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Bosnia and Herzegovina: Request for Stand-By Arrangement—Staff Report; Staff Statement; and the Press Release on the Executive Board Discussion

In the context of the Request for Stand-By Arrangement, the following documents have been released and are included in this package:

- the staff report for the Request for Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on **May 10, 2002,** with the officials of Bosnia and Herzegovina on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on May 29, 2002**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **August 2, 2002** updating information on recent developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its August 2, 2002 discussion** of the staff report that completed the request and/or review.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Bosnia and Herzegovina*
Memorandum of Economic and Financial Policies by the authorities of Bosnia and Herzegovina*
Technical Memorandum of Understanding*

*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

Request for Stand-By Arrangement

Prepared by the European I and the Policy and Development Review Departments

Approved by Carlo Cottarelli and G. Russell Kincaid

May 29, 2002

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I. Introduction

1. **The authorities of the Republic of Bosnia & Herzegovina have requested a 15-month stand-by arrangement (SBA) in the amount of SDR 67.6 million (40 percent of quota) for the period June 2002–September 2003**. This request and the accompanying Memorandum of Economic and Financial Policies (MEFP), dated May 31, 2002, appear in Appendix V. Following missions in May, July, and October 2001, discussions for the program were held in Banja Luka and Sarajevo during March 12–28, and May 7–10, 2002.[1]

2. **BiH's first stand-by arrangement expired shortly after completion, on May 25 2001, of the sixth and seventh reviews.** The Board approved the one-year arrangement on May 29, 1998, for SDR 94.42 million, subsequently extending it three times (Appendix I). In this context, inflation remained low, the convertible marka gained wide acceptance, and structural reform continued. After concluding the Article IV consultation, in February 2002, Directors welcomed these gains and supported continued adherence to the currency board. In that light they urged further progress to contain expenditure arrears and on private sector development to support activity and employment.

3. **Parliamentary and presidential elections will be held under current complex constitutional arrangements in the fall** (Box 1). The victors will secure four-year terms, up from two years hitherto. Ethnic and political tensions have eased recently, as reflected in the

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[1] The Fund staff met; (a) at the State level, Members of the Presidency; Messrs. Belkic, Krisanovic, and Radisic; Chairman of the Council of Ministers and Foreign Minister, Mr. Lagumdzija; Minister of Treasury, Mr. Domazet; Central Bank Governor Mr. Nicholl; (b) in the Federation of Bosnia and Herzegovina, Prime Minister Behmen; Deputy Prime Minister and Finance Minister Grabovac; Deputy Finance Minister Hafizovic; Defence Minister Anic; and Veterans' Affairs Minister Hadzovic and (c) in the Republika Srpska, President Sarovic; Prime Minister Ivanic; Finance Minister Vracar; and Defence Minister Bilic; and Speaker of the National Assembly, Kalinic. The Fund staff also met with High Representative Petritsch, and representatives of the international community, business and labor.

The Staff team comprised of Mr. Doyle (Head), Messrs Rozwadowski, Lazar, and McHugh (all EU1), Ms. Allard (FAD), and Mr. Stern (PDR) and was assisted by Mr. de Schaetzen, Ms Selimovic-Mehmedbasic, Ms.Milic in the Resident Representative's office. Mr. Last, (FAD panel of experts) provided assistance following the mission in the area of expenditure arrears.

broad consensus behind the recent constitutional amendments which remove all the discriminatory elements of the old constitutions and ensure that all ethnic groups are formally represented at all levels of government in both Entities. But nationalist parties retain strong followings, so prospects for the centrist coalitions—the 10-party "Alliance for Change" in the Federation and the informal PDP-SDS coalition in the RS—are unclear. The High Representative, Lord Ashdown, took office in May 2002.

Box 1. The Dayton Constitutional Arrangements

Bosnia and Herzegovina comprises of two Entities; the Republika Srpska (RS) and the Federation. The RS is highly centralized and predominantly Serb, accounting for 1/3 of the BiH population. The Federation is highly devolved with 10 autonomous ethnically based cantons. It is mainly Bosniac and Croat and accounts for the remaining 2/3 of the population. The Entities have co-dominion over the tiny Brcko district, which abuts both.

The Entities and Brcko enjoy significant autonomy including on key aspects of fiscal policy. The State Government has limited responsibilities, including customs, foreign affairs, and foreign debt service, and it has negligible revenue raising powers.

On behalf of the main powers party to Dayton, the High Representative oversees the political aspects of the Dayton Peace agreement. He enjoys sweeping powers to pass or veto laws, ban political parties, and remove individuals from elected office and the civil service. These powers have been extensively used.

4. **Surveillance is clouded by the poor quality of economic data despite years of intensive technical assistance.** No demand-side or real GDP estimates are published and underreporting bedevils all real sector data, including, notably, the official nominal GDP estimates. Due to capacity constraints, there are no officially published balance of payments or consolidated general government data—numbers reported here for both are all staff estimates. Revisions to the latter since the most recent staff report are described in Appendix III).

II. Background

5. **Six years after the cessation of hostilities, normalization has yet to be secured.** The currency board set up in 1997 has lowered inflation to industrial country levels, but the aid-financed post-conflict boom has lost momentum with output apparently still well below pre-war levels (Table 1, Figure 1). Private investment and FDI remain mired in concerns over political risks, the hostile business environment, and infrastructure bottlenecks. In 2001 refugees continued to return to BiH in significant numbers, swelling unemployment already likely in the low- to mid-20s. With internal resettlement also accelerating, many property rights disputes are coming to a head and personal security remains a concern for returnees, especially in rural areas. International peace-keeping and police forces—with a combined strength of 20,000—remain in place, though their numbers will be cut by a quarter immediately following the fall elections. After aid disbursements of some US$2½ billion since 1997 in addition to security assistance, donors have begun—and will continue—to scale back their military, political, and economic commitments from hitherto exceptional levels.

6. **With aid declining, self-sustained growth has yet to take root.** In 2001, activity decelerated—with the RS apparently in recession—and labor market and external imbalances remained sizeable. (Figures 1 and 2):

- Staff estimate that BiH GDP decelerated to around 2½ percent in 2001 as the Federation slowed and the RS recession continued (Text Table 1). Fixed investment outside government, construction, and reconstruction is low—perhaps 10 percent of GDP, and construction is slowing as aid inflows are curtailed. At least 40 percent of GDP is accounted for by the private sector, possibly much more including the gray economy;

Text Table 1 **Economic Activity** (Annual growth rate)	2000	2001
BiH Real GDP	4.5	2.3
Federation		
GDP	7.0	4.0
Industrial production	8.8	12.4
Construction	8.2	-4.5
Republika Srpska		
GDP	-1.9	-1.9
Industrial production	9.8	-14.0
Construction	-7.9	-18.2

- Official data suggest that some 40 percent of the labor force seek employment (Text Table 2). However, World Bank "informal estimates" put joblessness around 20 percent. Official data suggest job growth in the Federation in recent years against continued (possibly sharp) declines in the RS with nominal wage growth above inflation in both Entities;

Text Table 2 **Labor Market** (Annual average)	2000	2001
Work seekers / labor force		
Federation	38.7	39.5
RS	40.2	40.9
Industry employment growth		
Federation	10.4	11.8
RS	-3.2	-5.4
Industry nominal wage growth		
Federation	12.7	3.2
RS	6.9	10.4

- Estimated BiH export growth in 2001 largely reflects production capacity coming back on stream and renewed exports to Yugoslavia (Text Table 3 and Table 2). Imports also appear to have remained buoyant, partly boosted by remittances from abroad and high oil prices, despite weak domestic demand, reduced reconstruction aid, and a 5 percent depreciation of the CPI-based real effective exchange rate. The current account deficit increased slightly and FDI inflows remained negligible.

Text Table 3 **Balance of Payments** (US$ million)	2000	2001
Exports	903	1,002
Imports	-2,558	-2,670
Current account	-918	-1,006
Reconstruction aid	582	517
Net FDI	150	130
Current account balance (in percent of GDP)	-20.4	-22.2

7. **But in some key policy areas, prospects for growth have clearly improved**—the currency board continues to anchor low inflation and international reserves have risen

strongly; a significant fiscal consolidation appears to have been achieved in 2001; and fiscal structures have been strengthened:

- Inflation continued to decline overall, notably in the RS as prices there largely completed their convergence with prices in the Federation (Text Table 4 and Figure 2).

Text Table 4

Consumer Prices Index		2000	2001
BiH	(per. av.)	5.6	3.3
	(per. end)	7.5	0.8
Federation			
	(per. av.)	1.9	1.7
	(per. end)	4.0	0.3
Republika Srpska			
	(per. av.)	14.6	7.3
	(per. end)	16.1	1.9

- Foreign exchange inflows in the context of introduction of the euro have raised reserves by over 3 months of import cover to over five months (Text Table 5 and Table 2). Households exchanged formerly unrecorded holdings of DM notes for KM causing measured monetary aggregates to rise sharply. Reserve money grew particularly sharply because perhaps only one-third of these inflows found their way into banks, reflecting continued depositor reservations with—notably—RS banks. Despite the inflows, growth of bank credit to non-government declined, along with weakening domestic activity.

Text Table 5

Money, Credit, and Reserves (12-month growth rates, December)	2000	2001
BiH		
Broad money	14.0	89.3
Reserve money	18.2	164.6
Credit to non-government	8.7	4.2
Official Reserves (US$ mn)	488	1,253
(in months of import cover)	2.1	5.2

- Despite decelerating activity, preliminary data suggests that a major fiscal consolidation was achieved during 2001 and net arrears accumulation was significantly curtailed (Text Table 6 and Tables 4a–4i). Tax revenues were unchanged relative to GDP as cuts in Federation sales and wage tax rates were offset by strong customs collections and extension of the tax collection period (with 0.4 percentage points of BiH GDP collected in early January 2002 but booked in 2001). Grants to BiH fell by 2 percentage points of GDP and the spending associated with them fell in parallel. Average pensions were cut by 15 and 50 percent in the Federation and the RS, respectively, and some pensions and invalid benefits arrears were cleared. Nevertheless, even these measures were not quite enough to stop the stock of arrears from increasing—albeit at a much reduced rate compared with 2001—with the RS pension fund, and the Federation Ministry of Defense and cantons accruing new arrears during 2001.

Text Table 6

Fiscal Outturn (Percent of BiH GDP, accruals)	2000	2001
BiH		
Revenue (incl. grants)	56.3	55.0
Expenditure	66.4	61.3
Balance	-10.1	-6.3
Of which:		
Federation	-3.5	-1.3
RS	-2.4	-1.2
State	-0.1	0.0
Foreign projects	-4.1	-3.8
Memo: Change in arrears	4.1	0.9

- Fiscal structures have also been strengthened. Considerable progress was made on arrears (Box 2). Entities' sales tax structures were harmonized, consolidating progress towards a common economic space. New treasuries and audit offices began operations in the central governments of both Entities. The Entities lowered labor taxes, and a raft of tax administration improvements were prepared and implemented during 2001 and into 2002 with U.S. and EU aid.

Box 2. Expenditure Arrears, 2001

Staff estimate that the stock of government spending arrears in BiH rose by KM 91 million during 2001, 0.9 percent of BiH GDP, down from a rise of 4.1 percent of GDP in 2000. This reflects progress everywhere, bar the Federation Cantons.

Progress reflects more realistically defined commitments, more disciplined administration of the pensions systems, and concerted arrears clearance efforts. However, unanticipated revenue cuts for the Federation Cantons spilled over into expenditure arrears. New audit offices and Finance Ministries procedures have strengthened arrears tracking. The new Treasuries provide opportunity for better information on arrears, but their extension to all government spending units and tracking of spending commitments will be needed to secure timely and comprehensive arrears data.

8. **But key blockages to growth remain.** First, the fiscal system is a major impediment to effective policy (Box 3). Second, budgetary spending is over concentrated on wages and transfers at the expense of investment in education and infrastructure refurbishment. Third, public indebtedness is excessive (Text Table 7). Claims, including frozen foreign currency deposits of BiH residents that were inherited from former Yugoslavia, could be 150 percent of GDP if some of the informal estimates of war compensation claims prove to be correct. The uncertain legal status of many of the domestic claims compounds the impediment these

Box 3. Fault Lines in the BiH Fiscal System

(i) No single institution is responsible for **aggregate BiH deficits.** The fiscal rule adopted under the last stand-by arrangement—a cap on domestic borrowing—attempted to fill this gap, but this rule was undercut by arrears and by post-program borrowing from local banks.

(ii) **Tax policy** is often separated from responsibility for deficits and spending: the State sets import tax rates but revenue flows to the Entities, while the State itself depends entirely on discretionary transfers from the Entities; Cantons are largely funded by PIT and sales taxes, rates for which are set by Federation central government. These separations greatly complicate fiscal management.

(iii) **Tax competition** in the single economic space is rife, and given the fiscal separations noted above, destructive. This threat remains to indirect taxation and is realized in direct taxation: the flat PIT rates are 10 and 5 percent in the RS and Federation respectively; the CIT rates are 10 and 30 percent respectively. Weak application of border taxes in Brcko undermines revenue everywhere.

These arrangements, set in the constitution, reflect the ethnic imperative for fiscal independence and so are largely immutable.

numbers will pose to hopes of eliciting foreign private capital inflows over the medium term. And fourth, business conditions are hostile—red tape, uncertain legal procedures and property rights, low labor mobility across ethnic lines, limited credit availability, and continued political uncertainties all discourage new private investment outside of the largely aid-driven (and hence now contracting) construction industry.

Text Table 7. Public Debt, end-2001
(Percent of GDP)

External debt[1/]	58
Debts to domestic banks	½
Frozen foreign currency deposits	30
Stock of domestic spending Arrears[2/]	10
Total[2/]	99

[1/] Incl. debt to former Comecon state-owned enterprises.
[2/] Staff estimates, excluding war compensation.

III. Report on the Discussions

9. **Aid for post-conflict reconstruction, though still large, is declining; the program supports its good use and continues laying the groundwork for life without it.** The key aims are to strengthen activity and the external current account balance in the near and medium terms. To these ends, the currency board is retained and, in 2002–03 specifically, further fiscal consolidation is programmed, supported by critical structural initiatives. These initiatives to be undertaken under the stand-by arrangement will need to be developed by the incoming administrations, supported by a successor 3-year program.

A. Overview of Objectives and Policies for 2002–03 and the Medium Term

10. As a first step towards its medium-term goals, the program targets real GDP growth to rise from 2½ percent in 2002 to 4 percent in 2003, sizeable declines in the external current account deficit, and continued low inflation and strong international reserves (Table 5). A modest projected strengthening in EU demand, continued growth of and improved market access to the former Yugoslav states, and continued remobilization of export capacity during 2002–03 is expected to boost the net external contribution to activity. On the domestic side, investment and household consumption spending will be supported by remittances and the still sizeable aid inflows. In this context, the Federation is projected to again grow faster than the RS reflecting relative progress with structural reforms. A benevolent external environment alongside reduced aid-related imports is projected to lower the external current account deficit by some 4 percentage points of GDP over the two years. Inflation, anchored by continued adherence to the currency board, is programmed to fall from just over 2 percent in 2002 to just under 2 percent in 2003 reflecting modest declines in imported manufactured price inflation and oil prices.

11. A fiscal consolidation of 3.3 percentage points of GDP between 2001 and 2003. This reflects two sets of measures in 2002, and two actions to reduce risk of slippage from the target. The two sets of measures are:

- Demobilization of over 10,000 Federation soldiers in the context of significant earlier demobilization by the RS. This has already begun and will yield annual savings on current expenditure of over 1¼ percent of BiH GDP once severance payouts are completed during 2002.

- A series of steps to strengthen the fiscal system will be taken, including measures which attenuate tax competition, strengthen tax policy and administration (including strengthening its legal framework and applying taxpayer identification numbers), and steps to improve budget execution.

The key actions aimed to secure adherence to the targets are:

- Both entities have delayed certain spending commitments in their 2002 budgets at least until after September; authorization of that spending will depend on overall macroeconomic and revenue trends through the year. The authorities will also abjure new credit from commercial sources and new expenditure arrears.

- Both entities will place one-off receipts in escrow and domestic claims on government will be audited, both steps anticipating a comprehensive domestic debt settlement to secure fiscal sustainability.

The budgets envisaged under the program for 2003 anticipate unchanged policies from 2002. With the non-recurrence of the military severance and wages for affected soldiers and strengthened tax administration through 2002, and reduced foreign lending for off-budget investment this is sufficient to secure a further sizeable fiscal consolidation in 2003.

12. **The stand-by arrangement will secure the necessary foreign financing required to address the balance of payments need.** Debt service rises in 2002–03 largely due to obligations to the IMF and the World Bank, and the current account deficit is projected to remain large (Text Table 8). Financing from the EU and the World Bank is contingent on formal IMF endorsement of policies. The EU will determine its commitments under the next Macroeconomic Assistance Program for 2002–05. World Bank credits in the pipeline include the BEC and the SOSAC credits. Bilateral donor finance is less formally tied to IMF endorsement of policies. Staff projections report, on the basis of assurances from these creditors, that the balance of payments is fully financed.

Text Table 8. Financing Needs
(In US$ millions)

		2001	2002	2003
Current account balance		-1,006	-986	-931
Increase in reserves		-765	-319	-50
Amortization		-14	-46	-43
Disbursements				
IBRD total		33	78	33
Of which:	PFSAC	13	20	0
	EBPAC	0	24	0
	SOSAC I	20	0	0
	SOSAC II	0	15	20
	BEC	0	19	13
EU macro assistance		33	27	27
Donor's capital projects		486	375	305
Foreign direct Investment		130	240	320
Other net capital inflows [1]		1,094	609	338
Net use of IMF resources		10	22	1

[1] Incl. DMs swapped for KMs when euros introduced

13. **Further ahead, investment- and savings-friendly policies will be required** (Table 5). Staff projections anticipate activity growth rising to 6 percent, stable low inflation, and a decline in the external current account balance by 7 percentage points of GDP between 2003 and 2006 as aid inflows decline. On this basis, public debt ratios are projected to decline by 7 percentage points of GDP. This will require: strengthened structural policies, lower taxes, and improved governance to stimulate corporate savings and private investment; current spending containment to raise public savings and to finance added public investment; a comprehensive domestic debt settlement to secure fiscal sustainability; and labor market and benefit reforms to encourage job-rich and poverty reducing growth. Critical steps in all these areas will be taken now with the remaining challenge falling on the shoulders of the incoming administrations.

B. Policies for 2002–03

Monetary and exchange rate arrangements

14. **The strict currency board arrangement will remain** (¶9).[2] It is one of the few fixed points in the economic scene and its credibility is reflected in the universal acceptance of the KM and in the recent sharp rises in currency and reserves. The Dayton constitution requires that it remain until at least mid-2003, after which changes are subject to the approval of the State Parliament. The authorities intend to retain it thereafter on the grounds that it insulates monetary and exchange rate policies from the complex political environment, it is credible, and it signals their commitment to the necessary supportive fiscal and structural policies over the medium term.

15. **Competitiveness will be kept under close surveillance** (Figure 3). The BiH CPI-based real effective exchange rate depreciated by some 5 percent during 2001 largely reflecting the sharp real appreciation of the Yugoslav dinar. That appreciation also provided some room for increases in BiH unit labor costs, which official data suggest have risen during 2001. But those data also suggest that unit labor costs rose relative to output prices, indicating a squeeze on profits, notably in the context of declining output in the RS. These issues, including the reliability of the data and the adequacy of corporate governance structures in ensuring appropriate wage discipline, will form a focus for the first review of the program.

16. **Administrative changes to the Currency Board are envisaged** (¶10). The Board has de facto been re-anchored to the euro at the final DM:euro conversion rate and this will be reflected in the central bank law when Parliament approves the amendment. In addition, the permissible range for the reserve requirements imposed on commercial banks will be widened from the current 10–15 percent to 10–20 , providing some flexibility for policy should possible future excess credit growth require a response from monetary policy. The reserve requirement will remain unchanged at 10 percent during the stand-by arrangement. The central bank will not make any dividend payments to the government until it capital

[2] Henceforth, unless otherwise noted, all references to paragraphs pertain to the MEFP of May 31, 2002.

exceeds 10 percent of its monetary liabilities (it is currently some 5 percent of those liabilities).

17. **Commercial banks are highly capitalized.** Prudential requirements are sound and are enforced, and good progress has been made to cleanse balance sheets of doubtful claims. Minimum capital requirements have encouraged mergers amongst smaller banks and will continue to do so. This forms an appropriate backdrop to the currency board. Banks are underdeveloped, however, and given limited credit extension, liquid.

Fiscal policy

18. The fiscal deficit (accruals basis) is programmed to fall by 3.3 percentage points of GDP between 2001 and 2003 (Text Table 9). The bulk of the deficit adjustment net of one-off severance payments occurs in 2002. Grant aid declines by 4 percentage points of GDP in the two years to 2003, offset by a rise in tax revenues of 1 percent of GDP. The latter reflects the full year effect in 2002 of tax administration improvements during 2001 and the non-recurrence of the shift of tax revenues from 2002 into 2001. In this context, expenditures are targeted to decline by some 6½ percentage points of GDP from the estimated 2001 outturn. This adjustment focuses on grant-funded investment of some 5 percentage points of GDP and on non-productive military expenditure of 1¼ percent of GDP. Additional adjustment will be needed over the medium term. The deficit declines sharply in 2003 after final wage and severance payments of 1¼ percent of GDP are completed in 2002.

Text Table 9

BiH	2001	2002	2003
General Government, accruals, percent of GDP			
Revenue	55.0	53.0	52.0
Of which: Grants	8.1	6.0	4.1
Tax	43.1	43.6	44.2
Expenditure	61.3	58.6	54.9
Of which: Investment	12.9	10.0	8.1
Balance	-6.3	-5.5	-3.0
Of which:			
Federation	-1.3	-1.8	0.1
RS	-1.2	-0.2	0.0
State	0.0	-0.1	0.0
Foreign projects	-3.8	-3.4	-3.1
Public external debt	57.7	62.0	61.4

19. The overall fiscal outlook for 2002 reflects the policies of the various fiscal authorities and prospects for off-budget foreign investment projects (¶13):

- In the **RS**, the consolidated deficit on a commitment basis is programmed to fall from 1.2 percent of BiH GDP to 0.2 percent in 2002 (Text Table 10). At RS central government level, nominal revenues are projected broadly unchanged relative to GDP because the yields from significant strengthening of tax administration have been cautiously budgeted and programmed. The widened base for wage withholding tax is offset by a reduction in the rate of tax. Overall tax revenue outturns so

Text Table 10

Republika Sprska		2001	2002	2003
(General Government, accruals, % of BiH GDP)				
Balance		-1.2	-0.2	0.0
Central	Revenue	8.3	8.4	8.0
	Expenditure	8.9	8.7	7.9
	Balance	-0.6	-0.3	-0.0
Other	Revenue	4.3	4.2	4.2
	Expenditure	4.9	4.1	4.2
	Balance	-0.6	0.1	0.0

far in 2002 suggest the annual revenue target may be surpassed. Spending commitments rise by 7½ percent falling marginally relative to economic activity. This partly reflects no increase in the minimum wage and a planned cut in employees by 1,500 persons (2/3 in the Army and 1/3 in the police) from the current level of 44,000. Spending includes KM 9 million (0.1 percent of BiH GDP) in transfers to the electricity utility in compensation for coupons issued to pensioners to clear old pension arrears. In addition, some KM 8 million in budgeted spending commitments have been delayed pending a review by IMF staff of revenue and macroeconomic developments in September. Amongst the extrabudgetary funds, the Health Fund is projected to experience a decline in revenues in 2002 owing to the decrease in contribution rates, and will secure a matching decline in spending commitments. Vigilance will be required to ensure this does not cause accrual of spending arrears in health units.

- In the **Federation**, the consolidated deficit on a commitment basis is programmed to rise to 1.8 percent of BiH GDP in 2002 (Text Table 11). The authorities' budget anticipated revenue growth of 16 percent (30 percent excluding various one-off receipts in 2001) due to vigorous efforts to strengthen customs and tax administration. But as the immediate yields from these reforms are uncertain and early 2002 receipts were disappointing, the program budget framework assumes revenue growth excluding one-off items unchanged relative to nominal GDP. Programmed spending similarly is well below the budget estimates. It includes, however, 1¼ percent of BiH GDP in wages and severance packages for 10,500 soldiers whose demobilization will secure annual budget savings of a similar amount in 2003 and thereafter and reduce the Federation army to some 13,000. The lump-sum payouts to the soldiers will be financed from succession funds, thereby avoiding all access to commercial bank financing even to cover this bullet payment. To bridge the gap between budgeted and programmed spending, the authorities have put 3 percent of Federation GDP of specific spending commitments on hold at least until end-September 2002. The list largely consists of arrears clearance, subsidies and capital expenditures. Execution of that spending is contingent on a review of macroeconomic and revenue developments by IMF staff in the fall of 2002 indicating that the spending will not compromise the program fiscal deficit and macroeconomic objectives. In addition, the authorities have committed to reconstitute the succession funds during 2002 prior to release of the "delayed spending commitment" items if revenue exceeds programmed projections. Although this is unlikely, it implicitly applies stronger than programmed revenues to the fiscal balance and reflects the principle that one-off receipts should be retained for future use as part of a comprehensive debt settlement (see below). Wages and hiring are frozen at central government level and reforms to the war invalids programs, if any, will be expenditure reducing overall.

Text Table 11

Federation (Accruals) (General Government, percent of BIH GDP)		2001	2002	2003
Balance		-1.3	-1.8	0.1
Central	Revenue	10.9	10.1	10.8
	Expenditure	11.3	11.9	10.7
	Balance	-0.4	-1.8	0.1
Other	Revenue	23.3	23.7	23.9
	Expenditure	24.2	23.7	23.9
	Balance	-0.9	0.0	0.0

- At the **State** level, the 2002 budget anticipates a deficit of 0.1 percent of BIH GDP (Text Table 12). Receipts of funds from the Entities for debt service are matched by corresponding outflows to external creditors to service that debt. Revenues and expenditures will increase from 3 percentage points in 2001 to 4.6 percentage points of BIH GDP as commitments to the State Border Service and the new State institutions rise. The program anticipates that a State government guarantee for credit to finance an "identity card project (CIPS)" in 2002 will be retired as fees from card issue clear the underlying credit. A monthly schedule for transfers from the Entities has been agreed and has been adhered to.

Text Table 12

State (Accruals) (General Government, percent of BiH GDP)	2001	2002	2003
Balance	0.0	-0.1	0.0
Revenue	3.0	4.6	4.8
Of which:			
Debt service	1.8	2.8	3.5
Other	1.2	2.8	1.3
Expenditure	3.0	4.7	4.8

- Reconstruction related investment projects are coming to the end of their project cycles (Text Table 13). New projects are smaller than those being phased out and tend to be not directly reconstruction related—this is also reflected in increased share of loan financing of the investment.

Text Table 13

Investment projects Percent of BiH GDP	2001	2002	2003
Balance	-3.8	-3.4	3.1
Revenue	7.6	5.3	3.8
Expenditure	11.4	8.7	6.8

20. **The 2003 budgets will be prepared by incoming administrations after the fall elections** (¶14). The program assumes unchanged policies from 2002. This secures a further deficit reduction from 5.5 percent of BiH GDP in 2002 to some 3 percent in 2003 largely because of carry-over effects of policies implemented during 2002, notably the savings yielded by the military demobilization effected in 2002 of over 1¼ percent of BiH GDP (comprising the severance payouts and the non-recurrence of wages paid to soldiers in the first quarter of 2002). Automatic adjustments in foreign investment projects and further spending efficiencies of some ¼ of a percentage point of GDP underpin the remaining programmed consolidation. In the event that reconstitution of succession monies spent during 2002 is incomplete, the deficit target for 2003 will be adjusted accordingly.

21. **Public debt remains on a sustainable trajectory.** At end-2003, public debt (excluding frozen foreign currency deposits and war claims) is projected at 71 percent of GDP, compared with 68 percent of GDP at end-2001. The increase reflects further reconstruction aid and donor-financed activities and the prospective takeover by the State government in 2002 of 2.1 percent of BiH GDP of state enterprise debt. On the basis of policies initiated during the stand-by arrangement and strengthened under the successor extended program, the debt ratio rises in 2002 before falling in 2003 and over the medium term, even if economic growth is somewhat below projections in the base case scenario (Appendix VII). The precise path for debt during 2002–2003 is somewhat uncertain, however. Given the embargo on domestic borrowing, any delays in disbursements of external finance also delay increases in the total stock of debt. But any such delays in 2002 are likely to be made up during 2003.

22. These policies will be supported by measures—reflected as prior actions and structural benchmarks—to strengthen the fiscal system (¶15–16, Appendix V Table 2, and Box 4).

Box 4. Structural Conditionality

Structural conditionality under the stand-by arrangement

In addition to the requirements to place all privatization and succession receipts in escrow and to maintain the currency board, structural conditionality focuses on weaknesses in the fiscal system:

- The risk of disruptive tax competition is attenuated by the commitment to retain or strengthen harmonization in any changes to indirect taxation, by the adoption of amendments to Brcko district's sales and excise tax legislation to harmonize their legislation with those in the Entities, and to introduce the ASYCUDA++ information system at all border posts.
- Tax policy is strengthened through implementation of the excise attribution mechanism which will allocate revenue according to the destination principle and eliminate double taxation on inter-entity trade. And the Federation will pass the tax administration law designed with the U.S. Treasury thereby ensuring that Tax Identification Numbers can be implemented consistently in the two Entities. The RS will also regularize tax arrears by applying the current penalty interest rate on tax arrears to arrears accumulated since end-1997
- Budget execution and control is bolstered by plans to be prepared to extend the central government treasury systems to local governments and extrabudgetary funds and to enable new arrears to be monitored within those systems. To that end, wage entitlements will be defined by the labor and not the budget laws. These steps will also be taken at the State level. Amendments to the budget laws of the Entities as necessary will prevent increased indebtedness to commercial banks. The pension funds will adhere to defined cut-off dates (10th of each month in the RS, end of the previous month in the Federation) for contribution collections to pay pensions of the previous month.

Status of structural conditionality from the earlier program

- The structural benchmarks in the previous program which were related to sales tax reform, pension and contribution reform, payment system and treasury reform were all met.
- Delays were encountered in the area of privatization of public enterprises. Bank privatization proceeded satisfactorily in the Federation but less so in the RS.

Structural areas covered by World Bank lending and conditionality

- Business sector reform includes adoption of a revised Foreign Investment Laws, an anti-corruption plan, reduces business registration requirements, and continued Bank engagement with privatization. Social sector reform envisages preparation of a social welfare and child protection strategy, a reorientation of benefits to the most needy, new laws for NGOs, and improved data gathering.

Other relevant structural reforms not included in the program

- Trade policy reform: progress is satisfactory and is taken care of by EU and through direct negotiations. Accession to the WTO is anticipated in 2003.
- Strengthening bankruptcy laws as a condition for progress under the privatization program and measures to improving business climate. Discussions are planned in June 2002 to help the authorities finalize the preparation of new bankruptcy laws, in coordination with the World Bank.
- Both Entities are prosecuting ambitious privatization programs, with sale of small and medium-size state-owned enterprises likely to be completed during the program period, and sales of large strategic enterprises proceeding alongside.

23. **Finally, on the fiscal side, the first essential steps will be taken to resolve the issues posed by the stock of public debt.** The stock of such claims includes many for which the legal status is uncertain and the complex process of auditing these claims will be tackled. If some informal estimates of war compensation claims prove to be correct, total claims on government could be 150 percent of GDP and further public indebtedness could arise from future enterprise restructuring. Given write downs of eligible debt by the Paris and London Clubs of 70 and 73 percent, respectively, in 1998–99, restructuring will have to focus on domestic claims (Box 5). In anticipation, privatization receipts and succession monies at all government levels will be placed in escrow to be available to finance such a settlement; other uses of these funds, such as financing the severance payouts in 2002, require understandings with IMF staff. The authorities will provide staff with data on the balances in these accounts alongside data of such receipts to ensure effective monitoring. In addition, arrears accrued before end-2000 will only be cleared as part of that settlement, a cutoff date which helps to ensure transparency and equality of treatment of claims. The fiscal programs for 2002–03 reflect these actions on privatization and arrears clearance, though succession receipts will provide temporary finance for the military demobilization in the Federation as described above. After appropriate preparation, a domestic debate about the implications for policy will be initiated. Issues pertaining to external debt negotiations, including plans to settle the remaining issues on Paris Club debts, are described in Appendix IV.

Box 5. Options for a Comprehensive Arrears Settlement

Given that arrears cannot be settled in full (in cash or bonds) without compromising fiscal sustainability and that a total default is neither desirable nor politically feasible, settlement must occur at a discount.

To do this, part of receipts of SFRY assets could be earmarked to repay frozen foreign currency deposits, with the discount determined by the ratio of receipts to deposits. Small depositors could obtain relatively preferential treatment. For the other arrears, an audit to determine who is owed how much has to be completed. That done, practical and political considerations would favor a uniform (and deep) discount across arrears types and Entities.

C. Structural Policies

24. During the program, key steps will be taken to strengthen the operations of the private sector:

- The Business Environment Credit of the World Bank, expected to be approved in mid-2002, will facilitate entry of firms, reduce administrative burdens on firms, and streamline exit processes. Regarding entry, the legal framework for FDI will be strengthened by harmonizing Entity laws with State law, streamlining registration of all business, and upgrading the Entities' investment promotion agencies to "one-stop information shops" for investors. On the burdens on business, legislation to protect creditors' rights and formalize legal foundations for pledge collateral will be adopted, and regulatory burdens will be reduced through steps to harmonize Entity commercial laws. And regarding exit, bankruptcy laws and procedures will be strengthened and harmonized (¶18).

- In 2002, privatization initiatives will focus on selling large strategic enterprises long slated for sale. In the Federation, the authorities plan to sell at least 8 such enterprises (from a list of 56), including several large industrial and telecommunications firms. The complexity of the largest sales, including BiH-Telecom and Aluminum Mostar, implies risk of delays. Sales of small and medium-sized enterprises may also be completed during 2002. In the RS, strategic enterprises slated for privatization includes the petroleum refinery, several petroleum firms as well as other industrial and telecommunication enterprises. The authorities intend to sell their remaining stakes in medium and small enterprises, thereby completing this part of their privatization strategy. They will abolish limits on the share of individual companies which individual public investment funds may hold. (¶19)

- Following several bank sales to foreign investors and bank closures in 2001, the privatization and/or restructuring of remaining state owned banks will proceed as follows. Of the 8 remaining Federation state-owned banks, four will be privatized during 2002; one will be merged with a foreign bank, and one is under administration. The Investment bank will have its banking license revoked and will be converted into an agency to manage donor credits and the remaining bank is subject to an ownership dispute. Of the RS' 8 state-owned banks, two are ready for privatization by mid-2002, 2 are at an advanced stage of preparation for privatization, and four are undergoing bank resolution procedures. With the exception of two small banks in special circumstances, both Entities will place state-owned banks not privatized by mid-2002 under the bank resolution procedures. The authorities target completion of these privatizations by end-2002. On the regulatory side, by the end of 2002, all commercial banks will have a minimum capital requirement of KM 15 million. The authorities will create a countrywide deposit insurance agency to supersede the current entity-based arrangements. The infrastructure for capital and securities markets will be strengthened, partly through extended listings.

- By mid-2002, free trade agreements will be in operation in all of the former Yugoslav republics to be accompanied by bilateral free trade agreements with Bulgaria (by summer) and Turkey (by fall). Accordingly, trade protection will be lowered further (the average non-preferential tariff is currently 6.8 percent and the maximum tariff is 15 percent). The authorities are seeking certification to obtain access for some BiH agricultural exports to regional and EU markets. Building on the already duty-free access BiH enjoys to EU markets, passage of a new law on customs (now in parliament) will form the last step necessary to secure accession to the WTO which is envisaged in early 2003 (¶20).

25. **Initiatives are also underway to improve the quality and the coverage of economic statistics** (¶22). These include a household budget survey, comprehensive exports and import data broken down by commodity, national accounts on an expenditure basis and real GDP estimates for 1998–2002 including the now unrecorded economy, an update of the CPI construction and the industrial production measures, and strengthened data on foreign direct investment. The first post war census is also planned, along with regular consumer and business surveys.

D. Capacity to Repay the Fund

26. **The impact of the medium-term balance of payments outlook on the capacity to repay the Fund is shown in Table 9.** While the repurchase ratios will increase significantly from 2003–2005 compared to 2001 levels, staff believes that they are sustainable. Debt service obligations to multilateral creditors (non-reschedulable) constitute around two-thirds of total obligations over the medium term and these peak at 7½ percent of exports of goods and services in 2003, declining to 6.6 percent by 2005. Within this, annual debt service to the Fund peaks at less than 3 percent of exports of goods and services (1 percent of GDP) in 2003 and then declines to around 1 percent of exports of goods and non-factor services in 2006. Debt service to the Fund as a percentage of total debt service rises to 27 percent in 2003, although net use of Fund resources in that year are still greater than zero. In the staff's view these ratios are sustainable and BiH, as in the past, is expected to meet its obligations to the Fund on time.

IV. Modalities of Proposed SBA

27. The stand-by arrangement is planned for 15 months, for the period June 2002–September 2003. The authorities will request access of 40 percent of quota (SDR 67.6 million) to be disbursed in five tranches: the first tranche will be disbursed upon Board approval (SDR 19.6 million); the remaining four tranches will be disbursed in equal amounts (SDR 12.0 million) upon completion of each of four quarterly reviews. These reviews will focus on implementation of the structural benchmarks and the first review will be undertaken with the Fund by mid-November 2002. That review will additionally focus on the 2003 budgets and actions to strengthen corporate governance Quantitative performance criteria and benchmarks are summarized in Appendix V, Table 1. Prior actions for approval of the SBA and structure performance criteria and benchmarks are in Appendix V, Table 2.

28. The status of **prior actions** for Board consideration of the proposed program (Annex IV, Section I of the MEFP and Table 2) will be reported in a subsequent staff statement. Continued adherence of the Currency Board Arrangement as constituted under the law is the sole structural performance criterion (¶10).

29. **Quantitative performance criteria** under the proposed program comprise:

- A ceiling on gross credit of the banking system to the consolidated general government;
- A ceiling on contracting or guaranteeing of new concessional external debt with original maturity of more than one year by the public sector;
- A ceiling on contracting or guaranteeing of new non-concessional debt by the general government or the public sector;
- A ceiling on new external debt owed by the consolidated general government or guaranteed by the public sector with an original maturity of up to and including one year;

- A ceiling on outstanding external payments arrears (Appendix V, Table 1).
  Structural benchmarks under the program include policy actions in the areas of fiscal policy and the financial sector (AppendixV, Table 2).

30. **The fiscal agent for BiH's dealings with the Fund will be changed from the State Ministry of Treasury to the Central Bank.** IMF resources under the arrangement, in the context of a balance of payments need, will be disbursed to the Central Bank. Acting as Trustee for the government, the Central Bank will allocate those resources only for the purpose of financing spending in foreign currency in the two Entity budgets on the customary 2/3:1/3 split. An on-site safeguards assessment mission is scheduled for August 2002, and a staff review of the CBBH external audit mechanism during 2001 concluded that no further steps were necessary at that time.

V. Staff Appraisal

31. **Bosnia and Herzegovina is a challenging case.** Much has been achieved since the 1995 peace settlement: the economy is getting back on its feet, refugees have returned in numbers, rebuilding is evident everywhere, democratic institutions are taking root, and tensions between the communities, though still present, have eased perceptibly. Progress is far from unqualified, however, and has been hard won, closely nurtured by the international community including through the much-extended first stand-by arrangement with the Fund. Many tasks remain, most centrally the political and economic adjustment as the international community steps back from its exceptional engagement. Since 1995, the road has been bumpy; it will remain so.

32. **The proposed program grapples with that challenge.** It establishes policies which anticipate an early acceleration in activity and lay the groundwork for life after reconstruction, while also providing reassurance to donors providing funding in 2002–03. The authorities' commitment to the currency board and to a further significant fiscal consolidation lie at its heart. The board provides a critical fixed reference point for decision-makers, it insulates monetary and exchange rate policies from the complex political environment, and it anchors inflation. Its credibility is underscored by the now universal use of the KM and in the surge of reserves since late in 2001. For these reasons, the authorities are rightly committed to its retention after the Dayton injunction against changes expires in mid 2003. In this context, the sizable fiscal consolidation envisaged supports the board and is a key step towards raising domestic savings in anticipation of future declines in reconstruction aid. Measures anticipating an eventual settlement of possibly large domestic claims on government is a further essential step towards securing fiscal sustainability.

33. **Several steps already taken underpin the fiscal outlook.** Demobilization will secure sizeable annual savings once the severance payouts are completed in 2002. Tax revenues have been programmed to rise reflecting the full-year effects of tax administration measures implemented during 2001. Both entities have delayed spending commitments until at least the fall to ensure that the 2002 program fiscal balance targets will be met. And an eventual domestic debt settlement is anticipated in the commitments to place one-off receipts in escrow and to audit the claims on government. Given these steps, the full effect of which will increase over time, the further deficit reduction envisaged for 2003 will require only a limited additional fiscal tightening.

34. **Structural conditionality strengthens the role of the fiscal system as a policy instrument.** Tax competition is diminished by commitments on harmonization of indirect taxation and the introduction of a uniform information system at all border posts. Tax policy is strengthened by elimination of double taxation on inter-entity trade. And tax administration is improved by issue of Tax Identification Numbers applicable country-wide and the strengthened legislative base. Building on progress to rein in arrears in 2001, budget execution and control is bolstered by the injunctions on increased indebtedness of the commercial banks and a number of other measures including adherence to pre-specified cutoff dates monthly on revenue periods for the pension funds. All these steps will allow greater control of the overall fiscal deficit and establish more firmly a common economic space in BiH.

35. **These actions are embedded in an overall strategy to generate job-rich and poverty reducing growth.** The Business Environment Credit of the IBRD addresses key impediments to private investment, including uncertainties in the legal framework. This will be complemented by steps to accelerate privatization and strengthen trade policy, including though completion of bilateral trade agreements with neighboring countries. The SOSAC credit anticipates reform of the currently over burdensome social benefit system, to increase scope within budgetary resources to finance additional public refurbishment investment.

36. **Current economic trends underscore the need for these actions.** Activity is decelerating with the RS already in recession, and reconstruction aid, though still large, is declining. Both increase pressures on unemployment and the current account deficit, both still large. The program framework, the associated foreign finance, and a benevolent external environment are programmed to boost growth. The strengthened external market growth and declines in reconstruction-related imports are programmed to yield a sizable decline in the external current account imbalance during the program period. Inflation is projected to remain low and to decline slightly along with weakening international inflationary pressures.

37. **There are risks.** There will be short-run election pressures, and important parts of the consolidated fiscal position are difficult to monitor, notably the Federation Cantons. In addition, the dispersion of executive power generates significant coordination problems and contributed to the multiple extensions of the earlier stand-by arrangement. And difficulties with tax revenue during 2002 if activity is less buoyant than programmed may increase fiscal strains, as would delays in the timing and quantity of external aid.

38. **But key factors mitigate those risks.**

- The policy commitments are given by the current administrations which during their term in office in 2001 made significant progress in lowering the fiscal deficit, decisively reining in new arrears, improving cooperation on tax and other key fiscal issues, and restructuring the banking sectors. In this light, the program undertakings reflect a track record of good policies by the current administrations.

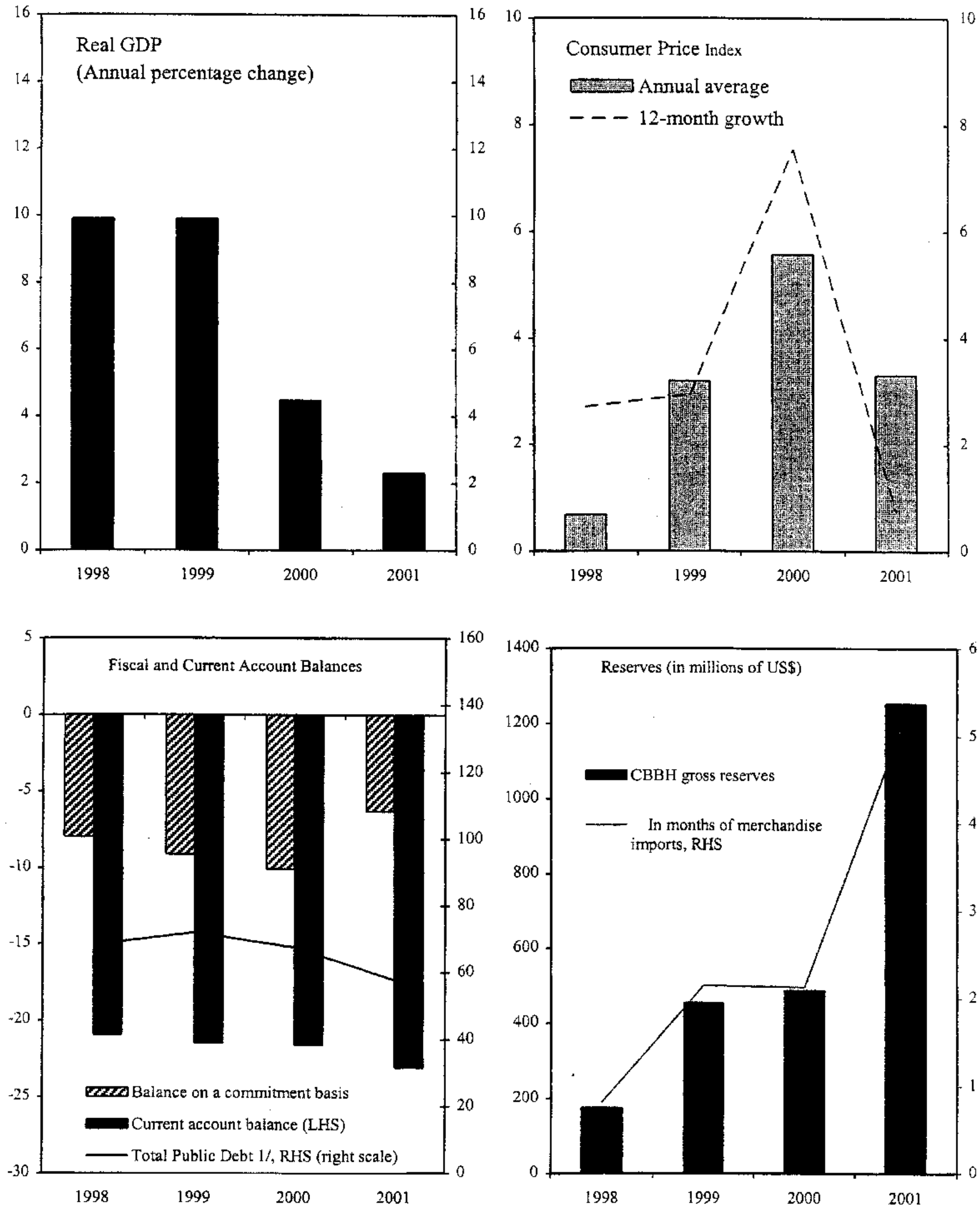
- Cantonal fiscal options are constrained by the placement of their privatization receipts in escrow and the embargo on bank borrowing. Arrears accumulation is the key risk therefore, but current indications are that they have budgeted revenues and spending appropriately cautiously.

- The risks of significant changes in economic philosophy after the election appear to be low and key fiscal elements of the program do not hinge on significant new measures to be taken by those administrations to secure additional fiscal adjustment planned for 2003.

- Coordination between the various decision-makers is most critical in the relatively devolved Federation where the program anticipates—as prior actions—legislative changes, including to the budget law to rule out new commercial borrowing by any level of government.

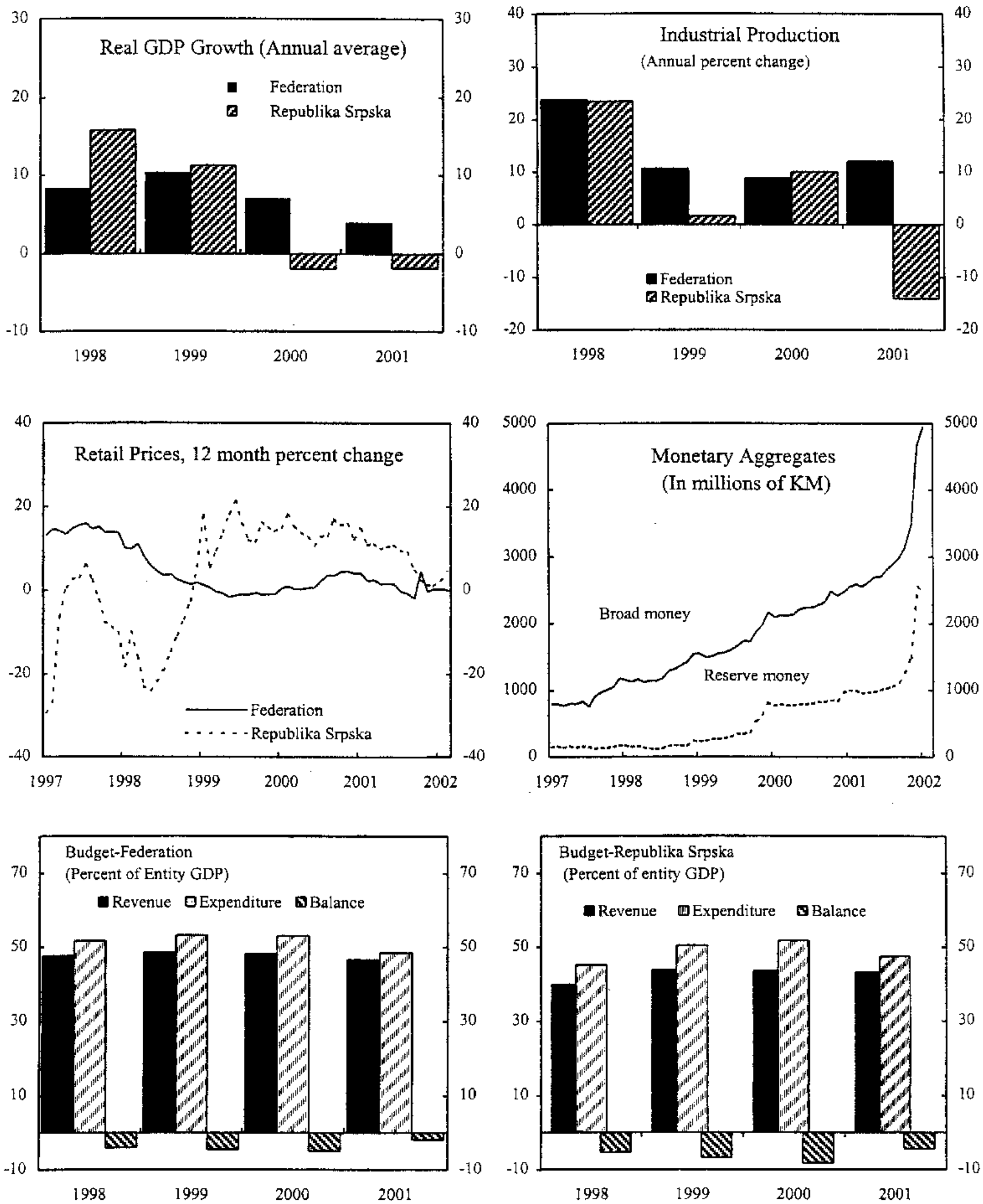
39. In sum, the Bosnian authorities' program lays the foundations for sustainable growth, low inflation, and a sizeable adjustment of the current account balance, and it deserves the support of the Fund.

Figure 1. Bosnia and Herzegovina: Selected Financial and Economic Indicators (1997-2001)



Source: Data provided by Bosnian authorities; and IMF staff estimates.
1/ excluding arrears.

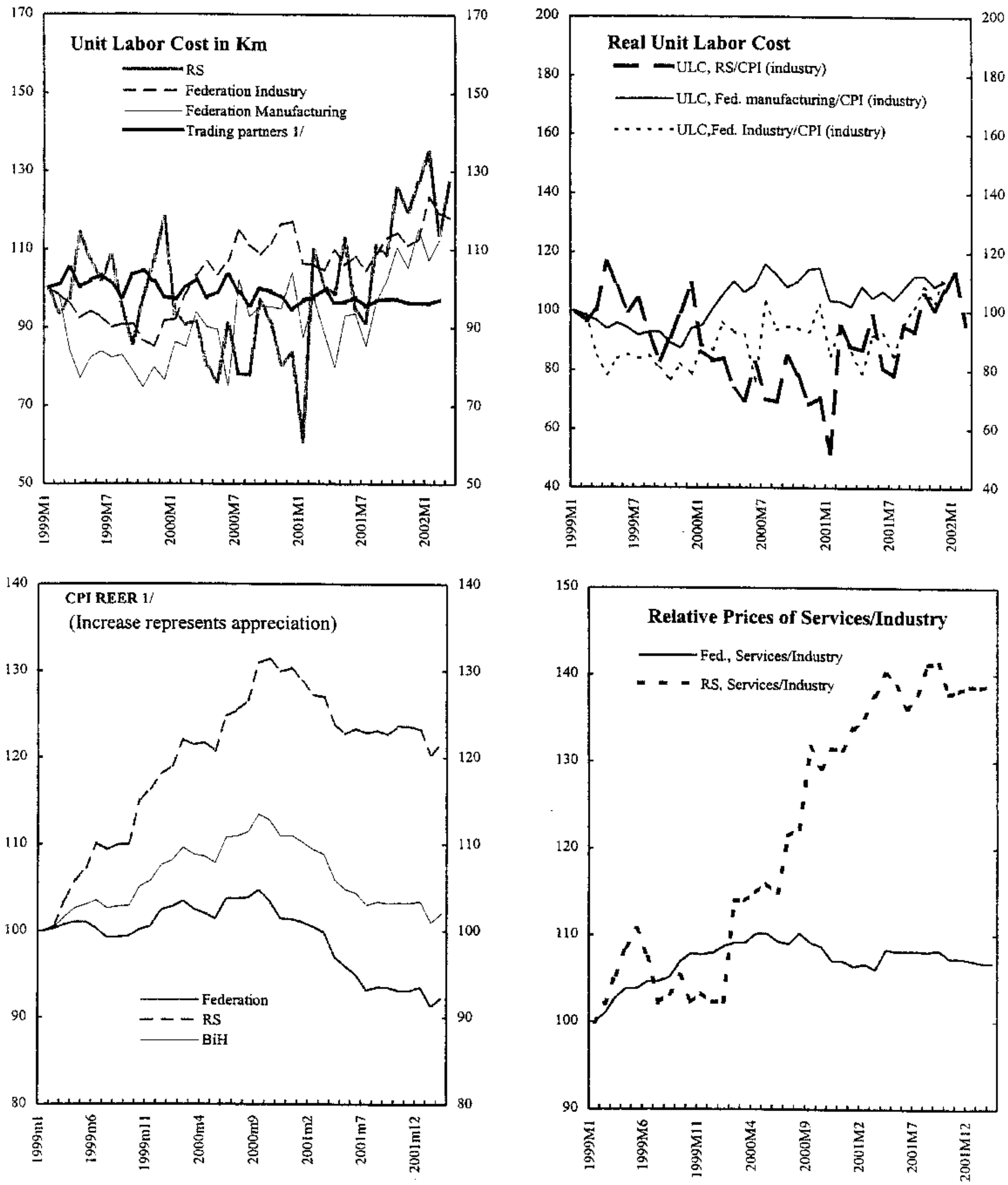
Figure 2. Bosnia and Herzegovina: Selected Indicators by Entity
(1997-2002)



Source: Data provided by Bosnian authorities; and IMF staff estimates.

1/ The GDP series since 1994 has been revised compared to SM 98/96 on the basis of new official data.

Figure 3. Bosnia and Herzegovina: Indicators of Industry, 1999-2002



Sources: Provided by the authorities; and IMF staff estimates.

1/ Series includes Yugoslavia amongst partner countries, using a dinar/US dollar exchange rate calculated as a weighted average of the official and black market exchange rates, weighted two thirds black market, one third official.

Table 1. Bosnia and Herzegovina: Main Economic and Financial Indicators, 1997-2003 1/

	1997	1998	1999	2000	2001 Est.	2002 Proj.	2003 Proj.
Population (millions)	4.2	4.2	4.3	4.3	4.3	...	...
Nominal GDP (millions of KM)							
BiH	6,310	7,336	8,604	9,433	9,940	10,402	11,033
Federation 2/	4,942	5,602	6,142	6,698	7,086	7,421	7,978
Republika Srpska 2/	1,368	1,734	2,462	2,735	2,855	2,981	3,056
Real GDP growth (annual average)	36.6	9.9	10.6	4.5	2.3	2.3	4.1
Federation	36.2	8.3	10.4	7.0	4.0	3.2	5.6
Republika Srpska	37.9	15.8	11.3	-1.9	-1.9	0.0	0.5
Industrial production (percent change) 3/							
Federation	36	24	11	9	12	...	...
Republika Srpska	27	23	2	10	-14	...	...
Wages (KM/month) 4/ 5/							
Federation	493	506	551	606	651	679	...
Republika Srpska	174	256	314	384	442	516	...
CPI (twelve-month average)							
Federation	14.4	5.2	-0.7	1.9	1.7	1.5	1.6
Republika Srpska	-7.3	-14.0	14.1	14.6	7.3	4.4	2.5
	(Change in percent of opening broad money)						
Money and credit							
Broad money (year-on-year)	-100	31	40	14	89	11	14
Domestic assets (net)	-384	31	-2	12	0	8	8
Foreign assets (net)	255	6	41	11	95	13	8
Other items (net)	29	-5	1	-9	-5	-11	-2
	(In percent of BIH GDP, commitment basis)						
Federation							
Revenue	...	36.4	34.7	34.2	33.2	33.5	34.4
Expenditure	...	39.5	38.0	37.7	34.5	35.3	34.4
Balance	...	-3.1	-3.2	-3.5	-1.3	-1.8	0.1
Republika Srpska							
Revenue	...	9.4	12.5	12.6	12.4	12.3	12.0
Expenditure	...	10.7	14.4	15.0	13.6	12.5	11.9
Balance	...	-1.3	-1.9	-2.4	-1.2	-0.2	0.0
	(In percent of Entity GDP, commitment basis)						
Federation							
Revenue	...	47.7	48.7	48.2	46.6	46.9	47.6
Expenditure	...	51.7	53.2	53.1	48.5	49.5	47.5
Balance	...	-4.1	-4.5	-4.9	-1.8	-2.5	0.1
Republika Srpska							
Revenue	...	39.9	43.7	43.5	43.2	42.9	43.2
Expenditure	...	45.2	50.4	51.7	47.5	43.7	43.1
Balance	...	-5.3	-6.8	-8.2	-4.3	-0.8	0.1
	(In millions of U.S. dollars; unless otherwise indicated)						
External current account balance (excluding official transfers)	-1,482	-873	-975	-971	-1,044	-1,015	-947
As a percentage of GDP	-43.3	-20.9	-20.8	-21.6	-23.1	-21.3	-18.7
Exports	575	702	744	903	1,002	1,165	1,388
Imports	-2,333	-2,583	-2,542	-2,558	-2,670	-2,764	-2,904
CBBH gross reserves	80	175	455	488	1,253	1,572	1,622
In months of merchandise imports	0.4	0.8	2.1	2.1	5.2	6.4	6.3
External debt (in percent of GDP) 1/	119.0	68.1	69.6	67.4	57.7	62.0	61.4
External debt service (percent of exports of goods and NFS)	16.0	9.2	8.5	5.4	5.1	7.5	7.6

Sources: Data provided by the authorities; and IMF staff estimates.

1/ Data refer to the entire country, unless otherwise indicated.

2/ Starting in 1997 in the Federation, and in 1999 in the RS, GDP is estimated based on 1993 SNA methodology.

3/ Manufacturing, mining and electricity.

4/ Average gross wages in the economy as a whole.

5/ In 2002, first quarter only.

Table 2. Bosnia and Herzegovina: Balance of Payments 1998-2006 1/

(In millions of U.S. dollars; unless otherwise indicated)

	1998	1999	2000	2001 Est.	2002 Proj.	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.
Merchandise trade balance 1/	-1,881	-1,797	-1,656	-1,668	-1,598	-1,516	-1,400	-1,299	-1,296
Exports, f.o.b.	702	744	903	1,002	1,165	1,388	1,749	2,128	2,436
Imports, f.o.b. 2/	-2,583	-2,542	-2,558	-2,670	-2,764	-2,904	-3,148	-3,427	-3,732
Reconstruction	-479	-516	-582	-516	-415	-345	-300	-237	-210
Other	-2,078	-2,026	-1,976	-2,154	-2,349	-2,559	-2,848	-3,190	-3,522
Services, net	378	324	264	226	203	188	141	108	92
Receipts	563	552	460	424	388	382	368	354	348
Expenditure	-185	-228	-196	-198	-185	-194	-227	-245	-256
Net factor income	366	300	256	243	232	226	216	241	322
Earnings	409	353	318	302	301	318	325	361	399
Interest payments	-43	-53	-63	-59	-70	-92	-109	-120	-77
Unrequited transfers, net	461	284	218	192	178	172	178	176	177
Receipts	468	292	225	199	186	179	185	183	185
Official grants	197	86	53	38	29	16	20	15	15
of which: Budget support	38	25	53	38	29	16	20	15	15
Private	271	206	172	161	157	163	165	168	170
Outflows	-7	-8	-8	-7	-7	-7	-7	-7	-8
Current account balance	-676	-889	-918	-1,006	-986	-931	-865	-774	-706
Excluding official transfers	-873	-975	-971	-1,044	-1,015	-947	-885	-789	-721
Foreign investment (net)	100	90	150	130	240	320	380	500	580
Capital transfers for reconstruction	492	548	396	346	252	190	150	90	80
Foreign loans (net)	122	147	237	198	205	155	174	161	140
Disbursements	194	205	248	212	251	198	217	200	180
Reconstruction	147	140	186	171	162	155	150	147	130
Other 3/	47	65	62	42	89	43	67	53	50
Amortization	-73	-58	-12	-14	-46	-43	-43	-39	-40
Multilateral and Paris Club creditors	-30	-15	-10	-14	-46	-43	-43	-39	-40
Others 4/	-42	-42	-2	0	0	0	0	0	0
Commercial banks	129	-203	-146	-312	44	90	-86	-98	-123
Other capital 5/	-214	557	300	1,397	538	219	340	210	108
Capital account balance	629	1,140	936	1,759	1,279	975	959	863	785
Errors and omissions	0	0	0	0	0	0	0	0	0
Overall balance	-47	251	19	752	294	44	94	89	79
Financing	47	-251	-18	-753	-294	-44	-94	-90	-79
Change foreign assets (increase, -)	-61	-262	-26	-755	-297	-49	-98	-98	-87
of which:									
Gross foreign assets of the central bank	-94	-281	-43	-765	-319	-50	-50	-50	-50
Net use of Fund resources	33	18	17	10	22	1	-48	-48	-37
Purchases/loans	33	39	37	18	40	46	0	0	0
Repurchases/repayments	0	-21	-20	-8	-18	-44	-48	-48	-37
Short-term liabilities (reduction, -)	0	0	0	0	0	0	0	0	0
Arrears (reduction, -) 6/	-815	-20	-342	-550	51	0	0	0	0
Multilateral creditors	0	-20	0	0	0	0	0	0	0
Paris Club creditors	-815	0	0	0	0	0	0	0	0
London Club	0	0	0	0	0	0	0	0	0
Other creditors	0	0	-342	-550	51	0	0	0	0
Debt rescheduling or cancelation (of arrears)	815	20	342	550	-51	0	0	0	0
Multilateral creditors (rescheduling)	0	20	0	0	0	0	0	0	0
Paris Club creditors (rescheduling) 7/	815	0	0	0	0	0	0	0	0
London Club (rescheduling) 8/	0	0	0	0	0	0	0	0	0
Other creditors (cancelation) 4/ 6/	0	0	342	550	-51	0	0	0	0
Debt relief, current maturities (cashflow)	108	12	8	2	4	5	5	8	8
Multilateral creditors	0	0	0	0	0	0	0	0	0
Paris Club creditors 7/	36	8	0	0	0	0	0	0	0
London Club 9/	73	4	8	2	4	5	5	8	8
Total financing gap 2/	0	0	0	0	0	0	0	0	0
Memorandum items:									
Change in volume of non-oil imports into the EU	9.8	7.7	11.3	2.1	1.9	5.9	6.1	6.3	6.4
Primary current account balance (% of GDP) 10/	-15.2	-17.8	-19.0	-20.9	-19.2	-16.6	-13.9	-11.1	-9.8
Current account balance (in percent of GDP)	-16.2	-18.9	-20.4	-22.2	-20.7	-18.4	-15.9	-13.1	-11.0
Excluding official transfers	-20.9	-20.8	-21.6	-23.1	-21.3	-18.7	-16.3	-13.4	-11.3
External Public debt/GDP (in percent)	68.1	69.6	67.4	57.7	62.0	61.4	59.5	56.8	54.0
External debt service/GNFS	9.2	8.5	5.4	5.1	7.5	7.6	7.2	6.4	4.2
Gross official reserves (in months of imports)	0.8	2.0	2.1	5.2	6.4	6.3	5.9	5.6	5.3

Sources: Data provided by Bosnian authorities; and IMF staff estimates.

1/ Estimates for merchandise trade are based on partner country reporting.

2/ Partner country data (see footnote 1) for non-reconstruction imports are lowered by 5 percent to account for imports of non-residents to BiH and all imports include an 8 percent conversion from C.I.F. to F.O.B. basis.

3/ Disbursement for budget finance and includes the World Bank and EU loans. The level of EU loans in 2002 is provisional.

4/ Other debt refers to non-convertible currency debt, unallocated debt from Yugoslavia, and other commercial (mainly trade credits), i.e., non-Paris Club and non-London Club debt.

5/ Figures for 2001 and 2002 reflect the effects of the conversion of the peg from the DM to the euro.

6/ The net (negative) figure for 2002 arrears reflects a debt cancellation of the remaining other debt (see fn. 4) plus the State's assumption of enterprise liabilities to Russia for arrears of payments for natural gas shipments in 1994 and 1995.

7/ Reflects Paris Club debt consolidation and rescheduling on Naples Terms agreed in October 1998.

8/ Reflects London Club debt consolidation agreed in December 1997.

9/ Principal and interest payments due on original maturities, less payments due on rescheduled debt.

10/ Primary current account is current account minus interest payments on foreign debt.

Table 3. Bosnia and Herzegovina: Monetary Survey,1997-2002
(In millions of KM)

	1997	1998	1999	2000	2001				2002
					March	June	Oct.	Dec.	Jan.
Net foreign assets	**-500**	**-435**	**195**	**427**	**510**	**657**	**973**	**2,743**	**2,977**
Foreign assets (MA)	144	283	866	1,045	1,059	1,173	1,438	2,737	2,613
Foreign assets (DMB)	1,014	887	848	961	1,099	1,157	1,247	1,364	1,721
Foreign liabilities (MA)	0	0	0	-1	-1	-1	-1	-31	-2
Foreign liabilities (DMB)	-1,658	-1,606	-1,519	-1,577	-1,646	-1,671	-1,710	-1,326	-1,355
Domestic credit	**2,267**	**2,635**	**2,602**	**2,863**	**2,967**	**3,044**	**3,209**	**2,816**	**2,758**
Claims on central government (net)	-188	-181	-159	-129	-137	-206	-227	-319	-305
Claims on noncentral government	5	9	17	9	16	19	23	25	33
Claims on private sector	2,450	2,808	2,744	2,983	3,088	3,231	3,414	3,109	3,031
Non-financial enterprises and cooperatives	2,315	2,547	2,467	2,564	2,652	2,714	2,723	2,387	2,280
Households	121	248	268	384	398	480	654	682	712
Other	14	13	9	35	37	37	37	40	38
Broad money	**1,178**	**1,547**	**2,165**	**2,467**	**2,551**	**2,698**	**3,135**	**4,669**	**4,956**
Money	252	310	1,100	1,402	1,432	1,571	1,885	2,692	2,935
Currency outside banks	113	162	515	652	655	688	878	1,674	1,863
Demand deposits of noncentral government	26	21	85	97	154	163	178	178	215
Demand deposits of the private sector	113	127	499	653	623	720	829	841	857
Non-financial enterprises and cooperatives	94	103	387	454	494	557	654	634	633
Households	5	8	34	79	81	94	120	147	160
Other	14	15	78	119	49	69	55	60	64
Quasi-money	926	1,237	1,065	1,066	1,119	1,128	1,250	1,977	2,020
Time and savings deposits in domestic currency	10	8	22	78	83	89	104	141	146
Foreign currency deposits	917	1,229	1,043	988	1,036	1,038	1,147	1,836	1,874
Other items (net)	**589**	**653**	**632**	**823**	**926**	**1,003**	**1,047**	**889**	**779**
Memorandum items:									
NFA of the central bank	144	283	866	1,046	1,060	1,175	1,439	2,768	2,615
NFA of the central bank in percent of currency outside the banks	128	174	168	161	162	171	164	165	140
NFA of the central bank in percent of broad money	12	18	40	42	42	44	46	59	53
Broad money growth (year-on-year)	-99.8	31.3	40.0	14.0	20.6	20.5	26.4	89.2	94.3
NDA contribution to broad money growth (year-on-year)	-384.8	31.3	-2.2	12.1	14.8	11.0	10.8	-1.9	-5.4
NFA contribution to broad money growth (year-on-year)	254.5	5.5	40.7	10.7	19.4	22.4	28.2	93.9	93.6
Other items net contribution to broad money growth (year-on-year)	30.5	-5.5	1.4	-8.8	-13.6	-12.9	-12.6	-2.7	6.1
Private sector credit growth	-99.9	14.6	-2.3	8.7	9.6	10.0	11.0	4.2	0.2
Credit to the household sector (percent growth, year-on-year)	252.7	104.6	8.3	43.3	38.5	45.0	75.7	77.5	84.5
Credit to household sector (in percent of GDP)	2.0	3.4	3.1	4.1	4.0	4.8	6.5	6.7	6.6
Broad money (in percent of GDP)	19.3	21.1	25.2	26.2	25.3	26.8	31.1	46.0	45.9
Domestic credit (in percent of GDP)	37.1	35.9	30.2	30.4	29.4	30.2	31.8	27.7	25.5
Private sector credit (in percent of GDP)	40.1	38.3	31.9	31.6	30.6	32.1	33.9	30.6	28.0

Sources: Central Bank of Bosnia and Herzegovina; and IMF staff estimates.

Table 4a. Bosnia and Herzegovina: Consolidated General Government, 1998-2003

	1998	1999	2000	2001 1/	2002 IMF Proj.	2003 IMF Proj.
			(In millions of KM)			
Total revenues	4,203.7	5,198.1	5,307.4	5,464.4	5,516.3	5,735.0
Tax revenues	3,085.6	3,644.9	4,076.4	4,287.2	4,538.8	4,878.3
Indirect taxes 2/	1,203.2	1,484.3	1,564.5	1,496.8	1,485.0	1,712.7
Trade taxes	406.6	491.6	599.0	840.0	967.2	931.9
Direct taxes	305.5	310.5	386.8	333.7	356.4	378.2
Social Security contributions	1,170.2	1,358.7	1,526.0	1,616.6	1,730.1	1,855.5
Grants	889.0	1,143.5	943.7	800.3	626.7	450.0
Budget support	66.0	47.7	113.2	40.5	75.6	35.8
Foreign investment projects	823.0	1,095.8	830.5	759.8	551.1	414.2
Other non- tax revenues	229.1	409.6	287.3	377.0	363.9	420.0
Consolidated expenditures on a commitment basis	4,788.2	5,983.6	6,259.8	6,092.7	6,090.6	6,062.8
of which: Change in stock of arrears	203.1	290.2	388.3	91.0	-24.0	0.0
Consolidated expenditures on a cash basis	4,585.1	5,693.4	5,871.5	6,001.7	6,114.6	6,062.8
Interest payments	87.0	103.1	131.2	129.3	158.0	196.4
Other current spending	3,361.9	4,084.7	4,398.7	4,592.0	4,916.0	4,968.3
Investment expenditures	1,136.2	1,505.7	1,341.5	1,280.4	1,040.6	898.1
Foreign financed investment projects	1,081.7	1,437.3	1,221.0	1,134.5	905.6	752.1
Other investment expenditures	54.6	68.4	120.5	145.9	135.1	146.0
Balance on a commitment basis	-584.5	-785.5	-952.4	-628.3	-574.3	-327.8
Balance on a cash basis	-381.4	-495.3	-564.1	-537.3	-598.3	-327.8
Financing on a commitment basis	584.5	785.5	952.4	628.3	574.3	327.8
Privatization proceeds	0.0	63.0	126.0	80.6	140.0	160.0
Foreign loans	381.4	432.3	454.6	460.1	497.8	327.8
Budget support	122.8	146.4	130.7	134.1	281.1	180.2
Foreign investment projects	258.7	341.5	390.5	374.7	354.5	337.9
Amortization	0.0	-55.6	-66.6	-48.8	-137.9	-190.3
Domestic financing 3/	0.0	0.0	-16.4	-3.4	-39.5	-160.0
Change in stock of arrears	203.1	290.2	388.3	91.0	-24.0	0.0
Memorandum item:						
Public debt to domestic banks (in percent of GDP)	0.4	0.4	0.3	0.3	0.5	0.5
Stock of domestic spending arrears (in percent of GDP) 4/	2.8	5.7	9.3	9.8	9.1	8.6
External public debt (in percent of GDP) 5/	68.1	69.6	67.4	57.7	62.0	61.4
Government bank deposits (in percent of GDP) 6/	3.8	2.0	1.5	2.9	4.9	4.3
Primary balance (in millions of KM)	-497.5	-682.4	-821.2	-498.9	-416.3	-131.4
Public consumption (in millions of KM)	3,652.0	4,477.9	4,918.3	4,812.3	5,050.0	5,164.7
Public saving (in millions of KM)	-271.3	-375.6	-441.4	-107.6	-84.7	156.1
Nominal BiH GDP	7,336	8,604.1	9,433.4	9,940.4	10,402.4	11,033.7

Sources: Ministries of Finance; and IMF staff estimates.

1/ Budget outcomes, finalized in the Federation, the Cantons and the RS, still preliminary for the State. Staff estimates for the RS municipalities and the extrabudgetary funds.

2/ Assuming 70 percent of the sales tax revenues in the RS go to the RS budget and the rest to the municipalities.

3/ In IMF projections for 2002 and 2003, privatizations receipts are placed in escrow, implying negative domestic financing.

4/ Does not include war damage claims not frozen foreign currency deposits.

5/ The decrease in 2001 is related to a large debt-relief operation, and the increase in 2002 includes contingent liabilities from state-owned enterprises assumed by the State.

6/ Including privatization receipts and succession monies put on an escrow.

Table 4b. Bosnia and Herzegovina: Consolidated General Government, 1998-2003

	1998	1999	2000	2001 1/	2002 IMF Proj.	2003 IMF Proj.
			(In percent of BiH GDP)			
Total revenues	57.3	60.4	56.3	55.0	53.0	52.0
Tax revenues	42.1	42.4	43.2	43.1	43.6	44.2
Indirect taxes 2/	16.4	17.3	16.6	15.1	14.3	15.5
Trade taxes	5.5	5.7	6.3	8.5	9.3	8.4
Direct taxes	4.2	3.6	4.1	3.4	3.4	3.4
Social Security contributions	16.0	15.8	16.2	16.3	16.6	16.8
Grants	12.1	13.3	10.0	8.1	6.0	4.1
Budget support	0.9	0.6	1.2	0.4	0.7	0.3
Foreign investment projects	11.2	12.7	8.8	7.6	5.3	3.8
Other non- tax revenues	3.1	4.8	3.0	3.8	3.5	3.8
Consolidated expenditures on a commitment basis	65.3	69.5	66.4	61.3	58.6	54.9
of which: Change in stock of arrears	2.8	3.4	4.1	0.9	-0.2	0.0
Consolidated expenditures on a cash basis	62.5	66.2	62.2	60.4	58.8	54.9
Interest payments	1.2	1.2	1.4	1.3	1.5	1.8
Other current spending	45.8	47.5	46.6	46.2	47.3	45.0
Investment expenditures	15.5	17.5	14.2	12.9	10.0	8.1
Foreign financed investment projects	14.7	16.7	12.9	11.4	8.7	6.8
Other investment expenditures	0.7	0.8	1.3	1.5	1.3	1.3
Balance on a commitment basis	-8.0	-9.1	-10.1	-6.3	-5.5	-3.0
Balance on a cash basis	-5.2	-5.8	-6.0	-5.4	-5.8	-3.0
Financing on a commitment basis	8.0	9.1	10.1	6.3	5.5	3.0
Privatization proceeds	0.0	0.7	1.3	0.8	1.3	1.5
Foreign loans	5.2	5.0	4.8	4.6	4.8	3.0
Budget support	1.7	1.7	1.4	1.3	2.7	1.6
Foreign investment projects	3.5	4.0	4.1	3.8	3.4	3.1
Amortization	0.0	-0.6	-0.7	-0.5	-1.3	-1.7
Domestic financing 3/	0.0	0.0	-0.2	0.0	-0.4	-1.5
Change in stock of arrears	2.8	3.4	4.1	0.9	-0.2	0.0
Memorandum item:						
Public debt to domestic banks (in percent of GDP)	0.4	0.4	0.3	0.3	0.5	0.5
Stock of domestic spending arrears (in percent of GDP) 4/	2.8	5.7	9.3	9.8	9.1	8.6
External public debt (in percent of GDP) 5/	68.1	69.6	67.4	57.7	62.0	61.4
Government bank deposits (in percent of GDP) 6/	3.8	2.0	1.5	2.9	4.9	4.3
Primary balance (in percent of GDP)	-6.8	-7.9	-8.7	-5.0	-4.0	-1.2
Public consumption (in percent of GDP)	49.8	52.0	52.1	48.4	48.5	46.8
Public saving (in percent of GDP)	-3.7	-4.4	-4.7	-1.1	-0.8	1.4

Sources: Ministries of Finance; and IMF staff estimates.

1/ Budget outcomes, finalized in the Federation, the Cantons and the RS, still preliminary for the State. Staff estimates for the RS municipalities and the extrabudgetary funds.

2/ Assuming 70 percent of the sales tax revenues in the RS go to the RS budget and the rest to the municipalities.

3/ In IMF projections for 2002 and 2003, privatizations receipts are placed in escrow, implying negative domestic financing.

4/ Does not include war damage claims not frozen foreign currency deposits.

5/ The decrease in 2001 is related to a large debt-relief operation, and the increase in 2002 includes contingent liabilities from state-owned enterprises assumed by the State.

6/ Including privatization receipts and succession monies put on an escrow.

Table 4c. Bosnia and Herzegovina: Consolidated General Government, 1998-2003
(In millions of KM)

	1998	1999	2000	2001 1/	2002 IMF Proj.	2003 IMF Proj.
Federation budget						
Revenues	716.9	738.3	889.6	1,085.0	1,055.7	1,192.4
Expenditures on a commitment basis 2/	860.0	841.6	1,010.1	1,126.1	1,242.7	1,185.6
of which: Change in stock of arrears	78.2	78.2	78.2	-10.5	0.0	0.0
of which: Transfers to the State	65.0	110.8	153.5	143.6	241.5	319.4
Balance on a commitment basis	-143.2	-103.2	-120.5	-41.1	-187.0	6.8
Cantonal budget						
Revenues	1,106.4	1,288.9	1,252.9	1,036.6	1,131.0	1,215.8
of which: Transfers from the Federation budget	7.0	15.9	25.1	18.0	13.0	14.0
Expenditures on a commitment basis	1,106.4	1,378.9	1,400.9	1,214.1	1,131.0	1,215.8
of which : Change in stock of arrears	0.0	27.0	22.0	100.8	0.0	0.0
Balance on a commitment basis	0.0	-90.0	-148.0	-177.4	0.0	0.0
Federation extra-budgetary Funds 3/						
Revenues	879.3	984.3	1,117.9	1,283.6	1,326.9	1,426.4
of which: Transfers from the Federation budget	24.3	6.9	8.8	84.0	16.2	21.5
Expenditures on a commitment basis	963.3	1,068.3	1,176.9	1,195.6	1,326.9	1,426.4
of which: Change in stock of arrears	84.0	84.0	59.0	-88.0	0.0	0.0
Balance on a commitment basis	-84.0	-84.0	-59.0	88.0	0.0	0.0
RS budget and municipalities						
Revenues 4/	430.1	744.4	834.7	824.6	868.9	878.2
Expenditures on a commitment basis	522.9	889.1	945.6	883.9	901.7	874.9
of which: Change in stock of arrears	35.0	79.0	105.7	25.0	-15.0	0.0
of which: Transfers to the State	55.0	74.3	88.9	82.3	143.2	128.9
Balance on a commitment basis	-92.8	-144.7	-110.9	-59.3	-32.8	3.3
RS extra-budgetary funds 3/						
Revenues	261.4	358.7	392.6	425.1	432.6	465.1
of which: Transfers from the RS budget	0.1	28.1	36.7	16.0	21.9	23.8
Expenditures on a commitment basis	261.4	380.7	505.1	488.6	423.6	465.1
of which: Change in stock of arrears	0.0	22.0	112.5	63.5	-9.0	0.0
Balance on a commitment basis	0.0	-22.0	-112.5	-63.5	9.0	0.0
State budget						
Revenues	138.0	223.6	278.7	295.5	478.4	534.9
of which: Transfers from the Federation and RS budget	120.0	185.1	242.4	225.9	384.8	448.4
Expenditures on a commitment basis	143.9	223.6	289.7	295.7	487.4	534.9
of which: Change in stock of arrears	5.9	0.0	11.0	0.2	0.0	0.0
Balance on a commitment basis	-5.9	0.0	-11.0	-0.2	-9.0	0.0
Brcko District budget 5/						
Revenues	0.0	0.0	23.5	98.1	107.6	115.7
Expenditures on a commitment basis	0.0	0.0	23.5	98.1	107.6	115.7
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Revenues	823.0	1,095.8	830.5	759.8	551.1	414.2
Expenditures on a commitment basis	1,081.7	1,437.3	1,221.0	1,134.5	905.6	752.1
of which : Change in stock of arrears	0.0	0.0	0.0	0.0	0.0	0.0
Balance on a commitment basis	-258.7	-341.5	-390.5	-374.7	-354.5	-337.9

Sources: Ministries of Finance; and IMF staff estimates.

1/ Budget outcomes, finalized in the Federation, the Cantons and the RS, still preliminary for the State. Staff estimates for the RS municipalities and the extrabudgetary funds.

2/ Includes transfers to the cantons and the extrabudgetary funds.

3/ Pension Fund, Health Fund, and Employment Fund . Also includes the Child Fund in the RS.

4/ Includes transfers to the extrabudgetary funds.

5/ Data for 2000 are incomplete. The Brcko District started collecting revenue in March 2000.

Table 4d. Bosnia and Herzegovina: Consolidated General Government, 1998-2003
(In percent of BiH GDP)

	1998	1999	2000	2001 1/	2002 IMF Proj.	2003 IMF Proj.
Federation budget						
Revenues	9.8	8.6	9.4	10.9	10.1	10.8
Expenditures on a commitment basis 2/	11.7	9.8	10.7	11.3	11.9	10.7
of which: Change in stock of arrears	1.1	0.9	0.8	-0.1	0.0	0.0
of which: Transfers to the State	0.9	1.3	1.6	1.4	2.3	2.9
Balance on a commitment basis	-2.0	-1.2	-1.3	-0.4	-1.8	0.1
Cantonal budget						
Revenues	15.1	15.0	13.3	10.4	10.9	11.0
of which: Transfers from the Federation budget	0.1	0.2	0.3	0.2	0.1	0.1
Expenditures on a commitment basis	15.1	16.0	14.9	12.2	10.9	11.0
of which: Change in stock of arrears	0.0	0.3	0.2	1.0	0.0	0.0
Balance on a commitment basis	0.0	-1.0	-1.6	-1.8	0.0	0.0
Federation extra-budgetary Funds 3/						
Revenues	12.0	11.4	11.9	12.9	12.8	12.9
of which: Transfers from the Federation budget	0.3	0.1	0.1	0.8	0.2	0.2
Expenditures on a commitment basis	13.1	12.4	12.5	12.0	12.8	12.9
of which: Change in stock of arrears	1.1	1.0	0.6	-0.9	0.0	0.0
Balance on a commitment basis	-1.1	-1.0	-0.6	0.9	0.0	0.0
RS budget and municipalities						
Revenues 4/	5.9	8.7	8.8	8.3	8.4	8.0
Expenditures on a commitment basis	7.1	10.3	10.0	8.9	8.7	7.9
of which: Change in stock of arrears	0.5	0.9	1.1	0.3	-0.1	0.0
of which: Transfers to the State	0.7	0.9	0.9	0.8	1.4	1.2
Balance on a commitment basis	-1.3	-1.7	-1.2	-0.6	-0.3	0.0
RS extra-budgetary funds 3/						
Revenues	3.6	4.2	4.2	4.3	4.2	4.2
of which: Transfers from the RS budget	0.0	0.3	0.4	0.2	0.2	0.2
Expenditures on a commitment basis	3.6	4.4	5.4	4.9	4.1	4.2
of which: Change in stock of arrears	0.0	0.3	1.2	0.6	-0.1	0.0
Balance on a commitment basis	0.0	-0.3	-1.2	-0.6	0.1	0.0
State budget						
Revenues	1.9	2.6	3.0	3.0	4.6	4.8
of which: Transfers from the Federation and RS budgets	1.6	2.2	2.6	2.3	3.7	4.1
Expenditures on a commitment basis	2.0	2.6	3.1	3.0	4.7	4.8
of which: Change in stock of arrears	0.1	0.0	0.1	0.0	0.0	0.0
Balance on a commitment basis	-0.1	0.0	-0.1	0.0	-0.1	0.0
Brcko District budget 5/						
Revenues	0.0	0.0	0.2	1.0	1.0	1.0
Expenditures on a commitment basis	0.0	0.0	0.2	1.0	1.0	1.0
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Revenues	11.2	12.7	8.8	7.6	5.3	3.8
Expenditures on a commitment basis	14.7	16.7	12.9	11.4	8.7	6.8
of which : Change in stock of arrears	0.0	0.0	0.0	0.0	0.0	0.0
Balance on a commitment basis	-3.5	-4.0	-4.1	-3.8	-3.4	-3.1

Sources: Ministries of Finance; and IMF staff estimates.

1/ Budget outcomes, finalized in the Federation, the Cantons and the RS, still preliminary for the State. Staff estimates for the RS municipalities and the extrabudgetary funds

2/ Includes transfers to the cantons and the extrabudgetary funds.

3/ Pension Fund, Health Fund, and Employment Fund . Also includes the Child Fund in the RS.

4/ Includes transfers to the extrabudgetary funds.

5/ Data for 2000 are incomplete. The Brcko District started collecting revenue in March 2000.

Table 4e. Bosnia and Herzegovina: Consolidated General Government, 1998-2003
(In millions of KM)

	1998	1999	2000	2001 1/	2002 IMF Proj.	2003 IMF Proj.
Federation						
Consolidated revenues	2,671.3	2,988.7	3,226.5	3,303.3	3,484.3	3,799.1
Consolidated expenditures on a commitment basis	2,898.5	3,266.0	3,554.0	3,433.8	3,671.3	3,792.3
of which: Change in stock of arrears	162.2	189.2	152.2	6.3	0.0	0.0
of which: Transfers to the State	65.0	110.8	153.5	143.6	241.5	319.4
Consolidated balance on a commitment basis	-227.2	-277.2	-327.5	-130.6	-187.0	6.8
RS						
Consolidated revenues	691.4	1,075.0	1,190.6	1,233.7	1,279.7	1,319.5
Consolidated expenditures on a commitment basis	784.2	1,241.7	1,414.0	1,356.5	1,303.5	1,316.1
of which: Change in stock of arrears	35.0	101.0	218.2	88.5	-24.0	0.0
of which: Transfers to the State	55.0	74.3	88.9	82.3	143.2	128.9
Consolidated balance on a commitment basis	-92.8	-166.7	-223.4	-122.8	-23.8	3.3
State budget						
Revenues	138.0	223.6	278.7	295.5	478.4	534.9
of which: Transfers from the Federation and RS budgets	120.0	185.1	242.4	225.9	384.8	448.4
Expenditures on a commitment basis	143.9	223.6	289.7	295.7	487.4	534.9
of which: Change in stock of arrears	5.9	0.0	11.0	0.2	0.0	0.0
Balance on a commitment basis	-5.9	0.0	-11.0	-0.2	-9.0	0.0
Brcko District budget 2/						
Revenues	0.0	0.0	23.5	98.1	107.6	115.7
Expenditures on a commitment basis	0.0	0.0	23.5	98.1	106.6	114.7
Balance on a commitment basis	0.0	0.0	0.0	0.0	1.0	1.0
Foreign investment projects						
Revenues	823.0	1,095.8	830.5	759.8	551.1	414.2
Expenditures on a commitment basis	1,081.7	1,437.3	1,221.0	1,134.5	905.6	752.1
of which: Change in stock of arrears	0.0	0.0	0.0	0.0	1.0	1.0
Balance on a commitment basis	-258.7	-341.5	-390.5	-374.7	-354.5	-337.9
Memorandum item:						
Nominal BiH GDP	7,336.0	8,604.1	9,433.4	9,940.4	10,402.4	11,033.7
Nominal Federation GDP	5,602.0	6,141.9	6,698.8	7,085.5	7,421.9	7,978.5
Nominal RS GDP	1,734.0	2,462.2	2,734.7	2,854.9	2,980.6	3,055.2

Sources: Ministries of Finance; and IMF staff estimates.

1/ Budget outcomes, finalized in the Federation, the Cantons and the RS, still preliminary for the State. Staff estimates for the RS municipalities and the extrabudgetary funds.

2/ Data for 2000 are incomplete. The Brcko District started collecting revenue in March 2000.

Table 4f. Bosnia and Herzegovina: Consolidated General Government, 1998-2003

	1998	1999	2000	2001 1/	2002 IMF Proj.	2003 IMF Proj.
Federation			(In percent of BiH GDP)			
Consolidated revenues	36.4	34.7	34.2	33.2	33.5	34.4
Consolidated expenditures on a commitment basis	39.5	38.0	37.7	34.5	35.3	34.4
of which: Change in stock of arrears	2.2	2.2	1.6	0.1	0.0	0.0
of which : Transfers to the State	0.9	1.3	1.6	1.4	2.3	2.9
Consolidated balance on a commitment basis	-3.1	-3.2	-3.5	-1.3	-1.8	0.1
RS						
Consolidated revenues	9.4	12.5	12.6	12.4	12.3	12.0
Consolidated expenditures on a commitment basis	10.7	14.4	15.0	13.6	12.5	11.9
of which: Change in stock of arrears	0.5	1.2	2.3	0.9	-0.2	0.0
of which: Transfers to the State	0.7	0.9	0.9	0.8	1.4	1.2
Consolidated balance on a commitment basis	-1.3	-1.9	-2.4	-1.2	-0.2	0.0
State budget						
Revenues	1.9	2.6	3.0	3.0	4.6	4.8
of which: Transfers from the Federation and RS budgets	1.6	2.2	2.6	2.3	3.7	4.1
Expenditures on a commitment basis	2.0	2.6	3.1	3.0	4.7	4.8
of which: Change in stock of arrears	0.1	0.0	0.1	0.0	0.0	0.0
Balance on a commitment basis	-0.1	0.0	-0.1	0.0	-0.1	0.0
Brcko District budget 2/						
Revenues	0.0	0.0	0.2	1.0	1.0	1.0
Expenditures on a commitment basis	0.0	0.0	0.2	1.0	1.0	1.0
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Revenues	11.2	12.7	8.8	7.6	5.3	3.8
Expenditures on a commitment basis	14.7	16.7	12.9	11.4	8.7	6.8
of which: Change in stock of arrears	0.0	0.0	0.0	0.0	0.0	0.0
Balance on a commitment basis	-3.5	-4.0	-4.1	-3.8	-3.4	-3.1
Federation			(In percent of Federation GDP)			
Consolidated revenues	47.7	48.7	48.2	46.6	46.9	47.6
Consolidated expenditures on a commitment basis	51.7	53.2	53.1	48.5	49.5	47.5
of which: Change in stock of arrears	2.9	3.1	2.3	0.1	0.0	0.0
of which: Transfers to the State	1.2	1.8	2.3	2.0	3.3	4.0
Consolidated balance on a commitment basis	-4.1	-4.5	-4.9	-1.8	-2.5	0.1
RS			(In percent of RS GDP)			
Consolidated revenues	39.9	43.7	43.5	43.2	42.9	43.2
Consolidated expenditures on a commitment basis	45.2	50.4	51.7	47.5	43.7	43.1
of which: Change in stock of arrears	2.0	4.1	8.0	3.1	-0.8	0.0
of which: Transfers to the State	3.2	3.0	3.3	2.9	4.8	4.2
Consolidated balance on a commitment basis	-5.3	-6.8	-8.2	-4.3	-0.8	0.1
Memorandum item:						
Nominal BiH GDP	7,336	8,604	9,433	9,940	10,402	11,034
Nominal Federation GDP	5,602	6,142	6,699	7,085	7,422	7,979
Nominal RS GDP	1,734	2,462	2,735	2,855	2,981	3,055

Sources: Ministries of Finance; and IMF staff estimates.

1/ Budget outcomes, finalized in the Federation, the Cantons and the RS, still preliminary for the State. Staff estimates for the RS municipalities and the extrabudgetary funds

2/ Data for 2000 are incomplete. The Brcko District started collecting revenue in March 2000.

Table 4g. Bosnia and Herzegovina: Federation Fiscal Operations, 1997-2003

	1997	1998	1999	2000	2001	2002				2003
			Est. Outcome		Budget	IMF Proj.	Approved Budget	Growth Rate	Jan-April	IMF Proj.
	(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)=(8)/(6)	(10)	(11)
					(In millions of KM)					
Total revenue	610.4	47.3	723.7	828.5	872.7	1,031.8	1,245.0	16.5	258.6	1,168.5
Tax revenue	565.3	10.4	676.5	768.0	813.3	952.5	1,153.3	21.5	234.8	1,078.4
Indirect taxes	565.3		658.8	745.5	788.4	908.4	1,103.9	21.9	232.0	1,031.7
Profit tax	0.0	10.4	17.7	22.5	24.9	44.1	49.4	12.0	2.9	46.8
Nontax revenue	45.2	36.9	47.2	60.5	59.3	79.3	91.7	-23.1	23.8	90.1
Of which: Dividends of public enterprises 2/				-	-	27.7	40.0	44.6	4.0	-
Total expenditure	657.2	803.7	800.5	976.4	997.6	1,334.6	1,559.4	33.4	276.0	1,312.5
Wages and contributions 3/	69.6	77.3	92.5	103.0	108.2	135.9	135.9	11.3	-	-
Goods and services	21.4	37.0	32.4	29.8	32.3	54.1	54.1	86.5	-	-
Military	253.5	276.0	291.4	309.6	290.2	393.8	393.8	32.7	-	-
Reconstruction and capital expenditure 4/	17.5	42.6	26.0	47.2	46.6	64.1	83.8	35.5	-	-
Subsidies	3.2	20.4	14.1	14.0	11.2	15.8	126.6	1026.6	-	-
Other transfers to households	226.7	257.7	215.9	255.0	278.6	329.9	359.9	1.5	-	-
Transfers to pension funds	15.8	21.9	6.5	8.8	8.8	15.0	45.0	-45.8	-	21.5
Regular transfers	15.8	21.9	6.5	8.8	8.8	15.0	25.0	31.6	-	21.5
Extraordinary transfers 5/		-	-	-	-	0.0	20.0	-68.7	-	0.0
Transfers for health	1.4	1.3	0.1	0.7	1.0	1.2	1.2	20.0	-	-
Transfers for education	10.4	3.3	1.4	4.9	4.9	5.6	5.6	9.0	-	-
Transfers to war invalids	175.5	209.3	207.9	240.7	263.9	308.1	308.1	16.0	-	-
Transfers to the state government	29.9	65.0	84.0	153.5	167.8	241.5	235.7	64.1	-	319.4
Administration	15.4	20.6	18.3	30.0	37.0	57.3	51.5	39.2	-	61.6
Debt service	14.5	44.4	65.7	123.5	130.8	184.2	184.2	72.8	-	257.8
Transfers to cantons and municipalities	3.7	7.0	15.9	25.1	10.0	13.0	13.0	-27.7	-	-
Net lending	-	-	-	-7.0	-	0.0	0.0	-100.0	-	-
Clearance of Federation budgetary arrears	-	-	-	-	-	0.0	72.3	55.0	-	-
Transfer to pension funds	-	-	-	-	-	0.0	0.0	-100.0	-	-
Transfers to war invalids	-	-	-	-	-	0.0	29.5	28.2	-	-
Other	-	-	-	-	-	0.0	42.8	268.8	-	-
Other expenditure and unallocated	31.7	20.8	28.4	46.2	52.7	86.5	84.4	3.5	-	-
Refugees	2.5	6.4	3.8	23.3	25.0	32.0	32.0	14.3	-	-
Refund of prelevmani duties	-	-	-	-	4.0	5.0	5.0	-	-	-
Intelligence Service	-	-	10.0	13.5	5.0	15.6	15.6	30.2	-	-
Budgetary reserve	12.8	-	-	-	11.2	14.0	14.0	-7.2	-	-
Other	29.2	14.4	24.6	9.4	7.5	19.9	17.8	-32.8	-	-
Overall balance (cash basis, before grants)	-46.8	-756.5	-76.8	-147.9	-124.9	-302.8	-314.4	-	-	-144.0
Foreign grants for budget support	2.0	34.9	14.7	61.1	0.0	23.9	13.2	-	-	23.9
Overall balance (cash basis, after grants)	-44.8	-721.6	-62.2	-86.8	-124.9	-278.9	-301.2	-	-	-120.1
Financing	44.8	721.6	62.2	86.8	124.9	278.9	301.2	258.0	-	120.1
Domestic financing 6/	0.0	0.0	0.0	-16.4	14.0	0.0	92.7	1955.4	-	-20.0
Foreign loans for budget support 7/	44.8	721.6	62.2	103.2	111.0	187.4	119.5	50.1	-	120.1
Privatization receipts	-	-	-	-	-	20.0	55.0	-	-	20.0
Succession money	-	-	-	-	-	71.5	34.0	-	-	0.0
Memorandum items:					(In percent of GDP)					
Revenue	12.9	0.8	11.8	12.4	12.3	13.9	16.8			14.6
Expenditure	13.8	14.3	13.0	14.6	14.1	18.0	21.0			16.5
Balance (cash basis, before grants)	-1.0	-13.5	-1.3	-2.2	-1.8	-4.1	-4.2			-1.8
Balance (cash basis, after grants)	-0.9	-12.9	-1.0	-1.3	-1.8	-3.8	-4.1			-1.5
Fed. Budget consolidated with pension funds					(In millions of KM)					
Net clearance of arrears	-	-	-	-	-		92.3	-		-

Sources: Data provided by the authorities; and IMF staff estimates.

1/ Authorities' estimates. Includes 40 million KM of customs revenues collected in January and brought forward in 2001 outcome.

2/ For 2002, contribution from PTT to roads construction brought on budget.

3/ Does not include wages from the Army, the Ministry of Defense and the Intelligence service, counted elsewhere in the table.

4/ Includes allocation for railroads and other capital expenditures.

5/ Transfers from the Federation budget to clear pension arrears of previous years.

6/ In 2001, includes KM 17.7 million of revenues frozen in Hercegovacka Bank, which the authorities plan to get back in 2002. In IMF projections for 2002 and 2003, privatizations receipts are placed in escrow, implying negative domestic financing.

7/ Disbursement. Amortization is included in the debt service transfers to the State.

Table 4h. Bosnia and Herzegovina: Republika Srpska Fiscal Operations (New presentation), 2001-2003

	2001 Budget (1)	2002 Approved Budget (2)	2002 IMF Proj. (3)	2002 Jan-April (4)	2003 IMF Proj. (5)
	(In millions of KM)				
Total Revenues	727.7	780.4	770.0	252.0	776.8
Tax revenues	631.7	687.2	676.8	214.4	681.3
Taxes on goods and services	304.6	367.4	367.9	115.9	377.1
Sales tax	151.7	204.7	203.1	50.8	208.9
Railway surcharge	29.4	29.4	29.4	16.4	29.4
Excises	123.5	133.3	135.5	48.7	138.8
Property tax on special goods 1/	0.0	20.8	13.0	4.3	13.3
Trade taxes	187.3	173.7	165.9	49.5	157.6
Customs duties	131.4	121.7	0.0	36.1	0.0
Import duties	55.9	52.0	0.0	13.4	0.0
Taxes on income	75.5	80.4	85.0	34.5	87.2
Wage withholding	49.8	67.7	67.7	24.0	69.4
Personal income tax	8.3	4.0	4.2	2.4	4.3
Corporate income tax	17.4	8.7	13.1	8.2	13.4
Other taxes and revenues	64.3	45.0	45.0	10.2	46.1
Non-tax revenues	47.8	46.5	46.5	22.7	47.7
Fees and charges	40.7	38.5	0.0	20.6	0.0
Fines	7.0	8.0	0.0	2.1	0.0
Special revenues 2/	48.2	46.6	46.6	15.0	47.8
Total expenditures	824.6	890.0	875.7	...	848.8
Wage bill	346.0	346.3	341.9	...	...
Gross salaries and compensation	289.2	346.3	341.9	...	...
Gross salaries	242.7	283.6	280.1	...	...
Compensations	46.4	62.7	61.9	...	...
Employers contributions	56.9	0.0	0.0	...	...
Goods and services	85.8	113.4	103.0	...	...
Subsidies to public enterprises 3/	18.7	17.8	26.5	...	...
Transfers to the social funds	16.0	20.2	21.9	...	23.8
Transfers to households	141.6	147.2	145.4	...	...
War invalids	105.2	110.5	109.1	...	...
Refugees	28.0	25.0	20.9	...	...
Other	8.4	11.7	15.3	...	...
Transfers to municipalities	2.5	3.0	2.0	...	...
Transfers to the State	101.0	135.4	143.2	...	159.8
Debt service	82.0	109.6	111.6	...	128.9
Administration	19.0	25.8	31.6	...	30.9
Clearance of arrears	34.8	24.5	15.0	...	...
Capital and reconstruction expenditures	59.7	57.1	56.4	...	...
Of which: Railway	29.4	29.4	29.0	...	...
Other expenditures and unallocated	18.5	25.2	20.4	...	...
Budgetary reserve	12.0	10.0	9.8	...	...
World Bank co-financing	1.2	4.6	4.5	...	...
Other transfers 4/	5.3	10.6	6.0	...	...
Overall balance (cash basis, before grants)	-96.9	-109.6	-105.7	...	-72.0
Foreign grants for budget support	0.0	11.9	11.9	...	11.9
Overall balance (cash basis, after grants)	-96.9	-97.7	-93.7	...	-60.1
Financing	96.9	97.7	93.7	...	60.1
Domestic financing 5/	0.0	0.0	-38.5	...	-20.0
External loans for budget support 6/	96.9	65.7	93.7	...	60.1
Privatization receipts	0.0	32.0	0.0	...	20.0
Succession money	0.0	0.0	38.5	...	...
Financing gap	0.0	0.0			
Memorandum items	(In millions of KM)				
Military spending	62.4	75.3	...		...
Wage bill	53.9	47.9	...		...
Other	8.5	27.4	...		...
Nominal GDP	2,854.9	2,980.6	2,980.6		3,055.2
	(In percent of RS GDP)				
Revenues	25.5	26.2	25.8		25.4
Expenditures	28.9	29.9	29.4		27.8
Balance (cash basis, before grants)	-3.4	-3.7	-3.5		-2.4
Balance (cash basis, after grants)	-3.4	-3.3	-3.1		-2.0

Sources: Data provided by authorities; and IMF staff projections.

1/ Taxes on the personal use of special goods such as motor vehicles, mobile phones, boats, aircrafts and weapons.

2/ Includes other fees (on water, on use of forests), own revenues from administrations and other non-tax revenues.

3/ Outside subsidies to the railroads.

4/ Transfers to cultural institutions and non profit organizations

5/ In IMF projections for 2002 and 2003, privatizations receipts and succession money are placed in escrow, implying negative domestic financing.

6/ Disbursement. Amortization is included in the debt service transfers to the State.

Table 4i. Bosnia and Herzegovina: State Fiscal Operations, 1997-2003

	1997	1998	1999	2000	2001			2002			2003
					Budget	Jan.-Sep. 1/	Rebalanced Budget	IMF Proj.	Draft Budget	Growth Rate	IMF Proj.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(9)	(10)	11)=(10)/(7)	(12)
					(In millions of KM)						
Revenues	50.0	138.0	218.3	274.8	295.3	171.8	319.6	438.6	438.4	37.2%	534.9
Own revenues 2/	20.0	20.0	31.4	32.4	27.6	12.7	27.6	54.1	55.7	101.8%	55.7
Transfers from entities	30.0	118.0	186.9	242.4	267.7	157.7	269.1	381.9	369.7	37.4%	479.2
Administrative budget	15.0	30.0	28.2	44.6	55.6	38.6	64.6	86.0	77.3	19.7%	92.5
Federation	15.0	21.0	18.3	29.7	37.1	27.5	43.1	57.3	51.5	19.6%	61.6
Republika Srpska	0.0	10.0	9.9	14.9	18.5	11.1	21.5	28.7	25.8	19.8%	30.9
Debt service	15.0	89.0	158.7	197.8	212.1	119.1	204.5	295.8	292.4	43.0%	386.7
Federation	15.0	44.0	70.7	123.8	130.2	71.3	122.5	184.2	181.9	48.5%	-
Republika Srpska	0.0	45.0	53.5	74.0	81.9	47.8	82.0	111.6	110.5	34.7%	-
Direct repayments	-	-	34.5	-	-	-	0.0	0.0	0.0	-	-
Extraordinary revenues	-	-	-	-	-	1.4	22.9	2.6	13.0	-43.1%	-
Succession	-	-	-	-	-	0	21.6	0.0	0.4	-	-
Compensation for war damage	-	-	-	-	-	1.4	1.3	0.0	0.7	-	-
Transfers to finance elections	-	-	-	-	-	-	-	2.6	11.9	-	-
Expenditures	110.0	138.0	216.5	273.9	304.3	187.9	351.5	487.4	478.0	36.0%	534.9
State Border Service	-	-	-	6.0	20.0	16.9	43.0	63.0	55.6	29.1%	-
Wages	-	-	-	-	9.8	15.1	24.4	51.6	-	-	-
Other	-	-	-	-	10.2	1.8	18.7	11.4	-	-	-
New BiH institutions 3/	-	-	-	-	0.3	1.2	7.2	7.7	7.7	7.4%	-
Clearance of arrears 4/	-	-	-	-	1.8	0.0	10.6	0.0	0.0	-	-
BiH ministries and institutions 5/	35.0	51.0	57.8	70.1	70.1	50.7	86.2	120.9	122.4	41.9%	-
Debt service	75.0	87.0	158.7	197.8	212.1	119.1	204.5	295.8	292.4	43.0%	386.7
Foreign grants	60.0	0.0	0.0	5.3	9.0	9.0	31.9	39.8	39.6	24.2%	0.0
Overall balance (cash basis, after grants)	0.0	0.0	1.8	6.2	0.0	-7.1	0.0	-9.0	0.0	-	0.0
Financing	0.0	0.0	-1.8	-6.2	0.0	7.1	0.0	9.0	0.0	-	0.0
Succession monies								19.6			
Purchase of shares in IBRD and EBRD								-10.6			
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	0.0
					(In millions of KM)						
Memorandum items:											
Revenues and grants excluding debt-service	95.0	49.0	59.6	82.4	92.2	61.7	147.0	182.6	185.6	-	148.2
Expenditures excluding debt-service	35.0	51.0	57.8	76.1	92.2	68.8	147.0	191.6	185.6	-	148.2
Contingency line 6/									29.0		

Sources: State Ministry of Treasury; and IMF staff estimates.

1/ Does not include non-cash grants.

2/ Includes new sources of revenues from the institute for standards, institute for accreditation, regulatory agency, department of civil aviation and CRA.

3/ Communication Regulatory Agency, Archives, Civil Aviation, Institute for Standards and Meausres, Institute for Acreditation, Veterinary Services and Foreign Investment Promotion Agency.

4/ Includes 6.2 million KM of arrears to international organizations in CoM Rebalanced budget in 2001.

5/ Includes 11.4 million KM for the Commission in charge of elections in 2002

6/ Projects that would be implemented only if additional resources are found during the budgetary year

Table 5. Bosnia and Herzegovina: Medium-Term Reform Scenario, 2000-2006

	2000 Est.	2001 Est.	2002 Proj	2003 Proj	2004 Proj	2005 Proj	2006 Proj
Real sector							
Nominal GDP (millions of KM)	9,433	9,940	10,402	11,033	11,848	12,837	13,926
(Percentage change)	9.6	5.4	4.6	6.1	7.4	8.4	8.5
Real GDP (millions of 1997 KM)	7,768	7,947	8,214	8,588	9,052	9,595	10,171
(Percentage change)	4.5	2.3	2.3	4.1	5.4	6.0	6.0
CPI, period average percentage change	5.6	3.3	2.3	1.8	2.1	2.2	2.3
Savings and investment (percent of GDP)							
Consumption	101	103	102	99	97	92	88
Public consumption	52	48	49	47	45	43	41
Private consumption	48	54	53	52	52	50	48
Investment	20	19	19	20	19	21	23
Public investment	14	13	10	8	9	9	9
Private investment	6	6	9	12	10	12	14
National savings	-1	-3	-2	1	3	8	12
Public savings	-6	-1	-2	1	3	4	5
Private savings	5	-1	0	0	0	3	6
Foreign savings	20	22	21	18	16	13	11
Consolidated general government (percent of GDP)							
Total revenue excluding grants	46	47	47	48	48	47	46
Total expenditure	66	61	59	55	54	51	49
Current expenditure	52	48	49	47	45	43	41
Capital expenditure	14	13	10	8	9	9	9
Own-financed capital expenditure	1	1	1	1	3	5	5
Foreign financed capital expenditure	13	11	9	7	6	4	4
Overall balance before grants	-20	-14	-12	-7	-6	-4	-3
Grants	10	8	6	4	3	2	2
Overall balance after grants	-10	-6	-6	-3	-3	-3	-2
Accumulation of arrears	4	1	0	0	0	0	0
Overall balance on a cash basis	-6	-5	-6	-3	-3	-3	-2
Financing	6	5	6	3	3	3	2
Domestic financing	1	1	1	0	0	0	0
Foreign financing	5	5	5	3	3	3	2
Total foreign assistance 1/	16	13	12	9	8	5	4
(In millions of US dollars)	699	596	577	444	408	300	275
Balance of payments (US$ millions.)							
Current account balance (including official transfers)	-918	-1,006	-986	-931	-865	-774	-706
(Percent of GDP)	-20	-22	-21	-18	-16	-13	-11
Export growth rate (in %)	21	11	16	19	26	22	14
Import growth rate (in %)	0	4	4	5	8	9	9
Gross reserves	488	1,253	1,567	1,622	1,672	1,722	1,772
(Months of imports of goods and n.f. services)	2.1	5.2	6.4	6.3	5.9	5.6	5.3
Total public debt							
(In millions of US$)	2,969	2,609	2,952	3,108	3,234	3,348	3,451
(In percent of GDP)	67.4	57.7	62.0	61.4	59.5	56.8	54.0
Total external debt service in percent of exports of goods and non-factor services	5.4	5.1	7.5	7.6	7.2	6.4	4.2
<u>Memorandum item:</u>							
Percentage change in real current public expenditure	9.7	-4.9	2.6	0.7	1.1	0.1	1.3

Sources: Data provided by the Bosnia and Herzegovina authorities; and IMF staff estimates and projections.

1/ Includes project loans, project grants, budget loans, budget grants and the fiscal financing gap.

Table 6. Bosnia and Herzegovina: Schedule of Proposed Purchases
Under Stand-By Arrangement

Amount of Purchase	Availability	Conditions include:
SDR 19.6 million	June 14, 2002	Board approval of Stand-By Arrangement
SDR 12.0 million	November 14, 2002	Completion of first review and observance of end-September 2002 performance criteria
SDR 12.0 million	February 14, 2003	Completion of second review and observance of end-December 2002 performance criteria
SDR 12.0 million	May 14, 2003	Completion of third review and observance of end-March 2003 performance criteria
SDR 12.0 million	August 14, 2003	Completion of fourth review and observance of end-June 2003 performance criteria

Source: IMF staff estimates.

Table 7. Bosnia and Herzegovina: Indicators of Capacity to Repay the Fund, 2001-2006 1/

	2001	2002	2003	2004	2005	2006
Fund repurchases and charges						
In millions of SDRs	12.4	17.1	38.7	39.1	37.7	28.6
In millions of U.S. dollars	15.7	21.6	48.9	49.5	47.8	36.3
In percent of exports of goods and NFS	1.1	1.4	2.8	2.3	1.9	1.3
In percent of debt service	16.9	16.1	27.2	24.8	23.2	23.6
In percent of quota	7.3	10.1	22.9	23.1	22.3	16.9
In percent of gross official reserves	1.3	1.4	3.0	3.0	2.8	2.1
Fund credit outstanding						
In millions of SDRs	88.4	96.2	69.7	36.9	14.8	1.1
In millions of U.S. dollars	111.7	121.4	88.1	46.7	18.8	1.4
In percent of quota	52.3	56.9	41.2	21.8	8.8	0.7
In percent of GDP	2.5	2.6	1.7	0.9	0.3	0.0
In percent of gross official reserves	8.9	7.7	5.4	2.8	1.1	0.1
Memorandum items:						
Exports of goods and NFS (millions of US$)	1,426.2	1,553.2	1,770.5	2,116.9	2,481.8	2,783.6
Debt service (millions of US$)	93.1	134.1	180.2	199.6	206.3	154.1
Quota (millions of SDRs)	169.1	169.1	169.1	169.1	169.1	169.1
Quota (millions of US$)	213.7	213.5	213.8	214.1	214.5	214.9
Gross official reserves (millions of US$)	1,253.1	1,571.8	1,621.8	1,671.8	1,721.8	1,771.8
GDP (millions of US$)	4,522.7	4,762.3	5,061.5	5,434.9	5,889.0	6,388.1
U.S. dollar per SDR	1.3	1.3	1.3	1.3	1.3	1.3

Source: IMF staff estimates.

1/As of February 2002.

Table 8. Bosnia and Herzegovina: External Financing Requirements and Possible Sources of Financing, 1998-2002

(In millions of U.S. dollars)

	1998	1999	2000	2001	2002
Merchandise trade balance	-1,881	-1,797	-1,656	-1,668	-1,598
Services balance	378	324	264	226	203
Net factor income	366	300	256	243	232
of which: Interest due	-43	-53	-63	-59	-70
Private transfers, net	264	198	164	154	149
Current account balance, excluding official transfers	-873	-975	-971	-1,044	-1,015
Amortization of medium and long term obligations 1/	-73	-58	-12	-14	-46
Changes in arrears (- is reduction)	-815	-20	-342	-550	51
Of which: Multilateral	0	-20	0	0	0
London Club	0	0	0	0	0
Paris Club	-815	0	0	0	0
Other 2/	0	0	-342	-550	51
London Club rescheduling and debt relief	73	4	8	2	4
Paris Club rescheduling and debt relief	851	8	0	0	0
Multilateral rescheduling and debt relief	0	20	0	0	0
Change in official reserves (- is increase)	-94	-281	-43	-765	-319
Change in commercial bank NFA (- is increase)	129	-203	-146	-312	44
Errors and omissions	0	0	0	0	0
Gross external financing requirement	-803	-1,505	-1,507	-2,684	-1,281
Official transfers	197	86	53	38	29
Capital transfers for reconstruction	492	548	396	346	252
Official loans for balance of payments support 3/	0	11	4	-15	46
Disbursement for reconstruction	147	140	186	171	162
Foreign direct investment	100	90	150	130	240
Other capital	-214	557	300	1,397	538
Financing gap after project and humanitarian flows	-80	-73	-417	-617	-13
IMF	33	18	17	10	22
World Bank adjustment lending	47	54	58	57	43
Gross financing gap (-)	0	0	-342	-550	51
Other rescheduling and debt relief 2/	0	0	342	550	-51
Remaining gap	0	0	0	0	0

Sources: Data provided by Bosnian authorities; and IMF staff estimates.

1/ Includes IMF repurchases.

2/ Mainly reflects rescheduling of debt arising out from bank guarantees for construction work that was not completed, unallocated suppliers credits, and debt acquired in non-convertible currency. The State began rescheduling in 2000 and is expected to complete the process in 2001.

3/ Excludes multilateral creditors.

Table 9. Bosnia and Herzegovina: External Debt at end-2001 and Debt Service 2001-2006 1/ 2/
(In millions of U.S. dollars)

	Stock of Debt	Projected Debt Service Payments					
	2001	2001	2002	2003	2004	2005	2006
Total debt outstanding	2,609.3	...	...	...	...	...	...
Total debt service	...	81.0	134.1	179.5	199.8	206.4	154.3
Amortization	...	22.2	64.2	87.3	90.7	86.3	77.3
of which:							
Multilateral	1,584.5	17.3	48.0	76.4	80.1	78.9	66.0
IMF	116.5	8.0	18.3	44.1	48.1	47.7	36.9
World Bank 3/	1,313.3	5.5	24.8	24.2	23.9	23.1	23.1
Other	154.7	3.7	4.9	8.1	8.1	8.1	6.0
Paris Club 4/	517.2	4.8	9.3	8.9	8.6	2.4	3.0
London Club 4/	124.3	0.0	0.0	0.0	0.0	3.0	3.0
Other creditors 5/	383.3	0.1	6.9	2.0	2.0	2.0	5.3
Interest	...	58.8	69.8	92.2	109.1	120.1	77.0
Multilateral	...	42.7	40.9	57.4	74.9	86.4	42.4
IMF	...	8.0	4.2	4.8	4.1	2.8	1.6
World Bank 3/	...	26.1	33.4	49.7	68.2	81.5	40.8
Other	...	6.0	8.6	3.3	2.9	2.5	2.2
Paris Club 4/	...	14.9	24.7	18.8	18.5	18.3	18.2
London Club 4/	...	2.3	3.6	4.5	4.5	5.2	5.1
Other creditors 4/ 5/	...	-1.1	0.6	11.4	11.2	10.2	11.4

Sources: Data provided by Bosnian authorities; and IMF staff estimates.

1/ Debt service to London Club and Paris Club after rescheduling.

2/ Excludes an estimated US$54 of payments arrears at end-1997 for gas supplied from the Russian Federation, which is in dispute. Includes non-allocated debt of the former SFRY allocated on the basis of the Fund key of 13.2 percent of the non-allocated debt of the former SFRY. Includes debt for which status of public liability has not been verified or finalized.

3/ Figures reflect clearance of IBRD arrears on June 14, 1996, and the prepayment of unmatured loans as part of the debt consolidation.

4/ A restructuring agreement with London Club creditors became effective as of January 1, 1998. An agreement on Naples terms was reached with the Paris Club in October, 1998. Bilateral agreements with all countries but Japan have been completed.

5/ Mainly commercial creditors (i.e., supplier and trade creditors); before 2000 this included non-convertible currency debt. Rescheduling of these debts began in 2000 and is expected to be completed in 2001.

Table 10. Bosnia and Herzegovina: Vulnerability Indicators, 2000-2001

	2000	2001
Exports (annual percent change, US$ basis)	21.2	11.0
Imports (annual percent change, US$ basis)	0.6	4.4
Current account balance (percent of GDP) 1/	-20.4	-22.2
Capital and financial account (percent of GDP)	20.8	38.9
Gross official reserves (end-of-period) in US$	936.4	2,057.7
In months of prospective GNFS imports	2.1	5.2
Broad money/NFA (end-of-period) 2/	578.0	275.2
Foreign exchange deposits/reserves (percent, end-of-period)	94.5	75.6
Total external debt (percent of GDP)	67.4	57.7
External debt service/ exports of GNFS (in percent)	5.4	5.1
Exchange rate (per U.S. dollar, period average) 2/	2.1	2.2
REER depreciation, end-of-period (-) (annual percent change)		
Republika Srpska	10.4	-5.5
Federation	-1.1	-7.7

Source: IMF staff estimates.

1/ Includes transfers.

2/ 2001 monetary data as of end-November 2001.

Bosnia and Herzegovina: Fund Relations
As of April 30, 2002

I. Membership Status: Succeeded to the membership of former SFR of Yugoslavia effective 12/14/1992; Article XIV

II. General Resources Account:	SDR Million	%Quota
Quota	169.10	100.0
Fund Holdings of Currency	254.43	150.46

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	20.48	100.0
Holdings	1.12	5.48

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Stand-by arrangements	85.33	50.46

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	05/29/1998	05/29/2001	94.42	94.42

VI. Projected Obligations to Fund:(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2002	2003	2004	2005	2006
Principal	14.50	34.90	29.60	6.20	
Charges/Interest	2.20	2.30	1.20	0.50	0.40
Total	16.70	37.20	30.80	6.70	0.40

VII. Safeguards Assessment

Under the Fund's safeguards assessment policy, Central Bank of Bosnia and Herzegovina (CBBH) is subject to a full safeguards assessment with respect to the new Stand-By arrangement. An off-site review of the information submitted by the authorities is currently underway. The outcome of the off-site review may determine whether an on-site mission would be necessary. The safeguards assessment will be completed before the first program review. The transitional assessment (review of external audit mechanism) of the CBBH, with respect to the arrangement which expired on May 29, 2001, was completed on April 12, 2001. The transitional assessment concluded that CBBH's external audit mechanism was adequate

VII. **Exchange Arrangement**

The currency of Bosnia and Herzegovina is the convertible marka (KM), introduced on August 11, 1997. Under the CBBH law, the KM is pegged to the deutsche mark (DM) at KM 1 = DM 1 under a currency board arrangement. However, the KM is pegged de facto to the euro and KM 1 = 0.5113. Small denominations of KM notes have been in circulation since June 22, 1998; large denominations and coins were introduced in August 1998, and December 1998, respectively. The convertible marka (KM) is the currency used for operations and transactions with the Fund for Bosnia and Herzegovina.

Bosnia and Herzegovina maintains restrictions on payments for current international transactions and transfers resulting from measures taken with respect to frozen foreign currency deposits.

VIII. **Last Article IV Consultation**

Bosnia and Herzegovina is on the standard twelve-month cycle. The last Article IV consultation was concluded on February 25, 2002.

IX. **Resident Representative**

Mr. Bruno de Schaetzen has been the Fund's resident representative in Bosnia and Herzegovina since July 6, 1998.

X. **Technical Assistance, 1995–September 1999**

Department	**Timing**	**Purpose**
FAD	December 1995	Diagnostic
	February 1996	Income tax policy
	February 1996	Customs and tax administrations
	April-May 1996	Tax administration
	November 1996	Diagnostic mission to Repub. Srpska
	December 1998	Fiscal management at the State level
	November 1999	Consumption and inter-Entity trade taxation and policy
	August 2000	Treasury systems
	September-October 2000	Value-added tax
	July 2001	Treasury Systems
	April 2002	Value-added Tax
LEG	May 1996	Tax administration law
LEG/TRE/SEC	December 1995	Assistance with succession to membership
MAE	December 1995	Institution-building and banking legislation
	October 1996	Payments bureau
	February 1997	Payments, accounting, and information systems

	June 1997	Central bank establishment and payments system
	July 1997	Central bank accounts and administration
	March 1998	Further development of the central bank and payments system and introduction of currency notes
	July 1998	Accounting
	November 1998	Central bank activities in foreign exchange, accounting, information technology, and administration
	January 1999	Central bank operations in foreign exchange, currency board, accounting and auditing. Reforming and modernizing the payments system.
	January 1999	Advisor on payments bureau reform.
	September 2000	Advisor on payments system.
	March-April 2001	Payments system, currency management, accounting and research
MAE/EU1	June 1996	Discussion of new central bank
MAE/LEG	January/February 1996	Assistance from headquarters drafting legislation for new central bank and bank agency
	November 1996	Refinement of new central bank and bank agency legislation
STA	November 1995	Diagnostic participation in pre-membership mission
	April 1996	Money and banking statistics
	June 1996	Money and banking statistics
	November 1996	Money and banking statistics
	August 1997	Money and banking statistics
	January 1998	Multi-sector statistics
	September 1998	Money and banking statistics
	November 1998	Balance of payments statistics
	May 1999	Statistical advisor
	June 1999	Money and banking statistics
	September 1999	Balance of payments statistics
	October 2000	Money and banking statistics
	December 2001	Money and banking statistics

BOSNIA AND HERZEGOVINA: RELATIONS WITH THE WORLD BANK GROUP

1. Bosnia and Herzegovina became a member of the World Bank Group on April 1, 1996, after having agreed to assume its share of the loans made by the Bank to, or with the guarantee of, the Socialist Federal Republic of Yugoslavia (SFRY);[1] and having agreed with the Bank on a plan to eliminate arrears on those loans.[2]

2. In parallel with efforts towards membership and resolution of arrears, the Bank initiated, in collaboration with the government of Bosnia and Herzegovina, the IMF and international donors, preparatory efforts for a program of post-war reconstruction and economic recovery. The external financing requirement of this program was estimated at US$5.1 billion over 3–4 years. At pledging conferences in December 1995, April 1996, July 1997, May 1998, and May 1999—co-chaired by the European Commission and the World Bank—some 60 donor countries, multilateral institutions and other donor agencies pledged over US$5.1 billion of assistance on highly concessional terms to support Bosnia and Herzegovina in the implementation of the Priority Reconstruction Program. An updated assessment of donor pledges as of December 1999 indicates pledges having risen to US$5.4 billion.

3. As of March 31, 2002, the World Bank Group had committed US$900 million, in support of 42 IDA credits/World Bank Trust Funds and disbursed US$670 million. As of February 2002, US$45 million had been committed in 17 IFC operations, and US$37 million disbursed. The IDA-financed projects/credits have supported rehabilitation and reconstruction in a wide range of sectors, including agriculture, industry, energy, water supply, transport, education and health, employment creation through demobilization support, micro-credit and public works; and structural adjustment through public sector reform and privatization.

4. The current Bank assistance program, for which a Progress report was presented to, and approved by, the Bank's Board on October 18, 2001, has the following objectives: (i) strengthening institutions and governance, in particular, in the area of public finance, macroeconomic management and the strengthening of local governments; (ii) fostering private sector-led growth and employment through the creation of a business-friendly enabling environment, privatization and ongoing banking and labor-market reforms; and (iii) building social sustainability through the development of a social protection strategy focused on the most needy, based on improved capacities for collating and analyzing poverty data, and strengthening human capital through education and health programs. After an initial post-war strategy aimed at reconstruction, the Bank's strategy has shifted to assisting Bosnia and Herzegovina in its move towards sustainable growth. In this context, a Second Public Finance Structural Adjustment Credit (PFSAC II) aimed at enhancing inter-entity coordination, priority setting for public

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[1] Allocation of these loans among the successor republics of the SFRY is based on project benefits located within the internationally recognized territory of each republic. An apportionment formula has been used for unallocated debt, i.e., debt related to balance of payments support where single republics could not be identified as a beneficiary.

[2] The plan involved consolidation of outstanding balances plus arrears into a package of new IBRD loans (the consolidation loan package). The consolidation loan package became approved June 13, 1996 and effective in June 14, 1996, paving the way for regular IDA lending.

spending and improving budget and debt management is under implementation; and, an Enterprise and Bank Privatization Adjustment Credit (EBPAC) has just been completed; while a single tranche social sector adjustment operation focused on labor market reform and social protection was approved and disbursed in 2001. According to the country assistance progress report, and based on reform performance to date, the Bank's program remains in the low range of the base case. The program would only move to the high range of the base case once the ongoing PFSACII adjustment credit mentioned above is completed and agreement is reached on the measures to be supported in the two new adjustment credits. Measures under a business enabling environment adjustment operation have recently been agreed, and this credit is to be presented to the World Bank Board in early June 2002, while a follow-up social sector adjustment credit, has had to be delayed, pending adoption and implementation of reforms to ensure the sustainability of the social safety net .

5. The Bank and the IMF have worked in very close partnership since the beginning of the reconstruction effort. Regular exchange of information, joint missions and joint chairmanship of the macroeconomic sector task force in Sarajevo have benefited both institutions.

STATUS OF BANK GROUP OPERATIONS IN BOSNIA AND HERZEGOVINA

A. STATEMENT OF BANK LOANS [a]
(As of March 31, 2002)

				US$ Million (Less Cancellations)	
Loan No.	**Fiscal Year**	**Borrower**	**Project**	**Loan**	**Undisbursed**
Loan/Credits/ Grants					
IBRD [b]					
4038-BOS	1996	Bosnia and Herzegovina	Consolidation Loan A	28.6	0.0
4039-BOS	1996	Bosnia and Herzegovina	Consolidation Loan B	284.9	0.0
4040-BOS	1996	Bosnia and Herzegovina	Consolidation Loan C	307.1	0.0
			Total	**620.6**	**0.0**
			Of which: Repaid	24.9	
			Total Now Held by the Bank	**595.7**	**0.0**
TFBH [c] (Under Disbursement)					
TF-024030	1996	Bosnia and Herzegovina	Emergency Recovery Credit	45.0	0.0
TF-024031	1996	Bosnia and Herzegovina	Emergency Farm Reconstruction	20.0	0.0
TF-024032	1996	Bosnia and Herzegovina	Emergency Water Supply	20.0	0.0
TF-024033	1996	Bosnia and Herzegovina	Emergency Transport	35.0	0.0
TF-024034	1996	Bosnia and Herzegovina	Emergency District Heating	20.0	0.0
TF-024035	1996	Bosnia and Herzegovina	Emergency War Victims Rehabilitation	5.0	0.0
TF-024040	1996	Bosnia and Herzegovina	Emergency Education Reconstruction	5.0	0.0
			Total	**150.0**	**0.0**
IDA					
2897-BOS	1996	Bosnia and Herzegovina	Emergency Education Reconstruction	5.0	0.0
2896-BOS	1996	Bosnia and Herzegovina	Emergency War Victims Rehabilitation	5.0	0.0
2902-BOS	1997	Bosnia and Herzegovina	Emergency Housing Repair	15.0	0.0
2903-BOS	1997	Bosnia and Herzegovina	Emergency Power Reconstruction	35.6	0.0
2904-BOS	1997	Bosnia and Herzegovina	Emergency Public Works and Employment	10.0	0.0
2905-BOS	1997	Bosnia and Herzegovina	Emergency Landmines Clearance	7.5	0.0
2906-BOS	1997	Bosnia and Herzegovina	Emergency Demobilization and Reintegration	7.5	0.0
2914-BOS	1997	Bosnia and Herzegovina	Transition Assistance Credit	90.0	0.0
N001-BOS	1997	Bosnia and Herzegovina	Emergency Industry Re-Start Guarantee	10.0	0.0
N002-BOS	1997	Bosnia and Herzegovina	Emergency Microenterprise/Local Initiatives	7.0	0.0
N003-BOS	1997	Bosnia and Herzegovina	Essential Hospital Services	15.0	0.0
N032-BOS	1998	Bosnia and Herzegovina	Transport Reconstruction II	39.0	0.0
N035-BOS	1998	Bosnia and Herzegovina	Education Reconstruction II	11.0	0.0
3028-BOS	1998	Bosnia and Herzegovina	Reconstruction Assistance Project	17.0	0.0
3029-BOS	1998	Bosnia and Herzegovina	Emergency Natural Gas	10.0	0.0
3070-BOS	1998	Bosnia and Herzegovina	Emergency Pilot Credit (RS)	5.0	0.0
3071-BOS	1998	Bosnia and Herzegovina	Power II	25.0	0.0
N040-BOS	1998	Bosnia and Herzegovina	Forestry	7.0	1.2
3090-BOS	1998	Bosnia and Herzegovina	Public Finance I (Structural Adjustment)	63.0	0.0
3191-BOS	1999	Bosnia and Herzegovina	Local Development	15.0	12.3
3202-BOS	1999	Bosnia and Herzegovina	Basic Health	10.0	6.4
3262-BOS	1999	Bosnia and Herzegovina	Enterprise and Bank Privatization Project	50.0	14.0
3257-BOS	1999	Bosnia and Herzegovina	Enterprise Export Facility Project	12.0	4.9
3269-BOS	1999	Bosnia and Herzegovina	Pilot Cultural Heritage Project (LIL)	4.0	2.2
3258-BOS	1999	Bosnia and Herzegovina	Second Public Finance (Structural Adjustment)	72.0	18.4
3351-BOS	2000	Bosnia and Herzegovina	Education Development Project III	10.6	7.5
3400-BOS	2000	Bosnia and Herzegovina	Mostar Water and Sanitation	12.0	8.8
3385-BOS	2000	Bosnia and Herzegovina	Emergency Labor Redeployment	15.0	13.2
3439-BOS	2000	Bosnia and Herzegovina	Social Sector Structural Adjustment Credit - TA	3.55	3.2
Q2370-BOS	2001	Bosnia and Herzegovina	Trade and Transport Facilitation in SEE	11.0	10.7
34650-BOS	2001	Bosnia and Herzegovina	Social Sector SAC(SOSAC I)	20.0	0.0
35330-BOS	2001	Bosnia and Herzegovina	Local Iniative II	20.0	19.7
35340-BOS	2001	Bosnia and Herzegovina	Electirc Power 3	35.0	32.8
35380-BOS	2001	Bosnia and Herzegovina	Community Development	15.0	14.7
3531-BOS	2001	Bosnia and Herzegovina	Privatization TA	19.8	19.5
36080-BOS	2002	Bosnia and Herzegovina	Private Sector Credit	10.0	9.9
36260-BOS	2002	Bosnia and Herzegovina	Road Management Safety	30.0	30.0
			Total	**749.6**	**229.4**
			Grand Total	**899.6**	**229.4**

a/ The status of these projects is described in a separate report on all Bank/IDA financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

b/ Consolidation Loans A, B, and C were approved on June 13, 1996 and became effective on June 14, 1996.

c/ Trust Fund for Bosnia and Herzegovina.

B. Statement of IFC Held and Disbursed Portfolio as of April 18, 2002 for February, FY2002

US$

FY	Institution Short Name	IFC Held Loan	IFC Held Equity	IFC Held Quasi	IFC Held Partic	IFC Disbursed Loan	IFC Disbursed Equity	IFC Disbursed Quasi	IFC Disbursed Partic
1997/99/01	Bosnia Micro	0	1,229,746	0	0	0	1,229,746	0	0
1985	Energoinvest	7,131,729	0	0	0	7,131,729	0	0	0
1997	Enterprise Fund	0	1,684,388	0	0	0	1,056,073	0	0
2001	PBS Group	8,429,797	260	887,347	0	8,429,797	0	887,347	0
1997	Sarajevska	1,718,227	0	0	0	1,718,227	0	0	0
1998	SEF Akova	1,404,670	0	0	0	1,404,670	0	0	0
1999/01	SEF Bosnalijek	2,012,457	1,841,848	0	0	2,012,457	1,841,848	0	0
1999	SEF Kopex	1,212,230	0	0	0	1,212,231	0	0	0
1998	SEF Lignosper	1,841,245	0	0	0	1,597,225	0	0	0
1999	SEF Lijanovici	1,697,051	0	0	0	1,697,051	0	0	0
1977	TKA Cazin	2,954,866	0	0	0	2,954,866	0	0	0
1998	Wood Agency-AL	3,962,231	0	0	0	0	0	0	0
1999	Wood Inga	1,397,581	0	0	0	279,516	0	0	0
1999	Wood Konjuh	1,987,283	0	0	0	1,765,446	0	0	0
1999	Wood Kozara	1,397,572	0	0	0	1,175,735	0	0	0
1999	Wood Podgradci	957,226	0	0	0	779,756	0	0	0
1999	Wood Vrbas	1,397,581	0	0	0	279,516	0	0	0
	Total Portfolio	39,501,745	4,756,243	887,347	0	32,438,222	4,127,666	887,347	0

Approvals Pending Commitment

FY	Institution Short Name	Loan	Equity	Quasi	Partic
2001	PBS Pre-Priv.	0	0	3,087,819	0
	Total Pending	0	0	3,087,819	0

Bosnia and Herzegovina: Statistical Issues

1. The Dayton peace treaty, which ended the civil war implicitly gave responsibility for statistical functions to the two Entities (The Federation of Bosnia and Herzegovina and Republika Srpska). In August 1998, the State created its own statistical institute, the Bosnia and Herzegovina Agency for Statistics (BHAS) with a view to compiling country-wide statistics in accordance with internationally accepted methodologies, consolidating data produced by the Entities Statistical Institutes, and acting as the primary coordinating agency for contacts with international agencies. Significant technical assistance was provided in recent years, mainly by the European Union and essentially in the form of training seminars and study visits. A Fund resident statistical advisor was assigned to the Central Bank of Bosnia and Herzegovina (CBBH) in May 1999, to provide technical assistance in the development of all areas of macroeconomic statistics on the basis of the comprehensive review conducted in early 1998 by the Fund's Multisector Statistics mission and the recommendations of Fund missions in the areas of monetary and balance of payments statistics. A country page for Bosnia and Herzegovina in *International Finance Statistics* (*IFS*) was introduced in July 2001.

A. Real Sector

2. In recent years, efforts have been made in both Entities to improve statistics on the real sector but results have been mixed. The Federation has published nominal GDP estimates on a production basis for 1999 and 2000, based on international standards recommended by the *1993 SNA*. In the RS, the estimate for nominal GDP in the year 2000 is still preliminary, in part because data collection was interrupted upon the closure of the payment bureaus. However, in both Entities, production and income aggregates at constant prices and compilation of GDP by expenditure approach are still unavailable and informal sector activities are under-recorded. The preparation of a household income and expenditure survey, which will serve as the basis of revising price indices and of the production account by expenditure approach, has been delayed. There are still no meaningful short-term business and consumer surveys. Both statistical offices compile prices and production indices following sound methodological procedures, although the weights in the indices are seriously outdated. Industrial production indices are prepared in each Entity, but there is no index at the country level. In the RS, the industrial production index covers only public enterprises, which represent a declining share of economic activity. Labor statistics are the weakest area for both Institutes, and data on employment, unemployment, and wage rates are based on deficient methodologies.

B. Balance of Payments

3. Trade data are published by Entities's Statistical Institutes and balance of payments statistics by the CBBH's Research Department. The quality of these data is generally poor. Merchandise trade data are not based on international standards and suffer from serious undercoverage due to smuggling and undervaluation. The coverage of foreign aid data, foreign investment, and workers remittances is inadequate. Work has been ongoing with the support of the EU's CAFAO to introduce the computerized customs data management system ASYCUDA++ (the introduction is now planned for June 2002) and it is expected that

this will improve the quality of trade data. Continued technical assistance will be provided through the Fund's Resident Statistical Advisor.

C. Government Finance

4. The CBBH has agreed in principle to take responsibility for compiling countrywide GFS, even though the Ministry of Finance for the Federation of Bosnia and Herzegovina has been officially designated as the correspondent for submitting GFS to the Fund's Statistics Department. The RS authorities indicated that they also have adopted, in 2001, the 1986 GFS classification system. The Research and Development Department of the CBBH has started consolidating annual GFS data from both Ministries of Finance beginning with annual data for 2000 but results have not been published.

D. Monetary Accounts

5. The CBBH reports monetary accounts to the Fund on both a countrywide and Entity basis. In 1996–1999, the Fund sent six missions to establish an integrated system of countrywide monetary statistics meeting Fund standards. Two follow-up monetary and financial statistics missions took place in October–November 2000 and in December 2001. The latest mission reviewed in particular the recent institutional changes and accounting developments arising from BiH's financial sector reform and assisted in revising and updating the current monetary data compilation procedures.

Bosnia and Herzegovina: Core Statistical Indicators
(As of May 15, 2002)

	Exchange rates 1/	International Reserves	Central Bank Balance Sheet	Reserve Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance 2/	Government Balance	GDP	External Debt/ Debt Service
Date of Latest Observation	March 14, 2002	Feb 28, 2002	Feb 28, 2002	Feb, 2002	Feb 28, 2002	Jan 31, 2002	Mar 31, 2002 3/	Dec 31, 2001 3/	2000	Nov 28, 2001	2000	Mar 2002
Date Received	May 15, 2002	Apr 2002	Apr 2002	Apr 2002	Feb 2002	Mar 2002	Apr 2002	Mar 2002	August 2001	Dec 21 2001	Dec 2001	Apr 2002
Frequency of Data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Monthly	Annual	Monthly
Frequency of Reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly/ On mission	Monthly	Quarterly	Annual	Monthly	Annual	
Source of Update	CBBH 4/	CBBH 4/	CBBH 4/	CBBH 4/	CBBH 4/	CBBH 4/	Entity Statistics Institutes	Entity Statistics Institute	CBBH	Federation and RS Finance Ministries	Entity Statistics Institutes	States' Treasury
Mode of Reporting	Website	Report to the Fund	Report to the Fund	Report to the Fund	Report to the Fund	Report to the Fund	Report to the Fund	Report to the Fund	e-mail	Report to the Fund	Report to the Fund	Report to the Fund
Confidentiality	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public
Frequency of Publication	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	N/A	N/A	Biannual	N/A

1/ The convertible marka (KM) has been fixed vis-a-vis the DM at KM1 = DM1.
2/ Figures on the current account balance are rough staff estimates based on piecemeal data.
3/ BiH Federation only. September for the RS.
4/ CBBH is the Central Bank of Bosnia and Herzegovina.

Bosnia and Herzegovina: Outstanding Debt Rescheduling Issues

Paris Club. Bilateral agreements to reschedule official debt in accordance with the 1998 Paris Club agreement have been concluded with all countries, except Japan. In line with Fund advice, the authorities of Bosnia and Herzegovina have written to the Paris Club Secretariat and to the Japanese authorities, setting out the outstanding issues which so far have prevented both parties from concluding a bilateral rescheduling agreement, and proposing a meeting between the authorities of Bosnia and Herzegovina and Japan.

Arrears in payments for natural gas to Russia. BiH state-owned enterprises (in both entities) ran arrears to Russian suppliers of natural gas both during the early 1990s and again during 1995. The Russians acknowledged around US$20 million of this debt (the arrears incurred before the war) under the aegis of the 1998 Paris Club agreements. US$104 million is now left outstanding (from 1995). Negotiations with the Russians are underway; these discussions are taking place together with all former Yugoslav republics, as all of these countries have the same outstanding issue. Given that these arrears were accrued by state-owned enterprises, the State did not consider the obligations as a part of its public debt. Additionally, current State legislation on debt (1998) explicitly stipulates that debts accrued during the 1991–1995 war are not State liabilities. However, the State has decided to assume the liability for these debts to clear the enterprises' balance sheets ahead of privatization and thus, will add US$104 million to its stock of debt in 2002. This action will require a change in legislation. As soon as the debt liabilities are taken over by the State (following the legislation change), the BiH authorities are considering taking this specific debt liability to Russia to the Paris Club in order to get the best possible terms for resolution of the debt.

Other debt. Debt owed to former-COMECON countries (mainly, former-Czechoslovakia), trade credit debt, and unassigned debt inherited from the former-Yugoslavia all constitute "other debt." The total value of "other debt" was US$946 million in 2000, including penalties on arrears. By end-2001, all but US$54 million has be identified and cancelled or rescheduled. The authorities are in the process of identifying the creditors. As most of this debt is owed to former COMECON country enterprises, the situation is complex. All of the creditor enterprises were state-owned at the time the debt was contracted, but since then many have been either privatized or liquidated. Thus, identification of these enterprises is difficult and takes time; it is likely that many of the original creditors will not be found.

Sarajevo and Banja Luka, Bosnia and Herzegovina
May 31, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

The attached Memorandum of Economic and Financial Policies (MEFP) describes the policies that the State, Federation and Republika Srpska governments and the Central Bank of Bosnia and Herzegovina intend to implement during this year and next. These policies are aimed at ensuring continued macroeconomic stability and supporting sustainable economic growth. In this context, we view as central to our economic program the maintenance of a prudent fiscal policy as well as a completion of the structural reform agenda required to create a fully-functioning market economy. In support of these policies, we are requesting a 15-month stand-by arrangement in the amount of SDR 67.6 million (40 percent of quota).

We believe that the policies described in the attached MEFP are appropriate to meet the objectives of our economic program, but we stand ready to take additional measures to meet these goals should the need arise. During the period of the arrangement, we will consult with the Fund on the adoption of any such measures that may be necessary in accordance with the Fund's rules on such consultations and we will provide the Fund with any information it requests for monitoring progress in program implementation.

The program will be evaluated on the basis of quarterly quantitative performance criteria and structural performance criteria and benchmarks (summarized in the attached Tables and Annexes of the MEFP).We will also conduct with the Fund four reviews of economic developments under the program; these reviews will be undertaken by mid-November 2002, mid-February 2003, mid-May 2003, and mid-August 2003 respectively. All of these reviews will assess actions taken to further strengthen the credibility of the Currency Board, notably in regard to fiscal and labor market developments, and adherence to the commitment to avoid incurring new expenditure arrears. The first review will concentrate on the implementation of the 2002 budgets, design of the 2003 budgets as well as the application of structural measures including an evaluation of the new treasury system and actions to strengthen corporate governance. Quantative and structural performance criteria for end-September and end-December have been established in the attached memorandum of Economic and Financial Policies. Quantitative performance criteria for end-March 2003 will be specified at the time of the first review and performance criteria for end-June will be specified during the second review. The second and third reviews will focus on the implementation of the 2003 budget and continued implementation of those structural reforms of critical importance for macroeconomic performance, including public sector reforms.

Sincerely yours,

/s/	/s/	/s/
Dragan Mikerevic	Alija Behmen	Mladen Ivanic
Chair of the Council of Ministers	Prime Minister	Prime Minister
Bosnia i Herzegovina	Federation of Bosnia and Herzegovina	Republika Srpska

/s/	/s/	/s/
Anto Domazet	Nikola Grabovac	Milenko Vracar
Minister of Treasury of BiH Institutions	Minister of Finance	Minister of Finance
Bosnia and Herzegovina	Federation of Bosnia and Herzegovina	Republika Srpska

/s/
Peter Nicholl
Governor
Central Bank of Bosnia and Herzegovina

Attachments: Memorandum of Economic and Financial Policies
of the State and entity governments of Bosnia and Herzegovina

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR BOSNIA AND HERZEGOVINA

A. Introduction

1. In the six years since peace returned, significant progress has been made. The sense of confidence between the various communities has clearly begun to be restored and this is reflected in the increased momentum of refugee resettlement. And on the economic front, output has risen dramatically since its immediate post-conflict levels and inflation has stabilized at industrial country rates. These successes reflect the efforts of the peoples of Bosnia and Herzegovina, supported by the international community.

2. Significant challenges remain over the medium term. As international assistance declines from its recent extraordinary levels, economic growth will need to become self sustaining and less reliant on external aid. This transition, alongside the continued reintegration of the economy into the region and the ongoing transition to market-oriented economic structures, will provide the basis for increased prosperity and reduced unemployment and poverty. It will also set the stage for eventual EU accession.

B. Macroeconomic Outlook for 2002–2006.

3. In the context of the policies described in section C below, our goals for 2002–2003 are to stem the downward momentum in GDP growth rates, to maintain low inflation, and to secure a modest reduction in the external current account deficit:

- At the BiH level, real GDP growth is projected to decline to around 2½ percent in 2002 before strengthening to 4 percent in 2003. In both years, activity will be buoyed by continued growth in the construction and services sectors but weakened by the industrial sectors, on balance allowing some increase in growth in 2003. In the Federation, recent privatizations and bank sector restructuring will provide support to activity. In the Republica Sprska (RS), in contrast, the signs are that output is already contracting and industrial activity will continue to weaken ahead of restructuring and privatization, offset somewhat by continued strength in agriculture.

- CPI inflation is projected at around 2–3 percent at the BiH level in 2002–03, with the CPI in the RS likely to be a little higher as the process of price convergence between the two Entities is completed.

- With aid inflows already declining, gross fixed investment rates will ease somewhat and alongside some strengthening in public savings, the current account deficit is projected to fall by about 2 percentage points of GDP to a little below 20 percent of GDP in 2003.

4. Looking further ahead, in the next five years reconstruction aid flows will likely halve from their recent extraordinary levels of over 10 percent of GDP annually, requiring a substantial reduction in the external current account deficit relative to GDP. If this is to be

realized alongside the high public and private fixed investment rates needed to achieve sustained real GDP growth of 4–6 percent a year, domestic savings will need to rise significantly.

5. In the first instance, this will require a comprehensive rationalization of public spending so as to lower domestic consumption. This will also create room for increased public investment to refurbish public infrastructure over the medium term while maintaining public external indebtedness below 65 percent of GDP. In addition, private savings rates will need to rise, notably through retained earnings in the corporate sector. This will require significant moderation in labor costs and ongoing efforts to improve the efficiency of all aspects of corporate operations. We will look to the International Monetary Fund for guidance on steps to be taken in the area of macroeconomic, fiscal, and tax policies to secure these needed adjustments in domestic savings and investment balances.

6. But the provision of savings for investment in this way will not alone suffice to stimulate fixed investment and activity. Four other areas will be critical:

- Corporate governance needs to be transformed through comprehensive privatization which is designed to provide for effective owner control of corporate activities and which brings know-how and capital into firms;
- Relative price structures will need to be brought into line with international relative prices through further liberalization of trade structures and the removal of domestic distortions;
- A considerably more business-friendly environment needs to be established through reform of the legal, regulatory, tax, and competition structures which encompass business activities;
- A concentrated effort will be needed to address poverty and unemployment. This will include the provision of sustainable social safety nets, improved education and training, and the removal of structural barriers to small and medium-scale business growth and to employment. Our efforts will be guided by our Interim Poverty Reduction Strategy Paper which is envisaged to lead to a full Poverty Reduction Strategy Paper to be prepared in collaboration with civil society.

Reforms in these areas will be pursued with the assistance of the World Bank and other responsible aid agencies.

7. Alongside strengthened domestic savings, these measures will provide the basis for strong export led growth of economic activity over the medium term. On this basis, the external current account deficit could decline by as much as 10 percentage points of GDP over the next five years.

C. Macroeconomic Policy Framework 2002–03

8. To achieve these objectives our policy framework has three central elements:

- Continued adherence to the strict currency board arrangement;
- Prudent fiscal policies;
- Further structural reforms.

Monetary and exchange rate arrangements

9. The currency board arrangement has served us well. It has secured low inflation in a difficult environment. And it has done this even in the context of a sizeable correction to relative prices between the two Entities. After initial difficulties, the KM is now accepted throughout the country as the unit of account, a means of settlement, and a store of value. Recently, these achievements have been crowned by large conversions of DM notes held by households and firms to KM in the context of the introduction of euro notes and coins. As a result, international reserves have surged to provide over five months of import cover.

10. As a structural performance criterion, we will continue to maintain the strict currency board arrangement now in place. Under this arrangement, the Central Bank of Bosnia and Herzegovina is prohibited from extending credit to the government, from issuing central bank securities, and to granting credit to banks and other private agents, including through the purchase of securities. The currency board had been pegged to the DM. In light of the withdrawal of the latter, the currency board has de facto already been reanchored to the euro at the end-2001 DM:euro conversion rate. This arrangement will be reflected in the Central Bank law once amendments now in Parliament are passed. We will shortly adopt legislation to widen the permissible range for the reserve requirement imposed on commercial banks from the current 10–15 per cent to 10–20 percent to provide some scope for discretionary policy adjustments that may be needed in future. But the applied reserve requirement will remain at the present rate of 10 percent during the program. Finally, the central bank will make no dividend payments to government until its capital equals or exceeds 10 percent of its monetary liabilities.

11. Commencing with this program, we will appoint the CBBH as the fiscal agent for the International Monetary Fund.

Fiscal policy

12. In 2002, we will implement budgetary policies that we project will secure a decline in the consolidated budget deficit for the whole country, including grants and on a commitment basis, from 6.3 percent of GDP in 2001 to 5.5 percent of GDP and a further decline to some 3 percent of GDP in 2003. We are also committed to securing, once and for all, to terminate the accrual of spending arrears that have so marred fiscal policy in the past. All levels of General Government in Bosnia and Herzegovina will also continue to abjure borrowing from domestic and external commercial sources, except as agreed in advance with the International Monetary Fund. As part of our efforts to minimize the need for such borrowing, we will transfer KM 110 million of the succession funds now held at State level to the Entities by end-May 2002. Its use at Entity level is described below. Both revenues and expenditures are projected to rise only modestly, with both declining relative to GDP.

13. This overall adjustment is reflected in the fiscal policies for the RS, the Federation, and at the State Level:

- In the RS, the consolidated deficit on a commitment basis will decrease from 4.3 percent of RS GDP in 2001 to 0.8 percent in 2002. Underlying this, revenues for the central government are projected to increase by 4½ percent, while spending rises 11 percent on a cash basis. Revenues will be supported by strengthened tax administration across the board—on high duty goods (especially oil and tobacco), through implementation of the Tax Identification Number and the ASYCUDA++ system in customs—but budgeted proceeds from these efforts have been kept deliberately cautious. The base for the wage withholding tax has been widened to include all allowances, an extension we expect to exactly match the revenue losses arising from the reduction in the rate of tax. On the spending side, we will not increase the minimum wage. We will decrease the number of employees by 1,500 persons (2/3 in the Army and 1/3 in the police) from the current level of 44,000. In addition, we have established a contingency mechanism for spending, to reduce spending commitments across the board by a total of KM 8 million. We will also reimburse to the electricity utility KM 9 million in eight monthly installments starting May 2002, for electricity coupons distributed to pensioners. If a review by the IMF staff of revenue financing and macroeconomic developments to be completed in September 2002 is favorable, the temporarily delayed spending will be implemented thereafter. Amongst the extrabudgetary funds, the Health Fund is projected to experience a decline in revenues in 2002 owing to the decrease in contribution rates, and will secure a matching decline in spending commitments.

- In the Federation, the consolidated deficit on a commitment basis will rise slightly in 2002 to 2.5 percent of Federation GDP from 1.8 percent in 2001. Revenues for the central government are budgeted to rise by 16 percent, but correcting this for several one-off receipts in 2001, the underlying increase is almost 30 percent in 2002. This reflects vigorous efforts to strengthen customs administration, including through implementation of the Tax Identification Number and the ASYCUDA++ system in customs. However, the yields from these efforts to strengthen tax administration are uncertain. In that light, we have established a list of "delayed spending commitments" (Annex 1) on which spending will not begin before end-September 2002 at the earliest. The IMF will review revenue, financing, and macroeconomic developments in mid-2002 and in the Autumn. If the latter review reaches favorable conclusions, spending on these items may begin in amounts agreed with the IMF staff at that time. This represents a prudent implementation of our budget in light of uncertainties over revenue yields and financing and we will immediately publish details of these decisions in the government gazette. Excluding these "delayed spending commitment" items, cash spending will rise by 14.1 percent. This amount includes severance packages of KM 10,000 each for 10,500 soldiers whose demobilization will reduce the army to a force of slightly more than 13,000 (Annex 2). This represents a major step towards our goal of a force of 7,000. Temporary financing for the severance package will be obtained from our share of the succession funds to be received from the State. Full reconstitution of the succession monies in escrow during

2002 will precede any release of "delayed spending commitments" items after September. We will actively seek additional donor support for this demobilization program. In addition, wages and hiring is frozen at the federation government level. Reforms to the war invalids programs will be expenditure reducing overall.

- At the State level, the 2002 budget anticipates a deficit of 0.1 percent of GDP. Receipts of funds from the Entities' for debt service are matched by corresponding outflows to external creditors to service that debt. Revenues and expenditures will increase by 40 percent so as to finance the expansion of the State Border Service and the new State institutions.

14. For 2003, we envisage further progress in fiscal consolidation. We expect to lower the overall deficit from 5.5 percent of BiH GDP in 2002 to some 3 percent in 2003, though a further adjustment will be made if reconstitution of succession monies used during 2002 is incomplete. With declines in grant aid, albeit partly offset by our continued efforts to strengthen tax administration, this will require expenditure containment. This will include the savings yielded by the military demobilization effected in 2002 of over 1¼ percent of GDP, a decline in spending directly funded by grants of some 2 percent of GDP, and further spending efficiencies of some ¼ of a percentage point of GDP. In addition, in case succession monies used for demobilization in the Federation are not reimbursed in 2002, we will further tighten our deficit in 2003. At end-2003, public external debt is projected at 61.4 percent of GDP, compared with 57.7 percent of GDP at end-2001. The increase reflects activities funded by donors and a sizeable assumption of debt of state owned enterprises in 2002, and this ratio is projected to decline in the medium term. We will continue our attempts to reach agreement on the final outstanding issue from the 1998 Paris Club Agreement which concerns the penalty interest rate, the moratorium period, and coverage of the agreement on our obligations to the Government of Japan. During 2002, we will also assume the debts of certain state-owned enterprises to Russia for gas imports and will continue our efforts to identify and restructure our remaining former Comecon-related debts.

15. These fiscal policies in 2002–03 will be accompanied by continued initiatives to strengthen the harmonization of our fiscal systems with each other. Any changes to be made to the indirect tax system will retain or strengthen the principle of harmonization. In particular, both Entities and the Brcko District will implement the excise attribution mechanism and stop double taxation on excises. The Brcko District will revise its legislation to include excise taxes in the base for calculating the sales tax, align the base and tax rates for sales tax with those in the two entities, and bring retail units in the "Arizona" market into the tax net. On the spending side, we will complete during 2002 a comprehensive review of public expenditures with the assistance of the World Bank which is already underway. This review will assess the need for adjustments to current expenditures to make room for additional public investment, and will prioritize new public investments focusing on refurbishment of our infrastructure. We will act decisively and quickly to implement the key findings of the review. We will abjure "across the board" tax amnesties and restructure overdue obligations through normal bankruptcy procedures.

16. These steps will be buttressed by strengthened fiscal operations:

- In each entity, we will complete the introduction of our Treasury system at the central level, and as a prior action under the program, we will prepare plans to extend our treasury systems to local governments and the extrabudgetary funds. These steps will also be taken at the State level.

- We have agreed on a monthly schedule for transfers from the Entities to the State, both for debt service and administrative transfers (Annex 3). Adherence to this schedule will be a prior action and an ongoing commitment under the program.

- We will take steps to better enforce tax collection. At the Federation level, we will as a prior action under the program pass the tax administration law already in Parliament that was designed in consultation with the U.S. Treasury. In addition, in both entities and the Brcko District, our customs administration will introduce the ASYCUDA++ information system to better enforce customs tariffs by July 2002.

- We will project revenues prudently so as to minimize the risk of accumulation of new arrears, and, as part of our planning to extend our Treasury systems, we will take steps to eventually enable us to monitor new arrears. As part of the execution of those plans, we will clarify the potential conflict between the budget and labor laws so that wage entitlements are defined by the labor laws. In addition, to prevent accumulation of new pension arrears, we will adhere to defined cut-off dates (10^{th} of each month in the RS, end of the previous month in the Federation) for contribution collections to pay pensions of the previous month. This is a structural benchmark under the program. We will also abstain from any offset operations for liabilities that were incurred after 2001.

- We remain concerned by the very high level of debt and the associated issue of fiscal sustainability. Claims on the government, including external debts, the frozen foreign currency deposits, the war damage claims and spending arrears could sum to more than 150 percent of GDP. After appropriate preparation, we will initiate a domestic debate about the implications for policy including the possibility of partial payment of domestic claims. In the mean time, as a prior action under the program, we will reform our privatization legislation as necessary immediately to place all privatization receipts and succession monies at central, cantonal, municipal and state government levels in escrow accounts so that they are available for use as part of an eventual comprehensive settlement of the debt.[1] Any earlier use of these resources will be conditional on understandings to be reached with IMF staff. We will, as part of the same policy, desist from further repayment of arrears that were accrued before end-2000 until the comprehensive settlement.

[1] For the Federation central government, its share of the succession monies will be used to finance the military demobilization scheme, and during 2002, those monies will be reconstituted prior to release of any "delayed spending commitment" items.

Structural policies

17. Structural policies need to be considerably strengthened if Bosnia and Herzegovina is to realize its growth potential and reduce unemployment and poverty.

18. Prime among these steps will be an improvement in the business environment. Under the aegis of a prospective credit from the World Bank and according to timetables to be agreed with the Bank in the context of that credit, we will:

- facilitate easier entry of new firms by strengthening the legal framework for foreign direct investment. We will also harmonize State and Entity laws in this area and streamline registration processes for all firms;

- lower administrative costs to business operation by strengthening legislation to protect creditors rights, formalizing the legal foundations for pledge collateral, and harmonize commercial laws between entities;

- streamline business exit processes by implementing a thorough reform and harmonization of our bankruptcy laws and procedures.

19. These steps will be accompanied by strengthened privatization programs with the support of international donors grouped under the International Advisory Group on Privatization.

- In the Federation, at least 8 large strategic enterprises are earmarked for privatization in 2002. Over the next five years, the remaining large strategic enterprises, including the Aluminum Company in Mostar, BiH telecom, and the generating and distribution components of Elektropreveda, will be sold.

- In the RS, we will complete in 2002 the privatization of medium scale enterprises by selling the government's remaining share in these enterprises. We will aim to reduce the excessive dispersion of ownership in the newly privatized enterprises by abolishing limit on the share of individual companies which individual Privatization Investment Funds may hold. We will accelerate the privatization of the strategic enterprises, which includes enterprises in the manufacturing sector and the Brod petroleum refinery.

20. In support of private sector development, we will continue to negotiate with our trading partners to increase our market access, notably in the region and in the EU. While we enjoy unrestricted access to EU markets, some of our agricultural exports have been impeded by insufficient proof that they meet health and safety standards. To address this problem, the State will seek authority from the EU for BiH veterinary and agricultural control offices to provide a certification of inspection based on EU standards. Additionally, by mid-2002, free trade agreements will be in effect with all of the former Yugoslav republics. We intend to negotiate bilateral agreements with Turkey and Bulgaria during 2002. These policies will dramatically reduce the maximum and average tariffs of 15 and 6.8 percent, respectively. Finally, we will act to complete preparations for WTO accession as soon as the new law on

Customs has been adopted by the State parliament with a view to entering WTO in early 2003.

21. Increased availability of disciplined credit for business for current operations and investment will form a critical element of our growth strategy. The financial system is currently small relative to GDP and depositor confidence in it, though much strengthened recently, needs to be deepened further. We will strengthen our financial system by completing banking sector privatization, strictly enforcing prudential banking regulations, and creating the infrastructure for a capital and securities market. All remaining state-owned banks will be privatized according to the timetable prescribed by law. Those state-owned banks that have not been privatized by the final deadline will undergo the bank resolution procedures prescribed by law. By 31 December 2002, all commercial banks will have a minimum capital of KM 15 million. Banks that fail to meet this minimum capital requirement will be placed under the bank resolution procedures prescribed by law. We intend to create a country-wide Deposit Insurance Agency to supercede the current Entity based arrangements. In the Federation, we intend to create a financial agency to channel certain credit lines from international donors to end users. However, this agency will not require any resources from the government, it will not engage in any commercial bank operations, and it will not extend any credits except those directly related to financial resources extended by international donors. Once the agency's work is complete, it will be abolished.

22. The poor quality of our statistical data base bedevils our efforts to formulate policies. With the support of the European Union, the IMF, the World Bank and bilateral donors, we will take the necessary steps to improve the quality and coverage of economic data. We will improve the coordination between the three statistical institutes and the Central Bank with a view to creating countrywide statistical data, including consolidated government finance statistics. In 2002, we will initiate the first comprehensive household budgetary survey, update the registry of enterprises and, with the support of CAFAO, finalize the preparation of comprehensive exports and import database broken down on a commodity basis. The Central Bank will compile and publish comprehensive quarterly balance of payments data by end 2002. During the following two years, we will produce our first set of national accounts on an expenditure basis, will produce real GDP estimates for 1998–2002, will continue our efforts to estimate the size of the parallel economy, will produce a revised CPI and a revised industrial production index based on updated weights, and improve the quality of data on foreign direct investment. We will also initiate the first population census since the end of the war and launch regular consumer and business surveys.

Table 1. Bosnia and Herzegovina: Quantitative and Structural Performance Criteria Under the 2002-2003 Stand-By Arrangement
(In millions of KM, unless otherwise noted)

	2002				2003	
	End-Mar. 1/	End-June 1/	End-Sep. 2/	End-Dec. 2/	End-Mar. 1/	End-June 1/
A. Quantitative performance criteria						
Ceiling on gross credit of the banking system to the consolidated general government						
the State government	0	0	0	0	0	0
the RS government and municipalities	10	10	10	10	10	10
the RS extra-budgetary funds	2	2	2	2	2	2
the Federation government 3/	20	20	20	20	20	20
the Federation cantons	10	10	10	10	10	10
the Federation municipalities	8	8	8	8	8	8
the Federation extra-budgetary funds	0	0	0	0	0	0
Ceiling on contracting or guaranteeing of new concessional external debt with original maturity of more than one year by the public sector	0	445	445	445	445	445
Ceiling on contracting or guaranteeing of new non-concessional external debt by the general government or the public sector 3/	0	0	0	0	0	0
Ceiling on new external debt owed by the consolidated general government or guaranteed by the public sector with an original maturity of up to and including one year	0	0	0	0	0	0
Ceiling on outstanding external payments arrears 4/	0	0	0	0	0	0
B. Structural Performance Criteria						
Continued adherence of the Currency Board Arrangement as constituted under the law, incorporating the amendments described in paragraph 10 of the MEFP.						

1/ Targets are indicative.

2/ Targets for end-September and end-December are performance criteria.

3/ Excluding letters of credit at the state level for CIPS financing up to KM 40 million.

4/ This will apply on a continuous basis

Table 2. Bosnia and Herzegovina: Prior Actions and Structural Benchmarks, March 2002-March 2003

	Implementation Date	Lead Institution	Paragraph in the MEFP
I. Prior Actions			
1. The Entities will make transfers to the State, at least according to the agreed cumulative monthly schedule reported in Annex 3 of the MEFP.		IMF	16
2. (a) All privatization receipts accruing to the central governments of the RS and the Federation, and to the Cantons in the Federation will be placed in escrow accounts alongside all succession monies pending a comprehensive strategy to clear arrears.		IMF	16
(b) This is reflected in state law governing the use of succession assets, and Federation laws on privatization will be amended accordingly.		IMF	16
3. The Entities will formulate a plan to complete the introduction of modern Treasury Systems at their central government levels, and introduce modern Treasury Systems in local governments. The State will develop a plan to introduce a modern Treasury system.		World Bank/USAID	16
4. The Federation will pass a strengthened tax administration law on the basis of a draft proposed by the U.S. Treasury.		IMF	16
5 Distribution of the first tranche of the succession monies to the entities and the state budget will take place in accordance with Annex 4.		IMF	16
II. Structural Benchmarks			
A. Fiscal Sector			
1. (a) The Entities and the Brcko District will pass laws establishing the excise attribution mechanism as previously agreed with the World Bank.	End-July 2002	World Bank	15
(b) The Entities and the Brcko District will implement these laws and stop double taxation on excises.	continuous	World Bank	
2. The customs administration in both Entities and the Brcko District will introduce the ASYCUDA++ information system.	End-July 2002	EU	16
3. There will be no new free trade zones.	continuous	IMF	
4. Any changes to the current indirect tax system should retain or strengthen the principle of harmonization.	continuous	IMF	15
5. The Federation pension fund will adhere to the cut-off dates for contribution collections at the end of each month as specified in the 2000 pension law. The RS pension fund will adhere to the cut-off date of the 10th of each month for contributions collect	continuous	IMF	16
6. (a) The Brcko District will amend its legislation to include excise taxes in the base for calculating the sales tax.	End-Sept 2002	IMF	15
(b) The base of the Brcko District sales tax will be aligned with that in the Entities.	End-Sept 2002	IMF	15
(c) The two rates of sales tax in the Brcko District will be 8 and 18 percent unless changes are agreed with IMF staff.	End-Sept 2002	IMF	15
(d) The Brcko District will bring the retail units in the "Arizona" market into the tax net.	End-Sept 2002	IMF	15
7. A comprehensive strategy to clear arrears will be prepared. All arrears, including frozen foreign currency deposits, will be audited by the Supreme Auditor Institutions.	End-June-2003	IMF	
8. Bosnia & Herzegovina will not clear domestic arrears that were accrued before end-2000, pending a comprehensive strategy to clear arrears.	continuous	IMF	16
9. The RS, and the Federation will amend their budget laws to give effect to the requirement that cantons, municipalities, and extra-budgetary funds individually shall not increase their indebtedness to commercial banks or development banks except for borrowing undertaken under World Bank programs.	End-June 2002	IMF	12
10 There will be no offset operations for tax liabilities that are incurred after 2001.	continuous	IMF	16
B. Financial Sector			
1. Banking supervision will be strengthened by enforcing the current prudential regulations.	continuous	IMF/World Bank	21

Bosnia and Herzegovina: Federation Fiscal Operations, 2002 Expenditures Under Delayed Payment

	Amount in the Budget	Amount under Delayed Payment	Code in the Treasury System
Arrears clearance			
Soldiers wages arrears	24.0	24.0	611100
Arrears to suppliers of the ministry of transport and telecommunication	18.8	18.8	613000
War invalids benefits arrears	29.5	29.5	614201
Pensions arrears	20.0	20.0	614202
Transfer to the Pension Fund	25.0	10.0	614203
Subsidies			
Agriculture (more details needed)	54.9	44.8	614401
SME	15.0	15.0	614204
Employment	40.0	40.0	614205
Water	1.2	1.2	614402
Forests	2.9	2.9	614403
Veterinary	4.5	4.5	614404
Industry	1.1	1.1	614405
Capital expenditures			
Road Novi Travnik - Bujogno	3.0	3.0	821601
By-pass Bujogno	1.0	1.0	821602
Road Odzak-Bosanski Brod	0.2	0.2	821603
Reconstruction of the road to Gradacac	0.5	0.5	821604
Road Posusje-Jablanica	0.8	0.8	821605
Road Jajce-Dobretici	0.4	0.4	821606
Road Jabuka-Praca	0.5	0.5	821607
Road Srednje-Olovo	0.8	0.8	821608
Road Sanski Most-Mejdan	0.8	0.8	821609
Road Lucki Most-Mostar	0.5	0.5	821610
Road Ravno-Cepikuce	0.4	0.4	821611
By-pass Velika Kladusa	0.2	0.2	821612
Sanacija regional road R-464 Orasje-Domaljevac and Odzak-Pru	1.0	1.0	821613
Environment expenses	0.2	0.2	821614
Spending on environment protection (swap to German debt)	9.5	9.5	821615
Total		231.3	
Memorandum items:			
Total expenditure in the approved budget		1,559,375,930.0	
Total amount in the delayed payments list		231,300,000.0	
Remaining expenditures		1,328,175,930.0	

Source: Federation Ministry of Finance.

Military Demobilization

The Federation plans to demobilize 10,500 soldiers during 2002. The demobilized soldiers will each receive KM 10,000 in severance pay.

The demobilization will be implemented as follows:

- All soldiers to be demobilized during 2002 will be given notice of termination of their contracts effective April 1, 2002.
- Soldiers will be assured that termination benefits will total KM 10,000. No payments will be made to or on behalf of the soldiers after March 31, 2002.
- We will make clear that this will not be the last demobilization. Subsequent demobilizations will take place on less generous terms.
- All efforts will be made to elicit donor grant funding for the scheme.

Pursuant to Chapter II, Article 7, Point 1 of the Law on Foreign Debt and Article 14, Point b of the Treasury Law, and in the context of the preparations of the program to be supported by a Stand-by Arrangement from the IMF, the entity finance Ministers and the Minister for BH institutions treasury have reached the following

AGREEMENT ON THE TIME SCHEDULE FOR THE PAYMENT OF RESPECTIVE AMOUNTS FOR FOREIGN DEBT SERVICING AND ENTITY CONTRIBUTIONS FOR ADMINISTRATIVE SEGMENT OF THE 2002 BUDGET OF THE BH INSTITUTIONS

I

In order to ensure timely payment of foreign liabilities and 2002 liability projections arising from foreign debt, in total amount of KM 293,3 million, out of which KM 181,9 million is the Federation liability and KM 110,4 million is the RS liability,

the Federation of BH and the Republika Srpska shall pay the required amounts against each due liability, 5 days ahead of the respective maturity date.

II

Total transfers in 2002 for administrative segment of the budget of the BH institutions amount to KM 77,3 million, out of which KM 51,5 million to be paid by the Federation and KM 25,8 million by the Republika Srpska.

The transfers to the budget of the BH institutions shall be paid on a weekly basis, ensuring so for 1/12 (one twelfth) of the total transfer to be remitted for every current month.

In Sarajevo,

/s/
The Minister of the Treasury
of the BH Institutions
Prof.Dr. Ante Domazet

/s/
The Minister of finance
of the Federation of BH
Prof.Dr. Nikola Grabovac

/s/
The Minister of finance
of the Republika Srpska
Milenko Vracar

Bosnia and Herzegovina: The Distribution of the First Tranche of Succession Monies

KM 156 million is anticipated as the first tranche of succession monies.

- The shares received from the BIS will be distributed to the Central Bank of Bosnia and Herzegovina (CBBH) in the amount of KM 26 million.
- KM 9 million will be used for additional current expenditure at the State level.
- KM 10.7 million of succession monies will be used to clear the arrears due to the capital increases to the EBRD and the IBRD.
- The remaining KM 110 million will be distributed to the Entities using the standard one third-two thirds formula.

BOSNIA AND HERZEGOVINA

Technical Memorandum of Understanding on Definitions and Reporting Under the 2002–2003 Economic Program

May 2002

This memorandum sets out the understanding between the government of Bosnia and Herzegovina and the IMF mission regarding the definitions of quantitative and structural performance criteria and targets for the stand-by arrangement (Tables 1 and 2) as well as data reporting required for monitoring the implementation of the program.

I. Definitions

The following definitions are to be used in monitoring the program. In the following definitions, the end-quarter test dates apply to the last working day of each quarter for both banking and budgetary statistics.

A. Ceiling on the Stock of Gross Credit from the Banking System to the General Government

Definitions:

- ***The general government*** is defined to include the State, Entity (Federation, and Republika Srpska), cantonal (Federation) and municipal budgets, Brcko budget, together with their respective extrabudgetary funds. The definition also includes the Goods Reserve Directorates of each entity. Extrabudgetary funds include, but are not limited to, the pension funds, health funds, unemployment funds, and children's fund in the two Entities and the State.

- ***The banking system consists*** of the Central Bank of Bosnia and Herzegovina (CBBH) and the commercial banks in both Entities and the District of Brcko.

- ***Gross credit*** is defined as all claims (e.g. loans, securities, bills, and other claims in both convertible marka and foreign currencies). For program purposes, those components of gross claims that are denominated in foreign currencies will be converted into convertible marka at the agreed accounting exchange rate prevailing on December 31, 2001.

Application of performance criteria:

- The quantitative value of banking system claims on the general government will be monitored from the accounts of the banking system, as complied by the CBBH, and supplemented by information provided by the Ministries of Finance of each Entity and the State.

- The ceilings on the stock of gross credit from the banking system to the general government will be defined in terms of seven sub-ceilings that sum to the ceiling for the general government. These seven sub-ceilings will be on the stock of gross credit from the banking system to the State government, the Federation of Bosnia and Herzegovina government, the Republika Srpska government and municipalities, the Federation Cantons, the Federation municipalities and the extrabudgetary funds. For the purposes of program monitoring, compliance with the ceiling on banking system credit to general government will require that each of these seven sub-ceilings be observed independently.

B. Operation of the Central Bank of Bosnia and Herzegovina

Under the Central Banking Law and the program, the CBBH is required to ensure that the value of its domestic liabilities does not exceed the convertible marka counter-value of its net foreign exchange reserves. Furthermore, the CBBH will not pay a dividend until its capital and reserves exceeds 10 percent of its monetary liabilities.

Definitions:

- ***Net foreign exchange reserves*** are defined as the value of foreign assets less the value of foreign liabilities, including assets and liabilities denominated in convertible currencies or convertible marka.

- ***Foreign assets*** are defined as (a) monetary gold and (b) monetary authorities claims on nonresidents including currency bank deposits, government securities, other bonds and notes, financial derivatives, equity securities, and nonmarketable claims arising from arrangements between central banks or governments.

- ***Foreign liabilities*** are defined to include: (i) foreign exchange and convertible marka balances on the books of the CBBH due to nonresidents, including foreign central banks (ii) credit balances due to foreign central banks, governments, and foreign financial institutions; (iii) forward and repurchase contracts of different types providing for future payments in foreign exchange by the CBBH to nonresidents; and (iv) any other liabilities due to nonresidents.

- ***Monetary liabilities*** are defined as the sum of (a) currency in circulation, (b) credit balances of resident banks at the CBBH, and (c) credit balances of other residents at the CBBH.

- ***Capital and Reserves*** are defined as (a) initial capital and reserves of the CBBH, (b) shares, and (c) accumulated profits of the CBBH since the beginning of its operation on August 11th 1997.

- ***Free reserves of the CBBH*** are defined as foreign exchange reserves not utilized as backing for the currency. They therefore consist of the stock of CBBH net foreign exchange reserves less the stock of CBBH monetary liabilities.

Application of performance criteria:

- Foreign currency holdings will be converted into convertible marka at the exchange rates of December 31, 2001, as published in the IMF *International Financial Statistics*. Valuation changes will therefore be monitored from the accounts of the CBBH, with information on net foreign assets provided monthly by the CBBH.

C. Ceiling on External Payments Arrears

Definitions:

- ***External payment arrears*** are defined as overdue debt service arising in respect of debt obligations incurred directly or resulting from guarantees by the general government that have been called, except on debt subject to rescheduling or restructuring.

- ***Debt obligations*** are defined as follows. The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."The definition of general government is as described above.

Application of performance criteria:

- The ceiling on external payments arrears applies to the stock of overdue payments on medium- and long-term debt contracted or guaranteed by the State, the Federation, the Republika Srpska, and the CBBH.
    - The limit on the change in external payments arrears also applies to the change in the stock of overdue payments on short term debt in convertible currencies with an original maturity of up to and including one year. The limit excludes reductions in connection with rescheduling of official and commercial debt and debt buy back. Accumulation of new external arrears is prohibited under the program.

D. Ceiling on Contracting or Guaranteeing of New Non-Concessional External Debt

Definitions:

- ***Debt obligations*** are defined as above in section "C".

- ***Concessional loans*** are defined as those with a grant element of at least 35 percent of the value of the loan, using currency-specific discount rates based on the commercial interest rates reported by the OECD (CIRRS). The average CIRRS over the last ten years—plus a margin reflecting the repayment period (1 percent for repayment period of 15–19 years; 1.15 percent for repayment period of 20–19 years; and 1.25 percent for repayment period of 30 years or more)—will be used as discount rates for assessing the concessionality of loans of a maturity of at least 15 years. For loans with shorter maturities, the average CIRRS of the proceeding six-month period (plus a margin of 0.75 percent) will be used.

- ***Non-concessional external debt*** refers to all debt creating instruments with a grant-element of less than 35 percent (as defined above).

- ***New non-concessional external debt*** is defined as including all debt (as defined above) contracted or guaranteed by the general government or the CBBH during the program period. The ceiling will be on the increase in short-term, medium-term, and long-term new non-concessional external debt from end-March 2002.

- ***Short-term debt*** is defined as debt contracted or guaranteed by the general government with an original maturity of up to and including one year.

- ***Medium-term debt*** is defined as debt contracted or guaranteed by the general government with an original maturity of greater than one year and up to and including five years.

- ***Long-term debt*** is defined as debt contracted or guaranteed by the general government with an original maturity of greater than five years.

Application of performance criteria:

- The ceilings on the stock of contracted or guaranteed new non-concessional external debt disbursed after March 31, 2002, will be defined for each test date. This excludes letters of credit at the State level for CIPS project financing up to 40 million KM.

- The value of the stock of leases will be calculated as the present value, at the inception of the lease, of all lease payments expected to be made during the period of the leasing arrangement, excluding those payments that cover the operation, repair or maintenance of the property being leased.

- Debt and leases will be valued in U.S. dollars at the exchange rates prevailing at the time the contract or guarantees become effective.

- For program purposes, the following are not considered as non-concessional debt and thus are excluded from the calculation of non-concessional debt contracted or guaranteed: (i) borrowing from the IMF, the World Bank, EBRD, EIB, IFC, or bilateral cofinancing of lending by these institutions; and (ii) concessional loans.

- The ceiling on the stock of contracted or guaranteed new non-concessional external debt excludes normal import-related financing.

E. Ceiling on Contracting New Concessional Debt

Definitions:

- ***Debt obligations*** are defined as above in section "C".

- ***Concessional loans*** are defined as above in section "D".

Application of performance criteria:

- Debt and leases will be valued in U.S. dollars at the exchange rates prevailing at the time the contract or guarantees become effective.

- For program purposes, the following will be included in the calculation of the amount of external debt contracted or guaranteed: (i) borrowing from the IMF, the World Bank, EBRD, EIB, IFC, or bilateral co financing of lending by these institutions; and (ii) concessional loans.

II. DATA REPORTING

The Bosnia and Herzegovina authorities will report the following data to the Fund within the time limits listed below. The authorities will also provide, no later that the first week of each month, a summary of key macroeconomic policy decisions taken during the previous month. Any revisions to past data previously reported to the Fund will be reported to the Fund promptly, together with a detailed explanation. The Bosnia and Herzegovina authorities will make every effort to move speedily towards sending the required data by electronic mail.

All magnitudes subject to performance criteria or indicative targets will be reported in millions of convertible marka where the corresponding target is in convertible marka, or in millions of U.S. dollars where the target is in U.S. dollars.

The Bosnia and Herzegovina authorities will supply the Fund with any additional information that the Fund requests in connection with monitoring performance under the program on a timely basis.

Monthly data reporting

The Bosnia and Herzegovina authorities will send to the Fund the following data no later than 3 weeks after the end of each month:

(i) Stock of free reserves of the CBBH; the balance sheet of the CBBH.

(ii) The commercial bank survey and monetary survey;

(iii) Banking supervision indicators including capital adequacy ratio, loan-loss provisioning data, bad loan information (classification);

(iv) Revenues, expenditures and financing data for all levels of government (including the State, Entities, and Cantonal (for FBiH));

(v) Pension funds payment data and cut-off dates for contributions collection;

(vi) Revenues, expenditures and financing data for the Brcko District;

(vii) Revenues, expenditures and financing data for the extrabudgetary funds (including health funds, unemployment funds and (in the RS) the children's fund).

(viii) Debt service payments by the State to creditors.

(ix) Report on privatization revenues, including revenues received and the balances held in escrow accounts.

(x) Monthly Statistical Data on Economic and Other Trends review published by the Federation 's Office of Statistics and Monthly Statistical Review published by the Republika Srpska Institute of Statistics.

(xi) Data sheets issued by the Republika Srpska Institute of Statistics. reporting on data that are not included in their Monthly Statistical Review

Quarterly data reporting

The Bosnia and Herzegovina authorities will send to the Fund the following quarterly data within the timeframes indicated:

(i) State debt service projections for current year;

(ii) Summary of government guarantees on quarterly basis;

(iii) Summary of government loans and degree of concessionality (grant element);

(iv) Summary of short-term loans by government on quarterly basis;

(v) Budget execution data by individual canton;

(vi) Report on privatization revenues, including revenues received and use of funds.

(vii) Summary of the financial activities of the RS Goods Reserve;

(viii) Execution of foreign-financed investment projects.

Bosnia and Herzegovina: Medium-Term Scenario—Sensitivity Analysis

There is some uncertainty about the growth dividend arising from the program's strong structural reform measures. This appendix examines the sensitivity of key macroeconomic aggregates to different assumptions of GDP growth. Both scenarios assume the same policy framework and foreign aid flows. The main conclusions are:

- Even with a growth rate peaking at 4 percent, public debt remains on a downward trajectory over the medium term.

- A lower growth out-turn will require a modest tightening of the fiscal stance compared to the baseline case. Reflecting the tighter fiscal stance, real public expenditure growth will be lower in the low growth scenario compared to the baseline.

- The current account deficit adjustment is likely to be larger in the low growth scenario compared to the baseline, since lower growth will depress import demand.

Table 1. Bosnia and Herzegovina: Medium-Term Projections
(In percent of GDP, unless otherwise stated)

	2000	2001	2002	2003	2004	2005	2006
Baseline scenario							
GDP growth (percent growth)	4.5	2.3	2.3	4.1	5.4	6.0	6.0
Fiscal balance (commitment basis)	-10.1	-6.3	-5.5	-3.0	-2.9	-2.5	-1.6
External public debt	67.4	57.7	62.0	61.4	59.5	56.8	54.0
Current account	-20.4	-22.2	-20.7	-18.4	-15.9	-13.2	-11.1
Real public expenditure (percent growth)	9.7	-4.9	2.6	0.7	1.1	0.1	1.3
Low growth scenario							
GDP growth (percent growth)	4.5	2.3	2.3	3.5	4.0	4.0	4.0
Fiscal balance (commitment basis)	-10.1	-6.3	-5.5	-3.0	-2.8	-2.4	-1.4
External public debt	67.4	57.7	62.0	61.8	60.7	59.2	57.4
Current account	-20.4	-22.2	-20.7	-17.8	-14.9	-11.9	-9.0
Real public expenditure (percent growth)	9.7	-4.9	2.6	0.2	-0.4	-2.0	-0.8

Source: IMF staff estimates and projections.

Bosnia and Herzegovina: Consolidated General Government Fiscal Operations: Data Changes Since the 2002 Article IV Staff Report

Figures for consolidated general government fiscal operations have changed since the Article IV Staff Report was issued. The reasons of these changes are the following:

- Grants are now recorded above the line whereas they were recorded below the line earlier. The reason for the change is that though grants are declining, they are large and expected to remain so for some time.
- At the time the Article IV Staff Report was issued, 2001 numbers were still based on staff estimates. Since then, the tables incorporate data from official budget reports.
- The staff estimates of the stock of arrears has been revised upwards for 2000 and 2001 following a fresh review by staff in April 2002. That review widened coverage and also found evidence of higher than previously reported spending commitments.
- GDP numbers have been revised, upwards in 2000 and downwards in 2001.

Table 1. Bosnia and Herzegovina, Consolidated General Government, 2000–2001 Fiscal Operations (in percent of GDP)

	2000	2001
Article IV Staff Report – February 2002		
Revenues	45.5	43.3
Expenditure (on a commitment basis)	65.9	56.1
Balance (on a commitment basis)	-20.5	-12.9
of which: Grants	10.2	8.1
of which: Change in stock of arrears	4.1	-1.6
Staff Report for SBA Request – May 2002		
Revenues	56.3	55.0
of which: Grants	10.0	8.1
Expenditure (on a commitment basis)	66.4	61.3
Balance (on a commitment basis)	-10.1	-6.3
of which: Change in stock of arrears	4.1	0.9

Sources: Ministries of Finance; and IMF staff estimates.

Statement by the IMF Staff Representative
August 2, 2002

This statement describes implementation of the prior actions and key economic and policy developments since the staff report was issued. The new information does not change the thrust of the staff appraisal.

Prior Actions and Structural Benchmarks

All prior actions have been completed.

- Entities are current in their transfers to the State, with recent delays now eliminated.
- On June 27, 2002, the Federation privatization law was amended to require that all receipts must be placed in escrow and cannot be withdrawn prior to a comprehensive debt settlement approved by parliament.
- Plans to extend treasury systems to better track commitments and to cover sub-central units of government have been adopted. Full operations are targeted for mid-2002 in the State, and for end-2003 and mid-2004 in the Federation and the RS respectively.
- A new Federation Tax Administration law was adopted on June 4, 2002 reflecting the recommendations of US treasury and EU technical assistance.
- On May 18, 2002, the State parliament passed a law distributing the first tranche of succession assets received from former Yugoslavia largely to the entities. The funds were distributed in early June.

Excluding RS pensions and amendments to the budget law (see below), the structural benchmarks dated for end-July 2002 have been met. Legislation to activate the excise attribution mechanism has been passed in both Entities and Brcko. Both Entities are ready to implement the ASYCUDA++ information systems in customs.

Preliminary data suggest that the indicative ceiling on Cantonal borrowing was exceeded in end-March 2002. The borrowing preceded the conclusion of the mission program negotiations and since then borrowing has been declining. Furthermore, with an amendment to the Federation budget law June 27, 2002 ruling out Cantonal borrowing from Banks, measures are in place to lower borrowing to within the program ceilings by September, when the ceilings will be performance criteria. Local borrowing in the RS is currently negligible and is subject to some central control. Amendments to tighten this control further in the RS in line with the program has, however, been delayed by disputes over unrelated issues in the bill in which the amendments are embedded. The bill is scheduled to be discussed by Parliament when it reconvenes in September.

Economic Developments

Available (limited) data suggest that macroeconomic developments are consistent with the staff's projections of real BiH GDP growth of 2–2½ percent in 2002 as in 2001 and modest inflation. In the year to May 2002, manufacturing output in the Federation was up 4½ percent on a year earlier and down by 13 percent in the RS over the same period, but both Entities show signs of a pickup since end-2001 troughs. Since those output troughs, manufacturing and mining employment—measured by persons being paid—was flat in the Federation while rising strongly in the RS. In May, the 12-month growth rate of the CPI was 3.5 and 0 percent in the RS and the Federation respectively, turning slightly negative in the Federation in June.

On the fiscal side, the first quarter outturn for government deficits is consistent with program projections. In the RS, strengthened tax enforcement, especially on oil products, is evident in strong revenue growth, which, if sustained, would exceed the annual program target by almost ½ percent of BIH GDP. Spending (notably on pensions) has raised pro-rata. In contrast, in the Federation, delays in implementing tax stamps on cigarettes and delays in dividend transfers from state owned enterprises depressed Q1 revenues. Spending was, however, adjusted pro rata and both revenue difficulties are being addressed; monthly revenue in April and May are in line with program targets.

International reserves of the central bank, which were boosted at end-2001 in the context of the introduction of euro notes and coin, have remained close to those levels since then.

Other Developments

Ministerial Appointments

At the initiative of the High Representative, in the week of June 17, the Deputy Prime Minister and Minister of Finance of the Federation were relieved of his duties and the Minister of Finance of the RS resigned. The former case is related to an improper payment made to a firm by the Ministry of Finance, the latter case relates to evidence of corruption in the customs administration. Mr. Franjic has been appointed as the Minister of Finance in the Federation, to be confirmed by end-July. In the RS, Mr. Vilendecic has taken over the Ministry of Finance portfolio. The latter has confirmed his commitment to policies in the letter of intent, and the same commitment is expected from the former when his appointment is confirmed.

Demobilization

In the Federation, the demobilization of 10,500 soldiers has been largely completed according to the modalities set out in the MEFP. Given the absence of donor funding for demobilization, severance was mostly financed from succession monies. Partly spurred by the Federation's initiative, the RS has proposed a related scheme to demobilize 2,500 personnel, also to be financed by temporary use of succession monies.

RS Pensions, Tax Write Off, and Electricity Coupons

Since end-2001, the RS pension fund has steadily accrued arrears summing to one month of pensions in May 2002. They arose because monthly pensions were not adjusted in line with collections, and instead, collection periods were extended. This commitment, which is a continuous structural benchmark in the program, was not observed in June or July, but the extent of the overshoot was lowered to 9 days in July 2002. The RS authorities have reconfirmed their intention to stop accruing pension arrears on pensions partly by supplementing pension fund resources from strong tax revenue growth, subject to a cap agreed with staff (see attachment), and if need be, cutting average pension entitlements. Given anticipated inflows, the July pension payable in early August can be met in full while adhering to the agreed cutoff date for the collection period. Staff has established a daily monitoring system to forewarn of any difficulties

The RS also adopted a law at end-May 2002 which lowers penalty interest on overdue tax obligations accrued between (1998 and mid-2001) and another which writes off overdue cadastral liabilities in an effort to strengthen tax compliance. Relief under both laws is contingent on taxpayers being current on obligations for 2002 and on registration with the tax authorities. The penalty rate will be 18 percent. Though this is below the standard penalty rate of 36 percent currently specified in the new Tax Administration law for overdue tax liabilities, it is high in real terms.

The RS electricity utility issued coupons worth 0.3 percent of RS GDP to pensioners in lieu of pensions arrears. The central budget will reimburse the utility in monthly installments through end-2002 financed by expenditure cuts and the first payment has been made.

VAT

A FAD TA mission in late April recommended that the current sales tax be replaced by a VAT designed to take account of the Entity structure of the country. Thus, it would include a harmonized tax base in the Entities, with rates prescribed by each Entity within a limited range, and tax administration at the Entity level. Implementation could commence on July 1, 2004 if preparations start immediately and proceed swiftly.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US$89 Million Stand-By Arrangement for Bosnia and Herzegovina

The Executive Board of the International Monetary Fund (IMF) today approved an SDR 67.6 million (about US$89 million) stand-by arrangement for Bosnia and Herzegovina to support its economic program for the period August 2002–November 2003. The decision will enable Bosnia and Herzegovina to draw up to SDR 19.6 million (about US$26 million) from the IMF immediately.

Following the Executive Board discussion, Anne Krueger, First Deputy Managing Director and Acting Chair, said:

"The authorities have made progress toward achieving sustained non-inflationary growth over the past 18 months. The fiscal deficit has been lowered significantly, and fiscal reforms, including harmonization of sales taxes and the introduction of modern treasury systems, are being implemented. However, with economic activity recently decelerating, high unemployment rates, and large external current account imbalances, the need for further action is urgent.

"The authorities' economic program is timely. It focuses appropriately on prudent fiscal policy, maintenance of the currency board arrangement, and further structural reform. If strictly implemented, these policies should help achieve medium-term fiscal sustainability and access to foreign financing, thereby enhancing prospects for sustained economic and employment growth in an environment of low inflation.

"Fiscal discipline is a cornerstone of the program. A significant fiscal consolidation effort is to be undertaken in 2002-03, underpinned by military demobilizations and a prudent stance towards the execution of public spending during 2002. Fiscal structures will also be strengthened. The large stock of outstanding claims on the public sector will be addressed, and in that connection, all one-off receipts will be placed into escrow accounts in anticipation of a comprehensive domestic debt settlement.

"The strong fiscal stance will support the currency board arrangement, which has contributed to currency strength and stability, price stability, and a high level of international reserves. The banking system is sound, and efforts will be made to strengthen the role of bank credit in investment and enterprise activity.

ANNEX

Recent Developments

Six years after the cessation of hostilities, normalization has yet to be secured. The currency board set up in 1997 has lowered inflation to industrial country levels, but the aid-financed post-conflict boom has lost momentum with output apparently still well below pre-war levels. Private investment and foreign direct investment remained mired in concerns over political risks, the hostile business environment, and infrastructure bottlenecks. In 2001, refugees continued to return to Bosnia and Herzegovina in significant numbers, swelling unemployment already likely in the low- to mid-20s. With internal resettlement also accelerating, many property rights disputes are coming to a head and personal security remains a concern for returnees, especially in rural areas. International peace-keeping and police forces—with a combined strength of 20,000—remain in place, though their numbers will be cut by a quarter immediately following the fall elections.

With aid declining, self-sustained growth has yet to take root. In 2001, activity decelerated—with the Republic of Srpska (RS) apparently in recession—and labor market and external imbalances remained sizable. Staff estimate that GDP in Bosnia and Herzegovina (BiH) slowed to around 2.3 percent in 2001 from 4.5 percent in 2000 with the Federation's GDP slowing to 4 percent in 2001 from 7 percent the previous year and the Republic of Srpska's GDP shrinking by 1.9 percent in both years. Nevertheless, in some key policy areas, prospects for growth have clearly improved. The currency board continues to anchor inflation and international reserves have risen strongly. Significant fiscal consolidation appears to have been achieved in 2001 and fiscal structures have been strengthened. But key blockages to growth remain, particularly in the area of fiscal policies.

Program Summary

The program primarily aims at strengthening activity and the external account balance in the near and medium terms as aid for post-conflict reconstruction, though still large, declines. The program supports good use of the reconstruction aid and continues laying the groundwork for life without it. As a first step towards its medium-term goals, the program targets real GDP growth to rise from 2.5 percent in 2002 to 4 percent in 2003, sizeable declines in the external current account deficit, and continued low inflation and strong international reserves.

A benevolent external environment alongside reduced aid-related imports is projected to lower the external current account deficit by some 4 percentage points of GDP over two years. Inflation, anchored by continued adherence to the currency board, is programmed to fall from just over 2 percent in 2002 to just under 2 percent in 2003 reflecting modest declines in imported manufactured price inflation and oil prices.

The program further promotes fiscal consolidation of 3.3 percentage points of GDP between 2001 and 2003, helped by two sets of measure. First, the demobilization of over 10,000

Under the program, key steps will be taken to strengthen the operations of the private sector. In 2002, privatization initiatives will focus on selling large strategic enterprises long slated for sale. In the Federation, the authorities plan to sell at least 8 such enterprises, including several large industrial and telecommunications firms. Following several bank sales to foreign investors and bank closures in 2001, the privatization and/or restructuring of remaining state owned banks will proceed as follows. Of the eight remaining Federation state-owned banks, four will be privatized in 2002; one will be merged with a foreign bank, and one is under administration. Of the RS's eight state-owned banks, two are ready for privatization by mid-2002, two are at an advanced stage of preparation for privatization, and four are undergoing bank resolution procedures. By mid-2002, free trade agreements will be in operation in all of the former Yugoslav republics to be accompanied by bilateral free trade agreements with Bulgaria and Turkey.

Further ahead, investment-and savings-friendly policies will be required. Activity growth is projected to rise to 6 percent, stable low inflation, and a decline in the external account balance by 7 percentage points of GDP between 2003 and 2006 as aid inflows decline. On this basis, public debt ratios are projected to decline by 7 percentage points of GDP. This will require strengthened structural policies, lower taxes, and improved governance to stimulate corporate savings and private investment; a comprehensive domestic debt settlement to secure fiscal sustainability; and labor market and benefit reforms to encourage job-rich and poverty reducing growth.

Bosnia and Herzegovina, effective December 14, 1992, succeeded as one of five successor republics to the IMF membership of the former Socialist Federal Republic of Yugoslavia. Its quota[1] is SDR 169.1 million (about US$223 million), and its outstanding use of IMF credits totals SDR 85.3 million (about US$109 million).

[1] A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.

		(In millions of U.S. dollars; unless otherwise indicated)					
External current account balance (excluding official transfer)	-1,482	-873	-975	-971	-1,044	-1,015	-948
As a percentage of GDP	-43.3	-20.9	-20.8	-21.6	-23.1	-21.3	-18.7
Exports	575	702	744	903	1,002	1,165	1,388
CBBH gross reserves	80	175	455	488	1,193	1,570	1,620
In months of merchandise imports	0.4	0.8	2.1	2.1	5.2	6.4	6.3
External Debt 1/							
(In percent of GDP)	119.0	68.1	69.6	67.4	57.7	62.0	61.4
External debt service (in percent of exports of goods and nonfactor services	16.0	9.2	8.5	5.4	5.1	7.5	7.6

Sources: Data provided by the authorities, and IMF staff estimates.
1/ Data refer to the entire country, unless otherwise indicated.
2/ Starting in 1997 in the Federation, and in 2000 in the RS, GDP is estimated based on 1993 SNA methodology.
3/ Manufacturing, mining, and electricity.
4/ Average gross wages in the economy as a whole.
5/ In 2002, first quarter only.
6/ Country-wide monetary aggregates. In percent of beginning of year broad money stock.