development and adoption of an action plan for the reform of inspections in the Republika Srpska were implemented. The National Assembly of the Republika Srpska adopted the Law on Inspections of the Republika Srpska at its session in February 2020, which entered into force in March 2020. In the second phase, after the entry into force of the Law on Inspections, a new internal organization and systematization was adopted in the Administration for Inspection Affairs of the Republika Srpska. Furthermore, the activities will be focused on unifying the inspections of the Republika Srpska and municipal level in those inspection areas as provided by the Law on Inspections. The process was slowed down due to the situation caused by the Covid 19 pandemic, because in that period the activities of all inspections were given special priorities in their work.

#### **a. Activity planned in 2022**

- Analysis of the establishment of a new organizational structure of the Inspectorate of Republika Srpska. (MALSG RS and the Republika Srpska Inspectorate),
- Proposals for improving the inspection system of the Republika Srpska through a synchronized inspection system at all levels of government in the Republika Srpska (MALSG RS and the Republika Srpska Inspectorate).

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

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
The Inspectorate of the Republika Srpska organized in accordance with the results of the implemented activities from the Action Plan for the Reform of Inspections in the RS	2019		2022

#### **3. Expected impact on competitiveness**

Efficient and cost-effective, professional and accountable and transparent work of inspection bodies in the Republika Srpska will contribute to the reduction of the gray economy and improvement in all spheres of life.

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

It is necessary to provide additional funds for financing salaries and compensations of employees, accompanying information and communication equipment used by inspectors in their work, as well as additional funds for the introduction of a single information system in local self-government units in the Republika Srpska.

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

The expected impact on employment, poverty reduction, equality and gender will be possible to see only after the full implementation of this measure and analysis of the work of the Inspectorate of the Republika Srpska.

## **6. Expected impact on the environment**

This measure has no negative impact on the environment.

## **7. Potential risks**

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Resistance of local self-government units in the Republika Srpska to retain inspection bodies	Low	Participation of representatives of local self-government units in joint activities on the implementation of this measure

### **5.1.2.3. Strengthening support for entrepreneurship**

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

In the Republika Srpska, the adoption of the Law on Social Entrepreneurship introduces social entrepreneurship into the legal system of the Republika Srpska for the first time and enables support for vulnerable groups and involvement in business processes and strengthening their status in society. The Law on Craft and Entrepreneurial Activity entered into force on 1 January 2012. The law regulates the conditions, beginning, manner and termination of performing craft-entrepreneurial activity, education and training of entrepreneurs, organization of entrepreneurs and keeping the register of entrepreneurs. After a careful analysis of the solutions from the existing Law, the suggestion of the competent bodies of local self-government units and entrepreneurs, it was estimated that the drafting of a new text is necessary. Namely, there is a need for certain institutes to be specified, i.e. regulated in a different way, while respecting the positive European practice in this area. In addition, the previous scope of changes in legal provisions has affected the clarity and ability to understand certain legal solutions, thus limiting their application in practice.

The Ministry of Economy and Entrepreneurship (MEE) will strengthen support for the recovery of entrepreneurship after the pandemic, together with partner organizations, to implement the following:

- Financial support: for self-employed entrepreneurs, for digital business transformation, women entrepreneurs and DARS for the implementation of programmes for entrepreneurs;
- The implementation of the Law on Social Entrepreneurship
- Drafting of a new Law on Craft and Entrepreneurial Activity

In the Federation of BiH, this measure will, among others, enable easier and faster investment in business activities, as well as facilitate the closure of companies. The laws listed in the activities have been adopted in the form of drafts in the Parliament of the Federation of BiH and work is currently underway to prepare proposals for these laws. These two activities are in line with the obligation contained in Article 93 of the Stabilization and Association Agreement, on the basis of which the Draft Law on Encouraging Small Business Development is fully in line with European Union regulations. Also, the proposed text of the law on encouraging the development of small businesses incorporates the solutions provided by Commission

Recommendation 2003/361/ EC on the definition of micro, small and medium-sized enterprises of 6 May 2003. In cooperation with relevant institutions, we will actively work on establishing a functional one-stop shop system for registering business entities, obtaining the necessary permits, online registration of business entities and providing a single register of business entities and licensing, as well as amendments to laws and regulations affecting business SME sector. Also, the basic principles of encouraging the development of small businesses, online registration, the establishment of a one-stop shop registration system are in line with the principles defined in the EU Small Business Act. This measure contributes to the achievement of the United Nations Sustainable Development Goals (SDGs).

When it comes to budget allocations for business zones, in the coming period we plan to continue to encourage their construction. This measure supports the development of entrepreneurial zones for the purpose of economic growth and employment at the local level. This measure also contributes to the realization of economic priorities defined in the development strategies of local self-government units, and the realization of priorities set out in the strategic documents of the Federation of BiH.

By supplementing and amending the existing legislation in the Federation of BiH, among other things, a more favourable environment for the development of entrepreneurial infrastructure will be provided, which will certainly lead to easier business and increase economic activity of small businesses.

**a. Activities planned in 2022:**

- Continuation of the implementation of financial support (MEE RS).
- Implementation of the Law on Social Entrepreneurship (adoption of bylaws, granting status to social enterprises, supervision over the application of the law) (MEE RS),
- Analysis of the existing Law on Crafts and Entrepreneurship and initiatives of the Chamber of Crafts and Entrepreneurship of the Republika Srpska and the Association of Entrepreneurs (MEE RS).
- Law on Encouraging the Development of Small Business in FBiH
- Law on Entrepreneurial Infrastructure in FBiH
- Bylaws based on the Law on Crafts and Related Activities (Decree and 10 rulebooks)
- Law on Entrepreneurial Infrastructure in FBiH
- Implement the programme "Development of Entrepreneurial Zones" (FBiH MDEC)
- Implement the programme "Development of entrepreneurial support institutions" (FBiH MDEC)

**b. Activities planned in 2023:**

- Continuation of the implementation of financial support (MEE RS).
- Establish the necessary structures for social enterprises and provide support (MEE RS),
- Drafting of a new Law on Craft and Entrepreneurial Activity (MEE RS).
- Bylaws based on the Law on Encouraging Small Business Development (Decree prescribing the manner of implementation, more detailed criteria, methodology and forms for conducting the SME test Rulebook on the establishment, management and operation of the Information System and Rulebook on procedures for implementing incentive programmes)
- Bylaws based on the Law on Entrepreneurial Infrastructure (Rulebook on necessary data for registration, conditions, manner of registration, forms, management, deletion and use of data from the Register of Entrepreneurial Infrastructure, Rulebook on implementation of the Incentive Programme for Entrepreneurial Infrastructure Development in the Federation of BiH and Rulebook on phases of establishment of an entrepreneurial zone)



- Bylaws based on the Law on Entrepreneurial Infrastructure (Rulebook on necessary data for registration, conditions, manner of registration, forms, management, deletion and use of data from the Register of Entrepreneurial Infrastructure, Rulebook on implementation of the Incentive Programme for Entrepreneurial Infrastructure Development in the Federation of BiH and Rulebook on phases of establishment of an entrepreneurial zone)
- Implement the programme "Development of Entrepreneurial Zones" (FBiH MDEC)
- Implement the programme "Development of entrepreneurial support institutions" (FBiH MDEC)

**c. Activities planned in 2024:**

- Continuation of the implementation of financial support (MEE RS).
- Support to social enterprises (MEE RS),
- Implementation of the new Law on Craft and Entrepreneurial Activity (MEE RS).
- Implement the programme "Development of Entrepreneurial Zones" (FBiH MDEC)
- Implement the programme "Development of entrepreneurial support institutions" (FBiH MDEC)

**2. Results indicators**

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Number of financially supported enterprises in RS	150	170	200
Law on Social Entrepreneurship in RS	Rulebooks made Awarded statuses	20 social enterprises supported	20 social enterprises supported
Law on Craft and Entrepreneurial Activity in RS	Analysis done	Law adopted	Law implemented
Investments made in SMEs in FBiH			
Profit made in SMEs in FBiH			
Number of new jobs in SME business in FBiH			
Number of business entities in business zones in FBiH			
Number of employees in business zones in FBiH			

**3. Expected impact on competitiveness**

Financial support in Republika Srpska will enable the recovery of entrepreneurs and business improvement, as well as the support of MEE RS, DARS and the Centre for Digital Transformation. The Law on Social Entrepreneurship will provide support for social enterprises.

Adoption of the necessary legal regulations, introduction of a functional one-stop shop system for registration of business entities, obtaining the necessary permits, and establishment of online registration of business entities will lead to a more favourable impact on the competitiveness of small and medium sized enterprises in the Federation of BiH, and thus to the growth of the number of small and medium enterprises, total income, growth of employment, etc.

Increasing the economic activity of SMEs through the removal of administrative barriers, as well as increased budget allocations for entrepreneurial infrastructure will contribute to improving the competitiveness of the private sector in the Federation of BiH. In addition, the adoption of the necessary legal regulations will also lead to a more favourable impact on the

competitiveness of small and medium enterprises in the Federation of BiH, and thus to an increase in the number of small and medium enterprises, total income, etc.

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

For the needs of financial support, it is necessary to provide KM 500,000 annually from the budget of the Republika Srpska and international projects. Incentives are also planned in the Framework Budget Document (2021–2023). Support of at least KM 100,000 is needed for the development of social enterprises from the budget and international projects.

These activities will be carried out by the staff of the FBiH Ministry of Development, Entrepreneurship and Crafts, so that the implementation costs will be regular costs for salaries of employees (there will be no additional costs), except for funds provided in the Budget of the Federation of BiH for financial support to small and medium enterprises. Budget funds planned for this measure are KM 840,000 in 2022, KM 400,000 in 2023 and KM 400,000 in 2024.

These activities will be carried out by the staff of the FBiH Ministry of Development, Entrepreneurship and Crafts, so that the implementation costs will be regular costs for salaries of employees (there will be no additional costs), except for funds provided in the Budget of the Federation of BiH for the improvement of entrepreneurial infrastructure.

Budget funds planned for this measure are KM 2,000,000 in 2022, KM 2,500,000 in 2023 and KM 2,500,000 in 2024.

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

In the Republika Srpska, measures enable the sustainability of employment, poverty reduction, women's empowerment and economic independence, the use of digital tools, the creation of social enterprises and fewer procedures related to the business of independent entrepreneurs.

The implementation of the planned activities in the Federation of BiH is expected to make the process of entering and exiting the business activity easier and faster, which will result in increased employment, and thus poverty reduction. These activities include equality of all social groups, as well as gender equality.

The overall goal of investing in entrepreneurial infrastructure is faster development of the economy, encouraging balanced regional development throughout the Federation of BiH, attracting domestic and foreign investors, which inevitably leads to increased employment, gender equality and poverty reduction.

#### **6. Expected impact on the environment**

The implementation of activities in the Republika Srpska will take into account the environmental issues and raise awareness among entrepreneurs about environmental protection.

The implementation of this measure in the Federation of BiH has no harmful impact on the environment, and special investment in the construction of business zones will contribute to the relocation of business facilities from urban areas to areas provided for in spatial plans, which in any case has a direct positive impact on the environment.

Investing in the construction of business zones will contribute to the relocation of business facilities from urban areas to business zones provided for in spatial plans, which in any case has a direct positive impact on the environment.

## 7. Potential risks

Risk	Probability (low/high)	Planned mitigating action
Lack of financial resources in RS	High	Seek alternative sources of financing
Lack of funds to support social enterprises in RS	Low	Use of funds from EU projects
Untimely enactment of laws by the Parliament of the Federation of BiH	low	Seek financial support from alternative sources
Lack of planned financial resources from the Budget of the FBiH	low	Seek financial support from alternative sources
Untimely enactment of laws by the Parliament of the Federation of BiH	low	Seek financial support from alternative sources
Lack of planned financial resources from the Budget of the FBiH	low	Seek financial support from alternative sources

### 5.1.2.4. Reducing the gray zone in the reporting of turnover through the implementation of a new system of fiscal cash registers in Republika Srpska

#### 1. Description of measure

The existing model of the fiscal cash register system in the Republika Srpska has shown certain shortcomings and there is a real need for the system to be improved. Due to all this, it was necessary to initiate activities to review the existing model, and based on the analysis and the offered models, the transition to a less demanding, and at the same time more effective and efficient system was made. Based on previous analyzes and the Conclusion of the Government of Republika Srpska on further activities to establish a new system of electronic fiscalization and public debate in accordance with the Conclusion of the National Assembly of Republika Srpska, the National Assembly of Republika Srpska passed the Law on Fiscalization at its 20th regular session held on 8 February 2022. This law changes in technical terms the current system of turnover control through fiscal cash registers and the current fiscal systems will be replaced by new systems.

#### a. Activities planned in 2022:

- Implementation of the Law on Fiscalization (MoF RS),
- Adoption of bylaws for the implementation of the new Law on Fiscalization (the RS Government, MoF RS);
- Procurement of the Fiscalization Management System in TA of RS (TARS, MoF RS),
- Defining and implementing ways of financing the costs of initial fiscalization for taxpayers (MoF RS).

#### 2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Development and adoption of the Draft Law on Fiscalization of the Republika Srpska			Second half of 2021
Preparation and adoption of the Proposal of the Law on Fiscalization of the Republika Srpska			Fourth quarter 2021
Adoption of bylaws for the implementation of the new Law on Fiscalization: Decree on activities for which there is no obligation to record transactions via			First half of 2022

electronic fiscal device (Government of RS); Rulebook on Fiscal Account (MoF RS); Rulebook on Approval of Fiscal System Operators (MoF RS); Rulebook on approval and use of elements of electronic fiscal devices, as well as the register of elements of electronic fiscal devices (MoF RS); Rulebook on data submission and generation of business premises and points of sale codes (MoF RS); Rulebook on the execution of the measure prohibiting the performance of activities (MoF RS); Rulebook on the dynamics of fiscalization (MoF RS)			
Procurement of fiscalization management system in the RS Tax Administration			2022
Defining and implementing the method of financing the costs of initial fiscalization for taxpayers in RS			2022

### 3. Expected impact on competitiveness

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

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

Having in mind that the financing of the initial fiscalization for taxpayers on the basis of the current law was the cost of fiscalization subjects, the Government of Republika Srpska proposed that the cost of initial fiscalization of taxpayers be borne by Republika Srpska, i.e. financed from Republika Srpska funds. The cost of fiscalization includes the cost of initial fiscalization for taxpayers and the cost of procuring a fiscalization management system. As at this moment there is no formed price of the device, as well as the system for fiscalization management, the MoF RS made a cost estimate based on the above analyzes, according to which the cost of fiscalization should be around KM 50 million.

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

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

### 6. Expected impact on the environment

There is no impact.

### 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Interference in the implementation of technical aspects of the system	Low	Technical and personnel readiness for implementation of the process

### 5.1.2.5. Improving the safety of the business environment in the Republika Srpska

#### 1. Description of measure

With the aim of improving the business environment and reducing the informal economy, through strengthening the security of citizens, institutions, community and property, a number of strategic documents in the field of security have been drafted **in the Republika Srpska**, whose application would further improve the area of safe business environment.<sup>54</sup> The implementation of the activities envisaged in these strategic documents will contribute to the improvement of general security and a safe business environment.

In addition to the above, the Ministry of Internal Affairs of the Republika Srpska, in the medium-term work plan for the period 2021-2023, also defined strategic goals relevant for the improvement of the business environment (improving the security of citizens, institutions, communities and property and improving the prevention, detection and investigation of crimes, especially organized crime, corruption, money laundering and terrorist financing).

##### a. Activities planned in 2022:

Participation in the development of the Strategy for the Fight against Organized Crime in BiH (2021–2024), on the basis of which the Action Plan of the Ministry of the Internal Affairs of the Republika Srpska for the Fight against Organized Crime will be drafted (MIA RS),

Participation in the development of the Strategy for Prevention and Combating Terrorism in BiH (2021-2026), on the basis of which the Action Plan of the Government of the Republika Srpska for the Prevention and Combating Terrorism will be drafted (MIA RS with the Coordination Body of the Government of the Republika Srpska ),

Participation in the development of the Anti-Corruption Strategy in the Republika Srpska and the relevant Action Plan (current documents are for the period 2018-2022) (holder of activity MIA RS).

##### b. Activities planned in 2023:

Development of the Strategy for the Fight against Cybercrime in the Republika Srpska for the coming period (current documents are for the period 2020–2024) and accompanying action plans (MIA RS).

#### 2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2022)	Target (2024)
Falling crime rates and increasing number of solved crimes in RS	Rate <sup>55</sup> = 616.1 Total number of crimes = 7,211 crimes	The average annual change in crime rate <sup>56</sup> in the previous five years was negative and shows that the total number of crimes decreased by an average of 6.6% each year	6,500 crimes

<sup>54</sup> Strategic documents: Anti-Corruption Strategy in the Republika Srpska and accompanying Action Plan (2018–2022); Action plan of the Ministry of Internal Affairs of the Republika Srpska for the implementation of the Anti-Corruption Strategy in the Republika Srpska 2019–2022; Strategy for drug control and combating drug abuse in the Republika Srpska (2016-2021); Strategy for the fight against cybercrime in Republika Srpska 2020-2024 and accompanying action plans: for the Fight against Cybercrime in the Republika Srpska 2020-2024; in the Field of Digital Forensics in the Republika Srpska 2020–2022; for Combating Money Laundering and Terrorist Financing in BiH (2018-2022) and Threat Assessment of Money Laundering and Terrorist Financing Risk.

<sup>55</sup> The crime rate is the number of crimes in relation to 100,000 inhabitants (the population of the Republika Srpska is 1,170,342, according to the RS Institute for Statistics).

<sup>56</sup> The average annual rate is calculated for the period 2016-2020.

Increased number of realized operational actions in the fight against organized crime in RS	99 operational actions were realized, of which 25 were international	Increase in the number of realized operational actions by 3% (In 2020, 8.8% more operational actions were realized compared to 2019)	110 operational actions realized
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### 3. Expected impact on competitiveness

The fight against organized crime and corruption, money laundering, cybercrime, terrorism and other forms of serious crime in the Republika Srpska will significantly restore confidence in the security of the business environment and thus increase the competitiveness of the Republika Srpska economy and its attractiveness for foreign investment.

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

These activities in the Republika Srpska are mainly carried out within the regular budget, and partly from other sources of funding (donations from international organizations, etc.).

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

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

### 6. Expected impact on the environment

The implementation of the aforementioned activities in the Republika Srpska will have a positive impact on environmental protection.

### 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Inadequate cooperation and exchange of data with other competent institutions in BiH	High	Intensify the implementation of the agreement; Intensify cooperation and data exchange
The migrant crisis and the return of fighters from foreign battlefields	High	Strengthening security capacities of RS (institutions, human and material capacities)
Non-application of the adopted coordination system in the process of EU integration in BiH in the EU funding programming process	Medium	Better cooperation of the Government of Republika Srpska with all levels of government; Reaching an agreement regarding the establishment of a model for programming EU funds in BiH
Allocation of resources intended for combating organized crime to the implementation of measures of the RS Government to respond to the outbreak of the Covid-19 pandemic	Medium	Flexible planning of available resources and capacity building of the RS Ministry of Internal Affairs

#### 5.1.2.6. Optimization of administrative procedures at the Republika Srpska level

##### 1. Description of measure

In April 2021, the Government of the Republika Srpska adopted the Decision on the Implementation of the Project for Optimization of Administrative Procedures and Formalities and appointed members of the Council for Management and Monitoring of the Project for

Optimization of Administrative Procedures and Formalities at the Entity Level<sup>57</sup> and formed the Operational Body for the Implementation of the Project for Optimization of Administrative Procedures and Formalities, which consists of a total of 45 members.

Optimization of administrative procedures at the Entity level implies the analysis of procedures identified in the single register of all permits, certificates, decisions (so-called formalities) issued by the Republika Srpska administrative bodies (publicly available at [www.pscsrpska.vladars.net](http://www.pscsrpska.vladars.net)), from the point of view of their justification, justification of requesting the necessary documentation, analysis of costs and time in obtaining them. The goal of the analysis and the next step is to propose and implement simplifications of certain administrative procedures, and save costs and time for the business community.

In accordance with the adopted methodology and dynamic plan, which includes a broader invitation to the business community to join the project with specific comments, all planned activities for 2021 have been implemented and the Government of Republika Srpska in December 2021 adopted Information on the implementation of the optimization project together with the Action Plan for Optimization of Administrative Procedures at the Republika Srpska Level.

**a. Activity planned in 2022:**

- Implement an agreed simplification plan (Republika Srpska institutions that issue formalities)

**b. Activity planned in 2023:**

- Continuation of the implementation of the agreed simplification plan (Republika Srpska institutions that issue formalities)

**c. Activity planned in 2024:**

- Monitoring the contents of the register and possible supplementation of the agreed simplification plan (MEE RS in cooperation with all Republika Srpska institutions that issue formalities).

**2. Results indicators**

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Number of simplified formalities and administrative procedures in relation to the total number in the Republika Srpska	50/932	100/932	All planned formalities simplified

**3. Expected impact on competitiveness**

The measure has a direct impact on competitiveness in the Republika Srpska, given that it also applies to certain areas monitored in international reports, which assess the business environment, and thus affects the attraction of both domestic and foreign investment. In addition to such reports, the business community would have direct benefits in terms of reducing costs and time in obtaining certain permits, certificates and decisions.

<sup>57</sup> The Council for Management and Monitoring of the Project for Optimization of Administrative Procedures and Formalities at the Republika Srpska Level, consists of: Minister of Economy and Entrepreneurship, Minister of Finance, Minister of Scientific and Technological Development, Higher Education and Information Society, Minister of Agriculture, Forestry and Water Management, President of the Chamber of Commerce of the Republika Srpska and President of the Union of Employers of the Republika Srpska.

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

The project should be realized within the existing administrative capacities of the institutions of the Republika Srpska, with possible advisory support of international organizations, such as IFC /WB.

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

The impact is indirect since the improvement of the business environment in the Republika Srpska affects the creation of conditions for higher employment and better social status of citizens.

#### **6. Expected impact on the environment**

There is no direct impact.

#### **7. Potential risks**

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
A large number of involved institutions in RS	High	Establishment of the Council at the highest level that monitors the work of institutions
Large scope of the project in RS	High	Existence of a formal and publicly available initial database; Adoption of a single methodology; Formally determined competent persons

#### **5.1.3. Key challenge no. 3: Increase the efficiency of the public sector, in particular by improving the performance, transparency and accountability of state-owned enterprises**

##### **a. Analysis of main obstacles:**

Bosnia and Herzegovina is a fiscally decentralized country in which each level of government independently adopts fiscal policy. In addition, public administration in Bosnia and Herzegovina is large and complex. With the outbreak of the Covid-19 pandemic, at the global level in 2020 there was a slowdown in economic activity both in neighboring countries and Bosnia and Herzegovina. Therefore, in the fiscal context, there has been a temporary deviation from the fiscal rule regarding the budget deficit. The reasons for deviating from this rule lie in the significant decline in public revenues and significantly higher investments in the healthcare sector. In order to combat the negative consequences of the Covid-19 pandemic, various stabilization measures have been taken through the adoption of new regulations as well as new borrowings. In the coming period, fiscal consolidation measures will continue to be taken, which would lead to the financial stability of all levels of government and to appropriate savings that would be used to remedy the consequences caused by the pandemic. In this regard, it is necessary to limit the growth of public spending in order to direct savings to public investment, then take measures for more active employment, recovery and stabilization of the economy, to improve efficiency in granting social rights, and measures in the field of health that suffered multiple burdens during the pandemic.

With this in mind, all levels of government are strategically committed to modernizing public administration based on the rule of law, openness and transparency, professionalism, efficiency, accountability and frugal access to taxpayers' resources, in line with market economy principles.



At the level of the institutions of the Council of Ministers of BiH, measures are planned to improve human resources management functions. It is planned to standardize the process of human resources planning through the adoption of new or amendments to existing regulations, and the establishment of a functional register of civil servants, taking into account the optimization of necessary resources and harmonization of human resources planning with the budget calendar.

In this regard, the Republika Srpska will, respecting the (SIGMA) Principles of Public Administration, provide the citizens of this entity with a better quality of public services through the adoption of regulations that create administrative, legal and financial facilities for numerous procedures. Therefore, in order to tackle some of the main obstacles, it will identify jobs in the Republika Srpska administration, determine the value of work, i.e. the payroll system in the Republika Srpska administration will be determined in accordance with an adequate analytical assessment of jobs according to the complexity of work performed by employees. Improving local development, i.e. strengthening human resources in local self-government units are key to the process of public administration reform, and thus the reforms implemented by the Republika Srpska are also of key importance.

In the FBiH, the budget is adopted through an overly detailed economic classification. Information on programmes and effects is not submitted to the Government and Parliament, the documentation of budget users is too extensive, the structure of the budget is too fragmented, control over budget execution is limited, and the existing IT system for introducing programme budgeting is inadequate. Public spending is at a relatively high level and control and management mechanisms need to be improved. There is an insufficient level of use of information technologies in key processes, the public financial management system is focused on input resources. Restrictive new employment policy and inability to fill systematized positions hinder the development of public internal financial controls in accordance with standards, and due to the large number of public sector organizations there is an inability to audit all public sector organizations by external audit function, which causes low implementation of recommendations. A general problem at all levels of government is the lack of understanding of the PIFC system as part of the overall reforms in the Federation of BiH and the benefits it has for the successful operation of public sector organizations and for rational and efficient management of public funds. In addition, the consistent implementation of applicable regulations and methodologies of public internal financial controls is not fully ensured.

## **b. Reform measures**

### **5.1.3.1. Reduce the share of current expenditure with transparency, performance and control in public spending**

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

The Strategic Framework for Public Administration Reform in Bosnia and Herzegovina 2018-2022, adopted by all levels of government in BiH, envisages measures to improve human resources management functions. It is planned to standardize the process of human resources planning through the adoption of new or amendments to existing regulations, and the establishment of a functional register of civil servants, taking into account the optimization of necessary resources. It is also necessary to harmonize human resources planning with the budget calendar.

So far, only the Brčko District has established and published the Register of Employees and the Register of Appointed Persons in Public Administration Bodies, Institutions, Public Enterprises, Institutes and Funds of the Brčko District of BiH.

At the level of BiH institutions, in May, the BiH Council of Ministers instructed the BiH Ministry of Justice, in cooperation with the BiH Civil Service Agency, to prepare and submit for harmonization the Draft Law on Amendments to the Law on Civil Service in BiH Institutions, which will legally enable the BiH Civil Service Agency to keep the register of civil servants and the register of all employees in the institutions of Bosnia and Herzegovina, except military personnel, police officers and employees of the Intelligence and Security Agency of Bosnia and Herzegovina. In addition, the Civil Service Agency of BiH is in charge of drafting and submitting for approval a proposal of a decision that will enable keeping the register of employees and redesigning its software solution of the register after securing the necessary financial resources and that after the entry into force of the decision on keeping the register.

An improved budget planning process in the FBiH will allow for better performance of public spending, better oversight of public funds, and transparency in public financial management. In accordance with this measure, work will be done on the introduction of budget preparation in the programme format, improving the quality of internal audit in accordance with the new methodology for internal audit, harmonized with international standards and practice, automate reporting on PIFC (financial management and control and internal audit) with expanded sources and tools for data collection, and develop and implement a framework for quality control of the PIFC system. Internal controls will focus on: risks related to good management of revenues, expenditures, assets and liabilities, risks related to medium-term planning and programme budgeting, risks related to the efficiency of business processes of the organization. The goal is to achieve better efficiency, coverage by the internal audit function, contribute to better development of internal control systems in users and thus their work and business, and a more advanced reporting system will ensure better data consolidation and provide good system solutions at the FBiH level. The planned activities are intended to strengthen management responsibility for the legality, goals and results of the organization as well as risk management of public enterprises.

The Strategy of Public Financial Management of the Republika Srpska for the period 2021–2025. The directions of reforms in the field of public finances were defined and the system of improving fiscal responsibility and long-term fiscal stability of the Republika Srpska was completed. One of the measures defined by the Strategy is the improvement of performance-based program budgeting with the aim of more efficient and transparent budget planning and spending of public funds at the level of the Republika Srpska.

In the Republika Srpska, acts have been adopted, namely the Strategy for the Development of the IFK system in the public sector of the Republika Srpska for the period 2021-2025, guidelines for risk management, new methodology for R&D, manual for ensuring and improving the quality of R&D. In addition to the activities on drafting acts, the CHU actively conducts trainings and trains internal auditors, as well as persons in charge of FMC. With the technical assistance of the EU project, CJH has developed an IT solution for PIFC through the development of an application that provides updating and improvement of the reporting process and preparation of annual consolidated reports in the field of R&D, and automates audits and the establishment and development of financial management and control. , thus creating preconditions for monitoring and development of R&D and FMC in all segments, from risk management to managerial responsibility and improving efficiency and effectiveness in achieving public administration goals

In the Republika Srpska reducing the share of expenditures for current spending in public administration will be implemented through the establishment of the Register of employees in users of budget funds, and through changing the organisation of the public administration and increasing the efficiency of its work. The goal is to establish a comprehensive Register of

employees in budget users in order to create a single record of the number of employees and a more transparent use of budget funds for personal wages of employees, which will be the basis for the operationalisation of strategic plans to restrain total spending on wages. In order to implement this measure, it is planned to adopt the Instruction on keeping the register of employees in users of budget funds, and activities for the establishment of the Register of employees in users of budget funds. The financing of this measure is planned from the World Bank funds (ERP 2019–2022).

The implementation of these activities will be continued in the coming period, after the World Bank provides funding. As part of the activities related to the scope of the Register, assumptions will be made that, among other things, data on employees in the health care sector will be entered into the Register.

The implementation of the measure related to the change of organization will be carried out by passing a new Law on Civil Servants. The Law on Civil Servants will establish a more efficient public administration through professionalism and integrity, along with eligibility criteria and competency tests for the recruitment of civil servants and non-civil service employees. Initial steps have already been taken regarding the implementation of this measure. The Ministry of Administration and Local Self-Government (MALS) in cooperation with SIGMA conducts situation analysis activities with the aim of establishing a Republika Srpska administration on SIGMA principles, which are based on the establishment of a civil service whose scope and legal framework is clearly defined and applied in practice based on professionalism, employment, training and performance appraisal, correct and transparent payroll system, as well as promotion of integrity and prevention of corruption.

The situation caused by the Covid 19 pandemic has temporarily suspended activities on the preparation of the new Law on Civil Servants. In 2021, the Government of the Republika Srpska formed an inter-ministerial working group whose task was to draft a working version of the Law on Civil Servants based on previous analyzes. The working group is in the final phase of drafting the working text of the Law on Civil Servants. After the adoption of the Law on Civil Servants, preconditions will be created for the drafting of a new Law on Salaries.

#### **a. Activities planned in 2022**

- Adoption of the Law on Amendments to the Law on Civil Service in the Institutions of BiH
- Adoption of the Decision on keeping the register of employees in BiH institutions (MoFT BiH)
- Drafting of the Law on Amendments to the Law on Budgets in FBiH with the aim of introducing the Programme Budgeting and training of employees
- Development of a new Methodology of internal audit in the FBiH in accordance with international standards
- Development and installation of software for internal audit management, including training of users to use the software, in order to standardize the work of internal audit in the FBiH
- Development and installation of software for reporting on FMC and IA in FBiH, including training of users on the use of software
- Develop a methodology for quality control of FMC in FBiH based on good EU practice
- Update of the FBiH Public Sector Risk Management Guidelines and standardization of the risk management process
- Development and installation of software for risk registers in FBiH
- Adoption of the Law on Civil Servants (MALSG RS),

- Analysis of each individual job in the administrative bodies of the Republika Srpska, given in the Register, to which the provisions of the Law on Civil Servants apply (MALSG and other ministries and institutions of the Republika Srpska, in accordance with competencies).
- Adoption of the Manual for Internal Audit in the public sector entities of the Republika Srpska in accordance with international standards and whose content is adapted to the IT solution for PIFC (MoF RS)
- Development and installation of IT solutions / applications for PIFC that will enable audits in public sector entities of Republika Srpska through the application of online applications within each public sector entity, including training of internal auditors to use the application (MoF RS)
- Development and installation of IT solutions that will improve the reporting process and preparation of annual consolidated reports in the field of R&D, including training for application users (MoF RS)
- Development of a methodology for quality control of FMC in the Republika Srpska based on good EU practice (MoF RS)
- Development and installation of IT solutions for the field of PIFC related to the improvement of activities on the establishment and development of financial management and control (MoF RS)
- Adoption of the Manual for Ensuring and Improving the Quality of Internal Audit in Public Sector Entities of the Republika Srpska (MoF RS)
- Implementation of the Guidelines for Risk Management in Public Sectors of the Republika Srpska, adopted in 2021 (MoF RS)
- Use of the part of the PIFC application related to the risk register developed in the Republika Srpska and regular updating of the same (MoF RS)

#### **b. Activities planned in 2023**

- Redesign of the existing software solution in the BiH Civil Service Agency
- Establishment of a register of employees in BiH institutions
- Drafting of accompanying bylaws related to the preparation of the programme budget in the FBiH
- Procurement of new software for budgeting and training of FBiH MoF staff and cantonal staff to work in the new software
- Focus internal audit on high risk areas in the FBiH (management risk registers and independent IAU assessment) and make recommendations to address the causes of risk
- Develop a methodology for checking the quality of internal audit work in the public sector in the FBiH
- Ensure the availability of timely and accurate information on performance indicators of public enterprises in the FBiH
- Adoption of the Law on Amendments to the Law on the Register of Employees in Users of Budget Funds of the Republika Srpska (MALSG RS),
- Establishing a system of wage setting based on values so as to establish a more equitable system of wages in the administrative bodies of the Republika Srpska (MALSG RS and other ministries and institutions of the Republika Srpska, in accordance with competencies).
- Directing internal audit to high risk areas in the Republika Srpska, preceded by updating the risk register which is an integral part of the PIFC application (MoF RS)
- Application of the Manual for ensuring and improving the quality of internal audit work in the public sector entities of the Republika Srpska and training of internal auditors in this field (MoF RS)

- Providing timely and accurate information on the performance indicators of public companies in the Republika Srpska through the use of the PIFC application (MF RS)

#### **c. Activities planned in 2024**

- Evaluate and, if necessary, revise the existing regulations in order to complete the process of job analysis and analytical assessment of jobs, and establish a methodology for analytical assessment, classification and grading of jobs
- Preparation of the programme budget for 2025 in FBiH
- Develop a methodology for monitoring the impact and quantification of the effects of implemented internal audit recommendations in the FBiH
- Conducting a quality review of FMC in FBiH
- Conducting a quality review of IAU in FBiH
- Providing support to the level of cantons and local government units in strengthening the system of internal controls for better management of funds of transfers and subsidies in FBiH
- Adopting the Operational plan for reducing the total payroll expenditure (MALSG RS, Ministry of finance and other ministries and institutions of the Republika Srpska, in accordance with competencies).
- Performing the quality of FMC in the public sector entities of the Republika Srpska (MoF RS)
- Performing supervision over the quality of R&D work in the entities of the public sector of the Republika Srpska (MoF RS)

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

<b>Indicator</b>	<b>Baseline</b>	<b>Intermediate target</b>	<b>Target</b>
Budgeting in programme format in FBiH		Establishing a link between budget and strategic planning	Improving public financial management
Methodology for monitoring the impact and quantification of the effects of implemented internal audit recommendations in FBiH developed	There is currently no methodological act for monitoring the impact and quantifying the effects of internal audit recommendations	Conducting trainings for internal auditors related to the implementation of methodology and measuring the effectiveness of recommendations	Internal auditors express the effects of implemented internal audit recommendations in monetary values and thus provide additional (measurable) value for the organization.
Number of FMC quality reviews performed by CHU in FBiH	Currently, CHU does not conduct on-site FMC quality reviews	Conduct quality reviews with the largest budget users.	Public sector organizations are checked for quality, which is, in addition to their management, reported to the competent governments
Number of IAU quality inspections performed by CHU in FBiH	Currently, the CHU does not conduct on-site IAU quality reviews	Conduct quality reviews of users with more employed internal auditors	Public sector organizations are checked for quality, which is, in addition to their management, reported to the competent governments
A key performance indicator for public enterprises integrated into the FMC reporting software in FBiH	In the Republika Srpska, in the PIFC application, it is possible to find information on the performance indicators of public enterprises in Republika Srpska.	Conducting practical trainings on performance indicators of public companies	Improving the calculation of performance indicators of public enterprises In the PIFC application

Adoption of the Manual for ensuring and improving the quality of internal audit work in the public sector entities of the Republika Srpska	A manual for ensuring and improving the quality of internal audit work has been developed and needs to be adopted	Conducting trainings in the field of assessing and improving the quality of internal audit work	Full implementation of the Manual for ensuring and improving the quality of internal audit work in all public sector entities of the Republika Srpska
The Instruction on keeping the register of employees in users of budget funds in RS adopted	2022		2023
The Register of employees in users of budget funds in RS established	2022		2023
The Law on Civil Servants in RS adopted	2022		2022
Qualification criteria determined and competency tests developed for each job in employment of civil servants and non-civil service employees in RS	2022		2023
An analysis of each individual job of employees in the Republika Srpska administrative bodies conducted	2022		2023
An analysis of the plan of employees in the Republika Srpska administrative bodies made	2022		2023

### 3. Expected impact on competitiveness

The introduction of programme budgeting in the FBiH, the development and strengthening of public internal financial controls, will result in better informed budget decision making, greater transparency and accountability and stronger control in the public sector, which should improve the competitiveness of the private sector too.

With the adoption of the new Law on Civil Servants in the Republika Srpska and the development of the register, it will be possible to conduct an analysis of each job, review its performance and make payments in accordance with the performance. In that way, a more efficient public administration will be established, and at the same time the total expenditure on salaries in relation to GDP will be reduced, so that space will be created for increasing capital spending.

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

These activities will be carried out by FBiH MoF staff, so the implementation costs will be regular costs for employees' salaries (there will be no additional costs). Some activities will lead to budget savings through the elimination of irregularities in spending budget funds, while

some will require additional funds planned through various technical assistance projects (IPA fund, other donors), but also the budget of the Federation of BiH available to CSA.

The development of the register in the Republika Srpska will be financed from the World Bank funds planned for this purpose.

#### **5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care**

The proposed measure does not have a direct impact on social outcomes, however, results-oriented budgeting, developed and strengthened internal financial controls in the public sector in the long run lead to savings and rational use of public funds, which provides the opportunity to use the same funds in a better way, through scholarships, co-financing employment and other socially beneficial programmes. Adequate establishment of this system will have a positive impact on the use of public funds, and therefore on the adequate distribution of these funds to other social groups, respecting the principle of gender equality.

The expected impact on employment and gender issues in the Republika Srpska will be possible to see only after the full implementation of the measure in the part related to the establishment of the register of employees in budget users and analysis of each individual job.

#### **6. Expected impact on the environment and climate change**

There are no implications.

#### **7. Potential risks**

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Non-adoption of proposed legal solutions in FBiH.	medium	Adequately conducted consultations during drafting.
Non-adoption of proposed bylaws and legal solutions in FBiH.	medium	Adequately conducted consultations during drafting.

### **5.1.3.2. Local development management and improvement of services in the field of local self-government**

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

In Republika Srpska, bearing in mind that local self-government is one of the foundations of the constitutional setup, and respecting the fact that the strategic period ends in 2021, the Government of Republika Srpska is determined to continue reforming local self-government and strategically direct its further development. The Local self-government development strategy will serve as a framework in which the local self-government system will be developed, and as a basis for creating annual development policies and plans that should be in line with long-term development goals. Also, in order to systematically develop a sustainable and functional training system that will be a quality source of knowledge and skills necessary for civil servants and elected officials to develop highly professional, responsible and efficient local self-government in Republika Srpska, the Training Strategy for civil servants and elected officials in local self-government units will be developed. In addition, in order to meet the real needs of local self-government units with new legal solutions and open new opportunities that will contribute to the development of local self-government and improve the quality of services provided to citizens at the local level, the normative framework governing the local self-government system will be improved.

**a. Activities planned in 2022:**

- Adoption of the Local self-government development strategy in Republika Srpska for the period 2022–2028 (MALSG RS, institutions of Republika Srpska and the RS Association of municipalities and cities)
- Adoption of the Training Strategy for civil servants and elected officials in local self-government units in Republika Srpska 2022–2026 (MALSG RS, institutions of Republika Srpska and the RS Association of municipalities and cities),
- Adoption of regulations governing the system of local self-government (MALSG RS, institutions of Republika Srpska and the RS Association of municipalities and cities).

**2. Results indicators**

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
The Local self-government development strategy in Republika Srpska 2022–2028 adopted	2021		2022
The Training Strategy for civil servants and elected officials in local self-government units in Republika Srpska 2022–2026 adopted	2021		2022
The Law on Amendments to the Law on Local Self-Government, the Law on Amendments to the Law on Civil Servants and Employees in Local Self-Government Units and the Law on the Status of Officials in Local Self-Government Units were adopted as well as bylaws (Decree on the principles for internal organization and systematization of jobs in the city i.e. municipal administration; Decree on categories, titles and conditions for performing the duties of civil servants in local self-government units; Decree on the Procedure and Criteria for the Evaluation of Civil Servants in Local Self-Government Units; Rulebook on uniform procedures for filling vacancies in the city i.e. municipal administration; Rulebook on disciplinary and material responsibility of employees in the city, i.e. municipal administration) in RS	2021		2022
New criteria for assessing the level of development of local self-government in RS have been established	2021		2022

**3. Expected impact on competitiveness**

The implementation of the above activities will contribute to the development of competitiveness through the creation of a more favourable business environment at the local level, and the improvement of services provided to citizens.

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

Part of the funds will be provided in the budget of the Republika Srpska, and part through the support of international organizations.

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

It is believed that these activities will have positive outcomes on issues related to gender equality and inclusion of socially vulnerable groups through their inclusion and active involvement in policy-making and implementation processes.

**6. Expected impact on the environment**

These measures do not have an impact on environmental protection.



## 7. Potential risks

Risk	Probability(lowor high)	Planned mitigating action
Readiness of local self-government units to adapt to reform processes in RS	Low	Promotion and involvement of LSGUs in policy making
Lack of financial resources for the implementation of strategic goals in RS	High	Finding alternative sources of funding available

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

### 5.2.1. Public Financial Management

See Main obstacle No. 1: Increase employment, especially of young people, women and other vulnerable groups

### 5.2.2. Green transition

#### a. Analysis of main obstacles

By signing Agenda 2030, and adopting the COR Implementation Framework, Bosnia and Herzegovina has recognized the importance and potential for implementing the 2030 Sustainable Development Goals as an opportunity to significantly improve the social, economic and environmental aspects of life in the country and to promote regional cooperation.

Bosnia and Herzegovina has limited budget funds for environmental protection (slightly more than KM 143 million in 2018). Total investments for environmental protection in the same year amounted to only KM 88.4 million. In the structure of investments for environmental protection, investments at the end of the production process accounted for 97.8%, and investments in the prevention of environmental pollution 2.2%).<sup>58</sup> Key European activities in support of the 2030 Agenda and the Sustainable Development Goals state the Instrument for Pre-Accession Financial Assistance (IPA) as an instrument to support the implementation of the 2030 Agenda and the Sustainable Development Goals.

The state of the environment in certain spheres, such as waste management, is at an unenviable level. In Bosnia and Herzegovina, 95% of municipal waste is disposed of in landfills. Therefore, it is necessary to develop a system of circular economy in the field of waste management and work on reuse and recycling, composting, and energy recovery. This would reduce the impact on natural resources while improving the state of the environment and developing and strengthening a new economic sector. In addition, the circular economy can reduce greenhouse gas emissions, provide a chance for small and medium-sized enterprises and increase GDP.

Environmental quality data, based on the risk monitoring and assessment procedures that follow from the EU Water Framework Directive (WFD), show that good water status has not been achieved in most of Bosnia and Herzegovina. According to the length of watercourses in 2020, status of 49.80% of surface water bodies is lower than good, i.e. BAD water quality, and only 7.05% HIGH (in 2015 it was 18%). The goal is to reduce the percentage of watercourses with bad water to 15% by 2030<sup>59</sup>. The collection, treatment and disposal of urban and technological wastewater should be gradually improved. The key challenges are untreated

<sup>58</sup> [https://bhas.gov.ba/data/Publikacije/Saopštenja/2021/ENV\\_17\\_2018\\_Y1\\_1\\_HR.pdf](https://bhas.gov.ba/data/Publikacije/Saopštenja/2021/ENV_17_2018_Y1_1_HR.pdf)

<sup>59</sup> Water management Plan 2022-2027

municipal water (wastewater), nutrient pollution, hydromorphological changes, as well as the presence of priority substances.

Many ecosystems are already under pressure, achieving smart growth requires that the production of goods and services does not lead to the complete depletion of natural resources. This implies the implementation of stronger controls of excessive emissions and discharges of harmful substances, and continuous monitoring of the quality of ecosystems (e.g. air, water, soil), according to the logic of the ecological components of the *acquis communautaire*. Violation of environmental standards requires strict application of the existing appropriate regulatory response based on the "polluter pays" and "user pays" principles.

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

Solid waste management is regulated by the Law on Waste Management, which promotes the principle of the waste hierarchy, the 'polluter pays' principle and the producer responsibility principle.

The current Law on Waste Management of FBiH is not fully harmonized with certain directives, especially the Landfill Directive, and it does not clearly define penal provisions for those obliged by the system that do not fulfil their obligations in accordance with relevant regulations, and who place products in BiH that become special categories of waste after use. One of the key obstacles to the establishment of economic instruments in the field of environment and the transition to a green and circular economy is the absence of the FBiH Environmental Protection Strategy, which establishes goals in the field, which would be implemented in the next ten-year planning period.

Republika Srpska also faces similar challenges when it comes to developing appropriate waste management infrastructure according to modern European standards. Public awareness of waste, especially hazardous waste and recycling opportunities is at a very low level, and forms of education in this area are at an early stage. Fees for the collection and disposal of municipal and industrial waste are low and do not cover the real economic costs of maintaining the system, and especially do not allow for further investment. In addition, a key role in the development of the waste management system in Republika Srpska is the establishment of a legal framework for sustainable waste management, establishing financial instruments for implementing the system, developing public awareness, planning and improving the system, and initiating stakeholders to establish waste management partnerships. Rational use of resources important for industrial production also requires attention, especially when it comes to non-renewable energy sources.

## **b. Reform measures:**

### **5.2.2.1. The transition to a green and circular economy**

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

Measure from the Roadmap for the implementation of activities to which Bosnia and Herzegovina has committed itself by accepting the Western Balkans initiative 6 and the EC recommendation from the meetings of the Subcommittee on Transport, Energy, Environment and Regional Cooperation. The missing legal and regulatory framework for gas at the level of

BiH is a serious and permanent violation of the obligations under the Energy Community Treaty and is the biggest obstacle to the liberalization of the gas market. The process of harmonizing the draft law is still ongoing.

In order to protect the environment and the transition of industry to the so-called green economy and the circular economy in the Republika Srpska, it is necessary to take appropriate measures to minimize the harmful effects of industry on the environment. In this regard, it is necessary to provide appropriate support for the implementation of infrastructure construction projects for environmental protection in industry, which include reconstruction / innovation of existing technological processes, more efficient use of raw materials and energy in the production process, development of products with reduced environmental impact, introduction of standards for environmental management, waste reduction, recycling, etc. Also, it is necessary to promote the production and use of products with reduced harmful effects on the environment, and to raise the awareness of business entities about the importance of environmental protection. The implementation of this measure is envisaged by the strategic document "Industry Development Strategy of the Republika Srpska 2021–2027“.

In the FBiH, the aim of this measure is to significantly improve the system of separate collection, recycling and reuse of municipal waste throughout the FBiH, elimination and remediation of illegal landfills, and construction of regional sanitary landfills and regional waste management centres with supporting infrastructure.

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

The measure supports the revision of existing and the introduction of new regulations in line with EU legislation.

#### **a. Activities planned in 2022**

- Adopt the Law on Electricity and Natural Gas Regulator, Transmission and Electricity Market in Bosnia and Herzegovina harmonized with the Third Energy Package (MoFTER BiH)
- Law on Transmission System Operator in Bosnia and Herzegovina (MoFTER)
- Decision on the quality of liquid petroleum fuel
- Financial support for the implementation of projects in industry that have an impact on environmental protection, (MEE RS and MSPCE RS),
- Financial support for energy efficiency and renewable energy projects in industry (FEPEE RS),
- Promoting the production and use of products with reduced environmental impact, and raising awareness of the importance of environmental protection (MSPCE RS and MEE RS).
- Adoption of the Environmental Protection Strategy in FBiH
- Renovate existing and build new systems for separate collection, disposal, recycling and reuse of waste throughout the FBiH (build green islands, transfer stations and recycling yards)
- Support for the construction and improvement of infrastructure at existing regional landfills for waste management (Extended sanitary areas for waste disposal, leachate management and construction of treatment plants where necessary, FBiH MET)

- Build a plant for mechanical biological treatment MBT, municipal waste incinerators and power plants (FBiH MET)
- Remove illegal landfills and rehabilitate existing areas under inadequately disposed waste (hazardous and non-hazardous waste) (Rehabilitated and removed illegal landfills (at least one a year) (FBiH MET)
- Develop a study to identify sites contaminated with hazardous waste in the FBiH
- Improving the waste management information system in FBiH
- Revival of the Revolving Waste Recycling Fund established in the Fund in FBiH<sup>60</sup>.

#### **b. Activities planned in 2023**

- Financial support for the implementation of projects in industry that have an impact on environmental protection, (MEE RS and MSPCE RS),
- Financial support for energy efficiency and renewable energy projects in industry (FEPEE RS),
- Promoting the production and use of products with reduced environmental impact, and raising awareness of the importance of environmental protection (MSPCE RS and MEE RS).
- Drafting of a new Law on Waste Management in FBiH
- Developing a Waste Management Plan in FBiH
- Improve systems for separate collection, disposal, recycling and reuse of waste throughout the FBiH (build green islands, transfer stations and recycling yards)
- Support for the construction and improvement of infrastructure at existing regional landfills for waste management (Extended sanitary areas for waste disposal, leachate treatment plant built), (FBiH MET)
- A plant for mechanical biological treatment MBT, municipal waste incinerator and power plant built (FBiH MET)
- Remove illegal landfills and rehabilitate existing areas under inadequately disposed waste (hazardous and non-hazardous waste) (Rehabilitated and removed illegal landfills (at least one a year) (FBiH MET)

#### **c. Activities planned in 2024**

- Financial support for the implementation of projects in industry that have an impact on environmental protection, (MEE RS and MSPCE RS),
- Financial support for energy efficiency and renewable energy projects in industry (FEPEE RS),
- Promoting the production and use of products with reduced environmental impact, and raising awareness of the importance of environmental protection (MSPCE RS and MEE RS).
- Improve systems for separate collection, disposal, recycling and reuse of waste throughout the FBiH (build green islands, transfer stations and recycling yards)
- Support for the construction and improvement of infrastructure at existing regional landfills for waste management (Extended sanitary areas for waste disposal, leachate treatment plant built, (FBiH MET)
- Build plants for mechanical biological treatment MBT, municipal waste incinerators and power plants (FBiH MET)

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<sup>60</sup> (The RF is primarily intended for the recycling economy as no-interest loans with subsidies for projects with the best results, as an incentive to the establishment of circular economy).  
The Joint Agreement on Green Circular Business Value Chains in the Western Balkans through the Memorandum of Understanding "Support provided in identifying and building of green & circular regional value chains to seize untapped economic potential aimed at supporting transition towards green & circular economy" (Western Balkans Common Regional Market Action Plan, CRM AP 2021-2024) (FMET)

- Remove illegal landfills and rehabilitate existing areas under inadequately disposed waste (hazardous and non-hazardous waste) (Rehabilitated and removed illegal landfills (at least one a year) (FBiH MET)

## 2. Results indicators

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Number of transposed and implemented EU Directives into domestic legislation			
Number of prepared proposals for laws and bylaws taken from EU Directives			
Incentives for the implementation of projects in industry that have an impact on environmental protection in RS	2,000,000	3,000,000	4,000,000
Number of promotions in RS	5	5	5
% of recycled waste out of the total placed in FBiH	n/a	tbc	tbc
% of hazardous industrial waste disposed of by export from the total produced in FBiH	69%	70%	71 %

## 3. Expected impact on competitiveness

Implementation of this measure in Republika Srpska will contribute to savings in energy and material consumption in the production process, increase corporate image in the domestic and foreign markets, acquire customers with developed environmental awareness etc., which will ultimately increase the competitiveness of companies.

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

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

Having in mind that this is a new measure and necessary support, for which no budget funds have been planned so far, it will be provided in the Republika Srpska within the competence of the RS MEE and from other available alternative sources of financing.

Establishing a system for adequate waste management in FBiH creates space for economic development in an environmentally sustainable way, and generates job creation, reducing demographic outflows, and creating healthier and better living conditions. It is expected that small and medium-sized enterprises will be established to collect and recycle special categories of waste, which will ultimately contribute to the creation of new jobs. One of the key sources of financing for the recycling economy should be the Revolving Fund under the Environmental Protection Fund of FBiH. This means that initial financial funds for the charging of the revolving funds will be partially secured from the fees, and partly from international funds.

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

The impact is indirect since increasing the competitiveness of companies affects the creation of conditions for higher employment and better social status of citizens.

## 6. Expected impact on the environment

In Republika Srpska, the measure has a direct impact on the environment, given that support is planned for the implementation of projects that reduce the harmful effects of industry on the environment.

The proposed activities are in the field of environmental improvement in the FBiH and all these activities will have a significant impact on the environment.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Unavailability of incentive funds from the RS budget.	high	Engagement in securing funds from other sources
Insufficient interest of the management of the companies in RS	low	Awareness raising related to the transition to a green and circular economy; Incentives for project implementation in industrial enterprises
Under capacitated environmental sector personnel in FBiH	High	Employment of new people
Under capacitated environmental inspections in FBiH	High	Employment of new people
Difficulties in establishing a reporting system in FBiH	High	Workshops, inspection control

### 5.2.2.2. Establishment of economic instruments in the field of environment and management of special categories of waste

#### 1. Description of measure

In the Republika Srpska, the goal of the measure is to develop and improve the management system of special categories of waste with the aim of moving towards a green transition, and creating conditions for improving the infrastructure for environmentally friendly management of special categories of waste. Establishing an organized waste collection system, switching to controlled disposal and promoting the reuse of waste that can be used as a secondary raw material would contribute to the development of a circular economy, as well as reduce pollution and burdens on all environmental media.

Furthermore, the establishment of economic instruments in the field of environmental protection would mean the introduction of the payment of fees for products that become special categories of waste after use. The collected funds would be used to ensure the development and improvement of management systems for this category of waste through strengthening control over the expenditure of collected funds, expenditure reporting system, ensuring adequate supervision, monitoring mechanisms, and the introduction of penal provisions. The provision of financial mechanisms is necessary for the adequate implementation of the legal framework in the field of environmental protection, i.e. waste management.

The proposed activities are in line with the goal of promoting the circular economy, so that their implementation ensures sustainable supply of raw materials and increases resource productivity, while establishing innovative and more efficient ways of production and consumption and introducing circularity in business models and improving waste management system.

In the FBiH, environmental policy defines and implements measures to improve the situation and reduce environmental pollution, while applying the instruments of economic development.

The fundamental reason for the introduction of economic instruments in environmental policy is the substitution of environmental damage caused by environmental degradation and excessive exploitation of resources. The legal basis for the establishment of financial mechanisms and economic, market instruments, are generally accepted principles of environmental law implemented in practice through laws and bylaws.

The "polluter pays" principle is the basis for defining financial mechanisms. This principle is often treated as a "cash recycling" model. The aggregation of collected funds and their intended use are key factors of environmental policy, which enables the creation of a "green budget" for financing projects and programmes aimed at protecting, preserving and improving the environment.

It is planned to adopt a new Law on the Fund for Environmental Protection and Energy Efficiency in FBiH, with the aim of establishing and strengthening the system of supervision over the use of economic instruments in the field of environment and energy efficiency. There was a need to amend the existing regulations on charges for air pollutants, and on fees for registration of motor vehicles and plastic bags with handles, which would significantly improve the existing "polluter pays" system and ensure a better link between actual pollution and the amount of fee. Lack of data for certain pollutants has been identified, which prevents monitoring, control, but also the provision of fees, where the Fund plans to create a database/register of devices and equipment containing ozone depleting substances (ODSs) and their alternatives - HVAC. In order to prevent the release of POPs into the environment, improve hazardous waste management, and to implement green chemistry initiatives in the plastics industry, improve agricultural waste management, and destroy identified stocks of POPs waste, a comprehensive inventory of POPs is planned (such as PCBs, dioxins and furans). One of the key measures is to respond to the challenges of climate change through the revolving energy efficiency fund with the aim of increasing investment in facilities and processes that contribute to reducing greenhouse gas emissions.

**a. Activities planned in 2022:**

- Establishment of a management system for special categories of waste for which the environmental pollution charge is paid, MSPCE RS, Fund for Environmental Protection and Energy Efficiency of the Republika Srpska - FEPEE RS and business entities),
- Establishment of an information system, within which waste management databases will be maintained and updated (FEPEE RS).
- Revival of the revolving fund for energy efficiency in FBiH
- Adoption of the Law on the Fund for Environmental Protection and Energy Efficiency in FBiH
- Amendment of the Decree on Air Pollutant Charges in FBiH
- Amendment of the Decree on motor vehicle registration fees in FBiH
- Amendment of the Decree on Fees for Plastic Bags in FBiH
- Development of software for the register of devices and equipment containing ozone-depleting substances (ODPs) and their alternatives – HVAC in FBiH

**b. Activities planned in 2023:**

- Development and improvement of the system of separate collection and recycling of special categories of waste, as well as further improvement of the information system (MSPCE RS, FEPEE RS and business entities),
- Keeping and updating the waste management database (MSPCE RS, FEPEE RS and business entities).

- Establishment of a mechanism for subsidizing successful energy efficiency projects financed from the revolving fund in FBiH
- Decree on fees for ozone depleting substances (ODS) in FBiH
- Establish a database / POPs inventory in FBiH
- Develop climate change monitoring software / module in FBiH

**c. Activities planned in 2024:**

- Improving the developed management system for special waste categories (MSPCE RS, FEPEE RS and business entities),
- Using technology in a way that ensures the rational use of natural resources, materials and energy (MSPCE RS, FEPEE RS and business entities).
- Decree on fees for disposal of municipal and industrial non-hazardous waste in FBiH
- Develop an environmental information system in FBiH

**2. Results indicators**

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Financing the establishment of the system in RS	No system	Partially established system	Established system
Fund for support of energy efficiency projects in FBiH established	NO (2020)	2022	YES
Reports from the cantons on the expenditure of funds in the FBiH	2021	2022	Number-10 all cantons
Information system implemented in FBiH	2021	2022	Number of IS users 100%

Establishment of EU standards in the field of environmental protection through reduction of environmental burden, adequate waste management system in line with the objectives of EU regulations, implementation of measures in the field of climate change, and established and efficient economic framework for financing environmental activities and measures.

Adequate environmental reporting systems are in place.

**3. Expected impact on competitiveness**

Establishment of economic instruments in the field of waste management in the Republika Srpska, with increased control over the expenditure of funds, would generate more efficient measures and activities implemented in the field, which would enable a more significant level of competitiveness to attract potential investors in all areas of environment and waste management.

Establishment of a legal framework for providing economic instruments in the field of environment and energy efficiency in the Federation of BiH, with increased control over expenditures, would generate more efficient measures and activities implemented in the field, which would enable a more significant level of competitiveness to attract potential investors in all areas of the environment, as well as in areas that have the potential to implement energy efficiency measures. The implementation of energy efficiency measures, through the activities of the construction sector in any case contributes to increasing GDP. Mobilization of domestic manufacturing capacities for the production of construction materials is an activity that would generate new jobs, employment, increase export potential, etc.



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

In accordance with the Law on Waste Management for manufactured or imported products in the Republika Srpska that become waste after use, a fee is paid for burdening the environment with special categories of waste, in order to cover the costs of establishing a management system for special categories of waste. The fee for special categories of waste is paid to the account of public revenues, allocated to the account of the Fund for Environmental Protection and Energy Efficiency of Republika Srpska, and the Fund spends it on improving the management system for special categories of waste, in accordance with the regulation governing environmental protection and regulations governing the management of special categories of waste, which indicates that FEPEE RS is the main source of funding for the establishment and improvement of the system.

Cost estimates, in accordance with the Waste Management Plan of the Republika Srpska 2019-2029, for the period up to 2024 amount to KM 15,207,000. Possible sources of funding are public and private sources. Public sources are the main source of financing of municipal infrastructure necessary for the realization of waste management facilities, as well as the facilities themselves (regional landfills, transfer stations, etc.). Private sources of funding are reflected through public-private partnerships, concessions or privatizations.

The estimated total amount of investments to achieve the objectives of managing special categories of waste for the period until 2024 is focused on the proposed measures to encourage separate collection and preparation for treatment or material or energy recovery of separately collected special types of waste; for the preparation of the necessary study and project documentation for the construction of facilities for the treatment of separately collected waste and centres for the collection of special waste categories, for the construction of centres for the collection of special types of household waste in each local government and for the construction of facilities for the treatment of separately collected waste.

The financial effects, and thus the establishment of a management system for special categories of waste, depend on the fees collected from payers, which is also affected by the difficult business conditions caused by the Covid-19 pandemic.

The costs of software development in the FBiH and the formation of databases for the environmental information system, i.e. in the first phase for the climate change monitoring module, which are estimated at around KM 500,000.00, have been identified. In addition, subsidizing successful projects should make the economic mechanism-revolving fund more attractive, especially for entrepreneurs/ private sector, which would initially amount to approx. KM 200,000.00 per year, where partnership and support of international institutions is expected.

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

Active support to employment in the Republika Srpska through production activities, professional training in labour and social integration programmes, creating educational programmes for people with special needs through their inclusion in work processes, providing waste management and reuse services to citizens.

The social character of these activities is the possibility of creating new jobs.

Implementation of this measure will lead to improved waste management, environmental protection and energy efficiency, which will generate new jobs in the FBiH.

## 6. Expected impact on the environment

The implementation of the measure in Republika Srpska will lead to the purposeful spending of collected funds charged from polluters and invested in the construction of infrastructure for managing special categories of waste, i.e. reusing special categories of waste which will have a positive impact on human health and the environment.

Implementation of this measure in FBiH will lead to better control of expenditures, purposeful spending of money and less burden on the environment.

## 7. Potential risks

Risk	Probability (low/high)	Planned mitigating action
Under capacitated inspection in RS	High	Strengthening inspection capacity
Insufficiently developed system of monitoring and information on generated waste in RS	High	Strengthening the system of monitoring and information on generated waste
Under capacitated environmental sector personnel in FBiH	Medium	Public administration reform in order to ensure the capacity of institutions in the field of environmental protection
Under capacitated environmental inspection in FBiH	Medium	Strengthening inspection capacity
Insufficient coordination of institutions in FBiH	Medium	Strengthening the coordination of institutions at the FBiH level

### 5.2.3. Digital transformation

#### a. Analysis of main obstacles

Given the importance of DT for the competitiveness of the BiH economy, this is becoming one of the priorities. By adopting the BiH Information Society Development Policy 2017-2021 as well as the Information Security Management Policy in the Institutions of Bosnia and Herzegovina for the period 2017-2022, BiH has clearly defined its strategic commitment to the development of the information society and improving information security in BiH.

First of all, the existing telecommunications regulations need to be harmonized with the EU Electronic Communications Regulatory Framework and the missing strategic documents adopted.<sup>61</sup>

According to the Network Readiness Index, Bosnia and Herzegovina is ranked 87th out of 134 countries in 2020, and compared to the countries in the region, Bosnia and Herzegovina is the worst ranked country. According to access to information and communication technologies, it ranks 91st out of 134 countries and the overall assessment of network readiness is still low. The E-readiness indicator monitors the development of the information society and at the same time represents a measure of society's inclusion in international digital flows and internal digital flows. In 2020, the penetration rate of Internet users increased slightly compared to the previous year and amounted to 94.5%, which is more than 94.3% in 2019.<sup>62</sup>

Taking into account the quality of Internet access services, especially from 2018 to 2020, significant technological progress has been made in the structure of broadband subscribers. In 2020, there was a growth of over 47.3% of FTTH connections, although ADSL (Asymmetric Digital Subscriber Line), although in a slight decline, is still the most represented access technology with a share of 54.5% of the total number of broadband connections. There has

<sup>61</sup> Global Information Technology Report 2019

<sup>62</sup> Communications Regulatory Agency, Annual Report for 2020

been visible progress in the implementation and increase of 4G network coverage, and in 2020 approvals were issued for the test use of 5G network in 100 MHz blocks in the range of 3.4 - 3.6 GHz. As part of the activities on the implementation of the Agreement on lowering the prices of roaming services in the Western Balkans region, the second phase of lowering prices was implemented from 1 July 2020.

Broadband services are constantly growing and the number of broadband subscribers out of the total number of Internet subscribers is 99.96%. The high presence of broadband internet is an encouraging fact in the development of the information society in Bosnia and Herzegovina.

The process of transition from analogue to digital broadcasting continues where Bosnia and Herzegovina is the only country in Europe where TV broadcasting is done exclusively through analogue technology.

BiH is at the very bottom of the business digitalization scale. The situation with SMEs is particularly unenviable. In addition, the implementation of existing strategic documents and laws in the field is slow, which limits the digitalization and e-business of SMEs. One of the main obstacles to the digitalisation of SMEs is the digital knowledge gap, caused by the low level of digital literacy among owners, managers and employees.<sup>63</sup>

In this regard, the Federation of BiH has recognized these challenges that negatively affect the business environment and will focus its efforts in this area on support programmes for digitalization of SMEs and improving the process of one-stop-shop registration of business entities. Since the existing Law on Encouraging the Development of Small Business in the Federation of BiH did not provide for the obligation of minimum allocations from the Budget of the Federation of BiH, which is in a sense an obstacle to faster and better development of small business. Its amending is being worked on, especially in the part related to the increased and prescribed minimum financial allocations from the Budget of the Federation of BiH to the SME sector. When it comes to entrepreneurial infrastructure, there is a challenge of non-existence of legal regulations that would govern this area, which would provide a systematic approach to the development of all forms of entrepreneurial infrastructure as one of the most important segments of economic development and business climate in the Federation of BiH. Also, within the framework of social entrepreneurship, the plan is to initiate activities on drafting legal regulations in order to have this area of entrepreneurship legally regulated for the first time in the Federation of BiH.

In relation to the state level and the Federation of Bosnia and Herzegovina, the Republika Srpska has made a certain step forward in terms of adopting and implementing the legal framework. The Republika Srpska has adopted the Strategy for the Development of the Electronic Government of the Republika Srpska, and a number of laws that define or facilitate electronic business, but also define information security and protection of critical infrastructure in the territory of the Republika Srpska. Established strategic goals in this area are the basis for further development of e-government and supporting ICT infrastructure, i.e. the development of horizontal building blocks, such as a single interoperable information system, electronic payment platform, strengthening trust services, i.e. digital identity management, platform for qualified electronic delivery "e-mailbox", e-government portal, etc. This requires significant financial investment, but co-operation activities with international organizations are planned, which should contribute to faster implementation. Optimization of administrative procedures in the Republika Srpska resulted from the analysis of procedures identified in the single register of permits, certificates, decisions issued by the administrative bodies of the Republika Srpska,

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<sup>63</sup> European Commission (2020a), "Digital Economy and Society Index (DESI) 2020: Thematic chapters", European Commission

so proposing and implementing simplified procedures aims to reduce costs and time for the business community.

Having in mind the modern tendencies in the world related to industry, in the Republika Srpska there will be a promotion of digital transformation in the field of industry with the aim of acquainting employees with global trends and the importance of DT for business improvement. The DT process requires education and consulting programmes for companies on how to apply digital solutions in industry and their importance for increasing competitiveness, and special efforts will be focused on providing financial incentives to support DT companies. All this is defined as a priority by the strategic document "RS Industry Development Strategy" 2021-2027.

BiH has an underdeveloped ICT sector, and is therefore uncompetitive as it has a number of obstacles to regional economic integration, including the implementation of a multi-annual action plan for the Regional Economic Area (REA MAP) in relevant areas.

Some of the main obstacles are:

- There is a lack of laws, policies and strategies governing the area that are in line with relevant EU legislation;
- There is no network built with sufficient coverage of the territory, which provides sufficient speeds of services and meets the prescribed security criteria;
- There is a lack of developed electronic services for all citizens;
- Insufficiently developed e-government;
- Insecure services and systems against threats and abuse, which includes the area of cyber security.

#### **b. Reform measures**

##### **5.2.3.1. Improving the communications and information society sector while harmonizing the regulatory framework with EU**

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

Adoption of laws, policies, strategies and bylaws for the ICT sector in BiH. All regulations must be harmonized with EU regulations to the maximum extent possible.

Drafting of all regulations is defined by the MTWP of the CoM of BiH for the period 2022-2024.

###### **a. Activities planned in 2022**

Development and adoption of:

- Law on Cyber Security and Security of Network and Information Systems /MCT BiH;
- Law on Electronic Identification and Trusted Services for E-transactions/MCT BiH;
- E-Government Development Strategy in Bosnia and Herzegovina /MCT BiH and GS CoM BiH;
- Broadband Access Strategy/MCT BiH

###### **b. Activities planned in 2023**

Development and adoption of:

- Law on E-communications and Law on E-media/MCT, CRA, DEI, relevant entity-level and DB BiH bodies;

### c. Activities planned in 2024

- Broadband Infrastructure Mapping/CRA, MCT BiH, relevant entity-level and DB BiH bodies, telecommunications operators

Development and adoption of:

- Strategy for Information Society Development in Bosnia and Herzegovina /MCT BiH;

### 2. Results indicators

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Legislation of BiH aligned with EU standards	20%	40%	75%
Territorial coverage of BiH by broadband services	40%	50%	60%

### 3. Expected impact on competitiveness

Economic growth will be stimulated by introducing new services and openness to investment, the conditions needed to create new jobs will be created, the productivity of existing work processes will be increased, as well as revenues and return of investments. Investments in the area of broadband access directly impact the growth of the gross domestic product, competitiveness of all sectors of the economy and improved quality of life of the citizens.

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

Estimate the annual additional cost of the implementation of all the activities of the measure. State the source of financing used to cover the full costs. However, do not mention the specific donor or lender by name.

It will be defined later, on/ after the Workshop on Exchange of knowledge on determining the costs of structural reforms: ERP 2022-2024“;

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

Explained under 3. Expected impact on competitiveness

### 6. Expected impact on the environment

The measure is neutral in terms of impact on the environment

### 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
CoM BiH and PA BiH not adopting the legislation	High	Inform the public about the importance of adopting the prepared legislation

### 5.2.3.2. Implementing the digital transformation of industry and small and medium sized enterprises

#### 1. Description of measure

The FBiH Ministry of Development, Entrepreneurship and Crafts will undertake a series of activities aimed at strengthening the competitiveness of small and medium sized enterprises

through the development of digitized business solutions to adapt to the COVID-19 situation such as implementation of systems based on Cloud technology, CRM and ERP systems, business process automation, introduction of artificial intelligence and virtual reality technologies, introduction of the "smart factory" concept, etc. The most important support schemes for small and medium sized enterprises that we plan to implement in the coming period are: the allocation of credit and grant funds. The loan funds, in cooperation with the Development Bank, will be placed with an interest rate of up to 1% for a period of 7 years. Grant funds in the next three years will be awarded through projects: strengthening competitiveness, support to newly established small businesses, and incentives for crafts. As part of these support projects, we planned to assist the SME sector in introducing digital transformation within their business. Also, within the credit-guarantee fund, we carry out activities to support SMEs in providing guarantees in the amount of 50% on loans from commercial banks, and additionally within this programme we support the regression of interest on this type of loan for interest rates up to 4.5%.

Having in mind the modern tendencies in the world in the field of industry, it was necessary for companies in the Republika Srpska to carry out the process of digital transformation of their business as soon as possible and to the greatest extent possible. Digital transformation includes numerous digitization projects, from the automation of business processes and the development of digital skills in employees, to the digitization of the logistics, production, marketing or sales segment of their business. Given that companies lack financial resources and adequate knowledge to implement this process, it is necessary to provide support from the competent institutions and other relevant actors. This measure will promote the digital transformation of the industry, i.e. introduce employees in companies with global trends, the importance of digital transformation for their business and existing digital solutions that can improve their business, in order to increase awareness of the need for digital transformation and better information about the importance and opportunities of digital transformation. Also, a programme of education and consulting of companies on the application of digital solutions in industry will be implemented, within which trainings will be held and direct advisory services will be provided on possible digital solutions that can increase the competitiveness of companies. In addition to informational and advisory support, it is necessary to provide financial incentives to support digital transformation in companies, for the needs of implementation of certain digital solutions, procurement of equipment, financing of digital advisors, etc. The implementation of this measure is envisaged by the strategic document: "Industry Development Strategy of the Republika Srpska for the period 2021-2027".

**a. Activities planned in 2022**

- Implement the programme: "Strengthening the competitiveness of SMEs" in order to digitize the business of the SME sector (FBiH MDEC)
- Implement the programme: "Incentive for Start up" (FBiH MDEC)
- Promote the implementation of digitalization in industry (MEE RS, MSTDHEIS RS and the Chamber of Commerce of Republika Srpska - CC RS),
- Education and consulting of companies on the application of digital solutions in industry (CC RS, MEE RS, MSTDHEIS RS),
- Encourage digitalization in industrial companies (MEE RS).

**b. Activities planned in 2023**

- Implement the programme: "Strengthening the competitiveness of SMEs" in order to digitize the business of the SME sector (FBiH MDEC)
- Implement the programme: "Incentive for Start up" (FBiH MDEC)

- Promote the implementation of digitalization in industry (MEE RS, MSTDHEIS RS and the Chamber of Commerce of Republika Srpska - CC RS),
- Education and consulting of companies on the application of digital solutions in industry (CC RS, MEE RS, MSTDHEIS RS),
- Encourage digitalization in industrial companies (MEE RS).

#### **c. Activities planned in 2024**

- Implement the programme: "Strengthening the competitiveness of SMEs" in order to digitize the business of the SME sector (FBiH MDEC)
- Implement the programme: "Incentive for Start up" (FBiH MDEC)
- Promote the implementation of digitalization in industry (MEE RS, MSTDHEIS RS and the Chamber of Commerce of Republika Srpska - CC RS),
- Education and consulting of companies on the application of digital solutions in industry (CC RS, MEE RS, MSTDHEIS RS),
- Encourage digitalization in industrial companies (MEE RS).

## **2. Results indicators**

<b>Indicator</b>	<b>Baseline (year)</b>	<b>Intermediate target (year)</b>	<b>Target (year)</b>
Realized investments in SMEs in digitalization in FBiH	KM 3,500,000	4,000,000 KM	KM 4,500,000
Number of promotions of digital transformation of industry in RS	5	5	5
Amount of incentives for digital transformation of RS industry	1,000,000	1,000,000	1,000,000

## **3. Expected impact on competitiveness**

The planned activities to accelerate the development of digital solutions in the business of small and medium sized enterprises will in any case have a positive impact on their competitiveness. Facilitated access to more favourable financial resources, as well as increased budget allocations for small and medium sized enterprises in the last two years of this three-year period, will further contribute to strengthening the market position of the private sector in the Federation of BiH.

Implementation of this measure in Republika Srpska will contribute to increasing the degree of business automation, speeding up business processes, reducing business costs, improving connections and communications, shortening data processing time and strengthening the company's internal capacity for digital business, which will ultimately increase the company's competitiveness.

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

These activities will be carried out by the staff of the FBiH Ministry of Development, Entrepreneurship and Crafts, so that the implementation costs will be regular costs for salaries of employees (there will be no additional costs), except for funds provided in the Budget of the Federation of BiH for financial support to small and medium sized enterprises.

The funds planned for this measure are KM 7,330,000 in 2022, KM 8,500,000 in 2023 and in 2024, and KM 8,500,000 in 2024.

Bearing in mind that this is a new measure in the Republika Srpska and the support required, for which no budget funds have been planned so far, it will be provided within the competence of the RS MEE and from other available alternative sources of funding.

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

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

In the Republika Srpska, the impact is indirect, since improving the competitiveness of companies affects the achievement of better business results of companies, and thus the creation of conditions for higher employment, better social status of employees and poverty reduction.

## **6. Expected impact on the environment**

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

The measure has an impact on the environment in the Republika Srpska, given that the application of modern business processes and solutions reduces the harmful effects of industry on the environment.

## **7. Potential risks**

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Untimely payment of planned financial resources from the Budget of the Federation of BiH	low	Seek financial support from alternative sources
There is a risk of a lack of planned funding in the FBiH		-
Unavailability of incentives for digital transformation of industry in RS	high	Engagement in securing funds from other sources
Insufficient interest of the management of the company for digitalization in RS	low	Promoting the digital transformation of the industry; Incentive measures for the implementation of digitalization in industrial enterprises

### **5.2.3.3. Electronic government of Republika Srpska – the path to a digital society**

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

In the Republika Srpska, at the end of 2020 and the beginning of 2021, the planned measures for the establishment of a National Centre for Digital Identity Management within the Ministry of Scientific and Technological Development, Higher Education and Information Society (MSTDHEIS) were implemented, i.e. the basic public key infrastructure (PKI infrastructure) and a qualified Certification body of MSTDHEIS established.

In the field of development of electronic services during 2021, the project of electronic registration of childbirth project "e-baby" was implemented, activities on the application of the concept of "smart city", which refers to the establishment of a system of unified billing and collection of utility costs from local government units and online registration of business entities. In the segment of information security during 2021, activities continued on strengthening the infrastructural and human capacities of the Operational Centre for



Information Security with the aim of improving the automated supervision of the key IC infrastructure of the Republika Srpska administrative bodies.

**a. Activities planned in 2022:**

- Preparation and adoption of legal acts (Law on e-government and Law on information security) that will improve the field of e-government and information security in the Republika Srpska (MSTDHEIS RS),
- Application and maintenance of information systems for project management of e-government development and supervision in the field of information security (MSTDHEIS RS),
- Improving the capacity of MSTDHEIS and e-Government of the Republika Srpska to manage the process of digital transformation of public administration, digital identities and information security of the Republika Srpska (MSTDHEIS RS).
- Activities of conceptual design and development of key ICT infrastructure of e-government (single interoperable information system, platform for electronic payment, platform for qualified electronic delivery e-mailbox, RS cloud, e-government portal etc) (MSTDHEIS RS),
- Application and maintenance of information systems for project management of e-government development and supervision in the field of information security (MSTDHEIS RS),
- Improving the capacity of MSTDHEIS and e-Government of the Republika Srpska to manage the process of digital transformation of public administration, digital identities and information security of the Republika Srpska (MSTDHEIS RS),
- Analysis of possibilities and introduction of incentive measures for business entities in the field of ICT in the Republika Srpska (MSTDHEIS RS).

**b. Activities planned in 2023–2024**

- Coordination of activities of analysis, selection and digitalization of administrative procedures for which there is a built key ICT infrastructure and digital readiness of public administration bodies for electronic provision of services to citizens and business entities (MSTDHEIS RS).
- Activities of conceptual design and development of key ICT infrastructure of e-government (single interoperable information system, platform for electronic payment, platform for qualified electronic delivery e-mailbox, RS cloud, e-government portal etc) (MSTDHEIS RS),
- Application and maintenance of information systems for project management of e-government development and supervision in the field of information security (MSTDHEIS RS),
- Improving the capacity of MSTDHEIS and e-Government of the Republika Srpska to manage the process of digital transformation of public administration, digital identities and information security of the Republika Srpska (MSTDHEIS RS),
- Analysis of possibilities and introduction of incentive measures for business entities in the field of ICT in the Republika Srpska (MSTDHEIS RS).

**2. Results indicators**

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Prepared and adopted legal acts that improve the field of e-government and information security of the Republika Srpska	2022	2023	2024

The e-government of the Republika Srpska is developing a key ICT infrastructure for providing e-services to citizens and businesses	2022	2023	2024
Developed information systems for providing e-services to citizens and business entities (e-baby, smart city, online registration of business entities, etc.) are continuously maintained and improved in RS	2022	2023	2024
Developed information systems for e-government project management and supervision in the field of information security are continuously maintained and improved in RS	2022	2023	2024
Improved capacities of the certification body MSTDHEIS with the aim of mass production of qualified electronic certificates for electronic signature and electronic seal and expanded services provided to citizens and businesses in the RS	2022	2023	2024
Improved capacity of MSTDHEIS and e-government of Republika Srpska to manage the process of digital transformation, digital identities and information security in RS	2022	2023	2024
Incentive measures for business entities in the field of ICT in the Republika Srpska have been determined and introduced, the efficiency of which is continuously analyzed in the RS	2022	2023	2024

### 3. Expected impact on competitiveness

It is estimated that a country can increase its own GDP by 1% thanks to a 20% increase in ICT investment. Efficient and transparent provision of e-services to citizens and businesses allows a simple and secure market entry process and significantly faster procedures.

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

The planned funds for the implementation of these activities are KM 20,000,000. A small part (KM 1,000,000) of funds is planned in the budget of the Republika Srpska. The rest of the funds for the implementation of this reform measure are planned to be provided from credit and donor funds.

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

Simple and safe procedure of entering the market and significantly faster procedures will directly affect the reduction of time and costs of business entities and entrepreneurs, which will provide the preconditions for new employment in the Republika Srpska, without gender restrictions.

### 6. Expected impact on the environment

There is no impact on environmental protection.

### 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
A large number of participants in the process in RS	High	Active dialogue, promotion of positive outcomes of the implementation of the measure
Dependence of realization on the dynamics and volume of funds in RS	High	Finding alternative sources of funding

#### **5.2.4. Business environment and reduction of the informal economy**

**See Main Obstacle No. 2: Improve the business environment through closer cooperation and coordination at all levels of government**

#### **5.2.5. Research, development and innovation**

Efforts are being made in BiH in this area to create a stimulating, innovative, developmental and sustainable environment. The direction that BiH intends to follow in this regard is smart specialization. This means using existing knowledge and competencies to increase competitiveness and using innovation to stimulate economic growth. Although R&D and innovation are one of the most important conditions for competitiveness, the growth and progress of investment in BiH in this area is still very low compared to other EU countries. The latest data show that BiH invests 0.02% of GDP in this area, which is far below the EU average (2.4%). Insufficient funds are the most common reason for the lack of innovative activities in companies in BiH. Due to a lack of skills, a fragmented labour market and a low level of integration into global knowledge flows and value chains, foreign direct investment is not targeted at knowledge-based sectors. An additional challenge is the brain drain, because in attracting talents, BiH is losing the race with countries that offer better conditions. This is confirmed by the fact that in BiH the cooperation between universities and the R&D industry is not at the appropriate level because in this respect BiH is ranked 119th out of 132 countries<sup>64</sup> which is a significant weakness in this area. In addition to this, according to the Global Innovation Index 2021 (GII 2021), Bosnia and Herzegovina is ranked 75th out of 132 countries. These are indicators of the need for reforms in this area.

This year, BiH has a better score in investing in innovation than in the area of innovation. In terms of investment in innovation, Bosnia and Herzegovina ranks 70th, better than in 2020 and 2019, and in terms of score resulting from the use of innovation, Bosnia and Herzegovina is ranked 80th.

One of the identified challenges is also the inefficient management system of scientific research and innovation potential in BiH. This is supported by the fact that BiH currently does not have a database of available capacities of scientific research institutions, their legal status, staffing, funding methods, etc. The positive thing is that in the previous decade, in the field of R&D and innovation, the quality of research and development statistics that follows the Eurostat methodology has significantly improved, which enables monitoring of the situation in the field.

In this area, BiH aims to reduce the disproportion between the existing potentials and the level of their utilization, so that the economy will be based on the principles of sustainable development, i.e. profession, science, knowledge, skills, innovation and environmental protection. However, this cannot be achieved without the transfer of knowledge, experience, new technologies that increase competitiveness, because the absorption of knowledge is also one of the obstacles in this area (118th position out of 132 countries, GII, 2021). Given the World Economic Forum estimates that close to 60% of children currently attending primary school will have occupations that do not exist today, improving curricula for science, technology, engineering and mathematics in primary and secondary schools is crucial, as well as efforts to reducing the gap between the labour market and higher education institutions. More precisely, the creation of new market-relevant knowledge and skills and the definition of measures to improve the environment that will be stimulating for innovation and entrepreneurial activity are the course that BiH is taking in this area.

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<sup>64</sup> World Intellectual Property Organization, Global Innovation Index 2021.

Republika Srpska will work on establishing a more efficient system for managing scientific research and innovation potential. Aware of the fact that higher education is an important segment of the overall education system, MSTDHEIST focused its activities on linking higher education with the needs of the labour market, training of quality and deficient staff as a basic resource of a competitive knowledge-based economy, supporting international mobility of teachers and students and improving the student standard.

A special contribution to the quality in this area is given by new laws and bylaws in the field of higher education, which are harmonized with the existing normative framework of science and technological development, thus addressing the previously identified obstacles (Law on Higher Education of the Republika Srpska<sup>65</sup>, Law on Quality Assurance in Higher Education of the Republika Srpska<sup>66</sup>).

The biggest obstacles in the field of research, development, innovation and higher education in the Republika Srpska are: low orientation of scientific research towards the economy, insufficient number and unfavourable structure of researchers and research institutions, low level and quality of scientific productivity, incompatibility of enrolment policies with labour market requirements, insufficient cooperation of scientific research and innovation community with the economy, modest investments in research and development, the lack of interest of the economy in investing in research centres that can encourage and promote the development of innovation, as well as resistance of scientific research and academic communities towards competitive institutional and project funding.

#### **b. Reform measures**

##### **5.2.5.1. Establishing a more efficient management system for scientific research and innovation potential in the Republika Srpska**

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

Aware of the fact that higher education is an important segment of the overall education system, MSTDHEIST focused its activities on linking higher education with the needs of the labour market, training of quality and deficient staff as a basic resource of a competitive knowledge-based economy, supporting international mobility of teachers and students and improving the student standard.

###### **a. Activities planned in 2022:**

- Encouraging cooperation of the scientific research and innovation community with the economy by financing projects that will find direct application in the economy (MSTDHEIST RS),
- Development of electronic platforms for connecting young scientific and research staff in the country and the diaspora, educational institutions and the economy (MSTDHEIST RS, MEIIC RS),
- Adoption of the Smart Specialization Strategy of the Republika Srpska 2021–2027 (MSTDHEIST RS),
- Establishment of the Centre for Science and Scientometrics, in cooperation with the National and University Library of the Republika Srpska (MSTDHEIST RS, NULRS).

###### **b. Activities planned in 2023:**

- Introduction of new study programmes/short study programmes (MSTDHEIST RS),

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<sup>65</sup> Official Gazette of the Republika Srpska 67/20.

<sup>66</sup> Official Gazette of the Republika Srpska 67/20.

- Adoption of the Law on the Science and Innovation Fund of the Republika Srpska (MSTDHEIST RS).

**c. Activities planned in 2024:**

- Establishment of the Science and Innovation Fund of the Republika Srpska (MSTDHEIST RS),
- Comparative analysis of the previous and new management system of scientific research and innovation potential of the Republika Srpska (MSTDHEIST RS),
- Further improvement based on the results of the previous analysis (MSTDHEIST RS).

**2. Results indicators**

Indicator	Baseline (year) 2022	Intermediate target (year) 2023	Target (year) 2024
Greater application of innovative processes or products <sup>67</sup> in RS	530 innovatively active companies in RS	570 innovatively active companies in RS	650 innovatively active companies in RS
Increased scientific research productivity <sup>68</sup> in RS	420 realized research and development papers annually	460 realized research and development papers annually	520 realized research and development papers annually
Innovated study programmes, harmonized with the needs of the labour market in RS	50% of study programmes harmonized with the labour market needs	70% of study programmes harmonized with the labour market needs	100% of study programmes harmonized with the labour market needs
Reduction of the average number of years of study <sup>69</sup> in RS	Reduction of the average number of years by three months	Reduction of the average number of years by one semester	Reduction of the average number of years by one academic year
Increased competitiveness of the economy of Republika Srpska <sup>70</sup>	The share of innovation-active companies that have simultaneous product and business process innovation in the total number of innovation-active companies is 60%	The share of innovation-active companies that have simultaneous product and business process innovation in the total number of innovation-active companies is 65%	The share of innovation-active companies that have simultaneous product and business process innovation in the total number of innovation-active companies is 70%

**3. Expected impact on competitiveness**

The application of innovative processes or products, taken over or developed within a business entity, has a strong financial effect and results in intensive growth and development, such as increased employment in scientific and research activity and job creation in the real sector, as well as harmonizing the currently unfavourable structure of (primarily highly educated) potential in relation to the needs of the labour market, as one of the strongest obstacles to the competitiveness of the economy of the Republika Srpska.

<sup>67</sup> Projections made according to statistical data:

[https://www.rzs.rs.ba/static/uploads/saopstenja/istrazivanje\\_i\\_razvoj\\_i\\_inovacije/inovativna\\_aktivnosti\\_preduzeca/Inovativne\\_Aktivnosti\\_P\\_reduzeca\\_2018\\_2020.pdf](https://www.rzs.rs.ba/static/uploads/saopstenja/istrazivanje_i_razvoj_i_inovacije/inovativna_aktivnosti_preduzeca/Inovativne_Aktivnosti_P_reduzeca_2018_2020.pdf)

<sup>68</sup> Projections made according to statistical data:

[https://www.rzs.rs.ba/static/uploads/saopstenja/istrazivanje\\_i\\_razvoj\\_i\\_inovacije/istrazivanje\\_i\\_razvoj/2020-2021/IstrazivanjeIRazvoj\\_2020.pdf](https://www.rzs.rs.ba/static/uploads/saopstenja/istrazivanje_i_razvoj_i_inovacije/istrazivanje_i_razvoj/2020-2021/IstrazivanjeIRazvoj_2020.pdf)

<sup>69</sup> The effect of the new Law on Higher Education, in the part related to the exemption from tuition fees and special incentives for completing studies on time..

<sup>70</sup> In the period 2018-2020, 26.2% of companies in the Republika Srpska carried out at least one of the innovative activities (product innovation, business process innovation, simultaneous product and business process innovation), while 73.8% of companies did not implement innovative activities at all.

[https://www.rzs.rs.ba/static/uploads/saopstenja/istrazivanje\\_i\\_razvoj\\_i\\_inovacije/inovativna\\_aktivnosti\\_preduzeca/Inovativne\\_Aktivnosti\\_P\\_reduzeca\\_2018\\_2020.pdf](https://www.rzs.rs.ba/static/uploads/saopstenja/istrazivanje_i_razvoj_i_inovacije/inovativna_aktivnosti_preduzeca/Inovativne_Aktivnosti_P_reduzeca_2018_2020.pdf)

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

In the period 2022-2024, and in accordance with the planned activities, it is necessary to allocate a total amount of KM 2,000,000. The funds are planned by the Framework Budget Document of the Republika Srpska for the mentioned period.

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

Increasing employment in scientific research and creating new jobs in the real sector in the Republika Srpska certainly have a positive impact on increasing the employment rate and reducing poverty. In terms of gender equality, this measure is extremely positive, as its implementation implies a more efficient transfer of knowledge and skills and is not limited to a specific population group.

#### **6. Expected impact on the environment**

A positive impact on the environment is expected, as a result of strong joint action of all three sectors in finding solutions to problems in this area of research in the Republika Srpska.

#### **7. Potential risks**

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Risk of lack of institutional cooperation in RS	High	Active dialogue, promotion of positive outcomes of the implementation of the measure
Stagnation or further decline in investment in scientific research, higher education and student standards in RS	High	Alternative funding model, encouraging and supporting organizations that invest their own funds in research

### **5.2.6. Economic integration reforms**

Bosnia and Herzegovina is still not fully integrated into the international economic system, as despite the conclusion of negotiations, WTO membership has not yet been formalized. On the other hand, the main integration processes when it comes to the economic integration of Bosnia and Herzegovina are related to the EU through the Stabilization and Association Agreement, and regional integration within CEFTA. Some indicators point to some progress in trade integration with the world, given that the share of foreign trade in GDP in the pre-pandemic period was over 90%. However, the share of exports in GDP of about 40%, the share of imports of 53% of GDP and a permanent foreign trade deficit of over 13% indicate both a low level of international competitiveness and insufficient trade integration with the world. This is especially evident when Bosnia and Herzegovina is compared to the countries of Central and Eastern Europe, given that most of these countries have a share of exports in GDP of over 70%. If we look more closely at the structure of foreign trade, it can be concluded that the export supply of Bosnia and Herzegovina is quite modest with a narrow range of low value-added products that are placed in a small number of export markets. When it comes to export markets, it is evident that BiH exports are highly concentrated towards EU countries with a share of about 75% and countries in the region within CEFTA of about 15%. The spread of the global Covid-19 pandemic in the first wave had a very negative impact on foreign trade in BiH, given that in 2020 total foreign trade decreased by about 15%, with exports falling by 16% and imports falling by about 13.5%. However, as early as the beginning of 2021, there was a significant improvement in foreign trade with the world, especially in the field of exports, where the registered growth rate was about 30%.

Inadequate and uncoordinated harmonization of the legal and institutional framework is a major obstacle to increasing BiH exports to the EU single market. Although this problem has been recognized by the relevant institutions, very few concrete steps have been taken to expand and deepen Bosnia and Herzegovina's trade integration into the EU's single market.<sup>71</sup> There is still no unified quality infrastructure strategy at the level of Bosnia and Herzegovina, which would enable export-oriented companies to realize their potential in export markets, increase total exports from the country, strengthen economic growth and ultimately improve the living standards of citizens. The lack of a comprehensive quality infrastructure strategy not only jeopardizes further trade integration with the EU, but largely hinders integration into the single regional market of the Western Balkans, which Bosnia and Herzegovina joined at the November 2020 summit in Sofia. When it comes to improving regional trade integration, it is worth noting that Bosnia and Herzegovina has committed itself to implement the commitments under Additional Protocol 5 "Trade Facilitation" and Protocol 6 "Trade in Services" under the CEFTA agreement as soon as possible.

The measure: "Regulating the field of real estate brokerage" is planned in the ERP RS 2019-2021 and rolled over through the ERP RS 2020-2022 and ERP RS 2021-2023. The objectives of this measure are: 1) Drafting and adoption of the law on real estate brokerage, 2) Establishment of a register of persons engaged in real estate brokerage, monitoring the effects of the law on reducing the gray economy, growth and development of this activity and protection of real estate trade participants, and 3) Updating the register of persons engaged in real estate brokerage, monitoring the effects of the adopted law on the reduction of the gray economy, growth and development of this activity and protection of real estate trade participants. Bearing in mind that the Law on Real Estate Brokerage was adopted in 2020, and that in 2021 bylaws provided by the Law were adopted, including the bylaw: "Rulebook on the content and manner of keeping the register of real estate brokers", which enables the establishment of the Register of Brokers, this register has been established..

#### **5.2.6.1. Strengthening the quality infrastructure and developing the legal and planning framework in the sector of free movement of goods according to the EU model in the Republika Srpska**

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

Measure on strengthening the quality infrastructure and developing the legal and planning framework in the sector of free movement of goods (EU Chapter 1) entails continuation of harmonization of domestic legislation on products in line with the *acquis*, EU principles and modern standards and continued removal of the so-called "conflicting" SFRY regulations and JUS standards with mandatory application from the legal system of the Republika Srpska. This measure includes the continuation of the establishment of the Register of Applicable Regulations and the Information Point for Regulations for Standards and designated certification bodies of the Republika Srpska and the Notification Point for regulations in preparation, which are the obligation of the European integration process (EU and CEFTA / WTO requirements) and the continuation of activities to meet the requirements of Articles 34, 35 and 36 of the Treaty on the Functioning of the European Union and preparations for the signing of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) with the EU. This reform measure contributes to the realization of goals and measures determined by the "Strategy for Quality Infrastructure of Products and Services of the

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<sup>71</sup> In the context of trade integration with the world, it is worth noting that the World Bank in its regular report "Doing Business 2020" in the chapter "trading across borders" ranked Bosnia and Herzegovina quite high on the 27th position out of 190 countries. This figure is quite surprising given the relatively low ranking of BiH in this report (90th position), as well as the obstacles identified and recognized in the reports on trade integration of Bosnia and Herzegovina.

Republika Srpska for the period 2019-2023", but also to free trade in goods, as one of the principles of the single economic market of the region, CEFTA, EU and WTO.

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

**a. Activities planned in the period 2022–2024:**

- Adoption of the Decree on the procedure for notification of regulations in preparation, standards and conformity assessment bodies in the Republika Srpska (MEE and Coordination Body for Quality Infrastructure in the Republika Srpska),
- Establishment and maintenance of an operational Register of regulations of the Republika Srpska, information point of regulations for businessmen, investors and administrative bodies and notification point of regulations of the Republika Srpska in preparation,
- Adoption and implementation of the plan for harmonization of regulations of the Republika Srpska with the requirements of Articles 34, 35 and 36 of the Treaty on the Functioning of the European Union,
- Adoption of the Guide for the implementation of the Republika Srpska regulations, which transposes the New Approach EU regulations.

**2. Results indicators**

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Level of harmonization of regulations of the Republika Srpska (horizontal and vertical) with the <i>acquis</i> Chapter 1 - Free movement of goods	60%	60%	80%
The level of operability and availability of the Register of applicable regulations and designated certification bodies of the Republika Srpska (software supported)	70%	90%	100%
Implementation of measures and activities from the "Strategy for quality infrastructure of products and services of the Republika Srpska for the period 2019-2023"	80%	80%	100%
Percentage of identified obstacles to free trade in goods in the regulations of the Republika Srpska (obligations under Articles 34, 35 and 36 of the Treaty on the Functioning of the EU)	20%	40%	60%

**3. Expected impact on competitiveness**

The expected impact is an increase in the number of domestic companies in the manufacturing sector that directly or indirectly export finished products to the EU and regional markets, as well as an increase in the number of domestic products that may have the "CE" mark (product certification), which allows them free access to EU markets and competition with EU and foreign products.

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

In 2022, it is planned to provide KM 360,000 of donor funds for the development of register management software, and other activities will be implemented with regular funds from the



budget of Republika Srpska, as defined in FBD RS 2022-2024, for competent institutions that will implement this measure. (MEIIC RS, MSPCE RS, MEE RS, MEM RS, MIA RS, MAFWM RS, MHSW RS, RSSMI RS, MTT RS).

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

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

## **6. Expected impact on the environment**

This measure is neutral.

## **7. Potential risks**

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
The risk of implementing the measure is reflected in the number of competent institutions involved in the RS	Low	Strengthening the role of the Coordination Body for Quality Infrastructure and MEIIC RS

### **5.2.7. Energy market reforms**

#### **a. Analysis of main obstacles**

BiH has a comparative advantage in the energy sector, especially in the field of hydropower. By active involvement in the Energy Community, Bosnia and Herzegovina confirms its commitment to energy sector reform, liberalization of the energy market and harmonization of its policy with the members of the European Union. Future investments in energy infrastructure, including thermal and hydro power plants, should be aligned with Bosnia and Herzegovina's obligations under the Stabilization and Association Agreement and the Energy Community Treaty.

The applicable strategic document in this area is the Framework Energy Strategy for Bosnia and Herzegovina, which determines the direction of energy sector development in BiH until 2035. In addition to the Framework Energy Strategy, the reference for the future development of the energy sector in Bosnia and Herzegovina, is the Climate Change Adaptation and Low-Emission Development Strategy, and the Plan for Climate Change Adaptation, which builds on the strategy. At the beginning of 2021, the Council of Ministers of Bosnia and Herzegovina adopted a document (nationally determined contribution of BiH to climate change mitigation) which confirms BiH's commitment to meeting the goals of the Paris Climate Agreement, i.e. reducing greenhouse gas emissions. The Integrated National Energy and Climate Plan of BiH (NECP) for the period 2021-2030 with projections until 2050, which will determine the future development of the energy sector with the ultimate goal stated in the Sofia Declaration, which is stated through achieving climate neutrality by 2050.

Available statistics of the energy sector for 2020 confirm the fact that the energy sector is one of the strongest sectors in BiH. Energy exports<sup>72</sup> accounted for 7% of total BiH exports in 2020 or KM 711 million, while imports amounted to KM 1.6 billion or 10% of total imports.<sup>73</sup>. The coverage of imports by exports in this category was 44%. (In 2019, the coverage of imports by exports in this category was 60%). Although BiH is a net exporter of electricity, the

<sup>72</sup> Source: BHAS, by major industrial groups by economic purpose

<sup>73</sup> Source: Agency for Statistics of BiH, Release, Foreign Trade of BiH in 2020

development of the electricity market with its neighbours is hampered by the lack of a fully harmonized legislative framework.

The lack of a state-level legal and regulatory framework for gas and electricity prevents the country from unbundling the transmission system operator, enabling an organized internal energy market and establishing a day-ahead market. BiH should urgently ensure alignment with the Third Energy Package in order to establish a functioning internal energy market for electricity and natural gas.

The Paris Climate Agreement, among other things, strengthened international cooperation mechanisms to reduce emissions, which BiH must use. Although it is a global impetus, the energy transition must be viewed in the context of local sustainable development. In this way, the energy shift towards increasing the use of the potential of renewable energy sources and increasing energy efficiency will be in the function of solving the problems of local communities such as poverty, poor infrastructure, endangered air quality, human rights, etc.

Republika Srpska will pay attention to improving the regulatory framework in the electricity sector and restructuring and reorganization of MH "Elektroprivreda Republike Srpske" ad Trebinje, which is a continuation of activities in accordance with the new Law on Electricity through the implementation of measures from the adopted Reorganization Programme MH "Elektroprivreda Republike Srpske" phase 1 (reorganization of distribution companies and establishment of public supply), and adoption of phase 2 (reorganization of generating companies).

## **b. Reform measures**

### **5.2.7.1. Energy and gas market development**

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

The coal sector is an important segment in the energy sector of Bosnia and Herzegovina. Of the country's total energy potential, coal accounts for more than 90%, making it currently the dominant energy potential. About 14 major mines are currently active in Bosnia and Herzegovina. In order to achieve long-term sustainability, it is necessary to put a great focus on the restructuring of the mine sector, the dynamics and direction of which need to be harmonized with the chosen strategy for the development of the thermal sector.

Strategic priorities in accordance with the Framework Energy Strategy of BiH until 2035 are:

- Transformation of the thermal sector as a precondition for further optimization of coal mine operations; Creating an institutional framework that will encourage the continuous improvement of coal mines; Development and implementation of programmes for restructuring and transformation of the coal mine sector.
- Improving production efficiency as a long-term solution for today's interventions in the production price of coal. The measure is planned to be implemented with the support of the World Bank in BiH through technical assistance. The measure is in line with the requirements of the EC in the coal sector.

The initiative covers 5 main programme areas, one of which is technical assistance in the country. Technical assistance in the country will be translated into the development of a road map for transition in the coal sector, aimed at guiding the country's transition programme. In June 2020, the World Bank Board agreed to consider Bosnia and Herzegovina as one of the recipient countries, given its recent expressed interest in support, in order to present the World Bank's global programme to support energy transition in coal regions and an overall approach to transition in the coal sector.

- Establish a common understanding of potential approaches to planning and preparing for the transition in the coal sector in the Republika Srpska and the Federation of Bosnia and Herzegovina
- Identify the next steps for possible technical assistance in the country by the World Bank

**a. Activities planned in 2022**

As the first Component, it is planned to strengthen the system.(MoFTER BiH, MEM RS and FBiH MEMI)

- Propose a governance structure to manage the energy transition in the coal regions;
- Mapping of energy transition stakeholders in coal regions;
- Think ahead about overcoming the constraints in the transition of the electricity sector and heating systems;

**b. Activities planned in 2023**

As a second component, the preparation of people and communities is planned

- Assess the transition-affected workforce to manage the redeployment and retraining of workers, based on the closure dates set by the authorities.

Ministries responsible for implementation of this activity are: the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina together with the the Ministry of Energy and Mining of the Republika Srpska, the Federal Ministry of Energy, Mining and Industry, the Federation of BiH Ministry of Environment and Tourism, the Federation of BiH Ministry of Labour and Social Policy, the RS Ministry of Spatial Planning, Construction and Environment, the RS Ministry of Health and Social Welfare, the RS Ministry of Labour and Protection of War Veterans and Disabled Veterans, Ministry of Finance and Treasury of BiH as well as entity ministries of finance and "local communities ", having in mind the revenues they generate on the basis of concession fees, they are inevitably competent.

**c. Activities planned in 2024**

As a third component, land and property conversion is planned

- Legislative review of the possibility of conversion of former mining lands and property
- Future land use scenarios for pilot areas
- Develop a strategic framework for land conversion planning

Ministries responsible for implementation of this activity are: the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina together with the The Ministry of Energy and Mining of the Republika Srpska, the Federal Ministry of Energy, Mining and Industry, the Federation of BiH Ministry of Environment and Tourism, the Federation of BiH Ministry of Labour and Social Policy, the RS Ministry of Spatial Planning, Construction and Environment, the RS Ministry of Health and Social Welfare, the RS Ministry of Labour and Protection of War Veterans and Disabled Veterans, Ministry of Finance and Treasury of BiH as well as entity ministries of finance and "local communities ", having in mind the revenues they generate on the basis of concession fees, they are inevitably competent.

## 2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2023)
Update and harmonize relevant legislation and regulations in order to create an institutional framework in accordance with good industrial practices Number of prepared proposals for laws and bylaws taken from EU Directives			

## 3. Expected impact on competitiveness

This will contribute to reducing negative impacts on the environment, increasing security of energy supply and creating new opportunities for growth and employment.

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

The transition of the energy sector in Bosnia and Herzegovina is a complex issue and a major challenge that should also be seen as a great opportunity for economic development if we take into account the funds and financing opportunities that open up with ambitious EU energy goals.

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

The complexity of the issue of energy transition in BiH can be observed through the fact that the energy sector in BiH has a long tradition, great potential and significant impact on the lives of the population. For example, in local communities where thermal power plants are located, the average salaries of employees are higher. Entire regions depend on the operation of domestic mines and old thermal power plants. Thus, it should be emphasized that the issue of the energy sector transition in BiH is a socially sensitive issue.

## 6. Expected impact on the environment

The negative effects of the energy sector on climate change are becoming increasingly apparent and are associated with increased concentrations of greenhouse gases (GHG). Given the geostrategic position of BiH as a neighbour of the EU, it is necessary to think in a timely manner about the CO<sub>2</sub> taxes that are being introduced in the EU, especially considering that BiH is an exporter of electricity that comes mainly from fossil fuels.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient cooperation of other competent institutions with the MoFTER (insufficient cooperation of competent entity and joint institutions in BiH due to the existence of different views on certain issues may lead to obtaining a negative opinion on certain agreements and not signing them, delays in providing answers and information, etc.) Impossibility to influence the duration of the process in other institutions (impossibility to influence the duration of the process in other institutions can lead to untimely receipt of information, i.e. to delays in providing the necessary answers and information)	High	Establish Working Groups composed of nominated representatives of the competent institutions, hold regular meetings and discussions, and agree on the positions of the institutions with real arguments.

### 5.2.7.2. Electricity market reform<sup>74</sup>

#### 1. Description of measure

The key reform measure in the field of electricity market in the Republika Srpska was implemented in 2021 through the adoption of the new Law on Electricity.

Another important reform is to reduce subsidies for renewable energy sources through the adoption of a new Law on Renewable Energy Sources in the first quarter of 2022 and increase competitiveness among producers of renewable energy sources by introducing auctions and limiting the power of electricity generating plants, which can provide an incentive in the form of mandatory purchase at a guaranteed purchase price, and by creating conditions for each electricity buyer to become a producer for their own needs, which will limit the growth of fees paid by end customers of electricity.

Restructuring and reorganization of MH "Elektroprivreda Republike Srpske" a.d. Trebinje - continuation of activities in accordance with the new Law on Electricity through proposing the Reorganization Programme of MH "Elektroprivreda Republike Srpske" where phase 1 (reorganization of distribution companies and the establishment of public supply) is implemented, and phase 2 is not implemented (reorganization of generating companies).

During 2021, the legal and partly functional unbundling of distribution and supply was carried out in accordance with the adopted Reorganization Programme of MH "Elektroprivreda Republike Srpske" phase 1 (reorganization of distribution companies and the establishment of public supply). The unbundling of distribution and supply activities was formally completed on 1 April 2021, when electricity distribution companies have completely stopped supplying customers. As part of Phase 1 of the Reorganization Programme, and with the aim of providing universal service, the Government designated MH "ERS" Parent Company a. d. Trebinje as a public supplier, and at the end of 2021 as a backup supplier. In this way, the parent company is obliged to provide a public service. In 2022, it is necessary to complete the process of reorganization of generating companies.

Connection with strategic documents:

- Energy Development Strategy of the Republika Srpska until 2035,
- a. Activities planned in 2022:**
  - Improving the regulatory framework in the electricity sector,
  - Restructuring and reorganisation of the MH "Elektroprivreda Republike Srpske" a.d. Trebinje.
  - Adoption of bylaws in accordance with the new Law on Renewable Energy Sources:
    - o Programme on the use of renewable energy sources (Government of RS),
    - o Decree on biofuels and other renewable fuels in transport. (Government of RS),
    - o Instructions on keeping a register of projects from renewable sources (MEM),
  - Implementation of the Law on Electricity (MEM, Energy Regulatory Commission of Republika Srpska, operators holders of licenses to carry out electricity activities),
  - Continuation of the restructuring and reorganisation of the MH "Elektroprivreda Republike Srpske" a.d. Trebinje through reorganising electricity generators,
  - Gradual increase in the share of the market price of electricity in the price determined for the public service.

<sup>74</sup> Although ERP 2020–2022 defined the area “Energy and transport market reform,” the activities of the line ministry and the Government of the Republika Srpska in the observed three-year period will focus on the implementation of the new Law on Electricity in line with the Third Energy Package. In the natural gas sector, a part of activities related to the improvement of the regulatory framework in this area has been completed with the adoption of the new Law on Gas (Official Gazette of Republika Srpska, 22/18), which is aligned with the Third Energy Package, and economic entities performing energy-related activities in the natural gas sector are aligning their internal acts with the new law. The natural gas market was opened on 1st January 2015.

## 2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
RS Law on Renewable Energy Sources adopted	2021	Limiting the growth of fees paid by end customers to encourage the production of electricity from renewable energy sources through the adoption of the new Law on Renewable Energy Sources, which introduces new incentive schemes (awarding premiums through auctions, reducing the power of plants that can achieve a guaranteed purchase price and enabling each customer to become a producer of electricity for their own needs). 2022	From mid-2022 - continuously
Vertical integration (level of vertical unbundling of each individual segment of the electricity sector) in RS	Distribution and supply within one legal entity (2020)	Supply legally and partially functionally unbundled from distribution (from 1 April 2021)	Supply is also functionally completely unbundled from distribution, and unbundling monitoring and control mechanisms are in place. (2022) <sup>75</sup>
Market structure (market share of the largest electricity company) in RS	100% (2020)	99% (2021)	97% (2022)

## 3. Expected impact on competitiveness

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

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

It is not possible to estimate the cost at this time.

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

In the event of a rise in electricity prices as a result of market formation of prices, it is expected that the result will be increased prices of some goods, services and living costs in households. Accordingly, there may be a negative impact on socially vulnerable categories of the population to the extent of the share of electricity expenditures in the households' budget. On the other hand, reorganisation of the MH "Elektroprivreda" of RS aimed at increasing its competitiveness presupposes an optimisation (reduction) of the number of employees in all companies in accordance with European standards. The measure will surely be reflected by an increase in unemployment. The law has no impact on gender and equality.

<sup>75</sup> The goal was partially achieved in 2021, because legal and partly functional unbundling was achieved. What follows is the process in which the functional unbundling will finally take place, and monitoring the implementation of unbundling measures under the Compliance Programme.

The adoption of the new Law on Renewable Energy Sources will have a positive effect on competition among electricity generators, increase the number of electricity generators who sell electricity on the market or use it for their own needs, which will limit the growth of fees paid by end customers.

## 6. Expected impact on the environment

The measure will have a generally positive impact, especially in the field of using renewable energy sources in the Republika Srpska.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Untimely adoption of bylaws in RS	Low	Intensify activities on the preparation of bylaws for adoption in the first half of 2022
Untimely development of the Phase 2 Reorganization Plan in accordance with the legal deadlines (2021) <sup>76</sup> by MH "Elektroprivreda RS"	Medium	It is necessary to establish an appropriate sustainable and fair internal mechanism for the distribution of revenues between electricity generators within the holding, on a new basis, which is not based on the current price regulation; It is necessary to find a timely solution in accordance with the laws, prescribed options and in coordination with the Management of MH "Elektroprivreda RS" MP a. d. Trebinje
Impossibility to reach an agreement between the management, trade unions and workers in MH "Elektroprivreda RS", related to the reorganization due to reduction of the number of workers or loss of certain rights or income from activities	High	Timely initiate talks between the trade unions and the management of ZP MH "Elektroprivreda RS" with the aim of harmonizing and reaching a compromise solution
Resistance of social partners to increases in electricity prices in RS (protests, strikes, riots, closures, job losses, social problems...)	High	Parts of society or the economy affected by rising electricity prices should have plans and programmes in response. A gradual phased increase in prices on an annual basis would reduce tariff shocks

## 5.2.8. Transport market reforms

### a. Analysis of main obstacles:

The planning document for the transport and infrastructure network in Bosnia and Herzegovina is the Framework Transport Strategy of BiH<sup>77</sup> which contains structural proposals for the development of the transport sector and capacity building programmes to align with long-term goals and strategic documents of the European Union in the field of transport. The adoption of the Framework Transport Strategy by the Council of Ministers of BiH provided access to financial support from the EU and international financial institutions for infrastructure projects. The Framework Transport Strategy of BiH 2016-2030 was developed in accordance with the Framework Transport Policy. Strategic goals are: compliance with EU standards and regulations; financial sustainability; minimal impact on the environment and compliance with information and security requirements.

<sup>76</sup> The first phase of the program related to the restructuring of distribution and supply has been completed, but the second phase related to production will probably be adopted with a delay, i.e. in 2022.

<sup>77</sup> The Framework Transport Strategy of Bosnia and Herzegovina 2016-2030 (Official Gazette of BiH, 71/16)

The impact of the COVID pandemic shows a significant decline in all indicators in road, rail and air transport in 2020. The largest number of passengers is still transported by road (86.6%)<sup>78</sup>. Statistics of goods transported by road and rail show a decrease in freight transport. In line with the European Green Deal, the use of multimodal transport needs to be encouraged and freight transport shifted from road freight to rail and freight by inland waterways.

The low quality of the general infrastructure is evident. According to the Global Competitiveness Report of the World Economic Forum (2019), Bosnia and Herzegovina is ranked 84th in the quality of general infrastructure (out of 141 countries), while the quality of transport infrastructure is in even worse (ranked 108). Insufficiently developed transport infrastructure affects the low level of traffic safety, especially in road transport. Analyzing the data on traffic accidents in the past 10 years (2010 - 2020), it is evident that the number of traffic accidents in road traffic, as well as fatalities, has decreased and increased several times. In the period 2017-2020, the number of traffic accidents showed a decreasing trend. The lowest number of fatalities in traffic accidents was recorded in 2020 (261).<sup>79</sup>

Air transport is slowly developing. According to the latest report from the World Economic Forum<sup>80</sup> airport connectivity is ranked 98th out of 141 countries, which is the same level as in the previous year. According to the air transport statistics<sup>81</sup> a total of 9,771 airport operations were carried out in 2020, which shows a 53.2% decrease compared to the previous year.

In order to bring the quality of transport infrastructure and services as close as possible to the quality in the surrounding countries, it is necessary to develop and improve the transport infrastructure and establish a sustainable financing system. In addition, the challenge for the Federation of BiH is to harmonize the current Law on Roads with traffic conditions and existing infrastructure in the field of transport and road infrastructure in order to regulate road safety in the Federation, as well as increased road load due to significant increase in vehicles on roads.

In the coming period, the Republika Srpska will focus its activities on completing the process of restructuring the Republika Srpska railways. These activities are a continuation of the project of the Government of Republika Srpska with the support of the World Bank.

## **b. Reform measures**

### **5.2.8.1. Transport market reform**

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

In accordance with the Framework Transport Strategy of BiH, as the basic document for the development of the transport system of BiH, as well as the Agreement on the Transport Community, it is planned to take a number of specific measures whose implementation should contribute to creating a sustainable transport system.

The development of infrastructure for the application of multimodal transport would enable the diversion of most of the freight transport from road transport to the transport of goods by rail and inland waterways.

The development of the infrastructure of electric charging stations for charging vehicles with zero and low emissions should be realized through the financial as well as legislative framework. Within the legislative framework (to be assumed at the local or entity level), financial resources should be provided primarily to subsidize the purchase of zero or low emission vehicles. It could also be insisted that within shopping malls or public parking spaces,

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<sup>78</sup> Source: BiH Agency for Statistics, Release, Road, rail and air traffic, IV quarter of 2019.

<sup>79</sup> Source: BIHAMK

<sup>80</sup> Source: Global Competitiveness Report 2019, World Economic Forum.

<sup>81</sup> Source: BiH Agency for Statistics, Release 1, Air transport.



free parking for such vehicles be provided or that the use of these vehicles be stimulated in some similar way.

The development of the new Law on Roads in the Federation of BiH will enable improvement of the road management system (maintenance, repairs and construction of roads) and collection of charges for the use of road land because the current Law was adopted in 2010, after which a large number of commercial roadside facilities have been constructed. Also, the reason for the adoption of the new road law is the need to harmonize with the directions and regulations of the European Union. Regarding the Law on Road Traffic Safety of the Federation of BiH, the goal is to reduce the number of fatalities in traffic accidents and the number of traffic accidents.

In the Republika Srpska, the measure of restructuring the railway transport is implemented through three agreed components: financial, organizational and restructuring of the workforce. The project was supposed to be completed by the end of 2021, but due to the state of emergency caused by the Covid 19 pandemic, as well as the long process of selecting and approving the new organizational structure of the company, it was approved to extend the deadline for completion of restructuring until 31 December 2022. According to the decision of the Government of the Republika Srpska, the future organization of ŽRS is a holding company with three subsidiary companies - infrastructure, transport of goods and transport of passengers.

#### **a. Activities planned in 2022**

- Preparation of environmental impact assessment of transport in FBiH
- Complete the ownership restructuring of the company through conversion of debt into shares, and buy out of the shares from minority shareholders. (BDC RS),
- Complete organizational restructuring (ŽRS, with the consent of the Government of the Republika Srpska),
- Procure and implement a new information system for business process management and asset management in an organizationally new company (ŽRS),
- Sign agreements for financing infrastructure and passenger transport in the Republika Srpska,
- Register the holding company ŽRS with subsidiary companies for infrastructure, transport of goods and transport of passengers (ŽRS).

#### **c. Activities planned in 2023**

Law on Roads in FBiH

#### **d. Activities planned in 2024**

Law on Road Traffic Safety in FBiH

## **2. Results indicators**

<b>Indicator</b>	<b>Baseline (2020)</b>	<b>Intermediate target (2021)</b>	<b>Target (2022)</b>
Legal solutions adopted in FBiH			
Conversion of debt into equity in RS	Increased ownership of Republika Srpska in total ownership of holding to 90% (2020)		Republika Srpska owns "ŽRS," "ŽRS" has no liabilities to creditors (2022)
Organizational restructuring of the company ŽRS	Holding company ŽRS registered with three subsidiaries 2021	IT system for management of operations in ŽRS procured (2021–2022)	ŽRS is a self-sustainable system (2022)

### 3. Expected impact on competitiveness

The drafting of the Law on Roads and the Law on Road Traffic Safety of the Federation of BiH is expected to have a positive impact on the growth of competitiveness, as a better business environment will be created.

The new Law on Roads will determine in more detail and more precisely the system of road management and collection of funds from the use of road land, and this will ease doing business for domestic businessmen, as well as better collection of funds in the state budget and the budget of road managers. The Law on Road Traffic Safety of the Federation of BiH will create preconditions for the establishment of the Traffic Safety Agency in the Federation of BiH, i.e. undertaking operational activities in order to reduce the number of traffic accidents, thus reducing the number of traffic fatalities and significantly reducing material damage.

In the Republika Srpska, the self-sustainable ŽRS, unencumbered by financial liabilities, will increase competitiveness in the transport services market.

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

These projects, as well as the development and implementation of the laws on roads and safety, are planned in the Budget of the Federation of BiH for each year separately.

The costs of implementation of the measure related to the restructuring of railway transport amount to EUR 51.3 million, of which the burden on the budget of the Republika Srpska amounts to EUR 42.7 million.

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

The implementation of these investment programmes, as well as the drafting of the Law on Roads, is expected to have an indirect positive impact on employment and poverty reduction through greater security and better management.

The programme for taking care of redundant workers of ŽRS, which was approved by the Government of Republika Srpska, envisages taking care of workers in such a way that they will have the opportunity to exercise the right to a full pension, voluntary departure with special compensations.

### 6. Expected impact on the environment

As this is a transport area, there is no negative impact on the environment during the implementation of these measures. The impact is positive because the implementation of these measures reduces travel time and reduces traffic congestion, which directly affects the reduction of vehicle exhaust gases.

### 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
The political situation may be a limiting factor in the adoption of proposed legal solutions in the FBiH.	Medium	Conduct timely consultations with stakeholders and the professional community
Political instability in FBiH	Low	Timely planning and implementation of these measures
Possible extraordinary circumstances caused by natural or other disasters in FBiH	Low	Timely planning and implementation of these measures
Unsuccessful implementation of the organizational restructuring project of the ŽRS in RS	Low	Inclusion of additional expertise in the process, and professional staff, in order to avoid delays in the implementation of activities

## 5.2.9. Agriculture, industry and services

### a. Analysis of main obstacles:

According to the available data of the Agency for Statistics of BiH<sup>82</sup> in the structure of GDP in terms of gross value added, the most important item is wholesale and retail trade with 14% and together with other items it can be seen that services significantly lead in BiH GDP. In addition, the manufacturing industry is significant too, accounting for 13%, while agriculture accounts for 6%.

Looking at the structure of employees by field of activity<sup>83</sup> in the last three years, employees in the services sector have clearly dominated with about 50% of the share in total employment in BiH. The share of employees in industry was 30% - 32%, and in agriculture 16-19%.

Agriculture is very important in BiH where a significant proportion of households are engaged in agricultural activities. However, the long-term trade deficit (KM 545 million<sup>84</sup> in 2020, which increased by 10% compared to the previous year), is worrying. Most of the trade was with neighbouring countries, namely Serbia and Croatia. A step forward in defining policies in this sector has been made with the adoption of the Strategic Plan for Rural Development of Bosnia and Herzegovina for the period 2018-2021<sup>85</sup>. The Strategic Plan for Rural Development emphasizes better market access (and transport infrastructure) for rural households, as well as a gradual increase in public investment to accelerate farmers' integration into agro-food value chains, improve access to modern technology and increase exports to European (and other, mostly specific) markets where farmers and food processors from rural areas of BiH can have comparative advantages.

Special challenges for the coming period are the creation of agricultural policy and the introduction of those instruments that will primarily enable the improvement of the competitiveness of agriculture, forestry and water management; increasing the volume of agricultural production; informatization of the sector; harmonization of the system of official veterinary and phytosanitary controls with European standards; strengthening administrative capacity, especially with regard to inspection services and laboratories; transposition and implementation of EU regulations and establishment of structures that will ensure the achievement of the required level of quality and food safety standards for unhindered trade in agricultural goods and export of all goods of animal origin to the European Union market.

Even before the pandemic, industrial production in Bosnia and Herzegovina indicated a certain slowdown. Namely, according to BHAS data for 2019, a physical volume of industrial production in Bosnia and Herzegovina decreased by 5.5% compared to the previous year.<sup>86</sup> This trend of declining industrial production continued in 2020, primarily with the outbreak of the COVID-19 virus epidemic. The most significant reductions in production were registered within export-oriented branches, where double-digit rates of production decline were registered. The technological structure of the production base (low technical-technological complexity), high participation of Lohn production, as well as its high dependence on trends in the markets of major trading partners in the previous period were additional aggravating factors where all vulnerabilities of industry, especially manufacturing industry in Bosnia and Herzegovina were shown.

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<sup>82</sup> BHAS, Release, Gross Domestic Product for BiH 2020, July 2021

<sup>83</sup> BHAS, Labour Force Survey 2019

<sup>84</sup> Source: BHAS, Foreign trade January-December 2020. Release 12

<sup>85</sup> The document was adopted by the Parliamentary Assembly of BiH

<sup>86</sup> Agency for Statistics of Bosnia and Herzegovina, Press release, "Industrial production volume index in Bosnia and Herzegovina for December 2019 - preliminary data", 28/01/2020

Key obstacles to competitiveness and inclusive growth of the manufacturing industry are: lack of working capital due to reduced business activities caused by the harmful effects of the pandemic, low product competitiveness, unsatisfactory level of investment, low level of technological development, lack of skilled labour and development capacities.

Tourism in Bosnia and Herzegovina shows a growth trend and has the potential to increase its development capacity. Tourism deserves special attention in the field of services, as it accounts for over half of the inflow of services in Bosnia and Herzegovina. For further development of tourism, it is necessary to increase its competitiveness. Therefore, activities will be undertaken in the Federation of BiH to improve the legal framework governing the field of hospitality. In the coming period, the focus should be on reducing the impact of the corona virus on tourism and increasing the number of foreign tourists.

In Republika Srpska, the low share of high value-added products in the structure of the agricultural and food industry reduces the positive economic result in the sector. The impact of the open market, the porosity of borders and the lack of adequate measures to protect domestic production is a structural obstacle to growth and competitiveness. In that regard, some CEFTA members have, unjustifiably and contrary to agreement, introduced unilateral import taxes for agricultural products, among other types of products (Kosovo). In addition, some bilateral agreements and their difficult implementation due to the political situation in BiH have slowed down i.e. stopped the export of certain products from BiH. The impact of climate change and increasing frequency of extreme conditions, as well as the appearance of contagious diseases that are new to these areas, represent an additional risk, not only to the development of the sector, but for the health of people as well. An additional challenge in the Republika Srpska is the negative demographic changes in the form of pronounced migration, both permanent migration and rural-urban migration, lack of generational change in agriculture, pronounced migration of women from rural areas due to difficult living conditions and lack of jobs.

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

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

Improving the competitiveness of agriculture, forestry and water management is one of the strategic goals defined by the Strategic Development Plans in all three strategic sectors: agriculture, forestry and water management. The priorities defined for the next three-year period are the following: increasing the scale of production of local agricultural products, informatisation of the sector in order to more efficiently direct financial resources, raising the level of investment within the sector by providing additional sources of financing, improving the foreign trade balance through the introduction of measures to protect domestic production and improving the export capacity of the sector. Also, aligning the legislative and legal frameworks and strategic programmes in terms of their approximation to the frameworks of the European Union and the common agricultural policy is one way of improving the competitiveness of the sector. The measure is implemented on a continuous basis and represents an ongoing activity towards reaching the European Union average measured by indicators such as productivity in the sector, level of investment and employment in the sector.

This measure implies a broad approach to improving the competitiveness of this area in the FBiH. The adoption of the strategy and work on a number of legal solutions is planned. Changing the system of financial support, and above all the introduction of direct payments per unit of land area, aims at aligning agricultural policy and established administrative and information systems in FBiH and BiH with the CAP, on the other hand, it will contribute to improving the competitiveness of domestic agricultural production in the long run. In addition

to agricultural statistics, the Agricultural Information System is the basis for monitoring the effects of agricultural policy and its impact on farm operations and market conditions, and this measure will contribute to the gradual improvement of established systems with the aim of gradually establishing all components of the Agricultural Information System in FBiH. This measure will continue to improve and update (upgrade) the Farm Registry (RPG), the Registry of Domestic Animals, the establishment and maintenance of the Farm Accountancy Data Collection and Analysis System (FADN), and the establishment and maintenance of the Agricultural Market Information System (PTIS).

**a. Activities planned in 2022**

- Implementation of a new information system in forestry (JPŠ Šume Republike Srpske a.d. Sokolac – JPŠ RS, MAWMF RS)
- Strengthening the relationship between forestry and wood processing through the implementation of the Decision on criteria for the distribution of forest wood assortments (MAWMF RS, JPŠ RS)
- Improvement of foreign trade and protection of local agricultural production through improving the capacity of institutions for quality control of goods from imports and exports, export capacities of companies as well as the capacity of institutions (MAWMF RS),
- Establishment of IPARD procedure and operational structure, (MAWMF RS, JPŠ RS)
- Establishment of the RS Water Information System (MAWMF RS),
- Establishment of the Land Parcels Identification System (MAWMF RS),
- Implementation of the animal identification process (MAWMF RS),
- Establishment of the system for tracking the results of agricultural farms (MAWMF RS),
- Linking domestic agricultural production and the food industry (MAWMF RS),
  - o Commencement of a new investment cycle in the field of construction of irrigation systems, and adoption of a strategic document for the fight against drought (MAWMF RS).
- Development and adoption of the FBiH Strategy for Agriculture and Rural Development 2021-2027;
- Law on Amendments to the Law on Agricultural Land of the FBiH and upgrading the Land Parcels Identification System and the manner of their use;
- Implementation of financial support programmes in agriculture and rural development (subsidies and incentives) from the FBiH Budget for 2022;
- Participation of the FBiH in the development of the Directive Specific Implementation Plan (DSIP)
- Adoption of the FBiH Action Plan for the Implementation of Directives (APID) for Water Directives (BiH EU Integration Programme));
- Decision on the methodology for determining the lowest basic price of water services in the FBiH

**b. Activities planned in 2023**

- Implementation of a new information system in forestry (JPŠ Šume Republike Srpske a.d. Sokolac – JPŠ RS, MAWMF RS)
- Strengthening the relationship between forestry and wood processing through the implementation of the Decision on criteria for the distribution of forest wood assortments (MAWMF RS, JPŠ RS)
- Improvement of foreign trade and protection of local agricultural production through improving the capacity of institutions for quality control of goods from imports and

exports, export capacities of companies as well as the capacity of institutions (MAWMF RS),

- Establishment of IPARD procedure and operational structure, (MAWMF RS, JPŠ RS)
- Establishment of the RS Water Information System (MAWMF RS),
- Establishment of the Land Parcels Identification System (MAWMF RS),
- Implementation of the animal identification process (MAWMF RS),
- Establishment of the system for tracking the results of agricultural farms (MAWMF RS),
- Linking domestic agricultural production and the food industry (MAWMF RS),
  - o Commencement of a new investment cycle in the field of construction of irrigation systems, and adoption of a strategic document for the fight against drought (MAWMF RS).
- Law on Financial Support in Agriculture and Rural Development in FBIH ;
- Law on Agriculture, Food and Rural Development in FBIH ;
- Implementation of financial support programmes in agriculture and rural development (subsidies and incentives) from the FBIH Budget for 2023;
- Continuously conduct trainings for agricultural producers by public advisory services in FBiH;
- Establishment of a Farm Accountancy Data Network (FADN); (MAWMF)
- Amendments to the Decision on Characterization of Surface and Groundwater, Reference Conditions and Parameters for Water Status Assessment and Water Monitoring of the FBIH (BiH EU Integration Programme);
- Establish a single benchmarking system for water utilities with key performance indicators in the FBiH.

#### **c. Activities planned in 2024**

- Implementation of a new information system in forestry (JPŠ Šume Republike Srpske a.d. Sokolac – JPŠ RS, MAWMF RS)
- Strengthening the relationship between forestry and wood processing through the implementation of the Decision on criteria for the distribution of forest wood assortments (MAWMF RS, JPŠ RS)
- Improvement of foreign trade and protection of local agricultural production through improving the capacity of institutions for quality control of goods from imports and exports, export capacities of companies as well as the capacity of institutions (MAWMF RS),
- Establishment of IPARD procedure and operational structure, (MAWMF RS, JPŠ PC)
- Establishment of the RS Water Information System (MAWMF RS),
- Establishment of the Land Parcels Identification System (MAWMF RS),
- Implementation of the animal identification process (MAWMF RS),
- Establishment of the system for tracking the results of agricultural farms (MAWMF RS),
- Linking domestic agricultural production and the food industry (MAWMF RS),
  - o Commencement of a new investment cycle in the field of construction of irrigation systems, and adoption of a strategic document for the fight against drought (MAWMF RS).
- Establishment of the FBIH Payment Agency;
- Implementation of financial support programmes in agriculture and rural development (subsidies and incentives) from the FBIH Budget for 2024

- Establishment and maintenance of agricultural market information system (PTIS), (MAWMF)
- Law on Amendments to the Law on Waters of the FBiH - (BiH EU Integration Programme)

## 2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Established information system, i.e., database in agriculture, water management and forestry	Two systems being developed	Four systems being developed	Two systems in operation
Number of incentive measures aligned with IPARD procedures in RS	0 measures	1 measure	2 measures
Percentage of agrarian budget for investments in agriculture in RS	5%	10%	15%
Percentage of special purpose funds collected for forests in RS	50%	60%	75%

## 3. Expected impact on competitiveness

In Republika Srpska, the introduction of new information systems and databases will enable a higher degree of control and reliability in all phases of production and other business activities. Increasing the level of financing in investments and modernization of production will contribute to increasing productivity, and thus the added value of the agricultural sector.

In addition to ensuring income stability, business security and equalization of domestic business conditions in relation to agricultural producers from the region, this reform measure will in the long run contribute to improving the competitiveness of domestic agricultural production and increasing the number of employees in these activities.

By enabling more efficient use of financial support, which will increase the competitiveness of agricultural producers, the volume and quality of production will increase.

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

The total costs for the implementation of the measure to improve the competitiveness of agriculture, water management and forestry in the Republika Srpska are estimated at KM 176,700,000 and include sources of financing such as the RS Budget and the World Bank Credit, IPA and FAO funds.

Financial resources for the implementation of measures are planned in the budget of the Federation of BiH within the regular funds, i.e. in the cantonal and local community budgets for activities related to their contribution to the implementation of measures.

## 5. Expected impact on employment and gender

Improving productivity that would be achieved through the implementation of planned activities in the Republika Srpska can contribute to reducing the need for labour, especially if the subject of investment is the automation of work processes and reduction of administrative procedures. On the other hand, increasing productivity and funding levels in the sector may lead to new employment and self-employment opportunities for women and men in the agricultural sector.

All projects and programmes that are implemented meet the gender component and this issue is given the necessary importance. The programme for the improvement of the water services sector was made in cooperation with the Gender Centre of FBiH and all proposed future amendments to the regulatory framework will be harmonized with the provisions of the Law on Gender Equality in BiH in order to respect gender equality.

## **6. Expected impact on the environment**

The measure has a strong short-term and long-term qualitative impact, while the quantitative impact is an increase in utilized agricultural area in the Republika Srpska by 10%, as well as increased forest cover through the implementation of afforestation projects.

The proposed reform measures do not have a negative impact on the environment. Reform measures in the water sector are aimed at improving environmental quality standards, especially projects related to water protection.

## **7. Potential risks**

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Natural disasters	High	Natural disaster protection measures; Investments in irrigation, frost protection
Lack of agreement and cooperation of all levels of government in the creation and implementation of policies and legislation, and the establishment of institutional systems in the field of agriculture and rural development in accordance with EU requirements	High	More coordination in the implementation of EU assistance in order to implement the necessary reforms.
New and stricter EU policies and legal frameworks coming into force after 2021	Medium	Timely planning and consideration of possible new challenges.
Insufficient financial resources	Medium	Timely planning and implementation of these measures

### **5.2.9.2. Support to manufacturing industry in the Republika Srpska**

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

In order to eliminate the identified problems, i.e. to overcome the negative effects of the COVID-19 pandemic on the activities of the economy in the Republika Srpska, it is necessary to support the implementation of projects in the manufacturing industry and support the development of domestic products and base industry. Support for the recovery of manufacturing companies from the economic crisis caused by the COVID-19 pandemic will be focused on repairing the situation in companies that have suffered damage due to the harmful effects of the pandemic on their business, in order to improve their liquidity, smooth performance of production activities and settlement of liabilities. Support to the implementation of investment projects with the goal of incentivising innovations, the application of new technologies, employment and strengthening competitiveness will be focused on supporting the implementation of projects of companies for the procurement of modern technologies and equipment, as well as the development and innovation of new or significant improvement of existing products, materials and production processes. Support to the development of a competitive base industry and domestic product will include activities on mapping the needs and possibilities of companies for the development of domestic products, analysis of the database of materials and products that are imported, preparation of the study, promotion of potentials, etc. Resolving the status of state-owned manufacturing companies will include the implementation of the privatization process in companies, the restructuring of



companies and the initiation and completion of bankruptcy and liquidation proceedings in companies in which privatization and/or restructuring would not give positive effects. Improving the business environment for companies in the field of manufacturing industry by improving the regulatory framework includes continuous activities on the analysis of existing legal solutions that have an impact on the operations of companies in the field of manufacturing, defining limitations and problems faced by companies and other stakeholders in practice, as well as analysis of their compliance with EU regulations and current trends in changes in European regulations, and in accordance with that, drafting amendments to laws and bylaws. The goal of this measure is to start/revive production, increase the volume of industrial production and employment in manufacturing companies. The implementation of the measure is envisaged by the strategic document "Industry Development Strategy of the Republika Srpska 2021-2027".

**a. Activities planned in 2022:**

- Determining the criteria for awarding support and announcing a public call and allocating financial resources to support the implementation of investment projects (MEE RS),
- Mapping the needs and capacities of companies to develop their own products, i.e., make contact with potential domestic product manufacturers, identifying the key limitations in the decision-making process for developing own products (MEE RS),
- Analyzing the available databases on materials and products imported into the Republika Srpska, with the goal of presenting the possibility of starting cost-effective manufacturing of products that are lacking in the domestic market (MEE RS),
- Allocation of support for the recovery of companies in the field of manufacturing from the economic crisis caused by the COVID-19 pandemic (MEE RS),
- Amendments to the Law on Technical Regulations (MEE RS).
- Activities on finding strategic partners, privatization of companies with majority and 100% state capital, restructuring of companies with majority and 100% state capital; in companies where privatization and restructuring would not have positive effects, initiating bankruptcy and liquidation proceedings (the long-term measure) – MEE RS and IDB RS,
- Aligning technical regulations with EU legislation (MEE RS).

**b. Activities planned in 2023:**

- Announcing a public call for applications and allocation of financial support to the implementation of investment projects (MEE RS),
- Monitoring the implementation and effects of supported investment projects (MEE RS),
- Promotion of potentials for domestic product development (MEE RS),
- Development of the study on the possibility of manufacturing own products (MEE RS),
- Allocation of support for the recovery of companies in the field of manufacturing from the economic crisis caused by the COVID-19 pandemic (MEE RS),
- Aligning technical regulations with EU legislation (MEE RS),
- Amendments to the Law on Public Enterprises (MEE RS).
- Activities on finding strategic partners, privatization of companies with majority and 100% state capital, restructuring of companies with majority and 100% state capital; in companies where privatization and restructuring would not have positive effects, initiating bankruptcy and liquidation proceedings (the long-term measure) – MEE RS and IDB RS
- Aligning technical regulations with EU legislation (MEE RS).

**c. Activities planned in 2024:**

- Announcing a public call and allocating financial resources to support the implementation of investment projects (MEE RS),
- Monitoring the implementation and effects of supported investment projects (MEE RS),
- Promotion of potentials for domestic product development (MEE RS),
- Defining incentive measures for domestic product development (especially in sectors where we have potential base industries) – MEE RS,
- Provision of support for domestic product placement on the market (MEE RS),
- Amendments/adoption of the new Law on Companies (MEE RS).
- Activities on finding strategic partners, privatization of companies with majority and 100% state capital, restructuring of companies with majority and 100% state capital; in companies where privatization and restructuring would not have positive effects, initiating bankruptcy and liquidation proceedings (the long-term measure) – MEE RS and IDB RS,
- Aligning technical regulations with EU legislation (MEE RS).

**2. Results indicators**

<b>Indicator</b>	<b>Baseline (2022)</b>	<b>Intermediate target (2023)</b>	<b>Target (2024)</b>
Number of economic entities that received support for recovery from the economic crisis caused by the Covid 19 pandemic RS	Depending on available funds	Depending on available funds	Depending on available funds
Number of supported investment projects in RS	200 and more depending on available funds	200 and more depending on available funds	200 and more depending on available funds
Mapping of needs and capacities for domestic product manufacturing in RS completed	Mapping for the textile, leather and footwear sector	Mapping for the woodworking and metal sectors	Completed mapping for key sectors of the manufacturing industry
Completed study on the capacities for domestic product manufacturing in RS	Finding ways to finance the study and the source of the consultant	Study completed	Promotion of study results
Number of privatized companies in RS	Depending on the interest of strategic partners	Depending on the interest of strategic partners	Depending on the interest of strategic partners
Amendments to the Law on Technical Regulations RS	Amendments to the Law on Technical Regulations adopted		
Amendments to the Law on Public Enterprises RS		Amendments to the Law on Public Enterprises adopted	
Amendments/adoption of the new Law on Companies			Amendments/ the new Law on Companies adopted
Number of technical regulations harmonized with EU legislation RS	Depending on the market needs	Depending on the market needs	Depending on the market needs

**3. Expected impact on competitiveness**

The implementation of these measures in the Republika Srpska will support the survival and development of the manufacturing industry companies. This will improve liquidity, maintain employment, and thus directly increase the competitiveness of the manufacturing industry. The

development of domestic product both on the micro-level and on the sector-level will directly contribute to the reduction of the economy of Republika Srpska's dependence on the global market disturbances.

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

At this moment, it is not possible to estimate the costs of implementing this measure. Funds to support the implementation of projects to overcome the consequences of the Covid 19 pandemic will be provided from the budget of the Republika Srpska, and part of the funds for the implementation of the measure through donor support. In FBD 2022–2024, funds for the implementation of projects are planned in the amount of KM 3,850,000.

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

Strengthening the competitiveness of companies in the Republika Srpska creates preconditions for new employment and improvement of the social position of employed workers.

#### **6. Expected impact on the environment**

The measure has a short-term and long-term qualitative impact on the environment through more efficient use of resources and application of more advanced technology in the Republika Srpska.

#### **7. Potential risks**

<b>Risk</b>	<b>Probability (low/high)</b>	<b>Planned mitigating action</b>
Continuation of the Covid-19 pandemic and its impact on the domestic and global economy	High	Financial and other forms of support to companies in order to mitigate the consequences of the Covid-19 pandemic
Unavailability of funds	High	Timely planned funds in FBD RS 2022–2024 for the implementation of projects in the amount of KM 3,850,000; Funds planned in the Budget of the Republika Srpska for 2022 amount to KM 15,000,000 Activities to increase available funds to support project implementation
Insufficient interest of investors in investing in the development of domestic products in RS	Low	Promotion of potential and product placement opportunities; Defining incentive measures for investment in basic industry projects and domestic product development
Insufficient interest of bidders in the privatization of companies in RS	High	Promotion of companies with majority and 100% state capital from the point of view of the possibility of their privatization, establishment of business and technical cooperation, joint investments and other forms of cooperation

### **Tourism**

#### **a. Analysis of main obstacles**

The strategic framework of the Tourism and Hospitality Sector for the planned three-year period is primarily determined by improving the legal and institutional framework in approximation to European Union standards through directives and regulations that have direct and indirect impact on tourism in the Federation of Bosnia and Herzegovina. Key obstacles in the area are the lack of an adequate legal framework in the areas of tourism and hospitality, limited budget resources and lack of human resources. The measure is rolled over from the previous year and the activities planned in the previous year have not been implemented, due

to the return of the Law on Tourism from the Parliamentary Procedure for revision. Currently, the unregulated area of tourism promotion, as well as the lack of electronic registers in the field of tourism and hospitality, is one of the obstacles to the development of the Sector.

In the field of tourism in the Republika Srpska, the planned three-year period envisages the implementation of strategic policies and legal regulations, the implementation of measures to reduce the impact of the Covid 19 pandemic, as well as activities to attract foreign tourists. The key obstacles are limited budget resources, the epidemiological situation in the Republika Srpska and the world, the smaller volume of consumption increases through visits by foreign tourists and the reduction in domestic consumption caused by the epidemiological situation.

## **b. Reform measures**

### **5.2.9.3. Support the development of entrepreneurship in the tourism sector and hospitality in the Federation of BiH**

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

The objective of the measure is to improve the existing regulations in the field of tourism and hospitality in the FBiH with the aim of harmonizing regulations, and aligning the legal framework with EU legislation. After the adoption of legislation, activities will be aimed at developing and directing the long-term development of tourism and hospitality as the driver of the overall economic development, raising the standards and quality of services in tourism, improving general conditions of stay of tourists in the Federation of BiH and training of employees on improving the legal framework and alignment with EU legislation and implementation of projects in the field of tourism and hospitality. This facilitates the work of entrepreneurs and reduces the informal economy through the organization and transparency of the organization of hospitality activities, the introduction of new categories of hospitality entities such as private renters. Supplementary and additional activities in the field of hospitality are being introduced. It is envisaged to establish an electronic General Register of Hospitality in the FBiH, which would include all entities engaged in hospitality, which would contribute to greater transparency of hospitality services in the FBiH. Also, this measure should ensure the development of innovated, specialized and common tourism products as well as the activation of new tourism products of higher added value. This requires increasing the quality of accommodation capacities and including as many local entrepreneurs and their products/services as possible in the destination value chain, which ensures local and authentic based market differentiation. Also, it is necessary to consider the reorientation of existing tourist boards in the FBiH in the so-called destination management organizations, which can significantly contribute to the establishment of destination tourism and value chain.

#### **a. Activities planned in 2022**

- Law on Tourism in the Federation of BiH,
- Law on Tourist Tax in the Federation of BiH
- Law on Hospitality in the Federation of BiH,
- Tourism Development Strategy in the Federation of BiH 2022-2027
- Development of mutually complementary contingency plans and crisis management strategies in tourism and adoption of protocols on cooperation in emergency/crisis situations together with the other five Western Balkan countries in cooperation with the RCC (Western Balkans Common Regional Market Action Plan CRM AP 2021-2024) (FBiH MET)
- Sign a Memorandum of Cooperation with the Development Bank on the establishment of a financing model for businessmen/entrepreneurs from the tourism and hospitality sector.

- Decision of the Government of the FBiH on the programme of using funds for financing projects in the tourism and hospitality sector.
- Adopt a plan for the development of health tourism in the field of rehabilitation, dentistry and cosmetic surgery in the FBiH with the application and strengthening of international quality standards for medical services.
- Adopt a programme of revitalization and revival of mountains and old traditional houses of abandoned villages for tourist purposes and a programme of tourist services in rural areas to increase income from tourism (FBiH MET)

**b. Activities planned in 2023**

- Drafting bylaws arising from legal regulations in the field of tourism and hospitality
- Rulebook on the professional licensing exam for tourist guides (FBiH MET)
- Rulebook on tourist guide ID card (FBiH MET)
- Rulebook on the register of tourist guides (FBiH MET)
- Rulebook on classification and categorization of facilities in which household hospitality services are provided (FBiH MET)
- Rulebook on the provision of hospitality services in a rural household (FBiH MET)
- Establishment of an electronic General Register of Hospitality and Tourism FBiH
- Establish a coordination mechanism between entity, cantonal and local levels of government for rural tourism development.
- Develop and implement a tourist information plan info centres, web portals and applications, including a brown tourist signalization network. (FBiH MET)
- Adoption of the Decision of the Government of the FBiH on the programme of using funds for financing projects in the tourism and hospitality sector.

**c. Activities planned in 2024**

- Decision of the Government of the FBiH on the programme of using funds for financing projects
- Drafting bylaws in the field of tourism and hospitality
- Rulebook on the professional exam for the head of the branch office (FBiH MET)
- Rulebook on minimum technical conditions and manner of providing travel agency services
- Rulebook on the register of travel agencies (FBiH MET)
- Rulebook on the form, content and manner of keeping a book of complaints (FBiH MET)
- Rulebook on the provision of catering services in mobile facilities (FBiH MET)
- Rulebook on the form and content of keeping a book of complaints (FBiH MET)
- Rulebook on the form and content of keeping a guest book and guest list (FBiH MET)
- Ordinance on registers of hospitality facilities and on registration on the provision of hospitality services in households and rural households (FBiH MET)
- Rulebook on the classification and minimum requirements of catering facilities from the group "Restaurants", "Bars", catering facilities, and simple service facilities (FBiH MET)
- Ordinance on the classification, minimum requirements and categorization of other types of hospitality facilities for accommodation from the group "Camps and other types of hospitality facilities for accommodation" (FBiH MET)

## 2. Results indicators

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Arrivals	348,733	398,552	448,371
Overnights	664,503	759,432	854,361
No. of employees	35,630	40,720	45,810
Relative to 2020 in %	40%	60%	80%
Total taxable turnover	97,037,276	110,899,744	124,762,212

## 3. Expected impact on competitiveness

The implementation of this reform measure will contribute to the growth of competitiveness in the field of tourism. Additional savings will be provided to the private sector when registering and conducting business. Also, the introduction of the Register will increase the transparency of the system and reduce the informal economy for those engaged in hospitality, which would contribute to greater transparency of hospitality services in the FBiH.

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

The costs are planned within the Budget of the FBiH Ministry of Environment and Tourism, as well as technical assistance from international organizations.

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

The implementation of planned activities and reform measures is expected to increase the number of employed persons, especially young people.

## 6. Expected impact on the environment

The planned measure has no negative impact on the environment, because through these activities the Federation of BiH Ministry of Environment and Tourism will not support projects that could have any negative consequences for the environment.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Failure of the FBiH Parliament to adopt the laws within the planned deadline	Medium	
Non - acceptance of solutions by lower levels of government (cantons)	Medium	Consultations with lower levels of government
Lack of funds in the Budget for planned activities	Medium	Timely planning of the funds in the FBiH Budget

### 5.2.9.4. Reducing the impact of the Covid 19 pandemic on tourism and increasing the number of foreign tourists in the Republika Srpska

#### 1. Description of measure

In 2021, the measures related to the issuance of tourist vouchers in the Republika Srpska affected the increase in the number of tourist arrivals and overnight stays, and the consequences of the Covid 19 pandemic on the tourism sector were significantly mitigated. The implementation of activities from the Tourism Development Strategy for the period 2021-2027, and the drafting of laws and bylaws (in addition to the measure of issuing vouchers), will reduce the impact of the Covid 19 pandemic on tourism and increase the number of foreign tourists.

**a. Activities planned in 2022:**

- Implementation of the Tourism Development Strategy 2021-2027, and legal regulations with measures (MTT, TORS, CCRS, tourist organization of cities/municipalities, UEA RS),
- Issuance of tourist vouchers (MTT RS, Compensation Fund of Republika Srpska)
- Cooperation with businessmen from the tourism and hospitality sector in the field of education and business improvement (CC RS, UEA RS, Association of Employers of Tourism and Hospitality - HORECA RS).

**2. Results indicators**

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Activities from strategic and legal acts with measures to mitigate the consequences of the Covid 19 pandemic on the RS tourism sector implemented			2022
Issuance of tourist vouchers in RS			2022
Cooperation with businessmen from the tourism and hospitality sector in the field of education and business improvement in RS			2022

**3. Expected impact on competitiveness**

It is necessary to implement the activities from the Tourism Development Strategy of the Republika Srpska 2021-2027, which will affect the increase of consumption, income and competitiveness. Issuance of tourist vouchers will increase tourism turnover and domestic consumption.

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

The costs are planned within the budget of the Ministry of Trade and Tourism of the Republika Srpska, and relate to the activities of the implementation of the Tourism Strategy, and the current and capital grant for tourism development in the amount of KM 1,020,000. Also, certain activities will be financed from donor funds of international organizations (USAID, GIZ, UNDP etc.).

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

The decline in turnover in tourism and hospitality during the pandemic is affecting social outcomes in Republika Srpska such as employment and poverty. The implementation of the proposed measures will preserve jobs and thus reduce poverty.

**6. Expected impact on the environment**

Tourism can have both positive and negative impacts on the environment. However, this balance is achieved by encouraging the development of sustainable tourism in the Republika Srpska.

**7. Potential risks**

Risk	Probability (low or high)	Planned mitigating action
Continuation of the pandemic	Medium	Institutional coordination at the level of the Government of the Republika Srpska; Preparation of strategic documents with mitigation measures

## **5.2.10. Education and skills**

### **a. Analysis of main obstacles:**

Obstacles to growth and competitiveness in education and skills are multiple: mismatch of the enrolment policies with labour market requirements; Insufficiently developed entrepreneurial-innovative and digital competencies; Lack of a strategic framework for the development of human resources, financial resources, appropriate staff and training for teaching and non-teaching staff; Underdeveloped infrastructure and inadequate equipment of educational institutions; practical lessons and out-of-school education in companies are not available to most vocational secondary students and university students, in addition to a lack of mentors to monitor the work of pupils and students; Teaching processes are not sufficiently adapted to modern methods and forms of work in the field of education and training.

The educational structure of employed persons shows that 67.9% of persons have completed secondary school and specialization, followed by persons with completed college, university, master's degree, doctorate 20% and persons with completed primary school or lower level of education 12.1%. The educational structure of the unemployed shows that 69.9% of persons have completed high school and specialization, followed by persons with completed primary school or lower level of education 16.1% and persons with completed college, university, master's degree, doctorate 14%.

The main reason for the implementation of this reform measure is the extremely high percentage of the unemployed, especially young people, which requires measures to increase their employability in terms of developing quality human resources. Reform that includes the development of key competencies with a focus on entrepreneurial-innovative and digital competence in the field of secondary and higher education, development of new qualifications based on learning outcomes, harmonization of occupational standards and qualification standards with the needs of the labour market, is the only way to accelerate economic development, and thus enable greater employability.

Although the revision and standardization of occupations has been completed, it is necessary to continuously work on the harmonization of vocations and occupations, especially with the aim of easier adaptation of programme contents to the new requirements of the labour market of local communities. The Strategy for Adult Education in the Republika Srpska 2021- 2031<sup>87</sup>, is the first strategic document which systematically approaches the development and improvement of adult education in the context of lifelong learning, as a subsystem of the education system in the Republika Srpska.

Obstacles to growth and competitiveness in the field of education and skills in the Republika Srpska are: mismatch of the enrolment policies with the labour market requirements; insufficiently developed entrepreneurial-innovative component in the education process; practical lessons and out-of-school training are not available to all students to the same extent, lack of mentors in companies; organizing practical classes in the conditions of the Covid 19 pandemic, especially if we take into account the availability and equal conditions for acquiring education and upbringing, development specifics of the area based on the identified employment needs, and the interest and needs of the local self-government unit, labour market and social partners.

On the other hand, the analysis of the situation in the labour market also points to insufficient flexibility and low efficiency of the labour market, which result in low activity and employment

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<sup>87</sup> Official Gazette of the Republika Srpska, 5/21.



rates, high rate of long-term unemployment, limited possibilities for integrating young persons into the labour market.

## **b. Reform measures**

### **5.2.10.1. Improving the link between education and the labour market and strengthening access to and quality of education**

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

In the Republika Srpska, education should take on one of the key roles in the development of society, and quality education is a resource for the development of the economy and society as a whole. In order to achieve quality education, appropriate to the requirements of economic, cultural and social development of the Republika Srpska, the primary development goal should be to improve the educational system of the Republika Srpska by strengthening access to and quality of education.-

Since curricula are one of the basic components of the education system, the Ministry of Education and Culture (MEC RS) has completed activities on revision and standardization of curricula in the field of secondary vocational education and training, and since the school year 2020/2021, new curricula are implemented for a total of 106 occupations distributed in 14 vocations.

On the other hand, although the revision and standardization of occupations has been completed, it is necessary to continuously work on the harmonization of vocations and occupations, especially with the aim of easier adaptation of curriculum contents to the new requirements of the labour market of local communities. In the context of sustainable development of local communities, it is necessary to work on defining new occupations needed by the labour market, through the development of a pilot curriculum, which would be monitored in the implementation process, and after evaluation of the curriculum, the justification for its introduction into the education system would be considered. Occupational standards based on competencies and learning outcomes will provide basic measures for further activities in redefining the existing nomenclature of occupations, i.e. classification of occupations, which is subject to constant revision in terms of amendments, and in accordance with the needs of the labour market, employers and the business community, with continuous cooperation with educational institutions. Today's development of the labour market, first of all, requires a new definition of occupations in accordance with the modern requirements of the workplace.

The Strategy for Adult Education in the Republika Srpska 2021- 2031, is the first strategic document which systematically approaches the development and improvement of adult education in the context of lifelong learning, as a subsystem of the education system in the Republika Srpska.

In order to develop the adult education system to a greater extent, it is necessary to improve the framework in which adult education is developed and implemented, i.e. to make changes to laws and bylaws and to revise the adopted adult education programmes.

The Federation of BiH Ministry of Education and Science will contribute to improving the link between education and the labour market through the implementation of support programme. The purpose of the programme is to improve the quality and inclusiveness of education and contribute to the development of functional knowledge and skills of preschool children and public primary and public high school students by supporting projects to equip and procure teaching aids to encourage modern and innovative methods and forms of educational work. Support programmes for training, vocational training and professional development of adults

with a focus on women to facilitate integration into the labour market by improving the skills and competencies of adults with a focus on women through training, vocational training or professional development programmes to facilitate their integration into the labour market. Support to public higher education institutions for projects of linking with the needs of the labour market for study programmes of the first and second cycle of studies through quality assurance of study programmes and projects of linking with the needs of the labour market, which are harmonized with the priorities of the Strategic Directions for the Development of Higher Education in the Federation of BiH for the period 2012-2022.

- Activities within the measure "Improving the link between education and the labour market" implemented in the previous period are:
- The activity "Support to programmes for the development of functional knowledge and skills of preschool children and public primary and public secondary school students" was introduced in 2021 and KM 198,861.00 was allocated for it.
- Activities "Support to programmes for training, vocational training and professional development of adults with a focus on women to facilitate integration into the labour market" funds were allocated in the amount of KM 69,610.00 in 2019 and KM 49,980.00 in 2021. The programme was not implemented in 2020 due to the rebalance of the Budget of the Federation of BiH and the redistribution of funds due to the COVID-19 pandemic.

For support to public higher education institutions for projects of linking with to the needs of the labour market, in 2019 the amount of KM 89,857.71 was allocated for six higher education institutions in the Federation of BiH, while in 2021 KM 109,490.67 was allocated for the same purpose. The programme of support to public higher education institutions in the Federation of BiH in the total amount of KM 105,000.00 was not implemented in 2020 due to the redistribution of funds due to the COVID-19 pandemic.

**a. Activities planned in 2022:**

- Create an enrolment policy in accordance with the real needs of the labour market and development policies of the Republika Srpska, and based on needs assessments in the labour markets of local communities (MEC RS),
- Creating curricula for general secondary education with a focus on learning outcomes and competencies that ensure effective continuing education and lifelong learning (MEC RS),
- Developing a curriculum for the first grade for all directions of the gymnasium (MEC RS).
- Implementation of the programme u FBiH "Support to programmes for training, vocational training and professional development of adults with a focus on women to facilitate integration into the labour market ".
- Implementation of the programme u FBiH "Support to programmes for the development of functional knowledge and skills of preschool children and public primary and public secondary school students"
- Programme of support to public higher education institutions for projects of linking with the needs of the labour market for study programmes of the first and second cycle of studies in FBiH

**b. Activities planned in 2023:**

- Create an enrolment policy in accordance with the real needs of the labour market and development policies of the Republika Srpska, and based on needs assessments in the labour markets of local communities (MEC RS),

- Creating curricula for general secondary education with a focus on learning outcomes and competencies that ensure effective continuing education and lifelong learning (MEC RS),
- Developing a curriculum for the first grade for all directions of the gymnasium (MEC RS).
- Defining the minimum standards of knowledge that each student must achieve (MEC RS),
- Creating a catalogue of knowledge according to the subject syllabi (MEC RS),
- Creating flexible curricula contents (MEC RS),
- Developing new curricula or revising existing ones in line with the labour market needs (MEC RS).
- Implementation of the programme u FBiH "Support to programmes for training, vocational training and professional development of adults with a focus on women to facilitate integration into the labour market ".
- Implementation of the programme u FBiH "Support to programmes for the development of functional knowledge and skills of preschool children and public primary and public secondary school students"
- Programme of support to public higher education institutions for projects of linking with the needs of the labour market for study programmes of the first and second cycle of studies in FBiH

#### **c. Activities planned in 2024:**

- Create an enrolment policy in accordance with the real needs of the labour market and development policies of the Republika Srpska, and based on needs assessments in the labour markets of local communities (MEC RS),
- Creating curricula for general secondary education with a focus on learning outcomes and competencies that ensure effective continuing education and lifelong learning (MEC RS),
- Developing a curriculum for the first grade for all directions of the gymnasium (MEC RS).
- Harmonization of curricula in secondary education with current trends and needs (MEC RS).
- Implementation of the programme u FBiH "Support to programmes for training, vocational training and professional development of adults with a focus on women to facilitate integration into the labour market ".
- Implementation of the programme u FBiH "Support to programmes for the development of functional knowledge and skills of preschool children and public primary and public secondary school students"
- Programme of support to public higher education institutions for projects of linking with the needs of the labour market for study programmes of the first and second cycle of studies in FBiH

## **2. Results indicators**

<b>Indicator</b>	<b>Baseline (year)</b>	<b>Intermediate target (year)</b>	<b>Target (year)</b>
New curricula; New curricula for talented and gifted students;; New curricula for all directions of the gymnasium in the territory of RS.	2022	2023	2024
Improved system of education/training at the employer in order to introduce students to the world of work as early as possible, with the aim of easier employment in the territory of RS.	2022	2023	2024

BiH rank in PISA testing (Programme for International Student Assessment)	62/79 (2018) (BiH)	55/79	40/79 (BiH)
% of persons (25-64) who, after regular education, attended formal and /or non-formal education in the previous 12 months from the survey date	8.1	15	20
Shorter waiting time for employment according to annual statistics, monitored in accordance with the Occupational Classification Standards			

### **3. Expected impact on competitiveness**

Increasing the efficiency of education, and indirectly, the labour market too, will significantly affect the competitiveness of the economy of Republika Srpska, whose ultimate goal is to reduce the unemployment rate. Investment at each level of education generates certain effects at all other levels. Furthermore, this investment is also reflected in later levels of education and learning, and further improvement of education, and has a long-term impact on improving competitiveness and reducing the unemployment rate.

The expected long-term results of these activities should be an increase in the level of functional knowledge and skills of students, which leads to greater innovation and productivity of the workforce and greater competitiveness of the economy as a whole.

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

At this moment, it is not possible to assess the fiscal effects, as this is a measure that will be implemented in the medium term.

Estimate of funds required for the implementation of planned activities on an annual basis in the amount of KM 1,300,000.00.

#### **5.2.11. Employment and labour markets**

**See Main obstacle no. 3: Increase the efficiency of the public sector, in particular by improving the performance, transparency and accountability of state-owned enterprises**

#### **5.2.12. Social protection and inclusion**

In order to further improve the social protection system in Bosnia and Herzegovina, it is necessary to continuously monitor and perform a detailed analysis of the situation in this area, taking into account the complexity and sensitivity of these issues. The obstacle stands in the improvement of policies at all levels of government in Bosnia and Herzegovina that should provide effective social protection to all categories of persons at all ages. In this process, there is a risk in terms of the accuracy of the data obtained from local self-government units that are necessary for the analysis.

The implementation of activities that were not implemented in the previous period due to difficult working conditions caused by the COVID-19 pandemic needs to be improved and realised. By developing services and access to hard-to-reach services for the most vulnerable categories of population, most of the challenges faced by children with disabilities, people with disabilities and the elderly can be addressed.

Observed challenge are also the difficulties of developing an efficient, sustainable and more equitable social protection system, as well as the protection of families with children, which will be guaranteed basic and equal rights of socially vulnerable categories by harmonizing the legal framework for exercising social protection rights with the aim of reducing social exclusion.

The Social Protection Strategy of the Republika Srpska should respond to the needs of society and define directions for further development of social protection policies, as well as more effective and efficient linking of social protection policies with development priorities in other sectors. Given that this is a complex area in the Republika Srpska, which is also socially sensitive, it is necessary to conduct a professional, detailed and careful analysis of the situation in order to develop a quality social protection strategy. Also, a risk and an obstacle is the accuracy of data obtained from local self-government units and the lack of funds necessary for the establishment and operation of the Social Protection Institute.

The social protection system in the Federation of BiH needs to be reformed. It is especially necessary to improve the system of social services, institutions, foster care, social work and psychological activities, given that current solutions are not in line with existing needs. This implies a unified way to regulate the types of social services, the standards under which they are provided, as well as their insurance and funding modalities. Regarding professional work in social protection institutions, it is necessary to develop mechanisms for licensing professional workers, define mandatory areas of education and training as well as supervision.

#### **5.2.12.1. Improving the social protection system**

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

Key measures in the field of social protection in the Republika Srpska in the period 2022–2024 include: Establishment of the Institute for Social Protection; drafting the Social Protection Strategy of the Republika Srpska; upgrading the SOTAC electronic database and networking with other electronic data sources and implementation of strategic goals within the current strategic documents: Strategy for Improving the Social Position of Persons with Disabilities in the Republika Srpska 2017–2026 and Strategy for Improving the Position of the Elderly in the Republika Srpska for 2019–2028. After its establishment, the Institute for Social Protection will monitor and study social phenomena and problems, prepare analyzes and reports on the situation in the field of social protection and propose measures for improving social protection, develop standards, criteria and norms for performing professional activities in the field of social protection, perform professional tasks related to the development, monitoring and quality assurance of work of employees in social protection, propose to the ministry responsible for social protection a plan for staff training with a plan of priority training programmes in social protection, improve databases of importance for the social protection system, organize training for professional workers, monitor the application of standards of social work and social protection services, prepare professional studies for the Republika Srpska bodies or institutions and at their request give expert opinion on certain issues in the field of social protection and social policy, conduct research in the field of social protection, etc. The social protection strategy will respond to the needs of society and define directions for further development of social protection policies, as well as more effective and efficient linking of social protection policies with development priorities and other sectors.

By improving the performance of the SOTAC database, a tool will be established for faster and easier data entry and processing in the social protection system. By networking with other electronic data registers, it will be easier for users to submit applications for exercising their rights from social protection.

The implementation of this measure in FBiH aims at developing an efficient, sustainable and equitable system of social protection and protection of families with children that will guarantee basic and equal rights of socially vulnerable categories through harmonization of the legal framework and establishment of a fair system for exercising rights in the field of social protection and protection of families and children and establishing, improving and supporting

the social services system with the aim of reducing social exclusion. Furthermore, this measure in the FBiH is planned to ensure regular payment of benefits to users of benefits for civilian victims of war and members of their families and persons with "non-war" disabilities, provide support to associations of civilian persons with disabilities, establish a control system for the introduction of special categories of civilian victims of war into the system, regulate the activities and financing of PWD organizations, establish a non-discriminatory system of cash benefits for persons with disabilities regardless of the cause of disability.

**a. Activities planned in 2022:**

- Harmonization and implementation of procedures for the establishment of the Institute (MHSW RS, Working group for the preparation of a study on the assessment of the justification of the establishment of the Public Institution of Social Protection - Institute for Social Protection of the Republika Srpska),
- Analysis of the situation in the field of social protection in the Republika Srpska (MHSW RS),
- Upgrading the existing database with the application and networking with other electronic data sources (MHSW RS),
- Development of the Social Protection Strategy of the Republika Srpska (MHSW RS).
- Drafting of the Law on Social Services in the Federation of Bosnia and Herzegovina;
- Drafting of the Law on Social Protection Institutions of the Federation of Bosnia and Herzegovina;
- Drafting of the Law on Amendments to the Law on Foster Care in the Federation of Bosnia and Herzegovina;
- Drafting of the Law on Social Work Activities in the Federation of Bosnia and Herzegovina;
- Drafting of the Law on Psychological Services in the Federation of Bosnia and Herzegovina.
- Adoption of a new strategic document for improving the position of persons with disabilities in the FBiH for the period 2022-2027
- Law on Protection of CVW in FBiH
- Law on Uniform Principles and Framework of Material Support for PWDs in FBiH

**b. Activities planned in 2023:**

- Monitoring and harmonization of the work of the Institute, (MHSW RS, Working group for the preparation of a study on the assessment of the justification of the establishment of the Public Institution of Social Protection - Institute for Social Protection of the Republika Srpska),
- Adoption of the Social Protection Strategy of the Republika Srpska and the development of action plans (Government of Republika Srpska and MHSW RS),
- Monitoring and networking the SOTAC database with other electronic data sources (MHSW RS).
- Amendments to the existing Law on Professional Rehabilitation and Employment of PWDs FBiH
- Promoting awareness raising for PWDs and CVWs through conferences, roundtables, etc. (FBiH MLSP)

**c. Activities planned in 2024:**

- Implementation of activities envisaged by the Strategy and action plans (MHSW RS).

## 2. Results indicators

Indicator	Baseline	Intermediate target	Target
The Institute for Social Protection in RS established and operational	2021		2022
Social Protection Strategy of the Republika Srpska with action plans adopted	2021	2022	2023
Successful and continuous process of upgrading and networking of the SOTAC database with other electronic data sources in RS	2021		2022
Number of completed and implemented activities envisaged by the strategy and action plans in RS	2023	2024	
Laws adopted within the planned deadlines in FBiH	2022		2022

## 3. Expected impact on competitiveness

In the Republika Srpska, the measure has no impact on competitiveness.

FBiH is not able to state in what way and to what extent the implementation of these measures will affect competitiveness, economic growth and employment growth, as the main objectives of the ERP.

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

A study for the establishment of the Institute for Social Protection of the Republika Srpska is being prepared, within which the necessary financial resources for the establishment and functioning will be assessed. According to preliminary estimates, about KM 650,000 is needed for the establishment of the Institute and the first year of operation, and about KM 600,000 for each subsequent year; in total for the planning period around KM 1,850,000. The funds will be provided from the budget of the Republika Srpska, and part of the funds for financing the activities will be provided through the support of international donors.

We are currently unable to present an estimate of the resources required to implement all of the above activities. Namely, before passing the law, it is necessary to make an assessment of the impact of regulations, which should be the basis for the legislator to choose the appropriate option. Implementation of the Law on Protection of Civilian Victims of War amounts to around KM 26,000,000.00, 70% from the Budget of the Federation of BiH (under the law, the share of 30% is financed by cantons from their budgets); The Law on Associations of Persons with Disabilities and Representative Associations of Persons with Disabilities is planned in the annual amount of KM 500,000.00 from the Budget of the Federation of BiH after the adoption of law). The Law on the Common Principles and Framework of Material Support to Persons with Disabilities in the Federation of BiH is a law which will affirm equality and the gender issue, promote the principle of equality for PWDs and CVWs, and most importantly, equalise the rights and cash benefits for persons with disabilities, regardless of the cause of disabilities. Other rights for participation in the war (disabled war veterans), compensation for consequences of war actions (civilian victims of war), at work (persons with work disabilities), etc. will continue to be financed through specific laws and from the usual sources, i.e. the Budget of FBiH. Therefore, no separate budget is planned for this law, just alignment with the UN Convention on the Rights of Persons with Disabilities and the *acquis communautaire*. Amendments to the Law on Professional Rehabilitation, Training and Employment of Persons with Disabilities will not require additional financing. The goal is to improve the conditions of employment of persons with disabilities in FBiH, which is regularly financed through the

Fund for Professional Rehabilitation and Employment of Persons with Disabilities in the annual amount of about KM 25,000,000.00.

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

The activities of the Institute for Social Protection will contribute to the improvement of the social protection system, whose goal is to preserve the social security of all citizens of Republika Srpska, as well as the quality of professional work and the development of social policy in Republika Srpska. The development of the Social Protection Strategy will contribute to the improvement of the social protection system and more appropriate social support to the citizens of Republika Srpska, as well as the reduction of social exclusion, improvement of intergenerational solidarity, empowerment and support to families and vulnerable categories. Upgrading the SOTAC electronic database in the Republika Srpska and its networking with other electronic data sources will contribute to reduced use of paper documents and more efficient and faster provision of social protection rights. It is also a precondition for faster and more efficient functioning of social protection system in Republika Srpska, its modernization and development of information technologies.

The adoption of the Law on Social Services in the Federation of Bosnia and Herzegovina, the Law on Social Work Activities in the Federation of Bosnia and Herzegovina and the Law on Psychological Services in the Federation of Bosnia and Herzegovina can be expected to have a positive impact on employment. Considering the fact that jurisdiction in the field of social policy is divided between the FBiH and cantonal authorities under the Constitution of the Federation of BiH, we note that there may be problems in the implementation of these activities related to non-support by cantons in adopting these laws, especially ensuring the financing necessary to implement them.

The proposed reform activities will also contribute to the overall improvement of the situation of persons with disabilities and their families, create the conditions for integration into the labour market (employment) and raise awareness about its importance, as well as improve the situation of groups of the population which are excluded on several accounts, such as women with disabilities. People with disabilities will have better conditions for comprehensive social integration and improved position in society.

## **6. Expected impact on the environment**

There is no impact on the environment.

## **7. Potential risks**

<b>Risk</b>	<b>Probability (low or high)</b>	<b>Planned mitigating action</b>
Accuracy of data obtained from local self-government units and lack of financial resources in RS	Low	Using data from existing sources
Lack of financial resources necessary for the establishment and operation of the Institute for Social Protection in RS	Low	Finding alternative sources of funding through donors
Lack of funds in the budget and lack of interest of donors for support in RS	Low	Finding alternative sources of funding through donors
Situation analysis development taking a long period	High	Intensification of activities and increased engagement of relevant actors for the implementation of planned activities



According to the Constitution of the Federation of Bosnia and Herzegovina, social policy is the responsibility of the federal and cantonal authorities, and the support of the cantons in the implementation of policies is necessary.	Medium	Adequate consultation process
Under capacitated Sector for Social Protection and Protection of Families with Children	Medium	Increasing the number of employees in the Sector

### 5.2.13. Healthcare

#### a. Analysis of main obstacles

Constitutions at all levels in BiH oblige the competent authorities to provide conditions for the exercise of the right to health and health care, which are defined in international documents as basic human rights. In order to provide affordable, efficient and quality health care that meets the needs of the population, the competent authorities must rationally use available resources and monitor health care costs.

The costs of healthcare systems in Bosnia and Herzegovina are monitored through the National Health Accounts (NHA). The purpose of the analysis of health financing and health expenditure indicators is to point out the possibilities offered by the NHA as a basis for macro-level health policies. The indicators provide information on general trends in healthcare spending in BiH and provide international comparisons that point to areas where BiH deviates from other European countries.

According to the latest available data from the National Health Accounts of Bosnia and Herzegovina, in 2019, a total of 9% of GDP was allocated to health care in BiH, of which 70% was public expenditure and 30% private.

Most of the money is spent on hospital treatment. In 2019, more than half of the total health expenditure was spent on treatment and rehabilitation services, while a quarter of the funds were spent on medicines and medical devices. About 2.3% is spent on the administration and management of health systems, which is a decrease compared to the previous year's 2.5%.

Healthcare spending may require even higher expenditures due to the aging population, but also the impact of Covid-19, as well as the fact that treatment becomes "more expensive" with the introduction of new technologies and a wider range of laboratory testings and treatment methods.

In 2020, the highest general mortality rate was recorded in Bosnia and Herzegovina, at 12.8 per mille, which can be partly explained by the aging population but also the impact of the Covid-19 pandemic. The highest proportion of deaths was associated with cardiovascular disease (45%), malignant neoplasms were the second leading cause of death (18%), while Covid-19 was third (10%).

In order for the operation of healthcare systems in BiH to be as efficient and successful as possible, which will result in improving the health of the population, it is necessary to reform healthcare systems and pay special attention to reducing health care expenditures without compromising the quality of health care, i.e., better allocation of resources in the healthcare sector. Thanks to better cost control and greater fiscal responsibility, it will be possible to achieve savings in healthcare systems and direct these funds to increase the quality of healthcare services and prevention programmes.

A major problem in the public sector (public healthcare institutions and health insurance institutes) of the health care of the Federation of BiH is the significant accumulated losses from the previous period, total liabilities and receivables. The disparity between liabilities and

receivables indicates problems with the liquidity of these health care institutions. Also, the problems in the healthcare of the Federation of BiH can be further illustrated by the fact that in previous years the public sector has continuously reported consolidated losses, mostly in public healthcare institutions, as well as, in some years, in certain health insurance institutes, especially if we consider longer period of time.

This represents a great risk for the financial sustainability of the public healthcare system in the Federation of BiH, which is ultimately a risk for maintaining the achieved level of safety and quality of healthcare services provided to the population and ensuring their availability.

In the Republika Srpska, the Ministry of Health and Social Welfare continuously conducts activities to monitor the situation in the healthcare system, on the basis of indicators and available opportunities proposes to the Government of the Republika Srpska measures and activities to improve the healthcare system, and actively participates in implementing measures and activities.

Some of the main challenges and obstacles in the field of health care system are: the emergence of a global epidemic that has left consequences on health and all other areas of life, the aging of the nation, the growth of malignant diseases, monitoring modern medical equipment and treatment methods, the revision of the network of health institutions, etc.

As a continuation of activities planned in the previous period, the Ministry of Health and Social Welfare (MHSW RS) conducted a detailed analysis of the liabilities of public healthcare institutions of the Republika Srpska and the Health Insurance Fund, as on 31 December 2020. As a result of the analysis, in April 2021, the “Information on the status of liabilities of public healthcare institutions and the Health Insurance Fund of the Republika Srpska on 31 December 2020 was adopted. According to the analysis, it is evident that the goal of stopping the growth trend of arrears of the healthcare system has been partially achieved, as well as in the part of providing funds for settling overdue arrears from the previous period, which remains one of the key goals and challenges in the coming period..

The Ministry of Health and Social Welfare of the Republika Srpska continuously conducts activities to monitor the situation in the healthcare system, on the basis of indicators and available opportunities proposes to the Government of the Republika Srpska measures and activities to improve the healthcare system, and actively participates in implementing measures and activities. Some of the main challenges and obstacles in the field of health care system are: the emergence of a global epidemic that has left consequences on health and all other areas of life, the aging of the nation, the growth of malignant diseases, monitoring modern medical equipment and treatment methods, the revision of the network of health institutions, etc. The strategic commitment of the Government of the Republika Srpska is to ensure the settlement of arrears of public healthcare institutions and the Health Insurance Fund from the previous period and to introduce public healthcare institutions into the treasury system of operations in the coming period.

Reform measure in the field of health in the Federation of BiH implies strengthening the management and financial sustainability of the healthcare system in the Federation of BiH, through the adoption of a legal framework for financial consolidation and restructuring under equal conditions for all public healthcare institutions in the Federation of BiH and taking action to prevent further accumulation of arrears.

### **5.2.13.1. Healthcare system reform and strengthening management and financial sustainability**

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

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

- 1) Define a model for settling the arrears of public healthcare institutions and the Health Insurance Fund and
- 2) Provide funds necessary for settling the arrears of public healthcare institutions and the Health Insurance Fund.

The reform of the healthcare system in the coming period 2022-2024 should include five components, as follows: Monitoring and continuous settlement of the arrears of public healthcare institutions; Ensuring the continuity of operations of public healthcare institutions, by continuous investment in construction, reconstruction and equipping; Reducing the level of total arrears in the healthcare system; Designing and implementing new models of the healthcare system financing and Reorganizing the network and organization of operations of public healthcare institutions in accordance with real needs and a sustainable financing system.

The Government of the Federation of BiH is committed to implementing reforms in the healthcare sector and to create legal, financial and technical preconditions in the coming period for settling overdue arrears of public healthcare institutions and preventing further accumulation of arrears. This measure is also defined in the Development Strategy of the Federation of BiH for the period 2021-2027, as well as in the Work Plan of the Ministry of Health of the Federation of BiH. To implement this measure and achieve the defined goals, additional informatization of the healthcare system is needed, in order for decision makers at all levels of the healthcare system to identify problems and needs, enabling evidence-based decision making and adaptation to EU requirements. The implementation of this measure will contribute to the creation of preconditions for comprehensive reforms in the healthcare sector aimed at improving the quality of health care and financial sustainability of the healthcare system in FBiH and more efficient management at all levels in healthcare institutions and health insurance institutes.

#### **a. Activities planned in 2022:**

- Implementation of the COVID 19 Project, with the aim of improving the work in the healthcare sector in response to the pandemic (MHSW RS),
- In cooperation with the RS Ministry of Finance, define the financing models and the plan for settling the arrears in the healthcare system, (MHSW RS),
- Development and implementation of the Programme for settling the arrears based on the contributions of the Pension and Disability Insurance Fund of the Republika Srpska for employees in public healthcare institutions (2021–2026), (MHSW RS),
- Adopting a new legal framework governing the healthcare system (Law on Health Insurance, Law on Health Protection, Law on Medical Documents and Records in the Healthcare Sector and the Law on Healthcare Activities), (MHSW RS),
- Drafting an act on the nomenclature of healthcare services at the primary, secondary and tertiary level of health care, (MHSW RS),
- Preparation of the Plan of the network of healthcare institutions, (MHSW RS),

- Development of Instructions for the development of a human resources plan for a five-year period, (MHSW RS),
- Optimization of the number of employees in public healthcare institutions and harmonization with bylaws under the Law on Health Care, (MHSW RS),
- Undertaking activities to improve the system of monitoring the business performance of public healthcare institutions, (MHSW RS),
- Implementation of continuous activities on education of workers on occupational safety and health, healthy lifestyles and work and other topics that can improve health of the population, (MHSW RS).
- Transition to treasury operations system:
- Preparing selected public healthcare institutions for the transition to the treasury operations in 2022 and their introducing into the treasury operations system in cooperation with MFRS and competent LGUs, (MHSW RS);
- Preparing selected public healthcare institutions for the transition to the treasury operations in 2023 and their introducing into the treasury operations system in cooperation with MFRS and competent LGUs, (MHSW RS);
- Preparing the remaining primary level public healthcare institutions for the transition to the treasury operations in 2024 and their introducing into the treasury operations system in cooperation with MFRS and competent LGUs (MHSW RS);
- Implementation of investment projects in the field of healthcare (MHSW RS);
- Construction and equipping of new hospitals in Dobož and Trebinje (MHSW RS);
- Construction and equipping of a new stationary facility at the PHI University Clinical Centre of the Republika Srpska, (MHSW RS),
- Construction and equipping of a new facility for providing health care to patients with malignant diseases at the PHI University Clinical Centre of the Republika Srpska, (MHSW RS),
- Reconstruction and equipping of the hospital facilities in Foča and Zvornik, (MHSW RS),
- Reconstruction and equipping of the technical and economic block of the PHI University Clinical Centre of the Republika Srpska, (MHSW RS),
- Rehabilitation of the facilities of the Maternitea and the Clinic for Infectious Diseases of the PHI University Clinical Centre of the Republika Srpska, (MHSW RS).
- Development of the Law on Financial Consolidation and Restructuring of Public Healthcare Institutions in the Federation of BiH (FBiH MH);
- Adoption of the Law on Financial Consolidation and Restructuring of Public Healthcare Institutions in the Federation of BiH (Parliament of FBiH)
- Drafting bylaws for the implementation of the Law by the relevant ministry (FBiH MH);
- Support to the management of healthcare institutions, the Federal and Cantonal Health Insurance Institutes and the Ministries of Health to strengthen internal needs for analysis, reform planning, pilot testing and evaluation of reforms; strengthening skills in drafting plans for restructuring and financial consolidation of health care institutions (FBiH MH)
- Conduct a situational analysis of information and communication technologies (ICT) in the Federation of BiH (FBiH MH);

**b. Activities planned in 2023:**

- Establishment of the organization of healthcare institutions according to the Plan of the network of healthcare institutions, (MHSW RS);

- Adoption of the Instructions for the development of a human resources plan, (MHSW RS);
- Monitoring activities on the development of realistic financial plans and financial stabilization plans of public healthcare institutions and the Health Insurance Fund, in accordance with the legal framework and business performance, (MHSW RS);
- Determining the price of individual services in the healthcare system, (MHSW RS)
- Strengthening the capacity of the MHSW to monitor and analyze the financial operations of PHIs and HIF RS;
- Finding new models of healthcare system financing, (MHSW RS),
- Improving management capacities in public healthcare institutions (managerial competencies and skills), (MHSW RS).
- Transition to treasury operations system:
- Preparing selected public healthcare institutions for the transition to the treasury operations in 2022 and their introducing into the treasury operations system in cooperation with MFRS and competent LGUs, (MHSW RS);
- Preparing selected public healthcare institutions for the transition to the treasury operations in 2023 and their introducing into the treasury operations system in cooperation with MFRS and competent LGUs, (MHSW RS);
- Preparing the remaining primary level public healthcare institutions for the transition to the treasury operations in 2024 and their introducing into the treasury operations system in cooperation with MFRS and competent LGUs (MHSW RS);
- Implementation of investment projects in the field of healthcare (MHSW RS);
- Construction and equipping of new hospitals in Dobož and Trebinje (MHSW RS);
- Construction and equipping of a new stationary facility at the PHI University Clinical Centre of the Republika Srpska, (MHSW RS),
- Construction and equipping of a new facility for providing health care to patients with malignant diseases at the PHI University Clinical Centre of the Republika Srpska, (MHSW RS),
- Reconstruction and equipping of the hospital facilities in Foča and Zvornik, (MHSW RS),
- Reconstruction and equipping of the technical and economic block of the PHI University Clinical Centre of the Republika Srpska, (MHSW RS).
- Rehabilitation of the facilities of the Maternitea and the Clinic for Infectious Diseases of the PHI University Clinical Centre of the Republika Srpska, (MHSW RS)
- Monitoring the implementation of the Law on Financial Consolidation and Restructuring of Public Healthcare Institutions in the Federation of BiH through monitoring the implementation of the Financial Consolidation and Restructuring Programme of individual health care institutions (FBiH MH);
- Development and revision of bylaws regulating the field of ICT in healthcare in the Federation of BiH (FBiH MH);
- Procurement and installation of IT and network equipment according to the recommendations of situational analysis (FBiH MH);
- Development of hardware and software to enable healthcare institutions and Health Insurance Institute (HII) improve budget planning, execution and monitoring, including their reporting on arrears, liabilities and financial risk (FBiH MH);
- Development of integrated dashboards for hospitals that provide information on resources, activities and key performance indicators (including feedback from service users .. e.g. waiting lists). (FBiH MH)
- Establishment of a publicly available database on arrears by healthcare institution. (FBiH MH)

- Training (healthcare institutions, HII, PHI)

**c. Activities planned in 2024:**

- Further implementation of the Plan of the network of healthcare institutions, (MHSW RS);
- Development and submission of five-year human resource plans by healthcare institutions, (MHSW RS);
- Transition to treasury operations system:
- Preparing selected public healthcare institutions for the transition to the treasury operations in 2022 and their introducing into the treasury operations system in cooperation with MFRS and competent LGUs, (MHSW RS);
- Preparing selected public healthcare institutions for the transition to the treasury operations in 2023 and their introducing into the treasury operations system in cooperation with MFRS and competent LGUs, (MHSW RS);
- Preparing the remaining primary level public healthcare institutions for the transition to the treasury operations in 2024 and their introducing into the treasury operations system in cooperation with MFRS and competent LGUs (MHSWRS);
- Implementation of investment projects in the field of healthcare (MHSW RS);
- Construction and equipping of new hospitals in Dobož and Trebinje (MHSW RS);
- Construction and equipping of a new stationary facility at the PHI University Clinical Centre of the Republika Srpska, (MHSW RS),
- Construction and equipping of a new facility for providing health care to patients with malignant diseases at the PHI University Clinical Centre of the Republika Srpska, (MHSW RS),
- Reconstruction and equipping of the hospital facilities in Foča and Zvornik, (MHSW RS),
- Reconstruction and equipping of the technical and economic block of the PHI University Clinical Centre of the Republika Srpska, (MHSW RS).
- Rehabilitation of the facilities of the Maternitea and the Clinic for Infectious Diseases of the PHI University Clinical Centre of the Republika Srpska, (MHSW RS).
- Monitoring the implementation of the Law on Financial Consolidation and Restructuring of Public Healthcare Institutions in the Federation of BiH through monitoring the implementation of the Financial Consolidation and Restructuring Programme of individual health care institutions (FBiH MH);
- Further support to capacity building in the field of management of institutions and facilities in the healthcare sector in FBiH
- Strengthening procurement capacity in the FBiH (e.g. expensive medicines, medical aids...)
- Capacity building for more efficient healthcare contracting in FBiH
- Support for further improvement of information systems (FBiH MH)
- IT support to the reporting system for the public health needs (FBiH MH).
- IT support for health service quality monitoring (FBiH MH)

**2. Results indicators**

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Level of reduction of total arrears of public health institutions and the Republika Srpska Health Insurance Fund -HIF	balance of total liabilities as of 31 December 2019, according to the		

	financial statements of public health institutions and the HIF RS		
Health expenditures as% of GDP			
Accumulated loss of the healthcare sector			
% of current public health expenditures in the FBiH in total current health expenditures			
IT networked primary, secondary and tertiary health care in cantons			

### 3. Expected impact on competitiveness

Reform of the health care system in the Republika Srpska will establish a fiscally viable system that will enable more efficient health care and thereby improve the health of the population, and consequently better labour productivity and efficiency.

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

Year	Wages	Goods and services	Subsidies and transfers	Capital expenditures	TOTAL
2022	–	–	345,000,000	59,635,000	404,635,000
2023	–	–	345,000,000	58,353,000	403,353,000
2024	–	–	388,200,000	38,011,000	426,211,000
<b>TOTAL</b>	0	0	1,078,200,000	155,999,000	1,234,199,000

The amount of planned investments in the Republika Srpska for the construction, reconstruction and equipping of public healthcare institutions in the next three-year period is about KM 156 million. The funds will be provided from the Budget of the Republika Srpska, and part of the funds for financing the activities will be provided through the support of international creditors and donors.

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

By standardising the network of health care institutions in the Republika Srpska, the analysis may show that the existence of some health care institutions is not justified, which can affect the reduction of the number of employees. The programme for clearing the arrears based on the contribution of the Pension and Disability Insurance Fund of the Republika Srpska for employees in public healthcare institutions (2021–2026) envisages taking care of workers, adjusting the number of employees in public healthcare institutions, focusing on hiring younger, better and more efficient staff, primarily health workers.

In the FBiH, the implementation of the measure aims at achieving more transparent and efficient management, especially financial management and cost control, which will ultimately lead to the provision of better services and better and more rational organization of work within health care institutions.

### 6. Expected impact on the environment and climate change

The impact of the measure on the environment and climate change is neutral.

### 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
COVID 19 pandemic	High	Continuation of the implementation of measures of the Government of the Republika

		Srpska aimed at mitigating the consequences caused by the Covid 19 pandemic; Implementation of the Emergency Project COVID-19 worth EUR 13.2 million (WB) and other complementary measures implemented by the MHRW and the Government of the Republika Srpska
The potential costs of implementing the measure can significantly slow down its implementation	High	Timely budget planning, as well as finding other available alternative funding sources
The focus of health care management on the COVID-19 pandemic and increasing costs in the health care system	High	Defining preventive epidemiological measures aimed at combating and preventing the spread of COVID-19 by the Crisis Headquarters of the FBiH Ministry of Health
Lack of financial resources	High	Negotiating with international donors and creditors in order to find the missing financial resources



## **6. COSTS AND FINANCING OF STRUCTURAL REFORMS**

Regarding the costs and sources of funding for structural reforms, an estimate of the costs of activities and sources of funding for individual reforms is given in Chapter 5. In some cases, it was not possible to estimate costs and / or sources of funding at this time. funds. As shown in the previous chapter, a significant number of activities will be financed from the budget, and partly from donations and loans from international institutions, as detailed in Chapter 5 for individual reforms.

## **7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT**

Within the process of drafting the PER RS 2022–2024 Proposal, the Government of the Republika Srpska, at its 132nd session held on August 12, 2021, considered and adopted the Information on activities on drafting the Republika Srpska Economic Reform Program for the period 2022–2024. year and coordination of activities related to the preparation of the Program of Economic Reforms of BiH for the period 2022–2024. years . Also, the Government of Republika Srpska appointed the Republika Srpska Team for drafting PER RS 2022–2024, and instructed all ministries and institutions of Republika Srpska to participate in full capacity in the process of drafting PER RS 2022–2024, diagnose, analyze the situation, identify key obstacles to competitiveness and inclusive growth, as well as to make proposals for key reforms for the next period, which would remove previously identified obstacles, as well as obstacles caused by the kovid pandemic 19. Further, the Government of Republika Srpska instructed the Republika Srpska coordinator to 2022–2024, is performed exclusively in such a way that the Republika Srpska remains clearly visible in the process and the document, in accordance with the constitutional powers and competencies of the institutions of the Republika Srpska.

As part of the drafting process, technical assistance was provided in the form of workshops organized by the Center for Excellence in Finance (CEF) from Slovenia, held within the project Strengthening the capacity of line ministries to assess the fiscal implications of structural reforms.

During the process of diagnosing, analyzing the situation and defining the draft reforms, consultations were held and proposals of social partners of the Government of Republika Srpska, ie the Union of Employers of Republika Srpska, the Chamber of Commerce of Republika Srpska and the Federation of Trade Unions of Republika Srpska were submitted. 2022–2024. During the period of preparation of the PER RS 2022-2024 Proposal, meetings were held with social partners, and a conference entitled: "Challenges and Future of Business" was held on November 17, 2021, organized by the Union of Employers of Republika Srpska.

Having in mind all the above, and with the intention to fully follow the methodology and Guidelines of the European Commission for drafting documents defining economic policies for the next medium term, The National Assembly of the Republika Srpska is on December 15, 2021. adopted the Program of Economic Reforms of the Republika Srpska 2022-2024.

**ANNEX 1: TABLES TO BE CONTAINED IN THE ECONOMIC REFORM PROGRAMMES AND THEIR UPDATES**

**Table 1a: Macroeconomic prospects**

	ESA Code	2020	2020	2021	2022	2023	2024
		bn EUR	Rate of change				
1. Real GDP at market prices	B1*g	18.079	-3.2	3.1	3.4	3.5	3.7
2. Current GDP at market prices	B1*g	18.118	-3.0	3.9	4.5	4.3	4.5
<b>Components of real GDP</b>							
3. Private consumption expenditure	P3	12.920	-2.6	1.9	2.0	1.7	1.8
4. Government consumption expenditure	P3	3.555	1.3	1.3	0.7	0.7	0.7
5. Gross fixed capital formation	P51	4.033	-3.0	4.8	7.0	6.9	7.9
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.040	0.2	0.0	0.1	0.1	0.0
7. Exports of goods and services	P6	6.139	-16.2	16.0	6.7	6.9	7.4
8. Imports of goods and services	P7	8.607	-13.6	10.1	4.6	4.1	4.8
<b>Contribution to real GDP growth</b>							
9. Final domestic demand		20.5	-2.3	2.6	3.1	2.9	3.3
10. Change in inventories and net acquisition of valuables	P52+P53	0.0	-1.9	-0.2	0.1	0.0	-0.1
11. External balance of goods/services	B11	-2.5	0.9	0.6	0.2	0.6	0.5

**Table 1b: Price developments**

	ESA Code	2020	2021	2022	2023	2024
1. GDP deflator	% yoy	0.2	0.8	1.0	0.7	0.8
2. Private consumption deflator	% yoy	-0.1	0.9	0.8	0.8	1.0
3. HICP <sup>1</sup>	% yoy	:	:	:	:	:
4. National CPI change	% yoy	-1.0	1.1	0.9	0.8	1.0
5. Public consumption deflator	% yoy	2.5	0.7	2.5	2.5	2.5
6. Investment deflator	% yoy	-1.4	1.2	0.9	1.4	1.9
7. Export price deflator (goods & services)	% yoy	-1.6	1.6	2.5	2.1	2.4
8. Import price deflator (goods & services)	% yoy	-1.4	1.7	2.4	2.9	3.5

<sup>1</sup> Agency for Statistics of Bosnia and Herzegovina does not publish HICP.

**Table 1c: Labour markets developments**

	ESA Code	2020 Level	2020	2021	2022	2023	2024
			Level/Rate of change				
1. Population (thousands)			3,478.1	3,470.5	3,462.4	3,453.9	3,444.8
2. Population (growth rate in %)			-0.2	-0.2	-0.2	-0.2	-0.3
3. Working-age population (persons)			2,343	2,320	2,320	2,320	2,320
4. Participation rate			59.5	59.9	60.0	60.2	60.5
5. Employment, persons			1,173	1,142	1,157	1,174	1,193
6. Employment, hours worked			:	:	:	:	:
7. Employment (growth rate in %)			46.1	-2.7	1.3	1.5	1.6
8. Public sector employment (persons)			199.2	200.8	:	:	:
9. Public sector employment (growth in %)			0.9	0.8	:	:	:
10. Unemployment rate			15.9	17.8	16.9	15.9	15.1
11. Labour productivity, persons		30.1	-33.7	5.9	2.1	2.0	2.1
12. Labour productivity, hours worked			:	:	:	:	:
13. Compensation of employees	D1	16.7	1.4	:	:	:	:

Note: Population data for the observed years (as of December 31 of each observed year) are taken from the Presentation of population analysis and population projections for the period 2020-2070 in Bosnia and Herzegovina presented in December 2020 by the Agency for Statistics of Bosnia and Herzegovina in cooperation with the entity statistical institutions and the United Nations Population Fund (UNFPA). Source: <http://bhas.gov.ba/News/Read/42?lang=en>.

In 2021 Labour Force Survey in Bosnia and Herzegovina was carried out continuously under the new, redesigned methodology harmonized with the new Regulation of the European Parliament and the Council, which entered into force on January 1th 2021. Due to the transition to the new, redesigned methodology of the Labour Force Survey in 2021, the data series was interrupted. The results of the Labour Force Survey 2021 are not comparable with the results of the continuous Labour Force Survey 2020 and with the results of annual Labour Force Surveys conducted in the period from 2006 to 2019. All survey data for 2021 represent the average of Q1, Q2 and Q3. More details in the methodological explanations in the document at the link: [https://bhas.gov.ba/data/Publikacije/Saopštenja/2021/LAB\\_00\\_2021\\_Q1\\_1\\_BS.pdf](https://bhas.gov.ba/data/Publikacije/Saopštenja/2021/LAB_00_2021_Q1_1_BS.pdf)

Projections on the working age population (15-64) are not available, so the last available data from 2021 until the end of the period has been retained. Item 4. Participation rate - refers to the participation of the labor force in the working age population (survey data). Historical data on the working age population, labor force (employment and unemployment) and unemployment rates are taken from the Labor Force Survey of Bosnia and Herzegovina (for better comparison with other countries) and do not match the data from the textual part of the ERP (Chapter 3), because administrative data are presented in the text part. For 2021, data for Q1, Q2 and Q3 were available.

The Agency for Statistics of Bosnia and Herzegovina does not publish data on the number of employees per working hour. Data on employees in the public sector are not published by the Agency for Statistics of Bosnia and Herzegovina. The administrative data listed in Table 1c (paragraph 8) is the sum of the number of employees in the areas of public administration, health and education (for 2021, the data refers to the average of the period I-IX). This data includes not only employees in public schools and health care (hospitals) but also employees in private schools and health care. Therefore, the data do not fully present the number of employees in the public sector (as in previous years). Also, projections for these areas of activity are not available.

Employee benefits are taken from currently available national accounts and are expressed in billions of KM (projections for this item are not available).

**Table 1d: Sectoral balances**

Percentage of GDP	ESA Code	2020	2021	2022	2023	2024
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	:	:	:	:	:
<i>of which:</i>		:	:	:	:	:
- Balance of goods and services		-13.2	-14.3	-11.7	-11.2	-10.7
- Balance of primary incomes and transfers		12.4	13.6	10.9	10.5	10.0
- Capital account		0.9	0.8	0.8	0.7	0.7
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	1.5	0.1	-0.5	-1.8	-2.1
3. Net lending/borrowing of general government		-2.3	-0.9	-0.2	1.1	1.4
4. Statistical discrepancy		:	:	:	:	:

**Table 1e: GDP, investment and gross value added**

	ESA Code	2020	2021	2022	2023	2024
<b>GDP and investment</b>						
GDP level at current market prices (in domestic currency)	B1g	35.4	36.8	38.4	40.1	41.9
Investment ratio (% of GDP)		22.0	22.4	23.2	24.1	25.4
<b>Growth of Gross Value Added, percentage changes at constant prices</b>						
1. Agriculture		8.3	:	:	:	:
2. Industry (excluding construction)		1.3	:	:	:	:
3. Construction		11.3	:	:	:	:
4. Services		-2.3	:	:	:	:

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

**Table 1f: External sector developments**

		2020	2021	2022	2023	2024
1. Current account balance (% of GDP)	% of GDP	-3.3	-3.3	-1.1	-0.7	-0.8
2. Export of goods	bn EUR	4.8	6.4	6.2	6.9	7.5
3. Import of goods	bn EUR	8.0	10.2	9.4	10.0	10.8
4. Trade balance	bn EUR	-3.2	-3.8	-3.2	-3.2	-3.3
5. Export of services	bn EUR	1.2	1.6	1.4	1.5	1.6
6. Import of services	bn EUR	0.5	0.5	0.5	0.6	0.6
7. Service balance	bn EUR	0.8	1.1	0.8	0.9	1.0
8. Net interest payments from abroad	bn EUR	-0.1	-0.1	-0.1	-0.1	-0.1
9. Other net factor income from abroad	bn EUR	-0.1	-0.1	-0.1	-0.1	-0.1
9a. Remittances	bn EUR	1.3	1.6	1.6	1.7	1.7
10. Current transfers	bn EUR	2.0	2.2	2.3	2.3	2.3
11. Of which from EU	bn EUR	:	:	:	:	:
12. Current account balance	bn EUR	-0.6	-0.6	-0.2	-0.1	-0.2
13. Capital and financial account	bn EUR	0.6	0.4	0.4	0.5	0.5
14. Foreign direct investment, net	bn EUR	0.3	0.4	0.3	0.3	0.4
14.a Of which: Net-FDI (Equity)	bn EUR	0.3	0.8	0.5	0.6	0.6
14b. Of which: Portfolio investment	bn EUR	0.0	0.1	0.1	0.1	0.1
14c. Of which: Net-Portfolio investment (Equity)	bn EUR	0.0	0.0	0.0	0.0	0.0
14d. Foreign direct investment, inward	bn EUR	0.4	0.6	0.4	0.5	0.6
14e. Foreign direct investment, outward	bn EUR	0.1	0.1	0.1	0.1	0.1
15. Foreign reserves	bn EUR	7.1	8.3	8.8	9.3	9.8
16. Total foreign debt	bn EUR	11.4	11.6	12.0	12.6	13.1
16a. Of which: foreign currency denominated	bn EUR	11.4	11.6	11.6	11.6	11.6
16b. Of which: public external debt	bn EUR	4.5	4.8	4.6	4.2	:
16c. Of which: interest payments	bn EUR	:	:	:	:	:
16d. of which: repayments due	bn EUR	:	:	:	:	:
17. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1.95583	1.95583	1.95583	1.95583	1.95583
17a. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	1.95583	1.95583	1.95583	1.95583	1.95583
18. Net foreign saving	% of GDP	:	:	:	:	:
19. Domestic private saving	% of GDP	:	:	:	:	:
20. Domestic private investment	% of GDP	:	:	:	:	:
21. Domestic public saving	% of GDP	:	:	:	:	:
22. Domestic public investment	% of GDP	:	:	:	:	:

**Table 1g: Sustainability indicators**

	Dimension	2017	2018	2019	2020	2021
1. Current Account Balance	% of GDP	-4.6	-3.1	-2.6	-3.3	-3.3
2. Net International Investment Position	% of GDP	-43.9	-40.4	-35.4	-33.4	-32.0
3. Export market shares	%, yoy	:	:	:	:	:
4. Real Effective Exchange Rate	%, yoy	-0.6	0.7	-0.4	-1.6	-0.5
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	:	:	:	:	:
7. Private sector debt	% of GDP	:	:	:	:	:
8. General Government Debt	% of GDP	33.3	31.8	30.4	34.0	34.8

Note: Data on general government debt were submitted by the Ministry of Finance and Treasury of BiH, and other data in the table were taken from the CBBH.

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

	ESA Code	2020	2020	2021	2022	2023	2024
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-831.9	-2.3	-0.9	-0.2	1.1	1.4
2. Central government	S1311	-742.6	-2.1	-1.0	-0.7	0.4	0.7
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	-91.3	-0.3	0.3	0.4	0.4	0.4
5. Social security funds	S1314	2.0	0.0	-0.2	0.0	0.3	0.4
General government (S13)							
6. Total revenue	TR	14,143.7	39.9	42.3	41.7	41.4	41.2
7. Total expenditure	TE	14,975.6	42.3	43.2	42.0	40.4	39.8
8. Net borrowing/lending	EDP.B9	-831.9	-2.3	-0.9	-0.2	1.1	1.4
9. Interest expenditure	EDP.D41 incl. FISIM	234.6	0.7	0.8	0.9	0.9	1.0
10. Primary balance		-597.3	-1.7	-0.1	0.6	2.0	2.4
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		7,318.2	20.7	22.4	22.4	22.3	22.1
12a. Taxes on production and imports	D2	5,964.9	16.8	18.5	18.3	18.1	17.9
12b. Current taxes on income and wealth	D5	1,349.6	3.8	3.9	4.1	4.1	4.2
12c. Capital taxes	D91	3.7	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	5,314.1	15.0	15.2	15.1	15.1	15.1
14. Property income	D4	81.9	0.2	0.4	0.3	0.3	0.3
15. Other (15 = 16-(12+13+14))		1,429.5	4.0	4.3	3.9	3.7	3.6
16 = 6. Total revenue	TR	14,143.7	39.9	42.3	41.7	41.4	41.2
p.m.: Tax burden (D2+D5+D61+D91- D995)		12,632.3	35.6	37.6	37.5	37.4	37.3
Selected components of expenditures							
17. Collective consumption	P32	6,231.8	17.6	18.6	18.1	17.3	17.0
18. Total social transfers	D62 + D63	5,553.7	15.7	16.0	15.9	15.7	15.5
18a. Social transfers in kind	P31=D63	789.6	2.2	2.3	2.3	2.2	2.1
18b. Social transfers other than in kind	D62	4,764.1	13.4	13.7	13.6	13.5	13.3
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	234.6	0.7	0.8	0.9	0.9	1.0
20. Subsidies	D3	775.2	2.2	2.3	1.6	1.5	1.5
21. Gross fixed capital formation	P51	1,252.6	3.5	3.5	3.7	2.4	2.4
22. Other (22 = 23-(17+18+19+20+21))		927.7	2.6	2.0	1.9	2.6	2.4
23=7. Total expenditures	TE	14,975.6	42.3	43.2	42.0	40.4	39.8
p.m. compensation of employees	D1	3,910.3	11.0	11.3	11.2	10.8	10.5

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

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

	ESA Code	2020	2020	2021	2022	2023	2024
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-41.5	-0.1	-0.3	-0.2	-0.2	-0.2
2. Central government	S1311	-41.5	-0.1	-0.3	-0.2	-0.2	-0.2
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	0.0	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	942.6	2.7	2.5	2.4	2.3	2.2
7. Total expenditure	TE	984.1	2.8	2.8	2.7	2.5	2.4
8. Net borrowing/lending	EDP.B9	-41.5	-0.1	-0.3	-0.2	-0.2	-0.2
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	0.0	0.0	0.0	0.0	0.0
10. Primary balance		-40.6	-0.1	-0.3	-0.2	-0.2	-0.2
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		780.0	2.2	2.1	2.0	1.9	1.9
12a. Taxes on production and imports	D2	780.0	2.2	2.1	2.0	1.9	1.9
12b. Current taxes on income and wealth	D5	0.0	0.0	0.0	0.0	0.0	0.0
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	0.0	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	0.0	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		162.6	0.5	0.4	0.4	0.4	0.4
16 = 6. Total revenue	TR	942.6	2.7	2.5	2.4	2.3	2.2
p.m.: Tax burden (D2+D5+D61+D91- D995)		780.0	2.2	2.1	2.0	1.9	1.9
Selected components of expenditures							
17. Collective consumption	P32	822.4	2.3	2.5	2.4	2.3	2.3
18. Total social transfers	D62 + D63	10.0	0.0	0.0	0.0	0.0	0.0
18a. Social transfers in kind	P31=D63	0.0	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	10.0	0.0	0.0	0.0	0.0	0.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.9	0.0	0.0	0.0	0.0	0.0
20. Subsidies	D3	0.0	0.0	0.0	0.0	0.0	0.0
21. Gross fixed capital formation	P51	85.4	0.2	0.1	0.1	0.1	0.1
22. Other (22 = 23-(17+18+19+20+21))		65.4	0.2	0.1	0.1	0.1	0.1
23=7. Total expenditures	TE	984.1	2.8	2.8	2.7	2.5	2.4
p.m. compensation of employees	D1	680.5	1.9	1.9	1.9	1.9	1.8

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina



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

	ESA Code	2020	2020	2021	2022	2023	2024
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-192.7	-0.5	-0.1	0.8	1.1	1.2
2. Central government	S1311	-149.9	-0.4	0.0	0.6	0.8	0.9
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.2	0.0	0.2	0.2	0.2	0.2
5. Social security funds	S1314	-43.0	-0.1	-0.2	0.0	0.1	0.1
General government (S13)							
6. Total revenue	TR	8,647.6	24.4	25.5	25.6	25.5	25.5
7. Total expenditure	TE	8,840.3	24.9	25.6	24.8	24.5	24.3
8. Net borrowing/lending	EDP.B9	-192.7	-0.5	-0.1	0.8	1.1	1.2
9. Interest expenditure	EDP.D41 incl. FISIM	105.3	0.3	0.4	0.5	0.5	0.5
10. Primary balance		-87.4	-0.2	0.3	1.2	1.5	1.7
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		4,044.9	11.4	12.7	12.7	12.6	12.6
12a. Taxes on production and imports	D2	3,169.8	8.9	10.1	10.0	9.9	9.8
12b. Current taxes on income and wealth	D5	875.1	2.5	2.6	2.6	2.7	2.8
12c. Capital taxes	D91		0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	3,641.4	10.3	10.3	10.3	10.4	10.4
14. Property income	D4	10.2	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		951.1	2.7	2.5	2.5	2.5	2.4
16 = 6. Total revenue	TR	8,647.6	24.4	25.5	25.6	25.5	25.5
p.m.: Tax burden (D2+D5+D61+D91-D995)		7,686.3	21.7	23.0	23.0	23.0	23.0
Selected components of expenditures							
17. Collective consumption	P32	3,983.9	11.2	11.9	11.5	11.1	11.0
18. Total social transfers	D62 + D63	3,216.9	9.1	9.2	9.2	9.1	9.1
18a. Social transfers in kind	P31=D63		0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	3,216.9	9.1	9.2	9.2	9.1	9.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	105.3	0.3	0.4	0.5	0.5	0.5
20. Subsidies	D3	481.8	1.4	1.6	1.1	1.1	1.1
21. Gross fixed capital formation	P51	645.3	1.8	2.1	2.3	1.6	1.6
22. Other (22 = 23-(17+18+19+20+21))		407.1	1.1	0.4	0.3	1.0	1.0
23=7. Total expenditures	TE	8,840.3	24.9	25.6	24.8	24.5	24.3
p.m. compensation of employees	D1	2,065.5	5.8	6.0	5.7	5.5	5.5

Source: Ministry of Finance of the Federation of Bosnia and Herzegovina

**Table 2a: General government budgetary prospects – Republika Srpska**

	ESA Code	2020 mill. KM	2020	2021	2022	2023	2024
% of GDP							
Net lending (B9) by sub-sectors							
1. General government	S13	-565.6	-1.6	-0.4	-0.8	0.2	0.5
2. Central government	S1311	-519.1	-1.5	-0.6	-1.1	-0.2	0.0
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	-91.5	-0.3	0.1	0.2	0.2	0.2
5. Social security funds	S1314	45.0	0.1	0.0	0.1	0.2	0.3
General government (S13)							
6. Total revenue	TR	4,351.0	12.3	13.6	13.1	13.0	12.9
7. Total expenditure	TE	4,916.6	13.9	14.1	13.9	12.8	12.5
8. Net borrowing/lending	EDP.B9	-565.6	-1.6	-0.4	-0.8	0.2	0.5
9. Interest expenditure	EDP.D41 incl. FISIM	127.5	0.4	0.4	0.4	0.4	0.5
10. Primary balance		-438.1	-1.2	-0.1	-0.4	0.6	1.0
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		2,303.0	6.5	7.0	7.1	7.2	7.1
12a. Taxes on production and imports	D2	1,851.6	5.2	5.7	5.8	5.8	5.8
12b. Current taxes on income and wealth	D5	447.7	1.3	1.3	1.3	1.3	1.3
12c. Capital taxes	D91	3.7	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	1,672.7	4.7	4.9	4.8	4.7	4.7
14. Property income	D4	71.7	0.2	0.4	0.3	0.3	0.3
15. Other (15 = 16-(12+13+14))		303.6	0.9	1.3	0.9	0.8	0.8
16 = 6. Total revenue	TR	4,351.0	12.3	13.6	13.1	13.0	12.9
p.m.: Tax burden (D2+D5+D61+D91-D995)		3,975.7	11.2	11.9	11.9	11.9	11.8
Selected components of expenditures							
17. Collective consumption	P32	1,307.5	3.7	3.9	3.8	3.5	3.4
18. Total social transfers	D62 + D63	2,256.0	6.4	6.6	6.5	6.3	6.1
18a. Social transfers in kind	P31=D63	789.6	2.2	2.3	2.3	2.2	2.1
18b. Social transfers other than in kind	D62	1,466.4	4.1	4.3	4.2	4.1	4.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	127.5	0.4	0.4	0.4	0.4	0.5
20. Subsidies	D3	261.3	0.7	0.7	0.4	0.4	0.4
21. Gross fixed capital formation	P51	517.7	1.5	1.1	1.3	0.7	0.7
22. Other (22 = 23-(17+18+19+20+21))		446.6	1.3	1.4	1.4	1.4	1.3
23=7. Total expenditures	TE	4,916.6	13.9	14.1	13.9	12.8	12.5
p.m. compensation of employees	D1	1,081.9	3.1	3.1	3.2	3.1	3.0

Source: Ministry of Finance of Republika Srpska

**Table 2a: General government budgetary prospects – Brčko District**

	ESA Code	2020	2020	2021	2022	2023	2024
		mill. KM	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-32.1	-0.1	-0.1	0.0	0.0	0.0
2. Central government	S1311	-32.1	-0.1	-0.1	0.0	0.0	0.0
3. State government	S1312	0.0	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	0.0	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	202.5	0.6	0.6	0.6	0.6	0.6
7. Total expenditure	TE	234.6	0.7	0.8	0.6	0.6	0.6
8. Net borrowing/lending	EDP.B9	-32.1	-0.1	-0.1	0.0	0.0	0.0
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	0.0	0.0	0.0	0.0	0.0
10. Primary balance		-31.2	-0.1	-0.1	0.0	0.0	0.0
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0	0.0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		190.3	0.5	0.6	0.5	0.5	0.5
12a. Taxes on production and imports	D2	163.5	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	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	0.0	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	0.0	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		12.2	0.0	0.0	0.0	0.0	0.0
16 = 6. Total revenue	TR	202.5	0.6	0.6	0.6	0.6	0.6
p.m.: Tax burden (D2+D5+D61+D91-D995)		190.3	0.5	0.6	0.5	0.5	0.5
Selected components of expenditures							
17. Collective consumption	P32	118.0	0.3	0.3	0.3	0.3	0.3
18. Total social transfers	D62 + D63	70.8	0.2	0.2	0.2	0.2	0.2
18a. Social transfers in kind	P31=D63		0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	70.8	0.2	0.2	0.2	0.2	0.2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.9	0.0	0.0	0.0	0.0	0.0
20. Subsidies	D3	32.1	0.1	0.1	0.0	0.0	0.0
21. Gross fixed capital formation	P51	4.2	0.0	0.1	0.0	0.0	0.0
22. Other (22 = 23-(17+18+19+20+21))		8.6	0.0	0.0	0.0	0.0	0.0
23=7. Total expenditures	TE	234.6	0.7	0.8	0.6	0.6	0.6
p.m. compensation of employees	D1	82.4	0.2	0.2	0.3	0.2	0.2

Source: Finance Directorate of Brčko District

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

	ESA Code	2020	2021	2022	2023	2024
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	-831.9	-323.3	-95.8	423.3	599.9
2. Central government	S1311	-742.6	-365.7	-276.8	164.2	274.5
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	-91.3	110.7	162.3	156.6	152.8
5. Social security funds	S1314	2.0	-68.3	18.7	102.5	172.6
General government (S13)						
6. Total revenue	TR	14,143.7	15,579.7	16,039.2	16,607.3	17,271.7
7. Total expenditure	TE	14,975.6	15,903.0	16,135.0	16,184.0	16,671.8
8. Net borrowing/lending	EDP.B9	-831.9	-323.3	-95.8	423.3	599.9
9. Interest expenditure	EDP.D41 incl. FISIM	234.6	284.5	331.3	367.0	415.9
10. Primary balance		-597.3	-38.8	235.5	790.3	1.015.8
11. One-off and other temporary measures		-0.1	1.3	0.3	0.0	0.0
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		7,318.2	8,245.0	8,601.5	8,930.4	9,277.6
12a. Taxes on production and imports	D2	5,964.9	6,796.6	7,035.0	7,270.4	7,516.1
12b. Current taxes on income and wealth	D5	1,349.6	1,443.3	1,561.4	1,654.6	1,755.9
12c. Capital taxes	D91	3.7	5.1	5.1	5.4	5.6
13. Social contributions	D61	5,314.1	5,606.3	5,819.6	6,065.2	6,345.0
14. Property income	D4	81.9	162.3	129.0	116.8	121.8
15. Other (15 = 16-(12+13+14))		1,429.5	1,566.1	1,489.1	1,494.9	1,527.3
16 = 6. Total revenue	TR	14,143.7	15,579.7	16,039.2	16,607.3	17,271.7
p.m.: Tax burden (D2+D5+D61+D91-D995)		12,632.3	13,851.3	14,421.1	14,995.6	15,622.6
Selected components of expenditures						
17. Collective consumption	P32	6,231.8	6,855.7	6,942.3	6,931.1	7,117.0
18. Total social transfers	D62 + D63	5,553.7	5,904.4	6,108.8	6,292.6	6,480.3
18a. Social transfers in kind	P31=D63	789.6	856.1	874.5	889.6	900.2
18b. Social transfers other than in kind	D62	4,764.1	5,048.3	5,234.3	5,403.0	5,580.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	234.6	284.5	331.3	367.0	415.9
20. Subsidies	D3	775.2	839.8	597.1	603.8	623.1
21. Gross fixed capital formation	P51	1,252.6	1,295.2	1,424.1	947.6	1,010.3
22. Other (22 = 23-(17+18+19+20+21))		927.7	723.4	731.4	1,041.9	1,025.2
23=7. Total expenditures	TE	14,975.6	15,903.0	16,135.0	16,184.0	16,671.8
p.m. compensation of employees	D1	3,910.3	4,143.5	4,295.0	4,310.8	4,408.2

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

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

	ESA Code	2020	2021	2022	2023	2024
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	-41.5	-94.1	-94.4	-73.9	-86.5
2. Central government	S1311	-41.5	-94.1	-94.4	-73.9	-86.5
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	0.0	0.0	0.0	0.0	0.0
General government (S13)						
6. Total revenue	TR	942.6	927.2	927.6	936.5	936.5
7. Total expenditure	TE	984.1	1,021.3	1,022.0	1,010.4	1,023.0
8. Net borrowing/lending	EDP.B9	-41.5	-94.1	-94.4	-73.9	-86.5
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	1.0	0.9	0.8	0.5
10. Primary balance		-40.6	-93.1	-93.5	-73.1	-86.0
11. One-off and other temporary measures		-0.1	0.0	0.0	0.0	0.0
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		780.0	780.0	780.0	780.0	780.0
12a. Taxes on production and imports	D2	780.0	780.0	780.0	780.0	780.0
12b. Current taxes on income and wealth	D5	0.0	0.0	0.0	0.0	0.0
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		162.6	147.2	147.6	156.5	156.5
16 = 6. Total revenue	TR	942.6	927.2	927.6	936.5	936.5
p.m.: Tax burden (D2+D5+D61+D91-D995)		780.0	780.0	780.0	780.0	780.0
Selected components of expenditures						
17. Collective consumption	P32	822.4	905.5	931.5	928.4	950.9
18. Total social transfers	D62 + D63	10.0	10.3	11.0	11.0	11.0
18a. Social transfers in kind	P31=D63	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	10.0	10.3	11.0	11.0	11.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.9	1.0	0.9	0.8	0.5
20. Subsidies	D3	0.0	0.0	0.0	0.0	0.0
21. Gross fixed capital formation	P51	85.4	49.6	40.1	33.3	33.3
22. Other (22 = 23-(17+18+19+20+21))		65.4	54.9	38.5	36.9	27.3
23=7. Total expenditures	TE	984.1	1,021.3	1,022.0	1,010.4	1,023.0
p.m. compensation of employees	D1	680.5	715.9	745.3	748.7	748.7

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

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

	ESA Code	2020	2021	2022	2023	2024
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	-192.7	-18.7	296.3	426.5	504.1
2. Central government	S1311	-149.9	-1.5	236.0	335.0	365.4
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.2	62.2	77.3	70.8	76.7
5. Social security funds	S1314	-43.0	-79.4	-17.0	20.7	62.0
General government (S13)						
6. Total revenue	TR	8,647.6	9,399.3	9,840.2	10,230.4	10,676.6
7. Total expenditure	TE	8,840.3	9,418.0	9,543.9	9,803.9	10,172.5
8. Net borrowing/lending	EDP.B9	-192.7	-18.7	296.3	426.5	504.1
9. Interest expenditure	EDP.D41 incl. FISIM	105.3	143.8	174.4	186.7	197.1
10. Primary balance		-87.4	125.1	470.7	613.2	701.2
11. One-off and other temporary measures		0.6	1.2	0.4	0.0	0.0
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		4,044.9	4,667.1	4,876.0	5,065.3	5,281.4
12a. Taxes on production and imports	D2	3,169.8	3,721.80	3,858.40	3,979.40	4,119.70
12b. Current taxes on income and wealth	D5	875.1	945.3	1017.6	1085.9	1161.7
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	3,641.4	3,798.7	3,977.6	4,165.8	4,370.2
14. Property income	D4	10.2	10.2	10.5	10.8	11.2
15. Other (15 = 16-(12+13+14))		951.1	923.3	976.1	988.5	1,013.8
16 = 6. Total revenue	TR	8,647.6	9,399.3	9,840.2	10,230.4	10,676.6
p.m.: Tax burden (D2+D5+D61+D91-D995)		7,686.3	8,465.8	8,853.6	9,231.1	9,651.6
Selected components of expenditures						
17. Collective consumption	P32	3,983.9	4,393.30	4,405.70	4,454.80	4,591.00
18. Total social transfers	D62 + D63	3,216.9	3,379.3	3,519.2	3,659.9	3,817.3
18a. Social transfers in kind	P31=D63	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	3,216.9	3,379.3	3,519.2	3,659.9	3,817.3
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	105.3	143.8	174.4	186.7	197.1
20. Subsidies	D3	481.8	575.4	427.1	444.2	463.3
21. Gross fixed capital formation	P51	645.3	780.4	886.4	640.2	676.4
22. Other (22 = 23-(17+18+19+20+21))		407.1	145.8	131.1	418.1	427.4
23=7. Total expenditures	TE	8,840.3	9,418.0	9,543.9	9,803.9	10,172.5
p.m. compensation of employees	D1	2,065.5	2,200.5	2,210.4	2,215.5	2,306.9

Source: Ministry of Finance of the Federation of Bosnia and Herzegovina

**Table 2b: General government budgetary prospects – Republika Srpska**

	ESA Code	2020	2021	2022	2023	2024
		mill. KM				
Net lending (B9) by sub-sectors						
1. General government	S13	-565.6	-165.0	-291.2	77.1	188.7
2. Central government	S1311	-519.1	-224.6	-411.9	-90.5	2.0
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	-91.5	48.5	85.0	85.8	76.1
5. Social security funds	S1314	45.0	11.1	35.7	81.8	110.6
General government (S13)						
6. Total revenue	TR	4,351.0	5,021.1	5,048.8	5,210.2	5,418.6
7. Total expenditure	TE	4,916.6	5,186.1	5,340.0	5,133.1	5,229.9
8. Net borrowing/lending	EDP.B9	-565.6	-165.0	-291.2	77.1	188.7
9. Interest expenditure	EDP.D41 incl. FISIM	127.5	139.1	155.2	178.8	217.7
10. Primary balance		-438.1	-25.9	-136.0	255.9	406.4
11. One-off and other temporary measures		-0.6	0.2	-0.1	0.0	0.0
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		2,303.0	2,583.1	2,735.6	2,867.8	2,989.4
12a. Taxes on production and imports	D2	1,851.6	2,107.9	2,218.4	2,325.4	2,421.3
12b. Current taxes on income and wealth	D5	447.7	470.1	512.1	537.0	562.5
12c. Capital taxes	D91	3.7	5.1	5.1	5.4	5.6
13. Social contributions	D61	1,672.7	1,807.6	1,842.0	1,899.4	1,974.8
14. Property income	D4	71.7	152.1	118.5	106.0	110.6
15. Other (15 = 16-(12+13+14))		303.6	478.3	352.7	337.0	343.8
16 = 6. Total revenue	TR	4,351.0	5,021.1	5,048.8	5,210.2	5,418.6
p.m.: Tax burden (D2+D5+D61+D91-D995)		3,975.7	4,390.7	4,577.6	4,767.2	4,964.2
Selected components of expenditures						
17. Collective consumption	P32	1,307.5	1,428.4	1,470.8	1,413.8	1,440.5
18. Total social transfers	D62 + D63	2,256.0	2,446.0	2,498.5	2,541.6	2,571.9
18a. Social transfers in kind	P31=D63	789.6	856.1	874.5	889.6	900.2
18b. Social transfers other than in kind	D62	1,466.4	1,589.9	1,624.0	1,652.0	1,671.7
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	127.5	139.1	155.2	178.8	217.7
20. Subsidies	D3	261.3	240.3	170.0	159.6	159.8
21. Gross fixed capital formation	P51	517.7	418.0	493.9	264.1	282.3
22. Other (22 = 23-(17+18+19+20+21))		446.6	514.3	551.6	575.2	557.7
23=7. Total expenditures	TE	4,916.6	5,186.1	5,340.0	5,133.1	5,229.9
p.m. compensation of employees	D1	1,081.9	1,138.8	1,239.9	1,247.2	1,253.1

Source: Ministry of Finance of Republika Srpska

**Table 2b: General government budgetary prospects – Brčko District**

	ESA Code	2020	2021	2022	2023	2024
mill. KM						
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	-32.1	-45.5	-6.5	-6.4	-6.4
2. Central government	S1311	-32.1	-45.5	-6.5	-6.4	-6.4
3. State government	S1312	0.0	0.0	0.0	0.0	0.0
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	0.0	0.0	0.0	0.0	0.0
<b>General government (S13)</b>						
6. Total revenue	TR	202.5	232.1	222.6	230.2	240.0
7. Total expenditure	TE	234.6	277.6	229.1	236.6	246.4
8. Net borrowing/lending	EDP.B9	-32.1	-45.5	-6.5	-6.4	-6.4
9. Interest expenditure	EDP.D41 incl. FISIM	0.9	0.6	0.8	0.7	0.6
10. Primary balance		-31.2	-44.9	-5.7	-5.7	-5.8
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0
<b>Components of revenues</b>						
12. Total taxes (12 = 12a+12b+12c)		190.3	214.8	209.9	217.3	226.8
12a. Taxes on production and imports	D2	163.5	186.9	178.2	185.6	195.1
12b. Current taxes on income and wealth	D5	26.8	27.9	31.7	31.7	31.7
12c. Capital taxes	D91	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	0.0	0.0	0.0	0.0	0.0
14. Property income	D4	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))		12.2	17.3	12.7	12.9	13.2
16 = 6. Total revenue	TR	202.5	232.1	222.6	230.2	240.0
p.m.: Tax burden (D2+D5+D61+D91-D995)		190.3	214.8	209.9	217.3	226.8
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	118.0	128.5	134.3	134.1	134.6
18. Total social transfers	D62 + D63	70.8	68.8	80.1	80.1	80.1
18a. Social transfers in kind	P31=D63	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	70.8	68.8	80.1	80.1	80.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.9	0.6	0.8	0.7	0.6
20. Subsidies	D3	32.1	24.1			
21. Gross fixed capital formation	P51	4.2	47.2	3.7	10.0	18.3
22. Other (22 = 23-(17+18+19+20+21))		8.6	8.4	10.2	11.7	12.8
23=7. Total expenditures	TE	234.6	277.6	229.1	236.6	246.4
p.m. compensation of employees	D1	82.4	88.3	99.4	99.4	99.5

Source: Finance Directorate of Brčko District



**Table 2c): Discretionary measures adopted/announced according to the Programme**

**Bosnia and Herzegovina**

Measures		ESA kod (Expenditure / Revenue component)	Date of adoption	Budgetary impact (% of GDP)				
				2020	2021	2022	2023	2024
<i>Temporary measures</i>	Funds from the Solidarity Fund and the Compensation Fund	revenues	:	0.8%	0.7%	0.1%	:	:
	Donor funds of the Government of the Republic of Serbia	revenues	:	0.1%	0.0%	0.0%	:	:
	Funds from the budget	revenues	:	0.0%	0.0%	0.0%	:	:
	Funds from escrow accounts	revenues	:	0.0%	0.0%	0.0%	:	:
	Economic / Agricultural Assistance Payments (Covid-19)	expenses	:	-0.5%	-0.1%	0.0%	:	:
	Payment for health assistance	expenses	:	-0.5%	-0.4%	-0.3%	:	:
	CANTONS AND MUNICIPALITIES - assistance to municipalities	expenses	:	0.0%	0.0%	0.0%	:	:
	Other payments (Covid-19)	expenses	:	-0.2%	0.0%	0.0%		
<b>Subtotal</b>				<b>-0.3%</b>	<b>0.1%</b>	<b>-0.2%</b>	<b>0.0</b>	<b>0.0</b>
<i>Non- temporary measures</i>	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	<b>Subtotal</b>			<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>				<b>-0.3%</b>	<b>0.1%</b>	<b>-0.2%</b>	<b>0.0</b>	<b>0.0</b>

**Table 2c): Discretionary measures adopted/announced according to the Programme**

**Bosnia and Herzegovina**

Measures		ESA kod (Expenditure / Revenue component)	Date of adoption	Budgetary impact (in mill. KM)				
				2020	2021	2022	2023	2024
Temporary measures	Funds from the Solidarity Fund and the Compensation Fund	revenues	:	287.03	250.00	30.00	:	:
	Donor funds of the Government of the Republic of Serbia	revenues	:	18.50	0.00	0.00	:	:
	Funds from the budget	revenues	:	14.90	0.00	0.00	:	:
	Funds from escrow accounts	revenues	:	10.00	0.00	0.00	:	:
	Economic / Agricultural Assistance Payments (Covid-19)	expenses	:	-176.88	-41.10	-10.00	:	:
	Payment for health assistance	expenses	:	-161.13	-150.10	-111.00	:	:
	CANTONS AND MUNICIPALITIES - assistance to municipalities	expenses	:	-10.00	-10.00	0.00	:	:
	Other payments (Covid-19)	expenses	:	-78.73	-2.80	0.00		
Subtotal				-96.31	46	-91.00	0.0	0.0
Non- temporary measures	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
Subtotal				0.0	0.0	0.0	0.0	0.0
Total				-96.31	46	-91.00	0.0	0.0

**Table 2c): Discretionary measures adopted/announced according to the Programme**

**Institutions of Bosnia and Herzegovina**

Measures		ESA kod (Expenditure / Revenue component)	Date of adoption	Budgetary impact (in mill. KM)				
				2020	2021	2022	2023	2024
Temporary measures	Funds for repairing economic damage	expenses	29.07.2020.	-41.93			:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	Subtotal			-41.93	0.0	0.0	0.0	0.0
Non- temporary measures	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	Subtotal			0.0	0.0	0.0	0.0	0.0
Total				-41.93	0.0	0.0	0.0	0.0

**Table 2c): Discretionary measures adopted/announced according to the Programme**

**Federation of Bosnia and Herzegovina**

Measures		ESA kod (Expenditure / Revenue component)	Date of adoption	Budgetary impact (in mill. KM)				
				2020	2021	2022	2023	2024
Temporary measures	Transfer for rehabilitation of health institutions in Federation of Bosnia and Herzegovina		07.05.2020/19.01.2021/Plan 2022	-30.00	-60.00	60.00	:	:
	Taking measures to prevent and control infectious diseases COVID - 19 within the jurisdiction of the FBIH (quarantine costs)		07.05.2020/19.01.2021/Plan 2022	-0.51	-2.00	1.00	:	:
	Procurement of vaccine against COVID-19		07.05.2020/19.01.2021/Plan 2022	-11.56	-12.00	30.00	:	:
	COVID-19 detection tests, protective material and prevention equipment		07.05.2020.	-12.14			:	:
	Fund for stabilization of economy		07.05.2020./19.01.2021.	90.93	105.00		:	:
	Decree on intervention measures to support the vulnerable sectors of the economy of the Federation of Bosnia and Herzegovina in circumstances of the COVID-19 pandemic		07.05.2020.	-88.68			:	:
	CANTONS AND MUNICIPALITIES - Assistance to municipalities		07.05.2020./19.01.2021.	-10.00	-10.00		:	:
	Guarantee Fund at the Development Bank		07.05.2020./19.01.2021.	20.00	25.00		:	:
	Procurement of equipment through Civil Protection		07.05.2020.	-12.42			:	:
	<b>Subtotal</b>			<b>-54.38</b>	<b>46.00</b>	<b>-91.00</b>	<b>0.0</b>	<b>0.0</b>
Non- temporary measures	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	<b>Subtotal</b>			<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total</b>				<b>-54.38</b>	<b>46.00</b>	<b>-91.00</b>	<b>0.0</b>	<b>0.0</b>

Note: All the above measures implemented in 2020 and 2021, and the planned measures in 2022 that are known on the day of making this table, have been taken and will be taken in various areas of activities to mitigate the effects of the pandemic crisis.

Izvor: Federal Ministry of Finance

**Table 2c): Discretionary measures adopted/announced according to the Programme**

**Republika Srpska**

Measures		ESA kod (Expenditure / Revenue component)	Date of adoption	Budgetary impact (in mill. KM)				
				2020	2021	2022	2023	2024
Temporary measures	Funds from the Solidarity Fund and the Compensation Fund	:	:	176.1	120.0	30.0	:	:
	Revenues - donor funds of the Government of the Republic of Serbia	:	:	18.5			:	:
	Funds from the budget	:	:	14.9			:	:
	Funds from escrow accounts	:	:	10.0			:	:
	Economic / Agricultural Assistance Payments (Covid-19)	:	:	-88.2	-41.1	-10.0	:	:
	Health Assistance Payments (Covid-19)*	:	:	-94.5	-76.1	-20.0	:	:
	Health care payments	:	:	-36.8	-2.8		:	:
Subtotal				0.0	0.0	0.0	0.0	0.0
Non- temporary measures	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	Subtotal			0.0	0.0	0.0	0.0	0.0
Total				0.0	0.0	0.0	0.0	0.0

Notes:

1. For the purposes of this table, temporary measures are those discretionary measures that have no impact on the budget after 2022. In contrast, those measures adopted or announced for 2020, 2021 or 2022 that continue to have a fiscal impact of 0.1% of GDP or higher until at least 2023 are not considered "temporary" for the purpose of this tables.

2. The most significant payments relate to: Assistance to municipalities and cities (30,451 million KM in 2020), Assistance to employees (one-time compensation to employees of the Ministry of Interior, Republic Administration of Civil Protection, communal police and republic and municipal inspections; 5,051 million KM in 2020), and assistance to municipalities and cities affected by the earthquake (in the amount of 0.4 million KM in 2020 and 1,578 million KM in 2021).

3. Law on the Solidarity Fund for Reconstruction of the Republika Srpska (Official Gazette of the Republika Srpska No. 52/14), Decree with legal force on the Solidarity Fund for the Reconstruction of the Republika Srpska No. 01-020-1213/20 (Official Gazette of the Republika Srpska No. 37/20, amendments 53/20, 90/21).

Izvor: Ministry of Finance of Republika Srpska.

**Table 3: General government expenditure by function**

**Bosnia and Herzegovina**

% of GDP	COFOG Code	2020	2021	2022	2023	2024
1. General public services	1	7.8	8.7	7.8	7.5	7.4
2. Defence	2	0.9	0.9	0.9	0.9	0.8
3. Public order and safety	3	3.4	3.3	3.3	3.2	3.2
4. Economic affairs	4	3.1	2.8	2.9	2.5	2.5
5. Environmental protection	5	0.4	0.4	0.3	0.3	0.3
6. Housing and community amenities	6	0.9	1.2	1.3	1.0	1.0
7. Health	7	6.7	7.1	7.1	6.7	6.6
8. Recreation. culture and religion	8	0.7	0.7	0.6	0.6	0.6
9. Education	9	4.3	4.4	4.3	4.2	4.1
10. Social protection	10	14.0	13.9	13.4	13.4	13.2
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>42.3</b>	<b>43.2</b>	<b>42.0</b>	<b>40.4</b>	<b>39.8</b>

in mill. KM	COFOG Code	2020	2021	2022	2023	2024
1. General public services	1	2.766.1	3.184.3	2.990.8	3.004.1	3.120.8
2. Defence	2	325.7	329.0	351.0	352.4	353.9
3. Public order and safety	3	1.209.0	1.218.8	1.251.7	1.294.3	1.321.4
4. Economic affairs	4	1.110.3	1.039.9	1.126.3	1.015.9	1.032.5
5. Environmental protection	5	126.2	131.9	134.5	135.8	140.0
6. Housing and community amenities	6	304.4	433.0	501.4	414.6	426.4
7. Health	7	2.389.3	2.607.9	2.725.3	2.685.5	2.751.9
8. Recreation. culture and religion	8	263.9	239.8	242.0	238.7	246.6
9. Education	9	1.526.4	1.610.5	1.658.4	1.685.5	1.734.4
10. Social protection	10	4.954.3	5.107.9	5.153.6	5.357.2	5.543.9
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>14.975.6</b>	<b>15.903.0</b>	<b>16.135.0</b>	<b>16.184.0</b>	<b>16.671.8</b>

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

**Institutions of Bosnia and Herzegovina**

in mill. KM	COFOG Code	2020	2021	2022	2023	2024
1. General public services	1	332.8	366.5	317.9	301.7	314.3
2. Defence	2	289.9	291.3	312.8	313.2	313.2
3. Public order and safety	3	265.2	265.5	291.3	295.0	295.0
4. Economic affairs	4	57.6	57.6	62.6	62.8	62.8
5. Environmental protection	5	6.4	6.4	7.1	7.2	7.2
6. Housing and community amenities	6					
7. Health	7	5.3	14.0	6.6	7.0	7.0
8. Recreation. culture and religion	8	12.4	6.0	10.1	9.9	9.9
9. Education	9	2.6	3.0	3.3	3.3	3.3
10. Social protection	10	11.9	11.0	10.3	10.3	10.3
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>984.1</b>	<b>1.021.3</b>	<b>1.022.0</b>	<b>1.010.4</b>	<b>1.023.0</b>

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina

### Federation of Bosnia and Herzegovina

in mill. KM	COFOG Code	2020	2021	2022	2023	2024
1. General public services	1	1.771.6	1.889.8	1.914.5	1.966.2	2.036.8
2. Defence	2	35.4	37.7	38.2	39.2	40.7
3. Public order and safety	3	553.4	589.4	597.0	613.2	636.5
4. Economic affairs	4	460.1	490.0	496.4	512.1	531.6
5. Environmental protection	5	100.2	106.7	108.1	111.0	115.2
6. Housing and community amenities	6	157.9	168.2	170.3	174.9	181.6
7. Health	7	1.448.8	1.543.0	1.563.0	1.605.2	1.666.2
8. Recreation. culture and religion	8	125.3	133.4	135.2	138.8	144.1
9. Education	9	970.7	1.033.8	1.047.2	1.075.5	1.116.4
10. Social protection	10	3.216.9	3.426.0	3.474.0	3.567.8	3.703.4
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>8.840.3</b>	<b>9.418.0</b>	<b>9.543.9</b>	<b>9.803.9</b>	<b>10.172.5</b>

Source: Ministry of Finance of the Federation of Bosnia and Herzegovina

### Republika Srpska

in mill. KM	COFOG Code	2020	2021	2022	2023	2024
1. General public services	1	571.4	805.0	669.6	643.6	670.3
2. Defence	2	0.4	0.0	0.0	0.0	0.0
3. Public order and safety	3	371.1	340.6	341.7	362.0	365.8
4. Economic affairs	4	592.6	492.3	567.3	441.0	438.1
5. Environmental protection	5	19.6	18.8	19.3	17.6	17.6
6. Housing and community amenities	6	145.0	261.9	328.7	237.2	242.3
7. Health	7	901.6	1.017.3	1.098.3	1.014.9	1.019.3
8. Recreation. culture and religion	8	101.8	82.4	81.8	74.9	77.5
9. Education	9	515.2	528.6	564.0	562.8	568.8
10. Social protection	10	1.697.9	1.639.2	1.669.3	1.779.1	1.830.2
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>4.916.6</b>	<b>5.186.1</b>	<b>5.340.0</b>	<b>5.133.1</b>	<b>5.229.9</b>

Source: Ministry of Finance of Republika Srpska

### Brčko District

in mill. KM	COFOG Code	2020	2021	2022	2023	2024
1. General public services	1	90.3	123.0	88.8	92.6	99.4
2. Defence	2					
3. Public order and safety	3	19.3	23.3	21.7	24.1	24.1
4. Economic affairs	4					
5. Environmental protection	5					
6. Housing and community amenities	6	1.5	2.9	2.4	2.5	2.5
7. Health	7	33.6	33.6	57.4	58.4	59.4
8. Recreation. culture and religion	8	24.4	18.0	14.9	15.1	15.1
9. Education	9	37.9	45.1	43.9	43.9	45.9
10. Social protection	10	27.6	31.7			
<b>11. Total expenditure (item 7 = 23 in Table 2)</b>	<b>TE</b>	<b>234.6</b>	<b>277.6</b>	<b>229.1</b>	<b>236.6</b>	<b>246.4</b>

Source: Finance Directorate of Brčko District

**Table 4: General government debt developments**

% of GDP	ESA Code	2020	2021	2022	2023	2024
1. Gross debt		34.0	34.8	35.2	33.9	32.2
2. Change in gross debt ratio		3.6	0.9	0.4	-1.3	-1.7
<b>Contributions to change in gross debt</b>						
3. Primary balance		1.7	0.1	-0.6	-2.0	-2.4
4. Interest expenditure	EDP D.41	0.7	0.8	0.9	0.9	1.0
5. Real growth effect		1.0	-1.0	-1.1	-1.2	-1.2
6. Inflation effect		-0.1	-0.3	-0.3	-0.2	-0.3
7. Stock-flow adjustment		0.3	1.2	1.6	1.2	1.2
<i>of which:</i>						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
<i>of which:</i>		:	:	:	:	:
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		2.1	2.4	2.6	2.7	3.1
<b>Other relevant variables</b>						
8. Liquid financial assets		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

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

**Table 5: Cyclical developments**

% of GDP	ESA Code	2020	2021	2022	2023	2024
1. Real GDP growth (%. yoy)	B1g	-3.2	3.1	3.4	3.5	3.7
2. Net lending of general government	EDP. B.9	-2.3	-0.9	-0.2	1.1	1.4
3. Interest expenditure	EDP. D.41	0.7	0.8	0.9	0.9	1.0
4. One-off and other temporary measures		-0.1	1.3	0.3	0.0	0.0
5. Potential GDP growth (% yoy)		3.1	3.2	3.5	3.7	3.7
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		-1.6	-1.5	-0.8	0.1	0.9
7. Cyclical budgetary component		-0.5	-0.5	-0.3	0.0	0.3
8. Cyclically-adjusted balance (2-7)		-1.8	-0.4	0.0	1.0	1.1
9. Cyclically-adjusted primary balance (8+3)		-1.2	0.4	0.9	1.9	2.1
10. Structural balance (8-4)		-1.7	-1.7	-0.3	1.0	1.1

Source: Ministry of Finance and Treasury of Bosnia and Herzegovina



**Table 6: Divergence from previous programme**

	2020	2021	2022	2023	2024
<b>1. GDP growth (% , yoy)</b>					
Previous programme	-3.0	2.5	3.1	3.4	:
Latest update	-3.2	3.1	3.4	3.5	3.7
Difference (percentage points)	-0.2	0.6	0.3	0.2	:
<b>2. General government net lending (% of GDP)</b>					
Previous programme	-4.0	-2.5	-1.4	-0.6	:
Latest update	-2.3	-0.9	-0.2	1.1	1.4
Difference	1.7	1.6	1.2	1.7	:
<b>3. General government gross debt (% of GDP)</b>					
Previous programme	35.2	37.1	36.1	34.9	:
Latest update	34.0	34.8	35.2	33.9	32.2
Difference	-1.2	-2.3	-0.9	-1.0	:

Source: DEP, Ministry of Finance and Treasury of Bosnia and Herzegovina, Ministry of Finance of the Federation of Bosnia and Herzegovina, Ministry of Finance of Republika Srpska and Finance Directorate of Brčko District

**Table 7: Long-term sustainability of public finances**

<b>Percentage of GDP</b>	<b>2007</b>	<b>2010</b>	<b>2020</b>	<b>2030</b>	<b>2040</b>	<b>2050</b>	<b>2060</b>
Total expenditure	:	:	:	:	:	:	:
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	:	:	:	:	:	:
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	:	:	:	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	:	:	:	:	:	:	:
<i>of which:</i> property income	:	:	:	:	:	:	:
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
<b>Assumptions</b>							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

**Table 7a: Stock of General Government guarantees adopted/announced at 2021-2022 according to the Programme**

	Measures	Date of adoption	Maximum amount of contingent liabilities* (in mill. KM)	Estimated take-up (in mill. KM)
			2021	2021
In response to COVID-19	Guarantee programme of Republika Srpska	2020 (Amendments to the Law 2020 and 2021)	50.0	50.0
	Guarantee programme of Federation of Bosnia and Herzegovina	2020	90.0	90.0
	:	:	:	:
	:	:	:	:
	:	:	:	:
	<b>Subtotal</b>	<b>% of GDP</b>	<b>140.0</b>	<b>140.0</b>
Others	Republika Srpska	:	799.8	699.6
	Federation of Bosnia and Herzegovina	:		200.0
	:	:	:	:
	:	:	:	:
	:	:	:	:
	<b>Subtotal</b>		<b>799.8</b>	<b>899.6</b>
	<b>Total</b>		<b>939.8</b>	<b>1,039.6</b>

\*Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the ERP.

Source: Ministry of Finance of the Federation of Bosnia and Herzegovina, Ministry of Finance of Republika Srpska

**Table 7a: Stock of General Government guarantees adopted/announced at 2021-2022 according to the Programme**

Measures		Date of adoption	Maximum amount of contingent liabilities* (% of GDP)	Estimated take-up (% of GDP)
			2021	2021
In response to COVID-19	Guarantee programme of Republika Srpska	2020 (Amndments to the Law 2020 and 2021)	0.1	0.1
	Guarantee programme of Federation of Bosnia and Herzegovina	2020	0.2	0.2
	:	:	:	:
	:	:	:	:
	:	:	:	:
	<b>Subtotal</b>	<b>% of GDP</b>	<b>0.4</b>	<b>0.4</b>
Others	Republika Srpska	:	2.2	1.9
	Federation of Bosna and Herzegovina	:	:	0.5
	:	:	:	:
	:	:	:	:
	:	:	:	:
	<b>Subtotal</b>	<b>% of GDP</b>	<b>2.2</b>	<b>2.4</b>
<b>Total</b>		<b>% of GDP</b>	<b>2.6</b>	<b>2.8</b>

\*Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the ERP.

Source: Ministry of Finance of the Federation of Bosnia and Herzegovina, Ministry of Finance of Republika Srpska

**Table 8: Basic assumptions on the external economic environment underlying the programme framework**

	Dimension	2020	2021	2022	2023	2024
1. Short-term interest rate	Annual average	:	:	:	:	:
2. Long-term interest rate	Annual average	:	:	:	:	:
3. USD/EUR exchange rate	Annual average	:	:	:	:	:
4. Nominal effective exchange rate	Annual average	106.2	107.4	106.5	106.0	106.0
5. Exchange rate vis-à-vis the EUR	Annual average	1.96	1.96	1.96	1.96	1.96
6. Global GDP growth, excluding EU	Annual average	-2.9	5.8	4.5	3.7	:
7. EU GDP growth	Annual average	-5.9	5	4.3	2.5	:
8. Growth of relevant foreign markets	Annual average	-10.4	11.2	8	6.5	4.6
9. World import volumes, excluding EU	Annual average	-8.9	9.3	6.1	4.5	:
10. Oil prices (Brent. USD/barrel)	Annual average	42.3	67.8	67.3	64.1	: