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ECONOMIC REFORM PROGRAMME

OF

BOSNIA AND HERZEGOVINA
(2018-2020)

COMMISSION ASSESSMENT

Contents

1. EXECUTIVE SUMMARY

Bosnia and Herzegovina's economic reform programme (ERP) was received by the Commission on 2 March 2018, i.e. one month after the deadline. Due to the late submission, the present assessment is limited to the main features of the programme.

The ERP is based on a moderately strengthening economy. Output growth is expected to accelerate from 3.4 % in 2018 to 3.9 % in 2020. This acceleration is forecast to be driven by investment, which is seen as picking up after performing weakly for years, and private consumption, which has benefited from rising employment and low inflation. There are mainly downside risks to this scenario. The much-needed pick-up in investment depends on a clear improvement in the country's investment climate, improved governance and policy commitment, and on progress with long overdue public investment.

Fiscal projections envisage a significant expenditure-driven consolidation, targeting increasing budgetary surpluses. Both revenue and expenditure are expected to fall substantially as a share of GDP, to an extent unprecedented in the country's recent history. The already low level of public investment would also be reduced further, which is contrary to the country's needs and also not in line with the programme's growth assumptions. There is a lack of quantitative information underpinning the measures presented. Based on the ambitious fiscal projections, public debt would fall from 36.8 % of GDP in 2017 to below 30 % in 2020.

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

- **Fiscal policy is insufficiently geared towards improving the quality of public spending by focusing on growth-enhancing areas like public investment and education.** The country's access to international financing is limited and domestic sources are already stretched, although recent reforms, such as increases in excises, will unlock significant IFI funds to finance overdue public investment projects. Public spending remains heavily biased towards consumption and redistribution, clearly neglecting medium-term needs in the areas of education and infrastructure.

- **The quality of short and medium-term fiscal planning remains weak.** Besides insufficient political commitment towards medium-term policy challenges, limited administrative capacities remain a key constraint. Fragmented responsibilities and insufficient cooperation and coordination among the various stakeholders slow down necessary reforms. Weak statistics and outdated accounting approaches are also major impediments to better policy design.

- **Bosnia and Herzegovina's competitiveness continues to be hampered by the absence of a single economic space with a unified approach to enterprise policy.** The oversized and inefficient public sector, running up considerable arrears in payments, leaves little room for boosting growth-friendly public investment. In spite of some ongoing efforts to facilitate business registration, the process remains cumbersome, including non-recognition of business registration across the country.

- **Bosnia and Herzegovina lacks a country-wide energy strategy and a legal framework in compliance with its obligations under the Energy Community Treaty, reflecting shortcomings in coordination and cooperation between government levels**. This limits opportunities for growth in this sector. The ERP is addressing this issue by proposing a reform measure related to adopting a framework energy strategy.
- **Despite some positive developments on the labour market, most of the structural challenges remain.** Low pre-school participation and poor performance in basic education hamper people in increasing their skills and training as it negatively affects achievements in later stages of education. The education system in Bosnia and Herzegovina does not correspond to the country's labour market needs and the link between education and the economy is weak, resulting in both vertical and horizontal skills mismatches. Weak activation and employment support are coupled with disincentives to work, linked to untargeted social benefits schemes and unsupportive taxation. Stronger action towards career counselling, outreach to jobseekers, profiling and strengthened cooperation with employers is needed. There is also a need for comprehensive "mapping" of social benefits and for transition from status-based to needs-based assistance. Data collection also remains an issue.

The policy guidance jointly adopted at the Economic and Financial Dialogue of 23 May 2017 has been implemented to a limited extent. Political tensions during most of last year have slowed down progress with necessary reforms. There is still no country-wide energy strategy, nor a legal framework in place that complies with the Energy Community Treaty. Company registration procedures still differ between the two entities (the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS)) and remain cumbersome and costly. Some efforts were made to simplify business registration procedures through one stop shops and online registration, but the law on electronic signature has not yet been fully implemented. Some activities were carried out aiming to further develop and implement the qualifications framework for lifelong learning. Active labour market measures have not been implemented effectively and unemployment among the targeted population remains high.

The macroeconomic projections are slightly optimistic, with key elements strongly depending on structural reforms being swiftly implemented. The fiscal framework fails to shift towards a more growth-enhancing spending structure. The analysis of structural obstacles to competitiveness largely matches the reform needs identified by the Commission. However, despite some progress, the diagnostic still focuses too much on the entities rather than the country's whole economy. Most measures presented in the ERP are not country-wide and only include entity-specific activities. This highlights the absence of a thorough consultation on country-wide challenges and reform measures among the two entities. Having a common reform strategy is a pre-requisite for addressing the challenges the country faces. In the absence of a country-wide Economic Reform Programme it is not possible to assess whether the country-wide priorities match those identified by the Commission. The weak co-operation between the entities reduces the potential benefit of the ERP. Only very limited progress has been made regarding the ERP's quality and relevance as the document lacks political ownership and support. Bosnia and Herzegovina must put in place a functioning coordination and consultation mechanism for the ERP process.

2. ECONOMIC OUTLOOK AND RISKS

The ERP projects growth to pick up, relying on a marked acceleration of investment and solid private consumption. The programme expects a moderate acceleration of output growth, from 3.4 % in 2018 to 3.9 % in 2020. As in the previous programme, the macroeconomic scenario envisages a significant increase in investment (by some 10 % annually), reflecting an improved business environment and a stronger inflow of international loans. Private consumption is expected to increase on average by 2.5 % annually, which is above the country's recent five-year average. Public consumption is projected to increase only by some 0.6 % on average, reflecting commitments to contain public spending. Growth in exports is expected to slow down, from 7.1 % in 2018 to 4.5 % in 2020, while imports are forecast to increase at a slightly lower rate. This brings average annual GDP growth to 3.7 % during 2018-2020, compared to 3.1 % over 2016-2017. The programme expects a continued annual increase of registered employment by 2.5 % on average, compared to 3.1 % in 2017 and 2.1 % in 2016.

The programme's macroeconomic scenario is plausible, but strongly relies on structural reforms being successfully implemented. The strong increase in investment might otherwise be difficult to achieve. The expected import growth is relatively low when taking into account the strong growth of private consumption and of often import-intensive investment. Risks appear to be largely on the downside.

Table 1:

Macroeconomic developments and forecasts

	2016	2017	2018	2019	2020
Real GDP (% change)	2.9	3.4	3.4	3.8	3.9
Contributions:					
- Final domestic demand	1.8	2.6	3.8	3.9	3.9
- Change in inventories	1.5	0.1	-0.5	0.1	0.5
- External balance of goods and services	-0.4	0.7	0.0	-0.2	-0.5
Employment (% change)	0.9	1.8	2.5	2.6	2.7
Unemployment rate (%), LFS definition	:	:	:	:	:
GDP deflator (% change)	1.1	-0.1	1.3	1.4	1.6
CPI inflation (%)	-1.1	1.1	1.2	1.4	1.5
Current account balance (% of GDP)	:	:	:	:	:

Sources: Economic Reform Programme (ERP) 2018

Inflation is expected to remain subdued, and the external position and its financing still appear to be largely unchanged. The programme does not expect any significant domestic price pressures resulting from increases in taxes, duties and fees, which, in combination with expected low increases in international prices, results in rather low inflation of between 1.2 % — 1.5 % annually. Domestic price pressures are expected to remain moderate, given the country's high unemployment and moderate growth expectations. The current account deficit is expected to remain at around 4 % of GDP during the programme period, partly thanks to improved export growth. The financing of the current account deficit is expected to come primarily through foreign direct investment (FDI) and other capital inflows. This profile appears to be optimistic given the risk of higher imports should the envisaged investment increase.

3. PUBLIC FINANCE

The programme provides neither consistent data on the country's actual fiscal performance in 2017 nor on the adopted budgets for 2018. However, the document presents a medium-term fiscal projection, adopted in October 2017, providing data for 2016-2020. For 2017, the programme expects a budget surplus of 0.9 % of GDP, after a surplus of 1.2 % in 2016, resulting from a slightly stronger increase in spending (+4.2 % year-on-year) rather than of revenues (3.5 % year-on-year). Data on the fiscal performance in 2017 are not complete, not consistent, nor aggregated at country level. Unfortunately, information on the adopted budgets for 2018 is largely missing.

Table 2:

Composition of the budgetary adjustment (% of GDP)

	2016	2017	2018	2019	2020	Change: 2017-20
Revenues	**39.7**	**39.8**	**38.1**	**36.6**	**35.2**	**-4.6**
- Taxes	21.1	21.7	21.3	20.6	19.9	-1.8
- Social security contributions	14.4	14.0	13.4	12.9	12.4	-1.6
- Other (residual)	4.2	4.1	3.4	3.1	2.9	-1.2
Expenditure	**38.5**	**38.9**	**36.7**	**34.9**	**33.4**	**-5.5**
- Primary expenditure	37.7	37.9	35.8	34.0	32.6	-5.3
of which:						
Public consumption	17.3	17.4	16.6	15.7	15.0	-2.4
thereof: compensation of employees	10.8	10.7	10.1	9.7	9.2	-1.5
Social transfers	15.4	15.0	14.5	13.9	13.3	-1.7
Subsidies	1.2	1.5	1.2	1.1	1.1	-0.4
Gross fixed capital formation	2.3	2.6	2.0	1.7	1.7	-0.9
Other (residual)	2.7	2.9	2.7	2.7	2.6	-0.3
- Interest payments	0.8	1.0	0.9	0.9	0.8	-0.2
Budget balance	**1.2**	**0.9**	**1.4**	**1.7**	**1.8**	**0.9**
- Cyclically adjusted	1.0	1.2	1.4	1.6	1.7	0.5
Primary balance	**2.0**	**1.9**	**2.3**	**2.6**	**2.6**	**0.7**
Gross debt level	**39.2**	**36.8**	**34.7**	**31.7**	**28.3**	**-8.5**

Sources: 2018 Economic Reform Programme (ERP), ECFIN calculations

The fiscal framework for 2018-2020 envisages a further increase in the budget surplus, while the spending structure is set to further deteriorate. The fiscal surplus is expected to rise from +0.9 % of GDP in 2017 to +1.8 % of GDP in 2020. Like in previous programmes, the overall level of nominal spending is envisaged to remain largely unchanged, while nominal revenues are expected to increase moderately, by 3 % during 2018-2020, while nominal GDP is projected to increase by about 16 % over the same period. This results in a drop of the spending-to-GDP ratio by 5.5 percentage points, while the revenue-to-GDP ratio will fall by only 4.6 percentage points. About half of the spending reduction is supposed to come from subdued public consumption, while another third will be due to contained spending on social transfers. Spending on public investment is scheduled to drop by 19 % and 13 % in nominal terms in 2018 and 2019, declining from a share of 2.6 % of GDP in 2017 to 1.7 % in 2020. This is in sharp contrast to the projections in the macroeconomic part, where public investment is expected to increase by 35 % and 28 % in 2018 and 2019, respectively. In terms of spending structure, the share of social transfers in total expenditure is set to increase by 1 percentage point, while the share of capital spending is envisaged to drop by 1.5 percentage points. This reduction in investment is not in line with the policy guidance jointly adopted in the last two years. Overall, like in previous years, the policy orientation of the medium-term fiscal framework is not geared towards the country's main policy challenges, such as improving education and the country's capital endowment.

Like in previous programmes, 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. Compared to the previous programme, the current programme is frontloaded, with the main adjustment happening in 2018, which is positive but a bit surprising in view of upcoming general elections scheduled for October. More information would have been welcome, particularly on the concrete fiscal effects of planned measures. The link to an overarching policy strategy is missing. The programme also remains largely silent on areas with pressing reform needs, such as pensions, public administration and healthcare. The projection of revenues is not consistent with the macroeconomic scenario. The underlying economic dynamics and plans to broaden the tax base should allow for stronger revenue growth in 2018-2020.

The quality of public finance and budget planning remains weak. The programme refers to the importance of improving the quality of public finance management, but fails to mention concrete reform projects and their expected fiscal impact. Medium-term budget planning remains weak and is impeded by fragmented responsibilities across the country's entities.

Box: Debt dynamics

Table 3:

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

	2016	2017	2018	2019	2020
Gross debt ratio [1]	**39.1**	**36.7**	**34.7**	**31.7**	**28.3**
Change in the ratio	-1.5	-2.4	-2.0	-2.9	-3.4
Contributions [2]:					
1. Primary balance	**-2.0**	**-1.9**	**-2.3**	**-2.6**	**-2.7**
2. 'Snowball' effect	**-0.7**	**-0.3**	**-0.8**	**-0.8**	**-0.8**
Of which:					
Interest expenditure	0.8	1.0	0.9	0.9	0.8
Growth effect	-1.1	-1.3	-1.2	-1.3	-1.2
Inflation effect	-0.4	0.0	-0.5	-0.5	-0.5
3. Stock-flow adjustment	**1.2**	**-0.2**	**1.0**	**0.5**	**0.1**

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: 2018 Economic Reform Programme (ERP), ECFIN calculations

The programme envisages accelerated debt reduction. The key reasons for the drop in the debt ratio are primary surpluses and nominal growth, while the costs of debt servicing raise the debt level by about one percentage point of GDP per year. However, a breakdown of the debt dynamics into various components also points to a substantial debt-increasing factor, presented in the table as 'Stock-flow adjustment', raising the debt ratio by 1 % of GDP in 2018 and by 0.5 % of GDP in 2019. Unfortunately, the programme does not provide more details on the underlying assumptions driving this envisaged debt profile.

Public debt dropped by nearly 4 percentage points of GDP in 2016 and 2017, mainly driven by sizeable primary surpluses. However, there are risks of rising financing costs and debt-rollover risks, mainly related to domestic debt or public debt at foreign-owned banks. Public debt doubled after the 2008 financial crisis, reaching its peak in 2015 of about 42 % of GDP. In 2017, public debt declined to some 37 % of GDP, mainly thanks to primary surpluses. International financial institutions such as the World Bank, the EIB and the IMF are key lenders, given the country's difficulties in accessing international financial markets and the shallowness of the domestic financial market. The average implicit interest rate has been low at some 2 %, but this rate is projected to rise to nearly 3 % by 2020. There are also significant refinancing risks. Furthermore, there is a significant difference in the indebtedness of the two entities, with the Republika Srpska entity registering a significantly higher debt ratio than the rest of the country.

4. Structural reforms

The main factors weighing on competitiveness are the (i) large, inefficient, complex and burdensome public sector that dominates the economy and (ii) the absence of a single economic space. Complex and inefficient administrative structures and high political and regulatory uncertainty exacerbate the high cost of doing business. Investment is discouraged due to fragmented and poorly functioning product and labour markets, a weak rule of law and a still poor business environment. The skills mismatch and poor quality of the education system trigger structural unemployment. Weak employment activation and disincentives to work negatively affect labour market participation at all levels. The country-wide diagnostic in the ERP largely identifies the relevant obstacles to long-term growth, while the area diagnostics tend to be too fragmented and do not provide a full-fledged country-wide analysis.

There are only nine reform measures in the programme that have the potential to cover the whole country. They are spread across six different areas with a focus on public finance management (PFM) and agriculture. Measures often lack focus and prioritisation. In addition, they attempt to cover a range of activities that is too wide. Many measures are expressed as desired outcomes and they lack information on precise activities, cost estimates and the expected impact on competitiveness, although some progress has been made in providing information on implementation timelines. The Commission's recommendation to identify a list of 15-20 measures that address common country-wide obstacles to competitiveness and growth has been ignored to a large extent.

Public finance management

The lack of a PFM reform programme has resulted in (i) a poorly controlled public finance system with an oversized and inefficient public sector and (ii) low and inefficient public investment. The public sector is accumulating substantial arrears, reflecting a lack of fiscal discipline and accountability in subnational governments, extra-budgetary funds, healthcare systems and State Owned Enterprises. Public procurement procedures represent a high administrative burden for businesses and lack transparency. By pointing to an inefficient public administration, high fiscal burden on labour, numerous para-fiscal fees and the largely unreformed health sector, the ERP identifies some of the key country-wide challenges to PFM that hamper growth and competitiveness.

All levels of government view the strengthening of PFM as a priority. In line with the Reform Agenda[1], efforts have increased to present three partly rolled over reform measures from the last ERP with country-wide coverage. The measures to pursue fiscal consolidation, to lower the tax burden on labour and to address arrears in the health sector have the potential to further improve the sustainability of public finances and financial accountability. However, a measure to prepare a country wide PFM strategy is missing.

[1] The Reform Agenda for 2015-2018 was adopted by all levels of government in July 2015 and consists of a package of socio-economic, public administration and rule of law reforms.

Energy and transport market reform

Fragmented and weak regulatory and legal frameworks in the energy and transport markets, which reflect the lack of coordination and cooperation between government levels, hamper foreign direct investment and private sector development. Bosnia and Herzegovina still lacks a country-wide energy strategy and a legal framework in compliance with its obligations under the Energy Community Treaty, particularly for the natural gas sector. The ERP diagnostic largely recognises these shortcomings. The country has a very large gap of strategic transport infrastructure, notably of its railway network. The motorway network also needs to be completed.

The measure to draw up a country-wide energy strategy continues not only to be relevant but essential, and the delays in implementing it continue to have adverse effects on the country's economy. Restructuring of the railways should have been included as a common measure since both entities are working on similar reforms. Such a measure would make railway companies more efficient, financially sustainable and commercially focused and would increase the railway modal share.

Sectoral development

Agricultural sector development

Bosnia and Herzegovina faces many obstacles to increasing agricultural productivity and opportunities. These include low overall investment and administrative capacities, land fragmentation, the large proportion of small farms in the sector, low productivity and outdated manufacturing and processing capacities. The diagnostic recognises these shortcomings and identifies the lack of an agricultural information system and an agricultural census as major challenges.

The two measures on fulfilling the pre-requisite for using funds under the EU's Instrument for Pre-Accession Assistance and on amendments to the laws on veterinary practice, food and agriculture, and rural development will further develop and integrate the agricultural market into the European and global market. The recent adoption of a country-wide Strategic Plan for rural development is important for improving the country's competitiveness.

Industry sector development

The industry sector still suffers from the lack of a single economic area. The ERP does not make reference to this nor does it contain a country-wide analysis, but it describes the industrial base as underdeveloped and insufficiently diversified, with industrial output focusing on lower value-added products. 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.

Service sector development

The service sector is the largest in terms of employment and value generation with 66.2% of gross value added and almost 53% of employment in 2015. However, this reflects to a large extent the dominant size of the public sector. Tourism remains a key driver of growth. While the ERP recognises its potential, it fails to provide a country-wide analysis of the services sector.

Business environment and reduction of the informal economy

The overall business environment is adversely affected by the lack of a single economic space, political uncertainty and several structural obstacles. Access to finance, a significant informal economy and corruption continue to be serious problems. The diagnostic largely recognises some of these challenges, but does not sufficiently address issues related to (i) numerous para-fiscal charges, (ii) a fragmented and overly complex regulatory environment, (iii) non-recognition of business registration across the country, (iv) high costs of compliance with regulations, (v) a large and inefficient public sector and an (vi) unsupportive labour taxation system. No sufficient explanation has been provided why the measure to introduce electronic signatures was dropped.

The measure on harmonisation of the quality infrastructure is highly relevant and will contribute to creating a single economic space and to facilitating trade. Cross-cutting coordination between the relevant institutions at different levels of government has yet to be ensured. The reform measure does not specify timelines, concrete activities or impact and will require proper cooperation between all levels of government.

Research, development and innovation and the digital economy

Bosnia and Herzegovina's research capacity remains limited. Public investment in research and innovation (0.24% of GDP in 2016) is extremely low. The ERP provides a fairly good assessment of the deficiencies in the Research, Development and Innovation (RDI) system by referring for instance to insufficient technological innovation in enterprises, the lack of support programmes for businesses, the lack of networking with research and education institutions as well as insufficient broadband infrastructure. The country should increase its investment to ensure the building of the necessary long term research capacity, aiming also to increase the low number of researchers. The country could benefit from a smart specialisation strategy. Bosnia and Herzegovina should focus on measures to address the lack of ICT strategies and broadband development

Trade related reforms

The country is one of the least economically integrated in the region, with an export share of 36% of GDP in 2017, down from 98% prior to the 1992–1995 war. It still lags behind its neighbours due to burdensome administrative procedures for trading and limited export promotion capacities. Main areas of concern include: (i) a fragmented domestic market, (ii) complex export procedures, (iii) the absence of coordinated border controls and (iv) the absence of a comprehensive approach to meet EU food safety and sanitary and phytosanitary standards. The ERP identifies some of these concerns.

The new measure to develop an export promotion strategy is relevant and overdue. Bosnia and Herzegovina can use parts of an existing draft strategy which addresses priorities, such as boosting exports, reducing the foreign trade deficit and addressing the structural problems of exports. Envisaged legislation related to FDI and external trade policies should support the strategy's implementation. The timeframe, costing and impact of the measure are vague.

Education and skills

The formal education system in Bosnia and Herzegovina is weak and does not correspond to labour market needs. Enrolment in pre-school education is low, as is the performance in basic education. Development of a level 5 qualification would serve as a bridge between post-secondary education and labour market needs. Data on higher education show a falling number of students, relatively low completion rates and an oversupply of graduates in certain fields of study. The development of entrepreneurial and digital skills needs strengthening, especially for young people, to improve their employability and competitiveness on the labour market. There is no country-wide measure included on education and skills.

Employment and labour markets

Despite some positive developments in the labour market, most of the structural challenges remain. Structural unemployment and low activity rates persist, mostly affecting women, young people and the long-term unemployed. Weak activation and employment services are coupled with disincentives to work (untargeted social benefits schemes and unsupportive taxation). The share of undeclared work also remains high. Active labour market policies are mostly focused on employment subsidies and not training programmes. Data collection is also an issue.

One country-wide reform measure aims to improve the targeting of active labour market policies and to reduce the administrative burden on the public employment services. Stronger activation, such as career counselling and outreach to jobseekers and profiling, including cooperation with employers, is needed. Many actions require legislative or institutional changes, which increases the risk of delays.

Social inclusion, poverty reduction and equal opportunities

Despite a high level of poverty and other social challenges, the social protection system is underdeveloped and the effectiveness of social transfers is limited. The Roma community, women and young people are more likely to be poor, economically excluded or in economic dependency. Social benefits are insufficient to fulfil basic needs and their targeting is weak. There is no comprehensive “mapping” of social benefits and no plans to move from status-based to needs-based assistance. Social benefit schemes also discourage people from entering the formal labour market and stimulate informal employment without sufficient coordination with active labour market policies. Monitoring of poverty, inequality and social indicators need improvement. The reforms are not tackling the problems identified on a country-wide level, making the proposed measures insufficient to address the key structural challenges.

ANNEX 1: IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2017

2017 policy guidance	Summary assessment
PG 1: Enhance the growth-friendliness of public finances; in particular, create fiscal space for public investment by containing spending on public consumption, and Improving the targeting of social spending. Take steps to reduce public sector payment arrears, including social security contributions.	There has been **limited implementation** of PG 1: • **Partial implementation:** The authorities made efforts to contain spending on public consumption. • **No implementation:** No progress has been made towards implementing a better targeting of social spending. • **Limited implementation:** First steps have been taken to prepare an inventory of public sector payment arrears.
PG 2: Improve the provision of timely and exhaustive statistics, in particular government finance, national accounts and labour market statistics. Strengthen capacities for consolidated macro-fiscal analysis and planning at country level by enhancing coordination between the various stakeholders. Apply the current medium-term fiscal planning instrument in a policy-oriented way. Strengthen the country-wide public debt management capacities at all levels, in particular the cooperation and flow of adequate and full information from all data providers.	There has been **limited implementation** of PG 2: • **Limited implementation**: There has been some progress in improving the provision of data for some statistical areas (mainly for national accounts' main aggregates and government finance statistics), but the overall situation with respect to the timeliness and exhaustiveness of provided data has remained weak. • **No implementation** • **No implementation** • **Limited implementation:** Steps have been taken to strengthen debt management, such as improving the analysis of debt sustainability and adopting a medium-term debt strategy. However, cooperation and the flow of information from local data providers to the state level have not improved significantly.
PG 3: Follow up on ongoing legislative changes and develop a comprehensive strategy fostering the resolution of NPLs to address the fragilities of bank balance sheets and thus help remove supply-side bottlenecks to credit extension.	There has been **limited implementation** of PG 3: • **Limited implementation:** While the new banking laws, which have strengthened the supervisory powers of the banking agencies and introduced a modern bank resolution framework, are a step in the right direction, the framework of recovering and resolving NPLs needs to be improved by facilitating out-of-court restructurings and amending the tax treatment of NPL sales to specialised companies.

Strengthen the bank resolution framework by ensuring sufficient coordination among the bodies entrusted with resolution.	• **Limited implementation**: The financial stability memorandum of understanding has yet to be signed, limiting the space for cooperation and coordination among financial sector regulators and supervisors, and the Law on Deposit Insurance has not been approved yet, which is an integral part of the bank resolution framework.
Establish a bank lending and inflation expectations survey.	• **No implementation**: No progress has been made regarding the analytical and policy toolkit of the Central Bank of Bosnia and Herzegovina. The Central Bank still does not perform any bank lending or inflation expectations surveys
PG 4:	There was **limited implementation** of PG 4:
Adopt a country-wide energy sector reform strategy	• **Limited implementation**: Although a draft framework energy strategy has been developed, the process of getting opinions from relevant bodies is still ongoing.
and a legal framework in compliance with the Energy Community Treaty.	• **No implementation**.
PG 5:	There was **limited implementation** of PG 5:
Simplify, harmonise and ensure mutual recognition of business registration procedures between entities, including concessions, licensing and allowing branch office registration across entities.	• **Limited implementation:** Some simplification of business registration procedures through one stop shops and online registration has taken place. In RS, company registration can be carried out through a one-stop procedure managed by the Agency for Intermediary, IT and Financial Services. In the FBiH, efforts are ongoing to establish a one-stop procedure (via the Financial Information Agency)..RS has started the digitalisation of documents of all businesses as a precursor for online registration.
Introduce e-payment services on taxation	• **Limited implementation**: In early 2018, the ITA introduced e-services for the payment of VAT for large companies. As electronic signature is not yet fully implemented, ITA uses a temporary solution (web based authentication). The ITA has not yet received a reply from the Ministry of Communications and Transport regarding their request to become a certification authority for payers of indirect taxes. The lack of a full implementation of a law on electronic signature constitutes a severe barrier to further progress in expanding electronic government infrastructure and e-services.
and fully implement the law on electronic signature.	• **Limited implementation**: The 2006 law on electronic signature has not yet been fully implemented. The Office for Supervision and Accreditation within the BiH Ministry of Communication and Transport has started to function as of mid-January 2018 when staffing of this body progressed. Nevertheless, applications from bodies looking to become certification authorities for e-signature have still

	not been processed.
PG 6: Strengthen the employment services to better assist job seekers, in particular youth, women and long-term unemployed. Reduce the tax wedge and reinforce delineation of employment and social policy measures. Increase enrolment in pre-school education. Address skills mismatches by increasing participation in vocational and higher education programmes relevant for labour market needs.	There was **limited implementation** of PG 6: • **Limited implementation:** Some steps were taken to strengthen employment services, including the adoption of a decision on labour market policy guidelines and active employment measures in BiH. Limited staff training for new working methods was undertaken in employment bureaus. However, active labour market measures including training, internships, self-employment and public works intended to support the employment of vulnerable groups have not been effectively implemented and unemployment among the targeted population remains high. Additional capacity and financing are needed to stimulate people to actively search for jobs. Passive labour market measures remain dominant. • **Limited implementation:** Measures announced but delayed. • **Limited implementation:** The draft laws on mediation in employment have been prepared, but are still pending adoption. The laws aim at improving unemployment registration and social security for the unemployed by strengthening obligations of the unemployed for active job search, obligation by employers to deliver information on employees and by the employment services regarding the provision of the right to unemployment benefits. • **Limited implementation**: The Council of Ministers adopted the platform for development of preschool education in BiH. • **Limited implementation**: Some activities were carried out aiming to further develop and implement the qualifications framework for lifelong learning in general, vocational and adult education. There was some progress in higher education: a state-level policy document setting priorities for 2016-2026 was adopted in March 2017; the RS adopted its own education development strategy for 2016-2021 in April 2017. In the FBiH, the situation varies depending on the canton.

ANNEX 2: COMPLIANCE WITH PROGRAMME REQUIREMENTS

The Council of Ministers adopted with reservations the ERP 2018-2020 on 30 January 2018 and it was not submitted to the Commission by the deadline (31 January 2018). The ERP was officially submitted to the Commission on 2 March, after a delay of over 1 month.

Inter-ministerial coordination

The preparation of the ERP was centrally coordinated by the Directorate for Economic Planning (DEP). Contributions to the ERP were prepared and endorsed at entity level, with measures the entities wanted to be implemented. No single country-wide programme was presented due to lack of ownership of the exercise and not enough political support.

Stakeholder consultation

The draft ERP was published on the DEP website less than two weeks before the deadline for submission to the Commission. Invitations to comment were sent out to relevant stakeholders, but no comments were received due to the very short deadline.

Macroeconomic framework

The programme does not provide the full set of the required data; in some areas, the data provided are incomplete, inconsistent, fragmented and not comparable. The recent macroeconomic performance is adequately described. The macroeconomic framework is sufficiently comprehensive. However, key features, such as labour market developments, should have been explained in greater detail and be supported with underlying data. Consistency with other parts of the programme, particularly with the fiscal framework, is still very limited.

Fiscal framework

The fiscal framework is still poorly integrated with the other parts of the programme: in particular, the public sector's investment plans are insufficiently linked to the macroeconomic framework, and the fiscal section remains largely silent on the links between public revenue/spending and structural reforms, 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 State's role in the economy. However, the reasons for this policy choice are not sufficiently explained. Furthermore, there are hardly any references to any other policy objectives discussed in other parts of the programme or to the Commission's assessment in the 2016 Country Report. In addition, the ERP provides hardly any quantitative analysis of 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 sections on structural reforms (4, 5 and 6) do not follow the programme requirements, and do not present one coherent country-wide reform programme. This reflects the absence of a thorough consultation among the entities on country-wide challenges and reform priorities. The reporting on the implementation of the policy guidance and the structural reform measures from the 2017-2019 ERP is insufficient. There are 30 reform measures listed instead of 20 and the page limit for Section 4 is greatly exceeded.