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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

BOSNIA AND HERZEGOVINA
(2024-2026)

COMMISSION ASSESSMENT

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The economic reform programme (ERP) was submitted with a nearly 7-week delay on 28 February 2024. 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

After an economic slowdown in 2023, the economic reform programme (ERP) expects GDP growth to rebound in 2024-2026, mainly driven by exports and investments. In 2023, weaker external demand, higher interest rates and still high inflationary pressures resulted in a slowdown in economic growth (estimated at 2% in the programme). The ERP projects GDP growth to accelerate to around 3% in 2024 and 2025 and to 3.4% in 2026, benefiting from rebounding exports and increasing private and public investment. In line with expected international price developments, inflation is projected to fall to around 1.9% by 2026. An expected rebound in foreign demand, especially tourism, and subdued import growth are projected to reduce the current account deficit to 2.8% of GDP by 2026. Foreign direct investment inflows are expected to remain stable at around 2% of GDP. Risks are mainly on the downside due to the programme's optimistic projections for export growth amid a generally bleak global environment surrounded by considerable uncertainty and weak investment. The expected decline in inflation also appears optimistic given recent high wage pressures, partly reflecting labour shortages due to substantial emigration.

The fiscal framework projects expenditure-driven fiscal consolidation, leading to a small budget surplus in 2026. In view of recently adopted permanent expenditure measures, this benign scenario appears optimistic. On the revenue side, a shift in the growth drivers from private consumption to exports and investment is projected to lower the revenue-to-GDP ratio by 1 percentage point in 2024-2026. On the expenditure side, mostly unspecified measures to contain public consumption and 'other' spending, along with lower investment expenditure, are expected to reduce the spending-to-GDP ratio by 1.6 percentage points (pps). However, the ERP's fiscal framework is neither based on adopted budgets nor on a politically approved medium-term strategy. The planned drop in public investment is in contrast to the policy recommendations jointly adopted since 2015. For 2024, the programme expects a slight increase in the deficit to 0.6% of GDP (mainly due to higher social spending). In 2025, lower spending on public investment and collective consumption (by 0.4 pps and 0.3 pps respectively) is projected to almost balance the budget, while additional spending restraint in 2026 is set to result in a slight surplus of 0.3% of GDP. The debt ratio is expected to decline from 26.7% of GDP in 2023 to 23% in 2026, while interest costs are expected to remain at 1% of GDP, benefiting from the low debt level and high share of concessional lending. The reliability of the fiscal framework is reduced by a lack of political support and weak alignment with EU accounting standards, in particular on the definition of the general government. 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 presented does not properly address the challenges the country is facing, in particular in view of 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.

- **A lack of cooperation among the country's stakeholders and highly fragmented competences severely undermine country-level economic governance.** The country's ability to formulate consistent, countrywide short- and medium-term economic and fiscal objectives and strategies is seriously impeded by a high degree of institutional fragmentation, insufficient cooperation among key stakeholders, and excessively politicised decision-making processes. Furthermore, economic analysis and policy formulation suffers from a lack of accurate and timely empirical data.

- **Fiscal policy lacks a growth-enhancing perspective.** Public spending tends to focus on poorly targeted, short-term social transfers, while neglecting medium-term investment needs in areas such as education, infrastructure and the environment. The level of public investment is low in view of the country's needs and its implementation is often 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 affected by a sizeable informal economy and insufficient transparency of taxable income.

- **Other structural challenges are in the rule of law, the business environment and inefficient public enterprises, the green and digital transition, human capital, and fundamental democratic reforms**. A difficult business environment and weaknesses in the country's single economic space are key factors driving poor labour market outcomes, while holding back improvements in competitiveness and living standards. A persistent issue is the lack of political ambition to tackle regulatory burden and corruption. 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 transition. These challenges are expected to be addressed through key structural reforms identified in the country's reform agenda under the new Growth Plan for the Western Balkans.

Implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2023 has been partial. Some effort has been made to cushion the impact of external shocks and increase public investment. Limited action has been taken to improve the efficiency of tax collection or the reporting of contingent liabilities. The analytical capacities of governmental institutions have remained limited, including in the field of statistics. With a two-and-a-half year delay, a new central bank governing board has been appointed. Partial progress has been achieved on simplifying business registration, licensing and permitting procedures and on strengthening the coordination mechanisms for employment policies. However, no progress has been made on harmonising them countrywide, nor in developing a system to monitor and forecast the skills needs in the labour market. Work on reforming the governance of state-owned enterprises (SOEs) is still at an early stage. A first draft of a single integrated energy and climate plan for lowering carbon emissions has been prepared. However, only limited progress has been achieved on adopting state-level legislation for electricity and gas and ensuring their harmonisation at entity level. Agreed measures to improve access to early childhood education and care services for children/families from vulnerable backgrounds and in rural areas have been partially implemented.

2. ECONOMIC OUTLOOK AND RISKS

After a strong rebound from the pandemic-induced recession, economic activity slowed in 2023, reflecting a deteriorating international environment and the impact of high inflation. Annual output growth slowed from 3.8% in 2022 to 1.6% in 2023 ([1]), which is currently a weaker outcome than the ERP estimate of 2.0%. To some extent, this slowdown reflects a base-year effect after strong post-pandemic growth in 2021 and 2022, but also weaker than expected external demand, while domestic demand has so far performed better than expected. The main drivers of growth in 2023 were private consumption, but also exports and gross investment (including inventories). Furthermore, relatively low interest rates and an expansionary fiscal policy supported economic growth despite a deteriorating international environment. The labour market remained resilient despite the slowing economy. Registered employment growth decelerated from 2.3% in 2022 to 1.4% in 2023, while the unemployment rate – as measured by the labour force survey (LFS) – dropped from 15.4% in 2022 to 13.2% in 2023. Anecdotal evidence points to a significant outflow of migrant workers, leading to a declining labour force. This already leads to labour supply shortages in some sectors, such as construction but also health services. Youth unemployment (age group 15-24) returned to pre-COVID-19 levels, dropping to a still high rate of 30.1% in 2023. A relativly high inactivity rate among women contributes to an overall rather low activity rate.

Table 1:

Bosnia and Herzegovina - comparison of macroeconomic developments and forecast

	2022		2023		2024		2025		2026	
	COM	**ERP**	COM	**ERP**	COM	**ERP**	COM	**ERP**	COM	**ERP**
Real GDP (% change)	3.9	**3.8**	1.5	**2.0**	2.0	**2.9**	2.3	**3.0**	n.a.	**3.4**
Contributions:										
- final domestic demand	5.3	**1.6**	2.9	**0.9**	2.5	**2.0**	2.7	**2.3**	n.a.	**2.5**
- change in inventories	2.1	**0.5**	-0.3	**0.6**	0.1	**0.4**	0.0	**0.2**	n.a.	**0.4**
- external balance of goods and services	-2.9	**1.7**	-1.4	**0.5**	-0.5	**0.5**	-0.4	**0.5**	n.a.	**0.5**
Employment (% change)	1.0	**1.0**	1.3	**1.5**	1.4	**1.4**	1.0	**1.5**	n.a.	**1.6**
Unemployment rate (%)	:	**15.4**	:	**13.2**	:	**11.9**	:	**10.5**	n.a.	**9.1**
GDP deflator (% change)	12.2	**9.5**	6.5	**4.4**	2.4	**2.6**	2.0	**2.4**	n.a.	**2.1**
CPI inflation (%)	14.0	**14.0**	6.5	**6.2**	3.5	**3.1**	3.0	**2.2**	n.a.	**1.9**
Current account balance (% of GDP)	-4.6	**-4.5**	-4.5	**-4.3**	-4.0	**-3.7**	-3.8	**-3.0**	n.a.	**-2.8**
General government balance (% of GDP)	-0.4	**1.0**	-0.5	**-0.4**	-1.5	**-0.6**	-0.5	**-0.1**	n.a.	**0.3**
Government gross debt (% of GDP)	29.2	**28.3**	26.5	**26.7**	27.0	**25.6**	26.5	**24.6**	n.a.	**23.0**

Sources: Economic Reform Programme (ERP) 2024, Commission Autumn 2023 forecast.

The programme expects largely investment-driven output growth acceleration, from 2.0% in 2023 to 3.4% in 2026. Compared to last year's programme, the baseline scenario expects similar growth dynamics for 2024 and 2025. This brings average output growth

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[1] Macroeconomic and fiscal estimates and forecasts covering 2023-26 have been taken from the ERPs themselves; if available, preliminary macroeconomic and fiscal outturn data for 2022 and 2023 have been taken from the relevant national sources (national statistical office, Ministry of Finance, central bank).

during the 3-year programme period to 3.1%, compared to 2.5% expected in the previous programme. This growth performance is higher than the country's main trading partners such as the EU. Key factors in the country's stronger growth performance are exports, increasing by 8.3% a year on average, and investment, which is expected to increase by 5.2% on average, benefiting from increased spending on infrastructure and energy projects. On potential growth, the 2024 ERP estimates a rate of 3.0% over the programme period. This results in slightly negative output gaps in 2024 and 2025, which are projected to close in 2026. The programme presents an alternative macroeconomic scenario, which assumes less dynamic external demand and higher inflation. This would reduce average annual GDP growth compared to the baseline scenario by 0.7 pps to 2.4% on average in 2024-2026, mainly as a result of lower exports and investment and significantly higher inflation in 2024. On internal risks, the programme points to complex decision-making and slow reform implementation as potential downside risks. However, domestic risks in particular are assessed only in a qualitative way. There are no estimates provided on the fiscal impact of this adverse scenario.

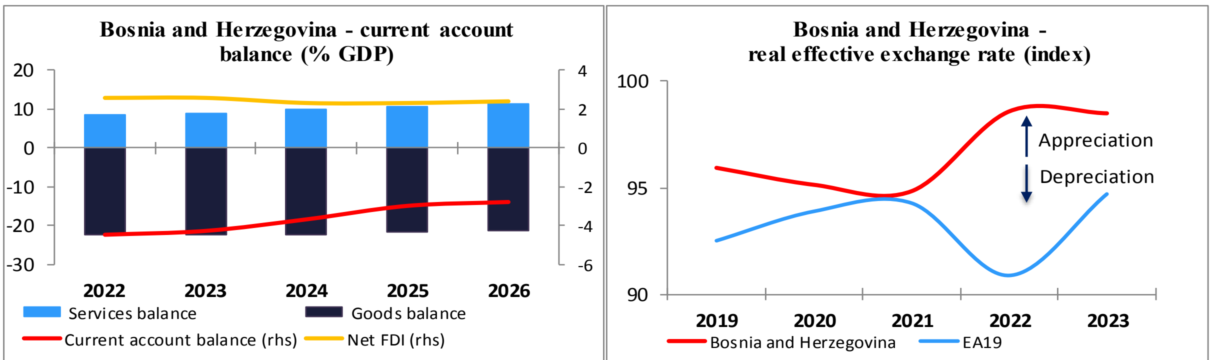
The ERP's overall growth path appears to be on the optimistic side, in particular in view of the currently more pessimistic international outlook. Despite Bosnia and Herzegovina's average growth of about 3% on average over the last 10 years, the programme's macroeconomic growth trajectory of around 3% appears ambitious. In particular, the composition of growth with a strong reliance on external demand and investment appears optimistic, given the country's traditionally strong role of private consumption as a key driver of growth. In view of the programme's assumptions on the external environment, the country's projected export performance suggests significant market share gains, which would have benefited from a more detailed explanation. Given the country's weak track record of reform implementation, the programme appears to be rather optimistic in expecting that structural reforms will translate into higher private and public investment. As in previous years, the macro scenario is more optimistic about public investment than the fiscal framework. For example, in the macroeconomic framework public investment is expected to increase by more than 7% in real terms in 2024-2026. According to the programme's fiscal framework, public investment is expected to decline by around 2.5% in real terms.

The programme expects a swift drop in inflationary pressures. Price pressures started to mount in 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 significantly in 2023, reaching 3.5% in December 2023. On average, consumer price inflation was 6.5% in 2023, compared to 14% in 2022. The programme expects average annual inflation to decline to 3.1% in 2024, easing to 2.2% and 1.9% in 2025 and 2026 respectively. This profile is somewhat more optimistic for 2024 and 2025 compared to the Commission forecast. The ERP expects lower import prices, in particular for energy and food, to be the main factor behind the deceleration in inflation. Unfortunately, it does not elaborate on possible domestic factors for inflation. The absence of an official core inflation series and the late update of the CPI weights is another impediment to assess the country's price dynamics. 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 and increases in mimimum wages not only reflected rapidly rising energy and food prices, but also labour supply bottlenecks due to an increasing scarcity of qualified workers.

The current account balance projection is based on optimistic assumptions about export demand, in particular tourism exports. After a sharp increase – largely driven by import prices – in the current account deficit to 4.5% of GDP in 2022, the programme expects a similar deficit (-4.3% of GDP) for 2023. However, thanks to strengthening export demand and decelerating import prices, the ERP projects a continuous reduction in the deficit, from 3.7% of GDP in 2024 to 2.8% in 2026. This appears optimistic, in view of the country's import elasticities. Furthermore, the programme does not mention the likely negative impact of the introduction of the Carbon Border Adjustment Mechanism (CBAM) on the country's external balances. As in previous years, the programme expects that the deficit in the balance of goods and services will be largely financed by a stable inflow of current transfers, primarily consisting of workers' remittances, accounting for more than 10% of GDP. Foreign direct investment inflows are expected to be between 2¼% and 2½% of GDP, covering the bulk of the current account deficit. This assumption is on the cautious side, given that foreign direct investment inflows were around 3% in 2022 and 2023. After a rather low inflow of greenfield investment in recent years, there seems to be some stronger interest among foreign investors in hydpropower and solar power generation. Furthermore, a number of international financial institutions are supporting investment in the country's transport infrastructure. However, the country's cumbersome business environment, fragmented internal market and political uncertainty so far appear to have impeded a stronger inflow of foreign capital.

The country's external competitiveness deteriorated recently as a result of an appreciation of the real effective exchange rate. However, this largely reflects the strengthening of the euro, to which the domestic currency, the KM is pegged, against the Turkish lira and the Russian rouble. Furthermore, wage increases have been relatively high recently, which could exert upward pressure on the country's export prices. Recent wage increases could also have a negative effect on the country's international price competitiveness.

Graphs: external competitiveness and the current account



Source: Economic Reform Programme (ERP) 2024.

Source: Central Bank of Bosnia and Herzegovina, and ECB.

The country's banking sector has remained stable so far. Government measures have helped to prevent potential turbulence due to COVID-19 and Russia's full-scale war of aggression. However, the issuance of public guarantees, partly as a result of increased activities of the entities' development banks, has also raised public sector contingent liabilities. The sector's health is regularly supervised by stress test assessments performed by the two entities' banking supervisory agencies. Nevertheless, the Bosnian banking industry remains subject to systemic risk. The legal framework for Systemically Important Banks (SIBs) in Bosnia and Herzegovina is not yet harmonised with international standards. Moreover, the complexity of the institutional set-up contributes to hindering adequate banking supervision. For instance, the Standing Committee for Financial Stability, pivotal for the supervision of the Bosnian financial system, does not convene regular meetings and has not met since March 2022. Nominal credit growth accelerated slightly in 2023, reaching 4.6% by the end of December 2023, while in real terms credit growth remained mostly negative in this period. This partly also reflects the tightening of credit conditions in recent years. Deposit growth accelerated to 7.2% by the end of the year, leading to an increase in deposits as a share of GDP and pointing to an improving liquidity situation among households and businesses. The non-performing loans (NPL) ratio decreased further to 43.8% at the end of 2023, and the ratio of foreign-denominated loans to total loans also continued to decline. However, in some smaller, domestically owned banks, NPL ratios appear to be significantly higher. The country's two supervisory agencies extended measures to contain the increase in domestic lending rates, which helped to preserve the households' repayment capacity. However, such an intervention introduces distortions to the financial market's allocation mechanism and should remain temporary. In view of the country's fragmented financial supervision, a countrywide financial safety net would strengthen the country's shock resilience.

Table 2:

Bosnia and Herzegovina - financial sector indicators

	2019	2020	2021	2022	2023
Total assets of the banking system (EUR million)	16 621	16 824	18 121	19 137	19 932*
Foreign ownership of banking system (%)	84.7	83.1	82.2	74.2	74.3*
Credit growth (average)	5.7	1.1	1.7	4.2	4.6
Deposit growth ** (average)	9.3	5.6	10.1	5.9	7.2
Loan-to-deposit ratio *** (end of period)	89	83	77	76	75
Financial soundness indicators (%, end of period)					
- non-performing loans to total loans	7.4	6.1	5.8	4.5	3.8
- regulatory capital to risk-weighted assets	18.0	19.2	19.6	19.6	19.7
- liquid assets to total assets	29.2	28.6	30.7	30.5	29.0
- return on equity	9.1	5.6	9.6	12.0	15.0
- foreign exchange loans to total loans	53.9	53.9	50.2	43.3	37.6

* Q3.
** Total deposit growth.
*** Non-interbank loans to customer deposits.
Sources: Central Bank of Bosnia and Herzegovina, Supervisory banking agencies, CBBH calculation.

3. PUBLIC FINANCE

As in 2022, the budgetary performance in 2023 benefited from stronger than anticipated revenue growth. This allowed a signficant increase in (primarily current) spending, while still meeting the 2023 ERP's initial fiscal target. Based on provisional data, the programme estimates that total revenue rose by 12.1% in 2023, compared to an 8% anticipated increase in the previous programme. Total spending is projected to have increased by 16.1%, compared with last year's 8.7% estimate. The 2024 programme therefore estimates a budgetary surplus of 0.4% of GDP, which is in line with the last year's target. Official fiscal data for 2023, prepared by the central bank, is expected by November 2024 . The main factor behind the better than expected revenue performance is broad-based: social contributions, benefiting from higher wages and increased employment, rose by 14.3% and contributed 5.1 pps to the 12% revenue increase. Indirect taxes rose by 8.3% against a nominal GDP increase of 6.5%. Profit taxes benefited from high energy prices, leading to significant profits in the electricity producing industry. On the spending side, the main elements were strong increases in social transfers (+20.3%) and collective consumption (+14.4%), accounting for some 70% of the total spending increase. Capital spending was 18.1% higher than in 2023. This led to an increase in public investment from 3.5% of GDP in 2021 to 3.9% in 2023. However, due to the rather low level of investment, this increase contributed only 1.8 pps to the overall spending increase of 16.1%. Compared to the initial budget plans for 2023, the main deviation on the revenue side was higher than expected income from social contributions, which were 5% higher than expected. On the spending side, the main unplanned expenditure increases were social transfers, which were 7.4% higher than initially planned, while capital spending was 13% lower than initially budgeted. Overall, the reasons for the fiscal deviations are structural, but also due to ad hoc decisions. The cautious revenue estimates are a structural feature of the country's budgetary process, while the inflation-driven excess revenues were largely unexpected. On the spending side, the additional spending is largely due to discretionary decisions in response to unexpected events, such as high energy prices or the availability of unplanned revenues.

Box: Bosnia and Herzegovina's fiscal architecture

Bosnia and Herzegovina's public finances consist of four independent budgetary institutions made up by two 'entities' (the *Federation* and *Republika Srpska)*, accounting in 2022 for 58% and 34% of total fiscal spending, the *Brčko District*, accounting for 1.7% of total spending, and the country-level institutions, accounting for 6.5% of total spending.

There are no countrywide fiscal rules in place. Only one of the four budgetary entities has adopted a deficit and debt rule. However, according to the country's fiscal council law there is a countrywide fiscal coordination body, the Fiscal Council, although it is neither independent nor has any authority to influence policy decisions of the four budgetary institutions. This coordinating body is tasked with preparing, in coordination with the four fiscal institutions, an agreed Global Fiscal Framework. This provides a 3-year medium-term revenue and expenditure framework with coordinated fiscal objectives. However, in practice it is often finalised only once the two largest fiscal institutions – the two entities – have completed their budgetary planning process.

As a result, the country's overall fiscal strategy can be described as the sum of the often-diverging fiscal policies of the two key budgetary spenders, i.e., the *Federation entity* and the *Republika Srpska entity*. In recent years, *Republika Srpska entity* has often applied a significantly more expansionary fiscal stance. As a result, their public debt levels differ considerably.

Three out of the four budgetary institutions, accounting for 95% of total spending, pursue independent fiscal policies. The fourth budget institution primarily covers the administrative expenses of the country's state-level institutions, such as the Council of Ministers, state-level ministries or the country's foreign representations.

The budgets for the central governments of *Republika Srpska* entity and *Brčko District* were adopted in December 2023, while the budget for the *Federation entity* followed on 25 January. The budget for the country-wide institutions still is not adopted. The Global Fiscal Framework was adopted on 25 January. Unfortunately, information on all these budgets has not been included in the ERP.

Due to the late adoption of the country's medium-term fiscal strategy (the Global Fiscal Framework), the programme presents only projections for 2024-2026 based on historic trends and basic assumptions. On the revenue side, the programme expects a gradual decline in the revenue-to-GDP ratio (from a preliminary 41.9% in 2023 to 40.9% in 2026), mainly as a result of a declining share of private consumption in GDP. Due to indirect tax revenue increasing at a rate below nominal GDP growth, the share of tax revenue in GDP is expected to decline by 0.6 pps between 2023 and 2026. The share of income from social contributions is expected to increase by 0.1 pps, reflecting the effects of measures taken in 2023. On the expenditure side, the ERP expects a 1.6 pps decline in the spending ratio mainly driven by low growth in public consumption and 'other' expenditure, with these two spending categories each decreasing by 0.6 pps. The growth in public investment spending is projected to remain below nominal GDP growth, with a 0.4 pps fall in investment in 2023-2026 to just 3.6% of GDP. Relatively low investment spending is not in line with the country's needs and also conflicts with the policy guidance jointly agreed since 2015. Based on these assumptions, the ERP expects a moderate deficit in 2024 (0.6% of GDP), a largely balanced budget in 2025 and a slight surplus (0.3% of GDP) in 2026. The general government deficits in 2024 and 2025 are largely the result of deficits in *Republika Srpska*, while the *Federation's* budget is expected to be in surplus. The *Republika Srpska* entity indicates that part of the deficits are expected to be financed by concessional lending from international financial institutions (IFIs). However, in the past this source of financing often did not materialise. The programme's fiscal stance (the change in the cyclically adjusted primary balance) targets a slight fiscal impulse of 0.2% in 2024 and slight negative fiscal impulses in 2025 and 2026, when the economy is projected to be at its potential output level or slightly above.

The programme projects a slight increase in the general government deficit to 0.6% of GDP (+0.2 pps) for 2024 mainly as a result of higher social transfers, while the main revenue and spending positions have been kept largely unchanged as a percentage of GDP. However, this is just a programme estimate – when the ERP was drafted, only one of the four main budget users, Republika Srpska's central government, covering about one quarter of the country's total spending, had adopted its 2024 budget,. The programme expects total revenues to increase by 5.7%, while expenditures are projected to increase by 6.3% mainly due to higher spending on social transfers (+8.8%) and collective consumption (+5.4%). Capital spending is expected to increase by 7%, increasing public investment spending as a share of GDP only slightly from 3.9% in 2023 to 4.0% in 2024. Significant savings on 'other expenses' (-0.2 pps of GDP) are projected, which unfortunately are not described in further detail. Overall, this benign fiscal scenario appears optimistic in view of recently adopted permanent expenditure measures.

Table 3:

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

	2022	2023	2024	2025	2026	Change: 2023-26
Revenues	39.8	41.9	41.9	41.3	40.9	-1.0
- Taxes and social security contributions	35.9	37.7	38.0	37.7	37.4	-0.2
- Other (residual)	3.9	4.2	3.9	3.6	3.5	-0.7
Expenditure	38.7	42.2	42.5	41.4	40.7	-1.6
- Primary expenditure	38.1	41.3	41.5	40.4	39.7	-1.6
of which:						
Gross fixed capital formation	3.5	3.9	4.0	3.6	3.6	-0.3
Consumption	16.5	17.7	17.7	17.4	17.1	-0.6
Transfers & subsidies	16.0	18.0	18.4	18.2	17.9	-0.2
Other (residual)	2.1	1.6	1.4	1.3	1.1	-0.6
- Interest payments	0.6	0.9	1.0	1.0	1.0	0.0
Budget balance	1.0	-0.4	-0.6	-0.1	0.3	0.6
- Cyclically adjusted	0.7	-0.4	-0.6	-0.1	0.2	0.5
Primary balance	1.6	0.6	0.4	0.9	1.2	0.7
- Cyclically adjusted	1.3	0.6	0.4	0.9	1.1	0.6
Gross debt level	28.3	26.7	25.6	24.6	23.0	-3.6

Sources: Economic Reform Programme (ERP) 2024, Commission calculations.

The relatively low debt level suggests that there is fiscal space to support stronger investment and growth. The programme expects a continuous and stable decline in the debt ratio for 2024-2026, from 26.7% of GDP in 2023 to 23% in 2026. The main debt-reducing factors are primary surpluses with a 2.5 pps cumulative debt-reducing impact in 2024-2026. Real GDP growth and inflation lead to a further debt reduction of 2.2 pps and 1.7 pps respectively. Interest costs are estimated to amount to 1% of GDP per year, increasing the debt ratio by 3 pps over the 3-year programme period. Due to tightening financial conditions, the implicit interest rate registered a significant increase from 2.1% in 2022 to 3.5% in 2023. The ERP calculations imply a moderate further increase in the implicit interest rate to 4% in 2024 and to 4.1% in 2025 and 2026.

Overall, the country's debt level is relatively low and benefits from low financing costs thanks to a high share of IFI funding, with the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development accounting for 27.2%, 23.7% and 11.7% of total external public debt respectively in 2023. IMF debt sustainability analyses and stress tests point to an overall sustainable public debt situation, with only a moderate risk in the event of a banking sector crisis.

Bosnia and Herzegovina
Composition of changes in the debt ratio (% of GDP)

	2022	2023	2024	2025	2026
Gross debt ratio [1]	28.3	26.7	25.6	24.6	23.0
Change in the ratio	-3.7	-1.7	-1.0	-1.0	-1.6
Contributions [2]:					
1. Primary balance	**-1.6**	**-0.6**	**-0.4**	**-0.9**	**-1.2**
2. 'Snowball effect'	**-3.1**	**-0.8**	**-0.4**	**-0.3**	**-0.3**
Of which:					
Interest expenditure	0.6	0.9	1.0	1.0	1.0
Growth effect	-1.1	-0.5	-0.7	-0.7	-0.8
Inflation effect	-2.7	-1.2	-0.7	-0.6	-0.5
3. Stock-flow adjustment	**1.1**	**-0.3**	**-0.2**	**0.2**	**-0.1**

[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) 2024, Commission calculations.

Risks to the programme's fiscal scenario appear to be tilted towards higher than planned deficits and a shift of spending towards social transfers. While the country has a track record of cautious revenue assumptions, there is a risk that upcoming municipal elections could lead to further increases in public consumption and social transfers. In addition, recently adopted permanent (social) expenditure measures risk either resulting in significantly higher deficits during the programme period, or requiring substantial spending cuts in other areas. Furthermore, economic growth could be lower than expected, resulting in lower than anticipated revenue growth. As in previous years, there is a risk that planned investment increases will not materialise due to weak implementation capacities or the priorisation of available funds to finance additional social transfers.

Box: Sensitivity analysis

The ERP's sensitivity analysis refers the programme's alternative scenario and its assumption of higher inflation. This leads to largely unchanged GDP nominal growth rates, which should limit the impact of lower growth on tax revenues. Unfortunately, the programme does not elaborate on the possible effects of lower growth and higher inflation on the spending side, for example the additional costs of unemployment benefits or a higher public wage bill due to higher wage increases.

Overall, the sensitivity analysis appears to be incomplete and is on the optimistic side. Although the annex tables contain data on contingent liabilities, there is no analysis of this topic. The level of contingent liabilities is expected to drop from 3.5% of GDP in 2023 to 2.9% in 2024. This appears to be rather low. No fallback fiscal positions are mentioned. There is also no data on long-term projections on contingent liabilities and future health and pension expenditures.

The quality of public finances and budget planning remains low. There is no countrywide coordination of lower-level fiscal policies. The country's public finances continue to be plagued by a lack of medium-term planning and a strong focus on social transfers. In addition, the fiscal situation of publicly owned companies, many of which continue to rely on state support, is far from transparent. The programme does not present sufficient plans to improve the spending structure. As in previous years, it also lacks a sustained pro-growth focus. This approach is not in line with the policy guidance jointly adopted in the last 7 years, which called for higher investment spending and a more growth-oriented fiscal policy.

The country's fiscal framework continues to suffer from weak coordination of a highly fragmented fiscal system, lengthy decision procedures and low-quality fiscal data. There is neither a countrywide fiscal rule nor an independent fiscal council in the sense of the EU *acquis*. There is currently no credible or effective *ex ante* medium-term fiscal framework – in contrast to existing legislation, a countrywide fiscal framework is only adopted once the main fiscal entities have adopted their own budgets. Budget planning is often based on outdated information and tends to underestimate revenue performance, leading to supplementary budgets adopted in the second half of the year to adjust spending on updated revenue estimates. Due to frequent delays in the budget adoption process, spending in the first few months of the year is often based on the previous year's spending, which poses substantial problems during times of high inflation. The availability, quality and timeliness of fiscal data is rather poor, the result of a highly fragmented fiscal set-up and regulations, weak compliance with existing standards and insuffcent cooperation among the numerous stakeholders. There is a significant degree of non-alignment with EU public sector accounting standards, particularly for publicly owned enterprises, which seriously impedes the assessment of the country's actual fiscal position. As a result, both the deficit and debt ratio could be significantly different than reported. The central bank implements an EU-supported project to improve the accounting of historic general government data. The programme mentions intentions in one of the three regional governments to improve their risk assessment, although it fails to provide sufficient details.

4. MAIN MACRO-RELEVANT STRUCTURAL CHALLENGES

In November 2023, the Commission proposed a New Growth Plan for the Western Balkans[2] with the aim of supporting the region's economic convergence and accelerating the accession process. The plan involves a Reform and Growth Facility (EUR 2 billion in grants, EUR 4 billion in loans) that is to be disbursed in 2024-2027 as investment[3] and budget support in exchange for implementing reforms that are to be set out in reform agendas prepared by the Western Balkan partners. The New Growth Plan is therefore an important tool to increase reform incentives to boost growth and convergence. In this context, with a view to

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2 https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/new-growth-plan-western-balkans_en.

3 Infrastructure investments need to comply with the EU environmental acquis, national and international nature protection and water management obligations, ensure public participation and consultation, and guarantee high quality environmental impact assessment reports that include cumulative impacts on nature and biodiversity.

ensuring an integrated surveillance of Bosnia and Herzegovina's economy, this chapter briefly outlines the main structural challenges facing the country.

A slow pace of catching-up with EU living standards points to significant structural weaknesses. Bosnia and Herzegovina has a small open economy. GDP growth averaged 3% over the last decade, which is low when taking into account the country's relatively low GDP per capita of about one third of the EU-27 average. The main underlying reason for the country's moderate growth performance is the slow speed of structural reforms.

Economic governance is weak and highly politicised, with frequent delays in overdue structural reforms due to political stalemate and disputes, often related to the fragmented distribution of competences. Bosnia and Herzegovina's short- and medium-term track record in adopting and implementing overdue structural economic reforms remains poor, in particular on countrywide measures. The main reasons for this are a lack of political commitment and insufficient cooperation among key stakeholders, together with highly politicised decision-making processes and institutional fragmentation. Implementation of the policy guidance jointly adopted each year at the Economic and Financial Dialogue with the EU remains limited and lags behind its peers.

Political leaders and judicial institutions are failing to tackle widespread corruption. Transparency International ranks Bosnia and Herzegovina 108th out of 180 countries in its 2023 Corruption Perception Index, making it the worst performer in the Western Balkans. Just 14% of businesses surveyed in Bosnia and Herzegovina say that the fight against corruption there is effective – a lower proportion than any other country in the region – and a higher proportion of businesses than in any other Western Balkans country had to make irregular payments. Important measures in this respect would be to develop comprehensive anti-corruption strategies and action plans for the state level, the two entities and the Brcko district, to amend (at the state-level and the RS entity) or adopt (at the level of the Federation entity) whistleblower protection laws in line with international standards, to ensure the registration and disclosure of the beneficial ownership of legal entities and to strengthen the capacity to effectively investigate, prosecute and adjudicate high-level corruption cases.

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. Businesses that wish to operate across the entire economy still face technical and administrative obstacles and frequently need to obtain the same licences 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 licences, 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 Western Balkans country to cite the lack of a fully digitised process for applications and approvals of licences as a major obstacle, with 76% of businesses indicating it to be at least a 'moderate' obstacle, compared with a regional average of 49% (Balkan Business Barometer 2022). Public sector spending is not coordinated on a country level and is routinely driven by short-term considerations, often focusing on upcoming elections. Overall, the public sector, in particular many of the still substantial public enterprises, are oversized and inefficient and pose substantial fiscal risks for the already constrained public finances.

The overall quality of education remains inadequate despite sizeable spending. According to data from 2021, public spending on education accounted for some 4% of GDP. When adding private spending and support by foreign donors, the overall amount is nearly 5% of GDP. However, the education system fails to provide Bosnia and Herzegovina's labour force with the skills and knowledge necessary for smooth integration into the labour market. Inadequate education is an important factor behind the particularly high youth unemployment rate (30.1% in 2023), more than twice the country's overall unemployment rate. Insufficient coordination among the numerous stakeholders results in a lack of common standards for various levels of education and differences in the quality of teacher training and performance evaluation. Insufficient coordination is a problem that exists not only between the entities but also within the Federation entity among the various cantons. Teaching curricula continue to be outdated and are still not sufficiently aligned with the country's needs. There has been little change in levels of educational attainment in recent years. 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 and also lack sufficient providers. This is to some extent a supply issue, but also a structural problem, reflecting a weak training system and a lack of coordination with the private sector and public employment services. Participation in early childhood education and care is significantly lower than in the EU and elsewhere in the region. Furthermore, access to Early Childhood Development (ECD) centers is insufficient. The illiteracy rate continues to be around 3%, largely as a result of a relatively high illiteracy rate among women. Bosnia and Herzegovina's irregular and inconsistent participation in international assessments, such as the Programme for International Student Assessment (PISA) or the Trends in International Mathematics and Science Study (TIMSS) prevents the country's from better understanding educational trends and challenges.

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 web page 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 the different levels of 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. 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.

Moving away from coal-based electricity and improving energy efficiency requires legislation and investments. Bosnia and Herzegovina has one of the most energy-intensive output generation processes in the Western Balkans and remains heavily reliant on lignite coal. The level of emissions from coal-fired power plants is therefore a major concern. A reliable and secure energy supply is still impeded by the lack of a single regulatory framework to attract investment in a low-carbon energy sector. Adopting laws on renewable energy and energy efficiency should be a priority, together with state-level legislation on electricity and natural gas with which the entities must comply. Bosnia and Herzegovina should also design and implement a comprehensive building renovation strategy to improve energy efficiency. Furthermore, there is a need to prepare for the planned phased implementation of the EU Carbon Border Adjustment Mechanism (CBAM) entering into force in 2026. Lack of progress in these areas contributes to the poor business environment and will prolong the move to decarbonisation, the transition to renewables and improved energy efficiency that the current energy crisis has made even more urgent.

ANNEX 1: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2023

Every year since 2015, the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey 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 of the guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the guidance is evaluated by the Commission in the following year's ERP assessments.

The following table presents the Commission's assessment of the implementation of the 2023 policy guidance jointly adopted by the EU and the Western Balkans and Turkey at their Economic and Financial Dialogue at ministerial level on 16 May 2023.

Overall: Partial implementation (37.5%)[4]	
2023 policy guidance (PG)	**Summary assessment**
PG 1: **PG 1.1:** Use the available fiscal space in the 2023 budget for targeted support to vulnerable households and firms if needed to cushion the impact of high energy prices.	There was **limited implementation** of PG 1: 1) **Partial implementation:** Funds from the EU Energy Support Package, amounting to about 0.3% of GDP, have been distributed by all governmental levels for households and energy efficiency measures (for households and micro-, small and medium-sized enterprises). However, a lot of the available fiscal space was actually used for permanent increases of wages and pensions while the targeting of social support measures has been rather limited. Furthermore, instead of using this opportunity for establishing a more permanent system of improved social targeting, the chosen approach was more of a one-time nature.
PG 1.2: Increase the share of government capital spending in GDP by measures improving public investment management and an accelerated implementation of those investment projects that have been subject to a clear positive cost-benefit assessment.	2) **Limited implementation:** According to the ERP, capital spending have increased in 2023, from 3.5% to 3.9% of GDP, but this is not yet confirmed by budget execution data. According to adopted entity budgets, public investment spending is set to decline in 2024. Steps to improve public investment management have remained limited.
PG 1.3: In order to improve the efficiency of tax collection, ensure an effective exchange of	3) **Limited implementation**: No progress was made on improving the efficiency of tax collection or improving

[4] 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.

taxpayer information amongst the country's tax authorities, and in particular, clarify the constitutional competence for establishing a central (i.e. country-wide) registry of bank accounts of private individuals, in line with the EU acquis	data exchange between the four tax administrations in Bosnia and Herzegovina in 2023. As in the previous year, 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: **PG 2.1:** Prepare a report on contingent liabilities, and a strategy on how to contain the emergence of new contingent liabilities, in particular in publicly owned enterprises, and manage risks related to existing ones. **PG 2.2:** Strengthen the analytical capacities of institutions responsible for fiscal accounting, in particular of the BiH Ministry of Finance and Treasury, of the Federation's Ministry of Finance and the Ministry of Finance of RS with a view to improving the quality of fiscal accounting including those required for the preparation of the ERP and improve the procedures for preparing the ERP in order to ensure a timely submission and compliance with the requirements. **PG 2.3:** Continue to strengthen the country's capacities in the areas of macroeconomic statistics, regional accounts, labour force survey and government finance statistics, and increase efforts to improve the coverage and timeliness of all statistics.	There was **limited implementation** of PG 2: 1) **Partial implementation**: In the RS, the first report on fiscal risks of public companies for 2022 was completed in the third quarter of 2023. The report addresses the fiscal risks of 20 public enterprises of special interest.T All hospitals in FBiH are now regularly reporting on arrears to the FBiH MoHs, and the joint commission with representatives from MoF, MoH and PMs office is overseeing the implementation of the Law on financial consolidation and restructuring in health sector in FBiH. In RS around 15 primary health centers were included into the Treasury, and their arrears cleared. The RS Government has invited the remaining primary health centers to be included into the Treasury system. This means that all arrears in primary health centers will be cleared by end 2025, and hence more financial discipline introduced. 2) **Limited implementation:** Comprehensive technical assistance, financed by the EU, has been provided to all stakeholders. However, the practical impact on the quality of fiscal accounting and the ERP has remained limited, and the ERP was again submitted with a signficant delay. The capacity of the BiH MoFT dealing with theERP-related fiscal accounting has been slightly increased. 3) **Limited implementation:** The country still needs to prepare and agree on a master plan for national accounts and on the classification of regions equivalent to NUTS classification. The labour force survey is produced regularly. Progress was made in the government finance statistics, however efforts should be continued to expand data availability and increase quality. Central Bank staff are working closely with a statistics twinning project, and important improvements are being made. Substantial efforts are still needed to improve coverage and timeliness of all statistical data, and priority should be given in the areas of national accounts, excessive deficit procedure and government finance statistics.

PG 3: **PG 3.1:** Continue to carefully assess and analyse price developments, supported by the statistical offices through improving price statistics, including a timely publication of CPI weights and developing and publishing core inflation series. **PG 3.2:** Strengthen further the reporting and risk management frameworks across the banking system to ensure an accurate reporting of asset quality, further reduce institutional and legal obstacles to NPL resolution, reduce data gaps in particular as regards the real estate sector and initiate setting up a single resolution fund. **PG 3.3:** Safeguard the integrity of the currency board arrangement and the independence of the central bank, in particular appoint Governing Board members without further delay.	There was **partial implementation** of PG 3: 1) **Partial implementation:** While the central bank kept monitoring carefully the evolution of price dynamics, the limitations due to data availability remain. The statistical office does not publish a core inflation series and the weights of the CPI are outdated and published with unusually long lags. This complicates and constrains a proper assessment of price developments. 2) **Limited implementation:** The reporting and risk management frameworks were gradually enhanced, inter alia by improving the legislation governing credit risk management and classification of exposures. The bank resolution framework is still not fully operational and needs to be strengthened further. While the two banking agencies have continued to co-operate smoothly following harmonised approaches, there is still a lack of a single resolution fund. In addition, the remaining obstacles of an effective non-performing loans (NPL) resolution framework have not been addressed, such as facilitating out-of-court restructurings and amending the tax treatment of NPL sales to specialised companies. 3) **Full implementation**: The central bank continued to ensure full convertibility of the domestic currency by backing monetary liabilities with net foreign exchange reserves. In addition, after two and a half years of uncertainty, a new governing board of the central bank has been formed, including the appointment of a new governor.
PG 4.1: With a view to improving the business environment and preparing for integration into the single market, engage with work related to the second cluster, further simplify business registration, licensing and permitting procedures and harmonize them across the country with a view to digitalising them in the near future. **PG 4.2:** 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 Authority, whose ability to fulfil its vital country-wide role must be maintained, begins implementing the authorised economic operator (AEO) concept and starts preparations for joining the Common Transit	There was **limited** implementation of PG 4: 1) **Limited implementation**: Engagement with work related to the second cluster, i.e., progress with aligning with internal market acquis, has been limited. Electronic registration of businesses is functioning in the Republika Srpska and in Brčko District, whilst in the Federation digitalisation of court documents has been finalised and pilot projects in Sarajevo, Mostar and Travnik registration courts have been established, although electronic registration is still not working. As a result, the registers are not fully functional or have not been connected, and a way of coordination has not been established. Efforts are still needed to harmonise company law at country level. Administrative procedures have yet to be simplified, and some initiatives are taken in both entities on the issuance of e-construction permits (pilot project in Banja Luka and Gradiska in the RS entity and facilitation of inspections in Ze-Do Canon). 2) **No implementation:** There were some discussions, but these were interrupted and then restarted. But there are no concrete drafts of the law, and a working group has not been formed to draft the law,

Convention. **PG 4.3:** Strengthen the governance of public enterprises by updating the registers in both entities to ensure they include all public enterprises together with comprehensive financial statements, audits and organizational information; allocate adequate human resources to the central oversight units in both entities; and prepare a report on the contingent liabilities related to public enterprises and a strategy to manage these fiscal risks.	3) **Partial implementation**. Oversight units in both entities have been set up, in the General Secretariat and the Ministry of Finance. In the RS entity, units have allocated human resources, while in the Federation entity the recruitment process is still ongoing. No countrywide register exists. The register in the Federation entity is accurate and publicly available and incudes major key performance indicators and organisational information. In the RS entity, the registry is outdated (from 2015) with very limited information. There is some progress on contingent liabilities, with a first report on fiscal risks in the RS.
PG 5.1: In line with the Green Agenda for the Western Balkans and the Energy Community Treaty, adopt and begin implementing a single integrated energy and climate plan for lowering carbon emissions through increases in renewable energy and energy efficiency. **PG 5.2:** Adopt State level legislation for electricity and gas and ensure the full harmonization of laws at entity level in these areas to prevent further delays in the opening and operating of the energy market and establishment of a day-ahead electricity market. **PG 5.3:** 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	There was **partial** implementation of PG 5: 1) **Partial implementation:** The first draft of the national energy and climate plan (NECP) was submitted to the Energy Community secretariat (ENCS) in mid-2023. The country is currently in the process of addressing the comments on the plan. The aim is of adopting it by 30 June 2024 (which is the legal deadline for the adoption). 2) **Limited implementation:** A working group for drafting a new law on electricity and gas was established in October 2023. The authorities are currently preparing a first draft of the law. 3) **Partial implementation:** All authorities are currently finalising the building renovation strategies.

PG 6.1: 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.	There was **limited** implementation of PG 6: 1) **Partial implementation:** The institutions have coordinated their joint work, depending on the political outlet, and have established an inter-ministerial task force to develop the Youth Guarantee (YG) Implementation Plan. The drafting process is still ongoing, as there have been serious delays in the Federation entity due to late nomination of their YG coordinator and political stalemate caused by elections. The Republika Srpska entity and Brčko District have advanced significantly. They have already prepared their draft action plans (to form an integral part of the overall YG Implementation Plan for Bosnia and Herzegovina) and are now waiting for the Federation entity to catch up with them and work on the comprehensive plan.
PG 6.2: 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.	2) **No implementation:** No progress
PG 6.3: Improve access to early childhood education and care services towards children/families with vulnerable backgrounds and in rural areas.	3) **Partial implementation:** Bosnia and Herzegovina has announced measures to address the issue of deinstitutionalisation through the draft roadmap. It aims to end institutional care, improve the system through a set of measures to plan the transformation, downsizing and/or closure of residential institutions, while establishing diverse other childcare services regulated by rights-based and outcome-oriented standards. These measures are promising, but have not been implemented yet. Implementation should be monitored. The planned measures should be addressed in the coming period also under the EU-funded programme to support independent living/community living of people with disabilities and/or children without parental care. The activities pertaining to the development of tools for early detection, intervention and support for children and adults at risk of social exclusion aim to ensure the inclusion of children with disabilities. It ensures their optimal development thanks to the reform of the assessment, referral and monitoring system. The child and the entire family are also offered timely and coordinated support from local and other institutions. The implementation of this activity will ensure that all children have equal development conditions and system support. The measure also encompasses the ongoing training of professional bodies and coordinators from the social protection, education and health sectors, as well as the establishment of an electronic database on children with disabilities. This database will serve, among other things, to gather data on the needs for the establishment of social services in real time.

ANNEX 2: COMPLIANCE WITH PROGRAMME REQUIREMENTS

The Council of Ministers adopted and submitted the 2024-2026 ERP on 28 February 2024, i.e. 7 weeks 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. Bosnia and Herzegovina needs to strengthen its coordination capacity on economic policy, build consistent political support for the ERP and increase its visibility and coherence.

The macroeconomic framework is based on rather old data. The fiscal framework contains neither details on adopted budgets nor a politically approved medium-term fiscal scenario. Instead, the fiscal outlook is based on historic trends and assumptions.

Inter-ministerial coordination

The preparation of the ERP was centrally coordinated by the Directorate for Economic Planning. The Council of Ministers adopted the activity plan - which empowered the Directorate to coordinate the drafting process - only on 9 November 2023.

Stakeholder consultation

No countrywide stakeholder consultation took place.

Macroeconomic framework

The description of recent macroeconomic performance suffers from a lack of up-to-date data. The macroeconomic framework 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. This is partly a reflection of the country's insufficient administrative capacity and lack of cooperation among the various stakeholders.

Fiscal framework

The programme continues to lack a consistent, complete and sufficiently detailed presentation of the country's fiscal policy for 2024 and its budgetary plans for 2025-2026. This seriously impedes the 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 is not yet in line with the European System of Accounts (ESA 2010). The submission of the fiscal notification is still in an experimental phase.