

Bosnia and Herzegovina: 2004 Article IV Consultation—Staff Report; Fourth Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of a Structural Performance Criterion—Staff Report; Staff Supplement; and Public Information Notice and Press Release on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2004 Article IV consultation with Bosnia and Herzegovina and fourth review under the Stand-By Arrangement and request for waiver of nonobservance of a structural performance criterion, the following documents have been released and are included in this package:

- the staff reports for the 2004 Article IV Consultation and fourth review under the Stand-By Arrangement and request for waiver of nonobservance of a structural performance criterion, prepared by a staff team of the IMF, following discussions that ended on **December 18, 2003**, with the officials of Bosnia and Herzegovina on economic developments and policies. **Based on information available at the time of these discussions, the staff reports were completed on February 10, 2004.** 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 supplement of **February 20, 2004** updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, **summarizing the views of the Executive Board as expressed during its February 25, 2004, discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

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*

*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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BOSNIA AND HERZEGOVINA

Staff Report for the 2004 Article IV Consultation

Prepared by the European Department
(In consultation with other departments)

Approved by Carlo Cottarelli and G. Russell Kincaid

February 10, 2004

- A staff team—Messrs. Doyle (head), Kanda, and Lazar (all EUR), Mr. Taube (FAD), and Mr. Almekinders (PDR) visited Bosnia and Herzegovina during December 3–18, 2003 for discussions for the 2004 Article IV Consultation and to complete discussions for the fourth review of the SBA (see staff report). It was assisted by Ms. Fichera, Ms. Milic, and Ms. Selimovic-Mehmedbasic in the Resident Representative’s office.
- The Fund staff met: (a) at the State level, the Chair of the Council of Ministers Mr. Terzic; the Minister of Finance and Treasury Ms. Maric; Central Bank Governor Mr. Nicholl; (b) in the Federation of Bosnia and Herzegovina: the Prime Minister Mr. Hadzipasic, the Minister of Finance Mr. Vrankic; the Minister of Defense Mr. Nikolic, and (c) in the Republika Srpska: the Prime Minister Mr. Mikerevic; the Minister of Finance Mr. Krsmanovic; the Minister of Defense Mr Stankovic. The Fund staff also met with High Representative Lord Ashdown, and representatives of the international community, business and labor.
- The last Article IV discussion was held on February 25, 2002, and Directors’ comments may be found at <http://www.imf.org/external/np/sec/pn/2002/pn0229.htm>. The discussion for the second and third reviews of the SBA held on June 6, 2003 and Directors’ comments may be found at <http://www.imf.org/external/np/sec/pr/2003/pr0381.htm>.
- Nationalist, but reform-oriented parties are in coalition in various combinations at all levels of government, with national elections next due in Fall 2006. A new Central Bank board was smoothly installed as the mandate of the old expired in August 2003. The Office of the High Representative (OHR) will be scaled back significantly from mid-2005 alongside an ongoing shift from the US-led military force to a token EU force.
- The authorities have agreed to the publication of the staff report.

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I. BACKGROUND

1. **Economic transition and aspiration to EU accession frame Bosnia and Herzegovina's (BiH) medium-term economic goals.** Rapidly declining reconstruction aid inflows, refugees returning in numbers, and constitutional change—as the role of the Office of the High Representative (OHR) is reduced—are key constraints within which these ambitions must be prosecuted (Box 1). Can it be done?
2. **The record suggests that Bosnia can achieve much.** Since Dayton in 1995—in the context of a large peacekeeping force, external debt forgiveness, two Stand-By arrangements, and extensive TA—progress has been remarkable:
 - Since 1995, real GDP has trebled, exports are up ten-fold, and inflation has stabilized at industrial country rates (Figure 1).
 - Backed by the currency board, the KM has largely replaced other currencies, the banking system has been privatized, recapitalized, and better regulated, and the fiscal deficit has strengthened 9 percentage points of GDP in 4 years, taking the balance to a small surplus in 2003. In this context, international reserves have risen to 5 months of imports.
 - Of two million refugees at war's end, some 370,000 have returned from abroad and a similar number of internal refugees have returned to their pre-war locales. House building and repair is evident everywhere.
3. **And an impressive reform agenda is underway:**
 - The newly-approved framework Law on indirect taxation will greatly strengthen the fiscal system (¶30).¹ This innovative package underlies plans to replace sales tax with VAT in 2005–06.²
 - A plan to restructure unsustainable domestic claims on government of over 200 percent of GDP has been announced. Restructuring will lower the NPV of such claims to 10 percent of GDP, with the legislative basis for this anticipated for mid-2004;³
 - Major defense reforms are anticipated for 2004 centralizing command and control structures, continuing demobilization, and facilitating accession to NATO's partnership for peace;

¹ Paragraph numbers refer to the accompanying staff report for the fourth review of the SBA.

² *Selected Economic Issues*, Chapter 3 and 5.

³ *Ibid.*, Chapter 4.

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. (See map.)

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. The office 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. The incumbent has been extended until mid-2005 but it is anticipated that if a successor is appointed, the role will be considerably scaled back and recast.

Bosnia and Herzegovina



- The judicial system is being overhauled, with an exercise to selectively reappoint judges nearing completion and a new system of commercial courts about to begin operations;
- And since mid-2003, bank regulators have stepped up enforcement of key liquidity and forex exposure regulations, with these rules scheduled for full enforcement by mid-2004.

Alongside, a raft of further measures is anticipated under the authorities' largely home-grown and 6-month "Action Plan" of largely administrative measures in support of this broader agenda (¶32). And an EU feasibility study has been completed, setting the stage for EU accession negotiations to commence.

4. **But policy implementation has been uneven.** Privatization has all but stalled in the past three years, the late 1980s voucher privatizations left most affected firms adrift without effective corporate governance, and significant mismanagement of energy utilities has come to light. Private business is over regulated, lacks reliable or timely legal redress, and corruption appears widespread. Furthermore, the popular tendency to view anything less than 1990 levels of prosperity as policy failure, compounded by reconstruction-cum-adjustment fatigue, has spawned a series of destabilizing fiscal initiatives. And extensive devolution, limited implementation capacity, and latent aspirations in some quarters to see the Dayton settlement fail frequently combine to produce policy gridlock. Unraveling this has required the frequent intervention of the OHR, and is reflected in the extensions to both SBAs.

5. **Furthermore, the coming challenge of economic transition and EU accession is daunting:**

- Growth has slowed markedly with output still only half pre-war levels, unemployment appears to be above 20 percent and much higher among the youth, 1/5 of wages are unpaid each month, 1/3 of the population live around or below the poverty line, and only half of output comes from the private sector, even including the voucher-privatized sector (Tables 1a –1b).
- Alongside house building, corporate loss-making estimated at some 3 percent of GDP, and a post 2001 credit boom (Tables 2a–2b), the external current account deficit widened to around 18 percent of GDP in 2002. With reconstruction aid inflows and reverse currency substitution tailing off, medium-term external financing and sustainability issues loom large; (Tables 3a–3d)
- And the policymaking machinery to tackle all this is fractured: no institution is charged with macroeconomic analysis or fiscal coordination; and the quality of statistics significantly clouds policy design and the effectiveness of Fund surveillance.⁴

⁴ Ibid., Chapter 2.

6. **But with due allowance for poor data quality, recent macroeconomic trends provide some—albeit qualified—comfort (Figures 2 and 3).**

- After a policy tightening in 2003—a reform of the required reserves regime which withdrew 9 percent of base money and strengthened application of bank liquidity and forex exposure regulations—credit to the private sector has begun to decelerate even as credit to enterprises has accelerated (Text Table 1)

Text Table 1. Bank Credit 2001-03
(Growth rate in percent)

	2001 Dec.	2002 Dec.	2003 Nov.
Private sector	11	26	21
<i>Of which:</i>			
to households	78	111	40
to enterprises	1	2	11

- Fiscal consolidation of 2½ percentage points of GDP is estimated in 2003 (pending final data on spending commitments) supporting the corrective actions on the monetary side to curb the external imbalance (Text Table 2, Tables 4a-4i).

Text Table 2. Fiscal Balance 2001-03
(In percent of GDP) 2001 2002 2003

Revenue	49.7	48.1	46.7
Expenditure	53.1	50.4	46.3
Balance	-3.3	-2.2	0.4

- In this context, the trade and current account deficits appear to have begun to correct. Imports have reportedly decelerated while exports, buoyed by the marked depreciation of the KM in real effective terms—as the Serbia dinar appreciated sharply since 2001—have remained robust (though both export and import growth data in 2003 may be exaggerated by improvements in data collection during 2002-03) (Text Table 3, Figure 4, ¶5).

Text Table 3. CA Balance 2001-03

	2001	2002	2003
Export growth ^{1/}	8	14	14
Import growth ^{1/}	9	10	2
Trade balance ^{2/}	-36	-37	-35
Current Acct. bal ^{2/}	-16	-18	-17

^{1/}In Euros, 12-m growth, customs data to Nov. 2003.

^{2/}In percent of GDP.

- But growth has slowed alongside demand. Manufacturing has all but stood still and drought has cut agricultural output by 1/5. The power sector in the RS and construction and communications appear the most robust sectors (Text Table 4, ¶6).

Text Table 4. Activity 2001-03

Annual Growth	2001	2002	2003 ^{1/}
Federation			
Manufacturing ^{1/}	-2	21	1
Industry ^{1/}	-2	14	1
RS			
Manufacturing ^{1/}	-20	16	0
Industry ^{1/}	-12	4	6
GDP ^{2/}	4.4	5.5	3.5

^{1/}2003 data are for year to November.

^{2/}Staff estimates.

- And as activity decelerated in manufacturing, paid wages rose swiftly, at the expense of employment in both entities, and at the expense of profits in the Federation (Text Table 5, Figure 5).

Text Table 5. Unit Labor Costs ^{1/}			
2002=100	2001	2002	2003 ^{2/}
	The Federation		
Paid wages ^{1/}	88	100	114
Employment ^{1/}	89	100	99
Prices/ ULCs	106	100	92
	Republika Sprska		
Paid wages ^{1/}	98	100	109
Employment ^{1/}	93	100	86
Prices / ULCs	89	100	106

^{1/} Manufacturing.
^{2/} Year to October.

II. REPORT ON THE DISCUSSIONS

7. **Transition and eventual EU accession are to be sought in difficult circumstances.**

Though much has been achieved and the public is impatient for further progress, their tolerance for the sacrifices necessary is qualified, the macroeconomic imbalances appear stark, and policy-making processes tend to seize up without the OHR “oil in the wheels.” As BiH is weaned off of foreign aid, the challenge is to establish both economic and political conditions for sustainable growth.

8. **The authorities agree that corporate revitalization is at the center of the economic component of this task.**

It appears to be key to prospects for exports, investment, and domestic savings. Accordingly, given progress on the fiscal and monetary sides that has already been secured, discussions focused on how to reconcile some divergence of perspective on how to strengthen companies, how to calibrate labor market and fiscal initiatives in support of this endeavor, and how to strengthen economic institutions in anticipation of the OHR’s exit.

A. External Sustainability and Macro Outlook in 2004

9. **With the external current account deficit well above what is sustainable over the medium term, significant adjustments are needed.** Staff and the central bank (CBBH) estimate the external deficit in 2002 at 18 1/2 and 40 percent of GDP respectively, a difference largely reflecting treatment of unrecorded merchandise trade—which the CBBH data assume is, like recorded trade, heavily in deficit (See Box 2).⁵ All agreed, however, that even assuming nominal GDP well above official estimates, the external deficit still far exceeded the 6–8 percent of GDP conventionally regarded as an upper bound for sustainability. Hence, the need for a gradual but large external correction was evident, particularly given aid flows (budget support grants, capital grants for reconstruction, and loan disbursements) set to decline from 4 towards 1 percent of GDP within five years, and risks of volatility in transfers, remittances and refugee repatriation of capital, in response to policy slippages or other political and economic shocks.

Box 2. Current Account and External Debt

Large current account deficits (staff estimates) apparently coincide with declining external indebtedness, raising doubts about both data sets.

- The current account deficit could be smaller than estimated—if unrecorded private transfers are sizeable and if underrecording exaggerates the trade deficit.
- There may be an unrecorded decumulation of foreign assets (e.g. by returning refugees)
- And external debt data may exclude indebtedness of the unrecorded economy.

10. **The implications of that correction for domestic savings, and for the urgency of corporate restructuring, appear stark (Text Table 6).** Even on staff estimates of the current account balance—and relatively benign assumptions—domestic savings rates need to rise by well above 10 percentage points of GDP within five years. Given an uncertain outlook for household savings rates, even in a

Text Table 6. Reform Scenario 2003-08
(In Percent of GDP)

	2003	2004	2005	2006	2007	2008
CA balance	-18	-16	-15	-13	-11	-9
Aid inflows	5	5	4	3	2	2
Other inflows	13	11	11	10	9	7
Gross investment	20	20	21	21	22	22
<i>Of which:</i> Construction	14	13	12	10	10	9
Corporate	6	7	9	11	12	13
Domestic savings	-11	-8	-6	-3	0	3
o/w private	-13	-10	-8	-6	-4	-2
Fiscal balance	0	0	0	0	0	0
GDP growth (%)	3	5	6	6	6	6
Inflation (%)	0	1	2	2	2	2

⁵ Ibid., Chapter 2.

“reform” scenario, this adjustment would likely have to be led by corporate savings—increased profitability borne of radical corporate restructuring. The authorities noted that since the need for new corporate and public fixed investment was so obvious and large, these projections could underestimate the needed adjustment in domestic savings. And they argued that economic growth would stop altogether—a “status quo” scenario—without structural reforms strong enough to generate this adjustment. Staff concurred (Annex I).

11. The immediate outlook in 2004 was encouraging, but significant risks remained.

The authorities rely almost completely on staff macroeconomic projections and in that context, they agreed that a recovery in agriculture from the 2003 drought, alongside a pickup in international markets, would boost activity and the external current account balance—taking the former to some 5 percent and the latter to 15 percent of GDP in the context of anticipated strong fiscal policies. Inflation would remain low, anchored by the currency board. But risks around this baseline were not trivial. Bank credit growth, while decelerating, was still strong and could put pressure on the external current account (particularly in a context in which bank access to external credit was improving). More generally staff noted the significant imbalances and political fragilities, which raised the vulnerability to external shocks. Finally, enterprise restructuring, once initiated in earnest, could involve short term downside risks for growth and employment. On the other hand, over the medium term enterprise restructuring was critical if the recent momentum towards external correction was not to be lost.

B. Corporate Restructuring

12. At present, corporate lossmaking is a central counterpart to the external imbalance. The authorities noted that many former-Yugoslav conglomerates were essentially dismembered during the 1992–95 conflict. Eight years on, new corporate governance structures—control of SOEs by newly established government ministries and, for those privatized through vouchers, new mutual funds (PIFs)—have proven inadequate to meet the challenge. Furthermore, staff observed that in the absence of a bankruptcy threat, many SOE and voucher-privatized firms essentially face cash rather than profits constraints. With banks shunning such companies, their credit limits are essentially defined by scope for arrears accumulation on taxes, inter-company credits, and wages—hence the evidence of persistent heavy corporate loss-making on an accruals basis, and muted expansion of bank credit to enterprises. Only the pure (not privatized) private sector and the grey economy seem to be required to pay an adequate return on equity.

13. Four initiatives to correct these difficulties are underway:

- **The governance of SOEs is being strengthened.** In 2002, the OHR prohibited mass replacement of SOE management that typically followed national elections, thereby preventing a further round of managerial instability. But parent ministries still lack the capacity for effective supervision. Limits on wage bills of individual or groups of enterprises have not been considered as supervisory tools, but the authorities considered

that the necessary collection of cash and accruals wage data may be feasible only in flagship SOEs. This puts a premium on privatization.

- **Privatization has restarted.** But the authorities' ambitions confront foreign investor aversion to the Balkans, public perception that past sales have failed or been corrupt, capacity constraints in the privatization agencies, and the challenge of selling insolvent enterprises—given accumulated arrears and the absence of bankruptcy procedures. Staff welcomed the renewed privatization drive under the authorities' Action Plan which has resulted in ten tender issues in 2003 and establishment of working groups to determine medium-term privatization strategy. But they underscored need to strengthen privatization agencies and advised against proposals to promote sales by indiscriminate relief of tax arrears for indebted SOEs. Instead, pending effective bankruptcy procedures, case-by-case out-of-court voluntary debt restructuring by all creditor groups, backed by a government threat to liquidate SOEs whose creditors refused to cooperate, would be more cost effective and more likely to lead to sales.
- **The governance of voucher-privatized firms is under review.** The authorities noted that ownership in such firms is highly dispersed and the 22 PIFs are undercapitalized and ineffective. But progress is impeded by a rule preventing accumulation of any stake in a PIF larger than 5 percent, and further rules preventing PIFs from holding more than 10 percent of their portfolio in one firm or, in the Federation, more than 30 percent of a firm's stock. As these rules prevent PIFs from providing effective corporate governance, the authorities are reviewing them. Alongside, the two Entity stock markets will be strengthened to facilitate transactions, sales of remaining government stakes will be aimed to encourage concentration of ownership, and, in the RS, further takeovers will be encouraged under recent legislation. Staff welcomed these initiatives and intentions to better inform shareholders of their rights.
- **And a more business friendly environment is being established.** While commercial legislation is broadly EU-consistent, the authorities acknowledged that implementation was weak; in particular, the new commercial courts would only begin operations in 2004, becoming fully proficient only some years later. Staff welcomed initiatives to establish a collateral registry and to lower business registration and regulatory burdens—the latter under the “Bulldozer” initiative.

C. Labor Markets

14. **Corporate weaknesses are coupled with labor market rigidities.** Though firms, including SOEs are free to opt out of collective agreements—which set a myriad of floors on wage rates and define employment terms and conditions—social pressures often prevent them from doing so. In part, these pressures succeed because if firms cannot pay the agreed wage rates, employees strongly prefer cuts in cash wage payments to cuts in accrued wage rates—in their view, this protects jobs; and back pay may be settled if the company recovers, by a new investor, or failing those, by the government. But, staff noted, this generates mounting enterprise indebtedness—impeding reorganization and sale—and it weakens

market discipline in the determination of nominal accrued wage levels. And therefore, although these practices render aggregate cash wage rates flexible—and more flexible than accrued wage rates—this is an expensive form of flexibility.

15. **Collective agreements cause three further difficulties:**

- Wage arrears must be settled before a worker may be released. Though this follows EU norms, the authorities agreed that this impedes firms' ability to restructure, given the stock of wage arrears.
- IBRD research shows that the wage structure disproportionately rewards age and years of service, and that employee turnover is exceptionally low, both signs of deep sclerosis.
- And the Federation applies a “feedback loop” in nominal wage setting because wage floors in the collective agreements are indexed monthly to average wages.

16. **All this had led to increasing wage pressures, jeopardizing the prospects for sustainable export-led growth.** Staff emphasized concern that nonbudget cash wages were rising rapidly in 2003 at the expense of employment and cash profits—the latter in the Federation (Text Table 5).

Furthermore, aspirations to raise budget wages, as anticipated by the RS as part of the 2004 restructuring, could jeopardize wage moderation in the private sector, even if they paved the way for welcome restructuring of wage setting mechanisms outside the budget.⁶ More generally, staff pointed at the need to strengthen competitiveness, a key goal of any enterprise restructuring, and one that may entail a fall in accrued and paid real wages in a number of sectors of the economy. But the authorities were skeptical. They noted considerable data doubts—including that data on accrued wage rates are not even

Box 3. Competitiveness

Though data are limited, available evidence suggests that competitiveness needs to be strengthened significantly.

Though the CPI-REER has depreciated by 8 percent since 2001, unit labor costs (based on paid wages) have reportedly risen significantly relative to output prices (Figures 4 & 5, Text table 5). This suggests a profits squeeze. Accrued wage data are not available.

Exports reportedly continue to gain market share (Table 3b). But this may be a post conflict phenomenon and appears to be at the expense of profits. And the trend deceleration of activity, alongside high external imbalances, unemployment, and corporate loss-making compound concerns.

These competitiveness indicators are symptomatic of the depth of malaise in the corporate sector, underscoring the scale and urgency of reforms to strengthen that sector.

⁶ As discussed in ¶24, the wage restructuring in the RS may lead to average wage increases in the public sector of up to 9 percent. Correspondingly, the wage bill is projected to rise by only 3 percent reflecting sizable cuts in employment, including demobilization.

collected—and the confusing role of multiple reconstruction and transition shocks. Further, they noted that wage arrears were concentrated in no-hoper SOEs and that private (not privatized) companies typically remunerate well above the floors set in collective agreements. Staff concurred that further work was needed to evaluate the actual level of wages and competitiveness, and hence the required depth of enterprise restructuring. But high unemployment, deceleration of activity, and the external current account deficit together suggested that the problems should not be underestimated (Box 3).

17. **Accordingly, staff urged reforms:** accrued wage rates need to decline at least to levels of cash wage payments; settlement of wage arrears might be better handled through bankruptcy than severance procedures; the Federation wage feedback loop should be abolished; and consideration should be given to switch to a firm-level system of wage bargaining, perhaps with a single low minimum wage with allowance for labor market entrants. The authorities noted likely strong social resistance to all these ideas, especially the first. But the RS authorities observed that their plans to switch during 2004 from the current wage system for the budget to a “statutory” system common in other countries, alongside significant retrenchment of workers, could set a useful precedent for SOEs to follow in reforming wage setting arrangements.

18. **Gaps in the social safety net also need to be addressed.** Unemployment and pension schemes cover basic needs. But many workers have lost eligibility for these through their employers’ default on contributions. Staff emphasized that these concerns have to be addressed within budget parameters.

D. Fiscal Policy in 2004 and the Medium Term

19. **Fiscal policy needs to reflect the scarcity of domestic savings.** The authorities’ medium-term projections show maintenance of a primary surplus of some 1 percent of GDP over the medium term—in support of the current account correction (Table 5). Furthermore, plans were announced in December to restructure domestic claims so as to secure fiscal sustainability—by lowering all the government’s obligations to 10 percent of GDP in NPV terms, leaving government debt on a sustainable path, consistent with the targeted primary surplus (Annex I, Table 6a–6b). These targets match projections in staff’s “reform scenario” (Text Table 6 above). But in light of the many uncertainties, notably concerning capital inflows in the balance of payments and the path for domestic private savings, staff underscored that the authorities should stand ready to tighten their fiscal stance further, if necessary, and should implement the domestic claims plans without delay.

20. Delivery of the target fiscal stance, starting in 2004, would be difficult.

This mainly reflected public pressure for more spending on wages and pensions which had significantly delayed preparations for the RS 2004 budget (Text Table 7, ¶22–27). And on the revenue side, cuts in import tariffs under FTAs alongside risks of implementation difficulties with tax administration reforms—shifting the point of collection for sales tax for high value goods from retailer to wholesaler and unifying customs under the ITA—meant that yields had been projected cautiously. In this context, the authorities were reluctant to countenance further—even contingent—fiscal tightening. Staff welcomed the conservative revenue projections and the expenditure reforms, but they noted that the latter raise multiple implementation challenges (Box 4).

	2003 Prel. outturn	2004 Budget	2004 Adj. ^{1/}
Revenue	46.7	46.1	46.1
o/w: Customs	4.5	3.5	3.5
Indirect tax	16.5	16.6	16.6
Expenditure	46.3	46.0	45.7
severance	0.0	0.5	0.5
interest	0.7	0.6	0.6
Primary balance	1.0	0.7	1.1
Balance	0.4	0.1	0.5
Cash payout for claims	0.0	0.7	0.7
Foreign finance	0.1	1.1	1.1

^{1/} Adjusted for RS delayed expenditure.

Box 4. Expenditure Reforms 2004 Budget

Defense reforms. About 7,500 soldiers will be demobilized (saving about ³/₄ of percent of GDP annually), defense command will be centralized at State level, and reservists, conscripts, and military bases will be reduced. This anticipated accession to NATO’s Partnership for Peace.

Transfer of functions to the State. The indirect tax administration, intelligence services, and parts of internal security services will transfer from the Entities to the State. Entity staff and financing for these functions will transfer together to the State, thereby minimizing costs.

Wage bill restructuring in RS. Within a wage bill increase of some 3 percent, government staff (including soldiers) will be lowered by 9 percent, pay grades and allowances will be reformed from April and put on a statutory basis (¶ 23).

21. The authorities noted that the RS budget was less restrictive than those for the Federation and State. The latter anticipated a broadly unchanged stance compared with 2003, consistent with the target consolidated primary surplus of 1 percent of GDP. But symptomatic of capacity constraints, technical errors appeared in the documents submitted to the assembly, and consequently the RS approved budget anticipated a loosening of some 1/3 of a percentage point of BiH GDP. Accordingly the RS authorities committed to lower

spending by that amount through the execution of spending authorizations during 2004, unless revenue exceeds projections (¶27). Staff welcomed this correction.

22. **Further ahead, fiscal restructuring is in prospect.**

- The authorities hope to lower tax rates and the share of tax in GDP while meeting demands for spending by promoting economic growth and combating tax evasion. Staff noted that with government revenue and spending at 47 percent of GDP, spending should also be better targeted, notably in the case of war veterans and the wage bill, allowing a shift in spending to investment and operations, alongside reductions in tax rates and the tax burden. Staff regretted that opportunities for reductions in tax rates, notably for labor, in 2004 had been overwhelmed by pressure for spending, and called for renewed effort along these lines.
- With the Indirect Tax Authority (ITA) law enacted, preparations for the VAT will accelerate. Staff proposed VAT introduction by mid-2005, a date the authorities regarded as optimistic. But they agreed that consensus on a precise revenue allocation formula for ITA collections and on the relationship between the ITA and the sales tax administrations was needed soon.⁷
- Reductions in effective customs tariff rates—which average some 8 percent with the highest tariff rate at 15 percent (excluding agriculture)—will continue as Free Trade Agreements (FTAs), mostly with FRY countries, go into effect in 2004. Staff regretted BiH's recent unilateral three-month postponement of their full implementation due to producers' concerns, noting that this could complicate other trade negotiations and aspirations to secure accession to the WTO in 2004. Further ahead, the abolition of tariffs on EU imports before accession should be anticipated, perhaps by adoption of a multi-year phased reduction in rates, supporting industrial restructuring and allowing anticipation of revenue losses.⁸
- Following special audits of electricity utilities in 2003, corrective actions, mainly in respect of internal reporting and transparency, will be implemented in consultation with the IBRD.

23. **If the broader structural and fiscal reform agendas are to be implemented, fiscal coordination needs to be strengthened.** The authorities acknowledged the lack of frameworks to target, allocate, enforce, and monitor realization of the consolidated fiscal

⁷ Ibid., Chapter 5.

⁸ Ibid., Chapter 5.

balance of BiH, as well as lack of adequate analysis of current macroeconomic developments. These gaps ultimately compromise fiscal support for the currency board.⁹

24. **The ITA board could take on some of these tasks.** The authorities agreed that as the sole institution where the three key fiscal representatives would meet and coordinate regularly on indirect tax matters, the ITA board constituted a natural forum for broader fiscal coordination. Staff noted particular need for a mechanism to decompose annual targets for the consolidated BiH fiscal balance into its State and Entity components and for a rule to determine annual Entity obligations to the State so as to avoid the protracted annual ad hoc negotiations on this and facilitate medium term fiscal planning. While the former could prove technically challenging, the latter could be resolved simply and could operate from the 2005 budget.

25. **Implementation of agreed consolidated fiscal targets would require continued strong control over borrowing by sub-entity levels of government.** Staff accordingly endorsed the authorities' intentions to retain strict borrowing rules for local governments and extrabudgetary funds, while noting that there was also scope for some relaxation in the rules at Entity central government level starting in 2004 to allow bridging finance.

E. Statistics

26. **Economic analysis necessary to support effective policy coordination would require enhanced statistics.** There has been no population census, there is no demand-side decomposition of GDP, CPI weights date back to 1987, balance of payments data are highly uncertain, no current consolidated BiH fiscal data are collected, and labor market data are suspect. The two entity agencies act independently and the state level institution lacks resources for coordination. The authorities noted that unification of the agencies was under discussion, a director for the State statistics institution was being recruited, and household and FDI surveys were underway. Staff welcomed these steps but underscored the centrality of better macroeconomic statistics to aspirations for better design of macroeconomic policies.

F. Monetary, Exchange Rate, and Financial Sector Issues

27. **The authorities noted that the credibility of the currency board had been firmly established.** The reforms to reserve requirements from mid-2003 and the installation of the new CBBH board in August had proceeded smoothly, inflation was low, international reserves were strong, the banking sector had been successfully privatized, depositor confidence in it was reflected in booming deposit growth, and leading BiH banks had begun to obtain access to international capital markets. Further, the commitment of the governments to the currency board arrangement was unequivocal. Staff welcomed these successes, but underscored that decisive corporate reform would be essential to maintain them.

⁹ Ibid., Chapter 3.

28. **Rapid credit growth in 2003 had begun to be addressed** (¶14–17). The credit boom which followed the surge in bank deposits since 2001 has eased somewhat, in the wake of the mid-2003 monetary and regulatory tightening. These were the first discretionary policy actions the central bank and regulators had taken which had been stimulated, at least in part, by macroeconomic concerns. The authorities were satisfied with the results as signaled by the banks' compliance and the credit slowdown, but staff noted that the deceleration was modest and that the associated pressure on the current account deficit remained significant. But to stem pressure on the central bank's income, the rate of remuneration of excess reserves was lowered again from end-December. Staff noted that credit creation would eventually slow as the main sources of funding for credit—increases in the money multiplier and declining NFA—both had “natural”, albeit as yet unknown, ceilings, and that banks were concerned that creditworthy borrowers were increasingly hard to find (Table 2a). But in the meantime, staff welcomed the corrective steps taken during 2003. They also noted that the regulatory reforms were raising banks' demand for excess central bank deposits, stemming the growth of credit and therefore diminishing need for generous remuneration of excess balances. Nevertheless, international reserves could fall if banks unwound excess holdings with the central bank and credit growth remained a concern. Accordingly, staff emphasized that the bank should maintain close surveillance on the pace of credit growth and stand ready to make further adjustments in its instrument settings—including to the rate of reserve requirements—as needed.

29. **Various initiatives to strengthen central bank operations were under review.**

- The CBBH intends to review its instrument settings more often. Staff noted that this would mark a change from the policy automaticity and would require clear public explanations and increased research capacity. The bank had no plans to issue central bank bonds given concerns to preserve its income.
- The CBBH might take on a lender of last resort function within the currency board arrangement. Staff noted that this function was already partly played by the parents of foreign-owned banks, and therefore suggested that other initiatives might warrant higher priority.
- If the Entity authorities concur, the monetary authorities hope to take responsibility for banking supervision in 2005 given the increasing integration of the banking market and the need for to secure the coordination and independence of supervision. Staff noted that international experience showed that this could work, but cautioned that supervision should not weaken during any institutional transition.

30. **Banks and banking regulation were increasingly sound (Text Table 8, ¶15–16).** Banks had complied with new core capital requirements, and were on track for full

compliance with forex exposure and liquidity requirements positions anticipated by mid-2004 and with deposit insurance requirements by end-2004. With the bulk of bank deposits held by reputable international banks, consolidation reducing risks

	2001	2002	Q2 2003	Last observed
(In percent)				
Federation of Bosnia and Herzegovina				
Capital Adequacy Ratio	22.4	19.8	19.4	...
Provisions as percent of loans	14.2	8.9	7.3	...
Short-term assets/Short-term liabilities 1/	...	...	91	91 2/
Return on assets 3/	-1.2	0.4	1.1	...
Republika Srpska				
Capital Adequacy Ratio	38	24	21	...
Provisions as percent of loans	13.3	10.5	9.7	...
Short-term assets/Short-term liabilities 1/	...	...	98	...
Return on assets 3/	-0.4	-3.0	-4.2	...

Sources: Banking agencies of the Federation and the RS.
 1/ Based on 90 days maturity.
 2/ September 2003.
 3/ After provisioning, and before tax.

from remaining smaller banks, and banks minimizing exposure to weaker corporate borrowers, banking risks appeared to be under appropriate control. Anti-moneylaundering regulations and reporting requirements met international standards and were being enforced. Regulators' key concern—shared by staff—was that banks could not be insulated from broader economic difficulties, perhaps indirectly through bank exposure to households, and that immunity of supervisors from prosecution for the good faith conduct of their tasks was insecure. Staff also cautioned that rapid credit growth to households in the uncertain legal environment could presage loan losses, but regulators saw little evidence from loan servicing behavior to date to validate these concerns.

31. **The authorities regarded continuation of the currency board as essential.** Though BiH's diversified trade orientation and coming structural adjustments might, in other circumstances, warrant a more flexible monetary and exchange rate regime, the authorities considered that a case that the exchange rate was uncompetitive was not persuasive, that a change to the regime or the peg would compound difficulties in securing necessary corporate restructuring, and, in the absence of structural reforms, it would simply cause inflation.

G. Relations with the Fund

32. **The two Stand-By Arrangements realized their core goals.** In accord with Directors' surveillance recommendations, the first aimed to establish the central bank and support reconstruction, while the second focused on fiscal consolidation, harmonization of indirect taxes, and sustainability through the restructuring of claims on government. The credit boom of 2003 had not been anticipated, but corrective actions were taken. Both SBAs had been extended—the first by two years and the second by four months—reflecting

implementation difficulties. The domestic claims plan provides for settlement of nonresident claims for frozen foreign accounts. In this context, staff will encourage the authorities to accept the obligations of Article VIII; section 2, 3, and 4. The authorities seek a successor extended arrangement on the basis of their record and in support of the structural reform agenda ahead. While noting that the request would be considered, staff pointed out that BiH would become a prolonged user of Fund resources by the end of such an arrangement and that assurance would be needed that implementation difficulties in the past would not recur.

III. STAFF APPRAISAL

33. **To say that Bosnia and Herzegovina has come a long way but has much further to go considerably understates the case.** The economic disaster evident in 1995 is already a distant memory, with output, exports, incomes, and international reserves much increased, refugees returning in numbers, and inflation down to industrial country levels. But the post-conflict boom is largely over, and macroeconomic imbalances are—if data are to be even half-believed—stark: the external deficit, corporate lossmaking, and unemployment are high and severely constrain the prospects for sustainable growth. This is an agenda to challenge any country, let alone one with such fractured decision-making institutions which faces a fundamental political transition—the OHR’s prospective exit. And while much has been achieved, policy slippages and implementation delays have persisted.

34. **The core and most urgent economic task is corporate restructuring.** This is critical to boost competitiveness, domestic savings, and private investment, which are currently insufficient to maintain a high growth rate over the medium term. The authorities’ intentions to strengthen control over SOEs and to reinvigorate privatization should now be transformed into specific steps and implemented boldly. But quick-fixes will not help, notably concerning over-indebtedness of SOEs and eligibility for social safety net benefits: though sales can barely proceed with these debts and gaps in benefit eligibility must be filled, indiscriminate write off of tax arrears and blanket extension of benefit rights are not the answer. Instead, while the legal system is developed to handle bankruptcy, voluntary debt workouts involving all creditor groups and a conditional and limited, well-costed extension of benefit eligibility are more promising—albeit slower—approaches. Alongside, regulations governing mutual funds need to be refocused to strengthen corporate governance and initiatives underway to curb the regulatory, legal, and tax impediments to business need to be deepened.

35. **Labor market institutions need to be transformed alongside.** Wage arrears should be resolved through bankruptcy rather than severance mechanisms, the formal wage feedback loop in the Federation should be abolished, and a shift to free firm-level bargaining could remove key distortions. These reforms, along with those focused on corporate governance, herald replacement of credit with profit constraints in corporates, alignment of accrued and paid wage rates, an end to the culture of nonpayment, and clearance of labor market sclerosis. They will also help to moderate wage growth, and engender a better balance between wage and employment growth outside the budget.

36. **Fiscal support for these endeavors will be key.** Given the scarcity of domestic savings, the first fiscal task is to avoid drawing on them—hence the authorities’ commitment to maintain the strong fiscal balance already established is appropriate. In this context, initiatives to strengthen tax administration—including steps towards a VAT—are welcome, while determination to contain spending pressures will need to be strengthened. Second, as an essential ingredient to encouraging fixed investment, fiscal sustainability must be assured. Thus, the authorities’ path-breaking plans to restructure domestic claims on government are critical and should be implemented without delay. They also open the way for accession to Article VIII status, which is encouraged. And third, fiscal policy should aim to reduce the burden of taxation, particularly on labor, and to raise public investment, requiring curbs in current spending. To this end, and to facilitate wage moderation in the private sector, a more cautious increase in the wage bill of the RS would have been preferred in 2004. It is now essential that the RS plans to restructure budget employment and remuneration in 2004 are executed well within the wage bill ceiling and that other mooted restructuring of current spending is accelerated.

37. **The fiscal and structural reform agenda will require strengthened fiscal institutions and macroeconomic data.** The authorities are encouraged to implement their intentions to develop the ITA board for this purpose. But if this fiscal coordination is to work, profound statistical deficiencies will need—finally—to be corrected. And preparations to determine permanent arrangement for annual financing for the State for administrative transfers and to adjust the revenue allocation arrangements within the Federation should commence soon.

38. **All this is necessary to support the currency board in a sustainable growth environment.** Consolidation of this institution has been impressive, including the smooth transition to the new Central Bank Board last August. It remains the appropriate monetary and exchange rate framework for BiH. CBBH plans to shift to more frequent review of its instrument settings will require transparency and strengthened research. And aspirations to incorporate banking supervision into the Bank have merit, but should not occur at the expense of the quality of regulation during the transition.

39. **Given prospects in 2004 for further external correction and pickup in growth, financial policies are well calibrated:**

- The authorities appropriately anticipate a primary surplus of 1 percent of GDP in 2004, consistent with fiscal sustainability, but need for a further tightening in 2004 and beyond cannot be ruled out in the highly uncertain and opaque environment, and implementation risks in three major spending reforms—defense, the wage bill, and state level functions—will require close monitoring. In this context, the unilateral decision to delay, even briefly, full implementation of agreed regional FTAs is regrettable, posing needless risks to the WTO accession process.
- The recent reduction in the rate of remuneration on excess reserves while leaving the rate of required reserves unchanged appropriately balances the risks. Looking ahead,

policy should aim to maintain downward pressure on bank credit growth given external and prudential concerns.

- Progress to phase in bank forex exposure and liquidity regulations has been good and should be continued, and the core capital in the system has been appropriately strengthened. But uncertainties in the legal immunity of regulators should be resolved, and risks that the recent rapid credit growth could presage debt servicing difficulties should be kept under close review.

40. **This sweeping agenda will tax implementation and absorptive capacity to its limits, requiring deft and determined handling.** But the timing is right: reform momentum is established; national elections are next due in three years; and frictions between the Entities, which have so impeded policy implementation in the past, are in decline. It will be difficult, but it can be done.

41. **Notwithstanding progress under the SBA, any successor arrangement would be contingent on the strength of the authorities' commitment to confront the structural challenges ahead.**

42. It is recommended that the next Article IV consultation with BiH be held on the standard 12-month cycle, subject to the applicable Executive Board decision on Article IV consultation cycle.

BOSNIA AND HERZEGOVINA: DEBT SUSTAINABILITY ANALYSIS

1. **This appendix reviews indicators of public debt sustainability in Bosnia and Herzegovina under the staff's baseline scenario and discusses macroeconomic and debt indicators under an alternative "no policy change" scenario.**¹⁰ It presents the staff's baseline scenario for general government debt in percent of GDP, average interest rates and access to new credit for the period through 2009, and alternative scenarios based on shocks to various key macroeconomic variables. The shocks are expressed as temporary deviations from the baseline, and are defined relative to historical averages for the period 1999-2003, without considering dynamic feedbacks.
2. **BiH's general government debt relative to GDP has been brought down substantially during the past five years.** This was in part related to the regularization and cancellation of old debts denominated in non-convertible currencies. However, real GDP growth rates averaging 5½ percent and a major improvement in the primary deficit have also helped to reduce the debt to GDP ratio from 66 percent in 1999 to 34 percent at end-2003.
3. **At the end of 2003, virtually all of BiH's external debt was public debt and almost all public debt was denominated in foreign currency.** General government debt to the banking system, which is denominated in domestic currency, amounted to ¼ percent of GDP. Moreover, as a result of creditworthiness problems, private external debt is also very limited.
4. **The debt-servicing burden of BiH's external debt is manageable.** The rescheduling agreements with the Paris Club and London Club groups of creditors in 1998-1999 substantially reduced the burden of the relevant debts. Moreover, BiH has received concessional loans from the World Bank and more than half of total debt is owed to the World Bank. In 2003, interest and amortization payments amounted to 0.7 and 1.4 percent of GDP, respectively.
5. **BiH's current and projected indebtedness is comfortable, even in the face of the common array of shocks** (Table 6a). This fundamentally reflects that economic growth is projected well above real interest rates and because the primary fiscal balance is projected to remain firm through 2008. Taking into account the concessionality of much of BiH's debt, this suggests that BiH has capacity to settle at least some of the vast amount of domestic claims without compromising medium-term sustainability.
6. **A second more focused framework, which abstracts from "particular" features of the Bosnian economy currently, indicates that recognition of claims worth 10 percent of GDP in NPV terms can be sustainable.** This framework operates in NPV terms. On latest estimates, the NPV of BiH's public external debt is about 26 percent of GDP, given

¹⁰Ibid., Chapter 4.

that much of it is on concessional terms. In this context, if real interest rates are assumed at 2 percentage points higher than real growth, the debt ratio is on a declining path with a primary balance of 1 percent of GDP, the 2003 outturn (base case scenario in the Text Table)¹¹ This exercise therefore confirms the finding of the standardized debt sustainability analysis, that there is scope for a debt settlement. The question faced by the authorities was how much more debt could be recognized before risks become significant. In scenario (a) with long-run growth of 3 percent and real interest rates of 5 percent, 25 percent of 2003 GDP of new claims are recognized in NPV terms, along with the primary surplus of 1 percent of GDP. Debt ratios do not fall in this scenario and reach 49 percent of GDP by 2010. The authorities viewed this strategy as too risky and they regarded it as undesirable to strengthen the primary fiscal balance to improve the government's capacity to increase its indebtedness while preserving sustainability.¹² Scenario (b) takes the same growth, interest rate and primary balance assumptions and considers recognition of 10 percent of 2003 GDP in new debt. Here debt ratios are on a declining trend, falling to 33 percent of GDP in 2010.

	2003	Base Case 2010	(a) 2010	(b) 2010
NPV of Public debt / GDP	26	23	49	33
New debt in 2004 / GDP	...	0	25	10
Primary balance / GDP	1	1	1	1
Overall balance / GDP	-1	-1	-3	-1
Economic growth (%)	3.5	3	3	3

7. The authorities decided to limit the total cost of the plan to settle the vast amount of domestic claims on government to 10 percent of 2003 GDP in NPV terms. Current plans call for the settled of claims in cash (4 percent of GDP) to be paid out over a number of years, and in very long term bonds (6 percent of 2003 GDP in NPV terms). It is envisaged that four categories of bonds will be issued with a combined face value of about 28.5 percent of 2003 GDP, and a weighted average maturity and grace period of 36 and 26 years, respectively. To keep their NPV down, the bonds will pay no or very low interest. The

¹¹ In the very long run, Bosnia and Herzegovina's external debt will be rolled over into debt instruments with a market-based interest rate and real growth will have converged to industrial country levels.

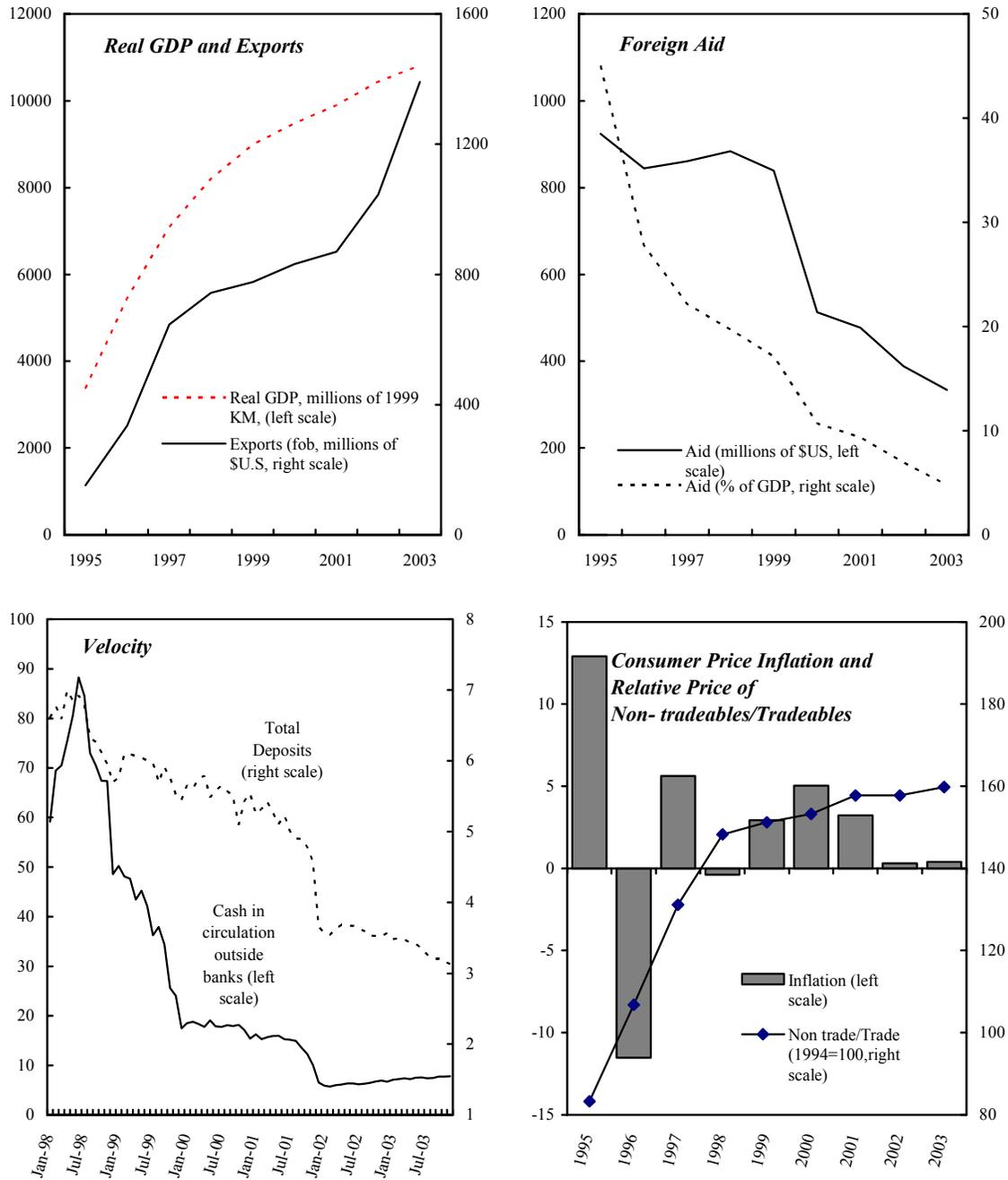
¹² The riskiness of this strategy is confirmed by the finding, reported in the recent WEO, that emerging market economies whose public debts exceed 50 percent of GDP face a high risk of economic crisis and that the sustainable public debt level for a typical emerging market economy may only be about 25 percent of GDP (See "Public Debt in Emerging Markets: Is it Too High?", Chapter III in the IMF's *World Economic Outlook* of September 2003)

final modalities of the plan to settle domestic claims will be decided upon full verification of all claims, while adhering to the 10 percent of 2003 GDP limit for the total costs of the plan.

8. **The conclusions from the debt sustainability analysis as presented in Tables 6a are not affected by the implementation of the domestic debt plan.** The face value of the outstanding stock of public debt will increase (Table 6b). However, given the envisaged long grace period of the bonds and the fact that the new debt will be denominated in domestic currency, the implementation of the domestic debt plan will not increase BiH's vulnerability to shocks over the medium term.

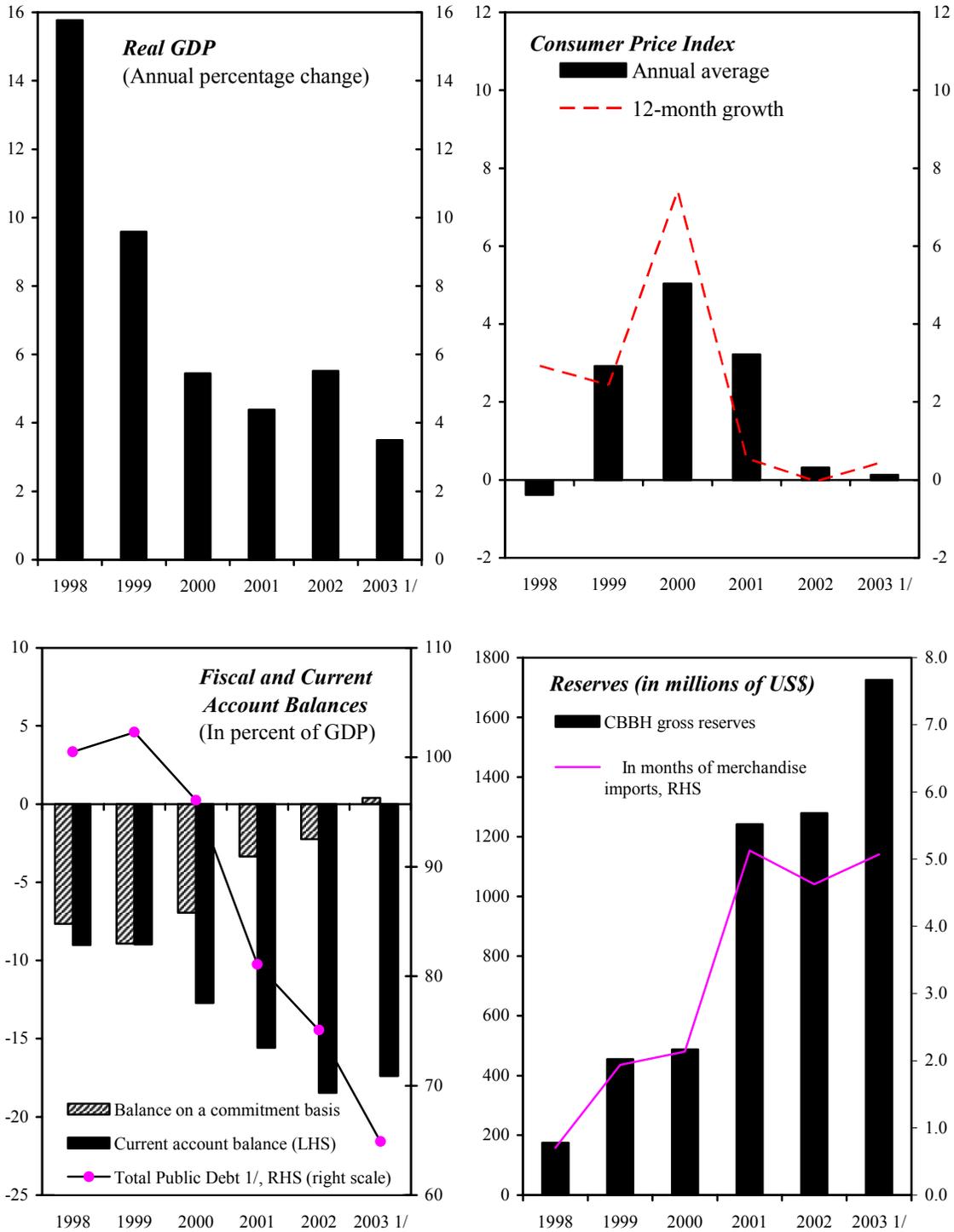
9. **The steady worsening of the public debt ratio under a “no policy change” scenario highlights the risks associated with possible delays in implementing the reforms of the corporate sector and the labor market outlined in the main text of the report.** The projected course of key macroeconomic variables in the absence of necessary reforms is summarized in Table 6c. The expansion of exports, required to sustain overall growth in the economy, would come to a halt. Compared to the baseline scenario, this would give rise to permanent output losses and a commensurately smaller tax base. As a result, government revenues will be insufficient to satisfy the demands for additional public spending. Given that the government has no recourse to borrowing from the central bank, new domestic spending arrears will be accumulated, adding to the outstanding stock of domestic debt and exacerbating vulnerabilities to external and domestic shocks.

Figure 1. Bosnia and Herzegovina: Key Economic Developments since 1995



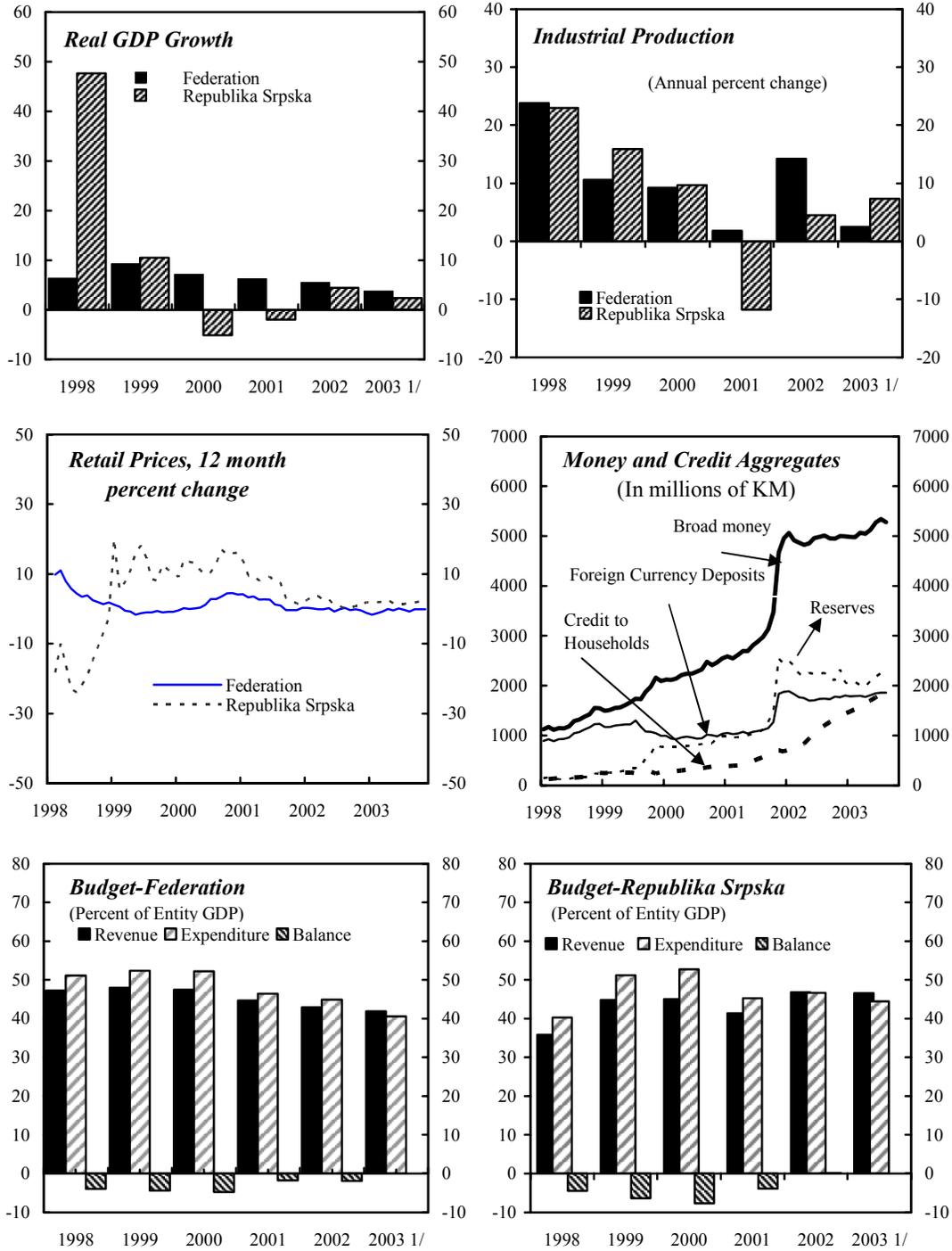
Sources: Data provided by Bosnian authorities, and staff estimates.

Figure 2. Bosnia and Herzegovina: Selected Financial and Economic Indicators (1998–2003)



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

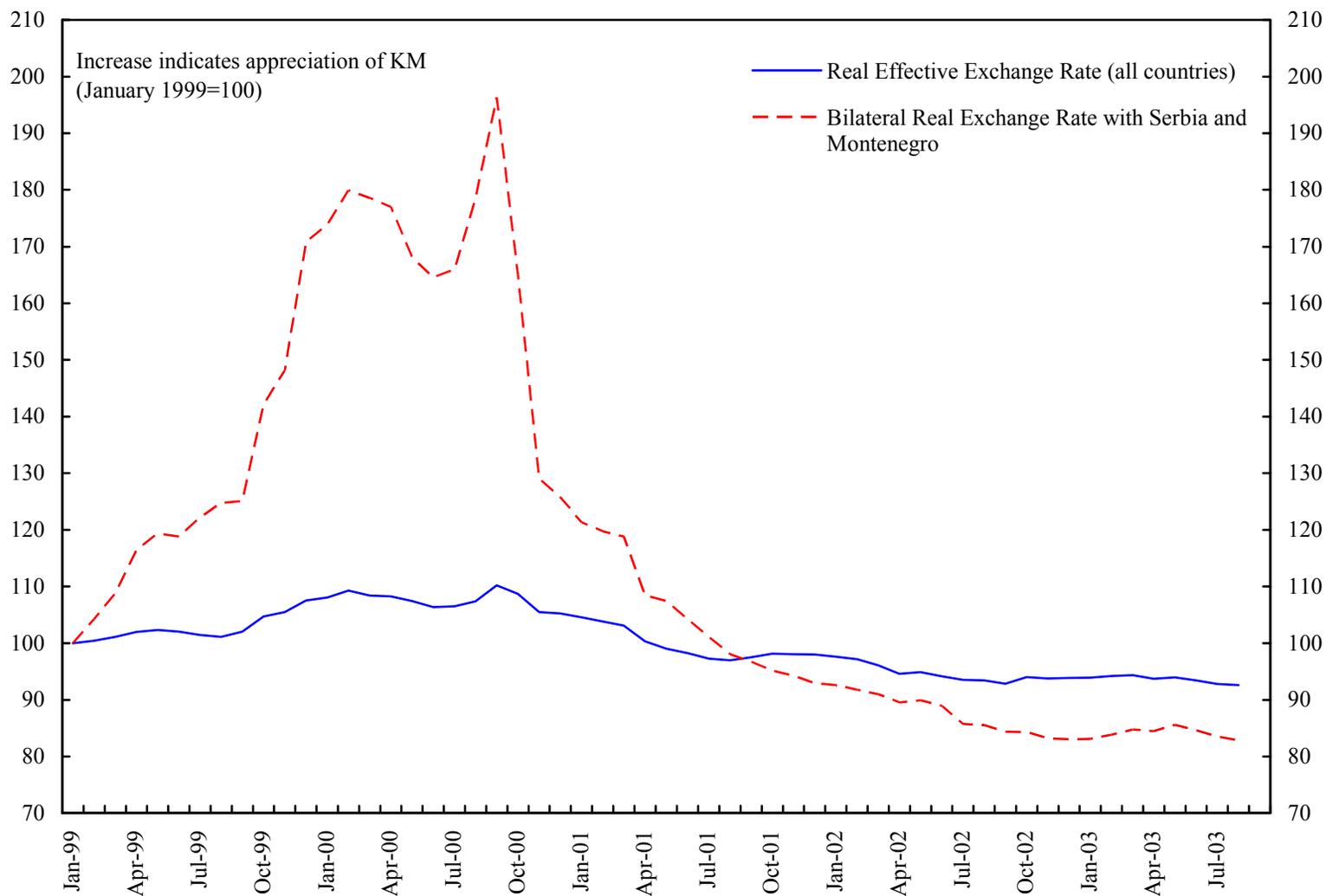
Figure 3. Bosnia and Herzegovina: Selected Indicators by Entity (1998-2003)



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

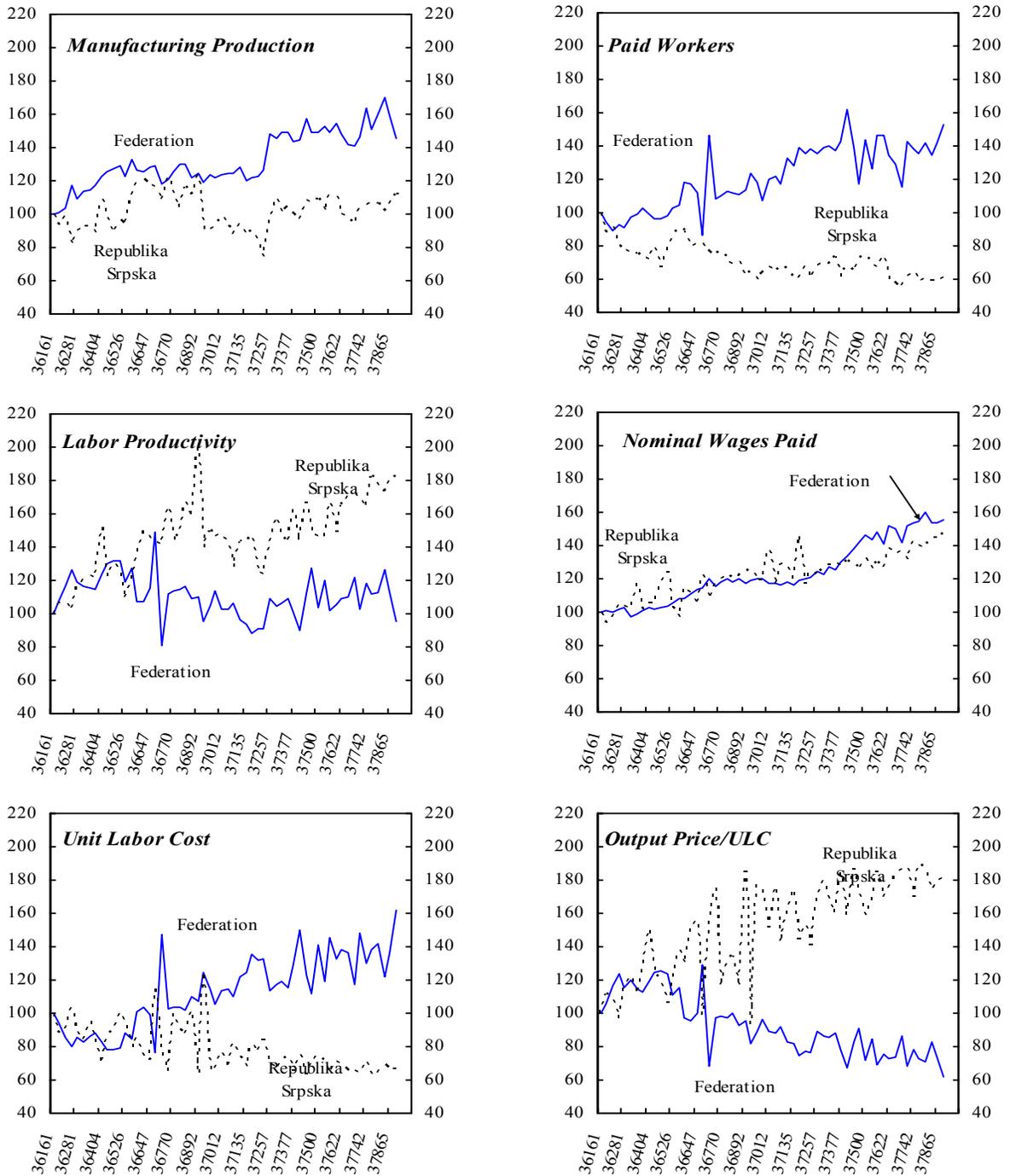
1/ IMF projections.

Figure 4. Bosnia and Herzegovina: Real Effective Exchange Rate and Bilateral Rate with Serbia and Montenegro 1999–2003



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

Figure 5. Bosnia and Herzegovina: Indicators of Manufacturing, 1999-2003
(Seasonally Adjusted, January 1999=100)



Source: Data provided by Bosnian authorities.

Table 1a. Bosnia and Herzegovina: Selected Economic Indicators, 2000-04 1/

	2000	2001	2002	2003	2004
				Est.	Proj.
Nominal GDP (KM million)	10,054	10,959	11,627	12,173	12,911
Gross investment (percent of GDP)	20.6	18.9	20.4	19.9	20.3
	(Percent change)				
Real GDP	5.5	4.4	5.5	3.5	5.1
Index of industrial production (period average) 2/	9.3	-2.0	11.5	3.8	...
Gross wages (period average) 2/	12.9	6.8	6.9	9.4	...
CPI (period average) 2/	5.0	3.2	0.3	0.1	0.9
Money and credit					
Broad money (end-of-period)	14.0	89.2	7.0	8.3	...
Net domestic assets (percent contribution to broad money growth)	3.4	3.2	15.6	13.8	...
<i>Of which</i> : credit to the public sector	1.1	-7.0	-1.7	-1.1	...
	(Percent of GDP)				
General government budget					
Revenue	53.7	49.7	48.1	46.7	45.8
<i>Of which</i> : grants	9.5	7.2	5.1	3.4	3.3
Expenditure (on a commitment basis) 3/	60.7	53.1	50.4	46.3	45.9
<i>Of which</i> : change in stock of arrears	-3.9	-0.8	0.2	0.5	0.7
<i>Of which</i> : investment expenditure	10.9	9.2	6.3	4.5	4.8
Overall balance 3/	-7.0	-3.3	-2.2	0.4	-0.1
External public debt	58.8	48.2	42.2	34.0	32.8
NPV of external public debt	45.0	36.9	32.3	26.0	25.1
Total public debt 4/	58.8	48.2	42.2	34.0	59.7
NPV of total public debt 4/	45.0	36.9	32.3	26.0	31.1
	(Millions of U.S. dollars)				
Balance of payments					
Exports of goods and services	1,288	1,297	1,468	1,894	2,247
Imports of goods and services	2,741	2,900	3,317	4,081	4,631
Official current grants	36	28	19	28	19
<i>Of which</i> : budget support	36	28	19	28	19
Current account balance	-621	-811	-1,036	-1,224	-1,319
(percent of GDP)	-13.1	-16.2	-18.5	-17.4	-15.8
Gross official reserves	497	1,221	1,279	1,725	...
(in months of imports)	2.2	5.1	4.6	5.1	...
Net international reserves (percent of private sector deposits)	47.5	87.2	70.3	69.7	...
External debt service	94	81	125	147	148
(percent of exports of goods and services)	7.3	6.3	8.5	7.8	6.6

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

1/ Data refer to the entire country.

2/ Based on weighted averages for the Federation and Republika Srpska.

3/ 2004 data includes one-time payments for military severance.

4/ The increase in the face value of total public debt in 2004 reflects the issuance of bonds as part of the plan to settle domestic claims on government.

Table 1b. Bosnia and Herzegovina: Selected Economic Indicators for the Entities, 2000-04

	2000	2001	2002	2003	2004
				Est.	Proj.
Federation					
Nominal GDP (KM million)	6,870	7,437	7,846	8,160	8,636
(Percent change)					
Real GDP	7.2	6.3	5.5	3.8	5.0
Index of industrial production (period average)	9.2	1.8	14.2	2.5	...
Gross wages (period average)	10.1	4.4	7.8	9.5	...
CPI (period average)	1.9	1.9	-0.2	-0.5	0.8
(Percent of Federation GDP)					
Central government budget					
Revenue	13.0	14.6	13.3	12.4	11.8
Expenditure (on a commitment basis)	14.7	15.1	14.9	11.1	10.3
<i>Of which</i> : Change in stock of arrears	1.1	-0.1	0.2	-0.6	-1.0
Overall balance	-1.8	-0.6	-1.6	1.4	1.5
Overall balance (percentage of BiH GDP)	-1.2	-0.4	-1.1	0.9	1.0
Budget for cantonal governments and extra budgetary funds					
Revenue	34.5	30.1	29.6	29.5	29.3
Expenditure (on a commitment basis)	37.5	31.3	30.0	29.5	29.3
<i>Of which</i> : change in stock of arrears	2.8	0.4	-0.3	0.0	0.0
Overall balance	-3.0	-1.2	-0.3	0.0	0.0
Overall balance (percentage of BiH GDP)	-2.1	-0.8	-0.2	0.0	0.0
Republika Srpska					
Nominal GDP (KM million)	2,915	3,193	3,401	3,611	3,843
(Percent change)					
Real GDP	-5.1	-2.0	4.4	2.4	5.0
Index of industrial production (period average)	9.7	-11.8	4.5	7.3	...
Gross wages (period average)	18.5	13.8	2.4	8.7	...
CPI (period average)	14.0	7.0	1.7	1.9	1.4
(Percent of Republika Srpska GDP)					
Budget for central government and municipalities					
Revenue	31.6	28.1	35.6	35.1	33.9
Expenditure (on a commitment basis)	35.4	29.9	35.5	33.0	32.8
<i>Of which</i> : change in stock of arrears	3.6	0.8	-0.6	-0.6	-0.2
Overall balance	-3.8	-1.9	0.1	2.1	1.1
Overall balance (percentage of BiH GDP)	-1.1	-0.5	0.0	0.6	0.3
Budget for extra budgetary funds					
Revenue	13.5	13.3	11.2	11.5	11.9
Expenditure (on a commitment basis)	17.3	15.3	11.2	11.5	11.9
<i>Of which</i> : change in stock of arrears	3.9	2.0	0.0	0.0	0.0
Overall balance	-3.9	-2.0	0.0	0.0	0.0
Overall balance (percentage of BiH GDP)	-1.1	-0.6	0.0	0.0	0.0

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

Table 2a. Bosnia and Herzegovina: Monetary Survey, 1998-2004
(In millions of KM)

	1998	1999	2000	2001	2002	2003					2004
						March Est.	June Est.	September Est.	November Est.	December Proj.	December Proj.
Net foreign assets	-435	195	427	2,543	2,144	1,943	1,896	1,940	1,901	1,881	1,786
Foreign assets (MA)	283	866	1,045	2,737	2,488	2,256	2,293	2,556	2,697	2,780	2,480
Foreign assets (DMB)	887	848	961	1,364	1,452	1,476	1,568	1,473	1,433	1,413	1,888
Foreign liabilities (MA)	0	0	-1	-31	-1	-1	-1	-1	-1	-1	-1
Foreign liabilities (DMB)	-1,606	-1,519	-1,577	-1,527	-1,795	-1,788	-1,963	-2,087	-2,228	-2,311	-2,581
Domestic credit	2,635	2,602	2,863	3,016	3,787	4,083	4,290	4,451	4,614	4,648	5,278
Claims on central government (net)	-181	-159	-129	-319	-400	-353	-368	-458	-466	-466	-439
Claims on noncentral government	9	17	9	25	29	21	21	21	24	24	29
Claims on private sector	2,808	2,744	2,983	3,309	4,158	4,414	4,638	4,888	5,057	5,090	5,687
Non-financial enterprises and cooperatives	2,547	2,467	2,564	2,587	2,643	2,762	2,791	2,901	2,994	3,014	3,375
Households	248	268	384	682	1,440	1,575	1,765	1,896	1,966	1,978	2,203
Other	13	9	35	40	75	77	82	91	97	99	109
Broad money	1,547	2,165	2,467	4,669	4,997	4,976	5,126	5,278	5,368	5,413	5,930
Money	310	1,100	1,402	2,692	2,969	2,872	2,991	3,028	3,000	3,062	3,027
Currency outside banks	162	515	652	1,674	1,737	1,592	1,577	1,542	1,533	1,528	1,478
Demand deposits of noncentral government	21	85	97	178	155	175	180	216	224	227	229
Demand deposits of the private sector	127	499	653	841	1,076	1,106	1,234	1,270	1,243	1,307	1,320
Non-financial enterprises and cooperatives	103	387	454	634	706	717	809	831	814	814	823
Households	8	34	79	147	301	324	356	354	358	406	410
Other	15	78	119	60	70	65	69	85	71	87	87
Quasi-money	1,237	1,065	1,066	1,977	2,028	2,103	2,135	2,250	2,367	2,407	2,638
Time and savings deposits in domestic currency	8	22	78	141	261	314	326	393	454	454	472
Foreign currency deposits	1,229	1,043	988	1,836	1,767	1,790	1,809	1,857	1,913	1,953	2,166
Other items (net)	653	632	823	890	933	1,050	1,059	1,114	1,148	1,116	1,134
Memorandum items:											
NFA of the central bank	283	866	1,046	2,768	2,489	2,257	2,294	2,557	2,698	2,781	2,481
NFA of the central bank in percent of currency outside the banks	174	168	161	165	143	142	145	166	176	182	168
NFA of the central bank in percent of broad money	18	40	42	59	50	45	45	48	50	51	42
Broad money growth (year-on-year)	31.3	40.0	14.0	89.2	7.0	1.3	5.7	5.3	8.4	8.3	9.6
Domestic credit contribution to broad money growth (year-on-year)	31.3	-2.2	12.1	6.2	16.5	19.5	20.8	17.9	17.4	17.2	11.6
NFA contribution to broad money growth (year-on-year)	5.5	40.7	10.7	85.8	-8.5	-12.7	-10.2	-7.8	-3.9	-5.3	-1.8
Other items net contribution to broad money growth (year-on-year)	-5.5	1.4	-8.8	-2.7	-0.9	-5.5	-4.9	-4.8	-5.2	-3.7	-0.3
NFA growth (year-on-year)	-13.0	-144.8	119.0	495.7	-15.7	-30.0	-23.4	-18.1	-18.4	-12.3	-5.0
NDA growth (year-on-year)	16.2	-1.3	10.0	5.3	25.6	38.1	33.1	30.7	29.8	22.7	-10.8
Private sector credit growth	14.6	-2.3	8.7	10.9	25.7	29.3	27.3	24.0	21.1	22.4	11.7
Credit to the household sector (percent growth, year on year)	104.6	8.3	43.3	77.5	111.2	99.7	69.7	49.7	39.9	37.3	11.4
Credit to household sector (in percent of GDP)	3.4	3.1	4.0	6.2	12.4	12.9	14.5	15.6	16.1	16.2	17.1
Broad money (in percent of GDP)	21.1	25.2	25.6	42.6	43.0	40.9	42.1	43.4	44.1	44.5	45.9
Excess reserves (in percent of deposits) 1/	--	--	--	14.1	8.6	6.3	4.1	9.1	14.0	15.6	7.2
Domestic credit (in percent of GDP)	35.9	30.2	29.7	27.5	32.6	33.5	35.2	36.6	37.9	38.2	40.9
Private sector credit (in percent of GDP)	38.3	31.9	31.0	30.2	35.8	36.3	38.1	40.2	41.5	41.8	44.0
GDP (billions of KM)	7.3	8.6	9.6	11.0	11.6	12.2	12.2	12.2	12.2	12.2	12.9
Velocity of Broad Money	4.7	4.0	3.9	2.3	2.3	2.4	2.4	2.3	2.3	2.2	2.2

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

1/ Starting in March 2003, cash in vaults are excluded from assets eligible to meet reserve requirements.

Table 2b. Bosnia and Herzegovina: Survey of Domestic Money Banks, 2001–04
(In millions of KM)

	2001	2002	2003					2004 Proj. December	
			Est. March	Est. June	Est. September	Est. October	Est. November		Proj. December
Net Foreign Assets	-163	-343	-312	-396	-614	-720	-795	-898	-693
Assets	1364	1452	1476	1568	1473	1455	1433	1413	1888
Liabilities	1527	1795	1788	1963	2087	2175	2228	2311	2581
Net Domestic Assets	3158	3603	3696	3945	4351	4506	4630	4783	5145
Net Claims on Central Government	-319	-400	-353	-368	-458	-462	-466	-466	-466
<i>Of which:</i> credits	33	54	53	49	40	0	0	0	0
<i>Of which:</i> deposits	-352	-454	-406	-418	-497	-462	-466	-466	-466
Claims on private sector	3309	4158	4414	4638	4888	4967	5057	5090	5687
<i>Of which:</i> households	682	1,440	1,575	1,765	1,896	1,939	1,966	1978	2203
<i>Of which:</i> non-financial enterprises and cooperatives	2587	2643	2762	2791	2901	2933	2994	3014	3375
<i>Of which:</i> other	40	75	77	82	91	95	97	99	109
Reserves 1/	546	455	392	372	585	665	782	867	626
<i>Of which:</i> required reserves	122	175	179	228	246	252	261	263	305
<i>Of which:</i> excess reserves 1/	423	280	213	144	339	413	521	604	321
<i>Of which:</i> cash in vaults	112	137	136	0	0		...	...	...
Cash in vaults, not included in reserves	...	...	...	133	144	123	136	144	144
Other Items (net)	-378	-609	-758	-829	-809	-787	-880	-853	-847
Deposits	2995	3260	3384	3549	3736	3786	3835	3885	4452
Short term deposits	1018	1232	1281	1414	1486	1505	1467	1477	1814
Long-term deposits	1977	2028	2103	2135	2250	2281	2367	2407	2638
o/w Deposits in foreign currency	1836	1767	1790	1809	1857	1862	1913	1932	2152
o/w Deposits in domestic currency	1,159	1,493	1,595	1,741	1,879	1,924	1,921	1,952	2,300
Memorandum items:									
Nominal GDP (in millions of KM)	10,959	11,627	11,763	11,900	12,036	12,082	12,127	12,173	12,911
Base for reserves (in million of KM)	3583	4116	4233	4554	4915	5049	5220	5257	6093
Percentage growth of deposits (cumulated in percent)	81.6	8.8	3.8	8.6	13.8	15.1	16.4	17.7	14.6
Growth of credit to private sector (cumulated in percent)	10.9	25.7	6.2	11.5	17.6	19.5	21.6	22.4	11.7
Growth of credit to households (in percent)	77.5	111.2	9.4	22.6	31.7	34.7	36.5	37.3	11.4
Growth of credit to enterprises (in percent)	2.1	2.1	4.5	5.6	9.7	11.0	13.3	14.0	12.0
Credit to households as a percent of GDP	6.2	12.4	13.4	14.8	15.8	16.1	16.2	16.2	17.1
Increase in credit to private sector (in millions of KM)	326	849	256	480	730	809	899	932	597
Credit to the private sector as a percent of GDP	30.2	35.8	37.5	39.0	40.6	41.1	41.7	41.8	44.0
Excess reserves/Deposits (in percent)	14.1	8.6	6.3	4.1	9.1	13.8	15.8	15.6	7.2
Required reserve ratio (in percent)	3.4	4.3	4.2	5.0	5.0	5.0	5.0	5.0	5.0
Cash in vaults/Deposits (in percent)	3.7	4.2	4.0	3.7	3.9	3.3	3.6	3.7	3.2
Velocity of deposits	3.7	3.6	3.5	3.4	3.2	3.2	3.2	3.1	2.9
Velocity of foreign currency deposits	6.0	6.6	6.6	6.6	6.5	6.5	6.3	6.3	6.0
Velocity of domestic currency deposits	9.5	7.8	7.4	6.8	6.4	6.3	6.3	6.3	5.6

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

1/ Starting in June 2003, cash in vaults are excluded from assets eligible to meet reserve requirements.

Table 3a. Bosnia and Herzegovina: Balance of Payments, 2000-08 1/
(In millions of U.S. dollars; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Merchandise trade balance 1/	-1,715	-1,832	-2,077	-2,438	-2,607	-2,595	-2,595	-2,554	-2,481
Exports, f.o.b.	832	870	1,046	1,407	1,715	1,937	2,210	2,546	2,932
Imports, f.o.b. 2/	-2,547	-2,701	-3,122	-3,845	-4,322	-4,532	-4,805	-5,100	-5,412
Reconstruction	-461	-398	-307	-295	-322	-269	-210	-171	-143
Other	-2,086	-2,304	-2,816	-3,550	-4,000	-4,264	-4,595	-4,929	-5,270
Services, net	262	228	227	251	224	191	206	217	237
Receipts	456	427	422	487	532	522	552	577	609
Expenditure	-194	-199	-195	-236	-309	-331	-346	-360	-372
Net factor income	253	245	248	332	380	401	454	513	549
Earnings	315	304	318	383	435	479	527	580	639
Interest payments	-63	-59	-70	-51	-54	-78	-74	-68	-90
Unrequited transfers, net	580	547	566	631	684	670	660	667	674
Receipts	587	555	573	640	694	679	670	677	685
Official grants	36	28	19	28	19	13	13	13	13
Private	551	527	554	612	675	667	657	665	672
Outflows	-8	-7	-8	-9	-10	-9	-10	-10	-11
Current account balance	-621	-811	-1,036	-1,224	-1,319	-1,333	-1,276	-1,156	-1,021
Excluding official transfers	-657	-839	-1,055	-1,252	-1,338	-1,346	-1,288	-1,169	-1,034
Foreign investment (net)	150	130	230	320	420	540	570	600	650
Capital transfers for reconstruction	396	346	252	217	217	175	125	90	75
Foreign loans (net)	68	89	84	31	149	108	80	69	31
Disbursements	80	103	117	78	195	146	123	119	106
Reconstruction	65	52	54	78	105	94	85	81	68
Other 3/	15	51	63	0	90	53	38	38	38
Amortization	-12	-15	-33	-48	-46	-38	-43	-49	-75
Commercial banks	-146	-220	103	381	49	50	40	20	20
Other capital 4/	106	661	124	732	498	548	543	425	241
Of which: Conversion of DMs/euros into KMs by residents	106	661	124	42	0	0	0	0	0
Capital account balance	574	1,005	793	1,680	1,334	1,421	1,358	1,204	1,017
Errors and omissions	65	517	280	0	0	0	0	0	0
Overall balance	19	711	37	457	15	88	82	48	-4
Financing	-18	-711	-37	-457	-15	-88	-81	-48	5
Change foreign assets (increase, -)	-26	-713	-41	-461	-19	-97	-90	-59	-50
Of which:									
Gross foreign assets of the central bank	-43	-724	-58	-446	11	-50	-50	-50	-50
Net use of Fund resources	17	11	17	-15	-30	-47	-40	-9	0
Purchases/loans	37	18	40	34	18	0	0	0	0
Repurchases/repayments	-20	-8	-23	-49	-48	-47	-40	-9	0
Short-term liabilities (reduction, -)	0	0	0	0	0	0	0	0	0
Arrears (reduction, -)	-342	-550	0	0	0	0	0	0	0
Multilateral creditors	0	0	0	0	0	0	0	0	0
Paris Club creditors	0	0	0	0	0	0	0	0	0
London Club	0	0	0	0	0	0	0	0	0
Other creditors	-342	-550	0	0	0	0	0	0	0
Debt rescheduling or cancellation (of arrears)	342	550	0	0	0	0	0	0	0
Multilateral creditors (rescheduling)	0	0	0	0	0	0	0	0	0
Paris Club creditors (rescheduling) 5/	0	0	0	0	0	0	0	0	0
London Club (rescheduling) 6/	0	0	0	0	0	0	0	0	0
Other creditors (cancellation)	342	550	0	0	0	0	0	0	0
Debt relief, current maturities (cashflow)	8	2	4	5	5	8	8	11	55
Multilateral creditors	0	0	0	0	0	0	0	0	0
Paris Club creditors 5/	0	0	0	0	0	0	0	0	0
London Club 6/	8	2	4	5	5	8	8	11	55
Total financing gap (-)	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance (in percent of GDP)	-13.1	-16.2	-18.5	-17.4	-15.8	-14.8	-13.1	-11.0	-8.9
Excluding official transfers	-13.8	-16.7	-18.8	-17.8	-16.0	-15.0	-13.3	-11.1	-9.0
External Public debt/GDP (in percent)	58.8	48.2	42.2	34.0	32.8	31.2	29.3	27.1	24.2
External debt service/GNFS	7.3	6.3	8.5	7.8	6.6	6.6	5.7	4.0	4.7
Gross official reserves (in millions of U.S. dollars)	497	1,221	1,279	1,725	1,714	1,764	1,814	1,864	1,914
(in months of imports of goods and services)	2.2	5.1	4.6	5.1	4.4	4.4	4.2	4.1	4.0

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

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 reflect imports of non-residents to BiH.

3/ Disbursement for budget finance and includes program loans from the World Bank and the EU.

4/ These are non-debt-creating capital inflows. The projections may include private transfers from abroad.

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

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

Table 3b. Bosnia and Herzegovina: Balance of Payments, 2000-08 1/
(In millions of Euros; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Merchandise trade balance 1/	-1,857	-2,045	-2,200	-2,157	-2,059	-2,045	-2,043	-2,010	-1,952
Exports, f.o.b.	901	971	1,107	1,244	1,355	1,527	1,740	2,004	2,307
Imports, f.o.b. 2/	-2,757	-3,016	-3,307	-3,401	-3,414	-3,572	-3,784	-4,014	-4,259
Reconstruction	-499	-444	-325	-261	-254	-212	-165	-135	-112
Other	-2,258	-2,572	-2,982	-3,140	-3,160	-3,360	-3,618	-3,879	-4,147
Services, net	284	254	241	222	177	150	162	171	186
Receipts	493	476	447	431	421	412	435	454	479
Expenditure	-210	-222	-207	-209	-244	-261	-273	-283	-293
Net factor income	273	274	263	294	300	316	357	404	432
Earnings	341	339	337	339	343	378	415	457	503
Interest payments	-68	-66	-74	-45	-43	-61	-58	-53	-71
Unrequited transfers, net	628	611	599	558	541	528	520	525	531
Receipts	636	619	607	566	548	535	527	533	539
Official grants	39	31	20	25	15	10	10	10	10
Private	597	588	587	541	533	525	517	523	529
Outflows	-8	-8	-8	-8	-8	-7	-8	-8	-8
Current account balance	-672	-906	-1,098	-1,082	-1,042	-1,051	-1,005	-910	-804
Excluding official transfers	-711	-937	-1,118	-1,107	-1,057	-1,061	-1,015	-920	-814
Foreign investment (net)	162	145	244	283	332	426	449	472	512
Capital transfers for reconstruction	429	386	267	192	171	138	98	71	59
Foreign loans (net)	74	99	89	27	118	86	63	55	24
Disbursements	87	115	124	69	154	115	97	93	83
Reconstruction	70	58	58	69	83	74	67	64	53
Other 3/	16	57	66	0	71	42	30	30	30
Amortization	-13	-16	-35	-42	-36	-30	-34	-39	-59
Multilateral and Paris Club creditors	-11	-16	-35	-42	-36	-30	-34	-39	-59
Commercial banks	-158	-232	92	284	39	39	31	16	16
Other capital 4/	115	738	131	455	351	430	427	334	190
Of which: conversion of DMs/euros into KMs by residents	115	738	131	37	0				
Capital account balance	622	1,136	824	1,241	1,011	1,118	1,068	948	800
Errors and omissions	68	607	139	0	0	0	0	0	0
Overall balance	18	837	-135	159	-31	67	63	38	-3
Financing	-18	-837	135	-159	31	-67	-64	-38	4
Change foreign assets (increase, -)	-26	-839	132	-163	27	-74	-70	-47	-39
Of which:									
Gross foreign assets of the central bank	-85	-851	113	-149	51	-37	-39	-39	-39
Net use of Fund resources	18	12	18	-13	-24	-37	-31	-7	0
Purchases/loans	40	21	42	30	14	0	0	0	0
Repurchases/repayments	-22	-9	-24	-43	-38	-37	-31	-7	0
Short-term liabilities (reduction, -)	0	0	0	0	0	0	0	0	0
Arrears (reduction, -)	-370	-614	0	0	0	0	0	0	0
Debt rescheduling or cancelation (of arrears)	370	614	0	0	0	0	0	0	0
Debt relief, current maturities (cashflow)	8	3	4	4	4	6	6	9	43
Multilateral creditors	0	0	0	0	0	0	0	0	0
Paris Club creditors 5/	0	0	0	0	0	0	0	0	0
London Club 6/	8	3	4	4	4	6	6	9	43
Total financing gap (-)	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance (in percent of GDP)	-13.1	-16.2	-18.5	-17.4	-15.8	-14.8	-13.1	-11.0	-8.9
Excluding official transfers	-13.8	-16.7	-18.8	-17.8	-16.0	-15.0	-13.3	-11.1	-9.0
External Public debt/GDP (in percent)	58.8	48.2	42.2	34.0	32.8	31.2	29.3	27.1	24.2
External debt service/GNFS	7.3	6.3	8.5	7.8	6.6	6.6	5.7	4.0	4.7
Gross official reserves (in millions of euro)	534	1,385	1,272	1,421	1,370	1,407	1,446	1,486	1,507
(in months of imports of goods and services)	2.2	5.1	4.3	4.7	4.4	4.4	4.2	4.1	4.0

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

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 reflect imports of non-residents to BiH

3/ Disbursement for budget finance and includes program loans from the World Bank and the EU.

4/ These are non-debt-creating capital inflows. The projections may include private transfers from abroad.

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

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

Table 3c. Bosnia and Herzegovina: Vulnerability Indicators, 2000-04

	2000	2001	2002	2003 Proj.	2004 Proj.
Exports (annual percent change, US\$ basis)	7.0	4.5	20.2	34.5	21.9
Imports (annual percent change, US\$ basis)	-1.4	6.1	15.6	23.1	12.4
Current account balance (in percent of GDP) 1/	-13.1	-16.2	-18.5	-17.4	-15.8
Capital and financial account (in percent of GDP)	12.1	20.0	14.1	23.9	16.0
Gross official reserves (end-of-period, in millions of U.S. dollars)	497	1,221	1,279	1,725	1,714
In months of imports of goods and nonfactor services (GNFS)	2.2	5.1	4.6	5.1	4.4
Broad money/NFA (end-of-period)	5.8	1.8	2.3	2.8	...
Foreign exchange deposits/reserves (percent, end-of-period)	94.5	67.1	71.0	82.7	...
Total external debt (percent of GDP)	58.8	48.2	42.2	34.0	32.8
External debt service/exports of GNFS (in percent) 2/	7.3	6.3	8.5	7.8	6.6
External debt service to multilateral creditors/exports of GNFS (in percent)	5.8	4.4	7.0	5.8	4.9
External debt service to multilateral creditors (in percent of total debt service)	79.0	70.4	81.8	75.0	75.0
External debt service to the IMF (in percent of total debt service)	27.0	19.4	21.5	35.7	34.2
Exchange rate (per U.S. dollar, period average)	2.12	2.18	2.07	1.73	...
REER depreciation, end-of-period (-) (annual percent change)	3.0	-7.4	-3.9	...	...
Republika Srpska	10.4	-6.9	-2.1	...	...
Federation	-1.1	-7.8	-5.1	...	...

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

1/ Includes transfers.

2/ Includes repayment of IMF loans.

Table 3d. Bosnia and Herzegovina: External Financing Requirements and Possible Sources of Financing, 2000-04
(In millions of U.S. dollars)

	2000	2001	2002	2003 Proj.	2004 Proj.
Merchandise trade balance	-1,715	-1,832	-2,077	-2,438	-2,607
Services balance	262	228	227	251	224
Net factor income	253	245	248	332	380
<i>of which:</i> Interest due	-63	-59	-70	-51	-54
Private transfers, net	543	519	547	603	665
Current account balance, excluding official transfers	-657	-839	-1,055	-1,252	-1,338
Amortization of medium and long term obligations 1/	-12	-15	-33	-48	-46
Repurchases of IMF resources	-20	-8	-23	-49	-48
Changes in arrears (- is reduction)	-342	-550	0	0	0
<i>Of which:</i> Multilateral	0	0	0	0	0
London Club	0	0	0	0	0
Paris Club	0	0	0	0	0
Other 2/	-342	-550	0	0	0
London Club rescheduling and debt relief	8	2	4	5	5
Change in official reserves (a "-" sign indicates an increase)	-43	-724	-58	-446	11
Change in NFA of commercial banks (a "-" sign indicates an increase)	-146	-220	103	381	49
Gross external financing requirement	-1,147	-1,836	-782	-1,409	-1,367
Official transfers	27	14	13	0	0
Capital transfers for reconstruction	396	346	252	217	217
Disbursement for reconstruction	65	52	54	78	105
Foreign direct investment	150	130	230	320	420
Other capital	106	661	124	732	498
Financing gap after project and humanitarian flows	-404	-633	-109	-62	-127
Other rescheduling and debt relief 2/	342	550	0	0	0
Remaining financing gap	-62	-83	-109	-62	-127
Identified possible program support	62	83	109	62	127
Disbursements under the IMF Stand-By Arrangement	37	18	40	35	18
World Bank adjustment lending	15	42	63	0	65
European Union (loans and grants) and other program financing	9	22	6	27	44
Remaining financing 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.

Table 4a. Bosnia and Herzegovina: General Government, 1999-2004

(In millions of KM, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act	2003 Proj.	2004 Proj.
Revenue	5,184.3	5,402.7	5,450.4	5,595.0	5,687.2	5,910.2
Tax revenue	3,660.9	4,094.8	4,209.2	4,450.5	4,722.2	4,847.0
Indirect taxes	1,474.6	1,554.6	1,470.3	1,541.5	2,006.4	2,111.1
Trade taxes	491.6	599.0	840.0	990.2	697.6	618.8
Direct taxes	336.1	415.3	362.4	369.4	392.2	427.3
Social Security contributions	1,358.7	1,526.0	1,536.5	1,549.4	1,626.0	1,689.7
Non- tax revenue	470.7	355.1	446.7	554.1	551.2	638.9
Grants	1,052.7	952.7	794.5	590.4	413.8	424.1
Budget support	47.7	114.7	39.5	67.4	35.8	58.1
Foreign investment projects	1,005.0	838.0	755.0	523.0	378.0	366.0
Consolidated expenditure on a commitment basis	5,885.0	6,101.6	5,815.9	5,855.8	5,639.4	5,927.7
<i>Of which: change in stock of domestic arrears (- = increase)</i>	-290.2	-388.3	-91.0	18.8	66.8	93.1
Consolidated expenditure on a cash basis	5,594.8	5,713.3	5,724.9	5,874.6	5,706.2	6,020.8
Interest payments	103.1	131.2	129.3	129.7	80.0	80.8
Subsidies and transfers to non-public agents 1/	1,631.2	1,918.9	2,011.1	2,288.3	2,349.4	2,465.5
Other current spending	2,530.5	2,567.6	2,571.6	2,723.0	2,734.6	2,850.5
Investment expenditure	1,330.0	1,095.5	1,012.9	733.6	542.2	624.0
Foreign financed investment projects	1,261.7	975.0	867.0	636.0	514.0	554.0
Other investment expenditure	68.4	120.5	145.9	97.6	28.2	70.0
Balance on a commitment basis	-700.6	-698.9	-365.6	-260.8	47.8	-17.5
Balance on a cash basis	-410.5	-310.6	-274.5	-279.6	-19.0	-110.6
Financing on a commitment basis	700.6	698.9	365.6	260.8	-47.8	17.5
Privatization proceeds	63.0	126.0	80.6	13.2	0.5	10.0
Foreign loans	347.5	201.1	197.4	222.5	17.4	138.6
Budget support	146.4	130.7	134.1	222.7	58.3	138.4
Foreign investment projects	256.7	137.0	112.0	113.0	136.0	188.0
Amortization	-55.6	-66.6	-48.8	-113.2	-176.9	-187.8
Domestic financing 2/	0.0	-16.4	-3.4	43.9	1.1	-38.0
Change in stock of domestic arrears (+ = increase)	290.2	388.3	91.0	-18.8	-66.8	-93.1
Memorandum items:						
Balance on a commitment basis (excluding demobilization severance payments)	-700.6	-698.9	-365.6	-153.4	47.8	46.4
Stock of domestic spending arrears 3/	5	882	973	954	887	794
External public debt 4/	5,906	5,912	5,282	4,907	4,139	4,235
Primary balance	-598	-568	-236	-131	128	63
Public consumption	4,555	5,006	4,803	5,122	5,097	5,304
Public saving	-376	-441	-108	-50	212	240

Sources: Ministries of Finance; and IMF staff estimates.

1/ Excludes transfers by Federation Cantons due to lack of data.

2/ Including use and reconstitution of succession funds (e.g., settlement of domestic claims in 2004).

3/ Excludes war damage claims and frozen foreign currency deposits.

4/ Decrease in 2001 is due to debt-relief operation.

Table 4b. Bosnia and Herzegovina: General Government, 1999-2004

(In percent of GDP, unless stated otherwise)

	1999	2000	2001	2002	2003 Proj.	2004 Proj.
Revenue	57.7	53.7	49.7	48.1	46.7	45.8
Tax revenue	40.7	40.7	38.4	38.3	38.8	37.5
Indirect taxes	16.4	15.5	13.4	13.3	16.5	16.4
Trade taxes	5.5	6.0	7.7	8.5	5.7	4.8
Direct taxes	3.7	4.1	3.3	3.2	3.2	3.3
Social Security contributions	15.1	15.2	14.0	13.3	13.4	13.1
Non-tax revenue	5.2	3.5	4.1	4.8	4.5	4.9
Grants	11.7	9.5	7.2	5.1	3.4	3.3
Budget support	0.5	1.1	0.4	0.6	0.3	0.4
Foreign investment projects	11.2	8.3	6.9	4.5	3.1	2.8
Consolidated expenditure on a commitment basis	65.5	60.7	53.1	50.4	46.3	45.9
<i>Of which: change in stock of domestic arrears (- = increase)</i>	-3.2	-3.9	-0.8	0.2	0.5	0.7
Consolidated expenditure on a cash basis	62.2	56.8	52.2	50.5	46.9	46.6
Interest payments	1.1	1.3	1.2	1.1	0.7	0.6
Subsidies and transfers to non-public agents 1/	18.1	19.1	18.4	19.7	19.3	19.1
Other current spending	28.2	25.5	23.5	23.4	22.5	22.1
Investment expenditure	14.8	10.9	9.2	6.3	4.5	4.8
Foreign financed investment projects	14.0	9.7	7.9	5.5	4.2	4.3
Other investment expenditure	0.8	1.2	1.3	0.8	0.2	0.5
Balance on a commitment basis	-7.8	-7.0	-3.3	-2.2	0.4	-0.1
Balance on a cash basis	-4.6	-3.1	-2.5	-2.4	-0.2	-0.9
Financing on a commitment basis	7.8	7.0	3.3	2.2	-0.4	0.1
Privatization proceeds	0.7	1.3	0.7	0.1	0.0	0.1
Foreign loans	3.9	2.0	1.8	1.9	0.1	1.1
Budget support	1.6	1.3	1.2	1.9	0.5	1.1
Foreign investment projects	2.9	1.4	1.0	1.0	1.1	1.5
Amortization	-0.6	-0.7	-0.4	-1.0	-1.5	-1.5
Domestic financing 2/	0.0	-0.2	0.0	0.4	0.0	-0.3
Change in stock of domestic arrears (+ = increase)	3.2	3.9	0.8	-0.2	-0.5	-0.7
Memorandum items:						
Balance on a commitment basis (excluding demobilization severance payments)	-7.8	-7.0	-3.3	-1.3	0.4	0.4
Stock of domestic spending arrears 3/	5.5	8.8	8.9	8.2	7.3	6.1
External public debt 4/	65.7	58.8	48.2	42.2	34.0	32.8
Primary balance	-6.6	-5.6	-2.2	-1.1	1.0	0.5
Public consumption	50.7	49.8	43.8	44.1	41.9	41.1
Public saving	-4.2	-4.4	-1.0	-0.4	1.7	1.9
Nominal BiH GDP (in millions of KM)	8,989	10,054	10,959	11,627	12,173	12,911

Sources: Ministries of Finance; and IMF staff estimates.

1/ Excludes transfers by Federation Cantons due to lack of data.

2/ Including use and reconstitution of succession funds (e.g., settlement of domestic claims in 2004).

3/ Excludes war damage claims and frozen foreign currency deposits.

4/ Decrease in 2001 is due to debt-relief operation.

Table 4c. Bosnia and Herzegovina: General Government, 1999-2004

(In millions of KM, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act	2003 Proj.	2004 Proj.
Federation budget						
Revenue (including grants)	738.3	889.6	1,085.0	1,045.5	1,015.5	1,023.0
Expenditure on a commitment basis 1/	841.6	1,010.1	1,126.1	1,170.2	903.9	889.8
<i>Of which:</i> change in stock of domestic arrears	78.2	78.2	-10.5	13.3	-46.0	-85.0
<i>Of which:</i> transfers to the State	110.8	153.5	143.6	196.5	218.9	226.6
Balance on a commitment basis	-103.2	-120.5	-41.1	-124.7	111.6	133.2
Cantonal budget						
Revenue	1,288.9	1,252.9	1,036.6	1,033.3	1,094.6	1,171.2
<i>Of which:</i> transfers from the Federation budget	15.9	25.1	18.0	13.9	8.7	0.0
Expenditure on a commitment basis	1,378.9	1,400.9	1,214.1	1,076.1	1,094.6	1,171.2
<i>Of which:</i> change in stock of domestic arrears	27.0	22.0	100.8	7.2	0.0	0.0
Balance on a commitment basis	-90.0	-148.0	-177.4	-42.8	0.0	0.0
Federation extra-budgetary Funds 2/						
Revenue	984.3	1,117.9	1,203.4	1,292.3	1,309.8	1,358.6
<i>Of which:</i> transfers from the Federation budget	6.9	8.8	84.0	24.0	11.1	11.9
Expenditure on a commitment basis	1,068.3	1,176.9	1,115.4	1,274.9	1,309.8	1,358.6
<i>Of which:</i> change in stock of domestic arrears	84.0	59.0	-88.0	-17.4	0.0	0.0
Balance on a commitment basis	-84.0	-59.0	88.0	17.4	0.0	0.0
RS budget and municipalities						
Revenue (including grants)	821.5	921.0	896.3	1,210.5	1,267.4	1,302.9
Expenditure on a commitment basis 3/	966.2	1,031.9	955.6	1,205.8	1,190.7	1,260.6
<i>Of which:</i> change in stock of domestic arrears	79.0	105.7	25.0	-21.9	-20.8	-8.1
<i>Of which:</i> transfers to the State	74.3	88.9	82.3	119.9	95.8	102.0
Balance on a commitment basis	-144.7	-110.9	-59.3	4.7	76.6	42.3
RS extra-budgetary funds 2/						
Revenue	358.7	392.6	425.1	379.5	415.2	458.9
<i>Of which:</i> transfers from the RS budget	28.1	36.7	16.0	106.4	96.4	125.0
Expenditure on a commitment basis	380.7	505.1	488.6	379.5	415.2	458.9
<i>Of which:</i> change in stock of domestic arrears	22.0	112.5	63.5	0.0	0.0	0.0
Balance on a commitment basis	-22.0	-112.5	-63.5	0.0	0.0	0.0
State budget						
Revenue (including grants)	223.6	280.2	294.7	432.8	431.6	478.8
<i>Of which:</i> transfers from the Federation and RS budgets	185.1	242.4	225.9	316.4	314.7	328.6
Expenditure on a commitment basis	223.6	291.2	294.9	435.2	436.1	483.9
<i>Of which:</i> change in stock of domestic arrears	0.0	11.0	0.2	0.0	0.0	0.0
Balance on a commitment basis	0.0	-11.0	-0.2	-2.4	-4.5	-5.1
Brcko District budget 4/						
Revenue	0.0	23.5	98.1	138.7	206.0	216.3
Expenditure on a commitment basis	0.0	23.5	98.1	138.7	206.0	216.3
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Grants	1,005.0	838.0	755.0	523.0	378.0	366.0
Expenditure on a commitment basis	1,261.7	975.0	867.0	636.0	514.0	554.0
Balance on a commitment basis	-256.7	-137.0	-112.0	-113.0	-136.0	-188.0

Sources: Ministries of Finance; and IMF staff estimates.

1/ Includes transfers to Cantons and extrabudgetary funds.

2/ Pension Fund, Health Fund, and Employment Fund . Also includes the Children's Fund in the RS.

3/ Includes transfers to extrabudgetary funds.

4/ Data for 1999 and 2000 are incomplete.

Table 4d. Bosnia and Herzegovina: General Government, 1999-2004

(In percent of GDP, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act	2003 Proj.	2004 Proj.
Federation budget						
Revenue (including grants)	8.2	8.8	9.9	9.0	8.3	7.9
Expenditures on a commitment basis 1/	9.4	10.0	10.3	10.1	7.4	6.9
<i>Of which:</i> change in stock of domestic arrears	0.9	0.8	-0.1	0.1	-0.4	-0.7
<i>Of which:</i> transfers to the State	1.2	1.5	1.3	1.7	1.8	1.8
Balance on a commitment basis	-1.1	-1.2	-0.4	-1.1	0.9	1.0
Cantonal budget						
Revenue	14.3	12.5	9.5	8.9	9.0	9.1
<i>Of which:</i> transfers from the Federation budget	0.2	0.2	0.2	0.1	0.1	0.0
Expenditure on a commitment basis	15.3	13.9	11.1	9.3	9.0	9.1
<i>Of which:</i> change in stock of domestic arrears	0.3	0.2	0.9	0.1	0.0	0.0
Balance on a commitment basis	-1.0	-1.5	-1.6	-0.4	0.0	0.0
Federation extra-budgetary Funds 2/						
Revenue	10.9	11.1	11.0	11.1	10.8	10.5
<i>Of which:</i> transfers from the Federation budget	0.1	0.1	0.8	0.2	0.1	0.1
Expenditure on a commitment basis	11.9	11.7	10.2	11.0	10.8	10.5
<i>Of which:</i> change in stock of domestic arrears	0.9	0.6	-0.8	-0.1	0.0	0.0
Balance on a commitment basis	-0.9	-0.6	0.8	0.1	0.0	0.0
RS budget and municipalities						
Revenue (including grants)	9.1	9.2	8.2	10.4	10.4	10.1
Expenditure on a commitment basis 3/	10.7	10.3	8.7	10.4	9.8	9.8
<i>Of which:</i> change in stock of domestic arrears	0.9	1.1	0.2	-0.2	-0.2	-0.1
<i>Of which:</i> transfers to the State	0.8	0.9	0.8	1.0	0.8	0.8
Balance on a commitment basis	-1.6	-1.1	-0.5	0.0	0.6	0.3
RS extra-budgetary funds 2/						
Revenue	4.0	3.9	3.9	3.3	3.4	3.6
<i>Of which:</i> transfers from the RS budget	0.3	0.4	0.1	0.9	0.8	1.0
Expenditure on a commitment basis	4.2	5.0	4.5	3.3	3.4	3.6
<i>Of which:</i> change in stock of domestic arrears	0.2	1.1	0.6	0.0	0.0	0.0
Balance on a commitment basis	-0.2	-1.1	-0.6	0.0	0.0	0.0
State budget						
Revenue (including grants)	2.5	2.8	2.7	3.7	3.5	3.7
<i>Of which:</i> transfers from the Federation and RS budgets	2.1	2.4	2.1	2.7	2.6	2.5
Expenditure on a commitment basis	2.5	2.9	2.7	3.7	3.6	3.7
<i>Of which:</i> change in stock of domestic arrears	0.0	0.1	0.0	0.0	0.0	0.0
Balance on a commitment basis	0.0	-0.1	0.0	0.0	0.0	0.0
Brcko District budget 4/						
Revenue	0.0	0.2	0.9	1.2	1.7	1.7
Expenditure on a commitment basis	0.0	0.2	0.9	1.2	1.7	1.7
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Grants	11.2	8.3	6.9	4.5	3.1	2.8
Expenditure on a commitment basis	14.0	9.7	7.9	5.5	4.2	4.3
Balance on a commitment basis	-2.9	-1.4	-1.0	-1.0	-1.1	-1.5
Memorandum item:						
Nominal BiH GDP (in millions of KM)	8,989	10,054	10,959	11,627	12,173	12,911

Sources: Ministries of Finance; and IMF staff estimates.

1/ Includes transfers to Cantons and extrabudgetary funds.

2/ Pension Fund, Health Fund, and Employment Fund. Also includes the Children's Fund in the RS.

3/ Includes transfers to extrabudgetary funds.

4/ Data for 1999 and 2000 are incomplete.

Table 4e. Bosnia and Herzegovina: General Government, 1999-2004

(In millions of KM, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act.	2003 Proj.	2004 Proj.
Federation						
Consolidated revenue (including grants)	2,988.7	3,226.5	3,223.1	3,333.3	3,400.1	3,541.0
Consolidated expenditure on a commitment basis	3,266.0	3,554.0	3,353.7	3,483.4	3,288.5	3,407.8
<i>Of which:</i> change in stock of domestic arrears	189.2	152.2	6.3	3.1	-46.0	-85.0
<i>Of which:</i> transfers to the State	110.8	153.5	143.6	196.5	218.9	226.6
Consolidated balance on a commitment basis	-277.2	-327.5	-130.6	-150.1	111.6	133.2
RS						
Consolidated revenue (including grants)	1,152.0	1,276.9	1,305.4	1,483.6	1,586.1	1,636.8
Consolidated expenditure on a commitment basis	1,318.8	1,500.3	1,428.2	1,478.9	1,509.5	1,594.4
<i>Of which:</i> change in stock of domestic arrears	101.0	218.2	88.5	-21.9	-20.8	-8.1
<i>Of which:</i> transfers to the State	74.3	88.9	82.3	119.9	95.8	102.0
Consolidated balance on a commitment basis	-166.7	-223.4	-122.8	4.7	76.6	42.3
State budget						
Revenue (including grants)	223.6	280.2	294.7	432.8	431.6	478.8
<i>Of which:</i> transfers from the Federation and RS budgets	185.1	242.4	225.9	316.4	314.7	328.6
Expenditure on a commitment basis	223.6	291.2	294.9	435.2	436.1	483.9
<i>Of which:</i> change in stock of domestic arrears	0.0	11.0	0.2	0.0	0.0	0.0
Balance on a commitment basis	0.0	-11.0	-0.2	-2.4	-4.5	-5.1
Brcko District budget 1/						
Revenue	0.0	23.5	98.1	138.7	206.0	216.3
Expenditure on a commitment basis	0.0	23.5	98.1	138.7	206.0	216.3
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Grants	1,005.0	838.0	755.0	523.0	378.0	366.0
Expenditure on a commitment basis	1,261.7	975.0	867.0	636.0	514.0	554.0
Balance on a commitment basis	-256.7	-137.0	-112.0	-113.0	-136.0	-188.0

Sources: Ministries of Finance; and IMF staff estimates.

1/ Data for 1999 and 2000 are incomplete.

Table 4f. Bosnia and Herzegovina: General Government, 1999-2004

(In percent of GDP, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act.	2003 Proj.	2004 Proj.
Federation						
Consolidated revenue (including grants)	33.2	32.1	29.4	28.7	27.9	27.4
Consolidated expenditure on a commitment basis	36.3	35.4	30.6	30.0	27.0	26.4
<i>Of which:</i> change in stock of domestic arrears	2.1	1.5	0.1	0.0	-0.4	-0.7
<i>Of which:</i> transfers to the State	1.2	1.5	1.3	1.7	1.8	1.8
Consolidated balance on a commitment basis	-3.1	-3.3	-1.2	-1.3	0.9	1.0
RS						
Consolidated revenue (including grants)	12.8	12.7	11.9	12.8	13.0	12.7
Consolidated expenditure on a commitment basis	14.7	14.9	13.0	12.7	12.4	12.3
<i>Of which:</i> change in stock of domestic arrears	1.1	2.2	0.8	-0.2	-0.2	-0.1
<i>Of which:</i> transfers to the State	0.8	0.9	0.8	1.0	0.8	0.8
Consolidated balance on a commitment basis	-1.9	-2.2	-1.1	0.0	0.6	0.3
State budget						
Revenue (including grants)	2.5	2.8	2.7	3.7	3.5	3.7
<i>Of which:</i> transfers from the Federation and RS budgets	2.1	2.4	2.1	2.7	2.6	2.5
Expenditure on a commitment basis	2.5	2.9	2.7	3.7	3.6	3.7
<i>Of which:</i> change in stock of domestic arrears	0.0	0.1	0.0	0.0	0.0	0.0
Balance on a commitment basis	0.0	-0.1	0.0	0.0	0.0	0.0
Brcko District budget 1/						
Revenue	0.0	0.2	0.9	1.2	1.7	1.7
Expenditure on a commitment basis	0.0	0.2	0.9	1.2	1.7	1.7
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Grants	11.2	8.3	6.9	4.5	3.1	2.8
Expenditure on a commitment basis	14.0	9.7	7.9	5.5	4.2	4.3
Balance on a commitment basis	-2.9	-1.4	-1.0	-1.0	-1.1	-1.5
Federation						
Consolidated revenue (including grants)	47.6	47.0	43.3	42.5	41.7	41.0
Consolidated expenditure on a commitment basis	52.0	51.7	45.1	44.4	40.3	39.5
<i>Of which:</i> change in stock of domestic arrears	3.0	2.2	0.1	0.0	-0.6	-1.0
<i>Of which:</i> transfers to the State	1.8	2.2	1.9	2.5	2.7	2.6
Consolidated balance on a commitment basis	-4.4	-4.8	-1.8	-1.9	1.4	1.5
RS						
Consolidated revenue (including grants)	43.8	43.8	40.9	43.6	43.9	42.6
Consolidated expenditure on a commitment basis	50.1	51.5	44.7	43.5	41.8	41.5
<i>Of which:</i> change in stock of domestic arrears	3.8	7.5	2.8	-0.6	-0.6	-0.2
<i>Of which:</i> transfers to the State	2.8	3.1	2.6	3.5	2.7	2.7
Consolidated balance on a commitment basis	-6.3	-7.7	-3.8	0.1	2.1	1.1
Memorandum items:						
Nominal BiH GDP (in millions of KM)	8,989	10,054	10,959	11,627	12,173	12,911
Nominal Federation GDP (in millions of KM)	6,278	6,870	7,437	7,846	8,160	8,636
Nominal RS GDP (in millions of KM)	2,632	2,915	3,193	3,401	3,611	3,843

Sources: Ministries of Finance; and IMF staff estimates.

1/ Data for 1999 and 2000 are incomplete.

Table 4g. Bosnia and Herzegovina: Federation Fiscal Operations, 2002-04

	2002	2003	2004
	Act.	Proj.	Proj.
Revenue	1,033.6	1,000.8	1,006.7
Tax revenue	929.6	913.0	897.2
Indirect taxes	921.7	895.2	877.8
Profit tax	7.9	17.8	19.4
Nontax revenue	104.0	87.9	109.5
<i>Of which:</i> Dividends of public enterprises 2/	36.6	25.0	35.0
Expenditure	1,232.4	1,067.7	1,185.0
Wages and contributions 3/	132.4	148.7	148.7
Goods and services	43.8	40.8	54.2
Military 4/	375.8	250.1	241.3
<i>Of which:</i> severance payments	90.8		45.0
Reconstruction and capital expenditure 5/	42.8	21.6	44.3
Subsidies	22.8	28.6	21.0
Transfers to households	315.8	294.0	299.2
Transfers to pension fund	15.0	0.0	0.0
Transfers for health	9.0	11.1	11.9
Transfers for education	1.3	15.3	12.3
Transfers to war invalids	290.5	267.1	275.0
Transfers to the state government	196.5	218.9	226.6
Administration	51.7	57.8	60.0
Debt service	144.8	161.1	166.6
Transfers to cantons and municipalities	13.9	8.7	0.0
Net lending	0.0	0.0	0.0
Clearance of domestic arrears	8.7	24.5	0.0
Other expenditure	80.1	31.9	149.7
<i>Of which:</i> Settlement of domestic claims			85.0
Overall balance (cash basis, before grants)	-198.8	-66.9	-178.3
Foreign grants for budget support	11.9	14.7	16.3
Overall balance (cash basis, after grants)	-186.9	-52.2	-162.0
Financing	186.9	52.3	162.0
Domestic financing	-27.3	13.4	14.2
<i>Of which:</i> reconstitution of succession money	-27.0	0.0	0.0
Foreign loans for budget support 6/	142.7	38.9	98.8
Privatization receipts	0.0	0.0	10.0
Succession money	71.5	0.0	39.0
Memorandum items:			
Balance on a commitment basis (excluding settlement of domestic claims)			-77.0
Revenue (in percent of GDP)	13.2	12.3	11.0
Expenditure (in percent of GDP)	15.7	13.1	12.9
Balance (cash, after grants, in percent of GDP)	-2.4	-0.6	-1.8
Nominal GDP	7,846	8,160	8,636

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

1/ Includes KM 40 million customs revenue collected in January and brought forward in 2001 outcome.

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

3/ Excludes wages of military and intelligence service staff.

4/ Includes savings due to demobilization of KM71 million in 2004.

5/ Includes railways.

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

Table 4h. Bosnia and Herzegovina: Republika Srpska Fiscal Operations, 2002-04

	2002	2003	2004 1/
	Prel. Act.	Proj.	Proj.
(In millions of KM, unless otherwise specified)			
Revenue	929.5	968.2	1,003.8
Tax revenue	788.3	881.8	902.9
Taxes on goods and services	444.6	503.9	564.3
Property tax on special goods 2/	16.2	19.3	21.4
Trade taxes	168.2	150.8	128.1
Taxes on income	103.3	105.6	123.5
Other tax revenue	56.0	102.2	65.6
Non-tax revenue	87.8	70.5	57.3
Special revenue 3/	53.4	15.9	43.6
Expenditure	998.0	979.5	1048.4
Wages	342.8	360.8	395.5
<i>Of which: Severance package</i>	16.6	0.0	18.9
Goods and services	79.7	192.4	149.9
Subsidies to public enterprises 4/	32.9	33.5	10.4
Transfers to the social funds	106.4	96.4	125.0
Transfers to households	136.8	135.0	139.4
o/w war invalids	108.6	106.7	115.0
Transfers to municipalities	2.0	0.2	2.3
Transfers to the State	119.9	124.6	132.2
Debt service	90.8	95.8	102.0
Administration	29.1	28.8	30.2
Clearance of arrears 5/	21.9	20.8	2.3
Capital and reconstruction expenditure	54.8	6.6	25.7
Other expenditure	100.8	9.2	65.7
<i>Of which: Settlement of domestic claims</i>			8.1
Overall balance (cash basis, before grants)	-68.5	-11.3	-44.6
Foreign grants for budget support	9.9	8.2	8.1
Overall balance (cash basis, after grants)	-58.6	-3.1	-36.5
Financing	58.6	3.1	36.5
Domestic financing 6/	-73.1	-16.8	-32.5
o/w reconstitution of succession money	0.0	-16.6	0.0
External loans for budget support 7/	80.0	19.4	39.6
Privatization receipts	13.2	0.5	0.0
Succession money	38.5	0.0	29.4
Memorandum items:			
Balance on a commitment basis (excluding settlement of domestic claims)			-26.1
(In percent of RS GDP)			
Revenue	27.3	26.8	26.1
Expenditure	29.3	27.1	27.3
Balance (cash basis, before grants)	-2.0	-0.3	-1.2
Balance (cash basis, after grants)	-1.7	-0.1	-0.9
Balance (commitment basis, after grants)	-1.1	0.5	-0.9

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

1/ From 2004, the Roads Directorate will be separated from the budget and funded from earmarked revenue.

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

3/ Includes other fees (on water and use of forests), own revenue from administrations, and other tax revenues.

4/ Excludes railway subsidy.

5/ In 2004, including KM 2.3 million arrears on administrative transfers to State from 2002.

6/ All privatization proceeds and succession money placed in escrow, unless otherwise specified.

7/ Disbursements only. Amortization included in debt service transfers to the State.

Table 4i. Bosnia and Herzegovina: State Fiscal Operations, 2002-04

	2002	2003	2004
	Act.	Proj.	Proj.
(in millions of KM)			
Revenue	387.2	418.7	445.1
Own revenue 1/	61.9	67.2	82.2
Transfers from entities	323.7	343.5	358.8
Administrative transfers	80.8	86.6	90.2
Federation	51.7	57.8	60.0
Republika Srpska	29.1	28.8	30.2
Debt service	242.9	256.9	268.6
Federation	144.8	161.1	166.6
Republika Srpska	98.1	95.8	102.0
Extraordinary revenue 2/	1.7	8.0	4.1
Expenditure	435.2	439.7	484.8
State Border Service	42.4	46.6	48.9
New BiH institutions 3/	14.0	1.4	1.4
Clearance of domestic arrears	0.0	0.0	0.0
BiH ministries and institutions 4/	135.9	134.9	165.9
Debt service	242.9	256.9	268.6
Overall balance (cash basis, before grants)	-47.9	-21.0	-39.7
Foreign grants	45.6	12.9	33.7
Overall balance (cash basis, after grants)	-2.4	-8.1	-6.0
Financing	2.4	8.1	6.0
Domestic 5/	-10.6	4.5	5.1
Foreign	0.0	0.0	0.0
Succession money	19.1	0.0	0.0
Purchase of shares in IBRD and EBRD	-6.2	3.6	0.9
Memorandum items:			
Revenue and grants excluding debt-service	189.9	174.7	210.2
Expenditure excluding debt-service	192.3	182.8	216.2

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

1/ In 2003 projections, includes KM 10 million of CIPS revenue. Excludes revenue transferred from 2002.

2/ In 2003, transfer from Brcko District.

3/ In 2003 projections, includes KM 8 million for SIPA, Prosecutor's Office, and Competition Committee.

4/ In 2003 projections, includes KM 15 million for CIPS.

5/ In 2003 projections, borrowing only for CIPS project.

Table 5. Bosnia and Herzegovina: Macroeconomic Framework, 2000-08

	2000	2001	2002	2003	2004	2005	2006	2007	2008
	Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real sector									
Nominal GDP (In millions of KM)	10,054	10,959	11,627	12,173	12,911	13,861	14,951	16,200	17,607
(Percentage change)	11.8	9.0	6.1	4.7	6.1	7.4	7.9	8.4	8.7
Real GDP (In millions of 1999 KM)	9,479	9,895	10,441	10,806	11,352	12,001	12,704	13,490	14,355
(Percentage change)	5.5	4.4	5.5	3.5	5.1	5.7	5.9	6.2	6.4
CPI, period average percentage change	5.0	3.2	0.3	0.1	0.9	1.7	2.0	2.1	2.2
Savings and investment (In percent of GDP, national accounts basis)									
Consumption	110.0	113.1	112.5	111.1	108.2	105.9	103.2	100.3	97.5
Public consumption	25.5	23.5	23.4	22.5	22.1	21.0	19.9	18.9	18.0
Private consumption	84.4	89.6	89.1	88.7	86.1	84.9	83.3	81.4	79.5
Investment	20.6	18.9	20.4	19.9	20.3	20.9	21.4	21.9	22.1
Public investment	10.9	9.2	6.3	4.5	4.8	4.5	4.2	4.1	4.0
Private investment	9.7	9.6	14.1	15.5	15.5	16.3	17.1	17.8	18.1
National savings	7.6	2.7	1.9	2.5	4.6	6.0	8.2	10.9	13.2
Public savings	0.4	1.2	0.3	2.0	1.5	2.6	3.1	3.4	3.5
Private savings	7.2	1.5	1.7	0.6	3.0	3.4	5.1	7.5	9.7
Foreign savings	13.1	16.2	18.5	17.4	15.8	14.8	13.1	11.0	8.9
General government (In percent of GDP)									
Total revenue and grants	53.7	49.7	48.1	46.7	45.8	44.4	43.0	41.7	40.5
Grants	9.5	7.2	5.1	3.4	3.3	2.1	1.4	1.0	0.8
Total expenditure	60.7	53.1	50.4	46.3	45.9	44.4	42.9	41.6	40.4
Current expenditure	49.8	43.8	44.1	41.9	41.1	39.9	38.7	37.5	36.3
Capital expenditure	10.9	9.2	6.3	4.5	4.8	4.5	4.2	4.1	4.0
Own-financed capital expenditure	1.2	1.3	0.8	0.2	0.5	1.1	1.7	2.2	2.6
Foreign financed capital expenditure	9.7	7.9	5.5	4.2	4.3	3.4	2.5	1.9	1.4
Overall balance	-7.0	-3.3	-2.2	0.4	-0.1	0.0	0.1	0.1	0.1
Overall balance excl. grants	-16.4	-10.6	-7.3	-3.0	-3.4	-2.1	-1.3	-0.9	-0.7
Accumulation of arrears (- = increase)	-3.9	-0.8	0.2	0.5	0.7	0.6	0.5	0.5	0.5
Overall balance on a cash basis	-3.1	-2.5	-2.4	-0.2	-0.9	-0.6	-0.4	-0.4	-0.4
Financing									
Domestic financing	1.1	0.7	0.5	0.0	-0.2	-0.1	0.0	-0.2	0.1
Foreign financing	2.0	1.8	1.9	0.1	1.1	0.7	0.4	0.6	0.3
Total foreign assistance 1/									
(In millions of US dollars)	12	9	8	5	6	4	3	2	2
	576	477	447	352	486	334	260	221	193
Balance of payments (In millions of US\$)									
Current account balance (including official transfers)	-621	-811	-1,036	-1,224	-1,319	-1,333	-1,276	-1,156	-1,021
(Percent of GDP)	-13.1	-16.2	-18.5	-17.4	-15.8	-14.8	-13.1	-11.0	-8.9
Export growth rate (In percent)	7	5	20	35	22	13	14	15	15
Import growth rate (In percent)	-1	6	16	23	12	5	6	6	6
Gross reserves	497	1,221	1,279	1,725	1,714	1,764	1,814	1,864	1,914
(Months of imports of goods and n.f. services)	2.2	5.1	4.6	5.1	4.4	4.4	4.2	4.1	4.0
Total public debt 2/									
(In millions of US\$)	2,814	2,382	2,523	2,572	4,930	4,997	5,038	5,041	4,966
(In percent of GDP)	58.8	48.2	42.2	34.0	59.7	56.2	52.5	48.5	44.0
Total external debt service in percent of exports of goods and non-factor services									
	7.3	6.3	8.5	7.8	6.6	6.6	5.7	4.0	4.7
Memorandum item:									
Percentage change in real current public expenditure	1.3	5.9	11.3	1.3	4.0	1.9	2.3	2.7	3.0

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

1/ Includes disbursements of foreign loans, and grants.

2/ Includes external public debt, stock of expenditure arrears, debt to domestic banks, and frozen foreign currency deposits.

Excludes any liabilities arising out of war damage claims.

Table 6a. Bosnia and Herzegovina: External Debt Sustainability Framework, 2000-09
(In percent of GDP, unless otherwise indicated)

	Actual/Estimates				Projections					
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
I. Baseline Projections										
External debt 6/	58.8	48.2	42.2	34.0	32.8	31.2	29.3	27.1	24.2	21.6
Change in external debt	-6.9	-10.6	-6.0	-8.2	-1.2	-1.6	-1.9	-2.3	-2.8	-2.7
Identified external debt-creating flows (4+8+9)	12.1	10.6	8.5	3.4	5.5	6.6	5.0	3.1	1.1	0.5
Current account deficit, excluding interest payments	11.7	15.2	16.2	15.5	15.3	14.1	12.5	10.5	8.2	6.7
Deficit in balance of goods and services	30.4	32.5	30.9	29.0	28.9	27.1	24.9	22.5	19.9	17.8
Exports	26.9	26.3	24.6	25.1	27.2	27.7	28.8	30.0	31.3	32.4
Imports	57.3	58.7	55.5	54.0	56.1	54.7	53.7	52.5	51.2	50.3
Net non-debt creating capital inflows (negative)	-3.1	-2.6	-3.8	-4.2	-5.1	-6.1	-5.9	-5.8	-5.8	-4.9
Automatic debt dynamics 1/	3.5	-2.0	-3.8	-7.9	-4.8	-1.5	-1.6	-1.6	-1.4	-1.3
Contribution from nominal interest rate	1.4	1.2	1.3	0.7	0.6	0.9	0.8	0.6	0.8	0.7
Contribution from real GDP growth	-3.7	-2.4	-2.4	-1.2	-1.4	-1.7	-1.7	-1.7	-1.6	-1.5
Contribution from price and exchange rate changes 2/	5.8	-0.7	-2.7	-7.4	-3.9	-0.6	-0.6	-0.6	-0.6	-0.5
Residual, incl. change in gross foreign assets (2-3)	-18.9	-21.2	-14.5	-11.6	-6.7	-8.2	-6.9	-5.3	-3.9	-3.2
External debt-to-exports ratio (in percent)	218.5	183.7	171.9	135.8	120.6	112.7	101.8	90.1	77.3	66.5
Gross external financing need (in billions of US dollars) 3/	0.7	0.8	1.1	1.3	1.4	1.4	1.4	1.2	1.1	1.0
In percent of GDP	13.6	16.9	18.3	17.5	17.1	16.0	14.2	11.7	9.7	8.1
Key Macroeconomic Assumptions										
Nominal GDP (US dollars)	4.8	4.9	6.0	7.6	8.3	8.9	9.6	10.4	11.3	12.3
Real GDP growth (in percent)	5.5	4.4	5.5	3.5	5.1	5.7	5.9	6.2	6.4	6.6
GDP deflator in US dollars (change in percent)	-8.2	1.3	6.0	21.2	13.0	1.9	2.1	2.2	2.2	2.2
Nominal external interest rate (in percent)	2.1	2.1	2.9	2.0	2.1	2.9	2.7	2.4	3.2	3.2
Growth of exports of goods and services (US dollar terms, in percent)	-3.1	0.7	13.2	29.0	18.7	9.4	12.3	13.1	13.4	12.7
Growth of imports of goods and services (US dollar terms, in percent)	-2.5	5.8	14.4	23.0	13.5	5.0	5.9	6.0	5.9	6.9
Current account balance, excluding interest payments	-11.7	-15.2	-16.2	-15.5	-15.3	-14.1	-12.5	-10.5	-8.2	-6.7
Net non-debt creating capital inflows	3.1	2.6	3.8	4.2	5.1	6.1	5.9	5.8	5.8	4.9
II. Stress Tests for External Debt Ratio										
A. Alternative Scenarios										
A1. Key variables are at their historical averages in 2005-09 4/					32.8	33.4	35.2	38.4	42.5	47.1
A2. "No policy change" scenario (see Table 6c)					32.9	32.5	32.0	31.4	30.1	28.7
B. Bound Tests										
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006					32.8	31.2	29.5	27.2	24.4	21.7
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006					32.8	33.2	32.6	30.1	27.1	24.2
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006					32.8	36.8	37.8	30.4	23.3	17.3
B4. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006					32.8	37.1	42.4	39.4	35.9	32.6
B5. Combination of 2-5 using one standard deviation shocks					32.8	37.1	41.4	38.4	34.8	31.3
B6. One time 30 percent nominal depreciation in 2005					32.8	40.2	33.8	27.9	22.0	16.9

1/ Derived as $[r - g - \rho(1+g) + \epsilon\alpha(1+r)] / (1+g+\rho+gp)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \epsilon\alpha(1+r)] / (1+g+\rho+gp)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\epsilon > 0$) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

Table 6b. Bosnia and Herzegovina: Public Sector Debt Sustainability Framework, 2000-2009
(In percent of GDP, unless otherwise indicated)

	Actual				Projections					
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
I. Baseline Projections										
Public sector debt 1/	58.8	48.2	42.2	34.0	59.7	56.2	52.5	48.5	44.0	39.7
Of which: foreign-currency denominated	58.8	48.2	42.2	34.0	32.8	31.2	29.3	27.1	24.2	21.6
Change in public sector debt	-6.9	-10.6	-6.0	-8.2	25.6	-3.5	-3.7	-4.0	-4.5	-4.3
Identified debt-creating flows (4+7+12)	3.5	0.8	-6.4	-9.3	5.1	-4.4	-4.4	-4.4	-4.1	-3.8
Primary deficit	5.6	2.2	1.0	-1.1	-0.7	-0.9	-0.9	-0.8	-0.9	-0.8
Revenue and grants	53.7	49.7	48.1	46.7	46.1	44.7	43.3	42.0	40.7	39.6
Primary (noninterest) expenditure	59.4	51.9	49.1	45.6	45.4	43.8	42.4	41.2	39.8	38.7
Automatic debt dynamics 2/	-0.9	-0.6	-7.3	-8.2	-1.8	-3.4	-3.4	-3.5	-3.1	-2.9
Contribution from interest rate/growth differential 3/	-5.6	-3.7	-1.5	-1.2	-1.3	-3.3	-3.4	-3.4	-3.1	-2.9
Of which contribution from real interest rate	-2.4	-1.3	1.0	0.2	0.3	-0.1	-0.4	-0.5	-0.2	-0.2
Of which contribution from real GDP growth	-3.2	-2.4	-2.5	-1.4	-1.6	-3.2	-3.1	-3.0	-2.9	-2.7
Contribution from exchange rate depreciation 4/	4.8	3.1	-5.8	-7.0	-0.5	-0.1	0.0	0.0	0.0	0.0
Other identified debt-creating flows	-1.3	-0.7	-0.1	0.0	7.6	-0.1	-0.1	-0.1	-0.1	-0.1
Privatization receipts (negative)	-1.3	-0.7	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	7.7	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3)	-10.4	-11.4	0.4	1.2	20.5	0.9	0.7	0.3	-0.4	-0.5
Public sector debt-to-revenue ratio 1/	109.5	97.0	87.7	72.9	129.6	125.8	121.4	115.6	107.9	100.3
Gross financing need 5/	7.6	3.8	3.2	1.0	1.1	0.9	0.7	0.4	0.5	0.6
in billions of U.S. dollars	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Key Macroeconomic and Fiscal Assumptions										
Real GDP growth (in percent)	5.5	4.4	5.5	3.5	5.1	5.7	5.9	6.2	6.4	6.6
Average nominal interest rate on public debt (in percent) 6/	2.2	2.2	2.7	1.8	2.0	1.6	1.5	1.3	1.8	1.7
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-3.8	-2.3	2.2	0.6	1.1	-0.2	-0.6	-0.8	-0.4	-0.4
Nominal appreciation (increase in US dollar value of local currency, in percent)	-7.4	-5.3	14.1	20.7	3.1	0.2	0.1	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	6.1	4.4	0.5	1.2	1.0	1.7	2.0	2.1	2.2	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.8	-8.8	-0.1	-3.9	4.5	1.9	2.3	3.0	2.8	3.7
Primary deficit	5.6	2.2	1.0	-1.1	-0.7	-0.9	-0.9	-0.8	-0.9	-0.8
II. Stress Tests for Public Debt Ratio										
A. Alternative Scenarios										
A1. Key variables are at their historical averages in 2005-09 7/					59.7	59.5	59.2	58.5	57.1	55.8
A2. "No policy change" scenario (see Table 6c)					61.4	62.5	65.9	72.1	80.9	92.8
B. Bound Tests										
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006					59.7	58.3	56.7	52.3	47.3	42.7
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006					59.7	60.9	63.6	62.7	60.9	59.0
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006					59.7	66.5	72.4	66.9	61.1	55.5
B4. Combination of 2-4 using one standard deviation shocks					59.7	65.4	70.9	65.6	60.0	54.6
B5. One time 30 percent real depreciation in 2005 8/					59.7	70.9	66.2	61.1	55.6	50.4
B6. 10 percent of GDP increase in other debt-creating flows in 2005					59.7	66.2	61.9	57.3	52.2	47.3

1/ General government gross debt. The steep increase in 2004 reflects the issuance of long-term bonds as part of the settlement of domestic claims on government.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 6c. Bosnia and Herzegovina: "No Policy Change" Scenario, 2003-09

	2003	2004	2005	2006	2007	2008	2009
	Est..	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real sector							
Nominal GDP (millions of KM)	12,173	12,709	13,142	13,525	13,797	14,012	14,230
Real GDP (percentage change)	3.5	3.4	1.7	0.9	-0.1	-0.6	-0.6
CPI, period average percentage change	0.1	0.9	1.7	2.0	2.1	2.2	2.2
Investment	19.9	19.3	18.7	17.8	16.9	16.3	15.8
National savings	2.5	3.3	3.1	3.3	4.0	5.1	6.0
Domestic savings	-11.1	-9.6	-9.5	-9.4	-9.1	-8.3	-8.0
Public	1.6	0.6	0.1	-1.4	-3.7	-6.4	-9.4
Private	-12.7	-10.2	-9.6	-8.0	-5.5	-1.9	1.4
General government (percent of GDP)							
Overall balance	0.4	-0.9	-2.5	-4.6	-7.4	-10.5	-13.9
Accumulation of new arrears (gross)	0.0	0.7	2.5	4.7	7.5	10.7	14.0
Repayment of old arrears (gross)	0.5	0.7	0.6	0.6	0.6	0.6	0.6
Overall balance on a cash basis	-0.2	-0.9	-0.6	-0.5	-0.5	-0.4	-0.4
Public debt	34.0	61.4	62.5	65.9	72.1	80.8	92.6
Balance of payments (US\$ millions.)							
Current account balance (including official transfers)	-1,224	-1,319	-1,333	-1,276	-1,156	-1,021	-907
(Percent of GDP)	-17.4	-16.0	-15.6	-14.5	-12.9	-11.2	-9.8
Export growth rate (in %)	35	10	7	5	3	3	1
Import growth rate (in %)	23	8	2	2	0	-1	0

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

BOSNIA AND HERZEGOVINA: FUND RELATIONS

As of December 31, 2003

I. Membership Status: Member since 12/14/1992; Article XIV

II. <u>General Resources Account:</u>	<u>SDR Million</u>	<u>%Quota</u>
Quota	169.10	100.00
Fund Holdings of Currency	259.23	153.30

III. <u>SDR Department:</u>	<u>SDR Million</u>	<u>%Allocation</u>
Net cumulative allocation	20.48	100.0
Holdings	2.29	11.16

IV. <u>Outstanding Purchases and Loans:</u>	<u>SDR Million</u>	<u>%Quota</u>
Stand-by-Arrangements	90.12	53.29

V. Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-by	8/02/2002	2/28/2004	67.60	55.60
Stand-by	5/29/1998	5/29/2001	94.42	94.42

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

	<u>Forthcoming</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	<u>30.72</u>	<u>28.05</u>	<u>25.35</u>	<u>6.00</u>	
Charges/Interest	<u>2.03</u>	<u>1.37</u>	<u>0.79</u>	<u>0.36</u>	<u>0.29</u>
Total	<u>32.75</u>	<u>29.42</u>	<u>26.14</u>	<u>6.36</u>	<u>0.29</u>

VII. Safeguards Assessment

Under the Fund's safeguards assessment policy, the Central Bank of Bosnia and Herzegovina (CBBH) was subject to an assessment with respect to the Stand-By Arrangement which was approved on August 2, 2002. A safeguards assessment of the CBBH was completed on October 28, 2002. The assessment identified certain weaknesses and made appropriate recommendations, as reported in Country Report No. 03/4. According to information obtained from the authorities, all of the recommendations have been successfully implemented.

VIII. Exchange Rate Arrangements

The currency of Bosnia and Herzegovina is the convertible marka (KM), introduced on August 11, 1997. On September 5, 2002, the State parliament approved an amendment to the CBBH law that changes the peg of the KM from the DM to the Euro, under a currency board arrangement. The KM is pegged to the euro at KM 1 = 0.5113 euro. 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 and transfers for current international transactions resulting from measures taken with respect to frozen foreign currency deposits as identified in Country Report No. 02/52.

IX. Last Article IV Consultation

Bosnia and Herzegovina is on the twenty-four month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002. The last Article IV consultation was concluded on February 25, 2002.

X. Resident Representative

Ms. Valeria Fichera has been the Fund's resident representative in Bosnia and Herzegovina since July 6, 2002.

XI. Technical Assistance, 1999- February 2003

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
	April 2002	Treasury systems
	February 2003	Treasury systems
LEG	May 1996	Tax administration law
LEG/TRE/SEC	December 1995	Assistance with succession to membership

MFD	December 1995	Institution-building and banking legislation
	October 1996	Payments bureaus
	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
	October-November 2002	Strengthening Banking Supervision
	August-September 2003	Banking supervision
	September 2003	International reserve management
MFD/EU1	June 1996	Discussion of new central bank
MFD/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: IMF–WORLD BANK RELATIONS

Partnership in Bosnia and Herzegovina's Development Strategy

BiH's Development Agenda

1. The authorities of BiH recognize the importance of maintaining satisfactory macroeconomic performance while accelerating structural reforms. As demonstrated through the PRSP preparation process, Government has embarked on reforms to address several key economic challenges, including: (i) creating a predictable and coherent investment environment within a single economic space; (ii) promoting private sector activity within an improved business environment; and (iii) strengthening governance whilst combating corruption.
2. Submitted to the World Bank and the IMF in December 2001 for information, not linked to any Bank or IMF operation, Government's I-PRSP emphasized the development of an entrepreneurial society within a single economic space while combating corruption and strengthening governance. As with the I-PRSP, the major focus of the ongoing full PRSP preparation process is the economy's heavy reliance on foreign assistance, high formal unemployment and the low level of domestic production. It further emphasizes corruption problems across many sectors and the poor quality of public services. The strategy also points to greater cooperation between the Entities if progress is to be made on expanding the economy and integrating BiH's political and economic structures into a wider Europe. The central theme of the strategy is that poverty can only be effectively combated through greatly expanded private sector activity.
3. BiH's recently completed poverty profile, developed on the basis of the recently completed Living Standards Measurement Study, confirms the importance of generating new private sector jobs to poverty alleviation and improving employment prospects for the young and secondary household earners; but also points to the need to raise wages among the working poor and general skills levels in the workforce, while protecting children and households headed by inactive adults. As a result, the upcoming PRSP is expected to address issues covering the effective implementation of pension and health reform, the reorientation of the social safety net to protect children and the non-pensioned elderly, a strengthened education system and improved productivity in the productive sectors.
4. The Coordination Board for Economic Transition and EU Association, charged with overseeing the preparation of the PRSP - following finalization of the second draft of the PRSP in June 2003 – in July 2003 adopted an action plan of priority actions in the areas of fiscal reform, public debt management, business environment, financial sector, labor market, public administration reform, statistics and EU integration. This action plan complements that of a plan adopted in 2002, mainly focused on improving the business environment.
5. Mindful that perceptions of widespread corruption not only discourage sound investment but constitute a serious problem for the most vulnerable in society, the Coordination Board earlier also adopted in 2002 a comprehensive anti-corruption action plan. The plan covers: (i)

legislative improvements; (ii) institutional strengthening activities; and, (iii) educative activities. The plan is under implementation with notable achievements having been made in improved tax and customs collections.

6. Some steps have also been taken recently to further strengthen key BiH State institutions and activities. This in large part has been undertaken in the context of the SAP with the European Union. A State Border Service has been operational for some time as has a Communications Regulatory Authority (CRA). Legislation has also been passed which provides for a State deposit insurance agency and a State body to regulate energy transmission. In addition, the State has played an aggressive role to liberalize external trade and open up regional markets. Trade agreements have been signed with Slovenia, Croatia, FYR Macedonia, Serbia and Montenegro and Turkey and are under negotiation with Albania, Bulgaria and Romania, while WTO membership is being actively pursued.

7. The second draft of the PRSP also stresses the importance of comprehensive public administration reform to reduce the size of government in the face of declining external assistance, the sustainability of the social protection system and the need to strengthen human capital by reinforcing family and community life and improving education and health services. Government has been advised that follow-through is necessary, however, to successfully deepen policy reform in these areas, particularly as concerns the determination of the best administrative structure for BiH consistent with both the Dayton Peace Agreements and a country aspiring to become a member of the EU.

8. The Bank and the IMF concluded in their joint letter to Government that BiH's I-PRSP provided a satisfactory initial framework to help spearhead the country's transition to a self-sustaining economy, and to fight poverty. However, Government was urged to provide greater clarity on strategic priorities and modalities for the implementation of policy reforms against a hard budget constraint. In this regard, the authorities are paying special attention to integrating the policies and priorities being developed under the PRSP into medium term expenditure frameworks of State and Entity governments.

9. Preparation of the full PRSP started in early 2002. After extensive consultation across both Entities the authorities completed the first draft of their full PRSP in November 2002, presenting it to stakeholders for review. This draft document formed the basis of a further round of consultations under the auspices of the newly formed governments following the October 2002 elections and the second draft was completed in June, 2003. The PRSP is now expected to be finalized in January of 2004. This represents a delay to their original schedule as Government wished to incorporate some of the elements of the European Commission's Feasibility Study in the stabilization and association process, into the finalized PRSP. The Feasibility Study was completed in the last quarter of 2003.

10. The IMF has taken the lead in assisting BiH in maintaining macroeconomic stability and ensuring fiscal sustainability. A new one year Stand-by-Arrangement (SBA) was approved by the IMF's Board of Directors in August 2002 and is scheduled to expire in November 2003. The SBA appeared to be on track to successful completion until the RS Prime Minister in November

2003 announced wage increases that could have resulted in a 17% increase in the wage bill. Fund discussions with the BiH and RS authorities are ongoing which could result in this increase being revisited, while a once-off payment is made to settle wage arrears. The SBA was extended a second time from end of December 2003 through February 2004 to allow for completion of the fourth and final review. As a matter of priority, structural conditionality has focused on issues related to short term fiscal consolidation.

11. The World Bank has taken the lead in policy dialogue on structural and institutional reforms in several select sectors. Bank assistance focuses on assisting the authorities: (i) reach agreement on a medium-term strategy for further public finance reform, which reduces the size of the public sector, ensures minimum capacities and competencies are developed at the State level for effective policy formulation and execution, and promotes the efficient delivery of services at the local level; (ii) follow through on their ongoing efforts to create an investor-friendly economy that promotes SME development; (iii) complete long delayed reforms to the social safety net, to ensure that scarce public resources are used efficiently to protect the most vulnerable in society. Specific assistance has been designed to support BiH in the finalization of its PRSP.

12. Progress is being made especially in areas (i) and (ii) above. A US \$44 million *Business Environment Adjustment Credit (BAC)* was approved by the World Bank in May 2002. The third and final tranche of the *Second Public Finance Adjustment Credit (PFSAC II)* was disbursed in November 2002. A *Public Expenditure and Institutional Review (PEIR)* was completed in May 2002. These instruments were key elements of the Bank's program as outlined in the full, June 2000, Country Assistance Strategy.

IMF-World Bank Collaboration in Specific Areas

13. The IMF and the World Bank maintain a close collaborative relationship in supporting the Government's structural reforms. The IMF focuses on fiscal sustainability, monetary policy and bank supervision, while the Bank Group focuses increasingly on structural issues related to private sector development, strengthening governance and institution building. Effective collaboration between the Bretton Woods organizations will continue to be important in assisting BiH implement the PRSP.

Strengthening Institutions and Governance

14. Fiscal stabilization efforts over the past two years led to a dramatic reduction in the budgetary gap, which was reduced from over 9 percent of GDP in 1999 to less than 2 and a half percent at the end of 2003, and net arrears accumulation slowed dramatically largely as a result of initial reforms in the pension system. Nevertheless, with public spending at 55 percent of GDP, the size of government is not sustainable in the context of BiH's future resource availability. Further fiscal consolidation of GDP is expected through a combination of measures supported in the near term by the ongoing SBA. Medium term fiscal consolidation will be taken up in new Bank operations targeted at: (i) rationalizing and improving the efficiency of public

expenditure in the current multi-layered and fragmented governance structure; (ii) reducing the proportion of public expenditure spent on wages and salaries—by restricting overall recruitment and compensation in the context of a broader public administration reform agenda; (iii) limiting extensive and generous veterans' entitlements; (iv) reducing expenditures in the defense and public order and safety sectors (over and above the reductions already achieved in 2001); and (v) significantly increasing the efficiency of expenditures in the education, health and social welfare sectors.

15. Recent Bank sponsored reviews are now helping BiH in defining these medium term policy directions. The *PEIR (FY02)* entitled *From Aid Dependency to Fiscal Self Reliance* pays particular attention to: (i) fiscal policy and expenditure challenges if growth and stability are to be assured in the medium term; (ii) inter-government relationships from municipalities up to State government; (iii) fiscal balance between these various levels of public administration; (iv) financial management and public procurement capabilities; and (v) social service spending—particularly in the areas of social welfare, education and health. The PEIR is the capstone study to the subsidiary and self standing *Country Procurement Assessment Report (CPAR) (FY02)*, *Country Financial Accountability Assessment (CFAA) (FY03)*; and a local government finance study entitled *Creating a Stable Decentralized Fiscal System (FY03)*.

16. The PEIR emphasizes that: (a) while notable achievements have been made in improving the performance of certain public institutions, fragmented governance structures with ill-defined goals, hamper nation building and efficiency benefits from decentralization. The costs, both economic and social are substantial because fragmentation hinders the efficient use of public resources; and (b) in order to achieve more coherent and harmonized policy formulation and implementation, the State's role as an integrative force needs to be strengthened, while rationalizing the public sector's overall role in the economy. In government's efforts to rationalize public expenditures while enhancing the delivery of services, the authorities plan to seek Bank adjustment support in an *Economic Management Structural Adjustment Credit (EMSAC, FY04)*. Preparation of the program which this Credit supports is well advanced and has taken place in close collaboration with the IMF. Nevertheless, the recent RS government decision to raise wages, resulting in an overall increase in the wage bill in 2004, has significantly compromised the program supported by *EMSAC*. The program is being refocused and redimensioned to take this into account.

17. Support is ongoing to: (i) facilitate BiH's efforts to reduce military expenditures through a *Pilot Labor Redeployment Project (FY00)*; (ii) strengthen local government through a *Local Development Project (FY00)* and the *Mostar Water Project (FY00)*; (iii) strengthen public management of the power sector, providing for a State regulator for the transmission of electricity under a *Power III Project (FY01)*; and (iv) improve trade and transport infrastructure and services through a *Trade and Transport Facilitation Project (FY01)* and a *Road Management and Safety Project (FY02)*.

Fostering Private Sector-Led Growth

18. Accelerating restructuring reforms remains the central challenge to BiH becoming a self-sustaining economy. Current projections call for a redoubling of reform efforts in order to achieve financial sustainability by the end of the decade. Moreover, even though significant fiscal consolidation has recently been achieved, a substantial reduction in the public sector is still required if BiH is to remain on the sustainable fiscal path. For its part, the Bank has followed through with detailed discussions with Government on the recommendations set forth in the PEIR.

19. The World Bank closely coordinates with the IMF through discussions on issues of private sector development. Most notably, collaborative efforts have focused on ensuring that bankruptcy laws are modernized. With initial rounds of labor market and banking reform completed (supported by two recently closed IDA adjustment credits), such collaboration proved integral to the successful implementation of Bank assistance over the short term period. During the period July 2002 to December 2004, the Bank will focus on helping the authorities follow through on the remaining three elements of their strategy for private sector development: (i) privatization; (ii) improving the business enabling environment; and (iii) SME development.

20. Given that SME and voucher privatization in non-strategic industries has largely been completed, the Bank, along with other donors, is focusing its assistance on the **privatization** of the larger strategic state-owned enterprises through a *Privatization Technical Assistance Project (FY01)*. While privatization of these enterprises has taken longer than expected and needs to be accelerated, careful attention is required to ensure that: enterprises are privatized into a competitive environment (in the case of utilities and transport, this often involves the elaboration of a regulatory framework within the context of a well developed sector strategy); competent strategic investors/managers are found; and, ownership and labor issues are resolved. Sustained assistance into the medium term will, therefore, be required.

21. The centerpiece of Bank assistance over the period to the definition of a new CAS in 2004, will be to help BiH achieve short-term results in implementation of key parts of its action plan to improve the business environment. The objective is not only to **mobilize new investment** but to initiate a critical change in investor perceptions of BiH. Attainment of targets specified for second and final tranche release of the *Business Environment Adjustment Credit (BAC) (FY02)* will be the particular focus of Bank assistance. This includes: (i) the development of a common (inter-Entity) business registration system and attainment of reduced business registration-time targets; (ii) introduction of a new collateral registry system; (iii) the rationalization of business inspections, and, to this end, the attainment of key outcome targets; and (iv) the adoption of new bankruptcy and liquidation legislation.

22. **SME development** is critical to expanding private sector activity and job opportunities. Increased competition in the banking sector and falling interests rates are improving SME access to finance in the FBiH. Banking sector reforms in the RS, however, started later than those in FBiH and are less advanced. A recently approved *Private Sector Development Project (FY02)* will, therefore, provide much needed project financing to SME's in the RS. Several donor

programs provide firm-based technical assistance for private sector development throughout BiH, such as the IFC sponsored SEED initiative. Small-scale operators in the agriculture and forestry sectors have less access to these programs because of the risks associated with their operations. At the same time they are a vulnerable population group in terms of the country's poverty profile requiring sustained assistance. Further lending, leveraging other donor assistance, for a *Forest Development and Conservation Project* and a new *Small Scale Commercial Agriculture Development Project* was as a result approved by the Bank's Board in FY03.

23. **Labor markets.** Looking to the future increased flexibility in labor markets will be key to BiH's competitiveness, particularly in the context of the overall privatization program. Substantial labor market reform, associated with job placement and conditions of employment, were enacted in 2001, under a Bank supported reform First Social Sector Adjustment Credit (SOSAC I). Nevertheless "wage-setting" remains a major rigidity in the labor market. In the preparation of a new piece of economic sector work, a Country Economic Memorandum (CEM), now planned for 2004, the Bank is analyzing this issue and its impact on country competitiveness, working in close collaboration with the IMF.

24. **IFC's strategy** in BiH is multidimensional, encompassing all sectors of the economy, but particularly inherited competitive industries such as SMEs, wood, agribusiness, and areas of the economy identified as having potential in the aftermath of the conflict, such as banking and infrastructure. In the financial sector, IFC's focus has been to build and strengthen financial intermediaries, including assisting in privatization, establishing greenfield banks and working with local financial institutions in their efforts to develop into high quality banks. Since FY01, 10 projects totaling US\$63 million were committed to finance projects in: pharmaceutical sector; micro finance institutions; credit lines to banks to support SMEs; bank privatization; and post-privatization support in the manufacturing sector. IFC also assists the SME sector through a multi-donor South East Europe Enterprise Development (SEED) initiative, officially launched in September 2000 and operating in Albania, BiH, FYR Macedonia, Serbia and Montenegro and Kosovo. SEED provides firm-level support to the SME sector through investment advisory services and advice to address constraints in the business environment; capacity building programs for SMEs and Business Development Service Providers, and information and knowledge relevant to the private sector.

Building Social Sustainability

25. The Bank is supporting a program of social reforms focused on four key issues: protecting the poor, strengthening human capital, social inclusion and ensuring environmentally sustainable development. The human cost to delayed social protection reform is starkly highlighted in the recent findings of the *Poverty Assessment* and *PEIR*. Both detail the failure of **the social safety net** to protect the poor and significant inefficiencies in social assistance cash-transfer systems. Furthermore, the existing system is financially unsustainable without significant restructuring. A delayed second *Social Sector Adjustment Credit (SOSACII)* now planned for the first half of 2004 will support the authorities in their commitment to: (i) transform veterans benefits to reflect fiscal realities and European practice by targeting benefits on the most disabled veterans and dependent families of dead soldiers; (ii) support solidarity

funds for social and child assistance in both Entities, to ensure pooling of financial resources and a reduction in regional disparities of benefits to the poorest; (iii) implementing minimum benefit standards for disabled civilians, to ensure cash benefits are directed to the most disabled, and public funds cover key aids; and (iv) promote participation from NGOs and other civil society actors in the social protection system.

26. The IMF is advising the World Bank regarding budget issues related to pensions payments and war veterans benefits over the short to medium term. The Bank has concentrated its efforts on identifying and promoting the structural changes in these systems necessary for fiscal sustainability, consistent with the IMF's own budget discussions with the BiH authorities. The sustained public awareness and technical assistance needed to strengthen government and NGO capacities to detail and implement these and other reforms are being supported through an ongoing *Social Sector Technical Assistance Credit (SOTAC) (FY01)*.

27. Key elements of Bank support through to the definition of a new CAS in 2004 are to: complete the process of follow-up assistance to the LSMS and the Bank's *Poverty Assessment*; ensure that findings are effectively incorporated into the **PRSP**; realistic monitorable indicators are set; and, eventually, adequate evaluation and monitoring capacities are built up for sustainable PRSP implementation.

28. Initial feedback from consultations under the PRSP, confirmed by the findings of the PEIR, indicate that government capacities to implement recent **pension and health** reforms need be strengthened and severe inefficiencies in the education system need to be addressed. A *Social Insurance Technical Assistance Project*, aimed at modernizing health and pension institutions, was approved in FY03.

29. The PEIR highlights wasteful expenditures and poor services and results in the **education** sector, particularly in tertiary education. Furthermore, BiH's poverty profile—indicating a high correlation between poverty and level of education in any given household—underscores the need to ensure that access to an efficient and modernized education system is greatly improved. Nevertheless, the PEIR points, to significant financing problems in the sector, largely associated with fragmented delivery and funding of services. The authorities, with the strong support of the international community, regard consolidation and rationalization of the sector as fundamental to quality improvements. To this end, a comprehensive education sector strategy is expected to be completed with Bank support by the end of this calendar year, and a new *Education Restructuring Project* is planned for the period up to the definition of the new CAS.

30. BiH's poverty profile also indicates that the poor tend to be concentrated in particular semi-urban and rural communities which suffer from economic dislocation and social cleavages. Often these communities have a high concentration of IDPs and refugees. Bank assistance will continue to promote social **inclusion**, aimed at helping to ensure wider participation in post-conflict growth, ethnic reconciliation and improved delivery of services to disadvantaged groups through two projects approved by the Board over the last CAS period.

31. Strategic planning for the **environment** to safeguard sustainable development has witnessed consistent progress with the support of a recently completed *IDF grant (FY00)*. Through a process involving consultation with a wide range of stakeholders, an Environmental Action Plan (EAP) has been adopted. An initiative to deal with one of BiH's key environmental problems, the disposal of solid waste, resulted in the Board approval of a *Solid Waste Management Project (FY02)* which helps to consolidate dump sites and encourage private sector activity in waste collection.

32. As part of a regional initiative in South East Europe (SEE), the Development Learning Center in BiH is well advanced in its preparation and became fully operational in May 2003. It is expected to be a powerful tool in the training of civil servants and public policy makers in the context of BiH's civil service reform program; and in conveying critically important skills in the areas of business management and policy to aspiring entrepreneurs and local businesses.

World Bank Group Strategy and Lending Operations

33. The Bank's Board discussed the Country Assistance Strategy Progress Report for BiH on November 12, 2002. The progress report determined that, in terms of reform targets and lending triggers established in the 2000 CAS, BiH ended the CAS period in the base case. The remaining public finance reform and enterprise and bank privatization detailed in the October 2001 progress report were completed, and a new program to strengthen the business environment was successfully launched. However, restructuring of the social protection system in 2002 did not proceed according to government's original plan; as a result IDA assistance was not fully committed over the CAS period. Pending completion of the full PRSP, the second CAS Progress Report outlined the Bank assistance program up to December 2003. The CAS Progress Report, while adhering to the assistance objectives laid out in the last CAS, was designed to support BiH in the preparation and finalization of its first PRSP.

34. Since 1996, forty-seven IDA supported projects have been approved, in addition to twenty IFC operations, and fourteen MIGA guarantees. Of the US\$984 million in IDA commitments, US\$780 million has been disbursed as of December 31, 2003. The BiH project portfolio continues to perform better than the average Bankwide portfolio. There are no problem projects. All QAG project and ESW reviews to date have rated products as satisfactory or above, bar a rating for one adjustment operation of less-than satisfactory. Similarly all 25 closed projects have received a satisfactory or better than satisfactory rating from OED. There are, however, fundamental differences in the current portfolio of active projects with those of the first generation "emergency" type operations. World Bank financing no longer covers 100 percent of eligible project costs. The active portfolio is comprised of 20 projects, including 1 adjustment operation and 19 investment loans (see Annex).

35. Adjustment operations currently under preparation include the Second Social Sector Adjustment Credit (¶25) and an Economic Management Structural Adjustment Credit (EMSAC) supporting further public administration reforms (¶16). An investment operation currently under preparation defined in the CAS progress report is the Education IV.

Questions may be referred to the following Bank staff: Simon Gray (ext. 34011).

Status of Bank Group Operations in Bosnia and Herzegovina
Statement of Bank Loans 1/
(As of January 7, 2004)

Loan No.	Fiscal	Borrower	Project	In Millions of US\$	
				Loan	(Less Cancellations) Undisbursed
Loan/Credits/ Grants					
IBRD 2/					
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
			<i>Of which</i> : Repaid	<u>24.9</u>	
			Total Now Held by the Bank	595.7	0.0
TFBH 3/ (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	0.0
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	11.3
3202-BOS	1999	Bosnia and Herzegovina	Basic Health	10.0	0.8
3262-BOS	1999	Bosnia and Herzegovina	Enterprise and Bank Privatization Project	50.0	0.0
3257-BOS	1999	Bosnia and Herzegovina	Enterprise Export Facility Project	12.0	0.0
3269-BOS	1999	Bosnia and Herzegovina	Pilot Cultural Heritage Project (LIL)	4.0	1.9
3258-BOS	1999	Bosnia and Herzegovina	Second Public Finance (Structural Adjustment)	72.0	0.0
3351-BOS	2000	Bosnia and Herzegovina	Education Development Project III	10.6	4.2
3400-BOS	2000	Bosnia and Herzegovina	Mostar Water and Sanitation	12.0	5.8
3385-BOS	2000	Bosnia and Herzegovina	Emergency Labor Redeployment	15.0	6.3
3439-BOS	2001	Bosnia and Herzegovina	Social Sector Structural Adjustment Credit - TA	3.55	2.6
3466-BOS	2001	Bosnia and Herzegovina	Trade and Transport Facilitation in SEE	11.0	4.1
3465-BOS	2001	Bosnia and Herzegovina	Social Sector SAC(SOSAC I)	20.0	0.0
3533-BOS	2001	Bosnia and Herzegovina	Local Initiative II	20.0	9.6
3534-BOS	2001	Bosnia and Herzegovina	Electric Power 3	35.0	37.7
3538-BOS	2001	Bosnia and Herzegovina	Community Development	15.0	13.0
3531-BOS	2001	Bosnia and Herzegovina	Privatization TA	19.8	21.4
3608-BOS	2002	Bosnia and Herzegovina	Private Sector Credit	10.0	6.4
3626-BOS	2002	Bosnia and Herzegovina	Road Management Safety	30.0	29.2
3645-BOS	2002	Bosnia and Herzegovina	Business Environment Enabling Credit	44.0	29.9
3672-BOS	2002	Bosnia and Herzegovina	Solid Waste Management	18.0	20.5
3742-BOS	2003	Bosnia and Herzegovina	Small Scale Commercial Agriculture	12.0	12.2
3778-BOS	2003	Bosnia and Herzegovina	Social Insurance Technical Assistance	7.0	7.1
3779-BOS	2003	Bosnia and Herzegovina	Forest Development and Conservation TA	3.7	3.8
			Total	834.3	227.8
			Grand Total	984.3	227.8

1/ 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.

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

3/ Trust Fund for Bosnia and Herzegovina (TFBH).

Bosnia and Herzegovina
Statement of IFC's Held and Disbursed Portfolio
As of December 31, 2003
(In millions of US\$)

FY Approval	Company	Held				Disbursed			
		Loan	Equity	QL+QE	Partic	Loan	Equity	QL+QE	Partic
1997/1999/2001/2002/2003	Bosnia Micro	3.7	1.2	0	0.0	3.7	1.2	0	0.0
2001/2004	CPB	12.5	5.1	3.9	0.0	0.0	0.0	3.9	0.0
1985	Energoinvest	9.8	0	0	0.0	9.8	0	0	0.0
1997	Enterprise Fund	0	1.9	0	0.0	0	1.3	0	0.0
2002	FCL	12.5	0	0	3.1	12.5	0	0	3.1
2001	PBS-SPV	13.5	2.3	0.1	0.0	13.5	2.3	0.1	0.0
2002	Raiffeisen-BOS	17.6	0	0	0.0	8.8	0	0	0.0
1998	SEF Akova	1.2	0	0	0.0	1.2	0	0	0.0
1999/2001	SEF Bosnalijek	1.8	1.8	0	0.0	1.8	1.8	0	0.0
1998	SEF Lignosper	2.7	0	0	0.0	2.3	0	0	0.0
1999	SEF Lijanovici	1.4	0	0	0.0	1.4	0	0	0.0
1997	Sarajevska	0.8	0	0	0.0	0.8	0	0	0.0
1977	TKA Cazin	4.3	0	0	0.0	4.3	0	0	0.0
1998	Wood Agency-AL	5.7	0	0	0.0	0.0	0	0	0.0
1999	Wood Inga	2.0	0	0	0.0	0.4	0	0	0.0
1999	Wood Konjuh	2.9	0	0	0.0	2.5	0	0	0.0
1999	Wood Kozara	2.0	0	0	0.0	1.7	0	0	0.0
1999	Wood Podgradci	1.4	0	0	0.0	1.1	0	0	0.0
1999	Wood Vrbas	2.0	0	0	0.0	0.4	0	0	0.0
Total Portfolio:		97.8	12.4	4.0	3.1	66.3	6.6	4.0	3.1

Approvals Pending Commitment
(In millions of US\$)

FY Approval	Project Name	Project ID	Loan	Total	
			IFC Approved	IFC Approved	Part Approved
2002	Lukavac	11310	9.9	9.9	2.5
Total Pending:			9.9	9.9	2.5

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 real sector statistics, but results have been mixed. The Federation and RS both have published nominal GDP estimates using the production approach based on international standards recommended by the *1993 SNA*, since 1998 and 1999, respectively. However, in both cases, production estimates at constant prices and GDP by expenditure are still unavailable and informal sector activities are under-recorded. The preparation of a household budget survey, to serve as the basis for revising price indices and to facilitate the compilation of GDP by the expenditure approach, has begun. There are still no meaningful short-term business and consumer surveys. Both statistical offices compile prices and production indices using outdated methodologies, and consistent time series are not available. Industrial production indices are prepared in each Entity, but there is no index at the country level. 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' Statistical Institutes and balance of payments statistics by the CBBH's Research Department. The quality of the 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. However, there are signs of progress. The ASYCUDA customs information system has been introduced in both entities. All customs posts were covered by the system by the end of 2002. Efforts to enhance the system, including by improving communication and system security are ongoing, with assistance from the EU and UNCTAD. Continued technical assistance will be provided

through the Fund's Resident Statistical Advisor. The staff has recently adopted estimates of private transfers provided by the CBBH.

C. Government Finance

4. The CBBH has recently agreed, in accord with the finance ministers of the State and two entity governments, to take the lead in compiling Government Finance Statistics (GFS) on a countrywide basis, and recently assigned a team of three staff to work on the GFS. At its request, STA fielded a GFS technical assistance mission in September 2003. The mission examined the structure of the relations between BiH governments and advised on sector classification for international comparison purposes. It developed a system to allow budget data to be classified, aggregated, and consolidated into summary GFS aggregates for all BiH governments, except for municipalities. This exercise also demonstrated that currently available data do not provide a satisfactory basis for compilation of GFS. The mission suggested enlisting the help of USAID to develop reporting systems that can electronically link GFS codes with ORACLE accounting systems used in the Treasuries. Reporting systems are still being developed.

5. The mission developed a medium term development plan for fiscal statistics in BiH, taking account of the problems posed by the complexity of the BiH government structure and the difficulties faced by the CBBH in collecting and processing data. The mission recommended a conservative approach, with the essential first step utilizing simple systems and processes which allow summary GFS reports to be produced on a timely and regular basis. Progress requires commitments by all parties to cooperate, as well as additional computer resources and, in the long run, more staff, at the CBBH.

D. Monetary Accounts

6. The CBBH reports monetary accounts to the Fund on both a countrywide and Entity basis. Over the period 1996–2001, several Fund technical assistance missions have assisted the authorities in establishing an integrated system for compiling countrywide monetary statistics meeting Fund standards. The latest mission in December 2001, reviewed in particular the recent institutional changes and accounting developments that have important implications for monetary statistics and assisted in revising and updating the current monetary data compilation procedures. The mission recommended improvements in, among other areas, the presentation of IMF-related accounts in monetary statistics and compilation of weighted average interest rates. The CBBH began, in early 2003, reporting weighted average rates for bank deposits and loans for January 2002 onward for publication in *IFS*.

A follow-up monetary statistics mission has been scheduled for FY2004 to assist CBBH in resolving data issues arising from recent developments in the financial sector, including designation at end-2002 of the CBBH as the fiscal agent responsible for BiH's financial transactions with the IMF, and progress in privatization of banks in BiH.

Bosnia and Herzegovina: Core Statistical Indicators
(As of January 27, 2004)

	Exchange rates 1/	Inter-national 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	Jan 27, 2004	Dec 04, 2003	Nov 2003	Nov 2003	Nov 2003	Nov 2003	Sept 2003	Oct 2003	Q2 2003	2002	2002	November 2003
Date Received	Jan 27, 2004	Dec 14, 2003	Dec 31, 2003	Dec 15, 2003	Jan 5, 2004	Dec 31, 2003	Nov 2003	Nov 2003	Oct 2003	February 2003	Aug 2003	Dec 2003
Frequency of Data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Quarterly	Annual	Monthly
Frequency of Reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly/ On mission	Monthly	Quarterly	Quarterly	Quarterly	Annual	
Source of Update	CBBH 3/	CBBH 3/	CBBH 3/	CBBH 3/	CBBH 3/	CBBH 3/	Entity Statistics Institutes	Partner country data from <i>Direction of Trade Statistics</i>	CBBH	Federation and RS Finance Ministries	Entity and State Statistics Institutes	States' Treasury
Mode of Reporting	Website	Report to the Fund via email	Report to the Fund via email	Report to the Fund via email	Report to the Fund via email	Report to the Fund via email	Report to the Fund	Internal Fund database	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	Quarterly	Quarterly	Annual	N/A

1/ The convertible marka (KM) has been fixed vis-a-vis the Euro at KM1 = Euro 0.51129.
2/ Figures on the current account balance are rough staff estimates based on piecemeal data.
3/ CBBH is the Central Bank of Bosnia and Herzegovina.

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

**Fourth Review Under the Stand-By Arrangement and
Request for Waiver for Non-Observance of a Structural Performance Criterion**

Prepared by the European and Policy Development and Review Departments
(In consultation with other Departments)

Approved by Carlo Cottarelli and G. Russell Kincaid

February 10, 2004

The Fund staff met: (a) at the State level, Members of the Presidency: Messrs. Paravac and Tihic; the Chair of the Council of Ministers Mr. Terzic; the Minister of Finance and Treasury Ms. Maric; Central Bank Governor Mr. Nicholl; (b) in the Federation of Bosnia and Herzegovina: the President Mr. Lozancic, the Prime Minister Mr. Hadzipasic, the Minister of Finance Mr. Vrankic; the Minister of Defense Mr. Nikolic, the Minister for Labor and Social Policy Mr. Vignjevic; and (c) in the Republika Srpska: the President Mr. Cavic; Prime Minister Mr. Mikerevic; the Minister of Finance Mr. Krsmanovic; the Minister of Defense Mr. Stankovic. The Fund staff also met with High Representative Lord Ashdown, and representatives of the international community, business and labor.

The staff team—Messrs. Doyle (Head), Lazar, and Kanda (all EUR), Mr. Taube (FAD), and Mr. Almekinders (PDR)—was assisted by Ms. Fichera, Ms. Selimovic-Mehmedbasic, and Ms. Milic in the Resident Representative's office.

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I. INTRODUCTION

1. **A mission visited Bosnia and Herzegovina (BiH) to hold discussions for the fourth and final review under the Stand-By Arrangement (SBA) for SDR 67.6 million (40 percent of quota), approved by the Executive Board on August 2, 2002.** Following two two-month extensions approved on October 7, 2003, and December 31, 2003, the SBA expires on February 29, 2004; three purchases of SDR 19.6 million, SDR 12.0 million, and SDR 24 million were made respectively at the time of Board approval, on December 27, 2002 after the first review, and on June 11, 2003, after the combined second and third reviews.¹
2. **At the Board meeting for the second and third reviews, Directors applauded the progress in fiscal consolidation under the program, but noted the immediate challenge arising from booming credit to households and the associated sharp deterioration in the external current account balance.**
3. **The authorities have committed to sound policies.** But social pressures for higher public spending are strong, evidenced by difficulties in the Republika Sprska (RS) on budget wages and pensions late in 2003.

II. BACKGROUND

4. **Bank credit to households has slowed somewhat after taking off in mid-2002 (Text Table 1).** In the wake of bank privatization and reverse currency substitution as euro notes were introduced, bank deposits soared, funding growth of bank credit to households of over 110 percent (6 percentage points of GDP) during 2002. This boosted imports and raised the current account deficit by 2½ percentage points of GDP towards 19 percent (Tables 1a–1b, 2a–2b; Figures 1–2). Credit to the private sector slowed in Q1–Q3 2003 but by less than anticipated (17 percent from December 2002 to November 2003 rather than the

	2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Nov. ^{1/}
Growth in credit to households (Q / Q-1)								
In KM mns	111	181	223	184	218	166	62	75
In percent	17	24	23	16	16	10	4	4
Growth in credit to the private sector (Q / Q-1)								
in KM mns	2	204	255	259	302	204	197	156
in percent	0	6	7	7	7	5	4	3

1/ Three months to November.

¹ An overview of the Stand-By Arrangement is presented in Appendix I.

projected 9 percent for the year as a whole). This overshoot was funded largely by continued faster-than-expected growth of bank deposits as households continued a portfolio switch from cash to deposits, and by net inflows from abroad.

5. **The external balance has also strengthened by less than programmed (Tables 3a–3d, Text Table 2 and Box 1).** Though aided by the lagged impact of a real appreciation of the Serbian and Montenegrin dinar in 2002, the external correction is likely to be at least 1 percentage point of GDP, and could be significantly more if early data reported in Text Table 2 are confirmed (Figure 3).

DOTs data (Q1-Q3 '03 / Q2-Q4 '02)	5.3
Customs data (2003/2002)	4.1
3rd Review projections (2003/2002)	5.8

	Imports (cif)	Exports (fob)
2002 3 rd Rev.		
US\$ millions	3,463	1,059
Growth rate	14.5	10.7
2002 4 th Rev.		
US\$ millions	3,122	1,046
Growth rate	15.6	20.2
Memo: Customs data		
US\$ millions	3,966	1,020
Growth rate	18.3	-1.0

6. **Activity decelerated in 2003 while inflation remained low.** Nominal GDP data for 2002—adjusted by staff to account for improved company coverage and reporting of intermediate consumption—imply real GDP growth of about 5½ percent. But activity appears to have decelerated in 2003—manufacturing production growth slowed

	2002	m1-10 2003
RS	110	116
Federation	94	87

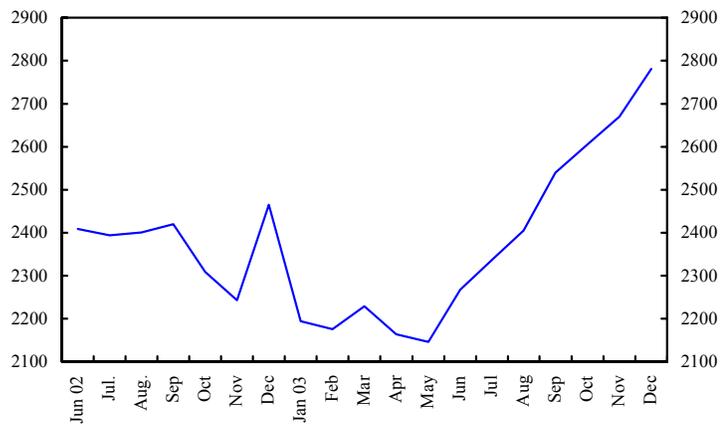
to 1¼ percent in 2003 (Figure 4). And frost and drought damage could yield 2003 agricultural output a quarter below 2002 levels. In this context, profitability appears to have strengthened in the RS while deteriorating further in the Federation (Text Table 3). Consumer prices, anchored by the currency board, were unchanged in 2003, despite the credit boom and the agricultural supply shock.

7. Tighter liquidity and banking regulations are reinforcing downward pressure on credit. Effective June 1 2003, a three-fold reform of reserve requirements—including foreign currencies in the base, excluding cash in vaults from assets eligible to meet the requirements, and lowering the rate from 10–5 percent—withdrawed liquidity of 9 percent of base money.

Alongside, new tighter bank core capital requirements were preannounced taking effect at end-2003, and forex exposure regulations were also tightened from July 2003 to include off balance sheet activities—notably loan indexation—with the new ceilings phased in to June 2004.

In this context, remuneration for excess bank reserves held with the central bank was raised to full market rates, eliciting an increase in gross international reserves by almost 4 percentage points of GDP between May and November 2003 (Text Figure 1).

Text Figure 1. CBBH Foreign Reserves, 2002-03
(In Million of KM)



Source: Central Bank of Bosnia and Herzegovina.

8. The fiscal stance has tightened by more than projected (Tables 4a–4i, Text Table 4). Preliminary fiscal data suggest that with revenue on track, both Entity governments kept a tight lid on spending, meeting aggregate Q2 and Q3 expenditure targets.

	Q1	Q2	Q3
Federation (bal)	-8.4	-28.6	-7.3
Revenue	198.3	245.4	268.1
Expenditure	221.4	274.0	275.4
Reconstitution	0.0	10.0	0.0
Republika Srpska (bal)	-11.9	-3.2	-3.3
Revenue	198.8	226.2	272.7
Expenditure	218.0	229.5	276.0
Reconstitution	0.0	0.0	8.3

Spending at State, Cantonal, and extra budgetary fund levels has also remained under control, with the latter two on track to achieve balanced budgets. Entities continued to reconstitute into the escrow accounts the sums spent in 2002 for severance payments under the demobilization program; by Q3, about half of the sums spent had been reconstituted (Box 2).

Box 2. Escrow Flows and Balances, (End-September, 2003)

Since 2002, proceeds from privatization and the succession money from the former Yugoslavia have been placed in escrow pending the settlement of domestic claims (column 1 in the table). Funds withdrawn from escrow (column 2)— funding demobilization—are required to be reconstituted into escrow (column 3). Balances are shown in column 4.

	(1)	(2)	(3)	(4)
In Million KMs	Receipts	Uses	Reconstitution	Balance
RS				
Privatization 1/	31.5	11.9	0.0	19.5
Succession monies	38.5	16.6	8.3	30.1
Total	70.3	28.5	8.3	49.6
Federation (Central Gov't)				
Privatization	9.9	5.5	0.0	4.4
Succession monies	71.5	71.5	37.0	37.0
Total	81.4	77.0	37.0	41.4
Cantons				
Privatization (post Aug. 2, 2002)	14.8	0.0	0.0	14.8
Succession monies	0.0	0.0	0.0	0.0

1/ In the RS, escrow accounts includes all receipts and uses since the beginning of privatization in 1999.

9. Progress on policy implementation under the program has been good, though some actions covered by conditionality were implemented late:

- End-September 2003 performance criteria were met, and almost all structural benchmarks were observed (Tables 5a–5b).
- However, the structural performance criterion on the adoption of the amendments to banks' foreign currency exposure regulations by end-June 2003 was missed by one month on account of efforts to ensure coordination of the actions of the two banking regulators.
- The authorities committed to framework legislation for a single indirect tax administration a month or so after the structural benchmark on this. The legal framework unifying customs administration was established on July 1, 2003, but physical unification will begin in early 2004.

- The end-June structural benchmark to prepare a comprehensive strategy to settle domestic claims was not observed, despite progress on the related preparations, but an appropriate plan was adopted in December 2003.

10. **Despite this progress, completion of the discussions for the Fourth review was delayed.** This followed the unanticipated announcement by the RS authorities of their intention to raise average pensions and budget wages by 20 percent by end-2003 and subsequently by passage by the RS National Assembly of a budget for 2004 containing inadvertent technical errors which rendered the budget inconsistent with understandings reached with Staff. Implementation of the RS pension hikes began in October, leading to nonobservance of the structural benchmark on the collection period in November.² Collection periods in December and January were, however, observed. Implementation of the wage rise was postponed (see below), but budget workers received monthly payments of 1/5 of one month's wage arrears commencing in October (hence a 20 percent rise in cash wage payments). This constituted nonobservance of the structural benchmark against clearance of arrears prior to adoption of a comprehensive plan to restructure domestic claims on government.

III. REPORT ON THE DISCUSSIONS

11. **Credit and imports have decelerated by less than anticipated, but corrective measures have not had time to take full effect.** Thus, discussions focused on the need to ensure full application of the corrective steps, and relatedly, on the resolution to the RS pension and wage issues and on preparations for the 2004 budgets.

A. Macroeconomic Framework for 2003–04

12. **The macroeconomic framework was reassessed in light of recent credit developments, the 2002 GDP data, and the underlying structural constraints on activity (Table 6).** Allowing for uncertainty over the 2002 outcome, the signs of deceleration in 2003, and drought, the authorities concurred that GDP growth could be 3½ percent in 2003—slightly up on earlier projections given the slower-than-expected deceleration in credit. And with the consolidated government budget heading for a small surplus and exports to Serbia booming, a modest reduction of the current account deficit in 2003 was expected in parallel with the smaller than earlier anticipated deceleration in credit. In 2004, with agriculture back on track, and a strengthened external environment, GDP was expected to grow 5 percent, though a continued deceleration in credit and the short-term impact of possible initiation of deep enterprise reforms could be downside influences. But with exports buoyed by external

² Under the SBA, the RS authorities are committed under a structural benchmark to stop collections for monthly pensions by the 10th of the following month and to pay pensions with collections to that point. In principle, if such collections fall short of need, that month's pension entitlements are reduced pro-rata.

demand and imports slowing with credit, the authorities concurred that the current account deficit was expected to decline further to some 15¾ percent of GDP.

B. Monetary and Financial Policies

13. **The authorities noted that installation of the new CBBH Board in August—as the mandate of the old expired—and arrangements made for a new governor from end-2004 had occurred smoothly.** Staff agreed that potential pitfalls had been successfully avoided and welcomed the unequivocal commitment by the new Board to the currency board arrangement (¶1).³

14. **The monetary authorities shared staff concerns with the impact of credit growth on prudential risks and the current account balance.** An appropriate balance between the welcome and adverse aspects of the credit boom was sought, and this had motivated the authorities' decision to balance the liquidity and regulatory tightening with increased remuneration of excess reserves, an approach which had helped to secure acceptance of the reforms by the banks. The new reserve requirement regulations were being observed and many banks already met the end-year core capital requirements.

15. **Nevertheless, credit growth remained rapid so full enforcement of the new regulations was essential.** This concern underlay understandings reached as prior actions for completion of the review on observance of the forex exposure and core capital requirements (¶4). The authorities noted

that most banks already observed the capital requirement coming into force at the end of 2003, with the overwhelming bulk of the banking sector's assets being held by complying banks. But some banks had breached the end-September ceiling on their forex exposures, typically with long positions reflecting the indexation of KM-

denominated loans to the euro. Plans had been prepared in collaboration with the banking agencies to ensure that non-compliant banks would meet the end-December forex ceilings. In addition, the authorities

Text Table 5. Financial Soundness Indicators

	2001	2002	Q2 2003	Last observed
(In percent)				
Federation of Bosnia and Herzegovina				
Capital Adequacy Ratio	22.4	19.8	19.4	...
Provisions as percent of loans	14.2	8.9	7.3	...
Short-term assets/Short-term liabilities 1/	...	...	91	91 2/
Return on assets 3/	-1.2	0.4	1.1	...
Republika Srpska				
Capital Adequacy Ratio	38	24	21	...
Provisions as percent of loans	13.3	10.5	9.7	...
Short-term assets/Short-term liabilities 1/	...	...	98	...
Return on assets 3/	-0.4	-3.0	-4.2	...

1/ Based on 90 days maturity.

2/ September 2003.

3/ After provisioning.

³ Paragraph references refer to the Supplementary Memorandum on Economic and Financial Policies.

noted it was too early to judge if the rate of reserve requirements should be raised, but this would remain under review in consultation with staff.

16. **With policy to restrain credit focused on ensuring compliance with new rules, staff noted concern that bank liquid assets had declined to well below prescribed limits.** Banks are required to match maturities fully to 90 days (declining to 90 percent for maturities to 365 days). But they persistently fail to do so, despite application of the prescribed penalties by regulators. Accordingly, the authorities proposed to review the regulations with staff, to establish a clear regime of escalating penalties for non-observance, and any phase-in periods for full enforcement. On that basis and, in fulfillment of a prior action for the review, the regulators have prepared corrective plans for all banks not observing the regulations as at end-September (¶4).

17. **The monetary authorities undertook to review the remuneration of excess reserves.** With banks increasingly obliged to hold deposits with the CBBH to meet the forex and liquidity regulations, the case for full market remuneration of excess reserves to absorb liquidity was diminished. Staff noted that reduced remuneration would strengthen the profitability of the central bank and encourage banks to meet the tighter forex requirements by desisting automatic indexation of KM credits to households rather than by borrowing from their external parents and placing the funds with the central bank. Accordingly, the rate of remuneration was reduced by one percentage point with effect from end-December 2003.

18. **The authorities noted that their actions would continue to provide support for the currency board.** Though BiH's diversified trade orientation and coming structural adjustments might, in other circumstances, warrant a more flexible monetary and exchange rate regime, the authorities noted that the appreciation of the Serbian dinar had strengthened BiH's competitiveness, that a change to the regime or the peg would compound difficulties in securing necessary corporate restructuring, and, in the absence of structural reforms, that it would simply cause inflation.

C. Fiscal Policy

19. **Bank credit and trade balance trends indicated continued need for a strong fiscal stance.** In this context, the prospect of a shortfall of US\$58 million (0.8 percent of GDP) in the expected external financing from the IBRD and the EU in 2003, due to delays in policy implementation, implied that the fiscal target would have to be strengthened (Box 3).

Box 3. Foreign Financing, 2003

The IBRD did not disburse under its Business Environment credit (BAC) in 2003 because policy actions needed to ensure observance with the conditionality on businesses registration processes were delayed by the political transition. Furthermore, the new administrations requested a delay to negotiations on reforms to veterans benefits (SOSAC II) to allow them time to assess the proposals. The associated disbursements are now anticipated for 2004. In addition, delays in meeting the conditionality (with regards to bankruptcy law, competition law and law on the insurance sector) for the disbursement of the second tranche of program assistance from the EU will push the disbursement of the third tranche into 2004.

Foreign Financing for the Budget
(In percent of BIH GDP)

	2002		2003	
			3rd Rev.	4 th Rev.
EU	0.0	1.0	0.6	
World Bank	1.1	0.5	0.0	
IMF	0.7	0.8	0.7	
Other	0.3	0.0	0.0	
Total	2.2	2.3	1.3	
Memo: Financing (Euro mil.)	129	133	80	

20. **Accordingly, the authorities decided to tighten the 2003 deficit target by an additional 0.4 percent of GDP.** This implies a small surplus in the consolidated fiscal accounts and a consolidation from 2002 of 2¾ percentage points of GDP (Text Table 6). The remaining shortfall of 0.4 percentage points of GDP would be financed by smaller than anticipated reconstitution of government deposits. This would be provided by delays to the reconstitution of succession monies used in 2002 to fund military severance (Box 2), with faster reconstitution now budgeted for 2004 as the delayed foreign disbursements are made (¶6).

Text Table 6. Consolidated General Government, 2002–03
(In percent of GDP) 1/

	2002		Budgets	2003	
	Third Rev.	Fourth Rev.		Third Rev.	Fourth Rev.
Revenue	48.5	48.1	47.8	47.2	46.7
Expenditure 2/	50.9	50.4	47.9	47.3	46.3
Balance (commitment basis)	-2.3	-2.3	-0.1	-0.1	0.4
Memo items:					
GDP (in billions of KM) 2/	11.6	11.6	12.2	12.2	12.2
Fiscal adjustment in 2003			2.1	2.1	2.7

1/ Based on the same nominal GDP data for 2002 and 2003. Therefore, ratios differ from earlier staff reports.

2/ Adjusted for new data series on foreign-loan financed investment projects.

21. **Given revenue projections, the Entity expenditure ceilings for Q4 2003 were derived from this framework.** With Cantonal and local government balances on track, the spending ceilings implied only a modest increase relative to Q3, but avoided unanticipated reductions, and would be realized by strictly enforcing current quarterly authorizations for spending to ministries (¶6).
22. **Looking ahead, the authorities noted that the fiscal challenge would be great.** Pressures from pensioners and budget workers were mounting in the Federation and had resulted in the RS concessions of 20 percent increases in these items, proposed to take effect before end-2003. Staff noted that budget resource constraints could not accommodate both commitments and, in the context of low enterprise profitability, the budget wage proposals risked provoking matching and unsustainable wage demands outside the budget.
23. **The RS authorities noted that pensioners' demands had to be met:** pensions were low relative to wages; and funding for increases was available from increased collections and from efficiencies in the central government budget for 2004. Accordingly, pensions were increased and observance of the cutoff dates for the collection periods has been secured from December, correcting the earlier breach of the structural benchmark on this matter.
24. **Given this social priority for pensions, the authorities proposed reformulating their wage plans with the assistance of the IBRD.** Wage increases would be adopted only after a rationalization of the budget employment and remuneration structures to be implemented from April 2004. The increase in budget remuneration payments (wage and non-wage benefits, including settlement of wage arrears) in 2004 will be capped at 3 percent (¶10). Given this cap, average budget remuneration rates could rise in April by at most 9 percent in line with targeted retrenchment, with increases to be implemented only as dismissals are realized. Under the debt plan, the staggered payment of one month of wage arrears would continue until March 2004 implying that, thereafter, many budget workers would experience reductions in monthly cash payments. These wage adjustments bring a three-year wage freeze to an end, and would allow a modest reduction in the gap between RS and Federation budget remuneration levels. Risks that these budget wage rises could stoke non-budget wage demands are attenuated by the moderation of the prospective average rise in base wages in April, and their realization through restructuring.
25. **In this context, the authorities anticipate maintenance of a strong budget balance.** They are targeting a consolidated deficit of 0.1 percent of GDP—including one-off items such as severance pay of some 0.5 percentage point of GDP (¶12 and 15). Allowing for the one-off payments and the shift of some spending from 2003 into 2004 due to the delays in foreign disbursements, the underlying primary surplus in 2004 would remain around 1 percent of GDP, in line with sustainability projections underpinning the plan to settle domestic claims on government (see below). This fiscal approach would allow full reconstitution of the funds withdrawn from escrow in 2002 (¶6 and 7).

26. **On the spending side, customs administration, intelligence services, and key elements of military control will be shifted from Entity to the State in 2004—leaving consolidated spending unchanged (¶16).** In addition, major defense policy reforms—including another round of demobilization and scaling back conscription—are anticipated, yielding savings in defense wages in 2004 of some 1 percent of GDP, while reforms of benefits for war veterans would hold spending there unchanged.

27. **Budgets for 2004 consistent with these understandings have been approved by the governments of the Federation and State and parliamentary approvals are expected shortly, while the RS situation is more complex.** The RS Assembly approved the 2004 budget though technical errors appeared in the documents submitted to the assembly, as a result of which, a budget was approved with a deficit some 1½ percent of RS GDP (½ a percent of BiH GDP) higher than intended, half of which derived from an error in a reform of funding for the road fund, and the other half attributed to spending. To correct this, the authorities preferred not to return to the assembly, noting risks that this might reopen discussions on the wage and pensions proposals. Instead, they corrected on the revenue side by restoring the intended funding for the road fund, and on the spending side, by following the successful precedent of the Federation in 2002 and preparing a budget implementation framework which makes execution of specific items of spending (equal to the unintended excess of some 0.7 percent of GDP) contingent on higher than budgeted revenues (¶10). The authorities noted that items covered by the arrangement had been given disproportionately large increases in the approved budget, they focus on current spending, and the correction still leaves real spending excluding these items rising by 5 percent. On these grounds, staff noted this approach was feasible and credible and accepted it, while observing that the original errors signaled need for further strengthening of budget procedures and that a resubmission of the budget to the national assembly would have been more transparent. All these budgets incorporate consistent commitments regarding transfers to the State, and fulfillment of the prior action on these transfers has been completed with the recent signature of the protocol governing these transfers (Annex I of the SMEFP).

D. Other Fiscal and Structural Issues

28. **The authorities agreed that domestic claims on government impede fiscal sustainability and medium-term growth prospects.** Public debt of 35 percent of GDP is combined with a variety of domestic liabilities—including frozen foreign currency accounts, spending arrears, and citizens' claims for war damages. Quantification of these liabilities—notably war damage claims—is uncertain but they could, even excluding privatization vouchers still outstanding, far exceed 200 percent of GDP. With legal suits for settlement of claims mounting, the authorities argued that it was urgent to codify the claims into well-defined, legally watertight, politically tolerable, and macroeconomically sustainable liabilities. The considerable logistical challenges involved had caused nonobservance of the end-June structural benchmark for preparation of a plan to address these claims.

Box 4. Settlement of Domestic Claims on Government

The plans consist of four steps. First, war damage claims will be capped—by cancellation of interest on them and by blocking further court awards. These actions are imminent. Second, the rest of the legal basis for the settlement, including the terms of settlement, is targeted for enactment by end-June 2004. Third, given current estimates of the stock of claims, the terms of settlement for each class of claims have been determined identifying precisely which claims are written down and by how much—with war damages and frozen foreign currency claimants taking the heaviest hits. Fourth, claims will be paid out in cash (some 4 percent of GDP over several years) including from escrow, and very long bonds (up to 50 years) issued by the Entities. Settlement will be subject to verification of individual claims, and the terms of the settlement will be adjusted to maintain the 10 percent of GDP ceiling on claims if verification or other new information alters estimates of total liabilities.

Staff projections indicate that, given foreign debt, these plans are consistent with fiscal sustainability. In long run scenarios, trend growth of 3 percent, real interest rates of 5 percent, and a primary surplus of 1 percent of GDP, implies that debt ratios within this ceiling will remain on a modest declining trend. This is sustainable in the face of standardized short-run economic shocks (low growth, increased international interest rates, etc). The plans imply a NPV of public debt of some 40 percent of GDP, appropriately below the Maastricht guideline given Bosnia's exposure to shocks, risks that the accounting of claims may not yet be full, and Bosnia's inability to borrow externally in KMs. A full debt sustainability assessment will be provided in the forthcoming staff report for the Article IV consultation. The phasing of the cash payouts will be determined in consultation with staff in light of financing availability and macroeconomic considerations.

29. **Given the mounting legal pressures, adoption of a plan was established as a prior action for completing the fourth review, which was fulfilled in December 2003 (Box 4).** Fulfillment addressed both the slippage on the June structural benchmark and that regarding settlement of arrears prior to adoption of such a plan. The authorities' plan targets a NPV of the domestic claims to be recognized at some 10 percent of GDP (¶11). Staff noted that Bosnia's resolution of such heavy domestic liabilities without inflation was a major milestone—and possibly unique in international experience—and agreed with the authorities that implementation would be difficult. In the first half of 2004, the estimates of total liabilities will be refined (and settlement arrangements adjusted accordingly) and the full legal basis for the plan will be enacted. In the meantime, some payments of arrears had commenced—the staggered payment of one month's budget wage arrears in the RS and of pension arrears in the Federation. Staff stressed the need for implementation according to schedule.

30. **The recent agreement pooling control over indirect taxes is a further milestone.** The product of one of the High Representative's innovative commissions, it is proposed that all indirect taxes will become the prerogative of State level legislation—securing harmonization—but subject to joint Entities and State determination of policies with revenue collected by a single administration, the Indirect Tax Authority (ITA). This paves the way for

the VAT, which the authorities intend to introduce in 2005–06. Agreements are still required on a detailed revenue allocation mechanism for indirect taxes and for the determination of funding for the State. In addition, plans will be needed to ensure continued effective operation of the existing Entity sales and excise tax administrations in the run up to the VAT. Staff unreservedly welcomed these advances and urged early resolution of the outstanding issues, particularly concerning revenue allocation.

31. **Strengthening fiscal management remains a high priority.** Ongoing initiatives include expanding treasury operations, and strengthening fiscal transparency and intra-Entity fiscal coordination (¶8).

32. **Structural rigidities form the focus of the authorities' 6-month Action Plan (Box 5).** This ambitious program draws on the PRSP and is being implemented. Staff noted that the plan reflected a welcome strengthening in BiH's analytical and economic policy-making capacities. Staff particularly welcomed the authorities' efforts to establish commercial courts to handle bankruptcies.

33. **Program and surveillance work on Bosnia continues to be bedeviled by poor statistics.** Despite progress—notably that work on Household Budget Survey has begun—the authorities emphasized that improvements require better primary data, but donors appeared averse to assisting with this. The statistical agencies have begun merger discussions and, in that context, the authorities hoped that the appointment of a new Director and a Statistical Council—elements in the Action Plan—would move matters forward.

Box 5. Action Plan

The plan sets out an ambitious reform agenda—covering 122 items—to be completed by March 2004. It includes passing framework legislation for the ITA, a target to issue 10 tenders for privatization within 6 months, amending bankruptcy laws to limit the seniority of labor claims, training bankruptcy officials, developing a plan for medium term fiscal expenditure rationalization, the domestic claims strategy, reduction of red tape under the Bulldozer II initiative, reorganizing labor market institutions, and efforts to improve exports and statistics.

While these are laudable objectives, the plan lacks detail and there is little prioritization amongst the 122 items. Critically, the labor market proposals exclude measures to improve wage flexibility—a key requirement of any efforts to increase corporate profitability. While good progress has been made on implementation, notably with regard to bankruptcy laws and domestic debt claims, completion by March 2004 is unlikely.

IV. STAFF APPRAISAL

34. **Bosnia and Herzegovina is progressing, though the last months of 2003 were hard going:** the new central bank board was installed smoothly in August; the midyear reforms to reserve requirements and bank forex exposure rules proceeded effectively; the

authorities' 6-month "Action Plan" is appropriately ambitious; pathbreaking plans for indirect tax, defense, and domestic claims on government have been agreed and have commenced; a large fiscal consolidation has been secured since 2001; and, albeit stoked by a credit boom, staff estimate GDP growth in 2002 of 5½ percent. But for many of these steps, implementation will be challenging. And political pressures are mounting as highlighted, notably, by the unexpected announcements of sizeable pension and wage increases in the RS in 2003. However, remedial actions have been taken and Bosnia remains on track.

35. **The immediate macroeconomic concerns—the bank credit boom and the external current account deficit—have begun to correct.** Credit expansion has slowed somewhat from its 2002 peaks and this deceleration will be reinforced as the mid-2003 monetary and regulatory strengthening take full effect. In that regard, the authorities' commitment to see those decisions firmly implemented—the associated prior actions to prepare corrective plans for non-compliant banks have been fulfilled—and to consult with staff on the reserve requirement ratio are both welcome. In this light, a waiver for non-observance of the end-June structural performance criterion on the issue of new forex exposure rules is recommended because the latter were issued in July and are being enforced with vigor. Alongside, the external deficit is declining; international reserves have risen and consumer prices are again flat, all signaling the increasing strength of the currency board. The review and enforcement of bank liquidity regulations—also a prior action which has been fulfilled—will further strengthen these credit and external trends.

36. **Fiscal policies in 2003–04 continue to support these efforts to rein in the external deficit.** Consolidation of 2¾ percentage points of GDP in 2003 highlights these efforts. Revenue in the RS and the State has exceeded budget projections and spending has been tightly controlled, while revenue difficulties in the Federation central government elicited a firm expenditure response after mid-2003. The consequent stronger-than-budgeted consolidated deficit outturn also accommodates some slippage in the external financing available for 2003. But because progress is being made to meet the conditions necessary for those disbursements, domestic financing will partly bridge to these disbursements in 2004. The strong fiscal stance will be maintained in 2004 with budgets targeting a small deficit in the consolidated accounts—excluding severance payments—and an underlying primary surplus in line with fiscal sustainability requirements. This will require careful implementation by the RS of its "delayed payments" operation, and cancellation of the relevant items if revenue does not overperform. This overall fiscal stance will provide appropriate ongoing support to the monetary, regulatory, and enterprise reform initiatives, which form the appropriate focus of efforts to rein in the external current account deficit.

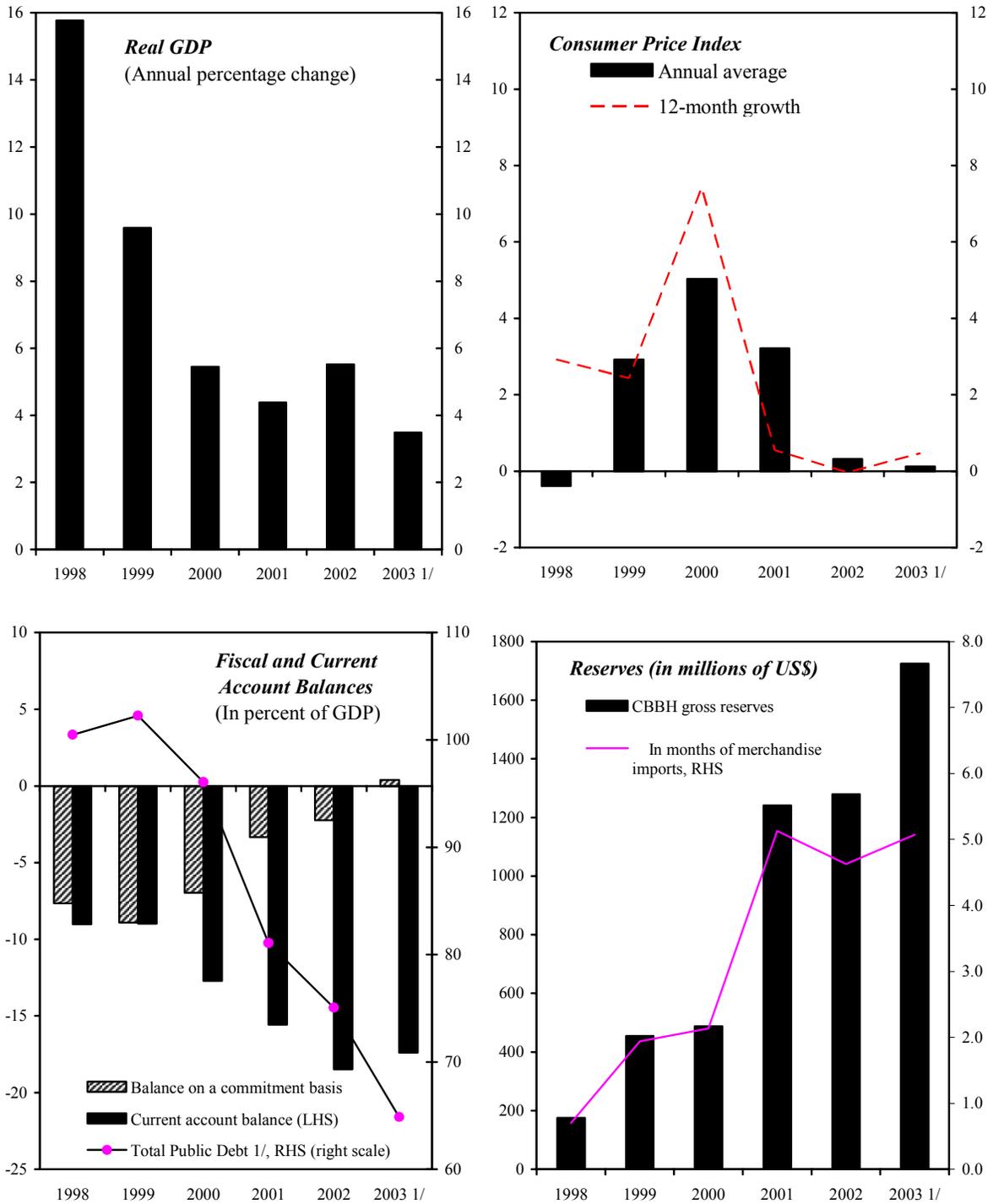
37. **Alongside, fiscal and other structural reforms are making significant progress.** Though the proposals on indirect taxation were issued a month later than envisaged in the end-June structural benchmark, the agreement is path breaking and, with the formal unification of customs, has already begun to go into effect. The defense reforms lay out a path toward unified military command and savings on defense spending even in 2004. The need for further strengthening of budget procedures is evident from the difficulties in the RS

over the 2004 budget, and initiatives to strengthen them are encouraged, including extending the treasury systems and improving coordination between central and regional fiscal authorities. The plan to reorganize domestic claims on government will complete this set of fiscal reforms and full implementation is strongly encouraged.

38. **These advances have not come easily, and risks remain.** The macroeconomic risks are significant, policy-making institutions still coordinate poorly, and significant delays in policy implementation have occurred. Furthermore, while pressures for large wage and pensions increases have been contained thus far, they remain a notable source of concern especially ahead of the April 2004 RS civil service remuneration reforms, and these pressures, along with the pace of reforms in 2003, are putting the fragile coalitions under strain. The quality of macroeconomic data remains low, so there is always the risk of unpleasant surprises. And the structural reform agenda ahead will test the will of the authorities to its limit; enterprise reform and privatization, already largely completed in most transition countries, has yet to begin in earnest, and yet unemployment is already likely above 20 percent. But the authorities, with the support of the international community, are acquiring a record of finding solutions to apparently intractable problems, and this stands them in good stead for the challenges ahead.

39. **In this context, the program remains an appropriate policy framework and deserves the continued support of the Fund. A waiver for nonobservance of the structural performance criterion on bank foreign exchange regulations is recommended, as the deviation was temporary.**

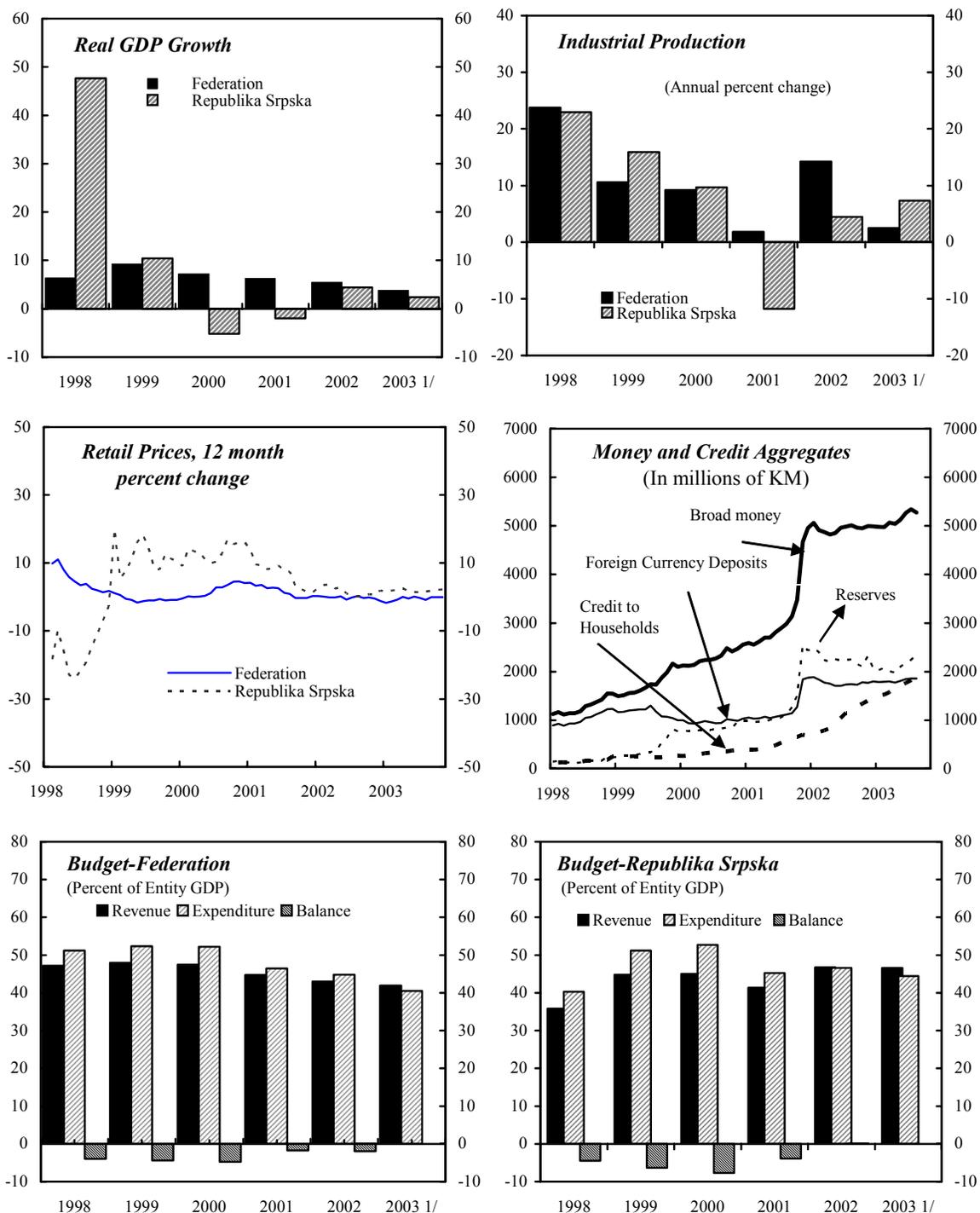
Figure 1. Bosnia and Herzegovina: Selected Financial and Economic Indicators (1998–2003)



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

1/ IMF projections.

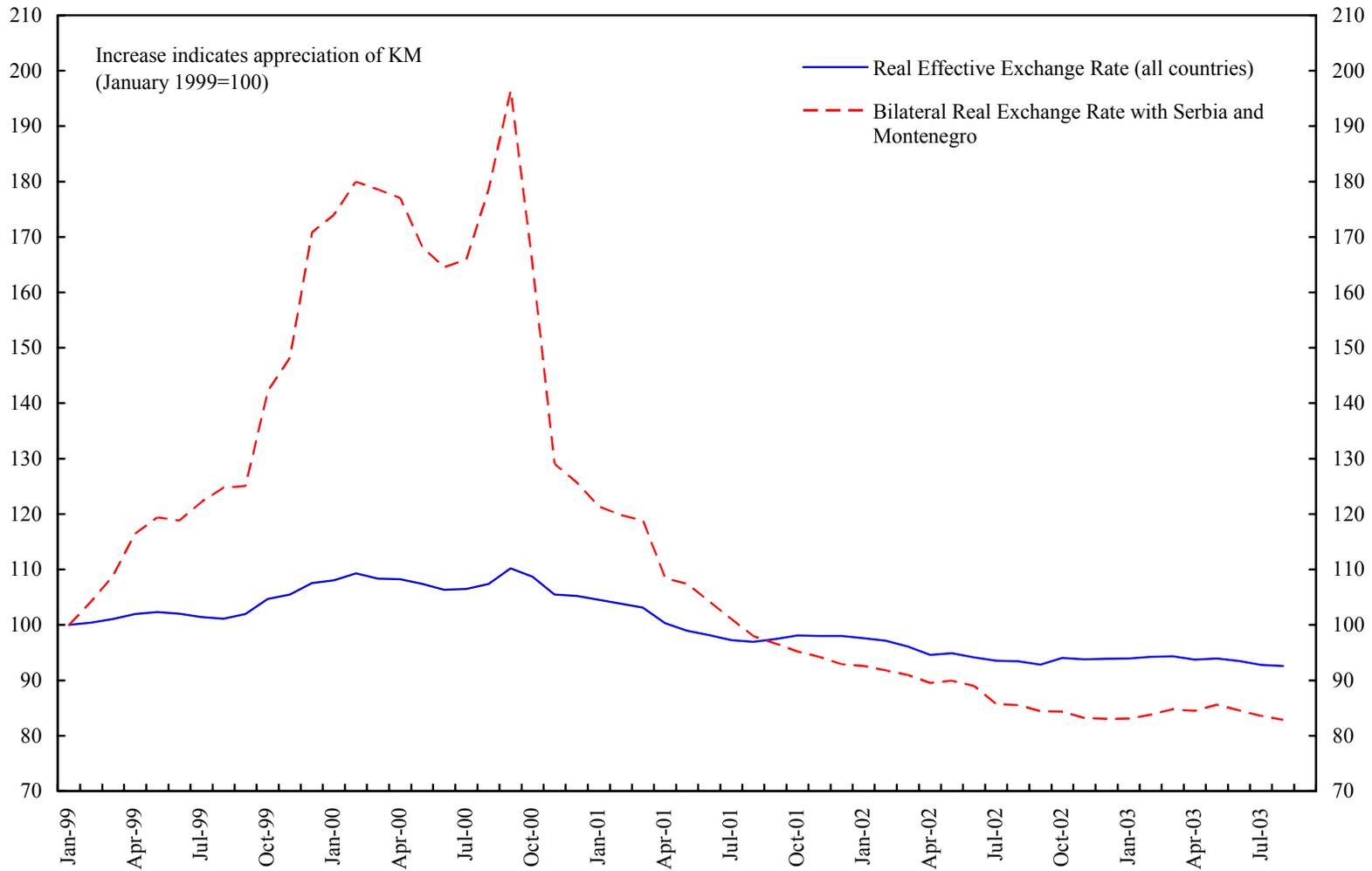
Figure 2. Bosnia and Herzegovina: Selected Indicators by Entity (1998-2003)



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

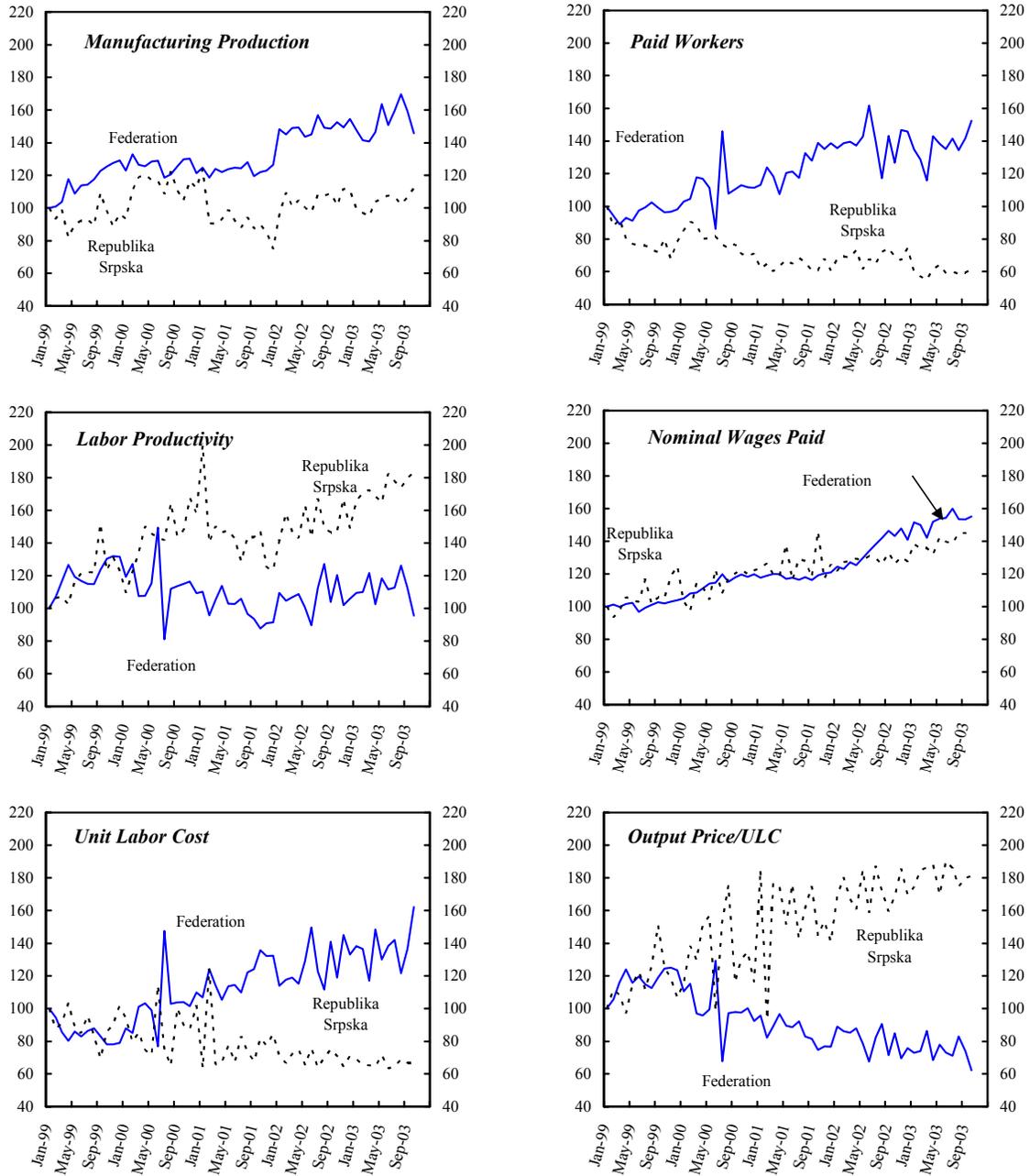
1/ IMF projections.

Figure 3. Bosnia and Herzegovina: Real Effective Exchange Rate and Bilateral Rate with Serbia and Montenegro
1999–2003



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

Figure 4. Bosnia and Herzegovina: Indicators of Manufacturing, 1999–2003
(Seasonally Adjusted, January 1999=100)



Source: Data provided by Bosnian authorities.

Table 1a. Bosnia and Herzegovina: Selected Economic Indicators, 2000–04 1/

	2000	2001	2002	2003	2004
				Est.	Proj.
Nominal GDP (KM million)	10,054	10,959	11,627	12,173	12,911
Gross national saving (in percent of GDP)	7.6	2.7	1.9	2.5	4.6
Gross investment (in percent of GDP)	20.6	18.9	20.4	19.9	20.3
	(Percent change)				
Real GDP	5.5	4.4	5.5	3.5	5.1
Index of industrial production (period average) 2/	9.3	-2.0	11.5	3.8	...
Gross wages (period average) 2/	12.9	6.8	6.9	9.4	...
CPI (period average) 2/	5.0	3.2	0.3	0.1	0.9
Money and credit					
Broad money (end-of-period)	14.0	89.2	7.0	8.3	...
Net domestic assets (percent contribution to broad money growth)	3.4	3.2	15.6	13.8	...
<i>Of which</i> : credit to the public sector	1.1	-7.0	-1.7	-1.1	...
	(In percent of GDP)				
General government budget					
Revenue	53.7	49.7	48.1	46.7	45.8
<i>Of which</i> : grants	9.5	7.2	5.1	3.4	3.3
Expenditure (on a commitment basis) 3/	60.7	53.1	50.4	46.3	45.9
<i>Of which</i> : change in stock of arrears	-3.9	-0.8	0.2	0.5	0.7
<i>Of which</i> : investment expenditure	10.9	9.2	6.3	4.5	4.8
Overall balance 3/	-7.0	-3.3	-2.2	0.4	-0.1
External public debt	58.8	48.2	42.2	34.0	32.8
NPV of external public debt	45.0	36.9	32.3	26.0	25.1
Total public debt 4/	58.8	48.2	42.2	34.0	59.7
NPV of total public debt 4/	45.0	36.9	32.3	26.0	31.1
	(In millions of U.S. dollars)				
Balance of payments					
Exports of goods and services	1,288	1,297	1,468	1,894	2,247
Imports of goods and services	2,741	2,900	3,317	4,081	4,631
Official current grants	36	28	19	28	19
<i>Of which</i> : budget support	36	28	19	28	19
Current account balance	-621	-811	-1,036	-1,224	-1,319
(in percent of GDP)	-13.1	-16.2	-18.5	-17.4	-15.8
Gross official reserves	497	1,221	1,279	1,725	...
(in months of imports)	2.2	5.1	4.6	5.1	...
Net international reserves (in percent of private sector deposits)	47.5	87.2	70.3	69.7	...
External debt service	94	81	125	147	148
(in percent of exports of goods and services)	7.3	6.3	8.5	7.8	6.6

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

1/ Data refer to the entire country.

2/ Based on weighted averages for the Federation and Republika Srpska.

3/ 2004 data includes one-time payments for military severance.

4/ The increase in the face value of total public debt in 2004 reflects the issuance of bonds as part of the plan to settle domestic claims on government.

Table 1b. Bosnia and Herzegovina: Selected Economic Indicators for the Entities, 2000–04

	2000	2001	2002	2003	2004
				Est.	Proj.
Federation					
Nominal GDP (KM million)	6,870	7,437	7,846	8,160	8,636
	(Percent change)				
Real GDP	7.2	6.3	5.5	3.8	5.0
Index of industrial production (period average)	9.2	1.8	14.2	2.5	...
Gross wages (period average)	10.1	4.4	7.8	9.5	...
CPI (period average)	1.9	1.9	-0.2	-0.5	0.8
	(In percent of Federation GDP)				
Central government budget					
Revenue	13.0	14.6	13.3	12.4	11.8
Expenditure (on a commitment basis)	14.7	15.1	14.9	11.1	10.3
<i>Of which</i> : Change in stock of arrears	1.1	-0.1	0.2	-0.6	-1.0
Overall balance	-1.8	-0.6	-1.6	1.4	1.5
Overall balance (percentage of BiH GDP)	-1.2	-0.4	-1.1	0.9	1.0
Budget for cantonal governments and extra budgetary funds					
Revenue	34.5	30.1	29.6	29.5	29.3
Expenditure (on a commitment basis)	37.5	31.3	30.0	29.5	29.3
<i>Of which</i> : change in stock of arrears	2.8	0.4	-0.3	0.0	0.0
Overall balance	-3.0	-1.2	-0.3	0.0	0.0
Overall balance (percentage of BiH GDP)	-2.1	-0.8	-0.2	0.0	0.0
Republika Srpska					
Nominal GDP (KM million)	2,915	3,193	3,401	3,611	3,843
	(Percent change)				
Real GDP	-5.1	-2.0	4.4	2.4	5.0
Index of industrial production (period average)	9.7	-11.8	4.5	7.3	...
Gross wages (period average)	18.5	13.8	2.4	8.7	...
CPI (period average)	14.0	7.0	1.7	1.9	1.4
	(In percent of Republika Srpska GDP)				
Budget for central government and municipalities					
Revenue	31.6	28.1	35.6	35.1	33.9
Expenditure (on a commitment basis)	35.4	29.9	35.5	33.0	32.8
<i>Of which</i> : change in stock of arrears	3.6	0.8	-0.6	-0.6	-0.2
Overall balance	-3.8	-1.9	0.1	2.1	1.1
Overall balance (percentage of BiH GDP)	-1.1	-0.5	0.0	0.6	0.3
Budget for extra budgetary funds					
Revenue	13.5	13.3	11.2	11.5	11.9
Expenditure (on a commitment basis)	17.3	15.3	11.2	11.5	11.9
<i>Of which</i> : change in stock of arrears	3.9	2.0	0.0	0.0	0.0
Overall balance	-3.9	-2.0	0.0	0.0	0.0
Overall balance (percentage of BiH GDP)	-1.1	-0.6	0.0	0.0	0.0

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

Table 2a. Bosnia and Herzegovina: Monetary Survey, 1998–2004
(In millions of KM)

	1998	1999	2000	2001	2002	2003			2004		
						March Est.	June Est.	September Est.	November Est.	December Proj.	
Net foreign assets	-435	195	427	2,543	2,144	1,943	1,896	1,940	1,901	1,881	1,786
Foreign assets (MA)	283	866	1,045	2,737	2,488	2,256	2,293	2,556	2,697	2,780	2,480
Foreign assets (DMB)	887	848	961	1,364	1,452	1,476	1,568	1,473	1,433	1,413	1,888
Foreign liabilities (MA)	0	0	-1	-31	-1	-1	-1	-1	-1	-1	-1
Foreign liabilities (DMB)	-1,606	-1,519	-1,577	-1,527	-1,795	-1,788	-1,963	-2,087	-2,228	-2,311	-2,581
Domestic credit	2,635	2,602	2,863	3,016	3,787	4,083	4,290	4,451	4,614	4,648	5,278
Claims on central government (net)	-181	-159	-129	-319	-400	-353	-368	-458	-466	-466	-439
Claims on noncentral government	9	17	9	25	29	21	21	21	24	24	29
Claims on private sector	2,808	2,744	2,983	3,309	4,158	4,414	4,638	4,888	5,057	5,090	5,687
Non-financial enterprises and cooperatives	2,547	2,467	2,564	2,587	2,643	2,762	2,791	2,901	2,994	3,014	3,375
Households	248	268	384	682	1,440	1,575	1,765	1,896	1,966	1,978	2,203
Other	13	9	35	40	75	77	82	91	97	99	109
Broad money	1,547	2,165	2,467	4,669	4,997	4,976	5,126	5,278	5,368	5,413	5,930
Money	310	1,100	1,402	2,692	2,969	2,872	2,991	3,028	3,000	3,023	2,988
Currency outside banks	162	515	652	1,674	1,737	1,592	1,577	1,542	1,533	1,528	1,478
Demand deposits of noncentral government	21	85	97	178	155	175	180	216	224	229	231
Demand deposits of the private sector	127	499	653	841	1,076	1,106	1,234	1,270	1,243	1,266	1,279
Non-financial enterprises and cooperatives	103	387	454	634	706	717	809	831	814	788	796
Households	8	34	79	147	301	324	356	354	358	406	410
Other	15	78	119	60	70	65	69	85	71	72	73
Quasi-money	1,237	1,065	1,066	1,977	2,028	2,103	2,135	2,250	2,367	2,407	2,638
Time and savings deposits in domestic currency	8	22	78	141	261	314	326	393	454	454	463
Foreign currency deposits	1,229	1,043	988	1,836	1,767	1,790	1,809	1,857	1,913	1,953	2,175
Other items (net)	653	632	823	890	933	1,050	1,059	1,114	1,148	1,116	1,134
Memorandum items:											
NFA of the central bank	283	866	1,046	2,768	2,489	2,257	2,294	2,557	2,698	2,781	2,481
NFA of the central bank in percent of currency outside the banks	174	168	161	165	143	142	145	166	176	182	168
NFA of the central bank in percent of broad money	18	40	42	59	50	45	45	48	50	51	42
Broad money growth (year-on-year)	31.3	40.0	14.0	89.2	7.0	1.3	5.7	5.3	8.4	8.3	9.6
Domestic credit contribution to broad money growth (year-on-year)	31.3	-2.2	12.1	6.2	16.5	19.5	20.8	17.9	17.4	17.2	11.6
NFA contribution to broad money growth (year-on-year)	5.5	40.7	10.7	85.8	-8.5	-12.7	-10.2	-7.8	-3.9	-5.3	-1.8
Other items net contribution to broad money growth (year-on-year)	-5.5	1.4	-8.8	-2.7	-0.9	-5.5	-4.9	-4.8	-5.2	-3.7	-0.3
NFA growth (year-on-year)	-13.0	-144.8	119.0	495.7	-15.7	-30.0	-23.4	-18.1	-18.4	-12.3	-5.0
NDA growth (year-on-year)	16.2	-1.3	10.0	5.3	25.6	38.1	33.1	30.7	29.8	22.7	-10.8
Private sector credit growth	14.6	-2.3	8.7	10.9	25.7	29.3	27.3	24.0	21.1	22.4	11.7
Credit to the household sector (percent growth, year on year)	104.6	8.3	43.3	77.5	111.2	99.7	69.7	49.7	39.9	37.3	11.4
Credit to household sector (in percent of GDP)	3.4	3.1	4.0	6.2	12.4	12.9	14.5	15.6	16.1	16.2	17.1
Broad money (in percent of GDP)	21.1	25.2	25.6	42.6	43.0	40.9	42.1	43.4	44.1	44.5	45.9
Excess reserves (in percent of deposits) 1/	--	--	--	14.1	8.6	6.3	4.1	9.1	14.0	15.6	7.2
Domestic credit (in percent of GDP)	35.9	30.2	29.7	27.5	32.6	33.5	35.2	36.6	37.9	38.2	40.9
Private sector credit (in percent of GDP)	38.3	31.9	31.0	30.2	35.8	36.3	38.1	40.2	41.5	41.8	44.0
GDP (billions of KM)	7.3	8.6	9.6	11.0	11.6	12.2	12.2	12.2	12.2	12.2	12.9
Velocity of Broad Money	4.7	4.0	3.9	2.3	2.3	2.4	2.4	2.3	2.3	2.2	2.2

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

1/ Starting in March 2003, cash in vaults are excluded from assets eligible to meet reserve requirements.

Table 2b. Bosnia and Herzegovina: Survey of Domestic Money Banks, 2001-04
(In millions of KM)

	2001			2002			2003			2004		
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Proj.	Proj.	
	March	June	September	October	November	December	March	June	September	October	November	December
Net Foreign Assets	-163	-343	-312	-396	-614	-720	-795	-898	-693	-898	-693	-693
Assets	1364	1452	1476	1568	1473	1455	1433	1413	1888	1413	1888	1888
Liabilities	1527	1795	1788	1963	2087	2175	2228	2311	2581	2311	2581	2581
Net Domestic Assets	3158	3603	3696	3945	4351	4506	4630	4783	5145	4783	5145	5145
Net Claims on Central Government	-319	-400	-353	-368	-458	-462	-466	-466	-466	-466	-466	-466
Of which: credits	33	54	53	49	40	0	0	0	0	0	0	0
Of which: deposits	-352	-454	-406	-418	-497	-462	-466	-466	-466	-466	-466	-466
Claims on private sector	3309	4158	4414	4638	4888	4967	5057	5090	5687	5090	5687	5687
Of which: households	682	1,440	1,575	1,765	1,896	1,939	1,966	1,978	2203	1,978	2203	2203
Of which: non-financial enterprises and cooperatives	2587	2643	2762	2791	2901	2933	2994	3014	3375	2994	3014	3375
Of which: other	40	75	77	82	91	95	97	99	109	99	99	109
Reserves 1/	546	455	392	372	585	665	782	867	626	782	867	626
Of which: required reserves	122	175	179	228	246	252	261	263	305	261	263	305
Of which: excess reserves 1/	423	280	213	144	339	413	521	604	321	521	604	321
Of which: cash in vaults	112	137	136	0	0	0	0	0	0	0	0	0
Cash in vaults, not included in reserves	...	...	...	133	144	123	136	144	...	144	144	...
Other Items (net)	-378	-609	-758	-829	-809	-787	-880	-853	-847	-880	-853	-847
Deposits	2995	3260	3384	3549	3736	3786	3835	3885	4452	3835	3885	4452
Short term deposits	1018	1232	1281	1414	1486	1505	1467	1477	1814	1467	1477	1814
Long-term deposits	1977	2028	2103	2135	2250	2281	2367	2407	2638	2367	2407	2638
o/w Deposits in foreign currency	1836	1767	1790	1809	1857	1862	1913	1932	2152	1913	1932	2152
o/w Deposits in domestic currency	1,159	1,493	1,595	1,741	1,879	1,924	1,921	1,952	2,300	1,921	1,952	2,300
Memorandum items:												
Nominal GDP (in millions of KM)	10,959	11,627	11,763	11,900	12,036	12,082	12,127	12,173	12,911	12,127	12,173	12,911
Base for reserves (in million of KM)	3583	4116	4233	4554	4915	5049	5220	5257	6093	5220	5257	6093
Percentage growth of deposits (cumulated in percent)	81.6	8.8	3.8	8.6	13.8	15.1	16.4	17.7	14.6	16.4	17.7	14.6
Growth of credit to private sector (cumulated in percent)	10.9	25.7	6.2	11.5	17.6	19.5	21.6	22.4	11.7	21.6	22.4	11.7
Growth of credit to households (in percent)	77.5	111.2	9.4	22.6	31.7	34.7	36.5	37.3	11.4	36.5	37.3	11.4
Growth of credit to enterprises (in percent)	2.1	2.1	4.5	5.6	9.7	11.0	13.3	14.0	12.0	13.3	14.0	12.0
Credit to households as a percent of GDP	6.2	12.4	13.4	14.8	15.8	16.1	16.2	16.2	17.1	16.2	16.2	17.1
Increase in credit to private sector (in millions of KM)	326	849	256	480	730	809	899	932	597	899	932	597
Credit to the private sector as a percent of GDP	30.2	35.8	37.5	39.0	40.6	41.1	41.7	41.8	44.0	41.7	41.8	44.0
Excess reserves/Deposits (in percent)	14.1	8.6	6.3	4.1	9.1	13.8	15.8	15.6	7.2	15.8	15.6	7.2
Required reserve ratio (in percent)	3.4	4.3	4.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Cash in vaults/Deposits (in percent)	3.7	4.2	4.0	3.7	3.9	3.3	3.6	3.7	3.2	3.6	3.7	3.2
Velocity of deposits	3.7	3.6	3.5	3.4	3.2	3.2	3.2	3.1	2.9	3.2	3.1	2.9
Velocity of foreign currency deposits	6.0	6.6	6.6	6.6	6.5	6.5	6.3	6.3	6.0	6.3	6.3	6.0
Velocity of domestic currency deposits	9.5	7.8	7.4	6.8	6.4	6.3	6.3	6.3	5.6	6.3	6.3	5.6

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

1/ Starting in June 2003, cash in vaults are excluded from assets eligible to meet reserve requirements.

Table 3a. Bosnia and Herzegovina: Balance of Payments, 2000–08 1/
(In millions of U.S. dollars; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Merchandise trade balance 1/	-1,715	-1,832	-2,077	-2,438	-2,607	-2,595	-2,595	-2,554	-2,481
Exports, f.o.b.	832	870	1,046	1,407	1,715	1,937	2,210	2,546	2,932
Imports, f.o.b. 2/	-2,547	-2,701	-3,122	-3,845	-4,322	-4,532	-4,805	-5,100	-5,412
Reconstruction	-461	-398	-307	-295	-322	-269	-210	-171	-143
Other	-2,086	-2,304	-2,816	-3,550	-4,000	-4,264	-4,595	-4,929	-5,270
Services, net	262	228	227	251	224	191	206	217	237
Receipts	456	427	422	487	532	522	552	577	609
Expenditure	-194	-199	-195	-236	-309	-331	-346	-360	-372
Net factor income	253	245	248	332	380	401	454	513	549
Earnings	315	304	318	383	435	479	527	580	639
Interest payments	-63	-59	-70	-51	-54	-78	-74	-68	-90
Unrequited transfers, net	580	547	566	631	684	670	660	667	674
Receipts	587	555	573	640	694	679	670	677	685
Official grants	36	28	19	28	19	13	13	13	13
Private	551	527	554	612	675	667	657	665	672
Outflows	-8	-7	-8	-9	-10	-9	-10	-10	-11
Current account balance	-621	-811	-1,036	-1,224	-1,319	-1,333	-1,276	-1,156	-1,021
Excluding official transfers	-657	-839	-1,055	-1,252	-1,338	-1,346	-1,288	-1,169	-1,034
Foreign investment (net)	150	130	230	320	420	540	570	600	650
Capital transfers for reconstruction	396	346	252	217	217	175	125	90	75
Foreign loans (net)	68	89	84	31	149	108	80	69	31
Disbursements	80	103	117	78	195	146	123	119	106
Reconstruction	65	52	54	78	105	94	85	81	68
Other 3/	15	51	63	0	90	53	38	38	38
Amortization	-12	-15	-33	-48	-46	-38	-43	-49	-75
Commercial banks	-146	-220	103	381	49	50	40	20	20
Other capital 4/	106	661	124	732	498	548	543	425	241
Of which: Conversion of DMs/euros into KM by residents	106	661	124	42	0	0	0	0	0
Capital account balance	574	1,005	793	1,680	1,334	1,421	1,358	1,204	1,017
Errors and omissions	65	517	280	0	0	0	0	0	0
Overall balance	19	711	37	457	15	88	82	48	-4
Financing	-18	-711	-37	-457	-15	-88	-81	-48	5
Change foreign assets (increase, -)	-26	-713	-41	-461	-19	-97	-90	-59	-50
Of which:									
Gross foreign assets of the central bank	-43	-724	-58	-446	11	-50	-50	-50	-50
Net use of Fund resources	17	11	17	-15	-30	-47	-40	-9	0
Purchases/loans	37	18	40	34	18	0	0	0	0
Repurchases/repayments	-20	-8	-23	-49	-48	-47	-40	-9	0
Short-term liabilities (reduction, -)	0	0	0	0	0	0	0	0	0
Arrears (reduction, -)	-342	-550	0	0	0	0	0	0	0
Multilateral creditors	0	0	0	0	0	0	0	0	0
Paris Club creditors	0	0	0	0	0	0	0	0	0
London Club	0	0	0	0	0	0	0	0	0
Other creditors	-342	-550	0	0	0	0	0	0	0
Debt rescheduling or cancellation (of arrears)	342	550	0	0	0	0	0	0	0
Multilateral creditors (rescheduling)	0	0	0	0	0	0	0	0	0
Paris Club creditors (rescheduling) 5/	0	0	0	0	0	0	0	0	0
London Club (rescheduling) 6/	0	0	0	0	0	0	0	0	0
Other creditors (cancellation)	342	550	0	0	0	0	0	0	0
Debt relief, current maturities (cashflow)	8	2	4	5	5	8	8	11	55
Multilateral creditors	0	0	0	0	0	0	0	0	0
Paris Club creditors 5/	0	0	0	0	0	0	0	0	0
London Club 6/	8	2	4	5	5	8	8	11	55
Total financing gap (-)	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance (in percent of GDP)	-13.1	-16.2	-18.5	-17.4	-15.8	-14.8	-13.1	-11.0	-8.9
Excluding official transfers	-13.8	-16.7	-18.8	-17.8	-16.0	-15.0	-13.3	-11.1	-9.0
External Public debt/GDP (in percent)	58.8	48.2	42.2	34.0	32.8	31.2	29.3	27.1	24.2
External debt service/GNFS	7.3	6.3	8.5	7.8	6.6	6.6	5.7	4.0	4.7
Gross official reserves (in millions of U.S. dollars)	497	1,221	1,279	1,725	1,714	1,764	1,814	1,864	1,914
(in months of imports of goods and services)	2.2	5.1	4.6	5.1	4.4	4.4	4.2	4.1	4.0

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

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 reflect imports of non-residents to BiH.

3/ Disbursement for budget finance and includes program loans from the World Bank and the EU.

4/ These are non-debt-creating capital inflows. The projections may include private transfers from abroad.

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

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

Table 3b. Bosnia and Herzegovina: Balance of Payments, 2000–08 1/
(In millions of Euros; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Merchandise trade balance 1/	-1,857	-2,045	-2,200	-2,157	-2,059	-2,045	-2,043	-2,010	-1,952
Exports, f.o.b.	901	971	1,107	1,244	1,355	1,527	1,740	2,004	2,307
Imports, f.o.b. 2/	-2,757	-3,016	-3,307	-3,401	-3,414	-3,572	-3,784	-4,014	-4,259
Reconstruction	-499	-444	-325	-261	-254	-212	-165	-135	-112
Other	-2,258	-2,572	-2,982	-3,140	-3,160	-3,360	-3,618	-3,879	-4,147
Services, net	284	254	241	222	177	150	162	171	186
Receipts	493	476	447	431	421	412	435	454	479
Expenditure	-210	-222	-207	-209	-244	-261	-273	-283	-293
Net factor income	273	274	263	294	300	316	357	404	432
Earnings	341	339	337	339	343	378	415	457	503
Interest payments	-68	-66	-74	-45	-43	-61	-58	-53	-71
Unrequited transfers, net	628	611	599	558	541	528	520	525	531
Receipts	636	619	607	566	548	535	527	533	539
Official grants	39	31	20	25	15	10	10	10	10
Private	597	588	587	541	533	525	517	523	529
Outflows	-8	-8	-8	-8	-8	-7	-8	-8	-8
Current account balance	-672	-906	-1,098	-1,082	-1,042	-1,051	-1,005	-910	-804
Excluding official transfers	-711	-937	-1,118	-1,107	-1,057	-1,061	-1,015	-920	-814
Foreign investment (net)	162	145	244	283	332	426	449	472	512
Capital transfers for reconstruction	429	386	267	192	171	138	98	71	59
Foreign loans (net)	74	99	89	27	118	86	63	55	24
Disbursements	87	115	124	69	154	115	97	93	83
Reconstruction	70	58	58	69	83	74	67	64	53
Other 3/	16	57	66	0	71	42	30	30	30
Amortization	-13	-16	-35	-42	-36	-30	-34	-39	-59
Multilateral and Paris Club creditors	-11	-16	-35	-42	-36	-30	-34	-39	-59
Commercial banks	-158	-232	92	284	39	39	31	16	16
Other capital 4/	115	738	131	455	351	430	427	334	190
Of which: conversion of DMs/euros into KMs by residents	115	738	131	37	0				
Capital account balance	622	1,136	824	1,241	1,011	1,118	1,068	948	800
Errors and omissions	68	607	139	0	0	0	0	0	0
Overall balance	18	837	-135	159	-31	67	63	38	-3
Financing	-18	-837	135	-159	31	-67	-64	-38	4
Change foreign assets (increase, -)	-26	-839	132	-163	27	-74	-70	-47	-39
Of which:									
Gross foreign assets of the central bank	-85	-851	113	-149	51	-37	-39	-39	-39
Net use of Fund resources	18	12	18	-13	-24	-37	-31	-7	0
Purchases/loans	40	21	42	30	14	0	0	0	0
Repurchases/repayments	-22	-9	-24	-43	-38	-37	-31	-7	0
Short-term liabilities (reduction, -)	0	0	0	0	0	0	0	0	0
Arrears (reduction, -)	-370	-614	0	0	0	0	0	0	0
Debt rescheduling or cancelation (of arrears)	370	614	0	0	0	0	0	0	0
Debt relief, current maturities (cashflow)	8	3	4	4	4	6	6	9	43
Multilateral creditors	0	0	0	0	0	0	0	0	0
Paris Club creditors 5/	0	0	0	0	0	0	0	0	0
London Club 6/	8	3	4	4	4	6	6	9	43
Total financing gap (-)	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance (in percent of GDP)	-13.1	-16.2	-18.5	-17.4	-15.8	-14.8	-13.1	-11.0	-8.9
Excluding official transfers	-13.8	-16.7	-18.8	-17.8	-16.0	-15.0	-13.3	-11.1	-9.0
External Public debt/GDP (in percent)	58.8	48.2	42.2	34.0	32.8	31.2	29.3	27.1	24.2
External debt service/GNFS	7.3	6.3	8.5	7.8	6.6	6.6	5.7	4.0	4.7
Gross official reserves (in millions of euro)	534	1,385	1,272	1,421	1,370	1,407	1,446	1,486	1,507
(in months of imports of goods and services)	2.2	5.1	4.3	4.7	4.4	4.4	4.2	4.1	4.0

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

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 reflect imports of non-residents to BiH

3/ Disbursement for budget finance and includes program loans from the World Bank and the EU.

4/ These are non-debt-creating capital inflows. The projections may include private transfers from abroad.

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

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

Table 3c. Bosnia and Herzegovina: Vulnerability Indicators, 2000–04

	Table 1b. Bo	2001	2002	2003 Proj.	2004 Proj.
Exports (annual percent change, US\$ basis)	7.0	4.5	20.2	34.5	21.9
Imports (annual percent change, US\$ basis)	-1.4	6.1	15.6	23.1	12.4
Current account balance (in percent of GDP) 1/	-13.1	-16.2	-18.5	-17.4	-15.8
Capital and financial account (in percent of GDP)	12.1	20.0	14.1	23.9	16.0
Gross official reserves (end-of-period, in millions of U.S. dollars)	497	1,221	1,279	1,725	1,714
In months of imports of goods and nonfactor services (GNFS)	2.2	5.1	4.6	5.1	4.4
Broad money/NFA (end-of-period)	5.8	1.8	2.3	2.8	...
Foreign exchange deposits/reserves (percent, end-of-period)	94.5	67.1	71.0	82.7	...
Total external debt (percent of GDP)	58.8	48.2	42.2	34.0	32.8
External debt service/exports of GNFS (in percent) 2/	7.3	6.3	8.5	7.8	6.6
External debt service to multilateral creditors/exports of GNFS (in percent)	5.8	4.4	7.0	5.8	4.9
External debt service to multilateral creditors (in percent of total debt service)	79.0	70.4	81.8	75.0	75.0
External debt service to the IMF (in percent of total debt service)	27.0	19.4	21.5	35.7	34.2
Exchange rate (per U.S. dollar, period average)	2.12	2.18	2.07	1.73	...
REER depreciation, end-of-period (-) (annual percent change)	3.0	-7.4	-3.9	...	...
Republika Srpska	10.4	-6.9	-2.1	...	...
Federation	-1.1	-7.8	-5.1	...	...

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

1/ Includes transfers.

2/ Includes repayment of IMF loans.

Table 3d. Bosnia and Herzegovina: External Financing Requirements and Possible Sources of Financing, 2000–04
(In millions of U.S. dollars)

	2000	2001	2002	2003 Proj.	2004 Proj.	2005 Proj.
Merchandise trade balance	-1,715	-1,832	-2,077	-2,438	-2,607	-2,595
Services balance	262	228	227	251	224	191
Net factor income	253	245	248	332	380	401
<i>of which:</i> Interest due	-63	-59	-70	-51	-54	-78
Private transfers, net	543	519	547	603	665	657
Current account balance, excluding official transfers	-657	-839	-1,055	-1,252	-1,338	-1,346
Amortization of medium and long term obligations 1/	-12	-15	-33	-48	-46	-38
Repurchases of IMF resources	-20	-8	-23	-49	-48	-47
Changes in arrears (- is reduction)	-342	-550	0	0	0	0
<i>Of which:</i> Multilateral	0	0	0	0	0	0
London Club	0	0	0	0	0	0
Paris Club	0	0	0	0	0	0
Other 2/	-342	-550	0	0	0	0
London Club rescheduling and debt relief	8	2	4	5	5	8
Change in official reserves (a "-" sign indicates an increase)	-43	-724	-58	-446	11	-50
Change in NFA of commercial banks (a "-" sign indicates an increase)	-146	-220	103	381	49	50
Gross external financing requirement	-1,147	-1,836	-782	-1,409	-1,367	-1,422
Official transfers	27	14	13	0	0	0
Capital transfers for reconstruction	396	346	252	217	217	175
Disbursement for reconstruction	65	52	54	78	105	94
Foreign direct investment	150	130	230	320	420	540
Other capital	106	661	124	732	498	548
Financing gap after project and humanitarian flows	-404	-633	-109	-62	-127	-66
Other rescheduling and debt relief 2/	342	550	0	0	0	0
Remaining financing gap	-62	-83	-109	-62	-127	-66
Identified possible program support	62	83	109	62	127	65
Disbursements under the IMF Stand-By Arrangement	37	18	40	35	18	0
World Bank adjustment lending	15	42	63	0	65	40
European Union (loans and grants) and other program financing	9	22	6	27	44	25
Remaining financing gap (-)	0	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.

Table 4a. Bosnia and Herzegovina: General Government, 1999–2004

(In millions of KM, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act	2003 Proj.	2004 Proj.
Revenue	5,184.3	5,402.7	5,450.4	5,595.0	5,687.2	5,910.2
Tax revenue	3,660.9	4,094.8	4,209.2	4,450.5	4,722.2	4,847.0
Indirect taxes	1,474.6	1,554.6	1,470.3	1,541.5	2,006.4	2,111.1
Trade taxes	491.6	599.0	840.0	990.2	697.6	618.8
Direct taxes	336.1	415.3	362.4	369.4	392.2	427.3
Social Security contributions	1,358.7	1,526.0	1,536.5	1,549.4	1,626.0	1,689.7
Non-tax revenue	470.7	355.1	446.7	554.1	551.2	639.1
Grants	1,052.7	952.7	794.5	590.4	413.8	424.1
Budget support	47.7	114.7	39.5	67.4	35.8	58.1
Foreign investment projects	1,005.0	838.0	755.0	523.0	378.0	366.0
Consolidated expenditure on a commitment basis	5,885.0	6,101.6	5,815.9	5,855.8	5,639.4	5,927.7
<i>Of which: change in stock of domestic arrears (- = increase)</i>	-290.2	-388.3	-91.0	18.8	66.8	93.1
Consolidated expenditure on a cash basis	5,594.8	5,713.3	5,724.9	5,874.6	5,706.2	6,020.8
Interest payments	103.1	131.2	129.3	129.7	80.0	80.8
Subsidies and transfers to non-public agents 1/	1,631.2	1,918.9	2,011.1	2,288.3	2,349.4	2,465.5
Other current spending	2,530.5	2,567.6	2,571.6	2,723.0	2,734.6	2,850.5
Investment expenditure	1,330.0	1,095.5	1,012.9	733.6	542.2	624.0
Foreign financed investment projects	1,261.7	975.0	867.0	636.0	514.0	554.0
Other investment expenditure	68.4	120.5	145.9	97.6	28.2	70.0
Balance on a commitment basis	-700.6	-698.9	-365.6	-260.8	47.8	-17.5
Balance on a cash basis	-410.5	-310.6	-274.5	-279.6	-19.0	-110.6
Financing on a commitment basis	700.6	698.9	365.6	260.8	-47.8	17.5
Privatization proceeds	63.0	126.0	80.6	13.2	0.5	10.0
Foreign loans	347.5	201.1	197.4	222.5	17.4	138.6
Budget support	146.4	130.7	134.1	222.7	58.3	138.4
Foreign investment projects	256.7	137.0	112.0	113.0	136.0	188.0
Amortization	-55.6	-66.6	-48.8	-113.2	-176.9	-187.8
Domestic financing 2/	0.0	-16.4	-3.4	43.9	1.1	-38.0
Change in stock of domestic arrears (+ = increase)	290.2	388.3	91.0	-18.8	-66.8	-93.1
Memorandum items:						
Balance on a commitment basis (excluding demobilization severance payments)	-700.6	-698.9	-365.6	-153.4	47.8	46.4
Stock of domestic spending arrears 3/	5	882	973	954	887	794
External public debt 4/	5,906	5,912	5,282	4,907	4,139	4,235
Primary balance	-598	-568	-236	-131	128	63
Public consumption	4,555	5,006	4,803	5,122	5,097	5,304
Public saving	-376	-441	-108	-50	212	240

Sources: Ministries of Finance; and IMF staff estimates.

1/ Excludes transfers by Federation Cantons due to lack of data.

2/ Including use and reconstitution of succession funds (e.g., settlement of domestic claims in 2004).

3/ Excludes war damage claims and frozen foreign currency deposits.

4/ Decrease in 2001 is due to debt-relief operation.

Table 4b. Bosnia and Herzegovina: General Government, 1999–2004

(In percent of GDP, unless stated otherwise)

	1999	2000	2001	2002	2003 Proj.	2004 Proj.
Revenue	57.7	53.7	49.7	48.1	46.7	45.8
Tax revenue	40.7	40.7	38.4	38.3	38.8	37.5
Indirect taxes	16.4	15.5	13.4	13.3	16.5	16.4
Trade taxes	5.5	6.0	7.7	8.5	5.7	4.8
Direct taxes	3.7	4.1	3.3	3.2	3.2	3.3
Social Security contributions	15.1	15.2	14.0	13.3	13.4	13.1
Non- tax revenue	5.2	3.5	4.1	4.8	4.5	5.0
Grants	11.7	9.5	7.2	5.1	3.4	3.3
Budget support	0.5	1.1	0.4	0.6	0.3	0.4
Foreign investment projects	11.2	8.3	6.9	4.5	3.1	2.8
Consolidated expenditure on a commitment basis	65.5	60.7	53.1	50.4	46.3	45.9
<i>Of which: change in stock of domestic arrears (- = increase)</i>	-3.2	-3.9	-0.8	0.2	0.5	0.7
Consolidated expenditure on a cash basis	62.2	56.8	52.2	50.5	46.9	46.6
Interest payments	1.1	1.3	1.2	1.1	0.7	0.6
Subsidies and transfers to non-public agents 1/	18.1	19.1	18.4	19.7	19.3	19.1
Other current spending	28.2	25.5	23.5	23.4	22.5	22.1
Investment expenditure	14.8	10.9	9.2	6.3	4.5	4.8
Foreign financed investment projects	14.0	9.7	7.9	5.5	4.2	4.3
Other investment expenditure	0.8	1.2	1.3	0.8	0.2	0.5
Balance on a commitment basis	-7.8	-7.0	-3.3	-2.2	0.4	-0.1
Balance on a cash basis	-4.6	-3.1	-2.5	-2.4	-0.2	-0.9
Financing on a commitment basis	7.8	7.0	3.3	2.2	-0.4	0.1
Privatization proceeds	0.7	1.3	0.7	0.1	0.0	0.1
Foreign loans	3.9	2.0	1.8	1.9	0.1	1.1
Budget support	1.6	1.3	1.2	1.9	0.5	1.1
Foreign investment projects	2.9	1.4	1.0	1.0	1.1	1.5
Amortization	-0.6	-0.7	-0.4	-1.0	-1.5	-1.5
Domestic financing 2/	0.0	-0.2	0.0	0.4	0.0	-0.3
Change in stock of domestic arrears (+ = increase)	3.2	3.9	0.8	-0.2	-0.5	-0.7
Memorandum items:						
Balance on a commitment basis (excluding demobilization severance payments)	-7.8	-7.0	-3.3	-1.3	0.4	0.4
Stock of domestic spending arrears 3/	5.5	8.8	8.9	8.2	7.3	6.1
External public debt 4/	65.7	58.8	48.2	42.2	34.0	32.8
Primary balance	-6.6	-5.6	-2.2	-1.1	1.0	0.5
Public consumption	50.7	49.8	43.8	44.1	41.9	41.1
Public saving	-4.2	-4.4	-1.0	-0.4	1.7	1.9
Nominal BiH GDP (in millions of KM)	8,989	10,054	10,959	11,627	12,173	12,911

Sources: Ministries of Finance; and IMF staff estimates.

1/ Excludes transfers by Federation Cantons due to lack of data.

2/ Including use and reconstitution of succession funds (e.g., settlement of domestic claims in 2004).

3/ Excludes war damage claims and frozen foreign currency deposits.

4/ Decrease in 2001 is due to debt-relief operation.

Table 4c. Bosnia and Herzegovina: General Government, 1999–2004

(In millions of KM, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act	2003 Proj.	2004 Proj.
Federation budget						
Revenue (including grants)	738.3	889.6	1,085.0	1,045.5	1,015.5	1,023.0
Expenditure on a commitment basis 1/	841.6	1,010.1	1,126.1	1,170.2	903.9	889.8
<i>Of which:</i> change in stock of domestic arrears	78.2	78.2	-10.5	13.3	-46.0	-85.0
<i>Of which:</i> transfers to the State	110.8	153.5	143.6	196.5	218.9	226.6
Balance on a commitment basis	-103.2	-120.5	-41.1	-124.7	111.6	133.2
Cantonal budget						
Revenue	1,288.9	1,252.9	1,036.6	1,033.3	1,094.6	1,171.2
<i>Of which:</i> transfers from the Federation budget	15.9	25.1	18.0	13.9	8.7	0.0
Expenditure on a commitment basis	1,378.9	1,400.9	1,214.1	1,076.1	1,094.6	1,171.2
<i>Of which:</i> change in stock of domestic arrears	27.0	22.0	100.8	7.2	0.0	0.0
Balance on a commitment basis	-90.0	-148.0	-177.4	-42.8	0.0	0.0
Federation extra-budgetary Funds 2/						
Revenue	984.3	1,117.9	1,203.4	1,292.3	1,309.8	1,358.6
<i>Of which:</i> transfers from the Federation budget	6.9	8.8	84.0	24.0	11.1	11.9
Expenditure on a commitment basis	1,068.3	1,176.9	1,115.4	1,274.9	1,309.8	1,358.6
<i>Of which:</i> change in stock of domestic arrears	84.0	59.0	-88.0	-17.4	0.0	0.0
Balance on a commitment basis	-84.0	-59.0	88.0	17.4	0.0	0.0
RS budget and municipalities						
Revenue (including grants)	821.5	921.0	896.3	1,210.5	1,267.4	1,302.9
Expenditure on a commitment basis 3/	966.2	1,031.9	955.6	1,205.8	1,190.7	1,260.6
<i>Of which:</i> change in stock of domestic arrears	79.0	105.7	25.0	-21.9	-20.8	-8.1
<i>Of which:</i> transfers to the State	74.3	88.9	82.3	119.9	95.8	102.0
Balance on a commitment basis	-144.7	-110.9	-59.3	4.7	76.6	42.3
RS extra-budgetary funds 2/						
Revenue	358.7	392.6	425.1	379.5	415.2	458.9
<i>Of which:</i> transfers from the RS budget	28.1	36.7	16.0	106.4	96.4	125.0
Expenditure on a commitment basis	380.7	505.1	488.6	379.5	415.2	458.9
<i>Of which:</i> change in stock of domestic arrears	22.0	112.5	63.5	0.0	0.0	0.0
Balance on a commitment basis	-22.0	-112.5	-63.5	0.0	0.0	0.0
State budget						
Revenue (including grants)	223.6	280.2	294.7	432.8	431.6	478.8
<i>Of which:</i> transfers from the Federation and RS budgets	185.1	242.4	225.9	316.4	314.7	328.6
Expenditure on a commitment basis	223.6	291.2	294.9	435.2	436.1	483.9
<i>Of which:</i> change in stock of domestic arrears	0.0	11.0	0.2	0.0	0.0	0.0
Balance on a commitment basis	0.0	-11.0	-0.2	-2.4	-4.5	-5.1
Brcko District budget 4/						
Revenue	0.0	23.5	98.1	138.7	206.0	216.3
Expenditure on a commitment basis	0.0	23.5	98.1	138.7	206.0	216.3
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Grants	1,005.0	838.0	755.0	523.0	378.0	366.0
Expenditure on a commitment basis	1,261.7	975.0	867.0	636.0	514.0	554.0
Balance on a commitment basis	-256.7	-137.0	-112.0	-113.0	-136.0	-188.0

Sources: Ministries of Finance; and IMF staff estimates.

1/ Includes transfers to Cantons and extrabudgetary funds.

2/ Pension Fund, Health Fund, and Employment Fund . Also includes the Children's Fund in the RS.

3/ Includes transfers to extrabudgetary funds.

4/ Data for 1999 and 2000 are incomplete.

Table 4d. Bosnia and Herzegovina: General Government, 1999–2004

(In percent of GDP, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act	2003 Proj.	2004 Proj.
Federation budget						
Revenue (including grants)	8.2	8.8	9.9	9.0	8.3	7.9
Expenditures on a commitment basis 1/	9.4	10.0	10.3	10.1	7.4	6.9
<i>Of which:</i> change in stock of domestic arrears	0.9	0.8	-0.1	0.1	-0.4	-0.7
<i>Of which:</i> transfers to the State	1.2	1.5	1.3	1.7	1.8	1.8
Balance on a commitment basis	-1.1	-1.2	-0.4	-1.1	0.9	1.0
Cantonal budget						
Revenue	14.3	12.5	9.5	8.9	9.0	9.1
<i>Of which:</i> transfers from the Federation budget	0.2	0.2	0.2	0.1	0.1	0.0
Expenditure on a commitment basis	15.3	13.9	11.1	9.3	9.0	9.1
<i>Of which:</i> change in stock of domestic arrears	0.3	0.2	0.9	0.1	0.0	0.0
Balance on a commitment basis	-1.0	-1.5	-1.6	-0.4	0.0	0.0
Federation extra-budgetary Funds 2/						
Revenue	10.9	11.1	11.0	11.1	10.8	10.5
<i>Of which:</i> transfers from the Federation budget	0.1	0.1	0.8	0.2	0.1	0.1
Expenditure on a commitment basis	11.9	11.7	10.2	11.0	10.8	10.5
<i>Of which:</i> change in stock of domestic arrears	0.9	0.6	-0.8	-0.1	0.0	0.0
Balance on a commitment basis	-0.9	-0.6	0.8	0.1	0.0	0.0
RS budget and municipalities						
Revenue (including grants)	9.1	9.2	8.2	10.4	10.4	10.1
Expenditure on a commitment basis 3/	10.7	10.3	8.7	10.4	9.8	9.8
<i>Of which:</i> change in stock of domestic arrears	0.9	1.1	0.2	-0.2	-0.2	-0.1
<i>Of which:</i> transfers to the State	0.8	0.9	0.8	1.0	0.8	0.8
Balance on a commitment basis	-1.6	-1.1	-0.5	0.0	0.6	0.3
RS extra-budgetary funds 2/						
Revenue	4.0	3.9	3.9	3.3	3.4	3.6
<i>Of which:</i> transfers from the RS budget	0.3	0.4	0.1	0.9	0.8	1.0
Expenditure on a commitment basis	4.2	5.0	4.5	3.3	3.4	3.6
<i>Of which:</i> change in stock of domestic arrears	0.2	1.1	0.6	0.0	0.0	0.0
Balance on a commitment basis	-0.2	-1.1	-0.6	0.0	0.0	0.0
State budget						
Revenue (including grants)	2.5	2.8	2.7	3.7	3.5	3.7
<i>Of which:</i> transfers from the Federation and RS budgets	2.1	2.4	2.1	2.7	2.6	2.5
Expenditure on a commitment basis	2.5	2.9	2.7	3.7	3.6	3.7
<i>Of which:</i> change in stock of domestic arrears	0.0	0.1	0.0	0.0	0.0	0.0
Balance on a commitment basis	0.0	-0.1	0.0	0.0	0.0	0.0
Brcko District budget 4/						
Revenue	0.0	0.2	0.9	1.2	1.7	1.7
Expenditure on a commitment basis	0.0	0.2	0.9	1.2	1.7	1.7
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Grants	11.2	8.3	6.9	4.5	3.1	2.8
Expenditure on a commitment basis	14.0	9.7	7.9	5.5	4.2	4.3
Balance on a commitment basis	-2.9	-1.4	-1.0	-1.0	-1.1	-1.5
Memorandum item:						
Nominal BiH GDP (in millions of KM)	8,989	10,054	10,959	11,627	12,173	12,911

Sources: Ministries of Finance; and IMF staff estimates.

1/ Includes transfers to Cantons and extrabudgetary funds.

2/ Pension Fund, Health Fund, and Employment Fund. Also includes the Children's Fund in the RS.

3/ Includes transfers to extrabudgetary funds.

4/ Data for 1999 and 2000 are incomplete.

Table 4e. Bosnia and Herzegovina: General Government, 1999–2004

(In millions of KM, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act.	2003 Proj.	2004 Proj.
Federation						
Consolidated revenue (including grants)	2,988.7	3,226.5	3,223.1	3,333.3	3,400.1	3,541.0
Consolidated expenditure on a commitment basis	3,266.0	3,554.0	3,353.7	3,483.4	3,288.5	3,407.8
<i>Of which:</i> change in stock of domestic arrears	189.2	152.2	6.3	3.1	-46.0	-85.0
<i>Of which:</i> transfers to the State	110.8	153.5	143.6	196.5	218.9	226.6
Consolidated balance on a commitment basis	-277.2	-327.5	-130.6	-150.1	111.6	133.2
RS						
Consolidated revenue (including grants)	1,152.0	1,276.9	1,305.4	1,483.6	1,586.1	1,636.8
Consolidated expenditure on a commitment basis	1,318.8	1,500.3	1,428.2	1,478.9	1,509.5	1,594.4
<i>Of which:</i> change in stock of domestic arrears	101.0	218.2	88.5	-21.9	-20.8	-8.1
<i>Of which:</i> transfers to the State	74.3	88.9	82.3	119.9	95.8	102.0
Consolidated balance on a commitment basis	-166.7	-223.4	-122.8	4.7	76.6	42.3
State budget						
Revenue (including grants)	223.6	280.2	294.7	432.8	431.6	478.8
<i>Of which:</i> transfers from the Federation and RS budgets	185.1	242.4	225.9	316.4	314.7	328.6
Expenditure on a commitment basis	223.6	291.2	294.9	435.2	436.1	483.9
<i>Of which:</i> change in stock of domestic arrears	0.0	11.0	0.2	0.0	0.0	0.0
Balance on a commitment basis	0.0	-11.0	-0.2	-2.4	-4.5	-5.1
Brcko District budget 1/						
Revenue	0.0	23.5	98.1	138.7	206.0	216.3
Expenditure on a commitment basis	0.0	23.5	98.1	138.7	206.0	216.3
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Grants	1,005.0	838.0	755.0	523.0	378.0	366.0
Expenditure on a commitment basis	1,261.7	975.0	867.0	636.0	514.0	554.0
Balance on a commitment basis	-256.7	-137.0	-112.0	-113.0	-136.0	-188.0

Sources: Ministries of Finance; and IMF staff estimates.

1/ Data for 1999 and 2000 are incomplete.

Table 4f. Bosnia and Herzegovina: General Government, 1999–2004

(In percent of GDP, unless stated otherwise)

	1999	2000	2001	2002 Prel. Act.	2003 Proj.	2004 Proj.
Federation						
Consolidated revenue (including grants)	33.2	32.1	29.4	28.7	27.9	27.4
Consolidated expenditure on a commitment basis	36.3	35.4	30.6	30.0	27.0	26.4
<i>Of which:</i> change in stock of domestic arrears	2.1	1.5	0.1	0.0	-0.4	-0.7
<i>Of which:</i> transfers to the State	1.2	1.5	1.3	1.7	1.8	1.8
Consolidated balance on a commitment basis	-3.1	-3.3	-1.2	-1.3	0.9	1.0
RS						
Consolidated revenue (including grants)	12.8	12.7	11.9	12.8	13.0	12.7
Consolidated expenditure on a commitment basis	14.7	14.9	13.0	12.7	12.4	12.3
<i>Of which:</i> change in stock of domestic arrears	1.1	2.2	0.8	-0.2	-0.2	-0.1
<i>Of which:</i> transfers to the State	0.8	0.9	0.8	1.0	0.8	0.8
Consolidated balance on a commitment basis	-1.9	-2.2	-1.1	0.0	0.6	0.3
State budget						
Revenue (including grants)	2.5	2.8	2.7	3.7	3.5	3.7
<i>Of which:</i> transfers from the Federation and RS budgets	2.1	2.4	2.1	2.7	2.6	2.5
Expenditure on a commitment basis	2.5	2.9	2.7	3.7	3.6	3.7
<i>Of which:</i> change in stock of domestic arrears	0.0	0.1	0.0	0.0	0.0	0.0
Balance on a commitment basis	0.0	-0.1	0.0	0.0	0.0	0.0
Brcko District budget 1/						
Revenue	0.0	0.2	0.9	1.2	1.7	1.7
Expenditure on a commitment basis	0.0	0.2	0.9	1.2	1.7	1.7
Balance on a commitment basis	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects						
Grants	11.2	8.3	6.9	4.5	3.1	2.8
Expenditure on a commitment basis	14.0	9.7	7.9	5.5	4.2	4.3
Balance on a commitment basis	-2.9	-1.4	-1.0	-1.0	-1.1	-1.5
Federation						
Consolidated revenue (including grants)	47.6	47.0	43.3	42.5	41.7	41.0
Consolidated expenditure on a commitment basis	52.0	51.7	45.1	44.4	40.3	39.5
<i>Of which:</i> change in stock of domestic arrears	3.0	2.2	0.1	0.0	-0.6	-1.0
<i>Of which:</i> transfers to the State	1.8	2.2	1.9	2.5	2.7	2.6
Consolidated balance on a commitment basis	-4.4	-4.8	-1.8	-1.9	1.4	1.5
RS						
Consolidated revenue (including grants)	43.8	43.8	40.9	43.6	43.9	42.6
Consolidated expenditure on a commitment basis	50.1	51.5	44.7	43.5	41.8	41.5
<i>Of which:</i> change in stock of domestic arrears	3.8	7.5	2.8	-0.6	-0.6	-0.2
<i>Of which:</i> transfers to the State	2.8	3.1	2.6	3.5	2.7	2.7
Consolidated balance on a commitment basis	-6.3	-7.7	-3.8	0.1	2.1	1.1
Memorandum items:						
Nominal BiH GDP (in millions of KM)	8,989	10,054	10,959	11,627	12,173	12,911
Nominal Federation GDP (in millions of KM)	6,278	6,870	7,437	7,846	8,160	8,636
Nominal RS GDP (in millions of KM)	2,632	2,915	3,193	3,401	3,611	3,843

Sources: Ministries of Finance; and IMF staff estimates.

1/ Data for 1999 and 2000 are incomplete.

Table 4g. Bosnia and Herzegovina: Federation Fiscal Operations, 2002–04

	2002	2003	2004
	Act.	Proj.	Proj.
Revenue	1,033.6	1,000.8	1,006.7
Tax revenue	929.6	913.0	897.2
Indirect taxes	921.7	895.2	877.8
Profit tax	7.9	17.8	19.4
Nontax revenue	104.0	87.9	109.5
<i>Of which: Dividends of public enterprises 2/</i>	36.6	25.0	35.0
Expenditure	1,232.4	1,067.7	1,185.0
Wages and contributions 3/	132.4	148.7	148.7
Goods and services	43.8	40.8	54.2
Military 4/	375.8	250.1	241.3
<i>Of which: severance payments</i>	90.8		45.0
Reconstruction and capital expenditure 5/	42.8	21.6	44.3
Subsidies	22.8	28.6	21.0
Transfers to households	315.8	294.0	299.2
Transfers to pension fund	15.0	0.0	0.0
Transfers for health	9.0	11.1	11.9
Transfers for education	1.3	15.3	12.3
Transfers to war invalids	290.5	267.1	275.0
Transfers to the state government	196.5	218.9	226.6
Administration	51.7	57.8	60.0
Debt service	144.8	161.1	166.6
Transfers to cantons and municipalities	13.9	8.7	0.0
Net lending	0.0	0.0	0.0
Clearance of domestic arrears	8.7	24.5	0.0
Other expenditure	80.1	31.9	149.7
<i>Of which: Settlement of domestic claims</i>			85.0
Overall balance (cash basis, before grants)	-198.8	-66.9	-178.3
Foreign grants for budget support	11.9	14.7	16.3
Overall balance (cash basis, after grants)	-186.9	-52.2	-162.0
Financing	186.9	52.3	162.0
Domestic financing	-27.3	13.4	14.2
<i>Of which: reconstitution of succession money</i>	-27.0	0.0	0.0
Foreign loans for budget support 6/	142.7	38.9	98.8
Privatization receipts	0.0	0.0	10.0
Succession money	71.5	0.0	39.0
Memorandum items:			
Balance on a commitment basis (excluding settlement of domestic claims)			-77.0
Revenue (in percent of GDP)	13.2	12.3	11.0
Expenditure (in percent of GDP)	15.7	13.1	12.9
Balance (cash, after grants, in percent of GDP)	-2.4	-0.6	-1.8
Nominal GDP	7,846	8,160	8,636

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

1/ Includes KM 40 million customs revenue collected in January and brought forward in 2001 outcome.

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

3/ Excludes wages of military and intelligence service staff.

4/ Includes savings due to demobilization of KM71 million in 2004.

5/ Includes railways.

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

Table 4h. Bosnia and Herzegovina: Republika Srpska Fiscal Operations, 2002-04

	2002	2003	2004 1/
	Prel. Act.	Proj.	Proj.
	(In millions of KM, unless otherwise specified)		
Revenue	929.5	968.2	1,003.8
Tax revenue	788.3	881.8	902.9
Taxes on goods and services	444.6	503.9	564.3
Property tax on special goods 2/	16.2	19.3	21.4
Trade taxes	168.2	150.8	128.1
Taxes on income	103.3	105.6	123.5
Other tax revenue	56.0	102.2	65.6
Non-tax revenue	87.8	70.5	57.3
Special revenue 3/	53.4	15.9	43.6
Expenditure	998.0	979.5	1048.4
Wages	342.8	360.8	395.5
<i>Of which: Severance package</i>	16.6	0.0	18.9
Goods and services	79.7	192.4	149.9
Subsidies to public enterprises 4/	32.9	33.5	10.4
Transfers to the social funds	106.4	96.4	125.0
Transfers to households	136.8	135.0	139.4
o/w war invalids	108.6	106.7	115.0
Transfers to municipalities	2.0	0.2	2.3
Transfers to the State	119.9	124.6	132.2
Debt service	90.8	95.8	102.0
Administration	29.1	28.8	30.2
Clearance of arrears 5/	21.9	20.8	2.3
Capital and reconstruction expenditure	54.8	6.6	25.7
Other expenditure	100.8	9.2	65.7
<i>Of which: Settlement of domestic claims</i>			8.1
Overall balance (cash basis, before grants)	-68.5	-11.3	-44.6
Foreign grants for budget support	9.9	8.2	8.1
Overall balance (cash basis, after grants)	-58.6	-3.1	-36.5
Financing	58.6	3.1	36.5
Domestic financing 6/	-73.1	-16.8	-32.5
o/w reconstitution of succession money	0.0	-16.6	0.0
External loans for budget support 7/	80.0	19.4	39.6
Privatization receipts	13.2	0.5	0.0
Succession money	38.5	0.0	29.4
Memorandum items:			
Balance on a commitment basis (excluding settlement of domestic claims)			-26.1
	(In percent of RS GDP)		
Revenue	27.3	26.8	26.1
Expenditure	29.3	27.1	27.3
Balance (cash basis, before grants)	-2.0	-0.3	-1.2
Balance (cash basis, after grants)	-1.7	-0.1	-0.9
Balance (commitment basis, after grants)	-1.1	0.5	-0.9

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

1/ From 2004, the Roads Directorate will be separated from the budget and funded from earmarked revenue.

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

3/ Includes other fees (on water and use of forests), own revenue from administrations, and other tax revenues.

4/ Excludes railway subsidy.

5/ In 2004, including KM 2.3 million arrears on administrative transfers to State from 2002.

6/ All privatization proceeds and succession money placed in escrow, unless otherwise specified.

7/ Disbursements only. Amortization included in debt service transfers to the State.

Table 4i. Bosnia and Herzegovina: State Fiscal Operations, 2002–04

	2002	2003	2004
	Act.	Proj.	Proj.
	(in millions of KM)		
Revenue	387.2	418.7	445.1
Own revenue 1/	61.9	67.2	82.2
Transfers from entities	323.7	343.5	358.8
Administrative transfers	80.8	86.6	90.2
Federation	51.7	57.8	60.0
Republika Srpska	29.1	28.8	30.2
Debt service	242.9	256.9	268.6
Federation	144.8	161.1	166.6
Republika Srpska	98.1	95.8	102.0
Extraordinary revenue 2/	1.7	8.0	4.1
Expenditure	435.2	439.7	484.8
State Border Service	42.4	46.6	48.9
New BiH institutions 3/	14.0	1.4	1.4
Clearance of domestic arrears	0.0	0.0	0.0
BiH ministries and institutions 4/	135.9	134.9	165.9
Debt service	242.9	256.9	268.6
Overall balance (cash basis, before grants)	-47.9	-21.0	-39.7
Foreign grants	45.6	12.9	33.7
Overall balance (cash basis, after grants)	-2.4	-8.1	-6.0
Financing	2.4	8.1	6.0
Domestic 5/	-10.6	4.5	5.1
Foreign	0.0	0.0	0.0
Succession money	19.1	0.0	0.0
Purchase of shares in IBRD and EBRD	-6.2	3.6	0.9
Memorandum items:			
Revenue and grants excluding debt-service	189.9	174.7	210.2
Expenditure excluding debt-service	192.3	182.8	216.2

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

1/ In 2003 projections, includes KM 10 million of CIPS revenue. Excludes revenue transferred from 2

2/ In 2003, transfer from Brcko District.

3/ In 2003 projections, includes KM 8 million for SIPA, Prosecutor's Office, and Competition Commi

4/ In 2003 projections, includes KM 15 million for CIPS.

5/ In 2003 projections, borrowing only for CIPS project.

Table 5a. Bosnia and Herzegovina : Quantitative and Structural Performance Criteria Under the 2002–2003 Stand-By Arrangement

	2003			
	End-June		End-September	
	Prog.	Act.	1/	Act.
A. Quantitative performance criteria				
Ceiling on gross credit of the banking system to the consolidated general government				
the State government 2/	0	0	0	0
the RS government and municipalities	10	6	10	3
the RS extra-budgetary funds	2	0	2	0
the Federation government	20	18	20	18
the Federation cantons 3/	10	7	10	5
the Federation municipalities 3/	8	4	8	4
the Federation extra-budgetary funds	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 4/5/	445	245	445	245
Ceiling on contracting or guaranteeing of new non-concessional external debt by the general government 5/ 6/	0	0	0	0
Ceiling on contracting or guaranteeing of new external debt by the general government with an original maturity of up to and including one year 4/	0	0	0	0
Ceiling on the outstanding stock of external payments arrears 6/	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 (IMF Country Report No. 02/191), and paragraph 24 of the SMEFP (IMF Country Report No. 03/4).		Met		Met
Amend regulations on banks' foreign currency exposures by end June 2003 to include credits indexed to foreign currencies		Not met 7/		

Sources: BIH Authorities; and IMF staff estimates.

1/ Performance criteria.

2/ Excluding letters of credit at the state level for CIPS financing up to KM 40 million. Actual borrowing for CIPS was KM 14 Million at end-June 2003. It is estimated at KM 7 million at end-September 2003.

3/ After correction for net payments to Herzegovacka Banka .

4/ New refers to all operations taking place after August 2, 2002.

5/ The public sector is defined as general government and public enterprises.

6/ This will apply on a continuous basis.

7/ The regulations were issued on July 29, 2003.

Table 5b. Bosnia and Herzegovina: Structural Benchmarks

	Implementation Date	Status as of 6/30/03	Status as of 12/15/03	Lead Institution
1. The Entities will make transfers to the State, at least according to the agreed cumulative monthly schedule reported in Annex 1 of the MEFP.	continuous	Implemented	Implemented	IMF
2. 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.	continuous	Implemented	Implemented	IMF
3. The Entities and the Brcko District will implement laws establishing the excise attribution mechanism as previously agreed with the World Bank and thereby avoid the double taxation on excises.	continuous	Implemented	Implemented	IMF
4. There will be no new free trade zones.	continuous	Implemented	Implemented	IMF
5. Any changes to the current indirect tax system should retain or strengthen the principle of harmonization.	continuous	Implemented	Implemented	IMF
6. 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 collec	continuous	Implemented	Implemented, except for November 2003 payment in the RS	IMF
7. (a) The base of the Brcko District sales tax will remain aligned with that in the Entities.	continuous	Implemented	Implemented	IMF
(b) The two rates of sales tax in the Brcko District will be 8 and 18 percent unless changes are agreed with IMF staff.	continuous	Implemented	Implemented	IMF
8. A comprehensive strategy to clear arrears will be prepared. All arrears, including foreign currency deposits, will be audited by the Supreme Auditor Institutions	End-June 2003	In preparation	In preparation. 1/	IMF
9. Bosnia and Herzegovina will not clear domestic government payment arrears that were accrued before end-2000, pending a comprehensive strategy to clear arrears.	continuous	Implemented	Implemented	IMF
10. There will be no offset operations for tax liabilities that are incurred after 2001.	continuous	Implemented	Implemented	IMF
11. Banking supervision will be strengthened by enforcing the current prudential regulations, by taking appropriate remedial actions according to the regulations in cases where institutions breach regulations.	continuous	Implemented	Implemented	IMF/World Bank
12. The commission on Value Added and Customs Administration will propose a framework of legislation governing all indirect tax legislation and administration.	End-June 2003	Not Implemented	Implemented in July 2003	IMF

1/ Decisions were implemented between December 16 and 19, 2003.

Table 6. Bosnia and Herzegovina: Macroeconomic Framework, 2000–08

	2000	2001	2002	2003	2004	2005	2006	2007	2008
	Est.	Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Real sector									
Nominal GDP (In millions of KM)	10,054	10,959	11,627	12,173	12,911	13,861	14,951	16,200	17,607
(Percentage change)	11.8	9.0	6.1	4.7	6.1	7.4	7.9	8.4	8.7
Real GDP (In millions of 1999 KM)	9,479	9,895	10,441	10,806	11,352	12,001	12,704	13,490	14,355
(Percentage change)	5.5	4.4	5.5	3.5	5.1	5.7	5.9	6.2	6.4
CPI, period average percentage change	5.0	3.2	0.3	0.1	0.9	1.7	2.0	2.1	2.2
Savings and investment (In percent of GDP, national accounts basis)									
Consumption	110.0	113.1	112.5	111.1	108.2	105.9	103.2	100.3	97.5
Public consumption	25.5	23.5	23.4	22.5	22.1	21.0	19.9	18.9	18.0
Private consumption	84.4	89.6	89.1	88.7	86.1	84.9	83.3	81.4	79.5
Investment	20.6	18.9	20.4	19.9	20.3	20.9	21.4	21.9	22.1
Public investment	10.9	9.2	6.3	4.5	4.8	4.5	4.2	4.1	4.0
Private investment	9.7	9.6	14.1	15.5	15.5	16.3	17.1	17.8	18.1
National savings	7.6	2.7	1.9	2.5	4.6	6.0	8.2	10.9	13.2
Public savings	0.4	1.2	0.3	2.0	1.5	2.6	3.1	3.4	3.5
Private savings	7.2	1.5	1.7	0.6	3.0	3.4	5.1	7.5	9.7
Foreign savings	13.1	16.2	18.5	17.4	15.8	14.8	13.1	11.0	8.9
General government (In percent of GDP)									
Total revenue and grants	53.7	49.7	48.1	46.7	45.8	44.4	43.0	41.7	40.5
Grants	9.5	7.2	5.1	3.4	3.3	2.1	1.4	1.0	0.8
Total expenditure	60.7	53.1	50.4	46.3	45.9	44.4	42.9	41.6	40.4
Current expenditure	49.8	43.8	44.1	41.9	41.1	39.9	38.7	37.5	36.3
Capital expenditure	10.9	9.2	6.3	4.5	4.8	4.5	4.2	4.1	4.0
Own-financed capital expenditure	1.2	1.3	0.8	0.2	0.5	1.1	1.7	2.2	2.6
Foreign financed capital expenditure	9.7	7.9	5.5	4.2	4.3	3.4	2.5	1.9	1.4
Overall balance	-7.0	-3.3	-2.2	0.4	-0.1	0.0	0.1	0.1	0.1
Overall balance excl. grants	-16.4	-10.6	-7.3	-3.0	-3.4	-2.1	-1.3	-0.9	-0.7
Accumulation of arrears (- = increase)	-3.9	-0.8	0.2	0.5	0.7	0.6	0.5	0.5	0.5
Overall balance on a cash basis	-3.1	-2.5	-2.4	-0.2	-0.9	-0.6	-0.4	-0.4	-0.4
Financing									
Domestic financing	1.1	0.7	0.5	0.0	-0.2	-0.1	0.0	-0.2	0.1
Foreign financing	2.0	1.8	1.9	0.1	1.1	0.7	0.4	0.6	0.3
Total foreign assistance 1/ (In millions of US dollars)	12	9	8	5	6	4	3	2	2
576	477	447	352	486	334	260	221	193	
Balance of payments (In millions of US\$)									
Current account balance (including official transfers)	-621	-811	-1,036	-1,224	-1,319	-1,333	-1,276	-1,156	-1,021
(Percent of GDP)	-13.1	-16.2	-18.5	-17.4	-15.8	-14.8	-13.1	-11.0	-8.9
Export growth rate (In percent)	7	5	20	35	22	13	14	15	15
Import growth rate (In percent)	-1	6	16	23	12	5	6	6	6
Gross reserves	497	1,221	1,279	1,725	1,714	1,764	1,814	1,864	1,914
(Months of imports of goods and n.f. services)	2.2	5.1	4.6	5.1	4.4	4.4	4.2	4.1	4.0
Total public debt 2/ (In millions of US\$)	2,814	2,382	2,523	2,572	4,930	4,997	5,038	5,041	4,966
(In percent of GDP)	58.8	48.2	42.2	34.0	59.7	56.2	52.5	48.5	44.0
Total external debt service in percent of exports of goods and non-factor services	7.3	6.3	8.5	7.8	6.6	6.6	5.7	4.0	4.7
Memorandum item:									
Percentage change in real current public expenditure	1.3	5.9	11.3	1.3	4.0	1.9	2.3	2.7	3.0

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

1/ Includes disbursements of foreign loans, and grants.

2/ Includes external public debt, stock of expenditure arrears, debt to domestic banks, and frozen foreign currency deposits.
Excludes any liabilities arising out of war damage claims.

OVERVIEW OF THE STAND-BY ARRANGEMENT, 2002–03

Against the background of declining GDP growth and high fiscal and current account imbalances, the program negotiated in the spring of 2002 focused on fiscal consolidation and structural reform.

Macroeconomic performance under the program has been favorable (Table 1). Real GDP growth (2002–03 cumulated) turned out to be stronger than expected, inflation has stabilized to industrial country levels, and international reserves rose significantly. The fiscal balance has improved from a deficit of 3 percent of GDP in 2001 to a small surplus in 2003. However, despite significant increases in export growth, the improvement in the external current account balance was disappointing, largely because a rapid expansion of domestic credit to households boosted imports. Correction measures were taken to that effect in the course of 2003 (including in the form of prior actions for the program's third and fourth review) which have yielded significant results.

The role of the fiscal system as a policy instrument was strengthened. Tax competition has diminished and major progress was made towards the harmonization of indirect taxation and the creation in December 2003 of a new framework for indirect taxation. Budget execution was bolstered by strict implementation of ceilings on government borrowing to commercial banks and a number of other measures including monthly cutoff dates for the collection of revenue and payments by pension's funds. Demobilization brought sizeable savings in 2003 after severance payments were completed in 2002. And, privatization receipts were placed in escrow pending a reorganization of domestic claims on government that was adopted in December 2003.

The new CBBH board was installed smoothly in August 2003, confirming the currency board created 6 years earlier. The PRSP has been completed and approved by parliament after extensive consultations with the civil society. A number of reforms were introduced with the support of the IBRD designed to stimulate the private sector, including a new bankruptcy framework. But, except in the banking sector, little progress was achieved in relation to privatization.

Table 1. Macroeconomic Outcomes 2002-03

	2001		2002		2003		2002-03		2001-03	
	Prog	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.
	Growth rates in percent						Cumulated growth in percent			
Real GDP growth	2.3	4.4	2.3	5.5	4.1	3.5	6.5	9.2	8.9	14.0
CPI	3.3	3.2	2.3	0.3	1.9	0.1	4.2	0.4	7.7	3.6
Broad money	89	89	11.0	7.0	14.0	8.3	26.5	15.9	139.2	119.0
o/w Domestic assets 1/	0	3.2	8.0	15.6	8.0	13.8	16.6	31.6	16.6	35.8
	As a percent of GDP						Change in percent			
Current account balance	-23.1	-15.9	-21.3	-18.5	-18.7	-17.4	2.6	1.1	4.4	-1.5
General government balance	-6.3	-3.3	-5.5	-2.2	-3.0	0.4	2.5	2.6	3.3	3.7
	In millions of U.S. dollars						Change in millions of U.S. dollars			
Gross official reserves	1253	1221	1572	1279	1622	1725	50	446	369	504
	In millions of KM						Change in millions of KM			
Nominal GDP	9940	10959	10402	11627	11033	12173	631	546	1093	1214

1/ Contribution to broad money growth.

BOSNIA AND HERZEGOVINA: FUND RELATIONS

As of December 31, 2003

I. Membership Status: Member since 12/14/1992; Article XIV

II. <u>General Resources Account:</u>	<u>SDR Million</u>	<u>%Quota</u>
Quota	169.10	100.00
Fund Holdings of Currency	259.23	153.30

III. <u>SDR Department:</u>	<u>SDR Million</u>	<u>%Allocation</u>
Net cumulative allocation	20.48	100.0
Holdings	2.29	11.16

IV. <u>Outstanding Purchases and Loans:</u>	<u>SDR Million</u>	<u>%Quota</u>
Stand-by-Arrangements	90.12	53.29

V. Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-by	8/02/2002	2/28/2004	67.60	55.60
Stand-by	5/29/1998	5/29/2001	94.42	94.42

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

	<u>Forthcoming</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	30.72	28.05	25.35	6.00	
Charges/Interest	2.03	1.37	0.79	0.36	0.29
Total	32.75	29.42	26.14	6.36	0.29

VII. Safeguards Assessment

Under the Fund's safeguards assessment policy, the Central Bank of Bosnia and Herzegovina (CBBH) was subject to an assessment with respect to the Stand-By Arrangement which was approved on August 2, 2002. A safeguards assessment of the CBBH was completed on October 28, 2002. The assessment identified certain weaknesses and made appropriate recommendations, as reported in IMF Country Report No. 03/4. According to information obtained from the authorities, all of the recommendations have been successfully implemented.

VIII. Exchange Rate Arrangements

The currency of Bosnia and Herzegovina is the convertible marka (KM), introduced on August 11, 1997. On September 5, 2002, the State parliament approved an amendment to the CBBH law that changes the peg of the KM from the DM to the Euro, under a currency board arrangement. The KM is pegged to the euro at KM 1 = 0.5113 euro. 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 and transfers for current international transactions resulting from measures taken with respect to frozen foreign currency deposits as identified in IMF Country Report No. 02/52.

IX. Last Article IV Consultation

Bosnia and Herzegovina is on the twenty-four month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002. The last Article IV consultation was concluded on February 25, 2002.

X. Resident Representative

Ms. Valeria Fichera has been the Fund's resident representative in Bosnia and Herzegovina since July 6, 2002.

XI. Technical Assistance, 1999- February 2003

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
	April 2002	Treasury systems
	February 2003	Treasury systems
LEG	May 1996	Tax administration law
LEG/TRE/SEC	December 1995	Assistance with succession to membership

MFD	December 1995	Institution-building and banking legislation
	October 1996	Payments bureaus
	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
	October-November 2002	Strengthening Banking Supervision
	August-September 2003	Banking supervision
	September 2003	International reserve management
MFD/EU1	June 1996	Discussion of new central bank
MFD/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
October 2000
December 2001

Balance of payments statistics
Money and banking statistics
Money and banking statistics

BOSNIA AND HERZEGOVINA: IMF–WORLD BANK RELATIONS

Partnership in Bosnia and Herzegovina's Development Strategy

BiH's Development Agenda

1. The authorities of BiH recognize the importance of maintaining satisfactory macroeconomic performance while accelerating structural reforms. As demonstrated through the PRSP preparation process, Government has embarked on reforms to address several key economic challenges, including: (i) creating a predictable and coherent investment environment within a single economic space; (ii) promoting private sector activity within an improved business environment; and (iii) strengthening governance whilst combating corruption.
2. Submitted to the World Bank and the IMF in December 2001 for information, not linked to any Bank or IMF operation, Government's I-PRSP emphasized the development of an entrepreneurial society within a single economic space while combating corruption and strengthening governance. As with the I-PRSP, the major focus of the ongoing full PRSP preparation process is the economy's heavy reliance on foreign assistance, high formal unemployment and the low level of domestic production. It further emphasizes corruption problems across many sectors and the poor quality of public services. The strategy also points to greater cooperation between the Entities if progress is to be made on expanding the economy and integrating BiH's political and economic structures into a wider Europe. The central theme of the strategy is that poverty can only be effectively combated through greatly expanded private sector activity.
3. BiH's recently completed poverty profile, developed on the basis of the recently completed Living Standards Measurement Study, confirms the importance of generating new private sector jobs to poverty alleviation and improving employment prospects for the young and secondary household earners; but also points to the need to raise wages among the working poor and general skills levels in the workforce, while protecting children and households headed by inactive adults. As a result, the upcoming PRSP is expected to address issues covering the effective implementation of pension and health reform, the reorientation of the social safety net to protect children and the non-pensioned elderly, a strengthened education system and improved productivity in the productive sectors.
4. The Coordination Board for Economic Transition and EU Association, charged with overseeing the preparation of the PRSP - following finalization of the second draft of the PRSP in June 2003 – in July 2003 adopted an action plan of priority actions in the areas of fiscal reform, public debt management, business environment, financial sector, labor market, public administration reform, statistics and EU integration. This action plan complements that of a plan adopted in 2002, mainly focused on improving the business environment.

5. Mindful that perceptions of widespread corruption not only discourage sound investment but constitute a serious problem for the most vulnerable in society, the Coordination Board earlier also adopted in 2002 a comprehensive anti-corruption action plan. The plan covers: (i) legislative improvements; (ii) institutional strengthening activities; and, (iii) educative activities. The plan is under implementation with notable achievements having been made in improved tax and customs collections.

6. Some steps have also been taken recently to further strengthen key BiH State institutions and activities. This in large part has been undertaken in the context of the SAP with the European Union. A State Border Service has been operational for some time as has a Communications Regulatory Authority (CRA). Legislation has also been passed which provides for a State deposit insurance agency and a State body to regulate energy transmission. In addition, the State has played an aggressive role to liberalize external trade and open up regional markets. Trade agreements have been signed with Slovenia, Croatia, FYR Macedonia, Serbia and Montenegro and Turkey and are under negotiation with Albania, Bulgaria and Romania, while WTO membership is being actively pursued.

7. The second draft of the PRSP also stresses the importance of comprehensive public administration reform to reduce the size of government in the face of declining external assistance, the sustainability of the social protection system and the need to strengthen human capital by reinforcing family and community life and improving education and health services. Government has been advised that follow-through is necessary, however, to successfully deepen policy reform in these areas, particularly as concerns the determination of the best administrative structure for BiH consistent with both the Dayton Peace Agreements and a country aspiring to become a member of the EU.

8. The Bank and the IMF concluded in their joint letter to Government that BiH's I-PRSP provided a satisfactory initial framework to help spearhead the country's transition to a self-sustaining economy, and to fight poverty. However, Government was urged to provide greater clarity on strategic priorities and modalities for the implementation of policy reforms against a hard budget constraint. In this regard, the authorities are paying special attention to integrating the policies and priorities being developed under the PRSP into medium term expenditure frameworks of State and Entity governments.

9. Preparation of the full PRSP started in early 2002. After extensive consultation across both Entities the authorities completed the first draft of their full PRSP in November 2002, presenting it to stakeholders for review. This draft document formed the basis of a further round of consultations under the auspices of the newly formed governments following the October 2002 elections and the second draft was completed in June, 2003. The PRSP is now expected to be finalized in January of 2004. This represents a delay to their original schedule as Government wished to incorporate some of the elements of the European Commission's Feasibility Study in the stabilization and association process, into the finalized PRSP. The Feasibility Study was completed in the last quarter of 2003.

10. The IMF has taken the lead in assisting BiH in maintaining macroeconomic stability and ensuring fiscal sustainability. A new one year Stand-by-Arrangement (SBA) was approved by the IMF's Board of Directors in August 2002 and is scheduled to expire in November 2003. The SBA appeared to be on track to successful completion until the RS Prime Minister in November 2003 announced wage increases that could have resulted in a 17% increase in the wage bill. Fund discussions with the BiH and RS authorities are ongoing which could result in this increase being revisited, while a once-off payment is made to settle wage arrears. The SBA was extended a second time from end of December 2003 through February 2004 to allow for completion of the fourth and final review. As a matter of priority, structural conditionality has focused on issues related to short term fiscal consolidation.

11. The World Bank has taken the lead in policy dialogue on structural and institutional reforms in several select sectors. Bank assistance focuses on assisting the authorities: (i) reach agreement on a medium-term strategy for further public finance reform, which reduces the size of the public sector, ensures minimum capacities and competencies are developed at the State level for effective policy formulation and execution, and promotes the efficient delivery of services at the local level; (ii) follow through on their ongoing efforts to create an investor-friendly economy that promotes SME development; (iii) complete long delayed reforms to the social safety net, to ensure that scarce public resources are used efficiently to protect the most vulnerable in society. Specific assistance has been designed to support BiH in the finalization of its PRSP.

12. Progress is being made especially in areas (i) and (ii) above. A US \$44 million *Business Environment Adjustment Credit (BAC)* was approved by the World Bank in May 2002. The third and final tranche of the *Second Public Finance Adjustment Credit (PFSAC II)* was disbursed in November 2002. A *Public Expenditure and Institutional Review (PEIR)* was completed in May 2002. These instruments were key elements of the Bank's program as outlined in the full, June 2000, Country Assistance Strategy.

IMF-World Bank Collaboration in Specific Areas

13. The IMF and the World Bank maintain a close collaborative relationship in supporting the Government's structural reforms. The IMF focuses on fiscal sustainability, monetary policy and bank supervision, while the Bank Group focuses increasingly on structural issues related to private sector development, strengthening governance and institution building. Effective collaboration between the Bretton Woods organizations will continue to be important in assisting BiH implement the PRSP.

Strengthening Institutions and Governance

14. Fiscal stabilization efforts over the past two years led to a dramatic reduction in the budgetary gap, which was reduced from over 9 percent of GDP in 1999 to less than 2 and a half percent at the end of 2003, and net arrears accumulation slowed dramatically largely as a

result of initial reforms in the pension system. Nevertheless, with public spending at 55 percent of GDP, the size of government is not sustainable in the context of BiH's future resource availability. Further fiscal consolidation of GDP is expected through a combination of measures supported in the near term by the ongoing SBA. Medium term fiscal consolidation will be taken up in new Bank operations targeted at: (i) rationalizing and improving the efficiency of public expenditure in the current multi-layered and fragmented governance structure; (ii) reducing the proportion of public expenditure spent on wages and salaries—by restricting overall recruitment and compensation in the context of a broader public administration reform agenda; (iii) limiting extensive and generous veterans' entitlements; (iv) reducing expenditures in the defense and public order and safety sectors (over and above the reductions already achieved in 2001); and (v) significantly increasing the efficiency of expenditures in the education, health and social welfare sectors.

15. Recent Bank sponsored reviews are now helping BiH in defining these medium term policy directions. The *PEIR (FY02)* entitled *From Aid Dependency to Fiscal Self Reliance* pays particular attention to: (i) fiscal policy and expenditure challenges if growth and stability are to be assured in the medium term; (ii) inter-government relationships from municipalities up to State government; (iii) fiscal balance between these various levels of public administration; (iv) financial management and public procurement capabilities; and (v) social service spending—particularly in the areas of social welfare, education and health. The PEIR is the capstone study to the subsidiary and self standing *Country Procurement Assessment Report (CPAR) (FY02)*, *Country Financial Accountability Assessment (CFAA) (FY03)*; and a local government finance study entitled *Creating a Stable Decentralized Fiscal System (FY03)*.

16. The PEIR emphasizes that: (a) while notable achievements have been made in improving the performance of certain public institutions, fragmented governance structures with ill-defined goals, hamper nation building and efficiency benefits from decentralization. The costs, both economic and social are substantial because fragmentation hinders the efficient use of public resources; and (b) in order to achieve more coherent and harmonized policy formulation and implementation, the State's role as an integrative force needs to be strengthened, while rationalizing the public sector's overall role in the economy. In government's efforts to rationalize public expenditures while enhancing the delivery of services, the authorities plan to seek Bank adjustment support in an *Economic Management Structural Adjustment Credit (EMSAC, FY04)*. Preparation of the program which this Credit supports is well advanced and has taken place in close collaboration with the IMF. Nevertheless, the recent RS government decision to raise wages, resulting in an overall increase in the wage bill in 2004, has significantly compromised the program supported by *EMSAC*. The program is being refocused and redimensioned to take this into account.

17. Support is ongoing to: (i) facilitate BiH's efforts to reduce military expenditures through a *Pilot Labor Redeployment Project (FY00)*; (ii) strengthen local government through a *Local Development Project (FY00)* and the *Mostar Water Project (FY00)*;

(iii) strengthen public management of the power sector, providing for a State regulator for the transmission of electricity under a *Power III Project (FY01)*; and (iv) improve trade and transport infrastructure and services through a *Trade and Transport Facilitation Project (FY01)* and a *Road Management and Safety Project (FY02)*.

Fostering Private Sector-Led Growth

18. Accelerating restructuring reforms remains the central challenge to BiH becoming a self-sustaining economy. Current projections call for a redoubling of reform efforts in order to achieve financial sustainability by the end of the decade. Moreover, even though significant fiscal consolidation has recently been achieved, a substantial reduction in the public sector is still required if BiH is to remain on the sustainable fiscal path. For its part, the Bank has followed through with detailed discussions with Government on the recommendations set forth in the PEIR.

19. The World Bank closely coordinates with the IMF through discussions on issues of private sector development. Most notably, collaborative efforts have focused on ensuring that bankruptcy laws are modernized. With initial rounds of labor market and banking reform completed (supported by two recently closed IDA adjustment credits), such collaboration proved integral to the successful implementation of Bank assistance over the short term period. During the period July 2002 to December 2004, the Bank will focus on helping the authorities follow through on the remaining three elements of their strategy for private sector development: (i) privatization; (ii) improving the business enabling environment; and (iii) SME development.

20. Given that SME and voucher privatization in non-strategic industries has largely been completed, the Bank, along with other donors, is focusing its assistance on the **privatization** of the larger strategic state-owned enterprises through a *Privatization Technical Assistance Project (FY01)*. While privatization of these enterprises has taken longer than expected and needs to be accelerated, careful attention is required to ensure that: enterprises are privatized into a competitive environment (in the case of utilities and transport, this often involves the elaboration of a regulatory framework within the context of a well developed sector strategy); competent strategic investors/managers are found; and, ownership and labor issues are resolved. Sustained assistance into the medium term will, therefore, be required.

21. The centerpiece of Bank assistance over the period to the definition of a new CAS in 2004, will be to help BiH achieve short-term results in implementation of key parts of its action plan to improve the business environment. The objective is not only to **mobilize new investment** but to initiate a critical change in investor perceptions of BiH. Attainment of targets specified for second and final tranche release of the *Business Environment Adjustment Credit (BAC) (FY02)* will be the particular focus of Bank assistance. This includes: (i) the development of a common (inter-Entity) business registration system and attainment of reduced business registration-time targets; (ii) introduction of a new collateral registry

system; (iii) the rationalization of business inspections, and, to this end, the attainment of key outcome targets; and (iv) the adoption of new bankruptcy and liquidation legislation.

22. **SME development** is critical to expanding private sector activity and job opportunities. Increased competition in the banking sector and falling interests rates are improving SME access to finance in the FBiH. Banking sector reforms in the RS, however, started later than those in FBiH and are less advanced. A recently approved *Private Sector Development Project (FY02)* will, therefore, provide much needed project financing to SME's in the RS. Several donor programs provide firm-based technical assistance for private sector development throughout BiH, such as the IFC sponsored SEED initiative. Small-scale operators in the agriculture and forestry sectors have less access to these programs because of the risks associated with their operations. At the same time they are a vulnerable population group in terms of the country's poverty profile requiring sustained assistance. Further lending, leveraging other donor assistance, for a *Forest Development and Conservation Project* and a new *Small Scale Commercial Agriculture Development Project* was as a result approved by the Bank's Board in FY03.

23. **Labor markets.** Looking to the future increased flexibility in labor markets will be key to BiH's competitiveness, particularly in the context of the overall privatization program. Substantial labor market reform, associated with job placement and conditions of employment, were enacted in 2001, under a Bank supported reform First Social Sector Adjustment Credit (SOSAC I). Nevertheless "wage-setting" remains a major rigidity in the labor market. In the preparation of a new piece of economic sector work, a Country Economic Memorandum (CEM), now planned for 2004, the Bank is analyzing this issue and its impact on country competitiveness, working in close collaboration with the IMF.

24. **IFC's strategy** in BiH is multidimensional, encompassing all sectors of the economy, but particularly inherited competitive industries such as SMEs, wood, agribusiness, and areas of the economy identified as having potential in the aftermath of the conflict, such as banking and infrastructure. In the financial sector, IFC's focus has been to build and strengthen financial intermediaries, including assisting in privatization, establishing greenfield banks and working with local financial institutions in their efforts to develop into high quality banks. Since FY01, 10 projects totaling US\$63 million were committed to finance projects in: pharmaceutical sector; micro finance institutions; credit lines to banks to support SMEs; bank privatization; and post-privatization support in the manufacturing sector. IFC also assists the SME sector through a multi-donor South East Europe Enterprise Development (SEED) initiative, officially launched in September 2000 and operating in Albania, BiH, FYR Macedonia, Serbia and Montenegro and Kosovo. SEED provides firm-level support to the SME sector through investment advisory services and advice to address constraints in the business environment; capacity building programs for SMEs and Business Development Service Providers, and information and knowledge relevant to the private sector.

Building Social Sustainability

25. The Bank is supporting a program of social reforms focused on four key issues: protecting the poor, strengthening human capital, social inclusion and ensuring environmentally sustainable development. The human cost to delayed social protection reform is starkly highlighted in the recent findings of the *Poverty Assessment* and *PEIR*. Both detail the failure of **the social safety net** to protect the poor and significant inefficiencies in social assistance cash-transfer systems. Furthermore, the existing system is financially unsustainable without significant restructuring. A delayed second *Social Sector Adjustment Credit (SOSACII)* now planned for the first half of 2004 will support the authorities in their commitment to: (i) transform veterans benefits to reflect fiscal realities and European practice by targeting benefits on the most disabled veterans and dependent families of dead soldiers; (ii) support solidarity funds for social and child assistance in both Entities, to ensure pooling of financial resources and a reduction in regional disparities of benefits to the poorest; (iii) implementing minimum benefit standards for disabled civilians, to ensure cash benefits are directed to the most disabled, and public funds cover key aids; and (iv) promote participation from NGOs and other civil society actors in the social protection system.

26. The IMF is advising the World Bank regarding budget issues related to pensions payments and war veterans benefits over the short to medium term. The Bank has concentrated its efforts on identifying and promoting the structural changes in these systems necessary for fiscal sustainability, consistent with the IMF's own budget discussions with the BiH authorities. The sustained public awareness and technical assistance needed to strengthen government and NGO capacities to detail and implement these and other reforms are being supported through an ongoing *Social Sector Technical Assistance Credit (SOTAC) (FY01)*.

27. Key elements of Bank support through to the definition of a new CAS in 2004 are to: complete the process of follow-up assistance to the LSMS and the Bank's *Poverty Assessment*; ensure that findings are effectively incorporated into the **PRSP**; realistic monitorable indicators are set; and, eventually, adequate evaluation and monitoring capacities are built up for sustainable PRSP implementation.

28. Initial feedback from consultations under the PRSP, confirmed by the findings of the PEIR, indicate that government capacities to implement recent **pension and health** reforms need be strengthened and severe inefficiencies in the education system need to be addressed. A *Social Insurance Technical Assistance Project*, aimed at modernizing health and pension institutions, was approved in FY03.

29. The PEIR highlights wasteful expenditures and poor services and results in the **education** sector, particularly in tertiary education. Furthermore, BiH's poverty profile—indicating a high correlation between poverty and level of education in any given household—underscores the need to ensure that access to an efficient and modernized education system is greatly improved. Nevertheless, the PEIR points, to significant financing problems in the

sector, largely associated with fragmented delivery and funding of services. The authorities, with the strong support of the international community, regard consolidation and rationalization of the sector as fundamental to quality improvements. To this end, a comprehensive education sector strategy is expected to be completed with Bank support by the end of this calendar year, and a new *Education Restructuring Project* is planned for the period up to the definition of the new CAS.

30. BiH's poverty profile also indicates that the poor tend to be concentrated in particular semi-urban and rural communities which suffer from economic dislocation and social cleavages. Often these communities have a high concentration of IDPs and refugees. Bank assistance will continue to promote social **inclusion**, aimed at helping to ensure wider participation in post-conflict growth, ethnic reconciliation and improved delivery of services to disadvantaged groups through two projects approved by the Board over the last CAS period.

31. Strategic planning for the **environment** to safeguard sustainable development has witnessed consistent progress with the support of a recently completed *IDF grant (FY00)*. Through a process involving consultation with a wide range of stakeholders, an Environmental Action Plan (EAP) has been adopted. An initiative to deal with one of BiH's key environmental problems, the disposal of solid waste, resulted in the Board approval of a *Solid Waste Management Project (FY02)* which helps to consolidate dump sites and encourage private sector activity in waste collection.

32. As part of a regional initiative in South East Europe (SEE), the Development Learning Center in BiH is well advanced in its preparation and became fully operational in May 2003. It is expected to be a powerful tool in the training of civil servants and public policy makers in the context of BiH's civil service reform program; and in conveying critically important skills in the areas of business management and policy to aspiring entrepreneurs and local businesses.

World Bank Group Strategy and Lending Operations

33. The Bank's Board discussed the Country Assistance Strategy Progress Report for BiH on November 12, 2002. The progress report determined that, in terms of reform targets and lending triggers established in the 2000 CAS, BiH ended the CAS period in the base case. The remaining public finance reform and enterprise and bank privatization detailed in the October 2001 progress report were completed, and a new program to strengthen the business environment was successfully launched. However, restructuring of the social protection system in 2002 did not proceed according to government's original plan; as a result IDA assistance was not fully committed over the CAS period. Pending completion of the full PRSP, the second CAS Progress Report outlined the Bank assistance program up to December 2003. The CAS Progress Report, while adhering to the assistance objectives laid

out in the last CAS, was designed to support BiH in the preparation and finalization of its first PRSP.

34. Since 1996, forty-seven IDA supported projects have been approved, in addition to twenty IFC operations, and fourteen MIGA guarantees. Of the US\$984 million in IDA commitments, US\$780 million has been disbursed as of December 31, 2003. The BiH project portfolio continues to perform better than the average Bankwide portfolio. There are no problem projects. All QAG project and ESW reviews to date have rated products as satisfactory or above, bar a rating for one adjustment operation of less-than satisfactory. Similarly all 25 closed projects have received a satisfactory or better than satisfactory rating from OED. There are, however, fundamental differences in the current portfolio of active projects with those of the first generation “emergency” type operations. World Bank financing no longer covers 100 percent of eligible project costs. The active portfolio is comprised of 20 projects, including 1 adjustment operation and 19 investment loans (see Annex).

35. Adjustment operations currently under preparation include the Second Social Sector Adjustment Credit (¶25) and an Economic Management Structural Adjustment Credit (EMSAC) supporting further public administration reforms (¶16). An investment operation currently under preparation defined in the CAS progress report is the Education IV.

Questions may be referred to the following Bank staff: Simon Gray (ext. 34011).

Status of Bank Group Operations in Bosnia and Herzegovina
Statement of Bank Loans 1/
(As of January 7, 2004)

Loan No.	Fiscal	Borrower	Project	In Millions of US\$	
				Loan	Undisbursed
Loan/Credits/ Grants					
IBRD 2/					
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	<u>620.6</u>	<u>0.0</u>
			<i>Of which : Repaid</i>	<u>24.9</u>	
			Total Now Held by the Bank	595.7	0.0
TFBH 3/ (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	<u>150.0</u>	<u>0.0</u>
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	0.0
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	11.3
3202-BOS	1999	Bosnia and Herzegovina	Basic Health	10.0	0.8
3262-BOS	1999	Bosnia and Herzegovina	Enterprise and Bank Privatization Project	50.0	0.0
3257-BOS	1999	Bosnia and Herzegovina	Enterprise Export Facility Project	12.0	0.0
3269-BOS	1999	Bosnia and Herzegovina	Pilot Cultural Heritage Project (LIL)	4.0	1.9
3258-BOS	1999	Bosnia and Herzegovina	Second Public Finance (Structural Adjustment)	72.0	0.0
3351-BOS	2000	Bosnia and Herzegovina	Education Development Project III	10.6	4.2
3400-BOS	2000	Bosnia and Herzegovina	Mostar Water and Sanitation	12.0	5.8
3385-BOS	2000	Bosnia and Herzegovina	Emergency Labor Redeployment	15.0	6.3
3439-BOS	2001	Bosnia and Herzegovina	Social Sector Structural Adjustment Credit - TA	3.55	2.6
3466-BOS	2001	Bosnia and Herzegovina	Trade and Transport Facilitation in SEE	11.0	4.1
3465-BOS	2001	Bosnia and Herzegovina	Social Sector SAC(SOSAC I)	20.0	0.0
3533-BOS	2001	Bosnia and Herzegovina	Local Initiative II	20.0	9.6
3534-BOS	2001	Bosnia and Herzegovina	Electric Power 3	35.0	37.7
3538-BOS	2001	Bosnia and Herzegovina	Community Development	15.0	13.0
3531-BOS	2001	Bosnia and Herzegovina	Privatization TA	19.8	21.4
3608-BOS	2002	Bosnia and Herzegovina	Private Sector Credit	10.0	6.4
3626-BOS	2002	Bosnia and Herzegovina	Road Management Safety	30.0	29.2
3645-BOS	2002	Bosnia and Herzegovina	Business Environment Enabling Credit	44.0	29.9
3672-BOS	2002	Bosnia and Herzegovina	Solid Waste Management	18.0	20.5
3742-BOS	2003	Bosnia and Herzegovina	Small Scale Commercial Agriculture	12.0	12.2
3778-BOS	2003	Bosnia and Herzegovina	Social Insurance Technical Assistance	7.0	7.1
3779-BOS	2003	Bosnia and Herzegovina	Forest Development and Conservation TA	3.7	3.8
			Total	<u>834.3</u>	<u>227.8</u>
			Grand Total	984.3	227.8

1/ 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.

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

3/ Trust Fund for Bosnia and Herzegovina (TFBH).

Bosnia and Herzegovina
Statement of IFC's Held and Disbursed Portfolio
As of December 31, 2003
(In millions of US\$)

FY Approval	Company	Held				Disbursed			
		Loan	Equity	QL+QE	Partic	Loan	Equity	QL+QE	Partic
1997/1999/2001/2002/2003	Bosnia Micro	3.7	1.2	0	0.0	3.7	1.2	0	0.0
2001/2004	CPB	12.5	5.1	3.9	0.0	0.0	0.0	3.9	0.0
1985	Energoinvest	9.8	0	0	0.0	9.8	0	0	0.0
1997	Enterprise Fund	0	1.9	0	0.0	0	1.3	0	0.0
2002	FCL	12.5	0	0	3.1	12.5	0	0	3.1
2001	PBS-SPV	13.5	2.3	0.1	0.0	13.5	2.3	0.1	0.0
2002	Raiffeisen-BOS	17.6	0	0	0.0	8.8	0	0	0.0
1998	SEF Akova	1.2	0	0	0.0	1.2	0	0	0.0
1999/2001	SEF Bosnalijek	1.8	1.8	0	0.0	1.8	1.8	0	0.0
1998	SEF Lignosper	2.7	0	0	0.0	2.3	0	0	0.0
1999	SEF Lijanovici	1.4	0	0	0.0	1.4	0	0	0.0
1997	Sarajevska	0.8	0	0	0.0	0.8	0	0	0.0
1977	TKA Cazin	4.3	0	0	0.0	4.3	0	0	0.0
1998	Wood Agency-AL	5.7	0	0	0.0	0.0	0	0	0.0
1999	Wood Inga	2.0	0	0	0.0	0.4	0	0	0.0
1999	Wood Konjuh	2.9	0	0	0.0	2.5	0	0	0.0
1999	Wood Kozara	2.0	0	0	0.0	1.7	0	0	0.0
1999	Wood Podgradci	1.4	0	0	0.0	1.1	0	0	0.0
1999	Wood Vrbas	2.0	0	0	0.0	0.4	0	0	0.0
Total Portfolio:		97.8	12.4	4.0	3.1	66.3	6.6	4.0	3.1

Approvals Pending Commitment
(In millions of US\$)

FY Approval	Project Name	Project ID	Loan	Total	
			IFC Approved	IFC Approved	Part Approved
2002	Lukavac	11310	9.9	9.9	2.5
Total Pending:			9.9	9.9	2.5

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 real sector statistics, but results have been mixed. The Federation and RS both have published nominal GDP estimates using the production approach based on international standards recommended by the *1993 SNA*, since 1998 and 1999, respectively. However, in both cases, production estimates at constant prices and GDP by expenditure are still unavailable and informal sector activities are under-recorded. The preparation of a household budget survey, to serve as the basis for revising price indices and to facilitate the compilation of GDP by the expenditure approach, has begun. There are still no meaningful short-term business and consumer surveys. Both statistical offices compile prices and production indices using outdated methodologies, and consistent time series are not available. Industrial production indices are prepared in each Entity, but there is no index at the country level. 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' Statistical Institutes and balance of payments statistics by the CBBH's Research Department. The quality of the 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. However, there are signs of progress. The ASYCUDA customs information system has been introduced in both entities. All customs posts were covered by the system by the end of 2002. Efforts to enhance the

system, including by improving communication and system security are ongoing, with assistance from the EU and UNCTAD. Continued technical assistance will be provided through the Fund's Resident Statistical Advisor. The staff has recently adopted estimates of private transfers provided by the CBBH.

C. Government Finance

4. The CBBH has recently agreed, in accord with the finance ministers of the State and two entity governments, to take the lead in compiling Government Finance Statistics (GFS) on a countrywide basis, and recently assigned a team of three staff to work on the GFS. At its request, STA fielded a GFS technical assistance mission in September 2003. The mission examined the structure of the relations between BiH governments and advised on sector classification for international comparison purposes. It developed a system to allow budget data to be classified, aggregated, and consolidated into summary GFS aggregates for all BiH governments, except for municipalities. This exercise also demonstrated that currently available data do not provide a satisfactory basis for compilation of GFS. The mission suggested enlisting the help of USAID to develop reporting systems that can electronically link GFS codes with ORACLE accounting systems used in the Treasuries. Reporting systems are still being developed.

5. The mission developed a medium term development plan for fiscal statistics in BiH, taking account of the problems posed by the complexity of the BiH government structure and the difficulties faced by the CBBH in collecting and processing data. The mission recommended a conservative approach, with the essential first step utilizing simple systems and processes which allow summary GFS reports to be produced on a timely and regular basis. Progress requires commitments by all parties to cooperate, as well as additional computer resources and, in the long run, more staff, at the CBBH.

D. Monetary Accounts

6. The CBBH reports monetary accounts to the Fund on both a countrywide and Entity basis. Over the period 1996–2001, several Fund technical assistance missions have assisted the authorities in establishing an integrated system for compiling countrywide monetary statistics meeting Fund standards. The latest mission in December 2001, reviewed in particular the recent institutional changes and accounting developments that have important implications for monetary statistics and assisted in revising and updating the current monetary data compilation procedures. The mission recommended improvements in, among other areas, the presentation of IMF-related accounts in monetary statistics and compilation of weighted average interest rates. The CBBH began, in early 2003, reporting weighted average rates for bank deposits and loans for January 2002 onward for publication in *IFS*.

A follow-up monetary statistics mission has been scheduled for FY2004 to assist CBBH in resolving data issues arising from recent developments in the financial sector, including

designation at end-2002 of the CBBH as the fiscal agent responsible for BiH's financial transactions with the IMF, and progress in privatization of banks in BiH.

Bosnia and Herzegovina: Core Statistical Indicators
(As of January 27, 2004)

	Exchange rates 1/	Inter-national 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	Jan 27, 2004	Dec 04, 2003	Nov 2003	Nov 2003	Nov 2003	Nov 2003	Sept 2003	Oct 2003	Q2 2003	2002	2002	November 2003
Date Received	Jan 27, 2004	Dec 14, 2003	Dec 31, 2003	Dec 15, 2003	Jan 5, 2004	Dec 31, 2003	Nov 2003	Nov 2003	Oct 2003	February 2003	Aug 2003	Dec 2003
Frequency of Data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Quarterly	Annual	Monthly
Frequency of Reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly/ On mission	Monthly	Quarterly	Quarterly	Quarterly	Annual	
Source of Update	CBBH 3/	CBBH 3/	CBBH 3/	CBBH 3/	CBBH 3/	CBBH 3/	Entity Statistics Institutes	Partner country data from <i>Direction of Trade Statistics</i>	CBBH	Federation and RS Finance Ministries	Entity and State Statistics Institutes	States' Treasury
Mode of Reporting	Website	Report to the Fund via email	Report to the Fund via email	Report to the Fund via email	Report to the Fund via email	Report to the Fund via email	Report to the Fund	Internal Fund database	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	Quarterly	Quarterly	Annual	N/A

1/ The convertible marka (KM) has been fixed vis-a-vis the Euro at KM1 = Euro 0.51129.

2/ Figures on the current account balance are rough staff estimates based on piecemeal data.

3/ CBBH is the Central Bank of Bosnia and Herzegovina.

Sarajevo and Banja Luka, Bosnia and Herzegovina
February 10, 2004

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

Dear Mr. Köhler:

The new governments that were formed at the State and Entity levels following the October 5 elections began their work in earnest in the Spring of 2003. The policies implemented since then testify of our commitment to promote sustained economic growth and improved living standards through continued macroeconomic stability and further structural reforms necessary to create a fully-functioning market economy. Policy measures taken during the past few months also underscore our strong backing for the maintenance of the currency board arrangement, further fiscal consolidation, and continued structural reforms. In support of this program, we are requesting completion of the fourth review under the Stand-By arrangement (SBA).

Based on discussions with Fund staff for the fourth review, the attached Supplementary Memorandum of Economic and Financial Policies assesses economic developments and policy implementation under the arrangement. It also lays out the concrete policy measures to be taken during the remainder of the year.

As noted in the attached memorandum, overall policy implementation through June 2003 has been strong, but some policy objectives were not realized. While we regret that one structural performance criterion and a structural benchmark for end-June 2003 was not observed, we are pleased to note that corrective action has been taken. The amendment to the regulations on banks' foreign exchange exposures (structural performance criterion) was issued on July 29, 2003. In addition, the structural benchmark on the collection period for pensions in the RS was not observed in November, but this issue was corrected in December. In light of this, we request the Executive Board of the IMF to approve a waiver in respect of the non-observance of the structural performance criterion for end-June 2003. Although the early payment of wage arrears in the RS in November breached a structural benchmark, we are pleased to inform you that we have since adopted a comprehensive strategy to make appropriate arrangements for all domestic claims on government, thereby fulfilling a prior action for the review.

We are well aware that there is a substantial medium-term reform agenda ahead of us. Our governments are increasingly focusing on translating this agenda into concrete measures which we intend to implement during the remainder of the program and in the framework of a possible successor extended arrangement to the SBA.

The Governments of Bosnia and Herzegovina believe that the policies set forth in the attached SMEFP are adequate to achieve the objectives of their program, but they will take any further measures that may become appropriate for this purpose. Bosnia and Herzegovina will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the SMEFP, in accordance with the Fund's policies on such consultation..

We are committed to transparency in our economic policies, and we authorize the Fund to publish this letter and the SMEFP following Executive Board consideration of the fourth program review.

Sincerely yours,

/s/
Adnan Terzic
Chair
of the Council of Ministers
Bosnia and Herzegovina

/s/
Ahmet Hadzipasic
Prime Minister
Federation of Bosnia and
Herzegovina

/s/
Dragan Mikerevic
Prime Minister
Republika Srpska

/s/
Ms. Ljerka Maric
Minister of Finance
of BiH Institutions
Bosnia and Herzegovina

/s/
Dragan Vrankic
Minister of Finance
Federation of Bosnia and
Herzegovina

/s/
Branco Krsmanovic
Minister of Finance
Republika Srpska

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

**SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
FOR BOSNIA AND HERZEGOVINA**

1. We have begun our work in Bosnia and Herzegovina in earnest. Since we took office following elections in the fall of 2002, we have:

- Secured a smooth transition to a new CBBH board, provided for the succession to a new governor at end-2004, rationalized reserve requirements, and firmly restated our commitment to the currency board arrangement;
- Strengthened banking regulations in regard to foreign exchange exposures and core capital requirements;
- Committed to implementation of wide ranging reforms under our six-month Action plan;
- Agreed a fundamental reform of indirect taxation which will underpin customs unification and preparations for a VAT;
- Prepared a reorganization of defense operations, anticipating rationalization, demobilization, and major cost savings;
- Maintained strong budget execution and published a plan for a comprehensive settlement of outstanding domestic claims on government (Table 1–3).

Though formulated in consultation with the international community, these are our policies, we will see that they are fully implemented, and they will form the basis for what follows.

2. The recent increases in international reserves of the Central Bank (CBBH) signal continued confidence in our policies and our commitments to reform and to the currency board. To ensure that confidence remains and deepens, our immediate focus is on two macroeconomic concerns: the continued rapid expansion of bank credit; and, looking further ahead, the need for sustained economic growth to raise living standards, combat unemployment, and respond to further declines in external reconstruction aid inflows.

3. The credit boom has been a mixed blessing. Funded largely by surging deposits in the banking system, it has facilitated long-overdue refurbishment of the housing stock and boosted activity—with real GDP growth in 2002 estimated at some 5½ percent, though it has since fallen back somewhat reflecting drought. But the pace of credit expansion raises concerns about its quality. And the lending has further enlarged the open foreign exchange position of banks, has caused bank liquidity in some banks to drop well below prescribed limits, and has boosted imports and the already-high external current account deficit—which rose to 18½ percent of GDP in 2002 and now shows only the most tentative signs of stabilizing.

4. Our actions to rationalize and tighten reserve requirements in June and strengthen regulations on bank forex exposures and core capital in July in the context of a strong budget stance were our first steps to address these problems. With credit growth and bank forex exposures remaining strong through September, these steps will be implemented firmly:

- Banks not yet observing the forex and capital regulations were required to prepare plans with the banking agencies indicating how compliance would be secured. We propose that as prior actions for completion of this review (Table 3):
 - i. Plans for those banks which exceeded their end-September ceilings would be finalized indicating how full compliance would be secured by end-December, and
 - ii. finalization of corrective plans for those banks which in September did not yet observe the end-December 2003 core capital requirements.
- In addition, liquidity regulations on banks will be reviewed and applied firmly. We will agree these regulations with IMF staff along with a phase-in period with monthly ceilings until full observance is achieved. This will be accompanied by a regime of escalating penalties for noncompliance. Preparation of plans for all non-compliant banks as at end-September indicating how compliance will be achieved throughout the phase in period will constitute a prior action for completion of the review.
- In the context of the application of the forex and liquidity regulations, the CBBH Board has reduced the rate of remuneration of excess reserves with the possibility of subsequent reductions.

In this context, the CBBH will maintain the present reserve requirements rate under close review with IMF staff and will adjust that rate as necessary in consultation with them.

5. Our fiscal stance in 2003 has been strongly supportive of these efforts to address the adverse effects of rapid credit growth on the external balance. With tax revenue broadly on track with program projections but somewhat below the original budget projections, we have observed our aggregate quarterly spending ceilings to September this year and all the sub ceilings under the performance criterion on borrowing from domestic banks. This has allowed us to reconstitute KM 18.3 million (0.2 percent of GDP) in succession monies used during 2002 to finance demobilization. Cantonal budgets have benefited in 2003 from a strong increase in sales tax collection, reflecting improved tax administration, and are on track to remain balanced this year without incurring new arrears, and the State budget has also performed strongly due to better than projected own revenue.

6. During the last quarter of 2003, we targeted to maintain spending below KM 268 million and KM 350 million in the RS and Federation central governments respectively. As disbursements of credits from the World Bank and the EU were delayed into 2004, we delayed completion of the reconstitution of succession monies until those disbursements

occur. In addition, neither entity will take unilateral action regarding the Human Rights Chamber (HRC) decision that pensions should be paid from the entity in which they were earned. But we will hasten efforts to ensure rapid implementation of that decision in accordance with our “Action Plan.” And following slippages in November, no repetition of the extension of the collection period for pension contributions in the RS will occur. On the basis of strong own revenues, the State rebalanced its 2003 budget at slightly higher spending levels than the original budget, without additional administrative transfers from the Entities, and with borrowing limited to the CIPS project. Accordingly, we estimate that we secured an overall fiscal consolidation of 2¾ percentage points of GDP from a deficit of 2.2 percent of GDP in 2002 to a small surplus in 2003.

7. By securing continued fiscal consolidation, this will maintain the necessary counterbalance to the effect of credit growth on imports, giving the monetary and regulatory steps outlined above time to moderate that credit expansion. And this consolidation will allow us to continue appropriate abstention from new borrowing from domestic banks and to place privatization receipts in escrow.

8. Alongside these steps, significant fiscal structural reforms will be taken forward. The Indirect Tax Authority (ITA) framework has been approved by the legislative authorities and its head has been nominated. The unified customs administration is expected to begin operations, funded from the State budget, in early 2004. The introduction of treasuries in the Federation cantons has broadly progressed as envisaged, and all Cantons are expected to have fully operational treasuries by February 2004. From October 2003 onward, the Federation Central Government and Cantonal Finance Ministers have met each month to discuss fiscal policy issues in the Federation. In the RS, we aim to implement treasuries in 5 pilot municipalities by early-2004. We are also committed to improve the transparency and financial management of RS Elektroprivreda, as agreed with the World Bank, and will review the quasi-fiscal subsidy program it provides with a view to abolishing this program.

9. We have also been concerned at reported double-digit wage growth in the non budget sector in the Federation and by recent demands for unsustainable 30 percent increases in budgetary wages in the Republika Srpska and large increases in other sectors. Pending a more thorough review of wage determination arrangements and the quality of the wage statistics, the Federation government will issue instructions through parent ministries to all state-owned enterprises to moderate wage awards, while the Republika Srpska will accommodate moderate budget wage increases largely funded from a mid-2004 restructuring of the salary structure and downsizing the civil service and the army.

10. To secure a sustained strong fiscal stance in 2003–04:

- The RS will maintain civil service wage rates unchanged until after a civil service reform including employment reductions, revision of wage scales, and reductions in nonwage benefits for civil servants is fully implemented in April 2004. Any savings generated by this reform can be used to increase wage rates, subject to ceilings on the

wage plus benefits bill (excluding severance pay) of KM 373 million (a 3 percent increase over the 2003 outturn) in the 2004 budget, and subject to dismissals not exceeding 4,000 people during 2004. To the extent that dismissals exceed 4,000, the savings will be allocated to non-remuneration items. These figures imply that the increase in average remuneration (wage and non-wage benefits excluding severance pay) once the reform is implemented will not exceed 9 percent with respect to pre-reform remuneration.

- The RS National Assembly passed a 2004 budget which anticipates excess spending. In executing the 2004 budget, we will target a deficit on a commitment basis excluding payments under the domestic debt settlement smaller than KM 26 million (less than 0.7 percent of RS GDP). This will be achieved by delaying spending authorization for some 0.7 percent of RS GDP until a mid-year review of revenue performance (See Annex I). Delayed spending commitments will only be authorized after that time to the extent that revenue excluding financing is on track to overperform the budget estimates.

And we propose as prior actions:

- The collection period for the November RS pension will not be extended beyond the 10th of December, a requirement we have observed.
- An agreement will be reached between the RS, Federation, and State on entity transfers to the State for 2004, to be incorporated in all three budgets.

11. With monetary, regulatory, budget and wage policies thus calibrated to provide strong support to the currency board, we intend to resolve a remaining public finance challenge to it—namely the overhang of domestic claims on the government. Our commitment to prepare a plan for this by end-June was frustrated by the complexity of the issue—pertaining to war damages, various spending arrears, and frozen foreign currency deposits. Accordingly, and to respond to the flow of lawsuits for settlement and the broader impediment the overhang constitutes to our economic prospects, we have adopted—by publishing in our official gazettes—a plan to achieve this goal. It specifies how court awards and pending cases will be treated, commits to pay no more than 10 percent of GDP (KM 1.2 billion) of all claims in order to secure fiscal sustainability—settling these with long bonds and cash from escrow—and to write off the remainder, and anticipates adoption of the necessary legislative framework by mid-2004 and to complete implementation of the plan thereafter. It has been designed in accordance with the Conventions of the Strasbourg Court and the arrangements under the plan reflect the priorities of the Entity governments. Execution of the plan has begun in respect of budget wage arrears in the RS and pension and war invalid benefit arrears in the Federation. The payment of cash for the admitted claims will be up to 1 percent of GDP in 2004. The phasing of the cash payments in 2004 and thereafter will be determined in consultation with staff in light of financing availability and macroeconomic considerations.

12. We intend that 2004 will mark a decisive turning point in Bosnia's economic development. With the reconstruction phase coming to an end, stable governments with long mandates, and the currency board secured by policies described above, it is time within that framework to confront the key impediments to stability, growth, and employment. Doing so will, we hope, set us securely on the path for eventual accession to the European Union.

13. Our immediate reform agenda in this regard is reflected in our six-month "Action Plan" to be completed by March 2004. Accordingly, we have focused our efforts on:

- Passing the framework legislation for the ITA;
- Accelerating privatization towards goals of issuing tenders for at least 5 strategic enterprises in each Entity by the end of 2003;
- Passing draft amendments of our bankruptcy laws to limit the priority given to labor claims. We will accelerate efforts to complete the restructuring of the judiciary, including the establishment of 16 commercial departments in the courts. Training modules for judges, trustees and other managers of the bankruptcy courts are being developed and we anticipate that intensive training will start in early 2004;
- Appointing a Director and a Statistical Council for the State Agency for Statistics, and pressing on with efforts to reduce red tape on business under the Bulldozer II initiative;
- Removing impediments to agricultural exports by strengthening the Veterinary Office and Institute for Standardization.

These initiatives are only the first steps of a much more ambitious reform agenda that lies ahead and which we are preparing.

14. But these immediate structural reforms will take time to finalize and take effect. In the meantime, our preparations for financial policies in 2004 reflect current structural constraints on economic growth and the risk that some of these reform actions to slow credit growth could be activity-impairing in the short-run. In this context, the key upside influences will be the prospective recovery of agriculture from the 2003 drought and a strengthening in the international economy. Accordingly, we project GDP growth in 2004 to strengthen from 3½ percent in 2003 to 5 percent, inflation to remain low at one percent and the external current account deficit to decline by 2 percentage points of GDP, a first step towards an ongoing correction anticipating declining aid inflows.

15. With the monetary, regulatory, wage and structural initiatives getting to grips with the external imbalance, our strong consolidated fiscal stance will be maintained in 2004. In particular, the Republika Srpska and the Federation will execute budgets which reflect total revenue, spending and balances on a commitment basis (excluding payments under the domestic debt settlement) at or below those agreed with the staff, which cover our policy

commitments in the assessment of IMF staff. Thus, excluding one-off items, we anticipate a small consolidated fiscal deficit in 2004, with this target being assured, in part, by maintenance of the prohibition on new bank borrowing by cantons. With domestic financing providing a bridge to foreign financing, reconstitution of succession monies used in 2002 will be completed, and privatization and succession receipts will continue to be placed and held in escrow in anticipation of the settlement of domestic claims.

16. Alongside, we plan significant expenditure reforms.

- Defense and other reforms will yield, at a minimum, 1 percentage point of GDP in structural fiscal savings with severance packages funded from escrow. Severance packages for the police and military will be at most an average of KM 6,000.
- Customs administration and intelligence and key parts of defense operations will shift to the state. Accordingly, the Entities and Brcko will transfer at least KM 94.3 million to the State for its administrative functions during 2004, executed from the ITA once the single revenue account is established. Additional administrative transfers may be agreed as arrangements to transfer spending functions to the state are finalized. Spending at Entity level on these shifted functions will be terminated—ensuring that consolidated spending does not rise as the functions shift. But savings from rationalization of those functions will be returned to the Entities and Brcko in proportion with their contributions. The State will freeze all new hiring for SIPA until full agreement is reached between the Entities, Brcko, and the State on the transfer of staff and funds.
- In line with our resolve to curb wage growth and maintain a strong fiscal stance, average budgetary wage rises in 2004 will not exceed 2 percent in the Federation, and will be determined as discussed in paragraph 10 for the RS.
- In the RS, we will review the funding arrangements for the health sector by mid 2004. In the Federation, we will ensure fully transparent use of funds in the Road Directorate, including the Cantonal directorates.

17. Building on progress under the Stand-By since its initiation, a sea change in the economic affairs of Bosnia and Herzegovina has begun. The challenges immediately ahead nevertheless remain daunting. We have signaled by our actions in office our intent to address them. In taking those efforts further forward, we anticipate a continued close relationship with the IMF.

Table 1. Bosnia and Herzegovina : Quantitative and Structural Performance Criteria
Under the 2002–03 Stand-By Arrangement
(In millions of KM, unless otherwise noted)

	2003			
	End-September		End-November	End-December
	1/ Act.	Act.	Est.	2/ 2/
A. Quantitative performance criteria				
Ceiling on gross credit of the banking system to the consolidated general government				
the State government 3/	0	0	0	0
the RS government and municipalities	10	3	5	10
the RS extra-budgetary funds	2	0	0	2
the Federation government	20	18	18	20
the Federation cantons 4/	10	5	5	10
the Federation municipalities 4/	8	4	4	8
the Federation extra-budgetary funds	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 5/6/	445	245	...	445
Ceiling on contracting or guaranteeing of new non-concessional external debt by the general government 6/7/	0	0	...	0
Ceiling on contracting or guaranteeing of new external debt by the general government with an original maturity of up to and including one year 5/	0	0	...	0
Ceiling on the outstanding stock of external payments arrears 7/	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 MEF (IMF Country Report No. 02/191), and paragraph 24 of the SMEFP (IMF Country Report No. 03/4).		Met	Met	Met

Sources: BIH Authorities; and IMF staff estimates.

1/ Performance criteria.

2/ Indicative limits. The definition of these limits is the same as in the Supplementary Technical Memorandum of Understanding for the SBA's second and third reviews (IMF Country Report No. 03/204, Appendix V).

3/ Excluding letters of credit at the state level for CIPS financing up to KM 40 million. Actual borrowing for CIPS was KM 14 Million at end-June 2003. It is estimated at KM 7 million at end-September 2003.

4 / After correction for net payments to Herzegovacka Banka.

5/ New refers to all operations taking place after August 2, 2002.

6/ The public sector is defined as general government and public enterprises.

7/ This will apply on a continuous basis.

Table 2. Bosnia and Herzegovina: Structural Benchmarks

	Implementation Date	Lead Institution
1. The Entities will make transfers to the State, at least according to the agreed cumulative monthly schedule reported in Annex 1 of the SMEFP.	continuous	IMF
2. 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.	continuous	IMF
3. The Entities and the Brcko District will implement laws establishing the excise attribution mechanism as previously agreed with the World Bank and thereby avoid the double taxation on excises.	continuous	IMF
4. There will be no new free trade zones.	continuous	IMF
5. Any changes to the current indirect tax system should retain or strengthen the principle of harmonization.	continuous	IMF
6. 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 collections.	continuous	IMF
7. (a) The base of the Brcko District sales tax will remain aligned with that in the Entities.	continuous	IMF
(b) The two rates of sales tax in the Brcko District will be 8 and 18 percent unless changes are agreed with IMF staff.	continuous	IMF
8. Bosnia and Herzegovina will not clear domestic government payment arrears that were accrued before end-2000, pending a comprehensive strategy to clear arrears.	continuous	IMF
9. There will be no offset operations for tax liabilities that are incurred after 2001.	continuous	IMF
10. Banking supervision will be strengthened by enforcing the current prudential regulations, by taking appropriate remedial actions according to the regulations in cases where institutions breach regulations.	continuous	IMF/World Bank
11. The commission on Value Added and Customs Administration will propose a framework of legislation governing all indirect tax legislation and administration.	July 2003	IMF

Table 3. Bosnia and Herzegovina: Prior Actions

	Status as of January 7, 2004
1. If the ceiling on the open foreign exchange position of the consolidated commercial banking system for end-September is not met, the Banking Agencies will prepare plans, based on understandings reached with staff, for those banks that did not meet their individual forex ceilings for end-September. The plans will indicate how those banks will adjust to observe their forex ceilings for end-December 2003. The ceilings are those defined in the "Instruction for Implementation of the decree on Minimum Standards for the Foreign Currency Risk Management of Banks" issued by the Federation and RS Banking Agencies in July 2003.	Implemented
2. If banks are not observing as at end-September the core capital requirements applicable at end-2003, the Banking Agencies will prepare, in agreement with staff, plans for such banks indicating how they will observe those requirements by end-2003.	Implemented
3. Prepare a plan to make arrangements for domestic claims (i) so that total domestic claims will be consistent with fiscal sustainability (SMEFP paragraph 11), and (ii) spelling out specific measures for all types of domestic claims and the handling of court cases that have already been determined. (iii) This plan should be published in the government gazettes once it is agreed by all three prime ministers and, (iv) should anticipate establishment of the legal basis for its implementation by June 30, 2004.	Implemented
4. The collection period for the November RS pension will not be extended beyond the 10th of December.	Implemented
5. An agreement will be reached between the RS, Federation and State on Entity transfers to the State for 2004, to be incorporated in all three budgets.	Not yet implemented
6. Agree bank liquidity regulations with IMF staff along with a phase-in period with monthly ceilings. Establish a regime of escalating penalties for non compliance based on the monthly ceilings. Prepare a plan for all banks which are non compliant as at end-September, indicating how compliance will be achieved throughout the phase in period.	Implemented

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 fourth review of the program supported by a Stand-By Arrangement from the IMF, the entity Ministers of Finance and the Minister of the Treasury of the BiH Institutions have reached the following

AGREEMENT ON THE TIME SCHEDULE FOR THE PAYMENT OF RESPECTIVE AMOUNTS FOR FOREIGN DEBT SERVICING AND ENTITY CONTRIBUTIONS FOR THE FINANCING OF THE 2004 BUDGET OF THE BiH INSTITUTIONS

I

In order to ensure timely payment of foreign liabilities and 2004 liability projections arising from foreign debt, in a total amount of KM 268.6 million, out of which KM166.6 million is the Federation liability and KM 102 million is the Republika Srpska liability, the Federation of Bosnia and Herzegovina 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 2004 for the administrative segment of the budget of the BiH institutions amount to KM 90.48 million out of which KM 60.32 million is to be paid by the Federation and KM 30.16 million is to be paid by the Republika Srpska. Brcko District will transfer KM 4.056 million to the State in 2004.

The transfer to the budget of the BiH institutions shall be paid on a monthly basis, ensuring that 1/12 (one-twelfth) of the total transfer shall be remitted for every current month. Payments will be made at the latest by the 15th of each month for the liability of the previous month. Any delay in payments shall be treated as violation of the conditions under the Stand-by arrangement.

III

By the 20th day of each month, the Minister of Finance and Treasury of the BiH Institutions will provide a written report to the IMF indicating developments in transfers from the Entities to the State for administrative and debt service purposes during the previous month, noting their consistency with the commitments made in this agreement.

IV

Both Entity governments and the State government agree that the expenditure functions for customs administration and intelligence service will be transferred fully to the State government together with Entity budget allocations for these functions during 2004. The Federation government agrees to transfer amounts budgeted for 2004 for customs and intelligence, respectively to the State pro-rated on a monthly basis starting with the month the transfer of expenditure functions becomes effective. The RS government agrees to transfer amounts budgeted for 2004 for customs and intelligence, respectively to the State pro-rated on a monthly basis starting with the month the transfer of expenditures functions becomes effective. Both Entity governments and the State government agree that the central command structure of the military will be established at State-government level and that the Federation and the RS will provide transfer to finance State-level central command.

Transfers from the entities related to the establishment of State-level central command will be executed in respect of the limits of the total expenditure envelope envisaged in each entity budget for 2004.

Brcko District agrees to transfer amounts budgeted for 2004 for customs to the State pro-rated on a monthly basis starting with the month the transfer of expenditure functions becomes effective.

Before the transfer of the expenditure function for customs and intelligence services as well as the military central command becomes effective, the Entities and the State government will sign a separate protocol which will determine the modalities of staff transfers, including remuneration, employment status, and other issues that the signatories deem relevant.

Republika Srpska government and the Brcko District agree to maintain the current arrangement on provision of customs service, based on the signed Agreement between Republika Srpska and Brcko District (No.01-483-1316/01, dated August 13, 2001) until the adoption of the Indirect Taxation Administration (ITA) budget. The final solution for the financing of customs service will be established in the context of the adoption of the ITA budget, and a protocol terminating the Agreement between Republika Srpska and Brcko District will be signed in that occasion.

The State will freeze any new employment for SIPA until the State, Entities and Brcko District reach an agreement on transfer of staff and funds for this institution.

Other Technical aspects of the realization of earmarked transfers to the institutions mentioned in the previous paragraphs will be agreed among the BiH Minister of Finance and Treasury, Entity ministers of finance, and the Brcko District.

V

BiH Council of Ministers, Federation BiH and the RS government will include explicit statements in their 2004 budget documents that will reflect the substance of the agreements mentioned in Article IV of this agreement. The appropriate allocation of expenditure on transfer of responsibilities and functions from the entities to the state will be recorded through a rebalancing of the 2004 budgets. The State government will seek a written agreement with Brcko District on the transfer for customs services and its budget to the State.

In Sarajevo and Banja Luka,

Ljerka Maric
Minister of Finance and Treasury of BiH Institutions

Dragan Vrankic
Minister of Finance
Federation of Bosnia and Herzegovina

Branko Krsmanovic
Minister of Finance
Republika Srpska

Delayed Spending List in the RS, 2004

The total of spending in the following treasury codes will be restricted KM 26 million below the annual totals authorized by the RSNA during 2004. This will be subject to a mid-year review. If domestic revenue, excluding financing items, is clearly on track to exceed the budget estimate of KM 1,004 million, then these delayed spending items may be authorized up to the extent that this domestic revenue exceeds the budget estimate—thereby preserving the targeted budget balance.

Delayed Spending List

No.	Budgetary Beneficiary	Budget Position	Amount (KM)
1	2	3	4
1.	All budgetary beneficiaries (except Republic Administration for civil defense)	613100-Travel costs	500.000
2.	All budgetary beneficiaries (except Republic Administration for civil defense)	613200-Electricity costs	300.000
3.	All budgetary beneficiaries (except Republic Administration for civil defense)	613400- Purchase of material	2.700.000
4.	Ministry of Finance	613400- Costs of printing stamps for tobacco products and alcoholic beverages 613800-Bank services costs-budget	100.000 200.000
5.	All budgetary beneficiaries – (except Republic Administration for civil defense)	613500- Costs for transportation services and fuel	1.100.000
6.	All budgetary beneficiaries (except Republic Administration for civil defense)	613600- rent of property and equipment	400.000
7.	All budgetary beneficiaries (except Republic Administration for civil defense)	613700- Costs of current maintenance	1.500.000
8.	All budgetary beneficiaries –(except Republic Administration for civil defense, elementary, high-school and university education)	613900- Contracted services	800.000

9.	Ministry of traffic and communications	614100- Earmarked allocations for the construction of touristic railways of RS 614400-Co-financing of RS Railways	2.000.000 1.100.000
10.	All budgetary beneficiaries –(except Republic Administration for civil defense, elementary, high-school and university education, Ministry of Defense)	821200- Capital investments 821300- Purchase of equipment 821600- Reconstruction and investment maintenance	900.000 3.100.000 2.400.000
11.	RS government	821800- Public investments	2.400.000
12.	Ministry of Agriculture, forestry and water industry	614400- Subsidies to agriculture 614400-Funds for forestry	5.600.000 1.000.000
	Total		26.100.000

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

**Fourth Review Under the Stand-By Arrangement and Request for Waiver of
Nonobservance of Structural Performance Criterion
Supplementary Information**

Prepared by the European and Policy Development and Review Departments

(In consultation with the Legal Department)

Approved by Carlo Cottarelli and G. Russell Kincaid

February 20, 2004

1. This statement reports information made available since the staff reports for the Fourth Review of the Stand-By Arrangement and Request for Waiver of Nonobservance of Structural Performance Criterion and the Article IV consultation were issued. This new information does not change the thrust of the staff appraisal.

A. Observance of Understandings under the Stand-By Arrangement

2. All indicative credit limits for end-December 2003, all continuous structural benchmarks through mid-February, and—with agreement on the protocol on administrative transfers to the state reached—all prior actions have been met (see attached updated Tables 1 and 2 of the SMEFP).

3. At end-December 2003, most banks observed the corrective plans agreed with the banking agencies in regard to foreign exposures, liquidity, and core capital, and fines were levied on those which did not. Excluding banks under provisional administration, all but two of 26 Federation banks and all Republika Srpska (RS) banks met the minimum capital requirement of KM 15 million applicable at end-2003. Audits will be conducted by end-March 2004 for those that did not observe the capital requirement.

4. The RS authorities have proposed some minor changes to the list of “delayed spending” for 2004.

B. Economic Developments and Policy Outlook

5. Newly available data from partner countries on the merchandise trade balance in 2003 suggest that the external current account may have strengthened by a few percentage points of GDP more than was indicated in the staff reports. Though customs data suggest a similar

adjustment, trends in exports and imports reported by the two data sets are very different. Until these discrepancies in the composition of the trade balance are resolved, it is unclear how reliable the reported improvements in the trade balance are.

6. International reserves at the Central Bank of Bosnia and Herzegovina (CBBH) remained stable in January 2004, declining moderately in February.

7. The Federation parliament has completed the first reading of the 2004 budget. Amendments to the composition of expenditure are likely in the second reading, though these are expected to respect understandings with staff on total spending. In addition, the 2004 spending ceilings will incorporate spending of some KM 12 million, (0.1 percent of BiH GDP) for items which overran authorizations during 2003. The authorities target final approval of the budget in early March. The 2004 budget for the State is expected to be adopted by the State council of Ministers shortly, with approval by parliament slated for end-March. Until then, both budgets are operating under standard "temporary financing" provisions, whereby monthly spending is capped at 1/12 of the 2003 budgets.

8. The RS preparations for their anticipated April 2004 wage reform have made progress, albeit somewhat behind schedule. Necessary detailed wage data have been collected for the bulk of government staff, excluding teachers, and broad options for a new wage grid are under consideration. Preparations continue to identify individual staff to be laid off, but progress in this area lags. If dismissals fall short of the anticipated 9 percent of the workforce, the wage increases for the remaining workforce will be correspondingly reduced.

9. Decisions on detailed revenue allocation mechanisms for indirect taxes under the Indirect Tax Authority (ITA) are expected in mid-March. In anticipation of that, the ITA director is now assembling the necessary data on collections during 2003 as a basis for those decisions.

Table 1. Bosnia and Herzegovina : Quantitative and Structural Performance Criteria
Under the 2002-03 Stand-By Arrangement
(In millions of KM, unless otherwise noted)

	2003			
	End-September		End-December	
	1/ 1/	Act.	2/ 2/	Est.
A. Quantitative performance criteria				
Ceiling on gross credit of the banking system to the consolidated general government				
the State government 3/	0	0	0	0
the RS government and municipalities	10	3	10	7
the RS extra-budgetary funds	2	0	2	0
the Federation government	20	18	20	18
the Federation cantons 4/	10	5	10	6
the Federation municipalities 4/	8	4	8	5
the Federation extra-budgetary funds	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 5/6/	445	245	445	284
Ceiling on contracting or guaranteeing of new non-concessional external debt by the general government 6/7/	0	0	0	...
Ceiling on contracting or guaranteeing of new external debt by the general government with an original maturity of up to and including one year 5/	0	0	0	...
Ceiling on the outstanding stock of external payments arrears 7/	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 (IMF Country Report No. 02/191), and paragraph 24 of the SMEFP (IMF Country Report No. 03/4).		Met	Met	Met

Sources: BIH Authorities; and IMF staff estimates.

1/ Performance criteria.

2/ Indicative limits. The definition of these limits is the same as in the Supplementary Technical Memorandum of Understanding for the SBA's second and third reviews (IMF Country Report No. 03/204, Appendix V).

3/ Excluding letters of credit at the state level for CIPS financing up to KM 40 million. Actual borrowing for CIPS was KM 14 Million at end-June 2003. It is estimated at KM 7 million at end-September 2003.

4 / After correction for net payments to Herzcegovacka Banka.

5/ New refers to all operations taking place after August 2, 2002.

6/ The public sector is defined as general government and public enterprises.

7/ This will apply on a continuous basis.

Table 2. Bosnia and Herzegovina: Structural Benchmarks

	Implementation Date	Status as of 2/18/04	Lead Institution
1. The Entities will make transfers to the State, at least according to the agreed cumulative monthly schedule reported in Annex 1 of the SMEFP.	continuous	Implemented	IMF
2. 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.	continuous	Implemented	IMF
3. The Entities and the Brcko District will implement laws establishing the excise attribution mechanism as previously agreed with the World Bank and thereby avoid the double taxation on excises.	continuous	Implemented	IMF
4. There will be no new free trade zones.	continuous	Implemented	IMF
5. Any changes to the current indirect tax system should retain or strengthen the principle of harmonization.	continuous	Implemented	IMF
6. 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 collections.	continuous	Implemented	IMF
7. (a) The base of the Brcko District sales tax will remain aligned with that in the Entities.	continuous	Implemented	IMF
(b) The two rates of sales tax in the Brcko District will be 8 and 18 percent unless changes are agreed with IMF staff.	continuous	Implemented	IMF
8. Bosnia and Herzegovina will not clear domestic government payment arrears that were accrued before end-2000, pending a comprehensive strategy to clear arrears.	continuous	Implemented	IMF
9. There will be no offset operations for tax liabilities that are incurred after 2001.	continuous	Implemented	IMF
10. Banking supervision will be strengthened by enforcing the current prudential regulations, by taking appropriate remedial actions according to the regulations in cases where institutions breach regulations.	continuous	Implemented	IMF/World Bank
11. The commission on Value Added and Customs Administration will propose a framework of legislation governing all indirect tax legislation and administration.	July 2003	Implemented	IMF



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 04/17
FOR IMMEDIATE RELEASE
March 5, 2004

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2004 Article IV Consultation with Bosnia and Herzegovina

On February 25, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Bosnia and Herzegovina.¹

Background

Economic activity weakened somewhat in 2003 while inflation remained low. Real GDP growth slowed to an estimated 3.5 percent from 5.5 percent in 2002 and 4.4 percent in 2001, as manufacturing has all but stood still and drought has cut agricultural output by one-fifth. Profitability appears to have strengthened in the Republika Srpska while deteriorating further in the Federation. Consumer prices, anchored by the currency board, were unchanged in January–September 2003 compared to the same period of 2002.

Credit to households soared in 2002, fueled by a rapid increase in bank deposits following bank privatization and reverse currency substitution as euro notes were introduced on January 1, 2002. This boosted imports and raised the current account deficit by about 2.5 percentage points of GDP towards 19 percent. After a policy tightening in 2003—a reform of required reserves regime, strengthened application of bank liquidity, and foreign exchange exposure regulations—credit to the private sector has begun to decelerate and the current account to strengthen. With slower growth in credit, the lagged impact of a real appreciation of the Serbian dinar in 2002, and further fiscal consolidation, the external balance strengthened by at least 1 percentage point of GDP in 2003.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Fiscal consolidation continued by about 2.5 percent of GDP in 2003, taking the balance to a small surplus. With revenue on track, both Entity governments kept a tight lid on spending. Spending at State, Cantonal, and extra-budgetary fund levels has also remained under control, with the latter two on track to achieve balanced budgets. The Entities continued to reconstitute into the escrow accounts funds spent in 2002 for severance payments under the demobilization program.

An impressive reform agenda is underway. First, a framework law on indirect taxation was recently adopted that will strengthen the fiscal system by providing for immediate establishment of a single indirect tax and customs administration and for indirect tax harmonization throughout BiH. It also establishes joint Entity and State decision-making for indirect tax policy. This package underlies plans to replace sales tax with value-added tax in 2005–06. Second, a plan has been announced to restructure unsustainable domestic claims on the government of more than 200 percent of GDP. Third, major defense reforms are anticipated for 2004, centralizing command and control structures, continuing demobilization, and facilitating accession to North Atlantic Treaty Organization's partnership for peace. Fourth, the judicial system is being overhauled, including a nearly completed exercise to selectively reappoint judges and a new system of commercial courts. Fifth, since mid-2003, bank regulators have stepped up enforcement of key liquidity and foreign exchange exposure regulations, with full enforcement expected by mid-2004. At the same time, the authorities' six-month "Action Plan" of structural reforms signals their increasing capacity to take the lead in economic policymaking. Furthermore, a European Union feasibility study has been completed, setting the stage for EU accession negotiations to commence.

Executive Board Assessment

Directors commended Bosnia and Herzegovina's progress during 2003 in maintaining growth despite a severe drought, as well as the maintenance of price stability, the achievement of a sizable fiscal consolidation, a decline in the external current account deficit, and an increase in international reserves; all of which signaled the increasing strength of the currency board. They also noted progress in institutional and structural reform, including the installation of a new central bank board, the development of plans to reform indirect taxes and defense spending, and to restructure domestic claims on the government. Directors cautioned, however, that many challenges remain in maintaining macroeconomic stability and deepening structural reforms, in particular in strengthening governmental institutions and corporate revitalization. These challenges are compounded by an eventual decline in aid inflows and the need to continue absorbing refugees.

Directors welcomed the authorities' commitment to maintain a strong fiscal stance in 2004, which they viewed as contributing to a sustainable fiscal position and a reduction in the external current account deficit, and bolstering the viability of the currency board. They cautioned, however, that further fiscal tightening might be required in view of uncertain trends in the balance of payments and domestic savings. They regretted the political and procedural difficulties in approving the 2004 budget that had led to a significant delay in completing the fourth review under the Stand-By Arrangement, and pointed to the challenges associated with

improving fiscal policy coordination and containing current spending, especially on wages and pensions.

Directors were encouraged that a rapid expansion in bank credit is being contained, but stressed that further restraint is necessary for macroeconomic stability. In this respect, they highlighted the importance of firm implementation of monetary policies and regulations introduced in mid-2003 that altered reserve requirements, and tightened bank core capital requirements and foreign exchange exposure regulations. They noted that if the central bank's responsibilities are extended to banking supervision, the authorities should ensure that the quality of regulation is maintained during the transition period. They encouraged the authorities to put in place effective AML/CFT legislation.

Directors emphasized the critical importance of progressing on a broad range of structural reforms in the private and public sector. They endorsed steps to improve governance of state enterprises, including by reinvigorating privatization, and to put in place commercial legislation, including a bankruptcy code, and commercial courts. They called for the authorities to move quickly to structure voluntary debt workouts for state enterprises involving all creditors, and to curb regulatory, legal, and tax impediments to business development. They also saw a need simultaneously to reform labor market institutions to induce a more efficient use of labor. In this context, they strongly encouraged reviewing wage and severance arrangements in order to moderate wage growth and attain a higher rate of employment growth.

Directors emphasized the importance of strengthening fiscal policy and institutions. A top priority is to develop the Indirect Tax Authority, which would administer the planned value added tax, and to consider extending its responsibilities to coordinate fiscal policy in general. They also supported tax reform to reduce the burden of taxation, especially on labor, and stressed the need for greater efficiency in current spending to make room for public investment. They welcomed the authorities' plans to restructure domestic claims on government and to reduce their net burden, and stressed the importance of implementing debt restructuring without delay, thus paving the way for accession to Article VIII status.

Directors observed that deficiencies in statistics hindered macroeconomic policy making and analysis, including in running the currency board, and the analysis of broader economic developments. They highlighted the need for diligent attention to strengthening data collection.

Directors regretted the unilateral decision to delay, even briefly, full implementation of the regional Free Trade Agreements, and underscored that this might impede the country's accession to the World Trade Organization. A few Directors also noted the importance and possible revenue consequences of reducing tariffs.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Bosnia and Herzegovina: Selected Economic Indicators, 2000-04 1/

	2000	2001	2002	2003 Est.	2004 Proj.
	Annual percentage change				
Real GDP	5.5	4.4	5.5	3.5	5.1
CPI (period average) 2/	5.0	3.2	0.3	0.1	0.9
Money and credit					
Broad money (end-of-period)	14.0	89.2	7.0	8.3	...
Net domestic assets (percent contribution to broad money growth)	3.4	3.2	15.6	13.8	...
<i>Of which:</i> credit to the public sector	1.1	-7.0	-1.7	-1.1	...
	As a percentage of GDP				
General government budget					
Revenue (including grants)	53.7	49.7	48.1	46.7	46.1
Expenditure (on a commitment basis)	60.7	53.1	50.4	46.3	46.0
Overall balance	-7.0	-3.3	-2.2	0.4	0.0
External public debt	58.8	48.2	42.2	34.0	32.8
Total public debt 3/	58.8	48.2	42.2	34.0	59.7
	(In millions of U.S. dollars)				
Balance of payments					
Exports, f.o.b.	832	870	1,046	1,407	1,715
Imports, f.o.b.	2,547	2,701	3,122	3,845	4,322
Current account balance	-621	-811	-1,036	-1,224	-1,319
(In percent of GDP)	-13.1	-16.2	-18.5	-17.4	-15.8
Gross official reserves	497	1,221	1,279	1,725	...
(In months of imports)	2.2	5.1	4.6	5.1	...
External debt service	94	81	125	147	148
(In percent of exports of goods and services)	7.3	6.3	8.5	7.8	6.6
Exchange rate regime	Currency board since August 1997				
Present exchange rate (February 25, 2004)	1KM=Euro 0.5113				
Real Effective Exchange rate (1999=100)	107.6	99.6	94.7	93.6	...

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

1/ Data refer to the entire country.

2/ Based on weighted averages for the Federation and Republika Srpska.

3/ The increase in the face value of total public debt in 2004 reflects the issuance of bonds as part of the plan to settle domestic claims on government.



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FOR IMMEDIATE RELEASE
February 25, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Final Review Under Stand-By Arrangement for Bosnia and Herzegovina and Approves US\$18 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth and final review of Bosnia and Herzegovina's economic performance under its Stand-By Arrangement with the IMF (see [Press Release No. 02/35](#)). With this decision, the Executive Board approved the disbursement of SDR 12 million (about US\$18 million). It also granted Bosnia and Herzegovina's request to waive non-observance of the end-June structural performance criterion on amending bank regulations on foreign currency exposures, which were subsequently issued in July.

The Stand-By Arrangement, which was approved on August 2, 2002 totals SDR 67.6 million (about US\$101 million). So far, Bosnia and Herzegovina has drawn SDR 55.6 million (about US\$83 million). Following consecutive two-month extensions approved on October 7, 2003 (see [Press Release No. 03/164](#)) and December 31, 2003 (see [Press Release No. 03/231](#)), the Arrangement will expire on February 29, 2004.

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

“Bosnia and Herzegovina continued to make significant progress in economic reform in 2003, by sustaining economic growth, despite a severe drought, and bringing inflation down to industrial country levels. A firm fiscal stance and a reduction in credit expansion led to a strengthening of the external current account, supporting the currency board arrangement, which serves the country well. An impressive structural reform agenda is underway and will support efforts at macroeconomic control.

“The authorities' commitment to maintain a strong fiscal stance in 2004 is critical as it will contribute to a sustainable fiscal position and a reduction in the external current account deficit. Further fiscal tightening might be required in view of uncertain trends in the balance of payments and domestic savings. Difficulties in approving the 2004 budget point to the challenges in improving fiscal policy coordination and containing current spending, especially on wages and pensions. The April 2004 civil service employment and remuneration reforms in the Republika Srpska need to be implemented with particular care.

“A rapid expansion in bank credit is being contained, but further restraint is called for. The authorities need to firmly apply monetary policies and regulations introduced in mid-2003 that alter reserve requirements, and tighten bank core capital requirements and foreign exchange exposure regulations.

“The recently adopted law on indirect taxation will provide for establishment of a single indirect tax and customs administration, harmonization of indirect taxes, and a means to replace the sales tax with a value-added tax in the next few years. In addition, the authorities have developed a plan to restructure unsustainable domestic claims on government, and expect to achieve major defense spending reforms in 2004. The installation of the central bank board in August 2003 and improved banking regulation should contribute to a strengthened financial system.

“Although the authorities have already taken steps to invigorate corporate restructuring and privatization of state enterprises, core tasks remain. The authorities need to resolve state enterprise debt issues and take specific steps to remove regulatory, legal, and tax impediments to business development. They also need to induce more efficient labor markets and strengthen macroeconomic statistics,” Ms. Krueger said.