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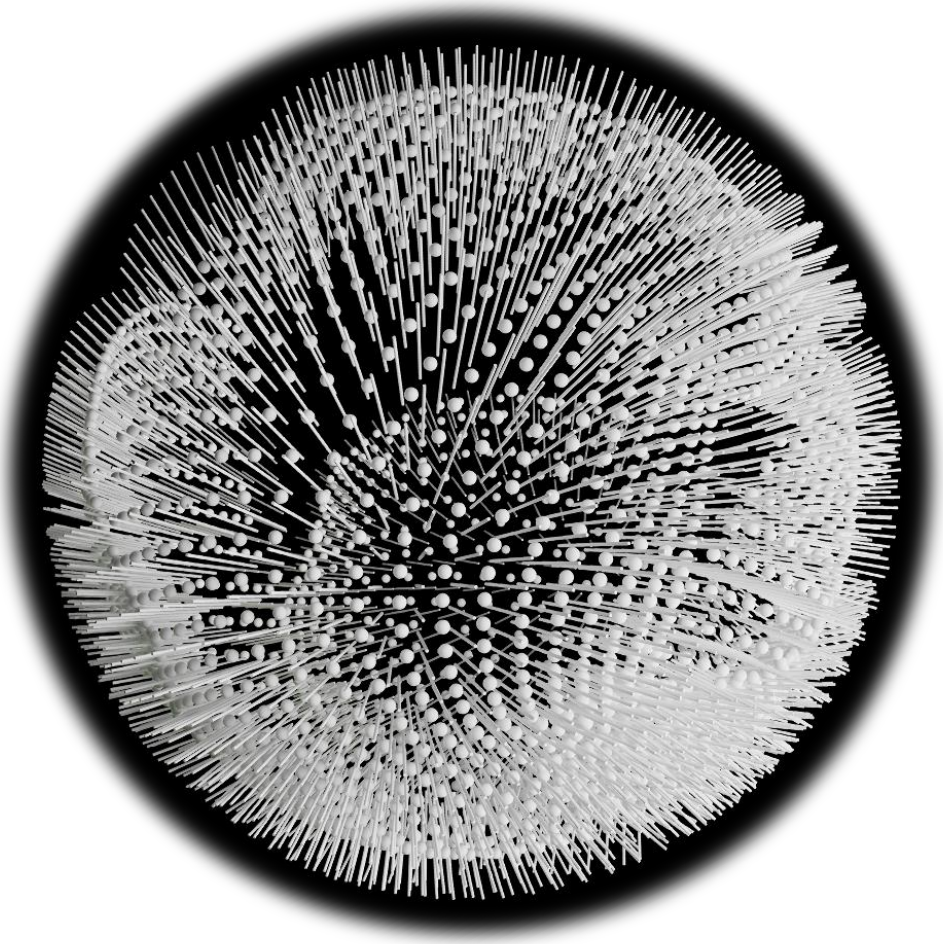

Guide for investing in Bosnia and Herzegovina

(plus Western Balkans comparatives)

April 2019

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1. Introduction: Bosnia and Herzegovina

Country profile

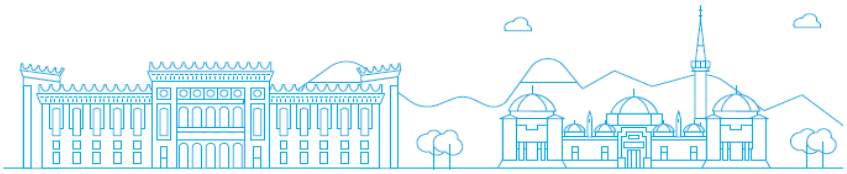
Bosnia and Herzegovina is a small country with a growing economy located in southeastern Europe and surrounded by Croatia, Montenegro and Serbia, with a short Adriatic coast.

Bosnia and Herzegovina consists of the Federation of Bosnia and Herzegovina (FBiH); Republika Srpska (RS); and Brčko District (BD). All three administrative units have mostly different legislation and tax rules, which should be taken into account when investing in the country.

The capital city and business center of the country is Sarajevo. With a very rich history, Sarajevo is one of the oldest cities in Europe and is one of the favorite destinations for tourists coming to the region. Some of the other important cities for businesses are Tuzla, Zenica, Banja Luka and Mostar.

The country is open to foreign investment and offers a liberal trade regime. It is also richly endowed with natural resources, providing potential opportunities in energy (hydro and thermal power plants), agriculture, timber, and tourism.

Today, Bosnia and Herzegovina is a democratic European country with a course towards the European Union, having the potential candidate status since 2013. The Stabilization and Association Agreement between BIH and the EU entered into force in June 2015. BIH is currently in the phase of answering follow up questions from EU and waiting for note whether it will be granted candidate status.



Bosnia and Herzegovina Fact book

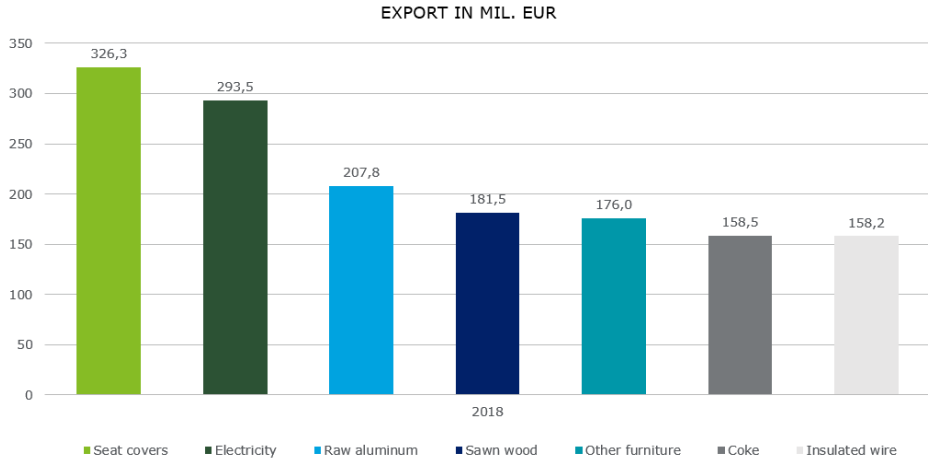
Official name:	Bosnia and Herzegovina
Form of state:	Democratic Republic
Government structure:	Federal Parliamentary Constitutional Republic
Area:	51,129 m^2
Population:	3.51 million
Official language:	Bosnian, Croatian, Serbian
Main religions:	Muslim, Roman Catholic Church, Orthodox Church
Other religions:	Jewish, Protestant
Currency:	Convertible mark - BAM (pegged to EUR – 1 EUR = 1.95583 BAM)
GDD, current prices (2018):	16.84 billion EUR
GDP per capita, current prices (2018):	4,808 EUR
Time zone:	Central European Time (GMT + 01:00)
Internet domain:	.ba
Capital City:	Sarajevo, with population of more than 356,000
Credit ratings:	**B** / positive outlook (**Standard&Poors**, March 2019) **B3** / stable outlook (**Moody`s**, February 2019)

Exports and Imports

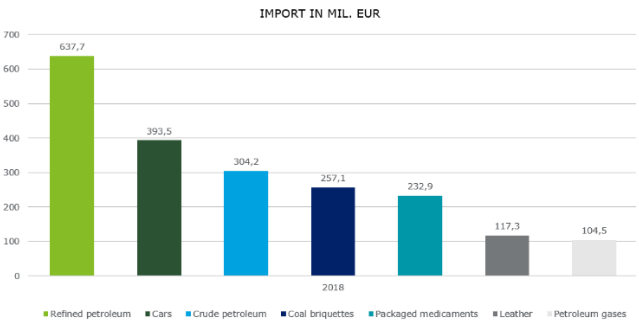
BiH is the 111th largest export economy in the world.
In 2018, BiH will mark estimated 3.2% GDP growth, primarily based on growth in manufacturing industry, trading sector, real estate and financial services.

The top exports of BiH are seat covers, electricity, raw aluminium, sawn wood, other furniture, coke, insulated wire, footwear, iron structures and vehicle parts. Its top imports are refined petroleum, cars, crude petroleum, coal briquettes, packaged medicaments, leather, and petroleum gases.

Export by Category



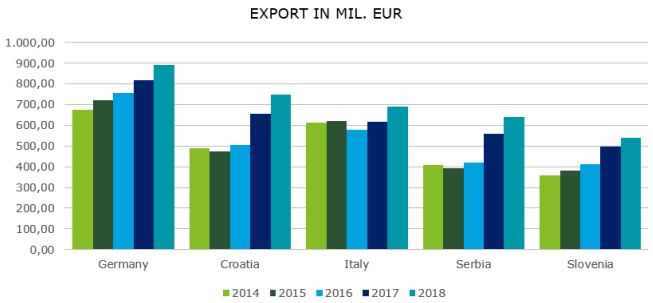
Import by Category



Foreign trade showed improvement as the value of exports in the 2018 was EUR 6.1 billion, which is 7.6% higher than in the 2017. Imports were at EUR 9.9 billion, an increase of 5.9% year-on-year. Consequently, the import coverage of exports now stands at 61.8%, which is slightly higher comparing to the previous year.

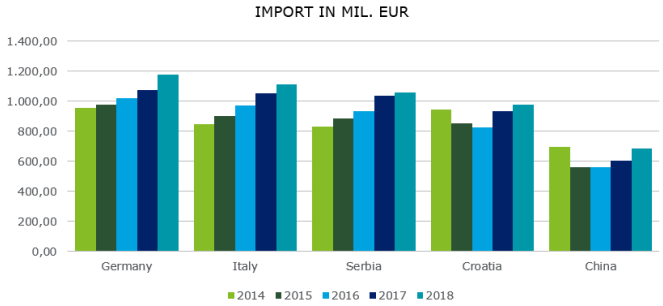
In 2018, BiH exported mostly to Germany (EUR 889.6 million), Croatia (EUR 746.5 million), Italy (EUR 690.2 million), Serbia (EUR 639.1 million), Slovenia (EUR 541.9 million), Austria (EUR 521.5 million), Montenegro (EUR 205.3 million), and Turkey (EUR 165.3 million).

Export by Country



In 2018, BiH imported mostly from Germany (EUR 1.18 billion), Italy (EUR 1.10 billion), Serbia (EUR 1.05 billion), Croatia (EUR 981.7 million), China (EUR 685.1 million), Slovenia (EUR 468.9 million), Russia (EUR 456.3 million), and Turkey (EUR 447.0 million).

Import by Country



Fiscal policy measures

In July 2015, the Council of Ministers of Bosnia and Herzegovina adopted the harmonized Reform Agenda for BiH for the period 2015-2018. The Reform Agenda foresaw the implementation of activities in the following areas: public finances, taxation and fiscal sustainability; the business climate and competitiveness; the labour market; social welfare and pension reform; rule of law and good governance; public administration reform. Reforms were performed to a limited extent.

The fiscal target of BiH remains a continuous increase in the primary surplus and control of public spending in a way that consolidated public spending at the level of BiH is below 40% of GDP. This target was confirmed at the session of the Fiscal Council of BiH, held on 3 July 2018, where the Global Fiscal Balance and Policy Framework for BiH was adopted for the period 2019-2021.

Following the Guidance for the Economic Reform Programmes, the relevant institutions in BiH have prepared the 2019-2021 Economic Reform Programme (ERP). The Economic Reform Programme contains a medium-term macroeconomic and fiscal policy framework, including the fiscal measures, as well as a comprehensive programme of structural reforms aimed at boosting the country's growth and competitiveness.

Changes in taxation policies that affect the indirect tax revenues from the flows of the corresponding macroeconomic indicators in the period 2019-2021 are the following: the continuation of the harmonization of excise duties on cigarettes with EU standards applicable from 1 July 2009 and amendments to the Law on Excise Duties applicable from 1 February 2018.

On the expenditure side, measures to limit current expenditure will continue (salaries and compensations) with the restriction of public sector employment. The intention is to improve the quality of public finances by the end of the observed period by increasing the fiscal space (surplus) to finance investments and the contribution of public finances to the function of growth.

In September 2016, BiH signed a three-year Extended Fund Facility with the IMF in the amount equivalent to about EUR 550 million in order to support the country's economic reform programme. This arrangement supports the BiH medium-term balance of payments needs. The availability of the IMF funds will allow maintaining capital spending, support policies to strengthen the economic potential and maintain macroeconomic stability.

Legal system

The civil, continental law system is applicable in BiH, as well as in other countries in the region. The Parliament is the supreme legislator and any representative, or a delegate, committee of the House, joint committee of both Houses, the Houses, as well as the BiH Presidency and the BiH Council of Ministers within the scope of their respective competencies are allowed to introduce the proposed draft law. All legal acts must first be in line with the Constitution of the BiH and the legal system. Every legal act (laws and by-laws) comes into force after publication in the Official Gazette of BiH. The legal system of BiH is also constituted by legal systems of entities, cantons and municipalities. Therefore, FBiH, RS and BD have a series of own laws and ingerences.

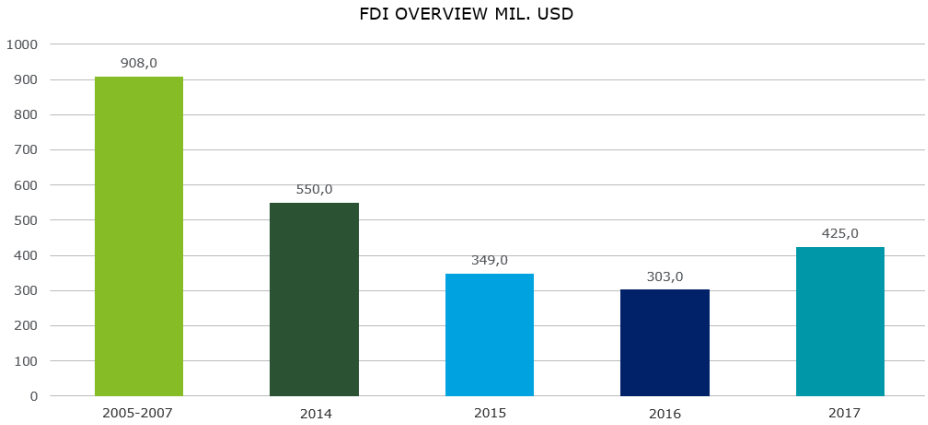
Along with state courts of general and special jurisdiction, disputes may be settled through alternative methods of dispute resolution, e.g. arbitration. Legal entities may opt for arbitration, providing an arbitration clause within the contracts. The Arbitration Court with the Foreign Trade Chamber of Bosnia and Herzegovina operates in Sarajevo. An arbitral award has the same legal validity and force as a court judgment and is therefore binding and enforceable. Furthermore, parties are free to decide on the language of arbitration and on the applicable procedural rules that will govern the proceedings and may also decide on the number and method for selecting the arbitrators, which particularly benefits disputes with a foreign element.

According to UNCTAD, in 2015 BiH attracted USD 349 million of FDIs, and in 2016 BiH attracted USD 303 million of FDIs.

In 2017, FDI inflows grew by 40 per cent, from USD 303 million to USD 425 million, due to a doubling of reinvested earnings (from USD 109 million to USD 221 million).

Foreign Direct Investment (FDIs)

FDI overview in millions USD



Based on data published in the Global Situation Trends Facts & Figures report in 2018, BiH is the number 3 country globally in jobs created per 1 million inhabitants. Therefore, expectations are that FDI levels will be increased in future period based on-going projects, new investment opportunities, intention of privatization of many strategic companies and interest of foreign investors for potential projects.

According to the Central Bank of BiH (CBBH) annual data, total amount of FDI in BiH until December 2017 was EUR 6.9 billion. Based on UNCTAD data about total registered foreign investment, BiH is ranked second in South East Europe.

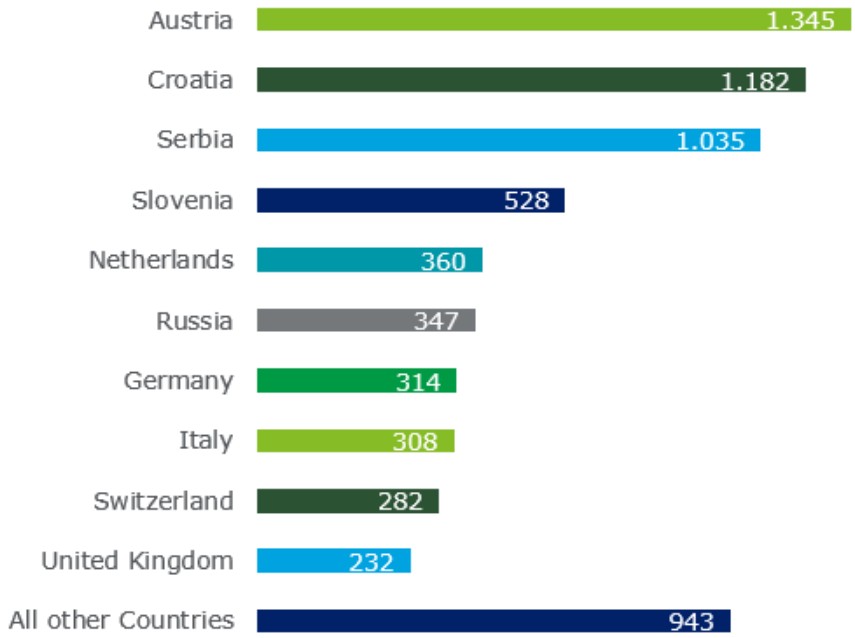
Direct foreign investments for 2017, amounted to EUR 397.6 million. Data for the period January - December 2017 indicate an increase in foreign investment by 28.8% in relation to the five-year average (2012-2016).

Based on preliminary data for the period January - September 2018, it is expected that foreign investment will keep a positive trend. FDI in the first three quarters of 2018 amounted EUR 342 million, with slight increase of 0.1% compared to the same period of 2017 or increase by 21.6% compared to the five years average (for the same period 2013-2017).

In the structure of FDI, for the period May 1994 until December 2017, equity and reinvested earnings were EUR 5.1 billion and other capital was EUR 1.8 billion.

According to the FDI Stock by countries, the largest share refers to Austria (EUR 1.3 billion), Croatia (EUR 1.2 billion), Serbia (EUR 1.0 billion) and Slovenia (EUR 528 million).

Top investor countries in BiH, May 1994 - December 2017 in million EUR

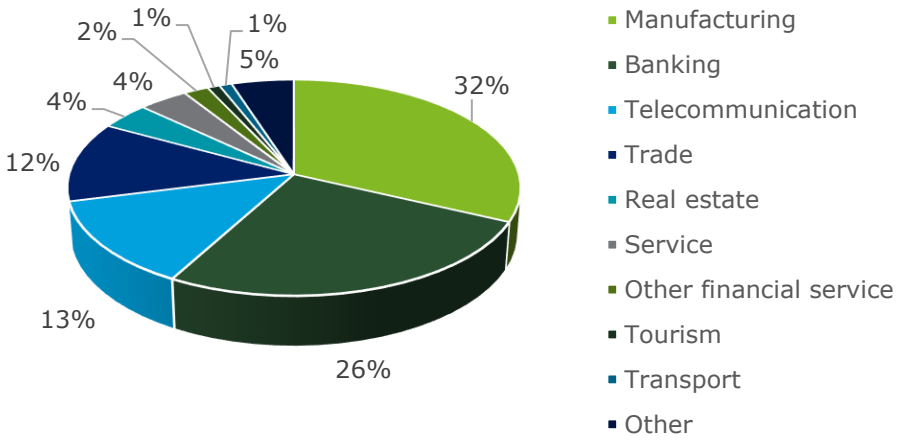


A list of leading foreign investors is topped by world-class companies and banks such as Arcelor Mittal, Asamer Baustoffe, Coca-Cola, Gazprom, Heidelberg Cement, Henkel, Intesa Sanpaolo, Lactalis, MANN+HUMMEL, Meggle, Natron-Hayat, PepsiCo, Raiffeisen, Sberbank, UniCredit, Veritas, Volkswagen, among others.

According to the World Bank Group report, ease of doing business index per BiH changed from 119 for year 2008 to 89 for year 2018, and shows slight improvement of business conditions. Nevertheless, important reforms are needed and lie ahead.

FDI by industries

Over the past twenty years, manufacturing and banking sectors have proven to be the most attractive to international investors. Due to the good reputation and long industrial tradition of BiH, the manufacturing sector realised highest level of FDI (32%). A significant share of investment has also been in banking sector (26%).



Key industries in BiH

Automotive industry - The Bosnian automotive industry is not only a traditional economic sector, but also the sector with a bright perspective due to highly-qualified workforce. For decades, major brands have relied on the skilled workforce of BiH to assemble cars or produce car parts for Western markets. Within the past ten years, this industry has experienced dynamic development, and has become strongly export-oriented, exporting in average 90% of their production, in 30 countries all around world.

Within the industry, the most important activities are textile and leather products, brake parts and systems, filters, aluminium wheels, steering parts and systems, pumps, automotive electric parts (signals, relays, electronic switches), engines and gears and their parts, high-quality metal precision parts, drive shafts and various small parts such as springs, screws, hoses, and components of metal, rubber or plastic.

Some of the largest investors in the automotive industry are:

- Cimos (Slovenia)
- Eubrowheels (Luxemburg)
- MANN+HUMMEL (Germany)
- Remus Innovation (Austria)
- Veritas (Germany)
- Volkswagen (Germany)
- Wagner (Switzerland)

Banking sector - Financial system is one of the most progressive sectors in BiH, and has made significant reforms during previous years. The banking system has a key role in stability of the financial system in BiH and harmonization with important frameworks such as EU directive and Basel convention. Commercial banks function without limitations on the entire territory of BiH, while regulation and supervision are organized on entity levels (FBiH and RS). Supervision of banking sector is under the jurisdiction of two entity banking agencies.

In March 2019, the Agency Standard & Poor's has confirmed sovereign credit rating on Bosnia and Herzegovina at “B with positive outlook”. The international rating agency Moody's Investors Service has announced in February 2019 that the credit rating of Bosnia and Herzegovina remains “B3 with stable outlook”.

Some of the largest investors in the banking sector industry are:

- Addiko (Austria)
- Intesa Sanpaolo (Italy)
- ProCredit (Germany)
- Raiffeisen (Austria)
- Sberbank (Russia)
- Steiermarkische Verwaltungssparkasse (Austria)
- UniCredit (Italy)
- Ziraat (Turkey)

Energy sector - BiH is the rare country in the region with a positive balance of electricity exports, and the eighth country in Europe in terms of hydro power - just over one third (37%) of the hydropower potential is being used.

Also, it is estimated that BiH has good potentials for energy production from renewable sources (wind, solar, biomass, and geothermal energy) in the Balkans, and they are 30% higher than the EU average. Moreover, BiH has more than six billion tonnes of coal reserves. After privatization of the Oil Industry in the Republika Srpska and revitalization of manufacturing plants, supply of petroleum products is partially done from domestic capacities, while natural gas is imported from Russia.

Some of the largest investors in the energy sector are:

- Alpiq (Switzerland)
- EFT (United Kingdom)
- Ezpada (Switzerland)
- Global Steel Holdings (Isle of Man)
- Messer (Germany)
- Zarubezhneft (Russia)

ICT industry - ICT is one of the fastest growing sectors in BiH. In recent years, young software developers have begun establishing their own start-ups, upgrading the digitalization process in BiH, and are now working side by side with large outsourced multinational companies. This has led to a tremendous growth in the ICT sector. The number of ICT companies and start-ups in BiH is growing rapidly, and according to BIT Alliance estimates, (an umbrella association for the software development industry), around 1,400 companies and about 2,500 to 3,500 programmers are now working in information-technology, communications, and computer programming. IT engineers from BiH, in terms of their knowledge, skills, experience and insight into modern trends, are frequently ahead of their colleagues in other European countries. The value of software industry is reflected in the fact that 60-70% of its labour in BiH constitute young people up to the age of 35.

Some of the key foreign investors in the ICT sector are:

- Asseco (Poland)
- Cisco (Netherlands)
- Combis (Croatia)
- Eighteenth Meridian (USA)
- Infobip (United Kingdom)
- Microsoft (USA)
- Oracle (Ireland)

Agriculture and food processing industry - Out of total area of 5,113 millions hectares of the country, 47% represents agriculture land. High availability of grassland and mountainous pastures suggests a potential advantage for production of livestock and dairy products. Orchards and vineyards cover approximately 100,000 hectares. The structural of agriculture is sector is characterised by small sized family farms, which to large extent produce for home consumption. Agricultural production in BiH is dominated by crop production, with livestock production representing less than one third of the total output. Slight increase of this share in recent years is due to the increase in cow milk production. The economically most important sub-sector of BiH agriculture is vegetables. Of considerable importance are also fresh cow milk, maize and potatoes.

Some of the largest foreign investors in the food industry are:

- Coca-Cola (USA)
- Zeraa Investments (UAE)
- Jamnica (Croatia)
- Kraš (Croatia)
- Lactalis (France)
- Ledo (Croatia)
- Meggle (Germany)
- Nestle (Switzerland)
- Pepsico (USA)
- Perutnina Ptuj (Slovenia)
- Swisslion (Serbia)

Textile industry - BiH has a long tradition and a good international reputation in textiles, clothing and footwear industry. Bosnian manufacturers and footwear producers used to sell their products to all continents. They used to sell cotton yarn, fabric textile, woven, confection, row and processed leather products. This sector is very diversified, with a large number of small producers in almost every municipality. With investment in equipment, this business field in BiH provides an extraordinary chance for dynamic development. There is a long tradition in this field; the labour costs are relatively low, and the country is close to the most important world textile markets. Textile industry employs cca 35,000 workers in Bosnia.

Some of the largest foreign investors in the textile industry are:

- Dević tekstil (Croatia)
- Franzoni (Luxembourg)
- Kavat (Sweden)
- Socksmaker (Italy)
- Tissa Textiles (Switzerland)

Wood and furniture industry - BiH is a country with the largest share of forest and the greatest diversity of forest types in the Western Balkans. The forests are one of the most important natural resources in the country. According to the latest data, forests and forestland in BiH encompass an area of 3,231,500 hectares, which represents 63% of the total area, with values that are among the highest in Europe. In terms of ownership, about 80% of forests are state-owned and 20% privately owned.

Some of the largest foreign investors in the wood and furniture sector are:

- Cotta Collection (Liechtenstein)
- FEN (Germany)
- Napco (Netherlands)

Metalwork industry - Thanks to BiH's natural endowment of mineral resources, metal processing sector has traditionally been one of the country's strongest ones. There is a longstanding tradition of metal processing in BiH, due to the country's richness in natural resources (in particular iron ore, bauxite, lead, zinc, copper).

The metal sector in Bosnia and Herzegovina have a natural competitive advantage mainly due to existing raw material resources, relatively low wages and skilled labour force.

Some of the largest investors in the metal sector are:

- ArcelorMittal (Switzerland)
- Cimos (Slovenia)
- Steelmin (United Kingdom)

2. Tax Framework

The following is a summary of the main tax categories existing in Bosnia and Herzegovina, i.e. in their three administrative units (FBiH, RS and BD) as single tax jurisdictions: CIT (corporate income tax) and PIT (personal income tax).

Each administrative unit is a single tax jurisdiction with their own legislative, executive and judicial competences. Therefore, in the following sections we will provide the most important direct tax data for each jurisdiction.

Corporate income tax

Corporate income tax (CIT): 10% flat

Personal income tax (PIT): 10% flat

Withholding tax (WHT): 10% general rate – 5% for dividends in FBiH

General provisions in FBiH, RS and BD

Pursuant to provisions of the Corporate Income Tax Laws (CIT Laws), resident companies in FBiH, RS and BD are subject to 10% corporate income tax (CIT) on their worldwide income.

A resident legal entity is an entity that is incorporated or has a place of effective management and control in the territory of FBiH, RS and BD.

CIT is also levied on profits of permanent establishments of non-resident legal entities in FBiH, RS and BD.

Taxable income is established based on accounting profit, determined in line with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS and IFRS) and local audit and accounting legislation, further adjusted for tax purposes.

Significant tax adjustments

Tax adjustments in FBiH

Non-documented costs are not tax deductible, as well as adjustments of individual claims from persons that are also creditors - up to the amount of that other claim, default interest, penalties and contractual fines between related parties, expenses that did not incur for performing business activities, penalty interest and expenses for proceedings of enforced collection of public revenues, court expenses related to proceedings in relation to public revenues, monetary fines imposed by a competent authority, accrued and paid corporate income tax, withholding tax accrued and paid at the expense of the taxpayer, disbursements to political parties, profit allocation and any allocation from equity.

Tax adjustments in RS

Non-documented costs are not tax deductible, as well as adjustments of individual claims from persons that are also creditors – up to the amount of that other claim, expenses that did not incur for performing business activities, default interest, monetary fines, contractual fines and penalties, expenses for proceedings of enforced collection of public revenues, gifts and disbursements to political parties, withholding tax accrued and paid at the expense of the taxpayer, losses determined in equity.

Tax adjustments in BD

Non-documented costs are not tax deductible, expenses that did not incur for performing business activities, default interest and penalties paid for breaching the law, donations to political parties, paid corporate income tax, losses in asset transactions with related parties, dividends paid to shareholders.

Marketing costs are tax deductible in all three-tax jurisdictions, whilst entertainment costs are deductible in the amount of 30% of incurred entertainment costs.

Depreciation rates in FBiH

For CIT purposes, deductible depreciation rates for long-term assets are presented in the below table by using the straight-line method.

Assets	Rates
a) buildings	5%
b) roads, utility buildings, railroads	10%
c) equipment, vehicles, plants	15%
d) equipment for water management, water supply and sewage systems	15%
e) hardware and software and environment protection equipment	33.3%
f) perennial plantations	15%
g) livestock units	40%
h) intangible assets	20%

If the purchase value of assets is lower than BAM 1,000, they can be deducted in total in the purchase year.

Depreciation rates in RS

For CIT purposes, fixed assets classified into the first group (immovable property and plants) are depreciated using the straight-line method and the depreciation rate of 3% and into the second group (intangible assets, except software) at rate of 10%, both applied on the purchase value.

A declining method is prescribed for fixed assets in other groups, and the rates used are 40% for computers, information systems, software and servers and 20% for equipment and other assets.

Depreciation rates in BD

Pursuant to tax provisions of BD, land and property, which value is not decreased by regular use and aging cannot be subject to depreciation.

Depreciation rates for machinery and equipment are 40% in the first year, 30% in the second year and 30% in the third year.

If the purchase value of assets is lower than BAM 1,000, they can be deducted in total in the purchase year.

Purchase value of hardware and software can be deducted in total in the purchase year.

Transfer pricing

Transfer pricing rules, in all three tax jurisdictions, are based heavily on the OECD Transfer Pricing Guidelines combined with certain domestic specifics.

Preparation of transfer pricing documentation is mandatory and should be available along with annual tax return.

Filing formalities and deadlines

The tax year is the calendar year. A taxpayer may opt for a tax year different than the calendar year, subject to an approval of the authorities.

Annual tax returns in RS and BD must be filed within 90 days from the end of the tax year. In the FBiH, annual tax returns must be filed within 30 days from the expiration of the deadline for filing of financial statements (i.e. deadline for filing financial statements is the end of February of the current year for the previous year).

Therefore, if the tax year is equal to the calendar year, the deadline for filing the annual tax returns will be the 31 March of the current year for the previous year in each tax jurisdiction.

The taxpayer must calculate the tax liability for the period declared in the tax return. Monthly tax advance payments are determined based on the previous year's annual tax return, i.e. tax liability.

Withholding taxes

The CIT Laws cover the taxation of income of nonresident legal entities paid by FBiH, RS and BD resident companies.

Therefore, the laws provide for taxation by way of withholding of income generated from dividends, royalties, interest, income from lease of movable and immovable property, insurance and reinsurance premiums, telecommunication services as well as income from services fees.

Pursuant to the CIT Laws, resident companies are obliged to calculate and pay withholding tax on every income subject to withholding tax paid to a nonresident entity.

Income	WHT rates		
	FBiH	RS	BD
Dividends	5%	10%	0%
Royalties	10%	10%	10%
Interest	10%	10%	10%
Lease of moveable property	10%	10%	10%
Lease of immovable property	10%	0%	0%
Insurance/reinsurance premiums	10%	10%	10%
Telecommunication services	10%	10%	0%
Other income (in a no DTT situation)	10%	10%	10%

The withholding tax rates can be lowered if Bosnia and Herzegovina has a Double Taxation Treaty (DTT) concluded with the country of residence of the income recipient.

In order to utilize the favorable tax rates provided by DTT's foreign entities - recipients of income have to be tax resident of the contracting state (and provide a Tax Residency Certificate) as well as beneficial owners of the income (and provide a beneficial owner statement).

Network of applicable DTT's

As of January 1, 2019, Bosnia and Herzegovina has 39 effective DTT's with the following countries:

Albania	Egypt	Kuwait	Slovakia
Algeria	Finland	N. Macedonia	Slovenia
Austria	France	Malaysia	Spain
Azerbaijan	Germany	Moldova	Serbia
Belgium	Greece	Netherlands	Sri Lanka
China	Hungary	Norway	Sweden
Croatia	Iran	Pakistan	Turkey

Cyprus	Ireland	Poland	United Arab Emirate
Czech Republic	Italy	Qatar	United Kingdom
Denmark	Jordan	Romania	

2.1 Value added tax

Taxable and exempt transactions

The VAT is levied at the state level and is applicable to the imports of goods into the territory of BIH as well as goods and services supply in the territory of BIH.

The standard VAT rate is 17%, and the VAT regime applies equally throughout the country of Bosnia and Herzegovina. There is no reduced VAT rate in BIH.

Value added tax (VAT): 17%

Taxable persons are all individuals and legal entities registered, or required to be registered for VAT. Any person making taxable supplies of goods and services that exceeds or is likely to exceed a threshold of 50,000 convertible mark or BAM (25,000 EUR) is required to register as a VAT payer. The export of goods is zero-rated.

Taxable transactions include the supply of goods and services in BI H by a taxable person, as well as the importation of goods to BIH by any person.

The following transactions are also taxable:

- Transactions for no consideration or for a consideration less than the market value.
- The private use of taxable goods by a taxable person (self-supply).

The following transactions are exempt from VAT in BIH (without the right to deduct input VAT):

- Banking, financing and insurance services.
- The leasing and subletting of residential houses, apartments, and residential premises for a period of longer than 60 days;
- The supply of immovable property, except for the first transfer of the ownership rights or the rights to dispose of newly constructed immovable property;
- Postal services except telecommunications services;
- Healthcare and educational services;
- Services in the field of sport and sports education;
- The supply of goods and services directly linked to religious services performed by recognized religious organizations,
- The cultural services, including tickets for cultural events, performed by persons whose activity is not focused on the acquisition of profit;

- The services of public radio and television bodies, other than those of a commercial nature;
- The services of education (pre-school, elementary school, secondary school education, education in schools of further education and universities), etc.

The following transactions are zero-rated (taxable at the zero rate of) VAT:

- Export of goods from BIH by or on behalf of the seller;
- The supply of services, including transport and other ancillary services, which is directly linked to the export or importation of goods;
- Goods exported from BIH by a purchaser, or by another in the purchaser's name, who has no established seat in BIH, except for goods intended to equip private boats, aircraft or any other means of transport used for private purposes;
- Services performed on goods imported into BIH and exported by the persons who performed such services to the person who has no fixed seat and does not have a permanent or habitual residence in BIH;
- Services of supply of goods to authorised organisations which export them within registered humanitarian or charitable activities, etc.

Place of supply of goods and services, VAT representative and the moment of triggering VAT liability

Place of supply of goods

The place of supply of goods may be determined according to:

- The place where the good is located at the moment of dispatch;
- The place of installation or assembly of goods by the supplier;
- The place at which goods are situated at the moment of delivery, if the goods are delivered without transport;
- The place where goods enter the customs territory of BIH.

Place of supply of services

Generally, services are taxable in the jurisdiction of the service provider. The service provider calculates and states 17% of VAT on the total value of services charged to the nonresident, which in turn is not recoverable for the nonresident.

The VAT Law also prescribes the following exemptions to this general rule, the place where such supply of services is performed shall also be treated as being in BIH when it is the place where:

- Supply of services related to real estate, including also intermediation services in real estate transactions - the place of

supply of services is deemed to be the place where the property is located;
- Transport of people - the place of supply is deemed to be the place where transport is carried out;
- Transport of goods which is supplied to a consumer – the place of supply is deemed to be the place where transport is carried out;
- Supply of certain services regarding which the place of supply is deemed to be the place where services are actually rendered (such as ancillary services related to transportation, services regarding valuation of movable property, etc.).

As the exception to the general rule, in accordance with VAT Law of the BiH, the place of taxation is the country of service recipient for certain types of services. The important condition is that the services must be taxable in the country of the recipient (i.e. they do not fall under exempted supplies).

The table below summarizes the services that are deemed to have taken place in the country of the recipient, i.e. the BiH VAT is not triggered.

Place of supply of services (in the country of the recipient)
a) Rights to use of patents, copyrights, licenses, trademarks and other rights of intellectual property
b) Advertising services
c) The services of consultants, engineers, lawyers, auditors, accountants, interpreters, collecting and processing of data*
d) Assumption of the responsibility to fully or partially terminate performance of an activity or exercising of a right
e) Banking, financial and insurance services
f) Placing of staff at someone's disposal
g) Telecommunication and broadcasting services
h) Rental of movable assets, except for means of transportation
i) Mediation/intermediary services for the above listed services

Triggering VAT liability

VAT liability is triggered on the day the supply took place, or on the date an advance payment was made/received (even partial), whichever occurs first. The date of issuing an invoice also trigger the VAT liability. With respect to imports, the VAT liability is triggered at the moment when the customs duty becomes due.

Requirements for claiming input VAT

The right to deduct input VAT may be used if the purchased goods (including equipment or buildings for performing a business activity), or the acquired services, are used by the VAT payer for providing VAT-able supplies of goods and services, or for making supplies which are zero-rated. Input VAT paid can also be deducted for a supply that takes place abroad, if such supply would have entailed the right to input VAT deduction if it was rendered in BiH.

The right to input VAT deduction can be used if the VAT payer has an invoice issued by another VAT payer in which the amount of input VAT is stated or a document on importation of goods and confirmation that the respective import VAT has been paid. The VAT payer may use input VAT to offset its output VAT liability. This right may be exercised within five years from the end of the year in which the right to use input VAT was acquired.

VAT representative

Payers with no registered office in BiH that perform trade of goods and services in BIH are obligated to register through the tax representative with registered office in BIH, whereby the taxpayer and tax representative are jointly and individually responsible for VAT in BiH. Firms like Deloitte frequently act as VAT representative of foreign companies.

Special scheme for construction

The special scheme for construction is applied in cases when the obligation to pay VAT on trade of goods and services in relation to construction of immovable assets is transferred from the first subcontractor to the main contractor. When construction works involve services and material, special construction VAT scheme between the general contractor and their sub-contractors apply.

Terms of existence of the special scheme for construction

The special scheme for construction exists only if following two conditions are met cumulatively:

- Simultaneous turnover of goods and services and,
- Turnover is created between the main contractor and his first subcontractor.

Special scheme for construction

The special scheme is related to construction works, which include:

- Demolition services,
- Services on buildings,
- Services on all buildings built from construction material, build on land or in land, or alternative services performed on objects using construction equipment (i.e. tunnels, bridges, streets),
- Installation of windows and doors, floor installations (covering), elevators, escalators, and heating systems
- Installation of elements for buildings or other objects (restaurants, shops, window frames),
- Installation of lighting systems,
- Cleaning that changes the surface (e.g.: sandblasting),

whose total value (not individual provided by the cooperant) exceeds the amount of BAM 25,000.00.

Participants of the special scheme for construction

The participants of the special scheme for construction are the **subcontractor** and **contractor**, who are jointly and independently responsible for paying VAT, until the evidence that the invoiced VAT amount is paid to ITA is received.

Deadline for filing of the Report on special scheme for construction

The legal deadline for filing of the Report on the special scheme for construction to the ITA is 10th of the current month for the previous month.

Deadline for paying the VAT liability under the special scheme for construction

The deadline for paying the VAT liability under the special scheme for construction is 10th of current month for the previous month, ie the deadline for filing the VAT return.

Filing formalities and deadlines

VAT registration is obligatory for companies whose annual supply of goods and services subject to VAT exceeds or will exceed BAM 50.000 turnover threshold set for mandatory registration, in the last 12-month period. It is necessary to submit the Request for registration into the competent VAT registry.

The request is accompanied by the following documents:

- Certified copy of the registration into the court registry;
- Certified copy of the certificate of registration from the Tax Administration of FBIH;
- Statement about the goods to be imported or exported by the firm;
- Statement about the feasibility of estimated turnover and a the evidence on the realization of the same in terms of concluded business contracts;
- Passport of the owner and the responsible person – foreign citizen;
- Copy of the contract of the lease of business premises for the company seat or evidence of the ownership registered in the land registry;
- Certified copy of the card of deposited signatures from the bank in which the transaction account is opened;
- Certified copy of the notification of the Bureau for Statistics;
- Personal ID number for the responsible accountant
- Certified copy of the card of deposited signatures from the bank in which the transaction account is opened.

VAT returns and payments are due by the end of the current month for the prior VAT period and must be submitted until the 10th of the current month for the previous month. The VAT payer is obliged to file the VAT return

regardless of whether any VAT-able supplies were made within the tax period.

From January 2019, it is mandatory for all taxpayers to submit the VAT return to the Indirect Taxation Authority of BIH in electronic form.

Excise Duties

Excises are applicable on commodities and goods like oil products, tobacco products, soft drinks, alcoholic drinks, beer, wine and coffee.

The subject of taxation is the trade of excise products that are manufactured in BIH, when the manufacturer trades with them for the first time and / or during the import of excise products in Bosnia and Herzegovina.

Commodity	Rate
Oil products (per litre)	BAM 0.30 – 0.40
Non-alcoholic drinks (per litre)	BAM 0.10
Drinks-beer, wine (per litre)	BAM 0.20 - 0.25
Alcoholic drinks and Ethyl alcohol (per litre)	BAM 8.00 – 15.00
Coffee (per kilo)	Roasted coffee (per kilo) BAM 3.00 Other coffee products BAM 3.50
Cigarettes and tobacco products	The proportional excise tax at the rate of 42% of the retail selling price of cigarettes; The specific (fixed) excise tax in the amount of 1.65 BAM for a pack of 20 pieces of cigarettes Other tobacco products: BAM 114.40 per kilogram.

Custom Duties

Custom duties in BIH are regulated by the Customs Tariff Law. Indirect Taxation Authority is responsible for the collection of all customs duties.

Import customs rates attributed to BIH according to the customs tariffs are: 0%, 5%, 10%, and 15%.

The reduced import custom duty rates apply only to the goods that are imported from EU. Customs duties exemption is applicable on equipment imported as part of share capital. No exemptions apply on passenger vehicles, slot and gambling machines.

Indirect Taxation Authority

The institution competent for the implementation of the legislation and indirect taxation policy, as well as for the collection and allocation of indirect tax revenues is the Indirect Tax Authority of BIH (ITA).

Indirect tax revenue collection in 2018

The record amount of indirect tax revenues was collected in 2018 and the rate of growth reached 8,6%.

The biggest positive net effects in 2018 were realized in the VAT collection (263 million BAM), then road taxes (238,2 million BAM) and customs duties (17,5 million BAM), while excise tax was charged less for 19,6 million BAM.

An increase in net VAT collection was achieved above expectations in 2018. Gross collection grew at a rate of 6,6%. The gross collection structure shows a positive trend in the collection of VAT on imports and domestic VAT in the most part of 2018, which ultimately brought growth of VAT on imports of 7,5% and domestic VAT of 5,1% compared to 2017.

2.2 Personal income tax

Taxation of employment income

Employment income include all kinds of remuneration earned from all types of employment. Salaries and other income from employment are subject to a withholding tax at the flat rate of 10%.

There is a non-taxable monthly allowance amount of 300 BAM (approx. 150 EUR) in FBiH and BD. The non-taxable monthly allowance in RS amounts 600 BAM (approx. 300 EUR).

The tax is withheld by the employer on the gross income (including the amount of social security contributions payable by the employer on behalf of the employee).

The social security contributions are levied as follows per tax jurisdiction:

Social security contributions in FBiH	Employee's burden	Employer's burden
Pension and disability insurance	17.00%	6.00%
Health insurance	12.50%	4.00%
Unemployment insurance	1.50%	0.50%
Total	**31.00%**	**10.50%**
Social security contributions in RS	**Employee's burden**	**Employer's burden**
Pension and disability insurance	18.50%	/
Health insurance	12.00%	/
Unemployment insurance	0.80%	/
Child protection	1.70%	/
Total	**33.00%**	**/**
Social security contributions in BD	**Employee's burden**	**Employer's burden**
Pension and disability insurance	Employee opts for the FBiH or RS pension insurance fund	6.00% if employee opts for FBiH pension insurance fund
Heath insurance	12.00%	/
Unemployment insurance	1,50%	/

Certain payments are exempt from personal income tax up to the limit provided for by the law, such as reimbursements for commuting costs, daily allowances for business trips and support in the case of illness.

Dividends are exempt from personal income tax in FBiH and BD, whilst they are considered taxable income in RS.

Meal allowance is considered non-taxable in the FBiH up to 1% of the average net salary paid in the FBiH per day at work, whilst meal allowance paid in cash to employees in RS and BD is subject to personal income tax.

Taxation of benefits in kind provided to employees

Benefits in kind are taxed as employment income.

Benefits in kind include use of business vehicle and other means for personal purposes, accommodation, meals and other goods and services free of charge or below market prices, interest free loans or loans with interest rate below market rate, reimbursement of personal expenses form employer, reimbursement or write-off of debt.

Tax residents

An individual is deemed to be a tax resident if they have a registered domicile (address) in FBiH, RS or BD. An individual is also deemed to be a resident if they stay in FBiH, RS or BD for at least 183 days within any 12-month period.

In addition to the above conditions, an individual is deemed to be a tax resident in RS if they have a permanent place of residence and center of vital interest in RS. The condition for having a center of vital interest is fulfilled if the individual owns a real estate in RS, which market value exceeds BAM 300.000 (approx. EUR 150.000) or has shares in a company in RS, which value exceeds BAM 100.000 (approx. EUR 50.000) or is married/in partnership with a citizen of RS/BiH or performs employment based on a work permit.

Taxation of foreigners

Expatriate employees that has an employment contract with a resident legal entity/branch/representative office are taxed as local employees.

A different mechanism of income reporting and payment of tax is applied for expatriates that receive income from abroad.

Nonresident individuals

Nonresidents are subject to personal income tax only on income derived from sources in FBiH, RS or BD. If not otherwise indicated, nonresident individuals are subject to personal income tax according to the same rules as resident taxpayers unless a tax treaty exists and stipulates differently.

Filing formalities and deadlines

Taxes and social security contributions are withheld by the payer of such income at the event of payment.

The deadline for filing the annual income tax return is the 31 March of the current year for the previous year in FBiH and RS and the end of February of the current year for the previous year in BD. Resident, as well as nonresident individuals are required to file an annual **tax return** if they have realized income from more than one source or from abroad as well as in other situations stipulated by the law.

2.3 Tax incentives

Federation of Bosnia and Herzegovina

Investment	Incentive
1. Investing into production equipment from own funds more than 50% of the achieved profit of the ongoing tax period	30% of corporate income tax for the investment year
2. Investing from own funds, in the period of five consequent years, a minimum of 20 million BAM but 4 million BAM during the first year	50% of corporate income tax for the investment years
3. New hired employees	*twice the amount of employees gross salary*

1) Investing in production equipment encompasses purchase of fixed assets: plant and equipment, which a taxpayer buys using own funds for the purpose of performing production operations, with the exception of passenger vehicles.

2) Investing in fixed assets: property, plant and equipment, which a taxpayer will use for performing production operations, with the exception of housing units and passenger vehicles.

3) Hiring of new employees for the period of at least 12 months of full-time employment under an employment contract provided the newly hired employee has not been employed by the taxpayer or a related person in the previous five years.

A taxpayer loses the right to tax incentives from above points 1. and 2. if they:

a) pay dividend from the profit that is exempt from corporate income tax, during and up to the third year from the last year of using the tax incentives;

b) do not reach the census for investing 20 million BAM during five consecutive years;

c) carries forward tax losses to the expiry of the second year after the last year of using tax incentives.

Should the taxpayer lose the right to tax incentives, they would be obliged to calculate and pay the difference to the actual corporate income tax liability as if there were no tax incentives including penalty interest. The taxpayer can use one of the tax incentives under point 1. or 2. in one tax period.

Republika Srpska

Investment	Incentive
Investing into equipment, plants and immovable property for performing the registered production activity more than 50% of the achieved profit of the ongoing tax period	30% of corporate income tax for the investment year

Equipment and plants are considered equipment and plants that are directly used for production and processing. Immovable property relates to new construction objects and land directly used for production and processing. The taxpayer losses the right to this tax incentive if they sell or give away the equipment, plants or immovable property before the expiration of a three year period as of putting them into use. In such case, the taxpayer would be obliged to calculate and pay the difference to the actual corporate income tax liability as if there were no tax incentive including penalty interest.

Brčko Distrikt

Investment	Incentive
1. Investing into land, construction objects, plants and equipment (machinery), furniture and means of transport for performing their own registered activity	for the amount of investment, but not exceeding 50% of corporate income tax for the investment year
2. Investing into land and construction objects for performing their own registered production activity, plants and equipment (machinery) used directly in production and processing	for the amount of investment in the investment year
3. Hiring new employees for indefinite period	the amount of employees gross salary
4. Export	twice the proportion of revenue realized from export in the total revenue

Means of transport from the incentive under point 1. do not relate to passenger vehicles, except vehicles for taxi services, rent-a-car, driver instructions and special passenger vehicles with equipment for disabled persons; furniture except for furnishing hotels, motels and restaurants.

The amount of tax incentive is the purchase price of invested goods in the investment year.

The taxpayer losses the right to this tax incentive if they sell the assets before the expiration of a five-year period. In such case, the taxpayer is obliged to report the sale of assets to the tax authority within 30 days as of sale.

Tax losses

Tax losses generated from business activities may be carried forward for up to five years and used to offset taxable income.

2.4 Free zones

Free zones are a fenced and marked part of BIH territory where business activities are performed with a preferential customs treatment, tax relief and simplified administrative procedures.

There are currently 4 free zones established in BIH:

"Visoko" d.o.o. - Visoko, "Vogošća" d.o.o. - Vogošća, "Hercegovina" d.o.o. - Mostar i "Holc" d.o.o. – Puračić (near Lukavac).

The following are the fiscal benefits of a free zone:

- Entry of goods into the free zone, as well as transport and other services which are directly related to the entry of goods are zero-rated for VAT purposes;
- Supply of goods and services within the free zone is zero-rated for VAT purposes;
- Exemption from payment of customs and other import duties for goods intended for carrying out activities and construction of facilities in the free zone (raw materials, equipment, construction materials);
- Within free zones, exemption from certain local fees and taxes is also available (local municipality incentives).

2.5 Free trade agreements

European Union - Exports to the EU market are free-of-customs according to the Stabilization and Association Agreement. For several food products export quantities are limited by annual quotas.

Imports from the EU are performed based on the Interim Trade Agreement, as part of the Stabilization and Association Agreement, providing for the

abolishment of import customs duties for industrial and certain agricultural products from EU countries.

CEFTA - The Central European Free Trade Agreement (CEFTA) is the trade agreement between the following countries in South East Europe: Albania, Bosnia and Herzegovina, N. Macedonia, Moldova, Montenegro, Serbia, and the United Nations Interim Administration Mission in Kosovo (UNMIK). The Agreement has been in effect as of November 2007, providing companies in Bosnia and Herzegovina with an opportunity to reach the 22 million people market free of customs duties.

Turkey – Free trade agreement between the Republic of Turkey and Bosnia and Herzegovina came into force in 2003. Based on this agreement, industrial products and agricultural products (except for certain products as defined within the agreement) originating in Bosnia and Herzegovina can be exported to Turkey without paying customs duties. Bosnia and Herzegovina committed to abolished progressively customs duties for products originating from Turkey.

EFTA - Industrial products, processed agricultural products and fish exported from Bosnia and Herzegovina to European Free Trade Agreement (EFTA) member states (Switzerland, Norway, Iceland, and Liechtenstein) are exempt from customs duties. Bosnia and Herzegovina committed to reduce their customs duties on products from EFTA in a certain transitional period.

Trade in agricultural products is regulated by separate agreements with each of EFTA members, providing for mutual concessions for specified products.

Iran - Preferential trade agreement between the Islamic Republic of Iran and Bosnia and Herzegovina came into force in 2009.

The trade agreement established a preferential trade arrangement between the contracting parties. Preferential arrangements were made for the products listed in the annexes, which are subject to customs duties, fees and charges with equivalent effect in accordance with the countries' national legislations (at the rates specified by national customs tariffs).

3. Legal framework

3.1 Foreign investment policy

Pursuant to the Foreign Investment Policy Act, a foreign investor has a right to invest and reinvest profit from such investment in any and all sectors of business in Bosnia and Herzegovina and in the same form and under the same conditions defined for residents of Bosnia and Herzegovina and applicable laws and regulations of Bosnia and Herzegovina and the entities.

Restrictions apply when related to acquisition of shares in a company dealing with production and sale of weapons, ammunition, and explosive for military purpose, military equipment and media activities.

3.2 Company incorporation

Pursuant to applicable provisions, foreign investors can incorporate the following type of companies:

1. Joint Stock Company ("JSC")
2. Limited liability company ("LLC")
3. Unlimited liability company
4. Limited partnership

In practice, foreign investors commonly incorporate limited liability companies due to the simplicity of its form, low founding capital and relatively simple incorporation process.

A limited liability company can be incorporated by one or more physical or legal persons, who are considered founders and later on members of the company. Incorporation capital of the company consists of stakes of the founders, which have shares proportional to their stakes. A company member is responsible for the obligations of the company up to the amount of its share. The company is liable for its own obligations.

The business of the company, rights and responsibilities of the members, organization, rules on incorporation capital, changes and other questions are defined through the Articles of Association of the company in the manner, which cannot be contrary to the law.

Pursuant to applicable provisions, the monetary share in a limited liability company cannot be below 1.000,00 BAM (approximately EUR 500) in FBiH and 1 BAM (approximately 0,5 EUR) in RS. The incorporation capital in BD is 2.000 BAM (approximately 1.000 EUR).

The contributions can also be in rights and property. The founding capital can be increased and reduced but not below the legal minimum.

A JSC (d.d. or a.d.) is a company of which the capital is divided into stocks and can be incorporated by one or more legal or natural persons.

The business, rights and responsibilities of members, organizations, and rules on incorporation capital, changes and other issues are defined by the Articles of Association of the company in the manner, which cannot be contrary to the law.

There are two types of JSCs in FBiH and RS, open and closed.

The minimum incorporation capital of a JSC in FBiH is 50.000 BAM (approximately 25.564 EUR), in RS 20.000 BAM (approximately 10.225 EUR) for a closed and 50.000 BAM (approximately 25.564 EUR) for an open JSC.

The stocks of closed JSCs cannot be publicly traded and have a limited number of members which are defined by law.

Stocks of open JSCs can be publicly traded.

Pursuant to FBiH regulations, an open JSC must fulfill one of the following criteria:

- Is a bank or insurance company
- The minimal incorporation capital is 4.000.000 BAM (approximately 2.045.167 EUR) and has a minimum of 40 founders

For both, privately and publicly offered JSCs, the nominal stock value is at least EUR 0.5.

On the territory of BD, the basic capital of the JSC, according to the Law on Companies of Brčko District, is minimum 15.000 BAM (approximately EUR 7,670) and the minimal nominal stock value is EUR0 50.

Management

A LLC has an assembly consisted of all members of the company and a director. The total amount of paid capital is represented with 100 votes and every member of the company has a number of votes proportional to its share. The decisions are made through simple majority excerpt for cases regulated by the Articles of Association and law.

Mandatory bodies

The mandatory bodies of a JSC are:

- Shareholders' Assembly
- Supervisory Board
- Management
- Audit Board
- Representative Offices and Branches of foreign legal entities

Foreign persons have the right to establish a representative office in BiH for performing market research, informative and promotional activities and for its own representation. The representative office does not have the status of

a legal entity, meaning that the representative office may not conclude business deals in the name of the head company.

There are some exceptions to this rule in transportation business. The representative office becomes operational after registration in the Register of Foreign Representative Offices kept by the Ministry of Foreign Trade and Economic Relation BiH.

Foreign companies can establish a branch office both in RS and FBiH.

Branch offices have no capacity of a legal entity, business with third parties is performed in the name and on behalf of foreign legal entity which gains rights and obligations through activities of the branch office. The branch office cannot perform foreign trade.

3.3 Accounting and auditing

Pursuant to the Accounting and Auditing Act of FBiH, RS, and BD, legal entities are divided into small, medium and large.

The criteria are as follows:

1. average number of employees during the business year;
2. value of property; and
3. level of income

In order to be qualified as a small, a legal entity must meet at least two of the following conditions:

- average number of employees is less than 50;
- average value of business property at the end of the business year is less than 1,000,000.00 BAM (1,400,000.00 BAM for BD);
- total annual income is less than 2,000,000.00 BAM (2,800,000.00 BAM for BD)

Medium legal entities are the ones, which on the day of creation of financial statements meet at least two of the following conditions:

- average number of employees during the year is between 50 and 250;
- average value of business property at the end of the business year amounts to between 1,000,000.00 BAM and 4,000,000.00 BAM (5,500,000.00 BAM for BD);
- total annual income amounts to between 2,000,000.00 BAM and 8,000,000.00 BAM (11,000,000.00 BAM for BD).

Medium legal entities are also the ones of which the value are larger than the maximum specified amount of one of the above criteria.

Large legal entities are the ones, which exceed the maximum values of at least two of the above-specified criteria. Apart from the aforementioned, large legal entities are also banks, micro credit organizations, and savings-credit organizations, insurance companies, leasing companies, investment

fund management companies, mandatory or voluntary pension fund management companies, brokerage-dealing companies and other financial organizations.

Medium and large legal entities in FBiH are obliged to compose and present semi-annual financial statements.

Audit is mandatory for financial reports and consolidated financial reports of legal entities qualified as medium or large, and financial reports of legal entities of which the securities are traded or prepared to be emitted in an organized securities market, as well as entities of special interest to the state.

3.4 Labor legislation

Pursuant to the Labor Act of FBiH, an Employment Agreement can be concluded on finite and indefinite period.

The aforementioned is also the case for RS and BD. An employment contract that does not specify any duration is considered as a contract of indefinite time. Further, a contract with finite period cannot be concluded for a period longer than 3 years in FBiH and 2 years in RS and BD.

The termination notice period cannot be shorter than 7 days in cases when an employee terminates the employment contract and 14 days for the employer. If an employee agrees to the employer's request to end the employees work before the expiration of the notice period, the employee shall be entitled to a salary compensation from the employer and all other rights as if he/she worked until the expiration date of the notice period.

Pursuant to the Labor Act of FBiH, RS, and BD, it is not mandatory to conclude an employment relationship with the company since the engagement can be regulated through a Management Agreement.

3.5 Employment of foreigners

Visas

Foreign citizens have the right to enter the boarders of BiH with or without visa, depending on their nationality. A list of all countries that are not required a BiH entry visa can be found on the webpage of the Ministry of Security.

Residence Permits

Foreign nationals with an entry visa have the right to stay in BiH territory for the period stated in the visa.

Foreign nationals who are exempt from the visa requirement are allowed to stay in the country for a period no longer than 90 days within the period of 6 months following their first entry.

A foreign national is obliged to register their residence with the Service for Foreigner's Affairs-field offices. A foreign citizen who is applying for a temporary residence permit for the first time must file the application to the Service for Foreigner's Affairs of BiH.

Work Permits

A foreign national who is seeking to work in BiH must have a work permit and residency permit except for cases specifically regulated by applicable provisions. The work permit is issued by the competent Employment Service regional offices responsible for the region where the employer has a registered seat.

The employer is obligated to submit an application for a work permit on behalf of a foreign worker. The work permit is issued to a specific person for a specific job, for a specific employer and for a specific period of time. The work permit is considered expired when employment ceases. Usually, the work permit is valid for a year, but it can be extended.

The employment cannot commence before a residence permit is issued based on the work permit.

The requirement for a work permit is disregarded when it comes to:

- high qualified employment,
- inter-corporate transfer,
- scientific research, or
- work with confirmation on work (which cannot last longer than 90 days and includes i.e. key persons in legal entities)

4. Addendum: Western Balkans Comparatives

4.1 Labor Law

We present below a high-level overview of regulation in the Western Balkan countries related to labor law.

	Duration of fixed (definite) term employment	Trial period	Notice period (employee/employer)
BiH - FBiH	3 years	6 months	Minimum 7/14 days Maximum 1 month
BiH - RS	2 years	3 months	Minimum 15/30 days
BiH – BD BiH	2 years	6/12 months	14 days
Albania	Not defined	3 months	14 days for 6 months of work 1 month for 2 years of work 2 months for 5 years of work 3 months for more than 5 years of work
Serbia	2 years	6 months	Minimum 8 days Maximum 30 days
Croatia	3 years	6 months	Min. 2 weeks for less than 1 year of work* Min. 1 month for 1 year of work* Min. 1 month and 2 weeks for 2 years of work* Min. 2 months for 5 years of work* Min. 2 months and 2 weeks for 10 years of work* Min. 3 months for 20 years of work* **at same employer*
Slovenia	2 years	6 months	From 15 to 80 days
Kosovo	10 years	6 months	30 days for employment lasting between 6 months and 2 years 45 days for employment lasting between 2 and 10 years 60 days for employment lasting over 10 years
North Macedonia	5 years	4 months	1 month in case of employee termination or maximum 3 months if agreed by employment/collective agreement 1 month if the employer terminates the employment contract of an individual worker or a smaller number of workers 2 months if the employer terminates the employment contract of more than 150 workers or 5% of the total number of employees
Montenegro	2 years	6 months	Minimum 30 days.

Bosnia and Herzegovina („BiH")

Federation of Bosnia and Herzegovina („FBiH")

Workers enter into employment by concluding an Employment Agreement under the Labor Law of the Federation of Bosnia and Herzegovina ("FBiH Labor Law").

The Employment Agreement is terminated by:

- the death of the worker,
- by the mutual agreement between the employer and the worker,
- when a worker reaches the age of 65 and 20 years of insured service (unless the employer and the employee otherwise agree),
- when the records indicate that the employee's employment relationship lasts 40 years (unless the employer and the employee otherwise agree),
- on the day of delivery of the final decision on recognition of the right to disability due to loss of working ability,
- by termination of Employment Agreement,
- by the expiration of the time when a fixed-term Employment Agreement was concluded,
- if the employee is sentenced to serve a prison sentence of more than three months – on the day of entry to serve the sentence,
- a safety measure, educational or protective measure lasting more than three months - at the beginning of the application of that measure,
- by a final decision of the competent court, which results in the termination of the employment relationship.

The employer may terminate the Employment Agreement with the due notice period if such dismissal is justified due to economic, technical or organizational reasons or the worker is not able to perform his / her employment obligations.

An employer may unilaterally terminate an Employment Agreement with a worker without the obligation to comply with the termination notice period if the worker is liable for a serious offense or for a serious breach of the Employment Agreement obligations, which are of such nature that it would not be reasonable to expect the employer to continue working relationship. In the case of lighter offenses or lighter breaches of Employment Agreement obligations, an Employment Agreement cannot be terminated without prior written notice to the worker.

A worker may terminate an Employment Agreement without the obligation to comply with the notice period if the employer is liable for the offense or breach of the Employment Agreement obligations and which are of such nature that it would not be reasonable to expect the worker to continue working.

The notice period may not be shorter than seven days if the worker terminates the Employment Agreement, nor shorter than 14 days if the employer terminates the Employment Agreement. However, the maximum notice period cannot exceed one month.

A fixed-term Employment Agreement cannot be concluded for a period of more than three years.

Trial work may not last more than six months.

Pursuant to the Law on Employment of Foreigners, a work permit is issued for a period of three months shorter than the time of validity of the travel document. A work permit may not be issued with a validity period of more than one year.

Long-stay visas allow a foreigner to enter and stay in BiH for a period of 180 days in one year and to allow a foreigner to apply for a temporary residence in BiH. A short-stay visa is issued for a period of up to one year and up to five years, subject to compliance with the law. A short-stay visa entitles a foreigner to transit, one or more entry or stay in BiH. No uninterrupted stay or total duration of multiple consecutive stay in BiH may be longer than 90 days in any 180-day period, which implies taking into account the 180-day period preceding each day's stay. A long-term visa is issued for a term of up to one year and is issued for one or more entries in BiH.

Republika Srpska ("RS")

The employment relationship is based on the conclusion of an Employment Agreement, a decision on admission, a decision on election and appointment, and another legal basis regulated by a special law.

The employment relationship is terminated:

- by the expiration of the period for which it is concluded,
- when the worker reaches the age of 65 and at least 15 years of insured service,
- by the agreement between the worker and the employer,
- by the termination of the Employment Agreement by the worker or the employer,
- by the decision of the competent court
- at the request of the parent or guardian of the worker under the age of 18,
- by death of worker and in
- other cases determined by law.

An employee shall cease to work independently of their will and the will of the employer if:

- in the manner prescribed by law, it has been established that a worker has lost their working ability, on the day of the formal

notification of loss of work ability to the employer by the competent authority,
- if the employee is sentenced to non-custodial imprisonment or for a measure of security, educational or protective measure lasting longer than six months, starting from the commencement date of the sentence or measure and
- in the event of termination of the employer's operation, in accordance with the law.

The employment relationship may terminate based on a written agreement between the employer and the worker. A worker has the right to terminate an Employment Agreement without obligation to state reasons. An employer may lay down a worker's Employment Agreement if there is a justified reason for doing so, if he does not achieve the results of work or does not have the necessary knowledge and ability to perform the work, if he is legally convicted of a criminal offense at work or in connection with the work.

A fixed-term Employment Agreement cannot be concluded for a period longer than 2 years.

The trial work may not last more than three months.

Overtime work may not last longer than 10 hours per week, 4 hours a day, and 180 hours per year.

Notice period may not be shorter than 15 calendar days if the worker terminates the Employment Agreement, nor less than 30 calendar days if the employer terminates the Employment Agreement.

The work permit is issued for the planned period of employment, and the longest the duration of the temporary stay.

The duration of the residence permit is the same as it is regulated by the Law at BiH level.

Brčko District of Bosnia and Herzegovina ("BD BiH")

In the BD BiH, the employment relationship is similar to that in the FBiH.

The reasons for termination of employment are the same as those in FBiH and RS.

A fixed-term Employment Agreement can last up to two years. The trial period may not be longer than 6 months, and may be renewed once, so that it is twelve 12 months in a row.

The notice period lasts 14 days.

Overtime work may last up to 12 hours per week.

The duration of probation work cannot be longer than 6 months.

Albania

The employment relationship is regulated by the Labor Law and the Law on Public Employees.

The employment relationship is based on an Employment Agreement.

The reasons for termination of employment are the work performance or behavior of the worker or the operational needs of the company, and the dismissal of the worker cannot be given for unreasonable reasons.

The notice period is two weeks if the employee worked up to six months, one month if the employee worked for more than six months to two years, two months if it worked for two to five years, three months if the employment relationship lasted longer than five years.

The trial work lasts 3 months.

Serbia

Employment or is based on an Employment Agreement between the employer and the employee, which must be in writing.

Reasons for termination of employment by an employer are failure to find satisfactory work results or lack of knowledge and skills and breach of duty or work discipline, if a worker is convicted of a crime at work and in connection with work if he or she does not return to work within 15 days from the date of the unpaid leave.

The fixed-term Employment Agreement may not be longer than 2 years.

The trial work cannot be longer than 6 months.

Notice period cannot be shorter than 8 days and not longer than 30 days, depending on the duration of disability and retirement insurance.

Overtime work should not be longer than 8 hours per week.

Croatia

The employment relationship is based on Employment Agreement in writing.

Termination of an Employment Agreement may be due to economic, technical or organizational reasons, surplus workers, violations of the obligations assumed, and the inability to work during the probation period. But also the death of a worker, the death of an employer of a natural person, or the termination of a trade by force of law, or the deletion of an individual retailer from the register in accordance with special regulations, at the expiration of the time at which a fixed-term Employment Agreement is concluded when the worker reaches the age of 65 years of pension, unless the employer and the worker otherwise agree on the agreement between the

worker and the employer by delivering a valid decision on the recognition of the right to disability pension due to complete loss of working ability by dismissing the decision of the competent court.

A fixed-term Employment Agreement cannot last longer than 3 years.

The trial period lasts for no longer than 6 months.

Overtime work may not last longer than 10 hours a week or 180 hours a year.

In case of a regular notice, the notice period is at least:

- two weeks, if the worker has continuously worked for the same employer for less than one year;
- one month, if the worker has continuously worked for the same employer for one year;
- one month and two weeks, if the worker has continuously worked for the same employer for two years;
- two months, if the worker has continuously worked for the same employer for five years;
- two months and two weeks, if the worker has continuously worked for the same employer for ten years;
- three months, if the worker has continuously worked for the same employer for twenty years.

In case of a worker who has continuously worked for the same employer for twenty years, the notice period is extended by two weeks if the worker has reached 50 years of age and by one month if the worker has reached 55 years of age.

Slovenia

Employment is concluded by signing an Employment Agreement in writing.

Employment may be terminated after a regular or extraordinary termination of employment by agreement, court verdict, law, over time (in the case of fixed-term employment) or death of an employee. Employment Agreement can be mutually terminated at any time. However, such agreement must be in writing.

A fixed-term Employment Agreement may not be concluded for a period of more than 2 years.

Overtime work should not last more than 170 hours a year, 20 hours a month and 8 hours per week.

The notice period is from 15 to 80 days, depending on the employee's employment.

The trial work may take up to 6 months. Residence permit is issued for a period of 5 years.

Kosovo

The main sources of labor legislation in Kosovo are the Kosovo Constitution, the Labor Law, the Occupational Safety and Health Act.

The employment relationship is based on an Employment Agreement between the employer and the employee in writing.

The trial work may take up to 6 months.

A fixed-term Employment Agreement can take up to 10 years.

The notice period for employment lasting between six months and two years is 30 calendar days, between two and ten years of employment 45 calendar days, over 10 years of service 60 calendar days.

North Macedonia

The basic sources of labor are the Constitution of the Republic of North Macedonia and the Labor Relations Law of the Republic of North Macedonia.

The employment relationship is based on an Employment Agreement.

The trial work may take up to 4 months.

A fixed-term Employment Agreement can take up to 5 years.

Overtime work may last no longer than eight hours a week, and maximum 190 hours a year, except for work which cannot be terminated due to specific process of operation or for work without conditions and possibilities to be organized in shifts. The overtime work within three months cannot exceed eight hours per week, in average.

If the employee terminates the employment contract, the notice period is one month. However, the employment agreement or the collective agreement may be stipulate longer notice period, but no longer than three months.

If the employer terminates the employment contract of an individual worker or a smaller number of workers, the notice period is one month. In case of termination of employment of more than 150 workers or 5% of the total number of employees notice period is two months.

An employer may terminate an Employment Agreement for the conduct of a worker in connection with a breach of employment, work discipline or work obligations, or for business reasons and for reasons regulated by law.

Montenegro

The employment relationship is based on an Employment Agreement between the employer and the employee, in accordance with the law and the collective agreement.

Trial work may not be longer than six months, except for a long-haul merchant navy crewmember, which may take longer to return to the port of departure. A fixed-term Employment Agreement may not be longer than 2 years. Overtime work may not last longer than 10 hours per week. Notice period is at least 30 days.

The employment relationship is terminated:

- by force of law when the employee reaches 67 years of age and at least 15 years of insurance if the employer and the employees do not agree otherwise
- if it is determined by law that the employee has lost his working capacity
- by a decision on determining the loss of working ability if it is forbidden, under the law or the final decision of the court or other body, to perform certain tasks and cannot be deployed on other jobs
- if it is necessary to abstain due to serving imprisonment for more than six months
- if a security measure, educational or protective measure lasting more than six months has been imposed, and therefore must be absent from work.

Termination of the Employment Agreement may also be effected by agreement termination, dismissal of the employee and termination by the employer for reasons envisioned by the law.

The termination period is 30 days from the date of the termination of the Employment Agreement.

4.2 Corporate Law

Bosnia and Herzegovina

Pursuant to applicable provisions, foreign investors can incorporate the following type of companies:

1. Joint Stock Company ("JSC")
2. Limited liability company ("LLC")
3. Unlimited liability company
4. Limited partnership

In practice, foreign investors commonly incorporate limited liability companies due to the simplicity of its form, low founding capital (approximately 500 EUR) and relatively simple incorporation process. The incorporation capital in BD is 2.000 BAM (approximately 1.000 EUR).

A limited liability company can be incorporated by one or more physical or legal persons, who are considered founders and later on members of the company. Incorporation capital of the company consists of stakes of the founders, which have shares proportional to their stakes. A company member is responsible for the obligations of the company up to the amount of its share. The company is liable for its own obligations.

The business of the company, rights and responsibilities of the members, organization, rules on incorporation capital, changes and other questions are defined through the Articles of Association of the company in the manner, which cannot be contrary to the law.

Pursuant to applicable provisions, the monetary share in a limited liability company cannot be below 1.000,00 BAM (approximately EUR 500) in FBiH and 1 BAM (approximately 0,5 EUR) in RS. The contributions can also be in rights and property. The founding capital can be increased and reduced but not below the legal minimum.

A JSC (d.d. or a.d.) is a company of which the capital is divided into stocks and can be incorporated by one or more legal or natural persons.

The business, rights and responsibilities of members, organizations, and rules on incorporation capital, changes and other issues are defined by the Articles of Association of the company in the manner, which cannot be contrary to the law.

There are two types of JSCs in FBiH and RS, open and closed.

The minimum incorporation capital of a JSC in FBiH is 50.000 BAM (approximately 25.564 EUR), in RS 20.000 BAM (approximately 10.225 EUR) for a closed and 50.000 BAM (approximately 25.564 EUR) for an open JSC.

The stocks of closed JSCs cannot be publicly traded and have a limited number of members which are defined by law.

Stocks of open JSCs can be publicly traded.

Pursuant to FBiH regulations, an open JSC must fulfill one of the following criteria:

1. Is a bank or insurance company
2. The minimal incorporation capital is 4.000.000 BAM (approximately 2.045.167 EUR) and has a minimum of 40 founders

For both, privately and publicly offered JSCs, the nominal stock value is at least EUR0.5.

On the territory of BD, the basic capital of the JSC, according to the Law on Companies of Brčko District, is minimum 15.000 BAM (approximately EUR 7,670) and the minimal nominal stock value is EUR0 50.

Management

A LLC has an assembly consisted of all members of the company and a director. The total amount of paid capital is represented with 100 votes and every member of the company has a number of votes proportional to its share. The decisions are made through simple majority excerpt for cases regulated by the Articles of Association and law.

Mandatory bodies

The mandatory bodies of a JSC are:

1. Shareholders' Assembly
2. Supervisory Board
3. Management
4. Audit Board

Representative Offices and Branches of foreign legal entities

Foreign persons have the right to establish a representative office in BiH for performing market research, informative and promotional activities and for its own representation. The representative office does not have the status of a legal entity, meaning that the representative office may not conclude business deals in the name of the head company.

There are some exceptions to this rule in transportation business. The representative office becomes operational after registration in the Register of Foreign Representative Offices kept by the Ministry of Foreign Trade and Economic Relation BiH.

Foreign companies can establish a branch office both in RS and FBiH.

Branch offices have no capacity of a legal entity, business with third parties is performed in the name and on behalf of foreign legal entity which gains

rights and obligations through activities of the branch office. The branch office cannot perform foreign trade.

A JSC stockholder and LLC shareholder is not liable for the obligations of the company unless they:

- represent the company prior to its entry into Companies Register;
- use the company for achieving a personal goal that is not consistent with the goals of other company members and the company as a whole;
- manage the company assets as his/her personal assets;
- use the company to commit fraud or cause damage to its creditors;
- affect a decrease of the company's assets in his/her own favor, or in favor of third persons, or affects the company to assume liabilities although he/she had known or should have known that the company is not and will not be capable of fulfilling its liabilities.

Croatia

Companies are organized as:

1. publicly traded company;
2. limited partnership;
3. joint stock company ("JSC");
4. limited liability company ("LLC"), and
5. economic interest association.

Most common types of companies are JSC and LLC.

JSC is a company where its members participate in stocks in company's capital. Minimum share capital of JSC is HRK 200,000.00. Minimum nominal amount of single stock is HRK 10.00.

LLC is a company established by one or more legal entities or natural persons for the purpose of carrying out a particular business activity under a joint name by entering shares into a pre-agreed share capital. It is established by the Incorporation Agreement concluded by the founders, whose signatures are verified in accordance with the law. When a LLC is founded by single founder, the founding act is the Incorporation Statement. Minimum share capital of LLC is HRK 20,000.00.

A branch is established by a decision of company's competent body in accordance with a company's Incorporation Act or Articles of Association. Branch offices do not poses capacity of legal person. The branch office is registered in the court register of the competent court at the seat of the founder.

JSC stockholder and LLC shareholder are not be liable for the obligations of the company unless:

- uses the company for achieving a forbidden goal;
- uses the company to commit fraud or cause damage to his/her creditors;
- manages the company assets as his/her personal assets;
- affects a decrease of the company's assets in his/her own favour, or in favour of other persons, or affects the company to assume liabilities although he/she had known or should have known that the company is not and will not be capable of fulfilling its liabilities.

Montenegro

Forms of business companies are:

- the individual entrepreneur;
- the general partnership ("GP");
- the limited partnership ("LP");
- the joint stock company ("JSC"),
- the limited liability company ("LLC");
- the foreign company branch.

Most common types of companies are JSC and LLC.

JSC is a company made of natural or legal persons formed for the purpose of conducting economic activity, and the ownership of which is represented by shares. The minimum initial capital of a JSC is EUR 25,000.

The founders of a JSC are natural or legal persons who have executed the company incorporation agreement in accordance with the provisions of law. Founders may be domestic and foreign natural and legal persons. By executing the incorporation agreement of a JSC, the founders become the shareholders. In the case of establishing a single-member JSC, a founder shall be obliged to adopt a decision on establishing a JSC.

An LLC may be incorporated by natural or legal persons who shall make a monetary or non-monetary contribution in the company for the purpose of generating gain.

The founders of an LLC shall be liable for the obligations of the LLC to the amount of their contributions. The contributions shall constitute the LLC's share capital. Minimum share capital of LLC is EUR 1.00.

A foreign company branch is a branch of a company established and registered outside of Montenegro which performs business activity on the territory of Montenegro.

Any shareholder of a company or his successor shall have a right to submit a complaint to a Commercial Court where:

- any action of the company is illegal or outside the powers of the company;
- where the majority shareholders discriminate the minority shareholders;
- where a shareholder's individual rights have been harmed;
- where those persons who control the company, whether the Board of Directors, or
- the majority shareholders, commit a fraud on the minority shareholders.

Serbia

Legal forms of companies are:

- general partnership;
- limited partnership;
- limited liability company ("LLC");
- joint-stock company ("JSC")

Most common types of companies are JSC and LLC.

JSC is a company, the share capital of which is divided into stocks held by one or more stockholders who are not liable for the company's obligations, except in certain cases. A JSC is liable for its obligations with its entire assets. A JSC must have minimum share capital in the amount of RSD 3,000,000.00, unless a higher amount is provided by a special law. JSC is incorporated by the Incorporation Agreement or Incorporation Decision depending on the number of founders. In case of two or more founders, JSC is incorporated by the Incorporation Agreement and in case of single founder then the Incorporation Decision is issued.

LLC is a company in which one or more company shareholders holds interests in the company's share capital, apart from the share capital, the company members shall not be liable for the company's obligations except in certain cases. It is incorporated by the Incorporation Agreement concluded by the founders, whose signatures are verified in accordance with the law. When a LLC is incorporated by single founder, the founding act is the Incorporation Decision. Minimal incorporation capital is RSD 100.

The branch office is a separate organisational unit of a company through which that company carries on a business activity in accordance with the law. A branch does not have legal capacity and acts on behalf and for the account of the company in transactions. A company shall bear unlimited joint liability for obligations towards third parties that arise in the operations of its branch office. Branch office of a foreign company is a separate organisational unit of a foreign company through which that company carries on a business activity in the Republic of Serbia in accordance with the law.

A LLC member and a shareholder, as well as a legal representative of such person if the person concerned has diminished capacity, shall be liable for the company's obligations if they abuse the rule of the LLC. The abuse shall be deemed to have taken place in particular if such persons:

- uses the company to achieve an objective that is otherwise prohibited for that person;
- uses or disposes of the company's assets as their own personal property;
- uses the company or its assets to cause damage to the company's creditors;
- reduces the company's assets for their own personal gain or for the gain of third parties, although they knew or ought to have known the company would be unable to meet its obligations.

Slovenia

Commercial companies are organised in one of the following forms:

- as "personal companies": an unlimited company, a limited partnership and a dormant partnership;
- as "companies with share capital": a limited liability company ("LLC"), a public limited company a limited partnership with share capital and a European public limited company.

LLC is a company whose subscribed capital is made of subscribed contributions by members. A company may be formed by one or more natural or legal persons who shall become the members upon the formation of the company. The subscribed capital must amount to at least EUR 7,500.00 and each subscribed contribution must amount to at least EUR 50.00.

Members of an LLC are not responsible for the liabilities of a LLC. Shareholders are jointly liable for damage caused by deliberate or gross negligence arising from failure to submit or inaccurate delivery of contributions in kind, excessive appraisals of such inputs or any other adverse behaviour during the establishment of the LLC. Shareholders are not responsible for the obligations of the creditors.

The company is incorporated by agreement, which can be concluded in the form of a notarial record or on a special form, in physical or electronic form

North Macedonia

Types of a companies are:

- a public company,
- a limited partnership,
- a limited liability company ("LLC"),
- a joint stock company ("JSC") and
- limited partnership with shares.

Most common types of companies are JSC and LLC.

JSC is a company, the share capital of which is divided into stocks held by one or more stockholders who are not liable for the company's obligations, except in certain cases. A JSC is liable for its obligations with its entire assets.

When a company is incorporated simultaneously without a public offering notice to subscribe for shares, the minimum nominal value of the charter capital shall be EUR 25,000. When a company is incorporated successively by way of a public offering notice to subscribe for shares, the minimum nominal value of the charter capital shall be at least EUR 50,000.

LLC is a company in which one or more company shareholders hold s interests in the company's share capital- It is incorporated by the Incorporation Agreement/Decision- Minimum share capital is EUR 5,000.00.

Albania

Most common types of companies in Albania are:

- limited liability company ("LLC") and
- joint stock company ("JSC").

LLC is a company in which one or more company shareholders hold s interests in the company's share capital. LLC is entirely liable for its obligations arising from its business activities. Minimum share capital is EUR 1.00.

JSC is a company, the share capital of which is divided into stocks held by one or more stockholders who are not liable for the company's obligations, except in certain cases. Minimum share capital is:

- EUR 75.00 if the company shares are offered to general public and
- EUR 30.00 in other cases.

Kosovo

Most common types of companies in Kosovo are:

- limited liability company ("LLC") and
- public limited company ("PLC").

LLC is a company in which one or more company shareholders hold s interests in the company's share capital. LLC is wholly liable for its obligations arising from its business activities. Minimum share capital is EUR 1.00.

JSC is a company, the share capital of which is divided into stocks held by one or more stockholders who are not liable for the company's obligations, except in certain cases. Minimum share capital is EUR 25,000,.00.

4.3 Tax

Direct taxes

Corporate Income Tax Rates

We present below the CIT rates for Western Balkan countries – standard and reduced rates. The reduced rates are usually applied for smaller companies or special type of companies.

Country	BiH	CRO	SRB	MNG	SLO	MKD	ALB	KOS
Standard rate	10 %	18%	15%	9%	19%	10%	15%	10%
Reduced rate	-	12%	-	-	0%	-	5% and 0%	-

Double taxation treaties

Please find below the number of Double Tax Treaties (DTTs) concluded by each country. It gives an indication on the quality of network of tax treaties and cooperation with other authorities. Furthermore, it gives a sense of where the most FDIs are sourced from.

Country	BiH	CRO	SRB	MNG	SLO	MKD	ALB	KOS
No. of DTTs in force	39	63	54	43	59	49	39	12

Withholding Tax

The table below shows WHT rates applied on dividends, interest and royalties.

Country	BiH	CRO	SRB	MNG	SLO	MKD	ALB	KOS
Dividends	FBIH:5% RS:10% BD:0%	12%	20%	9%	15%	10%	8%	0%
Interest	10%	15%	20%	9%	15%	10%	15%	10%
Royalties	10%	15%	20%	9%	15%	10%	15%	10%

Personal income tax rates

Bosnia and Herzegovina is the only Western Balkans country applying a flat rate in personal income taxation. The most common approach is the use of progressive tax rates, as shown in the table below:

Country	Rate
Bosnia and Herzegovina	10%
Croatia	Progressive rates at 24% and 36%, depending on income.
Serbia	10% - employment income and business income 15% - income from capital 20% - income from royalties and other income.
Montenegro	9% - gross monthly salary up to the amount equivalent to the average salary in the previous year (EUR 766[1]). 11% - portion of monthly gross salary exceeding the amount above.
Slovenia	16% - income up to EUR 8,021.34 27% - income up to EUR 20,400 34% - income up to EUR 48,000.00 39% - income up to EUR 70,907.20 50% - income exceeding EUR 70,907.20 20% - Income from business activities.
North Macedonia	10% Flat rate
Albania	Exempt – employment income up to ALL 30,000 13% - from ALL 30,001 to ALL 150,000 is taxed at a rate of 13% on the amount exceeding ALL 30,000 tax of ALL 15,600 - income exceeding ALL 150,000 + 23% - income in excess of ALL 150,000 15% - all other income except dividends (8%).
Kosovo	0% - income between 0 and EUR 960 4% - income between EUR 960.01 and EUR 3,000 8% - income between EUR 3,000.01 and EUR 5,400 10% - income exceeding EUR 5,400.

[1] https://www.monstat.org/cg/novosti.php?id=2916

SSC

Social security contributions rates are very variable depending on country, historical development of the country and its institutions and various other factors that led to different set up and rates.

Country	BiH	CRO	SRB	MNG	SLO	MKD	ALB	KOS
From gross salary (employee cost)	FBiH 31% RS 33% BD 30.5 or 32%	20%	19.9 %	24%	22.1 %	27%	11.2 %	5%
On top of gross salary (cost of employer)	FBiH 10.5% RS – BD 0% or 6%	16.5 %	17.9 %	10.3 %	16.1 %	0%	16.7 %	5%

Masterfile / CbC Reporting

Transfer pricing is present in some form in all Western Balkan countries, and transfer pricing documentation is obligatory or recommendable.

The three-tiered approach is generally not recognized by the legislation in most Western Balkans countries, as can be seen in table below:

Country	Local File	Master File	CbC report
Bosnia and Herzegovina	Applicable	Annual consolidated group gross revenue exceeding EUR 750 million.	Annual consolidated group gross revenue exceeding EUR 750 million.
Croatia	Applicable	Not applicable	Annual consolidated group gross revenue equal to or exceeding EUR 750 million.
Serbia	Applicable	Not applicable	Not applicable
Montenegro	Not applicable	Not applicable	Not applicable
Slovenia	Applicable	Applicable	Annual consolidated group gross revenue equal to or exceeding EUR 750 million.
North Macedonia	Not applicable	Not applicable	Not applicable
Albania	Applicable	Not applicable	Not applicable
Kosovo	Applicable	Not applicable	Not applicable

Indirect Tax

	Albania	Slovenia	Croatia	N.Macedonia	Montenegro	Serbia	BiH	Kosovo
Standard rate	20%	22%	25%	18%	21%	20%	17%	18%
Reduced rate	6%	9% and 5%	13% and 5%	5%	7%	10%	-	8%
Zero-rated	Exports are zero-rated, as well defined transactions	Exports are zero-rated, as well defined transactions	Exports are zero-rated, as well defined transactions	Exports are zero-rated, as well defined transactions	Exports are zero-rated, as well defined transactions	Exports are zero-rated, as well defined transactions	Exports are zero-rated, as well defined transactions	Exports are zero-rated, as well defined transactions
Is there a registration limit for the tax?	Yes. ALL 2 million ALL of turnover per annum.	Yes. EUR 50,000 of turnover per annum.	Yes. HRK 300,000 of turnover per annum.	Yes. MKD 1 million of turnover per annum.	Yes. EUR 18,000 of turnover per annum.	Yes. RSD 8 million of turnover per annum.	Yes. BAM 50,000 of turnover per annum	Yes. EUR 30,000 of turnover per annum.
Does the same registration limit apply to non-established businesses?	No.	No.	No, different limit for non-residents.	No.	No.	No.	Yes.	Yes.
How often do returns have to be submitted?	Monthly or quarterly.	Monthly or quarterly.	Monthly or quarterly.	Monthly or quarterly.	Monthly.	Monthly or quarterly.	Monthly.	Monthly.
Deadline for submission and payment of VAT?	14th day of the month following the month of declaration.	Last business day of the month following the taxable period.	20th day of the current month for the prior VAT period.	25th day of the month following the tax period.	15th day of month for the previous month.	15 days after the end of the tax period.	10th day of the current month for the prior VAT period.	20th day of the calendar month following the end of each tax period.

4.4 Macro-financial overview

Based on the Deloitte CFO survey performed across Central European Countries, as well as the macrofinancial analysis for the Western Balkan region we may notice continuous increase of GDP in most countries.

The positive expectations regarding the European economy, which had mostly been on the rise since 2016, shows a slight decrease of optimism in 2019 (however the optimism in respect to future of economy is still strong).

Average GDP growth by CFOs is expected to be around 3% in 2019, decreased from 2018. This change is not large, but it is the time when most of the „emerging" markets start to feel pressure from the slow and painful public sector reforms.

The main source of growth was improving labour market conditions across Europe and low consumer prices which led to growing domestic demand.

Besides current positive economic conditions, further structural reforms are expected in several countries to develop productivity, competitiveness, education and labour markets.

In the next chapters we present the macrofinancial indicators of the Western Balkan countries gathered from external sources.

Albania

Real GDP grew by 3.8% in 2017—the strongest performance since 2008. It is expected that estimated real GDP growth of 4.3% in 2018, growth will slow to 3.8% in 2019, before decelerating further to average 3.6% per year in future as the expansion in import demand in Albania's main euro zone markets moderates.

The current-account deficit, although large, at an estimated 6.2% of GDP in 2018, has narrowed markedly in recent years. It is expected that the current-account deficit will stabilise at an average of 6.3% in coming years.

As the reform of the judiciary progresses, Albania will be able to open accession talks with the EU by end 2019.

	2014[a]	2015[a]	2016[a]	2017[a]	2018[b]	2019[c]	2020[c]
GDP							
Nominal GDP (US$ bn)	13,2	11,4	11,9	13	15,3	16,2	17,4
Nominal GDP (Lk bn)	1.395	1.434	1.475	1.553	1.656	1.748	1.853
Real GDP growth (%)	1,8	2,2	3,4	3,8	4,3	3,8	3,4
Expenditure on GDP (% real change)							
Private consumption	2,8	0,9	2,6	2,9	3,6	3,5	2,9
Government consumption	6,4	-1,1	4,7	2,5	3,9	4	3
Gross fixed investment	-4,5	3,5	3,3	7,7	4,4	3,9	3,1
Exports of goods & services	1,8	1	11,3	8,9	5,4	6	3,5
Imports of goods & services	4,3	-2,9	6,9	8,2	4,6	5,5	2,3
Origin of GDP (% real change)							
Agriculture	2	0,8	1,7	0,6	1,6	1,5	1,2
Industry	-3,8	2,6	2,1	6,8	7,8	3,8	1,5
Services	5,6	3,1	4,8	4,3	4	5,1	5,6
Population and income							
Population (m)	2,9	2,9	2,9	2,9	2,9	2,9	2,9
GDP per head (US$ at PPP)	11.140	11.182	11.347	11.789	12.429	13.101	13.872
Recorded unemployment (av; %)	13,3	13,3	10,3	7,6	6,5	6,1	6
Fiscal indicators (% of GDP)							
General government budget revenue	26,3	26,4	27,6	27,7	27,5	27,8	28
General government budget expenditure	31,5	30,5	29,4	29,7	29,5	29,7	29,5
General government budget balance	-5,2	-4,1	-1,8	-2	-2	-1,9	-1,5
Public debt	72	72,7	73,2	71,8	70,5	69,6	68,3
Prices and financial indicators							
Exchange rate Lk:US$ (av)	105,48	125,96	124,14	119,1	107.99[a]	108,01	106,23
Exchange rate Lk:€ (av)	140,17	139,77	137,38	134,5	127.59[a]	128,8	129,6
Consumer prices (av; %)	1,6	1,9	1,3	2	2.0[a]	2,1	2,1
Stock of money M1 (% change)	19,4	8,7	13,4	6	5,6	3,5	3
Stock of money M2 (% change)	4,2	0,1	1,9	0,3	1,2	1,9	0,4
Lending interest rate (av; %)	8,7	8,7	9,8	8,2	8	8,3	8,7
Current account (US$ m)							
Trade balance	-2.930	-2.547	-2.881	-3.203	-3.317	-3.491	-3.474
Goods: exports fob	1.240	855	789	901	1.127	1.276	1.389
Goods: imports fob	-4.169	-3.402	-3.670	-4.103	-4.444	-4.766	-4.862
Services balance	424	582	880	1.225	1.251	1.291	1.270
Primary income balance	122	134	193	34	29	74	97
Secondary income balance	959	852	908	962	1.085	1.075	1.088
Current-account balance	-1.425	-980	-900	-982	-953	-1.052	-1.018
External debt (US$ m)							
Debt stock	8.400	8.208	8.341	9.115	9.314	9.154	9.439
Debt service paid	717	1.086	566	480	1.297	1.290	729
Principal repayments	530	1.004	477	386	1.158	1.123	556
International reserves (US$ m)							
Total international reserves	2.665	3.139	3.109	3.590	3.796	3.849	3.884

[a] Actual.
[b] Economist Intelligence Unit estimates.
[c] Economist Intelligence Unit forecasts.
Source: IMF, International Financial Statistics; World Bank, International Debt Statistics.

Bosnia and Herzegovina

2018 was marked by state and local elections. As expected, these slowed down government operations, public tenders and the adoption of planned regulations and taxes. The election outcome shows new political parties coming to the fore.

When it comes to expected levels of GDP growth, it is expected to average around 3%,

Consumer prices rose by an average of 1.3% last year, driven by higher global oil prices.

The large grey economy, adverse demographic prospects, a burdensome business environment, an oversized public sector and political instability impact a stronger growth outlook during the future period.

The trade balance will remain in structural deficit, mitigated in part by steady inflows of remittances. The external financing requirement will mostly be financed by debt inflows.

	2014[a]	2015[a]	2016[a]	2017[a]	2018[b]	2019[c]	2020[c]
GDP							
Nominal GDP (US$ m)	19.227	16.857	17.560	18.734	20.515	21.030	23.159
Nominal GDP (BAM m)	28.343	29.727	31.048	32.510	33.961	35.458	37.127
Real GDP growth (%)	0,7	4,1	3,4	3,4	3,1	2,9	3
Origin of GDP (% real change)							
Agriculture	-12,7	9,2	7,6	-8,1	-3	2,5	2,5
Industry	2	3,7	4,7	5,2	2,9	3	3,5
Services	2,6	2,3	2	3,8	4	3	2,9
Population and income							
Population (m)	3,6	3,5	3,5	3,5	3,5	3,5	3,5
GDP per head (US$ at PPP)	11.823	12.549	13.186	13.928	14.643	15.321	16.114
Fiscal indicators (% of GDP)							
General government budget revenue	43,4	43,2	42,7	43,5	43,5	43,7	43,6
General government budget expenditure	46,3	43,4	42,3	41,4	42,7	43,6	44
General government budget balance	-2,9	-0,2	0,4	2,1	0,8	0,1	-0,4
Public debt	45	45,5	43,7	40,5	39	38	37,6
Prices and financial indicators							
Exchange rate BAM:US$ (end-period)	1,61	1,8	1,86	1,63	1.71[a]	1,62	1,61
Exchange rate BAM:€ (end-period)	1,96	1,96	1,96	1,96	1.96[a]	1,96	1,96
Consumer prices (av; %)	-0,9	-1	-1,1	1,2	1.3[a]	1,5	1,7
Stock of money M1 (% change)	9,2	11,9	13,7	13,7	14.9[a]	3	6
Stock of money M2 (% change)	7,3	8	8,3	9,5	9.4[a]	4	5
Lending interest rate (av; %)	6,6	5,8	5,2	4,4	3.8[a]	3,5	3,6
Current account (US$ m)							
Trade balance	-5.337	-4.076	-3.995	-4.272	-4.457	-4.410	-4.517
Goods: exports fob	4.644	4.078	4.354	5.410	5.951	6.165	6.449
Goods: imports fob	-9.981	-8.155	-8.349	-9.682	-10.408	-10.575	-10.966
Services balance	1.139	1.086	1.179	1.308	1.250	1.190	1.240
Primary income balance	145	109	45	-80	60	100	120
Secondary income balance	2.689	2.024	1.984	2.192	2.200	2.050	2.150
Current-account balance	-1.364	-857	-787	-851	-947	-1.070	-1.007
External debt (US$ m)							
Debt stock	13.670	13.771	14.227	14.495	14.256	14.636	14.757
Debt service paid	1.482	755	1.223	1.220	2.252	1.580	1.317
Principal repayments	1.217	549	851	844	1.794	1.214	1.018
Interest	266	206	372	376	458	366	299
International reserves (US$ m)							
Total international reserves	4.858	4.791	5.137	6.474	6,808[a]	6.727	6.680

[a] Actual.
[b] Economist Intelligence Unit estimates.
[c] Economist Intelligence Unit forecasts.
Sources: IMF, International Financial Statistics; Agency for Statistics of Bosnia and Hercegovina; Central Bank of
Bosnia and Hercegovina; IMF, World Economic Outlook; World Bank, International Debt Statistics;
World Bank, World Development Indicators; UN.

Croatia

After several years of recession, the Croatian economy started to recover in 2015, posting a real GDP increase of 2.9% in 2017. Growth was driven mostly by the increase in the exports of goods and services, strong private consumption, investments and tourism. According to the Croatian National Bank, GDP growth has been and will continue to be driven by the strong performance of the tourist industry. A recovery in personal consumption is also underway, accelerated by positive developments in the labour market.

Former deflation turned to minor inflation in 2017 due to imported inflationary pressures on food and energy prices. Unemployment rate of 17.1% in 2015 saw an improvement of 4.7 percentage points, arriving to 12.4% in 2017.

The 3.4% budget deficit of 2015 narrowed to 0.9% in 2016 and turned to a 0.8% budget surplus in 2017. Although public debt decreased significantly in 2015-2017 arriving to 77.5% in 2017, it is still the highest figure among the countries presented in the paper. Besides the relatively high public debt, ageing population and emigration pose challenges to the Croatian economy, which is expected to grow by an average 2.7% in the upcoming 5 years though. In addition, bankruptcy of Agrokor Group is expected to have a negative impact on performance indicators of the Croatian economy in 2018.

	2014[a]	2015[a]	2016[a]	2017[a]	2018[a]	2019[b]	2020[b]
GDP							
Nominal GDP (US$ bn)	58	50	52	55	61	62	68
Nominal GDP (HRK bn)	332	340	351	366	382	397	413
Real GDP growth (%)	-0,1	2,4	3,5	2,9	2,6	2,5	2,6
Expenditure on GDP (% real change)							
Private consumption	-1,6	1,1	3,5	3,6	3,5	3,3	2,2
Government consumption	1,8	-1	0,7	2,7	2,9	2,5	1
Gross fixed investment	-2,8	3,8	6,5	3,8	4,1	3,9	2,2
Exports of goods & services	6	9,4	5,6	6,4	2,9	4,7	4,5
Imports of goods & services	3,1	9,2	6,2	8,1	5,5	4,4	3,5
Origin of GDP (% real change)							
Agriculture	-12,8	3,8	7,3	-2,1	1.0[c]	0,5	0,8
Industry	1,4	2,7	5	1,3	2.0[c]	1,8	2
Services	0,2	2	2,8	3,7	2.8[c]	2,8	2,9
Population and income							
Population (m)	4,3	4,2	4,2	4,2	4,2	4,1	4,1
GDP per head (US$ at PPP)	22.191	23.083	24.291	25.621	26.933	28.237	29.756
Recorded unemployment (av; %)	19,3	17	15	12,4	9,8	9,5	9,3
Fiscal indicators (% of GDP)							
Public-sector balance[d]	-5,1	-3,4	-0,9	0,9	0.5[c]	-0,5	-0,8
Public-sector debt interest payments	3,4	3,5	3,1	2,7	3.0[c]	2,8	2,6
Public-sector primary balance	-1,7	0	2,1	3,5	3.5[c]	2,3	1,8
Prices and financial indicators							
Exchange rate HRK:US$ (end-period)	6,3	6,99	7,17	6,27	5,97	6,12	6,08
Consumer prices (end-period; %)	-0,5	-0,6	0,2	1,2	0,9	1,7	1,8
Producer prices (av; %)	-2,5	-3,7	-4	2	2,1	1,8	3
Stock of money M1 (% change)	9,6	11,4	18,2	19,1	20,7	21,8	20,1
Stock of money M2 (% change)	3,2	5,2	4,7	2,1	5,5	13,3	10
Lending interest rate (av; %)	6,8	6,2	5	4,2	3,5	4,1	4,5
Current account (US$ m)							
Trade balance	-8.643	-7.747	-8.173	-9.292	-10,172[c]	-9.891	-10.929
Goods: exports fob	12.527	11.317	11.633	13.194	15,149[c]	16.057	17.321
Goods: imports fob	-21.170	-19.064	-19.807	-22.487	-25,321[c]	-25.948	-28.250
Services balance	9.715	8.838	9.592	10.442	12,941[c]	10.581	10.883
Income balance	-1.136	-327	-1.647	-976	-1,552[c]	-1.753	-1.837
Current transfers balance	1.187	1.426	1.517	2.017	1,941[c]	1.748	1.681
Current-account balance	1.122	2.191	1.289	2.191	1,216[c]	685	-202
External debt (US$ m)							
Debt stock	56,572[c]	49,333[c]	44,112[c]	48,129[c]	43,895[c]	45.601	47.802
Debt service paid	9,634[c]	9,801[c]	9,538[c]	14,360[c]	10,970[c]	9.750	9.555
Principal repayments	8,000[c]	8,000[c]	7,525[c]	12,000[c]	9,000[c]	8.000	8.000
Interest	1,634[c]	1,801[c]	2,013[c]	2,360[c]	1,970[c]	1.750	1.555
International reserves (US$ m)							
Total international reserves	15.424	14.967	14.244	18.818	19.991	21.690	22.810

[a] Actual.
[b] Economist Intelligence Unit forecasts.
[c] Economist Intelligence Unit estimates.
[d] Proceeds from privatisation have been excluded from revenue. GDP data from Central Bureau of Statistics.
Sources: Croatian Bureau of Statistics; Croatian National Bank, Bulletin; Eurostat; IMF, International Financial Statistics; UN; World Bank, International Debt Statistics.

North Macedonia

The government in place since May 2017—has ended a twoyear political crisis. It has also improved relations with the EU and, in particular, with Bulgaria and Greece. In January 2019 the Macedonian and Greek parliaments approved the Prespa agreement, according to which Macedonia will change its name to the Republic of North Macedonia in exchange for Greece ending its veto on Macedonia's EU and NATO accession.

Real GDP stagnated in 2017 and grew by just 0.9% year on year in the first quarter of 2018, owing to the extended political crisis, which resulted in a sharp drop in investment and a contraction in government spending which has been delayed. The political crisis held back public and private investment, holding back growth in 2017-18. Growth is expected from 2019, averaging 3.2% per year, driven by a recovery in investment and private consumption.

In 2018 consumer price inflation averaged 1.5% year on year, up slightly on 1.4% in 2017, mainly driven by higher global oil prices.

	2014[a]	2015[a]	2016[a]	2017[a]	2018[b]	2019[c]	2020[c]
GDP							
Nominal GDP (US$ m)	11.362,30	10.064,50	10.672,40	11.279,50	12.299,60	13.058,40	14.046,80
Nominal GDP (Den m)	527.631	558.954	594.794	616.599	640.896	672.561	708.375
Real GDP growth (%)	3,6	3,9	2,8	0,2	2,4	3,2	3,2
Expenditure on GDP (% real change)							
Private consumption	2,2	4,4	3,9	0,7	2,5	2,8	3,1
Government consumption	3	3,9	-4,9	-2,5	7	0,5	1,5
Gross fixed investment	4	10,5	9,9	1.5[b]	-3,5	4,5	4
Exports of goods & services	16,5	8,5	9,1	8,1	13	7	6
Imports of goods & services	14,1	9,9	11,1	6,4	5,5	5,8	5,6
Origin of GDP (% real change)							
Agriculture	3,1	1,9	-0,4	-13,5	-4	2,5	2,5
Industry	8,6	6,2	-2,9	-1	2	4,5	4,5
Services	3,8	4	4,5	2,3	3,3	2,7	2,8
Population and income							
Population (m)	2,1	2,1	2,1	2,1	2.1[a]	2,1	2,1
GDP per head (US$ at PPP)	13.352	14.003	14.546	14.844	15.375	16.119	17.043
Recorded unemployment (av; %)	28	26,1	23,7	22,4	21	20,1	19,7
Fiscal indicators (% of GDP)							
General government revenue	27,5	28,8	28,5	29,1	29,4	31,2	30,9
General government expenditure	31,7	32,3	31,2	31,9	31,2	33,9	33,5
General government balance	-4,2	-3,5	-2,7	-2,7	-1,8	-2,7	-2,6
Prices and financial indicators							
Exchange rate Den:US$ (end-period)	50,56	56,37	58,33	51,27	53.69[a]	50,33	50,62
Exchange rate Den:€ (end-period)	61,39	61,37	61,48	61,49	61.47[a]	61,4	61,5
Consumer prices (end-period; %)	-0,6	-0,3	-0,3	2,4	0.8[a]	2,2	1,7
Producer prices (av; %)	-2	-3,9	-3,1	4,8	0,9	1	1,6
Stock of money M1 (% change)	22,2	18,4	10	9,9	18.7[a]	6	5,3
Stock of money M2 (% change)	7,3	7,7	6,2	3,8	11.8[a]	4,5	5,1
Lending interest rate (av; %)	7,8	7,5	7	6,6	6,1	5,9	6
Current account (US$ m)							
Trade balance	-2.469	-2.022	-2.055	-2.028	-2.199	-2.346	-2.418
Goods: exports fob	3.687	3.370	3.750	4.601	5.890	6.365	6.947
Goods: imports fob	-6.156	-5.393	-5.805	-6.630	-8.088	-8.711	-9.365
Services balance	506	379	441	455	548	564	605
Primary income balance	-213	-317	-464	-478	-536	-597	-662
Secondary income balance	2.104	1.756	1.736	1.923	2.119	2.181	2.246
Current-account balance	-72	-204	-341	-129	-68	-198	-228
External debt (US$ m)							
Debt stock	7.233	6.767	7.376	8.566	9.934	10.643	11.168
Principal repayments	774	872	702	645	626	644	569
Interest	185	154	144	200	161	256	246
Debt service due	959	1.080	873	859	787	915	827
International reserves (US$ m)							
Total international reserves	2.963	2.471	2.755	2.802	3.284	3.440	3.608

[a] Actual.
[b] Economist Intelligence Unit estimates.
[c] Economist Intelligence Unit forecasts.
Sources: IMF, International Financial Statistics; World Bank, International Debt Statistics; State Statistical Office; National Bank of the Republic of Macedonia.

Montenegro

In Montenegro, official data shows the economy powered ahead in the third quarter of 2018. It is expected to settle into a softer pace of growth in 2019.

Real GDP growth in 2017 accelerated to 4.7%, from 2.9% in 2016, driven by household consumption, investment (led by the construction of the Bar-Boljare motorway) and a favourable tourist season. Tourist inflows boosted disposable incomes and drove growth in residential construction and retail.

Although Montenegro has the natural resources (sea and mountains) to offer significant scope for the development of the tourism industry, the country remains underdeveloped. GDP per head in 2018 was estimated at just US$8,851. The rapid growth that briefly characterised Montenegro before the 2008 crisis has not been repeated; annual real GDP growth in 2010-16 averaged only 2.1%.

GDP growth is regarded particularly positively, with predictions ranging from 1.6 – 3.5%.

	2014[a]	2015[a]	2016[a]	2017[a]	2018[b]
GDP at market prices (€ m)	3457,9	3654,5	3954,2	4299,1	4718,3
GDP (US$ m)	4.587,70	4.053,10	4.374,00	4.844,60	5.569,40
Real GDP growth (%)	1,8	3,4	2,9	4,7	4,3
Consumer price inflation (av; %)	-0,7	1,5	-0,3	2,4	2.6[a]
Population (m)	0,6	0,6	0,6	0,6	0,6
Exports of goods fob (US$ m)	473,1	360,5	381,9	427,5	469,7
Imports of goods fob (US$ m)	-2.300,80	-1.982,40	-2.219,20	-2.535,00	-2.929,60
Current-account balance (US$ m)	-698,7	-532,6	-787,8	-881,2	-1.104,70
Foreign-exchange reserves excl gold (US$ m)	661,4	733,5	846,5	1.076,50	1.260,90
Total external debt (US$ m)	2.633,70	2.660,00	2.713,00	3.138,20	3.422,30
Debt-service ratio, paid (%)	11	20,4	19,5	11,1	29,3
Exchange rate (av) €:US$	0,754	0,902	0,904	0,887	0.847[a]

[a] Actual.
[b] Economist Intelligence Unit estimates.

Serbia

The Serbian economy grew by 2% on real terms in 2017. The government pursued structural economic changes in the recent years to support the EU accession process. The economy is expected to grow further because of the expansion in government spending, private consumption, foreign direct investments and improving job market conditions.

Inflation increased due to the higher import prices and high energy and oil prices.

Unemployment continued to decrease to 15.0% in 2017 which is considered low compared to other Balkan countries. The government decreased public debt with 10.5% to 61.6% in 2017 to fulfill the 60% public debt convergence criteria set by European Union. Budget balance was also under 3% in the past two years which is also a criterion for the EU accession.

	2014[a]	2015[a]	2016[a]	2017[a]	2018[b]	2019[c]	2020[c]
GDP							
Nominal GDP (US$ m)	47.062	39.629	40.630	44.428	50.444	52.548	58.841
Nominal GDP (RSD bn)	4.161	4.312	4.521	4.754	5.059	5.348	5.672
Real GDP growth (%)	-1,6	1,8	3,3	2	4,3	3,4	3,3
Expenditure on GDP (% real change)							
Private consumption	0,1	-0,3	1,1	2	3,2	3	3,6
Government consumption	0,4	-7	2,5	3,7	3,9	4	4
Gross fixed investment	-3,4	4,9	5,4	7,3	12	7	6
Exports of goods & services	4,3	9,4	11,9	8,2	9	7,2	8
Imports of goods & services	5,1	4	6,7	11,1	8,5	8,4	7
Origin of GDP (% real change)							
Agriculture	2	2	8,3	-11,2	8	2	3
Industry	-5,3	4,9	4,3	3,9	2,3	2,1	3
Services	0,5	0,2	2,6	2,8	5,6	4,7	3,6
Population and income							
Population (m)	7,1	7,1	7,1	7	7	7	6,9
GDP per head (US$ at PPP)	14.657	14.922	15.615	16.433	17.536	18.514	19.586
Recorded unemployment (av; %)	19.2[b]	17.7[b]	15.3[b]	13.5[b]	12,3	11,8	11,5
Fiscal indicators (% of GDP)							
Public-sector revenue	39	39,3	40,8	41,5	41,6	41,4	41,3
Public-sector expenditure	45,2	42,8	41,9	40,4	41	41,8	42
Public-sector balance	-6,2	-3,5	-1,2	1,1	0,6	-0,4	-0,7
Net public debt	68	70	67,8	57,9	53,8	51,5	50,7
Prices and financial indicators							
Exchange rate RSD:US$ (end-period)	99,5	111,2	117,1	99,1	103.4[a]	97,8	96,8
Exchange rate RSD:€ (end-period)	121	121,6	123,5	118,5	118.2[a]	117,9	117,6
Consumer prices (av; %)	2,1	1,4	1,2	3,2	2.0[a]	2,2	2,7
Producer prices (av; %)	0,9	0,3	-0,4	3,2	2.2[a]	2,9	4
Stock of money M1 (% change)	11	17,1	20,5	10,2	18.3[a]	12,2	9
Stock of money M3 (% change)	7,6	6,6	11,6	3,6	14.5[a]	8	6
Money market interest rate (av; %)	8,6	3,9	3,5	3,1	3.0[a]	3	3,4
Current account (US$ m)							
Trade balance	-5.446	-4.041	-3.449	-4.531	-6.119	-6.103	-6.216
Goods: exports fob	14.134	12.700	14.177	15.894	17.923	19.213	20.366
Goods: imports fob	-19.580	-16.740	-17.626	-20.424	-24.041	-25.316	-26.581
Services balance	609	807	1.002	1.098	998	1.178	1.309
Primary income balance	-1.784	-1.837	-2.241	-2.869	-2.378	-2.457	-2.716
Secondary income balance	3.987	3.701	3.498	3.981	4.841	4.710	4.750
Current-account balance	-2.634	-1.370	-1.190	-2.321	-2.658	-2.671	-2.873
External debt (US$ m)							
Debt stock	32.987	31.291	29.527	34.549	34.782	35.421	34.754
Debt service paid	8.318	4.261	5.952	4.952	4.809	3.827	5.328
Principal repayments	7.076	3.142	5.032	4.072	3.771	2.970	4.571
International reserves (US$ m)							
Total international reserves	12.048	11.346	10.757	11.906	12,875[a]	13.890	14.640

[a] Actual.
[b] Economist Intelligence Unit estimates.
[c] Economist Intelligence Unit forecasts.
Source: National Bank of Serbia; Statistical Office of the Republic of Serbia; World Bank, International Debt Statistics; IMF, International Financial Statistics.

Slovenia

Slovenian GDP was up by a solid 7.1% in nominal terms to reach EUR 43.1 bn in 2017, already surpassing the pre-crisis highs. Economic growth was mainly due to exports and strengthening private consumption.

After deflation in 2015 and 2016, the inflation increased to 1.6% in 2017, supported by the 0% reference rate. Recorded unemployment rate slightly decreased in 2017, which is still relatively high compared to the neighbouring countries. The public finance picture improved further in 2017 with the general government deficit decreasing to 0.7% of GDP in 2017 from 1.8% in the previous year and public debt ratio dropped to 76.4% in 2017 from 79.65%.

High demand for skilled workers has driven up unit labour costs, while unions have pushed for further wage increases in both the private and the public sectors. The Slovenian M&A community saw some of its largest-ever deals in FY18. These included the partial privatization of the largest state banking group as well as the sale of a European top-eight white goods manufacturer and the merger of two of the country's leading three insurance companies. As advantageous monetary conditions in the Eurozone are expected to persist, inexpensive external financing will continue to be available in the future.

	2014[a]	2015[a]	2016[a]	2017[a]	2018[b]	2019[c]	2020[c]
GDP							
Nominal GDP (US$ bn)	50	42,9	44,6	48,7	54,5	57,1	60,8
Nominal GDP (€ bn)	37,6	38,7	40,3	43,1	46,1	47,9	49,8
Real GDP growth (%)	2,8	2	3,2	5,3	4,7	3,4	2,5
Expenditure on GDP (% real change)							
Private consumption	1,9	2,2	3,9	2	1,1	3	2,3
Government consumption	-1,2	2,4	2,7	0,5	4,3	3,6	2,3
Gross fixed investment	1	-1,7	-3,7	10,8	10,4	4,5	3,2
Exports of goods & services	5,3	4,4	7,2	11,1	7,8	6	3
Imports of goods & services	3,8	4,2	7,2	10,6	7,1	6,3	2,8
Origin of GDP (% real change)							
Agriculture	11,7	8,7	1,4	-4,8	3,5	1,5	1
Industry	5,5	0,3	3,3	8	6	3,5	2,8
Services	2,3	2,5	3,2	4,8	4,1	3,4	2,4
Population and income							
Population (m)	2,1	2,1	2,1	2,1	2,1	2,1	2,1
GDP per head (US$ at PPP)	30.728	31.188	32.412	34.518	36.550	38.424	40.366
Recorded unemployment (av; %)	13,1	12,3	11,2	9,5	8	7,1	6,6
Fiscal indicators (% of GDP)							
General government revenue	44,3	45,1	43,5	43,1	42,8	44	44,1
General government expenditure	49,9	47,9	45,4	43,1	42,3	44,1	44,3
General government balance	-5,5	-2,9	-1,9	0,1	0,5	-0,1	-0,2
Public debt	80,3	82,9	78,8	73,9	68,6	66,2	63,8
Prices and financial indicators							
Exchange rate US$:€ (av)	1,33	1,11	1,11	1,13	1.18[a]	1,19	1,22
Exchange rate US$:€ (end-period)	1,21	1,09	1,05	1,2	1.15[a]	1,22	1,22
Consumer prices (av; %)	0,4	-0,7	-0,2	1,6	1.9[a]	2	2,2
Producer prices (av; %)	-0,6	-0,2	-1,4	2,2	2,1	1,9	1,7
Stock of money M1 (% change)	18,5	24,9	18,7	14,4	14,7	7,3	5,9
Stock of money M2 (% change)	6,7	5	7,7	6,6	7,3	-5,2	3,5
Lending interest rate (av; %)	5	3,5	2,8	2,6	2,4	2,5	3,1
Current account (US$ m)							
Trade balance	1.570	1.638	1.700	1.763	2.421	1.744	1.183
Goods: exports fob	30.512	26.674	27.654	32.142	38.503	41.641	44.085
Goods: imports fob	-28.942	-25.036	-25.954	-30.379	-36.082	-39.897	-42.902
Services balance	2.255	2.141	2.491	3.070	3.211	3.641	3.845
Primary income balance	-568	-1.435	-1.344	-1.046	-1.435	-1.816	-1.793
Secondary income balance	-360	-390	-386	-312	-167	-232	-247
Current-account balance	2.895	1.953	2.461	3.475	4.030	3.337	2.988

[a] Actual.
[b] Economist Intelligence Unit estimates.
[c] Economist Intelligence Unit forecasts.
Source: IMF, International Financial Statistics; Eurostat; Statistical Office of the Republic of Slovenia; Bank of Slovenia.

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