

# REPORT ON THE DEVELOPMENT OF THE FEDERATION BiH 2015

## Summary

Strategic goals of development of the Federation of BiH are aimed to increase employment and strengthen the competitive position of the economy by higher productivity of labour and lower operating costs, which is a prerequisite for the transition from the group of countries with relatively low income to the countries with medium and higher income.

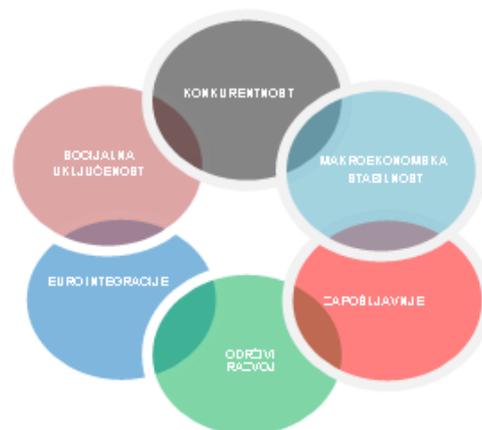
Strategic documents at the BiH level for the period 2010 – 2014 (Development Strategy and Social Inclusion Strategy) defines the following strategic objectives:

### Strategic goals

1. Macroeconomic Stability
2. Competitiveness
3. Employment
4. Sustainable Development
5. EU Integration
6. Social Inclusion

Within each strategic objective, the sub-goals and measures are set out that will support the implementation of strategic documents. In the absence of a new strategy for the next four-year period, taking into account the full participation of the FBiH Government in adopting strategic documents of BiH, the stated strategic goals were taken over to the document Work Program of the FBiH Government for the term of office.

In recent years, a trend of rapid aging of the population in the FBiH is obvious. Of the total population in the FBiH, in 2015 the population of 0-14 years makes 16.6%. Working age population of 15-64 years makes 69.1% of the total population, while 14.3% is the population older than 65 years.



In the FBiH, in 2015 the birth rate is extremely unfavourable (-1‰). The mortality rate is higher compared to last year and amounts to 9.2‰.

According to the World Health Organization, life expectancy at birth in BiH, in the period 2000 – 2015 is 77.4 years (for men 75 years and for women 79.7 years).<sup>1</sup>

<sup>1</sup>WHO, Life expectancy at birth (years), 2000–2015, Both sexes: 2015, [http://gamapserver.who.int/gho/interactive\\_charts/mbd/life\\_expectancy/atlas.html](http://gamapserver.who.int/gho/interactive_charts/mbd/life_expectancy/atlas.html)

In 2015, 154 infant deaths were recorded, and infant mortality increased to 7.9‰. In 2015, the infant mortality rate in Slovenia was 2.10‰, 3.60‰ in Croatia, 5.90‰ in Serbia, 4.8‰ in Macedonia, 3.10‰ in Germany, while in the EU countries (average) it is 4.33‰.<sup>2</sup>

Health insurance at the level of the Federation of BiH in 2015 included 2,006,610 insured persons or 85.96% of the population.

According to the Household Budget Survey in the FBiH (HBS) in 2011 (latest available data), poor households accounted for 16.0% (BiH 17.2%, RS 19.6%), while the poor individuals accounted for 17.1 % (BiH 17.9%, RS 19.5%). Children are the most vulnerable part of society because they cannot improve their position by themselves. The poverty rate in households with three or more children is 21.4%.<sup>3</sup> The number of minor beneficiaries of social welfare dropped by 3% compared to 2014 and was 76,635, accounting for 24% of the total number of social welfare beneficiaries.

Gross domestic product at the level of BiH increased in 2015. According to the indicators of the BiH Agency for Statistics, the estimated GDP in production approach for 2015 is nominally KM 28.540 million and compared to 2014 increased by 4.52%, while real growth was 3.03%. In the FBiH, in 2015, gross domestic product increased. Actual nominal gross domestic product at the FBiH level for 2015 is KM 18.697 million, with the real growth in the percentage of 3.1%.

The structure of share of economic activities by standard classification in the GDP in the FBiH in 2015 is almost the same as the previous year. Trade sector and manufacturing industry still have the most significant share as a percentage of 14.3% and 12.6%, respectively. Public administration and defence, and real estate continue to occupy a significant share of GDP, while Arts and administrative activities have the lowest share in the percentage of 1.0%.

Industrial production scope increased in 2015 at a rate of 2.2%. A more detailed analysis of industrial production shows that production in the manufacturing industry, which by the structure has the largest share in total industry, was higher by 4.2% compared to the previous year. The decline in production was recorded in the mining sector by 1.1% and in the sector of electricity and gas supply by 1.5%.

According to preliminary results of the Federal Office for Statistics, production and supply of electricity, gas, steam and air-conditioning (sector D)<sup>4</sup> in GDP – in the FBiH 2015, participate with 3.8%, which is lower compared to 2014 when it stood at 3.9 %. The sector of water supply, sewerage, waste management and remediation activities (sector E) in GDP – in the FBiH in 2015 has a share in a percentage of 1.1%, which is lower compared to the previous year when this percentage was 1.2%.

Total electricity generation in the FBiH in 2015 amounted to 8,847.01GWh, which is 4.8% less compared to 2014.

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[accessed date: 13.07.2016.]

<sup>2</sup> Index Mundi, Mortality rate, infant (per 1,000 live births), [http://www.indexmundi.com/european\\_union/infant\\_mortality\\_rate.html](http://www.indexmundi.com/european_union/infant_mortality_rate.html)  
<http://www.indexmundi.com/facts/indicators/SP.DYN.IMRT.IN/rankings/europe> [accessed date: 18.07.2016.]

<sup>3</sup> Source: IBHI, Poverty in BiH 2011 – Trends and Achievements (Expanded House Budget Survey 2011 – Author's calculation)

<sup>4</sup> Areas of activities according to the Classification of Economic Activities 2010 - in line with EU NACE Rev 2.

The share of the transport and warehousing sector in the GDP – in the FBiH in 2015 amounted to 3.9%, which is at the same level as in 2014, while the sector of information and communications accounts for 4.5%.

The share of agriculture, forestry and fisheries in the total GDP in the FBiH is 4.6%, which is more as compared to 2014 when it stood at 4.2%. The share of imports of food and live animals in the FBiH in 2015 amounts to 12.9% of total imports, and is slightly higher than the previous year (12.7%). The total trade deficit in the sector in 2015 amounts to KM 1,039.7 million, which is by 5% lower than in 2014.

Total public revenues and receipts in the FBiH in 2015 (consolidated budget data at all levels of government and funds) amount to KM 7.534 billion, and compared to the previous year they rose by KM 154 million, while total public expenditures and expenses amount to KM 7,268 million and are on the same level as the previous year. There has been a surplus in income over expenditure in the amount of KM 266 million. Total result in 2015 in the public finances of the Federation of BiH is positive with the achieved level of income over expenditure in the amount of KM 118 million.

Revenues from indirect taxes distributed to the FBiH amount to KM 2.815 billion, which is higher by KM 126 mil., or 5% compared to the previous year<sup>5</sup>. On the basis of special tolls for highway construction in 2015, the FBiH obtained additional KM 67.8 mil.

Revenues from VAT make the most important item and have the largest share in total revenues from indirect taxes (62%). These are followed by revenues from excise taxes (26.8%), and revenues from tolls (6.1%) and customs (4.6%).

Total revenues collected from direct taxes and contributions in 2015 amount to KM 3.873 billion, which is by 4% more than the revenues collected in the previous year.

Revenues from contributions for pension and health insurance have the largest share in total revenues from direct taxes.

Compared to 2014, revenues from pension insurance contributions increased by a percentage of 2.6%, and revenues from health insurance contributions by 2.0%. Tax revenues have increased, with revenues from personal income tax increased by 4.1%, and revenues from corporate income tax by 7.2%. Revenues from fees, charges and penalties in 2015 increased by 11.5%.

The trend of allocations on salaries and benefits for employees in the public sector, as a percentage of GDP, in the last five years is declining. In the period 2011 - 2015 the largest allocations were in 2011 (9.9%), while in the reporting year the allocations for salaries and benefits are at the level of 9.1% of GDP.

Consolidated debt in the Federation of BiH as at 31 December 2015 amounts to KM 6,537.16 million, of which 80,7% accounts for external and 19.3% for internal debt. Compared to the end of 2014, the total debt rose by 4% or KM 285.6 million.

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<sup>5</sup> MAU Bulletin number 126/127, according to ITA, coefficient of allocation of funds for March-May 2015 in FBiH is 63.85%. For 2014 this ratio was 64.5%.

In 2015, the internal and external debt increased at all levels of government in the FBiH (Federation, Canton and local communities). The ratio of total debt to GDP in the period 2008 – 2015 had an upward trend, and from 22.4% in 2008, increased to 35% at the end of 2015. This increase was primarily caused by the rise of external debt.

In the reporting year, the banks in the FBiH made a profit in the amount of KM 149 million, which is the best result since 1996. From a total of 17 banks, a positive result was reported by 14 of them. The loans given in 2015 increased by 3.9% or KM 440 million, and at the end of the year they amounted to KM 11.6 billion. In the structure of loans, the share of household loans accounted for 49.1% of total loans, while loans to corporate customers had a share of 50.9%. Loans given constitute the largest item of bank assets with a share of 67.4% in total assets.

The financial capital market in the FBiH, i.e. the Sarajevo Stock Exchange (SASE), in 2015 recorded a total turnover of KM 1.220 billion, which is almost twice more than in 2014. Turnover on the SASE accounts for 68.6% of the total turnover achieved on the BH stock markets, which is an increase in the share of total turnover compared to 2014 when this share was 51.4%.

FBiH has some expressed comparative advantages in international trade of resource-intensive and labour-intensive products. A constant slight decrease is visible in the share of natural resources and unskilled labour-intensive products in total exports, from 32.4% in 2010 to 30.7% in 2015. The substitution of low-technology intensive products by medium- and high-technology intensive products is slow and insufficient. It should be noted that the labour-intensive (primary) activities are facing the strong competition from countries with low labour costs, such as Macedonia, which is a limiting factor for growth and exports in these activities.

Using the official data of the EUROSTAT, the Statistical Office of the Southeast European countries, and the data of the Entity Statistics Offices in BiH for 2015, it is visible that the productivity of the FBiH reached the level of 30,10% of the EU 28 average.

In 2015, there was a slight decrease in consumer prices at the rate of 0.7% over the previous year. Falling of prices was, for the most part, due to the global trends in oil prices and food in the world market.

Also, in 2015 there was a slight decline in net wages in the FBiH. The average net salary per employee in the FBiH was KM 830, or 0.4% less than in the previous year. Taking into account the developments in consumer prices, i.e. the fall in prices in 2015, the average salaries in the FBiH actually recorded a slight growth in the percentage of 0.3%.

The total number of employees in the FBiH in 2015 was 450,121 workers, which is 6,534 employees or 1.0% more as compared to 2014. Manufacturing industry ranks first in the number of employees (86,428 or 19.2% of total employment), followed by wholesale and retail trade (80,277 or 17.8%), public administration and defence (48,916 or 10.9%).

The number of unemployed in the FBiH in 2015 was 389,865 persons, which is 2,400 persons or 0.6% less as compared to 2014. The level of unemployment (registered unemployment) in 2015 was 46.4%, and in 2014 46.9% (measured by the number of unemployed in relation to the labour force).

The International Labour Organization warned that the „moonlighting” is on the rise in all the countries of South Eastern Europe. According to their data, in BiH between 150,000 and 200,000 workers are working „undeclared” (every fourth worker).

The rate of survey unemployment in the FBiH in 2015 compared to 2014 (according to the document 2015 Labour Force Survey - included 6,102 households in the FBiH), increased as a percentage of 0.7%, and amounts to 29.1% (it also represents the ratio of the number of unemployed according to the survey and workforce) and is significantly lower than the official rate of registered unemployment, and 3.1 times higher than the survey unemployment rate of the EU 28 average (9.4%).

In the FBiH, most unemployed are skilled workers - 33.4%, unqualified workers - 28.4%, then secondary school graduates - 27.0%, and those with university degree - 7.2%. The working age population and labour force includes a large number of people without any qualifications. The education system is not effectively connected with the labour market and needs to be improved and in certain segments adapted to the needs of the economy.

According to the data of the Federal Office of Statistics, the average number of employees in the sector of production and supply of electricity, gas, steam and air conditioning in 2015 amounted to 8,939, which is 1.8% less than in the previous year. In the sector of water supply, sewerage, waste management and remediation activities, the average number of employees in 2015 was 7,911, which is less by 1.2% compared to 2014.

The average number of employees in the sector of transport and warehousing in 2015 is 23,205 or 5.2% of total employment in the FBiH, i.e., it increased by 2.6% as compared to 2014. Looking together these two areas of activity, in 2015 an increase in employment was by 2.5%. According to the Labour Force Survey, 44,000 people were employed in the agricultural activity in 2015.

In the FBiH, the total number of students of primary education in 2015/16 is 190,194, reduced by 4,149 students over the previous year, and 16,972 students less as compared to the year 2011/12.

According to the data of the Federal Office of Statistics, the number of students in secondary schools has declined by 19,045 students or 18.09% in the FBiH in the period 2011/12 - 2015/16.

In 2015 the trend of reducing the number of university graduates, when 11,581 students graduated, which is 5.20% (602) less than in 2014 (12,183 students).

Lack of professional skills is largely a result of the lack of modern infrastructure for vocational training (training, retraining), and lifelong learning, unmodernized programmes of professional training and development of key competencies, low participation of employed and unemployed in professional training, unavailability of quality services of training and education to all groups of citizens.

Analysing the statistical data on the approved patents of the European Patent Office in 2015, we can see that BiH still lags behind in the number of approved patents. In 2015 BiH had no approved patents and is far behind the countries in the region, especially Slovenia, which has 65 approved patents.

The problem of air pollution in industrial areas is still pronounced, despite a series of adopted legislation. Of the total volume of waste water, only 3,424 thousand m<sup>3</sup>, or 5.5% was treated in 2015, as compared to the previous year when 4.6% of total amount of waste water was treated.

The density of the total road network in the FBiH in 2015 did not change, as compared to the previous year, and is 18.0 km/100 km<sup>2</sup>. The density of main roads is 7.6 km/100 km<sup>2</sup>, which is about 3 times less than the EU average. The number of registered passenger vehicles in the FBiH in 2015 is 516,259, which is 3.3% more than in the previous year.

During 2015, there were 28,982 traffic accidents in the FBiH, which is 5.1% more than in 2014. The total number of persons killed in traffic accidents in 2015 was 186, which is 27 people more than in the previous year, while the number of injured people increased by 261 persons.

Total transport of goods in 2015 amounted to 5.123 million tonne-kilometres<sup>6</sup>, which is 7.4% more than in the previous year. The quantity of goods transported by road is increasing, and in 2014 it amounted to 4,288 million tonne-kilometres, which is 10.4% more than in the previous year.

Transportation of goods by railway transport in 2015 decreased by 50 million tonne-kilometres, or 5.6% over the previous year, and is 835 million tonne-kilometres.

According to preliminary data of the Accounts of funds in health care system of the FBiH for 2015 of the Federal Insurance and Reinsurance Fund, the health sector FBiH registered a total of 31,282 employees, which is 0.1% more than in 2014. Of the total number of employees, the health care (public and private) facilities have 30,449 employees (97.33%) registered, and health insurance funds (federal and cantonal) 833 employees or 2.66% of total number of employees. Of the total number of employees in health care facilities, 27,854 employees work in public health care facilities, and 3,429 employees in private health care facilities. Of the total number of employees in public health care facilities, there are 22,526 workers of medical profession or 72.01%, 7,924 administrative, technical and other non-medical workers or 25.33%. The number of employees in health care facilities increased by 0.1%. In the health insurance funds, the number of workers decreased by 0.4%.

In 2015, in the FBiH, there were 204 medical doctors, 25 dentists and 14 pharmacists per 100,000 population which is the same as in the previous year.

The total generated funds in the health care system of FBiH (revenues from the compulsory health insurance and income outside the compulsory health insurance) in 2015 amounted to KM 1,681,472,387, of which reserve funds transferred from previous years amount to KM 20,502,376. Revenues from compulsory health insurance rose by 2.0%, while revenues

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<sup>6</sup>Tonne-kilometer means transport of one tonne over a distance of one kilometer.

outside the compulsory health insurance increased by 6.1%. Other revenues are significantly reduced which led to the growth of the total funds generated in the health sector by 0.3%.

Total capital in health care institutions in 2015 was reported in the amount of KM 662,985,136 and is decreased by 1.1% or KM 7,384,935 compared to the previous year. In the last five years, the value of capital is reducing every year because of losses that are covered by equity.

The financial result of the health care sector of the FBiH in 2015 indicates a loss in the amount of KM 24,422,534. The loss of the public sector in the reporting year amounts to KM 46,027,340.

In the period from 2008 to 2015, the total accumulated loss of the health care sector in the FBiH is KM 190,948,410. The total accumulated loss of public health care institutions and health insurance funds, in the same period, is KM 298,281,049.

The number of pensioners in the FBiH is increasing. The total number of pensioners in December 2015 was 402,044, which is 1.8% more than in the previous year. In the period 2010 – 2015 the number of pensioners is continuously growing at an average rate of 2%. The elderly population (65+) accounts for about 14.33% of the total population of the FBiH. In the reporting period, pensioners in the FBiH make up 17.22% of the total population.

In December 2015, the average pension amounted to KM 366.06, which is a marginal increase of 0.3% compared to December 2014. The minimum pension amounted to KM 326.17 and was maintained at the same level as in December 2014.

In December 2015, there were 483,340<sup>7</sup> registered insured people, which is a slight increase of 0.13% compared to 2014.

The ratio of the number of employed and the number of pensioners is still very unfavourable and alarming. In 2015, it was 1:1.2 which threatens the economic viability of the pension system.

The share of total pension payments in GDP in the FBiH in 2015 amounted to 9.82%<sup>8</sup> and is slightly less than in 2014 when it was 10.11%.

The total realized revenues<sup>9</sup> of the Pension-Disability Insurance (PIO) FBiH in 2015 are reported in the amount of KM 1,841,016,611 and are 2.78% higher than in the previous year. In the structure of revenues, the revenues from contributions account for KM 1,588,905,977 (86.3%), from transfers and subsidies from the budget of the FBiH Government KM 247,895,039 (13.5%) and other income KM 4,215,595 (0.23%).

Total expenditures and expenses<sup>10</sup> in the financial statements were stated in the amount of KM 1,876,630,190, an increase of 2.3% over the previous year. In the structure of expenditures and expenses, the costs of pension payments account for KM 1,597,454,433 or 85.1%, contributions for health insurance of pensioners KM 21,142,426 (1.1%), payment of

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<sup>7</sup>Data source Federal Institute for Pension and Disability Insurance (FZMIO / PIO), according to the records of the FBiH Tax Administration Single System, as at 31/12/2015.

<sup>8</sup> Source of data: Federal Office for Statistics, GDP calculation, Current prices, first results, Federal Institute for Pension and Disability Insurance (FZMIO/PIO), for the data of funds paid on the basis of pensions / FZZZPR calculation

<sup>9</sup> Data of the Federal Institute for Pension and Disability Insurance (FZMIO/PIO) for 2015

<sup>10</sup> Data of the Federal Institute for Pension and Disability Insurance (FZMIO/PIO) for 2015

compensation for bodily injury KM 2,125,496 (0.1%), expenses related to the payment of pensions KM 10,252,135 (0.5%), and capital expenditures KM 1,756,671 (0.1%).

By the end of 2015, the rights on the financing were granted to 46,647<sup>11</sup> people with (non-war) disability which is 5.5% more than in the previous year, and 133,230,192.27 KM from the federal budget was allocated for the financing of these rights in 2015. In the period 2009 – 2015, the number of people with (non-war) disability was falling at an average rate of 3.3%.

In 2015, in the Federation of BiH, there were 10,396 beneficiaries of the right based on the status of civilian victims of war, which is 2.3% less than in 2014. The average rate of change of these users, in the period 2009 – 2015, was -0.3%. In 2015, a total of KM 37.32 million was allocated for the financing of the rights of beneficiaries civil war victims, of which KM 26.42 million was allocated from the Federal budget, which is 70% of the allocations for this category, while the remaining 30% of funds in accordance with the Law on Principles of Social Protection, Protection of Civil Victims of War, and Protection of Families with Children, are provided in the relevant Cantonal budgets.

As at 31 December 2015, the total number of beneficiaries<sup>12</sup> of the rights under the Law on Rights of Veterans and Their Families was 89,313, of which 47,859 beneficiaries of personal disability allowance, and 41,454 beneficiaries of family disability allowance. Taking into consideration the beneficiaries who exercise rights under the Law on Fundamental Rights of Disabled Veterans and Families of the Killed Soldiers (2,035), the total average number of beneficiaries in 2015 was 91,348, which is 2.14% less than in 2014. For these purposes a total of KM 294.34 million was paid in the reporting period. In the period 2009 – 2015, the number of war disability beneficiaries was decreasing at an average rate of 1.8%. In December 2015, 91,151 users were recorded, and a total of KM 294.34 million was paid in 2015.

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<sup>11</sup> Data of the Federal Ministry of Labour and Social Policy

<sup>12</sup> Federal Ministry for the Issues of Veterans and Disabled Veterans of War, Overview of beneficiaries of the right to personal and family disability by cantons for 2015.