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FIFTH REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUESTS FOR WAIVERS OF APPLICABILITY AND EXTENSION AND AUGMENTATION OF THE ARRANGEMENT

In the context of the fifth review under the Stand-By Arrangement and requests for waivers of applicability and extension and augmentation of the arrangement, the following documents have been released and are included in this package:

- The **Staff Report,** prepared by a staff team of the IMF for the Executive Board's consideration on January 31, 2014, following discussions that ended on November 20, 2013, with the officials of Bosnia and Herzegovina on economic developments and policies underpinning the IMF Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on January 16, 2014.
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Bosnia and Herzegovina.

The documents listed below have been or will be separately released.

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

*Also 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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KEY ISSUES

Stand-By Arrangement (SBA): The Board approved Bosnia and Herzegovina's (BiH) request for a two-year SBA with access of SDR 338.2 million (200 percent of quota) on September 26, 2012. The fourth review was completed on October 28, 2013 and SDR 211.375 million (125 percent of quota) has been disbursed so far. SDR 42.275 million (25 percent of quota) would become available after completion of the fifth review.

Program performance: Policy implementation remains strong despite a challenging environment. All end-September 2013 performance criteria (PCs) and indicative targets were met. The fifth review was delayed to allow for the adoption of government budgets for 2014 and due to the dismissal—later suspended—of the Federation finance minister that temporarily interrupted the ministry's operations. Thus, the authorities are requesting waivers of applicability of the now controlling end-December 2013 PCs on the budget balances and accumulation of domestic arrears for the Institutions of BiH and the entity central governments for which data are not yet available and for which there is no evidence they were not observed. The 2014 budgets aim to preserve the gains made in fiscal consolidation. Despite some delays, sustained progress was made in meeting structural benchmarks, including the adoption of a new law on budgets in the Federation.

Outlook and risks: A modest recovery in economic activity continues, supported by strong exports. Growth is estimated to have reached close to 1 percent in 2013 and is projected to pick up further in 2014 in line with developments in Europe. The banking sector is broadly stable but remains burdened by rising non-performing loans. Considerable downside risks loom ahead, including those stemming from general elections later this year.

SBA: The authorities are also requesting a nine-month extension and augmentation of the arrangement. Access would be increased by SDR 135.28 million (80 percent of quota) to meet additional financing needs that arise mainly in late 2014.

Staff's view: Given the authorities' strong track record of policy implementation and their commitment to maintain sound economic policies, staff supports the request for waivers of applicability and recommends the completion of the fifth review. Staff also supports the request for an extension and augmentation of the arrangement, as it would address the additional financing needs and continue to provide an anchor for economic policies during the period of the elections and the formation of the next governments.

Approved By
Aasim M. Husain and Masato Miyazaki

A staff team comprising Messrs. van Rooden (head), Zhan, and Llaudes (all EUR), Ms. Maslova (SPR), and Ms. Benedek (FAD) visited Banja Luka and Sarajevo during November 6–20, 2013. Mr. Atoyan (resident representative) and Ms. Jankulov (local economist) assisted the mission. Mr. Friedman (OED) attended most of the policy meetings. The team met with: at the State level: Chairman of the Council of Ministers Bevanda, Minister of Finance and Treasury Špirić, Central Bank Governor Kozarić; in the Federation of BiH: Prime Minister Nikšić and Finance Minister Krajina; and in the Republika Srpska: Prime Minister Cvijanović and Finance Minister Tegeltija. Staff also met with other senior officials, members of parliament, and representatives of the business sector, labor unions and the diplomatic community. Ms. Blasco and Ms. Nguyen (both EUR) assisted with the preparation of this report.

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APPENDIX

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

1. **The modest pick-up in economic activity continues, and growth is estimated to have reached almost 1 percent in 2013.** Industrial production and exports have continued to lead the recovery, growing by 6¼ percent and 7 percent respectively through September. Nonetheless, weak domestic demand owing to high unemployment and tight fiscal policies is dampening the pace of the recovery. With rising exports and weak domestic demand contributing to slow import growth, the current account deficit is estimated to have narrowed substantially in 2013, to below 8 percent of GDP. Recent data suggest that exports to Croatia, one of BiH's largest trading partners, have declined following Croatia's EU accession, while imports from Croatia have fallen more. Inflation pressures remain subdued, reflecting the still weak domestic demand and falling commodity prices. Twelve-month inflation dipped into negative territory in recent months (-0.9 percent in October), and is substantially below the regional average. The increase in economic activity has yet to result in a decline in unemployment, which remains high at 27½ percent.

BiH: Selected High-Frequency Indicators, 2012–13

Indicator	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Latest
	(Change, ytd, percent unless otherwise noted)					
RS Real GDP[1]	-0.9	-0.6	1.7	2.0	1.7	1.7
Industrial production (real)	-4.6	-4.3	6.6	6.9	6.3	6.5
Capital Goods	-1.0	-0.5	24.6	26.6	19.7	20.4
Private sector employment	-1.7	-1.8	-1.9	-1.8	-1.7	-1.8
Value-added tax revenues (gross)	0.2	-0.1	0.6	2.5	0.3	0.2
Real net private sector wage	-0.8	-4.5	5.1	5.4	5.9	6.0
Imports (nominal), of which	-0.3	-1.8	0.6	-1.3	-2.3	-1.6
Capital goods	-1.2	-3.6	0.0	-1.1	-2.0	-0.5
Consumer non-durables	1.5	1.7	6.3	6.2	2.9	2.6
Exports (nominal)	-4.7	-4.4	9.7	8.7	7.0	6.0
Headline inflation	2.1	2.0	0.8	0.6	0.3	0.2
Core inflation	0.6	0.6	-0.4	-0.4	-0.4	-0.5

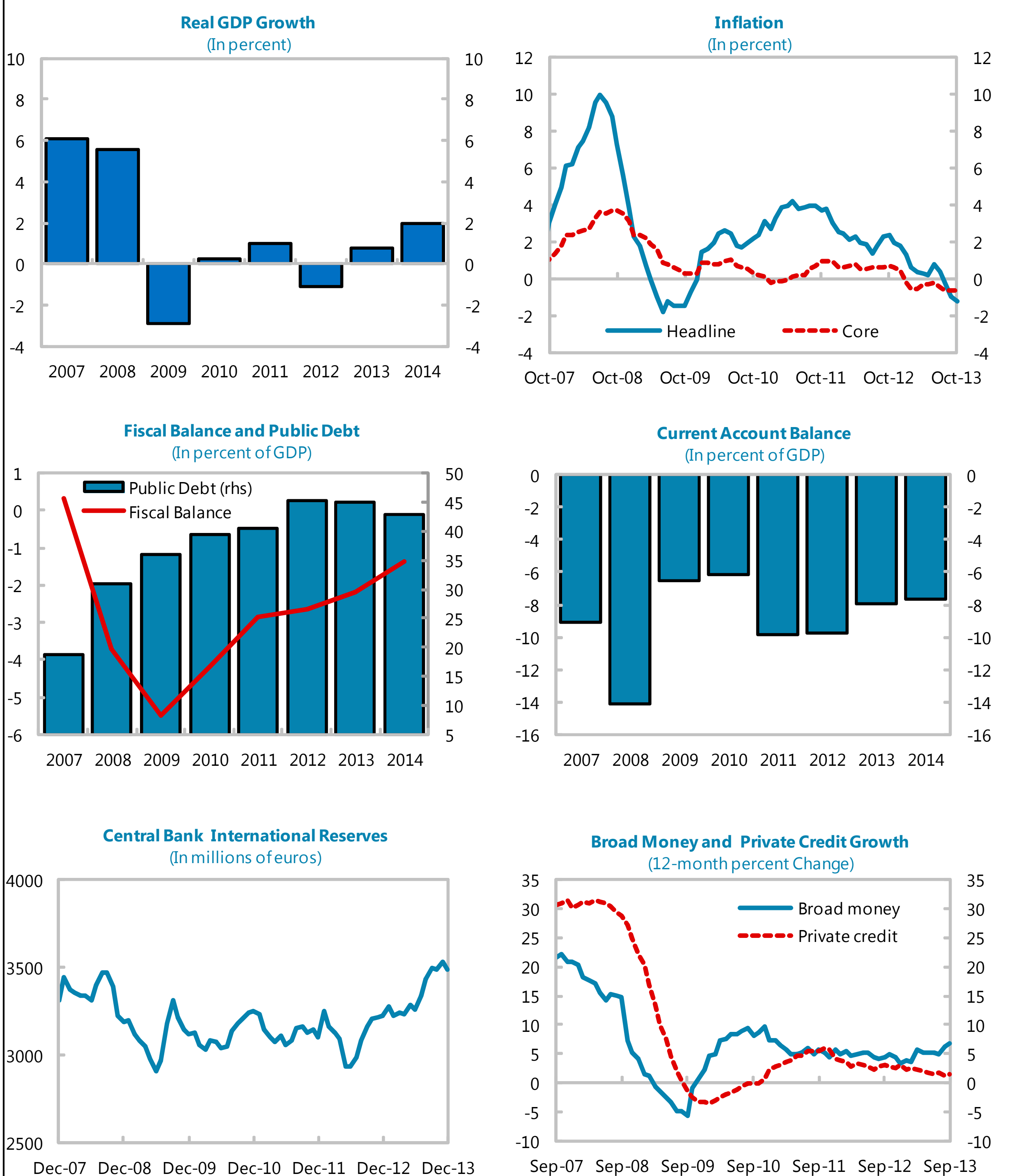
Sources: BiH authorities; and IMF staff estimates.

[1] Percent change over the same quarter in previous year.

2. **Growth is projected to increase further in 2014, to around 2 percent, in line with developments in Europe.** While exports are expected to continue to lead the recovery, the pick-up in economic activity is projected to become more broad-based, reflecting also an anticipated increase in foreign-financed infrastructure projects. As the recovery in Europe gathers steam, growth is expected to increase further over the medium term, reaching 4 percent, driven by expanding exports, while domestic demand is also projected to recover gradually—as incomes increase and lending conditions improve, and with a steady inflow of remittances—and supported further by the implementation of structural reforms and completion of major infrastructure projects. Inflation is expected to move closely in line with developments in the euro area.

3. **Risks to the outlook remain tilted to the downside.** A difficult political situation and the general elections scheduled for October 2014 pose significant risks to the timely implementation of policies envisaged under the program. This risk already came to the fore in early January in the Federation, when the president dismissed the finance minister—a move that was challenged before the constitutional court and that temporarily interrupted the operations of the finance ministry, halting all budget payments. Recognizing the need for a functioning finance ministry, the constitutional court acted swiftly by re-instating the minister in mid-January, pending the appointment of a new minister or the court's ruling on the constitutionality of the president's decision. On the external side, continued slow growth or renewed financial stresses in the euro area

Figure 1. BiH: Selected Economic Indicators, 2007–14



Sources: BiH authorities; and IMF staff estimates and projections.

would weaken exports and capital flows. On the other hand, a faster recovery in Europe would boost external demand and private capital inflows.

PERFORMANCE UNDER THE PROGRAM

4. **The 2013 overall budget deficit is estimated to have reached 2.2 percent of GDP, compared to an (unadjusted) target of 2 percent of GDP** (or 2.4 percent of GDP adjusted).[1] Sizable revenue shortfalls—including lower-than-budgeted indirect tax revenues and a delay in the partial distribution of dividends from the electricity transmission company TRANSCO (equivalent to about 0.4 percent of GDP)—and delays in official foreign financing could only partially be offset by mobilizing domestic financing. Thus, the authorities were forced to significantly compress non-priority spending in the last months of the year. Although the entity governments had reached an agreement on the implementation of all measures that would have allowed for the distribution of TRANSCO dividends—including the appointment of new management, approval of audited financial accounts, and agreement on an investment plan that ensures the viability of the transmission system—the necessary legislative changes could not be completed before the end of 2013.

5. **Data to assess the end-December 2013 performance criteria on budget balances (net lending) and domestic arrears are not yet available, however.** There is no indication that these performance criteria were not met. The authorities are therefore requesting waivers of applicability of these end-December 2013 performance criteria, which will then be assessed during the next review. The performance criteria on non-concessional short-term debt and external payment arrears were met, as the authorities did not contract or guarantee any new non-concessional short-term external debt, nor did they accumulate any external payment arrears through end-December 2013. The end-2013 indicative target for the collection of indirect taxes is likely to have been missed, however. While the authorities had started to implement a number of measures to improve tax collection (see below), their immediate effect on 2013 government finances has been limited.

6. **All performance criteria for end-September 2013 were met.** The Institutions of BiH and the central governments of the Federation and the Republika Srpska (RS) met the end-September performance criteria on their fiscal balances with comfortable margins and did not accumulate any new domestic spending arrears. The authorities continued to exert expenditure restraint, to offset shortfalls in tax and other revenues. All indicative targets for end-September 2013 were also met, including the target for net lending by the general government (excluding foreign-financed projects).

7. **The authorities continued to make steady progress in implementing structural reforms.** The continuous and quarterly structural benchmarks were all observed. Moreover:

[1] The program included an adjustor for the end-2013 targets for any shortfalls in programmed dividend payments from TRANSCO (see EBS/12/161) that would allow the authorities to seek alternative financing. A new, symmetric adjustor is proposed for the 2014 fiscal targets, such that dividend receipts in 2014 can only be used to repay debt or spending liabilities incurred in 2013 or before.

- **The new Law on Budgets for the Federation was adopted by the Federation parliament** (an end-November structural benchmark). The law, developed with assistance from the Fund, is a significant step forward in improving fiscal policy coordination in the Federation, promoting fiscal discipline, improving fiscal reporting, and strengthening the central government's oversight over spending by lower levels of government, extra-budgetary funds, and public companies. The accompanying regulations and procedures are being finalized to enable the law's implementation as of January 2014.

- **The Indirect Tax Authority (ITA) started to publish the names of the 100 largest tax debtors** (an end-December 2013 structural benchmark), as well as information on the stock of indirect tax arrears and rescheduled tax debts, and the rescheduling agreements. By increasing transparency, the ITA aims to reduce tax evasion.

- **Implementation of the new privileged pension law in the Federation, effective since August 2013, is ongoing.** Benefits of existing beneficiaries were reduced, although the savings have so far been less than expected—with an average reduction in benefit payments of about 20 percent instead of the anticipated 30 percent—in part due to legal challenges of the process of auditing all existing beneficiaries. The authorities have prepared amendments to the audit law that will address the legal concerns and will allow for an acceleration of the audit process. Meanwhile, the screening of new entrants is underway. The authorities have unified and tightened the instructions for eligibility verification and have allocated sufficient administrative resources to ensure that the screening of new entrants will be completed on time. A number of challenges to the new privileged pension law and other related laws currently before the Federation Constitutional Court are creating considerable uncertainty, although the authorities remain committed to ensure that the overall cost of the privileged pension system will not increase, including by further reducing benefit levels if needed.

- **The Federation parliament has adopted the pension reform strategy and its action plan.** The strategy, developed with assistance from the World Bank, aims to increase the number of contributors to the old-age pension system and to raise the effective retirement age in order to secure the long-term viability of the pension system. The necessary changes to the legislation to implement the strategy will be submitted to the Federation parliament by end-December 2014 (a new structural benchmark) for adoption in early 2015.

- **In the RS, the registration of farmers for the purpose of broadening the collection base for social contributions has been largely completed.** The registration of farmers will help to improve the social funds' financial position and also enable the authorities to better target agricultural subsidies.

- **The BiH government adopted a new draft procurement law for BiH**—prepared with assistance from the EU and the OECD. The new law—which will align BiH's procurement framework with EU standards—is expected to be adopted by the BiH parliament by end-February 2014 (a new structural benchmark).

- **The authorities took a number of measures to further improve fiscal reporting and monitoring, and to better manage budget spending at all levels of government:**
  - Commitment due dates are now entered into the Treasury system for all transactions. In addition, an agreement was reached on a common definition of arrears, with any amount that is not paid within 90 days after the due date considered to be in arrears.
  - Following the adoption of the new Law on Budgets, the Federation will include foreign-financed projects and the road and highway funds in its reporting on the consolidated Federation general government. The RS, which had already started to capture foreign-financed projects in its reporting of the consolidated general government finances, will aim to complete this process in 2014.
- **The members of the Standing Committee on Financial Stability (SCFS) have each developed contingency plans detailing their respective responsibilities as well as the coordination with other institutions in the event of financial sector difficulties** (a structural benchmark for end-December 2013). These individual plans, developed with assistance from the Fund, will be used also as the basis for strengthening the functioning of the SCFS to ensure that it can effectively fulfill its over-arching role as a coordinating body for contingency planning and crisis resolution (see below).

- **The banking agencies instructed a number of banks that have been under intensified supervision to hire reputable auditors to conduct a thorough asset quality review.** One of these banks already hired an auditor, while the remaining five banks expect to complete the selection process in the coming weeks (an end-December 2013 structural benchmark; see below).

- **The deposit insurance coverage was raised further to KM 50,000 (a little over €25,000).** The increase—from almost €18,000—became effective January 1, 2014 and will help increase depositors' confidence.

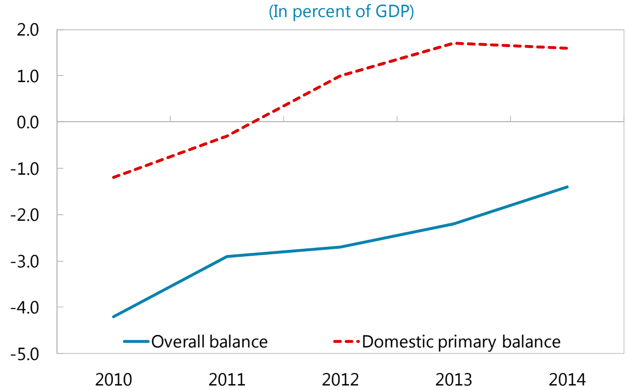
- **Uncertainty regarding the status of the Securities Commission in the Federation has been resolved.** Due to an inability to reach political consensus on the appointment of new commission members after the term of most members ended in 2009, the commission has been functioning in a technical capacity. Recent court cases put into question the legal validity of the commission's decisions since 2009, including the registration of banks' capital increases. This uncertainty has been resolved by the adoption by the Federation parliament of a legally binding interpretation that affirmed the commission's decisions since early 2009. The authorities aim to achieve a more systemic and comprehensive solution by amending the Law on Ministerial, Government and Other Appointments that will ensure not only the stability of the commission, but also of other key institutions.

POLICY DISCUSSIONS

A. Fiscal Policy: Preserving Gains in Fiscal Consolidation

8. **Government budgets for 2014 have been adopted by the respective parliaments that preserve the gains made so far in fiscal consolidation and place public debt on a downward path.** Budgets for 2014 for the Institutions of BiH and for the entity central governments were adopted by the respective parliaments in December (prior actions for this review) that—excluding foreign-financed projects and the one-off TRANSCO dividend distribution—target a primary surplus of over 1½ percent of GDP. This is consistent with a consolidated general government deficit of less than 2 percent of GDP, when adding lower levels of government and especially large foreign-financed infrastructure projects that are channeled through the entities' highway funds. If the one-off distribution of the TRANSCO dividend is realized—which under the program can only be used to repay debts including previous years' liabilities—this would reduce the overall cash deficit to about 1½ percent of GDP. The budgets of the Institutions of BiH and the entity central governments keep spending broadly unchanged, in nominal terms, from last year's levels, including by strictly containing the wage bill and only allowing for legally mandated increases in pensions and social benefits. A further 5 percent public sector wage increase in the RS—thus fully reversing the 10 percent wage cut introduced at the start of 2013—was offset by savings elsewhere within the wage bill, mainly by reducing allowances for some public employees and through establishing a centralized payroll system. The projected increase in tax revenues is based on conservative assumptions but also reflects the anticipated pick-up in economic activity and increased efforts to improve collection (see below). Nevertheless, additional financing needs will arise in late 2014, as external debt service obligations are even higher in 2014 than in 2013, while economic growth, and thus revenue growth, has not been as strong as had been envisaged at the outset of the program. The authorities are therefore seeking additional financial support to help address these financing needs (see section D).

Bosnia and Herzegovina: Fiscal Balances 2010–14
(In percent of GDP)



Sources: BiH authorities; and IMF staff estimates and projections.

Bosnia and Herzegovina: Fiscal Balances, 2010-2014

	2010	2011	2012	2013 EBS/13/131	2013 Est.	2014 EBS/13/131	2014 Proj.
Central governments primary balance (excl. foreign-financed projects and TRANSCO)	-1.2	-0.3	1.0	1.6	1.7	1.6	1.6
General government overall balance	-4.2	-2.9	-2.7	-2.0	-2.2	-1.9	-1.4
General government overall balance (excl. TRANSCO)	-4.2	-2.9	-2.7	-2.4	-2.2	-1.9	-1.8

Sources: BiH authorities, and IMF staff estimates and projections.

9. **The Federation authorities recognize the need to ensure the continued functioning of the finance ministry in the absence of a minister.** The recent dismissal of the finance minister by the president temporarily prevented the ministry from making any payments, as the annual budget law stipulates that payments require the authorization of the prime minister and the finance minister, indicating alternates for the former but not for the latter. The authorities will seek to address this shortcoming in the coming months, with the assistance of the Fund, by amending the annual budget law or the Law on Ministerial, Government and Other Appointments.

10. **The authorities agree that, notwithstanding the progress made so far, further fiscal reforms are needed to ensure medium-term fiscal sustainability.** Thus, they have laid out an ambitious policy agenda for the remainder of the program, including the period of the requested extension, aimed at continued gradual and sustainable fiscal consolidation anchored by an increasing focus on: (i) improving revenue performance, (ii) streamlining the public sector; and (iii) preserving the gains from entitlement reforms.

11. **Efforts to improve revenue performance by strengthening tax administration and broadening the tax base remain of critical importance.** For this purpose, the authorities will proceed with the measures set in motion during earlier reviews. In particular:

- **The ITA will:**
  - **Complete the modernization of its organizational structure**, particularly by strengthening its large-taxpayers unit and the unit focusing on the detection and the prevention of VAT fraud.
  - **Introduce a risk-based approach for the selection of VAT refunds for audit**, to be developed with assistance from the Fund, with selection criteria for audits focusing more on the claimant's compliance record than the amount of the refund.
  - **Fully harmonize excises on different tobacco products** by raising excises on fine-cut tobacco to make these fully equivalent to those on cigarettes, effective March 2014 (a new structural benchmark). The ITA governing board approved the harmonization in late December 2013, but implementation is awaiting parliamentary approval. The ITA will also ensure that the tax treatment of different tobacco products remains fully equivalent as the excise rate on cigarettes is raised gradually in the coming years to achieve convergence with EU levels.
  - **Raise the excise rates on fuel products** and channel the additional revenues directly to the respective highway funds. This will generate more resources for highway construction. Similarly, the ITA will consider raising excises on alcohol and tobacco further, and channel the additional revenues to the health care system, to support comprehensive health care reform with assistance from the World Bank, and with a view to reducing the tax burden on labor by lowering the health care contribution rate.
  - **Continue to benchmark its efforts with indicative targets** on gross collection of indirect tax revenues.

- **The four tax agencies (ITA, FTA, RSTA, and BDTA) will start exchanging taxpayer information in January 2014.** The tax agencies are working to complete the legal and technical steps needed to allow for automated and unfettered access to each other's taxpayer data.

- **The Federation will adopt a new corporate income tax law.** The new law, currently under preparation with assistance from the Fund, aims to broaden the tax base by reducing deductions and tax expenditures and to clarify the tax treatment of depreciation and banks' loan loss provisioning to bring these in line with international practice. The new draft law is expected to be submitted to the Federation parliament in early 2014, and its adoption is expected by end-March 2014. Similarly, the RS will conduct a review of its corporate income tax law in early 2014 to foster consistency between the two entities and with a particular focus also on its tax treatment of loan loss provisioning.

- **The FTA will press ahead with its modernization program**, aimed at promoting voluntary compliance and implementation of a risk-based approach, with the assistance of the Fund. The FTA will be given authority for its organizational design—including the establishment of a large-taxpayers office—and human resource management.

12. **Similarly, on the expenditure side efforts are needed to streamline and increase the efficiency of government operations.** Thus, the authorities will:

- **Contain the public sector wage bill by refraining from increasing overall employment** in the Institutions of BiH and the entity central government administrations.

- **Adopt new civil service laws** following the adoption of the new labor laws. This will facilitate public administration reform, including by increasing the scope for reallocating staff within the administration and adjusting staffing and wage levels.

- **Strengthen control in the Federation over social benefits outlays**, the largest expenditure item in the Federation budget, by establishing by the spring of 2014 a centralized database of all beneficiaries of social transfers. The required law for this purpose is expected to be adopted by end-March 2014 (a new structural benchmark).

13. **The Federation authorities will restart the privatization process.** The privatization process stalled in 2008 and poorly managed state-owned companies have continued to lose value and pose risks to the budget. Privatization will improve economic governance and encourage private investment. The authorities will seek assistance from the World Bank and the EBRD to prepare a detailed action plan for submission to parliament by mid-2014 that will specify the candidates for privatization, the timeline, and intermediate benchmarks for the next five years. In the meantime, the authorities will dispose of minority shares in a number of enterprises, with the proceeds to be used to improve the pension fund's finances and to facilitate the restructuring of other state-owned enterprises to prepare them for privatization.

B. Financial Sector Policies: Safeguarding Financial Stability

14. **The banking system remains stable, but non-performing loans (NPLs) continue to edge up, underscoring the need for continued close monitoring and strengthening of the legal and regulatory framework.** Financial sector indicators through end-September 2013 indicate that the banking system remains profitable, well capitalized, and liquid at the aggregate level. On the other hand, steadily increasing NPLs, now close to 15 percent of total loans and reflecting the still weak economy, constitute a significant drag on bank lending.

15. **To safeguard financial stability and help unclog the banking system so that it can support the economic recovery, the authorities are continuing with the multi-pronged approach developed in the last year.** In particular:

- **The banking agencies are continuing their enhanced monitoring of those banks identified as vulnerable under adverse scenarios.** The detailed asset quality reviews of these banks are expected to be completed in the first half of 2014 and will provide valuable information to the banking agencies about potential balance sheet risks.

- **The authorities will further strengthen their contingency planning and crisis preparedness toolkit.** On the basis of the SCFS members' individual contingency plans, and with assistance from the Fund, the authorities will review the rules and procedures of the SCFS and will strengthen these as needed by end-March 2014, to ensure that the SCFS can effectively fulfill its coordinating role for contingency planning and crisis resolution. The SCFS, with help from the Fund and the World Bank, will also conduct crisis simulation exercises and develop bottom-up stress tests for systemic banks.

- **The banking agencies will also strengthen their cooperation with home-country supervisors of foreign-owned banks.** With foreign-owned banks accounting for the bulk of the banking system, the banking agencies are already in close contact with the home-country supervisors, but they will seek to strengthen this through memoranda of understanding. The banking agencies and the central bank, supported by the Fund, recently organized a Host Country Cross-Border Forum where home and host supervisors as well as parent banks and their subsidiaries had an informal and open discussion on the future of the banking sector in BiH. Banks affirmed their commitment to continue their operations in BiH, but noted that they had adopted a more cautious approach to lending. They also emphasized the need for a legal and regulatory framework that is harmonized between the entities and facilitates NPL resolution.

- **Work continues to draft new banking laws, to bring them fully in line with EU directives and the requirements of Basel II and to expand the tool-kit for dealing with problem banks.** To ensure consistency between the entities, the entity finance ministries and banking agencies, the central bank, and the deposit insurance agency will work together with technical assistance from the Fund and the EU to coordinate the drafting of these new banking laws. The draft laws are planned to be submitted to the respective parliaments by June 2014 (structural benchmarks).

- **A number of crucial steps will be taken to improve the framework for recovering and resolving NPLs**, with the assistance from the Fund and the World Bank. This includes the planned new legislation on asset management companies (structural benchmarks for end-June 2014), and the clarification, and revision as needed, of the tax treatment of loan sales. Other legislation (law on companies, law on foreign exchange operations, law on enforcement procedure, and others) will be reviewed as well with a view to improving creditors' rights. At the same time, to ensure that consumer rights are protected as well, the Federation government has drafted a new Law on the Protection of Consumers of Financial Services, which is expected to be adopted by end-March 2014. Improvements in the court system will also be essential but this is likely to take time. Meanwhile, a voluntary out-of-court restructuring system will be established in the first half of 2014. In this context, the authorities will seek assistance from the World Bank to conduct an assessment of banks' NPLs to provide an estimate of the loans that could return to sustainable performance status through restructuring actions.

- **A new BiH law to combat money laundering and terrorist financing will also help safeguard the integrity and stability of the financial sector**. The new law will ensure compliance with the recommendations of the Financial Action Task Force and is expected to be approved by the BiH parliament by end-March 2014.

C. Strengthening Competitiveness and Job Creation

16. **The authorities continue to move ahead with reforms aimed at improving the business environment and making BiH a more attractive place to invest and create jobs.** To help achieve a lasting reduction in the high rate of unemployment efforts are underway to:

- **Make it easier to start and operate a business.** In the RS, the one-stop shop for business registration became operational in December 2013, and the process of business registration will be further streamlined by introducing online e-registration by mid-2014. With the same objectives, in the Federation new Laws on Companies and Inspections, and amendments to the Law on Business Registration, which were prepared with the assistance of the World Bank as part of a Development Policy Loan have been submitted to parliament, and are expected to be approved in early 2014.

- **Consult with the social partners on new labor market legislation that would foster job creation.** Both the Federation and the RS have prepared working drafts of new labor laws that would aim to: improve the process of collective bargaining; give the government a larger role in determining the level of minimum wages (including for young workers); promote differentiated wage setting based on skills and performance; reduce disincentives for hiring; and allow more opportunities for temporary jobs. The new laws would also aim to better protect workers' rights consistent with ILO labor standards and EC labor directives, including by increasing the penalties for labor law violations. Adoption of the new laws by the respective parliaments (structural benchmarks for end-December 2013) has been delayed, however, until early 2014, as more time is needed for discussions with the social partners. As this remains an important structural measure, staff will discuss the timing for the completion of this process during the next review. This delay meant that the elimination of take-home pay protection in the RS (also a structural benchmark for end-December 2013) is delayed as well, as it is dependent on the adoption of a new labor law.

17. **Discussions with the WTO are progressing well and the authorities aim to complete the accession process in 2014**. Bilateral negotiations with only two countries remain to be concluded ahead of accession. Discussions with the EU on trade relations following Croatia's accession to the EU are ongoing, but a failure to resolve outstanding issues soon could adversely affect BiH's trade with Croatia and the EU.

D. Program Modalities

18. **The authorities are requesting an extension of the arrangement through end-June 2015, with an increase in access of 80 percent of quota (SDR 135.28 million).** This would bring total access under the arrangement to 280 percent of quota (SDR 473.48 million). The extension would not only ensure that the SBA will continue to provide an anchor for the authorities' economic policies during the period of the elections and the formation of the next governments, but would also help cover the additional financing needs projected for 2014 and 2015. As most of the financing needs arise in 2014, 70 percent of quota (SDR 118.37 million) would be made available in the second half of 2014—linked to the end-June and end-September performance criteria—and the remaining 10 percent of quota (SDR 16.91 million) would be made available in the first half of 2015. Part of the financing needs are expected to be covered by the World Bank, which is expected to disburse a $50 million Development Policy Loan in the first half of 2014 and will aim to complete a second $50 million operation in the first half of 2015.

19. **BiH has sufficient capacity to discharge its obligations to the Fund in a timely manner.** Debt sustainability analysis suggests that with a resumption of economic growth as envisaged under the baseline scenario and with the continuation of prudent fiscal policies, public and external debt will continue on a downward path and debt servicing obligations will be manageable. However, debt indicators could deteriorate rapidly to unsustainable levels in case of sustained adverse shocks, notably in case of a prolonged growth shock or a departure from the currency board arrangement. By the end of the extended SBA, the level of Fund credit outstanding is projected to be around 3½ percent of GDP (15 percent of gross international reserves). Fund repurchases and charges peaked last year at 45 percent of total debt service. The country so far has an excellent record of meeting Fund financial obligations. With the expectation that strong performance under the program will continue, BiH would return to a sustainable medium-term growth path, providing assurance that BiH should continue to be able to service its obligations to the Fund on time.

20. **Program performance would continue to be monitored on a quarterly basis.** Quantitative performance criteria for the full year of 2014, as well as indicative targets and structural benchmarks are indicated in Tables 1 and 2 attached to the authorities' supplementary Letter of Intent of January 8, 2014.

21. **In the event an augmentation of access is approved, an update of the safeguards assessment of the central bank will be conducted.** This assessment will update the assessment completed in March 2013 and will assess whether the recommendations made at that time have been implemented.

STAFF APPRAISAL

22. **The authorities continue to make good progress under the SBA.** Economic activity is picking up and fiscal policy remains on track. Data to assess all the controlling end-December 2013 performance criteria are not yet available, but the two for which data are available were met. Moreover, all end-September performance criteria and indicative targets were met, and steady progress has also been made in observing structural benchmarks, albeit with delays in some instances that reflect capacity constraints and BiH's complex legal framework.

23. **The 2014 government budgets preserve the gains made so far in fiscal consolidation and place public debt on a downward path.** The budgets are consistent with a consolidated general government deficit—excluding one-off revenues—of under 2 percent of GDP. This will be achieved mainly by keeping government spending broadly unchanged from 2013 levels. Greater efforts continue to be needed, however, to improve tax collection and streamline public administration, not only to ensure medium-term fiscal sustainability, but also to reduce the government's share in the overall economy.

24. **BiH's banking sector remains stable, but vigilance is still warranted.** The authorities' ongoing efforts to strengthen banking supervision, improve their readiness to deal with any banking sector difficulties, and improve the legal and regulatory framework for banks and for the recovery and resolution of NPLs will help ensure financial sector stability. Close coordination and cooperation with home country supervisors also remains of particular importance given the ownership structure of the banking sector.

25. **Reforms to improve the business environment and the functioning of the labor market will help make BiH a more attractive place to invest and create jobs.** With unemployment still unacceptably high, these reforms are urgently needed. Improvements are made in the business environment to make it easier to start and operate a business. Similarly, it is crucial that the authorities and social partners continue their dialogue to put in place new labor market legislation that is more conducive to job creation.

26. **Close policy coordination between the Institutions of BiH and the entities remains of crucial importance to achieve faster growth and speed up the integration with the rest of Europe.** Faster growth is needed for income levels to converge to those elsewhere in Europe. BiH competes with other countries in the region in attracting capital and investment. Harmonizing policies and legislation will help reduce the cost of doing business by creating a common economic space, and this will help boost investment and growth. Without strong policy coordination and cooperation, BiH would be at risk of falling behind its regional peers.

27. **Risks to the program remain unchanged.** Any delay in Europe's economic recovery will directly affect BiH's economic outlook through its adverse impact on exports, remittances, and capital flows. Domestic political instability and the upcoming general elections pose a risk to the continued and timely implementation of policies under the program, as highlighted by the recent difficulties that temporarily interrupted the full functioning of the finance ministry in the Federation. In addition, while the authorities' commitment to the policies under the program remains strong, capacity constraints and the complex legal framework can also cause delays in the timely implementation of reform measures.

28. **Despite these risks, in view of the authorities' strong performance so far and their policies for the period ahead as summarized in the attached supplementary Letter of Intent of January 8, 2014, staff supports the authorities' request for the completion of the fifth review under the SBA.** Staff also supports the authorities' request for waivers of applicability of the end-December 2013 performance criteria on the floor on net lending (fiscal balances) and the ceiling on the accumulation of domestic arrears, as data are not yet available while there is no evidence that these were not met. Staff furthermore supports the authorities' request for an extension through end-June 2015 and augmentation of the arrangement. The extension would not only help address the additional financing needs, but would also allow the arrangement to continue to provide a valuable anchor for economic policies during the period of elections and government formation.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2010–18

	2010	2011	2012	2013		2014	2015	2016	2017	2018
				EBS/12/161	Proj.	Proj.				
Nominal GDP (KM million)	24,773	25,680	25,654	26,797	26,262	27,393	29,003	31,199	33,450	35,931
Gross national saving (in percent of GDP)	11.5	6.4	6.3	10.0	8.6	8.7	9.4	10.1	10.8	10.9
Gross investment (in percent of GDP)	17.1	15.6	16.0	19.1	16.6	16.3	16.4	16.2	16.1	15.9
					(Percent change)					
Real GDP	0.2	1.0	-1.1	0.5	0.8	2.0	3.5	4.0	4.0	4.0
CPI (period average)	2.1	3.7	2.0	2.4	0.3	1.1	1.5	1.9	2.1	2.1
Money and credit (end of period)										
Broad money	7.2	5.8	3.4	3.5	3.6	4.3	4.6	7.6	7.5	7.7
Credit to the private sector	2.1	4.2	2.8	3.5	2.4	5.0	6.6	8.5	8.1	8.4
					(In percent of GDP)					
Operations of the general government										
Revenue	46.5	46.1	46.3	46.3	45.9	46.2	45.7	45.7	45.6	45.6
Of which: grants	2.5	2.1	2.1	2.2	1.9	2.1	2.2	2.3	2.4	2.6
Expenditure	50.6	48.9	49.0	48.4	48.1	47.5	47.0	46.5	46.1	45.6
Of which: investment expenditure	8.0	6.3	6.2	6.6	6.7	6.5	6.6	6.7	6.8	6.8
Net lending	-4.2	-2.9	-2.7	-2.0	-2.2	-1.4	-1.3	-0.8	-0.4	0.0
Net lending, excluding interest payment	-3.5	-2.3	-1.9	-1.1	-1.3	-0.5	-0.4	0.0	0.3	0.7
Total public debt	39.3	40.5	45.1	43.0	44.9	42.8	40.2	37.4	34.5	33.6
Domestic public debt	13.9	14.5	17.2	13.5	15.4	12.3	10.7	10.1	10.0	10.0
External public debt	25.4	25.9	27.9	29.5	29.5	30.5	29.5	27.3	24.5	23.6
					(In millions of euros)					
Balance of payments										
Exports of goods and services	3,700	4,111	4,061	4,265	4,269	4,568	4,945	5,322	5,729	6,174
Imports of goods and services	6,522	7,714	7,109	7,573	7,313	7,713	8,133	8,610	9,091	9,658
Current transfers, net	1,805	1,791	1,837	1,859	1,853	1,934	2,011	2,110	2,213	2,324
Current account balance	-782	-1,295	-1,273	-1,237	-1,065	-1,071	-1,039	-984	-918	-917
(In percent of GDP)	-6.2	-9.9	-9.7	-9.0	-7.9	-7.6	-7.0	-6.2	-5.4	-5.0
Foreign direct investment (+=inflow)	272.2	342.3	273.2	346.9	319.9	328.8	334.1	339.5	349.1	359.2
(In percent of GDP)	2.1	2.6	2.1	2.5	2.4	2.3	2.3	2.1	2.0	2.0
Gross official reserves	3,303	3,285	3,326	3,285	3,389	3,485	3,546	3,511	3,424	3,593
(In months of imports)	5.4	5.4	5.4	5.0	5.2	5.1	4.9	4.6	4.2	4.3
External debt, percent of GDP	51.6	49.1	52.4	54.0	53.0	53.9	52.4	49.5	46.1	44.5
External debt service/GNFS exports (percent)	19.7	14.9	12.6	17.4	14.7	14.7	12.6	12.9	14.4	8.4

Sources: BiH authorities; and IMF staff estimates and projections.

Table 2. Bosnia and Herzegovina: Real Sector Developments, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Proj.			
Real aggregates					(Percent change)				
Growth rates									
GDP at constant 2005 prices	0.2	1.0	-1.1	0.8	2.0	3.5	4.0	4.0	4.0
Domestic demand	-3.4	1.1	-1.9	-0.6	2.1	3.5	4.8	4.3	4.6
Private	-5.6	2.9	-2.1	-1.3	2.6	3.5	4.5	3.8	4.4
Public	3.5	-4.0	-1.4	1.2	0.7	3.6	5.6	5.7	5.1
Consumption	-0.4	3.1	-2.2	-1.6	2.3	3.2	4.7	4.1	4.6
Private	-0.8	2.9	-2.6	-1.7	2.6	3.4	4.7	3.8	4.5
Public	1.3	3.6	-0.7	-1.3	1.1	2.4	4.7	5.0	4.9
Gross capital formation	-15.9	-8.5	-0.6	4.8	1.5	5.2	5.4	5.4	4.6
Private	-30.1	3.1	1.4	1.9	2.8	4.1	3.6	3.9	3.7
Public	9.2	-21.8	-3.5	9.3	-0.4	6.9	8.0	7.7	5.8
Net Exports									
Exports of goods and services	10.3	3.6	-3.0	6.5	9.7	10.1	8.2	7.8	7.7
Imports of goods and services	-2.7	2.6	-4.0	1.0	7.0	7.6	8.2	7.0	7.5
Contributions to real GDP growth					(Year-on-year change over real GDP in previous year, in percent)				
GDP at constant 2005 prices	0.2	1.0	-1.1	0.8	2.0	3.5	4.0	4.0	4.0
Domestic demand	-4.4	1.4	-2.4	-0.8	2.6	4.3	5.9	5.3	5.7
Private	-5.5	2.7	-2.0	-1.2	2.4	3.2	4.1	3.5	4.0
Public	1.1	-1.3	-0.4	0.4	0.2	1.1	1.7	1.8	1.6
Consumption	-0.4	3.2	-2.3	-1.7	2.3	3.3	4.8	4.2	4.7
Private	-0.7	2.3	-2.2	-1.4	2.0	2.7	3.7	3.1	3.6
Public	0.3	0.8	-0.2	-0.3	0.3	0.6	1.1	1.2	1.1
Gross capital formation	-4.0	-1.8	-0.1	0.9	0.3	1.0	1.1	1.1	1.0
Private	-4.8	0.3	0.2	0.2	0.3	0.5	0.4	0.5	0.4
Public	0.8	-2.2	-0.3	0.7	0.0	0.5	0.7	0.7	0.5
Net Exports	4.6	-0.4	1.3	1.6	-0.6	-0.8	-1.9	-1.3	-1.7
Exports of goods and services	3.0	1.2	-1.0	2.1	3.4	3.8	3.2	3.2	3.3
Imports of goods and services	-1.6	1.5	-2.3	0.5	4.0	4.6	5.1	4.5	5.0
Deflators					(Percent Change)				
GDP	2.1	2.6	1.0	1.6	2.3	2.3	3.4	3.1	3.3
Domestic demand	4.0	4.4	2.1	1.5	2.0	1.5	1.9	2.0	2.1
Consumption	3.7	4.1	2.0	1.7	2.2	1.6	2.0	2.1	2.2
Investment	2.3	3.8	3.0	1.0	1.2	0.8	1.3	1.1	1.3
Exports of goods and services	9.1	7.1	1.8	-1.4	-2.5	-1.7	-0.6	-0.1	0.0
Imports of goods and services	9.7	9.5	4.0	-0.5	-1.2	-2.1	-2.3	-1.3	-1.2
Nominal aggregates									
Nominal GDP (KM million)	24,773	25,680	25,654	26,262	27,393	29,003	31,199	33,450	35,931
					(In percent of GDP)				
Consumption	105.0	108.7	108.6	106.2	106.4	105.4	104.6	103.7	103.2
Private	83.6	86.7	86.3	84.5	85.0	84.4	83.8	82.9	82.5
Public	21.4	22.1	22.4	21.7	21.4	21.0	20.8	20.8	20.7
Gross capital formation	17.1	15.6	16.0	16.6	16.3	16.4	16.2	16.1	15.9
Private	9.1	9.4	9.8	9.9	9.8	9.8	9.5	9.3	9.1
Public	8.0	6.3	6.2	6.7	6.5	6.6	6.7	6.8	6.8
National Savings	11.5	6.4	6.3	8.6	8.7	9.4	10.1	10.8	10.9
Private	8.5	3.7	4.2	4.4	4.2	4.7	4.8	5.0	5.3
Public	3.0	2.7	2.1	4.2	4.5	4.6	5.2	5.7	5.6
Saving-Investment balance	-5.6	-9.2	-9.7	-7.9	-7.6	-7.0	-6.2	-5.4	-5.0
Labor market					(In percent)				
Unemployment rate (ILO definition) [1]	27.2	27.6	28.0	27.5	…	…	…	…	…

Source: BiH, FBiH and RS Statistical Agencies, and Fund staff estimates.

Notes: Nominal and real GDP series are based on the production approach.

[1] Based on the BiH Labor Survey. The unemployment rate based on the number of unemployed persons registered in Unemployment Offices is significantly higher.

Table 3. Bosnia and Herzegovina: Balance of Payments, 2010–18 1/
(In millions of euros, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Proj.			
Current account	-782	-1,295	-1,273	-1,065	-1,071	-1,039	-984	-918	-917
Trade balance	-2,797	-3,196	-3,232	-3,062	-3,181	-3,224	-3,320	-3,396	-3,519
Goods	-3,901	-4,267	-4,318	-4,188	-4,399	-4,520	-4,664	-4,792	-4,977
Export of goods (fob)	2,189	2,625	2,575	2,737	2,927	3,191	3,481	3,794	4,131
Import of goods (fob)	-6,090	-6,892	-6,893	-6,925	-7,326	-7,711	-8,145	-8,586	-9,109
Services (net)	1,103	1,071	1,086	1,126	1,218	1,296	1,344	1,396	1,458
Exports	1,511	1,486	1,486	1,532	1,641	1,754	1,841	1,935	2,043
Imports	-408	-414	-400	-406	-423	-458	-497	-539	-585
Primary Income (net)	211	110	122	144	176	174	226	265	278
Total credit	450	477	445	463	504	542	591	631	662
Total debit	-239	-367	-323	-318	-328	-368	-365	-366	-384
Of which, Interest payments	-170	-162	-154	-147	-151	-184	-172	-164	-172
Secondary Income (net)	1,805	1,791	1,837	1,853	1,934	2,011	2,110	2,213	2,324
Government (net)	177	152	137	158	194	224	264	314	364
Workers' remittances	989	999	1,042	1,049	1,088	1,134	1,193	1,247	1,307
Other (NGOs etc.)	718	726	738	716	723	723	723	723	723
Capital and Financial Accounts (excl. Reserves)	830	1,218	1,154	804	897	1,041	948	831	1,086
Capital account	199	182	153	140	144	148	153	157	162
Capital transfers (net)	199	182	153	140	144	148	153	157	162
General government	128	110	99	89	91	93	94	96	98
Other sectors	71	72	54	51	53	55	58	61	64
Financial account	-631	-1,036	-1,001	-664	-754	-893	-796	-674	-923
Direct investment (net)	-272	-342	-273	-320	-329	-334	-340	-349	-359
Assets	59	-4	0	10	10	10	10	10	10
Liabilities	331	338	273	330	339	344	350	359	369
Portfolio investment (net)	89	23	9	40	20	20	20	20	20
Other investment (net)	-448	-717	-737	-384	-445	-579	-476	-345	-584
Assets (net)	-386	-291	-260	-68	-80	-100	-120	-120	-120
Short-term	-401	-286	-273	-80	-30	-50	-70	-70	-70
Banks	-249	-35	-111	-10	-10	-10	-10	-10	-10
Other sectors, excl. government and central bank	-111	-176	-153	-60	-10	-30	-50	-50	-50
Medium and long-term	15	-6	13	12	-51	-51	-51	-51	-50
Banks	-6	-1	1	-1	-1	-1	-1	-1	-1
Other sectors, excl. government and central bank	21	-5	12	12	-50	-50	-50	-50	-50
Liabilities (net)	61	426	477	317	365	479	356	225	465
Short-term	334	238	253	185	176	180	112	115	169
General government	0	0	0	0	0	0	0	0	0
Banks	67	-35	21	10	16	16	17	18	19
Other sectors	267	273	232	175	160	164	95	97	150
Medium and long-term	-274	194	102	131	189	299	244	110	295
Monetary authority	0	0	0	0	0	0	0	0	0
General government	427	199	213	76	87	81	-12	-171	-11
Disbursements of loans	508	290	338	382	444	373	368	368	368
Project	245	290	217	382	444	373	368	368	368
Budget	263	0	121	0	0	0	0	0	0
Amortization of loans	81	91	124	306	357	292	380	538	379
Banks	-558	-275	-139	28	45	98	126	133	132
Other sectors	-142	270	28	28	57	120	130	147	175
Errors and omissions	84	60	156	50	0	0	0	0	0
Overall balance	-132	17	-37	211	173	-3	36	86	-169
Financing	132	-17	37	-211	-173	3	-36	-86	169
Change in net international reserves ("+"=increase)	132	-17	37	63	96	62	-36	-86	169
External financing gap				274	269	59			
Memorandum items									
Current account balance (in percent of GDP)	-6.2	-9.9	-9.7	-7.9	-7.6	-7.0	-6.2	-5.4	-5.0
Trade balance (in percent of GDP)	-30.8	-32.5	-32.9	-31.2	-31.4	-30.5	-29.2	-28.0	-27.1
Import of goods (change, percent)	8.3	13.2	0.0	0.5	5.8	5.3	5.6	5.4	6.1
Export of goods (change, percent)	33.2	19.9	-1.9	6.3	6.9	9.0	9.1	9.0	8.9
Transfers (in percent of GDP)	14.2	13.6	14.0	13.8	13.8	13.6	13.2	12.9	12.7
Net foreign direct investment (in percent of GDP)	-2.1	-2.6	-2.1	-2.4	-2.3	-2.3	-2.1	-2.0	-2.0
External debt/GDP (in percent)	51.6	49.1	52.4	53.0	53.9	52.4	49.5	46.1	44.5
Private sector	26.3	23.1	24.5	23.5	23.4	23.0	22.2	21.5	20.9
Public sector	25.4	25.9	27.9	29.5	30.5	29.5	27.3	24.5	23.6
External debt service/GNFS exports (percent)	19.7	14.9	12.6	14.7	14.7	12.6	12.9	14.4	8.4
Gross official reserves (in millions of Euro)	3,303	3,285	3,326	3,389	3,485	3,546	3,511	3,424	3,593
(In months of prospective imports of goods and services)	5.4	5.4	5.4	5.2	5.1	4.9	4.6	4.2	4.3

Sources: BiH authorities; and IMF staff estimates and projections.

1/. Based on BPM6.

Table 4. Bosnia and Herzegovina: General Government Statement of Operations, 2010–18

(Percent of GDP)

	2010	2011	2012	2013		2014	2015	2016	2017	2018
				EBS/12/161	Proj.					
Revenue	**46.5**	**46.1**	**46.3**	**46.3**	**45.9**	**46.2**	**45.7**	**45.7**	**45.6**	**45.6**
Taxes	23.0	23.1	23.1	22.7	22.5	22.2	22.0	21.9	21.7	21.6
Direct taxes	3.6	3.5	3.6	3.6	3.7	3.5	3.5	3.5	3.5	3.5
Indirect taxes	19.4	19.5	19.5	19.0	18.8	18.7	18.4	18.3	18.1	18.0
Other taxes	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	15.4	15.8	15.8	15.4	15.7	15.8	15.8	15.8	15.8	15.8
Grants	2.5	2.1	2.1	2.2	1.9	2.1	2.2	2.3	2.4	2.6
Other revenue	5.6	5.1	5.3	6.1	5.8	6.0	5.7	5.7	5.7	5.6
Expenditure	**50.6**	**48.9**	**49.0**	**48.4**	**48.1**	**47.5**	**47.0**	**46.5**	**46.1**	**45.6**
Expense	**42.6**	**42.7**	**42.8**	**41.8**	**41.3**	**41.1**	**40.4**	**39.8**	**39.2**	**38.8**
Compensation of employees	12.8	13.0	13.1	12.4	12.6	12.3	11.9	11.9	11.9	11.9
Use of goods and services	10.1	10.6	10.8	10.6	10.6	10.5	10.5	10.4	10.3	10.3
Social benefits	14.9	14.6	14.6	14.4	14.5	14.4	14.2	13.9	13.6	13.5
Interest	0.6	0.6	0.8	0.9	0.9	0.9	0.9	0.8	0.8	0.7
Subsidies	1.7	1.7	1.6	1.5	1.3	1.3	1.3	1.3	1.1	1.1
Other expense	2.6	2.1	1.9	2.0	1.5	1.6	1.6	1.6	1.5	1.4
Net acquisition of nonfinancial assets	**8.0**	**6.3**	**6.2**	**6.6**	**6.7**	**6.5**	**6.6**	**6.7**	**6.8**	**6.8**
Acquisition of nonfinancial assets	8.0	6.4	6.4	7.1	6.8	6.8	6.7	6.8	6.9	6.9
Foreign financed capital spending	4.3	3.6	3.2	4.1	4.1	4.1	4.1	4.2	4.2	4.2
Domestically financed capital spending	3.7	2.7	3.2	3.0	2.7	2.7	2.6	2.7	2.7	2.7
Disposal of nonfinancial assets	0.0	0.1	0.2	0.5	0.1	0.3	0.1	0.1	0.1	0.1
Gross / Net Operating Balance (revenue minus expense)	**3.8**	**3.4**	**3.6**	**4.6**	**4.5**	**5.1**	**5.3**	**5.9**	**6.4**	**6.8**
Net lending/borrowing (revenue minus expenditure)	**-4.2**	**-2.9**	**-2.7**	**-2.0**	**-2.2**	**-1.4**	**-1.3**	**-0.8**	**-0.4**	**0.0**
Net acquisition of financial assets	**0.1**	**-1.0**	**0.6**	**-0.5**	**-0.3**	**0.4**	**0.9**	**1.2**	**1.1**	**2.4**
Domestic assets	0.1	-0.5	0.6	-0.4	-0.3	0.4	0.9	1.2	1.1	2.4
Currency and deposits	0.0	-1.1	0.1	-1.2	-0.9	0.2	0.9	1.2	1.1	2.2
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.3	0.2	0.4	0.6	0.5	0.2	0.0	0.1	0.1	0.2
Equity and investment fund shares	-0.2	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	-0.5	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**4.4**	**1.9**	**2.0**	**-0.2**	**-0.1**	**-0.2**	**1.8**	**2.1**	**1.6**	**2.4**
Domestic liabilities	1.4	0.7	0.5	-0.8	-1.0	-0.6	1.2	1.9	2.3	2.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	1.0	0.3	-0.1	0.2	-0.1	-0.1	-0.1	-0.1	-0.5
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-0.6	-1.0	-0.9	-1.0	-1.0	-0.9	-0.9	-0.8	-0.4	-0.2
Loans	2.2	0.5	0.7	0.4	0.3	0.5	2.2	2.8	2.8	2.7
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-0.3	0.2	0.4	-0.1	-0.5	-0.1	0.0	0.0	0.0	0.0
Foreign liabilities	3.0	1.2	1.5	0.6	0.9	0.5	0.6	0.2	-0.7	0.4
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	3.0	1.2	1.5	0.6	0.9	0.5	0.6	0.2	-0.7	0.4
Drawings	3.9	2.1	2.8	3.0	3.2	3.0	2.5	2.6	2.4	2.2
Amortization	0.9	0.9	1.2	2.4	2.3	2.5	2.0	2.4	3.1	1.8
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**1.2**	**1.7**	**2.0**	**1.9**	**0.4**	**0.0**	**0.0**	**0.0**
Identified financing	0.0	0.0	0.9	1.7	2.0	1.9	0.4	0.0	0.0	0.0
IMF	0.0	0.0	0.9	1.4	1.3	1.7	0.1	0.0	0.0	0.0
WB	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0
EU	0.0	0.0	0.0	0.4	0.7	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**-0.2**	**-0.1**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items										
Net lending excluding externally-financed operations	-2.3	-1.2	-1.5	-0.1	0.1	0.6	0.7	1.1	1.4	1.7
Structural balance (% of potential GDP)	-4.0	-2.2	-0.4	-0.2	0.4	0.7	0.5	…	…	…

Sources: BiH authorities; and IMF staff estimates and projections.

Table 5. Bosnia and Herzegovina: General Government Statement of Operations, 2010–14

(KM million)

	2010	2011	2012	2013					2014			
				Jun.	Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
					EBS/12/161	Act.	EBS/12/161	Proj.				
Revenue	**11516.2**	**11831.1**	**11883.4**	**5656.2**	**9040.4**	**8656.6**	**12413.9**	**12050.0**	**2743.6**	**6048.0**	**9152.7**	**12646.0**
Taxes	5693.1	5929.1	5923.6	2789.2	4486.3	4310.4	6069.8	5910.9	1358.7	2921.5	4475.8	6093.4
Direct taxes	890.2	907.2	918.6	478.1	678.8	705.9	954.5	961.0	243.7	493.8	701.7	951.3
Indirect taxes	4802.9	5004.6	4992.2	2307.9	3802.5	3598.3	5100.6	4935.1	1109.8	2418.9	3759.7	5109.7
Other taxes	0.0	17.3	12.8	3.2	5.0	6.3	14.7	14.8	5.2	8.9	14.3	32.4
Social security contributions	3804.0	4046.3	4056.9	1945.8	3006.4	2983.5	4134.2	4112.1	988.8	2072.1	3161.0	4331.7
Grants	622.9	536.4	541.2	263.7	498.6	381.8	576.8	507.3	140.5	283.4	427.4	568.7
Other revenue	1396.2	1319.4	1361.8	657.6	1049.1	980.8	1633.0	1519.7	255.5	771.0	1088.5	1652.3
Expenditure	**12545.5**	**12563.2**	**12566.4**	**5726.0**	**9386.6**	**8624.5**	**12961.1**	**12623.0**	**2845.1**	**5993.7**	**9276.7**	**13024.2**
Expense	**10563.9**	**10954.6**	**10967.6**	**5076.1**	**8050.4**	**7673.5**	**11188.7**	**10858.1**	**2563.1**	**5343.8**	**8160.9**	**11245.7**
Compensation of employees	3165.6	3337.3	3356.5	1596.2	2409.9	2392.2	3311.6	3310.6	828.1	1660.7	2490.4	3367.9
Use of goods and services	2498.5	2711.4	2774.8	1290.0	2036.6	1930.2	2833.5	2778.8	623.4	1320.3	2021.6	2883.2
Social benefits	3679.8	3749.9	3736.7	1824.1	2820.4	2739.3	3854.1	3795.5	936.4	1908.8	2903.7	3948.8
Interest	150.0	164.7	193.2	95.6	152.9	140.4	245.1	228.3	48.6	122.2	171.5	237.0
Subsidies	426.1	440.7	414.5	97.3	312.2	194.8	407.7	354.3	49.9	153.6	251.8	361.4
Grants	0.0	10.2	18.1	6.0	7.0	10.6	12.0	18.5	0.9	2.5	15.0	19.3
Other expense	643.9	550.6	491.8	172.8	318.4	276.7	536.7	389.6	76.7	178.2	322.0	443.9
Net acquisition of nonfinancial assets	**1981.6**	**1608.6**	**1598.9**	**649.9**	**1336.2**	**950.9**	**1772.4**	**1764.9**	**281.9**	**649.9**	**1115.8**	**1778.6**
Acquisition of nonfinancial assets	1981.6	1639.7	1641.2	662.2	1360.0	971.5	1907.5	1798.3	304.8	692.9	1166.0	1852.0
Foreign financed capital spending	1060.6	934.3	820.8	380.9	738.4	568.2	1091.5	1079.8	233.1	466.0	709.3	1110.3
Domestically financed capital spending	921.0	705.4	820.4	281.2	621.6	403.3	816.1	718.5	71.6	226.9	456.7	741.7
Disposal of nonfinancial assets	0.0	31.1	42.3	12.2	23.8	20.6	135.1	33.5	22.8	43.0	50.2	73.4
Gross / Net Operating Balance (revenue minus expense)	**952.4**	**876.6**	**915.9**	**580.1**	**990.0**	**983.0**	**1225.2**	**1191.9**	**180.4**	**704.2**	**991.8**	**1400.4**
Net lending/borrowing (revenue minus expenditure)	**-1029.2**	**-732.1**	**-683.0**	**-69.8**	**-346.2**	**32.1**	**-547.2**	**-573.0**	**-101.5**	**54.3**	**-124.0**	**-378.2**
Net acquisition of financial assets	**29.2**	**-267.0**	**142.8**	**-1.1**	**-95.9**	**36.9**	**-126.5**	**-66.0**	**-56.2**	**72.3**	**-94.5**	**105.6**
Domestic assets	29.2	-132.0	142.8	-1.2	-80.1	36.9	-109.4	-66.0	-56.2	72.3	-94.5	105.6
Currency and deposits	0.0	-276.2	14.4	-32.2	-211.0	-63.8	-310.7	-235.9	2.7	64.4	-74.4	55.7
Debt securities	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	77.7	63.3	105.7	18.9	101.3	67.5	173.6	143.9	-58.9	7.9	-20.1	44.9
Equity and investment fund shares	-48.5	71.0	43.3	4.0	29.6	3.5	27.7	25.9	0.0	0.0	0.0	5.0
Other accounts receivable	0.0	9.6	-20.6	8.1	0.0	29.7	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	-135.0	0.0	0.1	-15.8	0.0	-17.1	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**1096.7**	**484.6**	**519.7**	**-215.3**	**-12.1**	**-380.1**	**-40.3**	**-29.5**	**-48.9**	**-244.0**	**-364.5**	**-42.1**
Domestic liabilities	347.7	176.2	123.4	-197.6	4.9	-336.7	-208.6	-258.4	-48.1	-170.8	-343.6	-170.3
Debt securities	0.0	256.2	87.7	-18.7	-13.0	34.1	-16.7	49.5	-51.2	-68.6	-43.6	-22.4
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-140.5	-261.0	-237.7	-66.8	-217.7	-172.0	-267.7	-267.7	-79.2	-93.2	-215.9	-246.8
Loans	556.2	124.6	169.7	10.5	17.2	-6.0	103.5	81.6	82.3	-41.9	-84.1	126.3
Other accounts payable	-68.0	56.3	103.7	-122.6	218.3	-192.8	-27.6	-121.9	0.0	33.0	0.0	-27.4
Foreign liabilities	749.0	308.5	396.3	-17.7	-16.9	-43.4	168.3	228.9	-0.8	-73.2	-20.9	128.2
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	749.0	310.7	396.3	-17.7	-16.9	-43.4	168.3	228.9	-0.8	-73.2	-20.9	128.2
Drawings	963.0	550.5	714.3	231.9	407.9	357.8	808.9	831.6	141.9	297.3	492.5	824.8
Amortization	214.0	239.8	318.0	249.6	424.8	401.2	640.6	602.7	142.7	370.5	513.4	696.6
Other accounts payable	0.0	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**306.2**	**284.0**	**262.4**	**384.8**	**461.0**	**536.5**	**94.2**	**261.9**	**393.9**	**525.8**
Identified financing	0.0	0.0	236.6	249.3	262.3	344.0	461.0	536.5	94.2	262.0	393.9	525.9
IMF	0.0	0.0	236.6	151.5	262.3	246.2	363.2	340.9	94.2	188.5	320.4	452.4
WB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	73.5	73.5	73.5
EU	0.0	0.0	0.0	97.8	0.0	97.8	97.8	195.6	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**-38.2**	**-19.6**	**69.6**	**34.7**	**0.0**	**40.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items												
Indirect revenues	4802.9	5004.6	4992.2	2307.9	3802.5	3598.3	5100.6	4935.1	1109.8	2418.9	3759.7	5109.7
Net lending excluding externally-financed operations	-565.8	-314.1	-375.3	60.4	-97.1	236.2	-17.1	23.8	-7.6	241.9	167.6	175.2

Sources: BiH authorities; and IMF staff estimates and projections.

Table 5a. Institutions of Bosnia and Herzegovina: Statement of Operations, 2010–14

(KM million)

	2010	2011	2012	2013					2014			
				Jun.	Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
					EBS/12/161	Act.	EBS/12/161	Proj.				
Revenue	**885.4**	**848.3**	**924.4**	**467.1**	**676.3**	**705.4**	**923.2**	**941.4**	**209.3**	**459.1**	**691.2**	**937.0**
Taxes	689.0	689.0	750.0	364.8	558.9	558.4	750.0	750.0	180.9	364.8	557.4	750.0
Direct taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indirect taxes	689.0	689.0	750.0	364.8	558.9	557.4	750.0	750.0	180.9	364.8	557.4	750.0
Other taxes	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	22.0	17.7	21.7	8.4	5.8	12.1	7.2	16.0	0.2	1.4	1.8	3.2
Other revenue	174.4	141.6	151.7	93.5	111.6	134.3	166.0	172.9	28.2	92.9	132.1	183.2
Transfers from other general government units	0.0	1.2	1.1	0.4	0.0	0.6	0.0	2.5	0.0	0.0	0.0	0.5
Expenditure	**972.7**	**898.7**	**882.1**	**415.9**	**697.6**	**637.4**	**950.0**	**924.6**	**206.4**	**424.6**	**657.8**	**947.8**
Expense	**904.5**	**877.3**	**844.5**	**399.7**	**630.5**	**604.0**	**877.9**	**858.1**	**202.5**	**415.5**	**631.4**	**881.2**
Compensation of employees	634.0	648.4	628.3	312.2	476.3	469.4	636.2	636.0	163.5	322.7	484.8	643.7
Use of goods and services	204.7	179.3	162.4	75.2	128.3	111.1	193.7	187.0	35.8	82.7	131.5	201.6
Social benefits	0.0	38.5	11.5	1.6	8.8	2.9	11.5	4.0	0.1	1.1	1.6	2.0
Interest	0.5	0.3	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.7
Transfers to other general government units	-3.0	-1.2	19.5	0.5	0.0	0.9	0.0	1.0	0.0	0.0	0.0	3.5
Other expense	68.2	12.1	22.8	10.1	17.1	19.7	35.9	30.1	3.1	9.1	13.5	29.7
Net acquisition of nonfinancial assets	**68.3**	**21.4**	**37.6**	**16.2**	**67.1**	**33.3**	**72.1**	**66.4**	**3.9**	**9.2**	**26.4**	**66.6**
Acquisition of nonfinancial assets	68.3	21.9	45.3	16.5	67.1	34.2	72.8	67.2	3.9	9.2	26.4	67.3
Foreign financed capital spending	0.0	3.4	2.2	0.7	1.3	2.8	1.8	2.0	0.2	0.4	0.7	0.7
Domestically financed capital spending	68.3	18.5	43.0	15.8	65.8	31.5	71.0	65.2	3.7	8.7	25.8	66.6
Disposal of nonfinancial assets	0.0	0.6	7.7	0.3	0.0	0.9	0.7	0.7	0.0	0.0	0.0	0.8
Gross / Net Operating Balance (revenue minus expense)	**-19.1**	**-29.0**	**79.9**	**67.4**	**45.9**	**101.4**	**45.3**	**83.3**	**6.8**	**43.6**	**59.9**	**55.7**
Net lending/borrowing (revenue minus expenditure)	**-87.3**	**-50.4**	**42.3**	**51.2**	**-21.2**	**68.1**	**-26.8**	**16.8**	**2.9**	**34.4**	**33.5**	**-10.8**
Net acquisition of financial assets	**-17.5**	**-83.0**	**8.0**	**69.8**	**-15.8**	**85.2**	**-17.1**	**36.3**	**2.9**	**34.4**	**33.5**	**-10.8**
Domestic assets	-17.5	52.0	8.0	69.8	0.0	85.2	0.0	36.3	2.9	34.4	33.5	-10.8
Currency and deposits	0.0	49.0	16.0	61.1	0.0	64.8	0.0	36.3	2.9	34.4	33.5	-10.8
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	-17.5	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	4.0	-8.0	8.8	0.0	20.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	-135.0	0.0	0.0	-15.8	0.0	-17.1	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**34.6**	**-34.1**	**-34.0**	**9.5**	**5.4**	**7.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Domestic liabilities	36.7	-33.0	-34.0	9.5	5.4	7.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issuance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	43.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-7.0	-33.0	-34.0	9.5	5.4	7.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	-2.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-2.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	2.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**9.1**	**0.0**	**10.1**	**9.8**	**19.6**	**0.0**	**0.0**	**0.0**	**0.0**
Identified financing	0.0	0.0	0.0	9.8	0.0	9.8	9.8	19.6	0.0	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
WB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	9.8	0.0	9.8	9.8	19.6	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**35.3**	**1.5**	**0.3**	**-0.7**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items												
Net lending excluding externally-financed operations	-87.3	-47.0	44.5	51.9	-20.0	70.8	-25.0	18.8	3.1	34.9	34.1	-10.1

Sources: BiH authorities; and IMF staff estimates and projections.

Table 5b. Federation of Bosnia and Herzegovina: General Government Statement of Operations, 2010–14
(KM million)

	2010	2011	2012	2013					2014			
				Jun.	Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
					EBS/12/161	Act.	EBS/12/161	Proj.				
Revenue	**6938.4**	**6924.3**	**6896.6**	**3307.4**	**5355.5**	**5037.8**	**7287.5**	**7046.9**	**1603.1**	**3541.1**	**5380.8**	**7409.5**
Taxes	3161.2	3177.8	3130.8	1478.5	2405.2	2288.4	3250.5	3187.5	735.9	1591.6	2486.4	3314.5
Direct taxes	529.5	468.8	472.9	246.2	365.6	365.2	507.2	507.0	141.8	279.3	387.7	528.3
Indirect taxes	2631.7	2700.2	2652.0	1230.8	2037.3	1920.5	2732.3	2669.5	591.4	1307.6	2091.7	2774.7
Other taxes	0.0	8.9	5.8	1.5	2.3	2.7	11.0	11.1	2.6	4.7	7.0	11.4
Social security contributions	2615.5	2649.0	2670.6	1303.9	1996.2	1989.5	2703.9	2679.2	653.4	1363.7	2068.7	2822.6
Foreign grants	401.8	350.1	354.1	173.6	352.5	247.0	382.4	330.3	93.9	189.2	286.3	379.8
Other revenue	759.8	747.4	741.1	351.5	601.7	512.9	950.7	849.9	119.9	396.6	539.3	892.6
Expenditure	**7299.7**	**7315.2**	**7392.1**	**3455.4**	**5525.8**	**5108.1**	**7691.9**	**7486.8**	**1730.7**	**3636.3**	**5552.9**	**7728.8**
Expense	**6280.8**	**6424.2**	**6419.7**	**2996.6**	**4700.6**	**4514.8**	**6548.0**	**6362.2**	**1509.8**	**3171.6**	**4805.5**	**6558.0**
Compensation of employees	1621.7	1675.5	1694.0	802.3	1207.0	1198.1	1696.3	1675.9	420.9	841.0	1263.4	1722.0
Use of goods and services	1457.5	1528.5	1559.1	738.6	1154.3	1086.8	1583.0	1545.2	362.0	768.0	1150.9	1605.1
Social benefits	2421.3	2467.4	2492.2	1214.7	1874.1	1836.2	2519.7	2524.5	635.5	1284.3	1951.0	2602.6
Interest	92.1	96.6	105.5	50.3	78.6	72.0	128.2	132.1	24.2	61.4	87.0	119.6
Subsidies	261.2	250.5	256.3	68.4	175.9	130.6	241.9	226.9	34.5	115.2	160.7	237.2
Other expense	379.7	405.7	312.6	122.3	210.7	191.0	378.7	257.5	32.7	101.6	192.4	271.5
Net acquisition of nonfinancial assets	**1018.9**	**891.1**	**972.3**	**458.8**	**825.2**	**593.4**	**1144.0**	**1124.6**	**220.8**	**464.7**	**747.4**	**1170.8**
Acquisition of nonfinancial assets	1018.9	898.6	983.2	463.0	831.9	600.7	1201.2	1134.8	222.1	468.9	754.9	1181.5
Foreign financed capital spending	700.1	636.3	530.8	271.6	553.0	376.2	818.3	789.0	185.6	371.3	556.9	846.4
Domestically financed capital spending	318.8	262.3	452.4	191.4	278.9	224.6	382.9	345.8	36.5	97.6	198.0	335.1
Disposal of nonfinancial assets	0.0	7.6	10.9	4.2	6.7	7.4	57.2	10.2	1.3	4.2	7.5	10.7
Gross / Net Operating Balance (revenue minus expense)	**657.5**	**486.9**	**476.9**	**310.8**	**654.9**	**523.1**	**739.6**	**684.7**	**93.3**	**369.5**	**575.3**	**851.5**
Net lending/borrowing (revenue minus expenditure)	**-361.3**	**-404.2**	**-495.5**	**-148.0**	**-170.3**	**-70.3**	**-404.4**	**-439.9**	**-127.5**	**-95.2**	**-172.1**	**-319.3**
Net acquisition of financial assets	**-44.2**	**-288.4**	**-26.2**	**-82.2**	**-149.3**	**-70.8**	**-220.3**	**-314.8**	**-83.9**	**-71.4**	**-150.3**	**-52.3**
Domestic assets	-44.2	-288.4	-26.2	-82.3	-149.3	-70.8	-220.3	-314.8	-83.9	-71.4	-150.3	-52.3
Currency and deposits	0.0	-213.0	22.0	-71.3	-151.9	-107.0	-219.6	-291.8	4.9	-11.0	-51.4	-9.7
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-38.4	-69.2	-48.1	-10.7	-0.3	37.0	6.4	-27.3	-88.8	-60.5	-98.9	-47.5
Equity and investment fund shares	-5.8	-6.2	-0.1	-0.3	3.0	-0.8	-7.0	4.3	0.0	0.0	0.0	5.0
Insurance, pensions, and standardized guarantee schemes	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**374.5**	**199.0**	**177.3**	**-144.0**	**-154.0**	**-265.8**	**-116.7**	**-219.5**	**-19.2**	**-150.9**	**-240.8**	**-83.6**
Domestic liabilities	-116.8	49.5	29.0	-163.1	-78.5	-249.2	-139.9	-303.4	-20.5	-89.2	-180.0	-94.6
Debt securities	0.0	89.7	101.6	-29.9	-11.7	-10.2	40.0	-0.8	0.0	0.0	25.0	30.0
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-77.4	-95.1	-112.1	-32.1	-146.7	-115.8	-175.9	-175.9	-55.9	-53.4	-140.4	-146.2
Loans	21.5	6.0	-13.7	-6.4	38.3	-14.2	23.4	-53.5	35.4	-68.8	-64.6	48.9
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-60.9	48.9	53.3	-94.7	41.6	-108.9	-27.5	-73.3	0.0	33.0	0.0	-27.4
Foreign liabilities	491.3	149.5	148.3	19.1	-75.4	-16.6	23.3	84.0	1.3	-61.7	-60.8	11.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	491.3	151.7	148.3	19.1	-75.4	-16.6	23.3	84.0	1.3	-61.7	-60.8	11.0
Drawings	624.7	295.3	347.7	168.9	203.9	241.5	447.8	470.5	92.8	185.6	278.5	475.1
Amortization	133.4	143.6	199.4	149.8	279.4	258.1	424.5	386.6	91.5	247.4	339.3	464.1
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy / financing gap	**-57.4**	**-83.2**	**292.0**	**209.7**	**174.9**	**265.3**	**300.8**	**344.6**	**62.8**	**174.7**	**262.6**	**350.6**

Sources: BiH authorities; and IMF staff estimates and projections.

Table 5c. Federation of Bosnia and Herzegovina: Central Government Statement of Operations, 2010–14

(KM million)

	2010	2011	2012	2013					2014			
				Jun.	Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
					EBS/12/161	Act.	EBS/12/161	Proj.				
Revenue	**1830.7**	**1670.1**	**1809.1**	**882.9**	**1532.5**	**1313.1**	**2042.9**	**1889.6**	**414.9**	**1068.3**	**1560.0**	**2041.5**
Taxes	1218.2	1137.5	1171.3	591.0	978.6	904.7	1342.7	1296.2	305.0	682.1	1032.5	1376.3
Direct taxes	95.4	46.6	47.1	29.3	40.4	40.6	51.7	51.7	26.4	37.1	43.8	53.3
Indirect taxes	1122.8	1090.8	1124.1	561.6	938.3	864.0	1291.1	1244.5	278.6	645.1	988.7	1323.0
Other taxes	0.0	0.2	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	398.1	341.3	347.7	168.9	349.0	241.5	374.1	322.0	92.8	185.6	278.5	371.3
Other revenue	214.4	191.3	290.1	123.0	204.8	166.9	326.2	271.3	17.1	200.6	249.1	293.8
Expenditure	**2074.8**	**1952.9**	**1881.8**	**825.8**	**1537.8**	**1249.9**	**2204.1**	**2090.1**	**453.4**	**1040.5**	**1526.5**	**2152.5**
Expense	**1339.6**	**1372.0**	**1377.7**	**558.1**	**1018.5**	**883.2**	**1436.2**	**1380.5**	**276.1**	**689.0**	**1032.6**	**1395.2**
Compensation of employees	220.0	239.7	226.1	111.1	170.6	166.1	237.8	228.1	62.7	124.6	185.9	251.9
Use of goods and services	85.7	67.0	66.7	24.6	58.9	37.6	93.1	61.6	10.0	27.4	45.6	76.4
Social benefits	480.5	468.7	460.5	216.7	350.4	329.5	456.1	462.4	109.0	239.8	356.0	462.3
Interest	81.4	84.7	91.8	43.7	69.5	61.8	110.1	110.1	20.1	51.3	72.2	98.5
Subsidies	131.9	115.5	128.6	24.8	100.0	62.5	130.5	115.5	14.2	75.0	99.6	122.9
Transfers to other general government units	276.8	327.6	308.6	117.4	192.9	190.6	272.1	339.0	57.6	145.2	213.9	312.4
Other expense	63.2	69.0	95.4	19.9	76.2	35.2	136.5	63.8	2.6	25.7	59.5	70.6
Net acquisition of nonfinancial assets	**735.1**	**580.9**	**504.1**	**267.7**	**519.2**	**366.6**	**767.9**	**709.6**	**177.2**	**351.5**	**494.0**	**757.3**
Acquisition of nonfinancial assets	735.1	580.9	505.7	267.7	519.2	366.6	767.9	709.6	177.2	351.5	494.0	757.3
Foreign financed capital spending	652.1	567.2	494.4	266.5	474.3	362.9	714.2	679.6	173.5	341.5	479.9	729.2
Domestically financed capital spending	83.1	13.7	11.2	1.2	44.9	3.7	53.7	30.0	3.7	10.0	14.1	28.1
Disposal of nonfinancial assets	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross / Net Operating Balance (revenue minus expense)	**491.1**	**298.0**	**431.4**	**324.8**	**513.9**	**429.9**	**606.7**	**509.1**	**138.8**	**379.4**	**527.5**	**646.3**
Net lending/borrowing (revenue minus expenditure)	**-244.1**	**-282.8**	**-72.7**	**57.1**	**-5.3**	**63.3**	**-161.2**	**-200.5**	**-38.5**	**27.9**	**33.5**	**-111.0**
Net acquisition of financial assets	**-26.5**	**-238.0**	**48.1**	**-52.7**	**-59.9**	**-89.2**	**-109.0**	**-99.5**	**-42.2**	**-61.1**	**-124.0**	**-61.7**
Domestic assets	-26.5	-238.0	48.1	-52.7	-59.9	-89.2	-109.0	-99.5	-42.2	-61.1	-124.0	-61.7
Currency and deposits	0.0	-162.6	87.0	-41.8	0.0	-72.4	-27.0	-38.7	-42.2	-60.9	-101.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-38.5	-69.7	-39.9	-11.4	-62.9	-17.5	-74.9	-65.0	0.0	-0.3	-23.0	-66.7
Equity and investment fund shares	12.0	-5.6	1.0	0.6	3.0	0.6	-7.1	4.3	0.0	0.0	0.0	5.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**171.7**	**69.8**	**-33.3**	**-214.6**	**-229.5**	**-368.3**	**-248.7**	**-243.6**	**-66.6**	**-263.6**	**-420.2**	**-301.3**
Domestic liabilities	-271.5	-8.2	13.5	-165.5	-76.2	-236.3	-166.5	-216.8	-56.1	-173.2	-284.2	-197.4
Debt securities	0.0	89.0	100.4	-29.7	-11.8	-9.9	40.0	-0.8	0.0	0.0	25.0	30.0
Issuance	0.0	89.0	248.6	29.7	39.5	79.3	120.0	79.2	30.0	50.0	100.0	150.0
Amortization	0.0	0.0	-148.3	-59.4	-51.3	-89.1	-80.0	-80.0	-30.0	-50.0	-75.0	-120.0
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-72.9	-93.3	-110.2	-32.0	-143.4	-115.7	-174.0	-174.0	-52.8	-53.2	-139.4	-144.2
Loans	-96.5	-8.8	-5.6	-2.1	0.0	-3.7	-5.0	-4.5	-3.3	-153.0	-169.8	-55.8
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-102.2	4.9	28.9	-101.7	79.0	-107.0	-27.5	-37.4	0.0	33.0	0.0	-27.4
Foreign liabilities	443.2	78.0	-46.8	-49.1	-153.3	-132.1	-82.1	-26.8	-10.4	-90.4	-136.0	-103.9
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	443.2	78.0	-46.8	-49.1	-153.3	-132.1	-82.1	-26.8	-10.4	-90.4	-136.0	-103.9
Drawings	576.7	226.0	146.8	97.6	125.3	121.4	340.2	357.6	80.7	155.8	201.4	357.9
For budget support	322.7	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
For investment projects	254.0	225.9	146.8	97.6	125.3	121.4	340.2	357.6	80.7	155.8	201.4	357.9
Amortization	133.4	148.0	193.6	146.7	278.6	253.4	422.3	384.4	91.1	246.2	337.4	461.9
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**157.7**	**104.8**	**174.9**	**215.8**	**300.8**	**344.6**	**62.8**	**174.7**	**262.6**	**350.6**
Identified financing	0.0	0.0	157.7	159.7	174.9	222.8	300.8	344.6	62.8	174.7	262.6	350.6
IMF	0.0	0.0	157.7	101.0	174.9	164.1	242.1	227.2	62.8	125.7	213.6	301.6
WB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	49.0	49.0	49.0
EU	0.0	0.0	0.0	58.7	0.0	58.7	58.7	117.4	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**45.8**	**-25.0**	**-3.6**	**-54.9**	**0.0**	**-7.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items												
Net lending excluding externally-financed operations	9.9	-57.0	74.1	154.7	120.0	184.7	179.0	157.1	42.2	183.7	234.9	246.9

Sources: BiH authorities; and IMF staff estimates and projections.

Table 5d. Republika Srpska: General Government Statement of Operations, 2010–14

(KM million)

	2010	2011	2012	2013					2014			
				Jun.	Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
					EBS/12/161	Act.	EBS/12/161	Proj.				
Revenue	**3417.7**	**3872.6**	**3821.6**	**1765.3**	**2843.3**	**2732.5**	**3948.2**	**3802.5**	**883.1**	**1945.4**	**2966.0**	**4030.9**
Taxes	1638.5	1881.6	1858.9	859.4	1381.6	1329.7	1886.0	1790.9	402.0	877.0	1372.9	1839.1
Direct taxes	304.4	421.6	423.0	219.6	295.5	323.2	429.0	430.8	97.1	204.1	295.7	398.8
Indirect taxes	1334.1	1452.4	1430.2	638.4	1084.2	1004.5	1454.2	1357.7	302.7	669.3	1070.8	1420.7
Other taxes	0.0	7.5	5.7	1.3	1.9	2.0	2.7	2.4	2.2	3.5	6.4	19.6
Social security contributions	1154.0	1365.7	1350.6	625.1	1010.2	968.5	1400.9	1396.4	334.8	707.0	1062.9	1471.2
Grants	199.1	174.9	165.4	81.7	140.3	122.7	187.0	161.0	46.4	92.8	139.2	185.6
Other revenue	426.1	460.7	446.7	199.1	311.2	311.7	474.3	454.2	99.9	268.6	391.0	534.9
Expenditure	**4066.2**	**4132.3**	**4119.9**	**1763.1**	**3018.1**	**2740.4**	**4056.6**	**3997.8**	**882.3**	**1865.6**	**2918.1**	**4088.9**
Expense	**3175.8**	**3443.8**	**3536.2**	**1594.3**	**2596.6**	**2428.8**	**3532.7**	**3446.4**	**825.1**	**1698.3**	**2589.9**	**3571.1**
Compensation of employees	829.1	934.1	952.5	439.0	666.2	665.3	891.9	915.1	223.1	455.6	679.2	917.4
Use of goods and services	757.9	928.1	978.7	448.6	714.0	679.1	970.4	970.3	221.9	457.4	695.1	996.8
Social benefits	1225.4	1211.9	1232.9	605.9	928.5	910.8	1289.3	1267.0	300.8	623.4	951.0	1305.6
Interest	57.4	67.4	87.2	45.1	74.1	68.1	115.6	95.4	24.1	60.5	83.9	116.1
Subsidies	158.0	180.1	146.4	21.4	130.3	50.2	155.6	115.2	15.3	36.5	79.6	111.6
Other expense	148.0	122.2	138.3	34.3	83.6	55.4	110.0	83.5	40.0	64.9	101.0	123.5
Net acquisition of nonfinancial assets	**890.5**	**688.5**	**583.7**	**168.8**	**421.5**	**311.6**	**523.9**	**551.4**	**57.2**	**167.3**	**328.1**	**517.8**
Acquisition of nonfinancial assets	890.5	711.4	607.5	176.4	438.6	324.0	601.1	573.9	78.7	206.2	370.8	579.7
Foreign financed capital spending	360.5	294.5	287.7	108.6	184.1	189.3	271.3	288.7	47.3	94.3	151.7	263.1
Domestically financed capital spending	530.0	416.9	319.8	67.8	254.5	134.7	329.7	285.2	31.4	111.9	219.1	316.6
Disposal of nonfinancial assets	0.0	22.9	23.8	7.6	17.1	12.4	77.2	22.5	21.6	38.9	42.7	62.0
Gross / Net Operating Balance (revenue minus expense)	**242.0**	**428.8**	**285.5**	**170.9**	**246.7**	**303.7**	**415.5**	**356.1**	**57.9**	**247.2**	**376.1**	**459.8**
Net lending/borrowing (revenue minus expenditure)	**-648.5**	**-259.7**	**-298.2**	**2.2**	**-174.8**	**-7.9**	**-108.4**	**-195.3**	**0.8**	**79.9**	**48.0**	**-58.0**
Net acquisition of financial assets	**120.1**	**94.2**	**173.1**	**11.5**	**64.4**	**23.2**	**127.9**	**176.5**	**9.9**	**89.9**	**94.8**	**128.2**
Domestic assets	120.1	94.2	173.1	11.5	64.4	23.2	127.9	176.5	9.9	89.9	94.8	128.2
Currency and deposits	0.0	-113.9	-23.6	-21.9	-63.9	-21.6	-77.0	-17.5	-20.1	21.5	15.7	34.5
Debt securities	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	116.1	106.7	154.1	29.9	101.6	31.2	170.1	172.4	30.0	68.4	79.1	93.7
Equity and investment fund shares	4.0	78.2	43.4	4.3	26.6	4.3	34.7	21.6	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	5.6	-0.9	-0.7	0.0	9.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**711.8**	**326.1**	**384.6**	**-75.7**	**151.8**	**-93.6**	**85.8**	**199.5**	**-22.3**	**-77.3**	**-84.4**	**10.8**
Domestic liabilities	452.0	166.1	136.6	-38.8	93.3	-66.9	-59.2	54.5	-20.2	-65.7	-124.4	-106.3
Debt securities	0.0	166.5	-13.8	11.2	-1.3	44.4	-56.8	50.3	-51.2	-68.6	-68.6	-52.4
Issuance	0.0	207.7	128.7	117.9	67.0	169.4	67.0	190.9	25.0	50.0	75.0	116.2
Amortization	0.0	41.2	-142.6	106.7	68.3	125.1	123.8	140.6	76.2	118.6	143.6	168.6
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-58.1	-159.6	-117.4	-34.7	-71.0	-46.8	-82.4	-82.4	-23.3	-39.8	-65.4	-90.5
Loans	510.3	117.7	183.5	16.9	-21.0	18.2	80.0	135.2	54.3	42.7	9.6	36.6
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-0.2	40.5	84.4	-32.2	186.6	-82.6	-0.1	-48.6	0.0	0.0	0.0	0.0
Foreign liabilities	259.8	160.0	248.0	-36.8	58.5	-26.8	145.0	145.0	-2.1	-11.5	39.9	117.1
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	259.8	160.0	248.0	-36.8	58.5	-26.8	145.0	145.0	-2.1	-11.5	39.9	117.1
Drawings	338.3	255.1	366.6	63.0	203.9	116.3	361.1	361.1	49.1	111.6	214.0	349.6
For budget support	176.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
For investment projects	161.5	255.1	366.6	63.0	203.9	116.3	361.1	361.1	49.1	111.6	214.0	349.6
Amortization	78.4	95.1	118.7	99.8	145.4	143.0	216.1	216.1	51.2	123.2	174.1	232.5
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy / financing gap	**56.8**	**27.7**	**86.7**	**85.0**	**87.4**	**124.7**	**150.5**	**172.3**	**31.4**	**87.3**	**131.3**	**175.3**

Sources: BiH authorities; and IMF staff estimates and projections.

Table 5e.Republika Srpska: Consolidated Central Government Statement of Operations, 2010–14

(KM million)

	2010	2011	2012	2013					2014			
				Jun.	Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
					EBS/12/161	Act.	EBS/12/161	Proj.				
Revenue	**1630.0**	**1879.3**	**1846.3**	**856.0**	**1345.6**	**1327.5**	**1861.7**	**1774.2**	**410.9**	**925.7**	**1407.7**	**1890.7**
Taxes	1252.5	1440.0	1437.3	676.6	1050.6	1043.0	1426.9	1369.3	311.1	679.7	1050.0	1403.7
Direct taxes	246.7	340.3	345.1	180.4	239.6	263.3	334.6	351.1	80.5	167.7	238.1	315.6
Indirect taxes	1005.8	1094.7	1088.2	495.1	809.9	778.1	1091.0	1017.5	228.8	509.1	806.3	1070.2
Other taxes	0.0	5.0	4.1	1.1	1.1	1.6	1.3	0.7	1.9	3.0	5.6	17.8
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	199.1	170.6	153.6	80.5	140.3	120.8	187.0	161.0	46.4	92.8	139.2	185.6
Other revenue	178.5	268.7	255.0	98.8	154.6	163.7	247.8	244.0	53.4	153.1	218.5	301.2
Expenditure	**2069.0**	**2012.0**	**1916.4**	**775.7**	**1334.0**	**1227.9**	**1804.2**	**1753.6**	**374.9**	**792.5**	**1238.8**	**1777.6**
Expense	**1547.1**	**1729.8**	**1672.7**	**682.3**	**1143.0**	**1078.2**	**1566.2**	**1503.7**	**343.8**	**714.3**	**1100.3**	**1574.3**
Compensation of employees	620.3	713.4	722.6	328.6	493.0	498.6	659.7	677.0	167.6	337.6	501.2	676.6
Use of goods and services	93.1	163.1	150.6	52.6	108.7	91.9	155.5	135.6	16.5	46.2	83.4	138.6
Social benefits	206.7	275.9	247.7	104.3	169.5	160.3	255.0	239.7	51.4	104.8	161.4	251.7
Interest	36.2	46.0	64.6	32.0	56.9	44.0	83.4	64.8	16.6	42.1	56.5	79.2
Subsidies	157.9	165.6	128.8	17.2	92.6	43.8	114.2	102.2	5.8	20.1	51.5	98.0
Transfers to other general government units	350.7	304.4	284.5	136.0	189.2	219.4	254.8	257.8	61.0	124.5	188.2	266.8
Other expense	82.1	61.4	73.8	11.5	33.1	20.2	43.7	26.7	25.0	39.0	58.1	63.4
Net acquisition of nonfinancial assets	**521.9**	**282.2**	**243.7**	**93.4**	**191.0**	**149.7**	**238.0**	**249.9**	**31.1**	**78.2**	**138.5**	**203.3**
Acquisition of nonfinancial assets	521.9	292.7	251.4	96.1	195.6	153.5	292.7	255.9	46.9	108.0	168.3	248.1
Foreign financed capital spending	302.7	200.2	194.7	83.5	158.7	125.3	249.5	223.5	41.6	85.7	132.5	195.1
Domestically financed capital spending	219.2	92.5	56.7	12.6	36.9	28.2	43.2	32.4	5.3	22.3	35.8	53.0
Disposal of nonfinancial assets	0.0	10.5	7.7	2.7	4.6	3.8	54.7	6.0	15.8	29.8	29.8	44.8
Gross / Net Operating Balance (revenue minus expense)	**82.9**	**149.5**	**173.6**	**173.7**	**202.6**	**249.3**	**295.5**	**270.5**	**67.1**	**211.3**	**307.4**	**316.4**
Net lending/borrowing (revenue minus expenditure)	**-439.0**	**-132.8**	**-70.1**	**80.3**	**11.6**	**99.6**	**57.5**	**20.6**	**36.0**	**133.2**	**168.9**	**113.2**
Net acquisition of financial assets	**121.4**	**217.6**	**344.0**	**52.1**	**68.0**	**51.8**	**106.7**	**144.7**	**38.6**	**121.6**	**140.3**	**105.7**
Domestic assets	121.4	217.6	344.0	52.1	68.0	51.8	106.7	144.7	38.6	121.6	140.3	105.7
Currency and deposits	0.0	-127.6	-33.8	-5.2	-21.9	-7.6	-36.4	15.3	-13.2	13.4	12.1	-5.0
Debt securities	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	117.4	282.1	322.7	54.0	63.3	56.3	108.4	107.8	51.8	108.2	128.2	110.7
Equity and investment fund shares	4.0	75.4	43.4	4.3	26.6	4.3	34.7	21.6	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	-12.6	11.7	-1.0	0.0	-1.1	0.0	0.0	0.0	-1.0	-1.1	0.0
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**576.9**	**343.1**	**329.5**	**-110.0**	**-31.0**	**-163.5**	**-101.2**	**-48.3**	**-28.9**	**-98.9**	**-159.9**	**-182.8**
Domestic liabilities	374.9	177.7	129.1	-61.4	-89.5	-88.9	-156.2	-103.2	-26.0	-72.5	-149.6	-209.9
Debt securities	0.0	161.3	-14.1	12.5	-1.3	47.2	-56.8	50.3	-51.2	-68.6	-68.6	-52.4
Issuance	0.0	196.9	125.0	117.9	67.0	169.4	67.0	190.9	25.0	50.0	75.0	116.2
Amortization	0.0	35.6	139.1	105.4	68.3	122.2	123.8	140.6	76.2	118.6	143.6	168.6
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-58.1	-88.5	-66.5	-2.6	-67.8	-4.8	-77.4	-77.4	-23.0	-39.2	-64.3	-84.9
Loans	461.3	73.0	148.4	8.7	-22.5	2.8	-22.0	-83.1	48.2	35.3	-16.8	-72.7
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-28.3	31.9	61.4	-80.0	2.0	-134.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	202.0	165.3	200.4	-48.6	58.5	-74.5	55.0	55.0	-2.8	-26.4	-10.3	27.1
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	202.0	165.3	200.4	-48.6	58.5	-74.5	55.0	55.0	-2.8	-26.4	-10.3	27.1
Drawings	280.5	255.9	312.3	48.1	203.9	66.0	271.1	271.1	48.3	96.8	163.8	259.6
For budget support	176.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
For investment projects	103.7	255.9	312.3	48.1	203.9	66.0	271.1	271.1	48.3	96.8	163.8	259.6
Amortization	78.4	90.6	111.9	96.7	145.4	140.6	216.1	216.1	51.2	123.2	174.1	232.5
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**78.9**	**81.7**	**87.4**	**115.7**	**150.4**	**172.3**	**31.4**	**87.3**	**131.3**	**175.3**
Identified financing	0.0	0.0	78.9	79.8	87.4	111.4	150.4	172.3	31.4	87.3	131.3	175.3
IMF	0.0	0.0	78.9	50.5	87.4	82.1	121.1	113.6	31.4	62.8	106.8	150.8
WB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24.5	24.5	24.5
EU	0.0	0.0	0.0	29.3	0.0	29.3	29.3	58.7	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**-16.5**	**7.3**	**5.8**	**1.9**	**0.0**	**4.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items												
Net lending excluding externally-financed operations	-335.3	-103.1	-29.0	83.3	30.0	104.1	120.0	83.1	31.2	126.0	162.2	122.6

Sources: BiH authorities; and IMF staff estimates and projections.

Table 6. Bosnia and Herzegovina: Monetary Survey, 2010–14

	2010	2011	2012	2013	2014
	Dec	Dec	Dec	Dec	
				Proj.	
			(Million KM, end of period)		
Net foreign assets	4,518	4,999	5,092	5,177	5,108
Foreign assets	9,302	9,177	9,040	9,164	9,351
Foreign liabilities	4,784	4,177	3,947	3,987	4,243
Net domestic assets	9,110	9,420	9,821	10,266	11,001
Domestic credit	13,494	14,683	15,415	15,734	16,155
Claims on general government (net)	-726	-117	204	182	-128
Claims on nongovernment	14,219	14,800	15,211	15,552	16,284
Other items (net)	-4,383	-5,263	-5,594	-5,468	-5,155
Broad money (M2)	13,628	14,418	14,910	15,443	16,108
Narrow money (M1)	5,900	6,185	6,143	6,737	6,979
Currency	2,211	2,366	2,414	2,860	2,913
Demand deposits	3,689	3,819	3,728	3,877	4,065
Quasi-money (M1)	7,728	8,233	8,768	8,706	9,130
Time and savings deposits	1,991	2,286	2,673	2,496	2,618
Foreign currency deposits	5,737	5,947	6,095	6,210	6,512
		(12-month change over broad money in same period last year, in percent)			
Net foreign assets	6.6	3.5	0.6	0.6	-0.4
Net domestic assets	0.6	2.3	2.8	3.0	4.8
Domestic credit	6.0	8.7	5.1	2.1	2.7
Claims on general government (net)	2.9	4.5	2.2	-0.2	-2.0
Claims on nongovernment	3.0	4.3	2.8	2.3	4.7
Other items (net)	-5.3	-6.5	-2.3	0.8	2.0
Broad money (M2)	7.2	5.8	3.4	3.6	4.3
Memorandum items:					
			(Annual percent change)		
Broad money (M2)	7.2	5.8	3.4	3.6	4.3
Reserve money (RM)	4.4	-0.9	-0.8	4.4	4.5
Credit to the private sector	2.1	4.2	2.8	2.4	5.0
			(Percent)		
Credit to the private sector (in percent of GDP)	54.4	54.6	56.2	56.2	56.6
Broad money (in percent of GDP)	55.0	56.1	58.1	58.8	58.8
Central bank net foreign assets (in percent of monetary	109.9	110.3	112.6	109.9	108.1
			(Ratio)		
Velocity (GDP/end-of-period M2)	1.8	1.8	1.7	1.7	1.7
Reserve money multiplier (M2/RM)	2.3	2.5	2.6	2.5	2.5

Source: CBBH and IMF staff estimates and projections.

Table 7. Bosnia and Herzegovina: Schedule of Purchases Under the Stand-By Arrangement, 2012–15

	Available on or after	Amount of Purchase: In millions of SDRs	Amount of Purchase: In percent of quota [1]	Conditions
1	September 26, 2012	50.730	30	Board approval of the arrangement.
2	December 19, 2012	50.730	30	Observance of end-September 2012 performance criteria and completion of the first program review.
3	May 6, 2013	33.820	20	Observance of end-December 2012 performance criteria, and completion of the quarterly program review.
4	June 28, 2013	33.820	20	Observance of end-March 2013 performance criteria and completion of the quarterly program review.
5	October 28, 2013	42.275	25	Observance of end-June 2013 performance criteria and completion of the quarterly program review.
6	December 15, 2013	42.275	25	Observance of end-September 2013 performance criteria and completion of the quarterly program review.
7	March 15, 2014	42.275	25	Observance of end-December 2013 performance criteria and completion of the quarterly program review.
8	June 15, 2014	42.275	25	Observance of end-March 2014 performance criteria and completion of the quarterly program review.
9	September 15, 2014	59.185	35	Observance of end-June 2014 performance criteria and completion of the quarterly program review.
10	December 15, 2014	59.185	35	Observance of end-September 2014 performance criteria and completion of the quarterly program review.
11	March 15, 2015	8.455	5	Observance of end-December 2014 performance criteria and completion of the quarterly program review.
12	June 15, 2015	8.455	5	Observance of end-March 2015 performance criteria and completion of the quarterly program review.
	Total	**473.48**	**280.00**	

[1] The quota is SDR 169.1 million.

Table 8. Bosnia and Herzegovina: Quantitative Performance Criteria and Indicative Targets Under the 2012–15 Stand-By Arrangement, 2013–14

(Cumulative flow since the end of the previous year; in millions of KM)

	2013						2014			
	End-June	End-September		End-December			End-March	End-June	End-September	End-December
	Act.	EBS/12/161	Act.	EBS/13/131	Adjusted	Act.				
Performance Criteria										
Floor on the net lending of 1/										
Institutions of BiH	51.9	-20.0	70.8	-5.0	-5.0	...	3.1	34.9	34.1	-10.1
Federation central government	154.7	120.0	184.7	174.0	116.0	...	42.2	183.7	234.9	246.9
RS central government	83.3	30.0	104.1	105.0	63.0	...	31.2	126.0	162.2	122.6
Ceiling on contracting and guaranteeing of new nonconcessional short-term external debt by										
Institutions of BiH	0	0	0	0	0	0	0	0	0	0
Federation general government	0	0	0	0	0	0	0	0	0	0
RS general government	0	0	0	0	0	0	0	0	0	0
CBBH	0	0	0	0	0	0	0	0	0	0
Ceiling on accumulation of domestic arrears by										
Institutions of BiH	0	0	0	0	0	...	0	0	0	0
Federation central government	0	0	0	0	0	...	0	0	0	0
RS central government	0	0	0	0	0	...	0	0	0	0
Ceiling on accumulation external payment arrears by 2/										
Institutions of BiH	0	0	0	0	0	0	0	0	0	0
Federation general government	0	0	0	0	0	0	0	0	0	0
RS general government	0	0	0	0	0	0	0	0	0	0
CBBH	0	0	0	0	0	0	0	0	0	0
Indicative targets										
Floor on the net lending of the general government of BiH 1/	60.4	-97.1	236.2	-17.1	-117.1	...	-7.6	241.9	167.6	175.2
Ceiling on changes in the stock of "other accounts payable"										
Federation general government	-94.7	100.0	-108.9	100.0	100.0	...	100.0	100.0	100.0	100.0
RS general government	-32.2	160.0	-82.6	160.0	160.0	...	100.0	100.0	100.0	100.0
Floor on the ITA gross revenue collection				6,056.0	6,056.0	...	1,395.0	2,957.0	4,649.0	6,297.0

1/ Excluding foreign financed projects as defined in TMU.
2/ Continuous.

Table 9. Bosnia and Herzegovina: Structural Conditionality

	Actions	Test date	Status
Prior actions			
1	Adopt by the BiH parliament the 2014 budget for the Institutions of BiH, incorporating agreed measures		Met
2	Adopt by the Federation parliament the 2014 budget for the central government of the Federation, incorporating agreed measures		Met
3	Adopt by the RS parliament the 2014 budget for the central government of the RS, incorporating agreed measures		Met
Existing structural benchmarks			
1	Continue to adhere to the Currency Board Arrangement as constituted under the law	Continuous	Met
2	Refrain from introducing new privileged or special rights for retirement	Continuous	Met
3	Publish on the web site of the Institutions of BiH quarterly consolidated general government accounts with a 6 week lag	Quarterly	Met with delay
4	Carry out eligibility audits for war benefit recipients; publish results (quarterly within 4 weeks after the end of each quarter) of audits (Entities)	Quarterly	Met with delay
5	Adopt a new law on budget in the Federation that improves data reporting and enhancing control over lower level governments, extra-budgetary funds, and public companies	End-November 2013	Met with delay
6	Amend legislation in the RS to eliminate the take-home pay protection for public sector employees	End-December 2013	Not met
7	Adopt by the Federation parliament a new labor law with a view to facilitating job creation	End-December 2013	Not met
8	Adopt by the RS parliament a new labor law with a view to facilitating job creation	End-December 2013	Not met
9	Prepare the contingency plans for crisis preparedness and management in line with paragraph 10 of the supplementary Letter of Intent of June 12, 2013.	End-December 2013	Met
10	Publish a list of the 100 largest tax debtors to the ITA	End-December 2013	Met with delay
11	Hire reputable external auditors to conduct thorough asset quality reviews of the banks that have been under intensified monitoring by the Banking Agencies in 2013	End-December 2013	Not met (1 of 6 banks done)
12	Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the Federation parliament	End-June 2014	
13	Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the RS parliament	End-June 2014	
14	Submit to the Federation parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations	End-June 2014	
15	Submit to the RS parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations	End-June 2014	
Newly proposed structural benchmarks			
1	Raise the excises on fine-cut tobacco to be fully equivalent with those on cigarettes	March 1, 2014	
2	Adopt by the BiH parliament a new public procurement law in line with EU standards	End-February 2014	
3	Adopt by the Federation parliament a new law on Single Registry of Beneficiaries of Cash Payments without Contribution	End-March 2014	
4	Submit to the Federation parliament the amendments to the relevant legislation to implement the Federation pension reform strategy	End-December 2014	

Table 10. Bosnia and Herzegovina: Indicators of Capacity to Repay the Fund, 2011–20

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Actual		Projections							
Fund repurchases and charges 1/										
In millions of SDRs	4.8	24.3	142.1	152.0	44.0	72.8	158.4	168.3	76.9	3.36
In millions of U.S. dollars	7.6	37.3	214.8	230.6	67.0	111.6	244.2	259.4	118.5	5.2
In percent of exports of goods and NFS	0.1	0.7	3.8	3.8	1.0	1.5	3.1	3.1	1.3	0.1
In percent of external public debt service	3.1	13.6	45.3	41.7	13.5	18.2	29.6	36.0	15.3	0.7
In percent of quota	3.0	14.0	82.9	90.2	26.1	43.3	94.2	99.5	45.5	2.0
In percent of gross official reserves	0.2	0.8	4.7	4.9	1.4	2.3	4.9	5.2	2.4	0.1
Fund credit outstanding 1/										
In millions of SDRs	338.2	416.8	432.1	488.7	467.1	399.5	245.2	79.3	3.2	0.0
In millions of U.S. dollars	534.0	638.5	653.0	741.3	712.6	612.8	378.0	122.2	4.9	0.0
In percent of quota	200.0	246.5	255.5	289.0	276.3	236.3	145.0	46.9	1.9	0.0
In percent of GDP	2.9	3.8	3.7	4.0	3.6	2.8	1.6	0.5	0.0	0.0
In percent of gross official reserves	12.3	14.6	14.4	15.7	14.7	12.5	7.7	2.5	0.1	0.0
Memorandum items:										
Exports of goods and services (millions of US$)	5,720	5,223	5,634	6,079	6,647	7,222	7,837	8,505	9,229	10,016
External public debt service (millions of US$)	248	275	474	553	497	615	826	721	773	747
Quota (millions of SDRs)	169	169	169	169	169	169	169	169	169	169
Quota (millions of US$)	267	259	256	257	258	259	261	261	261	261
Gross official reserves (millions of US$)	4,329	4,388	4,532	4,726	4,850	4,908	4,939	4,970	5,001	5,033
GDP (millions of US$)	18,253	16,853	17,722	18,639	19,931	21,645	23,395	25,287	27,332	29,542
U.S. dollars per SDR	1.58	1.53	1.51	1.52	1.53	1.53	1.54	1.54	1.54	1.54

Source: Fund staff estimates.

1/ Based on existing and prospective drawings.

Table 11a. Bosnia and Herzegovina: Gross Financing Requirements 2013–18

(In millions of euros)

	2013	2014	2015	2016	2017	2018
Financing requirements	1,544	1,590	1,480	1,498	1,579	1,267
Current account deficit	1,065	1,071	1,039	984	918	917
Amortization	479	519	441	514	661	349
Government	306	357	292	380	538	229
Other	173	162	149	134	123	120
Financing	1,270	1,321	1,421	1,498	1,579	1,267
Capital transfers	140	144	148	153	157	162
FDI	320	329	334	340	349	359
Net bank financing	28	51	104	132	141	141
Foreign loans	575	652	648	584	602	683
Government	372	435	364	358	358	358
Other	203	217	284	225	244	325
Gross international reserves (- = increase)	-63	-96	-62	36	86	-169
Other	270	242	249	254	243	90
Financing gap	274	269	59	0	0	0
IMF	174	231	19	0	0	0
EU	100	0	0	0	0	0
World Bank	0	38	40	0	0	0

Table 11b. Bosnia and Herzegovina: Gross Financing Requirements 2013–18

(In percent of GDP)

	2013	2014	2015	2016	2017	2018
Financing requirements	11.5	11.4	10.0	9.4	9.2	6.9
Current account deficit	7.9	7.6	7.0	6.2	5.4	5.0
Amortization	3.6	3.7	3.0	3.2	3.9	1.9
Government	2.3	2.6	2.0	2.4	3.1	1.2
Other	1.3	1.2	1.0	0.8	0.7	0.7
Financing	9.5	9.4	9.6	9.4	9.2	6.9
Capital transfers	1.0	1.0	1.0	1.0	0.9	0.9
FDI	2.4	2.3	2.3	2.1	2.0	2.0
Net bank financing	0.2	0.4	0.7	0.8	0.8	0.8
Foreign loans	4.3	4.7	4.4	3.7	3.5	3.7
Government	2.8	3.1	2.5	2.2	2.1	2.0
Other	1.5	1.6	1.9	1.4	1.4	1.8
Gross international reserves (- = increase)	-0.5	-0.7	-0.4	0.2	0.5	-0.9
Other	2.0	1.7	1.7	1.6	1.4	0.5
Financing gap	2.0	1.9	0.4	0.0	0.0	0.0
IMF	1.3	1.7	0.1	0.0	0.0	0.0
EU	0.7	0.0	0.0	0.0	0.0	0.0
World Bank	0.0	0.3	0.3	0.0	0.0	0.0

Source: IMF staff projections and calculations.

Table 12. Bosnia and Herzegovina: Financial Soundness Indicators, 2008–13

(In Percent)

	2008	2009	2010	2011	2012	2013		
						Mar	Jun	Sep
Capital								
Tier 1 capital to risk-weighted assets (RWA)	12.0	12.4	12.6	13.6	14.1	14.6	14.9	14.6
Net capital to RWA	16.3	16.1	16.2	17.2	17.0	17.2	17.2	17.0
Quality of assets [1]								
Nonperforming loans to total loans	3.1	5.9	11.4	11.8	13.5	13.8	14.3	14.9
Nonperforming assets (NPAs) to total assets	2.2	3.9	8.1	8.8	10.3	10.6	11.1	11.3
NPAs net of provisions to tier 1 capital	14.3	25.9	46.1	26.1	30.4	30.7	32.4	34.0
Provision to NPAs	37.9	34.6	40.8	68.2	67.4	66.7	65.6	66.3
Profitability								
Return on assets [2]	0.4	0.1	-0.6	0.7	0.6	0.6	0.6	0.3
Return on equity [2]	4.3	0.8	-5.5	5.9	5.0	5.0	4.9	2.6
Net interest income to gross income	60.6	61.5	60.1	63.8	63.7	64.3	63.3	63.0
Noninterest expenses to gross income	90.5	97.4	109.0	86.3	87.2	80.5	79.5	87.5
Liquidity								
Liquid assets to total assets	30.0	30.9	29.0	27.3	25.4	24.1	24.2	25.3
Liquid assets to short- term financial liabilities	51.8	52.9	49.7	46.7	44.1	42.2	42.4	44.0
Short- term financial liabilities to total financial liabilities	65.4	66.2	66.9	68.4	67.9	67.4	67.5	67.7
Foreign exchange risk								
Foreign currency and indexed loans to total loans	73.3	73.9	70.0	66.7	63.1	63.2	63.7	64.1
Foreign currency liabilities to total financial liabilities	69.5	69.2	67.0	66.0	65.2	65.1	65.1	64.1
Net open position	6.2	1.7	4.4	16.1	5.4	6.5	11.1	10.5

Source: CBBH.

[1] Prior to 2010, assets classified as loss, alongside the provisions made against them, were held off-balance sheet by banks in BiH. This lowered the reported NPL ratios and coverage of nonperforming loans by provisions. Starting with the December 2010 data, the RS Banking Agency requires banks to record on-balance sheet the "loss" loans and related accrued interest and provisions, resulting in a structural break in the series. The Federation Banking Agency is planning to enforce the same methodology starting in December 2011.

[2] Interyear values obtained by summing up the quarterly net income in the current and the preceding three quarters.

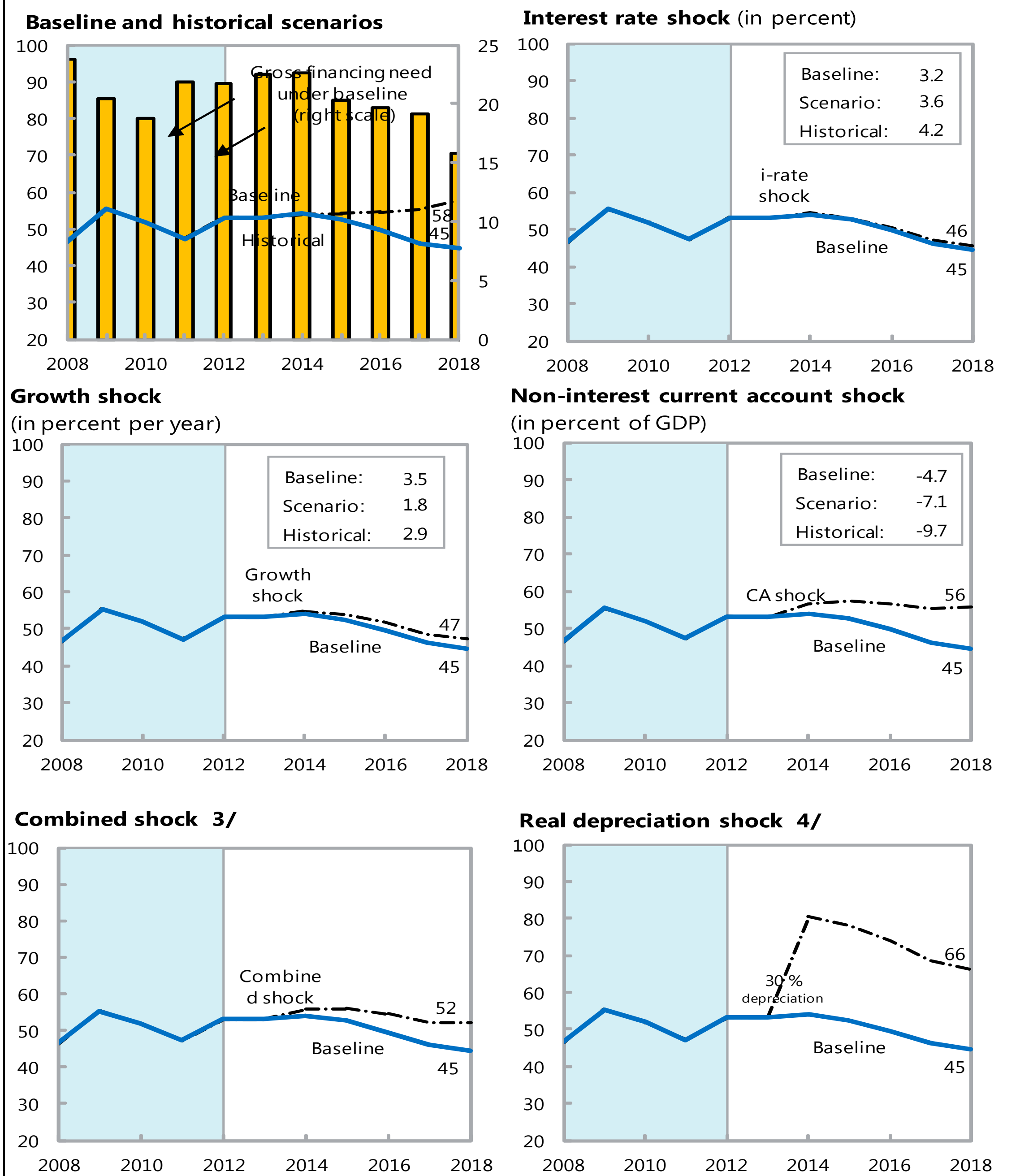
Table 13. Bosnia and Herzegoniva: External Debt Sustainability Framework, 2008-2018
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
Baseline: External debt	46.5	55.4	51.9	47.3	53.1			**53.1**	**54.1**	**52.6**	**49.6**	**46.1**	**44.6**	**-0.2**
Change in external debt	-4.6	9.0	-3.6	-4.6	5.8			-0.1	1.0	-1.5	-2.9	-3.5	-1.6	
Identified external debt-creating flows (4+8+9)	10.5	11.9	9.7	8.3	15.7			9.9	9.0	7.5	6.4	5.6	5.2	
Current account deficit, excluding interest payments	11.8	4.1	4.2	8.1	7.9			6.3	6.1	5.2	4.6	4.0	3.7	
Deficit in balance of goods and services	33.4	24.4	22.1	24.4	24.7			22.8	22.7	21.7	20.8	19.9	19.2	
Exports	10.6	9.6	14.1	16.9	16.6			17.4	17.9	18.4	18.7	19.0	19.3	
Imports	44.0	34.0	36.2	41.2	41.3			40.2	40.6	40.2	39.5	38.9	38.5	
Net non-debt creating capital inflows (negative)	5.3	1.4	2.2	2.6	2.1			2.4	2.3	2.3	2.1	2.0	2.0	
Automatic debt dynamics 1/	-6.6	6.5	3.4	-2.5	5.7			1.2	0.6	0.0	-0.4	-0.5	-0.4	
Contribution from nominal interest rate	2.4	2.5	2.0	1.7	1.8			1.6	1.6	1.8	1.6	1.4	1.3	
Contribution from real GDP growth	-2.4	1.5	-0.1	-0.5	0.6			-0.4	-1.0	-1.8	-1.9	-1.8	-1.7	
Contribution from price and exchange rate changes 2/	-6.6	2.5	1.5	-3.7	3.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-15.2	-3.0	-13.3	-12.9	-9.9			-10.0	-8.0	-9.0	-9.3	-9.0	-6.8	
External debt-to-exports ratio (in percent)	439.1	576.5	368.2	280.5	320.0			305.7	302.5	285.1	265.3	242.4	230.8	
Gross external financing need (in billions of US dollars) 4	4.4	3.5	3.1	4.0	3.7			4.0	4.2	4.0	4.3	4.5	4.0	
in percent of GDP	23.8	20.4	18.7	21.9	21.7	10-Year	10-Year	22.5	22.6	20.3	19.7	19.1	15.8	
Scenario with key variables at their historical averages 5/								**53.1**	**54.0**	**54.2**	**54.6**	**55.1**	**57.5**	**-2.9**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	5.6	-2.9	0.2	1.0	-1.1	2.9	3.3	0.8	2.0	3.5	4.0	4.0	4.0	
GDP deflator in US dollars (change in percent)	14.8	-5.0	-2.7	7.7	-6.6	7.0	9.6	4.3	3.1	3.3	4.4	3.9	4.1	
Nominal external interest rate (in percent)	5.6	5.0	3.5	3.7	3.5	4.2	0.9	3.2	3.1	3.6	3.2	3.0	3.1	
Growth of exports (US dollar terms, in percent)	34.4	-16.2	43.0	30.2	-9.1	18.6	32.4	10.0	8.3	10.3	10.2	10.0	9.8	
Growth of imports (US dollar terms, in percent)	34.4	-28.8	3.9	23.8	-7.6	7.6	19.0	2.4	6.3	5.8	6.8	6.4	7.1	
Current account balance, excluding interest payments	-11.8	-4.1	-4.2	-8.1	-7.9	-9.7	4.8	-6.3	-6.1	-5.2	-4.6	-4.0	-3.7	
Net non-debt creating capital inflows	-5.3	-1.4	-2.2	-2.6	-2.1	-0.2	5.9	-2.4	-2.3	-2.3	-2.1	-2.0	-2.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = 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 [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ 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.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 2. Bosnia and Herzegovina: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Table 14a. Bosnia and Herzegovina: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

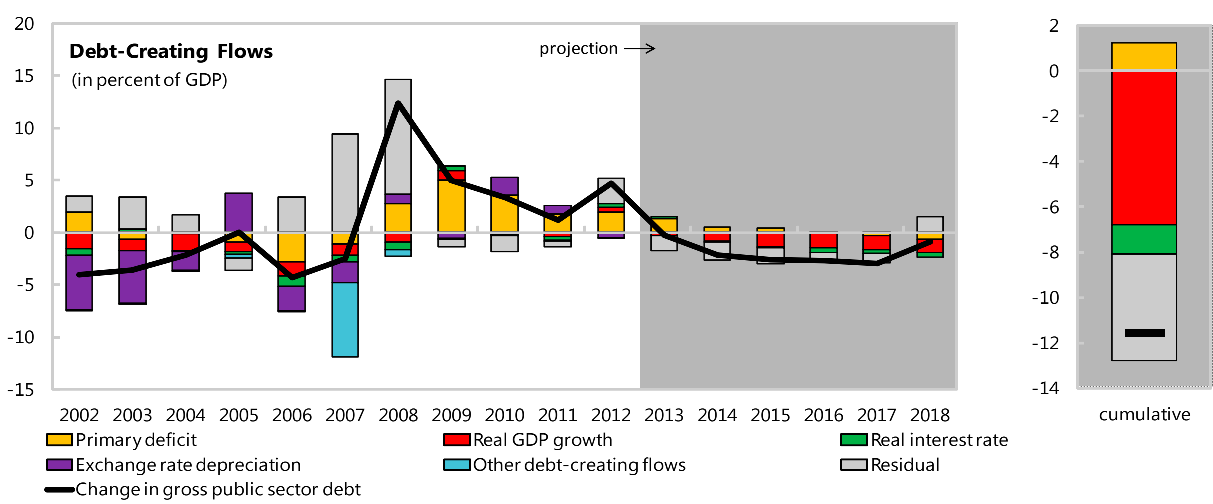
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of October 30, 2013		
	2002-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018	Sovereign Spreads		
Nominal gross public debt	28.4	40.5	45.1	44.9	42.8	40.2	37.4	34.5	33.6	EMBIG (bp) 3/	n.a.	
Public gross financing needs	2.3	4.1	5.4	5.8	5.5	5.0	4.2	4.0	1.8	5Y CDS (bp)	n.a.	
Real GDP growth (in percent)	3.8	1.0	-1.1	0.8	2.0	3.5	4.0	4.0	4.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	3.9	2.6	1.0	1.6	2.3	2.3	3.4	3.1	3.3	Moody's	B3	B3
Nominal GDP growth (in percent)	7.9	3.7	-0.1	2.4	4.3	5.9	7.6	7.2	7.4	S&Ps	B	B
Effective interest rate (in percent) [4/]	2.6	1.7	1.9	2.0	2.0	2.2	2.2	2.2	2.1	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.5	1.2	4.7	-0.2	-2.1	-2.6	-2.7	-3.0	-0.9	-11.6	
Identified debt-creating flows	-2.5	1.7	2.2	1.1	-0.5	-1.1	-2.0	-2.1	-2.4	-6.9	
Primary deficit	0.8	1.8	1.9	1.3	0.5	0.4	0.0	-0.3	-0.7	1.2	-1.7
Primary (noninterest) revenue and gra	46.1	46.5	46.3	45.9	46.2	45.7	45.7	45.6	45.6	274.6	
Primary (noninterest) expenditure	47.0	48.3	48.2	47.2	46.7	46.1	45.6	45.3	44.9	275.9	
Automatic debt dynamics [5/]	-2.4	0.1	0.3	-0.2	-1.0	-1.5	-2.0	-1.7	-1.7	-8.1	
Interest rate/growth differential [6/]	-1.2	-0.7	0.8	-0.2	-1.0	-1.5	-2.0	-1.7	-1.7	-8.1	
Of which: real interest rate	-0.3	-0.4	0.3	0.2	-0.1	-0.1	-0.5	-0.4	-0.4	-1.3	
Of which: real GDP growth	-0.9	-0.4	0.4	-0.4	-0.9	-1.4	-1.5	-1.4	-1.3	-6.8	
Exchange rate depreciation [7/]	-1.2	0.8	-0.5	...	...	...	...	...	...	...	
Other identified debt-creating flows	-1.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
General Govt - Financing - Privatizati	-1.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt flows (incl. ESM and Euro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	2.9	-0.5	2.5	-1.4	-1.7	-1.5	-0.7	-0.9	1.5	-4.7	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

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

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

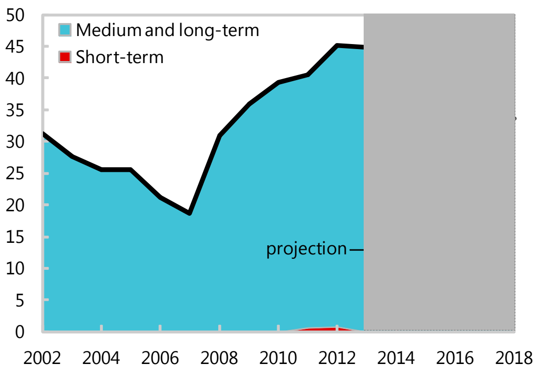
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 14b. Bosnia and Herzegovina Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

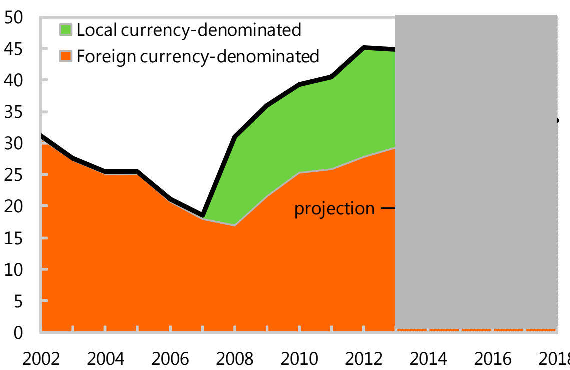
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

Baseline

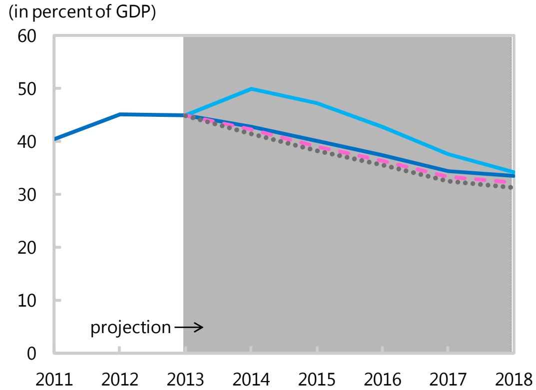
Historical

Constant Primary Balance

Contingent Liability Shock

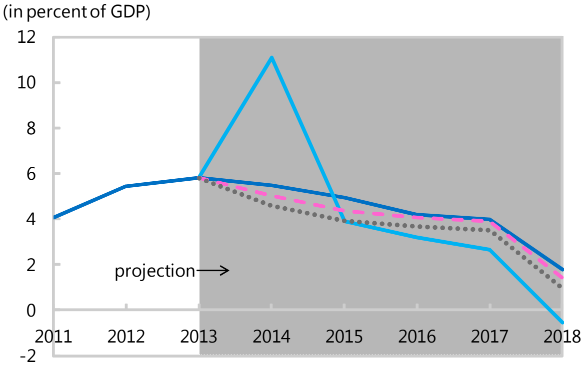
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	0.8	2.0	3.5	4.0	4.0	4.0
Inflation	1.6	2.3	2.3	3.4	3.1	3.3
Primary Balance	-1.3	-0.5	-0.4	0.0	0.3	0.7
Effective interest rate	2.0	2.0	2.2	2.2	2.2	2.1
Constant Primary Balance Scenario						
Real GDP growth	0.8	2.0	3.5	4.0	4.0	4.0
Inflation	1.6	2.3	2.3	3.4	3.1	3.3
Primary Balance	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	2.0	1.2	1.3	1.4	1.4	0.6

Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	0.8	2.9	2.9	2.9	2.9	2.9
Inflation	1.6	2.3	2.3	3.4	3.1	3.3
Primary Balance	-1.3	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	2.0	1.2	1.3	1.3	1.3	0.5
Contingent Liability Shock						
Real GDP growth	0.8	-1.3	0.2	4.0	4.0	4.0
Inflation	1.6	1.4	1.5	3.4	3.1	3.3
Primary Balance	-1.3	-7.1	-0.4	0.0	0.3	0.7
Effective interest rate	2.0	1.4	1.6	1.7	1.6	0.6

Source: IMF staff.

Appendix. Supplementary Letter of Intent

Sarajevo and Banja Luka, Bosnia and Herzegovina

January 8, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

1. The Stand-By Arrangement (SBA) for Bosnia and Herzegovina (BiH) approved in September 2012 by the Executive Board of the International Monetary Fund (IMF) continues to anchor our economic policies in a challenging environment. We remain committed to implementing the policies described in our Letter of Intent dated September 11, 2012, as well as to the policies described in our Supplementary Letters of Intent of December 6, 2012, April 23, 2013, June 12, 2013 and October 9, 2013. This Supplementary Letter of Intent provides information on our efforts and achievements since the completion of the fourth review under the arrangement in October 2013, as well as on the additional policy measures we plan to undertake in 2014 to help ensure that the objectives of the SBA continue to be met. Moreover, as the arrangement is currently set to end in September 2014, we would also like to request an extension and augmentation of the arrangement until June 30, 2015. With general elections planned for October 2014, an extended arrangement would continue to provide a valuable anchor for economic policies during the period of the elections and government formation, while it would also help us address the additional financing needs we expect for 2014 (see paragraphs 5 and 19).

2. Growing external demand and reduced financial market stresses in Europe, together with our prudent economic policies, have helped to sustain the modest recovery that started in early 2013. Exports continued to lead the recovery, and high frequency indicators suggest that the pick-up in economic activity is becoming more broad-based. Therefore, we are confident that real GDP expanded by around 1 percent in 2013. Growth is projected to pick up further in 2014 to around 2 percent, in line with developments in Europe. Inflation continued to fall, dipping into negative territory in recent months, reflecting the still weak domestic demand and falling commodity prices. Going forward, inflation is expected to move closely in line with developments in the Euro Area,

reflecting BiH's currency board arrangement. Strong export receipts, rising tourist arrivals, and a steady inflow of remittances and foreign official financing have boosted international reserves.

Program Implementation

3. We have made further progress toward meeting our program objectives. All quantitative performance criteria for end-September 2013 on the budget balances of the Institutions of BiH and the central governments of the Federation and the Republika Srpska (RS) were met with considerable margins (Table 1). With lower-than-expected indirect tax revenues, sustained spending controls helped us to meet the fiscal targets. We can also report that the Institutions of BiH and the central governments of the Federation and the RS did not see an increase in domestic arrears in the period through end-September 2013. We also did not contract or guarantee any new non-concessional short-term external debt, nor did we accumulate any external payment arrears through end-December 2013. Similarly, the indicative target on net lending by the general government for end-September 2013 was met and the changes in the stock of other accounts payable for the general governments of the Federation and the RS remained substantially below their respective ceilings through end-September 2013.

4. Steps were taken to ensure that, despite the lower indirect revenue collection and a delay in the planned distribution of dividends from our electricity transmission company TRANSCO, end-2013 budget balance targets—as modified during the fourth review—would be achieved, and that the overall deficit for BiH would be contained to about 2 percent of GDP in 2013. To achieve these objectives, we maintained strict expenditure control, while we also started to implement a comprehensive set of measures (see below) to improve tax collection. The entity governments agreed on the implementation of the measures that would allow for the distribution of no more than KM 100 million in dividends from TRANSCO, but the process—including the associated legislative changes—could not be completed before end-2013. Before the distribution of dividends takes place, the entity governments will ensure that the company's management is fully functioning, audited financial accounts have been adopted, and an understanding has been reached on an investment plan that ensures the viability of the transmission system. The entity governments will seek the assistance of the EU to work out the details of the investment plan. We aim to complete this work—and the associated legislative changes—in early 2014. The distributed dividends will be used to repay debts or other liabilities incurred in 2013 or before.

5. In preparing our 2014 government budgets, our overarching objective has been to safeguard the progress we have made so far with fiscal consolidation, by strictly containing current spending and further improving revenue collection. Despite large pressures to increase spending,

we have managed to keep the spending envelopes in the 2014 budgets broadly unchanged from 2013, aiming to achieve a consolidated government deficit for BiH of slightly below 2 percent of GDP (excluding the one-off TRANSCO dividend distribution). Nevertheless, even with strict spending control and our efforts to improve revenue collection, we will have additional financing needs in 2014, especially towards the end of the year, as external debt service obligations will be even higher than in 2013 and revenues have not recovered as strong as had been envisaged at the start of the SBA. To avoid a sharp fiscal contraction that would cause substantial social hardship and undermine the still fragile economic recovery, we would like to extend the current arrangement and request additional financial support to help address these additional financing needs (see paragraph 19).

6. To demonstrate our commitment to sound fiscal policies 2014 budgets for the Institutions of BiH and the central governments of the Federation and the RS that are consistent with a consolidated general government budget deficit of just under 2 percent of GDP (excluding the one-off TRANSCO dividend distribution) were adopted by the respective parliaments in December (prior actions for this review and our request for an extension and augmentation of the arrangement). These budgets have been based on conservative revenue assumptions, and the central government budgets of the Federation and the RS target primary surpluses that combined are equivalent to about 1¾ percent of GDP. In addition, we are proposing quarterly quantitative targets for the budget balances of the Institutions of BiH and the central governments of the Federation and the RS for 2014 consistent with this objective as presented in Table 1, and we will also continue to refrain from accumulating new domestic expenditure arrears as defined in Table 1.

7. Further progress has been made in advancing our structural reform agenda in recent months:

- The new Law on Budgets for the Federation—aiming to enhance fiscal policy coordination in the Federation, promote fiscal discipline, strengthen the Federation central government's oversight over lower levels of government, and improve fiscal reporting—was adopted by the Federation parliament in early December (a structural benchmark). The new law will become effective in January 2014. The work on enabling regulations and procedures to ensure its full implementation is well advanced.

- To enhance the transparency of indirect tax collection, the Indirect Tax Authority (ITA) published the list of 100 largest tax debtors on its website (an end-December 2013 structural benchmark). For this purpose, the Law on Indirect Taxation Procedure was amended to provide the ITA with the legal authority to publish such a list. The list will be updated on a monthly basis and we expect this step will help us improve the collection of tax debts. In addition, the ITA has also started to publish monthly information on the stock of indirect tax arrears and the stock of rescheduled tax debts, as well as the debt rescheduling agreements, in a format agreed with IMF staff.

- The implementation of the new Law on Privileged Pensions in the Federation is underway. The audits to verify the eligibility of the existing beneficiaries are being carried out throughout the Federation and we have proposed to parliament amendments to the Law on Audits and the Law on Organization of Federation Ministries to improve the audit process. We have also unified and tightened the instructions for verifying the eligibility of new beneficiaries, and allocated sufficient administrative resources to ensure that the screening of new entrants will be completed within the prescribed deadlines. We have tasked the Federation Pension and Disability Insurance Fund (PIO) and the Ministry of War Veterans to investigate the reasons for the deviation between the expected and actual savings from the adjustment of benefit levels of existing beneficiaries and to report before end-January 2014. Meanwhile, the new law is currently under review by the Federation Constitutional Court. We will ensure that the overall cost of the privileged pension system will remain within the agreed upon amounts to safeguard the financial health of PIO, and we will take corrective measures as envisaged by the law as needed to achieve this.

- The pension reform strategy for the Federation and action plan, prepared with the assistance of the World Bank, was adopted by the Federation parliament. The strategy aims to increase the number of contributors and raise the effective retirement age to improve the financial sustainability of the pension system. We will submit changes to the relevant legislation to implement the strategy—the Law on PIO, the Law on the Organization of PIO, and the Law on Voluntary Funds—to the Federation parliament by end-December 2014 (a new structural benchmark) and we expect these amendments to be adopted by parliament by early 2015.

- In the RS, the rulebook on classification of household farms into commercial and non-commercial farms has been adopted. The process of registration of farms according to the new system was largely completed by end-2013. This will broaden the collection base for social contributions and thus help stabilize the financial conditions of the social funds in the RS. In addition, the classification of farms will also help us to better target agricultural subsidies.

- A new draft procurement law for BiH—prepared with the assistance of the OECD and the EU—was adopted by the BiH Council of Ministers in November 2013 and has been submitted to the BiH parliament. The new law will further strengthen our public procurement framework by fully aligning it with EU standards. The new law in line with EU standards is expected to be approved by parliament by end-February 2014 (a new structural benchmark).

- Further progress has been made in improving our fiscal reporting and monitoring. Budget users in the Institutions of BiH and in the entities were instructed to enter commitment due dates into the Treasury system as of January 1, 2014. An agreement has been reached on a common definition of arrears in the Institutions and both entities, with any amount that is not paid within 90 days after the due date considered to be in arrears. With the adoption of the new Law on Budgets in the Federation, we will include foreign-financed projects and the road and highway funds in the reporting on the consolidated Federation general government. The RS, which had already started to capture foreign-financed projects in its reporting of the consolidated general government finances, will aim to complete this in 2014.

- All members of the Standing Committee on Financial Stability (SCFS) have been advancing their early warning and preparedness agenda by developing—supported by IMF staff—contingency plans detailing the responsibilities (within each member's mandate and powers) of and the coordination between the relevant institutions in the face of severe financial sector difficulties (a structural Benchmark for end-December 2013).

- Also to help safeguard financial stability, and to mitigate potential risks to public finances, banks that have been under intensified monitoring by the banking agencies in 2013 have had to hire reputable external auditors to conduct thorough asset quality reviews (a structural benchmark for end-December 2013). We expect these reviews to be completed in the first half of 2014. The results from the reviews will provide valuable information to the banking agencies about potential balance sheet risks.

- In addition, as maintaining depositors' confidence remains the centerpiece of a stable financial system, we have increased our deposit insurance coverage to KM 50,000 from KM 35,000, effective January 1, 2014. We had reviewed the capacities of our deposit insurance fund and our analysis confirmed that the insurance fund could comfortably withstand the increase.

- In the Federation, we addressed the legal uncertainty that had been created regarding the validity of the Securities Commission's decisions resulting from the long delays in the appointment of new members of the commission by the adoption by the parliament of a legally binding interpretation that affirmed the commission's decisions since early 2009. In order to ensure the stability of the commission and other institutions in the Federation going forward, we will work on a systemic and comprehensive solution by amending the Federation Law on Ministerial, Government and Other Appointments.

- We have prepared working drafts of new labor laws, both in the Federation and in the RS, with a view to making labor market legislation more conducive to job creation. To facilitate consensus building and improve the design of the new laws, we continue to consult closely with the employers' organizations and labor unions. We will seek—in cooperation with the social partners—to achieve that the new laws will: (i) require all collective bargaining agreements to be time-bound; (ii) give the government a larger role in determining the level of minimum wages—including for young workers; (iii) promote differentiated wage setting based on skills and performance; (iv) rationalize severance payments while strengthening social protection of the unemployed; (v) step up labor inspections and increase penalties for labor law violations; and (vi) protect workers' rights consistent with ILO labor standards and EC labor directives. We had aimed to have the new labor laws adopted by the respective parliaments by end-December 2013 (structural benchmarks), but as more time is needed for our dialogue with the social partners and parliamentary discussions this will slip into early 2014. This also caused a delay in the elimination of the take-home-pay protection in the RS as it is dependent on the adoption of a new labor law.

Further Reforms

8. The focus of our economic policies during the remainder of the program, including the period of the requested extension, will be to build on the progress made so far, by further reducing fiscal and financial risks, and fostering economic growth and job creation. Policies will be geared toward: (i) continued gradual and sustainable fiscal consolidation, with an increasing focus on improving revenue performance, streamlining the public sector, and preserving the gains from entitlement reforms; (ii) safeguarding financial sector stability through strengthening our legislative and regulatory framework and enhancing our capacity for supervision and contingency planning, as well as cooperation with home supervisors; and (iii) fostering the development of a vibrant private sector that can provide more jobs by improving the business environment. The key components of our policies are highlighted below.

Ensuring fiscal sustainability

9. Improving tax collection remains at the top of our policy agenda, and we will continue to pursue a multi-pronged approach. In particular, we will:

- Fully harmonize excises on different tobacco products. Excises on fine-cut tobacco will be raised to become fully equivalent with those on cigarettes effective March 1, 2014 (a new structural benchmark)—a decision to this effect was taken by the ITA governing board in December 2013—and we will ensure that the tax treatment of different tobacco products remains fully equivalent as we further raise the excise rate on cigarettes gradually in the coming years to achieve convergence with EU levels.

- Raise excise rates on fuel products and channel the additional revenues directly to the entity highway funds. This will help generate additional and much-needed resources for highway construction. Similarly, we plan to raise excises on alcohol and tobacco further, channel the additional revenues to the health care system, and initiate comprehensive health care reform with the assistance of the World Bank in the first half of 2014. This will also help us create the conditions for reducing the tax burden on labor by lowering the health care contribution rate over the medium-term.

- Complete the modernization of the structure of the ITA in the context of implementing the Rulebook on the Organization of Work Posts of the ITA. Specifically, we will strengthen the large-taxpayers unit and the unit focusing on the detection and prevention of VAT fraud.

- Introduce a risk-based approach for the selection of VAT refunds for audit, one of the key elements of our strategy to strengthen the control of VAT refunds and credits. We will develop the selection criteria to focus more on claimants' compliance records to the ITA and other tax agencies. Against this backdrop, we have requested IMF technical assistance to help us to make this strategy operational, with a view to fully implementing the new approach by June 2014.

- Benchmark our efforts with indicative targets on the gross collection of indirect tax revenues by the ITA (Table 1).

- Start the exchange of taxpayer information among the four tax agencies (ITA, FTA, RSTA, and BDTA) in January 2014. The working group in charge of implementing the Memorandum of Understanding on the sharing of taxpayer information that was agreed in 2013 is in the process of coordinating and finalizing the necessary legal and technical steps to be taken to provide the FTA, RSTA, BDTA, and ITA with automated and unfettered access to each other's taxpayer data.

- Adopt a new corporate income tax law in the Federation. A draft law is being prepared with assistance from the IMF, with a view to broadening the tax base and clarifying the tax treatment of depreciation and banks' loan loss provisioning. The new draft law will be submitted to the Federation parliament in early 2014, and its adoption is expected by end-March 2014. The law will come into effect January 1, 2015. The RS will also review its corporate income tax law in early 2014 in line with IMF recommendations, to foster consistency and with a particular focus also on its tax treatment of loan loss provisioning, as well as transfer pricing.

- Adopt the revised Rulebook on Tax Administration for the FTA. This will provide the FTA with the authority for its organizational design—including the establishment of a large-taxpayers office—and human resource management. With the assistance of the IMF, the FTA will press ahead with its modernization program, aimed at promoting voluntary compliance and implementation of a risk-based approach.

10. On the expenditure side, we will aim at streamlining and increasing the efficiency of government operations, focusing in particular on public employment and the benefit system. Thus, we will:

- Continue to contain the wage bill by refraining from increasing overall employment in the Institutions of BiH and the entity central government administrations.

- Draft new laws on civil servants and employees—following the adoption of the new entity labor laws—in the two entities as well as for the Institutions of BiH, with the assistance of the World Bank. The new laws, which we plan to submit to the respective parliaments within six months of the adoption of the new labor laws, will aim to facilitate public administration reform.

- Establish a centralized database in the Federation of all beneficiaries of social transfers. To this end, we will submit a new Law on Single Registry of Beneficiaries of Cash Payments without Contribution to parliament in early 2014, and we expect it to be adopted by parliament by end-March 2014 (a new structural benchmark). The database will become operational by end-April 2014.

11. We will restart the privatization process in the Federation, to help improve economic governance and competition, and reduce the risks to public finances. The Federation government—with the assistance of the EBRD and the World Bank—will submit to parliament a detailed action plan by end-June 2014, specifying the candidates for privatization, the timeline, and intermediate benchmarks for the next five years. In the meantime, we will start to dispose of our minority shares in a number of enterprises. The proceeds of these sales will be used to improve the Federation PIO's financial position—including by replenishing its legally mandated financial buffers and to settle part of state-owned enterprises' unpaid contributions to the PIO—and to facilitate the restructuring of other state-owned enterprises to prepare them for privatization.

Safeguarding financial sector stability

12. Our financial sector remains stable, despite the still difficult economic environment. However, we stay vigilant as credit growth remains weak and the quality of banks' loan portfolios has continued to deteriorate. We believe that the SCFS is the appropriate platform to coordinate our supervisory efforts and to share information. This provides the SCFS members with a more

comprehensive assessment of financial sector risks that will allow them to respond swiftly to any financial sector difficulties. On the basis of the SCFS members' contingency plans, and with the assistance of the IMF, we will review the rules and procedures of the SCFS, and amend the Memorandum of Understanding that governs the SCFS as needed, by end-March 2014, to ensure that the SCFS can effectively fulfill its coordinating role for contingency planning and crisis resolution. In this context, the SCFS will also conduct crisis simulation exercises, with support from the IMF and the World Bank, to drill down on the steps and communication needed to deal with events of a systemic nature.

13. In light of the supervisory and regulatory changes taking place in the euro area and in neighboring countries, it is crucial that BiH maintains close cooperation with foreign supervisory bodies. While our banking agencies currently benefit from an excellent dialogue with regional peers, the banking agencies plan to further formalize these exchanges by pressing ahead with the signing of Memoranda of Understanding with the relevant foreign supervisors in charge of overseeing the parent banks of subsidiaries currently active in BiH. We aim to have these memoranda signed by end-March 2014.

14. One of the key elements in our efforts to strengthen the legal and regulatory frameworks for our banking sector is to prepare new banking laws in both entities, with a view to bringing them fully in line with EU legislation and the requirements of Basel II, and to expanding the tool-kit for dealing with problem banks and clarifying the procedures for doing so. To ensure consistency between the entities, the entity finance ministries, the banking agencies, the central bank, and the deposit insurance agency will work with technical assistance from the IMF and the EU to coordinate the drafting of these new banking laws. We expect to submit the draft laws to the respective parliaments by June 2014 (structural benchmarks). In the meantime, to better protect consumer rights, in the Federation we expect to have the new Law on the Protection of Consumers of Financial Services adopted by the parliament by end-March 2014.

15. With non-performing loans (NPLs) continuing to increase, there is an urgent need to strengthen our monitoring and resolution framework. In parallel with our work on the new banking laws, and with the assistance of the IMF, we will also prepare new laws that regulate asset management companies (structural benchmarks for end-June 2014), a crucial component in the NPL resolution framework, and clarify the tax treatment of loan sales as needed. In addition, we will establish a voluntary out-of-court restructuring system in the first half of 2014, to promote the return of operationally viable companies to sustainable debt servicing. In this context, we will seek assistance from the World Bank to conduct an assessment of banks' NPLs to provide an estimate of the loans that could return to sustainable performance status through restructuring actions.

16. To help safeguard the integrity and stability of our financial markets, we have submitted a new draft law on AML/CFT to the BiH parliament, seeking to align our legal framework with FATF recommendations. We expect the BiH parliament to adopt this Law by end-March 2014. Subsequently, we plan to review and amend as necessary related legislation, including the BiH Criminal Code, to ensure full consistency with the new Law.

Supporting a vibrant private sector

17. Job creation and inclusive growth remain key objectives of our policies. Besides reviewing our labor laws to make them more conducive to job creation (see paragraph 7), we are also improving the business environment to make it easier to start and operate a business and attract more foreign investment. In the RS, preparations for the establishment of a one-stop shop for business registration were completed and the new system is now fully operational. Subsequently, the process of business registration will be further streamlined by introducing online e-registration by end-June, 2014. With the same objectives, in the Federation new Laws on Companies and Inspections, and amendments to the Law on Business Registration, which were prepared with the assistance of the World Bank, as well as amendments to the Law on Offenses have been submitted to parliament, and we expect these to be approved in early 2014.

Program Modalities

18. We believe that our economic program continues to be on course and that our policies set forth in our Letter of Intent of September 11, 2012, and supplemented by the policies described in the Supplementary Letters of Intent of December 6, 2012, April 23, 2013, June 12, 2013, October 9, 2013, and this Supplementary Letter of Intent remain adequate to achieve the objectives of our program. We stand ready, however, to take any additional measures that may be needed to achieve the objectives of our economic program. We will consult with the IMF on the adoption of additional policy measures and in advance of any revision to the policies contained in our economic program, in accordance with IMF policies on such consultation. We will continue to provide IMF staff with the necessary information for assessing progress in implementing our program and will maintain a close policy dialogue with IMF staff. We will provide any necessary information to facilitate the safeguards assessment update.

19. As the consideration of this fifth review was delayed, we request the Executive Board to approve waivers of applicability of the end-December 2013 performance criteria on the budget balances for the Institutions of BiH and for the central governments of the Federation of BiH and the RS, and on the accumulation of domestic arrears by the Institutions of BiH and the central

governments of the Federation of BiH and the RS, for which data are not yet available and for which there is no evidence that these were not observed. We request the IMF Executive Board to complete the fifth review under the SBA and approve the sixth purchase under the arrangement in the amount of SDR 42.275 million. In addition, for the SBA to continue to provide an anchor for our economic policies during the period of political transition, to support the still fragile economic recovery, and to help to address the additional financing needs toward the end of 2014, we request the IMF Executive Board to extend the current SBA through June 30, 2015 and to augment the total access by 80 percent of quota (SDR 135.28 million), with 70 percent of quota to be disbursed in the second half of 2014. The program will continue to be monitored through quarterly (and continuous) quantitative performance criteria, indicative targets, structural benchmarks, and quarterly reviews. We propose quarterly performance criteria and indicative targets for 2014, as well as structural benchmarks for the period ahead in the attached Tables 1 and 2.

20. We authorize the IMF to publish this Supplementary Letter of Intent and its attachments, as well as the related staff report on the IMF's website following consideration of our request by the IMF's Executive Board.

/s/
Vjekoslav Bevanda
Chairman
of the Council of Ministers
Bosnia and Herzegovina

/s/
Nermin Nikšić
Prime Minister
Federation of Bosnia
and Herzegovina

/s/
Željka Cvijanović
Prime Minister
Republika Srpska

/s/
Nikola Špirić
Minister of Finance
and Treasury of
Bosnia and Herzegovina

/s/
Ante Krajina
Minister of Finance
Federation of Bosnia
and Herzegovina

/s/
Zoran Tegeltija
Minister of Finance
Republika Srpska

/s/
Kemal Kozarić
Governor
Central Bank of Bosnia and Herzegovina

Table 1. Bosnia and Herzegovina: Quantitative Performance Criteria and Indicative Targets Under the 2012–15 Stand-By Arrangement, 2013–14

(Cumulative flow since the end of the previous year; in millions of KM)

	2013						2014			
	End-June	End-September		End-December			End-March	End-June	End-September	End-December
	Act.	EBS/12/161	Act.	EBS/13/131	Adjusted	Act.				
Performance Criteria										
Floor on the net lending of 1/										
Institutions of BiH	51.9	-20.0	70.8	-5.0	-5.0	...	3.1	34.9	34.1	-10.1
Federation central government	154.7	120.0	184.7	174.0	116.0	...	42.2	183.7	234.9	246.9
RS central government	83.3	30.0	104.1	105.0	63.0	...	31.2	126.0	162.2	122.6
Ceiling on contracting and guaranteeing of new nonconcessional short-term external debt by										
Institutions of BiH	0	0	0	0	0	0	0	0	0	0
Federation general government	0	0	0	0	0	0	0	0	0	0
RS general government	0	0	0	0	0	0	0	0	0	0
CBBH	0	0	0	0	0	0	0	0	0	0
Ceiling on accumulation of domestic arrears by										
Institutions of BiH	0	0	0	0	0	...	0	0	0	0
Federation central government	0	0	0	0	0	...	0	0	0	0
RS central government	0	0	0	0	0	...	0	0	0	0
Ceiling on accumulation external payment arrears by 2/										
Institutions of BiH	0	0	0	0	0	0	0	0	0	0
Federation general government	0	0	0	0	0	0	0	0	0	0
RS general government	0	0	0	0	0	0	0	0	0	0
CBBH	0	0	0	0	0	0	0	0	0	0
Indicative targets										
Floor on the net lending of the general government of BiH 1/	60.4	-97.1	236.2	-17.1	-117.1	...	-7.6	241.9	167.6	175.2
Ceiling on changes in the stock of "other accounts payable"										
Federation general government	-94.7	100.0	-108.9	100.0	100.0	...	100.0	100.0	100.0	100.0
RS general government	-32.2	160.0	-82.6	160.0	160.0	...	100.0	100.0	100.0	100.0
Floor on the ITA gross revenue collection				6,056.0	6,056.0	...	1,395.0	2,957.0	4,649.0	6,297.0

1/ Excluding foreign financed projects as defined in TMU.
2/ Continuous.

Table 2. Bosnia and Herzegovina: Structural Conditionality

	Actions	Test date	Status
Prior actions			
1	Adopt by the BiH parliament the 2014 budget for the Institutions of BiH, incorporating agreed measures		Met
2	Adopt by the Federation parliament the 2014 budget for the central government of the Federation, incorporating agreed measures		Met
3	Adopt by the RS parliament the 2014 budget for the central government of the RS, incorporating agreed measures		Met
Existing structural benchmarks			
1	Continue to adhere to the Currency Board Arrangement as constituted under the law	Continuous	Met
2	Refrain from introducing new privileged or special rights for retirement	Continuous	Met
3	Publish on the web site of the Institutions of BiH quarterly consolidated general government accounts with a 6 week lag	Quarterly	Met with delay
4	Carry out eligibility audits for war benefit recipients; publish results (quarterly within 4 weeks after the end of each quarter) of audits (Entities)	Quarterly	Met with delay
5	Adopt a new law on budget in the Federation that improves data reporting and enhancing control over lower level governments, extra-budgetary funds, and public companies	End-November 2013	Met with delay
6	Amend legislation in the RS to eliminate the take-home pay protection for public sector employees	End-December 2013	Not met
7	Adopt by the Federation parliament a new labor law with a view to facilitating job creation	End-December 2013	Not met
8	Adopt by the RS parliament a new labor law with a view to facilitating job creation	End-December 2013	Not met
9	Prepare the contingency plans for crisis preparedness and management in line with paragraph 10 of the supplementary Letter of Intent of June 12, 2013.	End-December 2013	Met
10	Publish a list of the 100 largest tax debtors to the ITA	End-December 2013	Met with delay
11	Hire reputable external auditors to conduct thorough asset quality reviews of the banks that have been under intensified monitoring by the Banking Agencies in 2013	End-December 2013	Not met (1 of 6 banks done)
12	Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the Federation parliament	End-June 2014	
13	Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the RS parliament	End-June 2014	
14	Submit to the Federation parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations	End-June 2014	
15	Submit to the RS parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations	End-June 2014	
Newly proposed structural benchmarks			
1	Raise the excises on fine-cut tobacco to be fully equivalent with those on cigarettes	March 1, 2014	
2	Adopt by the BiH parliament a new public procurement law in line with EU standards	End-February 2014	
3	Adopt by the Federation parliament a new law on Single Registry of Beneficiaries of Cash Payments without Contribution	End-March 2014	
4	Submit to the Federation parliament the amendments to the relevant legislation to implement the Federation pension reform strategy	End-December 2014	

Attachment. Technical Memorandum of Understanding on Definitions and Reporting Under the 2012–2015 Stand-By Arrangement

January 8, 2014

1. This Technical Memorandum of Understanding (TMU) sets out the understanding between the authorities of Bosnia and Herzegovina and the IMF mission regarding the definitions of quantitative performance criteria and indicative targets for the Stand-By Arrangement (SBA) as well as data reporting requirements for program monitoring.

I. PERFORMANCE CRITERIA AND INDICATIVE TARGETS

2. In the following definitions, the end-quarter test dates apply to the last working day of each quarter.

3. The definitions of all fiscal variables contained in this TMU are based, unless otherwise specified, on the IMF's *Manual on Government Finance Statistics 2001*.

A. Floor on the Net Lending of (i) the Institutions of Bosnia and Herzegovina, (ii) Central Government of the Federation of Bosnia and Herzegovina, and (iii) Central Government of the Republika Srpska (Performance Criteria)

Definitions

4. The Institutions of Bosnia and Herzegovina comprise all spending units depending on its budget. The central government of the Federation of Bosnia and Herzegovina is defined to include all spending units depending on its budget whether these units are included or not in the treasury system. The central government of the Republika Srpska includes all spending units depending on its budget whether these units are included (entirely or partially) or not in the treasury system, and the operations funded by escrow accounts.

5. Net lending is defined as revenue minus expenditure.

Application of performance criterion

6. Program targets will be individually monitored quarterly through the respective accrual balances and measured as the cumulative change from the level existing on December 31 of the previous year.

7. For the purposes of program monitoring, compliance with the floor on the net lending will require that each of the three above-defined floors be observed independently.

Adjustors to performance criterion

8. The definition of net lending will exclude spending on investment projects financed by external official creditors either through loans or grants.

9. The floor on the net lending will be adjusted downward (upward) by the full amount of any shortfall (excess) in programmed dividend payments from Elektroprenos (Transco).

Reporting requirements

10. Data on monthly execution, including revenues, expenditure and financing, will be provided by the ministries of finance of the respective Entities and no later than five weeks after the end of each month (six weeks for end-year numbers). The Ministry of Finance of the Institutions of BiH will provide monthly data on revenue and expenditure no later than five weeks after the end of each month (six weeks for end-year numbers) and quarterly data on financing no later than six weeks after the end of each quarter.

B. Floor on the Net Lending of the General Government of Bosnia and Herzegovina (Indicative Target)

Definitions

11. ***The general government of Bosnia and Herzegovina*** is defined to include the Institutions of Bosnia and Herzegovina, and the general governments of Federation of Bosnia and Herzegovina Entity (Federation), Republika Srpska Entity (RS), and the District Brcko. The *Federation general government* is defined to include the central government, the cantonal governments, the municipal governments, the federal and cantonal extrabudgetary funds and the road and highways funds. The *RS general government* is defined to include the central government, the municipal governments,

the extrabudgetary funds and the road and highway funds. The *District Brcko* is defined to include the central government with all spending units depending on its budget and extrabudgetary funds. Extrabudgetary funds include, but are not limited to, pension funds, health funds, unemployment funds, and children's fund. Any new budgetary or extra budgetary fund, created during the program period will also be included in the definition of the general government. The BiH authorities will inform IMF staff of the creation of any such new funds. Any fund that uses public resources not included in the definitions above will be automatically allocated either to one of the entity general governments or to the Institutions of Bosnia and Herzegovina. The BiH authorities will promptly inform IMF staff of the existence of any of such funds.

12. The net lending of the General Government of Bosnia and Herzegovina is defined as revenue minus expenditure. The floor on the net lending of the General Government of Bosnia and Herzegovina will be defined, for each test date, as the cumulative change from the level existing on December 31 of the previous year.

Adjustors to indicative target

13. The definition of net lending will exclude spending on investment projects financed by external official creditors either through loans or grants.

14. The target will be adjusted downward (upward) by the full amount of any shortfall (excess) in programmed dividend payments from Elektroprenos (Transco).

Reporting requirements

15. Data on quarterly general government execution, including revenues, expenditure and financing, will be provided by the ministries of finance of the respective Entities and District Brcko no later than six weeks after the end of each quarter.

C. Ceiling on Contracting or Guaranteeing of New Nonconcessional Short-Term External Debt by Institutions of Bosnia and Herzegovina, Federation and Republika Srpska General Governments, and CBBH (Performance Criterion)

Definitions

16. ***Definition of debt.*** The term **"debt"** is defined to include all current liabilities to non-residents, which are created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require the Institutions of Bosnia and Herzegovina, Federation and Republika Srpska general governments or CBBH to make one or more payments in the form of assets (including currency), at some future point(s) in time to discharge principal and/or interest liabilities incurred under the contract[2] (No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, Decision No. 6230–(79/140), August 3, 1979, as amended by Decision Nos. 11096–(95/100), October 25, 1995, 12274-(00/85), August 24, 2000, and 14416-(09/91), August 31, 2009, effective December 1, 2009). In effect, all instruments that share the characteristics of debt as described above (including loans, suppliers' credits and leases) will be included in the definition.

17. **New nonconcessional external debt** is defined as including all debt (as defined above) contracted or guaranteed by the Institutions of Bosnia and Herzegovina, Federation and Republika Srpska general governments or CBBH during the program period that is not on concessional terms.

18. **Concessional loans** are defined as those with a grant element of at least 35 percent of the value of the loan, using currency-specific discount rates based on the commercial interest rates reported by the OECD (CIRRS). For short-term loans, the average CIRRs of the proceeding six-month period (plus a margin of 0.75 percent) will be used.

19. **Short-term external debt** is defined as external debt contracted or guaranteed with an original maturity of up to and including one year

Application of performance criterion

[2] See Debt Limits in Fund-Supported Programs—Proposed New Guidelines 6230-(79/140)

20. The zero ceiling on contracting new nonconcessional short-term external debt applies to obligations of the Institutions of Bosnia and Herzegovina, Federation and Republika Srpska general governments, and CBBH. This criterion will be measured quarterly on the basis of end-of-quarter data.

Reporting requirements

21. Data on newly contracted or guaranteed nonconcessional short-term external debt will be provided by the Ministries of Finance of the Institutions of BiH and the respective Entities and by the CBBH on a quarterly basis within six weeks of the end of each quarter.

D. Ceiling on the Accumulation of External Debt Service Arrears by the Institutions of Bosnia and Herzegovina, Federation and Republika Srpska General Governments, and CBBH (Performance Criterion)

Definitions

22. ***External payment arrears*** are defined as overdue debt service arising in respect of debt obligations (as described above) incurred directly or guaranteed by the Institutions of Bosnia and Herzegovina, Federation and Republika Srpska general governments, and CBBH, except on debt subject to rescheduling or restructuring.

Application of performance criterion

23. The zero ceiling on accumulation of external payments arrears applies to the change in the stock of overdue payments on medium- and long-term debt contracted or guaranteed by the Institutions of Bosnia and Herzegovina, Federation and Republika Srpska general governments, or CBBH. This criterion will apply continuously.

24. The limit on the change in external payments arrears also applies to the change in the stock of overdue payments on short term debt in convertible currencies with an original maturity of up to and including one year.

25. Accumulation of new external arrears is prohibited under the program.

Reporting requirements

26. The Ministries of Finance of the Institutions of BiH and the respective Entities and the CBBH will inform Fund staff immediately of any accumulation of external debt service arrears.

E. Ceiling on the Accumulation of Domestic Expenditure Arrears by the Institutions of Bosnia and Herzegovina, and Federation and Republika Srpska Central Governments (Performance Criterion)

Definition

27. The performance criterion established on the stock of domestic payments arrears contemplates a zero ceiling on the increase in the stock of arrears compared with the stock as of December 31 of the previous year. The stock of arrears is defined as the sum of payments obligations (accounts payable) past the due date stipulated by the contractual or legal payment period for each expenditure item and are nondisputed. They can arise on any expenditure item, including transfers to individuals, debt service, wages, pensions, energy payments and goods and services. Past-due payments obligations on inter-governmental transfers (i.e., transfers between Entity central governments and local governments, and extrabudgetary funds) are not included in the stock of arrears.

Application of performance criterion

28. The zero ceiling on accumulation of domestic payment arrears applies to obligations of the Institutions of Bosnia and Herzegovina, and Federation and Republika Srpska central governments. This criterion will be measured quarterly on the basis of end-of-quarter data. Thus, if at the end of any given quarter any of the three governments exceeds the zero ceiling on the change in the stock of its arrears compared with the stock of the same government's arrears as of December 31 of the previous year, the performance criterion will be missed.

29. **Reporting requirements**: Data on domestic arrears will be transmitted on a quarterly basis by the Ministries of Finance of the Institutions of BiH and the respective Entities within five weeks of the end of each quarter.

F. Ceiling on changes in the stock of "other accounts payable" by the Federation of Bosnia and Herzegovina and Republika Srpska General Governments (Indicative Target)

Definition

30. The accumulation of other accounts payable (Ostale obaveze) is defined as the sum of change in float and change in arrears. These can arise from any expenditure item, including transfers to individuals, debt service, wages, pensions, utility payments, and goods and services.

Application of the indicative target

31. The respective ceilings on changes in the stock of other accounts payable apply to obligations of the Federation of Bosnia and Herzegovina and of the Republika Srpska general governments as defined above. This target will be measured quarterly on the basis of end-of-quarter data. Thus, if at the end of any given quarter any of the two governments exceed their corresponding ceiling on changes in the stock of other accounts payable compared to the balance of the same government's other accounts payable as of December 31 of the previous year, the indicative target will be missed.

32. **Reporting requirements:** Data on "other accounts payable" (Ostale obaveze) for the general government will be contained in the data on quarterly general government execution, including revenues, expenditure and financing, to be provided by the Ministries of Finance of the respective Entities no later than six weeks after the end of each quarter."

G. Floor on the collection of gross revenues by the Indirect Tax Authority (ITA) of Bosnia and Herzegovina (Indicative Target)

Definition

33. Gross revenues of the Indirect Tax Authority are defined as the sum of revenues collected from (i) value added tax; (ii) customs duties, customs registration fees and levies; (iii) excise duties on imported products; (iv) excise duties on domestic products; (v) levies (toll) on oil derivatives; (vi) other proceeds and fees; (vii) sales tax; and (viii) unclassified revenues. Gross revenue collection will be defined, for each test date, as the cumulative sum of gross revenues collected since the beginning of the current year.

Application of the performance criterion

34. The floor on the collection of gross revenues by the ITA will be measured quarterly on the basis of cumulative end-of-quarter data. Thus, if at the end of any given quarter the cumulative amount of gross revenues collected since the beginning of the current year falls below the corresponding floor, the indicative target will be missed.

35. **Reporting requirements:** Data on gross and net revenues will be transmitted on a monthly basis by the Indirect Tax Authority within two weeks of the end of each month.

II. OTHER DATA REPORTING REQUIREMENTS

36. The Bosnia and Herzegovina authorities will report the following data to the Fund within the time limits listed below (Table 1). In addition, the Fiscal Council will provide, no later than the fourth week of each quarter, a summary of key macroeconomic policy decisions taken during the previous quarter; a summary of regulatory changes in the area of banking and financial sector, report any amendments to the Entity and state budgets within a week after their government approval.

37. Any revisions to past data previously reported to the Fund will be reported to the Fund promptly, together with necessary explanation. All data will be provided in an electronic form.

38. All magnitudes subject to performance criteria or indicative targets will be reported in millions of convertible marka.

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

Table 1. Bosnia and Herzegovina: Data Reporting Requirements under the 2012 SBA

Data series	Data frequency	Periodicity of data reporting	Timeliness of data reporting (after the end of each reporting period)
I. Daily data reporting	**Daily**	**Weekly**	**Up to 14 working days, unless noted otherwise**
Gross international reserves			
CBBH foreign exchange purchases and sales			
II. Monthly data reporting	**Monthly**	**Monthly**	**Up to 4 weeks , unless noted otherwise**
Financial sector			
The balance sheet of the CBBH.			
The commercial bank survey and monetary survey			
Weighted average interest rates by bank and by type of loans			
Banking sector credit to the general government (by level of government)			
Government deposits in the banking sector			
Government finances			
Revenues, expenditures and financing data for Entity central governments.			Up to 5 weeks 1/
Revenues and expenditures data for the State.			Up to 5 weeks 1/
ITA revenues.			
Report on inflows into and outflows from escrow accounts (FBiH, RS).			
Transfers to the Entity Development Banks from the Entity central governments.			
Debt service			
New external loans contracted or guaranteed by governments.			
III. Quarterly data reporting	**Quarterly**	**Quarterly**	**Up to five weeks , unless noted otherwise**
Financial sector			
Banking supervision: financial soundness indicators			Up to 6 weeks 2/
Banking supervision: bank-by-bank commercial banks' summary balance sheets and income statements and prudential data on loan quality, liquidity, and exposures			Up to 8 weeks
Net exposure to BiH of foreign bank groups participating in the European Bank Coordination Initiative for BiH			Up to 8 weeks
Government finances			
Financing data for the State			Up to 6 weeks
Revenues, expenditures and financing data for municipalities (in both entities), and cantons (in the Federation), and Brcko District			Up to 6 weeks
Revenues, expenditures and financing data for the road funds and highway funds in both entities			Up to 6 weeks
Revenues, expenditures and financing data for the extrabudgetary funds in Federation, RS and Brcko District			Up to 6 weeks
Revenues, expenditures and financing data for consolidated BiH, consolidated FBIH, and consolidated RS general governments			Up to 6 weeks
End-period stock of outstanding arrears and float during the reference period by creditor and type of expenditure (wages, social benefits, pension, goods and services, etc.)			
Debt service			
External debt service projections for current year; total, by creditor, by level of government, and in original currency			
Newly issued government guarantees on domestic loans contracted by public and private entities			
Newly contracted government short-term external loans and degree of concessionality (grant element); total, by creditor, by purpose (project/budget support), original currency, and maturity			
External debt service payments (interest, amortization) by level of government			
External loan and grants disbursements; by creditor, by level of government, by purpose (project/budget support) and original currency			
Stock of external debt for public sector, private nonbank sector, and banking sector			
Stock of domestic government debt outstanding (by level of government, type of obligation, and holder (bank and non-bank sectors)); projected domestic government debt interest and amortization payments (by level of government, type of obligation, and holder)			

1/ Up to 6 weeks for end-year data.
2/ Up to 10 weeks for end-year data.

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FOR IMMEDIATE RELEASE
January 31, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under the SBA for Bosnia and Herzegovina, Extends and Augments the Arrangement, and Approves €48 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Bosnia and Herzegovina's (BiH's) economic performance under a program supported by a 24-month Stand-By Arrangement (SBA). The completion of the review enables the disbursement of an amount equivalent to SDR 42.275 million (about €48 million, 25 percent of quota), which will bring total disbursements under the arrangement to SDR 253.65 million (about €287.9 million, 150 percent of quota).

All end-September 2013 performance criteria (PCs) and indicative targets were met. The fifth review was delayed to allow for the adoption of government budgets for 2014 and due to the temporary interruption in the operations of the Federation of Bosnia and Herzegovina's Ministry of Finance caused by the dismissal of the finance minister that was subsequently suspended by the constitutional court. The Executive Board approved waivers of applicability of the now controlling end-December 2013 PCs on the budget balances and accumulation of domestic arrears for the Institutions of BiH and the entity central governments, for which data are not yet available and for which there is no evidence they were not observed. The Executive Board also approved a nine-month and five-day extension and augmentation of the arrangement. Access would be increased by SDR 135.28 million (about €153.6 million, 80 percent of quota) to meet additional financing needs that arise mainly in late 2014.

The SBA with BiH was approved on September 26, 2012 (see Press Release No. 12/366) in an amount equivalent to SDR 338.2 million (about €383.9 million).

Following the Executive Board's discussion, Ms. Minouche Shafik, Deputy Managing Director and Acting Chair, stated:

"Commendable progress continued to be made under Bosnia and Herzegovina's Stand-by arrangement despite heighted political uncertainty. Economic activity is picking up, benefiting from stronger external demand and prudent macroeconomic policies.

“The 2014 government budgets appropriately aim to protect the gains made so far in fiscal consolidation and place the public debt firmly on a downward path. Achieving this goal will require not only continued strict control over government spending, but more importantly, increased efforts to improve revenue collection and administration. Further efforts are also needed to streamline the public sector and revitalize the privatization process.

“The authorities have taken welcome steps to strengthen banking supervision, improve contingency planning and crisis preparedness, and enhance the resolution framework for non-performing loans. It is also important to modernize banking laws and strengthen supervisory cooperation across borders.

“Progress has also been made recently in streamlining business registration. Nevertheless, more remains to be done to improve the business environment and the functioning of the labor market. In this regard, it will be particularly critical to put in place new labor market legislation that will contribute to a lasting reduction in unemployment.

“A challenging domestic situation and the upcoming general elections pose significant risks to the timely implementation of the economic program. An extension and augmentation of the Stand-by arrangement from the Fund can provide a valuable anchor for economic policies during the election period and the political transition,” Ms. Shafik stated.

Statement by Mr. Snel and Mr. Friedman on Bosnia and Herzegovina
January 31, 2014

Bosnia and Herzegovina continues to make progress with its SBA-supported economic program. 2014 is an election year, and the pressure on policymakers to run looser policies builds up. That notwithstanding, the authorities' actions continue to be guided by the program's principles, namely: macroeconomic policies that will secure fiscal consolidation; structural reforms that will enhance growth and employment; and securing financial stability. All quantitative performance criteria for end-September 2013 on the budget balances were met, and program implementation is strong. Thus, the authorities request to conclude the Fifth Review under the 2012 SBA program.

Although economic activity has been picking up recently, the level of nominal GDP in 2013 is still lower than had been envisaged when the program was launched. As the recovery in most European countries is weaker than expected in 2012, growth rates in BiH, which is highly dependent on the European market, also fell behind those on which the SBA was based. Thus, the contraction in economic activity in 2012 was sharper than estimated, and the base effect continues to affect tax revenues today. In addition, the uneven composition of growth results in low tax revenues. The recent recovery is led by exports, which is fundamentally good news. In the short run, however, the drop in private consumption and inflation resulted in indirect tax revenues that are lower in 2013 than in 2011, in nominal terms. The result of the above two factors is a larger than expected financing gap in 2014.

Public debt to GDP fell just below the level of 45 percent, breaking the upward trend of the previous years, in spite of the lower tax revenues. Although the recovery is modest and still fragile, the authorities managed to consolidate the fiscal position. This is a major achievement given the drop in real private consumption in 2013, and the fact that VAT is the largest tax base.

A complete fiscal framework for 2014 is now in place. The most important step that has been completed since the last review is the legislation of the 2014 budgets by the state institutions as well as the entities of BiH, namely the Federation of BiH and *Republika Srpska* (RS). The entities' budgets, which were legislated ahead of the fiscal year, continue to secure the necessary process of fiscal consolidation. The budgets are designed so as to reduce the deficit to below 2 percent of GDP, which would result in a further reduction of debt to GDP to a level of just below 43 percent. Consolidation is based mainly on containing spending at its 2013 level in nominal terms, thus reducing the share of government in economic activity.

The entities of BiH have made progress with respect to their structural reform agenda. In the Federation of BiH**,** a new law on budgets, which will allow tighter control over low levels of government, was adopted as of 2014; the eligibility audits under the newly legislated Privileged Pension Law are continuously implemented; and the parliament adopted a new pension strategy, which will contribute to the pension fund's sustainability and to employment, once finalized and legislated. In the RS, the rules for classifying agricultural farms into commercial and non-commercial farms were finalized, which will enhance tax collection and improve subsidy targeting.

The state level government has also made significant reforms lately. The indirect Tax Authority has started to publish the list of 100 tax debtors, a step which is expected to improve tax collection; a new procurement law, which is in line with the best practice, was submitted to the parliament and is expected to be adopted in February; fiscal monitoring and reporting on the aggregate state-level has improved.

The authorities continue to take measures to boost financial stability. As NPLs are high and still rising, the authorities continue to make sure that financial stability is maintained. The bank supervisors have started to hire external auditors who will conduct an independent asset quality review. In order to increase confidence, bank-deposit insurance was doubled to equal up to km 50,000 (about euro 25,000).

In order to further shore up the SBA-supported program, which includes ambitious structural reforms, and to address the higher financing gap, the authorities are requesting to extend the current arrangement, which expires in September 2014. As a result of the weaker recovery, the higher financing gap, and given the limited access of BiH's government to local and international markets, the authorities are asking for an extension of the current arrangement, which is a 2-year 200 percent of quota SBA, by 9 months and 80 percent of quota. The extended arrangement would continue to guide economic policies during the period of the elections and its aftermath – including the transition period and the formation of the next government.

An extension will support additional progress on fiscal consolidation, structural reforms, tax collection and public sector efficiency fronts. The authorities see the SBA as an important contribution to their economic plan. An extension will also help to finance the gap that opens up in the second half of 2014 and to smooth the transition to 2015, a year in which, based on a cautious economic forecast of 2 percent growth, the financing gap will be substantially lower and the public deficit is expected to be lower than 1.5 percent.

The authorities would like to express their gratitude to the IMF team, headed by Mr. van Rooden, for its dedicated work and good advice.