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ECONOMIC REFORM PROGRAMME

OF

BOSNIA AND HERZEGOVINA
(2022-2024)

COMMISSION ASSESSMENT

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The economic reform programme (ERP) was submitted with a nearly two-month delay on 24 March 2022. This strongly impeded the Commission's assessment of the authorities' projections and policy plans to address the significant economic challenges the country is facing.

The economic consequences of Russia's war against Ukraine may render the macro-fiscal scenarios presented in the ERP partially obsolete. The Commission will publish its updated macroeconomic and fiscal projections for candidate countries, reflecting the expected impact of the war against Ukraine and related sanctions, in its spring economic forecast in mid-May 2022.

The short-term macro-fiscal outlook may change considerably. However, the major medium-term fiscal and structural reform challenges and priorities identified in this assessment remain valid irrespective of the short-term outlook. Appropriate policy responses are essential to ensure a sustained economic recovery, greater resilience and fiscal sustainability.

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1. EXECUTIVE SUMMARY

Following a robust economic recovery in 2021, the Economic Reform Programme projects GDP growth to accelerate driven by investment and reforms. The economy registered a solid recovery in 2021, benefiting from strong external demand, pent-up domestic demand and supported by substantial external financing. The Economic Reform Programme (ERP) expects economic growth to accelerate to about 3.5% a year on average, assuming a further moderate international recovery, not yet factoring in recent adverse impacts from Russia's war against Ukraine, and an acceleration of structural reforms. COVID-19-related support measures are expected to be phased out, while the labour market is projected to benefit from the strengthening economic activity. Inflation is expected to remain low. However, this benign scenario rests on the crucial assumptions that the country's persistent political stalemates, which largely paralysed reform implementation during the last years, will come to an end, that the international macroeconomic outlook would remain favourable and that public and private investment will increase substantially. In particular the projected inflation profile looks very unlikely in the current global context. Key domestic downside risks are a continuation of the reform stalemate, which would impede investments, while on the external side the COVID-19 pandemic and the fallout from Russia's invasion of Ukraine could seriously undermine growth prospects. Overall, the ERP's outlook appears overly optimistic with respect to output growth, inflation and the expected acceleration of structural reforms.

The fiscal framework envisages a restrictive fiscal stance throughout the programme period. After a better-than-expected revenue performance in 2021, the programme envisages a largely balanced budget in 2022 and significant fiscal surpluses in 2023 and 2024. The main contribution to fiscal consolidation is planned to come from containing spending, in particular on investment and subsidies. The planned reduction in investment spending is in conflict with the macroeconomic assumptions and is not in line with the country's needs and the jointly adopted 2021 policy guidance. COVID-19 related revenue shortfalls and additional spending led to an increase in the public debt to nearly 35% of GDP in 2021 (+4.5 pps. compared to the previous year). From 2023 onwards, significant primary surpluses are expected to reduce the debt ratio, to close to 32% of GDP by 2024. However, there are significant risks to this fiscal scenario, stemming from the exceptional uncertainty on the evolution and economic fallout of the Russia's invasion of Ukraine, the upcoming general elections in autumn 2022, as well as the overall weak fiscal framework and the weak commitment of some stakeholders to the ERP exercise.

The main challenges include the following:

- **The quality of public spending and revenue collection remains very low.** Even before the COVID-19 pandemic, the composition of public spending focussed strongly on public consumption and poorly targeted social transfers, clearly neglecting the medium-term investment needs in areas such as education, infrastructure and environment. At the same time, the overall quality of health services remains inadequate, which might have contributed to the high mortality rate during the pandemic. The targeting of social spending has remained inadequate and impeded by the country's fragmented administration. The implementation of public investment appears to be uncoordinated, insufficiently prioritised, slow, mainly driven by the availability of external financing and would need a substantial and sustained boost in order to move the economy to a higher growth trajectory. The efficiency of tax collection is impeded by a significant informal economy and insufficient transparency of taxable income. Furthermore, recent initiatives to disintegrate the BiH Indirect Tax Authority (ITA) could lead to a significant revenue loss. In view of high uncertainty about potential further pandemic effects and the impact of Russia's war against Ukraine, standing ready to provide crisis mitigation if needed seems appropriate.

- **Highly fragmented competences and a lack of cooperation among the country's stakeholders impede medium-term strategic fiscal planning.** The high degree of institutional fragmentation, a lack of cooperation among key stakeholders and excessively politicised decision-making processes are strongly impeding the country's capacity to draw up a consistent medium-term fiscal strategy. As a result, the ERP is lacking a countrywide perspective, and suffers from an insufficient medium-term orientation and obvious inconsistencies between the various programme elements. Furthermore, the economic analysis is negatively affected by the lack or insufficient quality of empirical data.

- **The absence of a common internal market within the country negatively affects the private sector's development.** The current political deadlock and the upcoming general elections risk to further delay the implementation of socioeconomic reforms needed to address the country's development challenges and pave the way for EU accession. The COVID-19 pandemic has already increased the importance and urgency of addressing structural weaknesses related to the over-politicised business environment. It is hampered by institutional weaknesses, high informality (i.e. undeclared work), a weak rule of law, low quality public administration, numerous and lengthy procedures, political interference, corruption and diverging rules in different parts of the country, complicating the operation of companies and creating additional costs. Countrywide strategies and coherent solutions to help businesses are long overdue. Such strategies and solutions include developing the system of quality infrastructure, reforming public financial management, reducing parafiscal charges, adopting policies for small- and medium-sized enterprises (SMEs) and implementing customs policy legislation and supporting the green and digital transition, which include e-authentication and simplification of business registration, licensing and permit procedures.

- **Oversized, non-transparent and inefficient state-owned enterprises (SOEs) leave an important footprint on the economy, negatively affecting macroeconomic performance, fiscal sustainability, labour market outcomes and competitiveness.** As the COVID-19 pandemic represents a significant additional burden for the public sector, oversight and governance of public enterprises will need to be strengthened, including with measures to put public companies on equal footing with other industrial enterprises and to reduce substantial payment arrears. SOEs are a heavy burden on the country's public finances. Many of these companies have low productivity, but at the same time offer significantly higher wages than in comparable private industries. Many public companies rely on state support or they delay due payments to the social security systems or to private suppliers, creating substantial liquidity imbalances in other areas of the economy. The SOE sector causes great distortions and misallocation of production factors and deters the private sector from investing. Reform efforts also need to target the substantial payment arrears of the public sector, in particular in the health sector. Reform efforts are lagging, and the ERP did not contain an analysis of the challenges related to the country's state-owned enterprises, nor did it provide any further reform measures beyond the rolled-over commitment to establish central oversight units.

- **Labour market participation and employment rates continue being structurally low, especially for young people, women, Roma and people with disabilities.** Despite modest but stable improvements of the labour market situation and relative resilience to the COVID-19 pandemic, a large proportion of the population still remains inactive. Stereotypes about the role of women persist and together with the low availability of child and elderly care result in a wide gender employment gap and labour market participation gap. The education system's lack of alignment with labour market needs creates difficulties for young people, exposes them to multiple risks of social exclusion and prompts brain drain, while employers face difficulties in recruiting skilled workers. Social dialogue in the country is particularly weak.

The policy guidance set out in the conclusions of the Economic and Financial Dialogue of July 2021 has been implemented only to a limited extent. The withdrawal of Republika Srpska representatives from country-level institutions has undermined the country's capacity to implement the jointly agreed policy recommendations. Medium-term fiscal planning and analytical capacities of governmental institutions have deteriorated further. The convertibility of the domestic currency has been maintained, although the functioning of the Central Bank's governing board was impeded by delays in the board members' appointment procedure. Limited progress has been made on coordinating COVID-19 mitigation measures for businesses, in extending social protection coverage and in facilitating the transfer of economic activity to the formal economy. Efforts continued on simplifying business registration procedures through online registration, but no progress was made on strengthening the single economic space and the roll-out of customs reforms stalled. State-level entities and the Brčko District adopted public financial management strategies, though there is still no countrywide strategy and the entities' central oversight units for state-owned enterprises are still at the planning stage. No progress has been made in strengthening coordination mechanisms in employment policies at country level, and only one of the entities was able to adopt a new employment strategy, which undermines the development of a countrywide approach. Almost no progress has been made on introducing a Youth Guarantee in the country. Some progress was achieved at entity level to improve access to early childhood education and care for vulnerable groups, even though the closure of many pre-schools resulted in a lower rate of enrolled children.

The ERP identifies reform challenges that are partly in line with those identified by the Commission. Macroeconomic projections are overly optimistic while the fiscal framework is not sufficiently growth-oriented. The measures to promote employment, social policies and education are not sufficiently detailed and lack a fiscal underpinning. Reform measures that would plan the implementation of Youth Guarantee are missing. Given that the aim is to foster a common internal market in the country, more specific references should have been made to identify and address the structural weaknesses burdening the business environment. Many of the measures in the ERP are not countrywide and often lack consistency and coherence. Adopting a whole-of-government approach is a pre-requisite for addressing the challenges. The setting up of a well-functioning coordination and consultation mechanism for the ERP process would be key in this respect.

2. ECONOMIC OUTLOOK AND RISKS

The economy of Bosnia and Herzegovina recovered strongly in 2021. Economic output increased by 7.7% y-o-y in the first three quarters of 2021, compared to a drop of 3.8% in the same period a year before. The growth supporting factors included strong external demand, benefitting among others from supply chain reshuffling and pent-up domestic consumption, while investment growth remained muted, reflecting COVID-19-related uncertainties as well as persistent political stalemates. The recovery was further supported by substantial external support from the IMF, the World Bank and the EU. Employment recovered from losses during the COVID-19 crisis, backed by government support measures. This helped to bring the unemployment rate down to 16.1% in the fourth quarter of 2021. However, the overall labour force continued to decline, partly as a result of a persistent brain drain. The sizeable informal sector is likely to have been affected by the pandemic to a larger extent than administrative data suggests.

The current account deficit narrowed from 3.8% of GDP in 2020 to 2.8% of GDP in 2021, largely thanks to an improvement in the trade balance of goods and services, as export revenues increased more substantially than the value of imports. Workers' remittances, accounting for up to 12% of GDP, remained stable throughout the crisis. Net foreign direct investments (FDI) inflows increased from 1.7% in 2020 to 2.1% in 2021, still largely consisting of reinvested earnings. With respect to the monetary regime, the country maintained its exchange rate peg to the euro as the anchor currency, adopted in 1997. This approach has served the economy well so far. The country's real effective exchange rate remained rather stable, benefiting from the country's so far low inflation rates.However, in

The ERP projects economic growth to remain robust based on strengthening external demand and accelerated structural reforms. Compared to last year's ERP, the programme's baseline scenario expects moderately stronger growth in 2022 (3.4% instead of 3.1%). For 2023 and 2024, the programme projects a further growth acceleration to 3.5% and 3.7%, respectively. This brings average output growth during the programme period to 3.5%, compared to 3.0% expected in the previous programme. This slightly more optimistic growth profile is based on stronger exports throughout the programme period, averaging 7% a year, and more buoyant private consumption in 2023 and 2024. The ERP expects strong growth in employment and real wages to boost disposable incomes and therefore consumer spending. Investment is expected to benefit from an improved business environment thanks to structural reforms and increased public investment in transport and energy. Thanks to the strong recovery in 2021, the pre-COVID-19 output level appears to have been achieved in 2021 already, while the ERP expects the negative output gap to close in 2022 and to turn positive in 2023 and 2024. The direct impact of the war in the Ukraine is expected to be limited, although the country is likely to be negatively affected by indirect, trade-related effects and sharp increases in energy and food prices, which will erode disposable income. International institutions expect only a moderate GDP recovery in the post-crisis years, of some 2½% to 3% annually, resulting from the negative impact of external uncertainties as well as persistent domestic political tensions.

Table 1:
Bosnia and Herzegovina - Macroeconomic developments

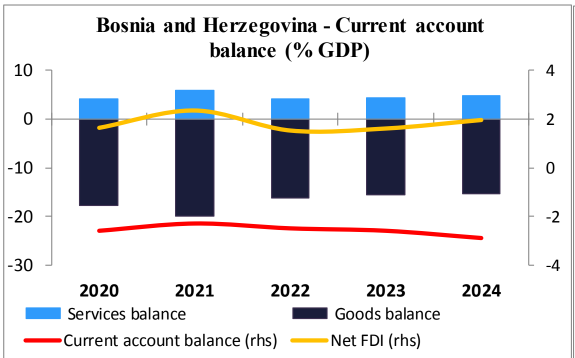
	2020	2021	2022	2023	2024
Real GDP (% change)	-3.2	3.1	3.4	3.5	3.7
Contributions:					
- Final domestic demand	-2.3	2.6	3.1	2.9	3.3
- Change in inventories	-1.9	-0.2	0.1	0.0	-0.1
- External balance of goods and services	0.9	0.6	0.2	0.6	0.5
Employment (% change)	:	-2.7	1.3	1.5	1.6
Unemployment rate (%)	15.9	17.8	16.9	15.9	15.1
GDP deflator (% change)	0.2	0.8	1.0	0.7	0.8
CPI inflation (%)	-1.0	1.1	0.9	0.8	1.0
Current account balance (% of GDP)	-2.6	-2.3	-2.5	-2.6	-2.9
General government balance (% of GDP)	-2.3	-0.9	-0.2	1.1	1.4
Government gross debt (% of GDP)	34.0	34.8	35.2	33.9	32.2

Sources: Economic Reform Programme (ERP) 2022.

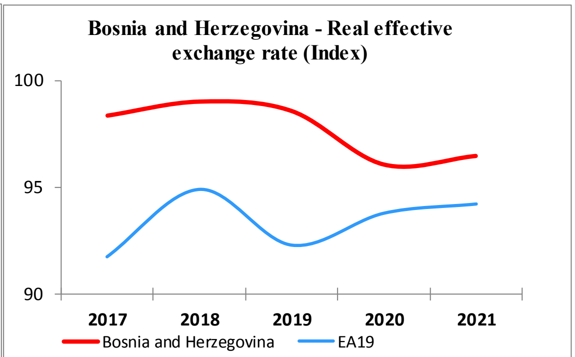
The ERP's baseline scenario is optimistic. The main risks are related to a weaker than expected recovery of international demand and a continuation of the country's recent political stalemates, which would lead to further delays in implementing structural reforms, weaker investment and a continued substantial brain drain. Russia's invasion of Ukraine is set to lead to a weaker-than-expected external demand and significantly higher inflationary pressures, negatively affecting exports and household spending, which the ERP sees as key growth drivers. These risks are not acknowledged in the programme, which expects annual inflation to remain subdued and increase to only 1% in 2024. This inflation projection was overly optimistic even before the Russian invasion of Ukraine, given the acceleration of import prices that had started earlier. Also the expected moderate deterioration in the current account deficit, from 2.3% of GDP in 2021 to 2.9% in 2024, would have deserved a further elaboration, given the expected strengthening of domestic demand. Unfortunately, the ERP does not provide information on the impact of structural reforms of ongoing or of planned recovery measures. Overall, the baseline macroeconomic scenario is on the optimistic side especially its assumptions on the international environment, inflationary dynamics and the expected improvement in the political climate which would unlock structural reforms. In the meantime, the macroeconomic outlook has, as elsewhere, been clouded by the fallout of Russia's aggression against Ukraine.

The alternative macroeconomic scenario takes into account less favourable assumptions on external and domestic factors, which would reduce average annual GDP growth by about 1 pp. Key identified risks are a less dynamic international recovery, interrupted supply chains due to continued COVID-19 containment measures, the persistence of higher inflation, continued domestic political tensions and delays in the implementation of structural reforms, due to the upcoming general elections in the autumn. These factors would lead to an average annual GDP growth of 2.5% in 2022-2024 compared to 3.5% in the baseline scenario. The alternative scenario briefly discusses the key risks to the benchmark scenario in a qualitative way, but unfortunately does not quantify the underlying assumptions. Given the multitude of potential negative shocks, the yearly 1.0 pp impact on overall GDP growth still appears to be on the low side.

Graphs: external competitiveness and the current account



Source: Economic Reform Programme (ERP) 2022.



Source: Economic Reform Programme (ERP) 2022 and ECB.

3. PUBLIC FINANCE

In 2021, the fiscal performance was better than expected, mainly thanks to stronger than anticipated revenue growth. Good revenue performance reflected a solid economic rebound but also accelerating inflation. As a result, total revenues increased by 10.2% y-o-y and were 6.2% higher than projected. The authorities continued to support the economic recovery throughout 2021 by providing subsidies, guarantees, deferred tax payments and wage increases. Total expenditure rose by 6.2% y-o-y, surpassing budget plans by 3.3%, despite less buoyant spending on social security and on wages and compensations. As a result, the preliminary general government deficit stood at 0.9% of GDP, compared to a planned deficit of 1.7% of GDP. The country's fiscal position is estimated to have improved, from a deficit of some 4.7% of GDP in 2020, to largely balanced accounts in 2021, as a result of strong GDP growth in 2021, underperforming public investment due to political stalemates as well as reduced COVID-19-related spending. The public debt ratio rose from 30% of GDP at the beginning of the COVID-19 crisis to some 35% at the end of 2021. There is a significant degree of non-alignment with EU public sector accounting standards, in particular with respect to publicly-owned enterprises, which strongly impedes the assessment of the country's actual fiscal position. As a result, both the deficit and debt ratio could be significantly higher than reported.

The ERP's medium-term fiscal strategy aims to improve the country's fiscal position by enhancing the efficiency of revenue collection and public spending as well as by reducing COVID-19 related support measures. By the end of the programme period, the ERP envisages to turn the 2021 deficit of 0.9% of GDP into a surplus of 1.4%. This should mainly come from a reduction in spending of 3.4 pps. of GDP. Most of this spending reduction should come from lowering public consumption and transfers and subsidies as a share of GDP (by 1.6 pps. and 1.4 pps. respectively), while about one third will be the result of a 1.1 pps. reduction in public investment, from 3.5% of GDP in 2021 to 2.4% in 2024. By that time, public investment is planned to be lower as a percentage of GDP than before the COVID-19 crisis, which is in contrast to the main macroeconomic assumptions on strong public investment. At the same time, the ERP expects a decline in the share of revenues in GDP of 1.1 pps., mainly by projecting that revenue increases will remain below nominal GDP growth. The main contribution (0.6 pps. from an overall reduction of 1.1 pps.) will come from the non-specified 'other' category, while the share of indirect taxes in GDP is projected to fall by 0.5% of GDP. Cyclically adjusted balances point to a neutral fiscal stance in 2022 and a negative fiscal impulse in 2023, which would be appropriate based on the ERP's assumption that the output gap will turn positive that year.

The programme plans a largely balanced general government budget in 2022. The planned deficit of the Republika Srpska entity is largely compensated by a projected surplus in the Federation, leading to a small overall deficit of 0.2% of GDP. Overall, revenues are expected to increase by 2.9%, mainly thanks to strong growth of indirect tax revenues as well as marked increases in revenues from social contributions and direct taxes, reflecting strong wage and employment growth. On the spending side, the authorities intend to raise spending by 1.5% only. However, this moderate increase is mainly the result of a drop in the unspecified 'other' expenditure and a 0.4% drop in 'material' spending, while the big-spending categories of "'wages and compensations' and 'social security transfers' are envisaged to increase by some 3.5%. Notably, the 2022 countrywide budget plans a substantial increase in capital spending, by 23%, although from a rather low level. The ERP presents the countrywide budget as an aggregation of lower-level budgets which had partly still been in the form of drafts. In particular, the 2022 budgets of the larger entity, the Federation, and the state level had not yet been approved.

Table 2:

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

	2020	2021	2022	2023	2024	Change: 2021-24
Revenues	39.9	42.3	41.7	41.4	41.2	-1.1
- Taxes and social security contributions	35.6	37.6	37.5	37.4	37.3	-0.4
- Other (residual)	4.3	4.7	4.2	4.0	3.9	-0.8
Expenditure	42.3	43.2	42.0	40.4	39.8	-3.4
- Primary expenditure	41.6	42.4	41.1	39.4	38.8	-3.6
of which:						
Gross fixed capital formation	3.5	3.5	3.7	2.4	2.4	-1.1
Consumption	17.6	18.6	18.1	17.3	17.0	-1.6
Transfers & subsidies	17.9	18.3	17.4	17.2	17.0	-1.4
Other (residual)	2.6	2.0	1.9	2.6	2.4	0.5
- Interest payments	0.7	0.8	0.9	0.9	1.0	0.2
Budget balance	-2.3	-0.9	-0.2	1.1	1.4	2.3
- Cyclically adjusted	-1.8	-0.4	0.0	1.0	1.1	1.5
Primary balance	-1.7	-0.1	0.6	2.0	2.4	2.5
- Cyclically adjusted	-1.2	0.4	0.9	1.9	2.1	1.7
Gross debt level	34.0	34.8	35.2	33.9	32.2	-2.7

Sources: Economic Reform Programme (ERP) 2022, Commission calculations.

In 2023 and 2024, the programme projects fiscal surpluses of 1.1% and 1.4% of GDP respectively, based on containing capital spending and public consumption. In the last 2 years of the current programme, the ERP expects total revenues to increase nearly as much as nominal GDP - by 3.5% and 4% - respectively. Spending - in particular investment and public consumption - will be contained, in particular in 2023. The programme explains this feature by the need to finance maturing debt. As a result, spending for public investment will be reduced by one third, while public consumption will be largely maintained at its nominal level from the year before. However, upon submission of the ERP, the authorities had not yet agreed on the medium-term fiscal framework, (called the `Global Fiscal Framework`). Therefore, the presented medium-term outlook may be subject to major revisions.

The relatively low debt level suggests that there is fiscal space to support stronger investment and growth. According to the programme, the country's debt ratio rose by 3.6 pps. and 0.9% pps. of GDP in the COVID-19 years of 2020 and 2021, respectively. For 2022, the programme expects only a moderate increase by 0.4 pps. of GDP, while in the following years, he debt ratio is expected to fall further, declining by 1.3 pps. of GDP in 2023 and by 1.7 pps. of GDP in 2024. Real GDP growth as well as the primary surpluses in 2023 and 2024 are key factors for this decline. However, due to the limited alignment of the country's public account standards with EU requirements there is significant uncertainty about the actual level of public debt. Assuming that the presented data broadly reflects the country's public debt situation, the programme`s strong emphasis on achieving fiscal surpluses and reducing the debt burden would have deserved more explanation, in particular given the large investment needs, the relatively low level of public debt and the currently limited burden of interest payments, accounting for slightly less than 1% of GDP.

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

	2020	2021	2022	2023	2024
Gross debt ratio [1]	**34.0**	**34.8**	**35.2**	**33.9**	**32.2**
Change in the ratio	3.6	0.9	0.4	-1.3	-1.7
Contributions [2]:					
1. Primary balance	**1.7**	**0.1**	**-0.6**	**-2.0**	**-2.4**
2. "Snowball" effect	**1.6**	**-0.5**	**-0.6**	**-0.5**	**-0.5**
Of which:					
Interest expenditure	0.7	0.8	0.9	0.9	1.0
Growth effect	1.0	-1.0	-1.1	-1.2	-1.2
Inflation effect	-0.1	-0.3	-0.3	-0.2	-0.3
3. Stock-flow adjustment	**0.3**	**1.2**	**1.6**	**1.2**	**1.2**

[1] End of period.
[2] The snowball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).
The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other effects.
Source: Economic Reform Programme (ERP) 2022, ECFIN calculations.

Risks to the programme's fiscal scenario are substantial, primarily in view of the upcoming general elections, the uncertainties related to the war in the Ukraine, but also due to the low degree of political commitment of some stakeholders, in particular the *Republika Srpska*, to the ERP process in general. Although the main revenue assumptions are cautious and the country's overall fiscal performance has remained solid in the past, there is a significant risk that in view of the upcoming general elections, the assumed spending restraint will not be realised. In addition, the presented information is strongly impeded by poor transparency and weak reporting standards.

The quality of public finances and budget planning remains low. The country's public finances continue to be plagued by substantial payment arrears, in particular in the health sector, which have likely increased further during the COVID-19 pandemic. In addition, significant budget guarantees have been provided and the fiscal situation of many publicly owned companies is far from being transparent. The programme does not present sufficient plans to improve the spending structure, and like in previous years lacks a sustained pro-growth orientation. This approach is not in line with the policy guidance jointly adopted in the last 5 years, urging for higher investment and a more growth-oriented fiscal policy. Transparency and governance of the public sector are very limited, leading to major governance issues in particular in the health sector and in publicly-owned companies.

The country's fiscal framework continues to be impeded by institutional fragmentation, low-quality fiscal data and a lack of cooperation among the various stakeholders. Alignment with EU reporting standards and budgetary frameworks is still very limited. So far, only one entity has adopted fiscal rules, and there is no independent fiscal council to monitor countrywide fiscal performance. The effectiveness of the medium-term fiscal framework is also very limited. Finally, the availability and quality of fiscal data suffers from poor reporting standards, a lack of cooperation among the various budget users, and political resistance that impedes alignment with the standards of the European System of National Accounts (ESA). Due to these deficiencies, there is a risk of significant fiscal underreporting.

4. KEY STRUCTURAL CHALLENGES AND REFORM PRIORITIES

The substantial structural weaknesses of Bosnia and Herzegovina's economy are preventing the country from catching up faster and sustained reform measures are needed to significantly improve the living standards of its people. The Commission has conducted an independent analysis of the economy to identify the key structural challenges to boost competitiveness and inclusive growth, drawing from Bosnia and Herzegovina's own ERP, but also using other sources. Several structural weaknesses lead to an underutilisation of the country's economic potential. High structural unemployment and consistently high emigration is a clear consequence of those weaknesses, rather than merely the result of an insufficient functioning of the country's education system. It also points to a poor business environment resulting from the country's institutional and economic fragmentation, a weak rule of law as well as an inadequate and inconsistent legal framework. Furthermore, the economic activities of the public sector negatively affect the economy due to their inefficient management.

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

- (i) increase employment, particularly of young people, women and people in vulnerable situations
- (ii) improve the business environment through closer cooperation and coordination at all levels of government and
- (iii) make the public sector more efficient, in particular improving the performance, transparency and accountability of public enterprises.

A thread common to all three challenges is the need for Bosnia and Herzegovina to tackle corruption, improve the rule of law and strengthen institutions, including independent institutions, in order to promote competitiveness. Addressing these fundamental concerns is a prerequisite for a successful development of the economy. The

Commission is closely following the aspects on strengthening the rule of law and fighting corruption in Bosnia and Herzegovina's annual report.

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

The COVID-19 crisis has interrupted the modest but relatively stable improvement in labour market outcomes of previous years; while recovery is in sight, overall activity and employment rates remain very low. The positive labour market trends of recent years were reversed in 2020, in particular in the Federation of BiH (FBiH) entity, as registered employment decreased and registered unemployment increased. The limited data available suggests that the Republika Srpska (RS) entity managed to maintain the positive labour market trends despite the crisis. To amortise initial labour market disruptions caused by the COVID-19 crisis and reduce job losses, the governments of both entities introduced in 2020 wage subsidies as an employment retention measure.

Labour market participation and employment, which are structurally very low, showed slight signs of recovery in 2021. In 2021, participation in the labour market for the 20-64 age group stood at 63.4%, well below the EU-27 average (77.6%), but showing a slight improvement compared to 2020 (62.3%)[1]. Key reasons for the low activity rates include: discouragement due to prolonged unemployment; disincentives associated with the tax wedge on salaries, which lower take-home earnings and further reduce appeal of low-paid jobs (this is especially significant in the Federation of BiH); poor welfare-to-labour policies; a high number of war veterans; and a high inflow of remittances that substitute job-related income among the low-skilled population. Data[2] on formal (registered) employment suggests that the average number of formal jobs decreased by 1.2% in a year-over-year perspective, from 823 851 jobs in 2019 to 814 046 in 2020. The number of formally employed people started to increase towards the end of 2020 and is getting closer to the pre-pandemic level (Q2 2021 compared to Q2 2019), which suggests a certain recovery in labour market performances. Yet, this development has to be seen against a structurally weak starting point, given that the unemployment rate among the 15-74 age group continued to be very high in 2021 and stood at 17.4% according to the labour force survey, well above the EU-27 average of 7.1%. Vulnerable groups, including the Roma population, are at a particularly high risk of long-term unemployment and inactivity regardless of their education level.

The share of long-term unemployed continues to be very high. In 2021, 78.4% of unemployed people were long-term unemployed, marking a 1.1 percentage point increase compared to pre-COVID-19 figures from 2019. Moreover, of the long-term unemployed, the vastmajority (76.2%) has been looking for a job for 24 months or longer. A high

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[1] Please note however that this trend has to be taken with caution, as due to the transition to the new, redesigned methodology of the Labour Force Survey in 2021, the data series was interrupted. The results of the Labour Force Survey 2021 are not comparable with the results of the continuous Labour Force Survey 2020 and previous years.

[2] Due to a break in time-series in 2020 and limited comparability of data between 2019 and 2020, as well as changes to the labour force survey methodology, it is very difficult to assess employment trends.

share of long-term unemployment can be attributed to structural labour market imbalances – especially those related to skill gaps.

A large proportion of the working-age population is inactive, pointing to an acute need to develop policies to support the transition to the labour market. Those particularly affected are the low-skilled and workers older than 40. According to the national Labour Force Survey, in 2021 people with a low level of education (having completed primary school or lower education only) accounted for 47.7% of the inactive working-age population. In contrast, they account for only 9.3% of employed people. The inactivity rate of older people (50-64) remained high in 2021 at 52.9%, though slightly lower even than pre-pandemic levels (53.3% in 2019).

The business structure in Bosnia and Herzegovina is dominated by micro and small enterprises representing a major source of employment. Of 35 000 enterprises in Bosnia and Herzegovina, 72.8% are micro-enterprises contributing to 40% of GDP while 1.1% are large enterprises (250 and more employees). According to the Centre for Policy and Governance, the micro-business sector provides formal and informal employment to more than 400 000 people. Yet they face many challenges - including recruitment difficulties and administrative burdens - which means that their potential for development remains largely untapped. This business structure is vulnerable due to the lack of a coordinated extensive public support mechanism.

Employers find it difficult to recruit skilled workers. They attribute this to a poor alignment between the education system and labour market needs. The employment sector faces skills and qualification mismatches as well as a labour shortage. Apprenticeships and opportunities for adult learning are also under-developed.

The COVID-19 crisis widened existing gender gaps in access to employment, quality and pay, highlighting the need to step up efforts to effectively integrate women into the labour market. While Bosnia and Herzegovina officially complies with international standards, in practice, women face many impediments to equal participation in the labour market and in the public and political sphere. Women are significantly underrepresented in the labour market. They have significantly lower activity and employment rates compared with men. According to the national Labour Force Survey, in 2021, the activity rate for women aged 20-64 was only 50% compared to 76.7% for men, and the employment gap stood at 26.1 pps.

The low level of participation of women in the labour market is a multi-layered issue requiring a comprehensive policy response, but caring duties are one of the key drivers of inactivity. Research suggests that some of the key reasons for low coverage rates in childhood care are related to affordability, access (especially in rural areas), and lack of capacities of both public and private pre-school institutions to absorb all children, leaving many unenrolled (Numanović 2021, OECD SEE Competitiveness Outlook 2021). Generally, as access to preschool education depends on the financial capacities of local authorities, less-developed and especially rural areas have less financial means to ensure access, and currently no financial support is available for this from a higher level of government. The proportion of children not enrolled due to lack of places stood at 19.4% in 2020 and has been increasing year on year (Numanović 2021). The number of preschool institutions in BiH also decreased in the 2020/2021 school year (Agency for statistics of BiH 2021). Moreover, despite the rapidly ageing population, the country does not have a system of long-term care that would universally cater to the needs of those with a degree of long-term dependency.

Roma women are particularly disadvantaged and marginalised due to inadequate living conditions, poverty and a disadvantageous position in their family which includes early marriage. They also have more difficulty in accessing healthcare than other citizens. While data on the employment of Roma arescarce, their employment rate is clearly lower thanthat of other groups, and significantly lower for Roma women. According to the 2017 Regional Roma Survey, the unemployment rate stands at 56%. Only 11% of Roma are employed of whom 63% work in the informal sector. 86% of young Roma (92% for females) are not in employment, education or training (NEET). The share of Roma without any employment experience is also significantly higher than that of other population groups.

For young people, the employment situation remains dire, and the COVID-19 crisis is a threat to the fragile progress achieved in 2016-2019. The COVID-19 crisis has affected 15-24 year-olds more than any other age group. In 2021, youth unemployment (15-24) remained high at 38.3% in 2021. At 11.7 pps., the gender employment gap also persisted in this age group. Unemployment rate for young women stood at 44.5%, much higher than for young men (34.5%). Depending on the source, approximately 33.8-40% of 15-24 year-olds are not able to find any sort of work after completing their education. As a consequence, unemployed young people are exposed to multiple risks in the form of social exclusion, poverty and stigmatisation. The high share of NEETs in the 15-29 age group in 2020 (25.9%) indicates weaknessesin the policy framework and of the responses to the employment and employability/upskilling obstacles faced by young people. There are several inter-linked reasons for this outcome, including poor education-to-employment transitions, limited job and career opportunities in the labour market, under-supplied training options within active labour market measures, lack of accessible and/or affordable retraining and lifelong learning schemes, and low propensity of employers to invest in on-the-job training. However, some positive steps are taken by the entities to address these issues: the Republika Srpska entity adopted a legislation which requires employers to be represented on the management boards of public universities, creating better links and an opportunity to directly influence the priorities in educational fields. Other new initiatives focused on providing vocational counselling to students, developing local councils for education and employment, and developing internships schemes for students. The Federation entity implements several ALMPs that aim to support young people in finding a first employment and ease the school-to-work transition (OECD SEE Competitiveness Outlook 2021).

Regrettably, the ERP contains no reference on progress and no reform measures on establishing and implementing a Youth Guarantee, despite it being a political priority under the jointly agreed policy guidance and a flagship initiative under the European Investment Plan (EIP) for the Western Balkans.

Brain drain remains a challenge for all skills levels. The emigration of the country's workforce puts pressure both on industries relying on the low-skilled workforce (e.g. construction) as well as those relying on medium-to-high skilled professionals (the IT sector, Business Process Outsourcing, etc.). At the same time, it must be noted that BiH has the second highest share of highly educated migrants among the six Western Balkan economies, standing at 19% (OECD Draft Report on Labour Migration in the Western Balkans). In 2020, COVID-19 changed migration patterns in Bosnia and Herzegovina:

there are indications that emigration and circular migration have gone down, while returns intensified in the first months of the pandemic. Although the pandemic may have resulted in less emigration in 2020, and consequently kept more people in the country, improvements of human capital through education, training and specialisation gained abroad are also likely to have fallen during this period (ETF 2021).

Informal labour is a persistent challenge in Bosnia and Herzegovina. Recent analyses suggest that informal employment accounts for 30.5% of total employment in the country, with a slightly higher rate for men than for women (30.9% vs. 29.8%). Informal employment in agriculture accounts for around 13.1 pps. of this figure, and other sectors for around 17.4 pps. (ILO 2020). The tax wedge on lower salaries and precarious working conditions remain a disincentive to formal employment. Nevertheless, the entities took some steps to combat informal employment: the Republika Srpska entity has addressed the issue of the tax wedge by increasing the non-taxable salary threshold to 500 BAM per month (2016), and adopting a Law on Incentives which allows employers to increase the non-taxable salary of their employees. The Federation entity has reformed its Law on Labour and adopted a rulebook for its application (2016) that aims to help disincentivise and detect informal work (OECD SEE Competitiveness Outlook 2021).

Social dialogue in the country is weak. Consultations in the Economic and Social Council are limited to labour law and do not cover larger economic and social reforms. There are no general collective agreements in either entity. Sectoral collective agreements in the Republika Srpska entity are limited to the public sector and some state-owned enterprises. In the Federation entity, sectoral collective agreements are also to be found in some branches of the private sector. In either case, the texts of these agreements are not publicly available on the ministries' websites. The overall effectiveness of social dialogue is low and the labour dispute settlement mechanisms are pending reforms. The weaknesses in the tripartite dialogue were also further exposed by the governmental response to the COVID-19 crisis, in particular in the Federation entity, where government's consultations with social partners were limited to the Federation entity's Socio-economic council, attended only by representatives of selected branch trade unions. Neither the Confederation of Independent Trade Unions of BiH (SSSBiH) nor the Federation entity's Employers' Associations have been satisfied with the enacted measures. The SSSBiH complains that the government's formulation of changes to the Labour law has taken place behind closed doors, without social dialogue with unions (SSSBiH, 2020). However, the RS Trade Union (SSRS) claims that the RS Government adopted some measures that they proposed.

Key challenge 2: Improving the business environment through closer cooperation and coordination at all levels of government

The absence of a common internal market within the country remains a serious obstacle to private sector competitiveness. Businesses that wish to operate across the entire economy must register separately with both entities and the Brčko District and must frequently obtain the same licenses or permits in each entity or even each local government area and pay a range of different taxes and fees. Each level of government (and within the Federation entity, each of the 10 cantons) has its own business laws, regulations and procedures with which businesses must comply. This increases the costs of establishing a company and protects incumbent companies from competition. Starting a business takes nearly eight times as long in Bosnia and Herzegovina as it does in other economies in Europe and Central Asia and costs three times as much, leading the country to rank a dismal 184 out of 190 countries in the World Bank's latest Doing Business study. The obstacles that this regulatory complexity creates for businesses is also reflected in the country's low score in the 'Institutions' pillar of the World Economic Forum's Competitiveness Report 2019, leaving it 114th in the world and last in Europe.

The ongoing political crisis has led to a further deterioration in cooperation between the various levels of government and institutions. Institutional paralysis due to the ongoing political blockade has impeded country-wide economic reforms, further slowing down the country's convergence towards fulfilling the EU accession criteria. The authorities have failed to outline a set of countrywide, comprehensive measures that are consistent and properly sequenced, and even technical reforms remain blocked. Just 6% of business respondents in the Balkan Barometer 2021 described coordination among regulatory authorities as 'positive' or 'very positive.' Countrywide strategies and solutions to support business development are long overdue, and the political blockage is impacting business confidence. 40% of the business leaders that participated in the survey believe that economic trends and the business environment will deteriorate over the next year, and another 38% believe it will remain unchanged. Less than 20% see the situation improving in the short run. In order to ensure countrywide ownership and consistent political support to socio-economic reforms, the design and implementation of these reforms will need to be coordinated among between all authorities, including the State-level authorities and will need to involve dialogue with the business community which at present is sporadic. A more business-friendly environment would facilitate the post-pandemic recovery, attracting more investments and building up economic resilience as well as boosting inclusive growth and competitiveness. The implementation of the Common Regional Market is also expected to offer new opportunities.

The COVID-19 pandemic has made it even more important and urgent to address the structural weaknesses in the business environment. The pandemic further highlighted shortages in institutional effectiveness resulting in the slow release of fiscal support to households and businesses (World Bank, 2021). The response to the COVID-19 pandemic was uncoordinated and fragmented in both substance and timing, leading to underutilisation of the full recovery potential across the country and further weakening the single economic space. Supported by the Economic and Investment Plan and in line with the EU digital strategy and the Green Agenda for the Western Balkans and the action plan for its implementation, long-term recovery will need to be backed up by an inclusive green and digital transition as well as regional integration through the Common Regional Market.

The ERP acknowledges problems related to the business environment and regulatory burden. However, it does not include measures adequate to meet the scale of the challenge, nor does it recognise the underlying issues related to lack of coordination among the various levels of government. The measures included relate primarily to changes to the tax regime in each entity, where especially in the Federation the the cumulative rate of labour taxes weigh on the private sector. However, it is notable that these changes are not likely to bring any further harmonisation of the regimes for businesses that operate countrywide. The measures related to inspections reform in the Republika Srpska refer to harmonisation between the entity and the municipal levels, but there is no effort to harmonise across entities. Finally, there is reference to online registration, one-stop-shop facilities and the establishment of a single register of permits and license requirements, but again these reforms are likely to be limited in impact and scope do not seem intended to bring about any reduction in the administrative burden for businesses that operate across both entities. None of the reforms comes with a detailed list of actions or a timeline, and none of them have been adequately costed.

In the fight against corruption, the lack of harmonisation of legislation across the country and weak institutional cooperation and coordination continued to hamper results. Transparency International ranks the country 110th out of 180 countries in its 2021 annual Corruption Perception Index, showing no improvement since the previous year and making it the worst performer in the Western Balkans. Closer coordination and cooperation involving all levels of government, legal certainty to business through harmonised legislation across the country and a consistent application of the rule of law are prerequisites for countering corruption more effectively[3].

Weaknesses in the rule of law, including in the functioning of the judiciary, negatively affect the country's market economy and its business environment in particular. The constitutional and legal framework governing the judiciary is incomplete and does not provide sufficient guarantees of independence, accountability and efficiency. Contract enforcement, in particular settling commercial disputes, remains problematic though there has been recent progress in this area. There remain problems with establishing property rights in some areas, such as real estate registration. Cooperation and coordination among the various stakeholders has further deteriorated and is a major impediment to the rule of law and a proper functioning of the judiciary, impeding the establishment of a level playing field across the country, with wide-ranging negative effects on the country's business environment.

A harmonised approach to the modernisation, simplification and digitalisation of services is missing, as the legal framework for a user-oriented administration varies substantially across the country. Consistent with the Digital Agenda for the Western Balkans and the Economic and Investment Plan, improvements to the administrative environment for firms would include the digital transformation of government services for businesses, including e-signature[4], e-registration of businesses and e-construction permits. Economy-wide implementation of service digitalisation is still hampered by the lack of political ownership and co-ordination between different levels of the government, which also leads to the allocation of insufficient budgetary resources for implementation. The lack of interoperable information systems across entities and different levels of government in Bosnia and Herzegovina is a major obstacle to developing economy-wide digital government services (OECD, 2021). Countrywide harmonisation of e-signature and the related coordination, cooperation and data exchange between different administrations is still needed. The adoption a new law on electronic identification and trust services for electronic transactions with a single supervisory body for the whole country in line with the EU *acquis* is still pending. This would accelerate the digital transformation and allow for easier integration into regional and international markets. Various important customs reforms such as the new electronic transit procedure (NCTS), the authorised economic operators (AEO) scheme and electronic customs declaration for

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[3] According to the RCC Balkan Barometer 2020, governance, public integrity and corruption continue to be the most negatively perceived aspects of governance performance, with only 2.4% of business leaders claiming that they are 'content' with these aspects in Bosnia and Herzegovina.

[4] New draft legislation aims at transposing the eIDAS regulation and is intended to simplify the services to citizens and the business community in BiH as well as to facilitate the transfer of electronic documents in public administration.

import and export customs procedures depend on the full implementation of the new Customs Policy Law.

The green transition is also central to this key challenge, especially in light of international energy market developments brought about by Russia's war against Ukraine. **The absence of a fully-functional energy market in Bosnia and Herzegovina, with slightly differing legal frameworks and implementation practices, hampers the sector's development as well as investments.** Bosnia and Herzegovina still needs to make significant efforts in creating a single regulatory framework and market space that ensures reliable and secure energy supply and attracts investments in a low-carbon energy sector. Adopting laws on renewable energy and energy efficiency, as well as the State Law on Electricity and Natural Gas, with which the entities must comply, should be a priority. Bosnia and Herzegovina should ensure timely transposition and implementation of the Energy Efficiency Directive following its adoption as part of the Clean Energy Package by the Energy Community in November 2021. Delivering on commitments to gradually phase out coal subsidies and to introduce carbon pricing instruments will be particularly challenging. The country remains heavily reliant on lignite coal and still plans to increase its energy generation based on fossil fuels, jeopardising its commitment to decarbonisation and climate neutrality by 2050 and prolonging and increasing the socio-economic risks of an eventual transition from coal. The level of emissions from coal-fired power plants is of concern, as is the plan to build a new plant in defiance of State aid rules.

Key challenge 3: Increasing the efficiency of the public sector, in particular by improving the performance, transparency and accountability of public enterprises

The still-oversized public administration as well as poorly performing state-owned enterprises (SOEs) puts a significant burden on taxpayers and adversely affects the business environment. State influence on the economy is significant, and countrywide public spending remains relatively high, while the overall perception of citizens about public services is very low. Efforts to rebalance the country's current public sector-led growth model and move to a more private sector-led model are not sufficient, given that, according to official statistics, public spending accounts for more than 40% of GDP. Ineffective service delivery, poor human resource management and accountability have major implications on efficiency, quality and access to public services. A functional legislative framework for registries of public sector employees has not been set up, though the ERP refers to plans to establish them in the two entities. Public procurement plays an important role for the private economy, but procedures are complex, prone to corruption and contain a preference for domestic suppliers, which is incompatible with the EU *acquis* and a breach of the Stabilisation and Association Agreement. Payment arrears of the public sector are substantial, creating a considerable burden for private companies, but also a high degree of uncertainty for other public services because of unpaid contributions to health and pension funds.

All four governments (the State-level, the entities and Brčko District) have adopted individual public financial management (PFM) strategies, but at this stage, there is still no countrywide strategy for the reform of public financial management with a

performance-based monitoring[5]. The ERP presents a number of PFM measures such as programme budgeting and public internal financial control, but some of the most crucial challenges remain unaddressed including those described in the section above on public finances and issues related to the proper involvement of the Indirect Taxation Authority in the preparation and costing of proposed changes to the VAT and excise duty regimes. While the ERP does contain a number of relevant measures related to public administration reform such as the establishment of public service registries, these should be prioritised at all levels and not only in one entity. The same countrywide approach on efforts for optimization of administrative procedures is needed across levels to provide an effective regulatory environment for the private sector and to ensure the equal treatment of businesses across the country.

Oversized, non-transparent and inefficient state owned enterprises (SOE) continue to have economy large economic footprint. As a result of weak ownership arrangements and underperformance, Bosnia and Herzegovina has a relatively low score in terms of governance and efficiency in the OECD's 2021 Competitiveness Outlook. In the Federation entity, an SOE registry is now in place and publicly available, but further steps are needed to oblige SOEs to upload the required information. In the Republika Srpska entity a working group and an action plan on SOE reform are in place. Both entities are planning to set up central oversight units and to develop ownership policy documents. Regular reporting on the performance of SOEs is still absent. Legislation defines public enterprises as companies that are either public corporations or companies that would normally be part of the general government (IMF, 2020). According to estimates (IMF 2019), there are over 550 (majority public) SOEs employing around 80,000 people, thus accounting for around 11% of total employment (about a quarter of public sector employment). They control assets worth an equivalent of 100% of GDP. Among all SOEs, entity-owned SOEs (including the electricity companies of the entities, coal mines in the Federation entity, the Republika Srpska entity forest company, highway companies, railways) have the largest operations and account for most of the employment of the SOEs. Despite lower productivity[6], the average salaries of SOE employees are 40% higher than in private companies.

SOEs are undermining competition, negatively affecting the country's overall competitiveness. Productivity is low in many large SOEs, and many of them are not profitable. SOEs and public enterprises dominate key sectors of the economy, including energy and telecommunications utilities (World Bank, 2018). In the OECD Competitiveness Outlook 2021, the county has a below average score on ensuring a level playing field with private companies. While most SOEs in both entities are incorporated according to general company law, the presence of a separate legal form ('public enterprises') for some SOEs raises concerns about their operational treatment. The authorities should also consider fully corporatising SOEs that undertake primarily commercial activities but are still organised under the separate legal form of 'public enterprise' (OECD, 2021). Subsidies give SOEs a competitive advantage over the private sector, and in so doing negatively affect the efficiency of resource allocation and the

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5 Countries with strong public finance management systems were also able to respond more quickly and more effectively to the COVID-19 crisis (as reported in the first Global Public Expenditure and Financial Accountability Report).

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

country's fiscal performance. As for the interaction of SOEs with the private sector, the poor quality and fairly high cost provision of inputs to private enterprises negatively impact the private sector's competitiveness. Liabilities to suppliers (4% of GDP according to the IMF) have negative repercussions on the private sector.

SOEs are a significant burden on the country's public finances. Many of the country's SOEs are in poor financial shape and close to half of them experience shortfalls in liquidity and require both explicit and implicit budgetary support. Monitoring and managing fiscal risks in ministries of finance is not sufficient. About three quarters of the largest (20) SOEs face considerable financial risks. The cost of supporting public companies and guarantees, which often translate into substantial contingent liabilities, is a heavy burden on public finances and thus the country's taxpayers. Many public companies rely on state support or delay due payments to the social security systems or to private suppliers, in order to remain in operation. This creates substantial liquidity imbalances in other areas of the economy. Potential investors are required to assume these debts and maintain the existing workforce. Some of the SOEs requiring subsidies are no longer operating, but still maintain workers. SOEs' total debts (including approximately 4% of GDP in tax and social contribution arrears) are around 26% of GDP (IMF, 2019). While the precise numbers have not yet been determined, total public sector debt is likely to be approximately 55-60% of GDP.

The planned centralised SOE oversight units (coordinating government efforts to monitor performance in order to strengthen the sustainability of the SOE sector) should separate oversight from policy and the regulatory functions of the line ministries. In addition, responsibilities for monitoring and assessing fiscal implications of SOEs will need to be assigned to ministries of finance. The coverage of SOEs is limited in terms of financial auditing by the Supreme Audit Institutions (SAI), and the implementation of SAI recommendations is low (IMF, 2020).

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

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

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

Regrettably, the ERP did not contain an analysis of the challenges related to the country's state-owned enterprises, nor did it provide any further reform measures beyond the rolled-over commitment to establish central oversight units.

***Box: Monitoring performance in light of the European Pillar of Social Rights*[7]**

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

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

The employment rate in Bosnia and Herzegovina remains very low, particularly for women and young people, even though it continues to steadily improve. A large proportion of unemployed people are long-term unemployed. Job creation is localised and the low mobility of workers limits the allocation of labour resources to emerging needs. The gender employment gap increased to 24.9 pps. in 2020, being more than twice as high as the gap in the EU-27 (11.0 pps.) and grew further to 26.9 pps. in 2021, the highest level recorded in the last 5 years. This gap is widened by the low availability of elderly care and early childhood education and care.

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

Education continues to be of low quality, and the country suffers from a continuing skills mismatch. There has been little change in levels of educational attainment in recent years. This indicates slow structural change in both the labour market and the education system. It is positive that the share of early school leavers is very low at 4.7% in 2020, much below the EU-27 average (9.9%). However, there is a large share of low-skilled people in the population. Upskilling strategies to increase the skill levels of the workforce are not sufficiently developed. Participation in early childhood education and care (ECEC) is significantly lower than in the EU and elsewhere in the region. Although it is improving, in 2019 ECEC only covered 7.1% of children under 3, compared to the EU average of around 35%. Most children enrolled in ECEC come from urban families where both parents are employed, while children from rural areas or whose parents are unemployed very rarely attend.

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

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

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

5. Overview of the implementation of the policy guidance adopted at the Economic and Financial Dialogue in 2021

Every year since 2015, the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey has adopted targeted policy guidance (PG) for all partners in the region. The guidance represents the participants' shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale of the PG is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the PG is evaluated by the Commission in the following year's ERP assessments. The below table presents the Commission's assessment of the implementation of the 2021 policy guidance jointly adopted by the EU and the Western Balkans and Turkey at their Economic and Financial Dialogue at Ministerial level on 12 July 2021.

Overall: [Limited] implementation (31.9%)[8]	
2021 policy guidance	**Summary assessment**
PG 1: Provide well-targeted and temporary pandemic-related fiscal support to the health sector as well as to vulnerable households and troubled but viable firms; provided the economic recovery is well entrenched, return to a debt-stabilising fiscal policy as of 2022 and foresee a gradually improving primary balance in the budget 2022 and in the medium-term fiscal plans.	There was **limited implementation** of PG 1: 1) **Partial implementation:** the authorities supported the health sector, enterprises and households, by financing medical equipment, providing loan guarantees and co-financing social security contributions and wages. However, little effort was made to properly targeting the available funds. According to the adopted budgets of both entities, the fiscal policy envisages a reduction in the fiscal stimulus. However, given that 2022 is an election year, entity budgets expect a significant increase in consumption-related spending, such as raising pensions and wages. Moreover, the recent announcements on future debt acquisition (bonds under unfavourable terms and conditions) by the RS do not inspire confidence on the medium-term debt-stabilising policy.
Increase the share of government capital spending in GDP, by measures to improve public investment management and through an accelerated implementation of those investment projects, that have been subject to a clear positive cost-benefit assessment.	2) **Partial implementation:** In 2021, spending on public investment appears to have been limited. (country-wide data are not yet available for 2021). However, both entity budgets for 2022 envisage a substantial increase in investment, largely related to infrastructure investment (Corridor Vc).
In order to improve the efficiency of tax collection, ensure an effective exchange of taxpayer information between the country's tax authorities, and in particular create in line with the EU acquis a central (i.e. country-wide) registry of bank accounts of private individuals.	3) **No implementation**: no progress was made on improving the data exchange between the four tax administrations in BiH during 2021 or on agreeing on the establishment of such a registry.

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

PG 2: Prepare a report on contingent liabilities, with a particular emphasis on those related to the COVID crisis response, and prepare a strategy on how to manage risks related to contingent liabilities. Strengthen the analytical capacities of governmental institutions, in particular the BiH Ministry of Finance and Treasury with a view to improving the preparation and quality of the ERP in line with EU requirements. Invest more significantly in building up the country's statistical capacity for macroeconomic statistics, particularly the harmonised index of consumer prices, regional accounts, labour force survey and government finance statistics, and pursue efforts to improve the coverage and timeliness of all statistics.	There was **limited implementation** of PG 2: 1) **No implementation**: no such report was prepared/published. No related strategy was prepared. 2) **Limited implementation:** Some work was carried out with international TA, including through an EU-financed, IMF-implemented project – towards improvement of the countrywide fiscal framework. 3) **Limited implementation:** BiH made little progress in most of these areas, except for the Labour Force Survey and government finance statistics, where it made some progress.
PG 3: Maintain a strong financial sector regulatory framework in line with international and EU best practices, ensure sound credit risk management, a transparent display of asset quality, adequate provisioning and close coordination of supervisory activities. Further reduce institutional and legal obstacles to swift and effective NPL resolution, and strengthen the bank resolution framework. Safeguard the integrity of the currency board arrangement and the independence of the central bank.	There was **partial implementation** of PG 3: 1) **Substantial implementation:** The European Commission decided to consider the supervisory and regulatory framework applicable to credit institutions in Bosnia and Herzegovina as equivalent to that applied in the EU. Banking supervisory agencies kept working closely together to coordinate the implementation of support measures for the financial sector. Forbearance measures were withdrawn when economic activity resumed. Provisioning remained adequate, slightly increasing on the back of the extended loan moratorium. However, no progress was made on a unified macroprudential framework. 2) **Limited implementation**: The bank resolution framework is still not fully operational and needs to be strengthened further. The remaining obstacles for an effective NPL resolution framework have also not been addressed, such as facilitating out-of-court restructurings and amending the tax treatment of NPL sales to specialised companies. However, the Federation of Bosnia and Herzegovina adopted a new insolvency framework, similar to the one in the Republic of Srpska. 3) **Substantial implementation**: The full convertibility of the domestic currency was ensured. However, the delays in appointing the governor and board members in the course of 2021 gave rise to concerns. Furthermore, there have been repeated calls to modify the law of the central bank to allow the use of its reserves in the economy.

PG 4: With a view to improve the business environment and strengthen the single economic space, business registration as well as licensing and permitting procedures will be simplified and harmonised across the country.	There was **limited implementation** of PG 4: 1) **Partial implementation:** Both entities continued implementing much-needed reforms to improve the business environment. In the Republika Srpska, reforms in recent years have significantly reduced both the cost and the amount of time needed to register a new business, and online registration of businesses was launched in both the RS and in the Brčko District. The Federation also took steps were taken toward online registration of businesses. The Federation adopted a new Law on Crafts and Related Activities in order to simplify administrative procedures for craft-related businesses along with more widely-applicable simplifications to the business registration process. Nevertheless, in neither entity do the measures reported in the ERP match the scale of the challenge, and even within individual entities businesses must still apply for licences and permits at various different agencies. The fragmentation of the market and the absence of a true single economic space remain serious obstacles to growth and competitiveness, and nothing was done to tackle this issue during the previous year – indeed, there have been signs of backsliding in this area.
To foster digitalisation of public services and to complement the development of e-Government infrastructure, adopt the law on electronic identity and trust services for electronic transactions with a single supervisory body in line with the EU acquis and ensure that Indirect Tax Authority begins issuing of electronic signatures.	2) **No implementation:** The law on electronic identity and trust services for electronic transactions was not adopted. The legislation at the level of the entities remains out of step with the EU *acquis*. The Indirect Tax Authority was accredited for issuing qualified digital signatures for VAT and excise duty, but implementation has not yet begun.
Once the 2015 Customs Policy Law will have entered into force, implement the new computerised transit system (NCTS) at national level, as well as the authorised economic operator (AEO) concept.	3) **No implementation:** The Customs Policy Law has not entered into force. The computerised transit system and the authorised economic operators scheme have therefore not been implemented.
PG 5: Adopt a comprehensive, country-wide Public Finance Management Strategy with performance-based monitoring and reporting.	There was **limited implementation** of PG 5: 1) **Partial implementation**: A countrywide strategic framework for public financial management with a performance based monitoring system has not yet been adopted. However, with the technical assistance of the IMF's Fiscal Affairs Department, public finance management reform strategies for 2021-2025 were prepared and adopted at all levels during the reporting period (a precondition for preparing the countrywide strategy), and a countrywide strategy is expected to be drafted in the coming period. Improving public financial management at all levels is also necessary to support fiscal consolidation measures and ongoing structural reforms.
Create/update in both entities publicly available registers of public enterprises with complete, searchable list of all public enterprises including comprehensive financial	2) **Limited implementation:** Both entities have registries of public enterprises, but they lack some of the required information on these companies. For the Federation, the registry does not include sufficient

statements, audits and organisational information. Establish public enterprises central oversight units in both entities and allocate adequate human resources.	information on cantonal public companies. 3) **Limited implementation**: Both entities have announced their intention to establish central oversight units for state-owned enterprises, but so far these have not yet been set up.
PG 6: Strengthen the coordination mechanisms within the country as regards employment policies and establish an inter-ministerial task force involving relevant ministries, their agencies and stakeholders to develop a Youth Guarantee Implementation Plan. Develop a system to monitor and forecast the skills needs in the labour market to facilitate the alignment of the education and training systems and of reskilling and upskilling provision to labour market needs. Improve access to early childhood education and care services towards children/families with vulnerable backgrounds and in rural areas.	There was **limited implementation** of PG 6: 1) **Limited implementation:** The Republika Srpska entity's Government adopted an Employment Strategy 2021-2027 in December 2021. However, the Federation entity's Employment Strategy 2021-2027 was voted down in the House of Peoples in November 2021. Considering that entities' strategies should be the basis for the country-wide Employment Strategy, the Federation entity's non-adoption may further hamper the efforts to develop a coordinated country-wide employment policy. No progress has been made on strengthening the coordination mechanisms. Formal coordination bodies on the Youth Guarantee (Expert Group and Multi-Stakeholder Group) at country level are yet to be established. Initial steps have beentaken, with the help of the EU-ILO Technical Assistance Facility, on a statistical mapping of the profile of young people not in employment, education or training. 2) **Partial implementation**: A state-wide system to monitor and forecast skills is yet to be established. At entity level, the Republika Srpska entity already has a skills anticipation framework but more efforts are needed on aligning reskilling and upskilling measures to labour market needs. The Federation entity's employment service is also working on aligning skills with labour marketneeds, but consolidation of the work across all cantons requires more attention. While policy discourse on skills-economy alignment is good in both entities, failure to get a state-wide commitment to common employment priorities will continue to undermine the development of a state-wide skills intelligence framework. 3) **Limited implementation:** In July 2021, the Republika Srpska entity adopted an updated Law on Preschool Upbringing and Education, making preschool education free of charge for children with developmental problems, children without parents' care, children victims of violence and children receiving social assistance. The Law also allows for preschool education in less developed areas to be organised in a wider range of premises, which allows for more flexibility and lower costs. Over the last year, no developments have been recorded in the Federation entity.

ANNEX A: ASSESSMENT OF OTHER AREAS AND STRUCTURAL REFORM MEASURES INCLUDED IN THE ERP 2022-2024

Due to the nearly 2-month delay in submitting the Economic Reform Programme (ERP) and the consequent impossibility to organise the usual fact-finding and assessment missions with the country authorities, it has not been possible to provide the usual sector-by-sector analysis and assessment of reform measures.

Most measures presented in the ERP do not address economy-wide challenges and include, but rather include entity-specific activities only and in a fragmented way. There is often insufficient indication as to which level of government or institution the activities are related. The planned activities and expected outcomes of measures are often not adequately explained, and in some cases the text is simply repeated. In many cases, the activities planned do not appear to be in line with, or address, the main obstacles identified for the various sectors in the preceding analysis. In other cases, a more coherent approach is described in the analysis while the activities themselves are more fragmented.

The results indicators often do not provide enough clarity in the phrasing of what exactly needs to be achieved. Some results indicators that are better-defined, as for instance in the area of healthcare, have not been filled in with any values, which does not allow their monitoring. In the planning of concrete reform measures proposed for the next 3 years, the same measures are sometimes just repeated verbatim for all 3 years, making it impossible to evaluate their implementation adequately.

Despite the availability of technical assistance for the costing of measures, very few of the reform measures reflect costs and even fewer provide an indication of financial assistance from international partners, including from the EU through the Instrument for Pre-Accession Assistance (IPA). Tables 10a and 10b (costing and financing of structural reforms, respectively) and Annex 2 (links between reform areas and relevant policy documents) have not been included in the ERP.

ANNEX B: Overview of the main indicators per area/sector of the economy

Area/Sector	2016	2017	2018	2019	2020	EU-27 Average (2020 or most recent year)
Energy						
Energy imports dependency (%)	31.5%	34.0%	24.3%	27.4%	N/A	57.5%
Energy intensity: Kilograms of oil equivalent (KGOE) per thousand euro	448.81	434.20	463.40	435.70	N/A	110.18
Share of renewable energy sources (RES) in final energy consumption (%)	25.36%	23.24%	35.97%	37.58%	N/A	22.09%
Transport						
Railway Network Density (metres of line per km^2 of land area)	19.9 ^{w}	19.9 ^{w}	19.9 ^{w}	19.9 ^{w}	19.9 ^{w}	49.0 (2018)
Motorisation rate (Passenger cars per 1000 inhabitants)	245.0 ^{w}	252.0 ^{w}	263.1 ^{w}	269.5 ^{w}	N/A	519 (2018)
Agriculture						
Share of gross value added (agriculture, forestry and fishing)	7.5%	6.6%	6.9%	6.6%	7.1%	1.8%
Share of employment (agriculture, forestry and fishing)	18.0% ^{w}	18.9% ^{w}	15.7% ^{w}	18.0%	12.0% ^{w}	4.3%
Utilised agricultural area (% of total land area)	34.7% ^{w}	34.4% ^{w}	34.8% ^{w}	35.3% ^{w}	N/A	40.6%
Industry						
Share of gross value added (except construction)	22.6%	23.3%	23.9%	23.1%	22.9%	19.5%
Contribution to employment (% of total employment)	22.7% ^{w}	22.2% ^{w}	23.5% ^{w}	23.8% ^{w}	33.4% ^{w}	18.2%
Services						
Share of gross value added	65.1%	65.3%	64.4%	65.3%	64.5%	73.1%
Contribution to employment (% of total employment)	50.8% ^{w}	51.6% ^{w}	52.1% ^{w}	50.3% ^{w}	45.3% ^{w}	71.0%

Digital economy						
Percentage of households who have internet access at home	61.5% [w]	66.0% [w]	69.0%	72.0%	73.0%	91%
Share of total population using internet in the 3 months prior to the survey [NB: population 16-74]	N/A	64.9% [w]	70.1% [w]	69.9% [w]	73.0%	88%
Trade						
Export of goods and services (as % of GDP)	36.3%	40.9%	42.6%	40.6%	34.5%	46.7%
Import of goods and services (as % of GDP)	53.0%	57.1%	57.3%	55.2%	48.5%	42.9%
Trade balance (as % of GDP)	-22.5%	-22.7%	-22.0%	-22.7%	-18.6%	N/A
Business environment						
Rank in WB Doing Business (Source: World Bank)	79	81	86	90	90	N/A
Rank in Global Competitiveness Index (Source: World Economic Forum)	111	103	91	92	N/A	N/A
Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	Up to 34.4%	N/A	N/A	N/A	N/A	N/A
Research, development and innovation						
R&D intensity of GDP (R&D expenditure as % of GDP)	0.24% [w]	0.20% [w]	0.19% [w]	0.19%	N/A	2.32%
R&D expenditure – EUR per inhabitant	N/A	N/A	N/A	N/A	N/A	€694.60

Education and skills						
Early leavers from education and training (% of population aged 18-24)	4.9% [w]	5.1% [w]	5.4% [w]	3.8% [w]	4.7% [w]	9.9%
Young people not in employment, education or training (NEET) (% of population aged 15-29)	30.8% [w]	28.1% [w]	24.8% [w]	24.4% [w]	25.9% [w]	13.7%
Children aged less than 3 years in formal child care (% of under 3 years-olds)	4.7% [w]	5.2% [w]	6.3% [w]	7.1% [w]	N/A	32.3%
Individuals who have basic or above basic overall digital skills (% of population 16-74)	N/A	N/A	N/A	24%	N/A	56% (2019)
Employment and labour market						
Employment rate (% of population aged 20-64)	44.2% [w]	46.6% [w]	47.7% [w]	49.7% [w]	52.5% [w]	71.1%
Unemployment rate (% of labour force aged 15-74)	25.5% [w]	20.7% [w]	18.5% [w]	15.9% [w]	15.9% [w]	7.2%
Long-term unemployment rate (% of labour force 15-74)	21.6% [w,y]	16.8% [w,y]	15.2% [w,y]	11.9% [w]	11.8% [w]	2.5%
Gender employment gap (Percentage points difference between the employment rates of men and women aged 20-64)	24.4 pps [w]	23.0 pps [w]	23.7 pps [w]	23.6 pps [w]	24.9 pps [w]	11.0 pps
Disability employment gap (Percentage points difference in employment rates between people with and without a disability)	N/A	N/A	N/A	N/A	N/A	24.5 pps
Real gross disposable income of households (Per capita increase, Index = 2008)	N/A	N/A	N/A	N/A	N/A	107.23

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

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

y: data for people aged over 15

z: data from the World Health Organisation

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

ANNEX C: PROGRESS WITH STRUCTURAL REFORM MEASURES FROM THE 2021-2023 ERP

Reporting on the implementation of the 2021-2023 ERP's structural reform measures did not follow the guidance note, and the requested reporting table was left out entirely making it difficult to track progress. The reporting included in the ERP is unfortunately inadequate, inconsistent and incomplete. It is frequently difficult to surmise from the ERP to what extent reform measures are still being planned or have actually been implemented, and it is also often unclear which level of government or entity is being described. Given that the ERP was submitted nearly 2 months after the deadline, much of the reporting seems out of date. Even measures taken to implement the policy guidance adopted at the Economic and Financial Dialogue in July 2021 were not adequately reported. Reporting on progress with structural reform measures is important to ensure accountability on commitments to reform and to monitor the effectiveness of measures taken.

ANNEX D: COMPLIANCE WITH PROGRAMME REQUIREMENTS

The Council of Ministers adopted the ERP 2022-2024 on 23 March 2022 and submitted it to the Commission on 24 March, nearly 2 months after the deadline. The quality of the programme and the delay in submission points to continued significant weaknesses in administrative coordination and policy formulation. The document still falls short of being comprehensive and internally consistent and lacks an overall strategic vision. The readability of the document remains to be further improved. Insufficient time has been left to finalise the ERP as some contributions were submitted very late. Bosnia and Herzegovina needs to strengthen its coordination capacity on economic policy and to ensure consistent political support, high visibility and coherence of the ERP.

Inter-ministerial coordination

The preparation of the ERP was centrally coordinated by the Directorate for Economic Planning (DEP). The DEP's ability to coordinate the preparation of the ERP was impeded this year by the failure of the Council of Ministers to adopt the usual Action Plan which empowers the DEP to coordinate the drafting process.

Stakeholder consultation

The ERP itself refers only to consultations on part of the document with social partners in Republika Srpska. The full draft ERP was not made available online for public consultation.

Macroeconomic framework

The recent macroeconomic performance is adequately described. The macroeconomic framework's consistency with other parts of the programme, particularly with the fiscal framework, is still limited. The reasoning behind the chosen policy approach and the links to the overarching policy strategy are not sufficiently developed.

Fiscal framework

Despite some improvements in the country-wide presentation, the programme continues to lack a consistent, complete and sufficiently detailed presentation of the country's fiscal policy both for 2022 and also of budgetary plans for 2023-2024. This strongly impedes the analysis of country-wide fiscal developments. Public investment projections in the fiscal part are still not consistent with the macroeconomic framework. The requested links to structural reforms are still largely missing. The rationale and underlying measures of the chosen policy approach are not sufficiently developed. The programme provides hardly any quantitative analysis of budgetary measures. The compilation and presentation of fiscal data is not yet in line with ESA 2010.

Structural reforms

Sections 5, 6 and 7 do not follow the programme requirements, which reflects the absence of proper coordination on country-wide challenges and reform priorities. In many cases, policy goals are vaguely formulated and are not supported by implementable measures and activities. Key results indicators are not always present and potential risks frequently indicate political obstacles. Reporting on the implementation of the policy guidance and structural reform measures from the 2021-2023 ERP is insufficient or in most cases non-existent. In spite of technical assistance[9] on fiscal implication of reform measures, Tables 10a, 10b and 11 do not appear at all this year, a step backwards from previous years.

The ERP contains 26 reforms, six more than the 20 prioritised measures described in the guidance note. Most reforms are not sufficiently narrow in scope, and the activities planned in the 3-year period are not clearly defined.

The document is nearly twice as long (168 pages) as the limit provided in the guidance note (90 pages).

Significantly more efforts are required to improve the ERP process, which means more senior policy makers also need to participate in its formulation. The identification of key obstacles continues to often lack clarity and consistency with the reform measures and activities.

[9] Provided by the Centre of Excellence in Finance in Ljubljana.

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