

BOSNIA AND HERZEGOVINA

Economic reforme programme 2016-2018

(ERP BiH 2016-2018)

Sarajevo, January 2016

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1. OVERALL POLICY FRAMEWORK

Following the request of the European Commission from 2015, the relevant institutions in Bosnia and Herzegovina have prepared a 2016-2018 Economic Reform Programme (ERP). This year's programme is the second one to be submitted to the European Commission. ERP, on the one hand, contains a medium-term macroeconomic and fiscal policy framework, including the fiscal measures as well, and on the other hand, a comprehensive programme of structural reforms aimed at improving the growth and competitiveness of the country.

ERP 2016-2018 has been designed based on the Guidance for the Preparation of Economic Reform Programmes, submitted by the European Commission, for the purpose of easier comparability with other countries. The BiH Council of Ministers, on 6th October 2015, at its 26th session, considered and adopted the Information on Activities on Preparation of the Economic Reform Programme 2016-2018 and tasked relevant institutions to take part in the process of Programme Development. The activities of the development of the Economic Reform Programme 2016-2018 were coordinated by the Directorate for Economic Planning (DEP), in line with its authorities and the Activity Plan for Development of ERP, together with the entity coordinators (the Ministry of Finance of the Federation BiH and the Ministry of Finance of Republika Srpska).

The Economic Reform Programme has been prepared on the basis of contributions submitted by the competent institutions according to the adopted Activity Plan, by deadlines and holders of activities. The preparation of this document included participation of representatives of the ministries of the BiH Council of Ministers; the BiH Central Bank; the entity level and Brcko District ministries; the Directorate for Economic Planning and the Directorate for European Integrations.

A roundtable/workshop on developing ERP was held in Sarajevo in cooperation with the European Commission and OECD (6th October 2015). The first drafts of the Economic Reform Programme were presented at the meeting/workshop in Sarajevo on 18-19 November 2015, in the European Commission, which gave its suggestions to the prepared drafts of the document. In order to better define the reform measures, representatives of the OECD made comments and suggestions on the prepared material in Chapter 4 – structural reforms. Through the TAIEX mission, representatives of the European Commission provided their technical assistance in the assessment of fiscal effects of the reform measures in Chapter 5. In the period 21 -23 December 2015, workshops were organised by the European Commission in Banja Luka and Sarajevo, where the techniques for calculation of the budgetary implications of the reform priorities were presented.

Entity coordinators submitted their entity level Economic Reform Programmes – ERPs 2016-2018, adopted by the entity Governments, to the Directorate for Economic Planning. DEP, in consultations with the state institutions and entity coordinators, which participated in preparation of ERP, compiled and harmonised the final document of the Economic Reform Programme 2016-2018, with the technical assistance of representatives of the OECD.

Finally, the BiH Economic Reform Programme 2016-2018 was adopted by the BiH Council of Ministers at its 41st session held on 28.01.2016.

In order to implement targeted policy guidelines adopted at the Economic and Financial Dialogue in May 2015, Republika Srpska particularly points out that it has improved its framework for budget management, by adopting the Law on Fiscal Responsibility in Republika Srpska, which set the fiscal rules and measures, and established the Fiscal Council of Republika Srpska. At the same time, through the 2016 budget, we have tried to improve the public expenditure planning system, which will create fiscal space for capital investments in the coming period. Also, we actively pursue the establishment of the Registry of Para-Fiscal Charges in order to disburden the economy. By adopting the new Law on Labour, we have opened the process of the labour market reform, while, in 2016, we expect to take further steps toward reducing the tax burden on labour, at the same time providing for realistic and reliable sources that will cover the loss of revenues to extra budgetary funds. With technical assistance of the IMF, we prepare a new legislative framework for the banking sector of Republika Srpska.

The Federation of BiH has taken certain actions to fulfil the Brussel recommendations with regards to reducing the cost of public expenditure – wages and material costs; then the Fiscal Coordination Committee started to function; the first analysis of para-fiscal charges was carried out; regulations to support liquidity of SMEs are in the procedure; and the Law on Labour was adopted. In the coming period, particular attention will be focused on control of budget expenditures; reducing the labour price; regulation of business environment and the adoption of regulations providing for establishment of registry of non-contributory cash benefit users.

2. MACROECONOMIC FRAMEWORK

Table 1. Main macroeconomic indicators

Indicator	Official data	Projections			
	2014	2015	2016	2017	2018
Nominal GDP in million KM	28,198	29,054	30,316	31,887	33,738
Nominal growth in %	0.0	3.0	4.3	5.2	5.8
GDP deflator (previous year = 100)	99.7	100.5	101.3	101.9	101.7
Real GDP in million KM (previous year = 100)	28,280	28,901	29,936	31,281	33,177
Real growth in %	0.3	2.5	3.0	3.2	4.0
Inflation measured by consumer price index in %	-0.9	-0.8	1	1.2	1.5
Consumption in million KM	29,457	29,871	30,633	31,722	32,858
Real growth in %	2.1	1.4	1.7	2.1	2.2
Government consumption in million KM	6,078	6,187	6,311	6,500	6,695
Real growth in %	0.9	1.0	1.2	1.0	1.0
Private consumption in million KM	23,379	23,684	24,322	25,221	26,163
Real growth in %	2.4	1.5	1.9	2.4	2.5
Investments (gross) fixed capital formation in million KM	5,159	5,555	6,131	6,776	7,548
Real growth in %	10.1	6.4	9.2	8.9	9.7
Government investments in million KM	1,155	1,271	1,461	1,710	2,000
Real growth in %	11.6	6.8	11.7	10.6	10.6
Private investments in million KM	4,004	4,284	4,670	5,067	5,548
Real growth in %	9.7	6.3	8.4	8.4	9.4
Imports in million KM	15,536	15,772	16,381	17,115	18,005
Nominal growth in %	7.1	1.5	3.9	4.5	5.2
Real growth in %	8.1	2.5	3.3	3.4	3.2
Exports in million KM	9,257	9,609	10,142	10,818	11,620
Nominal growth in %	3.0	3.8	5.5	6.7	7.4
Real growth in %	4.2	4.4	4.0	4.2	4.2
National gross savings in % of GDP	10.5	11.4	11.9	12.1	12.6
Current account balance in million KM	-2,067	-2,034	-2,306	-2,612	-3,031
Growth in %	36.8	-1.6	13.4	13.2	16.1
Current account balance in % of GDP	-7.3	-7.0	-7.6	-8.2	-9.0

2.1. Recent economic developments

Although the real growth of economic activity in BiH over the first two quarters of 2015 relative to the previous quarter stood at only 0.7%, growth in activity on an annual level was much higher. The largest part of the annual increase was actually achieved in the fourth quarter of 2014, when the activity, compared to the third quarter, rose by significant 1.6%. Thus, despite the much lower quarterly increase in the following two quarters, economic activity in the first quarter of 2015 was by 2.3% higher and in the second quarter by significant 4.4% higher as compared to the same period of the previous year. The acceleration of the annual growth in the second quarter was largely a consequence of the fall in GDP in the same period of the previous year due to heavy floods that struck the country. Observed by activities, a significant contribution to the increase in economic activity in the first half of the year was given by internal trade, catering, processing industry, agriculture and financial activities, whereas electricity generation recorded a decline.

On the other hand, such growth is difficult to explain by indicators measuring the expenditure side of GDP. Namely, domestic demand apparently grew very modestly in the first half of the year with only slightly improved economic situation in our environment. At the same time, the impact of fiscal policy on economic growth in 2015 was quite modest, both in terms of final consumption and transfers, and in terms of public investments. Available indicators point to only a modest increase in economic

activity in the third compared to the second quarter, whereas growth in activity at an annual level is at the same time much more pronounced. This is particularly visible in industrial production and retail trade. Acceleration of activity in the third quarter was mainly manifested through modest nominal growth of commodity exports (3.9%), with slight real increase in domestic demand followed by nominal imports decrease (2.8%). Decrease in imports, in addition to trends in domestic demand and exports, is to a large extent the result of the base effect from the previous year when, after the May floods, a strong 9.3% annual growth in commodity imports was achieved in the third quarter. Thus the foreign trade commodity deficit was nominally reduced by 10% in the third quarter of 2015.

Industry

After a very difficult year marked by unprecedented floods and huge damages suffered by the BiH economy in 2014, based on available data for 2015, we can state that Bosnia and Herzegovina managed to remedy the losses faster than expected and achieved certain economic progress. More favourable economic conditions in the international economic environment that manifested through gradual acceleration of economic growth and the processing industry in the main BiH trading partners (particularly the EU countries)¹, as well as strengthening of the overall economic activity in BiH, had positive effects on manufacturing processes in Bosnia and Herzegovina. Thus, in the period January – September 2015, Bosnia and Herzegovina has seen a 2.5% increase in physical volume of industrial output relative to the same period of the previous year, and this increase in production has been followed by the rise in employment within this sector.² This increase in industrial production in BiH has mostly been achieved due to positive contribution of the export-oriented processing industry in BiH, where the recorded rise in production stands at 4.1%. On the other hand, the coal mines and electricity generation sector have recorded stagnation and have not contributed significantly to growth of the overall industrial output in BiH. However, according to the available indicators for the third quarter of 2015, there has been a change in trends within this sector and it is expected to make a more significant contribution to the overall growth of industrial production in BiH by the end of the year. Under the assumption of continued positive environment in our main trading partners and the already present momentum within the BiH industry, it is DEP's projection that we can expect an increase in volume of industrial output of around 3.3% by the end of the current year.³

Labour market

The total labour force in BiH in the period January – August 2015 has increased along with growth in the number of employed persons (1.5% y-o-y) and decrease in the number of unemployed persons (1.2%).⁴ The average number of employed persons in BiH in the observed period amounted to 709.5⁵ thousand. The highest contribution to the overall growth of employment has been recorded in the field of processing industry, wholesale and retail trade, and repair of cars and motorcycles, which is significant since these activities employ the largest number of persons in BiH. The administrative unemployment rate in the period January – August 2015 amounts to 43.4%, while the annual survey rate is 27.7%. The average net salary in BiH in the period January – August 2015 has nominally not changed compared to the same period of 2014 and stands at KM 830, but, due to deflation, its real increase is around 0.8%. Taking into account the developments in the labour market and the assumed economic growth, a decrease in the unemployment rate in BiH is expected to be followed by a 1.4% increase in employment in 2015. In the domain of nominal net wages, significant changes compared to 2014 (0.1%) are not expected.

² Agency for Statistics of Bosnia and Herzegovina, Release "Index of Industrial Production Volume in Bosnia and Herzegovina for September 2015", 25/10/2015

³ DEP Projections, November 2015

⁴ Administrative data, not Labour Force Survey.

⁵ Provisional data. Source: BHAS

Inflation

Deflation recorded in BiH in the period January – September 2015 stood at 0.8% y-o-y. The general price level in the observed period was mainly determined by the fall in process of crude oil and food on the global market. Within the consumer price index, the most prominent fall in prices was recorded in the sections of food and non-alcoholic beverages, transport, clothing and footwear. Prices in the section of food and non-alcoholic beverages fell by 0.6% y-o-y, and the most significant fall was recorded in Q2 and Q3 of 2015. Prices of fuel and lubricants for personal use in BiH were reduced by 13.1% y-o-y, while the deflation in the section of transport reached 6.6% y-o-y. Prices of clothing and footwear in the observed period were lower by 7% y-o-y. The same as in the previous year, the fastest rise in prices was recorded in the section of alcoholic beverages and tobacco (7.7% y-o-y).⁶ A continuation of harmonisation of excise duties on cigarettes and tobacco with the EU excise policy has affected the price rise in the section of tobacco. Taking into account the developments over the first three quarters of 2015, the expected deflation in BiH could be set at 0.8% y-o-y at an annual level.

Monetary policy

Central Bank BiH, as an institution responsible for implementation of monetary policy, has been functioning as a currency board as of 1997. According to this arrangement, CBBiH is obliged to maintain a fixed exchange rate of convertible mark pegged to the euro (1KM=0.51129 EURO), namely, issuing convertible mark has to be fully covered with foreign currency reserves. In these conditions, CBBiH has only one monetary policy instrument, which is to regulate the rate of the required reserves of commercial banks. The required reserves policy has not changed since the past year's Economic Reform Programme, hence as of 2011, the rate of required reserve on deposits and loans with contracted maturity of up to one year is 10%, while the rate of required reserve on deposits and loans with contracted maturity of over one year has remained unchanged since 2009 and amounts to 7%.⁷ As of May 2015, there has been a change in the calculation of the reserve requirement amount so as to calculate it on the reserve requirement amount as the average EONIA recorded in the same period on the market reduced by 10 basis points, or minimum zero, while the compensation rate on the amount of funds exceeding the reserve requirement is equal to zero.⁸

In September 2015, for the first time after January 2013, the average balance on the required reserve account recorded a negative annual growth rate (-0.5% y-o-y) to stand at KM 3.8 billion. This decline occurred since the excess over the reserve requirements recorded a negative trend on an annual level (-2.6% y-o-y), and it accounts for over 60% of the amount on the required reserve account. A possible reason for this decrease in excess over the reserve requirement is the entry into force of the EU regulations related to the strengthening of the capital base of banks and requiring that reserves of banks with the central banks outside EU should be awarded certain risk weights, which in BiH conditions amount to 100%.⁹

Monetary sector during nine months of 2015 is characterised by continued positive developments in monetary aggregates on an annual level. However, negative growth on the required reserves account has led to a slowdown in growth of reserve money from 12.9%, which was the annual growth rate recorded in nine months of 2014, to 2.6% this year. The reserve money in the observed period amounted to KM 7.3 billion, while coverage of reserve money by foreign currency reserves reached 113.9%, which means that the currency board rules have been complied with.

The total money supply recorded a 7.8% y-o-y growth due to rise in deposits comprising the money supply as well as cash outside the banks.

⁶ Increase in excise duties on cigarettes and tobacco in 2015. Minimum excise per pack of 20 cigarettes is KM 2, while a special excise for the same pack equals KM 1.05. Excise on smoking tobacco is set in the amount of KM 80 per kilogram. Source: Decision on Determination of Special and Minimum Excise Duty on Cigarettes and Smoking Tobacco for 2015.

⁷ Source: Central bank BiH

⁸ Source: Central Bank BiH. The zero rate of compensation on the reserve requirement is applied in case the average EONIA decreased by 10 basis points has a negative value. http://statistics.cbbh.ba:4444/Panorama/novaview/SimpleLogin_cr.aspx

⁹ Source: Central Bank BiH, "Financial Stability Report 2014", pages 35 and 77.

Table 2. Movements in monetary aggregates in BiH (in mil. KM at the end of the period)

Period	Currency outside banks	Transferable deposits in domestic currency	M1	Other deposits in domestic currency	Transferable deposits in foreign currency	Other deposits in foreign currency	QM	M2
	1	2	3=1+2	4	5	6	7=4+5+6	8=3+7
I-IX 2014	2,752.9	4,525.5	7,278.4	3,165.7	1,258.6	5,275.5	9,699.8	16,978.2
I-IX 2015	3,019.9	4,851.4	7,871.3	3,506.5	1,401.7	5,517.3	10,425.6	18,296.9
Growth rate y-o-y								
I-IX 2014	9.8%	9.7%	9.8%	9.6%	11.1%	3.8%	6.6%	7.9%
I-IX 2015	9.7%	7.2%	8.1%	10.8%	11.4%	4.6%	7.5%	7.8%

Source: Central Bank BiH

According to the currency board arrangement, monetary policy includes maintaining the fixed foreign exchange rate of convertible mark to euro, and the policies common to central banks such as setting the targets for inflation, monetary aggregates (so called targeting the inflation or monetary aggregates) etc. are not carried out by the CBBiH. More details on trends in prices and inflation can be found in the section *Inflation*.

Several years ago the CBBiH policy related to investment of foreign exchange reserves has changed markedly. Following the developments in the international financial markets, CBBiH today mostly invests the foreign currency reserves in foreign securities, whereas the share of deposits with non-resident banks has been decreasing since 2009. In nine months of 2015, foreign currency reserves have amounted to KM 8.3 billion, of which foreign securities account for as much as 89.0%.

Since BiH is a small and open country where transition processes have not yet been completed due to non-implementation or delays in the implementation of socioeconomic reforms, its economic growth is under a huge impact of growth of its foreign trade partners, the most important one being the EU. According to forecasts of the European Central Bank, the European Commission and the International Monetary Fund, the Euro area and the EU are going to face positive economic growth in the two coming years¹⁰. Developments in the BiH foreign trade, new public sector borrowings and repayment of public external debt, as well as inflows in the form of compensations to employees, remittances, etc. will affect the developments in foreign currency reserves, but the growth may still be expected to slow down in the coming period.

Financial sector

Commercial banks in BiH dominate the financial sector with assets that make up 87.0% of the financial sector assets. The total loans placed on domestic sectors in nine months of 2015 amounted to KM 17.2 billion, of which amount private sector accounts for 88.4%¹¹. According to maturity and sector structure, loans are dominated by long-term household loans (39.5%), long-term loans of non-financial private companies (24.6%), and short-term loans of non-financial private companies (16.8%). As much as 95.6% of placed loans are in local currency. However, 63.7% of loans are with the currency clause, of which 96.9% is indexed to €.

Growth of the total loans is still very weak (1.9% y-o-y) and further decelerated compared to the previous year due to negative growth of non-financial private companies, while loans extended to households as well as to general government decelerated relative to the previous year. Weak credit growth is likely to be maintained by the end of 2015.

Commercial banks are the only financial intermediaries attractive for investment of excess financial resources of domestic sectors. Insurance companies, investments funds and securities markets are still not attractive for keeping the values and investing the funds of either small or big investors. Deposits on the accounts of commercial banks in nine months of 2015 amounted to KM 16.0 billion

¹⁰ European Central Bank, "September 2015 ECB staff macroeconomic projections for the euro area"; European Commission, "European Economic Forecast – Autumn 2015"; International Monetary Fund, "World Economic Outlook", October 2015.

¹¹ Loans placed on general government and public companies are excluded from total loans.

and recorded a growth rate of 5.0% y-o-y. This growth rate is somewhat slower compared to the previous year since the last year's general government deposits recorded a strong growth due to additional public sector borrowing and designated donations to repair flood damages, whereas this year they went back on a negative growth trend from the period prior to 2014.

Sector of commercial banks enjoys great confidence of the household sector as evidenced by KM 9.6 billion on bank accounts, of which over 50.0% are time deposits, despite the downward trends in passive interest rates. Net savings of this sector in the observed period amounted to KM 1.9 billion. All sectors except non-financial private companies recorded positive net savings. Sector of non-financial private companies recorded negative net savings in the amount of KM 4.9 billion, which on the aggregated level resulted in negative total net savings of KM 1.1 billion.

According to data for 2015 available by now, deposits are expected to maintain similar trends by the end of 2015.

Balance of payments of Bosnia and Herzegovina

According to data available for first half and DEP projections for the second half of 2015, the current account deficit within balance of payments of Bosnia and Herzegovina amounts to KM 2,034 billion, which is a 1.6% decrease relative to 2014. This current account deficit decrease is a consequence of rise in imports of goods and services in the observed period by 1.5% and increase in exports by 3.8%.

Relative to the first half of 2014, the first half of the current year saw contraction of the current account deficit from KM 1,074 million (H1 2014) to KM 916 million (H1 2015), i.e. observed as percentage, this contraction stood at 14.8% (H1 2015/ H1 2014)¹².

This contraction of the current account deficit within balance of payments of Bosnia and Herzegovina still mainly depends on foreign trade in goods. According to data available from the BiH Central Bank, the foreign trade deficit decreased by 6.2% (H1 2015/ H1 2014).

In the period H1 2015/H1 2014 there was a mild 4.1% contraction of current net inflows from abroad, mainly caused by fall in social benefits from abroad by 11.7%. Cash remittances to households in Q1 2015 rose by 0.8% whereas in Q2 they recorded a 5.1% fall. This fall of cash inflows is largely a result of a sudden increase of these inflows in Q2 2014 due to last year's weather conditions.

The observed current cash outflows recorded an evident 13.1% fall (H1 2015/H1 2014), which is mainly caused by a collapse of outflow of income on equity by 68% (decline in dividends on equity), as well as a 27% decline in cash outflows pertaining to interest on foreign debt of the general government.

Foreign trade

Preliminary data of BHAS for the period January - September 2015 point to certain improvements and progress in BiH foreign trade balance, which means that it gave a mild positive contribution to the economic growth of Bosnia and Herzegovina. In this period, there was an increase in total foreign trade and exports while imports were slightly reduced, thus the foreign trade deficit in goods contracted whereas coverage of imports by exports improved relative to the same period of the previous year. Key determinants of the foreign trade in the said period were: partial improvement of economic situation in our main trading partners; base effect due to last year's floods, and movements in global prices of commodities (particularly energy products). Gradual improvement of economic situation in our main trading partners (EU countries) in 2015 was confirmed by a series of short-term indicators such as seasonally adjusted GDP growth in the first two quarters of around 0.5%¹³, increased production in the EU processing industry by 1,6%, and several months of growth of the composite ESI-Economic Sentiment Indicator which, in October 2015, reached the value of 107.5.¹⁴ This rise in export demand for BiH products resulted in expansion of production in processing industry in BiH of 3.3%, which to a large extent determined the foreign trade developments in the said period.

¹² Data source: Central Bank BiH

¹³ Eurostat, Newsrelease euroindicators, 8 September 2015.

¹⁴ DG ECFIN, "Business and consumer survey results", Economic Sentiment Indicator, October 2015.

Thus, in the period January – September 2015, Bosnia and Herzegovina recorded the total export of goods in the amount of around KM 6.7 billion, which represents a 4.2% increase relative to the same period of the previous year. If BiH exports are observed by GIG classification, it is evident that expansion of exports was recorded in all sectors except the energy (-20.4%), with the highest increase achieved in categories of intermediate and non-durable consumer goods which amounted to 8.4% and 10.3% respectively. Observed by individual products, the highest export growth rates were achieved within the category of food – 27.2% (meat and meat products), aluminium – 17.6%, chemical products – 14.7%, and finished metal products – 7.1%.

On the other hand, the overall BiH imports of goods and services in the period January – September 2015, amounted to approximately KM 11.8 billion, which is a 1% decrease as compared to the same period of the previous year. Contraction of imports in the observed period is apparently a consequence of price developments (particularly in case of oil and petroleum products) and base effect from the past year when Bosnia and Herzegovina achieved a 9.3% imports growth during the third quarter.¹⁵ Observed by classification of main industrial product groups, contractions were recorded in the categories of energy 15.8% and capital products 1.4%, whereas other categories recorded an increase in imports – the highest increase was recorded within the category of intermediate products and amounted to 5.3% relative to the same period of the previous year. If we observe BiH imports by products more specifically, the most significant import increase was recorded within the categories of base metals (mainly aluminium), food, motor vehicles and basic chemical products. On the other hand, the fall in imports of petroleum products of around 25%, having in mind the fall in oil prices on global market of around 40%, was the key factor of contraction of the total imports in the observed period.

Thus, the foreign trade deficit for the period January – September 2015 amounted to KM 5.1 billion and decreased by 7% relative to the same period of the previous year. This contraction of the foreign trade deficit improved coverage of imports by exports in BiH by 2.8 p.p., thereby coverage of imports by exports after the first nine months amounted to 56.7%.¹⁶

On the assumption of continuation of positive trends, both in external environment and in BiH, according to DEP projections in 2015, we expect nominal growth of the overall BiH exports of 3.8% relative to the previous year¹⁷. This growth rate should be achieved mainly due to the expected increase in exports of commodities by 4%, while the increase in the domain of services is set at 3.3%. As far as imports are concerned, taking into account the rise in final consumption and somewhat higher level of the corporate sector business activity throughout 2015, nominal growth of the overall imports is set at 1.5%, where the expected growth rate of commodity imports is set at 1% and the expected growth rate of services imports is set at 10.9%. These foreseen export and import trends should eventually, at the end of the year, result in contraction of the foreign trade deficit by 1.8%, while the total coverage of imports by exports should improve by 1.3 p.p. relative to the previous year and amount to 60.9%.

Foreign direct investment

According to the latest forecast of the European Commission ("European Economic Forecast", Autumn 2015), minimal growth of economic activity is expected despite still unresolved large debt problems in the EU. In 2015, in our country, **FDIs could range between KM 670-770 million**¹⁸, similar or slightly higher than in 2014. In the course of this and next year, the construction of TPP Stanari, as the most important electricity project, is expected to be finalised whereas the beginning of the other foreseen projects in the field of energy was postponed¹⁹. Of new projects, the beginning of the construction of the animal protein and technical animal fat production factory in Kakanj has been announced by the investor, "Agroproteinka" Zagreb in the total amount of approximately KM 20 million.

¹⁵ An abrupt leap in imports during Q3 – 2014 occurred due to increased imports of commodities after the floods that struck Bosnia and Herzegovina in May 2014.

¹⁶ Agency for Statistics of Bosnia and Herzegovina, Release "Foreign Trade Statistics January – September 2015", 21/09/2015.

¹⁷ DEP Projections, November 2015.

¹⁸ According to the most recent available data of CBBH, FDIs for half-year amount to around KM 480 million

¹⁹ HTP Zenica, TPP Ugljevik 3 (by now invested around KM 63 million of the total value of over KM 1 billion) and HPP Ulog and HPP Mrsovo.

2.2. Medium-term macroeconomic scenario

According to the EUROSTAT data available for the current year and the autumn DG ECFIN forecast, in 2015 economic growth in our environment should remain quite modest with significant acceleration of activity relative to the 2014 rate. Thus the 1.5% growth projected for 2015 in the Euro area is significantly above the 0.9% rate in 2014. Unfortunately, acceleration of growth in 2015 is not followed by significant improvement of the unemployment rate which should still remain on a high level (11%). During 2016-2017 economic growth in the environment is expected to further strengthen only slightly (as little as 0.1 percentage points per year), followed by also very slight improvements of the unemployment rate. Among some of the important countries in our environment, the most significant progress is expected in Italy and Croatia whose 0.4% fall in 2014 should turn into a real growth of approximately 1% in 2015. These countries are projected to see further acceleration of growth in 2016 too, after which its rate should stabilise in Italy and mildly strengthen in Croatia.

On the other hand, Slovenia is expected to see gradual deceleration of economic growth during 2015-2016, which should be halted in 2017 to turn upwards again. In addition to external assumptions, the BiH outlook also does not include the re-occurrence of weather conditions in the upcoming period that could (temporarily or permanently) disable the existing production capacities and materially affect agriculture, electricity generation, etc. Also, the baseline scenario does not assume the outbreak of major political crisis and crisis of governance that may hinder the budget execution, further threaten the country's credit rating and impede business environment and the country's position in terms of the Global Competitiveness Index.

All this should result in BiH economic growth of 2.5% in 2015 and 3.1% in 2016. This growth should primarily be driven by domestic demand and, to a less extent, much slower growth of the foreign trade deficit. Improved external environment should lead to strengthening of export demand and exports but also to improvements in foreign cash inflows financing the domestic demand. This should turn to real growth of final consumption of 1.4% in 2015 and 1.7% in 2016.

Furthermore, investments are set to grow by 5.3% in 2015 with further 9.6% increase of the rate in 2016. Thus, the overall growth of domestic demand should reach 2.3% in 2015, i.e. 2.9% in 2016. On the other hand, exports growth should be higher relative to imports, which would reduce the negative impact of the foreign trade deficit to a minimum during 2015-2016. Similar assumptions are foreseen for the period 2017-2018 too, with somewhat more modest improvement of external assumptions relative to the previous period. In this regard, economic growth in BiH is set at 3.2% in 2017 and 4.1% in 2018. Similar as in the previous period, this growth should be driven by domestic demand, with modest negative contribution of the external sector. This includes gradual strengthening of final consumption and investments, followed by mild growth of the foreign trade deficit.

Industry

The latest available DG ECFIN forecast (autumn), as well as some strategic documents²⁰ for the period 2016-2018 in the EU countries foreshadow the continuation of positive economic developments and gradual recovery of economic growth with the projected growth rate of over 2%.²¹ These developments in the international economic environment should have positive implications on the region and eventually Bosnia and Herzegovina as well. This is especially true for the industrial production in BiH, particularly processing industry, which is mainly export-oriented and whose developments largely depend on foreign demand. Thus, positive trend in the BiH processing industry output growth is expected in the observed period, which should be followed by gradual increase in employment too. Export-oriented branches of industry such as metal industry, furniture manufacturing, spare parts for automobiles, chemical industry and the rising contribution of food industry are expected to be the key backbone of expansion in production in the observed period. Furthermore, a significant contribution to strengthening of the processing industry should be given by concrete measures and legal solutions that the competent institutions in BiH have already undertaken in order to improve business

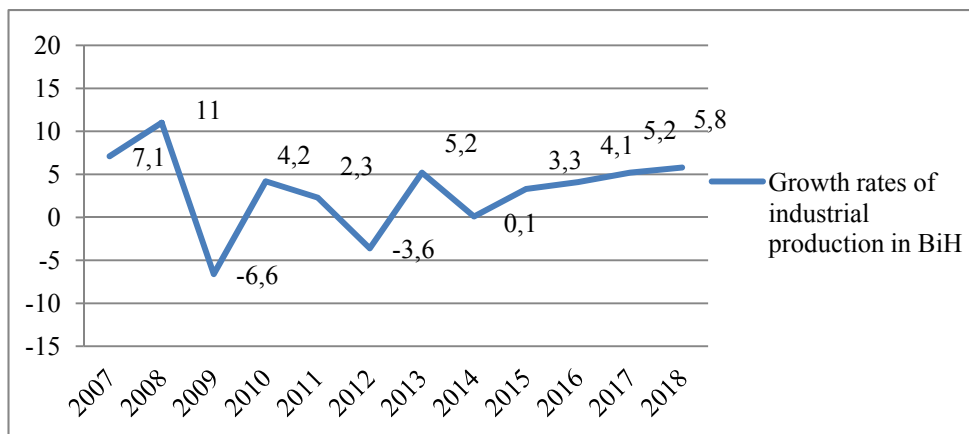
²⁰ EC "Communication for a European Industrial Renaissance" contains a series of concrete measures for reindustrialisation and strengthening competitiveness in the EU countries.

²¹ DG ECFIN, „European Economic Forecast“ Autumn 2015.

environment in BiH. In addition to processing industry, throughout 2016, the energy sector, which comprises 1/3 of the overall industrial output in BiH, is also expected to give a significant contribution to growth in 2016. Specifically, in the electricity generation sector, it is planned to put into operation new thermal energy facilities which should significantly improve the energy balance and the overall industrial production in BiH. On the assumption of continuation of positive trends in external environment, with further contribution of internal developments, in the course of 2016 we can expect steady growth of industrial production of around 4%.

In the period 2017-2018, the EU market is expected to be fully consolidated, private consumption recovered, problems concerning financing of enterprises overcome and foreign trade among the EU countries accelerated. Such positive developments in our immediate vicinity should result in increased utilisation of industrial capacities in BiH, which reflects in larger production volume, higher level of investments – both foreign and domestic, and should eventually result in more visible increase in employment in BiH. The planned investments in infrastructure and energy should also significantly contribute to strengthening of construction sector in BiH as well as those branches of processing industry that are closely related to construction. Moreover, the energy generation sector, which was one of the drivers of industrial production in the previous period, is expected to continue its positive growth trend in production and additionally strengthen industrial production in BiH in the observed period. According to DEP projections, this should result in annual increase in the BiH industrial production of over 5% relative to the previous year.

Graph 1. Industrial production growth in BiH for the period 2007-2018



Source: BHAS and DEP Projections, November 2015

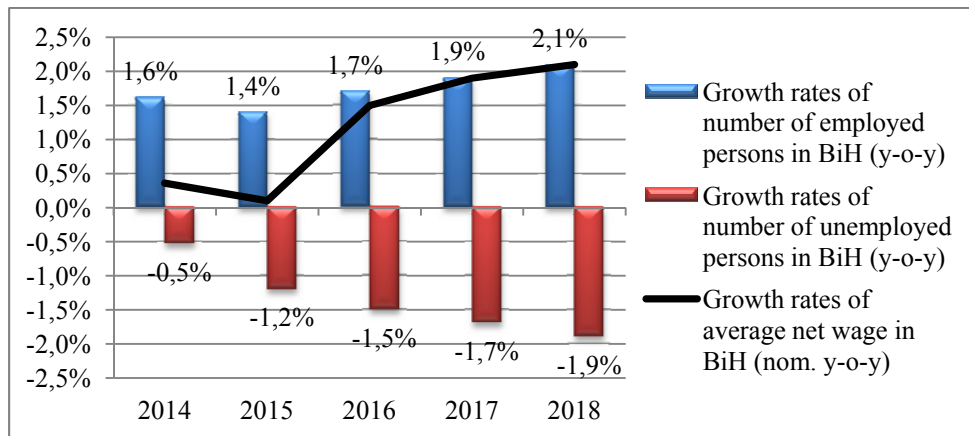
Labour market

With the assumed economic growth in 2016, gradual recovery of labour market is expected to continue. According to the autumn forecast of the European Commission, EU is set to see a decrease in the unemployment rate and an increase in the number of the employed persons.²² Developments in the EU could determine the business activity of the BiH enterprises. The expected rise in the volume of demand, both in BiH and in the EU, would reflect on in the increase in volume of operations and have a positive impact on rise in the number of employed persons (1.7% y-o-y). At the same time, net wages in BiH could be higher as compared to 2015 due to increase in volume of operations (1.5% y-o-y).

In 2017 and 2018, BiH is set to see an increase in volume of demand, investments and trade, which would have a positive impact of creation of new jobs and rise in average net salaries. The number of employed persons and the level of net wages could grow in all areas of activities. It is assumed that the total number of the employed in BiH could rise by 1.9% in 2017, i.e. up to 2.1% in 2018. Increase in volume of operations of the BiH companies would positively reflect on wages of the employed persons. The assumed average net salary in BiH could be higher by 1.9%-2.1% in 2017, i.e. in 2018.

²² Source: EC, European Economic Forecast, Autumn 2015

Graph 2. The main labour market indicators in BiH



Source: BHAS, employment bureaus in BiH, DEP projections 2015-2018

Inflation

Due to large impact of global prices on prices in BiH, these projections have been developed based on movements in prices of energy and food as well as changes in prices of utilities and excise duties (as domestic components contributing to the level of prices). After multiple declines of oil prices on the global market, prices of this energy product are expected to see gradual stabilisation in 2016.²³ In the same period, according to the European Commission's autumn forecast, prices of food on the global market could be higher by 1.2% y-o-y. The aforementioned price developments could affect the level of inflation in the EU to reach 1.1% y-o-y in 2016. In line with these developments on the global market, prices in BiH are expected to rise in 2016. Out of domestic components that contribute to rise in prices, we have taken into account the increase in excise duties on cigarettes and tobacco, which is a continuation of excise harmonisation with the EU regulations. In the period of development of these projections there were no announcements of rise in prices of utilities for the observed year. Therefore, if there are no significant oscillations in utility prices, the assumed inflation in BiH in 2016 could be set at around 1%. Projections for the period 2017-2018 are based on the assumption of moderate rise in prices of energy and food on the global market. According to the European Commission's estimates, the price of crude oil in 2017 could increase by 8.4% y-o-y, while the price of food could rise by 1.4%.²⁴ Thus, inflation in the EU in 2017 may be set at 1.6% y-o-y. On the assumption that utility prices in BiH would not change significantly, and continuation of increase in excise duties on cigarettes over the horizon of this forecast, inflation in BiH could be set at 1.2% in 2017 and 1.5% in 2018.

Table 3. Assumptions of inflation trends in EU, Euro area and BiH

	2014	2015	2016	2017	2018
			Projections		
CPI BiH	-0.9%	-0.8%	1.0%	1.2%	1.5%
CPI EU	0.6%	0.0%	1.1%	1.6%	n/a
CPI Euro area	0.4%	0.1%	1.0%	1.6%	n/a

Source: CPI BiH, BHAS and DEP projections for 2015-2018; EU and Euro area, European Economic Forecast, Autumn 2015

Financial sector

In the period 2016 – 2018 the increased demand for the BiH products from its foreign trade partners is expected to continue as well as strengthened domestic demand, which will have positive effects on the BiH foreign trade. This period is also expected to bring growth of industrial output and investments, as well as further stabilisation of the labour market. These developments should positively reflect on the activities of the banking sector too. Growth of loans could reach around 5%, mostly

²³ According to forecast of the European Commission (European Economic Forecast, Autumn 2015) prices of oil in 2016 should be lower by 1.1% y-o-y.

²⁴ European Economic Forecast, Autumn 2015.

driven by increased demand relative to previous years. What could represent a strong limitation factor to growth is a potential rigidity of banks' supply due to their primary reliance on domestic sources of funding, as well as problems in resolving non-performing loans from the loan portfolio. Higher growth rate can be expected on the deposit side too where, the same as during the previous years, the major impact would have the behaviour of the household sector, which, again, depends on the labour market developments, wages, and consumer prices.

Balance of payments of Bosnia and Herzegovina

According to data available for nine months, and DEP projections for the remaining period of the year, the foreign trade deficit in 2015 would decline by 1.9% (y-o-y). DEP projections foresee expansion in volume of foreign trade in the period 2016-2018, with significant rates of nominal growth of imports (3.9-5.2%) and exports (5.5-7.4%), which would affect deepening of deficit in the BiH current account. In the period 2016-2017 the current account deficit would record the annual growth of around 13% while already in 2018 the current account deficit may rise by around 16%. Current transfers in 2015 are set to rise at a rate of -1.9% while the trend of negative growth rate would also continue in the period 2016-2018 (4.7% - 9%).

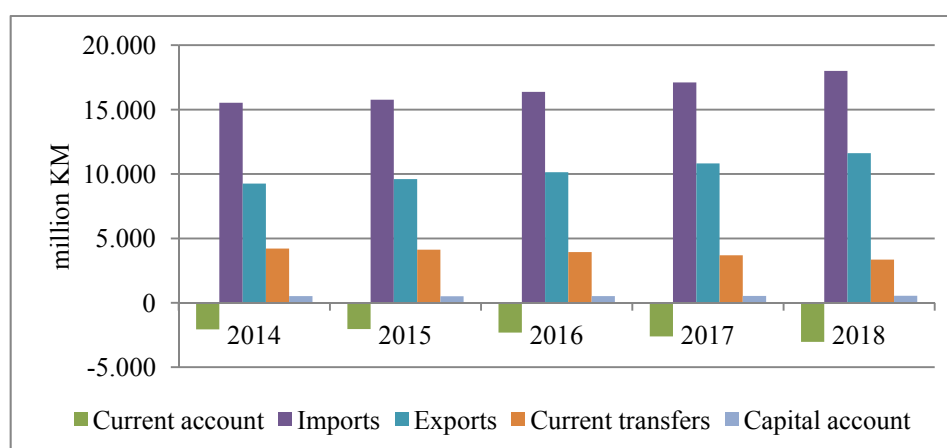
Financing of the current account deficit is expected to be largely enabled, the same as during the previous years, by financial inflows from abroad (through social benefits and remittances from citizens living abroad, foreign direct investments and items – other investments).

Table 4. Projections of the BiH current account deficit for the period 2014-2018

Expressed in KM million	2014	2015	2016	2017	2018
CURRENT ACCOUNT	-2.067	-2.034	-2.306	-2.612	-3.031
1. IMPORT	15.536	15.772	16.381	17.115	18.005
2. EXPORT	9.257	9.609	10.142	10.818	11.620
3. CURRENT TRANSFERS	4.212	4.129	3.933	3.685	3.354
% OF CURRENT TRANSFERS GROWTH	5.3	-2.0	-4.7	-6.3	-9.0
4. CAPITAL ACCOUNT	516	508	518	533	549
In percentages (%) GDP	2014	2015	2016	2017	2018
CURRENT ACCOUNT	-7.3	-7.0	-7.6	-8.2	-9.0
1. IMPORT	55.1	54.3	54.0	53.7	53.4
2. EXPORT	32.8	33.1	33.5	33.9	34.4
3. CURRENT TRANSFERS	14.9	14.2	13.0	11.6	9.9

Source: DEP projections

Graph 3. Balance of payments developments for the period 2014-2018



Source: DEP projections

Foreign trade

According to available projections of DG ECFIN (Autumn), over 2016, the EU countries are expected to see a trend of gradual economic recovery with the foreseen rate of GDP growth of around 2%. On the other hand, unlike the spring report, economic growth in emerging economies is set to slow down (mainly China) in 2016, which could have negative repercussions on exports from the EU. However, although the outlook of growth of the EU exports has been reduced by 1 p.p., the projected growth of exports from the EU for 2016 is set at 4.3%. Moreover, according to DG ECFIN report, low level of oil prices, the depreciation of euro, and quantitative easing - Extended Asset Purchase Programme, as well as flexible monetary policy by ECB will represent the main mechanisms for reviving the economic activity and accelerating foreign trade both within the EU and with the third countries.²⁵ These developments in external environment, with the expected economic growth, higher level of investments and rise in industrial output in Bosnia and Herzegovina, should result in increase in foreign trade exchange. Although the outlook of global prices by international institutions does not go in favour of the BiH exporters, it is nevertheless expected that the expansion of production of traditionally export-oriented branches of the BiH processing industry (metal industry, production of car components, furniture manufacturing and chemical industry), with significant contribution of electricity generation sector (putting into operation exclusively export-oriented facilities) may result in significant growth of the BiH exports.

Thus, according to DEP projections, 2016 would be marked by nominal growth of the overall BiH exports by 5.5% relative to the previous year, with the expected nominal growth of commodity exports of 6% and exports of services of 4.4%. On the other hand, taking into account the structure of the BiH economy and pronounced inclination to imports, rise in final consumption and acceleration of business activity, it is realistic to expect the increase in the BiH imports. Thus, according to DEP projections, it is expected that there would be an increase in the overall BiH imports by 3.9%, with the expected increase in imports of goods by 4% and imports of services by 1.6%. This would result in moderate increase in foreign trade deficit by 1.2%, while the total coverage of imports by exports at the end of 2016 would reach 61.9%.

The period 2017 -2018 is expected to see full normalisation of economic situation and somewhat steadier economic growth, followed by rebound of both domestic and foreign demand for goods. This growth should result in expansion of foreign trade and somewhat higher rates of exports of goods relative to growth of imports. The driver of the BiH exports in this period should be the processing industry where, in addition to traditionally export-oriented branches, other activities that can implement their export potentials should make their contribution too.

Furthermore, the reform processes and improvement of business environment, standardisation and greater diversification of export markets, should significantly strengthen the BiH exports. Taking into account the importance of electricity generation sector in the structure of BiH exports, we expect to see more significant continuous positive contribution of this sector too. According to DEP projections, over 2017 and 2018, we can expect annual nominal growth rates of total exports of 6.7%, and 7.4% respectively.²⁶ On the other hand, expansion of domestic demand, followed by rise in employment and wages, should lead to expansion of imports. Growth rate of the total imports should range from around 4.5% in 2017 to 5.2% in 2018 in nominal terms. Thus, in the period 2017-2018, due to somewhat faster growth of exports and rise in its share in GDP relative to imports, we can expect stabilisation of the foreign trade balance and better coverage of imports by exports on the long run. According to DEP projections, as by the end of 2018, the share of exports in GDP is expected to rise to 34.4%, while the share of imports should have a decreasing trend within GDP and stand at 53.4% of GDP, and the total coverage of imports by exports at the end of 2018 would amount to 64.5%.²⁷

²⁵ DG ECFIN, "European Economic Forecast" Autumn 2015

²⁶ In the period 2017-2018, within the overall exports, the projected rates of nominal growth of **commodity** exports amounted to 7% and 8% respectively, while the projected growth of **services** exports amounted to 5.8% and 5.9% respectively. On the other hand, within the framework of the BiH imports in the same period, the projected nominal growth of **commodity** imports amounted to 4.6% and 5.4% respectively, while the projected nominal growth of **services** imports amounted 2.4%.

²⁷ DEP Projection, November 2015

Foreign direct investment

Foreign direct investments in 2016 could amount to KM 770-870 million. In addition to completion of construction and putting into test operation of the TPP Stanari, and final beginning of construction of the HTPP Zenica, there are also possible investments in highway sections Doboj Jug - Zepce²⁸ and the highway section Doboj - Vukosavlje²⁹. It is also possible to expect investments in the tourism projects. The protocol of cooperation has already been signed (in 2015) between the municipality of Trnovo and Buroj Property Development from the United Arab Emirates on the intention of the building of the tourist city "Buroj Ozone", which would comprise residential units, hotels and a shopping mall. The first phase will be the construction of the "Sports and Recreational Centre Bjelasnica - Donja Grkarica - Precko polje – Kolijevka", for which a contract was signed on designing a regulation plan where the first phase of the project would be completed by 2018, in the amount of euro 930 million. There is also a plan for the project "Eco zone Koricani Vlasic" with foreseen construction of an airport, golf courses, luxury villas, a rehabilitation clinic, an artificial lake, aqua park, education centre, multiplex building with apartments and business offices. The entire project currently includes 30 participants, of which 12 large European Universities, agencies and „Siemens" Zagreb³⁰. If the beginning of the realisation of the project TPP Ugljevik 3 would start as well, the investments in the coming period could be much higher.

Foreign direct investments in 2017 could amount to KM 840-940 million. Along with continued expected investments in electricity generation facilities and highway sections, a possibly feasible and interesting project appears to be an investment in Cement Factory Banovici in the total value of EUR 150 million. The feasibility study indicates that, in addition to low-cost raw components as by-products of the thermal power plant and marl-rich coal deposits from the Banovici mine, there is also high-calorific coal from the mine as well as the road and electricity infrastructure. The construction is set to begin through foreign partner investment not later than 2018.

Foreign direct investments in 2018 could reach the amount of KM 970-1,030 million. Investments in electricity generation sector should reach up to KM 220 million, along with the continued investment in construction of roads. It should be noted that this projection does not include realisation of the project of construction of electricity generation system HPS Donja Drina, HPS Srednja Drina and the project HPS Gornja Drina (the contract between "Elektroprivreda RS" and the German company "RWE-Innogy"³¹ was terminated, a new partner is sought at the moment). The RS Government has signed an agreement with the American company "NGP" on research and development of feasibility study on hydro-potentials of the lower basin of the river Drina with hydro power plants "Kozluk", "Drina 1", "Drina 2" and "Drina 3".

²⁸ Based on concession (according to the system D-B, "Desing an build") in the amount of around EUR 380 million

²⁹ The overall required funds in the amount of around EUR 350 million would be secured on the principle of public-private- partnership.

³⁰ Value of the project is not included in the projection.

³¹ Which would amount to over EUR 460 million.

2.3. Alternative scenarios and risks

Table 5: Main macroeconomic indicators

Indicator	Official data	Projections				
	2014	2015	2016	2017	2018	
Nominal GDP in million KM	28,198	29,054	30,140	31,516	33,178	
Nominal growth in %	0.0	3.0	3.7	4.6	5.3	
GDP deflator (previous year = 100)	99.7	100.5	101.3	101.9	101.7	
Real GDP in million KM (previous year = 100)	28,280	28,901	29,764	30,920	32,632	
Real growth in %	0.3	2.5	2.4	2.6	3.5	
Inflation measured by consumer price index in %	-0.9	-0.8	0.2	0.7	0.9	
Consumption in million KM	29,457	29,871	30,564	31,611	32,706	
Real growth in %	2.1	1.4	1.5	2.0	2.1	
Government consumption in million KM	6,078	6,187	6,280	6,468	6,662	
Real growth in %	0.9	1.0	0.7	1.0	1.0	
Private consumption in million KM	23,379	23,684	24,284	25,143	26,043	
Real growth in %	2.4	1.5	1.7	2.3	2.3	
Investments (gross) fixed capital formation in million KM	5,159	5,555	5,964	6,453	7,089	
Real growth in %	10.1	6.4	6.2	6.6	8.2	
Government investments in million KM	1,155	1,271	1,423	1,594	1,817	
Real growth in %	11.6	6.8	8.7	5.9	7.8	
Private investments in million KM	4,004	4,284	4,541	4,859	5,272	
Real growth in %	9.7	6.3	5.4	6.9	8.4	
Imports in million KM	15,536	15,772	16,227	16,858	17,597	
Nominal growth in %	7.1	1.5	2.9	3.9	4.4	
Real growth in %	8.1	2.5	2.4	2.9	2.4	
Exports in million KM	9,257	9,609	10,049	10,623	11,263	
Nominal growth in %	3.0	3.8	4.6	5.7	6.0	
Real growth in %	4.2	4.4	3.0	3.2	2.8	
National gross savings in % of GDP	10.5	11.4	11.6	11.4	11.5	
Current account balance in million KM	-2,067	-2,034	-2,245	-2,549	-2,980	
Growth in %	36.8	-1.6	10.4	13.5	16.9	
Current account balance in % of GDP	-7.3	-7.0	-7.4	-8.1	-9.0	

The main risks to realisation of the baseline macroeconomic scenario can be found in the domain of external sector and primarily related to realisation of the DG ECFIN forecast where risks are dominantly tilted to the downside. These projections make the main assumptions of the expected BiH economic growth with regards to assumptions of the BiH export demand and financing domestic demand through foreign cash inflows. In addition, potential political crisis and instability could hinder the budget execution, the country's credit rating, business environment and the country's position in terms of the Global Competitiveness Index. In this regard, the alternative scenario projects slower growth of exports, final consumption and investments, which eventually results in lower economic growth relative to the baseline scenario. Thus the economic growth projected for 2016 and 2017 is set to modest real economic growth at the level of 2015 at the rates of 2.4% and 2.6% respectively. A somewhat more significant rate of 3.5% is expected as early as in 2018, although still lower than in the baseline scenario.

The main stronghold of projected growth of **industrial production in BiH** in the observed period is gradual recovery of economic growth and processing industry in our main trading partners, particularly the EU countries. However, the structure of the BiH industry (mainly resource-based and labour intensive) as well as its susceptibility to economic developments in the EU and countries in the region poses a threat to the projected recovery of industrial production in BiH. Worsening of economic situation in our main trading partners would result in weaker growth of physical volume of industrial production, which would in turn further weaken employment and, consequently, to a large extent

hamper exports of BiH goods in the period 2016-2018. Over a half (54.7%) of BiH industrial output is made up by intermediate and non-durable consumer goods, which are very sensitive to developments in global prices of listed goods, therefore possible further fall of global prices could have a negative impact on the expected growth of industrial production in BiH. On the other hand, in addition to these external market risks, we need to point to the risks related to internal dynamics in Bosnia and Herzegovina. The main challenge will be the dynamics of implementation of the reforms from the Reform Agenda for BiH, which will almost certainly affect the overall industrial production in BiH observed in the medium term period.

The main risks for realisation of the baseline scenario projections in the labour market primarily relate to economic growth, not only in BiH but in the EU as well. If economic growth in the BiH main trading partners turns out to be lower than expected (relative to the Autumn forecast), this would reflect on the foreign trade volume in BiH, level of industrial production and investments. Less than sufficient level of demand (both domestic and foreign) than assumed in the baseline scenario could decelerate the extent of employment as well as the level of wages in BiH. Possibilities of job creation and employment, both in BiH and on international scale, would be uncertain, namely the employers would try to do their business activities with lower (or restrictive) labour costs. This would make growth of average net wages and the number of employed persons lower than expected. By contrast, if economic growth in the EU and in BiH turns out to be above the assumed one, this would positively reflect on new job creation and wages since volume of work would exceed the expected level.

The main risks for realisation of projection of prices in BiH primarily relate to more significant changes in energy prices (primarily oil) and food in the global market than assumed in the baseline scenario. **The internal risks for realisation of inflation** projected in the baseline scenario primarily relate to changes in prices of housing, i.e. utilities, which were not taken into account when developing the projections. If prices of energy continue to drop in the global market, it could negatively affect the inflation level in BiH, and, in extreme case lead to continuation of deflation. Lower prices of oil and food could affect the price level in sections of transport, food and non-alcoholic beverages within CPI, which have a dominant impact on general level of prices in BiH. On the other hand, a sharp rise in prices of oil and food could contribute to somewhat higher inflation. If, along with rise in global prices, there is some unforeseen increase in utility prices (electricity, water, etc.) and excise duties on certain products, the inflation in BiH could be somewhat higher than assumed in the baseline scenario. Since Bosnia and Herzegovina is a small and open country, the impacts from its broader environment strongly affect the economic developments in the country. In case of new economic turmoil, such as new recession in the period 2016-2018 in the countries of the Euro area that BiH mostly trades with, as well as in the countries in our close neighbourhood, BiH would feel the consequences primarily in its foreign trade sector, which would result in deceleration of industrial production and investments that are already on an unfortunately low level. Further stagnation in the labour market and reduction in available income would again lead to deceleration of final consumption.

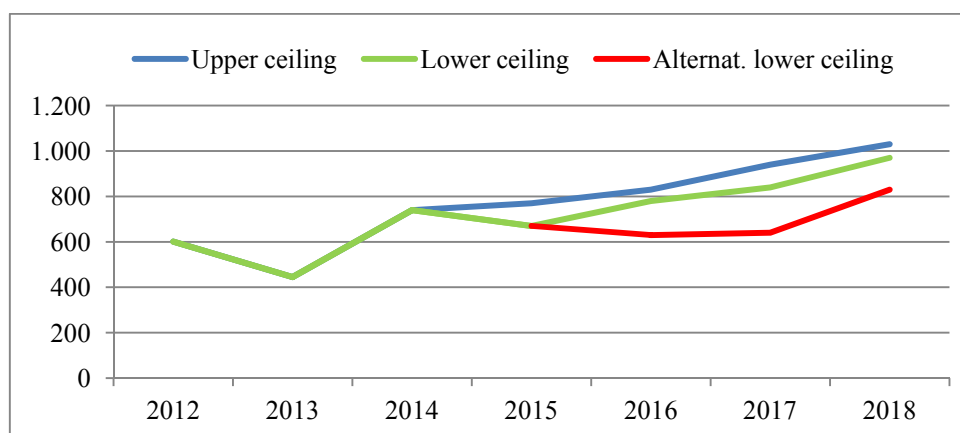
Since **credit activity** has been weak already for several years, the aforementioned scenario, in combination with reluctance of foreign parent banks to financially support and additionally capitalise banks in BiH would lead to contraction of credit activity. Moreover, non-performing loans in credit portfolio also pose a high risk, since their share in loans in the first half of 2015 amounted to 14.1%. Although their share is somewhat lower relative to the previous year due to revoked licence for operation of one bank in the last quarter of 2014, as well as possibility of re-scheduling of liabilities according to applicable regulations of the banking agencies, the rise in the share of non-performing loans would decrease the supply of loans in the coming period. The main risks for changes in the **Balance of Payments** of BiH, either the increase or the decrease of the current account deficit, lie in the foreign trade deficit, i.e. changes in rates of exports and imports of goods and services, as well as changes in prices in the global market. Favourable business environment and higher employment rate of the BiH diaspora could lead to rise in rates of current transfers from abroad and consequently to increase in disposable income.

Risks for **foreign trade** reflect in turmoil in functioning of economies of the main BiH trading partners, sudden rise in export and import prices of the main import and export commodity categories, contraction of industrial production, investments, consumption, or any form of natural disaster that

could negatively affect the manufacturing processes in BiH. The highest risk for the projected growth in the foreign trade would be weakening of economic growth in the emerging economies, which could negatively reflect on exports from the EU countries. Since BiH export products mainly represent inputs for the European industries, this would to a large extent reduce the projected rate of the BiH exports in the observed period. Lower export growth rates in the said period would result in rise in the foreign trade deficit and weakening of coverage of imports with exports, which would eventually weaken the overall economic growth in Bosnia and Herzegovina.

In the alternative scenario, **foreign direct investments** would be decreased by cancellation of the project of construction of HTPP Zenica or TPP Ugljevik 3, and construction of HPP Mrsovo would also be questionable due to deterioration of political and economic situation in both local and international market. Thus, FDIs in 2016 would be lower by KM 140 million and would amount to KM 630-730 million. Investments in 2017 would be lower by KM 200 million and would range between KM 640-740 million, while investment in 2018 would be lower by KM 100 million and would range between KM 870-930 million.

Graph 4: Projections of FDIs by years in million KM



Source: CBBiH and projection

In the alternative scenario, the reduced interest of foreign investors in BiH has been taken into account, particularly to invest in electricity generation sector. BiH has ratified the Treaty Establishing the Energy Community, which brings together the countries of the European Union and the Western Balkans and thereby it assumed certain commitments as a member. A significant risk to further investments is a possible introduction of sanctions towards BiH by the Energy Community Secretariat due to failure to adopt the state level Energy Strategy. This would cause the loss of subsidies from the EU for energy sector projects that BiH is entitled to. This would affect the projects of HPP Dabar, HTPP Zenica and several projects of construction of transmission lines. The second problem is the issue of CO₂ emission. The price that BiH would have to pay in the form of penalties once it becomes the EU member, could significantly increase the price of electricity generated in thermal power plants. This will certainly have an impact on all future investment projects related to electricity generation from thermal power plants.

3. FISCAL FRAMEWORK

3.1. Policy strategy and medium-term objectives

Fiscal framework of the general government at the BiH level was prepared on the basis of inputs submitted by the Entities (Federation of Bosnia and Herzegovina and Republika Srpska), Brčko District and the Institutions of Bosnia and Herzegovina. It indicates firm dedication of all the levels of government to decrease spending below 40 per cent of GDP through various measures and policies and reforms described herein.

Table: Fiscal framework of the general government in Bosnia and Herzegovina for the 2014-2018 period

Fiscal indicators (% of GDP)	2014	2015	2016	2017	2018
Total income	41.2	41.3	39.7	38.2	36.4
Total spending	43.1	42.6	40.9	38.2	35.3
<i>Fiscal balance</i>	-1.9	-1.4	-1.2	-0.1	1.1
Interest expenditures	0.7	0.9	1.0	1.0	0.9
<i>Primary fiscal balance</i>	-1.1	-0.4	-0.2	0.9	2.0

Fiscal consolidation and deficit decrease will be achieved mainly on the expenditures side, while on the revenues side, measures will be taken, including policies, for mitigating grey economy and evasion of tax systems.

In terms of indirect taxes revenues, representing majority of revenues, the policy of initiated harmonisation with EU standards and stabilisation of tobacco market, as well as excise duties on tobacco, is being continued. The measures include: (i) continuous increase of specific excise duty on cigarettes of at least 0.15 KM/per pack until total excise burden for all categories of cigarettes reaches the minimal excise duty on cigarettes applicable in EU (i.e. EUR 90/1000 pcs.); (ii) continuous adjustment of excise duty on cigarettes to the growth of average weighted price of cigarettes; and (iii) continuous adjustment of the specific cut tobacco price to the minimal excise duty on cigarettes.

The Agreement on Free Trade between Bosnia and Herzegovina and EFTA came to force on 1 January 2015. The Agreement implies elimination of custom duties in phases, as well as other burdens with fiscal effect on import from EFTA members from the date of coming into force of the Agreement until 2018. Import from EFTA members in 2014 represented only 0.6 per cent of import in Bosnia and Herzegovina. However, bearing in mind that custom duties are mostly collected from import from third countries, the share of collected custom duties from EFTA members in customs revenues was 3.3 per cent. In accordance with the dynamics envisaged in the provisions of the Agreement, custom duties elimination effects will become visible mostly in decrease in custom duties in 2015. The remaining effect will become obvious during the following two-year period.

Direct taxes are under the competency of the Entities; measures and policies contained in the strategic documents adopted by Entity Governments, as described in detail herein, will be implemented.

Fiscal framework of the **Institutions of Bosnia and Herzegovina** is based on:

- Agreement on Adopting the Document of Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina 2016-2018, concluded between the Council of Ministers of Bosnia and Herzegovina, the Government of the Federation of Bosnia and Herzegovina and Republika Srpska during the Fiscal Council session held on 23 June 2015. The Agreement determines the framework of the Institutions of Bosnia and Herzegovina in the total amount of 950 million KM, as well as apportionment of financing funds from the Single Account of the Indirect Taxation Authority in the amount of 750 million KM;
- Upper limits of expenditures derived from the Framework Budget Document prepared by the Ministry of Finance and Treasury on the basis of the adopted Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina 2016- 2018

Table: Fiscal framework of the Institutions of Bosnia and Herzegovina 2014-2018 (in million KM)

Fiscal indicators (% of GDP)	2014	2015	2016	2017	2018
Total income	971.6	908.2	899.5	880.5	884.0
Total spending	904.7	949.4	948.5	949.7	949.3
<i>Fiscal balance</i>	66.9	-41.2	-49.0	-69.2	-65.3
Interest expenditures	0.5	0.8	1.0	1.1	1.1
<i>Primary fiscal balance</i>	67.4	-40.4	-48.0	-68.1	-64.2

The spending structure is comprised of 88 per cent of gross salaries and remunerations, and expenditures for material and services. Thus, fiscal consolidation measures relate to suspension of new employment and salaries policy. However, in 2016, it is anticipated for the gross salaries and remunerations item to increase by 2 per cent in comparison with 2015 due to the planned employment of cadets who will become police officers after completion of training organised by the State Investigation and Protection Agency and the Border Police, as well as due to commencement of operations in the State Prison for criminal Sanctions, detention and other measures. On the other hand, it is planned for the expenditures for material and services to decrease by 4 per cent in comparison with 2015.

Financing of the uncovered excess of expenditure over revenues will be mainly secured from transferred excess of revenues over expenditures from previous years. In addition, increase in non-tax revenues is expected-revenues from own activities for newly established institutions, since it is expected for these to become fully operable during this period.

The consolidated balance of **the Federation of Bosnia and Herzegovina** encompasses the budget of the Federation of Bosnia and Herzegovina, budgets of the Cantons, budgets of the Municipalities and Cities and financial plans of 26 non-budget funds and it is represented in the following table.

Table: Fiscal framework of the Federation of Bosnia and Herzegovina 2014-2018 (in % of GDP FBiH)³²

Fiscal indicators (% of GDP)	2014	2015	2016	2017	2018
Total income	37.57	38.08	37.09	35.73	33.54
Total spending	39.21	39.41	37.87	35.12	32.3
<i>Fiscal balance</i>	-1.64	-1.33	-0.78	0.62	1.24
Interest expenditures	0.64	0.82	0.87	0.84	0.75
<i>Primary fiscal balance</i>	-1.00	-0.51	0.09	1.46	1.99

Strategic commitment of the **Government of the Federation of Bosnia and Herzegovina** in the mandate period are:

- Integrated growth: implies achieving macroeconomic stability and further growth and improvement of a single economic area, development of external sector and better regional and international connectedness;
- Smart growth: implies strengthening competitiveness of the economy based primarily on knowledge and innovations, but also on simplifying entrepreneurship;
- Sustainable growth: implies striving to achieve long-term balanced relationship between nature and its capability of self-renewal, on one hand, and its usage by humans, on the other hand;
- Inclusive growth: implies improvement of healthcare system and health of all the citizens of the Federation of Bosnia and Herzegovina, as well as development and creation of new jobs through development of skills, including vulnerable groups, and fight against poverty;

³² This Table, as well as the text related to the Federation of Bosnia and Herzegovina refers to GDP of FBiH in the amount of 18103 million KM for 2014, 18573 million KM for 2015, 19310 million KM for 2016, 20265 million KM for 2017, and 21576 million KM for 2018. KM

- Smart management: strengthening cooperation and coordination within the Federation of Bosnia and Herzegovina, strengthening public administration capacities with the aim of creating business environment and providing public services necessary for social and economic growth and strengthening capacities for absorption of EU funds³³.

In circumstances in which Bosnia and Herzegovina does not have at its disposal all the instruments of monetary policy, responsible management of fiscal policy remains the strategic goal of the Federation of Bosnia and Herzegovina, since it represents the only policy in the set of policies that could positively influence achievement of determined goals. In addition, primary interests of the Federation of Bosnia and Herzegovina are macroeconomic stability, competitiveness, sustainable growth, employment, social inclusion and EU integration.

Achievement of determined goals in the area of fiscal policy in the mandate period are the following measures: decrease of and monitoring public spending, decreasing labour burden, labour market reform, improvement of business environment, activating resources, economy and support to business activities, fight against corruption and social sector.

Consolidated balance of the General Government of Republika Srpska represented in this Document encompasses revenues, expenditures and financing for the level of the Central Government of Republika Srpska, users of the budget of Republika Srpska within and outside the Treasury General Ledger owning their own banking accounts and funds from investment projects financed from abroad and escrow account funds), as well as levels of budgets of local self-government units and financial plans of social security funds.

On the basis of the performed situation analysis in all the sectors, the Government of Republika Srpska determined key goals of the Economic Policy of Republika Srpska for 2016: stable economic growth, fiscal sustainability, and social security, the rule of law and European integration.

The Government of Republika Srpska adopted the Revised Framework Budget Document of Republika Srpska for the 2016-2018 period at its session held on 12 December 2015. The Framework Budget Document defines the planned budget frameworks, financing and debt for all levels of government in Republika Srpska. Data for 2014 represent budget performance on all analysed levels of government. Data for 2015 are corrected in accordance with Budget Rebalance for 2015, while the data for 2016 are in accordance with the budgets on all the levels of government. Data for 2017 and 2018 are adjusted to changes in budgets caused by the adoption of the Revised Framework Budget Document of Republika Srpska for the 2016-2018 period. It should be noted that budgets for all the levels of government were not adopted. Thus, part of the data represents projections.

In terms of Republika Srpska fiscal policy goals, the targeted consolidated deficit of the General Government amounts up to 3 per cent of GDP³⁴. The consolidated deficit of the General Government of Republika Srpska in comparison with GDP of Republika Srpska in 2014 was 3.2 per cent. In accordance with the projections, in the analysed period, it is anticipated for the deficit/surplus to range between -1.7 per cent deficit to 1.8 per cent surplus.

Table: Fiscal framework of Republika Srpska 2014-2018 in accordance with the basic scenario

Fiscal indicators	2014	2015	2016	2017	2018
(% of GDP)	Performance	Rebalance	Plan	Plan	Plan
Total income	41.3	42.8	41.5	40.4	39.8
Total spending	44.5	44.1	43,1	41,3	37,9
Net borrowing/crediting	-3.2	-1.3	-1.7	-0,8	1.8
Interest expenditures	1.0	1.3	1.3	1.3	1.3
Primary balance	-2.2	0.0	-0.4	0.5	3.1

Source: Ministry of Finance of Republika Srpska

³³ The Government of the Federation of Bosnia and Herzegovina Work Agenda 2015 - 2018, the Federal Institute for Development Programming, Sarajevo, June 2015.

³⁴ All percentages related to GDP in the text and in the Table refer to GDP of Republika Srpska: for 2014-8847 million KM, for 2015-8873 million KM, for 2016-9135 million KM, for 2017-9536 million KM and for 2018-10012 million KM

Republika Srpska remains committed to strengthening fiscal stability and preventing increases in current and total spending despite nominal increase of interest spending over the years. In addition to the projected growth of GDP of Republika Srpska, it is expected for the share of spending of the observed levels of government in Republika Srpska in GDP to continuously decrease, from 44.5 per cent in 2014 to 37.9 per cent in 2018.

When it comes to debt policy, the key goal of Republika Srpska is certainly related to the process of joining the European Union, implying the long-term commitment of Republika Srpska to maintain the level of public debt below 60 per cent of GDP of Republika Srpska.

Brčko District of Bosnia and Herzegovina participates in total spending with approximately 1.7 per cent. The main sources of revenues of the Government of Brčko District are indirect tax revenues. Direct tax revenues represent only 10 per cent of total income.

Table: Fiscal framework of District Brčko 2014-2018 (in million KM)

Fiscal indicators (% of GDP)	2014	2015	2016	2017	2018
Total income	186.6	205.1	189.8	189.8	191.9
Total spending	203.0	204.6	189.6	189.6	192.3
Fiscal balance	-16.4	0.5	0.2	0.2	-0.4
Interest expenditures	0.5	1.5	10.5	10.5	9.4
Primary fiscal balance	-15.9	2.0	10.7	10.7	9.0

With the aim of maintaining the projected fiscal framework, the main focus of the Government of Brčko District in the following period is to lower the level of grey economy through increasing tax discipline of tax payers, efficient control performed by competent inspections, possible sale of property of the District, as well as borrowing, as the final measure, in case of financing deficit. It is planned for the taxation of profit to be simplified through elimination of certain incentives/benefits (for export, investments, etc.) and certain other measures, thus resulting in simplification of the income taxation system. In addition, it is planned for certain measures to be taken in order to remove the dubious payment of "forest contribution" by legal persons.

3.2. Budget implementation in 2015

Reports on budget implementation of all the levels of government in Bosnia and Herzegovina are not available since they are under preparation. Therefore, the following section represents budgets adopted for 2015, of the Institutions of Bosnia and Herzegovina, the Government of the Federation of Bosnia and Herzegovina, the Government of Republika Srpska and Brčko District, including the data on implementation on the basis of available implementation reports.

Majority of revenues on all levels of government is comprised of direct taxes. In accordance with the preliminary report of the Indirect Taxation Authority on cash flow for the first nine months of 2015, the amount of 4.717 billion KM of gross revenues was collected, representing increase of 142.68 million KM or 3.1 per cent in comparison with the same period of 2014. Due to decrease in refunds, net revenues from direct taxes in the period between January and September 2015 grew at the rate of 4.9 per cent. Comparison between monthly and quarterly collection in 2015 and 2014 points to a positive trend characterised by strong oscillations in the first part of the year, while the third quarter shows deceleration of growth. After increase of 3.1 per cent in revenues in the first quarter, the second and the third quarter brought increase of 7.5 per cent and 4.3 per cent of growth, respectively. Analysis of the structure of revenues collection results in relying the moderate growth of net revenues in the first quarter to more modest growth of gross revenues and growth in the number of refunds, partly transferred from the previous year. The maximum growth in the second quarter is the result of the cumulative effect of gross collection growth and decrease in the number of refunds. Positive trends in the third quarter are equally the result of great decrease in the number of refunds under international projects and moderate increase of gross collections.

As observed in accordance with the types of revenues, in the period between January and September 2015, the largest increase is recorded in revenues from excise duties and pay tolls, in total 104.6 million KM, in VAT-51,7 million KM and in custom duties revenues-10.4 million KM. It should

be kept in mind that in its preliminary report, the Indirect Taxation Authority also included additional 25.5 million KM of unaligned revenues that were still uncategorised in accordance with types of revenues.

The growth rate of excise duties and pay toll revenues is unexpectedly high. There are two reasons for this: unequal distribution of effects of amendments to the Law on Excise Duties on Tobacco, mainly visible in the first seven months of 2015, and strong growth of revenues from excise duties on oil derivatives and pay tolls, largely influenced by the decrease in oil prices in the world market. When it comes to excise duties on beer, the trends are strongly influenced by the amendments to the Law on Excise Duties applicable as of 1 September 2014.

Collection of VAT between January and September 2015 was characterised by powerful oscillations. Net VAT entered the positive zone of growth only in April. The reasons behind this trend rest in the decrease in the number of refunds under international projects and deceleration of gross collection expected upon completion of the largest investment in the energy sector (Thermal Power Plant Stanari) and maintaining the same VAT calculation regime by foreign companies involved in lohn activities. Despite oscillations, cumulative net collection of VAT reached 2.5 per cent of growth.

The Law on the Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for 2015 was adopted by the Parliamentary Assembly on 18 May 2015. Revenues, proceeds and financing the Institutions of Bosnia and Herzegovina for 2015 include the following:

- 750 million KM from indirect taxes, at the level of 2014,
- 155 million KM of non-tax revenues, representing decrease of 10.6 million KM or 6 per cent in comparison with 2014. Decrease in this category of revenues is the result of planning the smaller inflow of funds from issuing personal identity documents, passports and registration of motor vehicles, as well as decrease in revenues from administrative taxes in Diplomatic-consular missions in Bosnia and Herzegovina. On the other hand, revenues from special remunerations and fees are planned at the level of 2014,
- 2.8 million KM from current subsidies in money, representing decrease of 0.4 million KM due to the fact that only donations to the High Judiciary and Prosecutorial Council in the amount of 2.2 million KM, as it was the case in 2014, and to the Ministry of Foreign Affairs in the amount of 0.6 million KM were planned.
- 0.4 million KM of funds for financing the Institutions of Bosnia and Herzegovina and that relate to a transfer of District Brčko for operations of the Agency for Statistics of Bosnia and Herzegovina in the amount of 0.1 million KM, transfer of the Federation of Bosnia and Herzegovina and Republika Srpska for operations of the State Aid Council in the amount of 0.1 million KM each;

In the Budget of the Institutions of Bosnia and Herzegovina in 2015, under the item Financing and Proceeds, funds in the amount of 41.8 million KM have been planned, while the structure pertains to:

- 41.2 million KM of funds transferred from the previous period; in comparison with 2014, this represents increase of 182 per cent related to transferred excess of revenues over expenditures in accordance with the report on financial operations of the Institutions of Bosnia and Herzegovina and international obligations of Bosnia and Herzegovina for 2014;
- 0.6 million KM of proceeds from selling fixed assets, representing decrease by 0.03 million KM or 5 per cent in comparison with 2014.

Total expenditures of the Institutions of Bosnia and Herzegovina and servicing of foreign debt of Bosnia and Herzegovina in the Budget of the Institutions of Bosnia and Herzegovina for 2015 amount to 1.563.6 million KM and in comparison with 2014 represent decrease by 12 per cent, or 232.8 million KM. Structure of expenditures of the Institutions of Bosnia and Herzegovina in accordance with GFS 2001 methodology pertain to:

- Gross salaries and remuneration of costs of employees are planned in the total amount of 652.54 million KM, which, in comparison with the 2014 Budget, represent increase in the amount of 12.2 million KM or 2 per cent. Increase is mostly the result of small increase of the number of employees during 2014 and implementation of the provisions of the Law on Special Solidarity Contribution in Republika Srpska defining singling out of 1.5 per cent of contribution from 23 June 2014 to 31 December 2015.
- Total material costs in the Budget for 2015 amount to 186.19 million KM, and are lower by 11.4 million KM or 6 per cent in comparison with 2014.
- Allocations under social protection (planned in the Budget under current grants and transfers) are planned in the amount of 2.1 million KM, as it was the case in 2014. These expenditures pertain to the current grant for implementation of the Program "Perspective and Current Grant for Financing Rights under Annex VII of the Dayton Peace Agreement " in the amount of 2 million KM.
- Transfers to other budget units (planned in the Budget under current grants and transfers) are planned in the amount of 6.45 million KM, and are lower by 3 million KM or 12 per cent in comparison with 2014.
- Expenditures for non-financial assets are planned in the amount of 65.2 million KM (including the funds for multiannual projects in the amount of 29.7 million KM) and are lower by 6.7 million KM in comparison with 2014.
- Expenditures for interest are planned in the amount of 0.82 million KM and pertain to the macro-financial aid credit in the amount of 0.4 million KM and the CEB credit for construction of the State Prison for criminal sanctions, detention and other measures of Bosnia and Herzegovina in the amount of 0.41 million KM.
- Other expenditures are planned in the amount of 36.7 million KM (planned in the budget under the current and capital grants and transfers and reserves).

In accordance with execution of the Budget of the Institutions of Bosnia and Herzegovina in the first nine months of 2015, revenues, proceeds and financing are realised at the level of 79 per cent, while expenditures are at 67 per cent in comparison with the Budget adopted for 2015. This low level of execution of expenditures is being related to the fact that the Law on Budget of the Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for 2015 was adopted on 18 May 2015 and that the financing of the Institutions of Bosnia and Herzegovina during the first five months of 2015 was performed on the basis of temporary financing and savings under the framework of current expenditures.

Budget of the Federation of Bosnia and Herzegovina for 2015 was only adopted in late March 2015 due to delays in forming the government after general elections held in 2014. On the occasion of adopting the Budget of the Federation of Bosnia and Herzegovina for 2015, the House of Peoples of the Parliament of the Federation of Bosnia and Herzegovina directed the Government of the Federation of Bosnia and Herzegovina to submit to parliamentary procedure amendments to the Law on the Budget of the Federation of Bosnia and Herzegovina for 2015.

In accordance with the Conclusion adopted by the House of Peoples, the Government proposed, and the Parliament adopted the Amendments to the Law on the Budget of the Federation of Bosnia and Herzegovina in November. Proposed Amendments appreciated the current situation and negotiations with the International Monetary Fund and risks related to implementation of previous measures and structural guidelines forwarded to Entity Governments. This resulted in the proposed amendments of the Budget of the Federation of Bosnia and Herzegovina for 2015 to be aimed at revising the structure of expenditures in order to create room for additional savings, thus decreasing the uncovered surplus of expenditures over revenues resulted from the decrease of income and proceeds and the need for increasing certain expenditure categories. The amount of the Budget determined in the Amendments to the Budget is 2.348.412.392.00 KM, representing increase in the amount of 14.3 million KM or 0.6 per cent in comparison with the Budget of the Federation of Bosnia and Herzegovina for 2015.

Bearing in mind the data on execution of the Budget of the Federation for the period between January and June 2015, and on the basis of projections of the Federal Ministry of Finance, in the

mentioned Amendments to the Budget, revenues from tax on profit were decreased by about 5.8 million KM, while revenues from dividends and share in profit of public enterprises by about 29.7 million KM. Likewise, increases in certain revenues positions were planned, primarily in economic codes for refund of annuities from end-users for repayment of debt, by about 29.9 million KM, revenues from games of chance by about 9 million KM and revenues from special contribution for protection and rescue operations by about 12.8 million KM.

In part related to proceeds, the planned amount of funds was decreased on the basis of the Project DPL-World Bank, by about 10.0 million KM, while planned funds under the arrangement with the International Monetary Fund in the amount of 200.0 million KM were substituted with alternative sources of financing, i.e. proceeds from domestic borrowing-long-term bonds with maturity period of three, five and seven years.

Total realised revenues, proceeds and financing of the Federal Budget for the first nine months of 2015, also representing the basis for Amendments to the Budget of the Federation of Bosnia and Herzegovina, amount to 1.510.5 million KM, representing 65 per cent of what has been planned in the Budget of the Federation for 2015. The most significant failure of revenues was recorded in revenues from dividends planned in the amount of 120 million KM, but realised in the amount of 79.8 million KM, as well as in financing, where revenues from foreign borrowing in the amount of 254 million KM were not realised (200 million KM from IMF and 54 million KM from the World Bank). Likewise, significant failure was also recorded in revenues from tax on profit.

Although total revenues, proceeds and financing are lower by 16 per cent in comparison with the same period of the previous year, majority of categories recorded growth in analytical terms. Thus, indirect tax revenues belonging to the Federal Budget recorded increase of 12 per cent, i.e. they increased by 73.9 million KM, revenues from refund of annuities (funds of end-users for repayment of credits) recorded increase of 73 per cent, i.e. they increased by 40.8 million KM, administrative fees increased by 38 per cent, i.e. they increased by 2.9 million KM, revenues from services to other levels of government recorded increase of 65 per cent, i.e. they increased by 3.1 million KM, and finally fines increased by 38 per cent, i.e. by 2.9 million KM.

On the expenditures side of the Proposed Amendments to the Law on the Budget of the Federation of Bosnia and Herzegovina for 2015, a decrease in the planned funds in the amount of 13.7 million KM was recorded in the position of gross salaries and remunerations and contributions, while expenditures for material, small inventory and services were decreased by about 4.6 million KM, resulting in effects of the Federal Government activities related to suspension of new employment, thus leading to a significantly slower dynamics of employment and creating room for additional savings.

Proposed Amendments to the Law on the Budget for the Federation of Bosnia and Herzegovina for 2015 lead to increase in current transfers and other current expenditures in the total amount of approximately 48.4 million KM, of which the most important changes relate to increase in the funds on economic codes transferred to the Pension and Disability Fund in the amount of about 21.3 million KM and to implementation of the first employment policy and self-employment, for which the Federal Ministry of Development, Entrepreneurship and Crafts planned funds in the amount of 20.0 million KM. Total amount of executed expenditures for the period from January to September 2015 amount to 1.481.0 million KM, representing 63 per cent of what has been planned in the Budget of the Federation for 2015.

Execution of expenditures under main categories is as follows: current expenditures (salaries and remunerations, contributions, material expenditures, current transfers, interest expenditures)-891.5 million KM, total capital expenditures (expenditures for procurement of fixed assets and capital grants)-4.0 million KM, expenditures for financial assets-1.7 million KM, expenditures for repayment of debts-583.8 million KM.

In comparison with execution in the same period, expenditures decreased by 122.2 million KM, i.e. by 8 per cent, as the result of significantly lower execution in the position of current transfers and repayment of domestic debt-old foreign savings.

On the basis of available data on execution of the Budget of the Federation of Bosnia and Herzegovina until and including September 2015, total collected revenues and proceeds will suffice and enable the Government to execute planned expenditures in 2015. It has to be noted that execution of the Budget, i.e. expenditures for the previous year will be completed on 31 January of the current year. Therefore, the above said might be observed as a projection, with a note that the Government of the Federation of Bosnia and Herzegovina will continue taking all the measures with the aim of further savings in all positions.

The largest part of the fiscal framework of the **General Government of Republika Srpska** is comprised of the budget of Republika Srpska. Budget of Republika Srpska for 2015 was adopted by the National Assembly of Republika Srpska on 28 December 2014, in the amount of the budget framework of 2.033.0 million KM.

Conditions for commencement of the procedure of rebalancing the Budget of Republika Srpska arose due to changes in the structure of realised budget funds, as well as realisation of created obligations resulting from laws and bylaws in the current years, implementation of Government policies and priorities, correct recording of budget expenditures and implementation of the Decision of the National Assembly of Republika Srpska on the long-term borrowing of Republika Srpska for refinancing debt of the University in East Sarajevo. The most important modifications in budget positions as the result of Rebalance of the Budget of Republika Srpska for 2015 in comparison with the Budget of Republika Srpska for 2015:

- In comparison with the Budget of Republika Srpska for 2015, total tax revenues in 2015 increased on the basis of the Rebalance by 30.9 million KM (2.2 per cent), while total budget revenues and proceeds for non-financial assets increased by 20.3 million KM (1.3 per cent). Proceeds in the part of financing planned in the Rebalance of the Budget increased by 29.8 million KM in comparison with the plan for 2015.
- Expenditures for using goods and services increased by 10.9 million KM (12.4 per cent)-as the result of amendments to the Law on Special Solidarity Contribution extending the period of validity of the stated Law to 31 December 2015, securing additional funds for expenditures under court decisions, judiciary, educational and cultural institutions.
- Expenditures for financing and other financial costs are decreased by 2.2 million KM (3.6 per cent)-in accordance with the plan for repayment of foreign and domestic debt.
- Remittances for social protection paid from the Budget of Republika Srpska are lowered by 11.2 million KM (4.6 per cent)-as the result of transferring amounts for veterans' remunerations from the position of Current transfers for veterans' remunerations to the position of expenditures for repayment of outstanding obligations from previous years, in the amount of 11 million KM, with the aim of correct bookkeeping recording, and performed reallocations and redistributions proposed by Budget users.
- Expenditures for non-financial assets are planned in the amount of 11.0 million KM (67.9 per cent)-mostly as the result of realisation of the Decision on long-term borrowing of Republika Srpska in the total amount of 12.7 million KM for re-financing of the debt of the University in East Sarajevo, of which 0.7 million KM pertains to expenditures for non-financial assets. In the framework of this group of expenditures funds in the amount of 6.8 million KM were secured for the needs of procuring equipment and reconstruction of buildings for the institutions of the Republic. There was an increase in the funds under the framework of Public Institutions in the amount of 3.5 million KM.
- Expenditures for repayment of debts increased by 33.0 million KM (6.9 per cent)-funds in the amount of 12.0 million KM were planned with the aim of implementation of the Decision on long-term borrowing of Republika Srpska in the total amount of 12.7 million KM for re-financing of the debt of the University in East Sarajevo. With the aim of correct bookkeeping records related to transferring amounts for veterans' remunerations, funds in the amount of 11 million from the position of Current transfers for veterans' remunerations were transferred to the position of expenditures for repayment of outstanding obligations from previous years. Likewise, in this group of expenditures, funds in the amount of 2.1 million KM were secured for settling obligations created in the previous period.

- Proceeds on the basis of borrowing were increased by 29.8 million KM as the result of increase in proceeds from financial assets by 3.6 million KM, proceeds from borrowing by 10.0 million KM and proceeds from refunds of repaid loans in the amount of 16.2 million KM.

In accordance with the reports on execution of the Budget of Republika Srpska for the first six months of 2015, total revenues were realised at the level of 99 per cent in comparison to what has been planned, taxes at the level of 100 per cent and non-tax revenues at the level 88 per cent. On the expenditures side, realisation of total expenditures amounts to 87 per cent, current expenditures to 89 per cent and expenditures for non-financial assets to 50 per cent. Under the framework of current expenditures, expenditures for personal proceeds are realised at the level of 100 per cent, expenditures for using goods and services at the level of 65 per cent, expenditures for financing and other financial costs at the level of 90 per cent, remittances for social protection at the level of 87 per cent and transfers between budget units at the level of 81 per cent. It is obvious that in executing the Budget, debt repayment remains a priority, while current spending is adjusted to realised revenues. This enables control of public spending through limiting expenditures for using goods and services.

3.3. Medium-term budgetary outlook

Basis for preparing mid-term fiscal frameworks of all the levels of government is represented by macroeconomic projections and indirect tax revenues projections.

Projections of indirect tax revenues for the period between 2015 and 2018 are based on the following premises: (i) prognosis of macroeconomic indicators (Directorate for Economic Planning (DEP), September 2015); (ii) continuation of harmonising excise duties on cigarettes with EU standards and aligning excise duties on cut tobacco with increase in the excise duties on cigarettes; (iii) effects of implementation of the Agreement on Free Trade between Bosnia and Herzegovina and EFTA; and (iv) current trends in collection of indirect tax revenues. Policy regarding excise duties on tobacco between 2015 and 2018 imply continuous annual increase of the specific excise duty on cigarettes in the amount of 0.15 KM/per pack and adjusting the specific excise duty on smoking tobacco to the growth of the minimal excise duty on cigarettes.

Table: Projections of revenues from indirect taxes, October 2015

Type of revenues (net)	in million KM					Projected growth rate			
	Performance	Projection				2015	2016	2017	2018
	2014	2015	2016	2017	2018				
VAT	3,207.8	3,276.2	3,367.2	3,476.5	3,610.1	2.1%	2.8%	3.2%	3.8%
Excise duties	1,307.5	1,405.7	1,452.4	1,506.4	1,558.5	7.5%	3.3%	3.7%	3.5%
Custom duties	235.4	248.6	257.6	269.1	284.0	5.6%	3.6%	4.5%	5.5%
Pay toll	294.3	319.0	325.0	332.8	341.2	8.4%	1.9%	2.4%	2.5%
Other	24.0	24.1	24.3	24.5	24.6	0.4%	0.7%	0.7%	0.8%
Total	5,069.0	5,273.6	5,426.5	5,609.3	5,818.4	4.0%	2.9%	3.4%	3.7%
Pay toll 0.10	-117.7	-127.6	-130.0	-133.1	-136.5	8.4%	1.9%	2.4%	2.5%
For	4,951.3	5,146.0	5,296.5	5,476.2	5,681.9	3.9%	2.9%	3.4%	3.8%

Projected net collection of indirect tax revenues for 2015 amounts to 5.273.6 million KM, i.e. there is 4 per cent increase in comparison with 2014. Planned annual growth rate is below realised growth rate in the first three quarters because in the first half of 2015 it is expected for the collection of revenues to decelerate, mostly due to basis for comparison from 2014. Namely, due to coming into force of the Law on Excise Duties during 2014, effects of the new policy of taxation of tobacco and beer are unevenly distributed (on the second semester of 2014 and the first semester of 2015). In addition, basis for comparison in the second semester also increased by flat effects of reconstruction projects after floods realised by the end of 2014.

Excise duties revenues generate the majority of planned absolute growth of revenues in 2015. Of the planned growth of excise duties revenues, majority pertains to excise duties on tobacco. Due to

uneven distribution of effects of the changed policy of tobacco taxation, majority of effects in 2015 were visible in the first two quarters, while the third quarter saw deceleration of growth. Because of the higher statistical basis, it is expected for the growth to be gradually decreased to the maximum of 7 per cent on an annual basis, by the end of the year. Except for tobacco, great contribution to the planned growth of revenues from excise duties in 2015 is comprised of excise duties on derivatives. Under the influence of stable current trends at an annual level, it is planned for the excise duties on derivatives to increase by 9.5 per cent, thus representing the higher growth rate in the past decade. In accordance with current trends, it has been planned for the pay toll rate to increase by 8.4 per cent. Projected increase of revenues from VAT is 2.1 per cent, and is primarily generated by the planned increase of domestic VAT and decrease in the number of refunds. Despite the effects of implementation of the Agreement on free trade between Bosnia and Herzegovina and EFTA, it is expected for the rate of custom duties growth to strongly increase in 2015 by 5.6 per cent.

The projected rates of growth of revenues from indirect taxes for 2016, 2017 and 2018 are 2.9, 3.4 and 3.7 per cent, respectively. Projection of revenues in the stated period is based on the projected relevant macroeconomic indicators (DEP), historical seasonal scheme of collection and projections for certain categories of revenues for 2015, and effects of modifications of policies in view of custom duties and excise duties on tobacco. The biggest generator of the absolute growth of revenues from indirect taxes in that period is VAT, considering its significant participation in revenues and planned stable growth rates. These are followed by excise duties on tobacco. The projections are based on continuous harmonisation of excise duties on cigarettes with EU standards and adjusting the excise duties on cut tobacco to the growth of excise duties on cigarettes. Projections of excise duties on derivatives and pay tolls are defined based on the expected end of strong spending growth rates and their development in accordance with macroeconomic projections. Custom duties projections are defined in accordance with planned import rates growth and include modest effect of implementation of the Free Trade Agreement between Bosnia and Herzegovina and EFTA in the following period.

Medium term fiscal framework of **the Institutions of Bosnia and Herzegovina**, as well as the 2016 Budget, are based on the agreement on adoption of the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina 2016-2018, concluded between the Council of Ministers of Bosnia and Herzegovina, the Government of the Federation of Bosnia and Herzegovina and Republika Srpska at the session of the Fiscal Council held on 23 June 2015. This agreement determines fiscal framework of the Institutions of Bosnia and Herzegovina in the total amount of 950 million KM, as well as apportionment of financing funds from the Single Account of the Indirect Taxation Authority in the amount of 750 million. KM. Accordingly, revenues, proceeds and financing the Institutions of Bosnia and Herzegovina for 2016 include the following:

- 750 million KM from indirect taxes, at the level of 2015,
- 148.6 million KM of non-tax revenues,

In addition and in accordance with the projections of the Central Bank of Bosnia and Herzegovina, revenues for financing the Institutions of Bosnia and Herzegovina are planned in the amount of 18 million KM, representing an increase of 8 million KM in comparison with 2015,

- 0.6 million KM from current subsidies in money, representing decrease of 2.2 million KM due to the fact that in 2016, no donations are planned for the High Judiciary and Prosecutorial Council in the stated amount;
- 0.4 million KM of funds for financing the Institutions of Bosnia and Herzegovina pertaining also to a transfer of Brčko District for functioning of the Agency for Statistics of Bosnia and Herzegovina in the amount of 0.1 KM, transfer of the Federation of Bosnia and Herzegovina and Republika Srpska for functioning of the State Aid Council, in the amount of 0.1 million KM each;

In the Budget of the Institutions of Bosnia and Herzegovina in 2016, under the item Financing and Proceeds, funds in the amount of 50.5 million KM have been planned, while the structure pertains to:

- 49 million KM of funds transferred from the previous period; in comparison with 2015, this represents increase of 19 per cent related to transferred excess of revenues over expenditures in accordance with the report on financial operations of the Institutions of Bosnia and Herzegovina and international obligations of Bosnia and Herzegovina for 2014;
- 0.9 million KM of proceeds from selling fixed assets, representing decrease by 0.4 million KM or 63 per cent in comparison with 2015.
- 0.5 million KM of succession funds in accordance with the Law on Distribution, Purpose and Usage of Funds received under Annex C of the Agreement on Succession Issues ("Official Gazette of Bosnia and Herzegovina", No. 14/09).

In 2017 and 2018, in accordance with the adopted Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina, the framework for financing the Institutions of Bosnia and Herzegovina is determined in the amount of 950 million KM, including apportionment of funds from the Single Account of the Indirect Taxation Authority in the amount of 750 million KM each year. It should be noted that there is possibility that the determined amount of 750 million KM for financing the Institutions of Bosnia and Herzegovina in 2017 and 2018 is adjusted in accordance with changes in total indirect tax revenues during the procedure of revising the Global Framework of Fiscal Balance and Policies of Bosnia and Herzegovina 2017-2019, pursuant to Article 5, paragraph (3), point d) and Article 6 of the Law on the Fiscal Council of Bosnia and Herzegovina.

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

- Tax revenues in 2017 and 2018 in the amount of 750 million KM
- Non-tax revenues in 2017 in the amount of 129.4 million KM, and 132.9 million KM in 2018
- Transfers from other levels of government in 2017 and 2018 in the amount of 0.5 million KM
- Current subsidies in money in 2017 and 2018 in the amount of 0.6 million KM
- Financing and proceeds in 2017 in the amount of 69.5 million KM, and 66 million KM in 2018.

Structure of expenditures of the Institutions of Bosnia and Herzegovina derived from the Framework Budget Document in 2017 and 2018 is:

- In 2017, gross salaries and remunerations of costs of employees are projected in the amount of 666.5 million KM.
- Material costs for 2017 are projected in the amount of 179 million KM, and for 2018 186.8 million KM.
- Allocations under social protection (planned in the Budget under current grants and transfers) in 2017 and 2018 are planned in the amount of 2 million KM pertaining to the current grant for Financing rights from Annex VII of the Dayton Peace Agreement.
- Transfers to other budget units (planned in the Budget under current grants and transfers) in 2017 and 2018 are planned in the amount of 3 million KM annually, of which Grant for settling the issue of Roma people in the housing sector and employment and Support Grant to Municipalities, NGOs and associations for implementation of migration and asylum strategy 2012-2015 in the total amount of 2.8 million KM and transfer to the Municipality of Srebrenica for observation of the 20th anniversary of events in Srebrenica, the "Safe UN Zone" in the amount of 0.2 million KM.
- Expenditures for non-financial assets in 2017 are planned in the amount of 61 million KM, and in the amount of 42 million KM in 2018.
- Expenditures for foreign interest in 2017 and 2018 are planned in the amount of 1.1 million KM annually.
- Other expenditures in 2017 are planned in the amount of 37.4 million KM, while those in 2018 are planned in the amount of 44.2 million KM (planned in the Framework Budget Document under the item Current and capital grants and transfers, and reservations).

The Framework Budget Document is prepared in accordance with the Laws on Budgets of the **Federation of Bosnia and Herzegovina**, and basis for its preparation for the 2016-2018 period were macroeconomic projections and assumptions for the following medium term, as well as priorities of the Government of the Federation of Bosnia and Herzegovina adopted in the Program of the Government of the Federation for the 2016-2018 period, together with fiscal policy goals.

Implementation of fiscal consolidation policy and focus on balancing budget revenues and expenditures will be one of the main characteristics of fiscal policy in the environment of domestic economy recovery. Maintenance the stable fiscal system and control of spending requires implementation of restrictive measures of public spending at all levels. Fiscal policy of the Government of the Federation of Bosnia and Herzegovina in the period 2016-2018 will be focused on activities contributing to economic and social strengthening of the Federation of Bosnia and Herzegovina and the state of Bosnia and Herzegovina. Gradually limiting the growth of public spending in the direction of decreasing the deficit of the Federation of Bosnia and Herzegovina and efforts to place it at the level of the targeted budget deficit in the amount of 2 per cent of GDP, as it was planned in 2015, represents one of the main goals of the Federal fiscal policy.

Total planned public spending in 2015 at the level of the Federation of Bosnia and Herzegovina is 2.348.4 million KM, including debt repayment, borrowing and interest expenditures. This planned amount represents growth of 3.8 per cent in comparison with the execution of the Federal Government Budget for 2014. For 2016, the same was projected by the Budget Proposal in the amount of 2.598.9 million KM or 13.3 per cent of GDP in the Federation of Bosnia and Herzegovina. This projected total spending for 2016 represents increase of 10.7 per cent or 250.5 million KM in comparison with 2015.

In 2017, total spending is projected at the level of 2.463.6 million KM or 12.1 per cent of GDP of the Federation of Bosnia and Herzegovina, while in 2018 it is projected at the level of 2.500.8 million KM or 11.5 per cent of GDP of the Federation of Bosnia and Herzegovina.

In preparing the Budget of the Federation for 2016, the Federal Government faces limitations in budget capacities, since growth of repayment of domestic and foreign debt is not in proportion to increase of planned revenues, thus increasing the need for financing planned to be secured by combining domestic (issuing short-term and long-term securities) and foreign (arrangement with the International Monetary Fund and the World Bank) borrowing. Therefore, the Government of the Federation of Bosnia and Herzegovina is strongly committed to continue implementing measures of restrictive public spending in order to achieve, as soon as possible, stable and sustainable fiscal system and control public spending in accordance with the new institutional framework. Likewise, the aim is to ensure that the Budget of the Federation of Bosnia and Herzegovina is not only socially just, but also financially sustainable over the medium term.

Implementation of restrictive policy by the Federal Government in preparation of the Budget of the Federation of Bosnia and Herzegovina for 2016 when it comes to salaries and remunerations to employees, as well as the employment policy, resulted in the almost unchanged number of employees in Federal bodies. Similarly, in the category of social contributions, it is planned for the registry of cash remunerations in the segment of social contributions to be introduced with the aim of improving the performance through better targeting of social contributions. In this category, the Federal Government plans the amount of 50 million KM under implementation of the Law on Assuming Obligations of Financing Outstanding obligations of the Pension and Disability Fund for the 1992-2014 period. In part of the program of subventions related to first employment and self-employment, the Federal Government plans to continue implementation of the program of first employment and self-employment, and also plans to secure the amount of 50 million KM for this purpose. This would significantly influence lowering the rate of unemployment of the Federation of Bosnia and Herzegovina.

Fiscal year 2016 should be characterised by reform processes defined by the Reform Agenda. The Federal Government certainly sees the International Monetary Fund and the World Bank as partners and financiers for achieving its goals.

Total expenditures of the budget of the consolidated General Government of the Federation of Bosnia and Herzegovina (Budget of the Federation of Bosnia and Herzegovina, budgets of Federal Cantons, budgets of Federal Municipalities, financial schemes of non-budget funds of the Federation and business plans of public enterprises of the Federation) in 2015 are planned at the level of 37.87 per cent of GDP, including repayment of debts, borrowing and interest expenditures. This planned amount represents growth of 3.4 per cent in comparison with the execution of the General Federal Government Budget for 2014. Expenditures in 2016 are planned at the level of 37.5 per cent of GDP of the Federation of Bosnia and Herzegovina.

In 2017, total spending of the consolidated General Government of the Federation is planned at the level of 35.1 per cent of GDP of the Federation, while in 2018 it is planned at the level of 32.3 per cent of GDP of the Federation.

Salaries, remunerations and contributions in the public sector record the level of 9.6 per cent of GDP of the Federation in 2015. Similarly, further restrictions to new employment are still in force; only employment related to vacant positions is allowed.

Expenditures for material, small inventory and services in 2015 are realised at the level of 8.8 per cent of GDP in the Federation.

Expenditures for subventions are planned at the level of 1.6 per cent of GDP of the Federation.

Social transfers represent the most important category of total expenditures of the budget of the consolidated General Government in 2015 and are planned in the amount of 2.696.1 million KM, and record the level of 14.5 per cent of GDP of the Federation of Bosnia and Herzegovina. Developments of these expenditures are largely defined in developments of expenditures for pensions, health care, maternity remunerations, social protection and unemployment.

Other expenditures, mostly pertaining to investments in fixed assets, are planned at the level of 3.6 per cent of GDP of the Federation in 2015. Salaries, remunerations and contributions in the public sector in the period 2016-2018, with average participation of 25.6 per cent of total expenditures, make the second largest category of expenditures of the consolidated General Government budget, mostly determined by developments in the number of state and public servants. In 2016, expenditures are anticipated at the level of 9.4 per cent of GDP in the Federation. It is planned for these to increase by 0.005 percentage points in the next two years, and in 2018, they are planned at the level of 8.5 per cent of GDP in the Federation of Bosnia and Herzegovina. This increase represents increase of the basic salary for past employment.

Expenditures for material, small inventory and services record decrease of participation in the value of gross domestic product, from 8.3 per cent in 2016 to 7.4 per cent in 2018. It is expected for the measures of rationalisation and savings under all items to be continued. Expenditures for subventions in 2016 will be at the level of 1.3 per cent of GDP of the Federation of Bosnia and Herzegovina; in the following two years, it is expected for the level of expenditures for subventions to remain the same.

Social transfers represent the most important category of total expenditures with average participation of 37.7 per cent in total expenditures. Social transfers decrease their share in the value of gross domestic product of the Federation by 1.5 percentage points between 2016 and 2018.

Other expenditures, mostly related to investments in fixed assets, decrease their share in the value of the gross domestic product of the Federation by 0.3 percentage points, i.e. from 3.1 per cent in 2016 to 2.7 per cent in 2018.

In the Federation of Bosnia and Herzegovina, public revenues from taxes, fees, remunerations, contributions and from other sources are realised, collected and apportioned in accordance with applicable regulations in the territory of the Federation, and are used for financing operations of the Federation, Cantons, local self-government units and roads directorates and other users of public revenues.

Based on macroeconomic and fiscal indicators for the medium term, it is expected for the revenues from direct and indirect taxes and other non-tax revenues to be slightly increased. This is the

result of expected positive effects from revenues from fees related to organising games of chance determined in the new Law on Games of Chance.

Revised projections of indirect tax revenues for Cantons, Cantonal Municipalities separately and Cantonal roads directorates for 2015 and between 2016 and 2018 are prepared in accordance with the planned revenues from indirect taxes collected on the Single Account, prepared by the Department for Macroeconomic Analysis of the Indirect Taxation Authority in October 2015. These are based on previous trends in collection of revenues and projections regarding developments of macroeconomic indicators in the stated period. They also observed effects of the continuous adjustment of rates of excise duties on tobacco in Bosnia and Herzegovina to minimal EU standards. Projections also include effects of implementation of the Free Trade Agreement between Bosnia and Herzegovina and EFTA.

It is necessary to emphasize that collection of indirect tax revenues, representing the largest share in tax and total revenues of all levels of government, will depend on from the total amount of revenues from the Single Account belonging to the Federation of Bosnia and Herzegovina in accordance with Article 21 of the Law on the Indirect Taxation System ("Official Gazette of Bosnia and Herzegovina", No. 44/03) funds for servicing the foreign debt of the Federation of Bosnia and Herzegovina are deducted.

Limited capacity of these revenues in the medium term will be under pressure due to securing funds for repayment of foreign debt. This will be visible in the budgets of all the levels of government, especially in 2017 and 2018 because of higher amounts required for repayment of foreign debt. Foreign debt repayment plan for 2016 amounts to 497 million KM and is higher by 27 per cent in comparison with 2015; in 2017 the plan amounts to 6614 million KM and is higher by 33 per cent in comparison with 2016, and in 2018 it amounts to 664,3 million KM and is close to the plan from 2017.

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

Total planned revenues from direct taxes (tax on income and on corporate income) for 2016 amount to 474.3 million KM for 2017, 492.4 million KM for 2017, and 514.3 million KM for 2018 and record average increase of 3 per cent. They are based on previous trends in collecting these revenues and projected developments of macroeconomic indicators in the stated periods, excluding possible changes of regulations in this view.

Bearing in mind that the projections of revenues are also based on macroeconomic assumptions and closely tied to economic growth, one risk factor pertains to macroeconomic assumptions due to their susceptibility to foreign factors and changes in taxation policies expected in the following period. In case growth and other macroeconomic indicators are below the estimated level, this will result in different developments in terms of projecting revenues.

Similarly, risks of realising the projected revenues may lie in unforeseen changes in tax policies (lack of stable coefficients for apportionment of indirect taxes, unforeseen changes, increased number of VAT refunds and others), as well as in developments of other factors (change in the level of indebtedness, tax administration operations and others).

Total expenditures of the budget of the consolidated General Government of the Federation of Bosnia and Herzegovina (Budget of the Federation of Bosnia and Herzegovina, budgets of Federal Cantons, budgets of Federal Municipalities, financial schemes of non-budget funds of the Federation and business plans of public enterprises of the Federation) in 2015 are planned at the level of 38.1 per cent of GDP of the Federation of Bosnia and Herzegovina.

Key revenues are represented by indirect taxes planned at the level of 15.4 per cent of GDP of the Federation.

Revenues from social care contributions are planned at the level of 15.5 per cent of GDP of the Federation. In the structure of total revenues, revenues from taxes on property should be singled out. In 2015, it represented 0.4 per cent of GDP of the Federation of Bosnia and Herzegovina.

Estimated revenues from taxes on income will be at the level of 1.5 per cent of GDP of the Federation, while revenues from tax on profit are expected at the level of 0.9 per cent of GDP of the Federation of Bosnia and Herzegovina in 2015. Revenues from taxes on income are planned on the basis of expected developments on the labour market.

Non-tax revenues in 2015 amount to 1.209.7 million KM, and their share in GDP is 6.5 per cent. The most important item in non-tax revenues are remunerations and fees and revenues from providing public services, participating with 4.6 per cent of GDP in the Federation of Bosnia and Herzegovina.

In the period between 2016 and 2018, revenues of the budget of the consolidated general government of the Federation of Bosnia and Herzegovina will be defined by gradual recovery of economic activity. In 2016, these are planned in the amount of 7.162.7 million KM and record the level of participation of 37.1 per cent of GDP of the Federation of Bosnia and Herzegovina. In 2017, they are planned in the amount of 7.241.1 million KM, with a small growth, but their participation in the GDP of the Federation of Bosnia and Herzegovina is 35.7 per cent. In 2018, they remain at the same level.

Revenues from indirect taxes following the expected recovery of personal spending in the following years will be on the average level of 15.3 per cent of GDP in the Federation of Bosnia and Herzegovina.

During the medium term, the share of revenues from taxes on property in the value of GDP of the Federation will remain at their average level of 0.4 per cent.

Revenues from taxes on income will record average level of 1.5 per cent of GDP in the Federation of Bosnia and Herzegovina during the observed period.

Share of revenues from contributions for social protection during the 2016-2018 period will be approximately 14.1 per cent of GDP of the Federation.

Other current transfers and capital transfers are planned at the average level of 0.3 per cent of GDP of the Federation of Bosnia and Herzegovina.

Activities on implementation of medium-term objectives in the area of tax policy and public policies are focused on the objectives and priorities of the Government of the Federation of BiH contained in the document "The Concept of Economic Development 2014-2018" is oriented on economic growth and employment and which is the basis for preparation of the Federal Government Agenda for the 2015-2018 period, as well as the plans and priorities for all governmental levels in Bosnia and Herzegovina provided for in the Bosnia and Herzegovina Reform Agenda for the period 2015-2018.

In order to relieve the economy and stimulate employment growth, the activities will be undertaken to reduce the burden on labour, and reducing labour costs for employers by including remunerations that cannot be characterised as wage (meal, transport, holiday allowance) in the tax base and adequate reduction in social security contributions with achieving neutral fiscal effect, i.e. the fiscal sustainability of non-budget funds which implies amendments to the Law on Contributions and the Law on Personal Income Tax.

Amendments to the Law on Personal Income Tax will propose introduction of a progressive personal income tax, whereby the tax burden will be shifted onto the richer categories of the population and result in a neutral fiscal effect.

In order to assist overcoming the difficulties in business and relieve the entrepreneurs of public revenues accumulated debt obligations and the preservation of the achieved level of economic activity, and given the positive effects of the application of the Law on Amendments to the Law on the Default Interest Rate on public revenues in 2013, 2014 and 2015, in the second half of 2015, another amendment to this law was sent to the Parliamentary procedure, thus extending deadlines for settling the principal debt by 30 June 2017, at the latest, with the possibility of write-off of the default interest in the amount prescribed by this Law.

In accordance with the Action Plan for implementation of the BiH Reform Agenda for the period 2015-2018, adoption of the new Law on Income Tax, drafted with the technical assistance of the IMF, is planned by the end of 2015. These solutions are based on protecting the tax base by reducing the tax incentives and introducing new methods in transfer pricing.

In order to relieve the economy and improve business environment, in the coming period the activities on realization of project of simplifying the payment of public revenues in the Federation of BiH will be continued (USAID Project of fiscal sector reform - FAR, 2014-2019), through implementation of which the taxpayers and the Federal Tax Administration would have multiple benefits, such as savings in time and costs compared to the current situation, reducing the average cost of revenue collection, as well as increasing the level of voluntary payment of obligations, making it easier for economic entities to pay regularly. Currently, activities on building the unique database of public revenues are ongoing, in order to serve as the basis for simplifying payments.

Table 2, Prospects of the budget of the General Government of Republika Srpska, shows consolidated data on planned budget funds of the General Government.

Budget of Republika Srpska for 2016 was adopted by the National Assembly of Republika Srpska on 23 December 2015 in the amount of 3.127.0 million KM, representing 1.043.9 million KM (50.1 per cent) more than planned in the Budget Rebalance for 2015. The most important innovation in the Budget of Republika Srpska for 2016, in comparison with earlier years, is introducing the Pension and Disability Fund³⁵ in the treasury system, as user of the budget of Republika Srpska. The biggest discrepancies in revenues and expenditures of the Budget are the result of this modification. If consolidated budgets at the level of General Government of Republika Srpska are observed, this modification will not be evident, since in the previous period, the Pension and Disability Fund was included into the sub-sector of social security funds.

The Budget of Republika Srpska for 2016 plans surplus in the amount of 2.0 million KM, while at the level of the Central Government and the General Government, the planned deficits amount to 169.4 million and 153.9 million KM, respectively. The planned deficit at the level of General Government in 2017 amounts to 79.4 million KM, while at the level of General Government in 2018 the anticipated surplus amounts to 183.4 million KM.

Estimated tax revenues in the Budget of Republika Srpska for 2016 exceed 839.1 million KM (57.9 per cent), in comparison with funds planned in the Budget Rebalance for 2015, mainly as the result of including the Pension and Disability Fund in the treasury system as the user of the Republika Srpska Budget.

Revenues from indirect taxes are planned in the amount of 1.141.7 million KM (with foreign debt), representing growth of 5.5 per cent. Revenues from contributions for pension and disability insurance in 2016 amount to 779.0 million KM as the result of integration of the Pension and Disability Fund into the treasury system. Non-tax revenues amount to 179.2 million KM, representing an increase of 20.1 million KM (12.7 per cent). Revenues in part of financing are higher by 184.7 million KM (28. per cent) and pertain to proceeds from short-term and long-term borrowing, refunds of repaid loans from end-users and proceeds from financial assets.

Total budget expenditures for non-financial assets in 2016 amount to 2.484.3 million KM, representing increase of 886.0 million KM (56.3 per cent) in comparison with funds planned in the Budget Rebalance for 2015:

- Expenditures for financing and other financing costs increased by 19.7 million KM (33.5 per cent) in accordance with the plan for repayment of foreign and domestic borrowing, updated plan of withdrawal of funds from investment credits, planned budget financing and calendar issuance of treasury records and long-term bonds.
- Transfers between budget units on different levels of government are decreased by 193.3 million KM (66.5 per cent) as the result of ending transfers to the Pension and Disability Fund

³⁵Fund for Pension and Disability Insurance of the Republika Srpska

and its introduction to the treasury system, as well as decrease in transfers to the Health Security Fund of Republika Srpska.

- Expenditures for non-financial assets increased by 24.9 million KM (47.7 per cent) as the result of securing funds for buying buildings in East Sarajevo for the needs of receiving representatives of Republika Srpska in the Institutions of Bosnia and Herzegovina, as well as decrease on the positions of procuring machinery and equipment and expenditures for non-material produced assets.
- Expenditures for repayment of debt which amount to 668.0 million KM, representing increase by 157.9 million KM (31.0 per cent).

Budgets of local self-government units for 2016 plan increased spending of 5.5 per cent of projected BDP of Republika Srpska and surplus of 0.5 per cent of the same, i.e. 43.4 million KM. Financial plans of social security funds³⁶ in 2016 envisage social contributions in the amount of 721.6 million KM. Planned budget spending of social security funds amount to 8.6 per cent of projected GDP of Republika Srpska, while envisaged deficit is 0.3 per cent of GDP and amounts to 27.9 million KM.

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

The calculation of cyclically adjusted and structural deficits was made on the basis of available data for the period 2010-2018 and according to the methodology of the European Commission³⁷ while for the assessment of potential GDP the Hodrick-Prescott filter was used. The Results of the calculation are given in the following table:

Table: Fiscal balance and components for the of cyclically adjusted balance calculation in the period 2010-2018 , in% of GDP

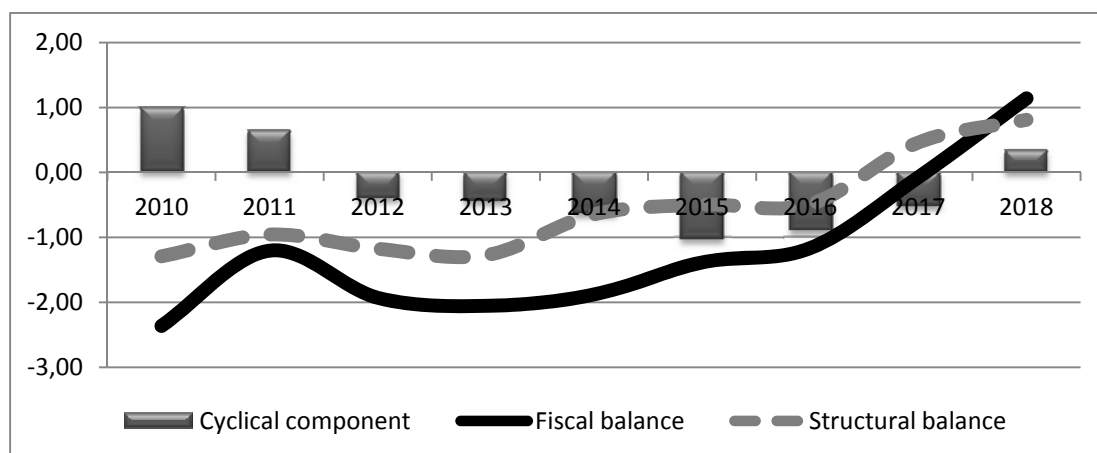
Year	Output gap	Fiscal balance	Primay fiscal balance	Cyclical component	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Fiscal policy	Structural fiscal deficit
2010	2,75	-2,36	-1,89	1,00	-3,36	-2,89		-1,29
2011	1,68	-1,20	-0,60	0,64	-1,85	-1,24	1,64	-0,96
2012	-1,15	-1,93	-1,20	-0,41	-1,52	-0,79	0,46	-1,18
2013	-1,29	-2,05	-1,34	-0,45	-1,61	-0,90	-0,11	-1,28
2014	-1,76	-1,88	-1,14	-0,64	-1,24	-0,49	0,40	-0,65
2015	-2,83	-1,38	-0,44	-1,03	-0,35	0,59	1,08	-0,50
2016	-2,61	-1,17	-0,18	-0,90	-0,26	0,73	0,14	-0,49
2017	-1,54	-0,07	0,89	-0,52	0,44	1,40	0,68	0,46
2018	1,05	1,14	2,32	0,35	0,79	1,97	0,57	0,81

Substracting one-off measures from cyclically adjusted deficit a structural fiscal deficit is obtained and is shown in the graph below. The largest and most significant impact of cycles is related to indirect taxes revenues that occupy a dominant position in tax revenues in Bosnia and Herzegovina.

³⁶Includes the Health Insurance Fund of the Republika Srpska, Child Protection Fund of the Republika Srpska and Employment Institute of the Republika Srpska, while the Fund for Pension and Disability Insurance of the Republika Srpska in 2016 became a part of the budget of the Republika Srpska.

³⁷ Gilles Mourre, George-Marian Isbasoiu, Dario Paternoster and Matteo Salto „The cyclically-adjusted budget balance used in the EU fiscal framework: an update“, European Commission, Economic Paper 478 | March 2013

Graph: Fiscal balance and the structural fiscal balance for the period 2010-2018, in% of GDP



The influence of the cycle on expenditures was insignificant considering that the calculation included expenses for the unemployed whose share in total expenditure are at the level of 1.3%. Therefore, the explanation is mainly oriented to indirect taxes and their impact on the budgetary position.

After the first shock of the global economic crisis, which caused a decline of all major macroeconomic aggregates and consequently produced a strong decline in indirect taxes revenues in 2009, but in 2010 came up to a stabilization and then growth of the income. Positive, upward trend of revenues was retained in 2011, and already in 2012 came up to slowdown and then the decline of revenues.

This trend continued in 2013 when despite the modest economic recovery the effects of indirect taxes collection in 2013 were negative. Inconsistency in public spending leads to an increase in public debt and the fiscal position is deteriorating. In 2014, measures are taken to limit the extent of the current spending at all levels of government (freezing of salaries and employment in the public sector) which was written in detail in previous program and this chapter, and than the measures to improve collection of tax revenues (direct and indirect) and combating the gray economy. The effect is the reduction of overall deficit. The difference between the structural and the actual deficit that occurs in 2014 is a result of natural disasters (floods) and the costs associated with repairing damage and having a one-off character.

The measures that have contributed in improving the collection of indirect taxes are amendments to the Law on Excise Taxes in the field of tobacco taxation (in force since 01.08.2014.) And taxation of beer (effective from 1.9.2014.). Changes in the taxation policy of tobacco have a twofold objective: further harmonization of excise policies with EU standards and the stabilization of the market of tobacco and revenue from excise duties on tobacco. This policy has yielded tangible results as early as December 2014. A slight rise in current spending is partly a result of the adoption of the special contribution for solidarity in the Republic of Srpska to repair the damage caused by floods and was extended by amending the mentioned law, in 2015.

In 2015 a positive and stable growth in collection of indirect taxes was recorded³⁸ which, together with the continuation of fiscal consolidation and expenditure control, led to deficit reduction. In the coming period continuation in harmonization of excise duties on cigarettes with EU standards is expected and the harmonization of excise duties on fine-cut tobacco with the increase in excise duties on cigarettes. Policy related to excise tax on tobacco in the period 2015-2018 includes continuous annual increase in the specific excise tax on cigarettes of 0.15 KM / pack and harmonization of the specific excise duty on smoking tobacco with the growth of the minimum excise duty on cigarettes. Positive trends in the recovery of BiH economy based on external assumptions, because it is a small and open economy, and on this basis the projected revenues from indirect taxes and fiscal

³⁸ OMA Bulletin No. 124-125, November / December 2015

consolidation measures on the expenditures anticipate a significant improvement in the fiscal position by the end of the reporting period.

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

In accordance with the available in the Ministry of Finance and Treasury of Bosnia and Herzegovina, Entity Ministries of Finance and Finance Directorate of Brčko District, it is estimated that total public debt³⁹ in 2015 amounts to 11.992.6 million KM; it increased by 4.3 index points in comparison with the state of debt in 2014. 71.2 per cent or 8.538.5 million KM pertain to foreign debt, while 28.8 per cent or 3.453.8 million KM represents domestic debt.

Structure of intended credit investments remained unchanged and is characterised by bigger infrastructure and public sector investments in comparison with investments into economic activities. Out of totally engaged credits, 55.0 per cent is under repayment, while 45.0 per cent of engaged amount is still in the grace period. The credits are characterised by favourable credit conditions with average interest rate of 1.71 per cent (48.71 per cent with fixed interest and 51.29 per cent with variable interest). Average maturity is 7.6 years, while average grace period is 6.6 years.

Between 1 January and 30 September 2015, foreign debt was serviced continuously and timely, in the total amount of 387.34 million KM, of which repayment of principal amounts to 313.04 million KM or 80.82 per cent and repayment of interest, service and other costs amounts to 74.30 million KM or 19.18 per cent. Observed from the view point of the period of creation of the indebtedness, paid obligations under old debt amount to 88.57 million KM (22.87 per cent), while obligations under the new debt were paid in the amount of 298.77 million KM (77.13 per cent).

In the total serviced amount of obligations in the observed period, the Federation of Bosnia and Herzegovina participated with 247.06 million KM (63.78 per cent), Republika Srpska with 134.43 million KM (34.71 per cent), Brčko District with 2.13 million KM (0.55 per cent) and State Institutions with 3.72 million KM (0.96 per cent). Observed from the view point of creditors and in view of the old debt, majority of repayments happened toward the World Bank-IBRD 35.02 million KM, the London Club of creditors 32.97 million KM, and the Paris Club of creditors 19.59 million KM. In the paid amount of obligations under new debt, the following institutions participate: IMF 77.84 million KM, EBRD 73.20 million KM, EIB 49.65 million KM, WB 46.67 million KM, etc.

When it comes to the currency structure of the serviced foreign debt in the observed period, majority of obligations or 77.79 per cent was paid in EUR. 18.61 per cent in USD, while 3.60 per cent was realised in other currencies (toward certain countries belonging to the Paris Club of creditors or under bilateral agreements).

One quarter of repaid obligations in EUR (25.84 per cent) is represented by repayments to IMF, since calculated obligations in SDR were paid in EUR.

³⁹ For Republika Srpska, total debt was taken into account in accordance with its legislation.

State of public debt⁴⁰ and projections (in million KM)

	2014	2015	2016	2017	2018
1. Foreign debt	8,213.8	8,538.8	9,477.4	9,171.6	8,292.4
Institutions of Bosnia and Herzegovina	59.0	66.1	73.1	69.9	66.7
Federation of BiH	5,251.7	5,275.2	5,777.6	5,241.5	4,715.7
Republika Srpska	2,887.2	3,167.0	3,581.0	3,799.7	3,456.3
Brčko District	15.9	30.5	45.7	60.5	53.7
2. Domestic debt	3,285.0	3,453.8	3,164.7	3,036.8	2,831.3
Federation of BiH	1,094.6	1,258.9	1,130.6	1,146.8	1,096.8
Republika Srpska	2,168.0	2,184.4	2,029.4	1,886.4	1,731.5
Brčko District	22.4	10.5	4.7	3.6	3.0
TOTAL (1+2)	11,498.8	11,992.6	12,642.1	12,208.4	11,123.7
GDP in million KM.	28,198	29,054	30,316	31,887	33,738
Total Public Debt/GDP (%)	40.8	41.3	41.7	38.3	33.0

State of public debt and projections (in million KM)

	2014	2015	2016	2017	2018
Foreign debt	508.9	381.5	385.6	536.2	525.8
Domestic debt	368.4	515.7	590.2	546.0	562.6
Total FBiH	877.3	897.2	975.8	1,082.2	1,088.4
Foreign debt	265.0	219.8	275.0	364.2	376.6
Domestic debt	352.4	397.0	517.7	506.0	593.4
Total RS	617.4	616.8	792.7	870.2	970.0
Foreign debt	1.5	2.9	4.5	7.3	8.7
Domestic debt	13.2	14.0	5.9	0.7	0.7
Total DB	14.7	16.9	10.4	8.0	9.4
Foreign debt of the Institutions of Bosnia and Herzegovina	4.1	4.1	4.6	4.4	4.4
TOTAL BiH	1,513.5	1535.0	1,783.5	1,964.8	2,072.2
Foreign debt	779.5	608.3	669.7	912.1	915.5
Domestic debt	734.0	926.7	1,113.8	1,052.7	1,156.7
Debt repayment/GDP (%)	5.4	5.3	5.9	6.2	6.1

Projects in the process of being concluded encompass projects for which the negotiations with creditors are ongoing, or are being approved by the creditor, and projects that have been concluded but are awaiting for the ratification procedure to be completed. Total amount of projects financed under credit arrangements, as of 30 September 2015, including multilateral and bilateral creditors, is 809.8 million EUR (foreign exchange rate used is the average rate of the Central Bank of Bosnia and Herzegovina as of 30 September 2015, Exchange Rate List No. 192).

Guarantees of Bosnia and Herzegovina for the project of construction of Banja Luka-Doboj motorway in the amount of 35 million EUR and the project of central heating in Prijedor in the amount of 7 million EUR are currently being concluded. The above said includes projects in the road, railway, water and public utility infrastructure, energy, health and agriculture sectors. The enclosure to this document represents a detailed overview of creditors, engaged or required funds for realisation and allocations to users, including notes on the current phase of project implementation.

⁴⁰ For Republika Srpska, total debt was taken into account in accordance with its legislation.

Foreign debt sustainability indicators

	2014	2015	2016	2017	2018
GDP (million KM)	28,198	29,054	30,316	31,887	33,738
Total public debt (in million KM)	11,498.8	11,992.6	12,642.1	12,208.4	11,123.7
Export of goods and services (million KM)	9,257	9,609	10,142	10,818	11,620
Total foreign debt (in million KM)	8,213.8	8,538.8	9,477.4	9,171.6	8,292.4
Foreign public debt servicing (in million KM)	779.5	608.3	669.7	912.1	915.5
Net revenues from indirect taxes (in million KM)	5,069.0	5,273.6	5,426.5	5,609.3	5,818.4
Public Debt/GDP (%)	40.8	41.3	41.7	38.3	33.0
Foreign Debt/GDP (%)	29.1	29.4	31.3	28.8	24.6
Foreign debt servicing/GDP (%)	2.8	2.1	2.2	2.9	2.7
Foreign debt/Export of goods and services (%)	88.7	88.9	93.4	84.8	71.4
Foreign debt servicing/Revenues from indirect taxes (%)	15.4	11.5	12.3	16.3	15.7

Public indebtedness of Bosnia and Herzegovina, in accordance with historical data and given projections, remains within the Maastricht Criteria and Bosnia and Herzegovina still remains a moderately indebted country. Standard indicators of public debt sustainability show that public debt of Bosnia and Herzegovina still does not pose threat to fiscal sustainability of Bosnia and Herzegovina and the Entities.

Since majority of public debt is allocated to the Entities and that domestic debt pertains exclusively to Entities, the text below shows the detailed overview of public (total) debt of Entities.

Federation of Bosnia and Herzegovina

In accordance with the Law on Debt, Borrowing and Guarantees of the Federation of Bosnia and Herzegovina, the Federation may borrow from domestic or foreign creditors and in domestic or foreign currency. The Federal Ministry of Finance is responsible for procedures of borrowing and managing debt of the Federation.

The Law on Debt defines limitations to borrowing for total public debt of the Federation according to which the Federation may borrow in a long-term if at the time of creating the debt, the amount of servicing total domestic and foreign debt and guarantees maturing every subsequent year, including financing proposed new borrowing and all loans for which the Federation issued its guarantees, with limitations to the debt of the Cantons, does not exceed 18 per cent of consolidate revenues of the Federation and the Cantons realised in the previous fiscal year. Limitation for indebtedness of cities and municipalities is 10 per cent of revenues realised in the previous fiscal year. The Law on Debt of the Federation does not define debt management goals; official strategy for debt management of the Federation of Bosnia and Herzegovina never existed. However, with the aim of meeting financing needs of the Government of the Federation of Bosnia and Herzegovina, the Federal Ministry of Finance identified desirable debt management strategies even in previous years. In this regard, it tried to implement borrowing policies. Due to undeveloped domestic debt market and various other limitations, this policy was based on maximising concessional debt and resulted in positive effects in terms of decreasing debt servicing costs and ensuring its sustainability.

In accordance with data at the disposal of the Federal Ministry of Finance, public debt in the Federation of Bosnia and Herzegovina as of 30 September, taking into account the amount of foreign debt agreed by the Federation and subsidiary transferred to end users-financial institutions, public companies, Cantons, local communities, banks and other users, as well as domestic debt of Cantons, cities and municipalities, amounts to 6.345.13 million KM. It is estimated that public debt of the Federation of Bosnia and Herzegovina as of 31 December 2015 will amount to 6.534.1 million KM.

State of debt in the Federation of Bosnia and Herzegovina as of 30 September 2015, in KM

Debt categories	Debt state
1. Domestic debt in the Federation of Bosnia and Herzegovina	1.087.324.789
1.1. Domestic debt of the Government of the Federation of Bosnia and Herzegovina	849.037.434
1.1.1. Loan stocks	824.889.389
a) Long-term loan stocks	664.889.389
Old foreign currency savings	179.471.629
War claims ⁵⁴¹	195.417.760
Treasury bonds of the Federation of Bosnia and Herzegovina	290.000.000
b) Short-term securities (treasury notes)	160.000.000
1.1.2. Credits from banks	0
1.1.3. Obligations of former Federal Ministry of Defence	12.173.421
1.1.4. Verified domestic debt for which bonds were not issued	11.974.624
Old foreign currency savings	11.465.367
War claims	509.257
1.2. Domestic debt of Cantons	170.575.590
Bonds	0
Credits	170.575.590
Other	0
1.3. Domestic debt of cities and municipalities	67.711.765
Bonds	1,150.000
Credits from banks	66,561,765
Other	0
2. Foreign debt in the Federation of Bosnia and Herzegovina	5.257.800.357
2.1. Foreign debt of the Government of the Federation of Bosnia and Herzegovina⁴²	2.795.082.266
2.2. Foreign debt of Cantons	294.161.798
2.3. Domestic debt of cities and municipalities	98.895.382
2.4. Foreign debt of public enterprises and other users	2.069.660.911
TOTAL debt of the Federation of Bosnia and Herzegovina	3.644.119.700
TOTAL debt of Cantons	464.737.388
TOTAL debt of cities and municipalities	166.607.147
TOTAL debt of public enterprises and other users	2.069.660.911
TOTAL DEBT IN THE FEDERATION OF BOSNIA AND HERZEGOVINA	6.345.125.146

State of potential obligations under guarantees (in million KM)

	2014	2015 (30 Sep.)	2.016	2017	2018
Federation of BiH	57.20	50.98	49.30	41.20	34.00
Cantons	105.19	114.40	107.44	78.02	72.32
Municipalities and Cities	42.54	57.92	52.50	44.40	36.50
Total guarantees	204.93	223.30	209.24	163.62	142.82
* data for 2014 pertains only to municipalities					

Total debt managed by and under the responsibility of the Federation of Bosnia and Herzegovina (total foreign debt in the Federation of Bosnia and Herzegovina and total domestic debt of the Government of the Federation of Bosnia and Herzegovina) as of 30 September 2015 amounts to 6.106.84 million KM (estimation for 31 December 2015 is 6.294.06 million KM).

⁴¹ Domestic debt of the Federation of Bosnia and Herzegovina under issued bonds for war claims is shown in the total amount without deductions for bonds owned by the Federation of Bosnia and Herzegovina (7.597.727 KM).

⁴² Debt of the Government of the Federation of Bosnia and Herzegovina repaid from the Budget of the Federation of Bosnia and Herzegovina and which was not transferred in subsidiary arrangements to end users

Total foreign and domestic debt of the Government of the Federation of Bosnia and Herzegovina, without taking into account the debt transferred to end users through subsidiary arrangements as of 30 September 2015 amounts to 3.644.12 million KM (estimation for the state on 31 December 2015 is 3.845.03 million KM), of which 2.795.08 million KM (estimation for 31 December 2015 is 2.825.99 million KM) and 849.04 million KM on domestic debt (estimation for 31 December 2015 is 1.019.04 million KM).

State of debt of the Federation of Bosnia and Herzegovina (in million KM)

Year	GDP FBIH	State of debt			Relation of debt and GDP		
		Foreign debt	Domestic debt	Total	Foreign debt	Domestic debt	Total
	1	2	3	4 (2+3)	5	6	7
31 December 2015	18103	2,825.99	1,019.04	3,845.03	15.61%	5.63%	21.24%
30/09/2015	18,103	2,795.08	849.04	3,644.12	15.44%	4.69%	20.13%
31/12/2014	17,728	2,800.31	888.13	3,688.44	15.80%	5.01%	20.81%
31/12/2013	17,728	2,652.32	795.83	3,448.15	14.96%	4.49%	19.45%
31 December 2012	17,031	2,774.61	870.16	3,644.77	16.29%	5.11%	21.40%

Projections of repayment of domestic debt of the Federation of Bosnia and Herzegovina before 2018 (in million KM)

Debt category	2014.		2015.		2016.		2017.		2018.	
	principal	interest	principal	interest	principal	interest	principal	interest	principal	interest
1.1. Domestic debt of the Government of the Federation of Bosnia and Herzegovina	348.99	19.36	490.55	25.10	549.12	41.07	506.10	40.84	522.65	39.93
1.1.1 Loan Stocks	348.82	19.35	490.52	25.09	547.92	39.57	505.00	40.34	521.55	39.43
a) Long-term loan stocks	159.65	18.52	192.81	23.87	187.92	36.75	145.00	37.13	161.55	35.93
Old foreign currency savings	139.56	8.88	112.81	6.16	147.92	3.87	25.00	1.66	41.55	1.91
War claims	0.09	4.86	0.00	4.86	0.00	4.88	0.00	4.89	0.00	4.89
Bonds of the Federation of Bosnia and Herzegovina	20.00	4.78	80.00	12.85	40.00	28.00	120.00	30.58	120.00	29.13
b) Short-term securities (treasury notes)	189.17	0.83	297.71	1.22	360.00	2.82	360.00	3.21	360.00	3.50
1.1.2. Credits from banks					0.00	0.00	0.00	0.00	0.00	0.00
1.1.3. Obligations of former Federal Ministry of Defence	0.17	0.01	0.03	0.01	1.20	1.50	1.10	0.50	1.10	0.50

Foreign debt in the Federation of Bosnia and Herzegovina

Total foreign debt in the Federation of Bosnia and Herzegovina is represented by the debt under the responsibility and management of the Government of the Federation of Bosnia and Herzegovina and includes foreign debt of Bosnia and Herzegovina and the debt transferred to end users-financial institutions, public companies, Cantons, local communities, banks and other users.

Foreign debt in the Federation of Bosnia and Herzegovina as of 30 September 2015 amounts to 5.257.800.357 KM (estimation as of 31 December 2015 is 5.275.20 million KM) and for the most part, it is concluded with bilateral (23.98 per cent) and multilateral financial institutions (World Bank, EBRD, EIB, IMF and other) (76.02 per cent) with the aim of realising larger infrastructural projects and budget support.

The state of foreign debt in the Federation of Bosnia and Herzegovina including projection until 2018 (in million KM)

Debt category	2013	2014	2015 (30 Sep.)	2015	2016	2017	2018
Foreign debt-TOTAL	4,671.20	4,920.75	5,257.80	5,275.2	5,777.63	5,241.47	4,715.68
- Government of the Federation of Bosnia and Herzegovina	2,652.30	2,800.31	2,795.08	2,825.99	2,823.49	2,145.75	1,786.92
- Cantons	233.10	254.24	294.16	292.20	355.21	189.62	164.88
- Municipalities and Cities	53.50	99.40	98.90	106.24	172.96	95.93	92.50
- Public companies and other*	1,732.30	1,766.80	2,069.66	2,050.57	2,425.97	2,387.68	5,671.38
<i>* Banks, micro-credit organisations and alike</i>							

Repayment of foreign debt in the Federation of Bosnia and Herzegovina including projection until 2018 (in million KM)

Foreign debt-TOTAL	2013	2014	2015 (30 Sep.)	2015	2016	2017	2018
	448.18	508.88	252.40	381.46	385.57	536.16	525.79
- Government of the Federation of Bosnia and Herzegovina	327.77	225.31	70.42	183.38	196.41	255.25	239.12
- Cantons**	120.41	283.57	49.83	54.24	51.00	51.33	26.41
- Municipalities and Cities**			3.67	3.99	5.28	8.21	9.63
- Public companies and other			128.48	139.85	132.88	221.27	250.63
<i>Repayment includes principal and interest</i>							
<i>** Data for 2013 and 2014 pertain to total debt repayment of Cantons, cities, municipalities, public companies and other</i>							

Domestic debt in the Federation of Bosnia and Herzegovina

Domestic debt in the Federation of Bosnia and Herzegovina was created in accordance with the law and on the basis of issuing debentures. In accordance with data available to the Federal Ministry of Finance, domestic debt in the Federation of Bosnia and Herzegovina as of 30 September 2015 amounts to 1.087.33 million KM (estimation for the state on 31 December 2015 is 1.258.94million KM)

The state of domestic debt in the Federation of Bosnia and Herzegovina including projection until 2018 (in million KM)

Domestic debt	2013	2014	2015 (30 Sep.)	2015	2016	2017	2018
	957.59	1,094.61	1,087.33	1,258.94	1,130.59	1,146.84	1,096.79
Government of the Federation of Bosnia and Herzegovina	795.80	888.13	849.04	1,019.04	877.94	881.84	819.19
Cantons	113.88	167.18	170.58	177.56	184.52	191.17	196.97
Municipalities and Cities	47.91	52.34	67.71	62.34	68.13	73.83	80.63

Since annual verification of old foreign currency savings is decreasing year by year, and that verification of war claims is completed, and bearing in mind the dynamics and amounts determined in court decisions for war claims, it is not expected for these obligations to significantly increase, and total claims in the Federation of Bosnia and Herzegovina under old foreign currency savings and war claims will be lower than the estimated 1.150.0 million KM and 500 million KM, respectively. Therefore, the domestic debt is observed only in comparison to the verified amount.

Domestic debt of the Government of the Federation of Bosnia and Herzegovina as of 30 September 2015 amounts to 849.04 million KM and is composed of market and non-market instruments.

Market instruments are treasury notes and treasury bonds which the Federation of Bosnia and Herzegovina started issuing in 2011 and 2012 on auctions. Between 2011 and 2015, 33 auctions of treasury notes and 10 auctions of treasury bonds have been organised. During these auctions, 769 million KM of treasury notes of different maturity (3, 6, 9 and 12 months) were issued, as well as 390 million KM of treasury bonds with maturity of 2, 3 and 5 years.

In auctions of treasury bonds, coverage of offer in 2015 amounts between 2.09 and 2.93, representing significant growth in comparison with previous years. Coverage of offer on treasury notes depends on their maturity and amounts from 1.10 to 4.41.

Main investors in securities of the Government of the Federation of Bosnia and Herzegovina remain banks operation in the territory of the Federation. In bonds auctions, but in smaller number and volume, other investors also appear (insurance companies).

Non-market instruments are bonds issued directly under verified obligations for old foreign currency savings and war claims. These bonds have legally determined maturity and interest rate of 2.5 per cent.

The foundations for settling the domestic debt stipulated by law are court rulings or verification. Domestic debt stipulated by law is settled through cash payments or emission of bonds.

Until 30 September 2015, the following obligations were settled in cash: toward suppliers in the amount of 17.721.573 KM, soldiers' salaries and remunerations in the amount of 32.605.006 KM, war claims in the amount of 14.608.270 KM and old foreign currency savings in the amount of 104.462.896 KM.

Obligations on the basis of old foreign currency savings and war claims, except those in cash, are also settled through emission of bonds. For settling old foreign currency savings obligations, seven emissions of bonds were organised, in total value of 825.157.850 KM, of which before 30 September 2015 the amount of 645.686.221 KM matured and was settled. For settling war claims obligations, four emissions of bonds were organised in the total value of 195.417.760 KM. Settling of war claims principal⁴³ for which emission has been completed will start upon expiration of the grace period, i.e. 9 years after emission.⁴⁴

During the first nine months of 2015, total amount of 391.15 million KM was paid for settling the domestic debt, of which 371.21 million KM for principal and 19.94 million KM for interest. Until 30 September 2015, total amount of 1,074.12 million KM of principal was paid for settling the domestic debt.

⁴³ In accordance with the judgement of the European Court for Human Rights, the rights of owners of bonds on the basis of court decision were paid in cash, while the Federal Ministry of Finance became the owner of the bonds in the amount of 7.597.727 KM.

⁴⁴ Repayment of principal for the first tranche will start in 2019, for the second tranche in 2021, for the third tranche in 2023 and for the fourth tranche in 2025.

**Outstanding domestic debt of the Government of the Federation of Bosnia and Herzegovina
under years (in million KM)**

Domestic debt		2012	2013	2014	2015 (30 Sep.)	2015
In form of securities	Non-market instruments- Total	667.79	552.30	446.00	375.40	374.89
	Old foreign currency savings bonds	477.78	357.90	251.60	179.47	179.47
	War claims bonds	190.01	194.40	194.40	195.93	195.42
	Market instruments-Total	190.00	220.00	390.00	450.00	620.00
	Treasury notes	60.00	50.00	100.00	160.00	100.00
	Treasury bonds	130.00	170.00	290.00	290.00	520.00
Obligations of the former Federal Ministry of Defence	Obligations of the former Federal Ministry of Defence- Total	12.37	12.37	12.20	12.17	12.17
	Suppliers	7.36	7.33	7.28	7.28	7.28
	Salaries	5.01	5.04	4.92	4.89	4.89
Total domestic debt		870.16	795.83	888.13	849.04	1,019.04

Indebtedness in the Federation of Bosnia and Herzegovina is still within the Maastricht criteria. Obligations for debt servicing are increasing due to foreign debt servicing, mostly due to obligations toward the IMF.

Servicing the debt⁴⁵ of both the Federation of Bosnia and Herzegovina and the Cantons (long-term obligations) does not exceed 18 per cent of consolidated revenues realised in the previous year, i.e. obligations based on the debt of the Cantons, municipalities and cities is less than 10 per cent of related revenues in the previous year.

Participation of foreign debt servicing, transferred to end users through subsidiary arrangements, in total obligations of the Federation of Bosnia and Herzegovina is gradually increasing.

Servicing of the domestic long-term debt of the Federation of Bosnia and Herzegovina significantly participates in total annual obligations, of which most obligations pertain to repayment of debt under old foreign currency savings. All obligations verified on this basis before 31 December 2013 will be settled by the end of 2016.

Relation of total domestic and foreign debt of the Government of the Federation of Bosnia and Herzegovina and GDP (pertaining to the Federation) between 2005 and 2008 had a decreasing tendency, from 48.09 per cent in 2005 to 27.52 per cent in 2007 and 27.11 per cent in 2008. Since 2009, it continuously grew to 27.7 per cent and reached 33.73 per cent by 30 September 2015.

Projections of servicing domestic debt does not include obligations pertaining to cash payment of obligations assumed under the law, and are settled in accordance with court judgements (soldiers' salaries and suppliers of the Former Federal Ministry of Defence and the Army of the Federation of Bosnia and Herzegovina and war claims) and part of verified obligations under old foreign currency savings for which no bonds are issued.

**Projections of net indebtedness of the Government of the Federation of Bosnia and Herzegovina
under securities emission (in million KM)**

Type of security		Plan for 2015	2016.	2017.	2018
Treasury bonds of the Federation of Bosnia and Herzegovina	Emission	310.00	40.00	120.00	80.00
	Repayment of principal	80.00	40.00	120.00	140.00
	Net indebtedness	230.00	0.00	0.00	-60.00
treasury notes Federation of BiH	emission	300.00	360.00	360.00	360.00
	Repayment of principal	300.00	360.00	360.00	360.00
	Net indebtedness	0.00	0.00	0.00	0.00

⁴⁵ Servicing of the debt of the Cantons, cities and municipalities may amount to 10 per cent of related revenues realised in the previous fiscal year. The amount of servicing the debt of the Federation of Bosnia and Herzegovina, together with limitations to the indebtedness of the Cantons, may not exceed 18 per cent of consolidated revenues of the Federation and the Cantons realised in the previous fiscal year.

Borrowing dynamics, credit purpose and the long-term problem of payment balance current account deficit implies the need for stable debt monitoring and maintaining balanced structure of repayment in years, with the aim of minimising the liquidity risk.

Debt management, with the aim of maintaining the debt on the same level or decreasing its participation in GDP, improved participation of borrowing in terms of guarantees and continuous development and improvement of the domestic securities market should represent one of the priorities in the Federation during the following period.

Likewise, new borrowing should be tied to projects contributing to expedited reforms as the basis of further economic growth. Adoption of each individual decision on new borrowing implies mandatory analysis of macroeconomic flows and their susceptibility in the context of every new borrowing and implications on GDP in order to minimise total risks and continue developing the domestic securities market.

Potential obligations

Potential obligations are financial obligations that could be borne by the budget of the Federation of Bosnia and Herzegovina under issued guarantees or decisions of the Parliament of the Federation on possible assuming of obligations of Cantons, local communities or public companies of strategic importance for the Federation.

In 2010, the Government of the Federation issued a guarantee for PC Railways of the Federation of Bosnia and Herzegovina under syndicated credit in the amount of 78.9 million BAM. The state of debt on 31 December 2014 related to the stated guarantee amounts to 51.9 million BAM. Since the credit under this guarantee is, *inter alia*, secured by a cash transfer from the budget of the Federation of Bosnia and Herzegovina regularly planned in the budget in accordance with relevant laws, the risk of activating this guarantee is very low.

In addition, there is an external sub-guarantee issued for the JKP Vodovod i kanalizacija doo Tuzla in the amount of 5.8 million EUR (external guarantee of Bosnia and Herzegovina). Outstanding debt under this guarantee at the end of 2014 was 2.32 million EUR. During the following period, activation of guarantees is not expected.

The Law on Debt in the Federation of Bosnia and Herzegovina clearly prescribes that debt of Cantons, cities, municipalities and public companies does not represent the debt of the Federation and that the Federation will not be responsible for their debt. However, current financial position of several Cantons, municipalities and public companies to which the Federation transferred credits implies possible difficulties in servicing their obligations toward the Government of the Federation of Bosnia and Herzegovina.

In this regard, the Federal Government will adopt regulations on the method of assuming or re-programming debts of final users if necessary.

Republika Srpska

The Law on Borrowing, Debt and Guarantees of Republika Srpska defines in detail the issue of borrowing and issuing guarantees of Republika Srpska and local self-government units and methods and procedures of borrowing. Together with other laws regulating the budget system, it represents legal framework for improvement and budget discipline control. This Law determines limitations of debt amount so that total debt of Republika Srpska⁴⁶ in the end of a fiscal year may not exceed 60 per cent, while public debt of Republika Srpska may not exceed 55 per cent of GDP realised in that year. The debt of Republika Srpska created under borrowing for financial recovery of damages from the Single Damages Registry, prescribed in the Law on Solidarity Fund for Reconstruction of Republika Srpska is excluded from limitations defined for total and public debt of Republika Srpska.

⁴⁶ In accordance with the Law on borrowing, debt and guarantees of RS, total debt of RS consists of public debt of the Republic of Srpska, debt of public enterprises, IRB RS and public sector institutions. Public debt is the debt of the Republic of Srpska (budget), the debt of local governments and social security funds debt.

In terms of institutional arrangement for debt management in Republika Srpska, this task has been delegated to the Department for Debt Management as an organisational unit of the Ministry of Finance. The Department was established in 2007 and resulted in abandonment of previous practice of debt management by more different organisational units in the Ministry of Finance.

As of 31 December 2014, the state of debt of Republika Srpska serviced from the budget of Republika Srpska⁴⁷ was 4.649.9 million KM. In that amount, the amount of 2.887.2 million KM (62.1 per cent) pertains to foreign debt, while 1.762.7 million KM (37.9 per cent) pertains to domestic debt.

Currency structure of the observed debt of Republika Srpska is characterised by domination of 4 currencies: KM, EUR, SDR and USD. The largest portion in the debt currency structure is represented by KM (37.9 per cent) since domestic debt is entirely denominated in this currency. Bearing in mind that the Central Bank of Bosnia and Herzegovina is responsible for monetary stability in accordance with the Currency Board Arrangement⁴⁸, the fact that participation of EUR in the currency structure is significant (32.5 per cent) may be characterised as favourable. High percentage of EUR and KM participation ensures high level of anticipation of future obligations. In this view, Republika Srpska is less susceptible to currency risk. However, due to significant participation of SDR (21.6 per cent) and USD (4.1 per cent) in debt currency structure, and bearing in mind domination of USD in the structure of SDR⁴⁹, strengthening of value of USD could result in increase in foreign debt state. At the same time, this would call for more domestic currency for foreign debt servicing.

When it comes to the structure of debt regarding maturity, it is very important to note the positive fact that the observed debt of Republika Srpska is almost entirely long-term. Namely, short-term debt makes only 2.5 per cent, while the entire remaining debt is long-term and it participates with 97.5 per cent. Of the observed debt of Republika Srpska, 52.1 per cent is under repayment, while 47.9 per cent is in the grace period. Most of foreign debt, i.e. 58.5 per cent is currently being repaid, out of which "old" debt is being repaid at the level of 94.7 per cent, while the level for the "new debt" is at the level of 48.5 per cent. Of the domestic debt, 41.6 per cent is under repayment, while 58.4 per cent is in the grace period. Majority of observed debt, i.e. 61.4 per cent is repaid under fixed interest. In comparison with foreign debt mostly repaid under variable conditions (53.8 per cent), domestic debt is mostly repaid under fixed terms (86.7 per cent).

When it comes to the structure of the observed debt in view of instruments, marketable debt portion (bonds and treasury notes) amounts to 29.2 per cent, while non-marketable portion (credits and debt settled through action plans or in cash) makes for 70.8 per cent. Marketable portion enables for advantages of debt management to be used, since these are openly traded within the capital market.

As of 31 December 2014, the state of debt under all credits for which the Government of Republika Srpska issued guarantees amounted to 236.8 million KM. In the framework of the Budget of Republika Srpska, funds are planned for repayment of obligations under activated guarantees and non-activated risky guarantees.

⁴⁷ In order to express data in a uniform way at all levels, for the purpose of this document we have presented the state of debt of Republika Srpska serviced from the Budget of Republika Srpska, which encompasses the state of the external debt of Republika Srpska (the budget), the local self-governance units, public companies and the IRB RS, as well as the internal debt of Republika Srpska (the budget) and social security funds that occurred by indirect borrowing.

⁴⁸ The Currency board arrangement established the issuance of the local currency with full coverage in free convertible assets by a fixed exchange rate 1 KM: 0.51129 EUR.

⁴⁹ The value of SDR is determined based on the basket of 4 key international currencies, namely, its value comprises USD 41.9%, JPY 9.4 %, EUR 37.4 %, GBP 11.3%.

Table: Servicing total and public debt of Republika Srpska and servicing debt from the Budget of Republika Srpska

Category		2014	as of Sept. 30 2015.	2015	2016	2017	2018
1	External debt servicing	265.0	137.4	219.8	275.0	364.2	376.6
	1.1. Republika Srpska	200.7	90.8	143.8	184.1	262.0	278.0
	1.2. Units of Local Government	3.6	1.9	5.6	7.7	8.0	8.0
	1.3. Public Enterprises and IRB	60.6	44.6	70.4	83.3	94.2	90.6
2	Domestic debt repayment	352.4	320.6	397.0	517.7	506.0	593.4
	2.1. Republika Srpska	216.9	216.2	258.5	413.4	405.1	497.5
	2.2. Local self-government units	66.7	48.4	74.8	60.7	59.0	55.7
	2.3. social security funds:	68.8	56.1	63.8	43.5	41.9	40.2
3	Servicing public debt of Republika Srpska	556.7	413.4	546.4	709.4	776.0	879.4
	3.1. Foreign debt (1.1+1.2)	204.3	92.7	149.4	191.7	270.0	286.0
	3.2. Domestic debt (2.1+2.2+2.3)	352.4	320.6	397.0	517.7	506.0	593.4
4	Servicing total debt of Republika Srpska	617.4	458.0	616.9	792.7	870.2	970.0
	4.1. Foreign debt (1.1+1.21.3)	265.0	137.4	219.8	275.0	364.2	376.6
	4.2. Domestic debt (2.1+2.2+2.3)	352.4	320.6	397.0	517.7	506.0	593.4
5	Servicing debt from the Budget of Republika Srpska	518.1	388.8	526.9	726.2	805.5	908.5
	5.1. Foreign debt (1.1+1.21.3)	265.0	137.4	219.8	275.0	364.2	376.6
	5.2. Domestic debt (2.1+2.32)	253.2	251.4	307.1	451.2	441.2	532.0

Note: data for 2015 are in accordance with the Budget Rebalance for 2015, for the 2016-2018 period in accordance with the 2016 Budget and the following two years

Table: State of total and public debt of Republika Srpska and the state of debt for obligations financed from the Budget of Republika Srpska

Category		2014	as of 30 September 2015.	2015	2016	2017	2018
1	Foreign debt state	2,887.2	2,957.2	3,167.0	3,581.0	3,799.7	3,456.3
	1.1. Republika Srpska	1,859.1	1,935.3	2,093.8	2,308.2	2,456.6	2,146.5
	1.2. Units of Local Government	63.5	64.6	79.3	135.9	131.5	127.0
	1.3. Public Enterprises and IRB	964.7	957.3	993.9	1,136.9	1,211.6	1,182.8
2	Domestic debt state	2,168.0	2,213.3	2,184.4	2,029.4	1,886.6	1,731.5
	2.1. Republika Srpska	1,528.0	1,579.1	1,572.8	1,604.7	1,543.9	1,487.1
	2.2. Units of Local Government	330.4	309.1	255.6	272.7	229.6	170.6
	2.3. social security funds:	309.7	325.1	356.0	152.0	113.1	73.7
3	State of public debt of Republika Srpska	4,090.5	4,213.2	4,357.4	4,473.5	4,474.8	4,005.0
	3.1. Foreign debt (1.1+1.2)	1,922.5	1,999.9	2,173.1	2,444.1	2,588.1	2,273.5
	3.2. Domestic debt (2.1+2.2+2.3)	2,168.0	2,213.3	2,184.4	2,029.4	1,886.6	1,731.5
4	State of total debt of Republika Srpska	5,055.2	5,170.5	5,351.4	5,610.3	5,686.3	5,187.8
	4.1. Foreign debt (1.1+1.21.3)	2,887.2	2,957.2	3,167.0	3,581.0	3,799.7	3,456.3
	4.2. Domestic debt (2.1+2.2+2.3)	2,168.0	2,213.3	2,184.4	2,029.4	1,886.6	1,731.5
5	State of debt serviced from the Budget of Republika Srpska	4,649.9	4,746.5	4,940.4	5,313.4	5,436.7	5,001.7
	5.1. Foreign debt (1.1+1.21.3)	2,887.2	2,957.2	3,167.0	3,581.0	3,799.7	3,456.3
	5.2. Domestic debt (2.1+2.32)	1,762.7	1,789.3	1,773.4	1,732.5	1,637.0	1,545.3

3.6. Sensitivity analysis and comparison with the previous programme

Sensitivity analysis-Indirect Taxes

In view of basics of indirect taxes projections and total economic conditions in Bosnia and Herzegovina and the world, realisation of projected level of revenues from indirect taxes between 2015-2018 is susceptible to following risks:

- (i) Projections of indirect taxes revenues are closely tied to projections of macroeconomic indicators of the DEP. All discrepancies of these parameters from projected values represents risks for revenues' projections;
- (ii) Weaker economic recovery of main export partners of Bosnia and Herzegovina (EU, CEFTA countries) increases the level of risk for realising macroeconomic projections and, accordingly, projections of revenues from indirect taxes as a whole;
- (iii) Investments tied to international projects lead to increase of VAT return, while projects financed from IPA funds in the end result in VAT exemption. Both derogations of the Law on VAT cause discrepancy between total and taxable spending. Stronger than expected increase in number of international projects and re-integration of Bosnia and Herzegovina into IPA program, envisaging significantly higher allocations to Bosnia and Herzegovina than in the past, may result in increases in the stated discrepancy during the next period, thus leading to smaller execution of VAT revenues in comparison with the projected level;
- (iv) Expected effects of application of the Law on Excise Duties in the field of tobacco taxation may be lowered or neutralised due to changes in policies implying harsher cigarettes taxation (e.g. introduction of a new, designated cigarettes excise duty). Due to widening the tax burden gap between cigarettes and cut tobacco taxation, these could result in renewed strengthening of black tobacco market and erosion of excise duty revenues. At the same time, expedited growth of cigarettes excise duties will lead to shifts in the dynamics of aligning the total amount of minimal excise duty in Bosnia and Herzegovina with the minimal EU excise duty. This will be negatively reflected in terms of prices of domestic cigarettes and those produced in the neighbouring countries. This could encourage smuggling of cheap cigarettes from neighbouring countries into Bosnia and Herzegovina, thus finally leading to lowering the level of domestic cigarettes production and losses of revenues from excise duties and associated VAT.
- (v) Possible changes in VAT policies in view of differentiated VAT rates, in addition to fiscal losses and macroeconomic implications in terms of market distortions, may destabilise the existing VAT system and revenues collection, decrease efficiency of the Indirect Taxation Authority, burden business entities and significantly increase fraud risk.
- (vi) Maintaining the existing policy of differentiated taxation of fuel oil and possible changes in policy of taxation of oil derivatives (e.g. increasing the designated pay toll), implying widening of the gap in substitutes taxation (diesel and fuel oil), would lead to derivatives market distortion and losses in pay toll revenues.

In addition to the basic scenario, an alternative scenario of indirect taxes revenues has been prepared (Table 2) based on the alternative scenario of DEP macroeconomic indicators of (November 2015).

Table 2. Alternative scenario of indirect taxes revenues, November 2015

Type of revenues (net)	in million KM					Projected growth rate			
	Performance	Projection							
	2014	2015	2016	2017	2018	2015	2016	2017	2018
VAT	3,207.8	3,276.2	3,337.1	3,426.7	3,533.6	2.1%	1.9%	2.7%	3.1%
Excise duties	1,307.5	1,405.7	1,451.3	1,504.7	1,555.6	7.5%	3.2%	3.7%	3.4%
Custom duties	235.4	248.6	255.1	265.0	277.5	5.6%	2.6%	3.9%	4.7%
Pay toll	294.3	319.0	324.4	331.9	339.5	8.4%	1.7%	2.3%	2.3%
Other	24.0	24.1	24.3	24.5	24.6	0.4%	0.7%	0.7%	0.8%
Total	5,069.0	5,273.6	5,392.2	5,552.8	5,730.8	4.0%	2.2%	3.0%	3.2%
Pay toll 0.10 KM/per litre	-117.7	-127.6	-129.8	-132.7	-135.8	8.4%	1.7%	2.3%	2.3%
For apportionment	4,951.3	5,146.0	5,262.4	5,420.0	5,595.0	3.9%	2.3%	3.0%	3.2%

Since projections of indirect taxes revenues are closely tied to projections of macroeconomic indicators their corrections in alternative scenario significantly influence projected amounts of revenues, except excise duties revenues, the execution of which is affected by cigarettes and cut tobacco excise duties between 2016 and 2018. Biggest corrections pertain to VAT revenues could be explained by correlations between spending projections, import and inflation (CPI), but also by significant participation of these revenues in total indirect taxes. Since alternative scenario of macroeconomic projections revises projections of real indicators, corrections of pay toll revenues and excise duties on oil derivatives and other excise duty products have also been corrected. Custom duties have been corrected due to smaller import rates growth in the alternative scenario. Expressed in million KM, projections in the alternative scenario have been corrected by -34.3 million KM, -56.6 million KM and -87.6 million KM in 2016, 2017 and 2018, respectively (Table 2).

In comparison with the previous program

Table No. 3 shows differences in projection of revenues (basic scenarios) from indirect taxes represented in this document in comparison with projections from the previous program (National Economic Reforms Program - NERP 2015). In comparing projections, it is necessary to keep in mind changes in projections of macroeconomic indicators on which they are based.⁵⁰

Table 3. Differences in comparison with the previous program

Document	Time of preparation projection	Projection* of indirect taxes (in million KM)				
		2014	2015	2016	2017	2018
NERP 2015	October 2014	5009.2	5116.2	5219.3	5346.6	n/a
ERP 2016	October 2015	5069.0	5273.6	5426.5	5609.3	5818.4
Correction (in %)		1.19%	3.08%	3.97%	4.91%	n/a

* Amount for 2014 in projections from October 2015 pertains to actual collection of revenues

Since projections from the previous program were prepared in October 2014, amount for 2014 represented the projection of revenues. After strong growth of revenues in the end of 2014, projection for 2014 from NERP 2015 is exceeded by almost 60 million KM (Tables 3 and 4). The biggest difference pertains to VAT revenues (Table 3).

⁵⁰ Projections of indirect taxes represented in NERP 2015 are based on DEP projections of macroeconomic indicators from September 2014.

Table 4. Differences by types of revenues in comparison with the projections from the previous program

(in million KM)	2014	2015	2016	2017
Total correction	59.8	157.4	207.2	262.7
of which: VAT	34.5	37.8	64.0	91.5
of which: Excise duties on oil	3.2	36.4	37.4	38.0
of which: Excise duties on tobacco	8.3	44.9	69.2	97.7
of which: other indirect taxes**	13.8	38.4	36.6	35.5

** Item "other indirect taxes" includes custom duties, pay toll, excise duty on alcohol, beer, non-alcoholic beverages and coffee and other revenues collected by the Indirect Taxation Authority

The corrected basics (revenues in 2014) is one of the most important reasons for corrections of VAT for 2015.⁵¹ However, for 2015, the biggest correction was made for revenues from excise duties, in particular in excise duties on tobacco (44.9 million KM). The primary goal of the amendments to the Law on Excise Duties in view of tobacco taxation was stabilisation of cigarettes market, which dropped by 14.4 per cent in terms of value and 21 per cent in terms of quantity during the first half of 2014 in comparison with the same period in 2013. This is why the starting point for projections of excise duties on tobacco in October 2014 for the following 2015 was recovery of the value of cigarettes market to the level of 2013. However, new tax measures brought results already in December 2014 when cigarettes market reached values from previous years, and the drop in quantities reached the acceptable 8.4 per cent. The first quarter of 2015 brought additional improvement in trends in all aspects (value, quantity, revenues) and more serious corrections of basic assumptions were already necessary during preparation of projections in 2015.⁵² Except for tobacco, excise duties on oil were significantly corrected in comparison with the previous period (+36.4 million). Correction was made primarily because of the strong trend of growth of these revenues in 2015.

Correction of projected amounts of all types of revenues for the 2016-2017 period is for the large part the result of corrections of the projected amounts for 2015 representing the basis for their preparation.

Federation of Bosnia and Herzegovina

Environment in Bosnia and Herzegovina is currently very favourable for recovery and economic growth. International community announced significant projects of infrastructural support in direct correlation with fulfilling criteria for applying for the acquiring the status of a candidate country for joining the European Union. Realisation of Reform Agenda was rated as positive and the Progress Report is assessed as the best so far. In addition, political consolidation and Parliamentary majority were also established. All these measures may affect greater investors' trust.

Main risks in achieving the projected fiscal goals are:

- delays in implementing structural reforms defined in the Reform Agenda, as well as failure to fulfil obligations under the IMF arrangement;
- weaker economic recovery of main export partners of Bosnia and Herzegovina (EU, CEFTA countries) increases the level of risk for realising macroeconomic projections and, accordingly, the planned fiscal scenario included in the Economic Reforms Program;

⁵¹After projections represented in NERP 2015, in the meantime and before preparation of ERP 2016, the Department for Economic Analysis of the Indirect Taxation Authority prepared projections in April 2015 in accordance with the budget calendar of the Institutions of Bosnia and Herzegovina (the Law on Financing the Institutions of Bosnia and Herzegovina, "Official Gazette of Bosnia and Herzegovina", No. 49/09). Projections from April 2015, VAT has been corrected by +29.6 million KM in comparison with those from October 2014, while in projections from October 2015, VAT has been further corrected by only +8.1 million KM. April projections are available at: http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_118.pdf

⁵² Total amount of corrections regarding excise duties on tobacco between projections represented between two programs ERP 2016 and NERP 2015 was performed in April projections, while projections of excise duties on tobacco OMA from October 2015 were not changed in comparison with those 2015.

- social pressure, especially from socially vulnerable categories (retired persons, workers with non-defined pensionable service, labour unions regarding Collective Employment Contracts;
- possible failure to conclude new arrangement with IMF;
- delays in realisation of large investment projects.

In comparison with NERP from the previous year, reasons for biggest discrepancies in public expenditures in comparison with projections are shown in Section 3.2-Budget Execution in 2015.

NERP for the previous year defined fiscal policies achieved in the part pertaining to: the Law on Games of Chance and the Law on Amendments to the Law on Default Interest Rate, while the Law on Tax on Income is still in the Parliamentary procedure and has not been adopted yet, Other regulations were not adopted due to delays in forming the new executive government, as well as due to the problems related to changes in the Parliamentary majority.

Republika Srpska

Sensitivity of budget projections to alternative scenarios and risks

Fiscal projections are based on developments in previous years and first ten months of 2015, on planned amendments to the laws and macroeconomic framework for the following year. For each individual type of revenues, the analysis of realisations during the previous period was made, including one-time influences in the previous period. In addition, the degree of correlation of certain types of revenues and developments of macroeconomic aggregates was determined. All revenues are expressed in current prices, while the degree of elasticity of tax revenues was calculated on the basis of change of real and nominal values of relevant macroeconomic aggregates, in particular the gross domestic product.

Projections of expenditures are based on the requests of budget users and obligations resulting from laws and bylaws. Budget execution is performed in accordance with realisation of revenues and budget in-flows.

The risk lies in (failure in) realising macroeconomic and other preconditions representing the basis of the projections. Likewise, risks in the real sector would reflect on the expected economic growth and the number of employees.

Comparison with the previous program

If ERP RS for 2016 and NERP RS for 2015 are compared, it is obvious that in 2014, due to a conservative planning of revenues under the last-year program, realised revenues are above the projected values. The most significant discrepancies are related to revenues from indirect taxes, taxes from corporate income taxes, social security contributions and non-tax revenues. At the same time, total realised expenditures in 2014 exceeded the projections in the document prepared for the last year. The most significant discrepancies within the framework of current expenditures are related to social protection contributions and expenditures for non-financial assets. This led to a 10 per cent of deficit increase in comparison with plans in the previous document.

In 2015, updated projections of revenues and expenditures also exceeded those planned in the previous document. Increase in total expenditures is somewhat bigger than increase in total revenues. Therefore, the program for this year projects deficit which is by 8.9 per cent higher than the one in the previous program.

The updated projections for 2016 and 2017 increase public revenues, but even more significantly public expenditures, thus resulting in higher deficit. Reason for this are primarily the fact that projections are based on conservative projections of revenues and, at the same time, revenues based on the needs expressed by budget users.

3.7. Sustainability of public finances

Federation of Bosnia and Herzegovina

It is the goal of all the reforms currently under implementation in the Federation of Bosnia and Herzegovina is, among other things, to secure sustainability of public finances system. In this view, one of the most important reforms is the reform of pension and health care system.

*Financial sustainability of the pension system*⁵³

The new Law on Pension and Disability Fund is under preparation and it will come into force on 1 January 2016. It includes the following changes:

- introduction of the new system for calculation of the pension basis
- introduction of restrictions related to early retirement
- improvement of financial discipline and the scope of the pension system.

In accordance with estimations by the competent bodies, introduction of the pension reform does not require additional financial funds due to expected additional funds based on extended taxation of remunerations related to one-time work contracts, meal allowance, remunerations of management bodies, etc. This will allow for the scope of taxation and contributions to be widened.

With the aim of raising the level of sustainability of the Pension Fund, it is planned for the incentive for new employment to be introduced (Directive on encouraging first employment). This will be achieved through subventions at the rate of 100 per cent, through paying the minimal net salary and contributions related to salaries of newly employed persons. This measure will also affect allocations to pension funds, in addition to increased number of employed persons, especially young people. (Discussed in Section 4 of the Structural Reform).

However, the problems that will remain unsolved during the following period are debts related to contributions to Pension and Disability Fund, in particular those of state-owned companies. The following period will see attempts at settling this issue with the help of the World Bank.

Financial sustainability of the health care system

In most European countries, spending related to health sector ranges from 5 to 10 per cent of GDP. In the current setting, most European countries will face the additional challenge of securing sustainability of financing the health care system. This problem is evident both in Bosnia and Herzegovina and the Federation of Bosnia and Herzegovina. The results are: extensive public spending on health care as part of GDP, one of the biggest in the region; disproportionate high and often unjustified spending on medications and medical equipment; absence of foreign investors who could potentially positively affect development and growth of state economy; underdeveloped market competitiveness.

Bearing in mind the above stated, it is necessary to ensure gradual decrease of expenses of all levels of health care system, from 10.19 per cent (for 2014) by 1 per cent, on both macro and micro levels. However, lowering the costs in the sector should not be achieved at the expense of security and quality of health care or the achieved health care standards.

⁵³ Information on the status of preparation of the Law on Pension and Disability Fund was adopted at the session of the Government.

Key indicators of spending in the health care sector in Bosnia and Herzegovina in comparison with GDP and per capita:⁵⁴

SHA 2011		Share in GDP, in %					Per capita in KM				
		2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
ICHA-HF	Total	10	9.95	10.01	10.05	9.81	630	642	669	671	666
HF.1	Public	6.9	7.1	7.2	7.1	6.9	437	455	480	477	471
HF.2+	Private	3.1	2.9	2.8	2.9	2.8	193	187	189	194	195
HF.3											

Total funds in the health care sector in 2014 amounted to 1.660.725.238 KM, of which realised revenues amount to 1.656.195.137 KM, and reserve funds transferred from previous years are in the amount of 4.530.102 KM.⁵⁵ Revenues from health care insurance are still the largest source of revenues and make up for 88.55 per cent of total health care sector revenues.

Total spending in the health care sector in the Federation of Bosnia and Herzegovina in 2014 amounted to 1.708.251.276 KM, of which the amount of current expenditures is 1.650.730.900 KM and of capital expenditures 57.520.376 KM.

The stated data for 2014 show that spending are by 47.5 million KM higher than revenues, while total debt in accordance with preliminary findings of the Federal Ministry of Health amounts to approximately 339 million KM.

Therefore, undisturbed functioning of the health care system, and its characteristics is possible only in stable and financially sustainable environment.

Measures in the health care system reform imply settling the issue of debts of the health care sector, introducing treasury system and defining new models and sources of financing, including precise norming the health care institutions network. This primarily relates to the following (Conclusions of the Federal Government regarding discussions of the Information on health care issues):

1. Founders of Cantonal health care institutions will prepare Information on business operations and their debts
2. The Federal Ministry of Health will prepare proposal of the Law on Financial Consolidation of Public Health Care Institutions
3. The Federal Ministry of Health will prepare the Project of re-structuring health care system in the Federation, including estimated costs and possible financing resources
4. The Federal Ministry of Finance will prepare the Law on Amendments to the Law on Default Interest Rate on Public Revenues with the aim of creating legal precondition for write-off of interest of health care institutions matured on the basis of matured but outstanding revenues.

Implementation of health care system reform will be started with the help of the World Bank in order to achieve sustainability of the health care sector.

The World Bank and the Federal Ministry of Health will define concrete measures in the health care sector.

⁵⁴ **Source of information:** Project "Public Health Care System Reform II"-financed by EU, the third component-development and institutionalisation of state health care accounts. Note: International classification for accounts in health care sector (ICHA) is categorised under three basic classifications: *Financiers-financing agents* for health care (ICHA-HF); Health care service *providers* (ICHA-HP), According to health care functions (ICHA-HC). Bosnia and Herzegovina is working on cross-classified NHA tables HPXHF i HCXHF:HC - Classification in terms of health care functions; HF-Classification in terms of financing agents (all parties managing financial funds-maintaining financial funds, merging financial funds and payment/purchasing of services); HP-Classification in terms of health care service providers (hospitals, primary health care protection institutions, retail sale); *Sources of financing* health care (ICHA-FS); *Resources costs* of health care protection (ICHA-RC). State health care accounts ((HPXHF i HCXHF) in Bosnia and Herzegovina are processed for 8 years: 2004-2012. BiH Statistics Agency, State health care accounts statistics for 2013

⁵⁵ Information on the issues of financing the health sector-discussed at the session of the Federal Government on 5 November 2015.

Republika Srpska

Republika Srpska is implementing measures in order to secure long-term sustainability of the public finances system. One of the most important reforms is the health care sector reform. The first step is to analyse debts of the system, i.e. debts of Community Health Centres and hospital sector in order to clearly define amount and propose modalities for settling the issue. The second step enabling introduction of a full responsibility and fiscal discipline system into all institutions will be represented by introduction of treasury system. In 2016, it is planned for the Law on Amendments to the Law on Health Care Insurance to be adopted. In addition, the procedure of adopting new or amending the existing Law on Health Care Chambers will be initiated.

When it comes to pension and disability insurance, it is necessary, to consider the need for reforming pension system parameters in 2016 in order to ensure their sustainability. With the aim of ensuring regular payment of pensions, Amendments to the Law on Pension and Disability Insurance, the Law on Budget System, the Law on Treasury and the Law on Contributions were adopted. The general goal was to introduce the Pension and Disability Fund of Republika Srpska into the Treasury System as of 1 January 2016. The expected result was more confidence in timely securing of funds for payment of pensions. Likewise, in accordance with obligations from the Reform Agenda, 2016 will see preparation of voluntary insurance schemes and establishment of the first voluntary pension fund.

In cooperation with the Investment-development Bank of Republika Srpska, the plan is to analyse sustainability of state-owned companies and propose measures for rehabilitation of sustainable and liquidation of unsustainable companies.

As in most countries, bad debts represent one of the key risks in the banking sector. With the aim of resolving the issue of bad debts, it is necessary to take actions encouraging settlements for debt restructuring and remove obstacles burdening the process, both in the legal framework and in its consistent implementation. It is necessary to encourage banks to implement different modalities of financial restructuring contributing to improvement of debtors' positions (write-off of obligations related to interest and/or principal, introducing the off period, reprogramming related to prolonged deadlines and alike), rarely used in previous practice, except in cases of reprogramming to shorter periods, upon which the banks resorted to forced collection.

More detailed explanations of key measures is given in Section 4 Structural reforms priorities

3.8. Institutional features

Institutions of Bosnia and Herzegovina

One of important innovations contributing to development and more efficient program budgeting and improved connectedness with public institutions is introducing strategic planning into the Institutions of Bosnia and Herzegovina in accordance with the Decision on the process of short-term planning, monitoring and reporting in the Institutions of Bosnia and Herzegovina ("Official Gazette of Bosnia and Herzegovina", No. 62/14) and Instruction on methodology in the process of mid-term planning, monitoring and reporting in the Institutions of Bosnia and Herzegovina ("Official Gazette of Bosnia and Herzegovina", No. 44/15).

In this regard, the Council of Ministers of Bosnia and Herzegovina, at the proposal of the Directorate for Economic Planning, at its session held on 13 January 2016, adopted the first Medium Term Work Program of the Council of Ministers of Bosnia and Herzegovina 2016-2018, ensuring quality management of development in accordance with competencies of the Council of Ministers and the Institutions of Bosnia and Herzegovina.

This Programs follows the Reform Agenda of the Council of Ministers and contains general, medium-term, strategic goals and programs for realisation by 57 Institutions of Bosnia and Herzegovina reporting to the Council of Ministers, and sets, for the first time, the system of planning essential for withdrawing funds secured by EU and other development partners.

In order to implement the policy of controlling expenditures and revenues and continuation of savings measures in 2015, the Law on Amendments to the Law on Salaries and Remunerations in the Institutions of Bosnia and Herzegovina under which right to remuneration to members of management

boards, supervisory and other working bodies employed in Institutions financed from the budget of the Institutions of Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina, Republika Srpska, Brčko District and Cantons, except for high-education institutions, is abolished if their activities are performed during their regular office hours. In addition, the remuneration is limited on a monthly level and up to the amount of basic value for calculation of salary of the employees of the Institutions of Bosnia and Herzegovina.

Likewise, new Rulebook on financial reporting of the Institutions of Bosnia and Herzegovina was adopted, defining the form and contents of financial reports, instructions for drafting periodical financial reports and annual financial report, reporting periods and methods and deadlines for drafting periodical and annual financial reports of the Institutions of Bosnia and Herzegovina.

Federation of Bosnia and Herzegovina

Implementation of fiscal consolidation measures at the lower levels of government in the Federation of Bosnia and Herzegovina is coordinated through the Fiscal Coordination Body of the Federation of Bosnia and Herzegovina. Formation of governments at all levels of government in the Federation of Bosnia and Herzegovina after elections in October 2014 represented possibilities for holding the meeting. Thus, on the meeting held on 25 May 2015, current fiscal situation in the Federation was discussed. Conclusions, focused on, among others, on finding methods for decreasing accumulated deficit in Cantons with the aim of stabilising public finances in the entire Federation. In this regard and appreciating recommendations formulated at the meeting of the Subcommittee for economic and financial issues and statistics held in Brussels on 4 and 5 May 2015, the Parliament of the Federation of Bosnia and Herzegovina adopted the Law on Amendments to the Law on Budgets in the Federation of Bosnia and Herzegovina amending the fiscal rule and replacing the obligation of settling the current deficit with obligation of settling the accumulated deficit in the following five years. This should ensure planning certain amounts for covering the accumulated deficit, during budget planning at all the levels of government in the Federation resulting in, after a five-year period, in the completely settled accumulated deficit.

In addition, Amendments to the Law on Budgets introduce possibility of adopting a bylaw by the Federal Ministry of Finance enabling more detailed definition of procedures of estimating fiscal effects of the Law and other bylaws adopted by the Government and/or the Parliament. This will enable unification in representing fiscal effects through standardised forms and increase responsibility of the proposing parties in explaining fiscal effects. Likewise, this also emphasises the need for implementation of projections of Cantonal and municipal tax revenues prepared by the Federal Ministry of Finance and delivered by the Ministry to Cantons and municipalities for preparation of their budgets for the following year.

With the aim of efficient management of Government debt pertaining to collecting necessary financial funds, achievement of goals related to risks and expenses, as well as fulfilment of other debt management goals determined by the Government, such as development and maintaining efficient domestic market for Government securities, the Government of the Federation of Bosnia and Herzegovina is currently preparing the Debt Management Strategy.

The Strategy is being prepared in accordance with good international practices and guidelines defined by IMF and the World Bank for preparation of the Medium Term Debt Management Strategy.

The Strategy also defines guidelines for managing the debt of the Government of the Federation during the following period:

Guidelines for the structure of total debt portfolio are:

- Maintaining KM and EUR debt above 60 per cent of total debt portfolio
- Maintaining the share of debt with fixed interest rate above 50 per cent of total debt portfolio
- Maintaining total debt maturity above 6.5 years.

The Government of the Federation is determined to fight grey economy; therefore, it has defined the Model for mitigating grey economy and stimulating first employment.

The Model encompasses proposals that have to be modified in order to mitigate consequences; these pertain to the following:

- Decreasing fiscal burden on labour with the aim of achieving higher rate of registering employment and increasing Pension and Disability Fund revenues.
- Decreasing the number of and simplifying taxation procedures (preparation of the Law on Taxation Procedure and the Law on Organisation of the Tax Administration).
- Increasing the number of Tax Administration employees and improving their skills in order to lower the rate of tax evasions
- Intensifying the operations of the Federal Inspection Administration
- Decreasing the rate of cash payments in order to decrease the occurrence concealing revenues realised in cash
- Settling the issue of independent market sellers and establishment of a registry
- Simplifying the procedure of registration of business entities
- Establishment of a registry of agricultural households in order to enable transition from informal to formal economy, etc.

With the aim of mitigating grey economy and achieving more efficient collection of public revenues and higher tax discipline, continuous activities are planned in order to strengthen inspection and tax authorities in Bosnia and Herzegovina and improve cooperation between tax administrations of Entities and Brčko District and the Indirect Taxation Authority in accordance with constitutional organisation and competencies of each tax administration and within the framework of concluded Memorandum of Understanding establishing the mechanism of exchange of tax information between the four Tax Administrations.

Coordinators have been appointed for implementation of the project and establishing the information system in a way that enables each Tax Administration to have an electronic access to information held by other Tax Administrations pertaining to tax payers. This obligation is in accordance with requests defined in Brussels on 5 and 6 May 2015, with the aim of improving efficiency of Tax Administrations on all levels of the government in the Federation of Bosnia and Herzegovina.

Republika Srpska

Implementation of the Law on Fiscal Responsibility in Republika Srpska, adopted in 2015, will significantly improve fiscal responsibility and discipline related to spending public funds throughout the budget system of Republika Srpska, on both levels, that of the Republic and that of local self-government units and non-budget funds. Primary goal is for all the entities participating in the budget system to state their total outstanding obligations, define real plans for their settlement in the following period and enable creation of obligations above levels defined in the budgets. In this way, realised savings in public spending could be directed to capital spending. Adoption of this Law enables further improvement of public finances system through strengthening fiscal responsibility, transparency and medium term and long-term sustainability of public finances. Likewise, this Law aims at strengthening responsibility for lawful spending of budget funds through improved control and monitoring with the aim of ensuring fiscal discipline.

In 2016, improvement of operations of all control bodies in Republika Srpska will be continued, with simultaneous focus on reform of inspection administrations in all sectors, through proposing Amendments to the Law on Inspections in Republika Srpska.

The proposed Amendment to the Law on Taxation Procedure is a part of the set of Laws aimed at further reforms of the economy system in Republika Srpska, with the primary goal of mitigating grey economy through improving control and inspection procedures and increasing efficiency of authorities responsible for inspections.

The Law on the Internal Financial Control System in the public sector of Republika Srpska will determine the system itself, including financial management, control and internal audit, methodology and standards and other issues important for establishing, developing and implementing the system of internal financial controls in public sector. In this way, in addition to the Law on Fiscal Responsibility in Republika Srpska, the system will be established for significant improvement of fiscal discipline and responsibility in Republika Srpska.

In the area of financial reporting in 2016, the reporting system will be further improved through activities aimed at development of statistical basis of financial reporting aligned with internationally acknowledged standards of macroeconomic statistical systems, increased efficiency, scope and transparency of consolidated financial reports by budget users and controlled public sector units. With the aim of strategic organisation in the area of accounting and audit, strategic document related to further development and improvement of accounting and auditing profession in Republika Srpska will be adopted.

Reform of public administration of Republika Srpska will be continued in 2016 with the aim of increasing efficiency and transparency of administration and professional skills of the employees. The Law on Civil Servants will be adopted re-defining positions of managing civil servants, increased mobility of employees related to vacancies and alike. The Government and other bodies of authority and their organisation will be directly related to reform processes.

In 2016, the procedure of adopting the new Law on Local Self-Government and the Law on Officials and Employees in the Local Self-Government Units will be adopted, representing basis for drafting the new strategic development document in the area of local self-government in Republika Srpska. The above mentioned Law will define, inter alia, criteria for determining the number of employees in municipal and city administrations and establish principles of their internal organisation. The new Strategy of Local Self-Government Development will define directions of development of local self-government in Republika Srpska between 2017-2022. The idea implies establishment of multi-type concept of local self-government and investigates possibilities for further functional decentralisation, development of mechanisms of cooperation between municipalities and strengthening the role of local communities in local self-government. Likewise, in the beginning of 2016, Education strategies for employees in local self-government units in Republika Srpska will be adopted, covering the period between 2016 and 2020. The general aim of the Strategy is to establish sustainable and functional system of education that would represent quality source of knowledge and skills that employees in municipalities and cities need in order to develop highly professional, responsible and efficient local self-government in Republika Srpska.

4. STRUCTURAL REFORM PRIORITIES IN 2016-2018

Structural reforms in Bosnia and Herzegovina and the entities in Chapter 4 will be explained by the reform areas, i.e. by levels of government (BiH, FBiH and RS) that propose the stated reforms.

4.1. Identification of key obstacles to growth and competitiveness

A key challenge concerns the questions as to how a small and open economy with low exports and investments such as Bosnia and Herzegovina can achieve higher rates of economic growth, or rather how to reduce or eliminate the key obstacles that considerably hinder the country to achieve faster growth and employment.

The identified key obstacles to growth and competitiveness are presented separately at the beginning of each area of structural reforms.

Federation of BiH

The main structural obstacles to growth at the level of FBiH identified in the Reform Agenda are the following:

- Unsustainable situation in public finances (high public spending with high budget deficits; high tax burden on labour; high debts arising from unpaid contributions; informal economy; high public debt; inefficient and cumbersome public administration; threatened long-term sustainability of the health sector; less than efficient work of the public sector and control authorities);
- The unfavourable business climate and competitiveness for the investments (hidden donations to large enterprises; unclear bankruptcy procedures; a large number of parafiscal charges; complex business registration procedures and long time required for obtaining

- construction permits and electricity connections; lack of restructuring programmes for public enterprises);
- High unemployment within the labour market, particularly of youth (60%); high rate of informal economy; mismatch of education system and the labour market;
- Unsustainable social protection systems (poor targeting of social benefits; high level of arrears to the funds);
- Informal economy and corruption;
- Other.

Republika Srpska

Key obstacles to growth and competitiveness in Republika Srpska reflect in the following:

- Existence of consolidated budget deficit and growth of public debt, so it is necessary to implement fiscal consolidation which will gradually lead to a reduction of the budget deficit and, in the medium term, lead to a reduction of the level of public debt;
- Inflexibility of labour market and labour legislation;
- Oversized public administration;
- Unfavourable business climate and competitiveness for investment;
- Pronounced "gray economy" in almost all areas;
- Long-term unsustainable social protection systems, primarily health care sector;
- Necessary reform of public companies, primarily Railway Company of Republika Srpska (Железнице Републике Српске) with the aim of establishing sustainable and profitable companies.

4.2. Structural reform priorities by area

At the invitation of the Foreign Affairs Council in December 2014, all levels of government in Bosnia and Herzegovina have adopted the Reform Agenda for Bosnia and Herzegovina 2015 – 2018 as a baseline for initiating the process of recovery and modernization of the economy with a view to fostering sustainable, efficient, socially just and steady economic growth and creating new jobs. In addition, the BiH Council of Ministers, the Government of the Federation BiH and the Government of Republika Srpska adopted their Action Plans for Implementation of Reform Agenda in 2015 and 2016 containing the priority measures from the Reform Agenda in the period 2015-2016.

Structural reform priorities in the Economic Reform Programme 2016-2018 are set for Bosnia and Herzegovina (prepared by BiH institutions), as well as for the Federation BiH and Republika Srpska:

Bosnia and Herzegovina

4.2.1. Public finance management:

1. Improving the system of public internal financial control;

4.2.3. Sector developments:

2. Development of a strategic plan for BiH rural development and IPARD programme;

4.2.6. Trade integrations:

3. Further trade liberalisation, reduction of administrative costs and elimination of non-tariff barriers in regional and bilateral trade.

Federation of BiH

In addition to the Reform Agenda, structural reform priorities have been addressed in the FBiH Government Work Programme for the mandate period 2015-2018, as well as individual sector strategies.

In addition to the priorities of the Federation of Bosnia and Herzegovina contained in its strategic documents, the key starting point for defining structural priorities in this part of the Economic Reform Programme are the EU documents. The most important among them are: the Conclusions of

the Joint Ministerial Dialogue of May 2015, and the EC 2015 Progress Report as well as Guidance for the Economic Reform Programme 2015-2018.

The set structural reform priorities of the Federation BiH 2016-2018 through areas are the following:

4.2.1. Public finance management:

1. Improving the system of public internal financial control

4.2.2. Infrastructure:

2. Improving the transport infrastructure
3. Restructuring the public railway company of FBiH
4. Improving the energy infrastructure

4.2.3. Sector developments:

5. Agriculture
6. Tourism and catering
7. Financial services

4.2.4. Business environment, corporate governance and reduction of the informal economy:

8. Reducing business costs and shortening the procedures for issuing business licences
9. SMEs development
10. Privatisation

4.2.7. Employment and labour market:

11. Providing the conditions for the employment growth
12. Education reform

4.2.8. Fostering social inclusion, combating poverty and promoting equal opportunities:

13. Improving the social protection system

The following text contains broader explanation of the proposed 14 priority reforms through the structural reform areas from the Guidance for ERP.

Republika Srpska

The following is an overview of the key structural reforms of Republika Srpska by the reform areas:

4.2.1. Public finance management (4 measures):

1. Reducing the tax burden on labour, while finding realistic and reliable sources of financing from which the lost revenue from contributions will be compensated to the extra budgetary funds;
2. Increasing the fiscal responsibility and enhancing the system of internal financial controls in public sector;
3. Combating the gray economy;
4. Reforming the health system;

4.2.2. Infrastructure (1 measure):

5. Restructuring of the Railways of Republika Srpska

4.2.3. Sector developments (2 measures):

6. Industry - Re-industrialisation in all the areas of the processing industry;
7. Financial services - Modernisation of the legal framework of the banking sector of Republika Srpska and creation of assumptions for implementation of the bank resolution procedure;

4.2.4. Business environment, corporate governance and reduction of the informal economy (2 measures):

8. Eliminating the barriers to business and investments (para-fiscal charges);
9. Adopting and implementing the Law on Bankruptcy;

4.2.7. *Employment and labour market (1 measure):*

10. New labour legislation and support to employment in the real sector.

4.2.1. *Public finance management (PFM)*

The ERP pillar on public finance management is covered by all three levels of government in BiH: the state level (level of BiH), the Federation of BiH (FBiH) and Republika Srpska (RS). While the state level is responsible for public procurement reforms, the responsibilities of the entities include fiscal discipline, financial control and internal audit. The main challenge in this reform area is the high level of public debt, considerable reliance on donor funding, underdeveloped capacities for internal audit and a weak monitoring role of the Public Procurement Agency, the high administrative burden of tenders, lack of financial management and control at the state level, as well as insufficient fiscal discipline. Both in RS and FBiH, a huge tax burden is imposed on labour.

After the BiH authorities failed to agree on a package of reforms in June 2015, the IMF representatives visited the country in October – November 2015 for a new round of talks on a new loan. For a new financial package to be approved, BiH needs to adopt the reform measures outlined by the IMF, among which the most important PFM measure is reducing the tax burden on labour.

The reforms proposed in this area by both entities address the key obstacles outlined above and are very well aligned. They address improvements in Public Internal Financial Control (PIFC). The key measure of reducing the tax burden on labour is accompanied by a set of measures (improving internal audit procedures, new law on fiscal management/responsibility, fiscal consolidation) that all tackle the main issues in this reform area.

Bosnia and Herzegovina

The Reform Agenda for Bosnia and Herzegovina 2015-2018 in the public finance area stresses the need for fiscal consolidation by reducing public spending and increasing tax revenues.

The activities set out by the Action Plan for Implementation of Reform Agenda that include the Ministry of Finance and Treasury of Bosnia and Herzegovina relate to preparation and adoption of the Proposal of the Law on Budget of BiH Institutions for 2016 containing the article on control and restriction of new employment. The Law on the Budget of Institutions of Bosnia and Herzegovina and International Obligations of Bosnia and Herzegovina for 2016 was adopted at the end of December 2015. Article 17 of the Law ("Official Gazette BiH", No. 101/15) defines new employment in a view of restriction of new employment, except by special decisions of the BiH Council of Ministers. The hiring freeze measures are contained in the Framework Budget Document of BiH Institutions for the period 2016-2018. This measure's impact on budget is calculated as a difference in expenditure on gross salaries and wages in the current year compared to the previous year.

Public investments, medium-term planning, monitoring and reporting

Methodology and tools for development and preparation of Public Investment Programme/Development Investment Programme (PIP/DIP) has been upgraded; Capital budget based on PIP/DIP has been prepared; All Public Investment Projects have been aligned with development goals. The Public Investment Programme/Development Investment Programme is set out as an institutional programming tool, which includes the development priorities of the country, and the unique software for management of public investments – PIMIS was developed for all institutions and budget users. The activities have been initiated for the procurement of information technology equipment in order to introduce PIMIS to the level of cantons in the Federation BiH and municipalities in Republika Srpska. In order to raise awareness on the concept of PIP development in a wider context of planning and preparation of budget based on programmes, a brochure "Strategic Planning and Monitoring of Public Expenditures – Methodology, Development and Implementation of Public Investment Programme" has been prepared.

At its 32nd session held on 19 November 2015, the BiH Council of Ministers considered and adopted an updated Public Investment Programme of Bosnia and Herzegovina's Institutions for the period 2016-2018.

In the period of drafting the proposal of PIP of Bosnia and Herzegovina's Institutions, which was adopted by the Council of Ministers at its 20th session held on 25 August 2015, Strategic Framework for Bosnia and Herzegovina had not been adopted, thus, in the absence of adopted strategic plans, the testing of the structure of PIP of Bosnia and Herzegovina's Institutions was done in relation to the Draft Development Strategy and the Draft Social Inclusion Strategy (DS/SIS). The structure of the development part of the Draft PIP of Bosnia and Herzegovina's Institutions 2016-2018, as well as updated draft of PIP of Bosnia and Herzegovina's Institutions is in this context adapted to follow the structure of strategic objectives of the Draft DS/SIS. As of 2016, strategic objectives will be revised in line with the Strategic Framework for Bosnia and Herzegovina.

The adoption of the Decision on the Procedure of the Medium-Term Planning, Monitoring and Reporting in the Institutions of Bosnia and Herzegovina ("Official Gazette BiH", No. 62/14) and the Instruction on the Methodology in the Process of the Medium-Term Planning, Monitoring and Reporting in the Institutions of Bosnia and Herzegovina ("Official Gazette BiH", No. 44/15), the medium-term planning was introduced into the institutions of Bosnia and Herzegovina; the Manual for Development of the Medium-Term Plans of the Institutions of Bosnia and Herzegovina was prepared; Based on the Decision on the Procedure of the Medium-Term Planning and Reporting in the Institutions of Bosnia and Herzegovina, a series of trainings was organised in the period from January to May 2015 for the medium-term coordinators (civil servants from 74 institutions passed the training in medium-term plan development) – training included 400 civil servants. Professional support was provided to the BiH institutions for preparation of their medium-term plans. All institutions - users of the budget of the BiH institutions participated in this process and received direct assistance in all stages of preparation of their medium-term plans; A concept for linking the PIP and the medium-term planning process was developed for BiH institutions; The Medium-Term Work Plan of the Ministry of Finance and Treasury was prepared and adopted for the period 2016-2018; According to the Decision, the issuance of opinions on Medium-Term Work Plans of the Institutions 2016-2018 is under way.

Given that this is the first year of preparation of the Medium-Term Plans of the BiH Institutions, we are aware of the fact that the quality of the Medium-Term Work Plans of the BiH Institutions is not at a satisfactory level. However, it is important to underline that experience and knowledge gained in this first year will significantly contribute to activities in the next planning cycle, namely the quality of the Medium-Term Work Plan of the Institutions will improve.

At its 32nd session held on 19 November 2015, the BiH Council of Ministers established a Proposal of the Law on Amendments to the Law on Ministries and Other Administrative Bodies of Bosnia and Herzegovina, thereby setting up a system of medium-term and annual planning, in addition to ensuring basis for high quality management of financial development, in line with the responsibilities of the BiH Council of Ministers. The amendments to the Law, inter alia, define that the Council of Ministers of Bosnia and Herzegovina adopts the Medium-Term Work Programme as a basis for preparation of three-year Framework Budget Document and Medium-Term Work Plans of the BiH Institutions. Such a set planning system is necessary for withdrawal from the EU funds and funds of other development partners, as well as for the creation of framework for other forms of international cooperation. The Ministry of Justice will submit the proposal of this Law to the Parliamentary Assembly for consideration under the basic legislative procedure.

In order for the PIMIS to be used as a system to support medium-term planning, monitoring and reporting in the institutions of Bosnia and Herzegovina, pursuant to Article 6, paragraph (3) of the Decision on the Procedure of the Medium-Term Planning, Monitoring and Reporting in the Institutions of Bosnia and Herzegovina, the public procurement procedure was initiated for upgrading/expanding of the PIMIS with the medium-term planning module. Financial resources for this purpose were provided by the project "Capacity Development at Ministries of Finance at State and Entity Level for Effective Management of Public Investments" funded by SIDA. The PIMIS upgrading with the medium-term planning module is in its final stage and it is expected that all upgrading activities will end in November 2015 as well as that the Medium-Term Work Programme of the Council of Ministers and Medium-Term Work Plans of the BiH Institutions for the period 2017-2019 will be made in this application.

The World Bank, within its Mission to identify a loan for public finance development policy (DPL) carried out in the period 7-11 September and 28-28 September 2015, in the submitted "AIDE-

MEMOIRE" pointed to the following: "BiH has made a significant progress in adopting and achieving transparency of the Public Investment Programme (PIP)", and emphasised the importance of continuing the efforts on linking PIP, strategic planning and budgeting process, as well as upgrading this system in terms of its coverage, monitoring and evaluation.

The PIMIS upgrade with the medium-term planning module has been completed. The Public Investment Programme and the Medium-Term planning have been linked.

As from next year, the Medium-Term Work Programme of the Council of Ministers and Medium-Term Work Plans of the BiH Institutions will be made in PIMIS.

In accordance with the recommendation of the World Bank, the coming period is expected to see the activities of linking with the budgeting process, i.e. linking PIMIS and BPMIS.

In 2016, it will be necessary to provide full support to successful implementation of the Decision on the Procedure of the Medium-Term Planning, Monitoring and Reporting in the Institutions of Bosnia and Herzegovina. The holders of the activity are the BiH Council of Ministers and the institutions of BiH.

Improving the use of international economic aid

Regular cooperation with and among donors/creditors resulting in better information exchange on current activities and future plans of donors in BiH, as well as further development of partnership cooperation, finally result in better effectiveness of international development aid use and transparency in Bosnia and Herzegovina, all according to the principles of the Paris Declaration on Aid Effectiveness. The Donor Coordination Forum (DCF) in BiH has regular consultation and working meetings attended by representatives of BiH authorities and international community in BiH. The BiH Ministry of Finance plays the role of the DCF Secretariat. DCF currently includes 24 donors. In 2014, the IMF, IFAD and the Kingdom of Denmark became the DCF members. The intention is to include other donors active in BiH into DCF too. All information related to the DCF activities and functioning is available at website www.donormapping.ba.

The annual preparation of an annual "Donor Mapping Report" also contributes to effectiveness of aid in a view of presenting comprehensive information on donors' activities thereby reducing the possibility of duplication of projects and directing financial resources into priority projects. The Report contains a comprehensive analysis of assistance that the DCF members targeted to priority development sectors in BiH, reform processes going on within them and synchronisation of donor activities.

There is a Donor Mapping Database (DMD) within the PIMIS system, as a separate component in function, encompassing projects funded and recorded by donors/creditors, DCF members. This database is publically available at the website of the Ministry www.mft.gov.ba.

DCF website www.donormapping.ba is in English, it is public, and it enables a transparent access to information related to projects funded from development aid resources in BiH, as well as strategic documents defining the development priorities in BiH.

Annual preparation of the Report on Progress on Adherence to the Principles of the Paris Declaration on Aid Effectiveness in BiH determines annual level of progress in application of the principles of ownership, alignment, harmonisation, managing for results and mutual accountability in use of international aid.

As part of the new situation related to overcoming the effects of catastrophic floods in Bosnia and Herzegovina, the Ministry convened the extended DCF meeting in October 2014, so as to exchange information and present the measures undertaken to recover the flood affected areas, to define the recovery priorities, mobilise and realise funds from domestic and international sources, as well as other important issues. The meeting was co-chaired by the Ministry of Finance and Treasury, the World Bank, the EU Delegation and the UN in BiH and attended by representatives of responsible institutions from all government levels in BiH, donors, international organisations and international financial institutions in Bosnia and Herzegovina. It was agreed that each subsequent DCF meeting should include the item devoted to floods.

For the purpose of public and transparent monitoring of mobilisation and implementation of international funds earmarked to flood recovery, a separate section called "Floods" is opened at the

website of the Ministry www.mft.gov.ba and the official DCF website www.donormapping.ba in English.

Based on collected and updated information, there are quarterly "Financial Reviews of Activated Funds for Floods Recovery" prepared and published at the above websites.

Since the beginning of June 2015, the Ministry of Finance and Treasury was involved in the activities for preparation and organisation of the International Review Conference on the Progress Made in the Implementation of the Results of the Brussels Donors' Conference for Bosnia and Herzegovina and Serbia after the Floods, held on 28 September 2015 in Sarajevo.

The Ministry/Sector for Coordination of International Economic Aid coordinated the preparation of the Morning session of the Conference with representatives of the institutions of Bosnia and Herzegovina at all government levels and the delegation of the Republic of Serbia, as well as facilitated the session and prepared the draft conclusions. The Morning session was devoted to follow up on the achieved results in floods recovery and implementation of the Conclusions of the Brussels Donors' Conference in a previous one-year period as well as defining future priorities for Bosnia and Herzegovina and the Republic of Serbia.

Enhancing the use of international economic aid is an ongoing activity, implemented in cooperation with donors, entities and Brcko District.

4.2.1.1. Improving the public internal financial control (PIFC)

This reform is proposed by BiH (BiH Ministry of Finance and Treasury), the Federation BiH and Republika Srpska.

Bosnia and Herzegovina

Area of public internal financial control in institutions of BiH

The area of Public Internal Financial Control (PIFC) represents one of the reform areas where Bosnia and Herzegovina needs to align its legal framework and practices with the best practices and the *acquis* as recommended by the European Commission. This obligation is also set forth in Article 90 of the Stabilisation and Association Agreement.

The establishment and implementation of public internal financial control in the institutions of BiH, *inter alia*, calls for the establishment of financial management and control, the establishment of functionally independent and decentralised internal audit and the establishment of the Central Harmonisation Unit of the Ministry of Finance and Treasury BiH, which, at the same time, represent the three pillars of public internal financial control (PIFC). The establishment of financial management and control, internal audit and the Central Harmonisation Unit of the Ministry of Finance and Treasury BiH have been set forth by the Law on Financing of the Institutions of BiH and the Law on Internal Audit as the umbrella laws providing for this area. Pursuant to the aforementioned laws and competencies of the Central Harmonisation Unit of the Ministry of Finance and Treasury, the key by-laws have been adopted in the area of internal audit and financial management and control.

To establish the PIFC system in BiH, it is necessary to ensure coordination and harmonisation in the preparation of framework legislation and regulations in the field of financial management and control and internal audit at all government levels in BiH. This coordination and harmonisation is conducted through the Coordination Board of Central Harmonisation Units comprising the heads of the Central Harmonisation Unit of the Federal Ministry of Finance and Treasury and the Central Harmonisation Unit of the Ministry of Finance of RS. In 2016, CHU MoFT BiH will initiate elimination of deadlock in the work of the Coordination Board of CHU.

The key activity related to public internal financial control (PIFC) in the coming period is the adoption of the new Strategy for Public Internal Financial Control in the Institutions of BiH. This the obligation of the Central Harmonisation Unit is arising from the Reform Agenda for BiH 2015-2018, as well as on the basis of the Conclusions of the BiH Council of Ministers from its 21st session held on 2 September 2015.

Namely, the BiH Council of Ministers, after considering the Report on Performance Review on the theme "Establishment of Public Internal Financial Controls in the Institutions of BiH" and starting from the commitments set out in the Reform Agenda, charged the Ministry of Finance and Treasury and CHU MFT to prepare, in cooperation with the European Commission, a draft of the new PFIC development strategy, which will take into account modern approaches of connecting the internal financial control systems with the budgetary system reforms, focus on results and performance, and will be based on programme budgeting, as well as linking strategic and medium-term planning and policy implementation with the processes of medium-term and annual budgeting.

The purpose of the new Strategy for Public Internal Financial Control is to enhance the management of budgetary resources, programme budgeting, focus on results and performance, as well as connect strategic with medium-term and annual budgeting, so the development of the Strategy will, in addition to CHU, include DEP and relevant sectors of the Ministry of Finance and Treasury.

The current approach to management of public funds is still placing the focus of management on the task of ensuring that the budget execution is in line with the amount and type of planned resources, and that the operations are conducted pursuant to laws and regulations. In such a set budget system, the systems of internal financial controls should be developed to such an extent so as to secure respect of legality and regularity of the operations and the use of budget funds, without taking into account the objectives and expected results for the spent funds. The new approach to the budget system creates pre-requisites for an integral development of the internal financial control system because, in addition to legality and regularity, it also requires achieving cost-effectiveness and efficiency in use of budget funds.

Furthermore, programme budgeting, although introduced by the amendments to the Law on Financing of the Institutions of BiH, has still not been established in practice. Lack of implementation of the programme budgeting has resulted in the absence of a footing for evaluating the efficiency and effectiveness of the budget funds allocation.

The practice of medium-term planning is also at the very beginning, launched intensively in the course of 2014 by the adoption of the Decision on the Procedure of the Medium-Term Planning, Monitoring and Reporting in the Institutions of Bosnia and Herzegovina.

These are all processes that make up the reform of public finance management and whose improvement and interconnectivity are the basis for the adoption of the Strategy for Public Internal Financial Control.

In this regard, the Strategy for Public Internal Financial Control in the area of financial management and control will be focused on:

- Improving the regulations for development of financial management and control;
- Strengthening capacities for development of financial management and control;
- Creating preconditions for developing management focused on objectives and results.

With regards to internal audit, the Strategy for Public Internal Financial Control will promote:

- Improving the regulations and methodology for work of internal audit;
- Strengthening capacities of internal audit;
- Increasing efficiency and quality of work of internal audit.

Federation of BiH

By 2008, there were no systemic frameworks in the Federation BiH for the activity of internal audit and internal control in the public sector. The obligation to establish and develop public internal financial control is arising from the Stabilisation and Association Agreement.

The Law on Internal Audit in the Public Sector in the Federation BiH was adopted in 2008, and was followed by the adoption of the by-laws that regulate in detail the ways of establishing the internal audit units, the conditions for performance of internal audit, methodology of work and other issues of importance for internal auditors in the Federation BiH, thereby providing a framework for the implementation of internal audit in the public sector in the Federation BiH. Strategy for development of public internal financial control (PIFC) in the Federation of Bosnia and Herzegovina was adopted in

2010 by the Government of the Federation, and it was the first strategic document pertaining to internal audit and financial management and control, after which the activities on establishing and developing this system have intensified.

In 2010, the Central Harmonisation Unit of the Federal Ministry of Finance (CHU FMF) was established, responsible for development in the field of internal audit and financial management and control.

There are numerous obstacles to further development of this area, primarily with regards to:

- Insufficient personnel capacity of CHU FMF;
- Inability to coordinate work over a large number of those obliged to establish internal audit units (73 organisations);
- Insufficiently developed cooperation with management of the organisations obliged to establish internal audit and with the Audit Office of the Institutions in the Federation BiH);
- Non-functioning of the CHU BIH Coordination Board, which was supposed to provide a harmonised approach and a harmonised legislative framework.

At its meeting in May 2015, DG ECFIN/DG gave recommendations pertaining to further improvement of the expenditure control.

In 2015, CHU FMF, in cooperation with the experts of the EU technical assistance project "Strengthening public financial management in BiH" developed a new Strategy for development of public internal financial controls (PIFC Strategy) 2015-2018 with the Action Plan, which sets further procedures to make public internal financial controls closer to the EU standards and practices.

Draft Amendments to the Law on Internal Audit adopted by the FBiH Parliament in July 2015 provide for revoking of the possibility of appointing the independent internal auditor (create legal grounds for setting up joint internal audit units). The Law on financial management and control in public sector in the Federation BiH, which is currently pending the parliamentary procedure, will establish the competencies of CHU FMF with regards to financial management and control.

Measures contained in the PIFC Strategy 2015-2018 relate to further improvements in regulations in the field of financial management and controls and internal audit, and also foresee further strengthening of capacities, primarily in FMF, as well as at the level of large users, namely in the units for finances and budget and the units for internal audit.

Measures for implementation of the PIFC Strategy 2015-2018 objectives pertain to:

1. Adopting regulations for development of financial management and control (FMC)
2. Strengthening capacities for development of FMC
3. Strengthening controls in order to ensure fiscal accountability
4. Creating preconditions for developing management focused on objectives and results
5. Improving regulations and methodology for work of internal audit
6. Strengthening capacities of internal auditors
7. Increasing efficiency of internal audit
8. Strengthening of coordinating role of CHU.

For implementation of measures of the PIFC Strategy 2015-2018, in addition to the budget of the Federation BiH, there is also ensured support from international projects funded by the EU and other donors.

SAFE Trust Fund has approved a grant for funding the project Strengthening financial management and control in the amount of KM 271,000 KM. This project will be implemented in the period 1 – 30 June 2016.

Deadlines for implementation of measures:

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
M1	X	X										
M2	X	X	X	X	X	X	X	X	X	X	X	X
M3		X	X	X	X	X	X	X				
M4					X	X	X	X	X	X	X	X
M5	X	X	X	X	X	X						
M6	X	X	X	X	X	X	X	X	X	X	X	X
M7			X	X	X	X	X	X	X	X	X	X
M8		X	X	X	X	X	X	X	X	X	X	X

Milestones

P1: Period 2015-2016, emphasis on strengthening controls of legality and regularity;

P2: Period 2017-2018, emphasis on creating preconditions for developing management focused on objectives and results.

Republika Srpska

Analysis of public finance area in Republika Srpska clearly indicates to the existence of the budget deficit of the consolidated Government, as well as continuous growth of public debt, point to the need of reforming this sector, which is the key reform pillar of the Government of Republika Srpska in the period 2016-2018. By analysing the consolidated budget deficit, we have observed that the main problems occur in the health system, in individual public enterprises, as well as the pronounced lack of fiscal discipline of certain budget users, since they create liabilities exceeding the amount of funds allocated to them by the budget framework. Furthermore, the Government of Republika Srpska, by as early as 2015, insists on finding realistic and sustainable sources of funding of extra budgetary funds, which will enable reduction of cumulative rate of contributions and thereby reduce tax disburdening of labour, i.e. more competitive economy. Finally, fight against grey economy, aiming at more efficient collection of public revenues, will be an area the Government of Republika Srpska will pay special attention to in 2016.

In this regard, when it comes to public finance management in Republika Srpska in the period 2016-2018, the emphasis in 2016 will be on the following:

- **Increasing the fiscal responsibility and enhancing the system of internal financial controls in public sector through the implementation of the Law on Fiscal Responsibility and the Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska;**
- **Reducing the tax burden on labour, while finding realistic and reliable sources of financing from which the lost revenue from contributions will be compensated to the extra budgetary funds;**
- **Combating the gray economy through the adoption of the required legal solutions, which will improve the work of all control authorities;**
- **Reforming the health system.**

Increasing the fiscal responsibility and enhancing the system of internal financial controls in public sector through the implementation of the Law on Fiscal Responsibility and the Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska, will enable greater fiscal discipline and better control of public spending.

By implementing the Law on Fiscal Responsibility in Republika Srpska adopted in 2015, we will significantly improve fiscal responsibility and discipline for public spending in the overall budget system of Republika Srpska, namely on the RS level and the level of local self-government units and extra budgetary funds alike. A primary objective is for all subjects of the budget system of Republika Srpska to present total outstanding liabilities, bring realistic plans for their settlement in the coming period and to prevent creating liabilities above the level defined in the budgets. This way, the savings achieved in public spending will be possible to be streamlined into capital expenditures. It should be pointed out that

the adoption and implementation of the Law on Fiscal Responsibility in Republika Srpska is also a general guideline of the Economic and Financial Dialogue of May 2015. At the same time, for the purpose of as efficient and effective implementation of the Law on Fiscal Responsibility in Republika Srpska as possible, other legal solutions will also be adjusted in case of need, in order to further strengthen fiscal responsibility and discipline.

By the Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska we will regulate the system of internal financial controls in public sector, which includes financial management and control and internal audit, establish methodology and standards and other issues of importance for setting up, development and implementation of the system of internal financial controls in public sector. Thus, along with the Law on Fiscal Responsibility in Republika Srpska, which is already in effect, and the adoption of the Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska, we will round up the system which will allow significant improvements of fiscal discipline and responsibility in Republika Srpska.

In terms of deadlines for implementation of the aforementioned measure, the Government of Republika Srpska intends to prepare all necessary by-legal regulations on the basis of the Law on Fiscal Responsibility in Republika Srpska in the first two quarters, and establish the Fiscal Council of Republika Srpska, so that, after the adoption of the Framework Budget Document of Republika Srpska for the period 2017-2019, we can be actively included in the budget preparation for 2017.

The Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska has been adopted by the Government in its Draft form, and the Government intends to have it adopted in the form of a Proposal at the National Assembly of Republika Srpska by the end of the second quarter, and to come into force as by 1 July 2017.

The above legal solutions will prevent creating liabilities that exceed the amount of funds made available to budget users from the budget, which will create significant savings both in the budget of Republika Srpska and the budgets of the local self government units. The analysis of budget execution of Republika Srpska 2010-2014, indicates that budget users created liabilities on average around KM 25 million higher than the funds provided to them by the budget framework, adding that, in 2011 and 2012, further liabilities in the respective amounts of KM 35.7 million and KM 48.9 million were created as incentives to agriculture. Based on the analysis, we can state that the implementation of the aforementioned solutions will enable savings in the amount of KM 25 million at annual level, through preventing creation of liabilities above the level of resources given by the budget framework as by 1 January 2017.

4.2.1.2. Reducing the tax burden on labour

This is a reform proposed by Republika Srpska.

Reducing the tax burden on labour, through reduction of contributions, that we have started carrying out in 2015, will be implemented in 2016, providing at the same time disburdening of the economy and the secure and realistic sources to cover the losses to extra budgetary funds generated as a result of the reduced revenues based on contributions. In this regard, the Government of Republika Srpska is expecting the full engagement of all levels of government in Bosnia and Herzegovina, as well as the representatives of the International Monetary Fund, since this is one of the priority areas defined by the Reform Agenda, where it is stated that the additional measures, including a VAT increase, would be considered by the end of 2015. In addition, reducing the tax burden on labour is also a general guideline of the Economic and Fiscal Dialogue of May 2015.

When it comes to deadlines, it is the intention of the Government of Republika Srpska to carry out, latest by the end of the second quarter, the situation analysis and establish clear and secure sources of funding to cover the losses to extra budgetary funds generated as a result of the reduced contribution rate. After that, in the third quarter, it is necessary to prepare and adopt the drafts and, in the fourth quarter, after carrying out the public discussions, to prepare and adopt the Proposals of legal solutions which will provide for tax disburdening of labour and, at the same time, the sources for additional financing of the extra budgetary funds, primarily the Health Insurance Fund. This way, by adopting the required legal solutions at all government levels in BiH, the conditions would be created to implement

disburdening of labour as by 1 January 2017, by securing sustainability of the budget of the extra budgetary funds, which is also in line with the Proposal from the IMF Letter of Intent.

The proposal of the Government of Republika Srpska was directed towards reducing cumulative contribution rate from 33.0% on gross salary to 31.6% on gross salary, i.e. by 1.4 percentage points (reducing contribution rates for health insurance by 1.0 percentage points, for child protection by 0.1 percentage points and for unemployment by 0.3 percentage points). According to the calculations of Ministry of Finance of Republika Srpska, financial effects of the proposed changes would lead to decline in revenues of extra budgetary funds in the total amount of around KM 72.4 million (of which Health Insurance Fund KM 43.3 million; Child Protection Fund KM 4.5 million; Employment Institute KM 11.1 million and Pension and Disability Fund KM 13.4 million, due to reduction of gross salaries). In this case, the real sector would remain to dispose with the KM 53 million.

Given the significant funds required to cover the loss of revenues of extra budgetary funds, the key task for all levels of government in BiH will be to find realistic and secure sources to compensate for losses of revenues from contributions.

4.2.1.3. Combating the gray economy

This is a reform proposed by Republika Srpska.

Combating the gray economy, through the adoption of the required legal solutions, which will improve the work of all control authorities, is a measure whose implementation we started as early as in 2015, and by preparing the required legal solutions, we will realise in 2016. Gray economy significantly hampers fiscal sustainability, specifically, gray economy is a multiple and from several aspects negative phenomenon, which greatly hinders quality economic progress by creating, first of all, unfair competition, reducing revenues of budget and extra budgetary funds, preventing the employees in informal economy to exercise their rights based on social insurance. Therefore, one of the main objectives of the Government of Republika Srpska in the coming period, on its path to achieving fiscal sustainability, i.e. fiscal consolidation, is combating and preventing the gray economy.

In this regard, the proposed Law on the Amendments to the Law on Tax Procedure is a part of a set of laws for the implementation of further reform of the economic system in Republika Srpska with the primary goal of combating the gray economy. A part of this reform is also related to improving the control procedures, and increasing the efficiency of the inspection authorities, which is primarily achieved by creating the adequate legal framework grounded in the proposed legal texts, for the implementation of special inspection controls and repressive measures for determining violations of regulations pertaining to business registration in a form of enterprise, company or institution, as well as registration of contribution payers in a Single System of Registration, Control and Collection of Contributions. Namely, by a set of laws related to this part of reform, it is proposed for all inspections in Republika Srpska to be competent to supervise the provisions regulating the compulsory registration of a legal form for performing a specific activity and also that all inspections in Republika Srpska to be competent to supervise the provisions of this Law prescribing the obligation of registration of contribution payers in a Single System of Registration, Control and Collection of Contributions. Countries in the region have such or very similar solution, which should primarily have a preventive effect, but consequently a repressive one too, because for violation of the said provisions on business registration, the business entity will be imposed with measure of prohibition of doing the activity and premises where this activity was performed will be sealed. In case of violations pertaining to provisions on registration of contribution payers (workers), the first imposed measure would be a fine, while in case of repeated violation, this business entity will be imposed with the measure of prohibition of doing business. Therefore, the proposed law, aiming at combating the grey economy, creates a legal framework for implementation of supervision and imposing a measure of prohibiting the performance of activity to a physical or legal entity, entrepreneur or the institution which, as an employer, failed to register an employee (contribution payer) in a Single System of Registration, Control and Collection of Contributions, as well as authorises other inspections to make this supervision too.

Accordingly, in 2016, we are going to continue our efforts on improving the work of all control authorities in Republika Srpska while, at the same time, paying particular attention to the reform of inspection services in all areas. In this regard, the Proposal of the Law on the Amendments to the Law on

Inspections in Republika Srpska is redefining the authorities of inspectors so as to achieve a more efficient mechanism for ensuring compliance with regulations in a way to, *inter alia*, redefine the authorities of the inspectors of the Republic Administration for the Inspection Activities, as well as the inspectors in the local self government units in terms of the authority to, irrespective of the type of activity and the authorities of inspectors, all inspectors, i.e. all inspector titles stipulated under the applicable Law on Inspections in Republika Srpska, are authorised to carry out the inspection supervision over the compliance of provisions of registration of the business entities for performance of a specific activity, as well as control of registering the employees for compulsory types of insurance. In addition to the inspectors of the Republic Administration for the Inspection Activities and the inspectors entrusted with performing the inspection supervision at the level of the local self government units, the supervision over the implementation of the provisions pertaining to registration of business entities for performing specific activities in accordance with special regulations, will be also carried out by the inspectors of the Tax Administration as well as the inspectors of the Republic Administration for Games of Chance. All inspectors charged with the supervision of the implementation of registration of contribution payers in a Single System of of Registration, Control and Collection of Contributions will carry out this supervision pursuant to the law providing for the tax procedure, whereas all the inspectors authorised for supervision of compliance with the provisions on registration of business entities for performing specific activities in line with special regulations, will carry out this supervision based on the authorities prescribed by this Law.

With regards to deadlines for implementation of the above measure, the Government of Republika Srpska intends to adopt the stated legal solutions by the end of the second quarter of 2016, in order to start the implementation as by 1 July 2016.

The financial effects of this measure reflect in more efficient collection of tax revenues, as well as larger coverage of tax payers, i.e. expansion of tax base, which should improve the fiscal position of both the budget of Republika Srpska and the budgets of municipalities and cities, and the fiscal position of the budget of extra budgetary funds. However, the analyses of Ministry of Finance of Republika Srpska clearly indicate that these measures will not be sufficient to cover the losses of extra budgetary funds generated by reduced tax burden on labour, so it is necessary to find realistic and secure sources to ensure the revenues of extra budgetary funds, by engaging all levels of government in BiH, which is also one of the key commitments arising from the Reform Agenda.

4.2.1.4. Reforming the health system

This is a reform proposed by Republika Srpska.

Reforming the health system will be implemented in several phases. In order to introduce a treasury operations system in the health care system of Republika Srpska, namely in all public health institutions and the Health Insurance Fund of Republika Srpska, as a preceding measure, an analysis of liabilities of the health care system will be carried out, specifically the health care centres and the hospital sector, so as to clearly establish the amounts of liabilities and come up with a model for their resolution. Our partner in this comprehensive and overall health sector reform will be the experts of the World Bank.

The second step in the health care system reform, which will help to establish the system of full accountability and fiscal discipline in all institutions of the health care system, will be the introduction of the treasury operations system, which will be implemented in two phases. The treasury operations system will first be introduced in the health care centres in a way that the local self government units, as the founders of the health care centres, assume full responsibility for management and fiscal discipline of the health care centres, while in the second phase the secondary and the tertiary health care level, as well as the Health Insurance Fund of Republika Srpska, will be introduced into the treasury system. The intention is to finalise the first phase by the end of the second quarter of 2016, while the implementation of the second phase is set to be completed by the end of 2016.

In this way, we would create space, with the support of the experts of the World Bank, to find new models and sources of funding for the health care sector and standardise the network of health care institutions, which we also plan to start in 2016, and thereby prepare all the activities for successful implementation of a complete health care system reform by the end of 2017.

A detailed analysis of liabilities of the health care system is currently under way. Republika Srpska is carrying it out with the World Bank's experts, so the detailed information on the financial situation and assessments of the fiscal effects will be available only after the analysis of the World Bank's experts.

4.2.2. Infrastructure

The quality of transport infrastructure in Bosnia and Herzegovina is less than satisfactory, which is an obstacle to strengthening the long-term competitiveness of BiH. The road and railway infrastructure require significant upgrades while the waterway transport is not used in an optimal way. The existence of a comprehensive sector strategy, as one of the key EC recommendations, would enable access to IPA funds. The emphasis is on improving the connectivity with the neighbouring economies.

With regards to transport infrastructure, both entities aim at restructuring their state-owned railway companies (JP ŽFBiH and JP ŽRS). The main reforms the FBiH proposed in this area refer to improving the financing scheme of the road infrastructure and the construction of the three subsections of the strategic corridor Vc.

The lack of a single, state-level energy strategy hinders the ability to coordinate policies between the entities to improve the overall security of supply, particularly in the oil and gas sector.

By signing the Energy Community Treaty, BiH assumed the obligation to liberalise its energy market and adopt a set of legislation on gas, oil and electricity, which will enable creating competitive, integrated energy market and increase investments in energy so as to provide secure and sustainable energy supply.

In order to fulfil the assumed commitments in the coming period, both the RS and the FBiH have planned the infrastructure reforms with regard to energy, namely the development of new electricity generation capacities. The construction of two windfarms financed by a loan from KfW is planned in the Federation BiH, while the beginning of the construction of thermal -, hydro-power and wind-power plants, is expected in the RS. In line with the obligations under the Energy Community Treaty, the RS envisages adopting the new Law on Electricity and amending the Law on Natural Gas.

4.2.2.1. Restructuring of the Railways

This is a reform proposed by the Federation BiH and Republika Srpska.

Federation of BiH

The Public Investment Programme (PIP) 2016-2018 adopted by the FBiH Government in December 2015, encompasses the projects of public interest for the Federation BiH and mainly relates to infrastructural projects.

Projects in implementation:

DAC Sector	Number of projects	Total value	Spent in previous years	Plan for current year	2016	2017	2018
210 Transport and storage	13	1,380.79	567.64	135.69	204.41	200.10	244.17
230 Energy generation and supply	10	868.47	119.46	188.52	290.69	171.14	92.92
Other sectors		1,018.78	302.43	262.69	187.58	144.25	69.45
TOTAL	46	3,268.04	989.53	586.90	682.68	515.49	406.54

PIP encompasses projects that are already being implemented for whose implementation the funds have been secured and the priority projects for whose implementation the funds have not been secured, all in the total amount of KM 15.3 billion.

Within PIP – out of the total contracted value of projects in implementation in the amount of KM 3.2 billion, the highest share pertains to the sector of transport and energy infrastructure – the total of KM 2.2 billion.

Planned investments in the period 2016-2018 on the basis of the implementation of projects in the sectors of transport and energy amount to KM 1.2 billion, while the other sectors account for KM 400 million.

Out of the total number of projects nominated for financing from all sectors in the period 2016-2018 in the value of KM 9.4 billion, the sectors of energy account for KM 5.98 billion, and sectors of transport KM 3.27 billion. The Government of FBiH will initiate the negotiation procedures with the foreign creditors for these projects in the upcoming period.

The key obstacle in the process of the railway sector management in FBiH is the lack of sufficient financing of the railway infrastructure maintenance which, according to the Law on Funding the Railway Infrastructure and Co-funding the Passenger and Combined Transport, the Federation BiH is responsible to finance from the FBiH budget.

Furthermore, in order to carry out the separation, i.e. the restructuring of the public railway company JP Željeznice Federacije BiH, which is our commitment based on the EU Directives and the Law on Railways BiH, it is necessary to create a sustainable system of financing the railway infrastructure by finding the funds for this purpose.

Measures:

1. Project of railway restructuring initiated with the World Bank aims at finding the most acceptable restructuring model in order to create financially capable and market oriented operator. Based on the situation assessment, the required measures and activities are expected to be identified in order to eliminate weaknesses in the system. The development of the study is funded by the government of Sweden with the grant amount of KM 400,000.00 for Bosnia and Herzegovina, of which KM 200,000.00 is earmarked for the Federation BiH.

2. A systemic approach will be taken to increasing commodity transport by rail according to the Rulebook for determining the excessive use of the public roads, in order to secure funds to cover the increased costs of public roads maintenance, which would enable minor differences in price setting between the railway and the road transport. (delete this measure).

The very separation of the infrastructure from the operator will contribute to improvement of competitiveness in the market, but conditions should be created for the railway companies to become competitive in the EU market, or specifically to enable their access to the EU railway network via the port of Ploče so as to be able to export goods from this port, which is 98% connected to the BiH market.

Republika Srpska

Restructuring of the Railways of Republika Srpska is one of the priorities of the Government of Republika Srpska in 2016. The Railways of Republika Srpska are characterised by many specificities that distinguish them and require a special, unique approach to the restructuring process. The organisation and functioning of the Railways of Republika Srpska is legally regulated primarily by the Law on Railways of Republika Srpska. However, the operations of this company are also affected by other legislation of Republika Srpska and BiH (Law on Public Companies, the Law on Enterprises, etc.), numerous by-laws (decrees, decisions and other by-legal regulations), rulebooks pertaining to railway transport, collective agreements (General, Branch, and Collective Agreement of the Railways of Republika Srpska), and the Statute of the Company, as its highest normative document. Furthermore, this area is also subject to regulations and directives of the international community (EU regulations, UIC, CIT, FTE, etc.). In this regard, the restructuring programme implies the overall adjustment to conditions of operations, which will be very specific, and requires very detailed and sophisticated knowledge in all the stated areas, so, in cooperation with the World Bank's experts, we are jointly going to try and find the best model. The results of the implementation of the proposed

measures and restructuring activities should be visible through strengthening of operational and financial capacities of the Railways, in terms of stabilisation of its core operations, as well as establishing a high quality railway system in Republika Srpska, which is not lagging behind the best practices of the developed countries. Through optimising the revenues and expenditures, these results would ensure future profitability of the Railways of Republika Srpska. Further investment of Republika Srpska in the company Railways of Republika Srpska, both by annual subsidies and servicing loan expenses and public investments in the Railways, has to result in change of the ownership structure, since Republika Srpska is the only shareholder continuously and in the high amounts subsidizing or investing in it, which eventually has to reflect in the change of the ownership structure of the Railways, i.e. valuation and increase in the ownership share of Republika Srpska.

The pace of implementation, as well as the fiscal effects of this reform measure, primarily depends on the World Bank's experts and their analysis which is currently underway.

4.2.2.2. Improving the transport infrastructure

This is a reform proposed by the Federation BiH.

The transport infrastructure is of great importance for economic development. Thus, further development and maintenance of the transport infrastructure has to be worked out in a way to find the additional sources of funding, other than public funds.

The key obstacle in the overall road management at the territory of the Federation BiH is a complete absence of strategic documents established under the law – the strategy and action plan and spatial plan of the Federation BiH. In addition, a major problem is the incomplete realisation of the collection, as well as the equitable sharing and earmarked spending of original revenues for financing of roads. The current state of play is characterised by the fact that the model prescribed under the law and by-laws is not applied in practice in its full capacity, thus the original revenues are not sufficient and the planned activities cannot be implemented thereof.

Measures:

1. Changes to the legislative framework

- Amendments to the Law on Roads in the Federation BiH

This reform activity will provide for this area and achieve stability in implementation of projects and enable continuous maintenance.

The expected effects of the implemented reform pertain to the adequate servicing of the needs of the economy and movement of people and commodities, and provision of public transport services.

Implementation of these measures does not require any special additional costs.

2. Launching a new investment cycle in the field of road infrastructure

The latest investment cycle in the rehabilitation and repair of main roads in the amount of KM 260 million is coming to an end. Previous investments mainly concerned the improvements of the existing highways. However, a significant share of the road network is still in poor condition.

Having such a situation in mind, the responsible authorities have initiated the credit procedures for the new project – Road Modernisation, in the total amount of EUR 150 million in order to improve transport sector and competitiveness. The project consists of several sub-projects (construction of new roads, bypass roads, bridges and tunnels etc.).

Financial construction was agreed with the EBRD for the sub-project Flood related damage repair and road modernisation in FBiH in the amount of EUR 65 million while the activities are expected to start in 2016. The EIB and the World Bank expressed their readiness to finance sub-projects in the amount of around EUR 85 million.

Financial agreement with the EBRD implies changes to the applicable laws so as to secure that annual allocations to Public Enterprise *Ceste* (Roads) are not less than those set out in the Law on Roads of 2010, in the part relating to the excise duties on fuel earmarked for the roads.

The project will enable easier trade, development of private sector and tourism and improve regional connectivity.

Construction of sections on the corridor Vc is the most important infrastructural project, enabling and initiating the development of other sectors of the economy, employment and GDP growth.

The government of FBiH intends to continue the construction of the corridor Vc but all new projects require longer period for implementation and significant financial resources.

New projects on the corridor Vc, which are expected either to be contracted in 2016 or that the procedure for credit approval would be finalised and thereby the implementation would start, are the projects for the following subsections:

Subsection Buna-Počitelj: (in KM 000)

	Total value	2016	2017	2018
Own funds of Public Enterprise	15,568	3,741	3,741	4,742
EBRD	64,542		27,399	37,143
TOTAL	80,110	3,741	31,140	41,885

Source of data: Public Investment Programme 2016-2018

The procedure of submission of the initiative for loan indebtedness with the EBRD in the total amount of EUR 60 million is under way.

Subsection Počitelj –Zvirovići: (in KM 000)

	Total value	2016	2017	2018
Own funds of Public Enterprise	69,380			56,562
EIB	195,583	71,230	71,230	53,122
TOTAL	264,963	71,230	71,230	109,684

Source of data: Public Investment Programme 2016-2018

In November 2014, the agreement was signed between the EIB and Bosnia and Herzegovina in the amount of EUR 100 million. The decision-making procedure on the approval of the Loan agreement on the Federation level is under way.

Construction of the subsection Pocitelj – Zvirovici is necessary for the traffic from the main road M17 to shift to the highway towards Bijaca. This would ensure full functionality of the constructed subsection Bijaca – Zvirovici and increase its profitability.

Subsection Pečuj-Klopče: (in KM 000)

	Total value	2016	2017	2018
Own funds of Public Enterprise	43,524			30,962
Kuwait	97,791		36,151	61,640
OPEC fund	117,349	71,219	46,130	
TOTAL	258,666	71,219	82,281	92,602

Source of data: Public Investment Programme 2016-2018

This subsection represents a continuation of the construction of the highway in order to achieve full functionality of the subsection Klopce – Drivusa, which is currently under construction. Loan agreements between the OFID-OPEC and Bosnia and Herzegovina in the amount of EUR 60 million were signed in September 2014.

The decision-making procedure on the approval of the Loan agreement on the Federation level is under way, whereas the loan agreement between BiH and OPEC was signed in 2014.

The beginning of the implementation of the new subsection projects on the corridor Vc is conditioned by increase in excise duties on fuel by KM 0.10. The initiative for this excise duty increase has been considered at the meeting of the Governing Board of the Indirect Taxation Authority. The decision has not been made yet since the options for increase in excise duties on some products have been considered along with this initiative for increase in excise duty on fuel.

Increase in excise duty on fuel is a part of the Action Plan for Implementation of the Reform Agenda.

4.2.2.3. Improving the energy infrastructure

This is a reform proposed by the Federation BiH.

The Federation of Bosnia and Herzegovina has adopted a Strategic Plan and Programme for the Energy Sector Development. As a signatory of the Energy Community Treaty, Bosnia and Herzegovina took a commitment to comply with all the requirements of the Treaty.

To this end, the Law on the Use of Renewable Energy Sources and Efficient Co-Generation has been adopted in order to promote utilisation of renewable sources of energy and set the goals of the share of renewable sources of energy in the overall final consumptions of energy products. Also, based on this Law, the Operator for renewable sources of energy and efficient co-generation has been established with the task to operationalise the system of subsidies for production and purchase of electricity from the facilities using renewable energy sources.

Renewable sources of energy projects:

1. Construction of Wind Farm Podvelezje

The German Reconstruction and Development Bank Kreditanstalt für Wiederaufbau (hereinafter in the text: KfW) approved the loan in the amount of EUR 65,000,000.00 for the construction of the WF Podvelezje.

The project includes the installation of 16 wind energy converter turbines of the IEC class II and the tower high 80 m, with the capacity of 2-2.5 MW, a life span of at least 20 years and annual energy generation of up to 86 GW/h. The construction of this project is planned at the location of the plateau of Podvelezje, around 10 km east of the city of Mostar.

The benefits expected from the implementation of this project are the following:

- diversification of energy resources would increase, and the results of the project would reflect in clean energy in the electricity transmission grid;
- continuous electricity supply to customers, monitoring the increase in electricity and maintaining the export trend;
- creation of new jobs during and after construction will stimulate economic growth in BiH;
- contribution to global climate protection by preventing the carbon emissions.

The activities which will be undertaken within this project include:

1. Environmental Impact study of the transmission line on the population and birds;
2. Development of tender documentation for construction of access roads and platforms for cranes;
3. Development of documentation for delivery and installation of wind turbines, wind generators, etc.

(in KM 000)

	Total value	Spent in prev. year	2015	2016	2017	2018
Own funds of Public Company	14,081	2,248	5,400	3,600	2,833	
KfW	127,128		51,600	50,800	24,728	
TOTAL	141,210	2,248	57,000	54,400	27,562	

Source of data: Public Investment Programme 2016-2018

2. Construction of Wind Farm Mesihovina

The German Reconstruction and Development Bank Kreditanstalt für Wiederaufbau (hereinafter in the text: KfW) approved the loan in the amount of EUR 71,000,000 for the construction of the "Windpark Mesihovina".

The purpose of the project is construction of the Wind Farm Mesihovina – location in the municipality of Tomislavgrad, whose basic technical energy parameters are:

- Number of units/turbines: 22;
- Installed capacity per unit: 2 MW;

- Installed capacity of WF: 44 MW;
- Expected annual generation: 128,527 MWh;

WF Mesihovina is one of the planned power projects stated in the Strategic Plan and Programme for the Energy Sector Development adopted by the Parliament of the Federation BiH.

Activities within the project:

1. Measuring the wind potentials;
2. Development of feasibility study, environmental impact assessment, preliminary design, etc.;
3. Development of project documentation;
4. Procurement of wind turbines.

(in KM 000)

	Total value	Spent in prev. year	2015	2016	2017	2018
Own funds of Public Company	11,735	0.456		11,279		
KFW-grant	1,956	1,799	0.156			
KFW-loan	138,864		31,664	107,200		
TOTAL	152,555	2,255	31,820	118,479		

Source of data: Public Investment Programme 2016-2018

4.2.3. Sector developments

4.2.3.1. Agricultural sector development

The BiH's agriculture sector faces a broad range of impediments. It is characterised by fragmented farms and weak supply chains. With regards to agricultural policy, BiH still lacks a rural development strategy, which is a precondition for the use of IPA Regional Development Funds (IPARD). The operational infrastructure to use the funds, a second pre-requisite for IPA RD, has not yet been established. Therefore, both entities proposed reforms to harmonise with the EU recommendations: a set of measures to support rural development but also acknowledge the specificities of the constitutional structure of BiH.

Currently, Government support to agricultural sector in both entities is based on output. Such a system of subsidies proved to be inefficient since it distorted market signals and incentivised producers to invest in those agricultural sectors where the subsidies were the highest. Therefore, both entities proposed a reform – financial support to agricultural producers based on the Government payments per hectare and per head of cattle.

Institutional constraints prevent the BiH's agro-food sector from reaching its full potential, especially in terms of exports. BiH has access to EU markets through preferential trade agreements, but a number of products remained banned from these markets due to the absence of the EU compliant food safety institutions and a regulatory framework. Veterinary and phytosanitary control system is still not aligned with the EU standards, which hampers BiH food exports. On the other hand, the administrative capacity of inspection services and laboratories remains underdeveloped. Despite the EU recommendations to increase the aforementioned capacity at all levels of state, so far only RS proposed a reform of veterinary control system – the new Law on Veterinary and the overall better monitoring of animal health.

4.2.3.1.1. Development of a strategic plan for BiH rural development and IPARD programme

This is a reform proposed by the BiH Ministry of Foreign Trade and Economic Relations.

Bosnia and Herzegovina

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

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

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

Key obstacles: To fully meet the conditions for the use of the EU pre-accession funds for rural sector, including agriculture in terms of investments, it is necessary to develop and adopt a comprehensive Strategic Plan for Rural Development of BiH and establish IPARD operational structure, which will take into account the specificities of constitutional system in BiH. Institutions in BiH responsible for agriculture and rural development work on finding a model of IPARD operational structure, which will take into account the specificities of constitutional system in BiH. The EU has announced that support to rural sector in Bosnia and Herzegovina will be continued within the IPA II package as well. This assistance will primarily be directed to support in development of a comprehensive strategic plan for rural development and establishment of the operational structure in compliance with the IPARD requirements, which will take into account the specificities of constitutional system in BiH.

Statistics: Available budgets of the institutions earmarked for support to the development of agriculture and rural development at all levels responsible for agriculture in Bosnia and Herzegovina reaching the amount of KM 160 million are insufficient to support the reform processes and cannot ensure strengthening of competitiveness of the BiH agriculture. The European Union has earmarked the pre-accession funds of up to KM 35 million annually for Bosnia and Herzegovina as a potential candidate for the EU membership. These funds are very important for support to competitiveness of agriculture and development of rural area but they can be used only after the adoption of strategic documents and establishment of IPARD operational structure.

Description of measures: BiH currently has no possibility of using the funds from the IPARD II instrument. The reason is the lack of sectoral strategy and the IPARD operational structure in BiH. Although BiH, as well as other countries of the region, set out very early to fulfil the so called "operational preconditions" (early 2009) for use of IPARD funds, i.e. the establishment of the IPARD operational structure, this structure has not been established as yet. For BiH farmers to be able to use the IPARD II funds, it is necessary to start meeting the technical requirements these funds are conditioned with as soon as possible. First of all, it is necessary to develop the required strategic documents, namely: Strategic Plan for Rural Development of BiH and the IPARD Programme. The second technical requirement is to establish the IPARD operational structure for BiH, which will take into account the specificities of constitutional system in BiH. This is about the establishment of a special institutional apparatus responsible for the implementation of the IPARD funds. This is about the reform of the institutions responsible for agriculture within which, in principle, the operational structure is to be established. Given the specificities of the organisation of Bosnia and Herzegovina, the establishment of the IPARD operational structure in BiH has to be in line with the Constitutionally assigned responsibilities in the area of agriculture, including the system of payment of subsidies, which

are at the entity and cantonal level, while, on the other hand, the EU requirements with regards to the IPARD structure are clear – in BiH, as well as in other candidate countries, there needs to be a single IPARD structure established for the whole country. It is for these reasons that the issue of the establishment of the IPARD structure, although on the agenda since 2009, has not been resolved yet.

Costs: The base funds required for the development of the Strategic Plan for Rural Development of BiH and the IPARD Programme, as well as the establishment of the IPARD implementation structure, amount to around KM 10 million. These funds were provided by the European Union but, due to the absence of agreement on the development of the strategic document and shape of the operational structure model, they were reallocated into other areas.

Deadlines:

1. Development of the Strategic Plan for Rural Development of Bosnia and Herzegovina and the IPARD programme by the end of 2016;
2. Establishment, functionality and accreditation of the IPARD operational structure by the end of 2019.

The use of the pre-accession funds of the European Union has a direct impact on productivity and raising the level of competitiveness of the market-oriented agricultural producers, whereas domestic funds are allocated to development of rural areas, including the activities carried out in agriculture. The use of the pre-accession funds of the European Union allocated to agriculture and rural development affect the keeping of the existing jobs in agriculture and food industry and additionally contribute to job creation and employment in the rural area activities that are not based on agriculture (rural tourism, crafts...).

Other reform priorities: Ensuring conditions, primarily transposing the EU *acquis*, and establishing structures that will provide for achieving the required level of quality standards and food safety for undisturbed trade in agricultural products and export of all goods of animal origin in the EU market.

4.2.3.1.2. Introduction of financial support to agricultural producers based on payments per hectare and per head of cattle

This is a reform proposed by the Federation BiH.

In addition to providing security and stability of income, security of operations and equalising the business conditions of domestic in relation to producers from the region, the introduction of direct payments per unit of land area is aimed at the gradual adjustment to the EU *acquis*, or the step forward towards harmonisation of the agricultural policy of FBiH with the EU CAP. The intention of equalised direct support per hectare for all crops is to tie the producers as little as possible to a specific production and, at the same time not to favour any sub-sector within FBiH and thereby enable more rational and efficient use of natural conditions in which producers operate, as well as access to market.

The application of the previous model of production subsidies distorted the market in such a way that incentives for specific productions were higher than for others. Subsequently, this caused the producers to choose and produce specific products based on the level of incentives instead on the basis of market signals (domestic and foreign market demand, production costs and selling price, quality of products, preferences of consumers, etc.).

The main obstacle is the resistance of specific associations and groups of producers accustomed to preferential status in the subsidy system (experiences of other countries that introduced this system – Croatia, Slovenia).

Despite the support for milk production being several times higher than support for other types of livestock products, the overall production of milk in the period 2009-2013 was stagnating and the number of livestock was declining.

This measure, planned in the Medium-Term Strategy for Agricultural Sector Development in the Federation BiH 2015-2019 is in line with commitments arising from SAA.

The introduction of financial support measures based on payments per hectare and per head of cattle will equalise the amount of support for direct payments per hectare for production of crops, vegetables and fruits, as well as vines, including the seed production for owners of farms registered in RAF that meet the general and specific criteria, and on the basis of pre-defined minimum land parcels for exercising the right to this support measure.

This measure comprises two sub-measures:

1. Direct payments per hectare of land area, and
2. Direct payments per head of cattle.

With regards to costs, it is indicated that the implementation of this measure will not require additional funds on top of regular allocations from the budgets.

The Medium-Term Strategy for Agricultural Sector Development in the Federation BiH 2015-2019 foresees allocation of funds from the budget according to the table below:

BUDGET FOR YEAR	2015	2016	2017	2018
Amount (in KM million)	62.3	61.8	54	55.5

Source: The Medium-Term Strategy for Agricultural Sector Development in the Federation BiH 2015-2019

Timetable of activities:

2016				2017				2018				2019			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
X	X	X	X	X	X	X	X	X	X	X	X				

Milestones:

3. P1: First quarter of 2016 – Introduction of measures for most productions;
- P2: Second quarter of 2017 – Reduction of support per kg and litre by 50% for productions which are not covered by hectare and head;
- P3: Second quarter of 2018 – Full implementation of the payment system per head and per hectare on all productions.

Bearing in mind the competitiveness, it is estimated that this measure will improve the environment for deciding on the type of production that the agricultural producer should produce. His decisions will be based on the market signals (domestic and foreign market demand, production costs and selling price, quality of products, preferences of consumers, etc.) rather than irrationally conceived support resulting from lobbying or pressures of the associations.

Furthermore, this measure would reduce the number of wrong decisions to invest in agriculture and thereby prevent job losses caused by wrong business decisions. This would also facilitate entering the system of the EU Common Agricultural Policy and ease adjustment to the market. This way, we would create a transparent and continuous system of subsidies, which would not change from one year to another. This would also be an additional impulse for attracting foreign investments.

4.2.3.1.3. Introduction of rural development measures based on the principles of EU IPARD

This is a reform proposed by the Federation BiH.

Agriculture, forestry and supply chain for foodstuffs is suffering from numerous weaknesses that prevent agricultural products from FBiH to compete on domestic or foreign market. The consequence of these weaknesses is a growing lack of competitiveness of producers from FBiH, while the production capacities, which often do not respond to the needs of the modern market, are used far below their full potential.

The lack of adequate credit facilities for investment in agriculture is one of the key obstacles to initiating the investment cycle.

The system of support to investment projects by the Government of FBiH was less than consistent; subsidies were, in some years, totally omitted, while the amounts of support varied from one year to another.

Statistical data show that investments across the whole period (2009-2013) kept declining both with the legal entities and agricultural farms thereby directly affecting the fall in their competitiveness, even more because at the beginning of the observed period the level of investments was far below the level in the EU and the region.

This measure has been planned in the Medium-Term Strategy for Agricultural Sector Development in the Federation BiH 2015-2019, draft of the Rural Development Programme in FBiH 2015-2020 and it is in also in line with the obligations under the SAA.

In order to increase competitiveness, it is of the utmost importance to include the marketing infrastructure and capacities for strengthening the value chains, infrastructural measures, measures for development of skills such as, for instance, investments in technologies for placing the product on the market (investment in modern cold chains, investments in skills development and marketing, investments in primary production), which will contribute to improving economic capabilities and employment opportunities, sustainability of economic activities in rural areas and development of local economic programmes for improving economic opportunities in rural communities.

Sub-measures:

1. "Competitiveness of agricultural products":
 - a. Investments in infrastructure, machinery and equipment on agricultural farms;
 - b. Support to creating the groups of producers;
 - c. Investments in infrastructure and equipment for processing and marketing of agricultural products;
2. Diversification of activities on the agricultural farms and development of entrepreneurship;
 - a. Investments within AF;
3. Other investments in the rural area.

Implementation of this measure will not require additional costs on top of the regular allocations from the budget.

Total allocation of funds by measures (in KM million)

YEAR	2015	2016	2017	2018
Competitiveness of agricultural products	-	22.5	37.7	44.6
Diversification of activities of AF	-	5.7	9.65	11.49
TOTAL	-	28.2	47.35	56.09

Source: Draft of the Rural Development Programme in FBiH 2015-2020

Sources of funding the measures: competitiveness and diversification by years (in KM million)

YEAR	2015	2016	2017	2018
Budget of the FBiH government	-		14.35	17.09
Loans from WB, ERB...	-	28.2	33	39
TOTAL	-	28.2	47.35	56.09

2016				2017				2018			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	X	X	X	X	X	X	X	X	X	X	X

Milestones:

P1: Second quarter 2016 – Introduction of measures

P2: Fourth quarter 2018 – Increase in amount of funds due to the possibility of using the EU funds from IPARD programme.

Introduction of this measure will achieve improvements in technological, strategic and human resources resulting in enhanced value chains, productivity and quality of products (which are attractive both to the existing and future markets), which may lead to permanent increase in its share on the market and improvements in sustainability of rural economy and communities in FBiH.

Implementation of this reform measure directly supports building of new capacities (new plants, greenhouses, barns, equipment, machinery, cold storage, packing facilities, dryers, etc.). This measure supports the introduction of new quality standards and new knowledge necessary for adapting to the requirements of modern market. All the aforementioned will result in increase in quantities and quality of agricultural products, better utilisation and productivity of work force and opening of new jobs. This also creates pre-requisites for exports of certain agricultural products, which will have a positive impact on the foreign trade balance, growth of GDP and thereby improved macroeconomic stability of the country.

4.2.3.2. Industrial sector development

4.2.3.2.1. Process of re-industrialisation in all the areas of the processing industry

This is a reform proposed by Republika Srpska.

By the analysis of the field of industry in Republika Srpska, we have identified several challenges primarily reflecting in the inadequate structure of the processing industry where, in Republika Srpska, there are dominant large companies in the area of metal and wood processing industry which, burdened by the legacy of the socialist system and the inadequate process, failed to position themselves in the market as a recognisable companies in the respective field.

Processing industry is one of the most important sectors of the economy of Republika Srpska, as evidenced by the following data: the share of the processing industry in the overall industry of Republika Srpska amounts to 61.4%; the share of the processing industry accounts for 88.3% of the exports of Republika Srpska; and, at the same time, the processing industry employs 48,952 workers. In this regard, economic growth and macroeconomic stability of Republica Srpska are unsustainable without stable growth of the processing industry and its dominant impact on exports.

Given the length of the privatization process in the processing industry, modest inflow of foreign direct investments, lack of new programmes and technologies, low competitiveness of the enterprises and the number of enterprises under bankruptcy, we can conclude that the privatization process by now has not produced the expected results. The results, as well as the length of privatization process of enterprises, have been affected by numerous factors, particularly very poor conditions in most of the enterprises. This primarily relates to high indebtedness, burdensome surplus of labour

force, outdated technologies, unresolved property and ownership issues, loss of the market, qualified personnel leaving, lack of capital for starting some larger production, etc.

- Given that the processing industry is an important sector of the industry of Republika Srpska, the Government of Republika Srpska will start in 2016 and continue in 2017 and 2018, the **process of re-industrialisation in all the areas of the processing industry, which aims at initiating/reviving the production, increasing the volume of industrial production and employment. This process implies "general cleaning up" in the enterprises with majority state-ownership, of which some do not operate or operate only with minimum capacity and are, thereby, inefficient and illiquid.** The implementation of the re-industrialisation concept entails the following:
 - **Completion of the privatization process.** There are 20 enterprises operating in the processing industry where the state-owned capital has not been privatized, of which 11 enterprises with majority and 100% state capital, whose status needs to be addressed urgently.
 - **Restructuring.** Aiming at successful implementation of privatization, the restructuring of enterprises with the majority and 100% state capital will be implemented, provided that they have a market and a future perspective and that positive effects are expected from implementation of this procedure.
 - **Initiation and completion of the bankruptcy proceedings and liquidation.** In the enterprises where privatization and restructuring would not produce positive effects, the bankruptcy and liquidation proceedings should be initiated. These are hard social and economic processes that have no alternative and are needed to prevent further creation of losses and failure of these enterprises. However, in case there are adequate assumptions, the bankruptcy proceedings will be carried out towards re-organisation, in order to preserve production and jobs.

In this regard, and in line with the Action Plan of Republika Srpska for Implementation of the Reform Agenda, it is necessary to point out that some of the measures from the Agenda require: preparing a list of sustainable and unsustainable public enterprises, developing the Strategy for Tackling the Loss-Making Enterprises in Public Ownership (the Restructuring Programme and the Privatisation Programme); and addressing the issue of unsustainable enterprises in public ownership.

In terms of the pace of implementation of this measure, it is the intention of the Government of Republika Srpska to develop, by the end of 2016, in cooperation with the Investment and Development Bank of Republika Srpska, which manages the funds that own the state capital in enterprises, a list of sustainable and unsustainable public enterprises, as well as the Restructuring Programme and the Privatisation Programme, while the issue of resolving the unsustainable public enterprises would be a measure in 2017 and 2018.

By analysing the fiscal impact of this measure, it is clear that it will prevent creating new losses in the enterprises owned by Republika Srpska, and thereby the public funds required to secure the continuation of "survival" of the aforementioned enterprises would be directed into capital investments. At this moment, it is almost impossible to estimate the amount of potential savings since it is first necessary to review in detail the situation in each individual enterprise, which will precisely be one of the activities in 2016.

4.2.3.3. Services sector developments

The reforms in the area of financial services, tourism and catering are presented within the services sector development.

Financial services

Access to finance is a major challenge for SMEs and start-ups. Rigid lending conditions due to heightened risk aversion by banks significantly affect the level of lending while, on the other side, the supply of non-bank financial institutions is underdeveloped.

Both entities are facing the issue of the high share of NPLs in total bank loans, so the reforms proposed in this area are meant to tackle this problem as well as improve the work of the banking agencies in both the FBiH and the RS.

4.2.3.3.1. Financial sector reform

This is a reform proposed by both the Federation BiH and Republika Srpska.

Preserving the stability of the financial system in FBiH

The financial sector has overcome the global financial crisis relatively well including the years of weak economic growth that followed, as well as the floods in 2014. Although the banking sector is liquid and adequately capitalised at the aggregate level, some sensitivities are still present. The main obstacles lie in the increased share of NPLs in the overall loan portfolio and low level of new loans placed on the private sector.

Changes in regulations providing for financial services are targeted towards the improvements in legal framework in order to modernise the laws and regulations pertaining to the banking sector, addressing the issue of a high share of non-performing loans (NPLs) and improving the liquidity management framework.

Measures:

1. Finalisation of development of the new Law on Banks in line with the EU Directives and Basel requirements with the IMF support. This new Law will strengthen the corrective and implementing powers of supervisors, introduce the supervision of the banking groups on a consolidated basis and improve crisis management.
2. Amendments to the Law on the Banking Agency so that the Agency, in addition to the role of the supervisor, would also be responsible for the bank resolution.
3. Legal and regulatory changes in order to support purchase and sale of the non-performing loans so as to improve the framework for collection and resolution of the NPLs, and the adoption of the guidelines for the out-of-court settlement.

Timetable for implementation of activities:

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
M1	X											
M2	X											
M3			X									

The implementation of the aforementioned measures does not require any additional funds from the budget.

Republika Srpska

The analysis of the banking sector of Republika Srpska shows that one of the main problems is the high share of non-performing loans in the overall credit portfolio of the banks of Republika Srpska. The issues related to growth of the non-performing loans and the part of credit losses uncovered by reserves may have a significant impact on weakening of the bank capital base in the coming period, if negative trends in the quality of assets continue and collection of loans worsens. In order to further strengthen the resilience of banks and preserve the quality of their transactions, the banks will streamline their activities in the coming period to capital strengthening of the banks, improving the risk management system, particularly credit and liquidity risk, control of the level of overdue claims and non-performing loans in order to early identify the worsening of the loan portfolio and taking the adequate measures to tackle the issue of non-performing loans, and setting up and improving the stress

tests to possible crisis situations and their impact on bank operations, particularly capital, credit risk and liquidity risk.

Within the scope of its competencies, in implementing continuous bank supervision, the Banking Agency of Republika Srpska will particularly strengthen credit risk supervision, reserve adequacy for potential credit losses and capital adequacy of the banks, carry out stress tests by individual banks, establish early warning system and detection of problems and negative trends in bank operations in order to undertake preventive actions and measures on time, strengthen transparency of operations of banks and other financial organisations in order to preserve confidence in the banking system. Also, the Agency's activities should be focused on protection of rights and interests of users of financial services both through activities of the Ombudsman for the banking system and direct control of financial organisations, for the purpose of further development and enhancement of the banking system supervision in line with international standards and the market demands.

- **In 2016, in order to achieve the aforementioned, we will modernize the legal framework so as to tighten prudential requirements of the banking business, including more adequate assessment of the risk profile of banks, better quality of risk management, consistent application of corporate governance standards, as well as improve the supervisory function of the Banking Agency of Republika Srpska by introducing additional early intervention measures, developing consolidated supervision and creating the assumptions for implementation of the bank resolution procedure.**

Therefore, the new Law on Banks of Republika Srpska will be passed in 2016, and the Law on the Banking Agency of Republika Srpska will be amended so as to be harmonised with the new Law on Banks of Republika Srpska, particularly in the segment of bank resolution, while the Banking Agency of Republika Srpska will adopt the Action Plan for Implementation of the Recommendations of the FSAP Mission covering the period 2015-2017.

In this regard, in 2015, the draft version of the new Law on Banks of Republika Srpska was developed based on the Basel Committee recommendations, applicable solutions of the EU Directives, positive practice of the countries in the region, as well as proposals made through technical assistance within the existing Stand-by Arrangement of the International Monetary Fund. The new Law will define tighter prudential requirements for the banking operations, better quality of risk management of banking operations, buying and selling bank lending based on loans to authorised buyers, enhancing and strengthening the control function of the Banking Agency of Republika Srpska, with a special focus on early intervention measures, implementation of bank stress tests, development of a special consolidated supervision regime, development of recovery plans by the banks themselves, as well as other issues of importance for recovery of banks, including the liquidation and bankruptcy process.

The adoption of the new Law creates the possibility of bank resolution in order to ensure continuity of operations of systemically important banks and avoid adverse impact on financial sector stability, secure protection of depositors and investors as well as protection of assets and property of the banks' clients. According to the legal solutions, which are in compliance with the requirements of the new Directive of the European Union on recovery and resolution of credit institutions (2014/59/EU), in the procedure of resolution, the losses in banking operations should first be borne by the bank shareholders, as well as the banks themselves should primarily finance the costs of bank resolution by paying contribution to the Bank Resolution Fund, whose establishment is stipulated by the law. In case of lack of resources in the Fund, there is a possibility of using other sources of funding for resolution, such as loans, credits and other acceptable forms of support to banks, as well as use of emergency public financial support of Republika Srpska, with limited conditions.

It is important to emphasise that this reform measure is given in the Reform Agenda as well as the Action Plan of Republika Srpska for Implementation of the Reform Agenda.

In terms of the timeline for implementation of this reform measure, by the end of 2016, the new Law on Banks of Republika Srpska will be passed, the Law on the Banking Agency of Republika Srpska will be amended in order to be harmonised with the new Law on Banks of Republika Srpska, particularly in the segment of bank resolution and, at the same time, the Banking Agency of Republika Srpska will pass by-legal regulations necessary for the implementation of the new Law on Banks of

Republika Srpska. In 2017, the Banking Agency of Republika Srpska will adopt the Action Plan for Implementation of the Recommendations of the FSAP Mission covering the period 2015-2017, while in the period 2016-2018, the Banking Agency of Republika Srpska plans gradual implementation of BASEL II and BASEL III in line with the adopted Strategy and the Amendment to the Strategy for introduction of "International Convergence of Capital Measurement and Capital Standards BASEL II".

With regard to costs of implementation of the aforementioned reform measure, the new Law on Banks of Republika Srpska imposes the obligation for banks to pay regular and emergency contributions to the Bank Resolution Fund in compliance with the requirements of the new Directive of the European Union on recovery and resolution of credit institutions, which implies that future resolution of systemically important banks should be carried out at the expense of the banking sector rather than the budget resources. As it is foreseen that the bank resolution tasks are conducted by the Banking Agency of Republika Srpska and that the Bank Resolution Fund should be set up within its framework, this will lead to additional costs for setting up a special organisational unit charged with bank resolution, as well as costs for the required training of the staff performing these tasks, which will be financed from the own income of the Agency. Although this reform requires additional costs of the Agency so as to adapt to the new tasks, such a solution is less costly compared to other possible solutions of bank resolution (e.g. establishing a special institution for resolution and management of the Fund). Furthermore, a potential cost may also be the use of emergency public financial support, but only in case when the resources of the Bank Resolution Fund are not sufficient and the bank resolution is in the public interest.

Tourism and catering

Although the tourism sector indicators keep recording positive growth rates over the past few years, the development of tourism is still in its infancy. Therefore, improving catering industry is set as a strategic priority of tourism services in the FBiH, aiming at better use of resources, increasing youth employment and providing more quality services. There are a number of issues that need to be addressed such as the absence of a strategic document, a lack of single registry of service providers, inappropriately trained staff and the complicated procedure for issuing permits. RS postponed the reforms in the tourism sector (because they are not of crucial importance in the period 2016-2018).

4.2.3.3.2. Improving the tourism and catering industry

This is a reform proposed by the Federation BiH.

Improving the catering activity is a strategic priority in tourism at the territory of the Federation BiH in order to provide youth employment, better quality of services, and staff training in the field of catering, so as to promote and better utilise the resources available in BiH.

The quantity by categories of capacities in the area of tourism and catering (hotels, motels, guesthouses and apartments, etc.) in 2015 amount to 321 with the capacity of 29,866 beds has been continuously increasing (the number of beds in 2011 was 16,877). According to the estimates of the relevant Federal Ministry, this number is much higher, by as much as 7,000.

The total number of employees in catering services in 2014 was 20,203 (4.6% of the employed in the Federation BiH), and the number of employees in this sector increased by 4,000 in only two years.

The analysis of the tourism trends shows an increase in arrival of tourists to the Federation BiH by 28.9% in 9 months of 2015 relative to the same period of the previous year, and rise in overnight stays by 35.7% relative to the same period of the previous year.

The proceeds achieved from the area of tourism (fees of the tourist boards/communities) were regulated by the Law on the Tourism Activities which was rendered unconstitutional so there is a legal vacuum for fees of the tourist communities). The indicative amount of revenues based on payment of fees is around KM 5 million. It is for this reason that 2016 is expected to see the adoption of the new Law on the Tourism Activities as set in the Action Plan for the Implementation of the Reform Agenda.

The main obstacles to growth and development of the catering activity are the following:

- The existing Law on Catering Activity does not include the responsibilities of the cantons, nor is it harmonised at the entity and cantonal level.
- Among the 10 cantons, 6 of them did not adopt their own Law on Catering Activity, mainly due to a lack of staff, so the problems occurred in the processing of applications, the issue of determining the minimum conditions and categorisation of catering facilities with 3 and 2 stars.
- Lack of a single register of service providers at the territory of FBiH.
- The absence of strategic documents in this area.
- Unregulated area of co-financing and provision of the state aid.

Measures:

1. Adoption of amendments to the Law on Catering Activity and the Law on Tourism;
2. Adoption of the Rulebook on register of catering service providers;
3. Adoption of a Strategic Framework in the area of catering and the Act on Provision of the State Aid.

The Amendments to the Law on Catering Services will incorporate the provisions of the Article of the Directive, which imposes an obligation on Member states to examine the procedures and formalities that are used to access the service industry, and to simplify them if they are too complex and hinder the operations. The processor will transpose the above provision in the Article 7, paragraph (2) of the Law on the Amendments to the Law on Catering Activity which, in order to implement the reform of business registration, simplifies the registration process of the catering activity in a way that a caterer may start performing the catering activity if having a proof of the submission of the application to the relevant authority for the issuance of the decision that the facility meets the minimum conditions prescribed for a specific type of the catering facility.

Regulation of the catering activity would increase the number of registered caterers by around 30%, as well as the number of registered employees by 30%. Furthermore, possibility of monitoring the number of tourists' visits in the catering facilities would improve and thereby affect the decrease in informal economy and the increase in proceeds in the catering activity by 30%.

The implementation of the aforementioned measures requires securing the additional funds from the budget of the Federation BiH, i.e. it is necessary to plan the employment of two additional employees, as well as for computerisation of the process of the catering activity, through development of the register of the catering activity and networking of the area of catering.

The required employment of two additional staff members (KM 66,000.00) and procurement of IT equipment and software for development of the register (KM 50,000.00), which at an annual level amounts to KM 116,000.00 of expenditure from the Federal budget, whereas technical assistance would be requested from the European Commission for development of the Strategic Framework and for the training.

The expected revenues at an annual level are estimated at KM 20,000.00.

Timetable of activities:

2016				2017				2018			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		X	X	X	X	X	X	X	X	X	X

Republika Srpska

The analysis of statistical data related to tourism and catering and the analysis of data on payment of tourist fees in the previous period have shown that more efforts are needed towards the competitiveness of the tourist product of Republika Srpska. It needs to be innovative, heterogeneous, attractive and unique, and formed from the range of various products tailored to the possibilities of the tourist area according to the requirements of tourist demand. The proclamation of the tourist destinations and creation of products and identification of potential markets will be followed by the promotion of products, i.e. tourist offer of Republika Srpska to these markets and the target groups.

4.2.4. Business environment, corporate governance and reduction of the informal economy

According to the available indicators, burdensome regulations and administrative challenges pose a major binding constraint to economic growth and competitiveness in BiH. The main cause of low level of private investments and entrepreneurship is low return on the invested capital. Inadequate legal framework as well as numerous para-fiscal charges significantly hamper business activities.

Access to finance remains a major obstacle for SME development. It is limited due to high risk of lending (the share of NPLs increased from 14% to 14.2% in three months of 2015) and underdeveloped non-banking sources of financing.

Current support for SME development is insufficient. There is a need for stronger budget support as well as cooperation between the state and the entities, which is insufficiently developed at this point.

With regards to this reform area, both entities propose similar activities (reducing para-fiscal charges, speeding up registration process and changing the existing legal framework).

In the FBiH, focus is on privatisation and fostering non-bank financing (new Law on Factoring, creating new funds to support SME). Republika Srpska is mainly focused on privatisation process and the new legislation on bankruptcy.

Republika Srpska

Improving the business climate and competitiveness present the main pre-requisites for ensuring steady economic growth. Further growth and prosperity have to be based on new investments, which will create new jobs and be a driver of a new economic cycle. The implementation of this objective is based on stronger combat against gray economy and elimination of barriers to business and new investments.

The same as at the global level, after 2007, there was a decline in foreign investments in Republika Srpska too. The data of the Central Bank of Bosnia and Herzegovina show that, in 2014, the volume of foreign investments expanded (KM 379.1 million, which is approximately a half of the total investments in BiH – around KM 740 million, according to the most recent data) relative to 2013, but they did not reach the level prior to global economic crisis (the same as in most South-Eastern Europe countries).

In addition to global developments, as an important factor for foreign investment inflow, international reports (Doing Business, Global Competitiveness Index, etc.) indicate to worse rank of BiH (no data for Republika Srpska) in terms of factors fostering the competitiveness. This suggests the need to improve business environment and competitiveness in a number of areas, such as: starting a business, market exit, construction permits, registering property, paying taxes, protecting investors, etc.

Despite a series of activities implemented in Republika Srpska aiming at attracting foreign investments, this is a dynamic area that needs adjusting to international trends and the region. Therefore it is planned to develop a Strategy for Attracting Foreign Investments 2016-2020 and the accompanying Action Plan, which is based on the aforementioned analyses. The objectives of the Strategy (and measures foreseen for its implementation) relate to strengthening competitiveness of Republika Srpska and improving the business climate (by individual areas of Doing Business and other international reports), strengthening cooperation and institutional capacity building, and the promotion activities.

At the same time, frequent changes of regulations create legal uncertainty and have a negative impact on business environment. In addition, the process of development of better quality regulations entails cost-benefit analysis of their implementation, both to the business sector and the public budget, but also citizens, environment, etc. In this regard, the Government of Republika Srpska was among the first ones in the region to have introduced the regulatory impact assessment, first through pilot projects and then permanently in its legal system. In 2015, the Government of Republika Srpska adopted a new enhanced Decision on the Implementation of the Regulatory Impact Assessment in the Procedure of Regulation Development. In addition to mandatory application to all laws, the implementation of this methodology is also mandatory for all by-legal regulations. In the coming period, it is necessary to additionally strengthen capacities for its application to all key laws, particularly of the business

community. Capacities for its application to by-legal regulations need to be particularly strengthened since they often directly affect the business sector.

In this regard, the business community has been pointing to the issue of different types of para-fiscal charges for a long time, which burden the economy of Republika Srpska not only financially but administratively too, as well as problems they face during the bankruptcy proceedings. By eliminating barriers to business and investments, through the Registry of Para-fiscal Charges and improving the bankruptcy proceedings, followed by removing the administrative barriers in all economic activities as well as investments in infrastructure projects, primarily in the field of transport, and particular attention paid to better links between education and the labour market, we will continuously improve the business climate and competitiveness of the economy of Republika Srpska.

To this end, the key reform measures in terms of business environment in Republika Srpska in 2016 will be the following:

- Eliminating the barriers to business and investments, and
- Adopting and implementing the Law on Bankruptcy.

4.2.4.1. Reducing costs of doing business and shortening the procedures for issuing licences - Eliminating the barriers to business and investments

This is a reform proposed by both the Federation BiH and Republika Srpska.

Republika Srpska

Eliminating the barriers to business and investments will enable the establishment of the Registry of Para-fiscal Charges, in order to prevent the creation of new para-fiscal charges. Then, with the assistance of the USAID, we will continue the analysis of para-fiscal charges included in the Registry. Based on the results of the analysis, a decision will be made on possible elimination of certain charges that prove to be unjustified. Legal grounds for the Registry of Para-fiscal Charges will be set out by the new Law on Tax System.

The pace of implementation of this measure implies the adoption of the new Law on Tax system by the end of the third quarter 2016, and the establishment of the Registry of Para-fiscal Charges, after which the possibility for elimination of certain types of para-fiscal charges will be analysed.

The effects will be known after the completion of the analysis. As part of this measure, it is planned to eliminate a special tax of Republika Srpska, based on which the budget of Republika Srpska will achieve less revenues (around KM 10.0 million) as well as disburdening for business entities.

Federacija BiH

To ensure further growth, the government authorities need to create conditions for attracting the investments since, according to the estimates, there are significant gaps in administrative and regulatory system that negatively affect the business environment and investments. This is a consequence of the inefficiency of the public sector where the competencies are overlapping, of burdensome regulations, difficult access to finance for SMEs, etc.

Based on the analysis of the Federal, cantonal and municipal regulations and review of taxes, fees and other para-fiscal charges, it has been established that there are between 350 – 400 para-fiscal charges in the Federation BiH paid by legal entities and individuals to the budget of the various government levels, agencies, institutes, funds and directorates, of which around 70 different taxes and fees at the Federal level, approximately 35 at the cantonal level and around 20 at the municipal level, all in the total annual amount of around KM 400 million.

There are many difficulties in this segment of which we should mention only a few:

- the number of obligatory payments regulated by laws and other regulation has increased;
- the new obligations are constantly introduced without specific systemic solutions and procedures for adoption of regulations which introduce or modify other elements of payments;

- the amount of individual fees is not harmonised at the FBiH territory;
- the principle of the fee treatment is not respected for some charges because the obligation of execution of a specific service for these persons does not provide the expected benefit;
- the additional constraint for the payers, besides the large number of obligatory payments, is their administration.

Measures:

1. Analysis of the state of parafiscal charges in the Federation BiH with the proposal of measures

Parafiscal charges in the Federation of Bosnia and Herzegovina amount to KM 400 million KM at the annual level and account for 10% of all revenues of the Federation BiH. Only three types of fees (water, tourism and fees for forests) amount 30 million KM.

The analysis of the state of parafiscal charges in the Federation BiH would serve to the FBiH government as a basis for possible modifications of regulations providing for parafiscal charges towards reducing the burden on employers, which would stimulate growth of employment rate and increase new economic investments.

The analysis will set the measures of which we mention the following:

- Setting the basis for calculation of general water fees, fees for general useful functions of forests and fees of tourists' communities in a way to make this basis the average net salary in the Federation BiH for the previous year.
- A sectoral approach should be applied when introducing the basis for calculation of fees for forests in the sense to burden those legal entities with this fee which are closely related to the activity of using and exploiting this asset.

2. Adoption of the Register of non-tax revenues in the Federation BiH

The register of parafiscal revenues should be a basis for regulation of this area and present an overview of all non-tax revenues classified by types, legal framework, payer, distribution, units that collect them, considering the variety of authorities that impose and collect them at the Federal, cantonal and municipal level (ministries, agencies, institutes, public companies and other budget users).

3. Amendments to regulations in order to change the basis and rates for calculation of fees:

- Amendments to the Law on Waters in the part relating to calculation of general and special water fees so as to consider the options of reducing the general fees paid by all the enterprises, and increasing the special fees paid only by certain enterprises, provided that the adequate financing of the water sector is secured.
- Urgently adopt the Law on Forests at the federal level, which will be harmonised with provisions of the Constitution of the Federation BiH and incorporate the principles of calculation of the forest fees, and determine the adequate distribution of revenues among the budgets.
- Adopt the Law on the Tourist Communities and improvement of tourism at the Federal level, which will be harmonised with provisions of the Constitution of the Federation BiH and elaborate in detail the range of payers, percentage of allocations and adequate categorisation of the tourist sites.

Timetable of activities:

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
M1	X											
M2		X										
M3			X									

The first effects of parafiscal reforms are expected in 2017.

The effects of implementation of this measure reach around KM 9,700,000 for a three-year period (the annual basis is KM 30,000,000.00 for all three types of fees).

2. Simplifying business registration

Registration of business in the Federation BiH is currently going on in accordance with the Law on the Registration of Business Entities in the Federation of Bosnia and Herzegovina with the municipal courts, i.e. departments of the courts that perform duties of the court registration for the territory of the entire canton. The current situation in the Federation BiH is characterised by difficult situation in keeping the main electronic registration book whose applications cannot follow the legislative changes, particularly changes introduced in 2014, when the Law on the Amendments to the Law on Registration of Business Entities enabled the registration of non-resident business subsidiaries. A currently present problem relates to the necessary changes of the software used for keeping the main electronic registration book, which significantly contributes to slowdowns in registration procedures of businesses in the Federation BiH.

Namely, Article 84 of the Law on Registration of Business Entities in the Federation of Bosnia and Herzegovina prescribes the functioning of the system of registration of business entities in a way that the Federal Ministry of Justice is responsible to ensure technical functioning, maintenance and instant delivery of electronic data of the main electronic registration book as well as the functioning of registration.

Pursuant to the aforementioned provision, this Ministry concluded a contract on maintenance of the software application with the contractor on 15 October 2010, where the subject of the said contract was maintenance of the software of the main electronic registration book in 10 registry courts in the Federation BiH.

Negative Audit Reports followed in 2010, 2012 and 2013, when the audit team noted that activities have to be taken to regulate the ownership status, the right to dispose of the software of the main electronic registration book in the registry courts in the Federation of BiH and establish its maintenance by the Ministry of Justice, in order to reduce the costs and rationally spend the public financial resources.

In October 2013, due to the aforementioned reports, the contract was cancelled with the company charged with maintenance of the software as well as with operator that maintained the system.

Subsequently, the current system of business registration and keeping of the main electronic registration book is seriously hindered and the registration procedure is considerably slower.

Proposal of sub-measures:

1. Urgent procurement of new software
2. Preparation of the new legal text.

It is necessary to draw up a new legal text in this area where the maintenance costs should be defined as a responsibility of courts where registration takes place, who charge the court taxes for these services.

3. Shortening the deadlines and simplifying the procedures for issuing various permits

The procedure of issuing construction permits and other licences based on the applicable regulations is of inter-sectoral character and within the scope of competencies of a number of ministries. Legal provisions that regulate this issue are not harmonised so the Government of the Federation BiH has formed the Inter-sectoral Working Group with the task to align legislation in the area of environment, agriculture, water management and forestry and spatial planning. Inter alia, the task of this Working Group is to incorporate the provision to shorten the deadlines for issuance of the required permits, to simplify the procedures of submission and the decision-making on the applications of the clients, to reduce the costs for the clients and ensure greater legal security. The subject of harmonisation of the competencies and processes of issuing licences pertains to the following: environmental permit, water permit, spatial planning approval and construction permit.

Technical support for activities of harmonisation of legislation in these areas is provided by the USAID through the Project: Strengthening Governing Institutions and Processes in BiH.

Sub-measures:

1. Adoption of the Law on the Amendments to the Law on Environmental Protection;
2. Adoption of amendments to the Law on Spatial Planning and Land Use at the level of the Federation BiH;

3. Adoption of amendments to the Law on Waters.

Amendments to these laws will shorten and ease the procedures of obtaining permits for the investors.

4.2.4.2. Support to small and medium-sized enterprises

This is a reform proposed by the Federation BiH.

The SME sector in the Federation of Bosnia and Herzegovina is facing many problems (administrative constraints; lack of professional approach to SME development; low level of skills and knowledge; low level of business and entrepreneurial culture; lack of financial resources, etc.), which hinders faster growth and development of small entrepreneurship as a whole. This results in decelerated growth, poor situation in this sector, weak exports, unemployment, poor filling of the entity budget, etc.

Measures:

1. Adoption of amendments to legal framework which will ensure reduction of administrative and financial obstacles for growth and development of small entrepreneurship.

In order to overcome the aforementioned problems in the coming period, the planned activities aim at improving the business environment with a special target on reducing administrative and financial obstacles for growth and development of small entrepreneurship.

To this end, the drafting of the Law on the Amendments to the Law on Promotion of SME Development and the Law on the Amendments to the Law on Crafts and Related Activities will be initiated.

Timetable of activities:

2016				2017				2018				2019			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
X	X	X	X												

This measure does not require any additional budget allocations.

2. Support to development of business infrastructure in the Federation of BiH

Large companies do not fulfil their mission to be the drivers of development; hence the only chance to propel the economy in the Federation BiH is to support SME development. Successful entrepreneurship, however, requires a good business infrastructure. In their efforts to come up with the business idea and start with the entrepreneurial undertaking, the nascent entrepreneurs face numerous constraints, the major ones being the lack of information and entrepreneurial knowledge. Nascent entrepreneurs lack one of the most important factors for good quality and safe start of their business carrier – the entrepreneurial environment. Entrepreneurial environment is such environment that secures access to sources of funding, favourable government policies and programmes, and access to professional services. Development of entrepreneurial infrastructure largely determines the development of entrepreneurship in a specific society. The entrepreneurial infrastructure institutions can be established at the initiative of various government levels or the initiative of individuals or groups of stakeholders – in both cases, these institutions are equally important. By high quality of support to SMEs they eventually contribute to sustainable development of the society. The main objectives are organising and equipping premises for reception of entrepreneurs, i.e. nascent entrepreneurs; developing the institutions for support to entrepreneurship (technological parks, business incubators and clusters); improving the production of business networked in clusters; attracting the investments and creating opportunities for new jobs.

The activities which will be undertaken in order to support development of business infrastructure in the Federation BiH are the following:

- *Implementation of the project "Development of entrepreneurial zones in the Federation BiH"*

The objectives of the project are: supporting local governments to build entrepreneurial zones in order to create preconditions for SME development and new jobs; making the space of the Federation BiH more competitive for foreign and domestic investments (in entrepreneurship) relative to

the countries in the region. Criteria for selection of projects are: the number of active users of the zone; sources – way of funding; size of entrepreneurial zone; more balanced regional development (unemployment rate); and previous incentives by the Federal Ministry of Development, Entrepreneurship and Craft. The beneficiaries of these funds are municipalities and cities in the Federation BiH. The funds planned for implementation of this project in 2016 amount to KM 1,000,000.

Timetable of activities:

2016				2017				2018				2019			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

- *Implementation of the project "Improving the institutional entrepreneurial infrastructure in the Federation BiH"*

The SME supporting institutions (technological parks and business incubators), entrepreneurial centres and clusters make the centre of technological, professional and consulting support to future and existing entrepreneurs, and play a key role in creating and implementing the measures for entrepreneurial development. The objectives of this project are organising and equipping premises for reception of entrepreneurs, i.e. nascent entrepreneurs; developing the institutions for support to entrepreneurship (entrepreneurial centres, business incubators and technological parks); improving the efficiency of production and manufacturing processes at the market of SMEs networked in clusters; attracting the investments; and creating opportunities for new jobs. Criteria for selection of users of the funds are: the purpose of the project; sources-way of funding; number of members in the cluster, or SMEs in the incubator and technological park; more balanced regional development (unemployment rate); and previous incentives by the Ministry. The beneficiaries of these funds are SME supporting institutions from the territory of the Federation BiH (business incubators, technological parks, clusters and entrepreneurial centres). The funds planned for implementation of this project amount to KM 150,000.

Timetable of activities:

2016				2017				2018				2019			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

3. *Encouraging investments in projects of SMEs*

In order to upgrade competitiveness of SMEs, funds will be allocated from the federal budget targeting the quality improvement, modernisation and expansion of technological capacities, and provision of support to SMEs during the first year after business registration. (annual support in the amount of around KM 4.1 million).

Timetable of activities:

2016				2017				2018				2019			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

4. *Creating conditions for improving the liquidity of SMEs*

Measure:

1. *Adoption of the Law on Factoring*

Given the growing insolvency of our economy on the one hand and significant lagging behind of our country in development of infrastructure for provision of factoring services on the other, it is necessary to have adequate legislation to regulate the area of factoring with the goal of improving the liquidity, growth of production and exports and increasing the capacity and competitiveness of businesses.

Factoring is primarily aimed at small and medium sized enterprises which, due to low creditworthiness, have limited access to banking loans. Factoring companies provide financing even in cases when banks do not want it, since factors are focused on testing the worthiness of buyers-borrowers that are supposed to pay the invoices for goods or services delivered by the seller.

Factoring, which is based on transfer of claims arising from commercial contracts, as a financing instrument plays a significant role in the international market too because, in addition to financing the seller through the advance payments, the factoring company also assumes the risk of collection and management of claims, thereby increasing the competitiveness and export potentials of the seller of claims and developing the system of factoring in the international market.

The adoption of the Law on Factoring, which provides for contractual relations in the factoring activities in a flexible way, is expected to result in more frequent and clearer use of factoring as a way of financing the working capital, protection against credit risk, support to exports, as well as management of claims and collection of receivables.

In the conditions of lacking legal regulations of the factoring operations, the companies offering factoring services were not subject to issuance of approval for the factoring services, rules on the minimum original capital, qualified share and so on. There are factoring operations in the Federation BiH, but they have developed slowly by now due to legal vagueness and lack of concrete law to regulate this area. By the adoption of this Law, the Federation BiH will receive appropriate legislation whose implementation should accelerate the development of factoring and provide conditions for efficient collection of receivables by businesses.

The effects of the adoption of the Law on Factoring can be summarised as follows:

- 1) increase collection of receivables and thereby improve liquidity and solvency of businesses;
- 2) increase legal certainty in business transactions of the contractual parties, which would affect the increase in investments, both domestic and foreign;
- 3) improve competitiveness of businesses;
- 4) improve balance and credit-worthiness of businesses and ease access to financing;
- 5) reduce indebtedness of business;
- 6) increase competition in the financial sector and reduce price of capital;
- 7) and in the long-term, increase employment and public revenues.

Timetable for implementation of this measure:

2016				2017				2018				2019			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
		X	X												

4.2.4.3. Privatisation

This is a reform proposed by the Federation BiH.

Complex economic and political situation in Bosnia and Herzegovina, i.e. the Federation BiH results in very unfavourable environment for investors, particularly foreign investors, whose capital is necessary for development of BiH economy.

Negative public perception of privatisation, the increasing number of the unemployed workers after implemented privatisation, as well as the number of bankruptcy proceedings of the privatised enterprises are confirming the unfavourable environment for flow of capital from potential investors.

A standstill in privatisation process is particularly pronounced after 2006 due to the small number of companies for sale, mainly caused by the adoption of the Law on the Amendments to the

Law on Privatisation of Enterprises in the Federation BiH, which passed the authority for decision making on the manner, i.e. the method of privatisation on the Government of the Federation BiH.

In order to remove the standstill in privatisation, the Government of the Federation BiH has approved the Privatisation Plan pertaining to privatisation of 16 companies with minority or majority of state-owned capital. The overall state-owned capital offered in privatisation amounts to KM 840 million.

In addition, the Government has made classification of the state-owned enterprises and public companies on strategic ones, those that require restructuring and companies in which the Government of FBiH has minority shares.

Minority shares will be sold first, by the end of June 2016, while the analysis of the privatisation option for some strategic enterprises will be initiated with the support of the EBRD.

There is a need to review the current privatisation concept in the coming period, in order to find the new model which will be more responsive to increasingly intensive changes in our environment but also consider the aforementioned barriers as well as the potential ones that may occur in the future period.

In 2016, the Government of the Federation BiH expects to achieve the income from privatisation in the amount of KM 65 million, most part of which (KM 50 million) will be directed to tying the years of service for workers in public companies.

Measures:

Measure	1.1.	Defining the privatisation strategy
Activity	1.1.1.	Making the analysis of current situation with the proposal of measures for improving the privatisation process in FBiH
Activity	1.1.2.	Development of the privatisation strategy
Measure	1.2.	Drafting new legislation
Activity	1.2.1.	Draft the Law on Privatisation of Enterprises
Activity	1.2.2.	Develop by-laws
Measure	1.3.	Privatisation portfolio, consolidation and centralisation of institutions for implementation of the privatisation process
Activity	1.3.1.	In cooperation with the line ministries and the Government, update the privatisation portfolio
Activity	1.3.2.	Centralise the institutions for public company management to one ministry or other authority for the sake of more efficient management

4.2.4.4. Adopting and implementing the Law on Bankruptcy

This is a reform proposed by Republika Srpska.

The new **Law on Bankruptcy** provides for the resolution procedure and the bankruptcy proceedings, the legal effects of opening and conducting the resolution procedure and the bankruptcy proceedings, the re-organisation of the bankruptcy debtor based on the bankruptcy plan and the international bankruptcy. Taking into account the existing problems and difficulties in the bankruptcy proceedings, the new Law will achieve the following objectives: timely initiation of the resolution procedure and the bankruptcy proceedings; financial and operational restructuring of debtor in the resolution procedure; shortening the length of the bankruptcy proceedings; reducing the costs, particularly down payment costs; manner of appointing the provisional administrator respecting the principles of proportionality and equality in appointing, as well as the age limit for the bankruptcy administrators and the amount of their fees; protection of rights of creditors in the bankruptcy proceedings; improving the re-organisation process in terms of its simplification; harmonisation of regulations that impact the application of the Law on Bankruptcy proceedings; and appointing the body to perform supervision over the implementation of the legal provision pertaining to timely initiation of the proceedings and impose sanctions to the bankruptcy debtor, namely the body authorised to represent the bankruptcy debtor due to untimely initiated proceedings. The introduction of the resolution procedure as a novelty will enable enterprises with financial problems to resolve their financial liabilities and remove the possibility of bankruptcy and continue with normal business life

before the insolvency and reasons for bankruptcy occur. Those that fail will have the right, pursuant to the new law, to do this in the bankruptcy proceedings, in the resolution process, by re-organisation of the bankruptcy debtor. With regards to the resolution procedure, the new Law, inter alia, prescribes that APIF is competent, or rather required, as a body keeping the registry of business entities, to make a list of debtors falling behind in settling their assumed liabilities up to 60 days and publish this list on its website and within three days inform the debtor that conditions have been met to initiate the resolution process, which opens the window of timely identifying the potentially insolvent business entities. The resolution process has to be completed within 150 days of its opening while, exceptionally, in justified cases, this period may be extended by another 90 days. At the same time, higher level of control of the work of provisional administrator has been defined through a specially worked out method for control of the work of provisional administrator by creditors, as well as more stringent fines and simpler replacement of provisional administrators and their deletion from the list. Number of cases that one provisional administrator can manage is limited, and the appointed provisional administrator has the obligation, after assuming his/her duty, to conclude insurance from liability for all risks related to her/his activity with the insurance company. Thereby, new legislation is going to be provided in 2016, which will to a large extent address the issues observed in the previous bankruptcy proceedings.

Legal solutions for processes of possible programmed, guided, fast bankruptcy or similar proceedings will be considered and prepared for joint stock companies and public enterprises of general interest, such as utility services, whose public function performance has to be ensured even in possible bankruptcy proceedings, as well as considerably accelerated and clearly managed proceedings.

Given that the draft version of the Law on Bankruptcy was adopted in 2015 and that it underwent the public debate, we expect its adoption in the first quarter of 2016.

The fiscal effects relate to reduction of costs of conducting the bankruptcy proceedings and the resolution procedure and, at the same time, provide better control and collection of claims between the business entities, thus increasing the liquidity of the economy.

4.2.5. Technological absorption and innovation

With regards to gross expenditures on R&D in BiH, most of the financing is done at the entity level whereas national level of financing is conducted with very limited resources (Gross expenditures on R&D in BiH amount to 0.33% in 2012).

Governance of RDI policies in BiH is not sufficiently developed and coordinated. Although Research Councils are formed both at the BiH level and the entity levels, they do not include all relevant ministries or actors from private sector (only in Republika Srpska the council involves private sector actors).

Although collaboration between the academic community and the private sector in BiH is very limited, there have been some efforts to strengthen this collaboration, especially through institutional support. There are no offices for technology transfer at universities in BiH but there is strong interest from the entity Governments to promote their establishment in the future. The Innovation Centre Banja Luka already hosts a number of start-ups. A new Technology Business Park was also recently opened near Banja Luka. In 2014, the Centre for Innovation and Entrepreneurship was established in Istocno Sarajevo. The greatest challenge remains the lack of financing for joint business – academia projects or RDI activities in the private sector.

Therefore, the BiH ERP proposes no structural reform measures in the area of technological absorption and innovation (low level of financing for research, development and innovation limits the possibilities to conduct reforms in this area).

4.2.6. Trade integration

In 2014, the total trade of goods and services in BiH amounted to EUR 12.1 million, which is 7.6% increase relative to the same period in 2011. The trade deficit stands at 22% of GDP and has slightly decreased relative to 2011. The *Doing Business* indicators on export and import show that in Bosnia and Herzegovina both exports and imports have increased in the period 2009-2015. The number of documents needed has stayed at the same level since 2009 while the time taken for imports and exports has significantly reduced.

It is identified that the border infrastructure system is not sufficiently developed, that the export procedures are complex and that the border control is not well coordinated. Inadequate sanitary/phytosanitary regulations and technical barriers to trade resulted in numerous non-tariff barriers in BiH. A comprehensive and strategic approach in the field of EU food safety and sanitary and phytosanitary standards is necessary for BiH to receive accreditation for exporting agricultural and food products to the EU.

Due to unresolved trade issues with the European Union, the process of accession to the World Trade Organisation has not been finalised.

Institutions of Bosnia and Herzegovina are responsible to propose the reforms in this area in order to improve the foreign trade policies and the system of quality infrastructure in line with the EU legislation and practices and a more effective regulation of the market for the purpose of ensuring the free movement of goods and services and fair competition.

4.2.6.1. Further trade liberalisation, reduction of administrative costs and elimination of non-tariff barriers in regional and bilateral trade

This is a reform proposed by the BiH Ministry of Foreign Trade and Economic Relations.

The following are especially important for defining the priorities in this part of the Economic Reform Programme: SAA, CEFTA 2006, SEE 2020 Strategy, the Conclusions of the Summit of the Prime Ministers of the Western Balkans held in Vienna (Connectivity Agenda), the European Commission BiH 2015 Progress Report, and IPA II Instrument for pre-accession assistance. From the standpoint of these documents, Bosnia and Herzegovina has started some of the processes for increasing its international competitiveness and thereby its faster economic growth as well. Structural reforms are also envisaged by the Reform Agenda for Bosnia and Herzegovina 2015-2018. Consistent implementation of structural reform measures that remove obstacles to growth will open possibilities for new jobs, employment growth and rise in wages as a result of increased productivity.

1. Adjustment of SAA after Croatia's accession to EU

Entry into force of the Stabilisation and Association Agreement (SAA) between the European Communities and their Member States, of the one part, and Bosnia and Herzegovina, of the other part⁵⁶ on 1st June 2015, established a comprehensive contractual agreement with the European Union (EU) and its Member States, in which the rights and obligations of the Contracting Parties are clearly defined. Representatives of the European Commission on behalf of the European Union and representatives of Bosnia and Herzegovina met on 17 December 2015 in Brussels for the first Stabilisation and Association Committee Meeting. Held one week after the first meeting of the Stabilisation and Association Council between Bosnia and Herzegovina and the EU, this meeting marked the beginning of the implementation of the Stabilisation and Association Agreement (SAA) on technical level. The Committee adopted the Decision No. 1 creating seven subcommittees and a special group on public administration reform⁵⁷.

MoFTER BiH, as an institution responsible for foreign trade policy and international trade agreements BiH will conduct negotiations on the adaptation of the SAA in accordance with the principle of traditional trade within the deadlines agreed with the EU.

2. Reduction of administrative costs and elimination of non-tariff barriers in regional and bilateral trade:

Reduction of tariffs alone is not enough to realise the full potential of trade. There are non-tariff barriers that hinder the full liberalisation of trade. Elimination of non-tariff barriers is a priority for Bosnia and Herzegovina, while focusing on regional trade and trade with the EU at the same time. Reduction of trade barriers will be focused on 3 main directions: (i) to reduce the number of documents accompanying export and import; (ii) to improve the procedures for exports and imports; and (iii) to introduce risk management for agricultural products.

⁵⁶ Decision of the EU Council and Commission of 22 April 2015.

⁵⁷ DEI BIH should include the activities of forming these structures.

Concrete measures will be implemented with signing the CEFTA Additional Protocol 5 on the simplification of the customs procedures in all stages of customs clearance, electronic data exchange and mutual recognition. According to conclusions of the Summit of the Prime Ministers of the Western Balkans held in Vienna on 27 August 2015, the CEFTA Additional Protocol 5 should be signed by the Parties by mid-2016, followed by its ratification in each of the CEFTA Parties. Each CEFTA Party, including BiH, will use its budget funds for implementation of this protocol, in line with its budget planning and the funds of donors, primarily the EU. Within their development strategies, each institution is obliged to meet the acquis requirements and thereby plan costs. To finance these activities of all CEFTA Parties, the EU approved the Project (IPA) 2016-2019 in the amount of EUR 5,000,000.

3. Transparency (facilitation of trade procedures)

The CEFTA Parties established the "[Transparency pack](#)" portal comprising the four databases as follows: CEFTA Trade portal, Market access barriers database, CEFTA SPS database and TBT platform, with the objective of more efficient implementation of the CEFTA Agreement, reduction of non-tariff barriers, and to enhance transparency, as well as insight into the trade integration of each CEFTA Party, including Bosnia and Herzegovina.

The CEFTA "Transparency Pack" is expected to be upgraded in 2016 and the CEFTA Management Information System (MIS) established which will contain new data on statistics of trade in services and foreign direct investments and serve to support the started and future negotiations, facilitate management and dispute resolution and help in monitoring the implementation of the Agreement. These activities will be financed from the EU CEFTA Project Facility, with the budget of EUR 43,000.

4. Liberalisation of trade in goods and services in the CEFTA

Bosnia and Herzegovina has fully liberalised trade in goods and services with all the CEFTA Parties.

In 2014, the negotiations for the conclusion of the CEFTA Additional Protocol 4 on liberalisation of trade in services commenced, and it is expected to be signed by the end of 2016, followed by ratification in each of the CEFTA Parties in accordance with their respective procedures.

4.2.7. Employment and labour market

Unemployment in Bosnia and Herzegovina remains high (27.7% in 2015). Few improvements have been made to alleviate difficult labour market conditions. Data show that the majority of the unemployed represent long-term unemployment while a share of youth unemployment is still rising (63% in 2014 vs. 59% in 2013).

Despite active labour market policies targeting youth employment (particularly first-time job seekers) as well as long-term unemployment are in place, their implementation requires more efforts. However, low capacities of Public Employment Institute in BiH, as bearer of active employment measures, slow down the successful implementation of the above policies. In addition, the informal economy in BiH is a major issue and policies are needed to facilitate transition into formal employment.

Both BiH entities have adopted the new Laws on Labour. The new Law on Labour ("Official Gazette of the Federation of BiH", No. 62/15) entered into force on 20 August 2015 in the FBiH, changing the landscape for employers and employees in this entity. The Law on Labour was adopted in Republika Srpska too ("Official Gazette of Republika Srpska", No. 1/16) at 16th special session of the National Assembly of Republika Srpska, held on 29 December 2015. It came into force on 20 January 2016 and fully respects the proposals of the International Monetary Fund and the World Bank. Additional challenges to employment are created by insufficient consideration of the labour market needs and skills gaps in education and enrolment policies. Public expenditures on education are somewhat below regional average (3.5% of GDP) but a lack of coordination between different levels of government leads to large inefficiencies in implementation of these funds. National Qualifications Framework is yet to be finalised, respecting the Constitutional structure of BiH, whereas the Action Plan for the Implementation of the Baseline Qualifications Framework was adopted in October 2015.

Improving social dialogue, modernising labour, health and security laws as well as harmonising legislation between entities represent the key recommendations from the EC 2015 Progress Report. Additional measures should be implemented to address the issue of high unemployment (particularly youth and women unemployment). With regards to education, further

efforts are needed to tackle skills gap and to create coherent legislation between the entities and cantons.

Bosnia and Herzegovina

In 2015, the same as in previous years, the labour market in BiH is characterised by a very low rate of formal and a high share of informal employment, as well as high unemployment and inactivity of working age population.

According to data of the employment institutes and services in Bosnia and Herzegovina of 31 July 2015, the number of registered unemployed persons amounts to 542,936, which is by 1.0% less than in the same month of 2014. Of the total number of job-seekers, 280,390 or 51.6% are women. The highest share in registered unemployment is accounted by persons with the third education level – skilled workers 33.9%, and workers with secondary education 27.3%. Of the total number of registered unemployment, persons with higher education (post-secondary and tertiary education) account for 9.4%. Compared with the same period of the previous year, the number of unemployed persons during the first six month of 2015 recorded a continuous decline, the same as in 2014.

According to data of the Agency for Statistics, over the first half of 2015, the number of employed persons continued the upward trend. In July 2015, the average number of employed persons in BiH amounted to 714,003 and increased by 1.6% relative to the same month of 2014. Increased employment has contributed to reduction of the unemployment rate which stood at 43.2% in July and shrank by 0.7 percentage points compared to July 2014.

According to the 2015 Labour Force Survey⁵⁸, the BiH labour force (economically active population) comprised 1,137,000 persons whereas the number of inactive population stood at 1,443,000 persons. Within the labour force, there were 822,000 employed persons and 315,000 unemployed. The Survey unemployment rate is significantly lower than the registered one and in 2015 stood at 27.7% at the level of BiH, which is by 0.2% higher compared to 2014.

According to this Survey, gender structure of unemployment is the following: 56.9% men and 43.1% women.

The education structure of unemployment shows that the highest share of 72.1% is accounted by persons with secondary education; 17.5% by persons with primary education or less; whereas 10.4% is accounted by persons with higher education.

In the context of new challenges expected in the labour market, the responsible institutions in Bosnia and Herzegovina are suggested to continue improving the following activities:

- Continue the process of harmonisation of legislation in the field of labour, employment, education and other regulations concerning the labour market policy so as to enable vertical and horizontal mobility of pupils, students and labour force;
- Improve the system of statistical indicators in order to better monitor labour market developments and adopt a transparent and efficient model of informing the public on the labour market trends;
- Make changes to the existing legal solutions to release the employment institutes and services from dealing with passive employment measures (health insurance, payment of cash benefits, etc.) and streamline their activities to implementation of active employment measures (re-training, additional training, upgrading skills);
- Enable tripartite representation of the social partners in the steering committees of the employment institutes, cantonal employment agencies and the fund for employment of disabled persons, at the government levels where this has not been done yet;
- Align curricula and quality of teaching with the needs of employers, as completed pupils and students lack sufficient knowledge, skills and competencies;
- Improve the lifelong learning system by adopting legislation at all government levels where this has not been done yet.

⁵⁸ Source: Agency for Statistics BiH, Labour Force Survey

4.2.7.1. Providing the conditions for the employment growth

This is a reform proposed by both the Federation BiH and Republika Srpska.

Federation of BiH

Long-term perspectives of economic growth in the Federation BiH are hindered by the existing imbalance in the labour market.

According to the World Bank estimates, the employment rates in BiH are low – and the unemployment rates high – particularly among the poor. In the course of 2014, 28% of working age population (age group 15 – 64) was unemployed, which makes one of the highest unemployment rates in the region. We could say that the high level of inactivity is even a greater problem – namely, the share of adult population that is neither employed nor job-seeking – which is currently reaching 45.5%. Inactivity rates are considerably higher among women, youth and Roma population. As a consequence, as little as 38.9% of working age population is employed and, even among them, only a small portion has formal employment, whereas the even lesser percentage has a formal employment in private sector.

Among the unemployed, 84.7% was searching for a job for over a year, which indicates to structural problems in the labour market, while the large share of job-seekers do not have the appropriate qualifications for the jobs offered by employers. As much as 43.9 % of the unemployed could not manage to find a job for over 5 years. Public employment services are not able to efficiently respond to these challenges: because they perform administrative tasks that do not make the essence of their job pertaining to registration of unemployed citizens and facilitating access to social benefits (primarily free health insurance). These services are not able to adequately provide services of mediation in employment or re-training and motivating those who need it.

Problems in employment that BiH is faced with are not solely the result of low economic growth, but also weak business environment, which is additionally hampered by restrictive labour regulations, high labour taxation and poorly harmonised system of social benefits.

Since only 28% of adult population is in formal employment, they bear a significant burden. This creates problems not only for the employed but for employers as well, since the wage bill occupies two thirds of the total value of the company's volume of activities.

The Government of FBiH has embarked on addressing some of these issues and developing a long-term programme of policy reforms. Creating a more flexible labour market and reducing the burden of the labour taxation are among the key priorities of the Government Reform Agenda. The new Law on Labour was adopted in FBiH which provides more flexibility for employers in terms of hiring and firing practices and equally secures protection for workers aligned with the European standards. Adoption of new regulations in the field of labour legislation is also a recommendation of the Economic Dialogue held on 5-6 May 2015 in Brussels.

In order to make progress towards sustainable growth, the Federation BiH has to utilise the significant potential of its labour force as its strategic advantage.

Measures:

1. *Reducing the contribution rates* so as to reduce the labour costs and attract investors, which would eventually lead to higher employment in formal sector. The implementation of this measure is certainly in correlation with securing additional funds for extra-budgetary funds.

The Government of FBiH is planning to include benefits other than wages (meal, transport, bonuses) in a tax base while reducing the contribution rates in order to achieve a neutral fiscal effect, i.e. fiscal sustainability of extra-budgetary funds, which implies the amendments to the Law on Contributions and the Law on the Income Tax.

The planned measure will be implemented in 2016, and it is in line with the Action Plan for the Implementation of the Reform Agenda.

2. *Creating conditions for introduction of the support scheme for first time job-seekers.*

In the course of 2015, the Government of FBiH has undertaken the activity of preparing the Decree on Encouraging the First Employment which, in addition to fiscal impact, will also have a

significant influence on the first time employment of youth (estimated to around 10,000 of newly employed). Furthermore, this measure will also positively reflect on incentives to SMEs within the strategic priority – Business Environment.

This Decree plans that the employer hiring the first-time unemployed person based on the employment contract is entitled to subsidy to 100% of calculated contributions on the base of the lowest salary, including the income tax and the amount for co-financing of the net salary in the amount of 100% of the lowest wage in the Federation BiH.

An unemployed person is a person of age 15 – 30 while the right to subsidy is granted only to employers other than in the area of trade, catering and games of chance.

During the period of using the subsidy and after expiration of the double period from the date of the employment for which he was subsidised, the employer using the subsidy cannot reduce the number of employees relative to the number at the date 31 March 2015, increased by the number of newly employed.

A person employing her/himself to the period of 12 months is entitled to reimbursement of costs in the amount corresponding to the total amount of contributions on the lowest salary and the amount for co-financing the net salary in the amount of 100% of the lowest net wage in FBiH with the included income tax.

The procedure for awarding the subsidies shall be initiated on the basis of Public call published by the Employment Institute.

Supervision over the use of subsidies shall be performed by the Employment Institute in cooperation with the Tax Administration and thereby report to the Federal Ministry of Development, Entrepreneurship and Craft.

The Decree also specifies in detail the obligations of the employer to return the subsidy in case the prescribed conditions are not fulfilled.

Budget revision for 2015 planned the funds in the amount of KM 20 million with the implementation deadline in 2015.

The amount of KM 50 million is planned for 2016.

2016				2017				2018			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
X	X	X	X	X	X	X	X	X	X	X	X

Republika Srpska

The analysis of the situation in the labour market and the area of employment points to the insufficient market flexibility and lack of correlation between the level of wages and work performance. At the same time, high negative incentives for employment do not motivate people to work, which creates particular problems to extra budgetary funds and encourages informal employment. All of the aforementioned puts additional burden on enterprises, preventing higher labour turnover, which would enable greater employment and more courageous job creation.

- **In this regard, the key measure of the Government of Republika Srpska in the labour market area in 2016 is the new labour legislation and support to employment in the real sector.**

The new Law on Labour, which was adopted at the end of 2015 and came into effect on 20 February 2016, will enable greater flexibility in the labour market, a better correlation between the level of wages and work performance, reduce negative incentives for employment, provide for better protection of the rights of workers and reduce informal employment, and thereby significantly contribute to improving the position of both the workers and the enterprises. After the adoption of the new Law on Labour, the amending of other legal solutions pertaining to the labour and employment will be initiated with a view to harmonise them with the new Law on Labour (the Law on Amendments to the Law on Mediation in Employment and Rights during Unemployment; the Law on Amendments

to the Law on Records in the Field of Labour and Health Insurance) as well as the conclusion of a new General Collective Agreement.

Support to employment in the real sector will be defined by the Strategy for Employment and other documents in the field of employment with the priority given to categories of the families of fallen soldiers and the best students of public universities. In the public sector, the mandatory multi-annual planning of human resources will be introduced, which will include plans for regular and early retirement, tackling the redundancies and a controlled, reduced recruitment of new persons, respecting the priorities defined in the above paragraph. Also, redefining the role of the Employment Institute of Republika Srpska, in terms of strengthening the function of mediation in employment and implementation of programmes and measures of active employment policy is an important activity of the Government in 2016. For the needs of employers, the availability of the lists of unemployed persons will be ensured with a view of faster and easier communication between employers on the one hand and job-seekers on the other. The Law on Employment Incentives, which will be prepared in cooperation with the Chamber of Commerce, will create measures to stimulate the employer for the number of newly employed workers in 2016 compared to the number of employees in the previous year. This Law will encompass enterprises and entrepreneurs.

When it comes to the pace of the implementation of this measure, the Law on Labour was adopted in 2015, so the by-laws will be adopted in 2016 and the harmonisation of other legal solutions with the new Law on Labour will be initiated too. At the same time, the solutions from the Law on Labour will be analysed in a view of removing the problems that occur in its implementation. The Strategy for Employment will be prepared by the end of 2016 as well as the Plan of Human Resources in the Public Sector. Redefining the role of the Employment Institute of Republika Srpska in terms of its greater openness towards employers will be implemented in 2016, while the Law on Employment Incentives will be prepared and adopted by the end of the year, which will round up the measure of support to employment in the real sector.

The fiscal effects of this measure will reflect in an increase in income tax and contributions for new employees, while the negative effect on the budget will be presented through refund of taxes or contributions, support to employment and the new Law on Employment incentives, depending of the defined solution. However, what is important is that the net effect on the budget will definitely be positive.

4.2.7.2. Education reform

This is a reform proposed by the Federation BiH.

Measures:

1. Establishing a fund for mobility of students and teachers

Mobility of students and teaching staff is the basis of the reform processes of 1999 and initiation of the Bologna initiative. Academic mobility includes higher education students and teachers who are leaving to another institution within or out of their own country to study or teach in for a limited time period.

Some of the observed obstacles for mobility, i.e. weaknesses in the previous period were the following:

- insufficient involvement in various international networks and projects;
- insufficient number of trainings abroad during and immediately after basic, master and doctoral studies;
- lack of the appropriate fund for financing/co-financing mobility of students and teachers.

Students from BiH are interested in studies abroad but the analysis show that the current mobility rate is very low. Results of the 2014 EUROSTUDENT V survey indicate that the mobility rate in the Federation BiH is 2.8% and mostly to ex-Yugoslav countries, but also that 40.3% of students from the Federation BiH plan some sort of studies abroad. Such low mobility is caused by the fact that, with regards to mobility funding, almost 80% of students finance it from their own sources, namely from support from parents, family and partners, as well as own income from employment or savings,

whereas the remaining 20% use students' scholarships or credit from the country they study in, without the possibility of getting scholarship or credit from their home country.

Mobility programmes involving students and teaching staff are mainly financed by the European Union through the programme packages, a network of governmental and non-governmental organisations, diplomatic and consular missions, as well as, to a less extent, local business organisations and multilateral exchange CEEPUS programme.

In order to improve and facilitate greater mobility it is necessary to establish an appropriate mobility fund and the funds for its effectiveness.

The relevant strategic and other documents developed in the Federation BiH, where the need for strategic overcoming of the obstacles was identified are the following:

1. *The Strategic Directions for the Development of Higher Education in the Federation BiH 2012 - 2022* – strategic objective: Promotion and support to higher education institutions – teaching process and students – Establishing the fund for mobility of students and teaching staff.

2. *The Work Programme of the Government of the Federation BiH for 2015* – one of the operational objectives is establishing the fund for mobility of students and teaching staff.

The main objective of establishing the Fund for mobility of students and teaching staff of the Federation of Bosnia and Herzegovina is support to implementation of the international academic and student mobility and exchange programmes, development and improvement in the higher education area, science and technology, and particularly support to:

- The implementation of the EU programmes, bilateral and multilateral international agreements and protocols on cooperation in the area of education, science and scientific and research work;
- Projects of internationalisation and improving the quality of education;
- Performance of students' professional practice abroad.

The required initial funds from the budget of the Federation BiH for the establishment of the Fund for mobility of students and teaching staff of the Federation BiH are estimated to the amount of KM 600,000.00. However, taking into account the circumstances and the funds allocated in the 2016 budget, the minimum allocation within transfer for education will be secured in the amount of up to KM 30,000.00.

Timetable for implementation of this measure:

2016				2017				2018				2019			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
P1, P2, P3, P4, P5, P6, P7, P8, P9				P5, P6, P7, P8, P9				P5, P6, P7, P8, P9				P5, P6, P7, P8, P9			

Milestones:

P1: Finalisation of preparatory activities and establishment of the Fund for mobility of students and teaching staff of the Federation BiH;

P2: Development of a set of criteria for support to and promotion of activities;

P3: Creation of a database and examples of previous mobility;

P4: Training of the Fund staff on the mobility programmes;

P5: Promotion of the mobility programmes and good practices;

P6: Financing/co-financing mobility of students and teachers;

P7: Support to establishment of studies in foreign languages in public higher education institutions in the Federation BiH;

P8: Support to establishment and work of commercially viable summer schools;

P9: Support to implementation of bilateral and multilateral international agreements and protocols on cooperation in the area of education, science and scientific and research work.

This reform measure is closely related to the internationalisation of higher education in the Federation BiH, which also requires the development and implementation of the National Qualification

Framework in practice in order to ensure mobility of teacher and students based on the quality of studies in the country, which would finally lead to the adapting to the European Higher Education Area. It is also necessary to work on legislation so as to facilitate greater mobility and lead to creation of university networks and achieve stronger links with the countries of the European Union through connecting with the EHEA, ERA and similar networks.

2. Career orientation development

The obstacles, namely the present identified gaps in career orientation are the following:

- Lack of an integrated system approach to career orientation at the level of the Federation of Bosnia and Herzegovina, with underdeveloped legal framework and inadequate legal solutions;
- Teaching and professional staff is not trained enough to deal with career orientation;
- Insufficient number of expert advisors/professional staff in schools and employment services to perform career orientation and guidance tasks;
- Career orientation is not recognised to the required extent as an activity in work programmes of schools, higher education institutions and employment services;
- Inadequate cooperation mechanisms between institutions in the career orientation area and lack of cooperation with employers and real sector;
- Lack of data on the length of waiting for job by occupations.

The Action Plan for the Implementation of the Strategic Directions for the Development of Career Orientation in the Federation BiH 2015-2020 contains 9 objectives with 31 measures for tackling the present constraints, including the activities, indicators, implementers of activities, and bodies responsible for monitoring of the implementation.

The labour market in Bosnia and Herzegovina is characterised by high unemployment rate, significant share of economically inactive people among the working age population, low labour mobility, extremely high unemployment among youth in the age group 15-24, significant share of persons with completed secondary education in the unemployment structure (60%), and pronounced long-term unemployment. Less than favourable situation in the labour market draws attention to education and questions the way it prepares youth for the labour market. On the other hand, there is also an issue of development and adequacy of adult education programmes so as to facilitate lifelong learning and developing knowledge, skills and competencies required to respond to the complex and variable demands of the labour market.

The relevant strategic and other documents developed in the Federation BiH, where the need for strategically designed career orientation development was identified are the following:

1. The Strategy for Strengthening the Mediation Function at Public Employment Services in the Federation BiH (2014);
2. Operational activity plan to implement the measures and recommendations contained in the Situation Analysis in the field of secondary education with the proposal of measures for harmonisation of education with the needs of the economy (2011); and
3. The Strategic Directions for the Development of Higher Education in the Federation BiH 2012 - 2022.

In addition, the Reform Agenda adopted for the period 2015-2018 set the goal in the area of the Labour market to reform the education system over the medium term period with the aim of enhancing its connection to the demands of the labour market.

The Strategic Directions for the Development of Career Orientation in the Federation BiH were adopted at the session of the Government of the FBiH on 10 December 2014, while the proposal of the Action Plan for Implementation of these strategic directions was adopted at the session held on 15 October 2015.

The Career orientation reform would achieve the strategic objectives with regards to:

1. Raising awareness of relevant stakeholders and broader public on the importance of lifelong learning and lifelong career orientation;

2. Enhancing the legal and institutional framework for development and provision of career orientation services;
3. Ensuring continuous monitoring and providing advisory services at all education levels, including the adult education; and
4. Ensuring systemically regulated professional development of teachers and professional associates in the field of career orientation.

The institutions responsible for implementation of the reform are cantonal ministries in charge of education, labour and social policy, employment services, pedagogical institutes, centres for professional education and training, schools and universities. The role of the Federal Ministry of Education and Science, the Federal Employment Institute and other institutions whose representatives took part in development of this document and the proposal of the Action Plan for its implementation is mainly related to monitoring of its implementation.

Taking into account the circumstances and the funds allocated in the 2016 budget, the minimum allocation within transfer for education will be secured in the amount of up to KM 20,000.00.

Timetable for implementation of this measure:

2016				2017				2018				2019			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
P1 and P2				P3, P4 and P5				P6 and P7				P8			

Milestones:

P1: Increased awareness of professional and broader audience on the importance of career orientation development in FBiH and promotion of good practice;

P2: Developed proposals for improving legislation, methodology and standards for provision of career orientation services;

P3: Developed career orientation models for different target groups;

P4: Developed professional development programmes for professionals implementing the career orientation programmes (teachers, professional associates in the education institutions, employment services, etc.);

P5: Created career orientation programmes for target groups at risk of social marginalisation and exclusion;

P6: Developed career information guidelines for use in secondary schools and higher education institutions during the presentation of their programmes to potential users;

P7: Relevant career orientation contents incorporated into curricula of higher education institutions education teachers and related staff;

P8: Established quality assurance mechanisms in provision of career orientation services.

It is emphasised in the Strategic Directions for the Development of Career Orientation that the established efficient career orientation system in the Federation BiH would enable achieving much higher employment rates and productivity of the working age population, economic development, and better social inclusion and cohesion.

The important role in the context of the adult career orientation is played by the development of the Qualification Framework in Bosnia and Herzegovina. Namely the Qualification Framework in BiH will facilitate classifying, comparing, developing and understanding of qualifications and their relationships and giving a clear overview of different pathways to acquiring qualifications for the needs of the labour market and society.

4.2.8. Fostering social inclusion, combating poverty and promotin equal opportunities

The crisis in 2008 followed by a slow recovery has halted the progress achieved in poverty reduction by 2007 (World Bank). The preliminary assessments of the poverty incidence in BiH from the 2011 Extended Household Budget Survey suggest that it has remained unchanged, at 14% in the period 2007-2011. The poverty reduction that has happened until 2013 was interrupted by the severe floods in

2014. The situation is especially aggravated in rural areas, which normally have a higher poverty incidence.

A high share of public spending is made up by pensions (10.2% of GDP), driven by early retirement and privileged pension schemes.

Even though, by international standards, spending on social protection in BiH is high, the social assistance targeting is still inefficient, which leads to poor protection of the most vulnerable categories of population. Furthermore, the BiH social protection system is facing the increasing share of socially excluded categories and reduction of public resources. According to the aforementioned Report, the members of the poorest quintile received only 18% of non-contributory cash benefits, while the richest quintile received about 20%. Only a small portion of the poor receive any social benefits – around 1.5% of the population, whereas 17% are at risk of poverty.

FBiH proposed a set of measures regarding social security system and the new Law on Pension Insurance being prepared in coordination with the World Bank.

The analysis of social protection in Republika Srpska clearly indicates that Republika Srpska completed the key reforms in this sector in the previous period and it has no intention to treat this area as a priority in the period 2016-2018, which is confirmed and adopted through the Reform Agenda and the Action Plan of Republika Srpska for Implementation of the Reform Agenda.

4.2.8.1. Improving the social protection system

This is a reform proposed by the Federation BiH.

According to the World Bank's estimates, the social assistance system secures benefits for a low percentage of the poor and does not provide incentives to work. The transition from a rights-based to a needs-based system may help ensure the equality of social protection. The social protection system sustainability can be achieved only by finalising the pension reform and improving the social assistance targeting. The current social policy is both unsustainable and unequal and benefits the rich almost equally as the poor: only 37% of social spending reaches the poorest 20%, which is much worse than in all other countries in the SEE region. Although BiH spends around 4% of its GDP on non-contributory social benefits (which is the highest level in the SEE region), less than 10% of social transfers is means-tested. The poorest quintile of the population receives only 17% of non-contributory cash benefits whereas the richest quintile receives 20%.

Given that the social protection systems in the Federation of BiH are largely less than effective and equitable, social protection needs to be improved and serve those who need it most, taking into account the fiscal framework too.

Measures:

1. Establishing universal basic rights and minimum social standards in the area of social protection; equalising and accessibility of basic rights in the area of protection of children and families; improving the functioning of the social protection institutions of importance for the Federation BiH; and strengthening of the system of social protection and social inclusion for children in BiH.

It is necessary to carry out a thorough reform of the framework of the social protection system through the amendments to the existing legislation in 2016. Measures planned to achieve these objectives are the adoption of:

- The Law on Basic Social Protection;
- The Law on the Protection of Families with Children;
- The Law on Foster Care;
- The Law on Social Work Activities;
- The Law on Social Services;
- Modifications of other regulations arising from the amendments of the aforementioned laws.

These reform activities will regulate this area in terms of removing the inequalities in the level of coverage and assistance provided to beneficiaries of the social assistance system.

It is possible to encounter some problems in implementation of these activities related to the failure of the cantons to support the adoption of these laws, taking into account that the competence in

the field of social policy is, under the FBiH Constitution, divided between the federal and cantonal authorities, as well as the problems related to securing the funding required for their implementation.

It is not possible to estimate the financial effects for this reform activity, since the adoption of the framework legislation is conditioned by the adoption of one of the possible funding options.

2. Setting up a single registry of non-contributory cash benefit users.

This registry is a novelty in the current legislation, which could yield significant results in the system of more efficient payment of benefits and control of users of the benefits, in order to prevent exercise of the same rights at several different levels. At the Ministerial meeting in Brussels, the European Commission gave the recommendation to speed up the adoption of laws establishing the registry.

Measures:

1. Adoption of the Law on the Single Registry of Non-Contributory Cash Benefit Users (its adoption is expected in the first quarter of 2016);
2. Adoption of by-laws and other implementing regulations (third quarter of 2016);
3. Practical implementation in a way that all non-contributory cash benefits are registered in a single database from the level of local community to the level of the Federation BiH.
4. The established registry will be a good basis for development of future policies in the social protection field.

The following effects would be achieved by establishing a single registry:

- Better targeting of cash benefits to all social protection users in the Federation of Bosnia and Herzegovina (those who need it most);
- Established better control of budgetary spending;
- Achieved significant savings in use of budget funds;
- More efficient use of budget funds allocated for social benefits (in terms of improving the quality of life of the benefit users).

The first effects of establishing a Single registry of users are planned to be achieved by the end of 2016.

Constraints in adoption and implementation of the above Law:

In this specific case, since this is an act providing for the establishment of a single electronic database on payments of all non-contributory cash benefits to individual users, an issue of dispute that occurs is related to competencies for keeping the registry and thereby supervising the implementation of the Law after its final adoption.

The implementation of this measure will not require any additional funds from the budget since there is a server for entering data, but the financial effects of the savings cannot be foreseen.

3. Tying years of service for workers

The currently ongoing preparation of the Law on taking over the financing of outstanding contributions for the pension and disability insurance for employees in companies with the majority state owned capital is expected to result in the adoption in 2016. Budget proposed for 2016 provides the funds in the amount of KM 50 million for this purpose.

Payment of outstanding contributions for PDI pertains to those insured in the FBiH kept in the records of the Federal Institute for Pension and Disability Insurance in the period 1 April 1992 – 31 December 2014, who were employed in the companies whose original capital is represented by 50% or more of the state-owned capital.

Tying years of service would enable retiring of most of these workers and thereby solve the social situation of a large number of people who lost their jobs and have no income or health insurance. According to the estimates, there are around 65,000 workers whose years of service need to be tied. Funds planned in the budget for 2016 are planned to tie years of service for around 9,000 workers, while this number in the coming years would be the following: 1,459 in 2017 and 1,643 in 2018.

This activity will be continued in the following years as well, with adequate funds allocated in the budget.

BUDGET FOR YEAR	2016	2017	2018
Amount (in KM million)	50	7.5	9.0

Republika Srpska

The analysis of social protection of Republika Srpska clearly indicates that Republika Srpska completed the key reforms in this sector in the previous period and that it has no intention to treat this area as a priority in the period 2016-2018, which is confirmed and adopted through the Reform Agenda and the Action Plan of Republika Srpska for Implementation of the Reform Agenda.

In this regard, when it comes to the analysis of situation in the field of the pension system, we can say that the pension system reforms from 2000 and 2011 tightened the conditions for exercising the right to old-age pension and had positive effects in the sense of slowing the growth of the number of beneficiaries, but still, the main indicator of the system, the ratio of the number of insured persons and the number of beneficiaries, shows a downward trend year after year, which is a consequence of continuous increase in the number of beneficiaries and the stagnation, i.e. reduction of the number of insured persons. Nevertheless, positive trends have been noted in the structure of pensions in terms that the proportion of old-age pension beneficiaries in the total number of beneficiaries is increasing as opposed to a decreasing number of disability pensioners. The positive trend is also observed in a decreasing number of recognized rights in one year. It should also be pointed to a positive trend for the system in a view that the effective age of old-age pension beneficiaries at the moment of exercising their right is gradually increasing. Having the aforementioned in mind, we can state that there are several trends that are positive for the system of pension and disability insurance, but the most important indicator of the system, i.e. ratio of the number of insured persons and the number of beneficiaries displays a negative trend and, if there are no improvements in the coming period, it will have long-term negative effects on the stability of the system. In this regard, starting as early as in 2016, it is necessary to examine the need for reform of the pension system parameters, in order to be able to timely respond and ensure its sustainability.

In order to ensure the regularity of payment of pensions, the amendments to the Law on Pension and Disability Insurance, the Law on the Budget System, the Law on Treasury and the Law on Contributions were adopted in 2015, with the main goal to introduce the Pension and Disability Fund of Republika Srpska into the treasury system starting from 1 January 2016. The essence of the change is for the revenues and expenditures relating to payment of pensions and functional operations of the Pension and Disability Fund to be fully included in the budget of Republika Srpska and thereby achieve additional security in timely provision of funds for paying pensions.

Also, according to obligations under the Reform Agenda, we are going to develop voluntary pensions schemes and, at the same time, start establishing the first voluntary pension fund in 2016.

In 2016, the Government of Republika Srpska will implement the activities that will result in improving social protection in terms that the assistance is received by the poorest and those who need it most. This way, we will improve targeting of social assistance, through better targeting of the priority groups and most vulnerable population of Republika Srpska, increased control of social benefits and reduced costs of municipal budgets and budget of Republika Srpska.

4.3. Summary of reform priorities

I Public finance management

1. Improving the financial control system (BiH, FBiH, RS)
2. Reducing the tax burden on labour (RS)
3. Combating the gray economy (RS)
4. Reforming the health system (RS)

II Infrastructure

5. Restructuring of the Railways (FBiH, RS)
6. Improving the transport infrastructure (FBiH)

7. Improving the energy infrastructure (FBiH)

III Sector developments

Agriculture

8. Developing the BiH Strategic Plan for Rural Development of BiH and the IPARD Programme (BiH)

9. Introducing financial support measures based on payments per hectare and per head of cattle (FBiH)

10. Introducing rural development measures based on the principles of EU IPARD (FBiH)

Industrial sector development

11. Process of re-industrialisation in all the areas of the processing industry (RS)

Services sector development

12. Financial sector reform (FBiH, RS)

13. Improving the tourist and catering industry (FBiH)

IV Business environment, corporate governance and reduction of the informal economy

14. Reducing business costs and shortening the procedures for issuing business licences (FBiH, RS)

15. Support to SMEs (FBiH)

16. Privatisation (FBiH)

17. Adopting and implementing the Law on Bankruptcy (RS)

V Trade integration

18. Further liberalisation of trade, reduction of administrative costs and elimination of non-tariff barriers in regional and bilateral trade (BiH)

VI Employment and labour markets

19. Providing the conditions for the employment growth (FBiH, RS)

20. Education reform (FBiH)

VII Fostering social inclusion, combating poverty and promoting equal opportunities

21. Improving the social protection system (FBiH)

Federation of BiH

From the envisaged 8 reform areas, for the purposes of preparation of the Economic Reform Programme, the Government of the Federation BiH has chosen 6 reform areas as follows: Public finance management; Infrastructure; Sector developments; Business environment; Employment and labour markets; and Fostering social inclusion.

Within these 6 reform areas in ERP we have given 14 reform priorities. Within these 14 reform priorities (Table 11 in Annex) we have given 37 measures.

Republika Srpska

Hence, analysing all the aforementioned, we can single out ten key reforms that Republika Srpska will implement or start implementing in 2016, relating to the following:

4.2.1. Public finance management (4 measures):

1. Reducing the tax burden on labour, while finding realistic and reliable sources of financing from which the lost revenue from contributions will be compensated to the extra budgetary funds;

2. Increasing the fiscal responsibility and enhancing the system of internal financial controls in public sector;

3. Combating the gray economy;

4. Reforming the health system;

4.2.2. *Infrastructure (1 measure):*

5. Restructuring of the Railways of Republika Srpska

4.2.3. *Sector developments (2 measures):*

6. Industry - Re-industrialisation in all the areas of the processing industry;

7. Financial services - Modernisation of the legal framework of the banking sector of Republika Srpska and creation of assumptions for implementation of the bank resolution procedure;

4.2.4. *Business environment, corporate governance and reduction of the informal economy (2 measures):*

8. Eliminating the barriers to business and investments (para-fiscal charges);

9. Adopting and implementing the Law on Bankruptcy;

4.2.7. *Employment and labour market (1 measure):*

10. New labour legislation and support to employment in the real sector.

5. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Federation of BiH

Budgetary implications of the Economic Reform Programme 2016-2018 are displayed in Annex – table 10.

This programme does not include all budget implications on the revenue side as there is no such information (revenues based on economic growth, competitiveness, employment etc.).

The total estimated costs of the reform priorities identified by this programme through years are the following: the expected costs for 2016 amount to KM 296 million; for 2017 they amount to KM 392 million; and for 2018 to KM 445 million. The largest share of the costs of the proposed reform priorities will be secured by borrowing, taking into account the borrowing ability of the Federation BiH.

Republika Srpska

Budgetary implications of the structural reforms are displayed in Annex – table 10. Matrix of policy commitments.

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

Overview of institutional issues and stakeholder involvement in the process of preparation of the BiH Economic Reform Programme 2016-2018 is presented in Chapter 1 of the Programme. A detailed review of institutional issues and stakeholder involvement in the Federation BiH and Republika Srpska is outlined below.

Federation of BiH

The 2016-2018 Economic Reform Programme of the Federation of Bosnia and Herzegovina has been prepared based on the following strategic documents adopted by the Government of the Federation BiH:

- Budget of the Federation of Bosnia and Herzegovina, which was adopted in a two-step decision making process in the Parliament of the Federation BiH after organising a public debate;
- Reform Agenda, adopted by all levels of government;
- Action Plan for the Implementation of the Reform Agenda and the Updated Action Plan for the Implementation of the Reform Agenda (from December 2015);
- Work programme of the Government of the Federation in the period 2015-2018, adopted at the beginning of the mandate of the newly formed Government of FBiH in 2015;.
- Individual sector strategies.

The following activities have been undertaken in order to prepare contributions from the Federation BiH for development of the BiH Economic Reform Programme:

- A round table was organised in Sarajevo (15 October 2015) in cooperation with the European Commission and OECD with the theme of developing ERP, where all relevant ministries were present (13), where the representatives of the European Commission presented the Guidance for Economic Reform Programmes.
- On 15 October 2015, the Government of FBiH accepted the Information on the activities on preparation of Economic Reform Programme with the Plan of activities and obligations of the institutions participating in the programme development.
- All the responsible line ministries submitted their written proposals of reform priorities serving for the preparation of the first draft of the Economic Reform Programme from the Federation BiH.
- OECD submitted its observations to the Draft Economic Reform Programme from the Federation BiH at a round table held on 17 November 2015.
- Draft Economic reform Programme has been presented at the meeting in the European Commission on 18 and 19 November 2015, where the EC provided its suggestions.
- In the period 21 – 23 December 2015, a workshop was organised by the European Commission where techniques for calculating the reform priority implications were presented to 12 attending civil servants.
- The final updated text of the Economic reform Programme of the Federation BiH has been prepared with the incorporated remarks of the European Commission and OECD and with proposed tables, in which the responsible line ministries took part.
- Text is published on the website of the Federal Ministry of Finance, after the adoption at the Government session, in order to organise a public debate according to the request of the European Commission.
- After the Government of the Federation BiH approved the Economic Reform Programme of the Federation BiH 2016-2018, the Programme has been submitted to the Directorate for Economic Planning for consolidation.

Republika Srpska

The BiH Directorate for Economic Planning (hereinafter: DEP), which is a coordinator in the preparation of the BiH Economic Reform Programme has requested in its note No: 01-23.1-21-21/15 dated 6th July 2015 the appointment of a coordinator on behalf of Republika Srpska in the preparation of the BiH Economic Reform Programme for 2016. Through note No: 06.01/111-100-1/15 dated 13th July 2015, the Ministry of Finance notified DEP of the appointment of a coordinator in the preparation of the BiH Economic Reform Programme for 2016, on behalf of Republika Srpska.

On 21st September 2015, the regional meeting of coordinators for the preparation of Economic Reform Programmes for 2016 was held in Paris, and it was attended by the representative of Republika Srpska (Dalibor Tomaš). Representatives of the European Commission and the OECD presented the New Guidelines, followed by recommendations regarding the main changes and key deadlines and dates, as well as the possibility of receiving technical assistance available from the OECD during the preparation of Economic Reform Programmes for 2016.

The Government of Republika Srpska has, in its 42nd session held on 1st October 2015, become acquainted with the Information of the Ministry of Finance of Republika Srpska regarding the activities of preparation of the Bosnia and Herzegovina Economic Reform Programme for the period 2016-2018, No: 06.01/152-316-3/15 dated 30th September 2015, and has reached the Conclusion, No: 04/1-012-2-2119/15, through which it charged the coordinator on behalf of Republika Srpska for the preparation of the Economic Reform Programme with preparing the Republika Srpska Economic Reform Programme for the period 2016-2018 in cooperation with other ministries and institutions of Republika Srpska, within the deadlines and using the methodology requested by the European Commission, and delivering it to the Government of Republika Srpska for consideration and adoption, before it is submitted to the BiH Directorate for Economic Planning to be put together.

Also, through the same Conclusion, the Government of Republika Srpska obligated the line ministries to which reform areas in accordance with the new Guidelines of the European Commission

refer, to each name one representative (in the same rank as assistant minister), until 2nd October 2015 at the latest, who will participate in the preparation of the Republika Srpska Economic Reform Programme for the period 2016-2018. In relation to that, for the process of preparation of the Republika Srpska Economic Reform Programme for the period 2016-2018, the Team of Republika Srpska was formed, consisting of representatives of: the Ministry of Agriculture, Forestry and Water Management; Ministry of Industry, Energy and Mining; Ministry of Transport and Communications; Ministry of Labour and Veterans; Ministry of Health and Social Welfare; Ministry of Economic Relations and Regional Cooperation; Ministry of Finance and Ministry of Justice. Apart from that, all other ministries in the Government of Republika Srpska were also instructed to be at the disposal of the Team of Republika Srpska.

On 27th November 2015, the Working Version of the Republika Srpska Economic Reform Programme for the period 2016-2018 was prepared and delivered to representatives of the European Commission and the OECD, who provided very useful comments and suggestions aimed at better defining the reform measures of Republika Srpska.

In parallel with the preparation of the Republika Srpska Economic Reform Programme, the Government of Republika Srpska has started the preparation of the Economic Policy of Republika Srpska for 2016, which essentially includes all reforms defined Republika Srpska Economic Reform Programme for the period 2016-2018, which means that the same policies have been included in both documents and we have jointly entered the consultation process with all partners of the Government of Republika Srpska.

In relation to that, the Government of Republika Srpska has, in its 8th special and 25th working and consulting session, considered the Working versions of the Economic Policy and Economic Reform Programme and adopted the text which has been delivered to all partners. Apart from that, a letter was sent to all partners to deliver their written comments to the policies of the Government, and after that and on 7th December 2015, a public discussion was held to which all partners of the Government were invited.

Policies of the Government of Republika Srpska were also discussed at the 34th regular session of the Economic-Social Council of Republika Srpska, which was held on 9th December 2015, and with specific comments and suggestions of its social partners, the Government received unanimous support. All acceptable written and oral suggestions and objections have been incorporated into the Draft Economic Policy of Republika Srpska, which was adopted at the 15th special session of the National Assembly of Republika Srpska, held from 21st to 23rd December 2015, and, consequently, into the Republika Srpska Economic Reform Programme for the period 2016-2018.

After the Economic Policy of Republika Srpska for 2016 was adopted at the session of the National Assembly of Republika Srpska, and after working with a TAIEX expert in estimating the fiscal effects of reform measures (from 21st to 23rd December 2015 the expert was in Banja Luka), the Team of Republika Srpska prepared the Republika Srpska Economic Reform Programme for the period 2016-2018 and submitted it to the Government of Republika Srpska for consideration and adoption.

The Government of Republika Srpska has, in its session held on 30th December 2015, considered and adopted the Republika Srpska Economic Reform Programme for the period 2016-2018. In its conclusion it charged the Ministry of Finance of Republika Srpska with submitting the Republika Srpska Economic Reform programme for the period 2016-2018 to the BiH Directorate for Economic Planning with the aim of incorporating it into the BiH Economic Reform programme for the period 2016-2018.

The Government of Republika Srpska also requests that the BiH Directorate for Economic Planning deliver the unified BiH Economic Reform Programme for the period 2016-2018 to the Ministry of Finance of Republika Srpska, before submitting it to the BiH Council of Ministers for adoption, and charges the Ministry of Finance of Republika Srpska to inform the Government about the BiH Economic Reform Programme for the period 2016-2018 immediately following its receipt from the BiH Directorate for Economic Planning.

ANNEX 1.

Tables to be contained in the Economic reform programme and their updates

Table 1a: Macroeconomic prospects

	ESA Code	2014	2014	2015	2016	2017	2018
		Bn €	Rate of change				
1. Real GDP at market prices	B1*g	14,3327	0,3	2,5	3,0	3,2	4,0
2. Current GDP at market prices	B1*g	14,413	0,0	3,0	4,3	5,2	5,8
Components of real GDP							
3. Private consumption expenditure	P3	11,642	2,4	1,5	1,9	2,4	2,5
4. Government consumption expenditure	P3	3,057	0,9	1,0	1,2	1,0	1,0
5. Gross fixed capital formation	P51	2,422	10,1	6,4	9,2	8,9	9,7
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0,029	-348,8	:	:	:	:
7. Exports of goods and services	P6	4,654	4,2	4,4	4,0	4,2	4,2
8. Imports of goods and services	P7	7,472	8,1	2,5	3,3	3,4	3,2
Contribution to real GDP growth							
9. Final domestic demand		17,1	3,8	2,6	3,5	4,0	4,2
10. Change in inventories and net acquisition of valuables	P52+P53	0,0	-0,7	-0,2	0,0	-0,3	0,1
11. External balance of goods/services	B11	-2,8	-2,8	0,1	-0,5	-0,5	-0,3

Table 1b: Price developments

Percentage changes. annual averages	ESA Code	2014	2015	2016	2017	2018
1. GDP deflator	% y-o-y	-0,3	0,5	1,3	1,9	1,7
2. Private consumption deflator	% y-o-y	-0,5	-0,2	0,8	1,2	1,2
3. HICP ⁵⁹	% y-o-y	:	:	:	:	:
4. National CPI change	% y-o-y	-0,9	-0,8	1,0	1,2	1,5
5. Public consumption deflator	% y-o-y	0,8	0,8	0,8	2,0	2,0
6. Investment deflator	% y-o-y	-0,6	1,2	1,1	1,5	1,5
7. Export price deflator (goods & services)	% y-o-y	-1,2	-0,6	1,5	2,4	3,1
8. Import price deflator (goods & services)	% y-o-y	-0,9	-0,9	0,5	1,0	1,9

⁵⁹ BHAS does not publish HICP.

Table 1c: Labour market developments

	ESA Code	2014	2014	2015	2016	2017	2018
		Level	Level/Rate of change				
1. Population (thousands)			3.827,3	3.831,8	3.831,9	3.832,0	3.832,0
2. Population (growth rate in %)			-0,1	0,1	0,0	0,0	0,0
3. Working-age population (persons)			2.565,0	2.579,0	2.589,3	2.599,7	2.610,1
4. Participation rate			43,7	44,1	44,3	44,5	44,8
5. Employment. persons			812,0	822,0	836,0	851,9	869,7
6. Employment. hours worked			:	:	:	:	:
7. Employment (growth rate in %)			-1,2	1,2	1,7	1,9	2,1
8. Public sector employment (persons)			185,7	188,2	:	:	:
9. Public sector employment (growth in %)			1,0	1,4	:	:	:
10. Unemployment rate			27,5	27,7	27,1	26,4	25,6
11. Labour productivity. persons		34,8	1,5	1,2	1,3	1,3	1,9
12. Labour productivity. hours worked			:	:	:	:	:
13. Compensation of employees	D1	13,6	2,2	:	:	:	:

Note: Data on population number are estimates of BHAS (mid-year). Data for **working age population, employment and unemployment rates** are taken from the 2014 and 2015 Labour Force Survey. BiH Agency for Statistics does not publish data on the number of the employed per hours worked. Data on **public sector employment** are not published by the BiH Agency for Statistics. Data stated in Table 1c (line 8) is a sum of the number of employees in public administration, health and education. This piece of data includes not only employees in public schools and health (hospitals) but also the employees in private schools and health care. Hence, the given data do not fully present the number of employees in public sector (the same as in the previous years). **Growth rates of the number of employed and unemployed persons** (as well as data) in 2014 and 2015 presented in Table 1c do not match the rates/numbers given in the narrative part of ERP since the narrative part (Chapter 2) presents administrative data published by the Statistics, whereas Table 1c presents the survey data (for better comparability with other countries). **Compensations of employees** are taken from national accounts and expressed in KM billion (projections for this item are not available). Item 4 – **Participation rate** – relates to participation of workforce in working age population (survey data).

Tabela 1d: Sectoral balances

Percentages of GDP	ESA Code	2014	2015*	2016	2017	2018
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-4,0	-5,7	-2,7	:	:
<i>of which:</i>		:	:	:	:	:
- <i>Balance of goods and services</i>		-19,5	-22,2	-9,3	:	:
- <i>Balance of primary incomes and transfers</i>		14,3	14,6	6,2	:	:
- <i>Capital account</i>		1,2	1,8	0,5	:	:
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-2,1	-4,4	-1,5	:	:
3. Net lending/borrowing of general government		-1,9	-1,4	-1,2	-0,1	1,1
4. Statistical discrepancy		:	:	:	:	:

* BoP for 2015 is Q1+Q2.

Tabela 1e: GDP. investment and gross value added

	ESA Code	2014	2015	2016	2017	2018
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	28,2	29,1	30,3	31,9	33,7
Investment ratio (% of GDP)		18,3	19,1	20,2	21,3	22,4
Growth of Gross Value Added. percentage changes at constant prices						
1. Agriculture		-12,1	:	:	:	:
2. Industry (excluding construction)		0,4	:	:	:	:
3. Construction		7,4	:	:	:	:
4. Services		2,4	:	:	:	:

Tabela 1f: External sector developments

		2014	2015	2016	2017	2018
1. Current account balance (% of GDP)	% of GDP	-7,6	-3,2	:	:	:
2. Export of goods	Bn EUR	3,4	1,7	:	:	:
3. Import of goods	Bn EUR	7,5	3,5	:	:	:
4. Trade balance	Bn EUR	-4,1	-1,8	:	:	:
5. Export of services	Bn EUR	1,3	0,6	:	:	:
6. Import of services	Bn EUR	0,4	0,2	:	:	:
7. Service balance	Bn EUR	0,9	0,4	:	:	:
8. Net interest payments from abroad	Bn EUR	-0,1	0,0	:	:	:
9. Other net factor income from abroad	Bn EUR	0,2	0,1	:	:	:
10. Current transfers	Bn EUR	2,0	0,9	:	:	:
11. <i>Of which</i> from EU	Bn EUR	:	:	:	:	:
12. Current account balance	Bn EUR	-1,1	-0,5	:	:	:
13. Capital and financial account	Bn EUR	-0,4	-0,3	:	:	:
14. Foreign direct investment	Bn EUR	-0,4	-0,4	:	:	:
15. Foreign reserves	Bn EUR	4,0	4,4	:	:	:
16. Foreign debt	Bn EUR	8,8	8,8	:	:	:
17. <i>Of which</i> : public	Bn EUR	4,2	4,3	:	:	:
18. <i>O/w</i> : foreign currency denominated	Bn EUR	4,2	4,3	:	:	:
19. <i>O/w</i> : repayments due	Bn EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1,956	1,956	1,956	1,956	1,956
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	1,956	1,956	1,956	1,956	1,956
22. Net foreign saving	% of GDP					
23. Domestic private saving	% of GDP					
24. Domestic private investment	% of GDP					
25. Domestic public saving	% of GDP					
26. Domestic public investment	% of GDP					

Source: CBBH

Tabela 1g: Sustainability indicators

	Dimension	2011	2012	2013	2014	2015
1. Current Account Balance	% of GDP	-9,2	-8,4	-5,2	-7,6	-3,2
2. Net International Investment Position	% of GDP	-59,7	-62,2	-58,9	-58,4	:
3. Export market shares	%. yoy	:	:	:	:	:
4. Real Effective Exchange Rate ⁶⁰	%. yoy	0,4	-0,8	-1,8	0,2	:
5. Nominal Unit Labour Costs	%. yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	:	:	:	:	:
7. Private sector debt	% of GDP	:	:	:	:	:
8. General Government Debt	% of GDP	:	:	:	:	:

Source: CBBH

⁶⁰ Base year is 2010 = 100. Shorter methodology notes for the calculation of NEER and REER are as follows: in the calculation of NEER, the weight is calculated based on the total trade for three consecutive years (starting from 2005, 2006 and 2007 – the weight is calculated on the sum of total trade from 2005 to 2007, for 2008, 2009 and 2010, the sum of the total trade in 2008 – 2010, and for 2011, 2012 and 2013, using the values 2011 – 2013, while for 2014 and beyond, until we have a period of three consecutive years, the weight used is from the period 2011 to 2013). Also, by the applied methodology, exchange rate is expressed as the number of units of foreign currency per one KM. To calculate REER, in addition to NEER, Consumer Price Index – CPI is also used. CPI index is set inversely and calculated on the basis of twenty trading partners (Austria, Czech Republic, France, Germany, Hungary, Italy, Lithuania, the Netherlands, Poland, Slovenia, Croatia, China, United Kingdom, FYR Macedonia, Romania, Russian Federation, USA, Serbia and Montenegro – since 2007 only Serbia is observed, Switzerland and Turkey).

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

	ESA Code	2014	2014	2015	2016	2017	2018
		Bn NCU	% BDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-530,1	-1,9	-1,4	-1,2	-0,1	1,1
2. Central government	S1311	-469,0	-1,7	-0,7	-0,9	0,0	1,1
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	13,5	0,0	-0,2	-0,1	0,0	0,0
5. Social security funds	S1314	-74,6	-0,3	-0,5	-0,2	-0,1	0,0
General government (S13)							
6. Total revenue	TR	11.611,7	41,2	41,3	39,7	38,2	36,4
7. Total expenditure	TE	12.141,8	43,1	42,6	40,9	38,2	35,3
8. Net borrowing/lending	EDP.B9	-530,1	-1,9	-1,4	-1,2	-0,1	1,1
9. Interest expenditure	EDP.D4 1 incl.. FISIM	210,0	0,7	0,9	1,0	1,0	0,9
10. Primary balance		-320,1	-1,1	-0,4	-0,2	0,9	2,0
11. One-off and other temporary measures		-166,5	-0,6	0,1	0,2	0,0	0,0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		5.934,4	21,0	20,9	20,7	20,2	19,8
12a. Taxes on production and imports	D2	5.006,7	17,8	17,8	17,7	17,4	17,0
12b. Current taxes on income and wealth	D5	855,4	3,0	3,0	2,8	2,8	2,7
12c. Capital taxes	D91	72,3	0,3	0,2	0,1	0,1	0,1
13. Social contributions	D61	4.249,6	15,1	15,1	14,3	13,5	13,0
14. Property income	D4	91,1	0,3	0,4	0,3	0,3	0,3
15. Other (15 = 16-(12+13+14))		1.336,6	4,7	5,0	4,4	4,2	3,4
16 = 6. Total revenue	TR	11.611,7	41,2	41,3	39,7	38,2	36,4
p.m.: Tax burden (D2+D5+D61+D91-D995)		10.184,0	36,1	35,9	35,0	33,7	32,8
Selected components of expenditures							
17. Collective consumption	P32	3.722,1	13,2	13,3	12,6	11,8	11,3
18. Total social transfers	D62 + D63	4.701,8	16,7	16,5	15,8	14,9	14,2
18a. Social transfers in kind	P31=D6 3	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	4.701,8	16,7	16,5	15,8	14,9	14,2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D4 1 + FISIM	210,0	0,7	0,9	1,0	1,0	0,9
20. Subsidies	D3	362,3	1,3	1,5	1,2	1,1	1,1
21. Gross fixed capital formation	P51	1.083,0	3,8	3,2	3,1	2,9	2,2
22. Other (21 = 22-(16+17+18+19+20))		2.062,6	7,3	7,3	7,2	6,5	5,6
23. Total expenditures	TE	12.141,8	43,1	42,6	40,9	38,2	35,3
p.m. compensation of employees	D1	3.379,2	12,0	11,9	11,6	11,0	10,5

Tabela 2a: General government budgetary prospects – Institutions of BiH

	ESA Code	2014	2014	2015	2016	2017	2018
		Bn NCU	% BDP				
Net lending (B9) by sub-sectors							
1. General government	S13	66,900	0,2	-0,1	-0,2	-0,2	-0,2
2. Central government	S1311	66,900	0,2	-0,1	-0,2	-0,2	-0,2
3. State government	S1312	0,000	0,0	0,0	0,0	0,0	0,0
4. Local government	S1313	0,000	0,0	0,0	0,0	0,0	0,0
5. Social security funds	S1314	0,000	0,0	0,0	0,0	0,0	0,0
General government (S13)							
6. Total revenue	TR	971,600	3,4	3,1	3,0	2,8	2,6
7. Total expenditure	TE	904,700	3,2	3,3	3,1	3,0	2,8
8. Net borrowing/lending	EDP.B9	66,900	0,2	-0,1	-0,2	-0,2	-0,2
9. Interest expenditure	EDP.D41 incl.. FISIM	0,500	0,0	0,0	0,0	0,0	0,0
10. Primary balance		67,400	0,2	-0,1	-0,2	-0,2	-0,2
11. One-off and other temporary measures		12,200	0,0	0,0	0,0	0,0	0,0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		750,000	2,7	2,6	2,5	2,4	2,2
12a. Taxes on production and imports	D2	750,000	2,7	2,6	2,5	2,4	2,2
12b. Current taxes on income and wealth	D5	0,000	0,0	0,0	0,0	0,0	0,0
12c. Capital taxes	D91	0,000	0,0	0,0	0,0	0,0	0,0
13. Social contributions	D61	0,000	0,0	0,0	0,0	0,0	0,0
14. Property income	D4	0,000	0,0	0,0	0,0	0,0	0,0
15. Other (15 = 16-(12+13+14))		221,600	0,8	0,5	0,5	0,4	0,4
16 = 6. Total revenue	TR	971,600	3,4	3,1	3,0	2,8	2,6
p.m.: Tax burden (D2+D5+D61+D91-D995)		750,000	2,7	2,6	2,5	2,4	2,2
Selected components of expenditures							
17. Collective consumption	P32	819,500	2,9	2,9	2,8	2,7	2,6
18. Total social transfers	D62 + D63	3,200	0,0	0,0	0,0	0,0	0,0
18a. Social transfers in kind	P31=D63	0,000	0,0	0,0	0,0	0,0	0,0
18b. Social transfers other than in kind	D62	3,200	0,0	0,0	0,0	0,0	0,0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0,500	0,0	0,0	0,0	0,0	0,0
20. Subsidies	D3	0,000	0,0	0,0	0,0	0,0	0,0
21. Gross fixed capital formation	P51	63,000	0,2	0,2	0,2	0,2	0,1
22. Other (21 = 22-(16+17+18+19+20))		18,500	0,1	0,1	0,1	0,1	0,1
23. Total expenditures	TE	904,700	3,2	3,3	3,1	3,0	2,8
p.m. compensation of employees	D1	627,9	2,2	2,2	2,2	2,1	2,0

Tabela 2a: General government budgetary prospects – Federation BiH

	ESA Code	2014	2014	2015	2016	2017	2018
		Bn NCU	% BDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-296,000	-1,0	-0,8	-0,5	0,4	0,8
2. Central government	S1311	-282,500	-1,0	-0,4	-0,2	0,6	1,0
3. State government	S1312	0,000	0,0	0,0	0,0	0,0	0,0
4. Local government	S1313	17,400	0,1	-0,3	-0,2	-0,1	-0,1
5. Social security funds	S1314	-30,900	-0,1	-0,1	-0,1	-0,1	-0,1
General government (S13)							
6. Total revenue	TR	6.801,500	24,1	24,3	23,6	22,7	21,5
7. Total expenditure	TE	7.097,500	25,2	25,2	24,1	22,3	20,7
8. Net borrowing/lending	EDP.B9	-296,000	-1,0	-0,8	-0,5	0,4	0,8
9. Interest expenditure	EDP.D41 incl.. FISIM	116,600	0,4	0,5	0,6	0,5	0,5
10. Primary balance		-179,400	-0,6	-0,3	0,1	0,9	1,3
11. One-off and other temporary measures		0,000	0,0	0,0	0,0	0,0	0,0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		3.257,100	11,6	11,4	11,4	11,2	11,0
12a. Taxes on production and imports	D2	2.751,100	9,8	9,8	9,9	9,8	9,6
12b. Current taxes on income and wealth	D5	472,000	1,7	1,6	1,5	1,5	1,4
12c. Capital taxes	D91	34,000	0,1	0,0	0,0	0,0	0,0
13. Social contributions	D61	2.820,100	10,0	9,9	9,5	8,8	8,5
14. Property income	D4	49,700	0,2	0,2	0,2	0,2	0,2
15. Other (15 = 16-(12+13+14))		674,600	2,4	2,8	2,6	2,5	1,8
16 = 6. Total revenue	TR	6.801,500	24,1	24,3	23,6	22,7	21,5
p.m.: Tax burden (D2+D5+D61+D91-D995)		6.077,200	21,6	21,3	20,9	20,1	19,5
Selected components of expenditures							
17. Collective consumption	P32	1.543,100	5,5	5,6	5,3	4,9	4,7
18. Total social transfers	D62 + D63	2.622,000	9,3	9,3	8,9	8,3	7,9
18a. Social transfers in kind	P31=D63	0,000	0,0	0,0	0,0	0,0	0,0
18b. Social transfers other than in kind	D62	2.622,000	9,3	9,3	8,9	8,3	7,9
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	116,600	0,4	0,5	0,6	0,5	0,5
20. Subsidies	D3	228,700	0,8	1,0	0,8	0,8	0,7
21. Gross fixed capital formation	P51	730,400	2,6	2,3	2,0	1,8	1,7
22. Other (21 = 22-(16+17+18+19+20))		1.856,700	6,6	6,5	6,6	5,9	5,1
23. Total expenditures	TE	7.097,500	25,2	25,2	24,1	22,3	20,7
p.m. compensation of employees	D1	1745,9	6,2	6,2	6,0	5,7	5,4

Tabela 2a: General government budgetary prospects – Republika Srpska

	ESA Code	2014	2014	2015	2016	2017	2018
		Bn NCU	% BDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-284,656	-1,0	-0,4	-0,5	-0,2	0,5
2. Central government	S1311	-236,964	-0,8	-0,2	-0,6	-0,4	0,4
3. State government	S1312	0,000	0,0	0,0	0,0	0,0	0,0
4. Local government	S1313	-3,885	0,0	0,1	0,1	0,1	0,1
5. Social security funds	S1314	-43,808	-0,2	-0,4	-0,1	0,0	0,0
General government (S13)							
6. Total revenue	TR	3.651,985	13,0	13,1	12,5	12,1	11,8
7. Total expenditure	TE	3.936,642	14,0	13,5	13,0	12,4	11,3
8. Net borrowing/lending	EDP.B 9	-284,656	-1,0	-0,4	-0,5	-0,2	0,5
9. Interest expenditure	EDP.D 41 incl.. FISIM	92,423	0,3	0,4	0,4	0,4	0,4
10. Primary balance		-192,233	-0,7	0,0	-0,1	0,1	0,9
11. One-off and other temporary measures		0,000	0,0	0,0	0,0	0,0	0,0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1.755,684	6,2	6,3	6,2	6,1	6,0
12a. Taxes on production and imports	D2	1.356,326	4,8	4,8	4,8	4,8	4,7
12b. Current taxes on income and wealth	D5	362,510	1,3	1,3	1,3	1,2	1,2
12c. Capital taxes	D91	36,849	0,1	0,1	0,1	0,1	0,1
13. Social contributions	D61	1.429,504	5,1	5,2	4,8	4,7	4,5
14. Property income	D4	41,409	0,1	0,1	0,1	0,1	0,1
15. Other (15 = 16-(12+13+14))		425,388	1,5	1,5	1,3	1,2	1,2
16 = 6. Total revenue	TR	3.651,985	13,0	13,1	12,5	12,1	11,8
p.m.: Tax burden (D2+D5+D61+D91-D995)		3.185,189	11,3	11,5	11,1	10,8	10,5
Selected components of expenditures							
17. Collective consumption	P32	1.253,636	4,4	4,4	4,1	3,9	3,7
18. Total social transfers	D62 + D63	2.033,590	7,2	7,0	6,7	6,4	6,1
18a. Social transfers in kind	P31=D 63	0,000	0,0	0,0	0,0	0,0	0,0
18b. Social transfers other than in kind	D62	2.033,590	7,2	7,0	6,7	6,4	6,1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D 41 + FISIM	92,423	0,3	0,4	0,4	0,4	0,4
20. Subsidies	D3	110,068	0,4	0,4	0,4	0,3	0,3
21. Gross fixed capital formation	P51	283,730	1,0	0,7	0,8	0,8	0,4
22. Other (21 = 22-(16+17+18+19+20))		163,196	0,6	0,6	0,5	0,5	0,4
23. Total expenditures	TE	3.936,642	14,0	13,5	13,0	12,3	11,3
p.m. compensation of employees	D1	940,107	3,3	3,3	3,2	3,0	2,9

Tabela 2a: General government budgetary prospects – Brčko District

	ESA Code	2014	2014	2015	2016	2017	2018
		Bn NCU	% BDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-16,400	-0,1	0,0	0,0	0,0	0,0
2. Central government	S1311	-16,400	-0,1	0,0	0,0	0,0	0,0
3. State government	S1312	0,000	0,0	0,0	0,0	0,0	0,0
4. Local government	S1313	0,000	0,0	0,0	0,0	0,0	0,0
5. Social security funds	S1314	0,000	0,0	0,0	0,0	0,0	0,0
General government (S13)							
6. Total revenue	TR	186,600	0,7	0,7	0,6	0,6	0,6
7. Total expenditure	TE	203,000	0,7	0,7	0,6	0,6	0,6
8. Net borrowing/lending	EDP.B9	-16,400	-0,1	0,0	0,0	0,0	0,0
9. Interest expenditure	EDP.D41 incl. FISIM	0,500	0,0	0,0	0,0	0,0	0,0
10. Primary balance		-15,900	-0,1	0,0	0,0	0,0	0,0
11. One-off and other temporary measures		0,000	0,0	0,0	0,0	0,0	0,0
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		171,700	0,6	0,6	0,6	0,5	0,5
12a. Taxes on production and imports	D2	149,300	0,5	0,5	0,5	0,5	0,5
12b. Current taxes on income and wealth	D5	20,900	0,1	0,1	0,1	0,1	0,1
12c. Capital taxes	D91	1,500	0,0	0,0	0,0	0,0	0,0
13. Social contributions	D61	0,000	0,0	0,0	0,0	0,0	0,0
14. Property income	D4	0,000	0,0	0,0	0,0	0,0	0,0
15. Other (15 = 16-(12+13+14))		14,900	0,1	0,1	0,1	0,1	0,0
16 = 6. Total revenue	TR	186,600	0,7	0,7	0,6	0,6	0,6
p.m.: Tax burden (D2+D5+D61+D91-D995)		171,700	0,6	0,6	0,6	0,5	0,5
Selected components of expenditures							
17. Collective consumption	P32	105,900	0,4	0,4	0,3	0,3	0,3
18. Total social transfers	D62 + D63	43,000	0,2	0,2	0,2	0,2	0,2
18a. Social transfers in kind	P31=D63	0,000	0,0	0,0	0,0	0,0	0,0
18b. Social transfers other than in kind	D62	43,000	0,2	0,2	0,2	0,2	0,2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0,500	0,0	0,0	0,0	0,0	0,0
20. Subsidies	D3	23,500	0,1	0,1	0,0	0,0	0,0
21. Gross fixed capital formation	P51	5,900	0,0	0,0	0,0	0,0	0,0
22. Other (21 = 22-(16+17+18+19+20))		24,200	0,1	0,1	0,0	0,0	0,0
23. Total expenditures	TE	203,000	0,7	0,7	0,6	0,6	0,6
p.m. compensation of employees	D1	65,3	0,2	0,2	0,2	0,2	0,2

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

	ESA Code	2014	2015	2016	2017	2018
		Bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-530,1	-402,3	-353,3	-23,5	384,9
2. Central government	S1311	-469,0	-200,4	-274,4	13,1	387,7
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	13,5	-46,7	-19,1	1,7	6,3
5. Social security funds	S1314	-74,6	-155,2	-59,8	-38,3	-9,1
General government (S13)						
6. Total revenue	TR	11611,7	11.988,4	12.039,6	12.168,4	12.295,8
7. Total expenditure	TE	12.141,8	12.390,7	12.392,9	12.191,9	11.910,9
8. Net borrowing/lending	EDP.B9	-530,1	-402,3	-353,3	-23,5	384,9
9. Interest expenditure	EDP.D41 incl. FISIM	210,0	273,7	300,1	306,4	297,8
10. Primary balance		-320,1	-128,6	-53,2	282,9	682,7
11. One-off and other temporary measures		-166,5	42,5	68,0	-6,0	-6,0
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		5934,4	6068,7	6268,5	6450,4	6683,3
12a. Taxes on production and imports	D2	5006,7	5161,4	5368,0	5534,5	5736,8
12b. Current taxes on income and wealth	D5	855,4	862,7	859,6	876,9	906,4
12c. Capital taxes	D91	72,3	44,6	40,9	39,0	40,1
13. Social contributions	D61	4249,6	4376,1	4331,1	4299,8	4372,0
14. Property income	D4	91,1	102,3	96,2	84,2	87,2
15. Other (15 = 16-(12+13+14))		1336,6	1441,3	1343,8	1334,0	1153,3
16 = 6. Total revenue	TR	11611,7	11988,4	12039,6	12168,4	12295,8
p.m.: Tax burden (D2+D5+D61+D91-D995)		10.184,0	10.444,8	10.599,6	10.750,2	11.055,3
Selected components of expenditures						
17. Collective consumption	P32	3722,1	3854,7	3815,2	3776,8	3806,1
18. Total social transfers	D62 + D63	4701,8	4783,2	4798,7	4756,1	4793,1
18a. Social transfers in kind	P31=D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	4701,8	4783,2	4798,7	4756,1	4793,1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	210,0	273,7	300,1	306,4	297,8
20. Subsidies	D3	362,3	428,8	358,3	355,3	359,5
21. Gross fixed capital formation	P51	1083,0	940,4	925,0	912,2	754,8
22. Other (21 = 22-(16+17+18+19+20))		2062,6	2109,9	2195,6	2085,1	1899,6
23. Total expenditures	TE	12141,8	12390,7	12392,9	12191,9	11910,9
p.m. compensation of employees	D1	3379,2	3468,6	3506,1	3522,9	3540,6

Tabela 2b: General government budgetary prospects – Institutions of BiH

	ESA Code	2014	2015	2016	2017	2018
		Bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	66,9	-41,2	-49,0	-69,2	-65,3
2. Central government	S1311	66,9	-41,2	-49,0	-69,2	-65,3
3. State government	S1312					
4. Local government	S1313					
5. Social security funds	S1314					
General government (S13)						
6. Total revenue	TR	971,6	908,2	899,5	880,5	884,0
7. Total expenditure	TE	904,7	949,4	948,5	949,7	949,3
8. Net borrowing/lending	EDP.B9	66,9	-41,2	-49,0	-69,2	-65,3
9. Interest expenditure	EDP.D41 incl. FISIM	0,5	0,8	1,0	1,1	1,1
10. Primary balance		67,4	-40,4	-48,0	-68,1	-64,2
11. One-off and other temporary measures		12,2				
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		750,0	750,0	750,0	750,0	750,0
12a. Taxes on production and imports	D2	750,0	750,0	750,0	750,0	750,0
12b. Current taxes on income and wealth	D5					
12c. Capital taxes	D91					
13. Social contributions	D61					
14. Property income	D4					
15. Other (15 = 16-(12+13+14))		221,6	158,2	149,5	130,5	134,0
16 = 6. Total revenue	TR	971,6	908,2	899,5	880,5	884,0
p.m.: Tax burden (D2+D5+D61+D91-D995)		750,0	750,0	750,0	750,0	750,0
Selected components of expenditures						
17. Collective consumption	P32	819,5	845,2	850,0	848,5	860,7
18. Total social transfers	D62 + D63	3,2	2,1	2,0	2,0	2,0
18a. Social transfers in kind	P31=D63					
18b. Social transfers other than in kind	D62	3,2	2,1	2,0	2,0	2,0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0,5	0,8	1,0	1,1	1,1
20. Subsidies	D3					
21. Gross fixed capital formation	P51	63,0	64,6	63,5	60,7	41,3
22. Other (21 = 22-(16+17+18+19+20))		18,5	36,7	32,0	37,4	44,2
23. Total expenditures	TE	904,7	949,4	948,5	949,7	949,3
p.m. compensation of employees	D1	627,9	652,5	665,7	666,5	670,9

Tabela 2b: General government budgetary prospects – Federation BiH

	ESA Code	2014	2015	2016	2017	2018
		Bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-296,0	-246,3	-150,5	125,0	267,2
2. Central government	S1311	-282,5	-114,0	-56,1	197,3	328,0
3. State government	S1312					
4. Local government	S1313	17,4	-89,1	-62,5	-39,5	-40,5
5. Social security funds	S1314	-30,9	-43,2	-31,9	-32,8	-20,3
General government (S13)						
6. Total revenue	TR	6.801,5	7.073,3	7.162,7	7.241,1	7.237,2
7. Total expenditure	TE	7.097,5	7.319,6	7.313,2	7.116,1	6.970,0
8. Net borrowing/lending	EDP.B9	-296,0	-246,3	-150,5	125,0	267,2
9. Interest expenditure	EDP.D41 incl. FISIM	116,6	152,8	167,3	169,9	161,7
10. Primary balance		-179,4	-93,5	16,8	294,9	428,9
11. One-off and other temporary measures						
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		3.257,1	3.311,7	3.457,4	3.584,3	3.728,0
12a. Taxes on production and imports	D2	2.751,1	2.855,6	2.996,2	3.114,5	3.242,7
12b. Current taxes on income and wealth	D5	472,0	456,1	461,2	469,8	485,3
12c. Capital taxes	D91	34,0				
13. Social contributions	D61	2.820,1	2.879,8	2.868,3	2.813,8	2.853,2
14. Property income	D4	49,7	70,8	56,9	54,0	57,3
15. Other (15 = 16-(12+13+14))		674,6	811,0	780,1	789,0	598,7
16 = 6. Total revenue	TR	6.801,5	7.073,3	7.162,7	7.241,1	7.237,2
p.m.: Tax burden (D2+D5+D61+D91-D995)		6.077,2	6.191,5	6.325,7	6.398,1	6.581,2
Selected components of expenditures						
17. Collective consumption	P32	1543,1	1.628,8	1.609,6	1573,1	1592,9
18. Total social transfers	D62 + D63	2622,0	2696,1	2689,2	2652,1	2681,4
18a. Social transfers in kind	P31=D63					
18b. Social transfers other than in kind	D62	2622,0	2696,1	2689,2	2652,1	2681,4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	116,6	152,8	167,3	169,9	161,7
20. Subsidies	D3	228,7	294,1	249,1	247,6	249,8
21. Gross fixed capital formation	P51	730,4	659,5	600,4	576,3	578,8
22. Other (21 = 22-(16+17+18+19+20))		1856,7	1888,3	1997,6	1897,1	1705,4
23. Total expenditures	TE	7097,5	7.319,6	7313,2	7116,1	6970,0
p.m. compensation of employees	D1	1745,9	1791,1	1806,0	1819,1	1828,7

Tabela 2b: General government budgetary prospects – Republika Srpska

	ESA Code	2014	2015	2016	2017	2018
		Bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-284,7	-115,4	-153,9	-79,4	183,4
2. Central government	S1311	-237,0	-45,8	-169,4	-115,1	125,5
3. State government	S1312					
4. Local government	S1313	-3,9	42,4	43,4	41,2	46,8
5. Social security funds	S1314	-43,8	-112,0	-27,9	-5,5	11,2
General government (S13)						
6. Total revenue	TR	3.652,0	3.801,8	3.787,6	3.857,1	3.982,7
7. Total expenditure	TE	3.936,6	3.917,1	3.941,6	3.936,5	3.799,3
8. Net borrowing/lending	EDP.B9	-284,7	-115,4	-153,9	-79,4	183,4
9. Interest expenditure	EDP.D41 incl. FISIM	92,4	118,6	121,3	124,9	125,6
10. Primary balance		-192,2	3,2	-32,7	45,5	309,0
11. One-off and other temporary measures						
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1.755,7	1.830,6	1.889,1	1.944,1	2.029,8
12a. Taxes on production and imports	D2	1.356,3	1.402,3	1.467,7	1.516,5	1.587,6
12b. Current taxes on income and wealth	D5	362,5	385,0	381,8	390,0	403,4
12c. Capital taxes	D91	36,8	43,3	39,6	37,7	38,8
13. Social contributions	D61	1.429,5	1.496,3	1.462,8	1.486,0	1.518,8
14. Property income	D4	41,4	31,5	39,4	30,2	29,9
15. Other (15 = 16-(12+13+14))		425,4	443,3	396,4	396,7	404,2
16 = 6. Total revenue	TR	3.652,0	3.801,8	3.787,6	3.857,1	3.982,7
p.m.: Tax burden (D2+D5+D61+D91-D995)		3.185,2	3.326,9	3.351,9	3.430,1	3.548,6
Selected components of expenditures						
17. Collective consumption	P32	1253,6	1.268,1	1.251,5	1251,1	1248,7
18. Total social transfers	D62 + D63	2033,6	2037,8	2041,5	2036,0	2043,8
18a. Social transfers in kind	P31=D63					
18b. Social transfers other than in kind	D62	2033,6	2037,8	2041,5	2036,0	2043,8
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	92,4	118,6	121,3	124,9	125,6
20. Subsidies	D3	110,1	111,7	109,2	107,7	109,7
21. Gross fixed capital formation	P51	283,7	212,3	253,1	267,2	123,2
22. Other (21 = 22-(16+17+18+19+20))		163,2	168,6	165,0	149,6	148,3
23. Total expenditures	TE	3936,6	3.917,1	3941,6	3936,5	3799,3
p.m. compensation of employees	D1	940,1	960,8	961,3	964,2	967,9

Note: The table contains consolidated data for the level of General Government of Republika Srpska, which covers the level of the Central Government of Republika Srpska (Budget of Republika Srpska, budget of Republika Srpska beneficiaries within and outside the main General Treasury Ledger who have their own accounts, data on funds from projects financed from abroad and funds from escrow accounts), the local government level and social security funds.

Tabela 2b: General government budgetary prospects – Brčko District

	ESA Code	2014	2015	2016	2017	2018
		Bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-16,4	0,5	0,2	0,1	-0,4
2. Central government	S1311	-16,4	0,5	0,2	0,1	-0,4
3. State government	S1312					
4. Local government	S1313					
5. Social security funds	S1314					
General government (S13)						
6. Total revenue	TR	186,6	205,1	189,8	189,7	191,9
7. Total expenditure	TE	203,0	204,6	189,6	189,6	192,3
8. Net borrowing/lending	EDP.B9	-16,4	0,5	0,2	0,1	-0,4
9. Interest expenditure	EDP.D41 incl. FISIM	0,5	1,5	10,5	10,5	9,4
10. Primary balance		-15,9	2,0	10,7	10,6	9,0
11. One-off and other temporary measures						
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		171,7	176,4	172,0	171,9	175,5
12a. Taxes on production and imports	D2	149,3	153,5	154,1	153,5	156,5
12b. Current taxes on income and wealth	D5	20,9	21,6	16,6	17,1	17,7
12c. Capital taxes	D91	1,5	1,3	1,3	1,3	1,3
13. Social contributions	D61					
14. Property income	D4					
15. Other (15 = 16-(12+13+14))		14,9	28,7	17,8	17,8	16,4
16 = 6. Total revenue	TR	186,6	205,1	189,8	189,7	191,9
p.m.: Tax burden (D2+D5+D61+D91-D995)		171,7	176,4	172,0	171,9	175,5
Selected components of expenditures						
17. Collective consumption	P32	105,9	112,6	104,1	104,1	103,8
18. Total social transfers	D62 + D63	43,0	47,2	66,0	66,0	65,9
18a. Social transfers in kind	P31=D63					
18b. Social transfers other than in kind	D62	43,0	47,2	66,0	66,0	65,9
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0,5	1,5	10,5	10,5	9,4
20. Subsidies	D3	23,5	23,0	0,0	0,0	0,0
21. Gross fixed capital formation	P51	5,9	4,0	8,0	8,0	11,5
22. Other (21 = 22-(16+17+18+19+20))		24,2	16,3	1,0	1,0	1,7
23. Total expenditures	TE	203,0	204,6	189,6	189,6	192,3
p.m. compensation of employees	D1	65,3	64,2	73,1	73,1	73,1

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

Level	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	1654,900	1815,300	1814,900	1781,900	1753,700
2. Defence	2	284,600	290,300	290,100	296,000	296,100
3. Public order and safety	3	1158,500	1286,500	1217,800	1199,500	1173,300
4. Economic affairs	4	1172,100	619,200	781,500	713,700	784,600
5. Environmental protection	5	15,400	12,200	15,700	15,800	16,000
6. Housing and community amenities	6	289,400	346,600	345,900	342,800	335,400
7. Health	7	1936,900	1948,700	1893,100	1857,700	1803,300
8. Recreation. culture and religion	8	164,600	169,100	158,800	157,700	156,400
9. Education	9	1484,000	1591,600	1483,200	1470,800	1430,000
10. Social protection	10	3.981,4	4.311,2	4.391,9	4.356,0	4.162,1
11. Total expenditure (item 7 = 23 in Table 2)	TE	12141,800	12390,700	12392,900	12191,900	11910,900

% of GDP	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	5,9	6,2	6,0	5,6	5,2
2. Defence	2	1,0	1,0	1,0	0,9	0,9
3. Public order and safety	3	4,1	4,4	4,0	3,8	3,5
4. Economic affairs	4	4,2	2,1	2,6	2,2	2,3
5. Environmental protection	5	0,1	0,0	0,1	0,0	0,0
6. Housing and community amenities	6	1,0	1,2	1,1	1,1	1,0
7. Health	7	6,9	6,7	6,2	5,8	5,3
8. Recreation. culture and religion	8	0,6	0,6	0,5	0,5	0,5
9. Education	9	5,3	5,5	4,9	4,6	4,2
10. Social protection	10	14,1	14,8	14,5	13,7	12,3
11. Total expenditure (item 7 = 23 in Table 2)	TE	43,1	42,6	40,9	38,2	35,3

Institutions of BiH

Level	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	230,9	210,6	217,2	219,1	218,7
2. Defence	2	275,1	286,1	286,1	291,9	291,9
3. Public order and safety	3	285,3	366,1	359,6	350,2	350,2
4. Economic affairs	4	79,0	52,7	51,1	54,7	54,7
5. Environmental protection	5	0,0	0,0	0,0	0,0	0,0
6. Housing and community amenities	6	0,0	0,0	0,0	0,0	0,0
7. Health	7	4,8	6,1	5,7	5,8	5,8
8. Recreation. culture and religion	8	5,3	3,6	5,0	5,0	5,0
9. Education	9	5,6	7,9	7,7	6,9	6,9
10. Social protection	10	18,7	16,3	16,1	16,1	16,1
11. Total expenditure (item 7 = 23 in Table 2)	TE	904,700	949,400	948,500	949,700	949,300

% of GDP	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	0,8	0,7	0,7	0,7	0,6
2. Defence	2	1,0	1,0	0,9	0,9	0,9
3. Public order and safety	3	1,0	1,3	1,2	1,1	1,0
4. Economic affairs	4	0,3	0,2	0,2	0,2	0,2
5. Environmental protection	5	0,0	0,0	0,0	0,0	0,0
6. Housing and community amenities	6	0,0	0,0	0,0	0,0	0,0
7. Health	7	0,0	0,0	0,0	0,0	0,0
8. Recreation. culture and religion	8	0,0	0,0	0,0	0,0	0,0
9. Education	9	0,0	0,0	0,0	0,0	0,0
10. Social protection	10	0,1	0,1	0,1	0,1	0,0
11. Total expenditure (item 7 = 23 in Table 2)	TE	3,2	3,3	3,1	3,0	2,8

Federation BiH

Level	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	864,1	890,9	882,0	866,1	847,9
2. Defence	2					
3. Public order and safety	3	551,6	568,7	563,0	552,9	541,2
4. Economic affairs	4	536,1	554,8	616,1	539,5	531,5
5. Environmental protection	5					
6. Housing and community amenities	6	217,6	224,3	222,1	218,1	213,5
7. Health	7	1.229,4	1.267,5	1.254,8	1.232,3	1.206,4
8. Recreation. culture and religion	8	81,6	84,2	83,3	81,8	80,1
9. Education	9	956,2	985,8	976,0	958,4	938,3
10. Social protection	10	2.660,9	2.743,4	2.715,9	2.667,0	2.611,1
11. Total expenditure (item 7 = 23 in Table 2)	TE	7097,500	7319,600	7313,200	7116,100	6970,000

% of GDP	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	3,1	3,1	2,9	2,7	2,5
2. Defence	2	0,0	0,0	0,0	0,0	0,0
3. Public order and safety	3	2,0	2,0	1,9	1,7	1,6
4. Economic affairs	4	1,9	1,9	2,0	1,7	1,6
5. Environmental protection	5	0,0	0,0	0,0	0,0	0,0
6. Housing and community amenities	6	0,8	0,8	0,7	0,7	0,6
7. Health	7	4,4	4,4	4,1	3,9	3,6
8. Recreation. culture and religion	8	0,3	0,3	0,3	0,3	0,2
9. Education	9	3,4	3,4	3,2	3,0	2,8
10. Social protection	10	9,4	9,4	9,0	8,4	7,7
11. Total expenditure (item 7 = 23 in Table 2)	TE	25,2	25,2	24,1	22,3	20,7

Republika Srpska

Level	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	471,2	630,0	639,6	620,6	611,7
2. Defence	2	9,5	4,2	4,0	4,1	4,2
3. Public order and safety	3	307,8	337,1	276,6	278,3	263,7
4. Economic affairs	4	557,0	11,7	114,3	119,5	198,4
5. Environmental protection	5	15,4	12,2	15,7	15,8	16,0
6. Housing and community amenities	6	61,2	110,6	119,3	120,2	117,4
7. Health	7	683,3	655,8	624,7	611,1	580,1
8. Recreation. culture and religion	8	62,4	65,7	60,5	60,9	61,3
9. Education	9	489,9	563,4	463,2	469,2	447,8
10. Social protection	10	1.278,9	1.526,4	1.623,7	1.636,8	1.498,7
11. Total expenditure (item 7 = 23 in Table 2)	TE	3936,600	3917,100	3941,600	3936,500	3799,300

% of GDP	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	1,7	2,2	2,1	2,0	1,8
2. Defence	2	0,0	0,0	0,0	0,0	0,0
3. Public order and safety	3	1,1	1,2	0,9	0,9	0,8
4. Economic affairs	4	2,0	0,0	0,4	0,4	0,6
5. Environmental protection	5	0,1	0,0	0,1	0,0	0,0
6. Housing and community amenities	6	0,2	0,4	0,4	0,4	0,3
7. Health	7	2,4	2,3	2,1	1,9	1,7
8. Recreation. culture and religion	8	0,2	0,2	0,2	0,2	0,2
9. Education	9	1,7	2,0	1,5	1,5	1,3
10. Social protection	10	4,5	5,3	5,4	5,1	4,4
11. Total expenditure (item 7 = 23 in Table 2)	TE	14,0	13,6	13,1	12,4	11,3

Brčko District

Level	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	88,7	83,8	76,1	76,1	75,4
2. Defence	2					
3. Public order and safety	3	13,8	14,6	18,6	18,1	18,2
4. Economic affairs	4					
5. Environmental protection	5					
6. Housing and community amenities	6	10,6	11,7	4,5	4,5	4,5
7. Health	7	19,4	19,3	7,9	8,5	11,0
8. Recreation. culture and religion	8	15,3	15,6	10,0	10,0	10,0
9. Education	9	32,2	34,5	36,3	36,3	37,0
10. Social protection	10	23,0	25,1	36,2	36,1	36,2
11. Total expenditure (item 7 = 23 in Table 2)	TE	203,000	204,600	189,600	189,600	192,300

% of GDP	COFOG Code	2014	2015	2016	2017	2018
1. General public services	1	0,3	0,3	0,3	0,2	0,2
2. Defence	2	0,0	0,0	0,0	0,0	0,0
3. Public order and safety	3	0,0	0,1	0,1	0,1	0,1
4. Economic affairs	4	0,0	0,0	0,0	0,0	0,0
5. Environmental protection	5	0,0	0,0	0,0	0,0	0,0
6. Housing and community amenities	6	0,0	0,0	0,0	0,0	0,0
7. Health	7	0,1	0,1	0,0	0,0	0,0
8. Recreation. culture and religion	8	0,1	0,1	0,0	0,0	0,0
9. Education	9	0,1	0,1	0,1	0,1	0,1
10. Social protection	10	0,1	0,1	0,1	0,1	0,1
11. Total expenditure (item 7 = 23 in Table 2)	TE	0,7	0,7	0,6	0,6	0,6

Tabela 4: General government debt developments

% of GDP	ESA Code	2014	2015	2016	2017	2018
1. Gross debt ⁶¹		40,8	41,3	41,7	38,3	33,0
2. Change in gross debt ratio		6,8	0,5	0,4	-3,4	-5,3
Contributions to change in gross debt						
3. Primary balance ⁶²		1,14	0,4	0,2	-0,9	-2,0
4. Interest expenditure ⁶³		0,74	0,9	1,0	1,0	0,9
5. Stock-flow adjustment		4,9	-0,9	-0,7	-3,5	-4,2
<i>of which:</i>						
- Differences between cash and accruals ⁶⁴		:	:	:	:	:
- Net accumulation of financial assets ⁶⁵		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other ⁶⁶		:	:	:	:	:
p.m. implicit interest rate on debt ⁶⁷		2,2	2,4	2,5	2,4	2,4
Other relevant variables						
6. Liquid financial assets ⁶⁸		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

⁶¹ As defined in Regulation 3605/93 (not an ESA concept).

⁶² Cf. item 10 in Table 2.

⁶³ Cf. item 9 in Table 2.

⁶⁴ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

⁶⁵ Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

⁶⁶ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

⁶⁷ Proxied by interest expenditure (incl. FISIM recorded as consumption) divided by the debt level of the previous year.

⁶⁸ AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Tabela 5: Cyclical developments

% of GDP	ESA Code	2014	2015	2016	2017	2018
1. Real GDP growth (%. yoy)	B1g	0,3	2,5	3,0	3,2	4,0
2. Net lending of general government	EDP.B.9	-1,9	-1,4	-1,2	-0,1	1,1
3. Interest expenditure	EDP.D.41	0,7	0,9	1,0	1,0	0,9
4. One-off and other temporary measures*		-0,6	0,2	0,2	0,0	0,0
5. Potential GDP growth (%. yoy)		3,0	3,0	3,0	3,0	3,0
Contributions:		:	:	:	:	:
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		-1,8	-2,8	-2,6	-1,5	1,1
7. Cyclical budgetary component		-0,6	-1,0	-0,9	-0,5	0,4
8. Cyclically-adjusted balance (2-7)		-1,2	-0,4	-0,3	0,4	0,8
9. Cyclically-adjusted primary balance (8+3)		-0,5	0,6	0,7	1,4	1,7
10. Structural balance (8-4)		-0,6	-0,5	-0,5	0,5	0,8

* A plus sign means deficit-reducing one-off measures.

Tabela 6: Divergence from the previous programme

	2014	2015	2016	2017	2018
1. GDP growth (%. yoy)					
Previous programme	1,1	3,4	4,0	4,4	:
Latest update	0,3	2,5	3,0	3,2	4,0
Difference	-0,8	-0,9	-1,0	-1,2	:
2. General government net lending (% of GDP)					
Previous programme	-1,8	-1,7	-1,6	-0,6	:
Latest update	-1,9	-1,4	-1,2	-0,1	1,1
Difference	-0,1	0,3	0,4	0,5	:
3. General government gross debt (% of GDP)					
Previous programme	36,9	35	32,1	27,8	:
Latest update	40,8	41,3	41,7	38,3	33,0
Difference	3,9	6,3	9,6	10,5	:

Tabela 7: Long-term sustainability of public finance

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
of which:							
- Age-related expenditures							
- Pension expenditure							
- Social security pension							
- Old-age and early pensions							
- Other pensions (disability, survivors)							
- Occupational pensions (if in general government)							
- Health care							
- Long-term care (this was earlier included in the health care)							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenues							
<i>of which: property income</i>							
<i>of which: from pensions contributions (or social contributions, if appropriate)</i>							
Pension reserve fund assets							
of which: consolidated public pension fund assets (assets other than government liabilities)							
Assumptions							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	-0,3	:	:	:	:	:
Participation rate males (aged 20-64)	73,5	72,9	:	:	:	:	:
Participation rates females (aged 20-64)	41,1	44,2	:	:	:	:	:
Total participation rates (20-64)	52,2	54,0	:	:	:	:	:
Unemployment rate	29,0	27,2	:	:	:	:	:
Population aged 65+ over total population	14,8	15,8	:	:	:	:	:

Note: Projections for Assumptions part are not available for 2020-2060.

Tabela 7a: Contingent liabilities

% of GDP	2015	2016
Public guarantees	1,6	:
Of which: linked to the financial sector	:	:

Tabela 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimenzija	2014	2015	2016	2017	2018
Short-term interest rate	Annual average	0,2	0,0	0,0	0,0	:
Long-term interest rate	Annual average	2,0	1,3	1,6	1,8	:
USD/EUR exchange rate	Annual average	1,33	1,11	1,10	1,10	:
Nominal effective exchange rate	Annual average	0,6	-9,8	-0,2	0,0	:
Exchange rate vis-à-vis the EUR	Annual average	1,956	1,956	1,956	1,956	1,956
Global GDP growth. excluding EU	Annual average	3,2	1,4	3,3	4,1	:
EU GDP growth	Annual average	0,9	1,6	1,8	1,9	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes. excluding EU	Annual average	3,0	1,2	3,2	4,1	:
Oil prices (Brent. USD/barrel)	Annual average	98,9	55,3	56,1	60,9	:

Note:

Source for items 1. 2. 3. 4. 6. 10:

<https://www.ecb.europa.eu/pub/pdf/other/ecbstaffprojections201509.en.pdf?373c7ff1a4072123c81757486566b3f2>

Source for items 7 i 9:

http://ec.europa.eu/economy_finance/publications/ceip/pdf/ip011_en.pdf

Tabela 9: Selected indicators on the social inclusion

	Data source	2012	2013	2014	2015	2016
1. Labour market participation rate (%) total (pls indicate age bracket)		44,0	43,6	43,7	:	:
- male		56,4	55,3	55,0	:	:
- female		32,6	32,5	33,0	:	:
2. Employment rate (%) total (please indicate age bracket)		31,7	31,6	31,7	:	:
- male		41,5	40,6	41,2	:	:
- female		22,6	23,0	22,7	:	:
3. Unemployment rate (%) total (please indicate age bracket)		28,0	27,5	27,5	:	:
- male		26,4	26,5	25,2	:	:
- female		30,7	29,0	31,2	:	:
4. Long-term unemployment rate (%) total		82,2	83,2	85,3	:	:
- male		81,5	81,7	84,9	:	:
- female		81,9	84,8	85,3	:	:
5. Youth unemployment (15-24 yrs) rate (%) total		63,1	59,1	62,7	:	:
- male		62,6	59,1	61,0	:	:
- female		64,0	59,2	65,4	:	:
6. Young people (please indicate the age bracket of the available figures) not in employment, education or training (NEET). in %	15-24 15-29	28,4 33,9	31,6 31,6	26,1 31,8	:	:
7. Early school leavers. in % (Eurostat definition)		:	:	:	:	:
8. Participation rate in early childhood education and care		:	:	:	:	:
9. GINI coefficient		:	:	:	:	:
10. Inequality of income distribution S80/S20		:	:	:	:	:
11. Social protection expenditure in % of GDP		:	:	:	:	:
12. Health expenditure in % of GDP		:	:	:	:	:
13. At-risk-of-poverty before social transfers. % of the population		:	:	:	:	:
14. Poverty rate (Please indicate which data are available for your country)		:	:	:	:	:
15. Poverty gap (Please indicate which data are available for your country)		:	:	:	:	:

Source: BHAS

Tabela 10: Matrix of policy commitments

Bosnia and Herzegovina – Ministry of finance and treasury of BiH

<i>Description of policy</i>	2015	2016	2017	2018
<i>1. Policy measure (Hiring freeze under Article 17 of the Law on Budget of Institutions of BiH and International Obligations of BiH for 2016, and Framework Budget Document of the Institutions of BiH 2016-2018...)</i>				
A. Duration of reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in €)	6,237,761	6,749,053	409,033	-
B.1 Direct impact on budgetary revenue (in €)				
B.2 Direct impact on budgetary expenditure (in €)	6,237,761	6,749,053	409,033	-
B.3 Possible non-budgetary financing (in €)				
- B.3.1 Of which committed IPA funding including WBIF funding (in €)				
<i>Total net budgetary impact</i>				
Total impact on budgetary revenue				
Total impact on budgetary expenditure	6,237,761	6,749,053	409,033	-

Federation of BiH

Description of policy	2015	2016	2017	2018
<i>1. Policy measure: Improving the system of public internal financial control</i>				
A. Duration of reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in KM)	-150,000	-420,000	-130,000	-80,000
B.1 Direct impact on budgetary revenue (in KM)			50,000	100,000
B.2 Direct impact on budgetary expenditure (in KM)	150,000	150,000	180,000	180,000
B.3 Possible non-budgetary financing (in KM)		270,000		
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)		270,000		
<i>2. Policy measure: Improving the transport infrastructure (including the reform priority Restructuring of the railways)</i>				
A. Duration of reform*		X	X	X
B. Net direct budgetary impact (if any) (in KM)				
B.1 Direct impact on budgetary revenue (in KM)**				
B.2 Direct impact on budgetary expenditure (in KM)	15,568,000	3,741,000	3,741,000	35,704,000
B.3 Possible non-budgetary financing (in KM)		141,259,000	216,259,000	255,296,000
- B.3.1 Of which committed IPA funding including				

WBIF funding (in KM)				
3. Policy measure: Improving the energy infrastructure				
A. Duration of reform*		X	X	X
B. Net direct budgetary impact (if any) (in KM)	-5,400,000	-55,200,000	-53,633,000	-24,562,000
B.1 Direct impact on budgetary revenue (in KM)**				
B.2 Direct impact on budgetary expenditure (in KM)	5,400,000	3,600,000	2,833,000	0
B.3 Possible non-budgetary financing (in KM)	0	51,600,000	50,800,000	24,562,000
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)				
4. Policy measure: Sector- Agriculture				
A. Duration of reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in KM)	-62,300,000	-90,000,000	-101,350,000	-111,590,000
B.1 Direct impact on budgetary revenue (in KM)**				
B.2 Direct impact on budgetary expenditure (in KM)	62,300,000	61,800,000	54,000,000	55,500,000
B.3 Possible non-budgetary financing (in KM)		28,200,000	47,350,000	56,090,000
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)		28,200,000	47,350,000	56,090,000
5. Policy measure: Tourism and catering				
A. Duration of reform*		X		
B. Net direct budgetary impact (if any) (in KM)	0	-96,000	-6,000	44,000
B.1 Direct impact on budgetary revenue (in KM)**	5,000,000	20,000	50,000	100,000
B.2 Direct impact on budgetary expenditure (in KM)	5,000,000	116,000	56,000	56,000
B.3 Possible non-budgetary financing (in KM)	0			
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)				
6. Policy measure: Financial services				
A. Duration of reform*	X	X		
B. Net direct budgetary impact (if any) (in KM)	-200,000	-100,000		
B.1 Direct impact on budgetary revenue (in KM)**				
B.2 Direct impact on budgetary expenditure (in KM)	200,000	100,000		
B.3 Possible non-budgetary financing (in KM)				
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)				
7. Policy measure: Reducing costs of doing business and shortening the procedures for issuing licences				
A. Duration of reform*		X		
B. Net direct budgetary impact (if any) (in KM)	0	-100,000	0	0
B.1 Direct impact on budgetary revenue (in KM)	30,000,000		3,241,730	3,241,730
B.2 Direct impact on budgetary expenditure (in KM)	30,000,000	100,000	3,241,730	3,241,730

B.3 Possible non-budgetary financing (in KM)				
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)				
8. Policy measure: Support to SMEs				
A. Duration of reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in KM)	-4,850,000	-5,050,000	-5,300,000	-5,500,000
B.1 Direct impact on budgetary revenue (in KM)**				
B.2 Direct impact on budgetary expenditure (in KM)	4,850,000	5,050,000	5,300,000	5,500,000
B.3 Possible non-budgetary financing (in KM)				
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)				
9. Policy measure: Privatisation				
A. Duration of reform*		X	X	X
B. Net direct budgetary impact (if any) (in KM)		65,000,000	80,000,000	100,000,000
B.1 Direct impact on budgetary revenue (in KM)		65,000,000	80,000,000	100,000,000
B.2 Direct impact on budgetary expenditure (in KM)				
B.3 Possible non-budgetary financing (in KM)				
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)				
10. Policy measure: Providing the conditions for the employment growth				
A. Duration of reform*	X	X		
B. Net direct budgetary impact (if any) (in KM)	-20,000,000	-40,000,000	10,000,000	10,000,000
B.1 Direct impact on budgetary revenue (in KM)		10,000,000	10,000,000	10,000,000
B.2 Direct impact on budgetary expenditure (in KM)	20,000,000	50,000,000		
B.3 Possible non-budgetary financing (in KM)				
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)				
11. Policy measure: Education reform				
A. Duration of reform*		X	X	X
B. Net direct budgetary impact (if any) (in KM)		-25,000	-925,000	-890,000
B.1 Direct impact on budgetary revenue (in KM)		0	0	30,000
B.2 Direct impact on budgetary expenditure (in KM)		25,000	25,000	20,000
B.3 Possible non-budgetary financing (in KM)			900,000	900,000
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)			900,000	900,000
12. Policy measure: Improving the social protection system				
A. Duration of reform*		X	X	X
B. Net direct budgetary impact (if any) (in KM)		0	0	0

B.1 Direct impact on budgetary revenue (in KM)		50,000,000	7,600,000	9,000,000
B.2 Direct impact on budgetary expenditure (in KM)		50,000,000	7,600,000	9,000,000
B.3 Possible non-budgetary financing (in KM)				
- B.3.1 Of which committed IPA funding including WBIF funding (in KM)				
Total net budgetary impact				
Total impact on budgetary revenue	35,000,000	125,020,000	101,041,000	122,471,000
Total impact on budgetary expenditure	143,468,000	296,011,000	392,285,000	445,049,000

* indicate start and. if needed. end with an “X” mark.

** There are no available data on impact of the reform on revenue.

Republika Srpska

(in million KM)

Description of policy		2015	2016	2017	2018
1. Reducing the tax burden on labour					
Reducing the tax burden on labour. through reduction of contributions. that we have started implementing in 2015. will be implemented in 2016. providing at the same time disburdening of the economy and the secure and realistic sources to cover the losses to extra budgetary funds generated as a result of the reduced revenues based on contributions. Given the significant funds required to cover the loss of revenues of extra budgetary funds. the key task for all levels of government in BiH will be to find realistic and secure sources to compensate for losses of revenues from contributions. so that the net effect on the budget will be fiscally neutral.					
According to the calculations of Ministry of Finance of Republika Srpska. financial effects of the proposed changes would lead to decline in revenues of extra budgetary funds in the total amount of around KM 72.4 million. In this case. the real sector would remain to dispose with the KM 53 million. In this regard. it is necessary to ensure realistic and secure sources of funding to cover the loss of revenues based on contributions to extra budgetary funds.					
A.	Duration of reform*		X		
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)	0.0	0.0	0.0	0.0
2. Increasing the fiscal responsibility and enhancing the system of internal financial controls in public sector					
By implementing the Law on Fiscal Responsibility in Republika Srpska adopted in 2015. we will significantly improve fiscal responsibility and discipline for public spending in the overall budget system of Republika Srpska. A primary objective is for all subjects of the budget system of Republika Srpska to present total outstanding liabilities. bring realistic plans for their settlement in the coming period and to prevent creating liabilities above the level defined in the budgets. The activities planned within this measure are the following:					

<p>2.a) Preparation of by-laws based on the Law on Fiscal Responsibility in Republika Srpska; 2.b) Establishment of the Fiscal Council of Republika Srpska; 2.c) Adoption of the Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska in the form of Proposal at the National Assembly of Republika Srpska.</p> <p>The above legal solutions will prevent creating liabilities that exceed the amount of funds made available to budget users from the budget. which will create savings both in the budget of Republika Srpska and the budgets of the local self government units.</p>					
A.	Duration of reform*		X		
B.	Net direct budgetary impact (if any)				
B.1	Direct impact on budgetary revenue				
B.2	Direct impact on budgetary expenditure				
B.3	Possible non-budgetary financing				
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)				
3. Combating gray economy					
<p>Combating gray economy through the adoption of the required legal solutions. which will improve the work of all control authorities. is a measure whose implementation started in 2015. Preparation of the required legal solutions will be realized in 2016. One of the main objectives of the Government of Republika Srpska in the coming period. on its path to achieve fiscal sustainability. i.e. fiscal consolidation. is combating and preventing the gray economy.</p>					
A.	Duration of reform*		X		
B.	Net direct budgetary impact (if any)				
B.1	Direct impact on budgetary revenue				
B.2	Direct impact on budgetary expenditure				
B.3	Possible non-budgetary financing				
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)				
4. Reforming the health system of Republika Srpska					
<p>The following activities will be implemented within the health system reform:</p> <p>4.a) The analysis of liabilities of the health care system. i.e. the health care centres and the hospital sector. in cooperation with the World Bank experts. so as to establish the amounts of liabilities and come up with the models for their resolution. The amount of costs will be established only after the completion of the analysis;</p> <p>4.b) Introduction of the health care centres into the treasury system – significant additional costs are not expected since this is planned to be implemented within the existing administration;</p> <p>4.c) Introduction of the secondary and tertiary health care level into the treasury system as well as the RS Health Insurance Fund – costs will be estimated by USAID in the coming period;</p> <p>4.d) Finding new models and sources of the health system funding; and</p> <p>4.e) Standardisation of the network of health care institutions.</p>					
A.	Duration of reform*				X

B.	Net direct budgetary impact (if any)				
B.1	Direct impact on budgetary revenue				
B.2	Direct impact on budgetary expenditure				
B.3	Possible non-budgetary financing				
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)				
5. Restructuring of the Railways of Republika Srpska					
The following activities are foreseen within the restructuring of the Railways of Republika Srpska:					
5.a) Restructuring of the Railways of Republika Srpska – there no direct costs for the budget of Republika Srpska since the proposal is being developed by the World Bank and the funding is provided by the Swedish Government;					
5.b) Consolidation of ownership of the Railways of Republika Srpska – the expected cost is around KM 4.0 million for buyout of the remaining share of ownership. Restructuring of the Railways of Republika Srpska is undertaken so as to bring the Railways of Republika Srpska in an equal position in the market. thereby creating a framework for independent functioning of the company without the subsidies from the budget of Republika Srpska.					
A.	Duration of reform*			X	
B.	Net direct budgetary impact (if any)	0.00	0.00	4.00	0.00
B.1	Direct impact on budgetary revenue	0.00	0.00	0.00	0.00
B.2	Direct impact on budgetary expenditure	0.00	0.00	4.00	0.00
B.3	Possible non-budgetary financing	0.00	0.00	0.00	0.00
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)	0.00	0.00	0.00	0.00
6. Re-industrialisation in all the areas of the processing industry					
Re-industrialisation in all the areas of the processing industry will start in 2016 and continue over 2017 and 2018. with the goal to initiating/reviving the production. increasing the volume of industrial production and employment. This process also implies "general cleaning up" in the enterprises with majority state-ownership. of which some do not operate or operate only with minimum capacity and are. thereby. inefficient and illiquid. By the end of 2016. a list of sustainable and unsustainable public enterprises will be developed. as well as the Restructuring Programme and the Privatisation Programme. while the issue of resolving the unsustainable public enterprises would be a measure in 2017 and 2018. At this moment. it is not possible to estimate the amount of potential savings. since it is first necessary to review in detail the situation in each individual enterprise. which will precisely be one of the activities in 2016.					
A.	Duration of reform*				X
B.	Net direct budgetary impact (if any)				
B.1	Direct impact on budgetary revenue				
B.2	Direct impact on budgetary expenditure				
B.3	Possible non-budgetary financing				
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)				
7. Modernisation of the legal framework of the banking sector of Republika Srpska and creation of assumptions for implementation of the bank					

resolution procedure					
Modernisation of the legal framework of the banking sector of Republika Srpska and creation of assumptions for implementation of the bank resolution procedure includes the following activities:					
7.a) Strengthening the supervisory function of the Banking Agency and introducing the function of bank resolution;					
7.b) Adopting the new Law on Banks;					
7.c) Adopting the Action Plan for Implementation of the Recommendations of the FSP Mission;					
7.d) Implementing Basel I and Basel II.					
Implementation of this measure does not foresee any significant direct financial impact on the budget.					
A.	Duration of reform*				X
B.	Net direct budgetary impact (if any)	0.0	0.0	0.0	0.0
B.1	Direct impact on budgetary revenue	0.0	0.0	0.0	0.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.0	0.0	0.0	0.0
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)	0.0	0.0	0.0	0.0
8. Eliminating the barriers to business and investments					
Establishment of the Registry of para-fiscal Charges. in order to prevent the creation of new para-fiscal charges. Then. with the assistance of the USAID. we will continue to analyse para-fiscal charges included in the Registry. Based on the results of the analysis. a decision will be made on possible elimination of certain charges that prove to be unjustified. The effects will be known after the completion of the analysis. As part of this measure. it is planned to eliminate a special tax of Republika Srpska. based on which the budget of Republika Srpska will achieve some smaller revenues (around KM 10.0 million). as well as disburdening for business entities.					
A.	Duration of reform*		X		
B.	Net direct budgetary impact (if any)	0.0	0.0	-10.0	-10.0
B.1	Direct impact on budgetary revenue	0.0	0.0	-10.0	-10.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	0.0	0.0
B.3	Possible non-budgetary financing	0.1	0.1	0.0	0.0
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)	0.0	0.0	0.0	0.0
9. Adopting and implementing the Law on Bankruptcy					
The draft version of the Law on Bankruptcy was adopted in 2015. it underwent the public debate. while the adoption of the Law is expected in the first quarter of 2016. The new Law will achieve the following objectives: timely initiation of the resolution procedure and the bankruptcy proceedings; financial and operational restructuring of debtor in the resolution procedure; shortening the length of the bankruptcy proceedings; reducing the costs. particularly down payment costs; manner of appointing the provisional administrator respecting the principles of proportionality and equality in appointing. as well as the age limit for the bankruptcy administrators and the amount of their fees; protection of rights of creditors in the bankruptcy proceedings; improving the re-organisation process in terms of its simplification; harmonisation of regulations that impact the application of the Law on Bankruptcy proceedings; and appointing the body to perform supervision over the implementation of the legal provision pertaining to timely initiation of the proceedings and impose sanctions to the bankruptcy debtor. namely the body					

authorised to represent the bankruptcy debtor due to untimely initiated proceedings.
The fiscal effects relate to reduction of costs of conducting the bankruptcy proceedings and the resolution procedure and. at the same time. provide better control and collection of claims between the business entities. thus increasing the liquidity of the economy.

A.	Duration of reform*		X		
B.	Net direct budgetary impact (if any)				
B.1	Direct impact on budgetary revenue				
B.2	Direct impact on budgetary expenditure				
B.3	Possible non-budgetary financing				
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)				

10. New labour legislation and support to employment in the real sector

The new Law on Labour was adopted in 2015. whose implementation will enable greater flexibility in the labour market. a better correlation between the level of wages and work performance. reduce negative incentives for employment. provide for better protection of the rights of workers and reduce informal employment.
The following activities will be carried out in 2016 within the implementation of this measure:
10.a) Adoption of by-laws and harmonization of other legal solutions with the new Law on Labour;
10.b) The solutions from the Law on Labour will be analysed in a view of removing the problems that occur in its implementation;
10.c) Preparation of the Strategy for Employment and the Plan of Human Resources in the Public Sector;
10.d) Redefining the role of the Employment Institute in terms of its greater openness towards employers;
10.e) Adoption of the Law on Employment Incentives. which will round up the measure of support to employment in the real sector.
The fiscal effects of this measure will reflect in an increase in income tax and contributions for new employees. while the negative effect on the budget will be presented through refund of taxes or contributions. support to employment and the new Law on Employment incentives. depending on the defined solution. The net effect on the budget is expected to be positive.

A.	Duration of reform*		X		
B.	Net direct budgetary impact (if any)				
B.1	Direct impact on budgetary revenue				
B.2	Direct impact on budgetary expenditure				
B.3	Possible non-budgetary financing				
-B.3.1	Of which committed IPA funding including WBIF funding (in KM)				

Total

B.	Net direct budgetary impact (if any)	0.0	0.0	-14.0	-10.0
B.1	Direct impact on budgetary revenue	0.0	0.0	-10.0	-10.0
B.2	Direct impact on budgetary expenditure	0.0	0.0	4.0	0.0
B.3	Possible non-budgetary financing	0.1	0.1	0.0	0.0

-B.3.1	Of which committed IPA funding including WBIF funding (in KM)	0.0	0.0	0.0	0.0
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Tabela 11: Timetable of the structural reform measures

Bosnia and Herzegovina – Ministry of finance and treasury of BiH

<i>1. Hiring freeze</i>			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018

Federation of BiH

<i>1. Improving the system of public internal financial control</i>			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018
X	X		
<i>2. Improving the transport infrastructure</i>			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018
X	X	X	X
<i>3. Restructuring of railways</i>			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
<i>4. Improving the energy infrastructure</i>			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X

5. Introduction of financial support to agricultural producers based on payments per hectare and per head of cattle			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018
X	X	X	X
6. Introduction of rural development measures based on the principles of EU IPARD			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018
X	X	X	X
7. Improving the tourism and catering industry			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
		X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018
X	X	X	X
8. Financial services			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
	X	X	X
9. Reducing costs of doing business and shortening the procedures for issuing licences			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X		
10. Support to SMEs			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018
X	X	X	X
11. Privatisation			

Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018
X	X	X	X
12. Providing the conditions for the employment growth			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
13. Education reform			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018
X	X	X	X
14. Improving the social protection system			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
X	X	X	X
Q1 2017	Q2 2017	Q3 2017	Q4 2017
X	X	X	X
Q1 2018	Q2 2018	Q3 2018	Q4 2018
X	X	X	X

Republika Srpska

1. Reducing the tax burden on labour			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
Analysis of possibilities of reducing contributions	Identification of realistic and reliable sources of funding.	Preparation of the draft legal solutions Adoption of draft legal solutions	Public discussions Adoption of proposals of legal solutions
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Q1 2018	Q2 2018	Q3 2018	Q4 2018
2. Increasing fiscal responsibility and enhancing the system of internal financial controls in the public sector			

Q1 2016	Q2 2016	Q3 2016	Q4 2016
By-legal regulations for the Law on Fiscal Responsibility	Establishment of a Fiscal Council		
Draft Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska at the National Assembly of RS (NARS)	By-legal regulations of the Fiscal Council	By-legal regulations for the Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska at the NARS	
Appointment of members of the Fiscal Council	Proposed Draft Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska at the NARS		
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Q1 2018	Q2 2018	Q3 2018	Q4 2018
3. Combating of gray economy			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
Preparation of Draft Law on Combating the Gray Economy	Public discussions		
Adoption of the Draft Law on Combating the Gray Economy by the Government	Adoption of the Proposed Draft Law on Combating the Gray Economy by the Government		
Adoption of the Draft Law on Combating the Gray Economy by the NARS	Adoption of the Proposed Draft Law on Combating the Gray Economy by the NARS		
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Q1 2018	Q2 2018	Q3 2018	Q4 2018
4. Reforming the health system of Republika Srpska			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
Establishment of a continuous system of reporting for health institutions and situation analysis	Introduction of the treasury system into health care centres	Introduction of the tertiary and secondary level and the Health Insurance Fund into the treasury system	Introduction of the tertiary and secondary level and the Health Insurance Fund into the treasury system

Establishment of a continuous system of reporting for health institutions and situation analysis			
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Finding new models and sources of funding of the health system	Finding new models and sources of funding of the health system	Standardisation of the network of health institutions	Standardisation of the network of health institutions
Q1 2018	Q2 2018	Q3 2018	Q4 2018
5. Restructuring of Railways of Republika Srpska			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
Proposal for organisational restructuring. based on the analysis of the World Bank	Ongoing process of consolidation	Analysis of the World Bank completed. proposal for restructuring submitted to the RS Government for consideration	Ongoing process of consolidation
Ongoing process of consolidation		Ongoing process of consolidation	
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Process of consolidation complete			
Q1 2018	Q2 2018	Q3 2018	Q4 2018
6. Re-industrialisation in all areas of the processing industry			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
	Situation analysis		
	Preparation of a list of sustainable and unsustainable enterprises in state ownership	Drafting of Restructuring Programme and Privatisation programme	Drafting of Restructuring Programme and Privatisation programme
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Addressing unsustainable enterprises in state ownership	Addressing unsustainable companies in state ownership	Addressing unsustainable companies in state ownership	Addressing unsustainable companies in state ownership
Q1 2018	Q2 2018	Q3 2018	Q4 2018
7. Modernization of legal framework of the banking sector of Republika Srpska and creating assumptions for implementation of the bank resolution procedure			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
Gradual implementation of BASEL II and BASEL III	Gradual implementation of BASEL II and BASEL III	Gradual implementation of BASEL II and BASEL III	Gradual implementation of BASEL II and BASEL III Adoption of new Law on Banks of

			Republika Srpska Amendments of the Law on the Banking Agency of Republika Srpska Adoption of by-legal regulations
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Gradual implementation of BASEL II and BASEL III	Gradual implementation of BASEL II and BASEL III	Gradual implementation of BASEL II and BASEL III Preparation of the Action Plan for the Implementation of Recommendations of the FSAP mission	Gradual implementation of BASEL II and BASEL III Adoption of the Action Plan for the Implementation of Recommendations of the FSAP mission
Q1 2018	Q2 2018	Q3 2018	Q4 2018
Gradual implementation of BASEL II and BASEL III	Gradual implementation of BASEL II and BASEL III	Gradual implementation of BASEL II and BASEL III	Gradual implementation of BASEL II and BASEL III
8. Eliminating the barriers to business and investments			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
Beta version complete Ongoing analysis	Final version of the Registry complete	Analysis of para-fiscal charges complete	Amendment to the law
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Q1 2018	Q2 2018	Q3 2018	Q4 2018
9. Adopting and implementing the Law on Bankruptcy			
Q1 2016	Q2 2016	Q3 2016	Q4 2016
Adoption of the Draft Law on Bankruptcy by the Government Adoption of the Draft Law on Bankruptcy by the NARS			
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Q1 2018	Q2 2018	Q3 2018	Q4 2018
10. New labour legislation and support to employment in the real sector			
Q1 2016	Q2 2016	Q3 2016	Q4 2016

Adoption of by-legal regulations to the Law on Labour	Plan of human resources in the public sector Harmonisation of other legislature with the new Law on Labour	Redefining the role of the Employment Service Analysis of provisions of the Law on Labour	Employment strategy Law on Employment Incentives
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Q1 2018	Q2 2018	Q3 2018	Q4 2018

Tabela 12: Summary of the structural reform measures

Bosnia and Herzegovina – Ministry of finance and treasury of BiH

<i>1. Hiring freeze</i>	
Short description	The reform applies to the hiring freeze in the institutions of Bosnia and Herzegovina except by special decisions of the BiH Council of Ministers.
Summary of implementation timeline	The reform will be implemented throughout the observed period (2016-2018)
Cost of implementation	The costs of implementation are from the budget of the BiH institutions
Expected impact on competitiveness	

Federation of BiH

<i>1. Improving the system of public internal financial control</i>	
Short description	The reform relates to improving legislation in the area of financial management as well as strengthening capacities in this area; improving the framework for work of internal audit and strengthening of the coordinating role of the Central Harmonisation Unit.
Summary of implementation timeline	Implementation of the reform measures starts in 2016 and ends in the second quarter of 2018.
Cost of implementation	Costs for implementation come from the budget and a grant from a SAFE trust fund.
Expected impact on competitiveness	
<i>2. Improving the transport infrastructure</i>	
Short description	Within this reform, a new cycle is expected for construction of the main roads and continuation of construction of the highway on the corridor Vc.
Summary of implementation timeline	The beginning of the implementation is in 2016, expected to last in the medium-term period.
Cost of implementation	Funds secured from the loans of international financial institutions and own resources of the public company.

Expected impact on competitiveness	Increasing competitiveness in terms of adequate servicing of the needs of the economy. movement of people and goods with the goal of integrating the transport network into the Trans-European Transport Network.
<i>3. Restructuring of the railways</i>	
Short description	This reform is expected to bring finalisation of the study for restructuring of the railways and finding the restructuring model.
Summary of implementation timeline	The implementation has started in 2016 and continues in 2016 and further on.
Cost of implementation	Costs of implementation covered by the World Bank's grant.
Expected impact on competitiveness	Ensuring competitiveness of the public railway company (Zeljeznice) of the Federation BiH through financial restructuring. status changes and re-organisation and increasing the rail transport in order to provide access to the EU railway network via the port of Ploce.
<i>4. Improving the energy infrastructure</i>	
Short description	As part of this reform. it is foreseen to construct the windfarms.
Summary of implementation timeline	The implementation starts in 2016 with the plans for continuation in the coming years.
Cost of implementation	Costs of implementation covered from credit funds and own resources of the public company.
Expected impact on competitiveness	Ensuring the energy market development through construction and utilisation of renewable sources of energy. increased security of electricity supply to business and populations. and exports.
<i>5. Introduction of financial support to agricultural producers based on payments per hectare and per head of cattle</i>	
Short description	Harmonised direct financial support per hectare and per head of cattle will avoid favouring of individual sub-sectors of agriculture. market distortions. and provide for utilisation of natural conditions where the producers perform their activities.
Summary of implementation timeline	The implementation starts in 2016 with the plans for continuation in the coming years
Cost of implementation	Funds secured in the FBiH budget.
Expected impact on competitiveness	Ensuring stability of income. security and conditions for doing business relative to the producers in the region and gradual adjusting to the EU regulations. In addition. this reform will improve environment for decision making on the type of production the producer should focus on. taking into account the market signals.
<i>6. Introduction of rural development measures based on the principles of EU IPARD</i>	
Short description	This measure foresees investment in infrastructure. machinery and equipment at the farm as well as infrastructure and equipment for processing and forming chains of producers.
Summary of implementation timeline	The implementation starts in 2016 with the plans for continuation in the coming years.

Cost of implementation	Funds secured in the FBiH budget and credit funds of international financial organisations.
Expected impact on competitiveness	Improving economic capacities and opportunities for employment. and sustainability of economic activities in rural areas.
<i>7. Improving the tourism and catering industry</i>	
Short description	This measure foresees amending the legislative framework in this field in order to align it with the EU Directives and facilitate the conditions for starting the activity. establishment of the registry. and preparation of the Medium-Term Strategy in the area of catering industry.
Summary of implementation timeline	The implementation starts in 2016 with the plans for continuation in the coming years.
Cost of implementation	Funds secured in the FBiH budget. The assistance in a form of grant will be requested for preparation of the Strategy.
Expected impact on competitiveness	Implementation of this reform will contribute to rise in the number of registered providers and employees as well as increase in the number of tourists. reduction of informal economy and higher income of the community.
<i>8. Preserving the stability of the financial system</i>	
Short description	This measure foresees amending the regulations for establishing a new legislative framework pertaining to financial services in order to align it with the EU Directives. particularly in terms of addressing the issue of a high share of the non-performing loans and improving the liquidity management framework.
Summary of implementation timeline	Finalisation of activities on establishing a new framework planned in 2016 while the implementation of measures starts in 2016 and beyond.
Cost of implementation	Costs for implementation of this reform do not present the budget cost.
Expected impact on competitiveness	Implementation of this reform would affect the maintaining of the banking system liquidity. which is of great importance for economic growth.
<i>9. Reducing costs of doing business and shortening the procedures for issuing licences</i>	
Short description	This measure foresees amending the legislative framework. which should gradually lead to reducing costs for doing business by reducing and eliminating certain fees.
Summary of implementation timeline	The beginning of implementation of this measure is in 2016 and continues beyond.
Cost of implementation	Costs of implementation represent a budget expenditure.
Expected impact on competitiveness	Implementation of this reform will affect the disburdening of the business community.
<i>10. Support to SMEs</i>	
Short description	This reform measure aims at securing incentives to local authorities for development of entrepreneurial zones in order to create new jobs as well as development of business infrastructures with the same goal.

Summary of implementation timeline	Support projects are provided throughout the year.
Cost of implementation	Costs for implementation secured in the budget of FBiH.
Expected impact on competitiveness	Growth of small and medium-sized enterprises and new job creation.
11. Privatisation	
Short description	After a long standstill, the process of privatisation will be initiated next year: first for enterprises where the Government of FBiH has minority shares; then it will be determined which enterprises require restructuring and sale; and defined method of privatisation for some strategic enterprises.
Summary of implementation timeline	Starting with 2016 throughout the entire period.
Cost of implementation	Costs for implementation secured in the budget of FBiH.
Expected impact on competitiveness	Privatisation of companies will have impact on economic growth and new business start-ups.
12. Growth of employment	
Short description	By implementing the project of introduction of the support for first-time job seekers we will secure growth of employment, particularly among youth.
Summary of implementation timeline	Starting with 2016 throughout the entire period.
Cost of implementation	Costs for implementation secured in the budget of FBiH.
Expected impact on competitiveness	Employment growth, particularly in small and medium-sized enterprises.
13. Education reform	
Short description	Implementation of the project of establishing the fund for mobility will enable realisation of the programme of international mobility of students and teaching staff and thereby development and improvements in the area of higher education, science and technology. Furthermore, through the career orientation project, we will provide for higher level of harmonisation with the needs of labour market.
Summary of implementation timeline	Starting with 2016 throughout the entire period.
Cost of implementation	Costs for implementation secured in the budget of FBiH.
Expected impact on competitiveness	Employment growth, particularly in small and medium-sized enterprises.
14. Improving the social protection system	

Short description	Introduction of the single registry of benefit users in the Federation BiH will enable more efficient control of cash benefit payments and better targetting of social benefits. which eventually secures savings in the budget.
Summary of implementation timeline	Adoption of legislative framework in 2016. followed by subsequent implementation.
Cost of implementation	Costs for implementation secured in the budget of FBiH.
Expected impact on competitiveness	Securing better and more equitable system of social benefits.

Republika Srpska

1. Reducing the tax burden on labour	
Short description	Reducing the tax burden on labour will be realised through reduction of contributions, simultaneously ensuring disburdening of the economy and safe and real sources from which lost revenue from contributions will be compensated to the extra budgetary funds. The Government of Republika Srpska expects the full engagement of all levels of government in Bosnia and Herzegovina, as well as representatives of the International Monetary Fund, considering the fact that this is one of the priority areas defined in the Reform Agenda, the implementation of which Republika Srpska initiated already in 2015, and which states that additional measures, including the increase of VAT, will be considered by the end of 2015.
Summary of implementation timeline	By the end of the second quarter at the latest perform a situation analysis and establish clear and reliable sources to compensate the loss of revenues from contributions to the extra budgetary funds. In the third quarter, prepare and adopt Drafts, and in the fourth quarter, after public debates have been completed, prepare and adopt Draft Proposals of legislative solutions which will enable tax disburdening of labour, as well as sources of additional funding for extra budgetary funds, primarily the Health Insurance Fund. In this way, by adopting the necessary legislation at all levels of governance in BiH, the conditions will be met for tax disburdening of labour as of 1 st January 2017, ensuring budget sustainability of extra budgetary funds, which is in accordance with the Proposal from the IMF Letter of Intent.
Cost of implementation	The proposal of the Government of Republika Srpska is focused on reducing the collective rate of contributions from 33.0% of the gross salary to 31.6% of the gross salary, i.e. by 1.4 percentage points (reducing the rate of contributions for health insurance by 1.0 percentage point, for child protection by 0.1 percentage points and for unemployment by 0.3 percentage points). According to the calculations of the Ministry of Finance of Republika Srpska, the financial effects of proposed changes would lead to a loss of revenues of extra budgetary funds in the total amount of around KM 72.4 million (of which the Health Insurance Fund would lose KM 43.3 million, the Child Protection Fund KM 4.5 million, the Employment Institute KM 11.1 million, and the Fund for Pension and Disability Insurance KM 13.4 million, due to the reduction of gross salaries). In that case, KM 53 million would be left at the disposal of the real sector.

Expected impact on competitiveness	Due to reduced tax burden on employment. enterprises would be more competitive in the foreign market.
2. Increasing fiscal responsibility and enhancing the system of internal financial controls in the public sector	
Short description	<p>By implementing the Law on Fiscal Responsibility in Republika Srpska adopted in 2015. we will significantly improve fiscal responsibility and discipline for public spending in the overall budget system of Republika Srpska. namely on the RS level and the level of local self-government units and extra budgetary funds alike. A primary objective is for all subjects of the budget system of Republika Srpska to present total outstanding liabilities. bring realistic plans for their settlement in the coming period and to prevent creating liabilities above the level defined in the budgets.</p> <p>By the Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska we will regulate the system of internal financial controls in public sector. which includes financial management and control and internal audit. establish methodology and standards and other issues of importance for setting. development and implementation of the system of internal financial controls in public sector. Thus. along with the Law on Fiscal Responsibility in Republika Srpska. which is already in effect. and the adoption of the Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska. we will round up the system which will allow significant improvements of fiscal discipline and responsibility in Republika Srpska.</p>
Summary of implementation timeline	<p>In the first two quarters prepare all necessary by-legal regulations on the basis of the Law on Fiscal Responsibility in Republika Srpska. and establish the Fiscal Council of Republika Srpska.</p> <p>The Law on the System of Internal Financial Controls in the Public Sector of Republika Srpska has been adopted by the Government in its Draft form. and the Government intends to have it adopted in the form of a Proposal at the National Assembly of Republica Srpska by the end of the second quarter. and to come into force as by 1 July 2016. The second half of the year would be reserved for the adoption of necessary by-legal regulations so that the stated legislative measure would be in full implementation as of 1st January 2017.</p>
Cost of implementation	<p>The above legal solutions will prevent creating liabilities that exceed the amount of funds made available to budget users from the budget. which will create significant savings both in the budget of Republika Srpska and the budgets of the local self government units. The analysis of budget execution of Republika Srpska 2010-2014. indicates that budget users created liabilities on average around KM 25 million higher than the funds provided to them by the budget framework. adding that. in 2011 and 2012. further liabilities in the respective amounts of KM 35.7 million and KM 48.9 million were created as incentives to agriculture. Based on the analysis. we can state that the implementation of the aforementioned solutions will enable savings in the amount of KM 25 million at annual level. through preventing creation of liabilities above the level of resources given by the budget framework as by 1 January 2017.</p>
Expected impact on competitiveness	The realised savings can be streamlined into capital investments. primarily into infrastructure. which would result in increased competitiveness of the economy of Republika Srpska.
3. Combating the gray economy	
Short description	<p>Combating the gray economy through the adoption of the required legal solutions. which will improve the work of all control authorities. is a measure whose implementation we started as early as in 2015. and by preparing the required legal solutions. we will realise in 2016. Grey economy significantly hampers fiscal sustainability. specifically. grey economy is a multiple and from several aspects negative phenomenon. which greatly hinders quality economic progress by creating. first of all. unfair competition. reducing revenues of budget and extra budgetary funds. preventing the employees in informal economy to exercise their rights based on social insurance. Therefore. one of the</p>

	main objectives of the Government of Republika Srpska in the coming period. on its path to achieving fiscal sustainability. i.e. fiscal consolidation. is combating and preventing the gray economy.
Summary of implementation timeline	Legal solutions will be adopted by the end of the second quarter of 2016. so implementation can start as of 1 st July 2016.
Cost of implementation	The financial effects of this measure reflect in more efficient collection of tax revenues. as well as larger coverage of tax payers. i.e. expansion of tax base. which should improve the fiscal position of both the budget of Republika Srpska and the budgets of municipalities and cities. and the fiscal position of the budget of extra budgetary funds. However. the analyses of Ministry of Finance of Republika Srpska clearly indicate that these measures will not be sufficient to cover the losses of extra budgetary funds generated by reduced tax burden on labour. so it is necessary to find realistic and reliable sources to ensure the revenues of extra budgetary funds. by engaging all levels of government in BiH. which is also one of the key commitments arising from the Reform Agenda.
Expected impact on competitiveness	Reduction of the gray economy will influence the reduction of unfair competition and contribute to the establishment of a more competitive position of companies that do not operate in the “gray zone”.
4. Reforming the health system	
Short description	<p>Reforming the health system will be implemented in several phases. As a preceding measure. an analysis of liabilities of the health care system will be carried out. specifically the health care centres and the hospital sector. so as to clearly establish the amounts of liabilities and come up with a model for their resolution. Our partner in this comprehensive and overall health sector reform will be the experts of the World Bank.</p> <p>The second step in the health care system reform will be the introduction of the treasury operations system. which will be implemented in two phases. The treasury operations system will first be introduced in the health care centres. while in the second phase the secondary and the tertiary health care level. as well as the Health Insurance Fund of Republika Srpska. will be introduced into the treasury system.</p> <p>In this way. we would create space. with the support of the experts of the World Bank. to find new models and sources of funding for the health care sector and standardise network of health care institutions.</p>
Summary of implementation timeline	<p>The establishment of a continuous system of reporting for health institutions and situation analyses need to be complete by the end of the first quarter of 2016. The intention is to complete the introduction of health care centres into the treasury system by the end of the second quarter of 2016. and the introduction of the secondary and tertiary level into the treasury system will be complete by the end of 2016.</p> <p>Finding new models and sources of funding for the health protection system is planned for implementation in the first half of 2017. so that the standardisation of the network of health institutions will be complete by the end of 2017.</p>
Cost of implementation	A detailed analysis of the health protection system is currently ongoing and is implemented by Republika Srpska together with experts of the World Bank. Detailed information on the financial situation and estimates of fiscal effects will be available after the analysis of World Bank experts is complete.
Expected impact on competitiveness	Achieved savings can be streamlined into capital investments. thus enhancing the quality of health protection services.
5. Restructuring the Railways of Republika Srpska	

Short description	<p>Financial and corporate restructuring of the Railways of Republika Srpska in accordance with the Proposal of the World Bank, which sets forth the activities of:</p> <p>3.a) Restructuring the Railways of Republika Srpska. 3.b) Consolidation of ownership of the Railways of Republika Srpska.</p> <p>The financial and corporate restructuring of the Railways of Republika Srpska is implemented with the aim of ensuring an equal position of the Railways of Republika Srpska in the market, which will ensure the framework for independent functioning of the company with a reduction of subsidies from the Budget of Republika Srpska.</p>
Summary of implementation timeline	<p>3.a) Restructuring of the Railways of Republika Srpska – the Proposal of the World Bank on the organisational restructuring of the Railways of Republika Srpska will be complete in the first quarter of 2016, and it will be submitted for consideration to the Government of Republika Srpska in the third quarter of 2016.</p> <p>3.b) Consolidation of ownership of the Railways of Republika Srpska – the consolidation of ownership of the Railways of Republika Srpska will be complete in the first quarter of 2017, when the Railways of Republika Srpska will be owned by the Government of Republika Srpska.</p>
Cost of implementation	<p>3.a) Restructuring of the Railways of Republika Srpska – no direct costs to the Budget of Republika Srpska because the Proposal for restructuring is being prepared by the World Bank, and funded by the Government of Sweden;</p> <p>3.b) Consolidation of ownership of the Railways of Republika Srpska – the expected cost is about KM 4.0 million for the buyout of the remaining share of ownership. After the adoption of the Proposal for restructuring of the Railways of Republika Srpska, other effects on the Budget of Republika Srpska will be known.</p>
Expected impact on competitiveness	<p>It is expected that the increased scope of transport, along with the resulting increase of revenues of the Railways of Republika Srpska, will result in the reduction of subsidies from the Budget of Republika Srpska.</p>
6. Re-industrialisation in all areas of the processing industry	
Short description	<p>Given that the processing industry is an important sector of the industry of Republika Srpska, the Government of Republika Srpska will start in 2016 and continue in 2017 and 2018, the process of re-industrialisation in all the areas of the processing industry, which aims at initiating/reviving the production, increasing the volume of industrial production and employment. This process implies "general cleaning up" in the enterprises with majority state-ownership, of which some do not operate or operate only with minimum capacity and are, thereby, inefficient and illiquid.</p>
Summary of implementation timeline	<p>The intention of the Government of Republika Srpska is to develop, by the end of 2016 and in cooperation with the Investment and Development Bank of Republika Srpska, which manages the funds that own the state capital in enterprises, a list of sustainable and unsustainable public enterprises, as well as the Restructuring Programme and the Privatisation Programme, while the issue of resolving the unsustainable public enterprises would be a measure in 2017 and 2018.</p>

Cost of implementation	By analysing the fiscal impact of this measure, it is clear that it will prevent creating new losses in the enterprises owned by Republika Srpska, and thereby the public funds required to secure the continuation of "survival" of the aforementioned enterprises would be directed into capital investments. At this moment, it is almost impossible to estimate the amount of potential savings since it is first necessary to review in detail the situation in each individual enterprise, which will precisely be one of the activities in 2016.
Expected impact on competitiveness	The competitiveness of the economy of Republika Srpska will be increased, considering the fact that only those subjects in the economy which are ready and able to "deal with" the market challenges will remain in the market.
7. Modernization of legal framework of the banking sector of Republika Srpska and creating assumptions for implementation of the bank resolution procedure	
Short description	In 2016, the legal framework will be modernised which will impose tighter prudential requirements of the banking business, including more adequate assessment of the risk profile of banks, better quality of risk management, consistent application of corporate governance standards, as well as improve the supervisory function of the Banking Agency of Republika Srpska by introducing additional early intervention measures, developing consolidated supervision and creating the assumptions for implementation of the bank resolution procedure.
Summary of implementation timeline	By the end of 2016, the new Law on Banks of Republika Srpska will be passed, the Law on the Banking Agency of Republika Srpska will be amended in order to be harmonised with the new Law on Banks of Republika Srpska, particularly in the segment of bank resolution and, at the same time, the Banking Agency of Republika Srpska will pass by-law regulations necessary for the implementation of the new Law on Banks of Republika Srpska. In 2017, the Banking Agency of Republika Srpska will adopt the Action Plan for Implementation of the Recommendations of the FSAP Mission covering the period 2015-2017, while in the period 2016-2018, the Banking Agency of Republika Srpska plans gradual implementation of Basel II and Basel III in line with the adopted Strategy and the Amendment to the Strategy for introduction of "International Convergence of Capital Measurement and Capital Standards BASEL II".
Cost of implementation	The new Law on Banks of Republika Srpska imposes the obligation for banks to pay regular and emergency contributions to the Bank Resolution Fund in compliance with the requirements of the new Directive of the European Union on recovery and resolution of credit institutions, which implies that future resolution of systemically important banks should be carried out at the expense of the banking sector rather than the budget resources. As it is foreseen that the bank resolution tasks are conducted by the Banking Agency of Republika Srpska and that the Bank Resolution Fund should be set up within its framework, this will lead to additional costs for setting up a special organisational unit charged with bank resolution, as well as costs for the required training of the staff performing these tasks, which will be financed from the own income of the Agency. Although this reform requires additional costs of the Agency so as to adapt to the new tasks, such a solution is less costly compared to other possible solutions of bank resolution (e.g. establishing a special institution for resolution and management of the Fund). Furthermore, a potential cost may also be the use of emergency public financial support, but only in case when the resources of the Bank Resolution Fund are not sufficient and the bank resolution is in the public interest.
Expected impact on competitiveness	The proposed measure aims at ensuring a stable and secure financial system and protection of depositors, as well as increased market discipline of the banking business.
8. Eliminating the barriers to business and investments	

Short description	Establishment of the Registry of Para-fiscal Charges. in order to prevent the creation of new para-fiscal charges. Then. with the assistance of the USAID. the analysis of para-fiscal charges included in the Registry will be continued. Based on the results of the analysis. a decision will be made on possible elimination of certain charges that prove to be unjustified. The effects will be known after the analysis is complete. Apart from that. the elimination of the Special Tax of Republika Srpska is planned within this measure. which will result in less revenue in the Budget of Republika Srpska. but also disburden business entities.
Summary of implementation timeline	1.a) Establishment of the Registry of Para-fiscal Charges – Beta version complete in the first quarter of 2016. final version expected in second quarter of 2016. 1.b) Analysis of para-fiscal charges - Analysis is ongoing. completion of analysis expected in the third quarter of 2016. 1.c) Elimination of the Special Tax of Republika Srpska is planned for the fourth quarter of 2016.
Cost of implementation	No significant costs are expected in the first two activities. whereas the elimination of the Special Tax of Republika Srpska will result in a loss of revenue in the Budget of Republika Srpska of approximately KM 10.0 million.
Expected impact on competitiveness	Disburdening businesses of para-fiscal charges.
9. Adopting and implementing the Law on Bankruptcy	
Short description	The Law on Bankruptcy provides for the resolution procedure and the bankruptcy proceedings. the legal effects of opening and conducting the resolution procedure and the bankruptcy proceedings. the re-organisation of the debtor based on the bankruptcy plan and the international bankruptcy. Taking into account the existing problems and difficulties in the bankruptcy proceedings. the new Law will achieve the following objectives: timely initiation of the resolution procedure and the bankruptcy proceedings; financial and operational restructuring of debtor in the resolution procedure; shortening the length of the bankruptcy proceedings; reducing the costs. particularly down payment costs; manner of appointing the provisional administrator respecting the principles of proportionality and equality in appointing. as well as the age limit for the bankruptcy administrators and the amount of their fees; protection of rights of creditors in the bankruptcy proceedings; improving the re-organisation process in terms of its simplification; harmonisation of regulations that impact the application of the Law on Bankruptcy proceedings; and appointing the body to perform supervision over the implementation of the legal provision pertaining to timely initiation of the proceedings and impose sanctions to the bankruptcy debtor. namely the body authorised to represent the bankruptcy debtor due to untimely initiated proceedings.
Summary of implementation timeline	Given that the draft version of the Law on Bankruptcy was adopted in 2015 and that it underwent the public debate. we expect its adoption in the first quarter of 2016.
Cost of implementation	The fiscal effects relate to reduction of costs of conducting the bankruptcy proceedings and the resolution procedure and. at the same time. provide better control and collection of claims between the business entities. thus increasing the liquidity of the economy. I.e.. positive fiscal effects are expected because this Law provides for financial and operational resolution of the debtor in the process of resolution. which results in the business not going bankrupt. and that it is not ultimately shut down. but continues its economic activity. and rescheduling its debts in accordance with the agreement on the financial and operational resolution. which leads to the company paying its tax and other fiscal obligations. contributions to public funds and salaries to workers.

Expected impact on competitiveness	This Law will influence the increase of competitiveness of enterprises in Republika Srpska in relation to enterprises in other countries and the region. because the Law has an impact on creating better quality of the business environment in Republika Srpska by ensuring that creditors can collect their claims through the resolution procedure. i.e. a more efficient, safe and short bankruptcy procedure. This Law leads to a safer and more efficient collection of claims in comparison to the current Law, which leads to foreign enterprises investing into Republika Srpska and doing business with enterprises from Republika Srpska.
10. New labour legislation and support to employment in the real sector	
Short description	<p>The key measure of the Government of Republika Srpska in terms of the labour market in 2016 is the new labour legislation and support to employment in the real sector.</p> <p>The new Law on Labour will increase the flexibility of the labour market, ensure better correlation of level of wages and performance, reduce negative incentives for employment, ensure better protection of the rights of workers and reduce informal employment and, in that way, it will significantly contribute to improving the situation of workers and enterprises alike. After the adoption of the new Law on Labour, amendments of other legal solutions in the area of labour and employment will be initiated with the goal of harmonisation with the new Law on Labour, as well as the conclusion of a new General Collective Agreement.</p> <p>Support to employment in the real sector will be defined in the Employment Strategy and other documents pertaining to employment, and priority will be placed on population categories such as the families of fallen soldiers and best students of public universities. Mandatory multi-annual planning of human resources will be introduced in the public sector, which will include planning regular and early retirement, resolving the redundancies and controlled, reduced employment of new workers with respect to the priorities defined in the previous paragraph. Furthermore, redefining the role of the Employment Service of Republika Srpska, in terms of strengthening the role of mediation in employment and implementation of programmes and measures of active employment policies, is also an important activity of the Government in 2016. For the needs of employers, availability of lists of unemployed persons will be ensured in order to provide faster and easier communication of employers, on the one hand, and persons seeking employment, on the other. The Law on Employment Incentives, which will be prepared in cooperation with the Chamber of Commerce, will provide measures to stimulate employers for the number of newly-employed workers in 2016 in comparison to the number of workers in the previous year. This Law will encompass companies and enterprises.</p>
Summary of implementation timeline	The Law on Labour was adopted in 2015, so by-law regulations will be adopted in 2016, and the harmonisation of other legal solutions with the new Law on Labour will also be initiated. Furthermore, the analysis of solutions set forth in the Law on Labour will also be performed, with the goal of removing the problems that occur in its implementation. The Employment Strategy will be prepared by the end of 2016, as well as the Plan of Human Resources in the Public Sector. Redefining the role of the Employment Service in terms of its greater openness towards employers will be realised in 2016, and the new Law on Employment Incentives will also be prepared and adopted by the end of the year, which will round up the realisation of the measure of support to employment in the real sector.

Cost of implementation	The fiscal effects of this measure will be seen in increased income taxes and contributions for newly-employed workers, whereas the negative effect on the budget will be seen in refund of taxes and contributions, depending on the solution for employment support defined in the new Law on Employment Incentives. However, it is important that the net effect on the budget will definitely be positive.
Expected impact on competitiveness	Enhanced flexibility of the labour market will significantly increase competitiveness of the economy of Republika Srpska.

ANNEX 2.

External contributions to the ERP 2016-2018

Written comments and suggestions on the document Economic Policy of Republika Srpska for 2016 were used, as well as comments on the Republika Srpska Economic Reform Programme for the period 2016-2018, considering the fact that they include the same policies.

In this regard, attached to this document are the written Comments from the Public Discussion (zip document in attachment).

Written comments and suggestions from the public debate on material prepared by the Federation BiH are enclosed herewith in Annex 2 of the Programme.