Council of the
European Union

Brussels, 19 April 2023
(OR. en)

8428/23

ECOFIN 341
UEM 78
COWEB 47

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	18 April 2023
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2023) 110 final
Subject:	Commission staff working document - Economic reform programme of Bosnia and Herzegovina (2023-2025) - Commission assessment

Delegations will find attached document SWD(2023) 110 final.

Encl.: SWD(2023) 110 final

EUROPEAN
COMMISSION

Brussels, 18.4.2023
SWD(2023) 110 final

COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

BOSNIA AND HERZEGOVINA
(2023-2025)

COMMISSION ASSESSMENT

The economic reform programme (ERP) was submitted with a nearly 7-week delay on 20 March 2023. This significantly reduced the time available for analysing and assessing the authorities' projections and policy plans to address the significant economic challenges the country is facing.

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1. EXECUTIVE SUMMARY

The economic reform programme (ERP) anticipates that economic growth will slow in 2023 before a moderate, investment-driven rebound in 2024-25. After a post-pandemic rebound in 2021, a deteriorating international environment and increasing inflationary pressures led economic growth to slow in 2022. Still, output growth was solid at 4%, largely driven by domestic demand. The ERP expects GDP growth to moderate to 1.7% in 2023, before accelerating again in the last 2 years of the ERP period, benefiting from an improving international outlook, strengthening domestic demand and, in particular, increasing private and public investment. Inflation is projected to fall to close to 2% by 2025. Despite a domestically driven growth acceleration in 2024-2025, the programme forecasts a reduction in the current account deficit. A key domestic downside risk to economic growth is the continued lack of reform momentum due to sustained political stalemates, which would impede investment. Externally, stronger-than-expected negative effects from Russia's war of aggression against Ukraine could dampen economic growth prospects.

The ERP expects rising revenues to lead to sizeable fiscal surpluses while public investment is set to remain low, contrary to the country's needs. After higher-than-expected inflation boosted the country's revenue performance in 2022, the programme envisages a balanced budget in 2023 and fiscal surpluses of around 1.5% of GDP in 2024 and 2025. The main contribution to fiscal consolidation is set to come from increased revenues, in particular from social contributions and taxes. Total expenditure is projected to remain largely unchanged as a percentage of GDP, with low growth in investment making room for larger increases in social transfers and government consumption. The planned reduction in investment spending in 2024, presented in the fiscal framework, is in conflict with the macroeconomic framework's assumptions and is not in line with the country's needs and the jointly adopted 2022 policy guidance. From 2024 onwards, significant primary surpluses are expected to reduce the debt ratio, to close to 28% of GDP by 2025. Key fiscal risks stem from over-optimistic assumptions about revenue growth and insufficiently specific expenditure measures. The reliability of the fiscal framework as presented is diminished by weak alignment with EU public sector accounting standards and incomplete reporting on contingent liabilities. As a result, both the deficit and debt ratios may be higher than reported. Overall, despite the relatively low level of public debt, the fiscal scenario as presented does not appear to correspond to the challenges the country is facing, in particular the moderate growth outlook, high investment needs and challenges involved in moving towards EU accession.

The main challenges facing Bosnia and Herzegovina are the following.

- **Country-level policy formulation is strongly impeded by highly fragmented competences and a lack of cooperation among the country's stakeholders.** The high degree of institutional fragmentation, a lack of cooperation among key stakeholders and excessively politicised decision-making processes continue to undermine the country's ability to formulate consistent short- and medium-term fiscal strategies. As a result, the ERP continues to lack a countrywide perspective, and suffers from an insufficient medium-term orientation and inconsistencies between the various programme elements. This is partly a reflection of the country's insufficient central administrative capacity. Furthermore, the economic analysis is negatively affected by the lack of accurate and timely empirical data.

- **The quality of public spending and revenue collection remains low.** Public spending focuses strongly on public consumption and poorly targeted social transfers, clearly neglecting medium-term investment needs in areas such as education, infrastructure and environment. At the same time, the overall quality of health services remains inadequate. Social spending is still not properly targeted, partly as a result of the country's fragmented administration. The level of public investment is low in view of the country's needs and its implementation appears to be uncoordinated, insufficiently prioritised and slow. Public investment would need a substantial and sustained boost to move the economy onto a higher growth trajectory. Revenue collection is negatively affected by a significant informal economy and insufficient transparency of taxable income. Given the continuing high uncertainty about the impact of Russia's war of aggression against Ukraine, a readiness to provide targeted support to vulnerable households and firms, if needed, seems appropriate.

- **A difficult business environment and weaknesses in the country's single economic space are key factors driving poor labour market outcomes, holding back improvements in competitiveness and living standards and impeding preparations for the green and digital transitions.** A persistent issue is the insufficient political ambition to tackle regulatory burdens and corruption. The country's high degree of institutional and regulatory fragmentation and low level of coordination among all levels of government are also major obstacles. The ERP acknowledges problems related to the business environment and regulatory burden. However, it does not include measures capable of meeting the scale of the challenge, nor does it recognise the underlying issues relating to lack of coordination among the various levels of government. Targets for renewable energy and energy efficiency have still to be adopted, as has key legislation at the State-level on opening gas and electricity markets to ensure the green transition and facilitate the necessary investment, including by the private sector. Delivering on commitments to gradually phase out coal subsidies and introduce carbon pricing instruments will be particularly challenging. Digital transformation is lagging behind in both business and in the public administration. A more focused, urgent approach is needed from the authorities on the green and digital transitions.

- **The still-oversized public administration and poorly performing state-owned enterprises (SOEs) put a significant burden on taxpayers and adversely affect the business environment.** SOEs are a heavy burden on the country's public finances and undermine competition. Many of these companies have low productivity while at the same time offering significantly higher wages than in comparable private industries. Many public companies rely on state support and sometimes delay payments to the social security systems or to private suppliers, creating substantial liquidity imbalances in other areas of the economy. Whereas legislation partially provides for open and transparent selection procedures, in practice appointments to SOE boards are highly politicised. The ERP acknowledges the need for and potential benefits of improved governance of SOEs, but reform efforts are slow. Plans for the first steps of reform (to establish central SOE oversight units in both entities) are still at an early stage and SOE registers are still incomplete in terms of coverage and information available.

- **The main labour market indicators highlight a worrying lack of dynamism** with, in particular, a high inactivity rate and low employment rate. Indeed, it is worth noting that more than half the working-age population are neither employed nor looking for work. These figures reflect not only a lack of employment opportunities, especially for young people, women and most vulnerable, but also a large informal economy and societal norms that do not favour a functioning labour market. Clientelism is widely practised. Discrimination can take various forms, reflected in education and consequently in the labour market. The country is facing an enormous ‘brain drain’ and employers have difficulties in finding the skills they need. This worrying situation is mainly due to disagreement between different levels of the state structure, on policies that should attract a broad consensus.

The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2022 has been limited. Some effort has been made to use the fiscal space to cushion the impact of external shocks, but the measures are not properly targeted. Steps have been taken to increase public investment, but measures to improve investment management have remained very limited. No action has been taken to improve the efficiency of tax collection or to clarify the constitutional competences for establishing a central registry of private individuals’ bank accounts. No progress has been achieved on reporting contingent liabilities related to the COVID-crisis response. Efforts to improve the analytical capacities of governmental institutions have remained limited, including in the field of statistics. The currency board arrangement and central bank independence have been maintained, although the smooth functioning of the central bank was impeded by delays in appointing its governing board members. No further progress was made on simplifying business registration, licensing and permitting procedures and harmonising them countrywide, nor was there any progress in adopting a law on electronic identity and trust services, though substantial progress was made on customs policy. While the country did adopt a comprehensive, countrywide public finance management strategy, work on reforming the governance of SOEs is still at an early stage and is advancing only slowly. No progress has been made in strengthening coordination mechanisms on employment policies at country level, and only one of the two entities was able to adopt a new employment strategy, which thereby undermines the development of a countrywide approach. Almost no progress has been made on introducing a Youth Guarantee in the country. Some progress was achieved at entity level to improve access to early childhood education and care for vulnerable groups, even though the closure of many pre-schools resulted in a lower rate of enrolled children.

The ERP identifies reform challenges that are partly in line with those identified by the Commission. Macroeconomic analysis is strongly impeded by low quality and out-of-date countrywide statistics. The fiscal framework is overly optimistic with respect to revenue projections, while spending policy is not sufficiently growth- and investment-oriented, especially given the country’s investment needs. The measures to promote employment, social policies and education are not sufficiently detailed and lack a fiscal underpinning. Reform measures that would plan the implementation of Youth Guarantee are missing. Given the aim of fostering a common internal market in the country, more specific references should have been made to identifying and addressing the structural weaknesses burdening the business environment. Many of the measures in the ERP are not countrywide and often lack consistency and coherence. Adopting a whole-of-government approach is a prerequisite for addressing these challenges. Bosnia and Herzegovina should set up a well-functioning coordination and consultation mechanism for the ERP process and integrate it better into wider budget and economic policymaking processes.

2. ECONOMIC OUTLOOK AND RISKS

After a strong rebound in 2021 from the pandemic-induced crisis, economic activity slowed down in 2022, reflecting a deteriorating international environment and accelerating inflation. Annual output growth slowed from 7.2% in 2021 to 4% in 2022[1], which is a better outcome than the ERP estimate of 2.7%. To some extent, this slowdown reflects a base-year effect after the strong rebound in 2021, which also led to increasing price pressures as early as late 2021. Russia's invasion of Ukraine further contributed to inflationary pressures by pushing up prices for imported energy and primary commodities. At the same time, external demand declined, though from a high level. The main drivers of growth in 2022 were exports, gross investment (in particular inventories) and private consumption. The labour market remained resilient in 2022. Registered employment was 2.3% higher than in 2021, while the unemployment rate - as measured by the labour force survey (LFS) - dropped to 15.4% in 2022, compared to 17.4% in 2021. Youth unemployment (age group 15-24) returned to pre-COVID-19 levels, dropping to a still high rate of 36.1% in 2022.

The programme expects economic growth to decelerate in 2023, mainly reflecting sluggish external demand and weak growth in disposable income due to high inflation, but to regain momentum in 2024 and 2025, driven mainly by domestic demand. Compared to last year's programme, the baseline scenario forecasts significantly weaker growth in 2023 (1.7% instead of 3.5%). For 2024 and 2025, the programme projects a more dynamic growth profile, with output growth increasing to 2.7% and 3.0%, respectively. This brings average output growth during the programme period to 2.5%, compared to 3.5% expected in the previous programme. The more moderate growth profile reflects weaker export demand, higher inflation negatively affecting disposable income, and less benign monetary and financial conditions. As in previous programmes, the main sources of growth are seen to be private consumption and higher fixed investment and inventories. Investment is expected to benefit from increased public spending on transport and energy. In terms of the economy's cyclical position, the ERP expects the negative output gap of the previous years to turn positive in 2023. The programme again anticipates mainly indirect effects from Russia's invasion of Ukraine, such as lower export demand in the main trading partners and significant increases in energy and food prices, eroding disposable income. The ERP estimates the country's growth potential to be around 2½%.

The programme also presents an alternative macroeconomic scenario, which assumes less favourable external demand and higher inflation. This would reduce average annual GDP growth by about half a percentage point, compared to the baseline scenario, to 1.9% on average during 2023-2025, mainly as a result of lower exports and investment and slightly higher inflation in 2023. With respect to internal risks, the programme points to complex decision-making and the slow reform implementation as potential downside risks, which could lead to lower investment but also a bigger brain drain. However, the alternative scenario does not quantify the potential impact of those risks on GDP growth. As last year, the alternative scenario briefly discusses the key risks to the benchmark scenario in a qualitative way, but unfortunately does not quantify the

(1) Macroeconomic and fiscal estimates and forecasts covering the period 2022-25 have been taken from the ERPs themselves; if available, preliminary macroeconomic and fiscal outturn data for 2022 have been taken from the relevant national sources (national statistical office, ministry of finance, central bank).

underlying assumptions. Given the multitude of potential risks, the estimated annual impact of half a percentage point on overall GDP growth appears to be on the low side.

Table 1

Bosnia and Herzegovina - Macroeconomic developments

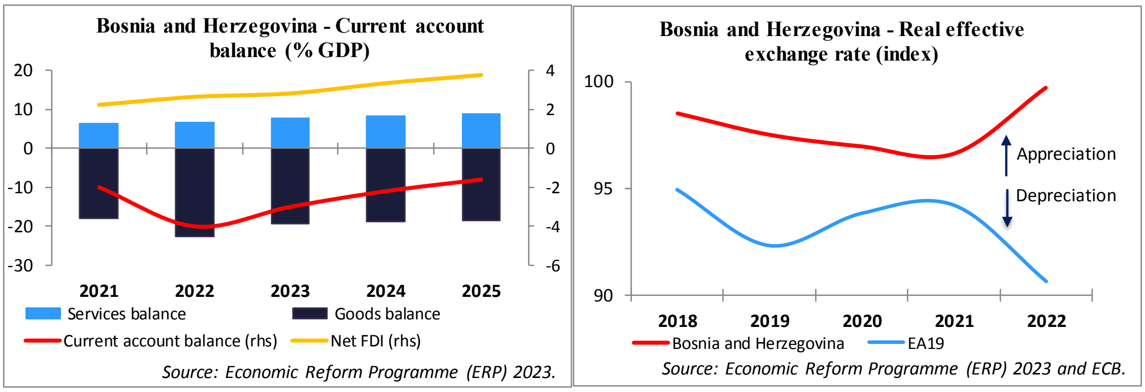
	2021	2022	2023	2024	2025
Real GDP (% change)	7.6	2.7	1.7	2.7	3.0
Contributions:					
- Final domestic demand	4.9	1.4	0.9	1.1	2.1
- Change in inventories	4.0	1.4	0.5	1.1	0.8
- External balance of goods and services	-1.4	-0.1	0.3	0.5	0.2
Employment (% change)	-1.9	0.6	0.5	1.0	1.4
Unemployment rate (%)	17.4	15.7	15.3	14.4	13.1
GDP deflator (% change)	4.7	7.3	4.5	2.6	2.4
CPI inflation (%)	2.0	13.1	6.7	3.1	2.2
Current account balance (% of GDP)	-2.0	-4.0	-3.0	-2.2	-1.6
General government balance (% of GDP)	1.8	0.3	0.0	0.7	1.6
Government gross debt (% of GDP)	32.0	30.5	30.2	29.5	28.4

Sources: Economic Reform Programme (ERP) 2023.

The ERP's overall baseline scenario is largely plausible, although the projected strong growth contribution from inventories is questionable. The main risks are seen to be related to weaker-than-expected international demand, weaker investment and a further substantial brain drain. Key upside and downside risks are related to the international uncertainty, partly due to Russia's invasion of Ukraine, which could lead to weaker external demand in 2023 and significantly higher inflationary pressures. This would reduce household spending, which the programme sees as a key growth driver. Unfortunately, like the previous programme, the ERP does not provide information on the impact of structural reforms or of ongoing or planned recovery measures. Overall, the baseline macroeconomic scenario is largely plausible, expecting weaker output growth in 2023 and a strengthening of the economic dynamics in 2024 and 2025. International institutions expect annual GDP growth of some 2% to 3% in 2023 with some acceleration in the following years.

The programme expects a swift drop in inflationary pressures. After annual average inflation of 2% in 2021, inflationary pressures started to mount during 2022, especially after Russia's invasion of Ukraine, which resulted in higher energy and food prices. Consumer price inflation reached a peak in October 2022 with a year-on-year increase of 17.4%, which moderated to 12.9% in February 2023. On average, consumer price inflation was 14.0% in 2022. The programme expects a rapid decline to 6.7% in 2023 and then to 3.1% and 2.2% in 2024 and 2025, respectively. The main factors behind this rapid disinflation are lower import prices, in particular for energy. Bosnia and Herzegovina's currency peg to the euro has served the country well so far, but also limits the central bank's ability to influence price developments. The country has a track record of relatively low inflationary pressures, which to some extent might reflect the country's below-potential growth performance. Nevertheless, there are also some upward risks to the programme's inflation scenario. Recent, relatively generous wage agreements not only reflected rapidly rising energy and food prices, but also election-related public sector wage hikes. Another inflationary factor might be the increasing scarcity of qualified labour, resulting from a substantial brain drain, especially among the young and educated. Finally, inflation is measured using a relatively old consumer basket by an under-resourced national statistics agency.

Graphs: external competitiveness and the current account



The current account balance projection is based on expected stable workers' remittances and tourism revenues but also moderate growth dynamics and low investment, which keeps import growth down. After a drop in the current account deficit to 2% of GDP in 2021, the programme expects a marked, but temporary increase to a deficit of 4% of GDP in 2022, mainly due to much higher spending on energy imports. During the programme period, the ERP projects a sustained reduction in the deficit, to 3% of GDP in 2023 and 1.6% of GDP in 2025. The programme expects that the deficit in the balance of goods and services will be largely financed by current transfers, primarily consisting of workers' remittances, accounting for more than 10% of GDP. Foreign direct investment inflows are relatively low, expected to be just under 2% of GDP in 2023-2025, and mainly consisting of reinvested earnings. The inflow of investment into new companies has been quite limited in recent years, which, to some extent, might reflect the cumbersome business environment, the country's fragmented internal market and political uncertainty resulting from persistent political stalemates. The country's external competitiveness deteriorated recently as a result of an appreciation of the real effective exchange rate, but also reflecting strong wage increases. The expected reduction in the current account deficit appears to rely largely on an increasing service balance surplus, which, however, is not explained in the programme. While last year's programme forecast a slight increase in the current account deficit, from 2.5% of GDP in 2022 to 2.9% in 2024 in line with the expected acceleration in output growth, the current programme expects a slight decline in the current account deficit, from 4% in 2022 to 2.2% in 2024 and 1.6% in 2025, against a background of slightly weaker, but still accelerating growth. Unfortunately, the programme does not provide a sufficient explanation for this more favourable development. The effect of the war in Ukraine on the country's external balances is not explicitly discussed. Arguments used in the programme, such as weaker external demand and higher import prices due to the fallout from Russia's invasion of Ukraine, would actually suggest increasing external imbalances. As far as the financing of the current account deficit is concerned, the financing needs so far were to a large extent covered by (rather limited) foreign direct investment inflows and loans from international financial institutions at relatively favourable rates. The gross external debt ratio remained moderate, at some 58% of GDP in 2022, while the net international investment position remained stable in nominal terms, but improved in relation to nominal GDP, from -35% of GDP in 2020 to about -28% in 2022. Partly as a result of international, COVID-related support, such as the additional special drawing right (SDR) allocations by the International Monetary Fund (IMF), the country's foreign exchange reserves are relatively high. At the end of 2021, the reserve would cover 9.3 months of imports, which, due to higher spending on energy imports, dropped to some 8 months in the third quarter of 2022.

Table 2

Bosnia and Herzegovina - Financial sector indicators

	2018	2019	2020	2021	2022
Total assets of the banking system (EUR million)	15 264	16 621	16 824	18 121	18 628*
Foreign ownership of banking system (%)	84.8	84.7	83.1	82.2	73.9*
Credit growth (aop)	6.6	5.7	1.1	1.7	4.2
Deposit growth** (aop)	11.3	9.3	5.6	10.1	5.9
Loan-to-deposit ratio*** (eop)	91	89	83	77	76
Financial soundness indicators (%, eop)					
- non-performing loans to total loans	8.8	7.4	6.1	5.8	4.5
- regulatory capital to risk-weighted assets	17.5	18.0	19.2	19.6	19.6
- liquid assets to total assets	29.3	29.2	28.6	30.7	30.5
- return on equity	8.5	9.1	5.6	9.6	12.0
- forex loans to total loans	56.7	53.9	53.9	50.2	43.3

* Q3

** Total deposit growth

*** Non-interbank loans to customer deposits

Sources: Central Bank, Supervisory banking agencies, CBBH calculation.

The country's financial sector has remained stable and so far has weathered the impact of Russia's invasion of Ukraine well. The banking sector benefited from a solid capital endowment and government measures to support the economy. A few days after Russia's invasion of Ukraine, the two entity-level banking agencies had to take over the subsidiaries of Russia-based Sberbank when their liquidity deteriorated rapidly as a result of quickly accelerating deposit withdrawals. In 2022, credit growth slowed to 4.3%, which is especially low given the underlying double-digit inflation rates. Deposit growth has also slowed, reflecting the deteriorating liquidity situation of households and businesses. So far, the banking sector has managed to avoid a marked deterioration in financial soundness indicators. The non-performing loans (NPL) ratio decreased further to 4.5% end of 2022, and the ratio of foreign-denominated loans to total loans has also continued to decline. However, in some smaller, domestically-owned banks, NPL ratios appear to be significantly higher. There appears to be scope to increase the financial sector's role in reaching climate and energy targets in line with European and international commitments by adopting policy measures in the area of sustainable finance (such as sustainability disclosures, sustainable finance taxonomies etc.).

3. PUBLIC FINANCE

Fiscal performance in 2022 benefited from stronger than anticipated revenue growth. Official data on the country's fiscal performance in 2022 is not available yet. However, based on provisional data, the programme anticipates that total revenue will have risen by 10.3% in 2022, compared to the 2.9% anticipated increase in the previous programme. Total spending is estimated to have increased by 14.5% in the current programme, compared with last year's 1.5% estimate. The 2023 programme estimates a surplus of 0.3% of GDP, while the 2022 programme expected a deficit of 0.2% of GDP in 2022. Thus the current programme anticipates a 0.5 pp improvement in the country's fiscal position, compared with last year's estimate. However, according to the central bank estimates, which try to align with the European system of national accounts (ESA) standards, the general government registered a deficit of 0.3% of GDP in 2021. Official fiscal data for 2022 is expected by November 2023. The main factor behind the better-than-expected revenue performance was the strong increase in tax revenues (+16%), compared to a nominal GDP increase of 10.2%. On the spending side, the main driving factors were strong increases in social transfers (+14.3%) and collective consumption (+12.6%), accounting for some 70% of the total spending increase. In addition to COVID-19, the higher spending probably was also related to the general elections in October 2022. The public debt ratio declined from 32% of GDP in 2021 to some 30.5% at the end of 2022, mainly benefiting from a 10.2% increase in the level of nominal GDP. There is a significant degree of non-alignment with EU public sector accounting standards, particularly with respect to publicly owned enterprises, which strongly impedes the assessment of the country's actual fiscal position. As a result, both the deficit and debt ratio could be significantly higher than reported.

The ERP's medium-term fiscal strategy envisages a balanced budget in 2023 and targets increasing primary surpluses in 2024 and 2025. This underlying fiscal stance is surprising given the country's moderate growth, high investment needs and low public debt levels. During the ERP period, total revenues are set to increase by 1.1 pps of GDP, while total spending is set to fall by 0.2 pps of GDP. Both the budget balance and the primary balance are set to remain in surplus and improve by 1.4 pps and 1.7 pps respectively. Revenues are expected to rise by 6.7% on average in 2023-25, compared to nominal GDP growth of 5.7% during this period. According to projections, this is to be partly driven by the 9% average annual increase in social contributions, which is surprisingly high given projected employment growth rates of below 1.5%. Property tax income is also expected to be almost 20% higher than last year, although this is not explained further in the ERP. On the spending side, the slowdown in total expenditure growth is mainly the result of decelerating increases in collective consumption and social transfers, albeit from a high base, due to COVID-19 and the energy crisis. However, by 2025, social transfers will still be nearly 1 pp of GDP higher than in 2022, and 1½ pps higher than in 2021. At the same time, investment spending is projected to remain below nominal GDP growth, with a 0.4 pp fall in investment in 2022-2025, to just 3.4% of GDP. The neglect of public investment is not in line with the country's needs and is also in conflict with the jointly agreed policy guidance. Another feature of the country's fiscal position that would have merited more explanation is the increasing surpluses for local government and social security funds.

For 2023, the ERP projects balanced general government accounts, as the surpluses for local governments and social security funds are set to largely compensate the expected central government deficit of 0.6% of GDP. The fiscal data provided for 2023 is based on the country's medium-term fiscal framework, and not on actual budgetary proposals, even though these were already available when the programme was submitted. The programme expects an 8% increase in total revenues, mainly driven by higher revenues from social contributions and taxes, increasing by 9.4% and 7.7% respectively, compared to nominal GDP growth of 6.3%. On the expenditure side, the overall increase is primarily driven by higher spending for collective consumption (+9.2%) and social transfers (+10.5), while investment will increase by 3.8%.

Table 3

Bosnia and Herzegovina - Composition of the budgetary adjustment (% of GDP)

	2021	2022	2023	2024	2025	Change: 2022-25
Revenues	40.4	40.4	41.1	41.3	41.5	1.1
- Taxes and social security contributions	35.5	36.7	37.5	37.8	38.1	1.3
- Other (residual)	4.9	3.7	3.6	3.5	3.5	-0.2
Expenditure	38.6	40.2	41.1	40.7	39.9	-0.2
- Primary expenditure	37.9	39.5	40.2	39.7	39.0	-0.6
of which:						
Gross fixed capital formation	3.3	3.8	3.8	3.4	3.4	-0.4
Consumption	16.5	16.8	17.3	16.9	16.5	-0.3
Transfers & subsidies	16.3	16.8	17.4	17.8	17.7	0.9
Other (residual)	1.9	2.0	1.7	1.5	1.4	-0.7
- Interest payments	0.6	0.6	0.9	1.0	1.0	0.4
Budget balance	1.8	0.3	0.0	0.7	1.6	1.4
- Cyclically adjusted	2.5	0.6	-0.3	0.3	1.5	0.8
Primary balance	2.4	0.9	0.9	1.7	2.6	1.7
- Cyclically adjusted	3.1	1.2	0.6	1.2	2.4	1.2
Gross debt level	32.0	30.5	30.2	29.5	28.4	-2.1

Sources: Economic Reform Programme (ERP) 2023, Commission calculations.

The relatively low debt level suggests that there is fiscal space to support stronger investment and growth. According to the programme, the country's debt ratio rose to 32% of GDP in 2021, partly reflecting higher borrowing due to COVID-19. For 2022, the programme expects the debt ratio to have fallen to 30.5%, benefiting from a primary surplus of 0.9% of GDP and from a favourable snowball effect due to strong nominal GDP growth. The increasing primary surplus is set to drive the continuing fall in the debt ratio to 28.4% of GDP by 2025. Interest payments are expected to rise moderately but only to about 1% of GDP in 2024-25, reflecting both the relatively low level of debt and the favourable borrowing costs due to the country's strong reliance on financing from the IMF, the World Bank and the European Investment Bank. The decomposition of the debt dynamics points to significant debt-increasing component from the stock-flow adjustment, which is not further elaborated on in the programme.

Bosnia and Herzegovina **Composition of changes in the debt ratio** (% of GDP)					
	2021	**2022**	**2023**	**2024**	**2025**
Gross debt ratio [1]	**32.0**	**30.5**	**30.2**	**29.5**	**28.4**
Change in the ratio	-2.0	-1.5	-0.3	-0.7	-1.1
Contributions [2]:					
1. Primary balance	**-2.4**	**-0.9**	**-0.9**	**-1.7**	**-2.6**
2. "Snowball" effect	**-3.1**	**-2.3**	**-0.9**	**-0.5**	**-0.6**
Of which:					
Interest expenditure	0.6	0.6	0.9	1.0	1.0
Growth effect	-2.3	-0.8	-0.5	-0.8	-0.8
Inflation effect	-1.4	-2.1	-1.3	-0.7	-0.7
3. Stock-flow adjustment	**3.5**	**1.7**	**1.5**	**1.5**	**2.1**

[1] End of period.
[2] The snowball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).
The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other effects.
Source: Economic Reform Programme (ERP) 2023, Commission calculations.

Risks to the programme's fiscal scenario are significant, primarily because of the optimistic revenue assumptions, the possibility of another domestic political stalemate and uncertainties relating to Russia's war of aggression against Ukraine. Despite the country's track record of an overall solid fiscal position, there is a significant risk that the optimistic revenue expectations will not materialise. A further risk, in view of upcoming municipal elections in 2024, is that public spending will further intensify the country's focus on transfers and public consumption, at the expense of much-needed public investment in infrastructure, education and the development of a well-functioning country-level administration. Furthermore, there are significant upcoming fiscal financing needs in the *Republika Srpska* entity, which, in view of the currently high uncertainty on global financial markets, could become costly to cover.

The quality of public finances and budget planning remains low. The country's public finances continue to be plagued by substantial payment arrears, particularly in the health sector, which are likely to have increased further during the COVID-19 pandemic. In addition, significant budget guarantees have been provided and the fiscal situation of many publicly owned companies is far from transparent. The programme does not present sufficient plans to improve spending structure and, as in previous years, lacks a sustained pro-growth orientation. This approach is not in line with the policy guidance jointly adopted in the last 6 years, which called for higher investment and a more growth-oriented fiscal policy. Transparency and governance of the public sector are very limited, leading to major governance issues particularly in the health sector and in publicly owned companies.

The country's fiscal framework continues to be beset by institutional fragmentation, low-quality fiscal data and a lack of cooperation among the various stakeholders. Alignment with EU reporting standards and budgetary frameworks is still very limited. There are also significant weaknesses in consolidating and aggregating fiscal data from lower levels of government, in particular on the countrywide level but also within the Federation entity. So far, only one entity has adopted fiscal rules, and there is no independent fiscal council to monitor countrywide fiscal performance. The effectiveness of the medium-term fiscal framework is also very limited. Finally, the availability and quality of fiscal data suffers from a number of issues, including lack of cooperation among the various budget users, and political resistance that impedes alignment with the ESA. As a result of these deficiencies, there is a risk of significant fiscal under-reporting.

4. KEY STRUCTURAL CHALLENGES AND REFORM PRIORITIES

Substantial structural weaknesses in Bosnia and Herzegovina's economy are preventing the country from catching up faster. Sustained reform measures are needed to significantly improve the living standards of its people. Drawing on Bosnia and Herzegovina's own ERP but also using other sources, the Commission has conducted an independent analysis of the economy to identify the key structural challenges to boost competitiveness and inclusive growth. While there are a number of obstacles, especially in the context of the economic fallout from Russia's invasion of Ukraine and the related energy crisis, the key structural challenges identified point to the areas with the biggest potential for fostering economic resilience as well as boosting inclusive growth and competitiveness if the challenges are properly addressed.

High structural unemployment and consistently high emigration are clear consequences of those weaknesses, rather than merely the result of an insufficient functioning of the country's education system. It also points to a poor business environment resulting from the country's institutional and economic fragmentation, a weak rule of law as well as an inadequate and inconsistent legal framework. Furthermore, the economic activities of the public sector negatively affect the economy due to their inefficient management.

High structural unemployment and consistently high emigration are clear consequences of the structural weaknesses, rather than merely the result of a poorly functioning education system. They also point to a poor business environment resulting from the country's institutional and economic fragmentation, weak rule of law and an inadequate and inconsistent legal framework. Furthermore, public sector activity has a negative effect on the economy due to the inefficient way it is managed.

The main challenges for boosting competitiveness and long-term and inclusive growth are therefore to:

- (i) increase employment, particularly of young people, women and people in vulnerable situations
- (ii) improve the business environment and strengthen the country's internal market and readiness for the green and digital transitions
- (iii) improve the performance, transparency and accountability of public enterprises.

A thread common to all three challenges is the need for Bosnia and Herzegovina to tackle corruption, improve the rule of law and strengthen institutions, including independent institutions, in order to promote competitiveness. Addressing these fundamental concerns is a prerequisite for successful economic development. The Commission is closely following aspects relating to strengthening the rule of law and fighting corruption in its annual country report on Bosnia and Herzegovina.
Furthermore, the country should proactively implement the Energy Community's Decarbonisation Roadmap to achieve the agreed climate and energy targets, and strive towards establishing a carbon pricing instrument compatible with the EU ETS.

Key structural challenge 1: Increasing employment, particularly of young people, women and people in vulnerable situations

A large portion of the population is facing social exclusion in Bosnia and Herzegovina, with some 18.9% estimated to be living below the income poverty line. Over the past two decades, Bosnia and Herzegovina's human development index score has increased from 0.667 in 2000 to 0.780 in 2021, indicating that the country has reached high levels of human development. However in spite of steady economic expansion in recent years, a large proportion of the population are unable to exit poverty because of the labour market. This vulnerability is due to a number of factors including quality of education and lack of economic opportunities for all, in particular for women, young people and people in vulnerable situations. In addition, it is recognised that the widespread patronage system disproportionately affects vulnerable groups[2] as they often depend on public services. In this context, the hypertrophy of the public service should be highlighted: it accounts for 29.2% (2018) of total employment, compared with 23.7% in the OECD-EU region[3].

The main labour market indicators reflect a limited dynamism and a significant gender gap, with women's activity and employment rates around 25 pps lower than those for men. A report[4] by UN Women on gender equality in Bosnia and Herzegovina highlights that women in rural areas face greater challenges in accessing education, healthcare, and employment opportunities, compared to their urban counterparts. The report also highlights the prevalence of gender-based violence in rural areas, which further exacerbates the gender gap. The latest figures from the labour force survey published in the third quarter of 2022[5], indicate that 1 521 million working-age people – more than half the total number – are neither employed nor looking for work, while the total number of people who are employed or looking for work is 1 366 million, of which 1 163 million (85.2%) are employed and 203 000 (14.8%) are unemployed. Unsurprisingly, the high inactivity rate is not accompanied by a very high unemployment rate. It reflects widespread discouragement given the lack of employment opportunities, especially for young people, women and minorities, but also conceals a large amount of informal labour and societal norms that do not favour a smooth functioning of the labour market. Out of the total labour force, 846 000 (61.9%) are men and 520 000 (38.1%) women. In addition, women account for just 36.1% of those employed compared to 49.6% of those unemployed. Moreover the gender pay gap in the country is estimated at

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(2) According to the U4 Anti-Corruption Helpdesk Overview of corruption in Bosnia and Herzegovina, The most vulnerable groups susceptible to social exclusion and poverty in Bosnia and Herzegovina include returnees and internally displaced people, persons living in distant rural areas, Roma, youth, women, victims of gender-based violence, older people, those living with HIV/AIDS and tuberculosis, and people with disabilities. Roma women, in particular, face multiple forms of discrimination due to their ethnic as well as gender identity.

(3) *Governement-at-a-glance, Country fact sheet, Western Balkans 2020*, OECD

(4) *Country Gender Equality Profile of Bosnia and Herzegovina,* UN Women (2021).

(5) Labour force survey, 3rd quarter, 2022

around 18% compared to 12.7% in EU (2021). Among the unemployed population, unskilled and low-skilled workers predominate. According to the labour force survey, 57% of the unemployed have been looking for a job for 2 years or more (third quarter 2022). One in four young people (15-29) is not in employment, education or training (NEET). The employment rate of recent graduates (56.2%, 2021) remains one of the lowest compared to the regional peers and EU average (79.6%). This persistent situation holds these people permanently back, in a spiral of unemployment and precariousness. Discouraged by a labour market that cannot meet supply and trapped in inactivity, many young people seek a way out through emigration. The shift towards an older population is also challenging: in 2019, 17% of people in Bosnia and Herzegovina[6] were over the age of 65), with projections for this percentage to increase dramatically by 2050[7]

Bosnia and Herzegovina is still facing major challenges in achieving gender equality both in the economic sphere and in daily life. The country has made significant efforts to improve its comprehensive policy framework for eliminating discrimination against women and promoting gender equality[8]. However, disparities remain in the implementation of legislation on gender equality owing to the decentralised structure of the state, the overall modest human and financial resources and the absence of systematic and mandatory initial and in-service training for relevant professionals (staff of social work centres, teachers etc.) Nevertheless, the evaluation report[9] from the Group of Experts on action against violence against women and domestic violence (GREVIO) mentions that several initiatives have been taken to secure gender equality including, for example, the introduction of gender-sensitive budgeting in ministries at state and federal entity level and the establishment of contact persons for gender equality in state and entity institutions. Effective monitoring of the legislation on gender equality and on prohibition of discrimination is unsatisfactory.

Domestic work, lack of accessible care services and other obstacles restrict women from taking up paid jobs, pursuing advanced education and skills training and participating in public life. The traditional division of roles within the household persists despite social and economic transformations. More than half of Bosnians favour a traditional family arrangement where the man works and the woman takes care of the family, while 34% think a woman should do the household chores even if her husband is not working[10]. Bosnia and Herzegovina is ranked 76th out of 146 countries in the Global Gender Gap Index 2022[11]. On economic participation and educational attainment, the country is ranked respectively 116th and 100th. Gender-based discrimination is reflected

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(6) World Bank database

(7) European Health for All database

(8) Committee on the Elimination of Discrimination against Women: Concluding observations on the sixth periodic report of Bosnia and Herzegovina

(9) Evaluation report of the Group of Experts on action against violence against women and domestic violence (GREVIO) published on 8 November 2022.

(10) *Social Impact Assessment of COVID-19 in Bosnia And Herzegovina - 3rd household survey*, UNDP, 2022

(11) Global Gender Gap report 2022 , World Economic Forum –.

in education and consequently in the labour market. Occupational profiling results in highly qualified women not being treated the same way as highly qualified men.

Although the number of female students and professors has increased significantly, some academic disciplines and activities are still predominantly male or female. While gender parity has been achieved in primary and secondary education, women exceed men in higher education in Bosnia and Herzegovina[12]. Women mostly choose social sciences and humanities, as opposed to natural sciences, technology, engineering, and mathematics. These gender stereotypes in the choice of academic fields lead to loss of economic and human potential and reinforce gender pay gaps[13]. Gender equality principles are not sufficiently mainstreamed in teaching curricula and textbooks. In this way, knowledge of students on gender equality remains limited, allowing room for gender stereotypes to persist and further perpetuating inequalities.

The COVID-19 pandemic had a drastic impact on those who were already vulnerable. The international Labour Organization (ILO) estimated that 170 000 jobs were lost in Q3 2020[14] and 245 000 workers were at immediate risk because of the type of jobs they did. A UNDP/Unicef survey suggests that the financial situation of women has worsened more than that of men. Women appear to have been more affected by job losses and salary cuts. Young people who are already experiencing the greatest difficulties in finding work are seeing their opportunities diminish further. According to various assessments, Roma people (of whom an estimated 46 000-76 000 live in Bosnia and Herzegovina, accounting for 1.7% of the population) are facing greater difficulties than other groups, due to the complexity of their situation. Data from governmental and non-governmental reports and documents point to a persistent pattern of exclusion of Roma pupils from compulsory and especially post-compulsory education[15]. The Balkan Barometer (2022) indicates (a strong reluctance on the part of employers to recruit employees of Roma origin. Only 11% of Roma participate in employment, compared with 29% of non-Roma Bosnians Roma also have worse outcomes in access to healthcare, housing and education[16]. High levels of informal work (about 30.9% of total employment in 2019) further limit social security coverage. Among self-employed workers (24.9% of total employment), about 53.1% were estimated to be working informally in 2020.

Even among the most highly educated group in the workforce, the high level of youth unemployment (including those not in employment, education or training (NEETS) is a result of the patronage system and a lack of coordination between the institutions. Bosnia and Herzegovina is considered the least competitive and worst-governed economy in the Western Balkans and also one of the most poorly governed in

(12) In the 2021-2022 academic year, 39 177 women and 26 384 men were enrolled in higher education schools and universities, Agency for Statistics of Bosnia and Herzegovina (BHAS)

(13) How to achieve gender equality at universities in Bosnia and Herzegovina, UNDP, 2022

(14) *COVID-19 and the World of Work, Bosnia and Herzegovina,* ILO and EBRD, 2021

(15) *Education of national minorities in Bosnia and Herzegovina: a case of Roma people*, Anita Lukenda and Slavica Pavlovic, University of Mostar, Article in Pedagogika, · December 2018.

(16) *Fostering social cohesion in Bosnia and Herzegovina, Multi-dimensional Review of the Western Balkans; From analysis to Action,* OECD, 2022

the broader European Bank for Reconstruction and Development regions[17]. Lack of cooperation among the various levels of government hampers the possibilities for change and fuels political and socio-economic instability. For example, the country struggles to adopt a credible countrywide employment strategy due to the constitution, which distributes responsibilities for employment amongst all levels of administration. With some delay, the country started on the preliminary studies for implementation of the Youth Guarantee[18]. With some technical assistance and coordinated involvement of relevant stakeholders, the scheme has the capacity to initiate a comprehensive reflection on tackling youth unemployment, to identify the blocking points and to boost the necessary reforms. However, the youth guarantee implementation plan has not yet been adopted: the different levels of the state structure are unable to agree on an issue on which there should be broad consensus. Difficulties in accessing lucrative jobs for individuals who are highly educated but without political connections are causing an enormous 'brain drain'. It is estimated that about 100 000 young Bosnians and Herzegovinians left the country between 2018 and 2020 in search of greener pastures. Around 30% of workers in Bosnia and Herzegovina are undeclared, around 30% of households report additional informal incomes while around 40% approve of tax evasion practices to some extent.

The country faces a paradox: companies cannot find the talent they need in the labour market despite the high level of unemployment and inactivity. The OECD report *Labour Migration in the Western Balkans (2022)* highlights that 38% of surveyed firms identify applicants' lack of skills as a reason for unfilled vacancies. The President of the Union of Construction and Industry complains that there are almost no trained carpenters, locksmiths, tilers or painters[19]. In the Banja-Luka region, employers had difficulties finding close to 1 400 workers[20]. The IT industry is facing a severe skills shortage[21]. The brain drain is becoming a worrying phenomenon. Trained and qualified personnel are seeking better employment and living conditions abroad, notably in Slovenia. According to the Union for Sustainable Return and Integration, 40 000 people migrated[22] to other countries in 2018. All sectors are affected including education, healthcare and information technology. An 'employment observatory' is being set up, capable of identifying employment opportunities and anticipating current and future needs on the basis of reliable data. Monitoring and evaluation of employment policies with the participation of social partners is still at an early stage, but there is a persistent lack of funding to face the almost insurmountable challenges.

(17) European Bank for Reconstruction and Development's 2021 assessment of transition qualities.

(18) Western Balkans Declaration on ensuring sustainable labour market integration of young people at the Brdo EU-Western Balkans Ministerial meeting on employment and social affairs in July 2021.

(19) Bosnia-Herzegovina facing with shortage of construction workers, Sarajevo Times, 21 Feb. 2020

(20) Labour market research in Republika Srpska 2021/2022, Thematic Report Banja-Luka-Region, for Public Institution Employment Service of the Republika Srpska, 2021

(21) *Skill Mismatch Assessment: Example of Software Industry in Bosnia and Herzegovina*. Journal of Economics, Finance and Management Studies. Halilbasic, Muamer, 2021.

(22) In accordance with the law, the Labour and Employment Agency collects foreign requests for domestic and foreign labour and, in cooperation with the Entity Employment Services and Brcko District Employment Service, implements them within its area of responsibility. Slovenia is the most important partner in terms of labour mediation and employment, and it is estimated that over 44 000 workers have gone to work there through official labour exchange channels since 2013. (Analysis of announcements for mediation of workers in the Republic of Slovenia collected by the Agency for Labour and Employment of Bosnia and Herzegovina during 2020

Reforms to make the public employment service (PES) more client-oriented are ongoing but budget and human resources are scarce. Substantial efforts have been made to improve job-counselling and mediation processes in recent years in both entities. Labour market policies may include employment mediation, reskilling and upskilling, and employment subsidies. However, funding remains limited given the level of inactivity and unemployment[23] and depends on an annual budget and contributors. The financing of active labour market Policies (ALMPs) is mainly directed towards employment subsidies. ALMPs suffer from many weaknesses, including insufficient personalisation of the programmes, lack of transparency of public calls and an insufficient focus on upskilling and reskilling to improve employability. The PES's capacity is limited, measured against the sheer scale of unemployment. For instance, in 2019, the ratio of PES officers to beneficiaries in the Federation entity stood at 1:2023[24]. Administrative tasks limit their availability to engage in counselling, intermediation, jobs searches and other services. Among the problems highlighted by a plethora of reports are: weak coordination mechanisms at all levels of the country, a mismatch of education curricula and a gender gap in addition to an unfavourable and complex environment for job-creating investments, high tax-burden, high proportion of informal work, corruption and finally lack of national financial means are. However, political instability plays a major role in this situation.

Reform measure: 5.1.1.1. Increase the efficiency of the labour market through effective employment policies and strengthen the role of mediation

According to the authorities, the measure is focused on solving the main socio-economic challenges that BiH is facing, including solving the high unemployment as explained in the ERP, i.e. mainly by aligning legislation with EU legislation and international commitments, implementing effective employment policies and strengthening the mediation role of public employment services. While the diagnosis is correct, it is followed by statements of faith and good intentions that are not really translated into concrete action. For example, the ERP announces the intention to continue preparing the youth guarantee implementation plan, which is significantly behind schedule, as highlighted in last year's Financial Dialogue and sign the agreement to participate in the EU programme for employment and social innovation (EaSI) programme (ESF+). The ERP also says that relations with the social partners will be intensified, services for key beneficiaries will be improved and better interaction between employers and employees will be facilitated. While these are laudable intentions, it is not clear how this will be put into practice. The lack of a national employment strategy is very evident.

Dialogue and to sign the agreement to participate to the EaSI programme (ESF+). It is also planned to intensify the relations with the social partners and to improve services to key beneficiaries and facilitate better interaction between employers and employees. While these are laudable intentions, it is not clear how this will be translated. The lack of a national employment strategy is very evident.

(23) European Committee of Social Rights, conclusions 2020, Mars 2021.
(24) Federal employment institute, 2021.

Key challenge 2: Improving the business environment and strengthening the country's internal market and readiness for the green and digital transitions

A difficult business environment and weaknesses in the country's single economic space are key factors driving poor labour market outcomes and holding back improvements in competitiveness and living standards and preparations for the green and digital transitions. Some progress was made in previous years at the entity-level towards simplifying administrative procedures. However, insufficient political ambition to tackle regulatory burdens and corruption and to face the challenges of the green and digital transitions remains an issue, but the country's high degree of institutional and regulatory fragmentation is also an obstacle, as is the low level of coordination among all levels of government.

Businesses that wish to operate across the entire economy still face technical and administrative obstacles and must frequently obtain the same licenses or permits in each entity or local government area and pay a range of different taxes and fees, hindering the operation of an effective single economic space. This increases the costs of establishing a company, protects incumbent companies from competition and deters investors. Over half of businesses in Bosnia and Herzegovina identify burdensome procedures, paperwork and cost as a major obstacle to obtaining licenses, a higher proportion than in any other country in the region and well above the regional average of 35%. Businesses in Bosnia and Herzegovina were also more likely than in any other country in the Western Balkans to cite the lack of a fully digitised process for applications and approvals of licenses as a major obstacle, with 76% of businesses citing this as at least a 'moderate' obstacle, compared with a regional average of 49% (Balkan Business Barometer 2022).

Cooperation and coordination among the country's various levels of government must be significantly improved to strengthen the single economic space and prepare for the green and digital transitions. Internal political disputes block or delay decision-making, hindering progress on much-need reforms, such as strengthening the rule of law, the fight against corruption and the functioning of countrywide supervisory and regulatory institutions.

The ERP acknowledges problems related to the business environment and regulatory burden. However, it does not include measures capable of meeting the scale of the challenge, nor does it recognise the underlying issues related to lack of coordination among the various levels of government. There was no progress over the last year in implementing the policy guidance in this area. The measures in the 2023-2025 ERP include changes to the tax regime in the Federation entity to reduce the burden of taxation on lower income levels, a longstanding ambition. However, it is notable that these changes are not likely to bring any further harmonisation of the regimes for businesses that operate countrywide. Further measures relating to fiscal devices and support for entrepreneurship do not tackle the main structural challenges identified, are likely to be limited in impact and scope, and do not seem intended to bring about any reduction in the administrative burden for businesses that operate across both entities. None of the reforms comes with a detailed list of actions or a timeline, and none has been adequately costed.

Key enabling legislation has still to be adopted at the state-level related on opening gas and electricity markets and setting targets for renewable energy and energy

efficiency. This is needed to ensure the green transition and facilitate investment, including by the private sector. The absence of a fully-functional energy market in Bosnia and Herzegovina, with slightly differing legal frameworks and implementation practices across the country, hampers the sector's development. Bosnia and Herzegovina still needs to make significant efforts in creating a single regulatory framework and market space to ensure a reliable and secure energy supply and to attract investment in a low-carbon energy sector. Adopting laws on renewable energy and energy efficiency should be a priority, as should state-level legislation on electricity and natural gas with which the entities must comply. The country should also design and implement a comprehensive building renovation strategy at all levels of authority to improve energy efficiency and demand reduction measures, including required legislation and incentives for private sector and households. Bosnia and Herzegovina should ensure timely transposition and implementation of the Energy Efficiency Directive following its adoption as part of the Clean Energy Package by the Energy Community in November 2021. Lack of progress in these areas contributes to the poor business environment in the country and will prolong the path to decarbonisation, transition to renewables and improved energy efficiency that the current energy crisis has made even more urgent.

Delivering on commitments to gradually phase out coal subsidies and introduce carbon pricing instruments will be particularly challenging. The country remains heavily reliant on lignite coal, and the level of emissions from coal-fired power plants is of concern. Any future plans to prolong or increase its energy generation based on fossil fuels will jeopardise its commitment to decarbonisation and climate neutrality by 2050 and prolong and increase the socio-economic risks of an eventual transition from coal. The ERP mentions a deadline of December 2022 for finalisation of the draft national energy and climate plan (NECP); it will now be important for the country to stick to its commitment of providing the Energy Community Secretariat with the draft no later than 30 June 2023 and to adopt it in 2024.

The ERP refers to a number of these measures but without the required urgency. For instance, while the ERP acknowledges the necessity of state-level legislation on electricity and natural gas, there remain clear disagreements among the levels of government on this. There is a clearer analysis of the implications of the energy transition for coal, but some of the measures were included in last year's ERP and have simply been rolled over, unimplemented. As part of the energy support package for the region, Bosnia and Herzegovina is receiving EUR 70 million in budget support from the EU. To fully benefit from this package, the country adopted an action plan that includes urgent support measures for vulnerable consumers, urgent energy efficiency measures for households, and micro-businesses and small and medium-sized enterprises (SMEs), and long-term measures with the setting-up of energy-resilient and green transition strategies. The action plan should be used as a starting point for the country's green transition, including by the country's businesses (via diversification of energy sources, renewable energy projects and energy efficiency measures, and upgrading of energy transmission systems). A more focused, urgent approach is needed from the authorities on the green transition.

Political leaders and judicial institutions have failed to tackle widespread corruption and have even actively blocked progress in this area over the past year. Transparency International again ranks the country 110th out of 180 countries in its 2022 annual Corruption Perception Index making it the worst performer in the Western Balkans after 6 years of declining performance. Just 14% of businesses surveyed in

Bosnia and Herzegovina say that the fight against corruption in the country is effective, a lower proportion than any other country in the region, and a higher proportion of businesses said that they had to make irregular payments than in any other Western Balkans country. There has not been progress on necessary reforms to strengthen legislation on anti-money laundering and countering the financing of terrorism, and the country risks being listed as a jurisdiction under increased monitoring by the international standard-setting body in this area, the Financial Action Task Force.

Bosnia and Herzegovina is lagging behind in the digital transition. Businesses in the country are the least satisfied of any in the Western Balkans with the digitalisation of public services. Only around 60% of small businesses have a webpage and only 18% are active in e-commerce. In line with the Digital Agenda for the Western Balkans and the Economic and Investment Plan, improvements to the administrative environment for firms would include the digital transformation of government services for businesses, including e-signature, e-registration of businesses and e-construction permits. Economy-wide implementation of service digitalisation is still hampered by the lack of political ownership and coordination between different levels of the government, which also leads to the allocation of insufficient budgetary resources for implementation. The lack of interoperable information systems across entities and different levels of government in Bosnia and Herzegovina is a major obstacle to developing economy-wide digital government services (OECD, 2021). Countrywide harmonisation of e-signature and the related coordination, cooperation and data exchange between different administrations is still needed. The country has yet to adopt a new law on electronic identification and trust services for electronic transactions with a single supervisory body for the whole country in line with the EU *acquis*. This would accelerate the digital transformation and allow for easier integration into regional and international markets.

The ERP acknowledges the importance of these reforms but does not provide a credible response to the challenges. The ERP contains no path forward yet for the electronic ID and trust services legislation, and the measures on e-government are exclusive to the *Republika Srpska* entity rather than countrywide. While the measure on supporting the digital transformation of industry and SMEs identifies the priority in that area, the measure seems limited to one part of the country and is not convincingly costed.

Key challenge 3: Improving the performance, transparency and accountability of public enterprises

The still-oversized public administration and poorly SOEs put a significant burden on taxpayers and adversely affect the business environment. State influence on the economy is significant, and countrywide public spending remains relatively high, while people's overall perception of public services is very poor. Business perceptions that taxes are too high and public services unsatisfactory are stronger in Bosnia and Herzegovina than in the other Western Balkan countries (Balkan Business Barometer 2022).

Efforts to rebalance the country's current public sector-led growth model and move to a more private sector-led model are not sufficient, given that, according to official statistics, public spending accounts for more than 40% of GDP. Ineffective service delivery, poor human resource management and accountability have major implications for efficiency, quality and access to public services. Public procurement plays an important role for the private economy, but procedures are complex and administrative capacity and competition remain low. The public sector's payment arrears are substantial, creating a considerable burden for private companies, but also a high degree of uncertainty for other public services because of unpaid contributions to health and pension funds.

Oversized, non-transparent and inefficient SOEs continue to have a large economic footprint. Legislation defines public enterprises as companies that are either public corporations or companies that would otherwise be part of the general government (IMF, 2020). According to estimates (IMF 2019), there are over 550 SOEs employing around 80,000 people, thus accounting for around 11% of total employment (about a quarter of public sector employment). They control assets worth an equivalent of 100% of GDP. Among all SOEs, entity-owned SOEs (including the entities' electricity companies, coal mines in the Federation entity, the *Republika Srpska* entity forest company, highway companies and railways) have the largest operations and account for most employment in SOEs. Despite lower productivity[25], the average salaries of SOE employees are 40% higher than in private companies.

SOEs are undermining competition, damaging the country's overall competitiveness. Productivity is low in many large SOEs, and many are not profitable. SOEs and public enterprises dominate key sectors of the economy, including energy and telecommunications utilities (World Bank, 2018). In the OECD's 2021 Competitiveness Outlook, the county has a below average score on ensuring a level playing field with private companies. While most SOEs in both entities are incorporated under general company law, the presence of a separate legal form ('public enterprises') for some SOEs raises concerns about their operational treatment. The authorities should also consider fully corporatising SOEs that undertake primarily commercial activities but are still organised under the separate legal form of 'public enterprise' (OECD, 2021). Subsidies give SOEs a competitive advantage over the private sector, and in so doing harm efficient resource allocation and the country's fiscal performance. As for the interaction of SOEs with the private sector, the poor-quality and fairly high-cost provision of inputs to private companies diminishes the private sector's competitiveness. Liabilities to suppliers (4% of GDP according to the IMF) have negative repercussions on the private sector.

SOEs are a significant burden on the country's public finances. Many of the country's SOEs are in poor financial shape and close to half experience shortfalls in liquidity and require both explicit and implicit budgetary support. Monitoring and managing fiscal risks in ministries of finance is not sufficient. About three quarters of the largest (20) SOEs face considerable financial risks. The cost of supporting public companies and guarantees, which often translate into substantial contingent liabilities, is a heavy burden on public finances and thus the country's taxpayers. Many public companies rely on state support or delay due payments to the social security systems or to private suppliers, in order to remain in operation. This creates substantial liquidity imbalances in other areas of the economy. Potential investors are required to assume these debts and maintain the existing workforce. Some of the SOEs requiring subsidies are no longer operating, but still maintain workers. SOEs' total debts (including approximately 4% of GDP in tax and social contribution arrears) are around 26% of GDP

(25) Average revenue per worker (measuring productivity) is considered to be around 8% lower than in the private sector.

(IMF, 2019). While the precise numbers have not yet been determined, total public sector debt is likely to be approximately 55-60% of GDP.

As a result of weak ownership arrangements and underperformance, Bosnia and Herzegovina has a relatively low score in terms of governance and efficiency in the OECD's 2021 Competitiveness Outlook. In the Federation entity, an SOE registry is now in place and publicly available, but further steps are needed to oblige SOEs to upload all the required information. In the *Republika Srpska* entity, there are three separate registers of public enterprises depending on the type of company. Not all public enterprises are in one of the registers, and not all public enterprises submit the required information. The *Republika Srpska* entity has set up a central oversight unit with three employees as of March 2023 and the Federation entity has announced its intention to do so, but so far the necessary human resources have not yet been allocated in either entity.

The planned centralised SOE oversight units (coordinating government efforts to monitor performance in order to strengthen the sustainability of the SOE sector) should separate oversight from policy and from the regulatory functions of the line ministries. In addition, both entities will need to assign ministries of finance responsibility for monitoring and assessing fiscal implications relating to SOEs. Plans for this are underway in both entities, and in the *Republika Srpska* entity the ministry of finance has allocated one staff member to these tasks. The Supreme Audit Institutions (SAIs) have only limited powers to carry out financial audits of SOEs, and the implementation of SAI recommendations is low (IMF, 2020).

Whereas legislation partially provides for open and transparent selection procedures, appointments to SOE boards are highly politicised in practice. Major gaps exist, both in the legal framework and in implementation. There are no established criteria for promoting independent and professional boards in SOEs (OECD, 2021). SOE performance and board decision making are insufficiently separated from the political cycle. Vested interests are largely responsible for the slow privatisation process and attempts to sell shares in public companies earmarked for sale have been largely unsuccessful.

Both entities should adopt much-needed ownership policy documents outlining the rationale for government ownership of SOEs. There is a problematic absence of any overarching policy explaining why the government owns companies and what it expects those companies to achieve. Ownership responsibilities are often exercised in a decentralised manner by various line ministries, subject to almost no central co-ordination. While entity governments have identified 'strategic companies', the rationale for public ownership is not based on clearly-defined policy objectives. Privatisation (accompanied by a thorough restructuring where appropriate) may be considered when there is no policy rationale for continued public ownership. Solid and operational registries of SOEs at all levels are a precondition for a proper categorisation in terms of policy relevance and economic viability.

The privatisation process is still not complete and restructuring efforts have made little progress. Due to the COVID-19 crisis, measures to restructure or dissolve public enterprises remained very limited. Strategic sectors such as transport and energy are still dominated by poorly-managed and often inefficient state-owned companies. The Federation entity aims to privatise public enterprises in the processing and mining industry and some mining companies are subject to bankruptcy procedures, though the most recent privatisations took place in 2016. The *Republika Srpska* entity is continuing to restructure its railways. The setting up of a central restructuring facility as a central source of standards, analytics, technical assistance, and public financing for SOE restructuring and resolution may be considered, to ensure that the process of company-level reform and restructuring – which can also accelerate the green and digital transformation – is transparent, systematic and predictable.

The ERP acknowledges the need for and potential benefits of improved governance of SOEs and contains rolled-over plans to set up central oversight units in both the Federation entity and the *Republika Srpska* entity but, though work on this began in 2020, the plans remain at an early stage of implementation.

Box: Monitoring performance in light of the European Pillar of Social Rights[26]

The European Pillar of Social Rights, proclaimed on 17 November 2017 by the European Parliament, the Council and the European Commission, sets out 20 key principles and rights on equal opportunities and access to the labour market, fair working conditions, and social protection and inclusion for the benefit of citizens in the EU. The European Pillar of Social Rights Action Plan, adopted on 4 March 2021, aims at rallying all relevant forces to turn the principles into actions. Since the 20 principles provide a compass for upward convergence towards better working and living conditions in the EU, they are equally relevant for candidate countries and potential candidates. The new reinforced social dimension for the Western Balkans includes an increased focus on employment and social reforms through greater monitoring of relevant policies (EC, 2018). The Western Balkans Ministers' Declaration on improving social policy in the Western Balkans (6 November 2018) confirms that they will use the Pillar to guide the alignment of their labour markets and welfare systems with those of the EU.

Relative to the EU-27 average, there is scope for improvement in most available indicators of the Social Scoreboard supporting the European Pillar of Social Rights.

The employment and activity rate in Bosnia and Herzegovina remains very low, particularly for women, young people and the most vulnerable. A large proportion of unemployed people are long-term unemployed. Job creation is localised and the low mobility of workers limits the allocation of labour resources to emerging needs. The gender employment gap is more than twice as high as the gap in the EU-27 (11.0 pps.). This gap is widened by the low availability of elderly care and early childhood education and care. Discrimination in hiring is numerous and multiple.

BOSNIA and HERZEGOVINA		
Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24)	Better than EU avg., improving
	Individuals' level of digital skills (basic or above basic)	Worse than EU avg., trend N/A
	Youth NEET (% of total population aged 15-29)	Worse than EU avg., improving
	Gender employment gap	Worse than EU avg., deteriorating
	Income quintile ratio (S80/S20)	Worse than EU avg., trend N/A
Dynamic labour markets and fair working conditions	Employment rate (% of population aged 20-64)	Worse than EU avg., improving
	Unemployment rate (% of population 15-74)	Worse than EU avg., improving
	Long term unemployment rate (% of population 15-74)	Worse than EU avg., no change
	GDHI per capita growth	N/A
Social protection and inclusion	At risk of poverty or social exclusion (in %)	Worse than EU avg. (proxy), trend N/A
	At risk of poverty or social exclusion rate for children (in %)	N/A
	Impact of social transfers (other than pensions) on poverty reduction	Worse than EU avg. (proxy), trend N/A
	Disability employment gap	N/A
	Housing cost overburden	N/A
	Children aged less than 3 years in formal childcare	Worse than EU avg., improving
	Self-reported unmet need for medical care	Worse than EU avg., trend N/A

Education continues to be of low quality, and the country suffers from a continuing skills mismatch. Average achievements of students in mathematics, reading and natural sciences in BiH are below the OECD average (Pisa 2018). There has been little change in levels of educational attainment in recent years. This indicates slow structural change in both the labour market and the education system. It is positive that the share of early school leavers is very low at 4.7% in 2020, much below the EU-27 average (9.9%). However, there is a large share of low-skilled people in the population. Upskilling strategies to increase the skill levels of the workforce are not sufficiently developed. Participation in early childhood education and care (ECEC) is significantly lower than in the EU and elsewhere in the region. Although it is improving, in 2019/2020 ECEC only covered 7.3% of children under 3, compared to the EU average of around 35%. Most children enrolled in ECEC come from urban families where both parents are employed, while children from rural areas or whose parents are unemployed very rarely attend. 23% of women and 20.3% of men (aged 15-24) are not in employment, education or training (NEET).

Social transfers have a limited impact on reducing poverty. Means-tested social assistance does not cover basic living needs. Other non-contributory social benefits insufficiently target low income vulnerable segments of the population. The reduction of the at-risk-of-poverty rate by social transfers is estimated at 9.16%, significantly lower than the EU-27 average (32.68% in 2019). Based on 2015 data, self-reported unmet need for medical care was 5.1%, which was higher that the EU-27 average of the same year (3.3%).

Further efforts are needed to collect timely and reliable data. The availability of indicators is limited, particularly in the area of social protection and inclusion, with missing Statistics on Income and Living Conditions, which were planned for 2019, but were not published. A lack of data also holds back the development of evidence-based policies and measures. As of 2020, the Labour Force Survey is published on a quarterly basis, but there has been a long publication delay.

[26] The table includes 16 headline indicators of the Social Scoreboard, used to compare performance of EU Member States (https://ec.europa.eu/eurostat/web/european-pillar-of-social-rights/indicators/social-scoreboard-indicators). The indicators are also compared for the Western Balkans and Turkey. The assessment includes the country's performance in relation to the EU-27 average (performing worse/better/around the EU-27 average; generally 2020 data are used for this comparison) and a review of the trend for the indicator based on the latest available three-year period for the country (improving/deteriorating/no change). For data see Annex B. NEET: not in employment, education or training; GDHI: gross disposable household income.

5. Overview of the implementation of the policy guidance adopted at the Economic and Financial Dialogue in 2022

Every year since 2015, the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye has adopted targeted policy guidance for all partners in the region. The guidance represents the participants' shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale for the policy guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the policy guidance is evaluated by the Commission in the following year's ERP assessments. The following table accordingly presents the Commission's assessment of the implementation of the 2022 policy guidance jointly adopted by the EU and the Western Balkans and Türkiye at their Economic and Financial Dialogue at Ministerial level on 24 May 2022.

Overall: Limited implementation (33.3%)[27]	
2022 policy guidance (PG)	**Summary assessment**
PG 1: If needed, use the available fiscal space in the 2022 budget to cushion the potential impact of adverse shocks through targeted support to vulnerable households and firms; provided the economic recovery is well entrenched, return to a debt-stabilising fiscal policy as of 2023 and foresee a gradually improving primary balance in the medium-term fiscal plans.	There was **limited implementation** of PG 1: 1) **Partial implementation:** During the last year, the authorities adopted significant increases in public spending, largely for social purposes However, little effort was made to properly target the funds and certain measures appear to have been primarily oriented towards securing public support in the 2022 general elections.
Increase the share of government capital spending in GDP, by measures to improve public investment management and through an accelerated implementation of those investment projects that have been subject to a clear positive cost-benefit assessment.	2) **Partial implementation:** In 2022, spending on public investment appears to have increased. (though countrywide data are not yet available for 2022). Both entity budgets for 2023 envisage a substantial increase in investment, largely related to infrastructure investment (Corridor Vc). However, the authorities intend to reduce public investment again in 2024.
In order to improve the efficiency of tax collection, ensure an effective exchange of taxpayer information amongst the country's tax authorities, and in particular, clarify the constitutional competence for establishing a central (i.e. countrywide) registry of bank accounts of private individuals, in line with the EU *acquis*.	3) **No implementation**: No progress was made on improving the efficiency of tax collection or with improving data exchange between the four tax administrations in BiH during 2022. There were also no steps taken to clarify the constitutional competence for establishing a central (i.e. countrywide) registry of bank accounts of private individuals
PG 2: Prepare a report on contingent liabilities, with a particular emphasis on those related to the COVID-19 crisis response, and prepare a strategy on how to contain the emergence of new contingent liabilities and manage risks related to existing ones.	There was **limited implementation** of PG 2: 1) **No implementation**: No such report was prepared/published. No related strategy was prepared.

[27] For a detailed description of the methodology used to assess policy guidance implementation, see Section 1.3 of the Commission's Overview and Country Assessments of the 2017 Economic Reform Programmes available at https://ec.europa.eu/info/publications/economy-finance/2017-economic-reform-programmes-commissions-overview-and-country-assessments_en.

Strengthen the analytical capacities of governmental institutions at all levels of government, in particular the BiH Ministry of Finance and Treasury with a view to improving the preparation and quality of the ERP in line with EU requirements.	2) **Limited implementation:** There has been training on the costing of structural reform measures. But otherwise no measures have been taken to improve the country's analytical capacities with a view to improving the preparation and quality of the ERP in line with EU requirements. In fact, the administration's capacities in this respect appear to have declined, as not enough retired qualified staff have been replaced.
Invest more significantly in building up the country's statistical capacity for macroeconomic statistics, regional accounts, labour force survey and government finance statistics, and pursue efforts to improve the coverage and timeliness of all statistics.	3) **Limited implementation:** BiH made very limited progress in most of these areas, except for the labour force survey, which benefitted from EU support, and government finance statistics, where the central bank has been working to improve the alignment of public finance data with EU standards. However, there are still substantial capacity building needs
PG 3: Carefully assess and analyse price developments, supported by the statistical offices through improving price statistics, including a timely update of CPI weights and publishing core inflation series.	There was **partial implementation** of PG 3: 1) **Partial implementation:** While the central bank continued to carefully monitor price dynamics, the limitations due to data availability remain. The statistical office did not produce a core inflation series and the CPI weights are outdated and published with unusually long lags. This complicates and constrains a proper assessment of price developments.
Ensure a transparent and accurate reporting of asset quality and adequate provisioning, improve the NPL resolution framework for instance by further reducing institutional and legal obstacles, and reduce data gaps in particular as regards the real estate sector	2) **Partial implementation**: The bank resolution framework is still not fully operational and needs to be strengthened further. The Sberbank case highlighted again the potential importance of a single resolution fund. In addition, the remaining obstacles to an effective NPL resolution framework have not been addressed, for example by facilitating out-of-court restructurings and amending the tax treatment of NPL sales to specialised companies. However, the two banking agencies continued to cooperate well in general and handled the Sberbank crisis effectively.
Safeguard the integrity of the currency board arrangement and the independence of the central bank, and appoint the Governing Board members without further delay.	3) **Partial implementation**: The full convertibility of the domestic currency was maintained. However, no resolution was found to the uncertainty around the governing board of the central bank, prevailing since 2021.
PG 4 With a view to improving the business environment and strengthening the single economic space, simplify business registration as well as licensing and permitting procedures and harmonize them across the country.	There was **partial implementation** of PG 4. 1) **No implementation.** No further progress was made on simplifying business registration, business licensing or permitting procedures. No progress was made on harmonising these procedures across the country.
To foster digitalisation of public services and to complement the development of e-Government infrastructure, adopt the law on electronic identity and trust services for electronic transactions with a single supervisory body in line with the EU *acquis* and ensure that the Indirect Taxation	2) **Partial implementation:** The law on electronic identity and trust services for electronic transactions was not adopted. Legislation at the level of the entities remains out of step with the EU *acquis*. The Indirect Taxation Authority has begun issuing electronic signatures.

Authority, whose ability to fulfil its vital country-wide role must be maintained, begins issuing of electronic signatures. Once the 2015 Customs Policy Law has entered into force, implement the new computerised transit system (NCTS) at national level, as well as the authorised economic operator (AEO) concept.	 3) **Substantial implementation:** The Customs Policy Law entered into force in August 2022. The NCTS is being implemented at national level, but the AEO concept is not yet being implemented.
PG 5: Adopt a comprehensive, countrywide public finance management strategy in BiH with performance-based monitoring and reporting. Create/update in both entities publicly available registers of public enterprises with complete, searchable list of all public enterprises including comprehensive financial statements, audits and organisational information. Establish public enterprises central oversight units in both entities and allocate adequate human resources.	There was **partial implementation** of PG 5: 1) **Full implementation**: A comprehensive, countrywide public finance management strategy in BiH was adopted in July 2022. The strategy includes performance-based monitoring and reporting. 2) **Limited implementation:** The *Republika Srpska* entity still has three separate registers of public enterprises depending on the type of company, with plans for a single register rolled over into this year's ERP. Some public enterprises are not in any of the registers, and some do not submit the required information. The Federation entity has a single register of public enterprises and has now added comprehensive non-financial information. 3) **Limited implementation**: The *Republika Srpska* entity has set up a central oversight unit and the Federation entity has announced its intention to do so, but so far sufficient human resources have not yet been allocated in either entity, and the units' key tasks and scope of work remain undefined.
PG 6: Strengthen the coordination mechanisms within the country as regards employment policies and establish an inter-ministerial task force involving relevant ministries, their agencies and stakeholders to develop and finalise a Youth Guarantee Implementation Plan, adopt it, and initiate its implementation. Develop a system to monitor and forecast the skills needs in the labour market to facilitate the alignment of the education and training systems and of reskilling and upskilling provision to labour market needs. Improve access to early childhood education and care services towards children/families with vulnerable backgrounds and in rural areas.	There was **limited implementation** of PG 6: 1) **Limited implementation:** The coordination mechanisms within the country involve only informal cooperation between individual labour institutions (public employment services only) but no official mechanism has been set up. No progress was made towards a countrywide employment strategy. The Expert Group for development of the Youth Guarantee implementation plan for BiH was set up and the drafting process is ongoing with support from the EU-ILO Technical Assistance Facility. However, submission and adoption of the draft is significantly delayed. 2) **No implementation:** In 2021, for the second year in row, the employment agency and bureaus of the country conducted a labour market research to analyse the market situation and to design their activities to match the needs of the employers. No information is given as regards the sustainability of the research for 2022. 3) **No implementation**

ANNEX A: ASSESSMENT OF OTHER AREAS AND STRUCTURAL REFORM MEASURES INCLUDED IN THE 2023-2025 ERP

Due to the almost two-month delay in submitting the ERP, it was not possible to organise the usual fact-finding and assessment missions with the country authorities or, consequently, to provide the usual sector-by-sector analysis and assessment of reform measures.

Most measures presented in the ERP do not address economy-wide challenges, but cover entity-specific activities only and in a fragmented way. There is often no clear indication of which level of government or institution the activities relate to. The planned activities and expected outcomes of measures are often not adequately explained, and in some cases the text is simply repeated. In many cases, the activities planned do not appear to match up with, and do not address, the main obstacles identified for the various sectors in the preceding analysis. In other cases, a more coherent approach is taken in the analysis but the activities themselves are more fragmented.

Despite the availability of technical assistance for the costing of measures, very few of the reform measures reflect costs and even fewer provide an indication of financial assistance from international partners, including from the EU through the Instrument for Pre-Accession Assistance.

Social protection and inclusion

Social protection systems in Bosnia and Herzegovina, organised at the level of its entities and Brčko District, are dominated by social insurance systems, offering protection on the basis of contributions payments. However, the employment rates and labour market participation rates being structurally low in both entities in addition to a high level of unregistered employment, a significant share of the population is excluded from the systems. The responsible governments have not yet responded effectively to that situation. At the same time, social inclusion policies and labour market activation policies are limited in scope and have questionable effectiveness. Moreover, the most significant non-contributory social protection schemes, such as child and family benefits and means-tested minimum income benefits, characterise insufficient funding, resulting in small coverage and inadequate benefits. Recently, both entities passed legislation to increase child and some family benefits. At the end of 2021, the *Republika Srpska* changed the Law on child protection, thereby introducing child assistance for the first child in the family and increasing the level of existing benefits significantly. The changes became effective in January 2022. The FBiH entity adopted the Law on financial support to families with children, aimed to abolish inequalities in the provision of child and family benefits on the territorial principles by introducing the single amount of child benefit, financed by the FBiH Government, and a single amount of maternity allowance, financed by cantons. The implementation of the law was planned for the second half of 2022.

ANNEX B: OVERVIEW OF THE MAIN INDICATORS PER AREA/SECTOR OF THE ECONOMY

Area/Sector	2016	2017	2018	2019	2020	2021	EU-27 Average (2021 or most recent year)
Energy							
Energy imports dependency (%)	31.5%	34.0%	24.3%	27.4%	25.4%	n/a	55.6%
Energy intensity: kilograms of oil equivalent (KGOE) per thousand euro	448.81	434.20	463.40	435.70	442.51	n/a	110.35
Share of renewable energy sources (RES) in final energy consumption (%)	25.36%	23.24%	35.97%	37.45%	39.84%	n/a	21.7%
Transport							
Railway network density (metres of line per km² of land area)	19.9 w	19.9 w	19.9 w	19.9 w	19.9w	19.9w	N/A
Motorisation rate (passenger cars per thousand inhabitants)	245.0 w	252.0 w	263.1 w	269.5 w	n/a	n/a	N/A
Agriculture							
Share of gross value added (agriculture, forestry and fishing)	7.5%	6.6%	6.9%	6.6%	7.0%	6.6%	1.8%
Share of employment (agriculture, forestry and fishing)	18.0%w	18.9% w	15.7% w	18.0%	12.0%w	9.4%w	4.3% (2020))
Utilised agricultural area (% of total land area)	34.7% w	34.4% w	34.8% w	35.3% w	n/a	n/a	40.6%(2020)
Industry							
Share of gross value added (except construction)	22.6%	23.3%	23.9%	23.1%	23.0%	23.3%	19.9%
Contribution to employment (% of total employment)	22.7% w	22.2% w	23.5% w	23.8%w	23.9%w	24.4%w	16.1%%
Services							
Share of gross value added	65.1%	65.3%	64.4%	65.3%	64.5%	64.8%	79.2%
Contribution to employment (% of total employment)	50.8% w	51.6% w	52.1% w	50.3%w	54.7%w	57.0%w	70.9%

Area/Sector	2016	2017	2018	2019	2020	2021	EU-27 Average (2021 or most recent year)
Digital economy							
Percentage of households with internet access at home	61.5%^{w}	66.0%^{w}	69.0%^{w}	72.0%^{w}	72.8% ^{w}	75.5%^{w}	92.5%$^{(2022)}$
Share of total population using internet in the 3 months prior to the survey [% of population aged 16-74]	n/a	64.9% ^{w}	70.1% ^{w}	69.9% ^{w}	73.0% ^{w}	n/a	90%$^{(2022)}$
Trade							
Export of goods and services (as % of GDP)	36.3%	40.9%	42.6%	40.6%	34.5%	44.9%	50.4%
Import of goods and services (as % of GDP)	53.0%	57.1%	57.3%	55.2%	48.5%	56.3%	46.7%
Trade balance (as % of GDP)	-22.5%	-22.7%	-22.0%	-22.7%	-18.6%	-19.6%	N/A
Research, development and innovation							
R&D intensity of GDP (R&D expenditure as % of GDP)	0.24%^{w}	0.20%^{w}	0.19%^{w}	0.19% ^{w}	0.21% ^{w}	n/a	2.26%
R&D expenditure – EUR per inhabitant	n/a	n/a	n/a	n/a	n/a	n/a	735.50

Area/Sector	2016	2017	2018	2019	2020	2021	EU-27 Average (2021 or most recent year)
Education and skills							
Early leavers from education and training (% of population aged 18-24)	4.9% w	5.1% w	5.4% w	3.8% w	4.7% w	4.7% w	9.7%
Young people not in employment, education or training (NEET) (% of population aged 15-24)	26.4% w	24.3% w	21.6% w	21.0% w	21.6% w	19.9% w	10.8%
Children aged less than 3 years in formal child care (% of children aged under 3)	4.7% w	5.2% w	6.3% w	7.1% w	n/a	n/a	36.2%
Individuals who have basic or above basic overall digital skills (% of population 16-74)	n/a	n/a	n/a	24%	n/a	34.6%	53.9%
Employment and labour market							
Employment rate (% of population aged 20-64)	44.2% w	46.6% w	47.7% w	49.7% w	52.5% w	52.6% w	73.1%
Unemployment rate (% of labour force aged 15-74)	25.5% w	20.7% w	18.5% w	15.9% w	15.9% w	17.4% w	7.0%
Long-term unemployment rate (% of labour force 15-74)	21.6% w,y	16.8% w,y	15.2% w,y	11.9% w	11.8% w	n/a	2.5% (2020)
Gender employment gap (percentage points difference between the employment rates of men and women aged 20-64)	24.4 pps w	23.0 pps w	23.7 pps w	23.6 pps w	24.9 pps w	26.9 pps w	10.8 pps
Disability employment gap (percentage points difference in employment rates between people with and without a disability)	n/a	n/a	n/a	n/a	n/a	n/a	24.5 pps (2020)
Real gross disposable income of households (Per capita increase, Index = 2008)	n/a	n/a	n/a	n/a	n/a	n/a	107.23 (2020)

Area/Sector	2016	2017	2018	2019	2020	2021	EU-27 average (2021 or most recent year)
Social protection system							
At-risk-of-poverty or social exclusion rate (AROPE) (% of population)	n/a	n/a	n/a	n/a	n/a	n/a	21.9%
At-risk-of-poverty or social exclusion rate of children (% of population 0-17)	n/a	n/a	n/a	n/a	n/a	n/a	24.2%
Impact of social transfers (other than pensions) on poverty reduction	n/a	n/a	n/a	n/a	n/a	n/a	32.68%
Self-reported unmet need for medical care (of people over 16)	n/a	n/a	n/a	n/a	n/a	n/a	1.8%
Income inequality - quintile share ratio (S80/S20) (Comparison ratio of total income received by the 20% of the population with the highest income to that received by the 20% with the lowest income)	n/a	n/a	n/a	n/a	n/a	n/a	5.24
Housing cost overburden (% of population)	n/a	n/a	n/a	n/a	n/a	n/a	9.9%
Healthcare							
Self-reported unmet need for medical care (of people over 16)	n/a	n/a	n/a	n/a	n/a	n/a	1.8%
Out-of-pocket expenditure on healthcare (% of total health expenditure)	28.61% z	29.12% z	29.31% z	29.35% z	n/a	n/a	15.57% (2018)

w: *data supplied by and under the responsibility of the national statistical authority and published on an 'as is' basis and without any assurance as to their quality and adherence to EU statistical methodology'*

z: data from the World Health Organisation

y: data for people aged over 15

z: data from the World Health Organisation

Sources of data in Annex B: Eurostat and Agency for Statistics of Bosnia and Herzegovina, unless otherwise indicated.

ANNEX C: PROGRESS WITH STRUCTURAL REFORM MEASURES FROM THE 2022-2024 ERP

This year's ERP contains the requested table reporting on the implementation of many, though not all, of the 2022-2024 ERP's structural reform measures, an improvement from last year when this table was missing altogether. Not all of the structural reform measures have been reported on, and for some measures no score for the state of reform implementation is provided.

ANNEX D: COMPLIANCE WITH PROGRAMME REQUIREMENTS

The Council of Ministers adopted the 2023-2025 ERP on 20 March 2023 and submitted it to the Commission later that day, nearly 2 months after the deadline. The quality of the programme and the delay in submission point to continuing significant weaknesses in administrative coordination and policy formulation. The document still falls short of being comprehensive and internally consistent and lacks an overall strategic vision. The readability of the document could be further improved. Insufficient time has been left to finalise the ERP as some contributions were submitted very late. Bosnia and Herzegovina needs to strengthen its coordination capacity on economic policy, to build consistent political support for the ERP and increase its visibility and coherence.

Inter-ministerial coordination

The preparation of the ERP was centrally coordinated by the Directorate for Economic Planning (DEP). The Council of Ministers adopted the usual Activity Plan which empowers the DEP to coordinate the drafting process only in November 2022, just 3 weeks before a draft of the ERP was supposed to be made publicly available for a minimum two-week public consultation.

Stakeholder consultation

The ERP itself refers only to consultations on part of the document with social partners in the *Republika Srpska* entity.

Macroeconomic framework

The description of recent macroeconomic performance suffers from the lack of up-to-date data. The macroeconomic framework's is still not fully consistent with other parts of the programme, particularly the fiscal framework. The reasoning behind the chosen policy approach and the links to the overarching policy strategy are not sufficiently explained.

Fiscal framework

The programme continues to lack a consistent, complete and sufficiently detailed presentation of the country's fiscal policy both for 2023 and of budgetary plans for 2024-2025. This strongly impedes analysis of countrywide fiscal developments. Public investment projections in the fiscal part are still not consistent with the macroeconomic framework. The requested links to structural reforms are still largely missing. The rationale for the policy approach taken and underlying measures are not sufficiently developed. The programme provides hardly any quantitative analysis of budgetary measures. The compilation and presentation of fiscal data are not yet in line with the ESA 2010.

Structural reforms

Sections 5, 6 and 7 do not fully follow the programme requirements, which reflects the absence of proper coordination on countrywide challenges and reform priorities. In many cases, policy goals are vaguely formulated and are not supported by implementable measures and activities. Key results indicators are not always present and potential risks frequently indicate political obstacles. Tables 10a, 10b and 11 haven been provided this year, an improvement over last year when they were left out. The tables on costs and financing of the structural reform measures are not, however, fully completed and improvements have still to be made. The table on progress on the structural reforms from ERP 2022-2024 is partially complete.

The ERP contains 25 reforms, five more than the 20 prioritised measures described in the guidance note. Most reforms are not sufficiently narrow in scope, and the activities planned in the three-year period are not clearly defined.

The document is three times as long (275 pages) as the limit provided in the guidance note (90 pages), and nearly 100 pages longer than last year.

Significantly more efforts are required to improve the ERP process, which means more senior policy makers also need to participate in its formulation. Key obstacles are still not identified with sufficient clarity or consistency with reform measures and activities.

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