INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/291

BOSNIA AND HERZEGOVINA

September 2016

REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BOSNIA AND HERZEGOVINA

In the context of the Request for Extended Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 7, 2016, following discussions that ended on May 24, 2016, with the officials of Bosnia and Herzegovina on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on August 23, 2016.
- 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 IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 16/396
FOR IMMEDIATE RELEASE
September 7, 2016

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Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year €553.3 Million Extended Arrangement under EFF for Bosnia and Herzegovina

The Executive Board of the International Monetary Fund (IMF) today approved a three-year extended arrangement under the Extended Fund Facility (EFF) with Bosnia and Herzegovina for an amount equivalent to SDR 443.042 million (about €553.3 million, or 167.06 percent of quota) to support the country's economic reform agenda.

The Executive Board's decision will enable an immediate disbursement of SDR 63.4125 million (about €79.2 million), and the remainder will be available in 11 installments subject to quarterly reviews.

Following the Executive Board discussion on Bosnia and Herzegovina, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The recovery of the economy of Bosnia and Herzegovina after the global financial crisis has been on a good track, with growth reaching 3.2 percent in 2015 despite fiscal consolidation. However, income convergence with advanced European countries has lagged and unemployment, especially among the youth, remains at very high levels. Important challenges remain in terms of improving the business climate, enhancing fiscal policy, and safeguarding financial sector stability.

"To reach faster growth and create more jobs, greater efforts will be necessary to drive forward the structural reform agenda. The recent adoption of the entity labor laws is welcome, but continued progress is needed to improve private sector incentives for job creation, including by addressing the very high labor tax wedge.

"Reorienting the budgets to make fiscal policy more conducive to economic growth will be critical by reducing current spending to create room for much needed infrastructure investment. The authorities' commitment to reduce public sector employment is appropriate.

Together with improved targeting of social spending and the envisaged pension and health care reforms, this will help put the debt-to-GDP ratio on a gradual downward path.

“The authorities are working on comprehensive financial sector policies to safeguard financial sector stability and revive bank lending. However, it will be critical to closely monitor bank vulnerabilities, while improving efficiency and effectiveness of banking supervision, including through better coordination and cooperation among the regulatory agencies.

“The authorities’ commitment to improve national policy coordination among different levels of governments is welcome and will be critical for successful implementation of reforms and will help build the single economic space in Bosnia and Herzegovina.

“The authorities’ program supported under the Extended Fund Facility provides an important opportunity to address the challenges in a sustainable manner, while preserving macroeconomic and external stability. It will also enable financial support from other international partners.”

ANNEX

Recent Developments

Economic growth in Bosnia and Herzegovina (BiH) has begun to pick up recently and external and internal imbalances have eased. Growth reached over 3 percent in 2015, despite a stronger-than-expected fiscal consolidation brought about by a financing shortfall. Nevertheless, economic performance has been lackluster over the past few years and growth and income convergence with advanced Europe have lagged since the onset of the global financial crisis. The budget was close to balance in 2015 and current account deficit narrowed. Inflation was negative, largely reflecting low inflation in the euro area imported through the currency board arrangement. High youth- and long-term unemployment, which encourages emigration, remains a concern. The quality of the business environment is below par: over the past two decades, BiH has trailed regional peers in implementing growth-enhancing structural reforms.

The near term outlook is relatively positive. In line with pick up in the region, growth in 2016 is expected to remain at 3 percent, as public investment recovers following financing and implementation problems in 2015. As the recovery in Europe continues and structural reforms are successfully implemented, growth could increase to 4 percent over the medium term. Prices are expected to continue to fall in 2016, with inflation picking up in later years. The current account deficit is projected to fall over the medium term, after peaking in 2017.

In 2015, the authorities adopted a comprehensive Reform Agenda, which promises the most significant reorientation of the BiH economy since the time of the Dayton Accords. The Agenda builds on the lessons learnt from earlier experiences, namely, the need to improve labor market performance and the composition of government spending. It also emphasizes the need to harmonize rules and regulations and to improve intra governmental coordination. International community has pledged to provide financial and technical assistance to support strong implementation of the Reform Agenda. Over the past year, all governments have drawn up action plans and have taken significant steps towards implementation.

Program Summary

The new three-year IMF-supported program aims to address BiH's medium term balance of payment need, and the availability of IMF financing will allow the release of compression in public capital spending. It will also support policies for boosting economic potential and maintaining macroeconomic stability.

The program would have three main objectives:

Structural Reforms: Raise growth potential and boost private sector employment by intensifying structural reforms that improve the business environment and attract investment.

Fiscal Policy: Improve the composition and quality of public spending, while gradually lowering public indebtedness.

Financial Sector: Revive bank lending and credit growth while safeguarding financial stability through financial sector reforms.

The arrangement will also help improve coordination and cooperation among the authorities in BiH to strengthen the single economic space.

Additional background

Bosnia and Herzegovina, which became member of the IMF on December 14, 1992, has an IMF quota of SDR 265.20 million. For additional information on the IMF and Bosnia and Herzegovina, see http://www.imf.org/external/country/BIH/index.htm

Bosnia and Herzegovina: Selected Economic Indicators, 2012–21

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.			Proj.			
Nominal GDP (KM million)	26,193	26,743	27,304	28,208	29,113	30,430	31,982	34,005	36,336	38,757
Gross national saving (in percent of GDP)	9.5	11.7	10.3	10.3	11.8	12.3	13.6	15.1	16.1	17.3
Gross investment (in percent of GDP)	18.1	17.0	17.8	16.0	17.1	18.3	19.3	20.6	21.2	22.2
				(Percent change)						
Real GDP	-0.9	2.4	1.1	3.2	3.0	3.2	3.7	3.9	4.0	4.0
CPI (period average)	2.0	-0.1	-0.9	-1.0	-0.7	1.1	1.5	1.8	2.1	2.1
Money and credit (end of period)										
Broad money	3.4	7.9	7.3	8.0	7.2	7.5	7.4	7.5	7.6	7.5
Credit to the private sector	2.8	2.3	1.8	2.6	3.2	3.6	5.1	6.3	6.9	7.1
					(In percent of GDP)					
Operations of the general government										
Revenue	44.2	43.2	43.4	43.6	43.4	43.5	43.4	43.4	43.4	43.3
Of which: grants	1.1	0.9	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.1
Expenditure	46.9	45.1	46.3	43.7	44.2	44.3	44.0	43.8	43.7	43.7
Of which: investment expenditure	5.1	5.0	5.3	3.5	4.4	5.1	5.9	6.9	7.2	7.6
Net lending	-2.7	-1.9	-2.9	-0.1	-0.8	-0.8	-0.6	-0.3	-0.3	-0.3
Net lending, excluding interest payment	-1.9	-1.1	-2.1	0.7	0.1	0.2	0.4	0.6	0.6	0.6
Total public debt	44.3	43.5	44.0	44.7	44.2	43.2	42.3	40.4	38.0	36.6
Domestic public debt	15.5	13.1	13.9	14.5	13.8	13.1	12.6	11.9	11.1	11.2
External public debt	28.8	30.4	30.1	30.3	30.3	30.2	29.7	28.5	26.9	25.5
					(In millions of euros)					
Balance of payments										
Exports of goods and services	2,587	2,905	2,983	3,122	3,170	3,320	3,477	3,632	3,761	3,894
Imports of goods and services	5,730	5,693	6,146	5,892	6,088	6,547	6,873	7,163	7,487	7,834
Current transfers, net	1,881	1,889	2,030	1,819	1,968	2,170	2,284	2,409	2,544	2,738
Current account balance	-1,159	-725	-1,041	-812	-793	-921	-939	-947	-965	-984
(In percent of GDP)	-8.7	-5.3	-7.5	-5.6	-5.3	-5.9	-5.7	-5.4	-5.2	-5.0
Foreign direct investment (+=inflow)	258.8	196.0	366.5	205.9	330.3	445.4	438.9	467.8	519.0	598.5
(In percent of GDP)	1.9	1.4	2.6	1.4	2.2	2.9	2.7	2.7	2.8	3.0
Gross official reserves	3,340	3,627	4,013	4,413	4,672	4,986	5,254	5,558	5,855	6,181
(In months of imports)	5.4	5.5	6.2	6.5	6.5	6.6	6.6	6.7	6.7	6.8
(In percent of monetary base)	112.6	113.3	112.1	113.3	113.2	114.5	114.3	114.5	114.5	113.7

External debt, percent of GDP	62.7	61.7	63.7	63.7	63.3	62.4	61.3	59.5	57.1	55.0

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

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

August 23, 2016

REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

The economy of Bosnia and Herzegovina (BiH) continues to recover. Growth was 3.2 percent in 2015, despite fiscal consolidation forced by financing constraints, and is expected to be at about the same level this year. External and internal imbalances have eased substantially in the past year. However, since the global financial crisis, economic convergence with advanced European economies has lagged. Unemployment, especially among the youth, is high and persistent, and creates incentives for emigration. There are important challenges in the areas of improving the business environment, reorienting fiscal policy to support growth while ensuring sustainability, promoting credit while safeguarding financial stability, and ensuring the fragmented governance structure does not affect the single economic space.

The authorities adopted a comprehensive Reform Agenda in early 2015 that aims to address tepid growth and high unemployment in a sustainable manner. Meaningful progress with implementation of the Agenda is a key precondition for BiH to make progress on its application to be a candidate for EU membership. The authorities have requested a three year Extended Fund Facility (EFF) extended arrangement with access equivalent to SDR 443.042 million (167.06 percent of quota). The Arrangement will enable financial support from other international partners. All prior actions have been completed.

The Fund arrangement will help cover the balance of payments need and facilitate implementation of structural, fiscal and financial reforms. Fiscal policy will strike a balance between ensuring medium-term sustainability and creating space to reorient public spending toward productive uses, including investment. Financial sector policy will strive to safeguard financial stability and revive credit to the private sector. Fiscal, financial, and other structural reforms will help improve the business environment and labor market outcomes.

The outlook is subject to considerable risks. A difficult political situation—a consequence of the complex institutional setup of BiH—and the upcoming municipal elections in October 2016 pose risks to the timely implementation of policies. Secular stagnation in advanced Europe could lower growth. The financial sector could also be a source of risk.

Approved By
Jörg Decressin (EUR) and Masato Miyazaki (SPR)

A staff team comprising N. Ilahi (head), D. Benedek, and H. Qu (all EUR), I. de Carvalho Filho (SPR), and J. Gottschalk (FAD) visited Banja Luka and Sarajevo during May 10–24, 2016. F. Parodi (Resident Representative), I. Jankulov and J. Mrkonja (local economists) assisted the mission. O. Nedelescu (MCM) joined the discussions. Z. Kalezic (OED) attended some of the policy discussions. The team met with: at the State level: Chairman of the Council of Ministers Zvizdic, Minister of Finance Bevanda, Central Bank Governor Softic; in the Federation of BiH: Prime Minister Novalic and Finance Minister Milicevic; and in the Republika Srpska: Prime Minister Cvijanović and Finance Minister Tegeltija. Staff also met representatives of the business sector and the diplomatic community. C. Borisova and N. Samuel (both EUR) assisted with the preparation of this report.

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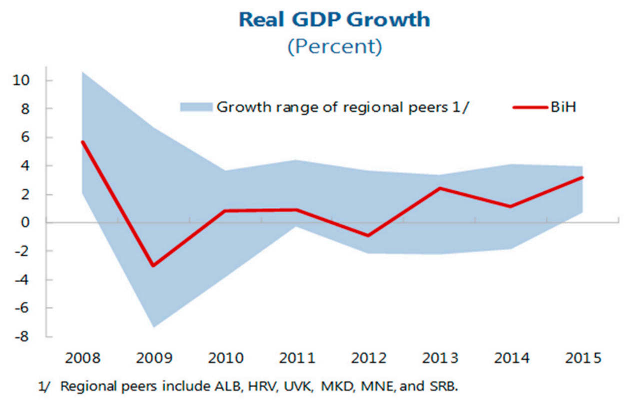
ANNEXES

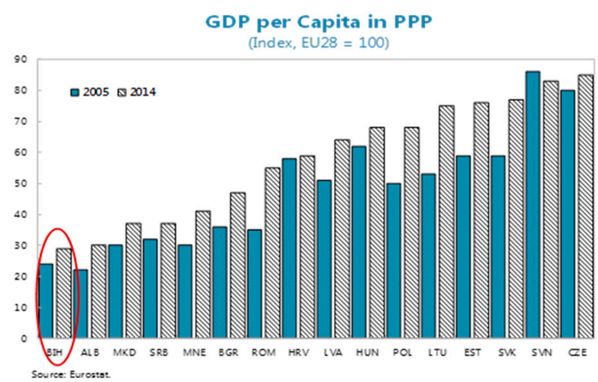
APPENDIX

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

1. **Growth has begun to pick up recently and external and internal imbalances have eased** (Figure 1)**.** Production and exports recovered faster than anticipated after floods in 2014. Growth reached 3.2 percent in 2015, despite a stronger-than-expected fiscal consolidation brought about by a financing shortfall. The budget was close to balance and current account deficit narrowed. Inflation remained negative, largely reflecting low inflation in the Euro area imported through the currency board arrangement.



2. **Notwithstanding the recent uptick, economic performance has been lackluster over the past few years.** Growth and income convergence with advanced Europe have lagged since the onset of the global financial crisis, and per capita income today is only one-quarter of EU level. Low private investment has slowed potential output growth and private sector job creation. High youth and long-term unemployment, which encourage emigration, are particularly worrisome. The quality of the business environment is below par, and, over the past two decades, Bosnia and Herzegovina (BiH) has trailed regional peers in implementing growth-enhancing structural reforms.



3. **The near term outlook is relatively positive.** In line with pick up in the region, growth in 2016 is expected to remain at 3 percent, as public investment recovers following financing and implementation problems in 2015. As the recovery in Europe continues and structural reforms are successfully implemented, growth could increase to 4 percent over the medium term. Prices are expected to continue to fall in 2016, with inflation picking up in later years. The current account deficit will fall over the medium term after peaking in 2017.

4. **There was limited progress on structural reforms and improvements in the quality of government spending under the previous program.** The previous Stand-By Arrangement helped support macroeconomic stability, and there was progress in strengthening public financial management. But there was little improvement in the quality of government spending—ad hoc dismissals from public employment were later overturned by courts, and thus did not result in sufficient fiscal savings. Business climate and labor market reforms generally lagged in large part because reforms to modernize labor laws and harmonize regulations and taxation across entities

remained unaddressed. Coordination and cooperation among various arms of government was also subpar[1].

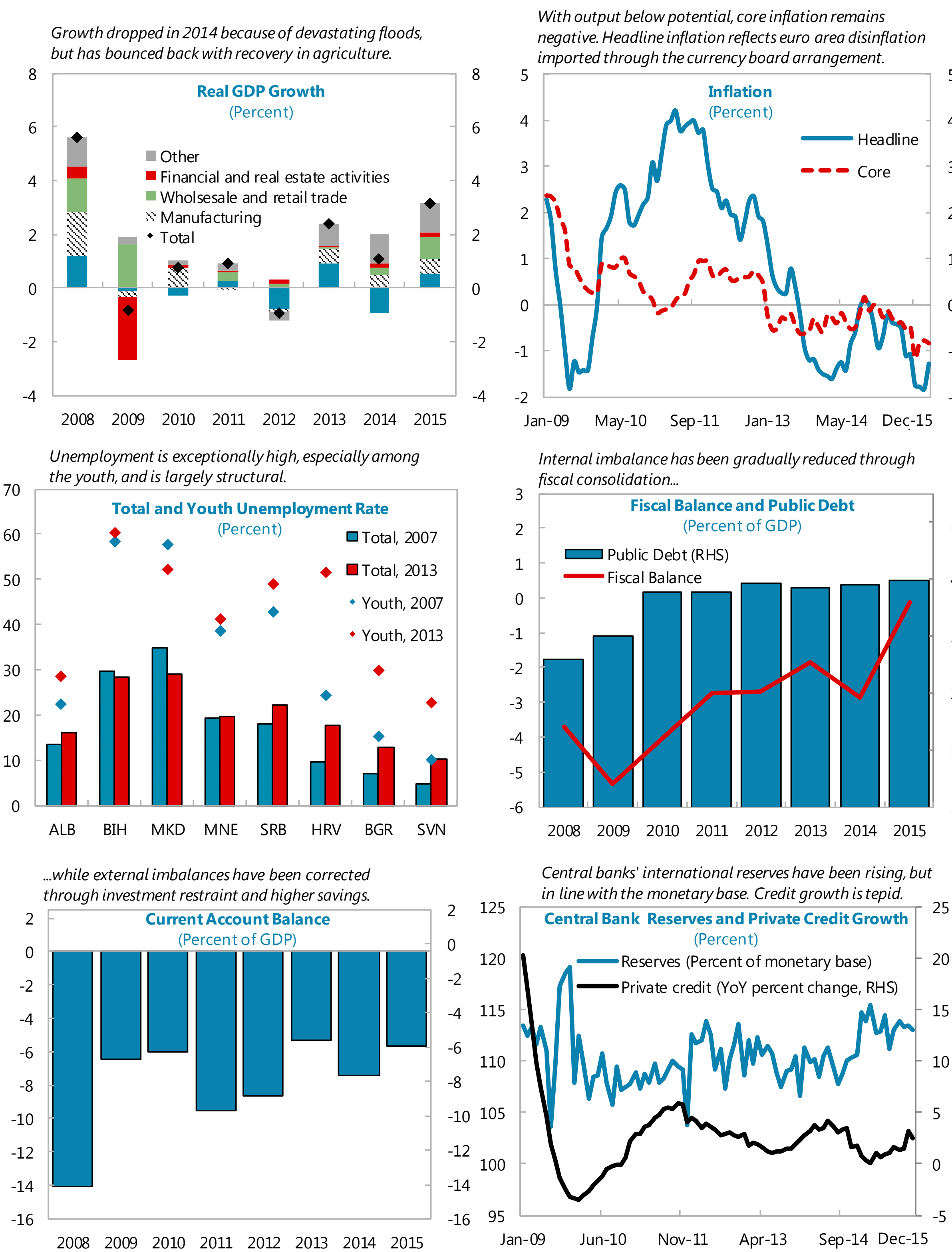
5. **In 2015, the authorities adopted a comprehensive *Reform Agenda* which promises perhaps the most significant reorientation of the BiH economy since the time of the Dayton Accords.** The Agenda builds on the lessons learnt from earlier performance, namely the need to reform labor laws and improve the composition of government spending. It also emphasizes the need to harmonize rules and regulations and to improve intra-governmental coordination.

6. **IFIs and the EU have pledged to provide financial and technical assistance to support strong implementation of the Reform Agenda.** The EU has asked for meaningful progress in implementation of the Reform Agenda as a precondition for accepting BiH's application to be a candidate for EU membership, and the international partners, including the IMF, have been coordinating efforts to align, to the extent possible, their individual programs with the Agenda. Over the past year, all governments have drawn up action plans and have taken significant steps towards implementation.

7. **The outlook is subject to considerable risks.** Intra-governmental cooperation and collaboration is weak and is exacerbated by the complex post-Dayton institutional setup. The upcoming municipal elections in October 2016 pose risks to the timely implementation of policies envisaged under the program. Vested interests, often operating along ethnic lines, pose a threat to restructuring and reorientation of the economy. Economic prospects in BiH are closely linked with advanced Europe, and the risks for secular stagnation in the latter could affect growth prospects. The financial sector could also be a source of risk.

[1] See 2015 Article IV staff report.

Figure 1. BiH: Recent Developments



Sources: BiH authorities; World Bank, *World Development* Indicators; and IMF staff estimates and projections.

PROGRAM OBJECTIVES AND POLICY DISCUSSIONS

8. **The proposed three-year extended arrangement under the EFF will fill BiH's balance of payments need.** The availability of IMF financing will allow the release of compression in public capital spending and fill the balance of payments need over the three years. It will also support policies for boosting economic potential and maintaining macroeconomic stability. The program's three main objectives are:

- Raise the economy's growth potential and boost private sector employment by intensifying structural reforms that improve the business environment and attract investment;
- Improve the composition and quality of public spending, while gradually lowering public indebtedness;
- Revive bank lending while safeguarding financial stability through financial sector reforms.

An important cross-cutting intermediate objective is to preserve and strengthen the single economic space in BiH through improved coordination and cooperation (see Box 1).

Box 1. BiH: Improving National Policy Coordination

BiH has a complex constitutional setup that makes it difficult to make policy changes and implement reforms. Improving national policy coordination is therefore key.

BiH has a state level central government—the Institutions of Bosnia and Herzegovina—two regional entities with high degree of autonomy—the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS)—and a small district, Brcko. Furthermore, the FBiH is comprised of ten highly autonomous cantons. The two regional entities have municipalities as well.

The program envisages the following measures:

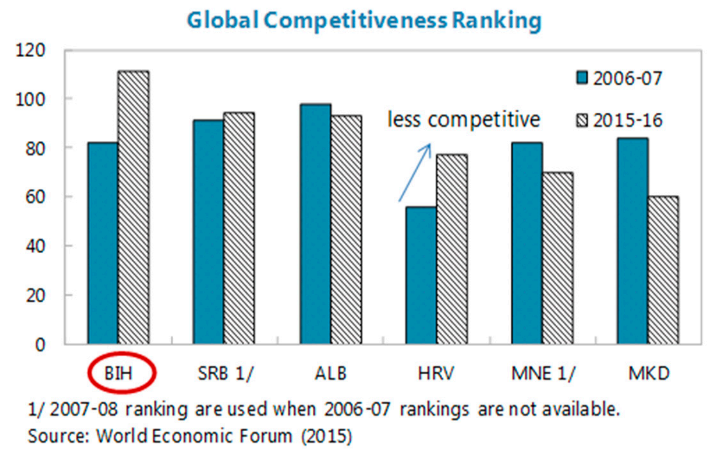
- Harmonize regulations and tax laws across entities;
- Preserve the integrity of the system of indirect taxes and review the system of revenue allocation of indirect taxes among the various levels of government—including within entities—with a view to simplifying it and making it more automatic;
- Enhance revenue collection through information sharing among the four tax agencies;
- Strengthen controls over lower levels of government and extra-budgetary funds, including by adopting a new Law on Public Revenue Allocation in the FBiH;
- Document the stock of arrears in lower levels of government, including by establishing a reporting system for capturing arrears;
- Improve national level oversight of systemic risks and coordination among financial sector regulatory agencies and introducing cross-participation in executive boards; and
- Introduce new banking laws that are harmonized across the two entities.

A. Structural Reforms to Boost Growth and Create Jobs

Successful implementation of ambitious structural reforms is essential to improve the business environment and labor market outcomes.

Background

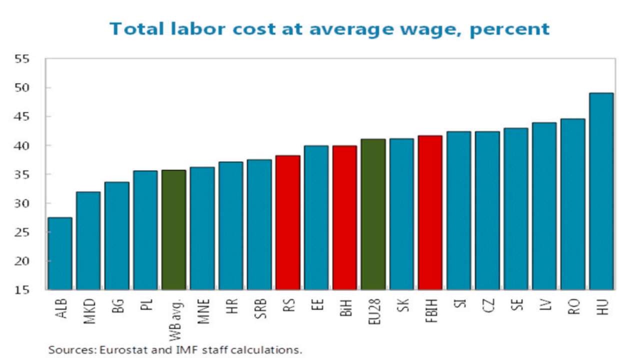
9. **There is a large unfinished agenda of reforms needed to improve business climate though there has been some progress in recent years.** The World Economic Forum ranks BiH as the least competitive economy in the region, at 111 out of 140 countries globally, largely because of a poor business climate. Fund staff see severe labor market rigidities, including a large tax wedge on employment. The public sector is large and inefficient, with significant government involvement in a broad range of sectors, including pharmaceuticals, aluminum, tobacco, insurance. Many public utilities (telecoms and railways) are loss making or, are seeing a secular decline in profits. Structural reforms face heavy resistance from vested interests, often along ethnic lines. Not surprisingly, critical structural reforms have either stalled or have progressed slowly over the past two decades. More recently, however, there has been some progress. Both entities adopted new labor laws over the last year that are more conducive to creating jobs than before. The Federation of Bosnia and Herzegovina (FBiH) has launched a new employment program to increase first time employment of young workers.



Policies

10. **Planned reforms should help improve the business climate and enable the private sector to contribute to growth, including through creating jobs.** The authorities plan to:

- **Reduce the labor tax wedge.** The high overall tax burden on labor, especially in the FBiH, needs to be lowered. An important element is reducing the social security contribution (SSC) rate in both entities, while broadening the



Personal Income Tax (PIT) and SSC bases by taxing all work-related income (including allowances; effective from January 2017). The authorities will lower SSC in a deficit neutral manner. Improvements in tax administration will also help make up for the SSC rate reduction;

- **Enhance the functioning of the labor market**. Following the adoption of the new entity labor laws, new collective bargaining agreements will need to be negotiated. The new labor laws will need to be supported by stepped-up labor inspections, and by strengthening the system of unemployment benefits and active labor market policies;

- **Lower the administrative burden on businesses**, including by harmonizing regulations between the entities and reducing para-fiscal fees at all levels of government. In line with lowering the tax burden on labor, the solidarity contribution in the Republika Srpska (RS) and the special contribution against natural disasters in the FBiH will be eliminated. The entities will also simplify business regulations, including by introducing one-stop-shop solution for company registration in FBiH and aligning this process across the entities;

- **Improve corporate governance and efficiency of SOEs.** The FBiH government will restart the privatization process, with the objective of improving competitiveness and reducing risks to public finances. It has classified SOEs and public companies into those that are strategic, those requiring minor or major restructuring, and those in which the government holds a minority share. Minority shares of several companies will be sold. The status of the remaining SOEs will be addressed either through restructuring and possible privatization or bankruptcy/liquidation. The FBiH government will complete the financial and operational due diligence for the strategically important BH Telecom and HT Mostar (structural benchmark, SB), and discuss options of either making these companies profitable and/or privatizing them. The entity governments will adopt restructuring plans for railways by end-December 2016 (SB), and for power and gas sector utilities in 2017 (LOI ¶10);

- **Improve the bankruptcy and legal dispute resolution processes.** The FBiH government has started to reform its commercial dispute resolution framework, and will adopt a new bankruptcy legislation by end-September 2016. The RS parliament approved a new bankruptcy law in February 2016. The FBiH will conduct a feasibility study on whether it should establish specialized commercial courts, while the RS will improve the functioning of commercial courts to speed up the processing of commercial and labor disputes.

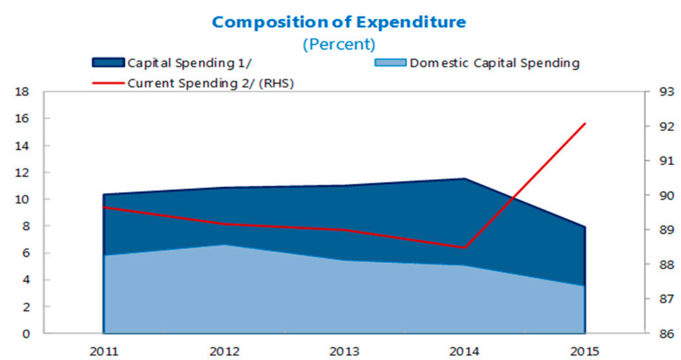
- **Finalize the process of WTO accession** and resolve trade issues with the EU.

B. Employing Fiscal Policy to Support Growth While Ensuring Sustainability

Fiscal policy will create the space to improve the quality and efficiency of public spending while ensuring medium-term sustainability.

Background

11. **There is need to strike a balance between ensuring medium-term sustainability on the one hand and creating space to reorient spending while supporting the nascent recovery with a more efficient allocation of spending on the other.** Following an increase in the overall budget deficit to 3 percent of GDP in 2014 because of natural disaster (floods), there was a strong fiscal consolidation in 2015 induced by financing constraints with the budget in near balance. This led to an unwarranted compression in public investment spending. With the economy still operating below potential a balanced structural position would be warranted over the next few years to ensure a gradual decline in public indebtedness



Sources: BiH authorities and IMF staff calculations.
1/ Net acquisition of nonfinancial assets
2/ Expense

12. **The focus of fiscal policy should be on reducing current spending and improving the composition and quality of government spending.** To boost potential growth, it is necessary to reduce the excessively large current spending, mainly comprising a heavy wage bill, so as to reorient resources from public to private sector and increase investment spending.

13. **A number of key structural fiscal challenges remain.** There is a need to strengthen coordination and cooperation among intergovernmental revenue institutions. There are deficiencies in tax policy and revenue administration and regulation is fragmented between the entities.

14. **Fiscal risks.** Specific risks emanate from SOEs, including an uncertainty about the size of unpaid social security obligations (estimated to amount to as much as 1.9 percent of GDP). Fiscal buffers are also warranted to mitigate any systemic risks in the financial sector, fiscal indiscipline in lower levels of government and uncovered liabilities of extra-budgetary funds. The stock of arrears in the public sector is unknown and also poses risks to fiscal sustainability. However, the public DSA indicates that debt ratios would remain stable in the event of lower growth.

Policies

15. **The authorities will aim for a balanced structural position in 2016 and beyond to allow space for high priority spending.** Accordingly, the nominal fiscal deficit-GDP ratio is expected to rise slightly to 0.8 percent in 2016 to make room for public investment, as financing constraints are eased. Over the medium term, a balanced structural fiscal position would allow growth to continue to recover and the output gap to close while gradually lowering the debt-GDP ratio by the end of the program period to 40 percent—a level generally deemed

appropriate for an emerging economy with a currency board and limited access to international markets.

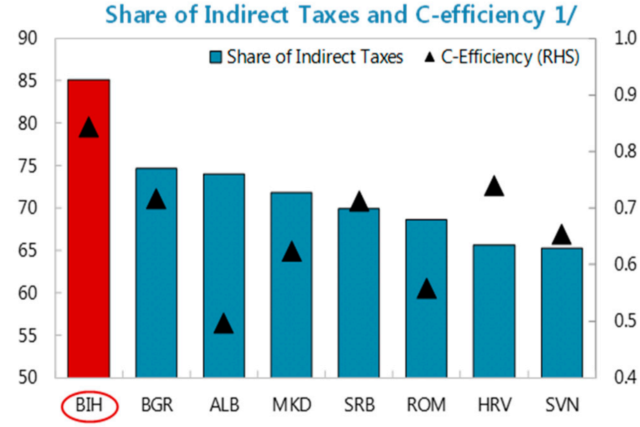
16. **The transition from current to capital spending envisaged in the 2016 budgets will be maintained.** The 2016 entity and state budgets restrained the total wage bill while allocating resources for foreign and domestically financed capital spending.[2] This should continue going forward, augmented by a sustainable reduction in public sector employment. The authorities will sustain the effort, over the program period, to shrink current spending—lowering its share in GDP to 37 percent in 2019 from 40 percent currently. There would be an increase in the allocation and execution of domestically financed capital investment.

17. **Comprehensive fiscal reforms are needed to underpin the fiscal strategy.** Main measures include:

- **Strengthen revenue collection and administration and intra-government coordination** by: (i) adjusting the allocation coefficient and settle claims of indirect taxes (*quarterly SB*); (ii) enabling the automated exchange of bulk taxpayer information across the four tax agencies to improve compliance (prior action); (iii) implementing a risk-based approach for compliance activities by all tax agencies; and (iv) increasing efforts to collect outstanding tax debts—through better focus and by pursuing all legal options to enforce collection. Going forward, to improve the transparency and stability of public finances, the authorities will adopt a more simplified and automatic system for revenue allocation of indirect taxes among the various levels of government—including within entities, in line with IMF staff recommendations, by end-December, 2016 *(SB)*.

- **Improve tax system efficiency** by: (i) preserving the integrity of the system of indirect taxes by refraining from introducing new exemptions, to ensure continued high level of budget revenues (quarterly indicative targets are set for gross indirect tax revenue collection); (ii) adopting new entity corporate income tax (CIT) laws that foster consistency, avoid double taxation between the entities and harmonize tax rules to enhance the business climate and improve fiscal sustainability, and eliminate tax exemptions from domestic tax codes (LOI ¶15, 2nd bullet; SB).

Share of Indirect Taxes and C-efficiency 1/



1/ C-efficiency is tax efficiency of VAT, measured as the ratio of VAT revenue to consumption, divided by the standard VAT rate.

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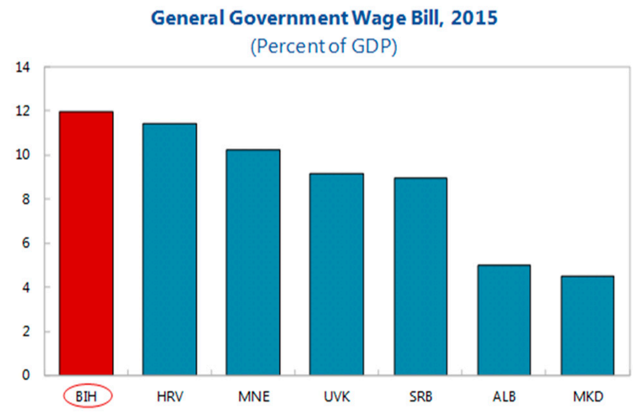
[2] Program projections assume there will be an increase in the excise tax on fuel products to satisfy IFI requirement for providing external financing for roads and highway investment projects.

- **Reduce the public wage bill, sustainably.** This would entail: (i) beginning to implement public administration reform, including through a strategic plan to restrain wages and reduce overall employment in the public sector in both entities and the Institutions of BiH level (prior actions) and the introduction of a moratorium on public sector wage increases (continuous SB); (ii) developing registries of public employment including all levels of government; and (iii) operationalizing the strategic plans on reducing public sector employment based on the registries (SB). In addition, quarterly indicative targets are set for current spending of the entity and state central governments (see Annex I.).



- **Improving the quality of social spending and making it sustainable.** The FBiH will establish a centralized database of beneficiaries by end-September 2016, and would prepare a report and plan, based on these data, to improve the targeting of social transfers by December 2016 (SB). In addition, to contain the costs of war veterans benefits, the first stage of the audit process confirming the eligibility for war veterans benefits in the FBiH will be completed by end-December 2016, and all stages will be completed by end-June 2017 (SB). To improve the targeting in the RS starting in this year, agricultural subsidies will only be paid to those farmers who register and remain current on their SSC.

18. **To lower fiscal risks a number of other reforms will be implemented over the program period**:

- **State enterprise reform**. Some loss-making SOEs have accumulated a sizable stock of unpaid social security contributions and taxes and the FBiH is currently preparing legislation to address the issue of unpaid pension contributions of former SOE employees that are about to retire. The World Bank has indicated it will continue to support this reform, including through a possible financing operation, if the legislation is consistent with the new pension law in the FBiH, and its fiscal cost is kept under control.

- **Pension reform**. The FBiH authorities are working with the World Bank on reforming the pension system and the new Law on Pension and Disability Insurance (PIO) and the Law on the Organization of the PIO Fund will be adopted in October 2016. The new set of regulations will improve the sustainability of the pension system, including by increasing the number of contributors, raising the effective retirement age, and broadening the contributions base.

- **Health care reform**. The entity authorities are working to improve the sustainability, quality, and efficiency of the health care system. The authorities' reforms, in which the World Bank is assisting, will address the debts of the health sector and strengthen the financial accountability, controls, and management of health facilities.

- **Strengthening controls over lower levels of government and extra-budgetary funds** to fully account for and stop the increase in uncovered liabilities. The FBiH Fiscal Coordination Body, which includes sub-national representatives, is expected to meet at least semi-annually. To strengthen control over lower levels, the FBiH government will amend the Law on Debt, Borrowing, and Guarantees by end-December, 2016 (SB) and adopt the new Law on Public Revenue Allocation by end-March 2017. The entity governments are working with the World Bank to document the stock of arrears in lower levels of government, including by establishing a reporting system for capturing arrears. The authorities are also expanding their treasury systems to lower levels of government, including health centers in the RS and budget management systems in cantons in the FBiH, by end-March 2017 (SBs). The FBiH government will introduce an incentive program for cantons to facilitate the reduction of overall employment and wage bill.

C. Safeguarding Financial Stability While Promoting Credit Growth

The key objectives for financial sector policies are safeguarding financial sector stability, including by strengthening the single economic space, and reviving bank lending to support growth.

Background

19. **The currency board arrangement (CBA) has been an anchor of macroeconomic stability in the BiH.** While earnings from managing the official foreign reserves at the Central Bank of Bosnia and Herzegovina (CBBH) have been declining due to the low interest rate environment globally, the foreign reserves at the CBBH have been increasing steadily and reached €4.4 billion by end March 2016. The reserves coverage of the monetary base has remained above 110 percent in recent years, which demonstrates the authorities' continued commitment towards the CBA.

20. **The banking system is broadly stable, but vulnerabilities remain.** The ratio of non-performing loans (NPLs) to total loans is elevated, and growth in loans to the private sector is still low. A few banks need to improve their capital positions and undergo deeper restructuring of their balance sheets to restore long-term viability. The entity banking agencies have instructed these banks that were under enhanced supervision in 2013 to take remedial measures to address shortcomings identified in the Asset Quality Reviews (AQRs), including by submitting recapitalization plans to the agencies. Two small banks that failed to raise new capital were closed and insured deposits were paid out. Public sector deposits, which are not covered by deposit insurance and which have generally been placed in banks on interest earning criterion, are likely to suffer substantial losses depending on the asset recovery under liquidation. The entity development banks have increasingly engaged in financial sector activities and are not adequately supervised; they pose significant risks to both financial stability and public finance.

21. **Deficiencies in the banking sector regulatory framework prevent effective supervision and pose risks to financial stability.** Banking oversight in BiH remains fragmented because of insufficient cooperation and coordination among the regulators—the entity-level banking agencies, the Deposit Insurance Agency (DIA), and the CBBH. Insufficient information sharing among the relevant authorities also undermines effective monitoring and mitigation of systemic risks. Furthermore, there are significant shortcomings under the current banking legislations regarding supervisory powers, consolidated supervision, and the bank resolution framework. Strategic deficiencies in the anti-money laundering and combating the financing of terrorism (AML/CFT) standards have also been identified by the Financial Action Task Force (FATF). In the context of a significant presence of foreign banks in the BiH, the banking agencies have enhanced the supervisory framework by signing Memoranda of Understanding (MoUs) with the European Banking Authority and the Austrian Financial Market Authority that would allow for closer cooperation and exchange of information.

Policies

22. The authorities are planning to take the following measures to mitigate financial sector risks and revive banking lending:

- **Safeguarding the CBA.** The authorities will continue adhering to the CBA as constituted under the law (*a continuous SB*). To maintain the independence of the CBBH, foreign reserves will not be used for any budgetary or public investment purposes, and there will be no ad-hoc transfers of foreign reserves to the public sector (*a continuous performance criterion*; LOI¶18). The CBBH will also modernize its practices regarding management of foreign reserves investments with assistance from IMF staff.

- **Addressing weaknesses in the banking sector.** Banks that have been under enhanced supervision in 2015 or that experienced excessive credit expansion relative to the market in 2012–14 (i.e., with an average annual credit growth rate greater than 10 percent over that period) and that have not already conducted AQRs need to hire internationally reputable external auditors to conduct detailed AQRs (*a prior action*). Based on these reviews, the banking agencies will assess the banks' ability to address any capital shortfall and restore overall soundness, and will take prompt actions to address identified vulnerabilities (SBs; LOI¶20). Public backstops will be put in place for any systemic cases. For the remaining banks in the system, AQRs will be conducted in 2017.

- **Modernizing banking legislation.** First drafts of the new banking laws have been completed with assistance of IMF and World Bank staffs. The new laws and needed amendments to the related legislations, once adopted by the respective parliaments (SB; LOI¶21, 1st bullet), will strengthen supervisors' corrective and enforcement powers, and introduce consolidated supervision of banking groups, and a comprehensive bank resolution framework.

- **Strengthening coordination, cooperation and information exchange among the banking agencies, the DIA, and the CBBH.**
    - The new banking laws will include harmonized definitions of systemically important banks (SIBs), determined according to a commonly agreed methodology.
    - The banking agencies, the DIA, and the CBBH will sign a comprehensive Financial Stability Memorandum of Understanding (MoU) that will provide for SIBs a regular exchange of information, joint inspections of the SIBs and quarterly offsite information.
    - The Banking Coordination Group and the Standing Committee for Financial Stability will hold regular meetings to discuss appropriate mitigating measures for systemic risks. Relevant conclusions and policies implemented will also be published in the Financial Stability Report in the reference period (LOI¶21, 2nd bullet).
    - To further facilitate coordination among the financial sector authorities, the governing board meetings of the banking agencies and the DIA will allow participations of senior management from other agencies (LOI¶21, 2nd bullet).

- **Improving the framework for recovering and resolving NPLs**. This will include, inter alia: (i) provisions in the new banking laws to support the purchase and sale of NPLs; (ii) a clarification by the Indirect Tax Authority (ITA) that NPL sales by banks are not subject to VAT; and (iii) to analyze possibilities of adopting guidelines for out-of-court restructuring. The authorities will encourage voluntary restructuring of loan agreements between the banks and borrowers, and will refrain from imposing mandatory conversion of any foreign currency-denominated loans into local currency (a continuous SB).

- **Introducing Liquidity Coverage Ratios and raising reserve requirements for banks to rebuild liquidity buffers.** The reserve requirement will also be tailored for prudential purposes. The holding period to allow banks under stress to breach the reserve requirements will be increased, and will be supplemented with minimum holding thresholds and higher penalty rates for a breach before more severe sanctions are applied.

- **Improving governance and transparency of the entity development banks.** The laws on entity development banks will be amended to clarify developmental objectives and to limit permissible activities including by removing channels to lend directly to the private sector. The banking agencies will subject the development banks to appropriate supervision and regulation. The governance structure of the development banks will be aligned with international best practice and their operations will be kept at arm's length from the governments (SB; LOI¶23, 24). IMF and World Bank staffs are expected to provide technical assistance.

- **Enhancing standards for placing public deposits.** In light of the likely losses to public deposits in the banks under liquidation, amendments of relevant public procurement legislations and public investment standards will be introduced to safeguard public resources.

- **Implementing the outstanding items in the action plan agreed with the FATF.** Timely adoption of additional regulatory and legislative changes is needed to prevent the FATF to call its members to apply measures that could hinder cross-border transactions.

Figure 2. BiH: Program Objective, Key Policy Areas and Key Measures

OBJECTIVE

Raise growth potential while maintaining macroeconomic stability

KEY POLICY AREAS

Structural reforms to boost growth and create private sector jobs	Supporting growth while ensuring fiscal sustainability	Safeguarding financial sector stability and reviving bank lending

KEY MEASURES

Improve business climate	Enhance functioning of labor market	Reorient budget to make it growth-friendly and more sustainable	Contain fiscal risks and enhance efficiency of tax system	Make social security and benefits sustainable and efficient	Preserve the Currency Board Arrangement	Strengthen the banking sector	Strengthen governance of development banks
1. Lower labor tax wedge 2. Lower administrative burden on businesses and para-fiscal fees **3. Harmonize regulations and tax laws across entities** 4. Restructure and privatize SOEs	1. Modernize labor laws and strengthen inspections to support new labor laws 2. Active Labor Market Policies	1. Public administration reform 2. Reduce public sector wage bill to create room for more capital spending 3. Trim public sector employment **4. Improve revenue allocation system**	1. Restructure, sell or liquidate SOEs 2. Address stock of unpaid social contributions **3. Strengthen fiscal discipline in lower levels of governments and extra-budgetary funds** **4. Strengthen fiscal accountability framework and reporting** **5. Better co-ordination and co-operation between tax agencies for stronger revenue collection**	1. Comprehensive pension reform with higher effective retirement age 2. Addressing stock of unpaid social contributions 3. Improve targeting in FBiH by setting up centralized database of beneficiaries in FBiH to improve targeting 4. Complete audit of war veterans' benefits	1. Continue to maintain the CBA as constituted by law 2. Safeguard central bank independence	**1. New modernized banking sector legislation to strengthen supervision** **2. Better coordination among regulatory agencies** 3. Firm and timely action to deal with weak banks 4. Conduct AQRs for domestically owned banks	1. Amend laws to remove direct lending, improve supervision and ensure independence and transparency of DBs 2. Develop viable business model for the operation of DBs

Note: lines highlighted with ***red*** indicate measures that improve coordination and cooperation among the authorities to preserve a single economic space.

PROGRAM MODALITIES AND RISKS

23. **Staff proposes a three-year extended arrangement under the EFF to help address BiH's balance of payments financing needs.** Given BiH's high external debt service obligations and limited access to financing, combined with the need for fiscal policy to support growth, there is a balance of payments gap estimated at about 5½ percent of GDP through 2019. In addition to covering the Balance of Payment (BoP) need, IMF financing will allow for fiscal space, consistent with the projected growth path and the need to carry out structural reforms. Within the context of BiH's currency board arrangement, the financial support will be channeled to the entity central government budgets.[3] Over the course of the program, structural and fiscal reforms are expected to boost growth, with rising contribution from the private sector, and this together with improved fiscal sustainability is expected to close the BoP gap.

24. **The new Fund-supported program would also help elicit support from the EU and IFIs.** Both the EU and the World Bank have confirmed their readiness to provide budget support in parallel with a new Fund arrangement. The EU would shift funding under its Instrument for Pre-Accession Assistance from project to budget support. It is also considering a Macro-Financial Assistance (MFA) program in later years. The World Bank is likely to disburse a Development Policy Loan (DPL) later this year and is planning further support. Each institution is expected to provide about €100–150 million in budget support (together covering about one-third of the financing needs) over the three years. Financing assurances for the first year of the program are in place and the prospects for the remaining period of the program are good.

25. **Access of 167.06 percent of quota (SDR 443.042 million, equivalent to about €557 million) would provide sufficient financing to cover the remaining financing gap.** The proposed access would cover nearly two-thirds of the financing needs and provide nearly SDR 150 million in net financing during the program period. Access is somewhat frontloaded to allow a release compression in public capital spending brought about by financing constraint. IFI and EU project lending is sizable but outside of direct budget financing, and BiH's lack of access to international bond markets necessitates high share of Fund budget financing. IFIs may fill contingent budget financing needs, in case risks materialize.

26. **The program will be monitored through quarterly reviews, based on**: (i) quantitative performance criteria focused on fiscal, monetary and external objectives; (ii) indicative targets on current expense, domestic arrears, general government net lending, stock of accounts payable and gross revenue collection of indirect tax revenues; (iii) structural benchmarks focused on structural, fiscal and financial sector reforms (LOI, Tables 1 and 2). The high degree of fragmentation and lack of coordination in policymaking in BiH argue for conducting program reviews on a quarterly basis. Structural benchmarks are macro-critical or pick up on earlier

[3] The authorities will channel IMF financing to the budgets of the two entities, with 2/3:1/3 split for FBiH and RS respectively.

unfinished reforms. They focus on intra-government coordination, fiscal and financial system risks, reorientation of the economy and important public financial management (PFM) measures.

27. **BiH is expected to be able to meet its obligations under the proposed arrangement.** The country has a good record in servicing its Fund obligations. Furthermore, the program would lay the foundations for BiH's return to a sustainable medium-term growth path, thus providing assurances that BiH will be able to discharge its Fund obligations in a timely manner. By the end of the proposed EFF, Fund credit outstanding is projected to be 3.2 percent of GDP or 10.0 percent of gross reserves (Table 10). External debt is projected to decline steadily from 63.7 in 2015 to 59.5 percent of GDP by the end of the program, providing an important buffer in case program performance is weaker than anticipated. Public external debt accounts for slightly less than half external debt through the duration of the program and is projected to decline from 30.3 in 2015 to 28.5 percent of GDP in 2019. The external DSA shows that a real depreciation shock of 30% would bring challenges to debt sustainability, but that is a rather unlikely scenario given the authorities' commitment to the currency board arrangement.

28. **A safeguard assessment of the CBBH will be conducted before the first review under the program.** An update safeguards assessment of the CBBH was completed in October 2014. The assessment found that the bank continued to maintain a robust governance structure and control environment. All recommendations from the 2014 assessment have been implemented.

29. **Program implementation risks are significant.** There could be a weakening of political support for structural reforms during election periods. Vested interests, often operating along ethnic lines, pose a political threat to restructuring and reorientation of the economy and political gridlock may jeopardize fiscal sustainability and access to financing. It is a challenge to maintain adequate national policy coordination and intra-government cooperation.

STAFF APPRAISAL

30. **The economy is showing signs of firmer growth, following the natural disaster in 2014 but a large unfinished reform agenda remains.** Internal and external imbalances have eased recently. Growth and income convergence to advanced Europe has been lagging and unemployment, particularly among the youth has been stuck at high levels. In many ways, BiH's record of reforms over the past two decades is the weakest in comparison to regional peers.

31. **The authorities' program—supported by the proposed extended arrangement under the EFF—offers a credible way to raise growth potential while maintaining macroeconomic stability.** The program's three main objectives of boosting growth and creating private sector jobs through structural reforms; supporting growth while ensuring fiscal sustainability; and safeguarding financial sector stability and reviving bank lending are

appropriate, but the test would be the authorities' willingness and ability to implement, something that has proven challenging in the past.

32. **The authorities' approach of reorienting the budgets to make fiscal policy more growth friendly while gradually lowering the debt-to-GDP ratio over the medium term is appropriate**. Current spending should be reduced to create room for much needed infrastructure investment. The reform of public administration is expected to address the excessively high level of public employment and public sector wages. Staff welcomes the authorities' commitment to reduce employment in public administration in a manner that does not result in litigation associated with dismissals judged as illegal. Measures envisaged to improve the targeting and efficiency of social spending, such as the single registry of beneficiaries and the pension reform in the FBiH and the health care reform in both entities are also appropriate and welcome. Staff believes the policy of maintaining structural fiscal position in balance to allow gradual reduction in the debt-GDP ratio is appropriate at a time when the economy is operating below potential and there is only moderately high public indebtedness.

33. **Improvements in coordination and cooperation among entity tax and financial agencies would be critical for maintaining a single economic space, and thus supporting growth.** Staff welcomes the authorities' commitments to harmonize tax rules across the entities. The recently implemented automated exchange of taxpayer information among the four tax agencies will allow enhanced tax collection. Better coordination and cooperation among the financial sector regulatory agencies will contribute to financial sector stability and enhanced cooperation at the level of Financial Stability Council will help in mitigating systemic financial risks.

34. **Fiscal risks related to SOEs and lower levels of governments will need to be forcefully contained.** Deteriorating performance of SOEs is a cause for concern and could increase burden on the public balance sheet. Restructuring, liquidation or privatization of remaining loss-making SOEs will significantly reduce fiscal risks. Forceful action would be needed to resist the vested interests that have stalled such reforms in the past. The proposed revisions to the intra-governmental relations in the FBiH are welcome, including the new law on revenue allocation.

35. **The authorities' proposed financial sector policies are comprehensive and are appropriate for safeguarding financial sector stability and reviving bank lending.** The banking system has been broadly stable in the face of the global financial crisis and the recent natural disasters. However, the authorities need to remain vigilant and closely monitor the risks emanating from vulnerable banks. Staff welcomes the steps taken to deal with these banks, and urges authorities to improve the efficiency and effectiveness of banking supervision including through better coordination and cooperation among the regulatory agencies and to implement measures to mitigate risks from the development banks. The envisaged new banking legislations will help banks repair their balance sheets, and will at the same time modernize banking supervision and resolution.

36. **Without an improvement in BiH's difficult business and investment environment, the economy cannot deliver sustainable growth.** Severe structural impediments continue to hamper economic performance and are at the root of BiH's struggle to achieve more balanced growth. Consequently, BiH should use the opportunity provided by the program to accelerate the pace of structural reforms necessary for the development of a vibrant private sector. Rules and regulation, including tax rules, need to be simplified and harmonized across the entities to better serve the purpose of a single economic space of BiH. The recent adoption of the entity labor laws is welcome, but more remains to be done to create an environment in which private sector has the incentive to create jobs. The labor tax wedge is one of the highest in the region and works as disincentive for employers and discourages formalization in the labor market. It needs to be reduced.

37. **Taking into account the commitment by the authorities at all levels to steadfastly implement their program and be ready to adjust policies as circumstances change, staff expects the BiH economy to progress in dealing with its present challenges.** Risks to program implementation stem from possible fading of political support for structural reforms along with the commitment to national policy coordination and cooperation in the period leading to and following the October municipal elections.

38. **Staff supports the authorities' request for an Extended Arrangement.** In view of BiH's balance of payment gap and the need to build up reserves, the policy actions already taken, and the authorities' commitment to implement ambitious reforms over the duration of the program, staff supports the authorities' request for an extended arrangement under the EFF in an amount equivalent to SDR 443.042 million (167.06 percent of quota).

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2012–21

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.			Proj.			
Nominal GDP (KM million)	26,193	26,743	27,304	28,208	29,113	30,430	31,982	34,005	36,336	38,757
Gross national saving (in percent of GDP)	9.5	11.7	10.3	10.3	11.8	12.3	13.6	15.1	16.1	17.3
Gross investment (in percent of GDP)	18.1	17.0	17.8	16.0	17.1	18.3	19.3	20.6	21.2	22.2
				(Percent change)						
Real GDP	-0.9	2.4	1.1	3.2	3.0	3.2	3.7	3.9	4.0	4.0
CPI (period average)	2.0	-0.1	-0.9	-1.0	-0.7	1.1	1.5	1.8	2.1	2.1
Money and credit (end of period)										
Broad money	3.4	7.9	7.3	8.0	7.2	7.5	7.4	7.5	7.6	7.5
Credit to the private sector	2.8	2.3	1.8	2.6	3.2	3.6	5.1	6.3	6.9	7.1
					(In percent of GDP)					
Operations of the general government										
Revenue	44.2	43.2	43.4	43.6	43.4	43.5	43.4	43.4	43.4	43.3
Of which: grants	1.1	0.9	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.1
Expenditure	46.9	45.1	46.3	43.7	44.2	44.3	44.0	43.8	43.7	43.7
Of which: investment expenditure	5.1	5.0	5.3	3.5	4.4	5.1	5.9	6.9	7.2	7.6
Net lending	-2.7	-1.9	-2.9	-0.1	-0.8	-0.8	-0.6	-0.3	-0.3	-0.3
Net lending, excluding interest payment	-1.9	-1.1	-2.1	0.7	0.1	0.2	0.4	0.6	0.6	0.6
Total public debt	44.3	43.5	44.0	44.7	44.2	43.2	42.3	40.4	38.0	36.6
Domestic public debt	15.5	13.1	13.9	14.5	13.8	13.1	12.6	11.9	11.1	11.2
External public debt	28.8	30.4	30.1	30.3	30.3	30.2	29.7	28.5	26.9	25.5
					(In millions of euros)					
Balance of payments										
Exports of goods and services	2,587	2,905	2,983	3,122	3,170	3,320	3,477	3,632	3,761	3,894
Imports of goods and services	5,730	5,693	6,146	5,892	6,088	6,547	6,873	7,163	7,487	7,834
Current transfers, net	1,881	1,889	2,030	1,819	1,968	2,170	2,284	2,409	2,544	2,738
Current account balance	-1,159	-725	-1,041	-812	-793	-921	-939	-947	-965	-984
(In percent of GDP)	-8.7	-5.3	-7.5	-5.6	-5.3	-5.9	-5.7	-5.4	-5.2	-5.0
Foreign direct investment (+=inflow)	258.8	196.0	366.5	205.9	330.3	445.4	438.9	467.8	519.0	598.5
(In percent of GDP)	1.9	1.4	2.6	1.4	2.2	2.9	2.7	2.7	2.8	3.0
Gross official reserves	3,340	3,627	4,013	4,413	4,672	4,986	5,254	5,558	5,855	6,181
(In months of imports)	5.4	5.5	6.2	6.5	6.5	6.6	6.6	6.7	6.7	6.8
(In percent of monetary base)	112.6	113.3	112.1	113.3	113.2	114.5	114.3	114.5	114.5	113.7
External debt, percent of GDP	62.7	61.7	63.7	63.7	63.3	62.4	61.3	59.5	57.1	55.0

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

Table 2. Bosnia and Herzegovina: Real Sector Developments, 2012–21

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.			Proj.			
Real aggregates				(Percent change)						
Growth rates										
GDP at constant 2010 prices	-0.9	2.4	1.1	3.2	3.0	3.2	3.7	3.9	4.0	4.0
Domestic demand	-2.2	0.6	3.1	1.5	3.8	4.1	3.8	3.7	4.0	4.1
Private	-2.8	1.0	2.8	3.5	4.0	4.2	3.5	3.1	3.4	3.7
Public	0.1	-0.8	4.4	-6.3	2.9	3.9	4.8	6.1	6.3	5.6
Consumption	-2.0	1.4	2.4	3.2	2.5	3.3	2.5	2.0	2.9	3.1
Private	-2.4	2.0	2.3	3.5	3.8	4.0	3.1	2.5	2.7	3.0
Public	-0.6	-1.2	2.9	2.2	-3.4	0.2	-0.2	-0.3	4.1	3.9
Gross capital formation	-3.1	-3.4	7.0	-7.2	11.4	8.5	9.8	11.5	8.4	7.8
Private	-5.1	-5.0	5.9	3.7	5.3	5.6	6.0	6.8	7.2	7.3
Public	2.5	0.7	9.6	-32.9	33.3	16.8	19.7	22.1	10.8	8.8
Net Exports										
Exports of goods and services	-0.8	8.0	4.8	5.5	4.8	4.8	4.4	4.4	4.4	4.4
Imports of goods and services	-4.1	1.1	8.8	0.6	6.2	6.5	4.3	3.7	4.2	4.3
Contributions to real GDP growth				(Year-on-year change over real GDP in previous year, in percent)						
GDP at constant 2010 prices	-0.9	2.4	1.1	3.2	3.0	3.2	3.7	3.9	4.0	4.0
Domestic demand	-2.7	0.7	3.6	1.8	4.4	4.9	4.4	4.4	4.7	4.8
Private	-2.7	0.9	2.6	3.3	3.8	4.0	3.4	3.0	3.3	3.5
Public	0.0	-0.2	1.0	-1.5	0.6	0.8	1.0	1.4	1.4	1.3
Consumption	-2.0	1.4	2.4	3.2	2.5	3.3	2.5	2.0	2.8	3.0
Private	-1.9	1.6	1.8	2.8	3.1	3.2	2.6	2.0	2.2	2.4
Public	-0.1	-0.2	0.5	0.4	-0.6	0.0	0.0	0.0	0.6	0.6
Gross capital formation	-0.6	-0.7	1.3	-1.4	2.0	1.6	1.9	2.4	1.9	1.8
Private	-0.7	-0.7	0.8	0.5	0.7	0.8	0.9	1.0	1.1	1.1
Public	0.1	0.0	0.5	-1.9	1.2	0.8	1.1	1.4	0.8	0.7
Net Exports	1.7	1.7	-2.5	1.3	-1.4	-1.7	-0.7	-0.5	-0.7	-0.8
Exports of goods and services	-0.2	2.2	1.4	1.6	1.5	1.5	1.4	1.4	1.4	1.4
Imports of goods and services	-1.9	0.5	3.9	0.3	2.9	3.2	2.1	1.9	2.1	2.2
Deflators				(Percent Change)						
GDP	0.9	-0.3	1.0	0.1	0.2	1.3	1.4	2.3	2.7	2.5
Domestic demand	1.9	-1.1	0.9	-1.1	-0.2	1.3	1.3	2.1	2.6	2.3
Consumption	1.7	-1.2	1.1	-1.5	0.0	1.2	1.4	2.4	2.9	2.2
Investment	3.1	-1.1	0.1	-0.1	-0.7	2.7	1.4	1.6	1.7	3.4
Exports of goods and services	1.7	-1.4	-1.5	0.2	-1.7	0.0	0.4	0.4	0.1	0.3
Imports of goods and services	4.2	-2.1	-1.5	-2.2	-2.2	0.3	0.7	0.7	0.7	0.7
Nominal aggregates										
Nominal GDP (KM million)	26,193	26,743	27,304	28,208	29,113	30,430	31,982	34,005	36,336	38,757
				(In percent of GDP)						
Consumption	105.3	103.4	104.9	103.2	102.5	102.5	101.4	99.7	98.8	97.7
Private	83.8	82.6	84.0	82.8	83.5	84.1	83.7	82.8	82.0	80.9
Public	21.5	20.8	20.9	20.4	19.0	18.4	17.7	16.9	16.8	16.8
Gross capital formation	18.1	17.0	17.8	16.0	17.1	18.2	19.3	20.6	21.2	22.2
Private	13.1	12.0	12.5	12.5	12.7	13.1	13.4	13.7	14.0	14.6
Public	5.1	5.0	5.3	3.5	4.4	5.1	5.9	6.9	7.2	7.6
National Savings	9.5	11.7	10.3	10.3	11.8	12.3	13.6	15.1	16.0	17.2
Private	7.4	8.6	7.3	6.3	7.5	7.2	8.4	7.5	7.9	8.6
Public	2.1	3.0	3.0	4.0	4.3	5.1	5.2	7.6	8.1	8.6
Saving-Investment balance	-8.7	-5.3	-7.5	-5.6	-5.3	-5.9	-5.7	-5.4	-5.2	-5.0
Labor market				(In percent)						
Unemployment rate (ILO definition) [1]	28.0	27.5	27.5	27.7	…	…	…	…	…	…

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, 2013–21 1/

(In millions of euros, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
							Proj.			
Current account	-1,159	-725	-1,041	-812	-793	-921	-939	-947	-965	-984
Trade balance	-3,144	-2,788	-3,163	-2,770	-2,918	-3,227	-3,396	-3,531	-3,725	-3,940
Goods	-4,091	-3,741	-4,143	-3,810	-4,031	-4,390	-4,616	-4,817	-5,049	-5,312
Export of goods (fob)	2,988	3,286	3,385	3,562	3,626	3,802	3,984	4,167	4,349	4,540
Import of goods (fob)	-7,079	-7,027	-7,528	-7,372	-7,657	-8,192	-8,600	-8,983	-9,398	-9,852
Services (net)	947	953	980	1,040	1,113	1,163	1,220	1,286	1,324	1,372
Exports	1,349	1,334	1,381	1,480	1,569	1,645	1,727	1,821	1,912	2,018
Imports	-401	-381	-401	-441	-456	-482	-507	-535	-587	-646
Primary Income (net)	104	174	92	139	158	136	173	175	217	218
Total credit	445	432	473	453	451	457	494	540	590	647
Total debit	-341	-258	-380	-315	-293	-320	-321	-365	-373	-429
Of which, Interest payments	-154	-112	-130	-113	-100	-102	-111	-125	-142	-164
Secondary Income (net)	1,881	1,889	2,030	1,819	1,968	2,170	2,284	2,409	2,544	2,738
Government (net)	162	169	212	184	235	280	324	369	414	465
Workers' remittances	1,042	1,082	1,150	1,165	1,225	1,260	1,297	1,336	1,377	1,420
Other (NGOs etc.)	757	720	761	568	687	818	859	914	976	1,091
Capital and Financial Accounts (excl. Reserves)	1,125	997	1,282	1,164	849	944	938	1,127	1,261	1,311
Capital account	172	173	227	189	194	198	202	205	208	212
Capital transfers (net)	172	173	227	189	194	198	202	205	208	212
General government	118	122	150	150	154	159	162	165	169	172
Other sectors	54	50	77	39	39	39	39	39	39	39
Financial account	-954	-824	-1,056	-975	-655	-746	-737	-922	-1,053	-1,099
Direct investment (net)	-259	-196	-367	-206	-330	-445	-439	-468	-519	-599
Assets	46	61	4	36	37	35	28	34	33	32
Liabilities	305	257	371	242	367	480	467	502	552	631
Portfolio investment (net)	8	70	49	46	20	20	20	20	20	20
Other investment (net)	-703	-698	-738	-815	-345	-320	-318	-474	-554	-521
Assets (net)	-191	-95	-279	-327	-119	-119	-118	-118	-117	-117
Short-term	-197	-114	-281	-272	-68	-68	-68	-68	-68	-68
Banks	-108	18	-15	-80	-10	-10	-10	-10	-10	-10
Other sectors, excl. government and central bank	-79	-138	-232	-164	-30	-30	-30	-30	-30	-30
Medium and long-term	6	19	2	-56	-51	-51	-50	-50	-49	-49
Banks	1	14	-7	-14	-1	-1	-1	-1	-1	-1
Other sectors, excl. government and central bank	6	5	9	-42	-50	-50	-50	-50	-49	-49
Liabilities (net)	512	604	458	488	226	202	200	356	437	404
Short-term	254	179	341	431	223	268	301	161	161	162
General government	0	0	0	0	0	0	0	0	0	0
Banks	21	-77	15	18	3	3	8	11	11	12
Other sectors	233	256	325	414	220	265	293	150	150	150
Medium and long-term	257	424	125	60	3	-66	-101	196	276	242
Monetary authority	0	0	0	0	0	0	0	0	0	0
General government	361	302	313	11	29	-55	-11	72	150	43
Disbursements of loans	485	574	619	224	342	383	425	443	454	366
Project	364	348	264	255	342	383	425	443	454	366
Budget	121	226	355	0	0	0	0	0	0	0
Amortization of loans	124	272	305	213	313	438	436	370	304	323
Banks	-134	12	-204	-198	27	27	70	88	93	98
Other sectors	30	110	16	247	-53	-38	-159	36	33	101
Errors and omissions	70	90	123	98	51	0	0	0	0	0
Overall balance	-37	-362	-364	-450	-106	-23	0	-180	-296	-326
Financing	37	362	364	450	106	23	0	180	296	326
Change in net international reserves ("+"=increase)	37	362	364	450	259	314	268	304	296	326
External financing gap (for budgets)				0	153	291	269	124	0	0
Memorandum items										
Current account balance (in percent of GDP)	-8.7	-5.3	-7.5	-5.6	-5.3	-5.9	-5.7	-5.4	-5.2	-5.0
Trade balance (in percent of GDP)	-30.5	-27.4	-29.7	-26.4	-27.1	-28.2	-28.2	-27.7	-27.2	-26.8
Import of goods (change, percent)	-0.1	-0.7	7.1	-2.1	3.9	7.0	5.0	4.5	4.6	4.8
Export of goods (change, percent)	1.2	10.0	3.0	5.3	1.8	4.8	4.8	4.6	4.4	4.4
Transfers (in percent of GDP)	14.0	13.8	14.5	12.6	13.2	14.0	14.0	13.9	13.7	13.8
Net foreign direct investment (in percent of GDP)	-1.9	-1.4	-2.6	-1.4	-2.2	-2.9	-2.7	-2.7	-2.8	-3.0
External debt/GDP (in percent)	62.7	61.7	63.7	63.7	63.3	62.4	61.3	59.5	57.1	55.0
Private sector	33.7	31.2	34.0	33.4	33.0	32.2	31.6	31.0	30.2	29.6
Public sector	29.0	30.6	29.7	30.3	30.3	30.2	29.7	28.5	26.9	25.5
External debt service/GNFS exports (percent)	11.8	13.8	19.5	18.6	19.9	21.5	20.9	19.3	18.1	18.2
Gross official reserves (in millions of Euro)	3,340	3,627	4,013	4,413	4,672	4,986	5,254	5,558	5,855	6,181
(In months of prospective imports of goods and services)	5.4	5.5	6.2	6.5	6.5	6.6	6.6	6.7	6.7	6.8

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

1/. Based on BPM6.

Table 4. Bosnia and Herzegovina: General Government Statement of Operations, 2012–21

(Percent of GDP)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Act.			Proj.			
Revenue	**44.2**	**43.2**	**43.4**	**43.6**	**43.4**	**43.5**	**43.4**	**43.4**	**43.4**	**43.3**
Taxes	22.6	22.0	21.9	22.3	22.6	22.6	22.7	22.7	22.7	22.7
Direct taxes	3.5	3.5	3.3	3.5	3.6	3.7	3.7	3.7	3.7	3.7
Indirect taxes	19.1	18.4	18.5	18.7	18.8	18.8	18.9	18.9	18.9	18.9
Other taxes	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	15.5	15.3	15.7	15.5	15.3	15.4	15.2	15.2	15.2	15.2
Grants	1.1	0.9	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.1
Other revenue	5.0	5.1	4.8	4.9	4.7	4.6	4.6	4.5	4.5	4.4
Expenditure	**46.9**	**45.1**	**46.3**	**43.7**	**44.2**	**44.3**	**44.0**	**43.8**	**43.7**	**43.7**
Expense	**41.8**	**40.1**	**40.9**	**40.2**	**39.8**	**39.2**	**38.1**	**36.9**	**36.5**	**36.0**
Compensation of employees	12.5	12.0	12.0	11.8	11.6	11.0	10.3	9.7	9.6	9.5
Use of goods and services	10.5	10.2	10.3	10.0	8.7	8.6	8.6	8.4	8.4	8.4
Social benefits	14.4	14.1	14.8	14.4	15.4	15.2	15.1	14.8	14.6	14.3
Interest	0.7	0.7	0.8	0.8	1.0	1.0	1.0	0.9	0.9	0.9
Subsidies	1.6	1.4	1.3	1.4	1.3	1.2	1.2	1.2	1.1	1.0
Other expense	2.2	1.6	1.8	1.9	1.8	2.1	1.9	1.9	1.9	1.9
Net acquisition of nonfinancial assets	**5.1**	**5.0**	**5.3**	**3.5**	**4.4**	**5.1**	**5.9**	**6.9**	**7.2**	**7.6**
Acquisition of nonfinancial assets	5.2	5.1	5.5	3.7	4.6	5.3	6.0	7.0	7.4	7.8
Foreign financed capital spending	2.1	2.6	3.2	2.1	2.5	2.7	2.8	2.8	2.7	2.7
Domestically financed capital spending	3.1	2.5	2.4	1.6	2.1	2.6	3.3	4.2	4.7	5.1
Disposal of nonfinancial assets	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Gross / Net Operating Balance (revenue minus expense)	**2.4**	**3.1**	**2.5**	**3.4**	**3.6**	**4.3**	**5.3**	**6.5**	**6.9**	**7.3**
Net lending/borrowing (revenue minus expenditure)	**-2.7**	**-1.9**	**-2.9**	**-0.1**	**-0.8**	**-0.8**	**-0.6**	**-0.3**	**-0.3**	**-0.3**
Net acquisition of financial assets	**0.5**	**0.5**	**0.4**	**0.5**	**-0.2**	**-0.1**	**0.2**	**0.2**	**0.2**	**0.4**
Domestic assets	0.5	0.5	0.4	0.5	-0.2	-0.1	0.2	0.2	0.2	0.4
Currency and deposits	0.1	0.3	0.9	0.6	-0.1	0.0	0.0	0.1	0.1	0.1
Loans	0.4	0.0	-0.4	-0.3	-0.1	0.1	0.1	0.1	0.1	0.2
Equity and investment fund shares	0.2	0.1	-0.1	0.0	0.0	-0.2	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**2.9**	**1.6**	**2.7**	**1.0**	**-0.4**	**-1.1**	**-0.9**	**-0.2**	**0.5**	**0.7**
Domestic liabilities	0.5	-0.1	0.9	1.0	-0.2	-0.3	-0.2	-0.1	0.2	0.4
Debt securities	0.3	0.1	1.0	1.5	0.8	-0.3	-0.2	0.2	0.3	0.4
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-0.9	-0.9	-0.6	-0.4	-0.6	-0.5	-0.4	-0.4	-0.3	-0.3
Loans	0.6	0.2	0.5	0.1	-0.3	0.4	0.3	0.2	0.2	0.3
Foreign liabilities	2.4	1.7	1.8	0.0	-0.2	-0.8	-0.6	-0.1	0.3	0.2
Loans	2.4	1.7	1.8	0.0	-0.2	-0.8	-0.6	-0.1	0.3	0.2
Drawings	3.6	4.0	4.3	1.9	1.9	2.0	2.0	2.0	1.9	1.8
Amortization	1.2	2.3	2.5	1.9	2.1	2.8	2.6	2.1	1.6	1.6
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**	**0.0**	**0.0**	**1.0**	**1.9**	**1.6**	**0.7**	**0.0**	**0.0**
Identified financing	0.0	0.0	0.0	0.0	1.0	1.9	1.6	0.7	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.5	1.3	1.0	0.6	0.0	0.0
WB	0.0	0.0	0.0	0.0	0.5	0.3	0.3	0.0	0.0	0.0
EU	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.1	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	**0.4**	**0.8**	**0.6**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items										
Net lending excluding externally-financed operations	-1.5	0.1	-0.5	1.3	0.9	1.0	1.3	1.5	1.5	1.4
Structural balance (% of potential GDP)	-1.2	-0.7	-1.4	0.9	0.0	-0.2	-0.2	…	…	…

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

Table 5. Bosnia and Herzegovina: General Government Statement of Operations, 2012–17
(KM Million)

	2012	2013	2014	2015	2016				2017			
			Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	**11,588.1**	**11,551.7**	**11,849.4**	**12,298.7**	**2,851.0**	**6,029.1**	**9,295.2**	**12,628.0**	**2,995.7**	**6,309.8**	**9,728.1**	**13,240.0**
Taxes	5,923.6	5,880.5	5,976.2	6,298.8	1,507.6	3,146.3	4,885.4	6,566.5	1,585.8	3,303.4	5,122.4	6,890.4
Direct taxes	918.6	943.2	913.3	994.4	273.4	549.2	789.7	1,050.7	283.8	578.0	834.2	1,116.0
Indirect taxes	4,992.2	4,921.6	5,053.5	5,267.0	1,233.0	2,584.0	4,071.7	5,479.0	1,290.3	2,705.3	4,262.6	5,736.0
Other taxes	12.8	15.7	9.4	37.4	1.2	13.1	24.0	36.8	11.6	20.1	25.6	38.4
Social security contributions	4,056.9	4,084.5	4,285.3	4,375.9	1,001.2	2,124.2	3,256.5	4,443.7	1,069.2	2,227.1	3,414.6	4,675.2
Grants	289.4	234.1	269.7	244.8	64.6	124.4	187.1	256.3	69.3	139.3	209.5	286.4
For budget support	34.9	51.9	57.6	49.1	7.5	10.1	15.8	27.8	4.9	10.6	16.5	29.1
For investment projects	254.5	182.2	212.2	195.7	57.5	114.2	171.3	228.4	64.3	128.7	193.0	257.3
Other revenue	1,318.2	1,352.6	1,318.1	1,379.3	277.6	634.2	966.2	1,361.5	271.4	640.1	981.5	1,387.9
Expenditure	**12,291.3**	**12,047.8**	**12,633.6**	**12,328.8**	**2,777.6**	**5,897.9**	**9,213.3**	**12,874.6**	**2,893.6**	**6,129.6**	**9,539.2**	**13,484.5**
Expense	**10,959.4**	**10,721.1**	**11,178.1**	**11,352.7**	**2,601.8**	**5,449.6**	**8,376.0**	**11,583.1**	**2,694.0**	**5,589.1**	**8,571.6**	**11,935.1**
Compensation of employees	3,273.7	3,206.5	3,283.9	3,337.9	832.4	1,669.9	2,519.8	3,365.2	823.9	1,658.5	2,501.1	3,351.0
Use of goods and services	2,741.1	2,734.5	2,802.0	2,818.0	538.4	1,169.1	1,796.6	2,539.2	582.9	1,212.1	1,847.2	2,631.4
Social benefits	3,771.4	3,771.6	4,047.0	4,056.2	1,063.2	2,167.9	3,293.0	4,476.7	1,104.3	2,242.9	3,397.2	4,638.9
Interest	193.2	195.5	209.8	232.9	50.7	140.5	194.2	289.0	50.1	152.7	204.2	307.3
Subsidies	414.5	377.0	357.2	381.4	36.2	108.9	233.1	375.9	40.3	104.5	233.6	373.2
Grants	18.1	16.4	13.3	14.7	0.6	3.2	9.7	15.2	0.6	3.4	10.2	15.9
Other expense	565.6	436.0	478.2	526.0	81.0	193.3	339.4	537.1	92.5	218.2	388.4	633.2
Net acquisition of nonfinancial assets	**1,331.9**	**1,326.7**	**1,455.5**	**976.2**	**175.7**	**448.3**	**837.3**	**1,291.4**	**199.6**	**540.5**	**967.6**	**1,549.4**
Acquisition of nonfinancial assets	1,374.2	1,358.7	1,507.2	1,032.1	184.8	470.3	873.9	1,343.1	207.9	559.9	999.7	1,601.8
Foreign financed capital spending	557.8	700.8	860.2	592.3	137.1	291.0	522.3	729.3	133.9	338.6	572.6	815.7
Domestically financed capital spending	816.4	658.0	647.0	439.8	47.7	179.2	351.6	613.8	74.0	221.3	427.1	786.0
Disposal of nonfinancial assets	42.3	32.0	51.7	55.9	9.1	22.0	36.7	51.6	8.3	19.3	32.0	52.4
Gross / Net Operating Balance (revenue minus expense)	**628.6**	**830.6**	**671.3**	**946.1**	**249.2**	**579.5**	**919.2**	**1,044.8**	**301.7**	**720.7**	**1,156.5**	**1,304.9**
Net lending/borrowing (revenue minus expenditure)	**-703.3**	**-496.1**	**-784.2**	**-30.1**	**73.5**	**131.2**	**81.9**	**-246.6**	**102.1**	**180.2**	**188.8**	**-244.5**
Net acquisition of financial assets	**142.8**	**145.8**	**100.1**	**145.3**	**43.0**	**-21.6**	**4.6**	**-68.0**	**-31.3**	**-11.2**	**24.7**	**-19.3**
Domestic assets	142.8	126.2	100.1	145.3	43.0	-21.6	4.6	-68.0	-31.3	-11.2	24.7	-19.3
Currency and deposits	14.4	72.9	238.1	178.1	54.1	50.5	60.3	-34.8	30.2	54.1	68.6	-6.7
Loans	105.6	13.2	-107.8	-73.0	-10.7	-72.2	-55.7	-40.2	-11.5	-15.3	6.1	29.9
Equity and investment fund shares	43.3	16.4	-37.2	-3.6	0.0	0.0	0.0	-0.2	-50.0	-50.0	-50.0	-50.2
Foreign assets	0.0	19.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**753.1**	**423.8**	**725.3**	**268.9**	**-63.3**	**-152.9**	**-375.8**	**-119.9**	**-288.6**	**-468.4**	**-523.9**	**-344.0**
Domestic liabilities	123.4	-37.0	233.7	270.9	-88.1	-57.0	-342.3	-55.8	-221.5	-280.9	-347.2	-99.2
Debt securities	87.7	21.6	268.1	428.6	107.2	133.7	120.3	228.4	-129.0	-236.7	-364.3	-80.6
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous	-237.7	-231.2	-159.2	-117.2	-42.2	-102.7	-238.7	-188.7	-34.6	-57.7	-112.5	-150.4
Loans	169.7	56.3	133.4	31.5	-129.1	-88.0	-223.9	-95.4	-58.0	13.5	129.6	131.8
Foreign liabilities	629.6	460.8	491.6	-2.1	24.7	-95.9	-33.5	-64.2	-67.1	-187.5	-176.7	-244.8
Loans	629.6	460.8	491.6	-0.1	24.7	-95.9	-33.5	-64.2	-67.1	-187.5	-176.7	-244.8
Drawings	947.7	1,077.9	1,173.7	527.4	143.5	207.0	390.4	541.4	102.2	236.0	416.2	602.1
Amortization	318.0	617.1	682.1	527.4	118.8	302.9	424.0	605.6	169.3	423.5	592.9	846.9
Other accounts payable	0.0	0.0	0.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**298.6**	**298.6**	**155.2**	**277.0**	**359.8**	**569.1**
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	298.5	298.5	155.2	277.1	359.8	569.1
IMF	0.0	0.0	0.0	0.0	0.0	0.0	155.7	155.7	155.2	237.9	320.7	403.5
WB	0.0	0.0	0.0	0.0	0.0	0.0	142.8	142.8	0.0	0.0	0.0	87.4
EU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	39.1	39.1	78.2
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	**93.0**	**218.1**	**159.0**	**-93.4**	**32.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items												
Indirect revenues	4,992.2	4,921.6	5,053.5	5,267.0	1,233.0	2,584.0	4,071.7	5,479.0	1,290.3	2,705.3	4,262.6	5,736.0
Net lending excluding externally-financed operations	-399.9	22.4	-136.2	366.5	153.1	308.1	432.9	254.2	171.7	390.1	568.4	313.9

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

1/ A share of the financial assistance from the IMF and World Bank in 2014 is disbursed to Brcko District.

Table 5a. Institutions of Bosnia and Herzegovina: Statement of Operations, 2012–17 1/

(KM Million)

	2012	2013	2014	2015	2016				2017			
			Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	**924.4**	**968.6**	**971.6**	**965.5**	**216.1**	**452.9**	**696.9**	**921.6**	**217.6**	**444.3**	**690.1**	**915.4**
Taxes	750.0	750.0	750.0	750.0	180.9	367.7	560.3	750.0	180.9	367.7	560.3	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	750.0	750.0	750.0	750.0	180.9	367.7	560.3	750.0	180.9	367.7	560.3	750.0
Other 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
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	22.7	39.5	31.7	29.2	2.6	5.6	7.6	16.9	2.7	5.9	7.9	17.7
Other revenue	151.7	179.0	190.0	186.3	32.5	79.6	129.0	154.7	33.9	70.7	121.8	147.7
Expenditure	**882.1**	**903.6**	**904.7**	**903.3**	**204.9**	**417.7**	**646.7**	**917.9**	**200.9**	**411.0**	**637.4**	**910.6**
Expense	**844.5**	**848.6**	**841.7**	**832.6**	**197.4**	**402.2**	**610.6**	**844.6**	**193.0**	**394.7**	**599.4**	**833.3**
Compensation of employees	628.3	626.4	627.9	638.8	161.1	319.4	482.3	643.0	157.9	312.9	472.6	630.0
Use of goods and services	162.4	172.3	175.1	151.6	30.6	68.7	103.1	160.2	30.6	68.7	103.1	160.2
Social benefits	11.5	5.3	3.2	2.3	0.2	0.7	1.3	2.0	0.2	0.7	1.3	2.0
Interest	0.0	0.0	0.5	0.7	0.1	0.4	0.7	1.0	0.1	0.4	0.7	1.0
Transfers to other general government units	19.5	13.1	16.5	9.4	0.3	1.0	3.0	6.4	0.3	1.1	3.1	6.7
Other expense	22.8	31.5	18.5	29.9	5.2	12.0	20.2	32.0	4.0	10.9	18.6	33.5
Net acquisition of nonfinancial assets	**37.6**	**55.0**	**63.0**	**70.6**	**7.5**	**15.5**	**36.1**	**73.4**	**7.9**	**16.3**	**38.0**	**77.3**
Acquisition of nonfinancial assets	45.3	56.3	64.8	72.7	7.5	15.6	36.4	73.9	7.9	16.3	38.0	77.3
Foreign financed capital spending	2.2	3.8	3.9	8.7	1.3	2.4	6.7	9.0	1.3	2.5	7.0	9.4
Domestically financed capital spending	43.0	52.5	60.9	64.0	6.3	13.2	29.7	65.0	6.5	13.8	31.0	67.9
Disposal of nonfinancial assets	7.7	1.4	1.8	2.0	0.0	0.1	0.3	0.6	0.0	0.0	0.0	0.0
Gross / Net Operating Balance (revenue minus expense)	**79.9**	**120.0**	**129.9**	**132.9**	**18.7**	**50.7**	**86.3**	**77.0**	**24.7**	**49.6**	**90.7**	**82.0**
Net lending/borrowing (revenue minus expenditure)	**42.3**	**65.0**	**66.9**	**62.3**	**11.2**	**35.2**	**50.2**	**3.6**	**16.8**	**33.2**	**52.7**	**4.8**
Net acquisition of financial assets	**8.0**	**120.3**	**93.2**	**58.1**	**11.2**	**35.2**	**50.2**	**3.6**	**16.8**	**33.2**	**52.7**	**4.8**
Domestic assets	8.0	100.8	93.2	58.1	11.2	35.2	50.2	3.6	16.8	33.2	52.7	4.8
Foreign assets	0.0	19.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**-34.0**	**56.2**	**26.5**	**-4.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Domestic liabilities	-34.0	36.7	9.3	-4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	0.0	19.5	17.2	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	0.0	19.5	17.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drawings	0.0	19.5	17.2	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
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**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Identified 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
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	0.0	0.0	0.0	0.0	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	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	**0.3**	**-0.8**	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items												
Net lending excluding externally-financed operations	44.5	68.8	70.8	71.0	12.4	37.6	56.9	12.6	18.1	35.8	59.7	14.1

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

1/ Tables 5a, 5c and 5e comprise central government according to international standards

Table 5b. Federation of Bosnia and Herzegovina: General Government Statement of Operations, 2012–17 1/

(KM Million)

	2012	2013	2014	2015	2016				2017			
			Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	**6,680.1**	**6,721.0**	**6,870.2**	**7,201.4**	**1,711.3**	**3,569.9**	**5,505.7**	**7,497.5**	**1,832.4**	**3,788.6**	**5,826.8**	**7,934.3**
Taxes	3,130.8	3,156.7	3,226.3	3,436.3	829.8	1,715.7	2,690.1	3,623.1	874.2	1,816.7	2,832.7	3,815.2
Direct taxes	472.9	485.4	493.0	555.9	158.5	309.2	447.4	601.5	163.9	323.2	467.7	628.8
Indirect taxes	2,652.0	2,659.4	2,729.8	2,876.5	670.5	1,405.0	2,240.4	3,017.5	708.4	1,491.9	2,362.7	3,182.2
Other taxes	5.8	11.8	3.4	3.9	0.8	1.4	2.3	4.0	1.9	1.5	2.4	4.2
Social security contributions	2,670.6	2,707.2	2,820.1	2,876.2	691.4	1,434.5	2,183.5	2,972.2	743.4	1,528.6	2,326.7	3,167.2
Grants	181.2	139.0	171.8	155.2	44.9	86.0	130.5	173.9	48.1	96.5	146.3	195.1
Other revenue	697.5	718.1	652.1	733.7	145.2	333.7	501.6	728.2	166.8	346.8	521.0	757.0
Expenditure	**7,172.3**	**7,131.0**	**7,314.7**	**7,213.2**	**1,667.7**	**3,525.8**	**5,426.8**	**7,559.6**	**1,743.3**	**3,676.8**	**5,683.2**	**7,955.7**
Expense	**6,376.9**	**6,247.3**	**6,436.9**	**6,670.8**	**1,557.6**	**3,229.9**	**4,928.2**	**6,825.7**	**1,616.8**	**3,346.8**	**5,119.2**	**7,097.9**
Compensation of employees	1,611.2	1,602.9	1,640.0	1,676.6	414.1	840.8	1,271.2	1,697.0	418.7	844.4	1,276.3	1,704.1
Use of goods and services	1,525.4	1,531.1	1,536.5	1,590.6	373.6	801.7	1,202.3	1,679.0	398.9	832.2	1,247.4	1,739.6
Social benefits	2,492.2	2,485.4	2,602.7	2,652.8	653.7	1,310.5	1,982.8	2,697.2	673.6	1,362.0	2,060.5	2,802.8
Interest	105.5	97.5	108.6	117.1	28.5	74.9	102.8	146.4	27.0	74.1	102.1	150.3
Subsidies	256.3	232.3	223.5	253.5	26.6	70.6	144.2	243.3	29.0	71.2	145.1	244.7
Other expense	386.4	298.2	325.5	380.2	61.1	131.3	224.9	362.7	69.5	163.0	287.8	456.4
Net acquisition of nonfinancial assets	**795.4**	**883.7**	**877.8**	**542.4**	**110.1**	**295.9**	**498.6**	**733.9**	**126.5**	**330.0**	**564.0**	**857.8**
Acquisition of nonfinancial assets	806.2	894.1	896.8	559.6	111.7	300.5	507.6	748.6	128.1	334.8	573.4	873.2
Foreign financed capital spending	357.9	510.4	590.5	346.4	91.2	210.6	328.6	433.0	101.6	234.6	366.0	484.4
Domestically financed capital spending	448.3	383.7	306.3	213.2	20.4	89.9	179.0	315.6	26.6	100.2	207.4	388.8
Disposal of nonfinancial assets	10.9	10.4	19.0	17.3	1.6	4.6	9.0	14.8	1.6	4.8	9.4	15.4
Gross / Net Operating Balance (revenue minus expense)	**303.2**	**473.6**	**433.3**	**530.5**	**153.7**	**340.0**	**577.5**	**671.7**	**215.6**	**441.8**	**707.6**	**836.4**
Net lending/borrowing (revenue minus expenditure)	**-492.2**	**-410.1**	**-444.5**	**-11.8**	**43.6**	**44.1**	**78.9**	**-62.1**	**89.2**	**111.8**	**143.6**	**-21.4**
Net acquisition of financial assets	**-26.3**	**-100.9**	**-83.2**	**57.4**	**-8.9**	**-28.9**	**-36.9**	**-69.3**	**-53.5**	**-69.2**	**-74.5**	**-96.1**
Domestic assets	-26.3	-100.9	-83.2	57.4	-8.9	-28.9	-36.9	-69.3	-53.5	-69.2	-74.5	-96.1
Currency and deposits	22.0	-68.2	22.6	102.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**332.6**	**114.7**	**280.7**	**202.5**	**-77.9**	**-73.0**	**-305.3**	**-196.7**	**-246.1**	**-365.7**	**-457.9**	**-448.2**
Domestic liabilities	29.0	-144.7	10.5	293.4	-45.4	-10.9	-245.4	-72.6	-193.0	-232.7	-301.9	-182.4
Debt securities	101.6	30.1	169.9	307.4	60.0	110.2	50.4	100.5	-87.5	-205.0	-342.5	-70.0
Foreign liabilities	303.6	259.4	270.1	-90.9	-32.6	-62.1	-59.9	-124.0	-53.1	-133.0	-156.1	-265.8
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
Loans	303.6	259.4	270.1	-90.9	-32.6	-62.1	-59.9	-124.0	-53.1	-133.0	-156.1	-265.8
Drawings	503.0	663.7	719.1	253.0	54.0	135.0	216.0	270.0	60.2	150.4	240.6	300.8
Amortization	199.4	404.3	448.9	344.0	86.6	197.1	275.9	394.0	113.3	283.4	396.7	566.6
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	**133.3**	**194.5**	**80.6**	**-133.3**	**25.5**	**0.0**	**189.5**	**189.5**	**103.5**	**184.7**	**239.8**	**373.5**

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

1/ General Government statement of Operation includes entity central government, local governments and social security and other funds.

Table 5c. Federation of Bosnia and Herzegovina: Central Government Statement of Operations, 2012–17 1/

(KM Million)

	2012	2013	2014	2015	2016				2017			
			Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	**1,636.2**	**1,595.6**	**1,673.9**	**1,649.0**	**396.4**	**880.1**	**1,358.0**	**1,843.1**	**447.5**	**990.5**	**1,485.6**	**2,042.7**
Taxes	1,171.3	1,262.5	1,310.4	1,303.0	316.3	677.5	1,045.2	1,422.6	360.6	774.1	1,151.9	1,594.1
Direct taxes	47.1	49.3	46.1	45.2	19.5	27.8	39.8	50.9	20.3	29.1	41.6	53.2
Indirect taxes	1,124.1	1,213.0	1,264.2	1,257.8	296.8	649.7	1,005.4	1,371.8	340.3	745.0	1,110.3	1,541.0
Other taxes	0.1	0.1	0.0	0.0	0.0	0.0	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	174.8	130.0	150.4	139.7	40.8	81.5	122.3	163.0	45.9	91.8	137.7	183.7
For budget support	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
For investment projects	174.8	130.0	150.3	139.7	40.8	81.5	122.3	163.0	45.9	91.8	137.7	183.7
Other revenue	290.1	203.1	213.1	206.4	39.3	121.0	190.6	257.5	41.0	124.6	196.0	264.9
Expenditure	**1,708.9**	**1,575.1**	**1,565.5**	**1,675.5**	**361.6**	**810.5**	**1,304.1**	**1,826.6**	**373.2**	**843.8**	**1,376.6**	**1,957.9**
Expense	**1,377.7**	**1,342.1**	**1,353.1**	**1,342.4**	**287.6**	**625.8**	**1,021.3**	**1,468.7**	**292.4**	**636.9**	**1,051.3**	**1,517.9**
Compensation of employees	226.1	224.9	231.1	225.3	57.0	114.5	183.5	236.4	55.5	111.4	178.5	230.0
Use of goods and services	66.7	73.4	57.9	71.5	15.4	32.6	50.3	86.8	12.6	29.4	45.0	77.6
Social benefits	460.5	460.6	465.4	466.2	109.3	223.0	340.4	471.0	110.0	224.4	342.8	474.8
Interest	91.8	84.2	92.3	95.0	22.5	64.6	86.4	123.6	21.6	63.3	84.9	126.4
Subsidies	128.6	126.2	116.3	123.1	4.9	16.7	57.5	109.6	4.9	16.7	57.5	109.6
Transfers to other general government units	308.6	317.0	321.0	313.5	68.7	157.0	265.5	366.0	69.0	158.0	267.6	370.3
Other expense	95.4	55.8	69.1	47.7	9.8	17.5	37.8	75.3	18.8	33.8	75.0	129.1
Net acquisition of nonfinancial assets	**331.2**	**233.0**	**212.4**	**333.1**	**74.0**	**184.6**	**282.8**	**357.9**	**80.8**	**206.9**	**325.3**	**440.0**
Acquisition of nonfinancial assets	332.8	233.0	217.8	333.2	74.0	184.6	282.8	357.9	80.8	206.9	325.3	440.0
Foreign financed capital spending	321.6	220.1	209.3	326.2	73.2	181.1	271.4	325.0	78.6	197.1	293.2	346.7
Domestically financed capital spending	11.2	12.9	8.5	7.1	0.8	3.5	11.3	32.8	2.2	9.8	32.1	93.3
Disposal of nonfinancial assets	1.6	0.0	5.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross / Net Operating Balance (revenue minus expense)	**258.5**	**253.5**	**320.8**	**306.6**	**108.8**	**254.2**	**336.7**	**374.4**	**155.2**	**353.6**	**434.3**	**524.8**
Net lending/borrowing (revenue minus expenditure)	**-72.7**	**20.5**	**108.4**	**-26.5**	**34.8**	**69.6**	**54.0**	**16.6**	**74.4**	**146.7**	**109.0**	**84.9**
Net acquisition of financial assets	**48.1**	**-84.3**	**-79.4**	**-2.6**	**-6.4**	**-37.4**	**-52.7**	**-115.3**	**-53.7**	**-70.7**	**-77.4**	**-104.3**
Domestic assets	48.1	-84.3	-79.4	-2.6	-6.4	-37.4	-52.7	-115.3	-53.7	-70.7	-77.4	-104.3
Currency and deposits	87.0	-51.9	28.0	102.0	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	**122.0**	**-104.5**	**-171.3**	**22.6**	**-41.1**	**-107.0**	**-296.1**	**-321.4**	**-231.5**	**-402.1**	**-426.3**	**-562.8**
Domestic liabilities	13.5	-78.1	-77.1	104.5	5.0	-10.0	-170.1	-90.2	-151.1	-224.5	-185.7	-160.1
Debt securities	100.4	30.1	169.6	230.3	60.0	110.2	50.4	100.5	-87.5	-205.0	-342.5	-70.0
Foreign liabilities	108.5	-26.4	-94.2	-82.0	-46.2	-97.0	-126.1	-231.2	-80.4	-177.6	-240.6	-402.7
Loans	108.5	-26.4	-94.2	-82.0	-46.2	-97.0	-126.1	-231.2	-80.4	-177.6	-240.6	-402.7
Drawings	302.1	369.9	337.2	230.3	32.5	99.6	149.2	162.0	32.7	105.3	155.4	163.1
For budget support	155.3	279.8	278.2	43.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
For investment projects	146.8	90.1	59.0	186.5	32.5	99.6	149.2	162.0	32.7	105.3	155.4	163.1
Amortization	193.6	396.2	431.4	312.3	78.6	196.6	275.3	393.2	113.1	282.9	396.0	565.7
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**	**0.0**	**0.0**	**0.0**	**189.5**	**189.5**	**103.4**	**184.7**	**239.9**	**373.6**
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	189.5	189.5	103.4	184.7	239.9	373.6
IMF	0.0	0.0	0.0	0.0	0.0	0.0	103.8	103.8	103.4	158.6	213.8	269.0
WB	0.0	0.0	0.0	0.0	0.0	0.0	85.7	85.7	0.0	0.0	0.0	52.4
EU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26.1	26.1	52.2
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	**-1.2**	**-0.3**	**-16.6**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items												
Net lending excluding externally-financed operations	74.1	110.6	167.4	160.0	67.3	169.2	203.2	178.6	107.1	252.0	264.4	247.9

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

1/ Tables 5a, 5c and 5e comprise central government according to international standards

Table 5d. Republika Srpska: General Government Statement of Operations, 2012–17 1/

(KM Million)

	2012	2013	2014	2015	2016				2017			
			Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	**3,738.1**	**3,628.8**	**3,787.1**	**3,899.9**	**870.1**	**1,895.1**	**2,908.1**	**3,962.8**	**889.5**	**1,960.1**	**3,017.5**	**4,132.0**
Taxes	1,858.9	1,793.3	1,816.5	1,918.2	450.7	966.6	1,482.0	1,988.8	482.2	1,017.8	1,568.7	2,110.3
Direct taxes	423.0	434.9	399.4	414.6	108.6	228.1	323.6	424.5	113.4	242.4	347.0	461.5
Indirect taxes	1,430.2	1,355.6	1,412.5	1,471.5	342.0	727.5	1,137.7	1,533.0	359.5	757.5	1,199.5	1,616.2
Other taxes	5.7	2.9	4.6	32.1	0.1	11.0	20.7	31.3	9.3	17.9	22.2	32.7
Social security contributions	1,350.6	1,341.6	1,429.5	1,466.4	305.1	679.4	1,048.3	1,437.1	321.0	687.7	1,062.1	1,472.1
Grants	81.9	55.4	66.6	61.8	17.0	32.7	49.1	65.4	18.4	36.8	55.3	73.7
Other revenue	446.7	438.5	474.5	453.5	97.2	216.4	328.7	471.5	67.9	217.8	331.4	475.9
Expenditure	**4,029.8**	**3,774.9**	**4,183.8**	**3,977.8**	**866.5**	**1,868.4**	**2,979.1**	**4,155.7**	**909.4**	**1,951.9**	**3,050.7**	**4,366.0**
Expense	**3,536.2**	**3,409.3**	**3,687.8**	**3,631.3**	**809.7**	**1,737.0**	**2,686.6**	**3,688.7**	**845.6**	**1,763.5**	**2,695.6**	**3,769.7**
Compensation of employees	952.5	901.1	949.4	958.3	240.1	475.9	716.1	958.9	229.4	465.9	699.8	947.7
Use of goods and services	978.7	955.8	1,020.1	1,000.1	121.9	276.2	439.2	621.8	140.6	287.8	442.3	649.9
Social benefits	1,232.9	1,244.4	1,397.7	1,354.5	403.7	841.7	1,284.2	1,730.8	424.7	864.6	1,309.6	1,785.3
Interest	87.2	97.6	100.5	115.0	22.1	65.2	90.7	141.5	23.0	78.3	101.4	156.0
Subsidies	146.4	123.4	110.1	104.5	7.9	31.3	71.9	108.3	9.6	26.0	70.7	103.2
Other expense	138.3	86.9	110.1	99.0	14.1	46.7	84.5	127.2	18.3	40.9	71.8	127.5
Net acquisition of nonfinancial assets	**493.7**	**365.6**	**496.0**	**346.5**	**56.8**	**131.4**	**292.5**	**467.0**	**63.8**	**188.4**	**355.1**	**596.3**
Acquisition of nonfinancial assets	517.4	385.9	526.8	383.2	64.3	148.6	319.9	503.3	70.5	203.0	377.7	633.3
Foreign financed capital spending	197.6	186.5	265.8	237.2	44.6	78.0	187.0	287.3	30.9	101.4	199.5	322.0
Domestically financed capital spending	319.8	199.4	261.1	146.0	19.6	70.6	132.8	216.0	39.6	101.5	178.2	311.3
Disposal of nonfinancial assets	23.8	20.3	30.9	36.7	7.5	17.2	27.4	36.3	6.7	14.5	22.6	36.9
Gross / Net Operating Balance (revenue minus expense)	**202.0**	**219.5**	**99.3**	**268.6**	**60.4**	**158.1**	**221.5**	**274.1**	**43.9**	**196.6**	**321.9**	**362.4**
Net lending/borrowing (revenue minus expenditure)	**-291.7**	**-146.1**	**-396.7**	**-77.9**	**3.6**	**26.7**	**-71.0**	**-192.9**	**-19.9**	**8.2**	**-33.2**	**-234.0**
Net acquisition of financial assets	**173.1**	**79.2**	**39.3**	**31.1**	**29.6**	**-49.3**	**-28.5**	**-3.2**	**-10.7**	**-2.1**	**20.8**	**69.9**
Domestic assets	173.1	79.2	39.3	31.1	29.6	-49.3	-28.5	-3.2	-10.7	-2.1	20.8	69.9
Currency and deposits	-23.6	-5.3	81.6	17.1	34.5	0.1	0.1	-25.9	0.1	0.1	0.1	0.1
Net incurrence of liabilities	**462.7**	**262.3**	**413.3**	**72.2**	**18.5**	**-76.0**	**-66.6**	**80.7**	**-42.5**	**-102.7**	**-66.0**	**108.4**
Domestic liabilities	136.6	80.4	214.4	-18.0	-38.8	-42.1	-92.9	20.8	-28.5	-48.2	-45.3	87.3
Debt securities	-13.8	-8.6	98.1	121.2	47.2	23.5	70.0	127.9	-41.5	-31.7	-21.8	-10.6
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-117.4	-109.6	-19.3	-2.3	0.0	-51.1	-85.7	-36.8	-28.2	-49.9	-88.3	-122.2
Loans	183.5	62.7	33.3	-80.2	-62.1	-14.5	-77.2	-70.3	41.1	33.3	64.8	220.2
Other accounts payable	84.4	135.9	102.2	-56.7	-23.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	326.0	181.9	198.9	92.2	57.3	-33.8	26.3	59.9	-14.0	-54.5	-20.6	21.0
Drawings	444.7	394.7	430.8	274.1	89.5	72.0	174.4	271.4	42.1	85.7	175.6	301.3
For budget support	78.1	179.4	154.3	29.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
For investment projects	366.6	215.3	276.5	244.9	89.5	72.0	174.4	271.4	42.1	85.7	175.6	301.3
Amortization	118.7	212.8	231.9	181.9	32.2	105.8	148.1	211.6	56.1	140.1	196.2	280.3
Other accounts payable	0.0	0.0	0.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy / financing gap	**2.1**	**-37.0**	**22.8**	**36.9**	**7.5**	**0.0**	**109.0**	**109.0**	**51.7**	**92.4**	**119.9**	**195.5**

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

1/ General Government statement of Operation includes entity central government, local governments and social security and other funds

Table 5e. Republika Srpska: Consolidated Central Government Statement of Operations, 2012–17 1/

(KM million)

	2012	2013	2014	2015	2016				2017			
			Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	**1,762.8**	**1,670.2**	**1,754.6**	**1,817.8**	**592.6**	**1,264.3**	**1,924.6**	**2,606.3**	**618.2**	**1,319.4**	**2,009.4**	**2,747.6**
Taxes	1,437.3	1,360.7	1,374.3	1,441.6	346.7	749.2	1,136.5	1,522.4	379.5	799.7	1,211.4	1,632.6
Direct taxes	345.1	350.5	324.2	337.9	93.6	194.4	271.8	351.0	97.4	204.3	288.7	378.7
Indirect taxes	1,088.2	1,007.9	1,046.8	1,074.6	253.0	545.2	845.8	1,143.2	273.4	579.0	902.5	1,224.3
Other taxes	4.1	2.4	3.3	29.1	0.0	9.6	18.9	28.2	8.7	16.4	20.3	29.5
Social security contributions	0.0	0.0	42.6	73.9	173.9	370.2	570.8	775.3	173.2	371.0	573.0	794.2
Grants	70.1	52.2	60.3	56.0	16.8	32.7	49.1	65.4	18.4	36.8	55.3	73.7
For budget support	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
For investment projects	70.1	52.2	60.3	56.0	16.8	32.7	49.1	65.4	18.4	36.8	55.3	73.7
Other revenue	255.0	257.1	267.0	244.9	54.4	111.3	167.2	242.2	47.2	111.9	169.7	247.2
Expenditure	**1,826.3**	**1,634.7**	**1,991.4**	**1,815.6**	**560.9**	**1,189.4**	**1,926.2**	**2,669.9**	**590.3**	**1,254.2**	**1,952.5**	**2,801.8**
Expense	**1,672.7**	**1,524.0**	**1,761.6**	**1,691.3**	**539.8**	**1,151.5**	**1,827.0**	**2,524.8**	**555.5**	**1,170.6**	**1,814.3**	**2,564.8**
Compensation of employees	722.6	677.7	718.0	730.7	186.3	372.1	559.0	745.7	179.0	361.7	542.1	733.7
Use of goods and services	150.6	156.9	163.0	151.7	20.0	50.6	99.9	149.3	20.5	52.0	87.6	156.0
Social benefits	247.7	230.6	327.5	270.8	296.6	607.6	928.0	1,248.5	307.2	619.9	937.3	1,281.2
Interest	64.6	64.6	68.4	80.3	16.9	48.6	66.8	108.8	16.4	60.9	76.5	121.8
Subsidies	128.8	112.8	99.8	94.6	6.2	25.7	61.9	98.1	6.3	20.1	60.3	92.6
Transfers to other general government units	284.5	242.7	320.3	312.0	11.4	25.8	66.1	106.5	21.4	41.7	79.5	114.5
Other expense	73.8	38.7	64.7	51.2	2.5	21.2	45.4	67.9	4.7	14.3	31.0	65.0
Net acquisition of nonfinancial assets	**153.6**	**110.7**	**229.8**	**124.3**	**21.1**	**38.0**	**99.2**	**145.1**	**34.8**	**83.6**	**138.3**	**237.0**
Acquisition of nonfinancial assets	161.3	117.4	243.3	143.0	24.9	47.3	114.1	162.9	37.0	89.8	147.9	254.6
Foreign financed capital spending	104.6	67.1	122.0	86.4	18.4	24.9	71.9	89.1	21.1	42.3	71.5	102.0
Domestically financed capital spending	56.7	50.4	121.4	56.6	6.5	22.4	42.2	73.7	15.9	47.6	76.4	152.6
Disposal of nonfinancial assets	7.7	6.7	13.6	18.7	3.8	9.3	15.0	17.8	2.1	6.3	9.6	17.6
Gross / Net Operating Balance (revenue minus expense)	**90.1**	**146.3**	**-7.0**	**126.5**	**52.8**	**112.8**	**97.6**	**81.5**	**62.8**	**148.8**	**195.1**	**182.8**
Net lending/borrowing (revenue minus expenditure)	**-63.5**	**35.5**	**-236.8**	**2.2**	**31.7**	**74.9**	**-1.6**	**-63.6**	**27.9**	**65.3**	**56.9**	**-54.2**
Net acquisition of financial assets	**344.0**	**109.7**	**59.1**	**65.0**	**51.6**	**3.9**	**18.6**	**8.0**	**21.3**	**35.6**	**54.8**	**77.2**
Domestic assets	344.0	109.7	59.1	65.0	51.6	3.9	18.6	8.0	21.3	35.6	54.8	77.2
Currency and deposits	-33.8	12.7	69.0	5.8	-18.5	0.0	0.0	-26.0	0.0	0.0	0.0	0.0
Loans	322.7	93.5	42.9	4.8	74.7	3.9	18.6	33.9	21.3	35.6	54.8	77.2
Equity and investment fund shares	43.4	4.3	-40.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**407.5**	**74.2**	**296.4**	**71.4**	**18.4**	**-70.9**	**-88.9**	**-37.5**	**-58.4**	**-122.0**	**-122.0**	**-64.1**
Domestic liabilities	129.1	-13.9	165.1	36.6	-38.9	-23.1	-68.4	5.8	-41.8	-48.0	-35.8	59.5
Debt securities	-14.1	-3.9	101.6	124.7	47.7	23.5	70.0	127.9	-41.5	-31.7	-21.8	-10.6
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-66.5	-7.4	-19.3	-2.3	0.0	-50.6	-84.7	-32.0	-27.8	-49.3	-87.2	-117.0
Loans	148.4	11.5	15.2	-55.8	-45.9	3.9	-53.7	-90.1	27.5	33.0	73.3	187.1
Foreign liabilities	278.4	88.1	131.3	34.8	57.3	-47.8	-20.4	-43.3	-16.5	-74.1	-86.2	-123.6
Drawings	390.3	296.7	361.1	204.5	89.5	58.0	127.7	168.3	39.5	66.1	110.0	156.7
Amortization	111.9	208.6	229.8	169.7	32.2	105.8	148.1	211.6	56.1	140.1	196.2	280.3
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**109.0**	**109.0**	**51.7**	**92.4**	**119.9**	**195.5**
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	109.0	109.0	51.7	92.4	119.9	195.5
IMF	0.0	0.0	0.0	0.0	0.0	0.0	51.9	51.9	51.7	79.3	106.9	134.5
WB	0.0	0.0	0.0	0.0	0.0	0.0	57.1	57.1	0.0	0.0	0.0	35.0
EU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.0	13.0	26.1
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	**-11.7**	**0.0**	**-0.5**	**-8.6**	**1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items												
Net lending excluding externally-financed operations	-29.0	50.4	-175.1	32.6	33.3	67.1	21.3	-39.9	30.6	70.7	73.1	-25.9

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

1/ Tables 5a, 5c and 5e comprise central government according to international standards.

Table 6. Bosnia and Herzegovina: Monetary Survey, 2013–16

	2013 Dec	2014 Dec	2015 Dec	2016 Dec Proj.
	(Million KM, end of period)			
Net foreign assets	6,401	7,514	8,490	8,846
Foreign assets	9,731	10,475	11,104	11,512
Foreign liabilities	3,330	2,961	2,614	2,666
Net domestic assets	9,691	9,787	10,154	11,139
Domestic credit	15,612	16,039	16,500	16,994
Claims on general government (net)	403	580	697	697
Claims on nongovernment	15,209	15,459	15,803	16,297
Other items (net)	-5,921	-6,253	-6,345	-5,855
Broad money (M2)	16,094	17,269	18,647	19,985
Narrow money (M1)	6,696	7,310	8,181	8,696
Currency	2,542	2,814	3,055	3,634
Demand deposits	4,153	4,496	5,126	5,062
Quasi-money (M1)	9,398	9,959	10,466	11,288
Time and savings deposits	3,006	3,377	3,563	3,237
Foreign currency deposits	6,392	6,581	6,904	8,051
Net foreign assets	6.2	6.9	5.7	1.9
Net domestic assets	1.7	0.6	2.1	5.3
Domestic credit	4.0	2.7	2.7	2.7
Claims on general government (net)	1.3	1.1	0.7	0.0
Claims on nongovernment	2.7	1.6	2.0	2.7
Other items (net)	-2.3	-2.1	-0.5	2.6
Broad money (M2)	7.9	7.3	8.0	7.2
Memorandum items:				
	(Annual percent change)			
Broad money (M2)	7.9	7.3	8.0	7.2
Reserve money (RM)	10.3	9.4	8.8	4.9
Credit to the private sector	2.3	1.8	2.6	3.2
	(Percent)			
Credit to the private sector (in percent of GDP)	55.2	55.0	54.6	54.6
Broad money (in percent of GDP)	60.2	63.2	66.1	68.6
Central bank net foreign assets (in percent of monetary base)	110.8	112.1	113.3	113.2
	(Ratio)			
Velocity (GDP/end-of-period M2)	1.6	1.5	1.4	1.5
Reserve money multiplier (M2/RM)	2.5	2.5	2.4	2.5

Source: CBBH and IMF staff estimates and projections.

Table 7. Bosnia and Herzegovina: Proposed Schedule of Purchases Under the Extended Arrangement Under the EFF, 2016–19

	Available on or after	Amount of Purchase: In millions of SDRs	Amount of Purchase: In percent of quota [1]	Conditions
1	September 7, 2016	63.4125	23.911	Board approval of the arrangement.
2	December 25, 2016	63.4125	23.911	First review based on end-September 2016 performance criteria
3	March 25, 2017	33.8200	12.753	Second review based on end-December 2016 performance criteria
4	June 25, 2017	33.8200	12.753	Third review based on end-March 2017 performance criteria
5	September 25, 2017	33.8200	12.753	Forth review based on end-June 2017 performance criteria
6	December 25, 2017	33.8200	12.753	Fifth review based on end-September 2017 performance criteria
7	March 25, 2018	33.8200	12.753	Sixth review based on end-December 2017 performance criteria
8	June 25, 2018	33.8200	12.753	Seventh review based on end-March 2018 performance criteria
9	September 25, 2018	33.8200	12.753	Eighth review based on end-June 2018 performance criteria
10	December 25, 2018	33.8200	12.753	Ninth review based on end-September 2018 performance criteria
11	March 25, 2019	22.8285	8.608	Tenth review based on end-December 2018 performance criteria
12	June 25, 2019	22.8285	8.608	Eleventh review based on end-March 2019 performance criteria
	Total	**443.0420**	**167.06**	

[1] The quota is SDR 265.2 million.

Table 8. Bosnia and Herzegovina: Proposed Quantitative Performance Criteria and Indicative Targets Under the 2016–19 Extended Arrangement Under the EFF

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

	2016		2017	
	End September	End December	End March	End June
Performance Criteria				
Floor on the net lending of 1/				
Institutions of BiH	56.9	12.6	18.1	35.8
Federation central government	203.2	178.6	107.1	252.0
RS central government	21.3	-39.9	30.6	70.7
Ceiling on contracting and guaranteeing of new nonconcessional short-term external debt by				
Institutions of BiH	0	0	0	0
Federation general government	0	0	0	0
RS general government	0	0	0	0
CBBH	0	0	0	0
Ceiling on accumulation external payment arrears by 2/				
Institutions of BiH	0	0	0	0
Federation general government	0	0	0	0
RS general government	0	0	0	0
CBBH	0	0	0	0
Ceiling on transfers and credits from the CBBH to the public sector (cumulative) 2/ 3/	0	0	0	0
Indicative targets				
Ceiling on current expense 4/				
Institutions of BiH	611	845	193	395
Federation central government	1021	1469	292	637
RS central government	1827	2525	555	1171
Ceiling on accumulation of domestic arrears by				
Institutions of BiH	0	0	0	0
Federation central government	0	0	0	0
RS central government	0	0	0	0
Floor on the net lending of the general government of BiH 1/	432.9	254.2	171.7	390.1
Ceiling on changes in the stock of "other accounts payable"				
Federation general government	100.0	100.0	100.0	100.0
RS general government	100.0	100.0	100.0	100.0
Floor on the ITA gross revenue collection	4,917.1	6,651.8	1,484.1	3,133.8

1/ Excluding foreign financed operations as defined in TMU.

2/ Continuous.

3/ Exclude transfers of the CBBH's annual net profit to the institution in charge of BiH budget upon the end of the CBBH financial year, as stipulated in the Law of the CBBH.

4/ As defined in TMU.

Table 9. Bosnia and Herzegovina: Structural Conditionality

	Actions	Test date	Status
Prior actions			
1	Combine all taxpayer information from all four tax agencies and comprehensive company information from the entity business information agencies into a database that is available and fully searchable in each of the four tax agencies.		Met
2	Federation government to adopt a strategic plan to restrain wages and reduce overall employment in public sector.		Met
3	RS government to adopt a strategic plan to restrain wages and reduce overall employment in public sector.		Met
4	Council of Ministers of BiH to adopt a strategic plan to restrain wages and reduce overall employment in public sector.		Met
5	Hire internationally reputable auditors to conduct a detailed AQR for banks that were under enhanced supervision in 2015 or that experienced a rapid credit expansion in relation to the market in 2012-14 (i.e. with an average annual credit growth rate of greater than 10 percent of that period), and that haven't already undergone an AQR.		Met
Structural benchmarks			
1	Continue to adhere to the Currency Board Arrangement as constituted under the law.	Continuous	
2	Refrain from increasing public sector wages including refraining from increases in the wage base, the wage coefficients, and allowances.	Continuous	
3	Refrain from imposing mandatory conversion of any foreign currency-denominated loans into local currency.	Continuous	
4	Adjust the allocation coefficient for indirect tax revenue on a quarterly basis and settle indirect tax claims semi-annually.	Quarterly	
5	FBA to make final assessment of recapitalization plans for banks that reveal capital shortfalls based on their AQR results.	End-November 2016	
6	Federation government, in consultation with the World Bank Group and/or EBRD, will complete the financial and operational due diligence for BH Telecom and HT Mostar.	End-October 2016	
7	Federation parliament to adopt a new draft Law on Banks and amendments to Banking Agency Law in line with IMF staff recommendations.	End-November 2016	
8	RS parliament to adopt a new draft Law on Banks and amendments to Banking Agency Law in line with IMF staff recommendations.	End-November 2016	

Table 9. Bosnia and Herzegovina: Structural Conditionality (Concluded)

9	State parliament to adopt amendments to the Law on Deposit Insurance in Banks in BiH in line with IMF staff recommendations.	End-November 2016
10	RSBA to make final assessment of recapitalization plans for banks that reveal capital shortfalls based on their AQR results.	End-November 2016
11	RS parliament to amend the law on IDBRS in line with IMF staff recommendations.	End-November 2016
12	FBiH parliament to amend the law on Federation Development Bank in line with IMF staff recommendations.	End-November 2016
13	Federation government to submit to parliament amendments to the Law on Debt, Borrowing, and Guarantees to strengthen controls over lower level governments.	End-December 2016
14	Federation government to prepare a report and plan to improve the targeting of social transfers based on the centralized database of beneficiaries.	End-December 2016
15	Adopt new automatic allocation system for ITA revenues in line with IMF staff recommendations.	End-December 2016
16	Federation government to adopt a restructuring plan for railways, developed with the assistance of the World Bank.	End-December 2016
17	RS government to adopt a restructuring plan for railways, developed with the assistance of the World Bank.	End-December 2016
18	RS parliament to amend its corporate income tax law to foster consistency, avoid double taxation between the entities and reduce tax incentives, in line with IMF staff recommendations.	End-December 2016
19	Federation to expand the treasury system to budget management systems in cantons.	End-March 2017
20	RS government to expand the treasury system to health centers.	End-March 2017
21	Federation government to complete Phase III of the audit process for all categories of war veterans' benefits, including privileged pensions.	End-June 2017
22	Federation government to adopt an operational plan to reduce overall employment in public sector based on the employment registry developed with the assistance of the World Bank.	End-June 2017
23	RS government to adopt an operational plan to reduce overall employment in public sector based on the employment registry developed with the assistance of the World Bank.	End-June 2017
24	Council of Ministers of BiH to adopt an operational plan to reduce overall employment in public sector based on the employment registry developed with the assistance of the World Bank.	End-June 2017

Table 10. Bosnia and Herzegovina: Indicators of Capacity to Repay the fund, 2011–27

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Act.		Proj.											
Fund repurchases and charges 1/														
In millions of SDRs	152.1	43.2	59.8	145.1	151.8	76.2	7.7	34.9	56.2	74.7	76.8	76.0	75.3	47.8
In millions of euros	173.8	54.5	75.1	181.6	189.9	95.4	9.6	43.7	70.3	93.4	96.1	95.1	94.2	59.8
In percent of exports of goods and NFS	3.6	1.1	1.4	3.3	3.3	1.6	0.2	0.7	1.0	1.3	1.3	1.2	1.1	0.7
In percent of external public debt service	44.2	18.0	19.4	35.1	36.8	21.0	2.0	9.3	14.7	19.8	20.2	20.1	19.8	12.6
In percent of general government revenues	2.9	0.9	1.2	2.7	2.7	1.3	0.1	0.5	0.8	1.0	0.9	1.3	1.6	1.2
In percent of gross official reserves	4.3	1.2	1.6	3.6	3.6	1.7	0.2	0.7	1.1	1.3	1.3	1.2	1.1	0.7
Fund credit outstanding 1/														
In millions of SDRs	454.9	416.4	475.6	474.5	466.1	443.0	443.0	416.3	367.0	296.9	223.1	149.2	75.4	28.3
In millions of euros	519.9	525.0	597.1	593.7	583.1	554.3	554.3	520.8	459.1	371.5	279.1	186.7	94.3	35.4
In percent of quota	269.0	246.2	179.5	179.1	175.9	167.2	167.2	157.1	138.5	112.0	84.2	56.3	28.4	10.7
In percent of GDP	3.7	3.6	4.0	3.8	3.6	3.2	3.0	2.6	2.2	1.6	1.1	0.7	0.3	0.1
In percent of gross official reserves	13.0	11.9	12.8	11.9	11.1	10.0	9.4	8.4	7.0	5.3	3.8	2.4	1.1	0.4
Memorandum items:														
Exports of goods and services (millions of euros)	4,766	5,043	5,196	5,446	5,711	5,988	6,278	6,582	6,901	7,235	7,585	7,953	8,338	8,742
External public debt service (millions of euros)	393	302	388	517	517	453	485	469	477	473	475	474	475	474
Quota (millions of SDRs)	169	169	265	265	265	265	265	265	265	265	265	265	265	265
Quota (millions of euros)	193	213	333	332	332	332	332	332	332	332	332	332	332	332
Gross official reserves (millions of euros)	4,013	4,413	4,672	4,986	5,254	5,558	5,880	6,220	6,580	6,961	7,364	7,790	8,241	8,717
GDP (millions of euros)	13,938	14,415	14,885	15,559	16,374	17,490	18,682	19,956	21,316	22,769	24,321	25,978	27,749	29,640
Euros per SDR	1.14	1.26	1.26	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25

Source: Fund staff estimates.

1/ Based on existing and prospective drawings (Table 7).

Table 11a. Bosnia and Herzegovina: Gross Financing Requirements 2015–19

(In millions of euros)

	2015	2016	2017	2018	2019
Financing requirements	1,445	1,518	1,780	1,805	1,759
Current account deficit	812	793	921	939	947
Amortization	632	725	860	867	812
Government	249	313	438	436	370
Other	383	413	422	430	441
Financing	1,445	1,366	1,489	1,537	1,634
Capital transfers	189	194	198	202	205
FDI	206	330	445	439	468
Net bank financing	-86	40	41	88	109
Foreign loans	1,268	922	1,031	989	1,070
Government	224	342	383	425	443
Other	1,044	580	648	564	627
Gross international reserves (- = increase)	-450	-209	-314	-268	-304
Other 1/	319	88	88	88	88
Financing gap	0	153	291	269	124
IMF	0	80	206	169	99
EU	0	0	40	55	25
World Bank	0	73	45	45	0

Table 11b. Bosnia and Herzegovina: Gross Financing Requirements 2015–19

(In percent of GDP)

	2015	2016	2017	2018	2019
Financing requirements	10.0	10.2	11.4	11.0	10.1
Current account deficit	5.6	5.3	5.9	5.7	5.4
Amortization	4.4	4.9	5.5	5.3	4.7
Government	1.7	2.1	2.8	2.7	2.1
Other	2.7	2.8	2.7	2.6	2.5
Financing	10.0	9.2	9.6	9.4	9.4
Capital transfers	1.3	1.3	1.3	1.2	1.2
FDI	1.4	2.2	2.9	2.7	2.7
Net bank financing	-0.6	0.3	0.3	0.5	0.6
Foreign loans	8.8	6.2	6.6	6.0	6.2
Government	1.6	2.3	2.5	2.6	2.5
Other	7.2	3.9	4.2	3.4	3.6
Gross international reserves (- = increase)	-3.1	-1.4	-2.0	-1.6	-1.7
Other 1/	2.2	0.6	0.6	0.5	0.5
Financing gap	0.0	1.0	1.9	1.6	0.7
IMF	0.0	0.5	1.3	1.0	0.6
EU	0.0	0.0	0.3	0.3	0.1
World Bank	0.0	0.5	0.3	0.3	0.0

Source: IMF staff projections and calculations.

1/ It includes net errors and omissions, net portfolio flows and asset transations of general government and non-bank private sector.

Table 12. Bosnia and Herzegovina: Financial Soundness Indicators 2010–15

(In Percent)

	2010	2011	2012	2013	2014	2015
Capital						
Tier 1 capital to risk-weighted assets (RWA)	12.6	13.6	14.1	15.2	14.4	14.0
Net capital to RWA	16.2	17.2	17.0	17.8	16.3	15.1
Quality of assets [1]						
Nonperforming loans to total loans	11.4	11.8	13.5	15.1	14.0	13.7
Nonperforming assets (NPAs) to total assets	8.1	8.8	10.3	11.4	10.5	10.1
NPAs net of provisions to tier 1 capital	46.1	26.1	30.4	31.5	27.9	26.7
Provision to NPAs	40.8	68.2	67.4	68.0	71.3	72.6
Profitability						
Return on assets [2]	-0.6	0.7	0.6	-0.2	0.7	0.4
Return on equity [2]	-5.5	5.9	5.0	-1.4	5.7	3.0
Net interest income to gross income	60.1	63.8	63.7	62.3	61.5	62.2
Noninterest expenses to gross income	109.0	86.3	87.2	101.2	84.6	90.5
Liquidity						
Liquid assets to total assets	29.0	27.3	25.4	26.4	26.8	26.4
Liquid assets to short- term financial liabilities	49.7	46.7	44.1	46.2	46.1	44.1
Short- term financial liabilities to total financial liabilities	66.9	68.4	67.9	67.3	68.5	70.7
Foreign exchange risk						
Foreign currency and indexed loans to total loans	70.0	66.7	63.1	62.9	62.3	61.8
Foreign currency liabilities to total financial liabilities	67.0	66.0	65.2	63.8	62.7	60.3
Net open position	4.4	16.1	5.4	6.7	10.6	10.2

Source: CBBH.

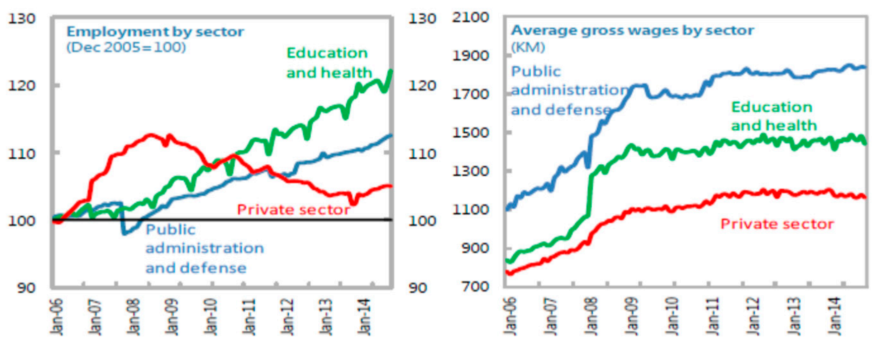
[1] Prior to 2010, assets classified as loss, alongside the provisions made against them, were held off-balance sheet by banks in E
This lowered the reported NPL ratios and coverage of nonperforming loans by provisions. Starting with the December 2010 d
in the RS, and the December 2011 data in the Federation,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

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

Annex. I. Reducing the Public Wage Bill: Challenges and Prospects

The authorities' policies will aim to substantially reduce the public wage bill and trim employment over the course of the extended arrangement under the EFF, so as to reorient public spending toward investment. Earlier attempts were partially successful. BiH's complex governance structure makes the task challenging.

Context: The public wage bill in BiH is large and it crowds out important growth-enhancing investment spending. A high tax wedge and sizably higher wages in the public than private sector have been associated with anemic employment growth in the latter. Policy measures to lower the public sector wage bill, which have been part of Fund programs for nearly a decade, have been broadly successful in achieving restraint— during the late 2000s, the upward drift in the general government wage bill (in GDP terms) was halted and, eventually, partially reversed. By 2015 the wage bill was not higher than that in 2008.[1]



Source: BiH Agency for statistics, and IMF staff calculations.
1/ Private sector employment includes workers employed by a number of state-owned enterprises.

Challenges:

- *Downward rigidity in public wages together with very low inflation.* Discretionary wage reduction is often overturned by courts as unconstitutional and carries fiscal costs. The new labor laws, collective agreements and civil service reform will address this problem.
- *Institutional fragmentation.* There are 14 autonomous governments in BiH with duplication of functions and the control of any given government level over total public employment and wage levels is limited. In the FBiH, most public employment is at the level of autonomous cantons. Constitutional changes or enhanced control by central governments are needed to address these issues.
- *Public employment controls.* Despite recent improvements, centralized payroll management systems lack universal coverage. Large categories of staff are outside the system. Thus information on public employment is incomplete. The lack of control has facilitated politically-motivated hiring.
- *Excessive employment in education, health and police.* These constitute the bulk of general government employment and there can be no meaningful wage bill reduction without tackling inefficiencies in these sectors, e.g., an excess of non-medical staff in the health sector or a school system that has become inefficient due to the sharp fall in school-age population in the past 15 years.

Next Steps: The authorities will develop strategic plans on how to proceed and overcome structural impediments. They will leverage World Bank-supported reforms of the health sector and civil service. In FBiH, a critical issue will be coordination and cooperation with cantons. These plans will then be

[1] Program targets for the general government wage bill for 2015 ranged from 11.3-12.0 percent of GDP during the previous two SBAs. The actual outturn last year was 11.8, well within this range, and at the 2008 level

operationalized, based on World Bank and IMF technical assistance. The former will help with developing public employment registries which would be implemented as part of the 2018 budgets. In the interim, the authorities will maintain a wage moratorium to safeguard previous gains in reducing the wage bill

Annex II. Bosnia and Herzegovina: Debt Sustainability Analysis (DSA)

Public Sector Debt Sustainability Analysis (DSA)–Baseline Scenario

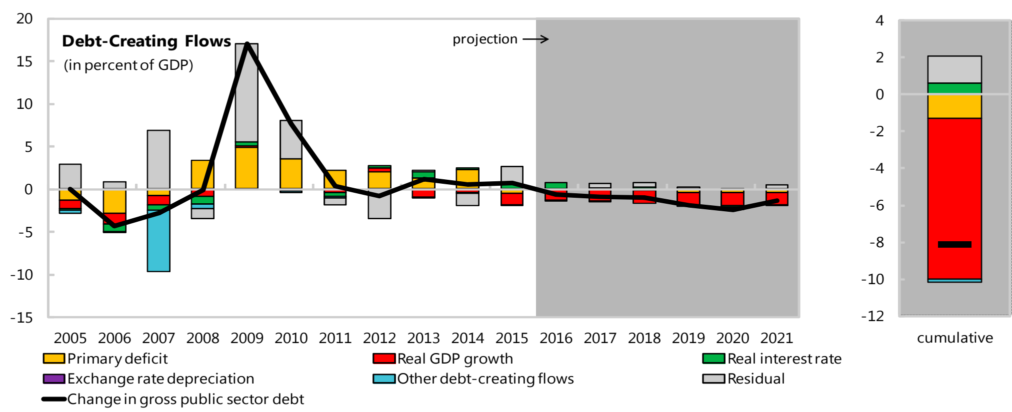
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of 06/10/2016		
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021	Sovereign Spreads		
Nominal gross public debt	32.1	44.0	44.7	44.2	43.2	42.3	40.4	38.0	36.6	EMBIG (bp) 3/		n.a.
Public gross financing needs	3.4	7.8	4.8	6.0	7.0	6.8	5.9	4.9	4.7	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	2.6	1.1	3.2	3.0	3.2	3.7	3.9	4.0	4.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	3.2	1.0	0.1	0.2	1.3	1.4	2.3	2.7	2.5	Moody's	B3	Baa2
Nominal GDP growth (in percent)	6.0	2.1	3.3	3.2	4.5	5.1	6.3	6.9	6.7	S&Ps	B	B
Effective interest rate (in percent) [4/]	2.2	1.5	1.5	1.9	1.6	1.9	2.1	2.3	2.5	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing
Change in gross public sector debt	2.0	0.5	0.7	-0.6	-0.9	-1.0	-1.9	-2.4	-1.4	-8.1	primary
Identified debt-creating flows	-0.3	2.0	-1.3	-0.5	-1.4	-1.5	-2.1	-2.1	-1.9	-9.5	balance [9/]
Primary deficit	1.4	2.3	-0.5	0.0	0.0	-0.2	-0.4	-0.4	-0.4	-1.3	-1.5
Primary (noninterest) revenue and gra	45.2	43.4	43.6	43.4	43.5	43.4	43.4	43.4	43.3	260.4	
Primary (noninterest) expenditure	46.6	45.7	43.1	43.4	43.5	43.2	43.0	43.0	43.0	259.1	
Automatic debt dynamics [5/]	-0.8	-0.3	-0.8	-0.6	-1.2	-1.3	-1.7	-1.7	-1.5	-8.1	
Interest rate/growth differential [6/]	-0.8	-0.3	-0.8	-0.6	-1.2	-1.3	-1.7	-1.7	-1.5	-8.1	
Of which: real interest rate	-0.2	0.2	0.6	0.7	0.1	0.2	-0.1	-0.2	-0.1	0.6	
Of which: real GDP growth	-0.6	-0.5	-1.3	-1.3	-1.4	-1.5	-1.6	-1.5	-1.4	-8.7	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.9	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	-0.2	
General Govt - Financing - Privatizati	-0.9	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	-0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., 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/]	2.4	-1.4	2.1	-0.1	0.5	0.5	0.2	-0.2	0.5	1.4	



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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (1+g) and the real growth contribution as -g.

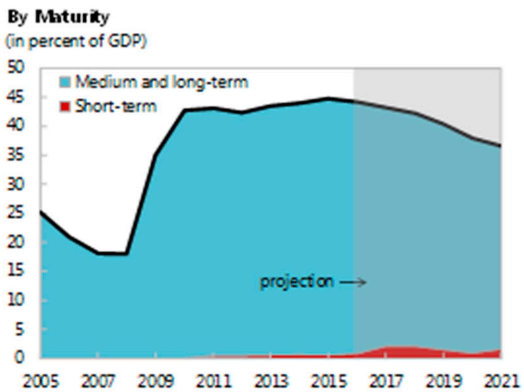
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

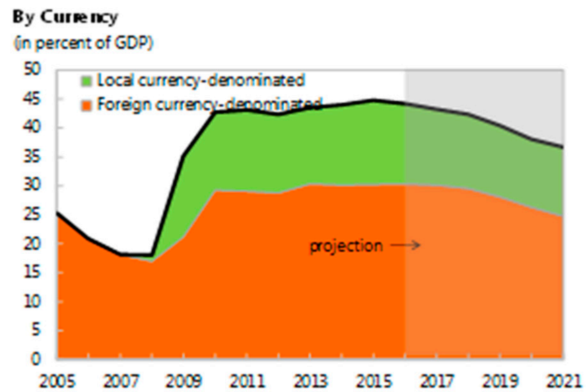
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

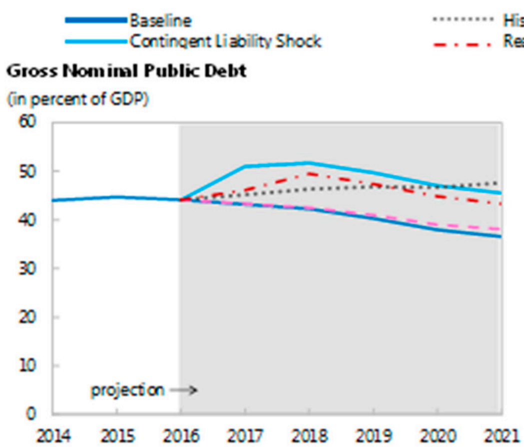
Bosnia and Herzegovina Public DSA – Composition of Public Debt and Alternative Scenarios

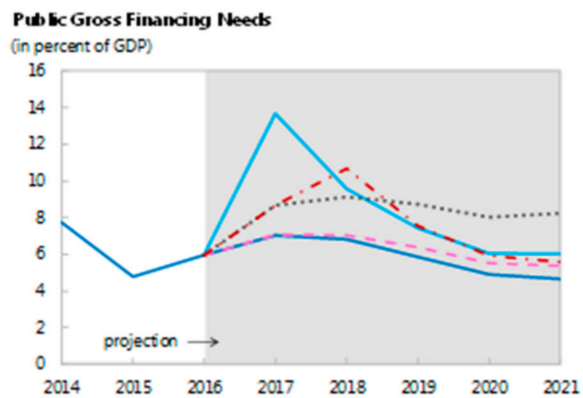
Composition of Public Debt





Alternative Scenarios





Underlying Assumptions

(in percent)

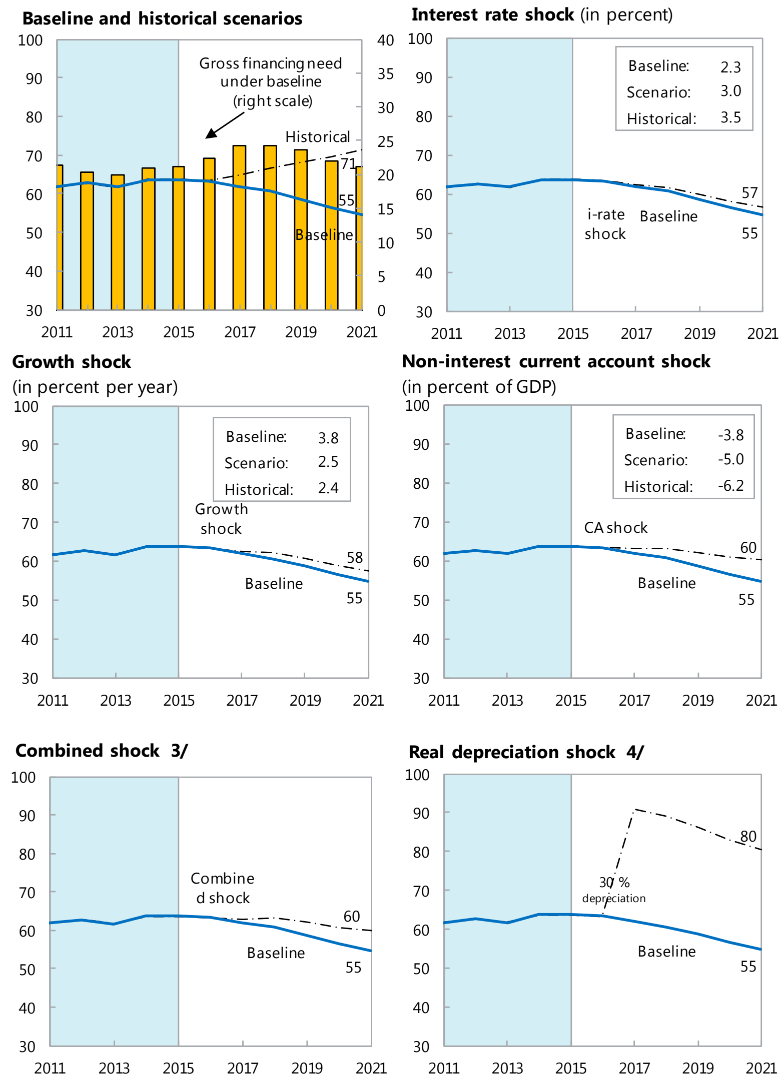
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	3.0	3.2	3.7	3.9	4.0	4.0
Inflation	0.2	1.3	1.4	2.3	2.7	2.5
Primary Balance	0.0	0.0	0.2	0.4	0.4	0.4
Effective interest rate	1.9	1.6	1.9	2.1	2.3	2.5
Constant Primary Balance Scenario						
Real GDP growth	3.0	3.2	3.7	3.9	4.0	4.0
Inflation	0.2	1.3	1.4	2.3	2.7	2.5
Primary Balance	0.0	0.0	0.0	0.0	0.0	0.0
Effective interest rate	1.9	1.6	1.9	2.1	2.3	2.5
Real GDP growth Shock						
Real GDP growth	3.0	0.6	1.1	3.9	4.0	4.0
Inflation	0.2	0.6	0.7	2.3	2.7	2.5
Primary Balance	0.0	-1.4	-2.7	0.4	0.4	0.4
Effective interest rate	1.9	1.6	1.9	2.3	2.5	2.7

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	3.0	2.4	2.4	2.4	2.4	2.4
Inflation	0.2	1.3	1.4	2.3	2.7	2.5
Primary Balance	0.0	-1.6	-1.6	-1.6	-1.6	-1.6
Effective interest rate	1.9	1.6	1.8	1.9	2.0	2.2
Contingent Liability Shock						
Real GDP growth	3.0	0.6	1.1	3.9	4.0	4.0
Inflation	0.2	0.6	0.7	2.3	2.7	2.5
Primary Balance	0.0	-6.3	0.2	0.4	0.4	0.4
Effective interest rate	1.9	1.8	2.3	2.5	2.7	2.9

Source: IMF staff.

Bosnia and Herzegovina: External Debt Sustainability: Bond 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.
4/ One-time real depreciation of 30 percent occurs in 2017.

Annex. Table 1. Bosnia and Herzegovina: External Debt Sustainability Framework, 2011–2021

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
Baseline: External debt	61.8	62.7	61.7	63.7	63.7			**63.2**	**61.8**	**60.7**	**58.6**	**56.4**	**54.7**	**-4.7**
Change in external debt	-2.6	0.9	-0.9	2.0	0.0			-0.5	-1.4	-1.1	-2.1	-2.2	-1.7	
Identified external debt-creating flows (4+8+9)	1.8	11.8	0.6	3.6	14.3			0.3	0.3	0.1	0.2	0.2	-0.1	
Current account deficit, excluding interest payments	7.8	6.9	4.1	6.1	4.2			3.2	3.9	3.8	3.9	3.9	3.4	
Deficit in balance of goods and services	23.8	23.5	20.4	22.7	19.2			20.6	20.3	20.3	19.9	19.5	19.1	
Exports	32.1	32.4	33.8	34.2	35.0			34.7	34.7	34.6	34.2	33.3	32.6	
Imports	55.9	55.9	54.2	56.9	54.2			55.4	55.1	54.9	54.0	52.8	51.7	
Net non-debt creating capital inflows (negative)	-2.6	-1.9	-1.4	-2.6	-1.4			-2.2	-2.9	-2.7	-2.7	-2.8	-3.0	
Automatic debt dynamics 1/	-3.4	6.8	-2.1	0.2	11.5			-0.7	-0.7	-1.0	-1.0	-1.0	-0.5	
Contribution from nominal interest rate	1.7	1.7	1.2	1.4	1.4			1.2	1.2	1.2	1.2	1.2	1.7	
Contribution from real GDP growth	-0.5	0.6	-1.4	-0.7	-2.3			-1.8	-1.9	-2.2	-2.2	-2.2	-2.1	
Contribution from price and exchange rate changes 2/	-4.5	4.5	-1.8	-0.6	12.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-4.5	-10.9	-1.5	-1.6	-14.3			-0.8	-1.7	-1.2	-2.2	-2.4	-1.6	
External debt-to-exports ratio (in percent)	192.5	193.4	182.6	186.3	182.1			182.1	177.8	175.2	171.4	169.2	167.5	
Gross external financing need (in billions of US dollars) 4/	4.0	3.5	3.6	3.9	3.4			3.7	4.3	4.5	4.7	4.7	4.8	
in percent of GDP	21.3	20.3	19.9	20.9	21.1	10-Year	10-Year	22.3	24.2	24.3	23.6	22.1	21.2	
Scenario with key variables at their historical averages 5/								**63.2**	**64.9**	**66.7**	**68.1**	**69.6**	**71.2**	**-4.2**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	0.9	-0.9	2.4	1.1	3.2	2.4	2.6	3.0	3.2	3.7	3.9	4.0	4.0	
GDP deflator in US dollars (change in percent)	7.6	-6.8	3.0	0.9	-16.3	2.0	10.2	1.4	2.3	1.6	2.8	3.4	2.3	
Nominal external interest rate (in percent)	2.9	2.6	2.0	2.3	1.9	3.5	1.5	1.9	2.0	2.0	2.1	2.2	3.1	
Growth of exports (US dollar terms, in percent)	17.0	-6.7	10.1	3.2	-11.6	5.5	14.5	3.7	5.6	4.9	5.5	4.8	4.2	
Growth of imports (US dollar terms, in percent)	18.0	-7.6	2.3	7.1	-17.7	2.0	15.6	6.7	5.0	4.9	5.2	5.1	4.1	
Current account balance, excluding interest payments	-7.8	-6.9	-4.1	-6.1	-4.2	-6.2	2.4	-3.2	-3.9	-3.8	-3.9	-3.9	-3.4	
Net non-debt creating capital inflows	2.6	1.9	1.4	2.6	1.4	3.7	3.3	2.2	2.9	2.7	2.7	2.8	3.0	

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.

Appendix I. Letter of Intent

Sarajevo and Banja Luka, Bosnia and Herzegovina

July 31, 2016

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

Dear Ms. Lagarde:

1. After several starts and stops since the global financial crisis, the economy of Bosnia and Herzegovina (BiH) is showing firmer signs of recovery. It also proved more resilient to the impact of the 2014 floods than initially expected. Growth exceeded 1 percent in 2014 and is estimated to have reached 3.2 percent in 2015. It is expected to remain at similar level, at 3.0 percent, this year.

2. Moreover, external and internal imbalances have been gradually reduced in recent years, mainly through fiscal consolidation and some progress in structural reforms. With the exception of the difficult circumstances because of floods in 2014, the consolidated budget deficit was gradually brought down in recent years by containing current expenditures and improving revenue collection. Financing constraints in 2015 caused a stronger-than-expected fiscal consolidation. The current account deficit has also narrowed. Inflation has remained low, largely reflecting low Euro area inflation imported through the currency board arrangement (CBA). The financial sector remained resilient following the global financial crisis.

3. However, the recovery remains fragile and significant vulnerabilities remain. BiH lags regional peers in income convergence to advanced European economies, with per capita incomes averaging less than third of the average income level in European economies, and income convergence has stalled in recent years. More importantly, unemployment is stubbornly high, and high youth and long-term unemployment are particularly worrisome. Low private investment has slowed private sector job creation and potential output growth. This reflects not only the lingering effect of the global financial crisis, but also a still unfinished structural reform agenda.

4. The BiH Council of Ministers (CoM) and the governments of the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) that came to office following the general elections in October 2014 recognized the need to step up the pace of economic reforms to accelerate economic growth and create jobs, and to improve living standards of the people of BiH. Together, and in cooperation with the international community, we have adopted a broad-based Reform Agenda and developed Action Plans for Implementation of the Reform Agenda (adopted in September and October 2015). This Reform Agenda sets out the main plans of the

CoM and the entity governments for socio-economic reforms in the coming years. It aims to: foster sustainable, efficient, and steady economic growth; create jobs; increase and better target social assistance; and create a favorable economic environment. Efforts to ensure fiscal and financial sustainability will be augmented by measures to strengthen the rule of law and the fight against corruption, and to strengthen administrative capabilities and increase the efficiency of public institutions at all levels of government. We are confident that steadfast implementation of the Reform Agenda will help us on the road toward accession to the European Union (EU).

5. In this context, we request the support from the International Monetary Fund (IMF) to assist us with the implementation of our economic policies and reforms and help cover the financing needs that are projected for the coming years. In light of the need for deep structural reforms, we request a three-year extended arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 443.042 million (167.06 percent of quota). The arrangement will build upon the progress made under the SBA that expired in June 2015 and will continue to provide a valuable anchor for our economic policies and reforms. While no further reviews could be completed under the last SBA after mid-2014, fiscal and financial policies remained broadly anchored by the previous program. We also expect the new arrangement to play a catalytic role in mobilizing international support and our other international partners, notably the EU and the World Bank, are planning to provide additional funds to help ensure that the proposed program is fully financed.

6. This Letter of Intent sets out our economic policies for 2016–2019. We will implement the policies mentioned in this Letter in line with the constitutional competencies of the BiH CoM and the governments of the FBiH and the RS and their agencies and institutions. Our economic policies have three main objectives:

- First, intensifying reforms to improve the business environment to attract investment, create more private sector jobs, and raise the economy's growth potential;
- Second, continuing the fiscal consolidation to place public debt to GDP ratio on a steady downward path, while lowering the size of government and improving the quality of government spending;
- Third, safeguarding financial sector stability and reviving bank lending.

7. In the period ahead we will reorient government expenditure by reducing current spending to make room for much needed increase in capital expenditure that is more conducive to economic growth. The current account deficit is projected to improve after 2017, and over the medium term, as exports increase, while inflation is expected to pick up to a low positive rate in line with developments in Europe. With the sustained implementation of our economic policies and reforms, GDP growth is expected to increase to 4 percent over the medium-term.

Structural reforms to boost economic growth and job creation

8. The objectives of raising growth and reducing unemployment will require significant improvement to the business environment and the functioning of the labor market. Some

important progress has been made in the last two years, including through a number of key measures that were implemented in recent months.

9. To enhance the functioning of the labor market, the entity parliaments have adopted new entity labor laws in line with the Reform Agenda and in consultation with the IMF staff, World Bank and social partners. New collective bargaining agreements are being negotiated to agree on new employment conditions consistent with the new laws. In addition, these new laws will be supported by stepped-up labor inspections, while we will also aim to strengthen the system of unemployment benefits and active labor market policies, including by expanding training and education opportunities.

10. We will restart the privatization process in the FBiH, to help improve economic governance and competition, and reduce the risks to public finances. We have classified state-owned enterprises and public companies into those that are strategic, those requiring minor or major restructuring, and companies in which the government holds a minority share (The World Bank Group is supporting this work in FBiH). We will dispose of our minority shares in Bosnalijek and Sarajevo Osiguranje by end-September 2016. We are also conducting operational and financial restructuring of Fabrika Duhana Sarajevo and Aluminum Mostar with a view of completing their sales by end-March 2017. Other companies, such as Energoinvest and Energopetrol will require more comprehensive restructuring prior to their full rehabilitation and sale by end-December 2017. In line with the FBiH Privatization Agency plan we will address the status of the remaining state-owned enterprises and public companies either through the restructuring and possible privatization of viable enterprises or the bankruptcy/liquidation of those enterprises judged to be not viable. As part of this process, the FBiH government, in consultation with the World Bank Group and/or EBRD, will complete the financial and operational due diligence for BH Telecom and HT Mostar by end-October 2016 (*structural benchmark*), and will discuss the possibilities and modalities of increasing the profitability of these companies either through improving their corporate governance or selling of shares. The entity governments will adopt restructuring plans for the entity railways, with assistance from the World Bank, by end-December 2016 (*structural benchmarks),* and the FBiH government will also adopt a restructuring plan for public companies in the power and gas sector and coal mines during 2017. The restructuring plans will be based on increased efficiency, cost savings, and tariff levels that are sufficient to provide full cost recovery and sustainable commercial operations.

11. We will reduce the administrative burden on businesses, with a particular emphasis on harmonizing regulations between the entities. In this context, with assistance from USAID, we will review para-fiscal fees at all levels of government and the entity governments and the CoM will develop plans by end-December 2016 with a view to lowering these. As part of this effort, we will eliminate the solidarity contribution in the RS and the special contribution against natural disasters in the FBiH by end-December 2016. The RS parliament has approved a new bankruptcy law in February 2016. The FBiH government has started to reform its commercial dispute resolution framework, including by adopting new FBiH bankruptcy legislation by end-September 2016 developed with the assistance of the World Bank. In addition we will enhance the court system by conducting a feasibility study with the assistance of the World Bank on whether the FBiH should establish specialized commercial courts by end-September 2016, and improved their functioning in the RS to speed up the processing of commercial and labor disputes by end-June,

2016. The amendments to the FBiH Law on Internal Trade—will be adopted by end-December 2016, and we aim to promptly resolve remaining trade issues with the EU. In consultation with the World Bank, we will enhance the business regulations, including introduction of one-stop-shop solution for company registration in FBiH with a view to establish on-line registration in both FBiH and RS, aligning the process across the entities.

Making government finances sustainable and more efficient

Fiscal policies

12. There was strong fiscal consolidation in 2015 with an overall deficit of 0.1 percent of GDP, largely because of expenditure compression. We have adopted budgets for 2016 for the Institutions of BiH and the central governments of the FBiH and the RS that are consistent with the overall deficit of 0.8 percent of GDP in 2016. We are committed to reduce the overall deficit to below 0.3 percent of GDP by the time of the end of the program in 2019, with a view to reducing public debt gradually to below 40 percent of GDP over the medium term.

13. To make this fiscal consolidation sustainable, we are committed to implementing comprehensive fiscal reforms to improve revenue collection, reduce the size of government, improve the efficiency of public finances, and trim current non-priority spending to create room for investment in infrastructure.

Improving efficiency of revenue collection

14. We will continue to strengthen revenue collection and administration. In particular:

- We have expanded the exchange of taxpayer information among the four tax agencies (the Indirect Taxation Authority (ITA), the FBiH Tax Administration (FTA), the RS Tax Administration (RSTA), and the Brcko District Tax Administration (BDTA)). In 2014, we completed the process to ensure that each of the tax agencies had electronic access to taxpayer specific information in the other agencies. In order to strengthen capacity to detect taxpayer compliance risks, we have now implemented in line with IMF staff recommendation automated electronic bulk exchange of tax and social security contribution (ssc) returns, assessment, refund, cash registry, registration, audit, arrears and customs transaction data between the four tax administrations and commenced with exchanging data for 2015, and provided the tax administrations electronically with comprehensive company information from the entity business information agencies (AFIP/FIA and APIF) for the most recent year for which data are electronically available (*prior action*). Each tax agency will continue to share its updated bulk data once per month and APIF and FIA will also provide monthly updates.
- The ITA established a unit for the detection and prevention of VAT fraud and has started implementing a risk-based approach to audits and inspections, one of the key elements of our strategy to strengthen the control of VAT refunds and credits. Currently, about 30 percent of ITA audits are based on risk-assessments and our goal is to increase this share further. The FTA and the RSTA will also aim to advance the application of a risk-based

approach in their compliance activities, with assistance of the IMF staff, utilizing where appropriate the combined and fully searchable database of taxpayer information.

- The ITA has stepped up its efforts to collect tax arrears, by actively engaging the largest tax debtors. For those largest tax debtors with whom no agreement has been reached, the ITA has referred their cases to the state prosecutor's office, which is expected to pursue all options available under domestic law to enforce collection. The ITA will continue these efforts going forward and publish the results on its website. Meanwhile, the ITA will also continue to publish on its website monthly information about the largest tax debtors and the stock of indirect tax arrears, and publish additional flow data on the accumulation of new tax debts, repayments, and reschedulings as agreed with the IMF staff by September 2016. The FTA and RSTA will also step up efforts to collect outstanding tax debts, including focusing collection activities on new tax debts, establishing payment plans with viable businesses concerning older debts, pursuing all legal options to enforce collection, and publication of the list of largest tax debtors. The FTA will work closely with the FBiH government to address the issue of the unpaid contributions (see below).

- We will adjust the allocation coefficient for indirect taxes on a quarterly basis and settle the claims semi-annually, starting on September 30, 2016 (*quarterly structural benchmark*). We will review, with the assistance of the IMF staff, the system for revenue allocation of indirect taxes among the various levels of government—including within entities—with a view to simplifying it and making it more automatic. The new automatic allocation system for ITA revenues in line with IMF staff recommendations will be put in place by end-December, 2016 *(structural benchmark)*.

15. We will improve the efficiency of our tax systems. In particular:

- We are committed to preserving the integrity of the system of indirect taxation, in order to ensure the continued high level of budget revenues are delivered by indirect taxes. Indicative targets for gross indirect tax revenue collection have been set.

- The entities will harmonize their corporate income tax laws to foster consistency, avoid double taxation between the entities, reduce tax incentives and clarify the tax treatment of loan loss provisioning. The FBiH parliament has adopted a new *Corporate Income Tax Law*—developed with the assistance of the IMF staff—that eliminates exemptions for exporters while increasing incentives for investment, and clarifies the tax treatment of depreciation and banks' loan loss provisioning (the law became effective as of January 1, 2016). The RS parliament will adopt amendments to the corporate income tax law consistent with IMF staff recommendation by end-December 2016 (*structural benchmark*) to become effective in January 1, 2017.

- To facilitate job creation in the private sector we aim to shift the tax burden away from labor by reducing the social security contribution rates in the two entities. Both entities will prepare comprehensive plans – with assistance from IMF staff - to reduce social security contributions rates and simplify and improve the efficiency of the Personal Income Tax by end-September, 2016, to become effective in January 1, 2017. We will ensure that lowering the social security contributions rates will be deficit neutral in order not to undermine the sustainability of the social funds. The reduction in the social contribution rates will be accompanied by expanding the tax base for labor income by taxing all sources of work-related income, in particular allowances. We also recognize that this will need to be supported by improved tax administration that increases compliance. However, if sustained implementation of these measures does not prove to be sufficient to ensure the sustainability of the social insurance funds, we will take additional fiscal measures, in consultation with IMF staff, to raise additional revenues and/or implement spending cuts if needed.

- To achieve better targeting of agricultural subsidies, the RS has made the necessary legal and administrative changes to condition the eligibility of farmers for agricultural subsidies on their registration and payment of social security contributions. The registration of commercial farms in accordance with the rulebook on classification of household farms into commercial and non-commercial farms is proceeding, with 14.6 percent of household farms registered as commercial as of end April 2016. During the course of 2016 agricultural subsidies will only be paid to those farmers that register and remain current on their social security contribution payments. As a result of this measure we aim to achieve a saving of 5 million KM in agricultural subsidies and an increase of 10 KM in social security contribution revenues in 2016 compared to the last year, that will help our fiscal consolidation efforts.

- To help mobilize resources for investment in essential infrastructure the BiH parliament will approve a raise in excise rates on fuel products, including LPG and biofuel by 15 pfennig per liter and channel the additional revenues from 10 pfennig of this increase to the entity highway funds and from 5 pfennig to the entity road funds, by end-September 2016. In parallel, we will increase the excise on heating oil to close the price gap between different categories of oil derivatives.

Strengthening public finances

16. On the expenditure side, we will streamline and increase the efficiency of government operations while also aiming to reduce the size of the government over the medium term. Thus:

- We will implement public sector reform, with the assistance of the World Bank. These reforms will allow us to introduce greater flexibility in working arrangements and help reduce the number of public sector employees while improving efficiency. The BiH CoM and the entity governments have adopted strategic plans to restrain wages (by refraining from increases in the wage base, the wage coefficients, and allowances) and reduce overall employment in the public sector over the course of the program, beginning in 2017 (*a prior action*). The entity governments and the BiH CoM will develop registries of public employment that include staff employed in the cantons, municipalities, health institutes, and extra-budgetary funds with assistance of the World Bank. This registry and a scoping note prepared by the World Bank will serve as basis for operationalizing the strategic plans on reducing public sector employment. The BiH CoM and the entity governments will adopt operational plans to reduce overall employment in the public sector based on the registries developed with the assistance of the World Bank by end-

June 2017 (*structural benchmarks*). In the meantime, adherence to the wage moratorium, including refraining from increases in the wage base, the wage coefficients, and allowances, will be a continuous structural benchmark. In addition, quarterly indicative targets for current spending of the Institutions of BiH and the entity central governments have been set.

- We have initiated health care reform with assistance from the World Bank to make the health care system in the two entities sustainable, and to improve quality and equity of health services. The reforms will include addressing the debts of the health sector, defining new financing models and sources, strengthening financial accountability, controls, and management of health facilities, along with standardization of the health care institutions network. To finance health care reform the BiH parliament will approve the raise in excises on alcohol including all alcohol products to channel revenues to the health funds by end-September 2016.

- The FBiH parliament will adopt the Law on Pension and Disability Insurance (PIO) and the Law on the Organization of the PIO Fund in October 2016 in line with World Bank recommendations to help ensure the sustainability of the pension system, including by increasing the number of contributors, raising the effective retirement age, and broadening the base for contributions. Simultaneously, the FBiH has drafted legislation, also in line with World Bank recommendations, to address the issue of unpaid pension contributions, mainly accumulated by state-owned enterprises and public companies, and has ensured that the two sets of legislation are internally consistent. The FBiH government will prepare an analysis of the impact on pension benefits and a schedule of budget transfers to the pension fund in consultation with the World Bank and the IMF staff. To help ensure greater discipline in the payment of pension contributions the entity governments will develop with assistance from the World Bank, comprehensive strategies to tackle remaining loss-making state-owned enterprises and public companies by either restructuring or liquidating these companies (see above). The new bankruptcy laws will also help in this regard.

- We will strive to improve the targeting of social assistance to protect the most vulnerable in an effective manner. To this end, the FBiH parliament will adopt the *Law on Single Registry of Beneficiaries of Benefits without Contribution* in end-September 2016, which allows for a centralized database of beneficiaries of social transfers to become operational by end-November 2016. Based on the data in the centralized database of beneficiaries we will prepare a report and plan to improve the targeting of social transfers by December 2016 (*structural benchmark*). In addition, to prevent abuse in the war veteran benefit system, audits of beneficiaries of privileged pensions in the FBiH will be expedited. The first stage of the audit process, to verify the eligibility of the existing beneficiaries for all categories of war veterans' benefits including privileged pensions, will be completed by end-December 2016, and all stages of the audit process will be completed by end-June 2017 (*a structural benchmark*). We will refrain from amending the legislation that regulates war related benefits without consultation with the World Bank and IMF staff.

17. Strengthening controls over lower levels of government, extra-budgetary funds, and state-owned enterprises is of utmost importance to fully account for and to stop the increase in uncovered liabilities. In particular:

- Following the adoption of the new FBiH *Law on Budgets*, the implementing regulations and rulebooks have been finalized and adopted, including the *Law on Treasury and Accounting Policies*. The FBiH Fiscal Coordination Body was established and has met regularly. Going forward, this coordination body is expected to meet at least semi-annually. In order to strengthen fiscal prudence at lower levels of government, we amended the FBiH Law on Budgets with the following provisions: (i) lower levels of government will be bound to use in their budgets the revenue projections prepared by the FBiH Ministry of Finance for both indirect and direct taxes; and (ii) cantons that end their fiscal year with outstanding liabilities will be required to include in their budgets a detailed plan to clear these liabilities within a five year period. The FBiH government will also aim to strengthen controls over lower level governments' borrowing, including by amendments to the Law on Debt, Borrowing, and Guarantees by end-December, 2016 (*structural benchmark*) and by adopting the Law on Public Revenue Allocation by end-March 2017. The entity governments, with assistance from the World Bank, are working to document the stock of arrears in lower levels of government, including establishing a reporting system for capturing health sector arrears in both entities and unpaid liabilities/arrears at lower levels of government in the FBiH.

- A new Fiscal Responsibility Law was adopted by the RS parliament, with a view to ensuring long-term fiscal sustainability and enhancing transparency. The new law, in addition to establishing clear fiscal rules and an independent Fiscal Council, will enhance the oversight over spending units in the RS that operate outside of the treasury general ledger and have their own transaction accounts (including special funds). These units will be required to obtain Ministry of Finance approval of their financial plans before they submit these to the RS government for approval, while they will also be required to refrain from incurring liabilities in excess of the funds available to them.

- In consultation with USAID, we will aim to finalize the expansion of the treasury systems to lower levels of government, including health centers in the RS and budget management systems in cantons in the FBiH, by end-March 2017 (*structural benchmarks*).

- The FBiH government will introduce a program of providing loan or grant financing to cantons that agree to adopt plans to restrain wages and reduce overall employment that is fully consistent with the FBiH plan by end-December 2016.

Safeguarding financial stability and supporting credit growth

18. The CBA is a cornerstone of our economic policies, as it provides stability in an otherwise uncertain and complex environment. We reaffirm our commitment to maintaining the CBA as constituted by law (*a continuous structural benchmark*) and to safeguard the independence of the Central Bank of Bosnia and Herzegovina (CBBH). As such, we will continue to refrain from any actions that would weaken the CBA and the CBBH as the institution entrusted with its operation; in particular we will refrain from using foreign reserves at the CBBH for any budgetary or public

investment purposes, and therefore zero ceiling on transfers and credits from the CBBH to the public sector as a *continuous performance criterion* was set.

19. Our financial sector weathered relatively well the global financial crisis and the subsequent years of weak economic growth, as well as the floods in 2014. While the banking system is liquid and adequately capitalized at the aggregate level, vulnerabilities remain to be tackled. Non-performing loans (NPLs) to total loan ratios remain elevated, and the growth in loans to the private sector is quite low, and some banks need to improve their capital positions and to undergo deeper restructuring of their balance sheets to restore long-term viability. Against this backdrop, we are continuing to closely monitor developments in the financial sector to safeguard financial stability. We will not take any measure that undermines financial stability, including imposing mandatory conversion of any foreign currency-denominated loans into local currency (*a continuous structural benchmark*). We understand the crucial importance of this commitment to the success of the EFF.

20. The banking agencies continue to address weaknesses in the banking sector. The banking agencies received the complete reports of the detailed asset quality reviews (AQRs) conducted for banks that were under enhanced supervision in 2013. The banking agencies instructed these banks to take remedial measures to address shortcomings identified in the AQRs, including by submitting recapitalization plans to the agencies. Two small banks that failed to raise new capital were closed and insured deposits were paid out promptly. Banks that have been under enhanced supervision in 2015 or that experienced a rapid credit expansion relative to the market in 2012–14 (i.e., with an average annual credit growth rate greater than 10 percent over that period) and that had not already conducted AQRs have hired reputable external auditors to conduct detailed AQRs under the terms of reference provided by the banking agencies in line with the IMF staff recommendations (*prior action*). These reviews were completed by end-June 2016 for the banks from the FBiH and are expected to be completed end-September 2016 for the banks from the RS. Based on these reviews, the banking agencies will develop comprehensive entity strategies to address the vulnerabilities in the banking system, by requesting the owners of banks to make up any shortfall against the regulatory capital requirements through cash injection and restructure the banks as needed. The banks will submit plans to address the capital shortfall and restore the overall soundness, which will be approved by the respective entity banking agencies by end-November 2016 (*structural benchmarks*). The banking agencies will monitor the implementation of the plans and take prompt actions to address identified vulnerabilities. We will ensure that proper backup public backstops are in place for any systemic cases. For the remaining banks, AQRs will be conducted in 2017.

21. We are also pressing forward with our legislative agenda aimed at: (i) modernizing our banking sector laws and regulations; (ii) strengthen the cooperation and coordination and information exchange among the financial sector regulators; (iii) addressing the high level of NPLs; and (iv) improving the framework for liquidity management. This includes:

- Completing the new laws on banks in both entities in line with EU directives and Basel requirements. The working groups tasked with drafting banking legislation have made significant progress, with the assistance of the IMF staff and the World Bank, and first drafts of the new banking laws are completed. These new laws will strengthen supervisors' corrective and enforcement powers, introduce consolidated supervision of banking groups, and introduce a comprehensive bank resolution framework. Additionally, special reserve requirement for public deposits will be repealed in the new laws to avoid the risk of distorting banks' funding structure, meanwhile we will safeguard public resources through other reform measures (see below). We will also review and amend as necessary related legislations, such as the Deposit Insurance Agency (DIA) Law, with the assistance of the World Bank, and Banking Agency Laws, in order to ensure a consistent and comprehensive bank resolution framework. In addition to their supervisory roles, the banking agencies will be designated as the bank resolution authorities in their respective jurisdictions, while having an appropriate degree of separation between the supervision and resolution functions to avoid potential conflicts of interest. The DIA Law will also be amended to allow the use of the DIF for financing bank resolutions, subject to clear safeguards to the DIA's main objective of protecting insured depositors. The new banking laws will not contain any provisions or references to any other financing arrangement for bank resolution, which will be deferred to a later stage when we will consult with IMF staff on the appropriate institutional construct. The harmonized final drafts of these legislations were shared with the IMF staff for review by end-July 2016. We then expect the respective entity parliaments to adopt the draft Laws on Banks and needed amendments to Banking Agency Laws and the BiH parliament to adopt amendments to DIA Law by end-November 2016 (*structural benchmarks*).

- We will strengthen the cooperation and information exchange among the banking agencies, the DIA, and the CBBH to monitor and mitigate systemic risk effectively. The new Banking Laws will include harmonized definitions of systemically important banks (SIBs) which will be determined according to a commonly agreed methodology by the banking agencies, the DIA, and the CBBH. The methodology will be published on the websites of all four authorities. The list of the SIBs will be updated annually. In consultation with the IMF staff and the World Bank, the banking agencies, the DIA, and the CBBH will sign a comprehensive Financial Stability Memorandum of Understanding (MoU) building on and replacing the MoU on "Coordination on Banking Supervision and Cooperation and Exchange of Information" and the MoU between the banking agencies and the DIA by end-December 2016. The Financial Stability MoU will provide, among others, for a regular exchange of information on the SIBs, including quarterly offsite information, and for joint inspections of the SIBs. The Banking Coordination Group will review this information in quarterly meetings and propose measures to the Standing Committee for Financial Stability (SCFS) every six months in order to address any systemic risks. The SCFS will recommend appropriate mitigating measures, to be taken and implemented by the relevant authorities based on their competencies. The Financial Stability Report will include a section endorsed by the Banking Coordination Group on relevant conclusions and policies implemented to address systemic risks in the reference period.

- To further facilitate coordination among the financial sector authorities, the BiH parliament will amend the DIA law to provide for the inclusion of the heads of the banking agencies or their deputies in Governing Board meetings as non-voting participants. Furthermore, the entity Banking Agency Laws will be amended so that the chairs of the respective banking agency governing boards are obliged to invite the heads of the other entity banking agency and of the DIA or their deputies to participate in all governing board's meetings as non-voting participants. These provisions will be reflected in the new legislative package to be adopted by end-November 2016 (structural benchmarks).

- The entity banking agencies will also work with a Resident Advisor from the IMF to identify and address remaining shortcomings in the bank supervisory framework.

- We will improve the framework for recovering and resolving NPLs as part of the new Banking Laws. This will include, inter alia: (i) provisions to support the purchase and sale of NPLs by end-November 2016; (ii) a clarification by the ITA that NPL sales by banks are not subject to VAT, issued by end-November 2016*;* and (iii) to analyze possibilities of adopting guidelines for out-of-court restructuring. We will continue our consultation and cooperation with the IMF staff and the World Bank in these areas.

- To strengthen the liquidity management framework, we will consider introducing liquidity coverage ratios (LCRs) in our liquidity regulations to improve banks' liquidity risk management. We will seek technical assistance from the IMF staff to help the banking agencies with the design and calibration of the LCRs for the financial system. Given the high level of liquidity in the system, the CBBH has raised reserve requirements (RRs) for banks to rebuild liquidity buffers. The CBBH will tailor the use of reserve requirements more toward prudential purposes by increasing the number of holding periods during which the bank under stress can breach the reserve requirements and supplementing this with minimum holding thresholds and higher penalty rates for a breach before more severe sanctions are applied.

22. We are also advancing other legislation and regulations that will improve the functioning and transparency of our financial system, including by further improving our framework for combating money laundering and financing of terrorism. Following the adoption of a new BiH AML/CFT law and the necessary amendments to the BiH Criminal Code in line with recommendations by MONEYVAL, we will timely adopt additional regulatory and legislative changes that are needed to align our framework with the recommendations of the Financial Action Task Force.

23. To help maintain financial market stability, minimize fiscal costs, and mitigate litigation risks associated with dealing with weak banks, the entity governments are taking further measures to improve operations of the entity development banks and to introduce oversight by the banking agencies. We seek assistance from the IMF staff and the World Bank to improve risk management and transparency of the entity development bank operation. Amendments to the laws on entity development banks and amendments to the Banking Agency Laws will be introduced, in line with the IMF staff and World Bank recommendations, by end-November 2016 (*structural benchmarks*) to:

- Clarify the mandate of developmental objectives related to addressing market failures and limit the permissible activities, including by removing direct lending channels to the private sector;

- Improve the governance of the development banks to operate at arm's length from the government and require a contract for the management board that ties management compensation to actual performance;

- The entity governments will subject the development banks to appropriate supervision and regulation by the entity banking agencies;

- Require publication of annual external audit of the development banks and all funds under management by reputable international accounting firms on the development banks' websites.

24. The entity governments and the respective development bank supervisory boards will sign, within the next 12 months, a relationship framework that would clarify the roles and responsibilities of the parties to ensure that development banks have viable business models and are run on commercial basis. We will undertake this work in line with advice from IMF and World Bank staff.

25. We will strengthen our public procurement standards of placing public deposits, with the assistance from the IMF staff. We will prepare the analysis of necessary legislative measures for safeguarding public resources in line with IMF staff recommendations by end December 2016, while the amendments of relevant legislations and standards will be adopted by the respective BiH and entity parliaments in 2017.

26. In their continued efforts of cooperation with foreign supervisory bodies, the banking agencies have signed MoUs with the European Banking Authority and the Austrian Financial Market Authority that would allow for closer cooperation and exchange of information. The banking agencies are working on signing MoUs with other relevant supervisory bodies.

27. In order to improve the oversight of the payment system, the CBBH will broaden the scope of its accounts registry to include additional information, including main transaction accounts and accounts of individuals.

Program modalities

28. We believe that the policies set forth in this Letter of Intent are adequate to achieve the objectives of our economic 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 of the CBBH. We will also refrain from introducing or intensifying any exchange and trade restrictions and other measures or policies that could worsen balance of payments difficulties.

29. The program will be monitored through quarterly and continuous quantitative performance criteria, indicative targets, prior actions, and structural benchmarks. Quantitative performance criteria for 2016 and first half of 2017, continuous performance criteria, and indicative targets for 2016 and first half of 2017 are set out in Table 1; and prior actions and structural benchmarks are set out in Table 2. The understandings between the authorities of BiH and IMF staff regarding the quantitative performance criteria and indicative targets are further described in the attached Technical Memorandum of Understanding (TMU). Under the Arrangement IMF resources will be disbursed to the CBBH, and the domestic currency equivalent will be credited to a deposit account of BiH for transactions with IMF, and then credited to the FBiH and the RS subaccounts, earmarked for the budgets of the FBiH and the RS in 2/3:1/3 split respectively, as specified in the Memorandum of Understanding. The MoU among the entity governments, the ITA, and the CBBH has been signed in June 2016. We request approval of the new extended arrangement under the EFF by the IMF Executive Board and request that the Executive Board also approves to make available SDR 443.042 million (167.06 percent of quota) upon approval of the arrangement. The first review of the program is expected to take place on or after December 25, 2016. Subsequent reviews will be conducted on a quarterly basis.

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

/s/
Denis Zvizdić
Chairman
of the Council of Ministers
Bosnia and Herzegovina

/s/
Fadil Novalić
Prime Minister
Federation of Bosnia
and Herzegovina

/s/
Željka Cvijanović
Prime Minister
Republika Srpska

/s/
Vjekoslav Bevanda
Minister of Finance
and Treasury of
Bosnia and Herzegovina

/s/
Jelka Milićević
Minister of Finance
Federation of Bosnia
and Herzegovina

/s/
Zoran Tegeltija
Minister of Finance
Republika Srpska

/s/
Senad Softić
Governor
Central Bank of Bosnia and Herzegovina

Appendix. Table 1. Bosnia and Herzegovina: Proposed Quantitative Performance Criteria and Indicative Targets Under the 2016–19 Extended Arrangement Under the EFF

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

	2016		2017	
	End September	End December	End March	End June
Performance Criteria				
Floor on the net lending of 1/				
Institutions of BiH	56.9	12.6	18.1	35.8
Federation central government	203.2	178.6	107.1	252.0
RS central government	21.3	-39.9	30.6	70.7
Ceiling on contracting and guaranteeing of new nonconcessional short-term external debt by				
Institutions of BiH	0	0	0	0
Federation general government	0	0	0	0
RS general government	0	0	0	0
CBBH	0	0	0	0
Ceiling on accumulation external payment arrears by 2/				
Institutions of BiH	0	0	0	0
Federation general government	0	0	0	0
RS general government	0	0	0	0
CBBH	0	0	0	0
Ceiling on transfers and credits from the CBBH to the public sector (cumulative) 2/ 3/	0	0	0	0
Indicative targets				
Ceiling on current expense 4/				
Institutions of BiH	611	845	193	395
Federation central government	1021	1469	292	637
RS central government	1827	2525	555	1171
Ceiling on accumulation of domestic arrears by				
Institutions of BiH	0	0	0	0
Federation central government	0	0	0	0
RS central government	0	0	0	0
Floor on the net lending of the general government of BiH 1/	432.9	254.2	171.7	390.1
Ceiling on changes in the stock of "other accounts payable"				
Federation general government	100.0	100.0	100.0	100.0
RS general government	100.0	100.0	100.0	100.0
Floor on the ITA gross revenue collection	4,917.1	6,651.8	1,484.1	3,133.8

1/ Excluding foreign financed operations as defined in TMU.

2/ Continuous.

3/ Exclude transfers of the CBBH's annual net profit to the institution in charge of BiH budget upon the end of the CBBH financial year, as stipulated in the Law of the CBBH.

4/ As defined in TMU.

Appendix. Table 2. Bosnia and Herzegovina: Structural Conditionality

	Actions	Test date	Status
Prior actions			
1	Combine all taxpayer information from all four tax agencies and comprehensive company information from the entity business information agencies into a database that is available and fully searchable in each of the four tax agencies.		Met
2	Federation government to adopt a strategic plan to restrain wages and reduce overall employment in public sector.		Met
3	RS government to adopt a strategic plan to restrain wages and reduce overall employment in public sector.		Met
4	Council of Ministers of BiH to adopt a strategic plan to restrain wages and reduce overall employment in public sector.		Met
5	Hire internationally reputable auditors to conduct a detailed AQR for banks that were under enhanced supervision in 2015 or that experienced a rapid credit expansion in relation to the market in 2012-14 (i.e. with an average annual credit growth rate of greater than 10 percent of that period), and that haven't already undergone an AQR.		Met
Structural benchmarks			
1	Continue to adhere to the Currency Board Arrangement as constituted under the law.	Continuous	
2	Refrain from increasing public sector wages including refraining from increases in the wage base, the wage coefficients, and allowances.	Continuous	
3	Refrain from imposing mandatory conversion of any foreign currency-denominated loans into local currency.	Continuous	
4	Adjust the allocation coefficient for indirect tax revenue on a quarterly basis and settle indirect tax claims semi-annually.	Quarterly	
5	FBA to make final assessment of recapitalization plans for banks that reveal capital shortfalls based on their AQR results.	End-November 2016	
6	Federation government, in consultation with the World Bank Group and/or EBRD, will complete the financial and operational due diligence for BH Telecom and HT Mostar.	End-October 2016	
7	Federation parliament to adopt a new draft Law on Banks and amendments to Banking Agency Law in line with IMF staff recommendations.	End-November 2016	
8	RS parliament to adopt a new draft Law on Banks and amendments to Banking Agency Law in line with IMF staff recommendations.	End-November 2016	

Appendix. Table 2. Bosnia and Herzegovina: Structural Conditionality (Continued)

9	State parliament to adopt amendments to the Law on Deposit Insurance in Banks in BiH in line with IMF staff recommendations.	End-November 2016
10	RSBA to make final assessment of recapitalization plans for banks that reveal capital shortfalls based on their AQR results.	End-November 2016
11	RS parliament to amend the law on IDBRS in line with IMF staff recommendations.	End-November 2016
12	FBiH parliament to amend the law on Federation Development Bank in line with IMF staff recommendations.	End-November 2016
13	Federation government to submit to parliament amendments to the Law on Debt, Borrowing, and Guarantees to strengthen controls over lower level governments.	End-December 2016
14	Federation government to prepare a report and plan to improve the targeting of social transfers based on the centralized database of beneficiaries.	End-December 2016
15	Adopt new automatic allocation system for ITA revenues in line with IMF staff recommendations.	End-December 2016
16	Federation government to adopt a restructuring plan for railways, developed with the assistance of the World Bank.	End-December 2016
17	RS government to adopt a restructuring plan for railways, developed with the assistance of the World Bank.	End-December 2016
18	RS parliament to amend its corporate income tax law to foster consistency, avoid double taxation between the entities and reduce tax incentives, in line with IMF staff recommendations.	End-December 2016
19	Federation to expand the treasury system to budget management systems in cantons.	End-March 2017
20	RS government to expand the treasury system to health centers.	End-March 2017
21	Federation government to complete Phase III of the audit process for all categories of war veterans' benefits, including privileged pensions.	End-June 2017
22	Federation government to adopt an operational plan to reduce overall employment in public sector based on the employment registry developed with the assistance of the World Bank.	End-June 2017
23	RS government to adopt an operational plan to reduce overall employment in public sector based on the employment registry developed with the assistance of the World Bank.	End-June 2017
24	Council of Ministers of BiH to adopt an operational plan to reduce overall employment in public sector based on the employment registry developed with the assistance of the World Bank.	End-June 2017

Attachment I. Technical Memorandum of Understanding on Definitions and Reporting Under the 2016–19 Extended Arrangement Under the EFF

July 31, 2016

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 extended arrangement under the Extended Fund Facility (EFF) (Tables 1) as well as data reporting requirements for program monitoring (Table 3).

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*, with revenues recorded on a cash basis and expenditures on an accrual basis. The exceptional one-off payments based on accumulated reserves or holding gains that will be classified as withdrawals of equity rather than dividends. Transfers to the pension fund related to the clearance of pension arrears by non-government entities (missing pension contributions) will be recorded (i) as capital transfers and (ii) on a cash-flow basis.

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, and the operations funded by escrow accounts. 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.

Reporting requirements

9. Data on monthly execution, including revenues, expenditure and financing, will be provided by the ministries of finance of the Institutions of BiH and respective Entities and no later than five weeks after the end of each month (six weeks for end-year numbers).

B. 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

10. ***Definition of debt.*** The term **"debt"** is defined to include all current (i.e. not contingent) liabilities, 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 under that contract. (No. 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements", Decision No. 6230-(79/140) of August 3, 1979, as amended). 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.

11. **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.

12. **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.

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

14. 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.

Application of performance criterion

15. 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

16. 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.

C. 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

17. ***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

18. 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.

19. 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.

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

Reporting requirements

21. 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.

D. Ceiling on transfers and credits from the Central Bank of Bosnia and Herzegovina to the public sector (Continuous Performance Criteria)

Definitions

Transfers and credits of the CBBH to the public sector is defined as transfers and payments from the CBBH to the general government and outstanding claims of the CBBH on the general government, including overdrafts, direct credit, and holdings of government securities.

Application of performance criterion

The zero ceiling applies to the cumulative sum of transfers and credits from the CBBH to the public sector since the beginning of the year. This criterion will apply continuously.

Reporting

Data will be provided by the CBBH to the Fund on a monthly basis with a lag of no more than 14 working days.

Adjuster

The ceiling on the transfers and credits of the CBBH to the public sector will exclude transfers of the CBBH's annual net profit to the institution in charge of BiH budget in the period of four months upon the end of the CBBH financial year, as stipulated in Article 27 of the Law of the CBBH.

E. Ceiling on the current expense by the Institutions of Bosnia and Herzegovina, and Federation and Republika Srpska Central Governments (Indicative Target)

Definition

22. Current expense of the Institutions of Bosnia and Herzegovina, and Federation and RS Central Governments is defined as the sum of compensation of employees, use of goods and services, social benefits, interest, subsidies, transfers to other general government units, and other expense.

Application of the performance criterion

23. The ceiling on the current expense by the Institutions of Bosnia and Herzegovina, and Federation and RS Central Governments will be measured quarterly on the basis of cumulative end-of-quarter accrued KM amounts.

24. For the purposes of program monitoring, if at the end of any given quarter the cumulative KM amount of current expense since the beginning of the current year exceeds the corresponding ceiling, the indicative target will be missed.

25. Compliance with the three above-defined ceilings on the current expense will require each of the ceilings be observed independently.

Reporting requirements:

26. Data on current expense by the Institutions of Bosnia and Herzegovina, and Federation and RS Central Governments will be contained in the data on quarterly central government execution, to be provided by the respective ministries of finance no later than five weeks after the end of each quarter (six weeks for end-year numbers).

F. Ceiling on the Accumulation of Domestic Expenditure Arrears by the Institutions of Bosnia and Herzegovina, and Federation and Republika Srpska Central Governments (Indicative Targets)

Definition

27. The indicative targets 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 indicative targets

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 general governments. 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 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 indicative target will be missed.

Reporting requirements:

29. 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.

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

Definitions

30. ***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 *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.

31. 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

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

Reporting requirements

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. Data on quarterly general government execution for Bosnia and Herzegovina, including revenues, expenditure and financing, will be provided by Macroeconomic Analysis Unit no later than six weeks after the end of each quarter.

H. 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

33. The indicative target established on the ceiling on changes in the stock of other accounts payable contemplates (i) a KM 100 million ceiling for the Federation of Bosnia and Herzegovina general government and (ii) a KM 100 million ceiling for the Republika Srpska general government, on the accumulation of other accounts payable compared to the balance as of December 31 of the previous year. 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, energy payments, and goods and services.

Application of the indicative target

34. 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.

Reporting requirements:

35. 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."

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

Definition

36. Gross revenues collected by 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 indicative target

37. The floor on gross revenues collected 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.

Reporting requirements:

38. 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

39. The Bosnia and Herzegovina authorities will report the following data to the Fund within the time limits listed below (Table 3). In addition, the respective authorities 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.

40. 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.

41. All magnitudes subject to performance criteria or indicative targets will be reported in millions of convertible marka (KM).

42. 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.

Appendix. Table 3. Bosnia and Herzegovina: Data Reporting Requirements under the 2016–2019 Extended Arrangement Under the EFF

Data series	Data frequency	Periodicity of data	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			
Information on transfers and payments from the CBBH to the public sector			
Government finances			**Up to 5 weeks 1/**
Revenues, expenditures and financing data for Institutions of BiH and Entity central governments			
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**	
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			**Up to 8 weeks**
Government finances			**Up to 6 weeks**
Revenues, expenditures and financing data for municipalities (in both entities), and cantons (in the Federation), and Brcko District			
Revenues, expenditures and financing data for the road funds and highway funds in both entities			
Revenues, expenditures and financing data for the extrabudgetary funds in Federation, RS and Brcko District			
Revenues, expenditures and financing data for consolidated BiH, consolidated FBIH, and consolidated RS general governments			
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.

Statement by Willy Kiekens, Alternate Director for Bosnia and Herzegovina and Zorica Kalezic, Advisor to the Executive Director September 7, 2016

The program, for which the authorities request support under a three-year extended arrangement, is expected to correct the imbalances in the external sector, improve fiscal and financial sustainability and facilitate the implementation of critical structural reforms. By facilitating better cooperation and coordination, the program also addresses deficiencies of the institutional and policy fragmentation, and supports Bosnia and Herzegovina's single economic space.

Macroeconomic outlook and risks

As the consequences of the 2014 floods dissipate, economic growth gradually recovered, reaching 3.2 percent in 2015. In 2015, the fiscal deficit was 0.8 percent of GDP, down from 2.9 percent in the previous year, mainly because of spending discipline. In the setting of a fully operational CBA, inflation in June 2016 was -1.4 percent, in line with price developments in the Euro Area. With solid export growth, the current account deficit narrowed from 7.5 percent in 2014 to 5.6 percent in 2015. Unemployment remains unacceptably high, but declined from 27.7 percent by the end of 2015 to 25.4 percent in April 2016. The average nominal net wage is stagnant, oscillating since 2014 in the range ±1.3 percent.

Stronger growth depends on the implementation of the Reform Agenda and the pickup of the growth across the EU. The reform agenda is a consensus on priorities for economic and social development. It aims at a 4 percent growth over the medium term, and supports the country's progress toward EU accession.

The authorities are fully aware that the country's post-conflict context and unconventional institutional setting, could pose a risk for the successful and timely implementation of the EFF. However, there is strong ownership of and commitment to the Reform Agenda and the authorities are determined to make progress with the EU accession process. The Stabilization and Association Agreement (SAA) was signed mid-July 2016, finalizing the process which was on hold since 2008. Simultaneously, the authorities agreed on the longstanding issue of how to coordinate the implementation of the SAA. Moreover, the entities (Federation of Bosnia and Herzegovina and Republika Srpska) developed a time-frame and strategy to ensure the implementation of the Reform Agenda.

Moreover, the authorities would like to stress that discussions with the international community recently gained strong momentum, which will lead to well leveraged support of the IFIs. The reform agenda is intensively discussed with the IFIs and the EU, and will be used as a platform for negotiating individual programs of financial and technical assistance from these partners. To that end, the requested EFF is considered by the authorities as the backbone framework which provides a comprehensive anchor for implementing structural reforms, ensuring fiscal sustainability and financial stability. Unlike previous SBAs, the EFF creates a platform for strengthened institutional cooperation and national policy coordination, respecting the sensitivities of the constitutional boundaries. The World Bank with a Country Partnership Framework (CPF) will concentrate its efforts on the restructuring of SOEs and related arrears, improvement of the public sector services, business environment reforms and building resilience of the country to natural shocks. The European Commission (EC) is particularly focused on economic governance, rule of law and public administration reforms, while the EBRD is seen as the key counterpart in the implementation of the infrastructure investment agenda.

To this end, the authorities are confident that their strong commitment and improved domestic cooperation, supported by the comprehensive efforts from the international community, will ensure successful implementation of the economic program, neutralizing vested interests in the political and economic landscape that could derail the EFF implementation. The authorities recognize that the local elections scheduled for October 2, 2016, will be an important test of this commitment.

Fiscal policy

Fiscal consolidation strikes a balance between gradually reducing public debt and supporting growth friendly structural reforms and development projects. Fiscal consolidation will be sustained. The composition and quality of public spending will improve. Deficiencies in social assistance will be addressed. The unfavorable bias towards consumption relative to investment will be corrected. The aim is to reduce current spending by 3 percent of GDP by 2019. The public debt ratio should fall by 4 percentage points to reach about 40 percent in 2019.

Public administration reforms, including limits on hiring and a wage freeze will reduce the public wage bill. With the help of the World Bank, public employment registries will be established by the end 2016. Better targetting of social spending, including veteran benefits and agricultural subsidies, will also reduce public spending.

Tax administration is strengthened. Better intragovernmental coordination will improve revenue collection. Tax payers' information is now exchanged among agencies, improving tax compliance and addressing tax arrears by large tax payers. Audits of VAT refunds is another component of efforts to increase the efficiency of tax collection.

The tax revenue structure is improving and the labor tax wedge reduced. Although the average tax to GDP ratio of 41 percent of GDP is in line with regional and EU peers, the revenue structure is heavily skewed towards direct taxation. This harms labor cost competitiveness. To correct this handicap, social security contributions will be reduced and the personal income tax simplified. Fund technical assistance will help harmonize the base for social security contributions and expand this base by including work related incomes. Thus, the reduction in the social contribution rate will be fiscally neutral. A broad-based harmonized corporate income tax and reducing tax exemptions for exporters will enhance tax efficiency.

In cooperation with the World Bank, SOEs will be reformed, and pension and health care systems and the control of local governments' finances improved. Weaknesses in the management of some of the remaining 574 SOEs led to an accumulating of arrears, most notably in missing pension contributions. This hampers the restructuring the SOEs and creates sizable contingent liabilities. A World Bank DPL (under discusion) will help restructure SOEs, by reducing explicit subsidies, direct transfers, and state aid and implicit liabilities.

The implementation of a more efficient spending control at the lower levels of government is facilitated by the progressive expansion of the treasury systems which helps to prevent the emergence of new liabilities (the WB ongoing arrears' stock appraisal). In parallel, the authorities will, by the end of 2016, submit amendments to the Law on Debt, Borrowing and Guarantees and new Law on Public revenue allocation to the Parliament. This will strengthen controls over lower level governments and provide incentive-based financial scheme to those cantons and municipalities that refrain from excessive expenditures. Public spending inefficiency in the health sector and pension reforms are currently assessed by WB TA (the Health Sectors Project and Fiscal Resources for Growth DPL, currently under discussion).

Monetary policy framework

The authorities continue to adhere to the Currency Board Arrangement (CBA) as the medium-term monetary regime. The CBA provides a sustainable anchor for pursuing long-term economic policies, by being predictable, credible and transparent. Maintaining conditions conducive to the fully operational CBA, the CBBH is holding foreign reserves at comfortable levels of €4.6 billion in July 2016, while rigorously maintaining reserves coverage of the monetary base above 110 percent.

The authorities will continue efforts to preserve the independence and the credibility of the CBBH and the CBA. The authorities are cognizant that maintaining transparent financial links with the government, and refraining from government financing are the preconditions for a credible CBA. The CCBH is committed to withhold from using foreign reserves for any budgetary or public investment purposes and halt transfers of foreign reserves to the public sector. Faced with the challenging global interest rate environment, the CBBH cooperates with IMF TA on enhancing the efficiency of foreign reserves management and related investment practices. The envisaged adjustments in the Law on Banks will streamline the definition and the coverage of the reserve requirement.

Structural reforms

Positioned at the 79th place in Doing Business 2016, Bosnia and Herzegovina is lagging behind its regional peers, with lackluster business and investment environment, an inflexible labor market and bottlenecks in transport. The new Reform Agenda provides a comprehensive set of priorities to improve the business climate and boost competitiveness.

Reducing unemployment and inactivity remains a priority of the BiH authorities. In 2015 43.9 percent of the unemployed was not able to find a job for more than five years, which shows a serious skills demand/supply mismatch. Inflexible labor market rules and the labor tax wedge are preventing companies to efficiently adjust to changing economic conditions. Insiders are protected, mostly at the expense of young workers. Being concerned about these longstanding issues, the authorities in both entities adopted the new modern Labor Codes (end 2015) in which protection of workers is aligned with EU standards.

The authorities developed a comprehensive framework to address governance issues of SOEs and privatization plans regain momentum. The authorities classified SOEs into those requiring minor and into those requiering major restructuring, as a base for future restructuring, privatisation/liquidation. Large telecommunication companies (BH Telecom and HT Mostar) faced with weak financial results are under due diligence assessment which, depending on outturns, may trigger actions ranging from management outsourcing to privatization. In parallel, the authorities, together with the WB, were engaged in a comprehensive assessment of the viability of the railway companies, resulting in restructuring plans that will be adopted in both entities by the end 2016.

Deficiencies in the corporate resolution and insolvency frameworks, observed by the ICR ROSC, will be addressed. The new Bankruptcy Law is already adopted in RS (February 2016) and the draft bankruptcy legislation in FBIH is under parliamentary discussion. Both frameworks streamline foreclosure procedures, introduce tools and incentives to facilitate corporate debt restructurings and resolution, and adopt out-of-court restructuring guidelines. Legislation changes are leveraged by training of the commercial court judges and improving the regulation of the insolvency profession, with support of the WB Debt resolution and Business Exit advisory program.

Financial stability

The authorities are cognizant that credible CBA requires stability of the financial system. The banking system, although well capitalized and liquid at the aggregate level, contains significant pockets of vulnerability at the banks-specific level, evidenced in the weak asset quality and low bank profitability. With 12.1 percent, the NPL ratio is elevated but on downward path (13.7 percent in end-2015) predominantly due to NPL write-offs. In addition, the previous round of AQRs (2013) revealed weak capital position of a few banks, which are currently under the special supervision. Two small banks were resolved in a cost-effective manner, consistent with maintaining the stability of the financial system and protecting insured depositors.

The authorities developed a comprehensive set of measures, in line with the recent FSAP recommendations, to address the challenges in the financial sector. With an underdeveloped NPL resolution and recovery framework, the deteriorated asset quality forms an obstacle for regaining bank profitability. Together with very low credit growth (1.3 percent in June 2016), archaic banking legislation and subpar capacity of supervisory agencies, urgent and decisive action is required.

In order to address bank-specific vulnerabilities, comprehensive AQRs will be conducted on weaker banks (those who were under the detailed supervision during 2015 or which encountered higher than optimal credit growth during the pre-crisis period). Depending on the findings, banking agencies will recommend appropriate remedies.

The legal framework addressing NPLs recovery, resolution and liquidity requirements will be strengthened. Provisions under the new banking law allow for transferring/sale of non-cancelled NPLs to an entity other than a bank (which specializes in impaired debt collection). At the same time, the authorities are looking at regional suitable solutions for introducing the out-of-court restructuring framework that would help to facilitate a least-cost solution to loan impairment. With regards to maintaining precautionary liquidity, although the aggregate liquidity buffer (LCR and NSFR) is sizable (above 250 percent at the end of 2015), the authorities will introduce a LCR framework, while monitoring the required reserves holdings.

With the assistance of the WB and the IMF, the authorities substantially improved banking legislation and development banks governance. The authorities drafted a new Law on Banks, with related amendments to the banking supervisory agencies Laws and the Law on Depository Insurance Agency to be adopted by the end November 2016. The new laws address deficiencies in the agencies' supervisory powers, resolution tools, consolidated supervision and definitions of banks and licensing. The resolution framework introduces new resolution powers to the supervisory agencies and related institutions, and new tools for timely corrective actions. With the new legislation, the harmonization in regulation between the entities will be largely achieved. The authorities, together with the WB and the IMF, are working on the development of bank frameworks to improve governance and streamline mandate, to limit their engagement in financial sector activities and direct govermental support.

The authorities will enhance cooperation, coordination and information exchange among the financial sector regulators. The Banking Coordination Group and the Standing Committee for Financial Stability are meeting regularly with the aim to mitigate systemic risks. There is cross representation of the entity level supervisory agencies (the FBA and BARS). Their adjustments will strengthen the comprehensive risk assessments of the financial sector, which will contribute to further strengthening the single economic space.

The authorities will accelerate efforts in combating money laundering and financing terrorism. As recorded in the 2015 MONEYVAL report, the level of compliance of the AML/CFT framework of BiH was significantly enhanced by the adoption of the AML/CFT Law and amendments to the BIH Criminal code, described as broadly compliant with the FATF standards. At the moment, the authorities are focused on putting in place an effective AML/CFT coordination mechanism on a policy level and ensuring that the risks and vulnerabilities of the aggregate system are appropriately identified.

Conclusion

The authorities believe that the EFF will support the implementation of necesary policy reforms and address external and fiscal imbalances. The front-loaded program will shift the country's growth model, making the economy less dependent on domestic consumption, remittances and imports, and attract more foreign direct investment, boost exports and promote market integration, thereby advancing the EU accession process.