EUROPEAN
COMMISSION

Brussels, 21.4.2017
SWD(2017) 146 final

COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

BOSNIA AND HERZEGOVINA (2017-2019)

COMMISSION ASSESSMENT

EN EN

Contents

1. EXECUTIVE SUMMARY

Bosnia and Herzegovina's economic reform programme (ERP) envisages a moderate acceleration of annual output growth in 2017-2019. GDP growth is expected to reach 4 % by the end of the programme period. This acceleration in growth is forecast to be driven by investment, which is seen as picking up substantially after years of weak performance. Private consumption is also forecast to increase as a result of rising employment and low inflation. Net exports are expected to subtract from growth as a pick-up in exports will be outweighed by the impact of growing imports. The risks to this scenario are mainly on the downside. The extent of the picking-up in investment depends on a clear improvement in the country's investment climate and on progress with public investment, both of which have long been a challenge.

Bosnia and Herzegovina needs to improve its growth prospects by strengthening its capacity to finance investments and implement structural reforms. The country suffers from below-potential growth, which is delaying a swift reduction of the unacceptably high unemployment rate. Frequent political stalemates impede progress with long-overdue structural reforms. The main challenges include the following:

- **Fiscal policy is impeded by insufficient fiscal space which limits the country's ability to spend on growth-enhancing activities such as public investment and education.** The country's access to international financing is limited, while domestic sources are already stretched. This is a major constraint on the country's capacity to finance overdue public investment projects. Public spending remains heavily biased towards consumption and redistribution, notoriously neglecting investment needs. Furthermore, debt roll-over requirements are substantial in some cases, creating additional pressure on public finances and leaving limited room for manoeuvre.
- **The quality of short and medium-term fiscal planning remains weak.** Besides insufficient political attention to medium-term policy challenges, limited administrative capacity is a key constraint. Weak statistics and outdated accounting approaches are also crucial impediments to better policy design. The country's debt management is negatively affected by fragmented responsibilities, limited capacity and an insufficient information flow from local data providers to central ones.
- **The country lacks a country-wide energy strategy and a legal framework in compliance with its obligations under the Energy Community Treaty.** Shortcomings in coordination and cooperation between government levels in setting up a functioning energy market and a single or harmonised legal and regulatory framework limits opportunities for growth in this sector. At various government levels, the ERP largely recognises this need.
- **Bosnia and Herzegovina's competitiveness continues to be hampered by the fact that it is not a single economic space with a unified approach to enterprise policy.** The oversized and inefficient public sector, which is running up considerable payment arrears, leaves little room for enhancing growth-friendly public investment. Non-recognition of business registration across the country is a particular problem. The ERP recognises this as a challenge, but does not offer a comprehensive way of addressing it, leaving the entities with companies of reduced growth prospects. By

contrast, the Reform Agenda[1] includes more relevant reforms in this regard, such as standardising of corporate taxation, completing the registers of para-fiscal fees and charges and continuing to simplify and harmonise business registration procedures.

- **The labour market situation in Bosnia and Herzegovina remains one of the most challenging in the region.** Young people, women and long-term unemployed are in a particularly vulnerable position. High inactivity levels and widespread informal work further exacerbate the situation. Addressing the skills mismatches should start with the modernisation of the education system at all levels, including through teacher training and better cooperation between education institutions and the employers. Recent labour law reforms aimed at improving labour market functioning, but the lowering of the tax wedge is still pending. Employment offices suffer from insufficient capacities to assist in providing employment and bring people into the labour force. Disincentives to take up formal work are exacerbated by weak employment support and non-targeted social assistance. Low implementation capacities hinder making substantial progress in addressing the challenges.

The implementation of the policy guidance jointly adopted in the Economic and Financial Dialogue of 25 May 2016 has been limited. Progress on improving the quality of public finances has been limited. Political tensions have delayed progress with necessary reforms and have also hindered access to available international financing, which is needed to proceed with growth-enhancing investment. Adopting a country-wide transport strategy based on related entity strategies is a step forward towards a more systematic coordination between government levels in this sector. However, a country-wide energy sector reform strategy and a legal framework in compliance with the country's obligations under the Energy Community Treaty have yet to be adopted. There has been little progress in aligning education with the labour market needs. New labour laws are being implemented and the targeting of the labour market policies has improved. Actions to reduce the tax wedge are still pending, and measures to link employment and social services are mainly in the preparatory phase. The structural reform measures planned in last year's ERP were only partially implemented.

The macro-fiscal framework is on the optimistic side, although achieving the higher growth rate envisaged largely depends on the swift implementation of structural reforms. The fiscal framework fails to rebalance fiscal policy towards a more growth-enhancing spending structure. The analysis of structural obstacles to competitiveness and the envisaged reform measures largely matches the bottlenecks and reform needs identified by the Commission. However, the analysis mostly focuses on the entity level and the country-wide perspective is limited. The structural reform measures also mostly cover the entity level and lack clear coordination and prioritisation. It is therefore not possible to assess whether the country-wide priorities match those identified by the Commission. The weak country-wide co-operation reduces the benefit from reforms for each entity. Overall, there is little progress in the quality and relevance of the ERP, despite some real progress in the process of its preparation.

[1] In July 2015, the country adopted a Reform Agenda aimed at tackling the difficult socio-economic situation and advancing the rule of law and public administration reforms.

2. ECONOMIC OUTLOOK AND RISKS

Under the Economic Reform Programme (ERP), there is expected to be a moderate acceleration in economic growth, driven by stronger investment, external demand and private consumption. Private consumption, which accounts for about three quarters of overall growth, is projected to be supported by solid employment growth and low inflationary pressures, while investment is forecast to make the main contribution to speeding up growth. Investment is picking up substantially after years of weak performance, especially in infrastructure and the energy sector. Growth of government consumption is projected to remain well below overall growth (at some 0.6 % on average), reflecting commitments to reduce the share of public spending in GDP. Exports are expected to grow by an average of 5.5 % annually, benefitting from stronger expected growth in neighbouring countries. Import growth is forecast to remain slightly lower, at an average of 5.1 % annually. Given the high import content of expected investment, net-exports will continue to make a negative contribution to growth, of around 0.8 percentage points. On the basis of the programme's underlying macroeconomic framework, growth is projected to increase from 3.1 % in 2016 to 4 % in 2019. This brings average annual growth to 3.7 % during the programme period, compared to 1.6 % over the last three years.

The macroeconomic scenario is on the optimistic side, relying on a marked acceleration of investment and a significant improvement in the business environment. As in last year's programme, the macroeconomic scenario presupposes a significant increase in public investment (by between 23 % and 33 % annually). This strong increase mainly results from the low historic base, but nevertheless looks optimistic, given the country's track record in this respect. Furthermore, this strong increase is not consistent with the fiscal framework which projects a declining ratio of public investment spending, from 2.3 % of GDP in 2016 to 1.3 % in 2019. The assumptions on private investment are more plausible, given the country's potential in electricity production and tourism. However, the extent of the investment pick-up depends on a clear improvement in the country's investment climate, which has been a long-standing challenge. The ERP's alternative scenario acknowledges both downside risks stemming from a less favourable international environment and risks related to carrying out the planned reforms, which would imply less public investment, but higher spending on public sector employment and social security. As a result, the level of GDP would be 1.8 % lower than in the reference scenario. Unfortunately, the alternative scenario does not calculate the impact on the labour market or on public finances. Given the country's track record, the alternative scenario appears more realistic than the reference scenario. Overall, it seems essential – as it did last year – to have a strong policy commitment to pursuing the country reform programme if Bosnia and Herzegovina is to achieve the economic outlook presented in the Programme.

Improvements on the labour market remain limited. After an average of 1.5 % increase in registered employment in 2016, the macroeconomic framework forecasts a slight acceleration in employment growth, reaching 2.1 % in 2019. Though unemployment fell to 25.4 % in 2016, it remains high. The registered unemployment rate (national definition) fell to 42.1 % in 2016, and is expected to decline to 39.2 % by 2019. Factors including a large difference between net wages and labour costs (tax wedge) and rigid labour market regulations impeded a more dynamic employment growth. They also help perpetuate a large informal economy. Youth unemployment remained above 60 %. The difficult labour market situation is also reflected in broadly stagnating gross nominal wages. The expected average increase in employment by some 1.9 % per year is largely consistent with the underlying macroeconomic outlook. However, achieving higher employment growth strongly depends on addressing key constraints on employment generation, such as poor education and a significant tax wedge on labour.

Table 1:

Macroeconomic developments and forecasts

	2015	2016	2017	2018	2019
Real GDP (% change)	3.0	3.1	3.4	3.8	4.0
Contributions:					
- Final domestic demand	0.3	2.7	4.2	4.6	4.8
- Change in inventories	1.0	0.0	-0.2	0.0	0.0
- External balance of goods and services	1.7	0.4	-0.7	-0.8	-0.8
Employment (% change)	1.2	-2.6	1.6	1.9	2.1
Unemployment rate (%), LFS definition	27.7	25.4	24.7	24.0	23.2
GDP deflator (% change)	0.9	0.1	1.2	1.3	1.2
CPI inflation (%)	-1.0	-1.0	0.5	1.0	1.2
Current account balance (% of GDP)	-5.6	-2.9	-5.3	-5.8	-6.5

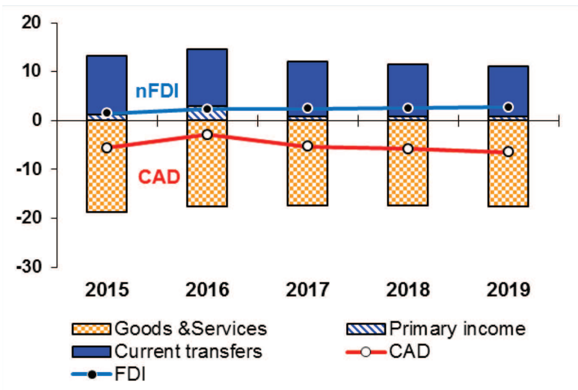
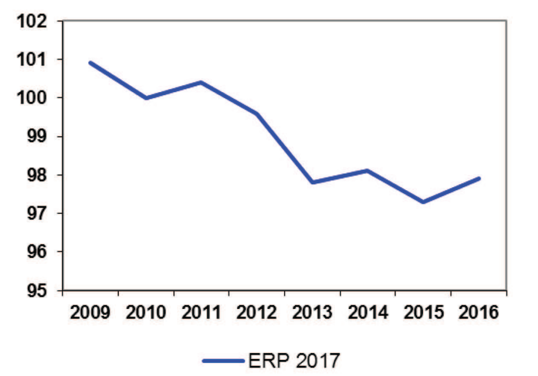
Sources: Economic Reform Programme (ERP) 2017

The programme's inflation scenario is largely plausible, envisaging only a moderate build-up of inflationary pressures in the coming years. As a small economy in which imports account for a substantial share, the country's inflation profile is strongly influenced by developments in international prices. The programme's expectations of price developments are in line with external forecasts of moderate increases in the prices of energy and raw materials. Domestic price pressures are expected to remain moderate, given the country's high unemployment and growth expectations, which, though improving, remain moderate. However, in the later years of the programme, price pressures could rise, as the output gap is expected to close.

Driven by higher investment, the ERP expects the current account deficit to deteriorate, but the extent of this deterioration is not fully in line with the strong growth in investment, which is projected. After a slight improvement in the current account deficit to 4.5 % of GDP in 2016, the medium-term projection expects that the deficit will widen to 6.5 % of GDP in 2019. This appears optimistic should the expected strong increase in investment materialise, along with the projected worsening terms of trade due to the pick-up in oil prices. The programme attributes this limited deterioration in the current account to the expected improvement in the country's export performance following earlier investments in the manufacturing and electricity sectors. However, there is a significant risk that the expected positive export effect will materialise with a delay. Therefore, in the context of the forecast investment-driven growth recovery, the expected improvement in the trade balance appears optimistic. If the trade balance were to widen, a sharper than projected deterioration in the country's external balance could further elevate external financing needs. Unfortunately, the programme does not provide sufficiently detailed information on other balance of payments components.

The financing of the current account deficit appears to rely largely on foreign investment inflows, privatisation revenues and increasing capital transfers. Foreign direct investment (FDI), which dropped markedly during 2016 to 1.2 % of GDP, is expected to increase to about 2.5 % of GDP annually during the programme period. The main sources are expected to be privatisation projects and greenfield investment in infrastructure and electricity. However, this also points to the need to tap other international source for financing the expected widening of the current account deficit. Unfortunately, the programme provides no quantitative details of how the current account deficit is to be financed throughout the programme period.

Chart 1: **External competitiveness and the current account**

Changes in the current account balance (% of GDP)	**Real effective exchange rate (CPI based, total economy)**
	

Source: Economic Reform Programme (ERP) 2017, ECFIN calculations

The banking system appears broadly stable, but pockets of vulnerabilities remain. The sector is still well capitalised. The regulatory capital adequacy ratio, at 16.1 % on average, has deteriorated somewhat but remains well above the regulatory minimum of 12 %. Profitability remained positive in 2016 and the liquidity of the system remains at comfortable levels. Partly, this is because precautionary motives appear to be keeping deposit growth high, with average deposit levels 7 % higher in 2016 than in 2015. The banking system's credit risk indicators continue to improve slowly. The share of non-performing loans in total loans continues to decline, reaching 11.8 % at the end of the fourth quarter of 2016, compared to 13.8 % a year before. However, there are significant differences at a lower level of aggregation, with significantly higher levels of non-performing loans at some non-systemic, domestically-owned banks. At the same time, the ratio of provisions to non-performing assets has increased, reaching 74.2 % at the end of the third quarter of 2016, compared to 71.4 % a year before. Nevertheless, legislative changes to facilitate loan restructurings are overdue and further efforts are still needed to encourage the clean-up of banks' balance sheets. Furthermore, banking sector supervision and resolution needs to be improved. So far, credit growth has remained muted despite greater liquidity in the banking sector. In particular, credit to non-financial corporations remained weak, partly because credit demand from private companies appears to be low. To a certain extent, this probably reflects the unfavourable business environment, which is not supportive to local investment.

Table 2:

Financial sector indicators

	2012	2013	2014	2015	2016
Total assets of the banking system, mEUR	11 210	11 794	12 299	12 756	13 344
Credit growth	5.1	2.7	3.7	1.8	2.1
Bank loans to the private sector	49.9	48.8	47.9	45.2	45.5
Deposit growth	2.6	5.1	8.4	6.2	7.7
Loan to deposit ratio	1.2	1.1	1.1	1.0	1.0
Financial soundness indicators					
- non-performing loans	12.7	14.5	15.2	13.9	12.1
- net capital to risk weighted assets	17.0	17.1	17.0	15.9	15.7
- liquid to total assets	25.1	25.4	26.2	25.9	26.3
- return on equity	4.9	-1.4	5.4	2.0	7.3
- forex loans to total loans	63.2	62.9	68.0	67.1	62.6

Sources: Central Bank, DataInsight, IMF

3. PUBLIC FINANCE

The 2016 fiscal deficit is estimated to have been lower than expected, largely as a result of higher revenues, while the increase in spending was less pronounced. The ERP estimates that the consolidated fiscal deficit in 2016 amounted to -0.4 % of GDP. This is below the target of -1.2 % of GDP set out in the 2016 ERP. Public expenditure is estimated to have risen slightly, from 42 % of GDP in 2015 to at 42.7 % in 2016. The reported data points to a slight improvement in the composition of expenditure in 2016, as investment spending is estimated to have increased by 0.8 pps. of GDP, while social transfers are reported to have fallen by 0.3 pps. However, the data presented is still provisional, based largely on plans adopted in mid-2016. Public consumption and interest payments have increased by 0.2 pps. each. Overall, non-discretionary current spending is still predominant at 23 % of GDP, while public investment is low at 2.3 % of GDP. Consolidated fiscal revenues are estimated to have risen significantly, from 40.9 % of GDP in 2015 to 42.3 % in 2016. The main factor behind the increase was 'other revenue', which rose by 1.4 pps. of GDP. Indirect taxes rose by 0.3 pps., while social security contributions dropped by 0.3 pps. Due to slow progress on the reforms required, the external financing from the International Monetary Fund (IMF) and the World Bank that had been expected had to be replaced by delaying planned increases in capital spending and by reverting to domestic sources of finance, including the financing through arrears.

Box: The budgets for 2017

Unfortunately, the programme does not provide information on the budgets, adopted for 2017.

Source: Economic Reform Programme (2017)

For 2017, the country's medium-term fiscal programme, the Global Fiscal Framework, is set to result in a consolidated deficit of -0.3 % of GDP. This deficit is mainly caused by local governments and social security funds, (-0.5 % and -0.1 % of GDP respectively), while the central governments are targeting a consolidated surplus of 0.3 % of GDP. On the revenue side, the programme is expected to see a marked increase in income and wealth tax revenues, largely due to better revenue collection. However, it is forecast that this will be largely offset by lower capital tax receipts. Indirect taxes are expected to rise by 1.1 % only, which is relatively low, given the relatively high growth in the underlying tax base, such as private consumption and imports. On the expenditure side, there are plans to reduce public consumption by 1.1 %, while investment spending is expected to be nearly 15 % lower than in 2016. This sharp reduction in investment is not in line with the 2016 ERP recommendations. Overall, the presented efforts to create fiscal space for increasing public investment appear to be quite limited.

Table 3:

Composition of the budgetary adjustment (% of GDP)

	2015	2016	2017	2018	2019	Change: 2016-19
Revenues	**40.9**	**42.3**	**40.1**	**38.8**	**37.5**	**-4.8**
- Taxes	20.6	20.8	20.5	20.1	19.4	-1.4
- Social security contributions	14.9	14.6	13.9	13.3	12.8	-1.8
- Other (residual)	5.4	6.9	5.7	5.4	5.3	-1.6
Expenditure	**42.0**	**42.7**	**40.4**	**37.9**	**36.3**	**-6.4**
- Primary expenditure	41.2	41.7	39.5	37.0	35.4	-6.3
of which:						
Public Consumption	7.1	7.3	6.9	6.6	6.3	-1.0
thereof: compensation of employees	11.7	11.6	11.1	10.6	10.1	-1.5
Social Transfers	16.2	15.9	15.2	14.5	13.8	-2.1
Subsidies	1.2	1.3	1.3	1.1	1.0	-0.3
Gross fixed capital formation	1.5	2.3	1.8	1.3	1.3	-1.0
Other (residual)	16.4	16.2	15.6	14.6	14.0	-2.2
- Interest payments	0.8	1.0	0.9	0.9	0.9	-0.1
Budget balance	**-1.1**	**-0.4**	**-0.3**	**0.9**	**1.2**	**1.6**
- Cyclically adjusted	-1.0	-0.1	-0.4	0.8	1.0	1.1
Primary balance	**-0.3**	**0.6**	**0.6**	**1.8**	**2.1**	**1.5**
Gross debt level	**40.6**	**40.5**	**40.3**	**39.7**	**37.6**	**-2.9**

Sources: Economic Reform Programme (ERP) 2017, ECFIN calculations

Over the medium term, the fiscal framework is based on the expectation of further fiscal restraint and further deterioration in the spending structure. Revenues are expected to increase more slowly than the underlying tax base, mainly because growth in revenue from indirect taxes and in social security contributions is expected to be low. The declining share of revenue from social contributions probably reflects planned reductions in the tax wedge. As a share of GDP, total revenue is expected to fall substantially, from 42.3 % in 2016 to 37.5 % in 2019. However, weak revenue growth is not fully in line with the steps planned to increase excise duties, widen the tax base and reduce tax avoidance. On the expenditure side, nominal spending levels are projected to be maintained for most categories, with the exception of lower investment, resulting in a marked reduction in spending in relation to GDP, from 42.7 % in 2016 to 36.3 % in 2019. No fiscal strategy apart from maintaining nominal spending levels is noticeable in this profile. Unfortunately, as with the previous programme, the document provides no detailed information on the underlying measures. A reduction in both revenues and spending of such a magnitude is quite unprecedented in the country's recent history. More information would have been welcome, in particular on the concrete fiscal effects of planned measures, such as the impact of the envisaged reduction in the tax wedge. In contrast to last year's programme, the planned reduction in the share of spending is spread more evenly over the time horizon, reflecting the programme's approach of keeping nominal spending levels largely unchanged. The link to the internationally supported reform agenda and the overarching policy strategy is still very weak.

The fiscal stance presented for the programme period appears to be based on combining cautious revenue estimates with a freeze of nominal spending. This approach might be a useful technical assumption, but does not necessarily reflect future-oriented key policy challenges, such as increasing public investment or increasing spending in education. The key risk is that this approach is not conducive to accelerating economic growth and does not address the country's key challenges, such as high unemployment, a poor business environment and an underperforming educational system. The projection of revenues is not consistent with the macroeconomic scenario. For example, the underlying economic dynamics and the measures envisaged to increase excise taxes and to broaden the tax base, should allow stronger growth of indirect taxes in 2018-2019. Furthermore, the strong decline of revenues from social security contributions is surprising given the expected solid growth of employment. Planned reforms of the social security contribution system might be one explanation. However, the ERP does not provide sufficient detail on the concrete planned steps, or on the timing of their implementation, or on their fiscal impact. This part of the programme also remains largely silent on areas with pressing reform needs, such as the pension reform and the public administration reform in the Federation as well as the health reform in both entities.

The quality of public finance and budget planning remains weak. The programme mentions a large number of measures planned to improve the quality of public finance – some of which have already been taken – but fails to provide estimates of their fiscal impact. Medium-term budget planning remains weak and is impeded by fragmented responsibilities and the large number of stakeholders involved. If one looks at the composition of expenditure in the medium-term budget framework, growth-conducive spending, such as investment, is falling (from 5.3 % of total spending in 2016 to 3.6 % in 2019). Conversely, there is a slight increase in the share of social transfers and public consumption in total spending, from 37.3 % of total spending in 2016 to 38.1 % in 2019, and from 17.1 % of total spending in 2016 to 17.3 % in 2019.

On the revenue side, the share of indirect taxes in total revenues is increasing, from 41.3 % in 2016 to a projected 43.3 % in 2019, which is largely neutralised by a similar drop in revenue under 'Other'. The programme does not discuss the impact of this change on the revenue side on the country's income distribution. However, there is a risk that greater reliance on indirect taxation will affect lower income groups worse than the more wealthy households. The main challenge to using revenue more efficiently, seems to be lack of strong political commitment to addressing politically sensitive issues, such as the fact that social transfers could be better targeted or the need to make significant cuts in public sector employment.

Despite the limited size of the country's public debt, its trajectory and structure continue to raise concerns. Bosnia and Herzegovina's public debt was slightly over 40 % of GDP in 2016. About 70 % of public debt is foreign-owned and is largely provided on concessional terms by international financial institutions, such as the IMF, the European Investment Bank and the World Bank. The delays in IMF and World Bank lending in 2015 and 2016 caused the share of domestic debt to rise significantly, reaching 11.7 % of GDP in 2016. This was mainly due to the issuing of short-term and long-term government securities, which substituted for the non-disbursement of tranches under the IMF Stand-by arrangement. Domestic public debt is projected to fall to 8.4 % of GDP in 2019 (-3.3 pps.) on the back of a steady decrease of payments related to settling claims related to the war and the compensation for old-currency savings. Foreign public debt rose to 28.9 % of GDP in 2016 and is expected to rise further to 30 % in 2019. The currency structure of the total public debt may be considered to be relatively favourable given the country's currency board arrangement, as nearly 33 % of the outstanding stock is denominated in euro and 38.4 % in the domestic currency. A large share of the debt stock has been contracted on concessional terms, with the average interest rate remaining at 1.5 % and about 51.2 % of total debt under a fixed interest rate. Nevertheless, the maturity structure has worsened, with the average repayment period for the existing loan commitments falling to about at eight years. There is a significant difference in the indebtedness of the two entities, with the RS rapidly approaching a debt ratio of 60 % of its GDP.

Box: Debt dynamics

Table 4:

Composition of changes in the debt ratio (% of GDP)

	2015	2016	2017	2018	2019
Gross debt ratio [1]	**40.7**	**40.5**	**40.3**	**39.7**	**37.7**
Change in the ratio	-0.1	-0.2	-0.1	-0.6	-2.0
Contributions [2]:					
1. Primary balance	**0.2**	**-0.6**	**-0.6**	**-1.9**	**-2.0**
2. "Snow-ball" effect	**-0.7**	**-0.3**	**-0.9**	**-1.0**	**-1.1**
Of which:					
Interest expenditure	0.8	1.0	0.9	0.9	0.9
Growth effect	-1.2	-1.2	-1.3	-1.5	-1.5
Inflation effect	-0.4	0.0	-0.5	-0.5	-0.5
3. Stock-flow adjustment	**0.4**	**0.7**	**1.4**	**2.2**	**1.1**

Notes:

[1] End of period.

[2] The snow-ball 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 other adjustment positions, such as differences in cash and accrual

Source: Economic Reform Programme (ERP) 2017, ECFIN calculations

The programme is based on the expectation that debt reduction will speed up. The key drivers of the drop in the debt ratio are primary surpluses and strong nominal growth, while the costs of debt servicing raise the level of debt by about one percentage point of GDP per year. However, a decomposition of the debt dynamics into various factors also points to a substantial debt-increasing factor, presented in the table as 'Stock-flow adjustment', raising the debt ratio by 1.4% of GDP in 2017, by 2.2 % of GDP in 2018 and 1.1 % of GDP in 2019. Unfortunately, the programme does not provide more details on the underlying assumptions driving this envisaged debt profile.

The risks associated with rolling-over and refinancing public debt remain high. Public debt servicing, which has more than doubled in recent years, reaching over 5 % of GDP in 2015, is projected to surge further in the programme period to reach a peak of over 6 % of GDP in 2018. This poses risks for the refinancing of public debt. Moreover, the already substantial refinancing needs following the multiple issue of government securities in 2015 and 2016 and the limited availability and a partial standstill of other sources of financing could pose risks to the fiscal projections given the tight fiscal space, particularly as the country has only limited access to international capital markets.

Furthermore, debt management suffers from decentralised responsibilities and an inadequate flow of information from local data providers to the Central Bank.

Box: Sensitivity analysis and comparison with the previous ERP

The programme does not present a usual sensitivity analysis of fiscal effects of changes in key parameters. Instead, the document lists possible risks to the fiscal projections and provides a rough estimate of the fiscal and non-fiscal effects of possible increases in various excise duties. The resultant estimates amount to about 0.6-0.8 % of GDP, annually. Unfortunately there are no estimates of the effects of different assumptions on GDP growth or of different assumptions on interest rates on the country's fiscal balances.

By comparison with the previous programme, the growth profile of the 2017 programme is slightly more optimistic for 2017, but slightly more cautious for 2018. Overall, the growth profile of the 2017 programme appears more realistic than last year. The 2017 programme also seems more realistic in terms of fiscal balances and the debt profile it predicts.

4. STRUCTURAL REFORMS

The quality of the 2017-2019 ERP's structural reform sections has improved only to a limited extent by comparison with the previous year. It still fails to identify country-wide structural reforms within a coherent country-wide common policy framework linked to a comprehensive analysis of key structural challenges. This means that the Commission can only assess the obstacles to competitiveness that affect the country as a whole and the few structural reforms in the programme that at least make an attempt to cover the country as a whole. Assessing reforms identified at entity or state level is outside the scope of this assessment. The overall country-wide diagnostic provides a relevant and correct approach to addressing the economy's shortcomings. The Commission's assessment in 2016 has been largely ignored in terms of its recommendation to provide a comprehensive list of reform priorities within a coherent country-wide common policy framework.

Only a limited number of measures have the ambition of covering the country as a whole. They include one related to Public Finance Management (PFM), one related to the network markets, one on agriculture, one on education and skills and one on the labour market. The measures are scattered, addressing a number of issues at various levels of government while lacking a comprehensive framework of country-wide reforms. Many measures at entity level show little or no coordination between entities or with the state level. Numerous measures are expressed as desired outcomes rather than describing a specific activity and lack information on implementation timelines, cost estimates and/or budgetary implications, the expected impact on competitiveness, projected social outcomes, and/or potential risks with planned mitigating actions. For the ERP 2018-2020, a list of 15-20 reform measures should be identified that correspond to common country-wide obstacles to competitiveness and growth.

Main obstacles to competitiveness are the large, inefficient, complex, and burdensome public sector dominating the economy and the absence of a single economic space. It is important to establish coherent and effective coordination mechanisms and set medium-term common objectives that would effectively overcome the continuing lack of a single economic space with highly fragmented markets, being mostly set at entity or even canton level. The lack of a country-wide energy strategy and of a legal framework in compliance with the country's obligations under the Energy Community Treaty is particularly worrying and limits the growth opportunities in this sector. The education system lacks modernised curricula and teaching to improve the overall quality of qualifications within the country. Skills mismatch, lack of job creation, a high labour tax wedge and weak employment services result in high and largely structural unemployment. The social protection system is fragmented between multiple levels of governments and lacks linkages with employment support to incentivise employment. Last year's policy guidance specifically covered these areas; it was implemented only to a limited extent.

Public finance management

Public finance efficiency and effectiveness remain hampered by weak financial management, lack of a harmonised chart of accounts at state and entity level and low capacity for auditing and monitoring public procurement. Public procurement procedures suffer from high administrative burdens and a lack of transparency while fiscal discipline is low. Most state-owned enterprises are non-viable and accumulate significant arrears to public and private creditors and suppliers. State subsidies and loan guarantees to these companies constitute substantial contingent liabilities impeding the predictability of public expenditure with negative impact on macroeconomic stability and provision of public services. The ERP does not provide a country-wide analysis on public financial management (PFM) and little attempt is made to elaborate on commonly identified obstacles. Bosnia and Herzegovina still lacks a country-wide PFM strategic framework to guide all PFM related reforms.

The ERP presents one measure in this area that aims to find synergies between the different levels of government to achieve one common goal, namely to make public spending sustainable and improve financial accountability. The measure refers to the Reform Agenda but does not report on the expressed commitment of the Ministries of Finance to preparing a country-wide PFM strategy on the basis of the PFM strategies at entities and state level, or on the progress made in 2016 by all levels of government. The activities proposed for public internal financial control (PIFC) and the country-wide PFM strategy development appear consistent with the Principles of Public Administration. Some of the reforms in the PFM strategy – in public procurement or in tax administration for instance – may contribute directly to improving competitiveness. The measure does not include an analysis of the budgetary impact, the impact on competitiveness and social outcomes, possible risks or possible action to mitigate such risks. There is no update on the adoption of the financial management control (FMC) manual.

Transport, energy and telecommunications markets

The country has outdated and poorly maintained infrastructure, especially in transport, while a fragmented and weak regulatory and legal framework leads to one of the lowest investment rates in the region. The ERP diagnostic section on state level is not comprehensive and focuses exclusively on road transport as the main challenge in the transport market. There is no mention of rail or other modes of transport, or of regulatory and structural reforms, such as the connectivity reform measures. As for telecommunications, the ERP does indicate the need to set up a framework for improvement of this sector and compliance with the EU regulatory framework for electronic communications. In the energy sector, the country's hydropower potential is still largely untapped. A country-wide energy strategy and country-wide infrastructure plans, as well as an energy market with interconnections to the wider regional and EU energy markets, would improve the level of security of energy supply and – along with measures to increase energy efficiency - reduce the wastefully high energy intensity.

The ERP includes a measure on improving communication infrastructure that includes the objective of implementing the country-wide Framework Transport Strategy. However, it contains no information about specific activities, budgets or timelines.

The ERP also refers to the need to draw up a country-wide energy strategy based on the strategies of the country's constituent entities. Such a strategy and adoption of a legal framework in compliance with the Third Energy Package would help Bosnia and Herzegovina meet both its EU and Energy Community obligations. However, while working groups for the establishment of a country-wide energy strategy have been set up, there is no indication of how such obligations are to be met, nor are investment needs clearly specified.

One state level measure is designed to develop the still underdeveloped telecommunications market. The ERP refers to the 2017-2021 Telecommunications Sector Policy (as well as to a Law on Electronic Communications, a Broadband Access Strategy and a continuation of digitalisation of public broadcasting service), but has no clear timeline for adoption or milestones to measure progress, which means potential new entrants' market access continues to be blocked. The opening up to competition between fixed and mobile operators within a proper legal and regulatory framework will require regulatory independence, network operators in the whole country to coordinate and share infrastructure, and specification of conditions for granting aid to ensure an investor-friendly environment for broadband development.

Sector development

Agricultural sector development

Bosnia and Herzegovina faces many obstacles in increasing agricultural productivity and opportunities. These include arable land fragmented into small plots, the large proportion of small farms, low productivity, outdated manufacturing and processing capacities, the small number of farming cooperatives and the unfavourable age structure of the farming community. There is a continued lack of a country-wide agriculture and rural development strategy to develop the sector at country-wide level, although the constituent entities face largely the same obstacles. As rightly noted in the ERP, the absence of consolidated nationwide agricultural data and of a country-wide legal framework for carrying out the agricultural census severely hinders any effective strategy development in this sector. The absence of centralised agriculture and rural development registries, poor access to financing, low overall investment and low administrative capacities are further identified as key obstacles to the development of the sector.

The ERP includes a measure aimed at meeting preconditions for using the IPARD funds, which would help develop and integrate the agricultural market into the European and global ones. However, as indicated in the ERP, this would require several complex institutional, administrative and legislative adjustments. The ERP includes a list of legislative packages designed to meet EU phytosanitary standards; however, there is no further description of the necessary coordination with entities or information on precise timelines, and with no specific budgetary provisions. The lack of progress in agreeing to set up a country-wide IPARD operating structure is blocking further preparations for the set-up of IPARD. More investment in standards certification and agribusiness value chains would help realise the considerable potential for high-quality large scale production of competitive products.

Industry sector development

The industry sector still suffers from the lack of a single economic area. The ERP does not contain a country-wide analysis of the industrial sector, nor does it contain any measures in this field. The industrial sector covers a narrow range of traditional low and medium value-added industries in mining, metal and wood processing, machinery, textiles, tobacco, ammunition and domestic appliances, with little or no innovation. By far most industrial companies are small and medium-sized firms.

Services sector development

Tourism and Information and Communication Technologies (ICT) remain key growth drivers, but the oversized and inefficient public sector impedes further progress. The ERP fails to provide a country-wide analysis of the services sector, nor does it contain any measures in this field. There is an issue of crowding out as the public sector represents a large, inefficient, and dominant part of the services sector. Particular growth sectors are tourism and ICT. While tourism has the potential to increase growth in the country, the sector suffers from the weak business climate and transport system, market fragmentation, lack of coordination between different government levels and lack of direct cooperation between public and private stakeholders. The growing ICT sector has shown dynamic production and export growth, but continues to be held back by factors including the lack of skilled workers and low business research, development and innovation (RDI) uptake. Competition in the ICT sector needs to be enhanced to further reduce costs and improve quality.

Business environment and reduction of the informal economy

Bosnia and Herzegovina's business environment was ranked worse than that of any other European country in the World Bank Doing Business 2017 report. The ERP offers little by way of country-wide analysis other than briefly noting the importance of a good business environment for small and medium-sized businesses and commenting that the education system needs to support entrepreneurship. Though this analysis is not incorrect, there are other immediate and fundamental reasons for the poor performance of the private sector such as a continuing absence of a single economic area linked with political instability, poor access to finance, especially for small and medium-sized enterprises, the weak rule of law and functioning of the judiciary, complex, unclear and sometimes contradictory legal and regulatory frameworks, and the widespread informal economy coupled with corruption. In spite of some improvements concerning market entry and exit, barriers to entering and leaving product markets are still high.

Moreover, the business environment is characterised by an absence of country-wide recognition of business registration, numerous para-fiscal charges, shortcomings in contract enforcement and the implementation of laws. In addition to the key obstacles identified, the business environment lacks quality support measures for start-ups and export-oriented enterprises. The absence of a single coordinating body at country level results in overlapping and weak budgetary planning for major investments in economic development. Online filing of taxes, e-filing of value-added tax (VAT), and other services such as online filing of social security returns and pensions are either limited or impossible.

The measure aiming to introduce electronic signatures is a welcome development and a direct response to the policy guidance. A law on electronic signatures was adopted in 2006 but is still not implemented**.** A new law on e-signature is planned to be adopted to ensure further alignment with the *acquis*. Some progress was made in the establishment of a certification body in the Ministry of Transport and Communications of Bosnia and Herzegovina, which will deal with certificates for e-signatures. Some implementing provisions were adopted and the recruitment procedure for the new department within the ministry has been initiated. At the same time, the ERP mentions the objective of drafting the new law and bylaws in 2017. However, there is no clarity about the specific timeline that would for instance indicate when members of the public or businesses might be able to use an electronic signature to comply with tax and customs obligations throughout the country. Nor is there any discussion of the impact on budget and competitiveness, social outcomes, or risks and possible actions to mitigate them.

Research and innovation

Bosnia and Herzegovina's growth potential through research, development and innovation (RDI) remains low. This is linked to the very low allocation of funds on research and development (R&D) at a marginal 0.30 % of GDP in 2014 and the very low percentage of R&D personnel in the workforce (0.09 %). The country-wide analysis in this area is weak and identifies no shortcomings, but rather lists desired outcomes. Still, the list hints at a number of problems that affect competitiveness, including low expenditure on science and technological development, the insufficient capacity of companies to adopt new solutions, the lack of streamlining of science, research and development projects, the weak capacity of public science and research institutes and the lack of cooperation between universities and industry. Moreover, it hints at the poor state of scientific, research and technological infrastructure (equipment, facilities, systems, laboratories) and poor access to finance for high-tech enterprises. There are only very few innovation policies or strategies at state and entity levels and cooperation between academia and the private sector is either low or non-existent. No measures to address country-wide issues are planned and full support by decision-makers at all levels of government is needed to comprehensively redress the innovation system.

External trade and investment facilitation

The country is one of the least economically integrated in the region, with an export share of 34 % of GDP in 2015, down from 98 % prior to the war. The main areas of concern are a loss of competitiveness due to outdated production facilities, a fragmented domestic market, non-tariff trade barriers such as complex export procedures, the absence of coordinated border controls coupled with weak border infrastructure systems and the absence of a comprehensive approach to meet EU food safety and sanitary and phytosanitary standards. In the latter area, some progress has been achieved but for a limited number of agricultural products only; the veterinary and phytosanitary control framework is still very fragmented and needs to be further aligned with EU standards in order to facilitate export growth. The absence of country-wide strategies for agriculture and rural development, for exports and for quality infrastructure is a further impediment to strengthening the export sector. No country-wide analysis has been included in the ERP.

The measure aimed at accession to World Trade Organisation (WTO) is welcome as it will anchor economic reform and trade liberalisation carried out in the context of Stabilisation and Association Process. However, the necessary legislative changes to comply with WTO requirements are still outstanding. The information provided in the ERP only includes a general state of play without details on specific activities and timelines for finalising the WTO accession process**.** Moreover, no information is provided on budgetary impact, the effects on competitiveness and social outcome, or risks.

Education and skills

Key needs in Bosnia and Herzegovina are to tackle the skills mismatch, to modernise education institutions, and to improve the quality and recognition of qualifications within the country. There is no country-wide analysis in the ERP, partly as a consequence of weak cooperation between responsible bodies. Although employability is a challenge that needs to be tackled, there is no mention of other important issues, such as low levels of participation in preschool education, which is at the bottom among the Western Balkan countries, or the poor quality of pre-university education. Enrolment of students in school programmes with either limited or no labour market demand is a fundamental problem both in secondary and higher education. There is willingness to improve cooperation between education and business, but no systematic effort to institutionalise it. To improve basic education, increase student attainment and boost the overall quality of the education system, the focus needs to be placed on teacher training. Higher priority should be given to offering skills sets that support resilience, adaptability and learning.

While the suggested measure on improving the links between education and the labour market has relevant policy focus, it is unlikely to make a substantial impact. Improved policy monitoring and evaluation, as well as reporting would strengthen the reforms. There is limited information on budgetary and competitiveness impacts, social outcomes and risks and planned mitigating actions. The measure does not envisage any indicators which would enhance its implementation.

Employment and labour markets

The labour market situation in Bosnia and Herzegovina is among the most challenging in the region. Skills mismatch, insufficient job creation, an unsupportive tax wedge as well as weak employment programmes and services are main challenges that result in high and structural unemployment. Young people, women and long-term unemployed are particularly vulnerable. High inactivity and widespread engagement in undeclared work further exacerbate the situation.

Weak implementation capacities prevent substantial impacts from being achieved and reconfirm the need for a serious and rigorous approach to monitoring of the implementation and better coordination between all levels of government. In line with the Reform Agenda, both entities have adopted and implemented new labour legislation. However, it is difficult to establish whether any gains in employment are attributable to increased labour market flexibility.

The ERP measure to improve labour market efficiency includes appropriate activities. Further to the improved targeting of the active labour market policies (ALMPs), reducing the administrative overload of employment offices is a step in the right direction. No strategic action to formalise employment is being put in place. Some actions have been proposed to improve the provision of social assistance, but implementation still has to follow. Increasing incentives to work can be achieved by better linkages between labour market services and social protection systems. There is an agreement that the unsupportive tax wedge should be reduced to improve the business environment and bring about employment, but this should be a result of coordinated actions.

Social inclusion, poverty reduction and equal opportunities

The social protection system is fragmented between the various levels of government. There is inefficiency in both the provision of social assistance and in service provision. The social protection system needs to step up activation, while also helping those most in need. Relatively high social spending is poorly targeted and only has a small redistributive impact. Unequal access to formal education negatively affects employment and social prospects in the future. Poverty and social exclusion particularly affect persons with disabilities, long-term unemployed, women and youth. Women, particularly in rural areas, are in an unfavourable economic and social situation and should be further prioritised, including through employment activation and childcare services. The ERP does not include a country-wide diagnostic of the challenges in the social area.

Improvement of the social situation of the population and of the functioning of the social protection systems will require stronger efforts and coordinated action. There is a recognised need to strengthen eligibility and application of rights, so as to improve targeting of assistance, and to target provision of social services to those who need it most. The key action is to work on the 'mapping' of social benefits. The ERP does not include any country-wide measure to address this need. Efforts are underway to set up a single registry of non-contributory cash benefit users at some levels, but they have not yet progressed significantly. The pace of the reform plans to tackle both sustainability and adequacy of the pension systems has been uneven. If properly implemented, such reform activities may help improve targeting and address the needs of the most vulnerable people through improved data collection, targeting and budgeting.

ANNEX 1: IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2016

2016 policy guidance	Summary assessment
PG 1: Improve the quality of public finances: Enhance the growth-friendliness of public spending, among others by increasing public investment, and contain spending for public employment. Improve the targeting of social spending and establish a comprehensive inventory of public sector payment arrears. Furthermore, strengthen the country-wide public debt management capacities, in particular improving cooperation and the flow of information from local data providers to the state level. Set-up of an enforceable rules-based framework to instil discipline at all levels of government	There has been **limited implementation** of PG 1: • The authorities made efforts to contain spending on public sector employment. • Progress has been made on preparing an inventory of public sector payment arrears. However, this was limited to the health sector in the RS. • Limited progress has been made towards improving country-wide debt management capacities • Public investment probably declined in both entities as a percentage of GDP in 2016 (no official data yet). Reason: The authorities had planned to finance investment largely with expected inflows of IMF funds, which were delayed by political disputes between entities. • No significant progress has been made towards better targeting of social spending. • A rules-based framework to instil discipline at all levels of government has been officially established in the RS, but not in other parts of the country.
PG 2: Improve the provision of timely and exhaustive statistics, applying European and international standards, in particular in the area of population statistics, national accounts and government finance statistics. Furthermore, strengthen the provision of data from data providers to producers of official statistics.	There has been **limited implementation** of PG 2: • Results of population and housing census were published on 30 June 2016. According to the final assessment of the International Monitoring Operation (IMO) of October 2016, the census was conducted in compliance with international standards and recommendations. • Limited progress has been made in better aligning national account statistics and government finance statistics. In the area of government finance statistics, one important issue is that the RS does not agree on sector definitions. • The data transmission from data providers to producers of official statistics has not improved significantly.
PG 3: Develop a comprehensive strategy to foster the resolution of non-performing loans by banks, including all relevant stakeholders with a view to reducing risks to financial stability and the real economy. Follow-up on plans to upgrade the legal infrastructure of the financial system and conduct an asset quality review of smaller banking entities. Establish a bank lending and inflation expectations survey in order to better gauge underlying credit and price dynamics.	PG 3 has been **partially implemented.** • No significant progress has been achieved in fostering the resolution of non-performing loans. • Measures have been taken to upgrade the legal infrastructure of the financial system, but no substantial progress has been achieved in conducting asset quality reviews of smaller banking entities. • Concerning the establishment of bank lending and inflation expectations surveys, no significant progress has been achieved.
PG 4: Set up a common economic space and	There has been **limited implementation** of PG 4: • A coordination mechanism on EU matters was

systematic coordination mechanisms between all government levels. Adopt a country-wide transport strategy and a country-wide energy strategy in compliance with the country's obligations under the Energy Community Treaty.	adopted by the Council of Ministers in August 2016. It needs to be properly implemented in order to improve the planning and monitoring of the process of European Integration. • The adoption of a country-wide transport strategy in July 2016 based on related entity strategies is a step forward towards setting up a shared economic area and achieving more systematic coordination between the various levels of government in this sector. • While Working Groups have been established, the country has yet to adopt a country-wide energy sector reform strategy in compliance with the country's obligations under the Energy Community Treaty.
PG 5: Introduce e-payment services on taxation and fully implement the law on electronic signature in order to increase transparency and reduce space for tax evasion, corruption and regulatory complexity.	There has been **limited implementation** of PG 5: • The first steps towards implementing the law on electronic signature were taken. However, apart from the planned elaboration of a new law and bylaws (aligned with EU Regulation no. 910/201) in 2017, information on specific timelines of full implementation of this policy guidance is missing. There is no mention of the impact on the budget and the effect on competitiveness.
PG 6: Reinforce the capacities of the employment services and target active labour market policies in particular to vulnerable youth, women and long-term unemployed. Reduce the unsupportive tax wedge and disincentives for the unemployed and inactive persons to take up formal work. Improve the cooperation between the education system and labour market institutions.	There has been **limited implementation** of PG 6: • Both entities plan to improve the employment offices' intermediary role by relieving them of the administrative burden of dealing with passive measures. However, implementation has not started yet. • Targeting of active labour market policies (ALMPs) per se is good in both entities, but the impacts are low. There is no evaluation of the programmes. More financing is planned for 2017. • Legislative proposals are being drafted in the Federation of Bosnia and Herzegovina to reduce the tax burden on labour. The RS has reduced the tax wedge before and has expressed the intention of further reducing it, pending an agreement between all levels of government. • The Federation of Bosnia and Herzegovina started the procedure of adopting the Law on Single Registry of Non-Contributory Cash Benefit Users to improve better targeting of social contributions. The RS plans to further improve labour inspection. • There has been no substantial progress and further efforts are needed.

Annex 2: Compliance with programme requirements

The Economic Reform Programme (ERP) 2017-2019 was adopted by the Council of Ministers of Bosnia and Herzegovina on 25 January 2017 and submitted to the Commission on 31 January 2017. The programme is in line with the government's medium-term fiscal strategy. However, the structural reform section of the ERP does not comply with the programme requirements in that it does not present one coherent country-wide reform programme (diagnostic, measures, public consultation etc.).

Inter-ministerial coordination

The preparation of the ERP was centrally coordinated by the Directorate for Economic Planning (DEP). Two ERP coordinators were appointed from the two entities, the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), and involved the relevant line ministries from each entity. The contributions to the ERP were prepared at entity level, with measures listed by entity, but, like last year, there was no attempt to integrate these into a comprehensive country-wide framework. The ERP input was endorsed by the entity governments. Although coordination efforts within and between entities and with the state and some line ministries at entity and state level did improve and included several coordination meetings, unfortunately this did not result in a single consolidated country-wide ERP text. In particular, section 4 again consists mainly of a combination of the two entities' contributions into one document. Hence, there was no clear national ownership of the exercise and the results of the coordination between the entities and with the state level remained insufficient.

Stakeholder consultation

Unlike last year, a public consultation on the full ERP was held. However, this was done via a website only one week before the deadline for submission to the Commission. This severely limited stakeholders' opportunity to submit comments and effectively made it impossible for the government to take any comments into account. In addition, stakeholder consultations at entity level took place at an earlier stage of the preparation of the programme.

Macroeconomic framework

The programme summarises recent economic developments, but there is still a clear issue of data availability and timeliness. Compared to last year, the macroeconomic scenario is slightly more cautious concerning the country's growth profile. However, the scenario remains optimistic, particularly in terms of its investment projections, given the poor investment climate and the government's reluctance to proceed with investment. The risk analysis is more balanced than last year. The programme only partly complies with the Commission's request to provide an assessment of the medium-term sustainability of the country's external position. The recent macroeconomic performance is adequately described, but does not include the most recent information available at the time of drafting. Overall, the macroeconomic framework is sufficiently comprehensive. However, some key features should have been explained in greater detail. Consistency with other parts of the programme, particularly with the fiscal framework, is still limited.

Fiscal framework

The fiscal framework is still poorly integrated: in particular, the public sector's investment plans are insufficiently linked to the macroeconomic framework, and it remains largely silent on the links between public revenue/spending and structural reform, presented in section 4. The chosen policy approach, i.e. a marked reduction in revenue and spending, may be consistent with the objective of reducing the role of the state in the economy. However, the reasons for this policy choice are not sufficiently explained. Furthermore, there are hardly any references either to any other policy objectives discussed in other parts of the programme or to the Commission assessment in the 2016 Country Report. In addition, the ERP would have greatly benefited from quantifying some of the measures briefly mentioned. The compilation and presentation of fiscal data is not in line with the European System of National Accounts (ESA 2010), and the programme does not present a road map for aligning the country's statistical system with EU standards or for submitting a fiscal notification.

Structural reforms

The section on structural reform priorities does not follow the guidance note in that it does not contain country-wide area diagnostics and reform measures. Instead, the text comprises mainly separate inputs for each entity under the nine area headings. The analysis of key obstacles by entity does not match the guidance note for the Economic Reform Programmes, which clearly states that the section on structural reform priorities is to provide a concise overview of the main structural obstacles to competitiveness and growth at country-wide level (i.e. not at entity level).

In the ERP 2018-2020, the entity contributions should be used as input to the ERP, but the final ERP needs to be presented as one programme for the whole of Bosnia and Herzegovina, with one list of key obstacles and country-wide measures for each area, even if responsibilities for implementation lies at lower levels of government. It is particularly regrettable that the ERP failed to use the Reform Agenda adopted in July 2015 as a good basis for a country-wide diagnostics and strategy to boost growth and competitiveness, nor for reporting on the implementation of the policy guidance. In all, there are 33 reforms, far exceeding the maximum of 20. At the same time, these 33 measures mostly consist of extensive collective sets of measures rather than a single focused or prioritised measure. The page limit of 40 pages for section 4 has been exceeded.

The description of the reform measures is not detailed enough in terms of specific actions and timelines to allow the measures to be easily monitored annually. Some of the measures are covered at this level of detail, but most are not. Tables 10-12 in the Annex have been partly filled in, but each table is subsequently divided in state and entity tables. Table 11 should have contained more detailed timelines and descriptions of activities by year.