INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/324

BOSNIA AND HERZEGOVINA

September 2023

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BOSNIA AND HERZEGOVINA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Bosnia and Herzegovina, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its August 30, 2023 consideration of the staff report that concluded the Article IV consultation with Bosnia and Herzegovina.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 30, 2023, following discussions that ended on May 23, 2023, with the officials of Bosnia and Herzegovina on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 31, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Bosnia and Herzegovina.

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

PR23/306

IMF Executive Board Concludes 2023 Article IV Consultation with Bosnia and Herzegovina

FOR IMMEDIATE RELEASE

Washington, DC – **September 7, 2023:** On August 30, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Bosnia and Herzegovina (BiH).

Russia's war in Ukraine continues to place significant headwinds on the European economy, with implications for BiH. Moreover, the global tightening of financial conditions is expected to weigh on the country's economic activity. While all new governments have been formed following elections in 2022, political tensions continue to hamper economic policy and reforms. The European Union candidacy status, granted in December 2022, has yet to create reform momentum.

Economic growth declined to 3.9 percent in 2022 from 7.4 percent in 2021 and is projected to decelerate further to 2 percent this year on weaker domestic and external demand. Inflation peaked at 17.4 percent in October 2022 and has since been on a declining trend but remains elevated. In line with falling international food and energy prices, average inflation is projected to fall to 6 percent in 2023. Downside risks are high and include a possible abrupt slowdown in Europe, an intensification of domestic political tensions, and the materialization of financial risks.

The fiscal stance improved in 2022 as the overall fiscal surplus increased to 0.9 percent of GDP from 0.6 percent in 2021. A surge in current spending reflecting measures to mitigate the cost-of-living crisis was accompanied by a smaller increase in capital spending. Total government debt declined below 30 percent of GDP in 2022, also because of slow project disbursement and implementation. With expenditures rising faster than revenues, the fiscal balance is expected to turn to a deficit of 1.5 percent of GDP in 2023. Financing needs have increased in 2023 given large debt repayments.

Executive Board Assessment[2]

Executive Directors noted that following a rebound in 2021, growth in Bosnia and Herzegovina has slowed down, while inflation, although declining, remains elevated. Given continued high risks and uncertainty related to the outlook, Directors stressed the need for determined policy and reform efforts to strengthen macroeconomic stability and spur medium-term growth. In this context, they highlighted the importance of greater political consensus and encouraged

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing ups can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

leveraging the EU candidacy to promote the necessary reforms. Strengthening the implementation of the Fund's recommendations, supported with capacity development, will also be important.

Directors underscored the need to restrain the fiscal expansion to help contain inflationary pressures given limited monetary policy tools, and ease financing pressures. To strengthen fiscal sustainability, Directors encouraged the authorities to further contain current spending, including by containing the public wage bill, improve targeting of social spending, boost public investment, and improve revenue collection. They also noted that investment in infrastructure, green energy, and digitalization, supported by public financial management reforms, will help spur sustainable growth.

Directors welcomed the authorities' timely steps to strengthen the currency board arrangement, which has served the country well. They advised the authorities to allow interest rates to rise in response to market conditions, while taking measures to preserve financial stability. Directors also urged against calls on the central bank to finance entity budgets or provide credit to the private sector. The central bank should further increase remuneration rates on bank reserves to narrow the interest rate gap with the euro area and reduce the risk of capital outflows. Directors emphasized that banking agencies should eliminate measures that distort interest rates and enhance monitoring and crisis preparedness, including by strict and timely enforcement of all prudential and corrective actions. They highlighted the need to improve information exchange and establish a country-wide financial stability fund to facilitate bank restructuring and provide liquidity in exceptional cases.

Directors emphasized the importance of structural reforms to accelerate growth, promote green and digital transition, and raise living standards. They called for accelerating governance reforms and encouraged the authorities to request an IMF governance diagnostic to help identify key weaknesses and prioritize reforms. Directors also encouraged the authorities to urgently adopt a new anti-money laundering law and prioritize the implementation of the anti-corruption legal frameworks. Continuing efforts to strengthen public enterprise oversight and transparency also remain important. On the climate front, they recommended stepping up efforts to decarbonize the economy, coupling the electricity market with the EU market, and transitioning to renewables.

Bosnia and Herzegovina: Selected Economic Indicators, 2021-2024

	2021	2022	2023	2024
		Est.	Projections	
Nominal GDP (KM billion)	39.1	45.6	49.9	52.8
Gross national saving (percent of GDP)	23.2	23.6	21.9	22.8
Gross investment (percent of GDP)	25.6	28.0	26.6	27.0
		(Percent change)		
Real GDP	7.4	3.9	2.0	3.0
GDP deflator	4.9	12.2	7.3	2.7
CPI (period average)	2.0	14.0	6.0	3.0
Money and credit (end of period)				
Base money	17.4	3.3	2.1	--
Broad money	12.4	5.5	7.5	--
Credit to the private sector	4.0	4.9	5.7	--
Operations of the general government		(Percent of GDP)		
Revenue, *of which*:	40.5	39.7	40.1	39.9
Taxes	22.0	21.8	21.5	21.6
Social security contributions	14.8	14.2	14.5	14.5
Expenditure	39.9	38.8	41.6	41.4
of which: Investment expenditure	4.2	3.9	4.3	4.5
Fiscal balance	0.6	0.9	-1.5	-1.5
Primary fiscal balance	1.3	1.5	-0.4	-0.1
Total general government debt	34.6	29.6	27.9	27.7
Domestic general government debt 1/ 2/	9.0	8.0	8.7	9.7
External general government debt	25.7	21.6	19.3	17.9
Balance of payments		(Percent of GDP)		
Exports of goods and services	42.0	46.9	41.6	42.1
Imports of goods and services	53.8	61.0	55.7	55.9
Trade balance	-11.7	-14.1	-14.1	-13.7
Current transfers, net	10.8	10.4	10.4	10.6
Current account balance	-2.4	-4.5	-4.7	-4.2
Foreign direct investment (+=inflow)	2.4	2.5	2.1	2.2
Gross official reserves (Euro million)	8,372	8,228	8,123	8,348
(In months of imports)	7.1	6.9	6.5	6.3
(In percent of monetary base)	113.3	107.8	--	--
(In percent of IMF ARA metric)	126.1	119.8	--	--
External debt 3/	58.5	51.6	47.7	45.8
Memorandum Items:				
Unemployment rate (national definition) 4/	17.4	15.4	--	--
GDP per capita (Euros)	5,744	6,714	7,366	7,812
Output gap (percent of potential GDP)	0.2	1.2	0.3	0.3
REER (Index 2016=100)	98.5	102.3	--	--
NEER (Index 2016=100)	117.1	117.4	--	--

Sources: BiH authorities; and IMF staff estimates and projections.
1/ On average, half of the domestic debt stock is indexed to the Euro.
2/ The stock of general government domestic debt does not include domestic arrears and those of public enterprises.
3/ Includes inter-company loans in private external debt.
4/ The 2021 unemployment rate is not comparable with 2020 due to redesign of BHAS Labor Force Survey (LFS) methodology in line with EU regulations.

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

July 31, 2023

KEY ISSUES

Context: After a strong post-pandemic rebound in 2021, growth moderated to 3.9 percent in 2022 (from 7.4 percent in 2021), with Bosnia and Herzegovina (BiH) beset by negative food and fuel price shocks, the economic slowdown in Europe, and ongoing domestic political tensions. Inflation has been declining from an all-time high of 17.4 percent in October, but it remains high. Most structural reforms remain on hold, and EU candidacy status, granted in December 2022, has yet to create momentum.

Outlook: With a further slowing of activity in Europe and declining commodity prices, growth is projected to decelerate to 2 percent in 2023 and inflation to 6 percent. Growth will remain low at 3 percent and inflation will only gradually return to 2 percent in outer years. Downside risks are high and include a possible abrupt slowdown in Europe, an intensification of domestic political tensions, and the materialization of financial risks.

Policy Recommendations:

- Given limited monetary policy tools, the authorities should restrain the fiscal policy expansion this year to contain inflationary and financing pressures. And to strengthen fiscal policy in a sustainable way, the authorities should contain current spending, better target social spending, boost public investment, and improve revenue collection.
- The central bank should continue to strengthen the currency board and the reserve requirement framework, including by further increasing remuneration rates on bank reserves. Calls on the central bank to finance entity budgets or lend to banks or the broader private sector are misguided and should be strongly resisted.
- The authorities should allow interest rates to rise to help contain inflation and reduce the risk of capital outflows. At the same time, they should enhance crisis preparedness and establish a single financial stability fund for bank restructuring and liquidity provision in exceptional cases.
- Strengthening public enterprise oversight and governance, improving the business environment, and digitalizing the economy are key to accelerating private sector led growth. An immediate priority is to adopt a new anti-money laundering law. Urgent reforms are also needed to enhance corruption prevention and enforcement efforts. Increased efforts are needed to prepare for the introduction of the EU's Carbon Border Adjustment Mechanism and to transition away from coal to green energy.

Approved By
Mark Horton (EUR)
Eugenio Cerutti (SPR)

Discussions were held in person in Sarajevo and Banja Luka May 10–23, 2023. The mission comprised A. Iancu (head), N. Ben Ltaifa, C. Lopez-Quiles (EUR), A. Jewell (outgoing Resident Representative), A. Tudyka (incoming Resident Representative), Z. Munkacsi (FAD), A. Lenarčič (SPR), A. Wardzynski, R. Snipeliski (LEG), and B. Čegar and A. Music (local economists). E. Cohn Bech and N. Gonzales (EUR) assisted in the preparation of the report. S. Teskeredžić and N. Fazlagić (Resident Representative office) assisted in mission planning and logistics. The mission met with Chairwoman of the Bosnia and Herzegovina (BiH) Council of Ministers Krišto, BiH Finance Minister Tegeltija, BiH Minister of Justice Bunoza, Central Bank of BiH Governor Softić, Federation of BiH (FBiH) Prime Minister Nikšić, Republika Srpska (RS) Prime Minister Višković, FBiH Finance Minister Kraljević, RS Finance Minister Vidović, other government officials, senior officials in the judiciary, members of the BiH parliament, members of the business and diplomatic communities, and civil society organizations. The mission did not have the opportunity to meet with the BiH Fiscal Council, a key counterpart in previous consultations. L. Dresse and T. Manchev (OED) attended most mission meetings.

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ANNEXES

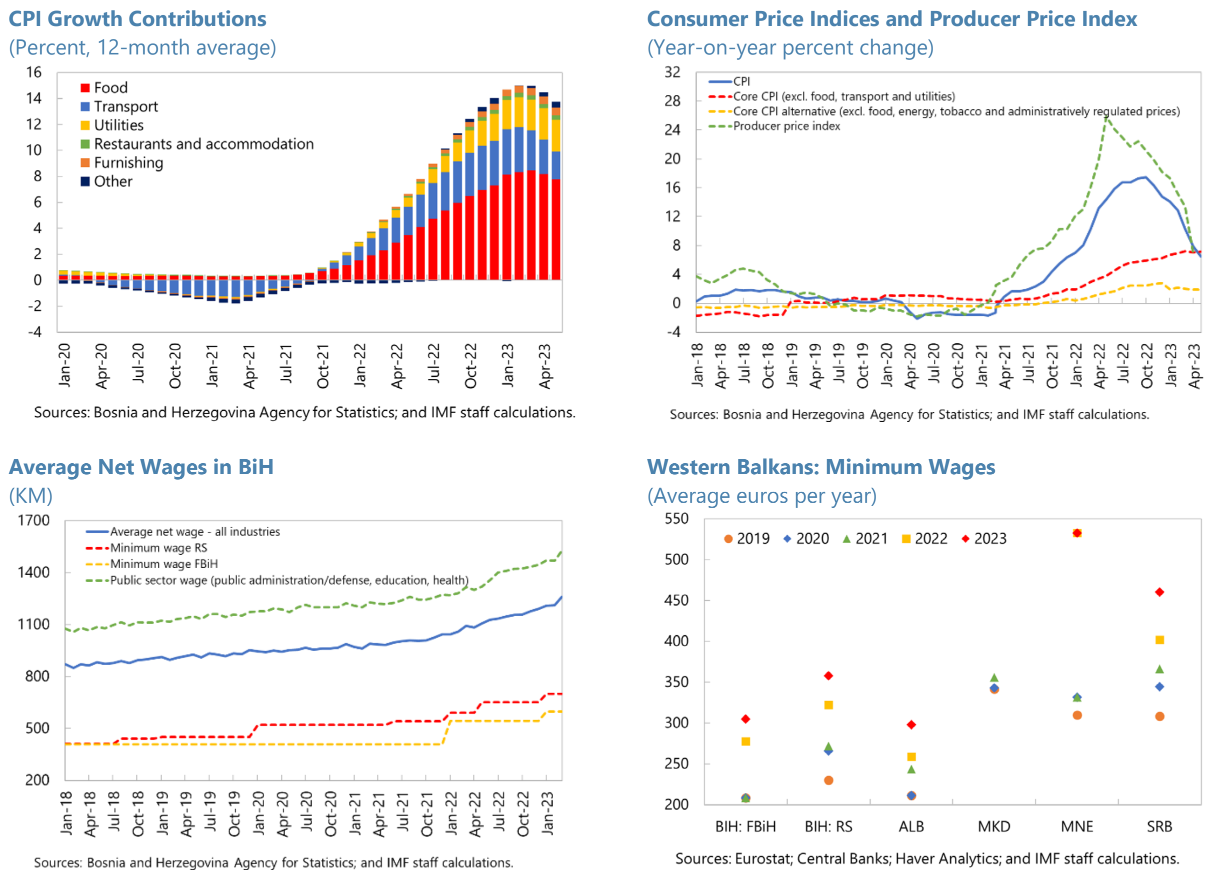
RECENT DEVELOPMENTS

1. **All governments have now been formed, but domestic political tensions continue to hamper economic policy and reforms.** Following the October 2022 elections, a new state-level Council of Ministers was confirmed by a parliamentary coalition earlier this year, while Republika Srpska (RS) formed its government in December 2022. However, in the Federation of Bosnia and Herzegovina (FBiH), the formation of a new coalition government took nearly eight months and required a constitutional amendment by the internationally appointed High Representative of Bosnia and Herzegovina (BiH). Domestic political tensions, including continued secessionist threats from the RS, remain elevated, contributing to limited policy coordination at the state level and stalled reforms. Most past IMF recommendations have not been implemented (Annex I); however, IMF capacity development engagement remains strong. European Union candidacy status, received in December 2022, has yet to create the desired reform momentum.

2. **Economic activity weakened in 2022.** Following a strong rebound from the Covid-19 pandemic, growth moderated to 3.9 percent in 2022 from 7.4 percent in 2021. Consumption remained resilient, buoyed by substantial public wage and pension increases, and some exports (mainly tourism and metal) maintained strong growth (Figures 1-2). Employment exceeded its pre-pandemic level already in late 2021, and emigration trends have reportedly intensified, further straining the already tight labor market. The current account (CA) deficit increased to 4.5 percent of GDP in 2022, reflecting a widening trade balance, driven also by the real effective exchange rate appreciation. The external position is assessed as being broadly in line with fundamentals and desirable policies (Annex II).

3. **After accelerating last year, inflation has been declining since Q4 2022.** Average annual headline and core inflation reached 14 and 4.5 percent, respectively, in 2022. Headline inflation peaked at 17.4 percent y/y in October, fueled by rising food, transportation, and utilities prices, and has since declined to 6.5 percent y/y in May 2023. Core inflation, driven mainly by pent-up demand in tourism, supply chain disruptions of durables, and labor shortages, seems to have peaked at 7.2 percent y/y in March. Average net wages have been rising, driven by public and minimum wage increases in both entities (RS and FBiH), but real net wages have been rising only since January 2023 (Figure 2).

Bosnia and Herzegovina: Inflation and Wage Developments



4. The fiscal stance improved in 2022 but with growing differences between entities. BiH's overall fiscal surplus increased to 0.9 percent of GDP in 2022 from 0.6 percent in 2021, helped by a larger decline in the expenditure-to-GDP ratio than the revenue-to-GDP ratio, with nominal tax revenues boosted by inflation (Figure 3). A surge in current spending (13.7 percent), reflecting measures to mitigate the cost-of-living crisis (2 percent of GDP, Box 1), was accompanied by a smaller increase in capital spending (11.4 percent). At the entity level, the RS recorded a growing deficit reflecting large cost-of-living crisis mitigating measures (3.1 percent of RS GDP), while the FBiH recorded a growing fiscal surplus due to more modest cost-of-living spending (1.3 percent of FBiH GDP) and low execution of public investment. Total government debt declined to 29.6 percent of GDP, also reflecting a shortfall in IFI project loans due to the political stalemate and delays in project implementation.[1]

[1] IFI project financing disbursements in 2022 reached about half (0.9 percent of GDP) of what was expected in early-2022 and what was disbursed in 2021 (1.8 percent of 2021 GDP).

Box 1. Bosnia and Herzegovina: Cost-of-Living Crisis Measures, 2022-23

Measures to mitigate the cost-of-living crisis amounted to 2 percent of GDP in 2022, were largely permanent and partially targeted, and comprised mostly support to households. Public wage increases (all permanent) amounted to 0.5 percent of GDP. Pension increases amounted to 0.8 percent of GDP, of which 0.3 percent were extraordinary increases. Cash and in-kind social assistance (all one-off) amounted to 0.5 percent of GDP and comprised payments to pensioners, war veterans, disabled people, young people, unemployed people, and unemployed children of fallen soldiers. RS introduced (initially temporary but made permanent) financial assistance to families with at least four children and one unemployed parent. FBiH provided aid packages to the most vulnerable households, subsidized fuel to farmers, and reduced electricity bills for about 70,000 households. Both entity authorities also increased allocations for commodity reserves.

	Impact in 2022						Impact in 2023					
	BiH 1/		FBiH		RS		BiH 1/		FBiH		RS	
	KM	% GDP	KM	% GDP 2/	KM	% GDP 2/	KM	% GDP	KM	% GDP 2/	KM	% GDP 2/
Measures introduced in 2022	**896**	**2.0**	**377**	**1.3**	**446**	**3.1**	**982**	**2.0**	**322**	**1.0**	**499**	**3.2**
Wage increase	220	0.5	15	0.05	143	0.99	387	0.8	18	0.05	208	1.31
Pension increase	372	0.8	221	0.73	151	1.05	500	1.0	304	0.92	196	1.24
o/w regular increase 3/	223	0.5	162	0.54	61	0.42	223	0.4	162	0.49	61	0.39
o/w extraordinary increase 4/	149	0.3	59	0.19	90	0.62	277	0.6	142	0.43	135	0.85
Cash/in-kind social assistance 5/	206	0.5	85	0.28	110	0.76	0	0.0	0	0.00	0	0.00
Permanent social benefit assistance 6/	27	0.1	0	0.00	27	0.19	96	0.2	0	0.00	96	0.60
Household electricity subsidies	37	0.1	37	0.12	0	0.00	0	0.0	0	0.00	0	0.00
Commodity reserves	35	0.1	20	0.07	15	0.10	0	0.0	0	0.00	0	0.00
Measures introduced in 2023							**1,115**	**2.2**	**650**	**2.0**	**396**	**2.5**
Wage increase							202	0.4	26	0.08	106	0.67
Pension increase							634	1.3	470	1.43	164	1.04
o/w regular increase 3/							568	1.1	404	1.23	164	1.04
o/w extraordinary increase 4/							66	0.1	66	0.20	0	0.00
Cash/in-kind social assistance 5/							10	0.0	10	0.03	0	0.00
Permanent social benefit assistance 6/							106	0.2	85	0.26	21	0.13
Subsidies for farmers							163	0.3	58	0.18	105	0.66
Total fiscal impact	**896**	**2.0**	**377**	**1.3**	**446**	**3.1**	**2,097**	**4.2**	**971**	**3.0**	**895**	**5.7**

Sources: BiH authorities, and IMF staff calculations.
1/ BiH is the sum of entities and BiH level institutions.
2/ In percent of respective GDP.
3/ Regular increases are automatical, based on an inflation and GDP growth formula in the FBiH, and inflation and wage growth formula in the RS.
4/ Extraordinary increases in the FBiH also include the effect of the minimum pension increase.
5/ In 2022, includes one-off cash assistance to war veterans, unemployed people, pensioners and disabled people (FBiH); pensioners, war veterans, young people, children of fallen soldiers (RS); one-off in-kind assistance in the form of aid packages (FBiH); and one-off cash assistance of KM 11 million to state-level institutions employees (BiH). In 2023, includes one-off assistance to the war veterans (FBiH).
6/ In 2022, includes allowances to war veterans and disabled people and allowances for the families with four or more children (RS). In 2023, includes permanent increases of allowances to disabled people (FBiH, RS) and allowances to war veterans (FBiH).

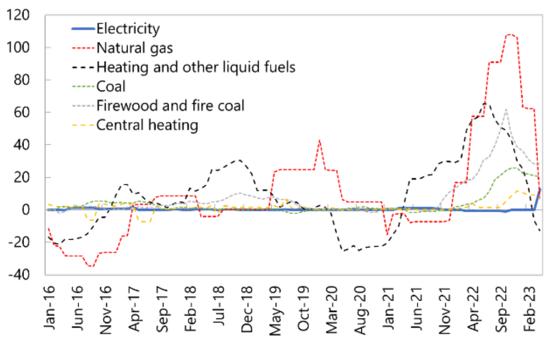
The authorities introduced several other measures, mostly to contain energy and food prices, with no direct or hard-to-quantify fiscal impact. These include maintaining the electricity price for households and limiting the growth of electricity price for corporates—subsidized by electricity exports; limiting margins on fuel and some basic foodstuffs; introducing a temporary ban on roundwood, firewood, and pellets exports; and limiting the pellet selling price. FBiH allowed firms to provide employees cash assistance of one-month salary exempted from taxes/contributions.

The fiscal cost of support measures will rise to 4.2 percent of state-level GDP in 2023, reflecting the full-year impact of the 2022 measures, and additional wage, pension, and social benefits increases and new subsidies to farmers in 2023. In the FBiH, public wages and pensions will each go up by an additional 11 percent and 20 percent, respectively. In the RS, public wages below KM 1,200 were increased by 5 percent in January, with the same increase planned for remaining wages later this year, while pensions have increased by 13.5 percent. Subsidies to farmers will amount to 0.3 percent of GDP in 2023. The total fiscal cost in 2023 in the RS (5.7 percent of RS GDP) is significantly higher than in FBiH (3.0 percent of FBiH GDP).

5. The authorities have expanded coal reliance and used the windfall from electricity exports to subsidize domestic consumption. BiH relies heavily on locally mined coal for electricity production and exports about a quarter of its total electricity generation (Annex III). Both entities have maintained or expanded the use of coal: the FBiH has been extending the life of two thermal plants, while the RS is planning to build two new plants/units. Both entities used the export proceeds in 2022 to subsidize electricity prices for households and firms with no targeting. Electricity prices are rising somewhat in 2023, but remain well below international prices, while the RS has adopted a block tariff for households' electricity consumption.[2]

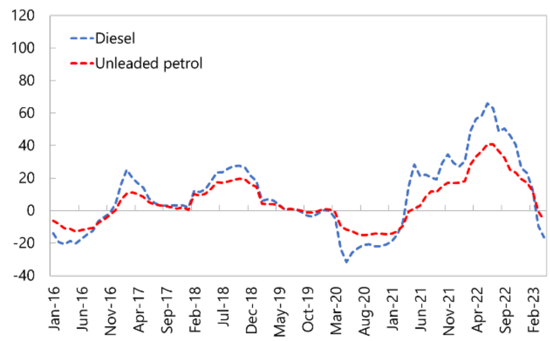
Bosnia and Herzegovina: Energy Prices Developments

Households, Energy Prices
(Year-on-year percent change)



Sources: Bosnia and Herzegovina Authorities; and IMF staff calculations.

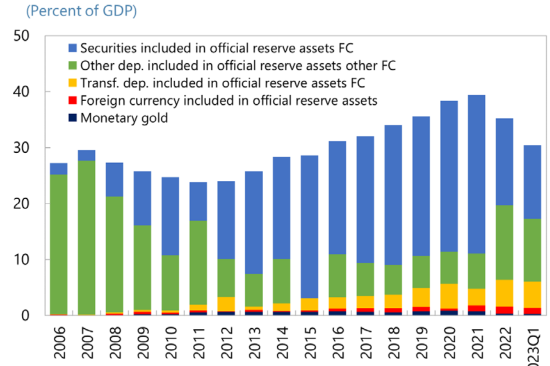
Transportation, Energy Prices
(Year-on-year percent change)



Sources: Bosnia and Herzegovina Authorities; and IMF staff calculations.

6. The currency board coverage ratio has stabilized after coming under pressure from the rapid rise in global interest rates. Like many other central banks, the Central Bank of Bosnia and Herzegovina (CBBH) suffered revaluation losses on its foreign reserve portfolio, triggered by rising international rates. This resulted in a drop in the currency board coverage ratio to its lowest level in more than two decades. CBBH took timely steps to stabilize the coverage ratio by restructuring the foreign reserves portfolio, including by shortening its duration and selling gold.

CBBH Claims on Non-Residents
(Percent of GDP)



Source: Central Bank of Bosnia and Herzegovina.

7. The banking sector in aggregate appears sound, but financial sector risks persist. Banks are well capitalized, liquid, and profitable, with NPLs at their lowest level in a decade (4.2 percent, Q1 2023). There have been no direct spillovers from financial stress in advanced economies owing to the limited reliance on international and wholesale funding and fixed-income assets of BiH banks.

[2] The RS charges a basic rate for household consumption up to 500kWh per month (around 70 percent of the population) and higher rates for consumption between 500kWh and 1,500kWh, and above 1,500kWh. It also increased electricity prices for companies by around 23 percent in 2023. The FBiH ruled out electricity price hikes for households in 2023 and capped the rise at 20 percent for companies.

However, the banking sector remains dominated by foreign groups, and negative spillovers from parent banks cannot be ruled out. Further, domestic deposit and lending rates have yet to reflect the tighter financial conditions, in part because the CBBH has been slow raising the remuneration rates on bank reserves while the banking agencies have issued temporary regulation capping lending rate increases for certain loans and restricting banks' investments in foreign securities (Annex IV). Additional risks stem from several domestic crypto asset-related lawsuits and fines and the lack of a regulatory framework for virtual assets. Growth in credit to the private sector remains sluggish.

OUTLOOK AND RISKS

8. Growth is expected to decelerate in 2023 on weaker domestic and external demand. A further slowdown in Europe is expected to limit BiH's export growth, while the continued erosion in real incomes, ongoing political tensions, and higher borrowing costs will weigh on domestic demand. Real GDP growth will thus slow further to 2 percent in 2023 and, absent reforms, will remain subdued at around 3 percent in the medium term. The CA deficit will further widen in 2023 as external demand and prices of key BiH exports (electricity and aluminum) decline while imports rise; the CA deficit is expected to subsequently narrow gradually over the medium term.

9. Inflation is projected to also come down but gradually. Twelve-month headline inflation is projected to decline to 6 percent in line with the rapid decline in international food and fuel prices and a marginal increase in domestic electricity prices. Core inflation will continue to rise through Q3 2023 before receding with weakening demand from Europe, tighter financial conditions, and continued easing of supply chain bottlenecks—averaging around 8.5 percent in 2023. Inflation is projected to further decline to 3 percent in 2024 and 2 percent (euro area inflation) in outer years.

10. High uncertainty and downside risks cloud the outlook. An abrupt slowdown in Europe or additional spikes in food and fuel prices, possibly triggered by an escalation of the war in Ukraine, would negatively impact BiH through, inter alia, lower exports and remittance inflows (Annex V). An increase in domestic political tensions may further delay reforms and dampen consumer and business sentiment. Tighter financial conditions or global financial shocks could lead to stress in the financial sector. Limited access to external markets could complicate efforts to refinance government debt.

Authorities' Views

11. The authorities' growth and inflation projections are broadly in line with staff's assessment, although slightly more pessimistic for 2023, with real GDP growth at 1.6 percent and inflation at 7.7 percent. Over the medium term, the authorities also expect growth to increase marginally but remain subdued, and inflation to decrease gradually. The authorities view external risks, particularly from a sharp slowdown in Europe, as the main headwind.

POLICY DISCUSSIONS

An enhanced policy mix is needed to contain and better-target current spending, boost public investment, and allow interest rates to rise. The authorities should also aim to further strengthen the currency board, enhance financial sector resilience, and advance energy, governance, and anti-corruption reforms.

A. Fiscal Policy

12. **The overall fiscal balance is projected to deteriorate by 2.4 percent of GDP in 2023 and consolidate gradually from 2024 onward.** The fiscal balance will decline from a surplus of 0.9 percent in 2022 to a deficit of 1.5 percent of GDP in 2023 (text Table 1), with expenditures rising faster than revenues. Higher spending will reflect both higher current spending—cost-of-living crisis measures (Box 1), including higher public sector wages and pensions, higher interest payments, and recovering capital expenditures, assuming more intensive drawings of the IFI loans for infrastructure projects. In the RS, public sector wages are going up by 5 percent (for employees with a below-average salary) in 2023 compared to 2022, and pensions by 13.5 percent. In the FBiH, public sector wages will increase by 11 percent and pensions by more than 20 percent.[3] The fiscal deficit will gradually close in the medium term, reflecting some modest gains in revenues and restrained current spending as inflation pressures subside.

Text Table 1. Bosnia and Herzegovina: General Government Finances, 2022-28

(Percent of respective GDP, general government)

	Federation				Republika Srpska				Bosnia and Herzegovina			
	2022	2023	2024	2028	2022	2023	2024	2028	2022	2023	2024	2028
Revenue	**36.0**	**36.4**	**36.4**	**37.3**	**40.7**	**40.4**	**40.4**	**41.4**	**39.7**	**40.1**	**39.9**	**40.4**
Taxes	18.5	18.2	18.5	19.3	22.3	21.4	21.6	22.6	21.8	21.5	21.6	22.1
Social security contributions	14.7	15.0	15.0	15.0	13.9	14.2	14.2	14.2	14.2	14.5	14.5	14.5
Grants	0.4	0.6	0.3	0.3	0.3	0.6	0.3	0.3	0.4	0.6	0.3	0.3
Other revenue	2.5	2.6	2.6	2.6	4.2	4.2	4.2	4.2	3.3	3.4	3.4	3.4
Expenditure	**34.3**	**36.9**	**36.8**	**36.2**	**42.2**	**44.7**	**44.7**	**43.6**	**38.8**	**41.6**	**41.4**	**40.2**
Expense	**30.8**	**33.3**	**32.9**	**32.3**	**37.5**	**39.2**	**38.9**	**37.8**	**34.9**	**37.3**	**36.8**	**35.7**
Compensation of employees	8.0	8.3	8.2	8.1	9.3	9.4	9.4	9.4	10.0	10.6	10.4	10.0
Use of goods and services	7.5	7.6	7.6	7.7	3.2	3.2	3.2	3.3	6.6	6.6	6.6	6.6
Social benefits	12.3	13.9	13.5	13.1	19.7	20.1	19.9	19.3	14.5	15.7	15.3	14.8
Other	3.0	3.5	3.5	3.5	5.4	6.6	6.5	5.9	3.8	4.5	4.5	4.3
Net acquisition of nonfinancial assets	**3.5**	**3.6**	**3.9**	**3.9**	**4.7**	**5.5**	**5.7**	**5.8**	**3.9**	**4.3**	**4.5**	**4.5**
Acquisition of nonfinancial assets	3.7	3.7	4.0	4.0	4.9	5.6	5.9	5.9	4.1	4.4	4.7	4.6
Foreign financed capital spending	1.6	1.7	2.0	2.0	0.6	1.5	1.7	1.7	1.3	1.6	1.9	1.9
Domestically financed capital spending	2.1	2.0	2.0	2.0	4.3	4.2	4.2	4.2	2.9	2.8	2.8	2.8
Fiscal balance	**1.7**	**-0.5**	**-0.5**	**1.0**	**-1.6**	**-4.3**	**-4.3**	**-2.2**	**0.9**	**-1.5**	**-1.5**	**0.2**
Primary balance	2.1	0.2	0.3	1.9	-0.5	-2.2	-1.7	-0.2	1.5	-0.4	-0.1	1.4

Sources: BiH authorities, and IMF staff calculations.

[3] Regular increase of 16.3 percent from January, and extraordinary increase of 3.9 percent from May.

13. Total public debt will remain below 30 percent of GDP, but financing needs have increased in 2023 given large debt repayments (Annexes VI and VII). Entity financing needs in 2023 differ markedly: while the FBiH has moderate needs, the RS must borrow about KM 1.2 billion (or about €610 million) to cover maturing debt and the budget deficit. The RS managed to refinance a €168 million Eurobond that matured in June, largely through domestic market bond issuance of comparable maturity. However, it will be difficult for the RS to meet its H2 2023 financing needs through domestic issuance alone. Under the baseline, staff assumes RS will be able to obtain additional external financing. In case of a shortfall in external financing, the RS should prioritize cuts in current spending.[4] Foreign loan disbursements for infrastructure projects in BiH are expected to pick up compared to 2022, when they were limited due to the political tensions and slow project implementation, while additional World Bank program financing is also expected in 2024 (text Table 2).

Text Table 2. Bosnia and Herzegovina: Foreign Project Loan Disbursements, 2021-24

Foreign loan disbursements	2021	2022	2023	2024	2021	2022	2023	2024
		Est.	Proj.			Est.	Proj.	
	Million KM				Percent of GDP			
Project financing	717	427	666	845	1.8	0.9	1.3	1.6
o/w corridor Vc	394	256	295	362	1.0	0.6	0.6	0.7

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

14. Restraining the fiscal policy expansion in 2023 is needed to contain inflationary and financing pressures. Given limited monetary policy tools, it is incumbent on fiscal policy to help fight inflation by containing current spending. The authorities should identify possible savings in current spending for 2023 and avoid cuts to the already-low, growth-enhancing public investment. With the public wage bill and pensions already among the highest in the region, public sector wages should be contained, and extraordinary pension increases avoided. If inflationary pressures become more persistent, the authorities should consider reversing 2022-23 public sector wage increases. Going forward, a review of public employment and wages would help identify redundancies and reduce the wage bill. A tax on dividends could help mobilize additional revenues. Staff sees the need to return to fiscal surplus in the medium term, but could support a more gradual decline in the fiscal deficit from 2024 onward provided that this would accommodate higher capital spending and social spending (¶15).

15. Given low public debt and depressed economic growth, staff highlighted the need for higher and more efficient public investment, better-targeted current spending, and better revenue collection in the medium term:

- *Public investment*: Execution has been much weaker than budgeted, especially in the FBiH, over the last few years. Infrastructure development, green energy, and digitalization should be priority

[4] The potential financing gap is not expected to affect the servicing of debts to IFIs and most foreign official bilateral creditors, since these are repaid directly from the tax revenue collected by the Indirect Tax Authority. Any remaining financing gap would need to be covered by budgetary savings.

areas. In line with earlier recommendations, project implementation and monitoring should be strengthened, and the efficiency of public procurement processes improved. Externally financed projects, preferably by IFIs, should be accelerated, while higher domestically financed capital spending should be financed through restrained current spending and improved revenue collection. Earmarking resources to specific projects in the FBiH should be discontinued. Staff welcomed the requests from the RS and FBiH for IMF Public Investment Management Assessments (PIMAs; PIMA update in the case of FBiH) to look at infrastructure governance in a comprehensive way to increase efficiency and growth.

- *Social safety nets*[5]: Social safety net coverage is low, and programs are poorly targeted. Staff recommended: i) developing registries of beneficiaries (at the entity level); ii) extending coverage as needed; and iii) reviewing and improving targeting (which could include a need for new social assistance programs). Reforms should also improve the transparency of payment methods to avoid double dipping or fraud. Staff welcomed child support programs introduced by the entities.[6]

- *Revenue collection*: Improved revenue collection is essential to help finance public investment. Staff strongly recommended that the FBiH modernize its tax administration, in line with IMF technical assistance recommendations. Reforms could include investing in IT and establishing a transparent and obligatory data exchange between different institutions. If fully implemented, reforms could yield 0.3-0.5 percent of GDP additional revenues on an annual basis in the years following implementation. Staff also stressed the need to implement recent recommendations on risk analysis in both entities. To preserve tax revenues and reduce scope for tax avoidance, the authorities should maintain a single VAT rate and avoid fuel excise cuts. Instead, they should enhance social safety nets to protect the most vulnerable.

Authorities' Views

16. The authorities noted that they have aimed to use fiscal policy to preserve the purchasing power of citizens, especially socially vulnerable categories. They argued that, considering persistently high imported food and fuel prices, increasing public sector wages and pensions was necessary to maintain purchasing power. They noted that pensioners are among the most vulnerable, and regular pension increases are determined by law. RS officials further highlighted that public sector wages were increased in 2023 only for employees with below-average wages. The authorities agreed with the need to scale up public investment to foster higher growth, maintain a single VAT rate, and avoid fuel excise cuts. The RS authorities expressed confidence that they would meet their financing needs this year through a combination of domestic and external borrowing.

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[5] The RS has been working on establishing a Social Map, i.e., a register that should contain data on the social and economic status of beneficiaries for social protection. The World Bank will provide technical assistance, including on the establishment of a detailed roadmap and IT, and is proposing to help create a similar registry in the FBiH.

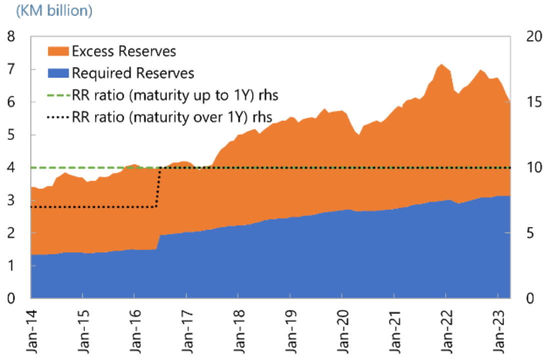
[6] In 2022, the FBiH central government allocated KM 106 million to support families with children in a harmonized way across the entity, while in 2023 the RS plans to spend about KM 70 million on families with four or more children if at least one parent is unemployed.

B. Currency Board Arrangement (CBA) and Financial Sector Policies

17. The CBA has continued to serve as an anchor for macro-financial stability. Staff welcomed the CBBH's timely steps to stabilize the coverage ratio, including shortening the duration of foreign reserves and selling gold. Staff recommended further strengthening the CBA and improving its resilience, encouraging the CBBH to continue to use quantitative models to test the impact of different policy parameters on the coverage ratio and its balance sheet, while expanding its investment toolkit to include FX-hedged bonds and reverse repos in line with prior IMF recommendations. To safeguard CBA integrity, it is imperative to resist calls to finance entity budgets or lend to commercial banks and the broader private sector.

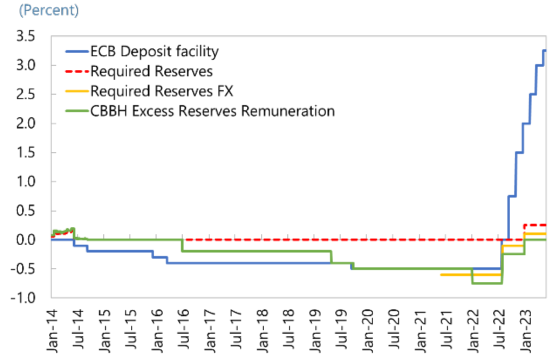
18. The CBBH should further strengthen the reserve requirement framework, including by increasing remuneration rates on bank reserves. The CBBH has increased remuneration rates only marginally since July 2022 (text chart and Annex IV); it should promptly raise them further to narrow the gap with euro area interest rates and reduce the risk of capital outflows. Some signs of capital outflows have been observed since late-2022 as banks' foreign assets increased while excess liquidity declined. Staff welcomed CBBH's decision to maintain the current practice of reserve averaging and additional steps toward fulfillment, in foreign exchange, of the reserve requirement on banks' foreign exchange deposits.

Required and Excess Reserves
(KM billion)



Source: Central Bank of Bosnia and Herzegovina.

Remuneration on Required and Excess Reserves
(Percent)



Source: Central Bank of Bosnia and Herzegovina.

19. The authorities should also allow other domestic interest rates to rise to help contain inflation and reduce the risk of capital outflows. Higher interest rates in Europe have yet to trickle through to the BiH economy. This partly reflects the lack of adjustment of CBBH remuneration rates on bank reserves, as well as measures introduced by entity banking agencies to slow the rise of lending rates and mitigate the impact on borrowers (Annex IV). Ultimately, domestic interest rates will need to rise to help prevent capital outflows and contain inflation. Deposit interest rates also appear sticky, and depositors seem to prefer sight deposits (with lower remuneration) to term deposits. However, there is a risk that depositors may search for more remunerative investments such as real estate, which could impact bank funding.

20. In parallel, the authorities should prepare for potentially tighter financial conditions and global financial shocks. The banking agencies should eliminate measures that distort interest rates and ensure that bank asset classification and loan-loss provisions swiftly and accurately reflect credit risks and losses. Higher domestic interest rates could make it more difficult for borrowers to service their debts, while banks with a high share of fixed-rate loans could see their interest margins shrink. Staff encouraged supervisors to closely monitor the impact of rising interest rates on banks' and borrowers' balance sheets and develop a remedial action plan to deal with rising NPLs should the rise in interest rate trigger defaults. In addition, staff underscored the need to develop the analytical toolkit and cooperation mechanism to operationalize capital buffers (counter-cyclical, systemic risk, and domestic systemically important banks) to safeguard financial stability.

21. The authorities should also enhance monitoring and crisis preparedness more broadly. Staff called on the authorities to closely watch for pockets of vulnerability, and reiterated that all prudential and corrective actions should be strictly and timely enforced, particularly regarding capital adequacy, loan-loss provisioning, related-party exposures, and governance. Some banks expressed concerns about legal uncertainty, including related to crypto asset lawsuits. Staff urged the authorities to improve the regulatory framework for crypto assets and continue to monitor emerging risks. To better anticipate and respond to future liquidity and solvency pressures, all institutions with a role in preserving financial stability should meet regularly to exchange information and develop contingency plans.

22. Staff urged the authorities to advance financial sector reforms. It called for a single Financial Stability Fund (FSF) for bank restructuring and liquidity provision in exceptional cases. A single fund, by pooling resources, would generate sufficient funding for potential systemic failures and promote cost effective resolution. Staff also followed up on a Memorandum of Understanding (MoU) between the Deposit Insurance Agency and banking agencies, reiterating the need for a comprehensive MoU among all relevant institutions, and on the adoption of a country-wide registry of bank accounts of individuals, important for AML/CFT, tax recovery, and debt enforcement. The RS Investment and Development Bank resumed direct lending, contrary to prior staff advice. Both entities should implement World Bank recommendations to focus their developments banks on providing financing to under-served market segments and to strengthen their supervision, governance, and risk management practices.

Authorities' Views

23. The authorities assessed their banking sector as stable and agreed with the need to enhance crisis preparedness. They disagreed with staff's call to allow interest rates to rise to help curb inflation, as they deem inflation as mostly imported. In addition, they see a low likelihood of capital outflows given banks' locally sourced funding and households' limited investment opportunities. The CBBH noted that, with a currency board, BiH does not have monetary policy instruments per se, and increasing remuneration rates on bank reserves would have limited pass-through to deposit and lending rates. Moreover, the authorities argued that rising lending interest rates could hamper bank asset quality; hence the need for interest rate measures. The authorities agreed with the need for an FSF, but the RS authorities continue to oppose a single, state-level fund, considering it a transfer of competencies. The RS authorities do not agree to the introduction of a single registry of bank accounts of individuals at the CBBH, arguing that the registries have already been introduced and are operational at the entity level and the CBBH has no jurisdiction over the mentioned registry. Discussions are ongoing in both entities on the potential use of macroprudential tools and the distribution of tasks among different institutions.

C. Energy Policy and Reforms

24. With the sharp increase of energy prices and disruptions to supplies in Europe, policies in 2022 were refocused toward energy security away from climate goals. BiH is committed to gradually phasing out coal subsidies and moving toward a carbon-neutral economy by 2050.[7] However, it put on hold efforts to decarbonize, maintaining reliance on coal power generation, which produces high air pollution levels and the highest carbon emissions in the region. Climate change is also increasing the risk and severity of natural disasters. While coal reliance has partially cushioned BiH from the energy crisis in Europe, it is unsustainable, environmentally harmful, and inconsistent with BiH's international commitments.

25. The authorities should increase electricity prices while protecting the most vulnerable. The current model of subsidizing domestic consumption from exports—which relies on high export prices and encourages overconsumption—is unsustainable. The block tariff introduced in the RS is a good first step, especially considering limited options for better targeted assistance.

26. BiH should take immediate action to prepare for the EU's carbon border adjustment mechanism (CBAM) and accelerate efforts to decarbonize. Without action, the CBAM will hurt competitiveness of key exports (e.g., electricity, aluminum) to the EU, which constitute about 10 percent of BiH GDP (Annex III). To be exempted from CBAM on electricity exports, BiH needs to fulfil several conditions, including the coupling of its electricity market with the EU market by 2026. For this, it needs to adopt a state law on electricity in line with the EU's Third Energy Package, establishing a power exchange and appointing a Nominated Electricity Market Operator. To maintain competitiveness in other exporting industries, BiH needs to switch to green energy in carbon-intense sectors, move up production value chains, and diversify export markets. Ultimately, BiH should introduce carbon pricing, possibly through the implementation of an EU-equivalent emissions-trading system (ETS), to be finalized by 2030. Collected revenues can be used to support investment in renewables and help finance a just transition. BiH also needs to accelerate the switch to renewables by adopting a Renewable Energy Law in the FBiH (the RS adopted one in 2022) to attract private investment.

[7] See Sofia Declaration on the Green Agenda for the Western Balkans (2020), building on the Paris Agreement (2015). The commitment to achieve net zero greenhouse gas emissions by 2050 is part of BiH's draft national energy and climate plan.

Authorities' Views

27. The authorities understand that they will need to couple the electricity market with the EU by 2026 and introduce an EU-equivalent ETS by 2030 to secure an exemption from CBAM. They do not agree among themselves on how to align the electricity legislation with the EU's Third Energy Package, with the RS authorities insisting on implementation of the agreement reached by all government levels in BiH with the Energy Community in 2019. They agree with staff's view that the transition from coal to green energy will be a key medium-term challenge, and are committed to contributing to global efforts toward decarbonization while protecting those affected domestically. The authorities in both entities are not considering increasing electricity prices further this year. The introduction of a block tariff in the FBiH is not planned for this year, but FBiH authorities might consider it at a later stage.

D. Governance and Other Structural Reforms

28. Poor governance, weak rule of law, and widespread corruption and related money laundering continue to hinder potential (Figure 4). A large public sector, highly complex and fragmented government structures and legal systems, and entrenched patronage networks linked to ethnic divisions, are important drivers of corruption. There is also a lack of merit-based and transparent appointment processes in civil service and public enterprises (PEs) (Annex VIII). While public perception of corruption has deteriorated over the past decade, needed reforms show minimal progress.

29. The authorities should enhance corruption prevention and enforcement efforts along with transparency and accountability. Legal amendments to strengthen the effectiveness of the conflict-of-interest and access-to-information frameworks in line with international standards and best practice, and to ensure judicial and prosecutorial independence and integrity are critical. Efforts to investigate and prosecute high-level corruption should be strengthened, including by prioritizing the digitalization and interconnection of relevant registries and databases. Staff also encouraged the authorities to conduct, with IMF support, a governance diagnostic to help identify key weaknesses and prioritize reforms.

30. The AML/CFT regime should be enhanced to more closely align with international standards and support anti-corruption efforts. An immediate priority is the passing of a new AML/CFT law. Failure to strengthen the AML/CFT regime may lead to the re-listing of BiH as a jurisdiction with strategic AML/CFT deficiencies, with likely economic consequences (Annex VIII). The Risk Assessment adopted by the Council of Ministers this year re-affirmed corruption as the highest threat of money laundering and highest proceed-generating crime. The authorities should ensure that AML/CFT supervisory activities are commensurate with this threat, including by stepping up the identification of politically exposed persons (PEPs) and ensuring transparency of legal entities.

31. The authorities need to speed up public enterprise (PE) reforms. PEs account for 11 percent of employment and 40 percent of fixed assets. Governance falls short of OECD guidelines, and many PEs are loss-making and lack a clear rationale for state ownership. Both governments established oversight units (the RS unit is operational as of March, while the FBiH unit is not staffed yet). The RS is working on a road map for a comprehensive PE fiscal risk assessment. A comprehensive registry of PEs in FBiH is now available online.[8] Staff recommended speeding up activation of PE oversight and fiscal risk units (in the FBiH) and publishing an ownership policy, including the rationale for PE ownership. The authorities should also adopt comprehensive plans to accelerate arrear clearance.[9]

32. Deeper procurement reforms are also needed. The authorities adopted a country-wide PFM strategy for 2021-25 and formed a country-wide PFM working group to monitor and report on implementation. A high share of overall procurement value is assigned through non-competitive procedures (Annex VIII), raising costs and red flags for corruption. Procurement law amendments in 2022 improved conflict of interest, collusion, and transparency provisions, but most procurement-related offenses are still treated as non-criminal misdemeanors. A recent preliminary Public Expenditure and Financial Accountability Assessment (PEFA) also identified lack of progress in procurement methods, public access to procurement information, and complaints management.[10]

33. There is also a need to foster digitalization. By some measures, BiH is the least digitalized economy in the Western Balkans (Figure 4). E-government services are nearly nonexistent, and banks complain that they are unable to digitalize operations. A law on electronic identity and trust services would lay the foundation for e-government/e-commerce and facilitate e-transactions within BiH and with Europe, home to a large diaspora. Besides increasing efficiency, e-government would increase transparency and reduce corruption opportunities.

34. Other structural reforms to accelerate growth and raise living standards should be also revived. The BiH economy is overly fragmented and insufficiently integrated into international markets. The business environment is poor, partly due to an overgrown public sector. High public sector wages put upward pressure on reservation wages, posing challenges to private sector employment. Emigration and skill mismatches continue to hamper the labor market, which is characterized by informality, low female and youth participation, and brain drain. Tackling these challenges is urgent and will require more political consensus. There is a need to encourage labor force participation and private sector employment by expanding childcare, improving public education and vocational training, and encouraging flexible employment. The EU candidacy status should help catalyze reforms and boost integration efforts going forward.

Authorities' Views

35. The authorities were particularly concerned about the shortage of skilled workers, considering it a key constraint to growth, and disagreed with the assessment of the business

[8] A similar registry should be produced and published by RS in the future, which is also part of RS's PFM Strategy.

[9] Arrears are estimated at around KM 1.7 billion: PE arrears account for KM 1.2 billion in the FBiH, while health sector arrears are around KM 400 million in the RS and KM 112.5 million in the FBiH.

[10] A recent SIGMA monitoring report also mentions similar concerns regarding public procurement, due to understaffing and weak procurement control systems at the Public Procurement Agency.

environment as "poor," pointing to good economic results. While acknowledging that legal reforms, improved interinstitutional coordination, and digitalization of land registries are needed to strengthen anti-corruption and related anti-money laundering efforts, they argued that the extent of perceived political influence on judges and prosecutors is not systemic. The authorities agreed that PE reforms are urgent, and progress should be accelerated. The authorities also recognized corruption as the highest threat to money laundering, which necessitates taking concrete actions. In particular, several counterparts expressed concern that delays in adopting a new AML/CFT law could lead to the re-designation of BiH as a country with significant AML/CFT deficiencies. The RS noted that the new law should be in line with constitutional jurisdictions and competencies of all levels of government.

STAFF APPRAISAL

36. Bosnia and Herzegovina's (BiH) economy is slowing, while inflation, although declining, remains high. Structural reforms have not advanced. Downside risks are high and include a possible abrupt slowdown in Europe, an intensification of domestic political tensions, and the materialization of financial risks.

37. In light of these challenges, staff called for enhancing the policy mix and accelerating reforms. To contain inflation while protecting the most vulnerable and enabling private sector-led growth, fiscal policy needs to be contained and re-oriented, and interest rates should be free to adjust to market conditions. The authorities should also aim to further strengthen the currency board, enhance financial sector resilience, and advance energy and governance reforms.

38. The authorities should restrain the fiscal policy expansion this year to contain inflationary pressures. The overall fiscal balance is projected to turn from a surplus of 0.9 percent of GDP in 2022 to a deficit of 1.5 percent this year, largely reflecting permanent increases in wages and pensions. Given limited monetary policy tools, it is incumbent on fiscal policy to help fight inflation. This should be achieved by curbing current spending while preserving public investment.

39. Looking ahead, to strengthen fiscal policy in a sustainable way, the authorities should further contain current spending, better target social spending, boost public investment, and improve revenue collection. A functional review of public employment would identify redundancies and help reduce the wage bill. Enhancing the social safety nets will require developing registries of beneficiaries, extending coverage as needed, and reviewing and improving targeting. Boosting investment in infrastructure, green energy, and digitalization—supported by IMF PIMAs and improved revenue collections—would help spur medium-term growth.

40. The CBA is essential for macro-financial stability and must be protected. Like other central banks, CBBH suffered revaluation losses on its foreign reserve portfolio caused by rising international interest rates. The CBBH took appropriate steps to stabilize the coverage ratio by shortening the duration of its foreign reserve portfolio and selling gold. Calls on the central bank to finance entity budgets or provide credit to banks or the broader private sector are misguided and should be strongly resisted.

41. **The authorities should allow domestic interest rates to rise and adopt measures to preserve financial stability.** CBBH should promptly narrow the interest rate gap with the euro area by further increasing remuneration rates on bank reserves. The banking agencies should eliminate measures that distort interest rates and ensure that bank asset classification and loan-loss provisions accurately reflect credit risk and losses. There is also a need to enhance crisis preparedness and closely watch for any pockets of vulnerability; all institutions with a role in preserving financial stability should meet regularly to exchange information and develop contingency plans. The authorities should also set up a single financial stability fund that can facilitate bank restructuring and provide liquidity on an exceptional basis.

42. **The authorities should step up efforts to decarbonize the economy.** They should introduce carbon pricing and allow electricity prices to rise, using the resulting revenues to finance a green and just transition. BiH should also couple its electricity market with the EU market and speed up the transition to renewables.

43. **To accelerate private sector-led growth, the authorities should speed up governance and other structural reforms.** An immediate priority is to adopt the new AML/CFT law, while amendments to anti-corruption legal frameworks are key, together with decisive implementation. We commend the authorities for recent steps to increase oversight and transparency of public enterprises. More efforts are needed, however, to restructure this large and inefficient sector. Despite limited impact so far, going forward the EU candidacy status should serve as a catalyst for reform momentum.

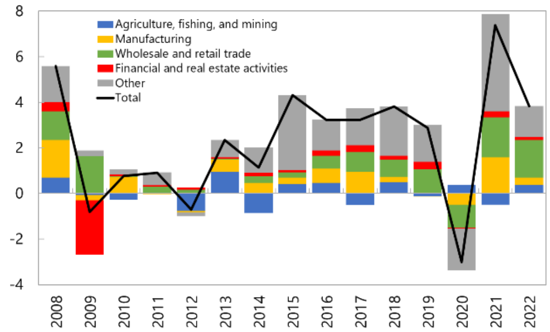
44. **It is recommended that the next Article IV Consultation takes place on the standard 12-month cycle.**

Figure 1. Bosnia and Herzegovina: Selected Economic Developments

Growth moderated in 2022 after the strong rebound of 2021.

Real GDP Growth

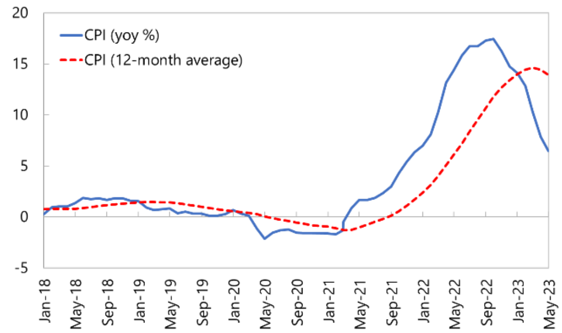
(Percent)



Sources: Bosnia and Herzegovina Agency for Statistics; and IMF staff calculations.

Inflation appears to have peaked in October 2022.

CPI Inflation



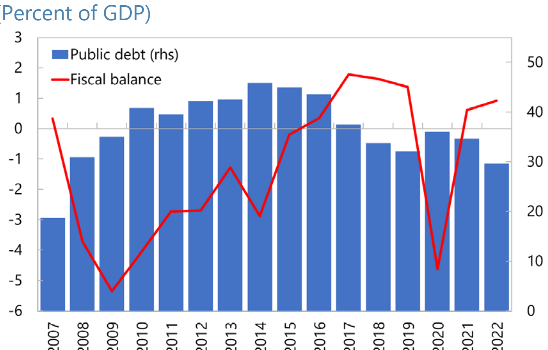
Sources: Bosnia and Herzegovina Agency for Statistics; and IMF staff calculations.

(Year-on-year percent change; 12-month average)

The fiscal surplus rose further in 2022 due to a larger decline in expenditures than in revenues (in percent of GDP), while debt continued to improve.

Fiscal Balance and Public Debt

(Percent of GDP)

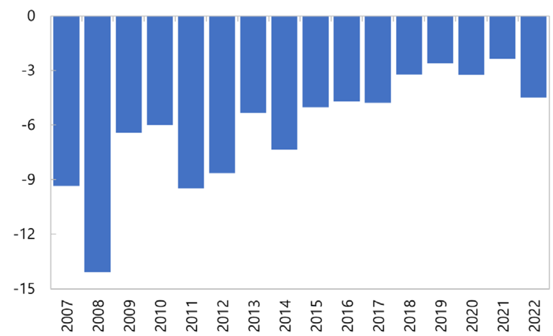


Sources: Central Bank of Bosnia and Herzegovina; and IMF staff calculations.

The current account deficit widened as imports grew faster than exports.

Current Account Balance

(Percent of GDP)

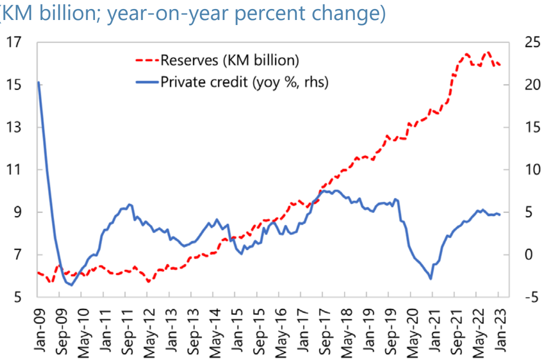


Sources: Central Bank of Bosnia and Herzegovina; and IMF staff calculations.

Central bank reserves declined while private sector credit remained weak.

Central Bank Reserves and Private Credit Growth

(KM billion; year-on-year percent change)

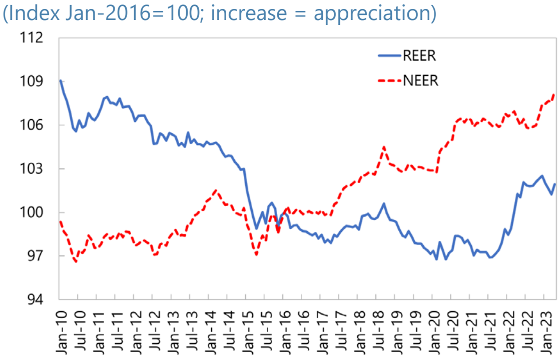


Source: Bosnia and Herzegovina Authorities.

The real effective exchange rates appreciated on average in 2022.

Effective Exchange Rate Indices

(Index Jan-2016=100; increase = appreciation)



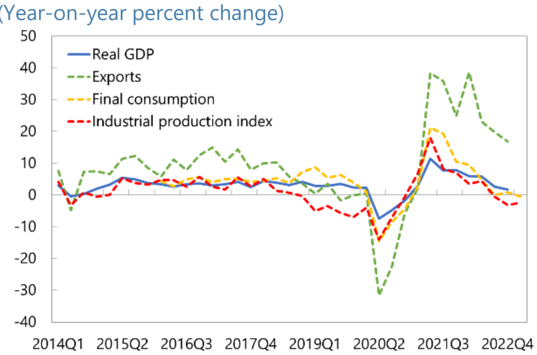
Source: IMF Information Notice System.

Figure 2. Bosnia and Herzegovina: High Frequency Indicators of Economic Activity

After a strong recovery in 2021, economic activity slowed down in 2022 reflecting a lower demand for BiH exports and moderating domestic absorption.

Economic Activity Indicators

(Year-on-year percent change)

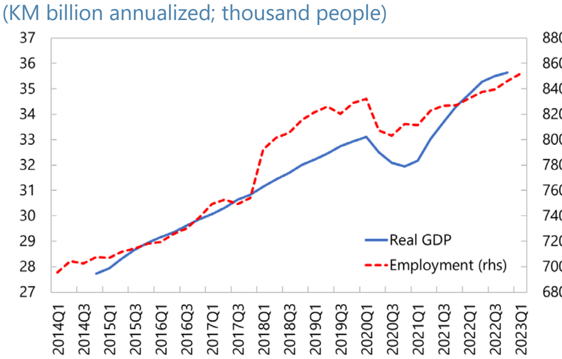


Sources: Bosnia and Herzegovina Agency for Statistics; Indirect Taxation Authority ; and IMF staff calculations.

Employment reached pre-pandemic levels in Q4 2021 and continued to strengthen, albeit at a slower pace than output.

Real GDP and Employment

(KM billion annualized; thousand people)

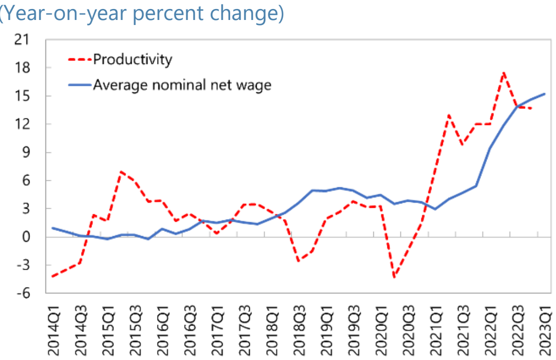


Sources: Bosnia and Herzegovina Agency for Statistics; and IMF staff calculations.

Labor productivity softened in 2022, while nominal wages continued to rise.

Productivity and Average Net Wages

(Year-on-year percent change)

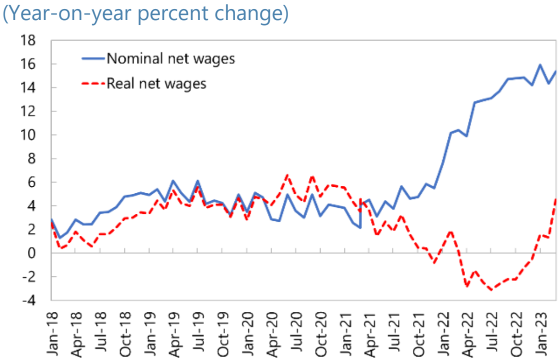


Sources: Bosnia and Herzegovina Agency for Statistics; and IMF staff calculations.

Real wages declined in H2 2022 but resumed growth in early-2023.

Nominal and Real Net Wages Growth

(Year-on-year percent change)



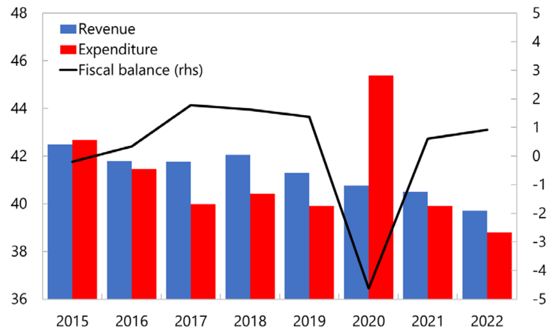
Sources: Bosnia and Herzegovina Agency for Statistics; and IMF staff calculations.

Figure 3. Bosnia and Herzegovina: Composition of Public Expenditure

The fiscal surplus improved further in 2022 helped by a larger decline in expenditures than in revenues (in percent of GDP).

Revenues and Expenditures

(Percent of GDP)

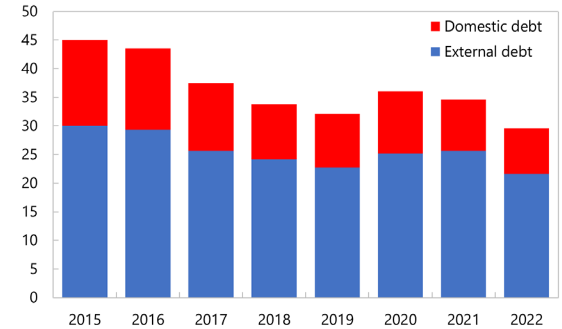


Sources: Bosnia and Herzegovina authorities.

Debt-to-GDP declined further, largely reflecting the impact of high inflation.

General Government Debt

(Percent of GDP)

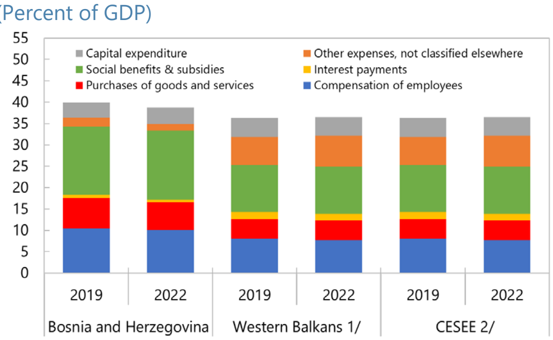


Sources: Bosnia and Herzegovina authorities.

Government spending continues to be higher than in the Western Balkans, although with similar composition.

Current and Capital Expenditure

(Percent of GDP)

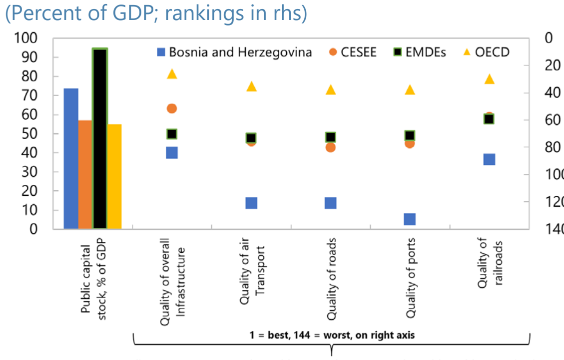


Sources: Bosnia and Herzegovina authorities; IMF World Economic Outlook; and IMF staff calculations.
1/ The Western Balkans average does not include North Macedonia due to data availability.
2/ CESEE average calculation includes Albania, Kosovo, Montenegro, and Serbia.

Despite a high capital stock, BiH continues to rank poorly compared to peers on infrastructure quality.

Capital Stock and Infrastructure Quality 3/

(Percent of GDP; rankings in rhs)

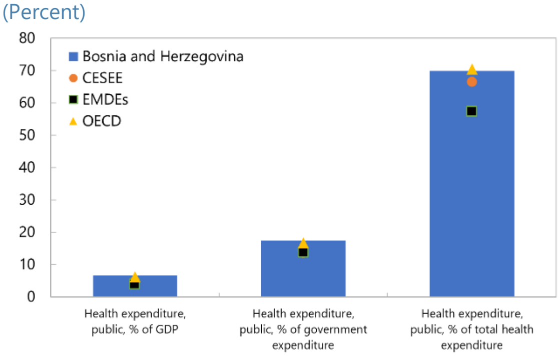


Sources: IMF FAD Expenditure Assessment Tool; World Economic Forum; and World Health Organization.
3/ Public capital stock is as of 2019 and Infrastructure quality is as of 2018.

Health spending in BiH is higher than in the region and EMDEs.

Health Expenditure: Different Metrics

(Percent)

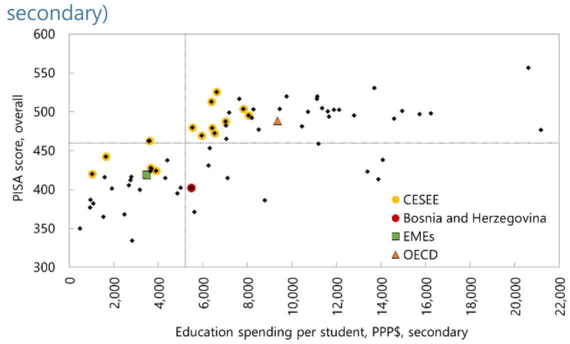


Sources: IMF FAD Expenditure Assessment Tool; World Economic Forum; and World Health Organization.
4/ The latest available data is 2018 for BIH and country groups.

Education spending is also high while outcomes compare poorly to peers.

Government Education Spending and Outcome, 2016

(PISA score; education spending per student, PPP$, secondary)



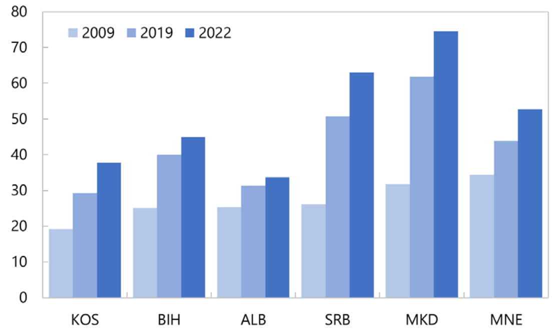
Sources: IMF FAD Expenditure Assessment Tool (EAT); and World Bank.
Note: Latest value available. Dashlines are the average of CESEE.

Figure 4. Bosnia and Herzegovina: Business and Competitiveness Indicators

BiH export growth performance was largely in line with peers during 2022.

Exports of Goods and Services

(Percent of GDP in US dollars)

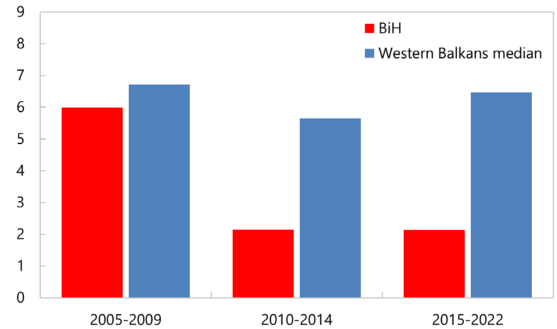


Source: IMF World Economic Outlook.

However, FDI remained very low.

Foreign Direct Investment, Net Inflows

(Percent of GDP in US dollars)

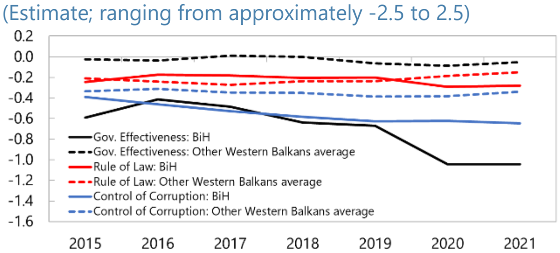


Sources: IMF World Economic Outlook; and IMF staff calculations.

Unlike in the rest of Western Balkans, governance and perception of corruption in BiH have continued to worsen.

Governance Indicators, Perceptions

(Estimate; ranging from approximately -2.5 to 2.5)



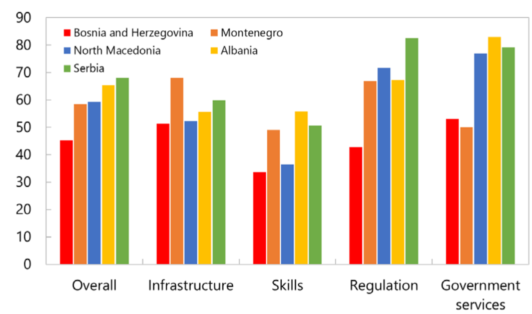
Sources: Worldwide Governance Indicators: D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank); and IMF staff calculations.

Note: BiH is not included in Other Western Balkans average. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, ranging from approximately -2.5 to 2.5. Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Government effectiveness captures perceptions of quality of public services, quality of the civil service and the degree of its independence from political pressures, quality of policy formulation and implementation, and credibility of the government's commitment to such policies. Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

BiH ranks last in the region in digitalization, except for government services.

Digital Enabler Index 2020 1/

(Index)



Sources: European Bank for Reconstruction and Development, Transition Report, 2021-2022.

1/ The digital enabler index covers key areas that facilitate the application of digital technologies by households and firms: infrastructure, skills, regulation and digital provision of government services.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2019-2028

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.	Proj.					
Nominal GDP (KM billion)	35.8	34.7	39.1	45.6	49.9	52.8	55.7	58.7	61.6	64.8
Gross national saving (in percent of GDP)	21.7	19.4	23.2	23.6	21.9	22.8	23.0	23.3	23.4	23.6
Gross investment (in percent of GDP)	24.3	22.6	25.6	28.0	26.6	27.0	27.0	27.1	27.1	27.2
				(Percent change)						
Real GDP	2.9	-3.0	7.4	3.9	2.0	3.0	3.0	3.0	3.0	3.0
GDP deflator	2.5	0.1	4.9	12.2	7.3	2.7	2.4	2.2	1.9	2.2
CPI (period average)	0.6	-1.1	2.0	14.0	6.0	3.0	2.7	2.5	2.0	2.0
Money and credit (end of period)										
Base money	6.9	10.7	17.4	3.3	2.1	--	--	--	--	--
Broad money	8.7	7.1	12.4	5.5	7.5	--	--	--	--	--
Credit to the private sector	6.3	-2.8	4.0	4.9	5.7	--	--	--	--	--
				(In percent of GDP)						
Operations of the general government										
Revenue, *of which* :	41.3	40.8	40.5	39.7	40.1	39.9	40.0	40.1	40.3	40.4
Taxes	22.7	21.5	22.0	21.8	21.5	21.6	21.7	21.8	22.0	22.1
Social security contributions	14.9	15.5	14.8	14.2	14.5	14.5	14.5	14.5	14.5	14.5
Expenditure	39.9	45.4	39.9	38.8	41.6	41.4	41.1	40.7	40.5	40.2
of which : Investment expenditure	3.6	5.4	4.2	3.9	4.3	4.5	4.5	4.5	4.5	4.5
Fiscal balance	1.4	-4.6	0.6	0.9	-1.5	-1.5	-1.1	-0.6	-0.2	0.2
Primary fiscal balance	2.1	-3.9	1.3	1.5	-0.4	-0.1	0.2	0.6	1.0	1.4
Total general government debt	32.1	36.0	34.6	29.6	27.9	27.7	27.7	28.1	28.8	28.9
Domestic general government debt 1/2/	9.3	10.9	9.0	8.0	8.7	9.7	10.7	11.9	13.0	13.5
External general government debt	22.7	25.1	25.7	21.6	19.3	17.9	17.0	16.2	15.8	15.4
Balance of payments				(In percent of GDP)						
Exports of goods and services	40.0	34.2	42.0	46.9	41.6	42.1	42.3	42.3	42.4	42.5
Imports of goods and services	54.5	48.0	53.8	61.0	55.7	55.9	55.9	56.0	56.1	56.2
Trade balance	-14.4	-13.8	-11.7	-14.1	-14.1	-13.7	-13.7	-13.7	-13.7	-13.7
Current transfers, net	12.0	11.1	10.8	10.4	10.4	10.6	10.7	10.8	10.9	11.0
Current account balance	-2.6	-3.3	-2.4	-4.5	-4.7	-4.2	-4.0	-3.8	-3.7	-3.6
Foreign direct investment (+=inflow)	2.1	1.8	2.4	2.5	2.1	2.2	2.2	2.1	2.1	2.1
Gross official reserves (Euro million)	6,455	7,105	8,372	8,228	8,123	8,348	8,625	9,008	9,435	9,894
(In months of imports)	9.1	7.9	7.1	6.9	6.5	6.3	6.2	6.1	6.1	6.1
(In percent of monetary base)	113.5	112.9	113.3	107.8	--	--	--	--	--	
(In percent of IMF ARA metric)	108.7	121.0	126.1	119.8	--	--	--	--	--	
External debt 3/	63.9	64.1	58.5	51.6	47.7	45.8	44.4	43.3	42.5	41.7
Memorandum Items:										
Unemployment rate (national definition) 4/	15.7	15.9	17.4	15.4	--	--	--	--	--	--
GDP per capita (in euros)	5,241	5,092	5,744	6,714	7,366	7,812	8,267	8,727	9,187	9,703
Output gap (in percent of potential GDP)	1.6	-4.1	0.2	1.2	0.3	0.3	0.3	0.2	0.2	0.1
REER (Index 2016=100)	99.2	98.7	98.5	102.3	--	--	--	--	--	--
NEER (Index 2016=100)	113.7	115.9	117.1	117.4	--	--	--	--	--	--

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

1/ On average, half of the domestic debt stock is indexed to the Euro.

2/ The stock of general government domestic debt does not include domestic arrears and those of public enterprises.

3/ Includes inter-company loans in private external debt.

4/ The 2021 unemployment rate is not comparable with 2020 due to redesign of BHAS Labor Force Survey (LFS) methodology in line with EU regulations. The 2020 unemployment rate is not comparable with 2019 due to change in sample design, which was defined separately each year prior to 2020 and has been replaced since with a panel component sample design where households have been re-surveyed four times.

Table 2. Bosnia and Herzegovina: Real Sector Developments, 2019-2028

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Proj.			
Real growth rates					(Percent change)					
GDP at constant 2010 prices	2.9	-3.0	7.4	3.9	2.0	3.0	3.0	3.0	3.0	3.0
Domestic demand	3.0	-3.6	7.8	6.3	4.3	2.7	3.1	3.1	3.2	3.6
Private	3.3	-6.9	10.6	7.7	3.1	2.4	3.2	3.2	3.4	3.7
Public	1.6	9.2	-1.3	1.0	9.2	3.9	2.8	2.6	2.7	3.1
Consumption	1.8	-2.2	3.8	3.7	5.5	1.9	2.6	3.2	3.0	2.9
Private	2.0	-3.3	4.1	4.3	4.8	1.8	2.6	3.3	3.2	3.0
Public	1.0	1.5	2.9	1.5	7.9	2.3	2.4	2.8	2.4	2.7
Gross capital formation	7.2	-8.4	22.7	14.4	1.0	5.0	4.7	2.6	3.8	5.5
Private	7.7	-18.4	35.0	17.4	-1.3	4.0	4.7	2.8	3.8	5.6
Public	4.7	49.5	-16.5	-1.3	15.1	10.5	4.4	2.0	3.8	4.9
Net Exports										
Exports of goods and services	0.6	-15.5	23.9	25.8	2.3	6.7	5.5	4.4	3.5	3.8
Imports of goods and services	1.4	-13.1	19.8	24.6	6.3	5.1	4.9	4.1	3.8	4.5
Contributions to real GDP growth					(Year-on-year change over real GDP in previous year, in percent)					
GDP at constant 2010 prices	2.9	-3.0	7.4	3.9	2.0	3.0	3.0	3.0	3.0	3.0
Domestic demand	3.4	-4.2	9.0	7.3	5.1	3.3	3.7	3.7	3.9	4.4
Private	3.1	-6.3	9.4	7.0	2.9	2.3	3.0	3.0	3.2	3.5
Public	0.4	2.2	-0.4	0.3	2.2	1.0	0.7	0.7	0.7	0.8
Consumption	1.6	-2.0	3.5	3.2	4.8	1.8	2.3	2.9	2.7	2.6
Private	1.4	-2.3	2.9	2.9	3.3	1.3	1.8	2.3	2.2	2.1
Public	0.2	0.3	0.6	0.3	1.5	0.5	0.5	0.6	0.5	0.5
Gross capital formation	1.8	-2.2	5.6	4.0	0.3	1.5	1.4	0.8	1.2	1.7
Private	1.6	-4.1	6.5	4.1	-0.4	1.0	1.2	0.7	1.0	1.5
Public	0.2	1.9	-1.0	-0.1	0.7	0.5	0.2	0.1	0.2	0.3
Net exports	-0.5	1.2	-1.6	-3.4	-3.1	-0.3	-0.7	-0.7	-0.9	-1.4
Exports of goods and services	0.2	-6.3	8.5	10.6	1.1	3.3	2.8	2.3	1.9	2.0
Imports of goods and services	0.8	-7.4	10.1	13.9	4.3	3.6	3.6	3.0	2.8	3.4
Deflators					(Percent Change)					
GDP	2.5	0.1	4.9	12.2	7.3	2.7	2.4	2.2	1.9	2.2
Domestic demand	2.4	0.1	2.6	12.1	4.9	2.7	2.3	2.2	1.7	1.6
Consumption	2.8	0.4	2.6	12.4	5.4	2.9	2.8	2.0	1.9	2.1
Investment	0.9	-1.4	3.7	11.8	2.9	2.2	1.0	2.6	1.1	0.4
Exports of goods and services	0.0	-1.6	11.5	3.3	-5.0	0.4	0.3	1.0	1.5	1.6
Imports of goods and services	0.4	-1.4	5.1	6.2	-6.0	0.9	0.7	1.3	1.4	0.8
					(In percent of GDP)					
Consumption	90.1	91.1	86.2	86.1	87.5	86.7	86.6	86.6	86.7	86.5
Private	70.7	70.4	66.7	67.1	67.8	67.3	67.3	67.4	67.5	67.5
Public	19.4	20.8	19.4	19.0	19.6	19.5	19.3	19.2	19.1	19.0
Gross capital formation	24.3	22.6	25.6	28.0	26.6	27.0	27.0	27.1	27.1	27.2
Private	20.8	17.2	21.4	24.1	22.4	22.5	22.5	22.5	22.6	22.7
Public	3.6	5.4	4.2	3.9	4.3	4.5	4.5	4.5	4.5	4.5
National savings	21.7	19.4	23.2	23.6	21.9	22.8	23.0	23.3	23.4	23.6
Private	16.9	19.0	18.2	19.2	19.4	19.7	19.6	19.3	19.0	18.8
Public	4.8	0.4	5.0	4.3	2.5	3.1	3.5	3.9	4.4	4.8
Saving-Investment balance	-2.6	-3.3	-2.4	-4.5	-4.7	-4.2	-4.0	-3.8	-3.7	-3.6
Memorandum items:					(In percent)					
Unemployment rate (national definition) 1/	15.7	15.9	17.4	15.4	--	--	--	--	--	--
Nominal GDP (KM million)	35,785	34,727	39,107	45,605	49,906	52,791	55,704	58,654	61,565	64,832

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

1/ The 2021 unemployment rate is not comparable with 2020 due to redesign of BHAS Labor Force Survey (LFS) methodology in line with EU regulations. The 2020 unemployment rate is not comparable with 2019 due to change in sample design, which was defined separately each year prior to 2020 and has been replaced since with a panel component sample design where households have been re-surveyed four times.

Table 3. Bosnia and Herzegovina: Balance of Payments, 2019-2028 1/

(Millions of euros, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Proj.			
A. Current account	**-475**	**-577**	**-471**	**-1,045**	**-1,203**	**-1,143**	**-1,140**	**-1,132**	**-1,155**	**-1,199**
Trade balance	-2,641	-2,444	-2,347	-3,295	-3,596	-3,704	-3,890	-4,102	-4,323	-4,546
Goods	-4,071	-3,206	-3,655	-5,129	-5,372	-5,611	-5,876	-6,187	-6,513	-6,855
Export of goods (fob)	5,204	4,826	6,483	8,241	7,975	8,504	9,011	9,489	9,955	10,504
Import of goods (fob)	-9,274	-8,033	-10,139	-13,371	-13,348	-14,115	-14,888	-15,676	-16,468	-17,360
Services (net)	1,429	762	1,308	1,834	1,777	1,907	1,986	2,085	2,191	2,309
Exports	2,119	1,251	1,922	2,693	2,647	2,870	3,028	3,209	3,388	3,568
Imports	-690	-489	-614	-859	-870	-963	-1,042	-1,124	-1,197	-1,258
Primary income (net):	-30	-100	-290	-177	-260	-308	-300	-272	-277	-290
Total credit	613	449	519	617	962	985	1,007	1,062	1,104	1,148
Total debit	-643	-549	-809	-794	-1,222	-1,293	-1,307	-1,334	-1,381	-1,439
Of which : interest payments	-82	-78	-62	-123	-459	-501	-487	-483	-500	-524
Secondary income (net), *of which* :	2,197	1,967	2,166	2,427	2,653	2,869	3,050	3,242	3,445	3,637
Government (net)	49	68	31	3	80	96	104	113	122	133
Workers' remittances	1,474	1,213	1,473	1,733	1,867	2,045	2,188	2,334	2,479	2,611
Other (NGOs etc.)	634	640	605	633	645	665	691	726	769	816
B. Capital account	**196**	**185**	**180**	**169**	**171**	**174**	**179**	**185**	**192**	**202**
Capital transfers (net)	196	185	180	169	171	174	179	185	192	202
General government	148	154	142	129	132	134	138	144	151	160
Other sectors	48	31	38	40	40	40	40	41	41	42
C. Financial account	**-779**	**-1,071**	**-1,123**	**-609**	**-926**	**-1,194**	**-1,237**	**-1,331**	**-1,389**	**-1,457**
Direct investment (net)	-380	-316	-470	-584	-531	-581	-612	-631	-662	-689
Assets	20	64	69	28	5	5	5	11	7	7
Liabilities	400	379	539	612	536	586	617	643	669	697
Portfolio investment (net)	110	6	41	207	154	-14	-14	-14	-14	-284
Assets (net)	92	-9	177	207	-14	-14	-14	-14	-14	-14
Liabilities (net)	-18	-15	136	0	-168	0	0	0	0	270
Of which : net official bond disbursements			300	0	-168	0	0	0	0	270
Other investment (net)	-509	-761	-694	-232	-549	-599	-611	-685	-713	-483
Assets (net)	-6	-111	-53	410	24	66	84	97	158	184
Short-term	29	-132	-58	326	19	60	77	89	150	174
Banks	222	10	8	123	98	111	128	140	201	225
Other sectors, excl. government and central bank	-182	-142	-64	101	-78	-50	-50	-50	-50	-50
Medium and long-term	-35	21	6	84	6	6	6	8	8	10
Banks	27	-6	-3	-9	-5	-5	-6	-5	-5	-5
Other sectors, excl. government and central bank	-61	26	8	92	11	12	12	13	14	14
Liabilities (net)	503	650	641	642	573	665	695	782	872	668
Short-term	308	143	473	662	360	364	378	402	412	428
General government	-14	5	9	0	0	0	0	0	0	0
Banks	-41	-286	-82	5	46	49	51	54	56	59
Other sectors	364	424	546	656	314	316	326	349	355	369
Medium and long-term	195	507	168	-20	213	301	317	380	460	240
Monetary authority	0	0	0	0	0	0	0	0	0	0
General government	-24	418	186	-105	129	91	85	124	195	-61
SDR allocation			306							
Disbursements of loans	297	713	508	223	611	527	527	480	504	530
Project	297	356	321	113	340	432	456	480	504	530
Budget	0	357	188	110	270	95	71	0	0	0
Other	2	0	0	0	0	0	0	0	0	0
Amortization of loans	321	296	322	327	482	436	442	356	309	591
Banks	82	-120	-112	-74	-130	-34	-23	-21	-19	2
Other sectors	137	209	94	159	214	244	255	277	284	299
D. Errors and omissions	-24	-51	244	253	0	0	0	0	0	0
Overall balance (A+B-C+D)	477	627	1,076	-14	-105	225	276	384	426	460
Financing	-477	-627	-1,076	14	105	-225	-276	-384	-426	-460
Change in net international reserves ("-"=increase)	-477	-627	-1,076	14	105	-225	-276	-384	-426	-460
Memorandum items:										
Current account balance (in percent of GDP)	-2.6	-3.3	-2.4	-4.5	-4.7	-4.2	-4.0	-3.8	-3.7	-3.6
Trade balance-Goods (in percent of GDP)	-22.2	-18.1	-18.3	-22.0	-21.1	-20.8	-20.6	-20.6	-20.7	-20.7
Import of goods (change, percent)	1.3	-13.4	26.2	31.9	-0.2	5.8	5.5	5.3	5.1	5.4
Export of goods (change, percent)	-2.2	-7.3	34.3	27.1	-3.2	6.6	6.0	5.3	4.9	5.5
Transfers (in percent of GDP)	12.0	11.1	10.8	10.4	10.4	10.6	10.7	10.8	10.9	11.0
Net foreign direct investment (in percent of GDP)	-2.1	-1.8	-2.4	-2.5	-2.1	-2.2	-2.2	-2.1	-2.1	-2.1
External debt/GDP (in percent)	63.9	64.1	58.5	51.6	47.7	45.8	44.4	43.3	42.5	41.7
Private sector	41.1	39.0	32.8	30.0	28.4	27.9	27.4	27.0	26.7	26.4
Public sector	22.7	25.1	25.7	21.6	19.3	17.9	17.0	16.2	15.8	15.4
External debt service/GNFS exports (percent)	17.3	20.4	14.6	11.3	17.4	17.2	15.8	14.5	13.8	15.6
Gross official reserves (in millions of Euro)	6,455	7,105	8,372	8,228	8,123	8,348	8,625	9,008	9,435	9,894
(In months of prospective imports of goods and services)	9.1	7.9	7.1	6.9	6.5	6.3	6.2	6.1	6.1	6.1
Reserves/IMF ARA metric (percent)	108.7	121.0	126.1	119.8	…	…	…	…	…	…

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

1/ Based on BPM6.

Table 4a. Bosnia and Herzegovina: Government Statement of Operations, 2019-2028

(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
							Proj.			
Revenue	**41.3**	**40.8**	**40.5**	**39.7**	**40.1**	**39.9**	**40.0**	**40.1**	**40.3**	**40.4**
Taxes	22.7	21.5	22.0	21.8	21.5	21.6	21.7	21.8	22.0	22.1
Direct taxes	3.7	3.7	3.6	4.0	3.8	3.8	3.8	3.8	3.9	4.0
Individual income tax	1.7	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Corporate income tax	1.8	1.7	1.7	1.9	1.8	1.8	1.8	1.8	1.9	1.9
Indirect taxes	18.9	17.7	18.3	17.7	17.6	17.7	17.8	17.9	18.0	18.1
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	14.9	15.5	14.8	14.2	14.5	14.5	14.5	14.5	14.5	14.5
Grants	0.5	0.5	0.4	0.4	0.6	0.3	0.3	0.3	0.3	0.3
Other revenue	3.1	3.3	3.3	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Expenditure	**39.9**	**45.4**	**39.9**	**38.8**	**41.6**	**41.4**	**41.1**	**40.7**	**40.5**	**40.2**
Expense	**36.4**	**40.0**	**35.8**	**34.9**	**37.3**	**36.8**	**36.6**	**36.2**	**35.9**	**35.7**
Compensation of employees	10.5	11.3	10.3	10.0	10.6	10.4	10.3	10.2	10.1	10.0
Use of goods and services	7.1	7.4	6.8	6.6	6.6	6.6	6.6	6.7	6.6	6.6
Social benefits	14.6	16.1	14.8	14.5	15.7	15.3	15.2	15.1	15.0	14.8
Interest	0.8	0.7	0.7	0.6	1.1	1.4	1.3	1.2	1.2	1.2
Subsidies	1.4	2.4	1.9	1.7	1.8	1.6	1.6	1.6	1.6	1.6
Other expense	2.0	2.1	1.3	1.5	1.6	1.5	1.5	1.5	1.5	1.5
Net acquisition of nonfinancial assets	**3.6**	**5.4**	**4.2**	**3.9**	**4.3**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**
Acquisition of nonfinancial assets	3.7	5.5	4.3	4.1	4.4	4.7	4.7	4.6	4.6	4.6
Foreign financed capital spending	1.6	2.1	1.9	1.3	1.6	1.9	1.9	1.9	1.9	1.9
Domestically financed capital spending	2.2	3.4	2.4	2.9	2.8	2.8	2.8	2.8	2.8	2.8
Disposal of nonfinancial assets	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Gross/net operating balance (revenue - expense)	**4.9**	**0.8**	**4.8**	**4.9**	**2.7**	**3.1**	**3.4**	**3.9**	**4.4**	**4.7**
Net lending/borrowing (revenue - expenditure)	**1.4**	**-4.6**	**0.6**	**0.9**	**-1.5**	**-1.5**	**-1.1**	**-0.6**	**-0.2**	**0.2**
Net acquisition of financial assets	**0.4**	**-1.5**	**2.3**	**0.5**	**-0.2**	**0.0**	**0.6**	**1.5**	**2.2**	**2.1**
Domestic assets	0.4	-1.5	2.3	0.5	-0.2	0.0	0.6	1.5	2.2	2.1
Currency and deposits	0.4	-1.2	2.7	0.5	-0.1	0.2	0.8	1.6	2.4	2.2
Loans	-0.2	-0.2	-0.4	-0.3	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1
Equity and investment fund shares	0.0	0.1	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
Net incurrence of liabilities	**-0.1**	**3.7**	**0.2**	**0.3**	**1.4**	**1.5**	**1.7**	**2.1**	**2.4**	**1.9**
Domestic liabilities	0.1	1.5	-1.5	0.2	1.7	1.6	1.6	1.8	1.9	1.4
Debt securities	0.5	1.3	-0.8	0.3	1.3	1.1	1.3	1.3	1.3	1.0
Other government obligations	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	-0.2	-0.2	0.4	0.6	0.3	0.6	0.6	0.4
Other accounts payable	-0.1	0.3	-0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	-0.2	2.2	1.8	0.1	-0.4	-0.1	0.1	0.3	0.5	0.5
Debt securities	0.0	0.0	1.5	0.0	-0.7	0.0	0.0	0.0	0.0	0.8
Loans	-0.2	2.2	0.3	0.1	0.3	-0.1	0.1	0.3	0.5	-0.3
Drawings	1.8	4.1	2.2	1.7	2.5	2.1	2.0	1.7	1.7	1.7
Amortization	1.9	1.8	1.8	1.6	2.2	2.2	1.8	1.4	1.2	2.0
Statistical discrepancy	**-0.9**	**-0.6**	**1.5**	**-0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items										
Net lending excl. externally-financed operation:	2.5	-2.9	2.3	1.9	-0.2	0.1	0.5	1.0	1.5	1.8
Structural balance (% of potential GDP)	0.7	-2.6	0.5	0.4	-1.6	-1.6	-1.2	-0.7	-0.2	0.1
Cyclically-adjusted primary balance	1.5	-2.2	1.2	1.1	-0.5	-0.2	0.1	0.5	1.0	1.3

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

Table 4b. Bosnia and Herzegovina: Government Statement of Operations, 2019-2028

(KM million)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
							Proj.			
Revenue	**14,773**	**14,158**	**15,845**	**18,111**	**19,993**	**21,063**	**22,275**	**23,522**	**24,815**	**26,199**
Taxes	8,127	7,475	8,599	9,940	10,737	11,418	12,101	12,811	13,572	14,360
Direct taxes	1,337	1,298	1,403	1,815	1,901	2,011	2,122	2,234	2,404	2,573
Individual income taxes	613	619	668	835	914	966	1,020	1,074	1,133	1,199
Corporate income tax	638	593	648	883	881	932	983	1,035	1,140	1,236
Indirect taxes	6,757	6,141	7,154	8,071	8,776	9,344	9,912	10,507	11,095	11,709
Other taxes	34	37	42	55	60	63	67	70	74	78
Social security contributions	5,345	5,384	5,798	6,488	7,259	7,678	8,102	8,531	8,955	9,430
Grants	183	166	162	160	291	165	173	183	194	207
Other revenue	1,117	1,133	1,286	1,523	1,706	1,802	1,899	1,997	2,094	2,202
Expenditure	**14,283**	**15,761**	**15,606**	**17,689**	**20,753**	**21,850**	**22,895**	**23,894**	**24,911**	**26,090**
Expense	**13,010**	**13,884**	**13,981**	**15,896**	**18,629**	**19,449**	**20,365**	**21,244**	**22,130**	**23,160**
Compensation of employees	3,741	3,920	4,036	4,577	5,268	5,498	5,728	5,977	6,220	6,489
Use of goods and services	2,543	2,560	2,665	2,989	3,314	3,502	3,696	3,902	4,087	4,306
Social benefits	5,224	5,587	5,795	6,595	7,812	8,095	8,469	8,844	9,206	9,603
Interest	269	253	257	281	553	715	749	715	731	783
Subsidies	502	830	735	770	885	826	871	917	963	1,014
Grants	1	18	11	15	0	0	0	0	0	0
Other expense	730	734	494	683	796	814	851	888	925	966
Net acquisition of nonfinancial assets	**1,273**	**1,877**	**1,625**	**1,794**	**2,125**	**2,400**	**2,531**	**2,649**	**2,781**	**2,930**
Acquisition of nonfinancial assets	1,330	1,923	1,681	1,873	2,181	2,459	2,592	2,713	2,848	3,000
Foreign financed capital spending	558	747	757	573	804	993	1,045	1,099	1,154	1,217
Domestically financed capital spending	772	1,176	923	1,300	1,376	1,466	1,547	1,614	1,694	1,784
Disposal of nonfinancial assets	57	46	56	79	56	59	61	64	67	70
Gross/net operating balance (revenue - expense)	**1,763**	**274**	**1,864**	**2,215**	**1,364**	**1,614**	**1,910**	**2,278**	**2,685**	**3,038**
Net lending/borrowing (revenue - expenditure)	**489**	**-1,603**	**239**	**421**	**-760**	**-786**	**-621**	**-371**	**-96**	**108**
Net acquisition of financial assets	**130**	**-520**	**900**	**214**	**-84**	**7**	**328**	**868**	**1,373**	**1,362**
Domestic assets	130	-520	900	214	-84	7	328	868	1,373	1,362
Currency and deposits	152	-424	1,056	244	-38	105	419	959	1,463	1,452
Loans	-65	-71	-160	-149	-36	-87	-80	-80	-78	-77
Equity and investment fund shares	-5	26	4	-1	0	0	0	0	0	0
Foreign assets	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	**-29**	**1,295**	**93**	**154**	**677**	**794**	**948**	**1,239**	**1,469**	**1,254**
Domestic liabilities	50	535	-605	105	853	860	868	1,073	1,170	923
Debt securities	172	462	-306	153	653	559	699	750	817	664
Issuance	522	796	238	571	1,671	1,814	2,761	3,342	3,455	3,536
Short-term T-Bills	20	268	100	136	541	511	1,071	1,552	1,372	1,468
Long-term government bonds	502	528	138	435	1,130	1,303	1,690	1,790	2,083	2,068
Amortization	348	332	-56	-116	1,018	1,256	2,062	2,592	2,639	2,873
Short-term T-Bills	40	80	-42	-50	540	510	1,070	1,551	1,371	1,467
Long-term government bonds	309	254	-13	-65	478	746	992	1,041	1,268	1,406
Other government obligations	-59	-50	-49	-48	-19	-18	-17	-17	-16	-15
Loans	-16	5	-71	-88	219	319	186	339	369	275
Other accounts payable	-47	118	-178	88	0	0	0	0	0	0
Foreign liabilities	-79	760	698	49	-176	-66	80	166	299	331
Debt securities	-13	-13	568	0	-329	0	0	0	0	529
Loans	-66	773	130	49	152	-66	80	166	299	-198
Drawings	629	1,415	843	789	1,229	1,098	1,093	1,014	1,064	1,120
Amortization	696	642	713	740	1,077	1,163	1,012	847	765	1,318
Budget support loans	186	2	2	2	0	0	0	0	0	0
Loans for investment projects	59	211	234	265	0	0	0	0	0	0
Equity and investment fund shares	0	0	0	0	0	0	0	0	0	0
Insurance, pensions, and standardized guarantee sche	0	0	0	0	0	0	0	0	0	0
Financial derivatives and employee stock options	0	0	0	0	0	0	0	0	0	0
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy	**-330**	**-212**	**569**	**-362**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items										
Indirect revenues	6,757	6,141	7,154	8,071	8,776	9,344	9,912	10,507	11,095	11,709
Net lending excl. externally-financed operations	889	-999	896	860	-80	72	283	579	900	1,155

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

Table 4c. Bosnia and Herzegovina: Entity Governments Statement of Operations, 2019-2028

(Percent of GDP)

	Federation							Republika Srpska						
	Central Government							Central Government						
	2019	2020	2021	2022	2023	2024	2028	2019	2020	2021	2022	2023	2024	2028
Revenue	8.2	16.7	16.3	15.6	16.8	16.6	16.3	26.0	25.5	25.6	26.2	26.7	26.8	27.9
Taxes	7.2	6.5	6.7	6.4	7.0	7.1	6.7	16.0	15.3	15.8	16.4	16.2	16.6	17.7
Direct taxes	0.4	0.4	0.3	0.3	0.3	0.3	0.3	3.4	3.4	3.1	3.7	3.4	3.4	3.7
Indirect taxes	6.7	6.2	6.4	6.1	6.7	6.8	6.4	12.4	11.8	12.4	12.5	12.6	12.9	13.8
Social security contributions	0.0	9.0	8.5	8.2	8.5	8.5	8.5	7.8	8.3	8.1	8.1	8.5	8.5	8.5
Grants	0.3	0.4	0.3	0.3	0.5	0.3	0.3	0.7	0.4	0.1	0.2	0.6	0.3	0.3
Other revenue	0.7	0.8	0.8	0.7	0.8	0.8	0.8	1.5	1.4	1.5	1.4	1.4	1.4	1.4
Expenditure	7.1	18.8	16.2	14.5	17.6	17.5	16.9	26.3	30.2	27.2	28.8	31.6	31.2	30.1
Expense	6.4	17.8	15.4	14.2	16.8	16.5	15.9	24.6	28.5	25.9	27.6	29.6	29.0	27.9
Compensation of employees	1.0	1.2	1.0	0.9	1.0	1.0	1.1	6.6	7.3	6.7	6.9	7.0	7.0	7.0
Use of goods and services	0.3	0.4	0.3	0.3	0.4	0.4	0.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5
Social benefits	2.0	12.3	11.1	10.3	12.0	11.9	11.3	11.9	12.6	11.9	12.4	12.9	12.7	12.1
Interest	0.5	0.4	0.4	0.3	0.6	0.7	0.8	0.9	1.0	0.9	0.9	1.9	2.4	1.8
Subsidies	0.5	1.2	0.9	0.7	0.7	0.7	0.7	1.0	2.0	1.2	1.3	1.5	0.8	0.8
Other expense	0.4	0.6	0.2	0.2	0.4	0.3	0.3	1.1	1.3	1.6	1.9	1.9	1.9	1.9
Net acquisition of nonfinancial assets	0.7	1.0	0.8	0.3	0.9	1.0	1.0	1.7	1.7	1.3	1.2	1.9	2.2	2.2
Acquisition of nonfinancial assets	0.7	1.0	0.8	0.4	0.9	1.0	1.0	1.8	1.8	1.4	1.3	2.0	2.2	2.2
Foreign financed capital spending	0.6	0.9	0.8	0.2	0.8	0.9	0.9	0.4	0.4	0.3	0.2	1.1	1.3	1.3
Domestically financed capital spending	0.2	0.2	0.1	0.1	0.1	0.1	0.1	1.4	1.4	1.1	1.1	0.9	0.9	0.9
Disposal of nonfinancial assets	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Gross/net operating balance (revenue - expense)	1.8	-1.1	0.9	1.4	0.0	0.2	0.4	1.4	-3.1	-0.3	-1.4	-2.9	-2.3	0.1
Net lending/borrowing (revenue - expenditure)	1.1	-2.1	0.1	1.1	-0.9	-0.8	-0.6	-0.3	-4.8	-1.7	-2.6	-4.9	-4.4	-2.1
Net acquisition of financial assets	-0.7	-2.1	0.5	-1.4	-1.5	-0.8	0.2	1.0	-0.7	1.8	-0.8	0.1	-0.8	1.0
Domestic assets	-0.7	-2.1	-0.1	-0.9	-1.5	-0.8	0.2	1.0	-0.7	1.8	-0.8	0.1	-0.8	1.0
Currency and deposits	0.0	-1.2	0.8	-0.3	-1.0	-0.3	0.7	0.2	-0.3	2.0	-0.4	-0.4	-1.2	0.5
Loans	-0.7	-0.9	-0.9	0.0	-0.6	-0.6	-0.5	0.8	-0.4	-0.1	-0.3	0.5	0.3	0.5
Net incurrence of liabilities	-1.5	4.9	3.6	1.7	-0.7	0.0	0.8	1.3	4.1	3.4	1.8	5.0	3.6	3.1
Domestic liabilities	0.0	0.6	-0.4	-0.3	0.9	1.2	1.2	1.1	2.6	-2.8	1.4	4.4	3.6	2.6
Debt securities	0.0	0.6	-0.4	-0.3	0.4	0.6	1.1	1.3	2.8	-1.5	1.8	3.2	2.1	1.0
Other government obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-0.4	-0.4	-0.3	-0.1	-0.1	0.0
Loans	0.0	0.0	0.0	0.0	0.5	0.6	0.2	0.3	0.0	-0.5	-0.4	1.3	1.6	1.7
Foreign liabilities	-1.5	4.3	4.0	2.0	-1.6	-1.2	-0.5	0.2	1.5	6.2	0.4	0.5	0.0	0.5
Loans	-1.5	4.3	2.4	2.0	-1.6	-1.2	-0.5	0.3	1.6	0.2	0.4	2.6	0.0	-2.1
Drawings	0.3	2.5	0.6	0.4	0.5	1.0	0.7	2.2	3.3	1.7	1.9	4.9	2.4	2.0
Amortization	1.8	1.8	1.8	1.5	2.2	2.2	1.1	1.9	1.6	1.5	1.5	2.3	2.4	4.0
Statistical discrepancy	-0.3	-4.9	-3.1	-4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items														
Net lending excl. externally-financed operations	1.3	-1.6	0.6	1.0	-0.3	-0.2	0.1	-0.7	-4.8	-1.6	-2.6	-4.3	-3.4	-1.1
Primary balance (% of GDP)	1.5	-1.7	0.4	1.5	-0.3	-0.1	0.2	0.6	-3.8	-0.8	-1.8	-2.9	-2.0	-0.3

	Federation							Republika Srpska						
	General Government							General Government						
	2019	2020	2021	2022	2023	2024	2028	2019	2020	2021	2022	2023	2024	2028
Revenue	38.0	37.5	37.0	36.0	36.4	36.4	37.3	40.4	40.0	40.2	40.7	40.4	40.4	41.4
Taxes	19.6	18.0	18.7	18.5	18.2	18.5	19.3	22.1	21.3	21.9	22.3	21.4	21.6	22.6
Direct taxes	3.6	3.6	3.5	3.9	3.7	3.7	3.9	4.0	4.0	3.7	4.3	4.1	4.1	4.3
Indirect taxes	15.9	14.4	15.2	14.6	14.5	14.7	15.4	17.8	17.0	17.9	17.6	16.9	17.2	18.0
Social security contributions	15.7	16.2	15.4	14.7	15.0	15.0	15.0	14.1	14.8	14.4	13.9	14.2	14.2	14.2
Grants	0.4	0.4	0.3	0.4	0.6	0.3	0.3	0.7	0.5	0.3	0.3	0.6	0.3	0.3
Other revenue	2.4	2.8	2.6	2.5	2.6	2.6	2.6	3.4	3.4	3.6	4.2	4.2	4.2	4.2
Expenditure	36.8	41.9	36.5	34.3	36.9	36.8	36.2	39.7	45.3	40.5	42.2	44.7	44.7	43.6
Expense	33.8	37.3	32.6	30.8	33.3	32.9	32.3	35.1	38.7	36.2	37.5	39.2	38.9	37.8
Compensation of employees	8.5	9.1	8.3	8.0	8.3	8.2	8.1	8.8	9.7	9.0	9.3	9.4	9.4	9.4
Use of goods and services	8.3	8.7	8.0	7.5	7.6	7.6	7.7	3.2	3.4	3.0	3.2	3.2	3.2	3.3
Social benefits	13.0	14.6	13.0	12.3	13.9	13.5	13.1	18.6	20.0	19.2	19.7	20.1	19.9	19.3
Interest	0.6	0.5	0.4	0.4	0.7	0.8	0.9	1.2	1.2	1.1	1.1	2.1	2.6	2.0
Subsidies	1.4	2.4	2.0	1.7	1.7	1.7	1.7	1.4	2.3	1.6	1.6	1.9	1.2	1.2
Other expense	2.1	2.0	0.7	0.9	1.1	1.0	0.9	1.9	2.1	2.3	2.7	2.7	2.7	2.7
Net acquisition of nonfinancial assets	3.0	4.6	4.0	3.5	3.6	3.9	3.9	4.6	6.6	4.3	4.7	5.5	5.7	5.8
Acquisition of nonfinancial assets	3.2	4.7	4.1	3.7	3.7	4.0	4.0	4.8	6.8	4.5	4.9	5.6	5.9	5.9
Foreign financed capital spending	1.6	2.7	2.6	1.6	1.7	2.0	2.0	1.5	1.3	0.8	0.6	1.5	1.7	1.7
Domestically financed capital spending	1.5	2.0	1.5	2.1	2.0	2.0	2.0	3.3	5.5	3.7	4.3	4.2	4.2	4.2
Disposal of nonfinancial assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Gross/net operating balance (revenue - expense)	4.2	0.1	4.5	5.2	3.1	3.5	4.9	5.3	1.3	4.0	3.2	1.2	1.4	3.5
Net lending/borrowing (revenue - expenditure)	1.2	-4.4	0.5	1.7	-0.5	-0.5	1.0	0.7	-5.2	-0.3	-1.6	-4.3	-4.3	-2.2
Net acquisition of financial assets	-0.3	-2.4	2.1	0.2	-0.8	0.1	2.5	1.7	-0.4	2.8	-0.2	0.7	-0.7	0.9
Domestic assets	-0.3	-2.4	2.1	0.2	-0.8	0.1	2.5	1.7	-0.4	2.8	-0.2	0.7	-0.7	0.9
Currency and deposits	0.0	-2.1	2.6	0.6	-0.8	0.1	2.5	1.2	-0.2	3.0	-0.7	1.0	-0.1	1.3
Loans	-0.3	-0.3	-0.5	-0.3	0.0	0.0	0.0	0.2	0.0	-0.2	-0.3	-0.2	-0.5	-0.4
Net incurrence of liabilities	-0.5	6.5	1.5	-0.3	-0.3	0.6	1.4	0.9	5.2	3.1	1.4	5.0	3.6	3.1
Domestic liabilities	-0.1	0.4	-0.5	-0.4	0.5	0.7	0.9	0.6	3.3	-3.0	1.3	4.4	3.6	2.6
Debt securities	0.1	0.6	-0.4	-0.3	0.4	0.6	1.1	1.3	2.9	-1.6	1.8	3.2	2.1	1.0
Other government obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-0.4	-0.4	-0.3	-0.1	-0.1	0.0
Loans	-0.1	-0.2	-0.1	-0.1	0.0	0.1	-0.2	0.1	0.5	-0.3	-0.4	1.3	1.6	1.7
Foreign liabilities	-0.4	6.1	2.1	0.1	-0.8	-0.2	0.5	0.3	1.9	6.1	0.1	0.5	0.0	0.5
Loans	-0.4	6.1	0.5	0.1	-0.8	-0.2	0.5	0.4	2.0	0.1	0.1	2.6	0.0	-2.1
Drawings	1.4	4.3	2.3	1.7	1.4	2.0	1.7	2.6	3.9	2.0	1.9	4.9	2.4	2.0
Amortization	1.8	1.8	1.8	1.6	2.2	2.2	1.1	2.2	1.9	1.9	1.8	2.3	2.4	4.0
Statistical discrepancy	-1.0	-4.5	0.1	-1.2	0.0	0.0	0.0	0.1	-0.3	-0.1	-0.1	0.0	0.0	0.0
Memorandum items														
Net lending excl. externally-financed operations	2.5	-2.1	2.8	3.0	1.0	1.3	2.8	2.2	-4.0	0.5	-0.9	-2.8	-2.6	-0.5
Primary balance (% of GDP)	1.8	-3.9	0.9	2.1	0.2	0.3	1.9	1.9	-4.1	0.9	-0.5	-2.2	-1.7	-0.2

	Bosnia and Herzegovina						
	2019	2020	2021	2022	2023	2024	2028
Revenue	41.3	40.8	40.5	39.7	40.1	39.9	40.4
Taxes	22.7	21.5	22.0	21.8	21.5	21.6	22.1
Direct taxes	3.7	3.7	3.6	4.0	3.8	3.8	4.0
Indirect taxes	18.9	17.7	18.3	17.7	17.6	17.7	18.1
Social security contributions	14.9	15.5	14.8	14.2	14.5	14.5	14.5
Grants	0.5	0.5	0.4	0.4	0.6	0.3	0.3
Other revenue	3.1	3.3	3.3	3.3	3.4	3.4	3.4
Expenditure	39.9	45.4	39.9	38.8	41.6	41.4	40.2
Expense	36.4	40.0	35.8	34.9	37.3	36.8	35.7
Compensation of employees	10.5	11.3	10.3	10.0	10.6	10.4	10.0
Use of goods and services	7.1	7.4	6.8	6.6	6.6	6.6	6.6
Social benefits	14.6	16.1	14.8	14.5	15.7	15.3	14.8
Interest	0.8	0.7	0.7	0.6	1.1	1.4	1.2
Subsidies	1.4	2.4	1.9	1.7	1.8	1.6	1.6
Other expense	2.0	2.1	1.3	1.5	1.6	1.5	1.5
Net acquisition of nonfinancial assets	3.6	5.4	4.2	3.9	4.3	4.5	4.5
Acquisition of nonfinancial assets	3.7	5.5	4.3	4.1	4.4	4.7	4.6
Foreign financed capital spending	1.6	2.1	1.9	1.3	1.6	1.9	1.9
Domestically financed capital spending	2.2	3.4	2.4	2.9	2.8	2.8	2.8
Disposal of nonfinancial assets	0.2	0.1	0.1	0.2	0.1	0.1	0.1
Gross/net operating balance (revenue - expense)	4.9	0.8	4.8	4.9	2.7	3.1	4.7
Net lending/borrowing (revenue - expenditure)	1.4	-4.6	0.6	0.9	-1.5	-1.5	0.2
Net acquisition of financial assets	0.4	-1.5	2.3	0.5	-0.2	0.0	2.1
Domestic assets	0.4	-1.5	2.3	0.5	-0.2	0.0	2.1
Currency and deposits	0.4	-1.2	2.7	0.5	-0.1	0.2	2.2
Loans	-0.2	-0.2	-0.4	-0.3	-0.1	-0.2	-0.1
Net incurrence of liabilities	-0.1	3.7	0.2	0.3	1.4	1.5	1.9
Domestic liabilities	0.1	1.5	-1.5	0.2	1.7	1.6	1.4
Debt securities	0.5	1.3	-0.8	0.3	1.3	1.1	1.0
Other government obligations	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0
Loans	0.0	0.0	-0.2	-0.2	0.4	0.6	0.4
Foreign liabilities	-0.2	2.2	1.8	0.1	-0.4	-0.1	0.5
Loans	-0.2	2.2	0.3	0.1	0.3	-0.1	-0.3
Drawings	1.8	4.1	2.2	1.7	2.5	2.1	1.7
Amortization	1.9	1.8	1.8	1.6	2.2	2.2	2.0
Statistical discrepancy	-0.9	-0.6	1.5	-0.8	0.0	0.0	0.0
Memorandum items							
Net lending excl. externally-financed operations	2.5	-2.9	2.3	1.9	-0.2	0.1	1.8
Primary balance (% of GDP)	2.1	-3.9	1.3	1.5	-0.4	-0.1	1.4

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

Note: Federation central government included pension fund in 2020.

Table 5a. Institutions of BiH: Statement of Government Operations, 2019-2028

(KM million)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Proj.					
Revenue	**926**	**943**	**987**	**1,044**	**1,214**	**1,224**	**1,225**	**1,226**	**1,226**	**1,227**
Taxes	750	780	780	866	1,021	1,021	1,021	1,021	1,021	1,021
Direct taxes	0	0	0	0	0	0	0	0	0	0
Indirect taxes	750	780	780	866	1,021	1,021	1,021	1,021	1,021	1,021
Other taxes	0	0	0	0	0	0	0	0	0	0
Social security contributions	0	0	0	0	0	0	0	0	0	0
Grants	14	17	47	13	15	15	16	17	18	19
Other revenue	162	145	160	165	179	188	188	188	188	188
Expenditure	**876**	**984**	**924**	**1,008**	**1,234**	**1,248**	**1,248**	**1,251**	**1,246**	**1,242**
Expense	**855**	**899**	**876**	**974**	**1,189**	**1,201**	**1,198**	**1,213**	**1,207**	**1,202**
Compensation of employees	667	681	695	737	953	956	958	961	963	966
Use of goods and services	159	142	154	185	200	208	202	213	204	195
Social benefits	4	10	12	23	22	22	22	22	22	22
Interest	1	1	1	1	1	1	1	1	1	1
Transfers to other general government units	6	44	2	5	2	2	2	2	2	2
Other expense	19	12	4	11	12	13	14	14	15	16
Net acquisition of nonfinancial assets	**20**	**85**	**47**	**34**	**45**	**47**	**50**	**38**	**39**	**41**
Acquisition of nonfinancial assets	26	86	49	41	45	47	50	38	40	42
Foreign financed capital spending	3	3	5	4	5	5	5	6	6	6
Domestically financed capital spending	23	83	44	37	40	42	45	32	34	35
Disposal of nonfinancial assets	6	0	1	7	0	0	0	0	1	1
Gross/net operating balance (revenue - expense)	**71**	**44**	**111**	**71**	**25**	**23**	**26**	**13**	**19**	**26**
Net lending/borrowing (revenue - expenditure)	**50**	**-42**	**64**	**37**	**-20**	**-24**	**-24**	**-25**	**-19**	**-15**
Net acquisition of financial assets	**25**	**31**	**-29**	**84**	**-20**	**-24**	**-24**	**-25**	**-19**	**-15**
Domestic assets	25	31	-29	84	-20	-24	-24	-25	-19	-15
Currency and deposits	15	30	-28	83	-20	-24	-24	-25	-19	-15
Debt securities	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0
CBBH	0	0	0	0	0	0	0	0	0	0
Commercial banks	0	0	0	0	0	0	0	0	0	0
Development banks	0	0	0	0	0	0	0	0	0	0
Another general government unit	0	0	0	0	0	0	0	0	0	0
Received repayment of loans	0	0	0	0	0	0	0	0	0	0
Debt service **(principle and interest)** by lower levels of government channeled through the central government	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Extension of loans	0	0	0	0	0	0	0	0	0	0
Enterprizes (private and public)	0	0	0	0	0	0	0	0	0	0
Related to foreign loans	0	0	0	0	0	0	0	0	0	0
Equity and investment fund shares	0	0	0	0	0	0	0	0	0	0
Privatization proceeds	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Insurance, pensions, and standardized guarantee schemes	0	0	0	0	0	0	0	0	0	0
Financial derivatives and employee stock options	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	10	1	-1	1	0	0	0	0	0	0
Foreign assets	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	**-25**	**79**	**-93**	**49**	**0**	**0**	**0**	**0**	**0**	**0**
Domestic liabilities	-22	83	-88	53	0	0	0	0	0	0
Foreign liabilities	-3	-4	-4	-5	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0	0
Loans	-3	-4	-4	-5	0	0	0	0	0	0
Drawings	0	0	0	0	0	0	0	0	0	0
Amortization	3	4	4	5	0	0	0	0	0	0
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items										
Net lending excl. externally-financed operations	54	-38	68	41	-15	-19	-18	-19	-13	-9

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

Table 5b. Federation of BiH: Statement of General Government Operations, 2019-2028

(KM million)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Proj.				
Revenue	**8,935**	**8,457**	**9,451**	**10,818**	**11,980**	**12,651**	**13,425**	**14,221**	**15,043**	**15,922**
Taxes	4,597	4,069	4,783	5,547	5,999	6,421	6,844	7,283	7,752	8,236
Direct taxes	849	821	905	1,165	1,225	1,296	1,367	1,439	1,545	1,649
Indirect taxes	3,746	3,247	3,877	4,382	4,774	5,125	5,476	5,843	6,207	6,587
Other taxes	1	1	1	0	0	0	1	1	1	1
Social security contributions	3,689	3,662	3,927	4,424	4,949	5,235	5,524	5,817	6,106	6,430
Grants	88	93	82	107	189	105	110	117	124	132
Other revenue	562	633	659	739	842	889	946	1,004	1,061	1,124
Expenditure	**8,654**	**9,453**	**9,323**	**10,303**	**12,149**	**12,809**	**13,457**	**14,118**	**14,758**	**15,485**
Expense	**7,945**	**8,424**	**8,307**	**9,249**	**10,957**	**11,442**	**12,017**	**12,603**	**13,168**	**13,810**
Compensation of employees	1,996	2,063	2,120	2,392	2,723	2,857	2,989	3,138	3,282	3,441
Use of goods and services	1,943	1,966	2,053	2,259	2,516	2,662	2,818	2,972	3,125	3,302
Social benefits	3,063	3,287	3,323	3,696	4,581	4,707	4,922	5,139	5,349	5,579
Interest	131	118	113	126	221	276	302	324	340	367
Subsidies	329	532	516	511	563	595	628	661	694	731
Other expense	483	450	180	262	352	345	356	367	377	389
Net acquisition of nonfinancial assets	**709**	**1,030**	**1,016**	**1,054**	**1,192**	**1,367**	**1,440**	**1,515**	**1,590**	**1,674**
Acquisition of nonfinancial assets	741	1,051	1,044	1,099	1,220	1,396	1,471	1,547	1,624	1,710
Foreign financed capital spending	386	599	653	480	565	704	740	778	816	859
Domestically financed capital spending	354	452	390	619	655	693	731	769	808	851
Disposal of nonfinancial assets	32	21	28	45	27	29	31	32	34	36
Gross/net operating balance (revenue - expense)	**990**	**33**	**1,144**	**1,569**	**1,023**	**1,209**	**1,408**	**1,618**	**1,875**	**2,112**
Net lending/borrowing (revenue - expenditure)	**281**	**-997**	**128**	**515**	**-169**	**-158**	**-32**	**103**	**285**	**437**
Net acquisition of financial assets	**-78**	**-538**	**544**	**67**	**-277**	**33**	**342**	**597**	**914**	**1,052**
Domestic assets	-78	-538	544	67	-277	33	342	597	914	1,052
Of which: Currency and deposits	0	-464	666	167	-273	37	345	601	918	1,055
Net incurrence of liabilities	**-116**	**1,464**	**395**	**-94**	**-108**	**192**	**374**	**494**	**630**	**614**
Domestic liabilities	-13	82	-136	-132	151	254	325	372	421	389
Of which: Debt securities	19	129	-110	-102	148	211	292	375	404	465
Foreign liabilities	-103	1,382	532	38	-258	-62	49	123	208	226
Loans	-103	1,382	130	38	-258	-62	49	123	208	226
Drawings	331	969	594	511	449	692	691	645	677	713
Amortization	434	413	464	473	707	754	642	523	469	488
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy / financing gap	**-243**	**-1,005**	**20**	**-354**	**0**	**0**	**0**	**0**	**0**	**0**

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

Table 5c. Federation of BiH: Statement of Central Government Operations, 2019-2028

(KM million)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Proj.				
Revenue	**1,916**	**3,773**	**4,157**	**4,694**	**5,511**	**5,786**	**6,045**	**6,312**	**6,612**	**6,986**
Taxes	1,681	1,474	1,704	1,918	2,290	2,475	2,544	2,617	2,725	2,884
Direct taxes	99	81	72	89	97	103	109	115	126	137
Indirect taxes	1,582	1,393	1,633	1,829	2,192	2,372	2,435	2,502	2,599	2,747
Other taxes	0	0	0	0	0	0	0	0	0	0
Social security contributions	0	2,023	2,178	2,459	2,798	2,960	3,123	3,289	3,452	3,635
Grants	76	85	67	93	173	89	93	98	105	112
For budget support	0	0	0	0	92	0	0	0	0	0
For investment projects	76	85	67	93	82	89	93	98	105	112
Other revenue	159	187	205	197	250	262	285	308	330	354
Expenditure	**1,669**	**4,251**	**4,143**	**4,359**	**5,801**	**6,078**	**6,364**	**6,648**	**6,916**	**7,223**
Expense	**1,498**	**4,020**	**3,931**	**4,267**	**5,515**	**5,731**	**5,998**	**6,263**	**6,509**	**6,794**
Compensation of employees	234	260	262	283	340	359	379	403	427	454
Use of goods and services	63	83	88	80	132	139	150	159	169	181
Social benefits	465	2,777	2,840	3,085	3,961	4,143	4,320	4,496	4,661	4,841
Interest	110	101	91	103	196	249	274	295	309	335
Subsidies	121	265	230	200	223	235	248	262	275	289
Transfers to other general government units	412	409	374	449	526	486	509	532	555	581
Other expense	92	125	46	67	138	119	117	116	113	111
Net acquisition of nonfinancial assets	**171**	**231**	**212**	**92**	**286**	**347**	**366**	**386**	**406**	**430**
Acquisition of nonfinancial assets	171	232	213	111	286	347	366	386	406	430
Foreign financed capital spending	134	196	198	69	262	322	340	358	377	399
Domestically financed capital spending	37	36	15	42	24	25	26	28	29	31
Disposal of nonfinancial assets	0	0	1	19	0	0	0	0	0	0
Gross/net operating balance (revenue - expense)	**418**	**-247**	**226**	**428**	**-4**	**55**	**47**	**49**	**103**	**192**
Net lending/borrowing (revenue - expenditure)	**247**	**-478**	**14**	**336**	**-289**	**-292**	**-319**	**-337**	**-303**	**-237**
Net acquisition of financial assets	**-168**	**-474**	**121**	**-432**	**-507**	**-293**	**-156**	**-72**	**72**	**95**
Domestic assets	-168	-474	-31	-280	-507	-293	-156	-72	72	95
Of which: Currency and deposits	0	-273	193	-103	-313	-99	38	122	267	290
Foreign assets	0	0	152	-152	0	0	0	0	0	0
Net incurrence of liabilities	**-345**	**1,104**	**907**	**511**	**-218**	**-1**	**163**	**264**	**375**	**333**
Domestic liabilities	10	130	-110	-86	309	409	480	527	572	534
Of which: Debt securities	10	130	-110	-86	148	211	292	375	404	465
Foreign liabilities	-355	974	1,017	597	-527	-409	-317	-263	-196	-201
Loans	-355	974	616	597	-527	-409	-317	-263	-196	-201
Drawings	73	564	157	133	181	345	325	260	272	287
For budget support	15	452	26	157	0	111	78	0	0	0
For investment projects	58	111	132	-24	181	234	246	260	272	287
Amortization	428	410	458	464	707	754	642	523	469	488
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Statistical discrepancy	**-70**	**-1,100**	**-801**	**-1,278**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items										
Net lending excl. externally-financed operations	305	-367	146	312	-109	-59	-72	-77	-31	49

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

Notes: Central government includes pension fund since 2020. Budget support does not include MFA in 2021.

Table 5d. Republika Srpska: Statement of General Government Operations, 2019-2028

(KM million)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
							Proj.			
Revenue	**4,606**	**4,516**	**5,082**	**5,872**	**6,380**	**6,743**	**7,152**	**7,574**	**8,017**	**8,489**
Taxes	2,526	2,400	2,771	3,216	3,374	3,611	3,848	4,094	4,363	4,641
Direct taxes	460	451	472	620	643	681	718	756	819	881
Indirect taxes	2,035	1,914	2,259	2,544	2,674	2,870	3,066	3,271	3,474	3,685
Other taxes	31	35	40	52	57	61	64	67	71	74
Social security contributions	1,612	1,676	1,824	2,009	2,250	2,380	2,511	2,644	2,776	2,923
Grants	83	58	34	41	88	46	48	51	54	58
Other revenue	385	382	454	606	668	707	746	785	824	868
Expenditure	**4,526**	**5,108**	**5,116**	**6,096**	**7,056**	**7,462**	**7,838**	**8,152**	**8,512**	**8,944**
Expense	**4,001**	**4,365**	**4,572**	**5,414**	**6,194**	**6,503**	**6,826**	**7,086**	**7,392**	**7,763**
Compensation of employees	1,000	1,092	1,133	1,346	1,481	1,566	1,653	1,740	1,827	1,924
Use of goods and services	369	380	381	456	499	528	566	601	636	680
Social benefits	2,128	2,262	2,428	2,839	3,167	3,324	3,480	3,635	3,785	3,949
Interest	137	133	142	154	332	438	446	390	390	415
Subsidies	155	264	198	236	296	202	214	225	236	249
Other expense	212	235	290	384	420	445	469	494	518	546
Net acquisition of nonfinancial assets	**524**	**743**	**544**	**682**	**862**	**958**	**1,012**	**1,066**	**1,120**	**1,181**
Acquisition of nonfinancial assets	544	767	570	709	890	988	1,042	1,098	1,153	1,215
Foreign financed capital spending	169	144	99	88	235	284	300	316	332	351
Domestically financed capital spending	375	623	471	621	656	704	743	782	821	864
Disposal of nonfinancial assets	19	24	27	27	29	30	31	32	33	34
Gross/net operating balance (revenue - expense)	**605**	**151**	**510**	**457**	**186**	**240**	**326**	**489**	**625**	**727**
Net lending/borrowing (revenue - expenditure)	**80**	**-593**	**-33**	**-225**	**-676**	**-719**	**-686**	**-578**	**-496**	**-455**
Net acquisition of financial assets	**189**	**-43**	**351**	**-33**	**108**	**-116**	**-111**	**168**	**344**	**185**
Domestic assets	189	-43	351	-33	108	-116	-111	168	344	185
Of which: Currency and deposits	137	-26	377	-101	150	-22	-24	255	430	271
Net incurrence of liabilities	**99**	**582**	**398**	**199**	**784**	**602**	**575**	**745**	**839**	**640**
Domestic liabilities, *of which:*	64	371	-380	184	703	606	543	702	749	534
Debt securities	153	333	-196	255	506	348	407	375	413	198
Loans	17	54	-44	-57	211	271	149	338	346	346
Foreign liabilities	35	211	777	15	82	-3	31	44	91	105
Loans	48	224	9	15	410	-3	31	44	91	-423
Drawings	297	440	247	278	780	406	402	368	387	407
Amortization	250	216	238	263	369	409	370	325	296	831
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy / financing gap	**9**	**-32**	**-13**	**-7**	**0**	**0**	**0**	**0**	**0**	**0**

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

Table 5e. Republika Srpska: Statement of Central Government Operations, 2019-2028

(KM million)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Proj.				
Revenue	**2,962**	**2,874**	**3,231**	**3,774**	**4,219**	**4,472**	**4,725**	**4,975**	**5,262**	**5,730**
Taxes	1,820	1,733	1,995	2,360	2,565	2,769	2,929	3,083	3,276	3,638
Direct taxes	384	378	398	530	545	576	608	640	697	753
Indirect taxes	1,414	1,328	1,571	1,798	1,984	2,155	2,281	2,401	2,535	2,838
Other taxes	22	26	27	33	36	38	40	42	44	46
Social security contributions	892	935	1,022	1,176	1,338	1,415	1,494	1,573	1,651	1,738
Grants	81	49	18	29	88	46	48	51	54	58
For budget support	0	0	0	0	46	0	0	0	0	0
For investment projects	81	49	18	29	88	46	48	51	54	58
Other revenue	166	153	193	206	226	239	252	265	279	293
Expenditure	**3,001**	**3,410**	**3,443**	**4,152**	**4,986**	**5,213**	**5,461**	**5,647**	**5,881**	**6,168**
Expense	**2,804**	**3,218**	**3,275**	**3,976**	**4,678**	**4,851**	**5,079**	**5,243**	**5,456**	**5,719**
Compensation of employees	755	828	851	1,000	1,100	1,164	1,228	1,293	1,357	1,429
Use of goods and services	160	162	178	207	227	240	258	274	291	313
Social benefits	1,363	1,428	1,503	1,792	2,033	2,125	2,214	2,303	2,386	2,476
Interest	107	108	114	124	302	407	413	356	354	377
Subsidies	115	226	152	181	237	139	147	155	163	171
Transfers to other general government units	181	316	275	396	478	457	482	508	533	561
Other expense	122	150	202	275	301	319	336	354	372	391
Net acquisition of nonfinancial assets	**197**	**192**	**168**	**175**	**308**	**362**	**383**	**404**	**425**	**449**
Acquisition of nonfinancial assets	204	201	177	185	317	372	392	413	434	458
Foreign financed capital spending	40	46	34	33	174	221	233	245	258	273
Domestically financed capital spending	163	155	143	152	143	151	159	168	176	186
Disposal of nonfinancial assets	7	9	9	10	10	10	10	9	9	9
Gross/net operating balance (revenue - expense)	**159**	**-345**	**-44**	**-203**	**-459**	**-379**	**-354**	**-268**	**-193**	**12**
Net lending/borrowing (revenue - expenditure)	**-38**	**-537**	**-212**	**-378**	**-766**	**-741**	**-736**	**-672**	**-618**	**-437**
Net acquisition of financial assets	**113**	**-75**	**223**	**-111**	**16**	**-141**	**-164**	**71**	**219**	**200**
Domestic assets, *of which* :	113	-75	223	-111	16	-141	-164	71	219	200
Currency and deposits	22	-33	256	-65	-57	-199	-236	-10	128	100
Loans	86	-42	-18	-50	73	58	72	81	91	100
Equity and investment fund shares	-8	28	2	0	0	0	0	0	0	0
Net incurrence of liabilities	**152**	**462**	**432**	**265**	**782**	**600**	**572**	**743**	**837**	**637**
Domestic liabilities, *of which* :	126	289	-356	209	703	606	543	702	749	534
Debt securities	150	317	-194	254	506	348	407	375	413	198
Loans	38	-4	-59	-51	211	271	149	338	346	346
Foreign liabilities	27	173	788	56	80	-5	29	41	88	103
Loans	39	185	19	56	408	-5	29	41	88	-426
Drawings	257	368	214	272	778	404	400	366	384	405
For budget support	35	331	1	217	529	74	52	0	0	0
For investment projects	222	37	213	55	249	329	348	366	384	405
Amortization	217	183	194	216	369	409	370	325	296	831
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy	**-1**	**-1**	**0**	**2**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items										
Net lending excl. externally-financed operations	-79	-540	-197	-374	-680	-566	-552	-478	-414	-223

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

Note: MFA was recorded as investment loans in 2021.

Table 6. Bosnia and Herzegovina: Monetary Survey, 2019-2023

	2019 Dec.	2020 Dec.	2021 Dec.	2022 Prel.	2023 Proj.
Monetary Survey	(Million KM, end of period)				
Net foreign assets	13,949	16,014	19,113	19,273	19,126
Net domestic assets	12,207	12,004	12,392	13,967	16,603
Domestic credit	19,585	19,845	19,189	20,549	22,961
Claims on general government (net)	-172	591	-796	-509	687
Claims on public nonfinancial corporations	509	542	532	653	714
Claims on private sector	19,248	18,712	19,453	20,405	21,560
Other items (net)	-7,378	-7,841	-6,797	-6,581	-6,358
Broad money (M2)	26,156	28,017	31,505	33,240	35,729
Currency	4,330	5,044	5,533	6,126	6,328
Demand Deposits	8,744	9,780	12,384	13,752	14,889
Other Deposits	13,081	13,194	13,588	13,361	14,512
Time and savings deposits	2,998	3,035	3,044	2,879	3,937
Foreign currency deposits	10,083	10,159	10,544	10,483	10,575
Central Bank of the BIH (CBBH)					
Net Foreign Assets	12,625	13,895	16,375	16,094	15,888
Net Domestic Assets	-704	-665	-1,125	-686	-550
Base Money	11,120	12,305	14,448	14,931	15,239
Currency in circulation	5,200	6,172	6,924	7,436	7,536
Banks reserves	5,744	5,901	7,220	7,217	7,400
Other liabilities	177	232	305	278	303
Other items	802	926	800	485	103
Memorandum items:					
Monetary Survey	(Annual percent change in terms of broad money)				
Net foreign assets	6.2	7.9	11.1	0.5	-0.4
Net domestic assets	2.9	0.8	-2.3	5.3	3.5
Domestic credit	4.2	1.0	-2.3	4.3	7.3
Claims on general government (net)	-0.9	2.9	-4.9	0.9	3.6
Claims on public nonfinancial corporations	0.3	0.1	0.0	0.4	0.2
Claims on private sector	4.7	-2.0	2.6	3.0	3.5
	(Annual percent change)				
Broad money (M2)	8.7	7.1	12.4	5.5	7.5
Reserve money (RM)	6.9	10.7	17.4	3.3	2.1
Credit to the private sector	6.3	-2.8	4.0	4.9	5.7
	(Percent)				
Credit to the private sector (in percent of GDP)	53.8	53.9	49.7	44.7	43.2
Broad money (in percent of GDP)	73.1	80.7	80.6	72.9	71.6
Central bank net foreign assets (in percent of reserve money)	113.5	112.9	113.3	107.8	104.3
	(Ratio)				
Velocity (GDP/end-of-period M2)	1.3	1.3	1.3	1.3	1.4
Reserve money multiplier (M2/RM)	2.4	2.3	2.2	2.2	2.3

Source: CBBH; and IMF staff estimates and projections.

Table 7. Bosnia and Herzegovina: Financial Soundness Indicators, 2018-2023

(Percent)

	2018	2019	2020	2021	2022[1]	2023Q1
Capital						
Tier 1 capital to total risk exposure	16.5	17.5	18.1	18.7	18.7	18.6
Total regulatory capital ratio	17.5	18.0	19.2	19.6	19.6	19.4
Financial leverage ratio (Tier 1 capital to assets)	10.4	10.5	10.2	10.0	9.9	10.0
Quality of assets						
Nonperforming loans to total loans	8.8	7.4	6.1	5.8	4.5	4.2
Nonperforming assets (NPAs) to total assets	6.2	5.2	3.4	3.2	2.5	2.4
Nonperforming loans net of provisions to capital	11.4	9.6	7.4	7.0	4.7	4.5
Provisions to nonperforming loans	77.4	77.0	78.4	78.4	81.4	81.2
Profitability						
Return on assets	1.3	1.4	0.7	1.3	1.6	2.2
Return on equity	8.5	9.1	5.6	9.6	12.0	17.0
Net interest income to gross income	58.8	56.8	56.0	59.2	56.6	62.1
Noninterest expenses to gross income	63.2	63.6	65.5	60.1	55.7	50.5
Liquidity						
Liquid assets to total assets	29.3	29.2	28.6	30.7	30.5	32.9
Liquid assets to short-term financial liabilities	60.4	61.0	51.3	51.3	48.4	53.7
Short-term financial liabilities to total financial liabilities	57.2	56.2	65.4	68.8	72.6	70.9
Foreign exchange risk						
Foreign currency and indexed loans to total loans	56.7	53.9	53.9	50.2	43.3	42.3
Foreign currency liabilities to total financial liabilities	53.3	50.7	48.1	44.4	42.5	43.0
Net open position	2.1	3.4	4.2	4.0	1.0	0.3

Source: CBBH.

1/ Based on the 2019 IMF FSIs guidelines; periods before have been recalculated in line with 2019 FSIs guide.

Table 8. Bosnia and Herzegovina: Indicators of Capacity to Repay the Fund, 2021–2032

(Percent)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	Act.		Proj.									
Fund repurchases and charges												
In millions of SDRs	14.8	25.6	113.7	179.7	106.5	38.1	26.7	21.0	15.6	15.6	15.6	15.6
In millions of euros	17.8	32.4	142.7	227.1	135.6	48.9	34.6	27.6	20.5	20.5	20.5	20.5
In percent of exports of goods and services	0.2	0.3	1.3	2.0	1.1	0.4	0.3	0.2	0.1	0.1	0.1	0.1
In percent of external public debt service	4.3	7.3	18.8	26.5	17.3	7.1	5.3	2.9	2.6	2.4	2.5	2.4
In percent of general government revenues	0.2	0.4	1.4	2.1	1.2	0.4	0.3	0.2	0.2	0.2	0.2	0.2
In percent of gross official reserves	0.2	0.4	1.8	2.7	1.6	0.5	0.4	0.3	0.2	0.2	0.2	0.2
Fund credit outstanding												
In millions of SDRs	381.5	365.6	278.2	124.4	37.0	15.9	5.3	0.0	0.0	0.0	0.0	0.0
In millions of euros	459.2	464.0	349.0	157.3	47.1	20.3	6.8	0.0	0.0	0.0	0.0	0.0
In percent of quota	143.8	137.9	104.9	46.9	13.9	6.0	2.0	0.0	0.0	0.0	0.0	0.0
In percent of GDP	2.3	2.0	1.4	0.6	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
In percent of gross official reserves	5.5	5.6	4.3	1.9	0.5	0.2	0.1	0.0	0.0	0.0	0.0	0.0
In percent of exports of goods and services	5.5	4.2	3.3	1.4	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Exports of goods and services (millions of euros)	8,405	10,934	10,622	11,374	12,039	12,697	13,343	14,072	14,841	15,652	16,507	17,409
External public debt service (millions of euros)	411	442	757	856	785	691	647	942	794	868	831	850
Quota (millions of SDRs)	265	265	265	265	265	265	265	265	265	265	265	265
Quota (millions of euros)	319	337	333	335	338	340	343	348	348	348	348	348
Gross official reserves (millions of euros)	8,372	8,228	8,123	8,348	8,625	9,008	9,435	9,894	10,377	10,882	11,413	11,969
GDP (millions of euros)	19,982	23,317	25,516	26,992	28,481	29,989	31,478	33,148	34,907	36,759	38,709	40,763
Euros per SDR	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3

Source: IMF staff estimates.

Annex I. Implementation of Past Article IV Recommendations

IMF recommendations	Policy actions
Fiscal policy: cushion the impact of higher prices on the most vulnerable	
Enhance the coverage and targeting of fiscal support to vulnerable groups while preserving room for potential health-related spending.	**Not implemented.** Some social assistance was channeled to pensioners and other low-income groups. But the lack of comprehensive and updated social registries in both entities remains an obstacle to better targeting.
Refrain from increasing public sector wages and introducing multiple VAT rates.	**Partially implemented.** Multiple VAT rates were not introduced, but public sector wages were increased in both entities.
Scale up public sector investment in infrastructure and green energy.	**Not implemented.** Public investment fell as a percent of GDP in 2022.
Currency board arrangement and financial sector policies: strengthen the currency board and preserve financial stability	
Strengthen the currency board, better assess and monitor its resilience, and update CBBH investment guidelines for foreign exchange reserves.	**Implemented.** The CBBH rebalanced its portfolio of foreign exchange reserve while shortening duration, in line with IMF recommendations.
Align the CBBH remuneration rate on banks' excess reserves with the ECB deposit rate and fully implement the new reserve requirement framework.	**Partially implemented.** The CBBH has only marginally increased the remuneration rate on banks' excess reserves. It has adopted but not yet implemented the fulfillment of reserve requirements for FX deposits in FX.
Closely monitor banks' liquidity positions, request updated recovery plans, strictly enforce prudential requirements, and monitor the timely recognition of impaired assets.	**Partially implemented.** The banking agencies are closely monitoring banks. They introduced measures to limit increases in lending rates and limits to banks' holdings of foreign sovereign debt.
Establish a Financial Stability Fund (FSF).	**Not implemented.** The authorities disagree over whether an FSF should be established at the state level or separately at the entity level.
Enhance coordination among state- and entity-level authorities by holding regular meetings of the Standing Committee on Financial Stability (SCFS).	**Not implemented.** Regular meetings of the Standing Committee for Financial Stability have not occurred.
Finalize the Financial Sector Memorandum of Understanding (FSMOU).	**Not implemented.** An FSMOU has not been concluded, owing mainly to disagreements over the role that the central bank should play in assessing risks to financial stability.
Design an NPL action plan, including an out-of-court framework.	**Not implemented.** The authorities do not see an urgent need to design an NPL action plan, since the deterioration of asset quality has thus far not materialized as expected.

Governance and transparency: resume and accelerate reforms	
Amend the AML/CFT law to bring it in line with international standards.	**Not implemented.** An intergovernmental working group has yet to finalize the drafting of a new law due to disagreements over certain provisions.
Establish, at the CBBH, a country-wide registry of bank accounts of private individuals.	**Not implemented.** The authorities disagree over whether the registry should be maintained at the state or entity level.
Strengthen public procurement and PFM.	**Partially implemented.** Amendments to the public procurement law were adopted, bringing it more, but not fully, in line with the EU acquis. A PFM strategy was adopted at the BiH level, and some PFM reforms were implemented.
Strengthen public enterprise governance.	**Partially implemented.** Both entities took steps to establish PE oversight and fiscal risk units, but the units are not fully operational in FBiH. A comprehensive registry of PEs in FBiH is now available online.
Accelerate clearance of arrears in the public sector.	**Not implemented.** Although some institutions have stopped accumulating arrears, there has been no clearance of existing arrears.
Other structural policies and reforms	
Adopt a state-level law on energy to help develop the energy market, boost competition, and encourage new investment.	**Not implemented.** The authorities disagree over the division of competencies between the state and entities.
Adopt a new law on electronic identification and trust services for electronic transactions to ensure further alignment with existing EU legislation.	**Not implemented.** The authorities disagree over whether the supervisor body for trust service providers should reside at the state level, as required by EU legislation, or at the entity level.
Refrain from further increases in the minimum wage.	**Not implemented.** The minimum wage was increased in both entities.

Annex II. External Sector Assessment

Overall Assessment: *The external position of BiH in 2022 was broadly in line with the level implied by fundamentals and desirable policies, based on the EBA-lite current account (CA) model. Deteriorating external demand from the EU is expected to weaken the BiH external position in 2023. The level of gross international reserves has decreased since 2021 but stayed above the thresholds suggested by the traditional reserve adequacy metrics. External risks are moderate, related to outflows of funds from the banking sector, the Republika Srpska's (RS) access to foreign financing, and delays in flows of concessional bilateral and multilateral project loans and grants. In the medium term, external position will be affected by the introduction of EU Carbon Border Adjustment Mechanism (CBAM) and the ability of some of the key export sectors to adjust.*

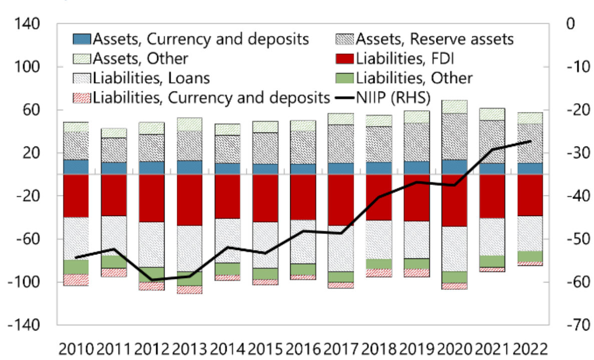
Potential Policy Responses: *Policies advancing the green energy transition and energy market reforms are needed to support key export sectors in the context of CBAM's introduction. Structural reforms to improve governance and the business environment would be conducive to steadier foreign direct investment and loan financing in the private and public sectors, especially in infrastructure and green energy. Additional accumulation of reserves would provide an important buffer for the CBBH to address potential shocks.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) has been improving gradually since 2012, reaching –27.3 percent of GDP at end-2022. From 2017 to 2021, the improvement was largely supported by narrowing CA deficit and increased FX reserves. However, since the pandemic, the decrease in FDI, bank liabilities, and government loans are also contributing to a less negative NIIP. Banks have seen a significant decline in foreign deposit financing since 2020 but also in their foreign assets, with no significant impact on the overall investment position of the banking sector.

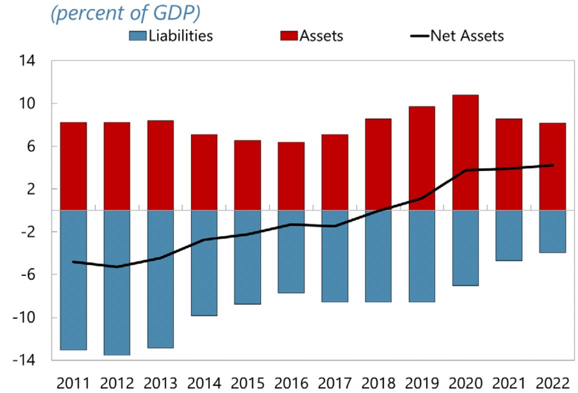
Assessment. The current NIIP implies low risks to external sustainability. Going forward, a higher CA deficit and an increase in FDI and government lending could lead to a slight deterioration in the NIIP.

Net International Investment Position
(percent of GDP)



Sources: Authorities and IMF staff calculations.

Banks: International Investment Position
(percent of GDP)

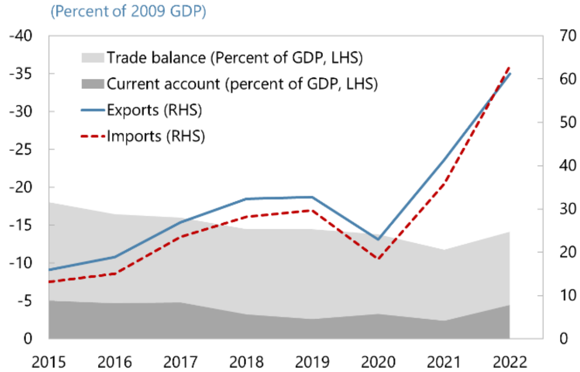


2022 (% GDP)	NIIP: -27.3	Gross Assets: 57.5	Debt Assets: 5.8	Gross Liab.: 84.8	Debt Liab.: 39.5

Current Account

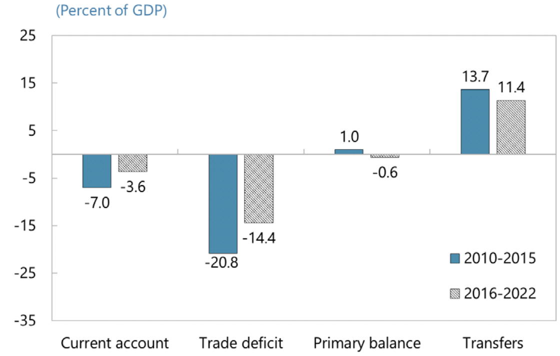
Background. The CA deficit widened from 2.4 percent of GDP in 2021 to 4.5 percent of GDP in 2022, which is above the average of the last five years. This largely reflects an increase in the trade deficit (by 2.4 percent of GDP), driven by high import prices of fuel, food, and other commodities, amid strong domestic demand. Higher import growth has more than offset higher goods exports growth, which was also driven by higher prices, notably of metals and electricity, and stronger services exports due to the recovery of tourism after the pandemic. The contribution of net remittances stayed roughly the same as in 2021, while the primary income balance improved. Going forward, staff expects further deterioration of the trade balance in 2023 due to the projected growth slowdown in the EU and declines in prices of metals and electricity. In the medium term, energy market reforms, the adjustment of production to green energy sources, the move up production value chains, and the diversification of export markets will be key to maintaining export competitiveness (see Annex III).

Cumulative Change in Exports and Imports
(Percent of 2009 GDP)



Sources: Authorities and IMF staff calculations.

Current Account and Components
(Percent of GDP)



Sources: Authorities and IMF staff calculations.

Assessment. The external position of BiH in 2022 was broadly in line with the level implied by fundamentals and desirable policies based on the EBA-lite CA model. The model applied to 2022 data estimates a CA norm of -4.2 percent of GDP. Applying cyclical adjustment and an additional adjustor to account for the slow recovery of remittances leads to an adjusted CA of -3.3 percent of GDP. This implies a policy gap of 0.7 percent of GDP, resulting primarily from a more contractionary fiscal policy (1.5 percent), and lower public health spending in GDP (0.7 percent) vis-à-vis their medium-term objectives and in comparison to the world, while the fall in reserves contributed negatively to the policy gap (-2.3 percent). The model implies a current account gap of 0.9 percent of GDP, or a real effective exchange rate (REER) undervaluation of 2.7 percent.

Bosnia and Herzegovina: CA and IREER Model Estimates for 2022 (in percent of GDP)

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-4.5**	
Cyclical contributions (from model) (-)	-0.6	
Adjustors (-) 2/	-0.1	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.5	
Adjusted CA	**-3.3**	
CA Norm (from model) 3/	**-4.2**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-4.2**	
CA Gap	**0.9**	**4.2**
o/w Relative policy gap	0.7	
Elasticity	-0.3	
REER Gap (in percent)	**-2.7**	**-12.9**

1/ Based on the EBA-lite 3.0 methodology

2/ Additional cyclical adjustment to account for the impact of the pandemic and the war in Ukraine on remittances (-0.1 percent of GDP). Tourism has recovered fully after the pandemic.

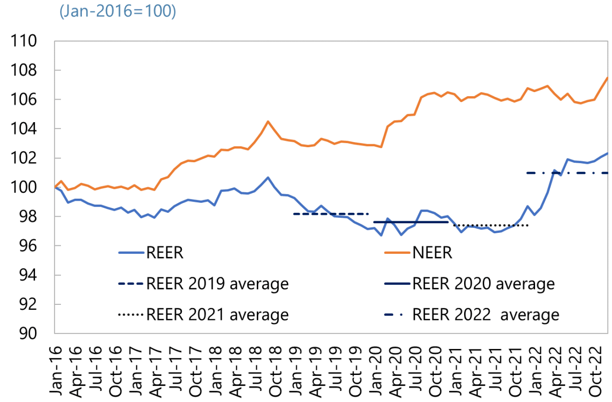
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The REER appreciated in 2022 relative to 2021 by about 3.7 percent on average, reaching its highest level in the last 5-6 years, while the nominal effective exchange rate (NEER) stayed on average roughly unchanged, with an uptick in the last two months of 2022, due to the relative strengthening of the euro against the dollar. The appreciation in REER is mostly due to the positive inflation differential with EU trading partners, which represent more than 80 percent of total exports.

Real and Nominal Effective Exchange Rates

(Jan-2016=100)



Sources: IMF and IMF staff calculations.

Assessment. The EBA-lite Index Real Effective Exchange Rate (IREER) model shows a significant REER gap for 2022, with an undervaluation of the REER estimated at 12.9 percent. This implies a CA gap of 4.2 percent according to the IREER model. The main driver of the policy gap is the difference between the actual real interest rate in 2022, which turned deeply negative as a result of high inflation and its desired policy level in the medium term. While the IREER model therefore shows a stronger external position than fundamentals and desired policies, the REER gap is expected to narrow as the interest rates increase and inflation eases in the next few years.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account (2.6 percent of GDP in 2022) was driven by net FDI inflows in 2022 (2.5 percent), which slightly increased compared to 2021 and were mostly driven by banks' reinvested earnings. Other investment inflows, mostly bilateral and multilateral government borrowing, contributed less in net terms in 2022 compared to previous years, due to the stalemate in the disbursement of external project loans and an increase in banks' foreign asset holdings. Portfolio outflows have increased since 2021, when a small outflow was recorded despite the Eurobond issuance by the RS.

Assessment. In 2023, staff projects higher financial inflows due to higher expected project loan disbursements and RS external borrowing, while FDI is expected to be slightly lower. Risks related to capital flows stem primarily from developments from the banking sector, the ability of RS to borrow on foreign debt markets in 2023 amid tight financing conditions, and concessional bilateral and multilateral project loans and grants that hinge on the political environment.

FX Reserves

Background. Gross international reserves were 8.2 billion euros at end-2022, which corresponds to about 35 percent of 2022 GDP. Nominal reserves have declined since 2021 due to a widening current account deficit, lower disbursements of external grants and loans for infrastructure projects, and moderate outflows from the banking sector.

Reserve Adequacy Ratios for Bosnia and Herzegovina, 2022 1/

	Minimum threshold	Gross reserves
Reserve/STD (percent)2/	100	196.2
Reserve/Months of prospective import goods and services 3/	3	6.9
Reserve/Broad money (percent) 4/	-	48.7
Reserves/ARA metric (percent) 5/	100	115.8
Reserves/Adjusted ARA metric (percent) 5/	100	101.3

1/ Based on Latest IIP data from the third quarter of 2022.
2/ Suggested threshold for adequacy: 100 percent.
3/ Suggested range for adequacy: 3-6 months;
4/ Suggested threshold for adequacy: 20 percent
5/ Suggested range for adequacy: 100-150 percent, depending on tolerance of exchange rate swings.

Assessment. The official reserve coverage has decreased since end-2021 but stayed above the traditional thresholds of reserve adequacy metrics in 2022. Gross international reserves at end-2022 are estimated to have covered about 6.9 months of prospective imports of goods and services, 48.7 percent of broad money, and 196.2 percent of short-term debt at remaining maturity as of end-2022. According to the traditional IMF reserve adequacy metric, the reserve coverage has reached 115.8 percent, above the minimum suggested level of 100 percent. However, sufficient FX reserves relative to base money are key for the stability of the currency board arrangement (CBA), where the central bank can only issue base money in exchange for FX. Moreover, an important share of commercial bank deposits at the CBBH are excess reserves that the banks can pull out in a crisis, and CBBH has no access to the Eurosystem liquidity lines to replenish reserves. This specific nature of the CBA is also reflected in the adjusted ARA metric[1], which is closer to the lower threshold of 100 percent and fell below it in Q3 2022. It would be therefore prudent to build higher relative reserve buffers over time and when conditions allow, to help the CBBH in responding to more severe liquidity shocks. and strengthen the resilience of the CBA.

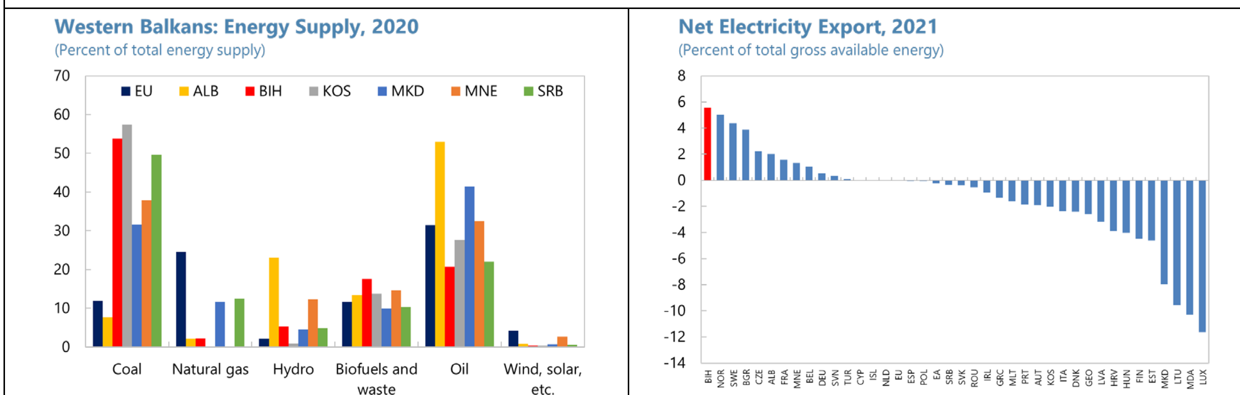
[1] See IMF Country Report No. 21/43, 2021, for details on the adjusted ARA metric.

Annex III. The Energy Sector in Bosnia and Herzegovina[1]

Reliance on local coal for energy production has insulated BIH from recent energy supply shocks, but at the cost of high air pollution and low health outcomes. The electricity sector is highly fragmented and complex, and prices are regulated and well below international prices. The introduction of the EU's carbon border adjustment mechanism will impact BiH given the size and carbon content of its exports to the EU. The authorities should seize the opportunity to advance energy reforms and transition to a lower carbon economy, including by adopting and implementing a state law on electricity and harmonizing the legislation on renewables to encourage private investment.

1. **BiH is highly dependent on locally mined coal for energy generation.** BiH is less susceptible to energy supply shocks than other Western Balkan countries; the abundance of coal and hydropower generated electricity allows it to be an electricity exporter, exporting about 24 percent of its total electricity generation and 5 percent of its total energy to neighboring countries. Natural gas accounts for about 3 percent of total energy supply and comes entirely from Russia. Given BIH's limited dependence on natural gas, especially in industry, it has been somewhat insulated from natural gas shortages in Europe.

Figure III.1. Energy Generation and Exports



Source: International Energy Agency; and IMF staff calculations.

Sources: Eurostat; and IMF staff calculations.

2. **Coal power generation presents a challenge to energy transition and contributes to lower health outcomes.** Coal power generation has been rising steadily to nearly 70 percent of electricity generation in 2020 from about 64 percent in 2015. The increased reliance on lignite—a low-quality polluting coal—has contributed to the fifth highest air pollution mortality rate in Europe and Central Asia.[2] Emissions intensity has continued to rise, widening the gap with the rest of

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[1] Prepared by Yazan Al-Karablieh and Andreja Lenarcic (both SPR) and Andrew Jewell (EUR), with support from Estefania Cohn Bech (EUR).

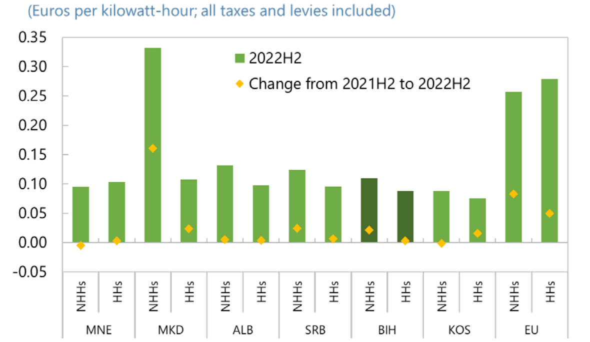
[2] According to the World Health Organization, only Tajikistan, Uzbekistan, Kyrgyzstan, and Georgia rank worse than BiH.

Europe. In 2021, the Energy Community Secretariat launched an infringement case against BiH for breaches of agreed emission ceilings.

3. **The electricity sector is highly fragmented and complex, and prices are regulated and well below international prices.** The sector comprises three vertically integrated, publicly owned electricity generating companies, two in FBiH and one in the RS, three market regulators, as well as smaller independent power producers (IPPs) operating in both entities. The electricity is either sold to domestic customers or exported to neighboring countries. BiH lacks a wholesale electricity market and instead conducts trade via bilateral agreements. As of end-2022, the entities were heavily cross-subsidizing electricity prices for households and firms without any targeting. Prices are set to rise somewhat in 2023 but remain well below international prices (Figure 2). In January 2023, the RS introduced block tariffs raising electricity prices by consumption group.[3] Implicit subsidies, calculated as the difference between the supply costs and socially efficient prices, amount to about 20 percent of GDP in BiH and reflect mostly negative externalities (Figure 2).

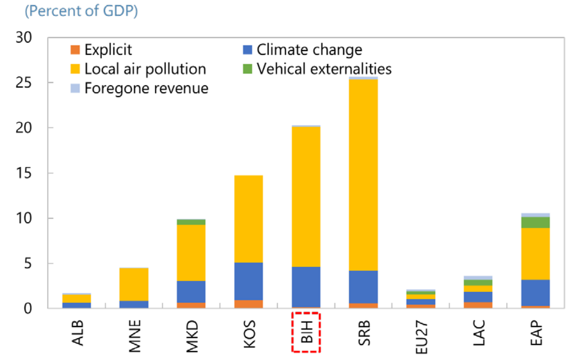
Figure III.2. Electricity Prices and Energy Subsidies

Western Balkans: Electricity Prices
(Euros per kilowatt-hour; all taxes and levies included)



Sources: Eurostat; and IMF staff calculations.
Note: NHHs: non-households and HHs: households. Prices for households refer to average prices of band consumption >1,000 KWh. Prices for non-households refer to average prices of all band consumption in MWh.

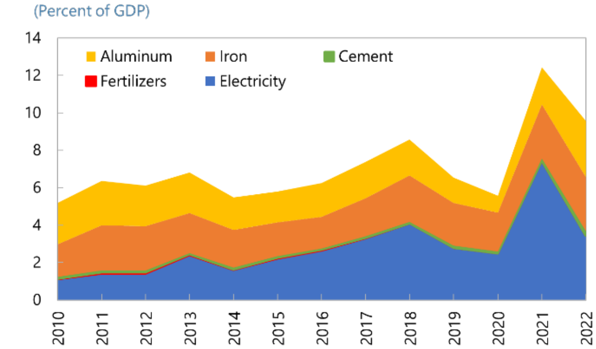
Energy Subsidies by Type, 2021
(Percent of GDP)



Source: IMF Energy Subsidy Template, 2021.
Note: LAC: Latin America & the Caribbean; EAP: East Asia & Pacific.

4. **BiH will be impacted by EU's carbon border adjustment mechanism (CBAM) given the size and carbon content of its exports to the EU.** At current trends, most electricity production will remain coal based by 2026, when the EU plans to implement CBAM. Electricity, together with four other affected industries—cement, iron and steel, aluminum, and artificial fertilizers—make up nearly a third of BiH exports, with exports to the EU in these industries generating about 10 percent of GDP in 2022. Preliminary estimates show a decline of BiH exports in the affected industries by between 11

Exports to the European Union by Selected Goods
(Percent of GDP)



Sources: UN Comtrade Database; IMF World Economic Outlook; and IMF staff calculations.
Note: Exports of electricity include mineral fuels and oils and products of their distillation, bitumen substances, and mineral wax. Exports of cement include articles of stone, plaster, asbestos, mica and similar materials. Exports of iron include iron and steel.

[3] The new price in the RS depends on consumption group as follows: (i) consumption up to 500 kWh is priced at 0.0544 KM/kWh, (ii) from 501 to 1,000 at 0.0914 KM/kWh, and (iii) consumption above 1,500 at 0.2013 KM/kWh.

and 25 percent, depending on the size of the carbon tax, equivalent to about 1.1 to 2.5 percent of GDP.[4]

5. CBAM presents an opportunity to advance energy reforms and transition to a lower carbon economy. For electricity exports, exemption from CBAM is possible, conditional on the full integration of the BiH electricity market with the EU and the introduction of an EU-equivalent emissions trading system (ETS) by 2030. An ETS or carbon pricing mechanism in BiH would generate revenue inside BiH rather than in the EU due to domestic taxes or tradable permits on carbon. This revenue could be in turn used to support the transition to renewable energy and the reduction of carbon intensity in relevant sectors. In addition, the impact of CBAM on BiH exports could be mitigated by moving up the value chain—for example, by producing higher value-added steel which is currently not subject to CBAM.

6. The authorities should adopt and implement a state law on electricity to help develop the market, boost competition, and encourage new investment. According to the Energy Community Secretariat, BiH lacks the legal basis for its national energy and climate plan, in contrast with most other countries in the region. A state-level law on energy has been under discussion since 2015, but disagreements between entities remain, particularly regarding the gas market. BiH should prioritize reforming state-level electricity to increase competition and investment. The RS is making progress in implementing EU rules on the electricity market, has completed unbundling of the distribution network, and is deregulating generation prices. In FBiH, unbundling in electricity is at an early stage, while the legal basis for electricity market reforms has not been adopted.

7. The authorities need to also harmonize the legislation on renewables to encourage private investment and accelerate the transition away from coal. Despite high potential, the transition to renewables has been slow, with less than 0.4 percent of BiH's total energy supply coming from wind and solar in 2019. BiH's modest capacity in wind, in particular, is far below potential given topography, connection to the grid, and cost-competitive potential.[5] Planned investment in renewables is reportedly insufficient to maintain energy security while transitioning away from coal. The RS and Brcko District adopted new laws on renewables in 2022, enabling auctions, which have yet to start. FBiH should adopt a renewable energy law that is harmonized with the EU and Energy Community acquis, improves the legal framework in the renewable energy sector, and introduces auctions for the allocation of feed-in tariffs and feed-in premiums for renewable power plants.

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[4] See *A European Union Carbon Border Adjustment Mechanism: Implications for developing countries* (UNCTAD, 2021); and *Impact assessment report -Accompanying the document: Proposal for a regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism* (European Commission, SWD 643, 2021).

[5] EBRD estimates BiH's cost-competitive wind potential at more than 12,000 MW by 2030, compared to 150 MW capacity currently.

Annex IV. The Implications of the Global Financial Tightening for Bosnia and Herzegovina[1]

Spillovers from tighter global financial conditions onto BiH economy have been thus far limited. The rise in domestic interest rates has been modest, due to banks' high reliance on domestic funding and high share of fixed-interest-rate lending, and the authorities' policies aimed at slowing the pace of rate increases. Nevertheless, domestic interest rates are expected to rise and narrow the gap with the euro area given the convertible mark's peg to the euro and BiH's strong financial links to the euro area. Tighter financial conditions could pose difficulties to borrowers when servicing their debts, as well as to banks with a high share of fixed-rate loans as they could see their interest margins shrink. The authorities should prepare for tighter domestic financial conditions, including by stepping up monitoring of interest rate and credit risks and putting in place adequate macroprudential policies that would help address rising vulnerabilities and safeguard financial stability.

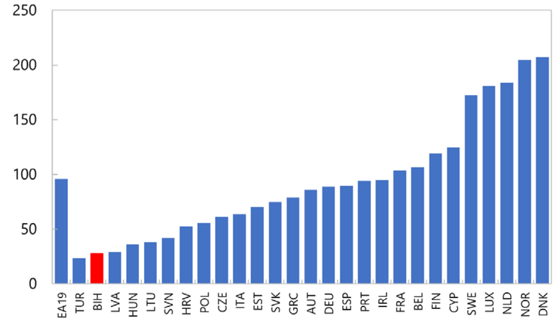
1. Household debt to disposable income in BiH is low compared to EU, yet the risks from rising interest rates should not be underestimated (Annex Figure 1). With real wages declining in 2022, debt service payments are likely adding pressure to household budgets. Households with adjustable interest rates loans are particularly exposed to interest rate increases. As of end-2022, about one third of household loans in FBiH had an adjustable interest rate.[2] These loans represent less than 15 percent of the total number of loans, implying that the share of households exposed to the interest rates shock is relatively low. Nevertheless, the average size of loans with adjustable interest rates is higher than loans with fixed rates.

2. Corporate leverage in FBiH is relatively high on average, and some sectors are particularly exposed (Annex Figure 1). The aggregate debt-to-equity ratio for FBiH-registered companies is high at 88.6 percent at end-2021, compared to 58.5 percent in the EU (Annex Figure 1). Only 10 percent of the total number of corporate loans have adjustable interest rates, but the average size of these loans is larger compared to fixed rate loans.[3] Some sectors in FBiH, such as mining, construction, financial and administrative services, and trade, are more leveraged than others. Similarly, debt-servicing capacity differs across sectors, with mining and accommodation having the lowest capacity. Aggregate numbers for other sectors may mask more heavily indebted companies and/or companies with lower debt-servicing capacities.

[1] Prepared by Adrian Music and Carolina Lopez-Quiles (EUR).
[2] The breakdown of outstanding debt with fixed and adjustable interest rates is available only for banks in FBiH.
[3] Based on corporate debt data from FBiH banks at end-2022.

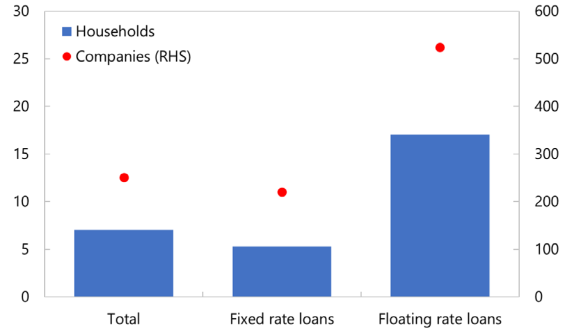
Figure IV.1. Household and Corporate Indebtedness

Household Gross Debt to Disposable Income Ratio, 2021
(Percent)



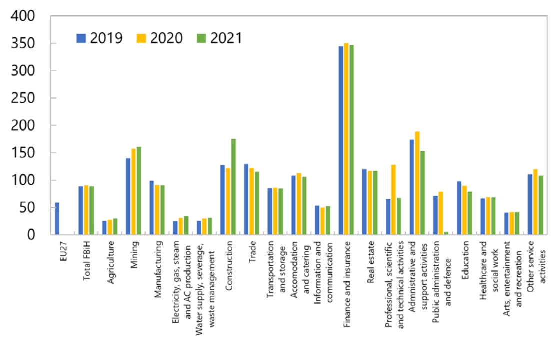
Sources: Eurostat; Central Bank of Bosnia and Herzegovina (CBBH); Agency for Statistics of Bosnia and Herzegovina (BHAS); and IMF staff calculations.

Average Loan Size, FBiH Banks, 2022
(KM thousand)



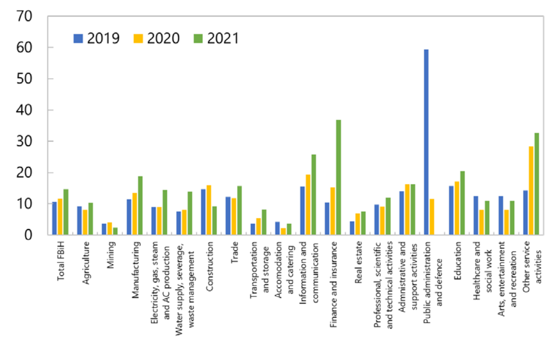
Sources: Banking Agency of the FBiH (FBA); and IMF staff calculations.

Debt-to-Equity Ratio, FBiH Companies
(Percent)



Sources: Financial and Information Agency of the FBIH (FIA); and IMF staff calculations.

Interest Coverage Ratio, FBiH Companies
(EBIT/Interest expense)

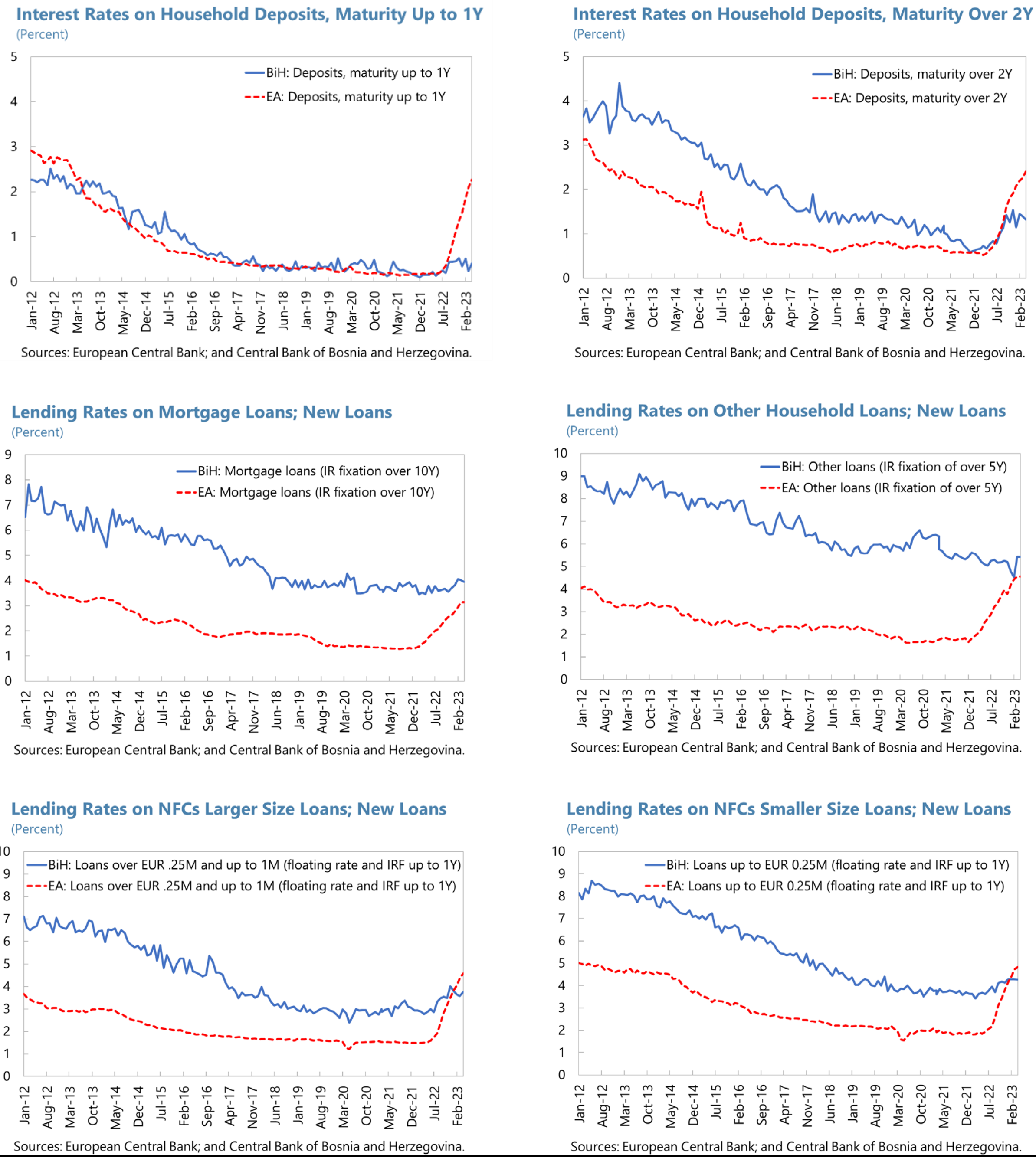


Sources: Financial and Information Agency of the FBIH (FIA); and IMF staff calculations.

3. **Interest rates in BiH have not adjusted much, and some lending rates are now below those in the euro area.** The central bank of BiH (CBBH) has raised the remuneration rates on bank reserves only marginally, in three steps since July 2022.[4] Deposit rates in BiH have increased somewhat, particularly at longer maturities, but much less than elsewhere (Annex Figure 2). Lending rates, however, have yet to adjust and are still close to historical lows, particularly for households. The delayed adjustment in BiH rates is due to policies (see below), but also the higher reliance on domestic funding and fixed interest rate loans (particularly to households) in the last decade (Annex Figure 3).

[4] From -75 to 0 bps on excess reserves, and from -60 to 30 bps and 0 to 50 bps on required reserves on FX and local currency deposits, respectively.

Figure IV.2. Deposit and Lending Interest Rates

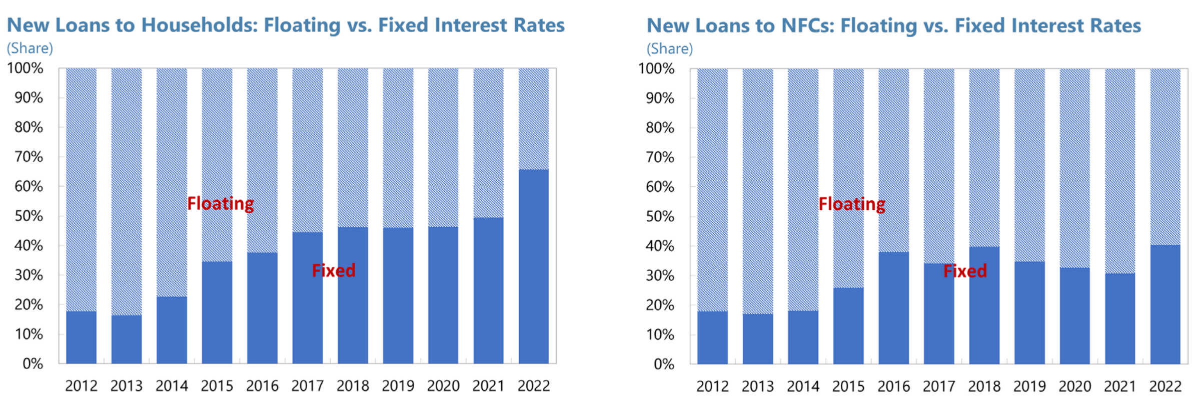


4. **The two banking agencies adopted temporary measures to slow the rise in domestic lending rates and mitigate the impact of rising global interest rates.** Measures adopted in October 2022 and expected to remain in force until December 2023 call for enhanced monitoring of borrowers' debt service capacity in a rising interest rate environment and stepped-up provisioning for loans subject to an increase in interest rates higher than 200 bps, allowing banks to restructure these loans without triggering a default procedure. Furthermore, the FBiH banking agency limited

the increase in lending interest rates to 200 bps on those loans for which a higher than 200 bps increase would trigger borrower default.[5] In the RS, a temporary regulation adopted in August 2022 and extended through December 2023 allows banks to only partially recognize revaluation losses on certain government securities.[6] In addition, in April 2023 both banking agencies set the ceiling on banks' exposure to foreign sovereigns equal to the amount of regulatory capital, until end-2024.[7]

5. With domestic rates expected to rise, households and corporates in BiH could be facing more pressure. Funding costs may increase soon, leading to higher lending rates (Annex Figure 3). If not properly hedged, fixed rate loans may pose challenges for banks when funding costs start rising. Higher interest rates, combined with depressed economic activity, could add stress to borrowers with stretched balance sheets and pre-existing vulnerabilities. This, in turn, would further weigh on economic growth, increase unemployment, and increase financing pressures for governments. Rising defaults, accompanied by higher provisioning costs, may result in slower credit growth and further financial stability concerns.

Figure IV.3. Exposure to Interest Rate Rise



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

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

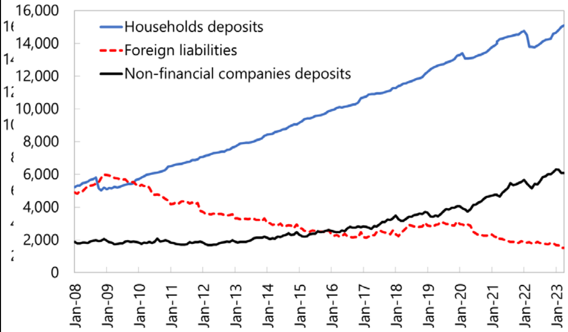
[5] The effects of these regulations in the FBiH have been so far limited. By end-2022, less than 0.06 percent of household loans and only about 1 percent of corporate loans have been subject to more than 200 bps increase in rates as banks reportedly decided to postpone raising their rates until 2023. There were no loan restructurings, and no cases where banks capped interest rate increases at 200 bps. Six of fourteen banks in FBiH increased floating rates by more than 200 bps, mostly for corporate loans.

[6] Banks can exclude 70 percent of revaluation losses (gains) when calculating CET1, and effectively only recognize 30 percent of valuation changes. This measure could in principle lead to underestimating unrealized losses and trigger deposit outflows. However, it is likely to have only a limited impact as government securities represent a small share of bank assets, the market for RS government securities is relatively illiquid (most securities are held to maturity), and deposit insurance coverage is broad, with most deposits eligible.

[7] Few banks have exposures over this new limit and only marginally. Regulators left an adjustment period until end-Q3 2023 and believe banks will have no problems to comply thereafter.

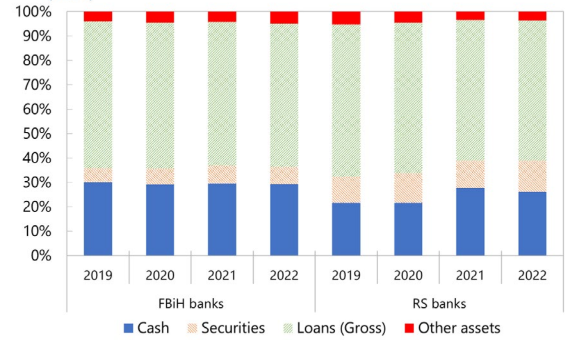
Figure IV.3. Exposure to Interest Rate Rise (Concluded)

Banks' Deposits and Foreign Liabilites in BiH
(KM million)



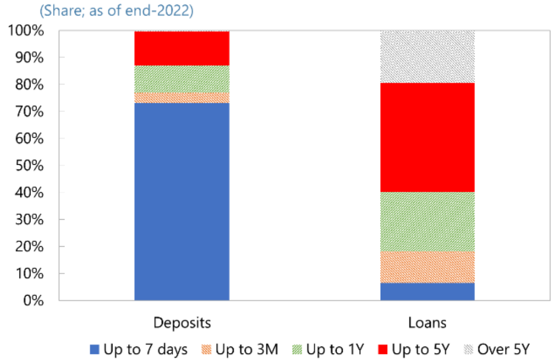
Source: Central Bank of Bosnia and Herzegovina.
Source: Central Bank of Bosnia and Herzegovina.

Composition of BiH Banking Sector Assets
(Share)



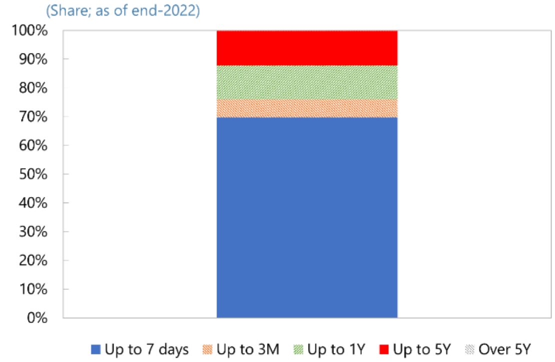
Sources: Banking Agency of the FBiH (FBA); and Banking Agency of the RS (RSBA).

FBiH Banks, Remaining Maturity
(Share; as of end-2022)



Source: Banking Agency of the FBiH.

RS Banks' Deposits, Remaining Maturity
(Share; as of end-2022)



Source: Banking Agency of the RS.

6. **Banks could also face pressure, including from more financial stress in advanced economies.** The market reaction in BiH to banking stress in advanced economies earlier this year has been muted. Compared to previous financial crises, the banking sector in BiH has higher capital and liquidity buffers and had record high profits in 2022, while the supervisory and regulatory framework is stronger. However, bank profit margins are likely to shrink if the pass-through to lending rates continues to be smaller than to deposit rates particularly given the share of fixed-rate loans. Domestic banks' reliance on international and wholesale funding is low, reflecting a shift to local deposits since the global financial crisis. However, domestic deposits might shift to alternative investments with higher returns, potentially creating liquidity pressures. Business models are dominated by traditional operations, with a small portfolio share of fixed-income assets (Annex Figure 3). And while direct spillovers from stress in advanced economies are likely limited, the banking sector remains dominated by foreign banking groups, and negative indirect spillovers from parent banks cannot be ruled out.

7. Staff cautioned the banking agencies against measures that distort prices, and called for asset classification and provisions that swiftly and accurately reflect credit risks and losses. It also called for close monitoring of credit risk, including developing the remedial NPL action plan, completing the framework for operationalizing capital buffers (counter-cyclical, systemic risk, and domestic systemically important banks), and developing macroprudential tools (LTV, DSTI) to safeguard financial stability. Enhanced vigilance is also required considering the higher global financial stability risks.

Annex V. Risk Assessment Matrix[1]

(Scale—high, medium, or low)

Source of Risks	Relative Likelihood	Impact If Realized	Recommended Policy Response
Country-specific risks			
Protracted political tensions affect economic policymaking.	**Medium**	**Medium/High** • Rising uncertainty and reduced investor confidence lowering economic prospects. • Delayed IFI financing. • Further fragmentation and weakening of coordination and reforms. • Slow progress on the EU path.	• Continue reforms pending resolution of disagreements. • Identify areas of common interest for progress. • Revitalize dialogue with international partners. • Take advantage of EU candidacy status to advance reforms.
Intensification of financial sector risks, stemming from delays in domestic interest rate adjustment or other developments, including related to crypto assets.	**Medium**	**High** • Loss of confidence in the banking system threatening financial stability. • Higher risks of capital outflows further reducing bank credit.	• Monitor closely bank liquidity positions and request updated recovery plans. • Enforce strictly prudential requirements, including capital adequacy, loan-loss provisioning, and related-party exposures and governance. • Develop the regulatory framework for virtual assets. • Enhance cooperation among key financial sector stakeholders. • Create a single financial stability fund.
Rapid tightening of domestic financial conditions.	**Medium**	**Medium** • Rising defaults of borrowers with stretched balance sheets and pre-existing vulnerabilities, particularly volatile incomes, and large debts with floating interest rates. • Surge in NPLs and pressures on bank balance sheets. • Slower credit and economic growth, rising unemployment, and fiscal pressures for governments.	• Avoid measures that distort prices and ensure prompt loan classification and provisioning. • Strengthen banking system monitoring. • Enhance cooperation among key financial sector stakeholders. • Create a single financial stability fund.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Country-specific risks			
Delays in reforms required for CBAM exemption.	**High**	**Medium** • Drop in electricity exports and loss of competitiveness of carbon-intense exporting industries. • Decline in potential growth and employment.	• Increase electricity prices to encourage efficient energy consumption and energy savings. • Speed up reforms to couple BiH's electricity market with the EU's. • Implement reforms to maintain competitiveness in other exporting industries. • Accelerate development of renewables, including legal changes.
Global conjunctural risks			
Intensification of regional conflict(s).	**High**	**High** • Lower BiH exports to Europe and remittance inflows from Europe dampening growth and widening the current account deficit. • Higher energy and commodity prices pushing up inflation and further weakening domestic demand and growth. • Lower access to market financing and higher financing costs.	• Provide temporary and targeted support to the most vulnerable and avoid permanent non-targeted support. • Accelerate structural and governance reforms and encourage private sector investment. • Enhance public spending efficiency, scale up infrastructure investment, and enhance project implementation. • Seek additional official financing.
Abrupt global slowdown or recession in Europe.	**High**	**High** • Lower BiH exports to Europe and remittance inflows from Europe dampening growth and widening the current account deficit. • Lower access to market financing.	• Accelerate structural and governance reforms and encourage private sector investment. • Enhance public spending efficiency, scale up infrastructure investment, and enhance project implementation. • Seek additional official financing.
Global structural risks			
Deepening geo-economic fragmentation.	**High**	**High/Medium** • Declining BiH exports, remittance inflows, and FDI, and weaker growth prospects. • Possible loss of critical donor support, delaying key infrastructure investments and raising borrowing costs.	• Accelerate structural and governance reforms. • Revitalize dialogue with international partners.

Annex VI. Public Debt Sustainability Analysis

Bosnia and Herzegovina: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	BIH's overall risk of sovereign stress is low, reflecting a low debt-to-GDP ratio, a relatively low level of vulnerability in the near-term, and moderate levels of vulnerability in the medium- and long-term horizons. However, there are gaps in debt coverage, especially for SoE debt, and the two entities have diverging paths for debt and cost of finance.
Near term 1/	n.a	n.a	Not applicable
Medium term	Low	Moderate	Medium-term risks for GFN are low. Yet a stress scenario involving a banking crisis can lead to moderate medium term risks for financing and the level of debt-to-gdp. At the moment the banking sector is liquid and financial risks are under control but rising. At the same time, a scenario of slower growth due to lower exports, possibly due to non-compliance with EU CBAM could lead to moderate risks in the medium term. The overall assessment for medium term risks is therefore moderate.
Fanchart	Moderate	…	
GFN	Low	…	
Stress test	...	…	
Long term	…	Moderate	Long-term risks are driven by the high dependency ratio in Bosnia and Herzegovina as a result of the migration of the working age young. Aging-related expenditures on health and pensions feed into debt dynamics and pose a long-term risk on government finances and could lead to a significantly higher debt-to-GDP ratio in the long run.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: The DSA indicates that BIH's government debt remains low and sustainable. However, alternative stress tests suggest moderate debt sustainability risks under a banking crisis shock. Lower growth due to non-compliance with EU CBAM could also lead to risks to debt dynamics in the medium-term. The low debt-to-GDP ratio points to room for more absorption of IFIs' financing for growth-enhancing projects, especially that IFI lending offers lower interest rates than bond issuances. External financing will continue to be contracted with IFIs and bilateral agencies, while the RS may issue a Eurobond in 2023 if financing conditions improve. Domestic financing is driven by banks and insurance companies and will likely be costlier in the near term as higher foreign interest rates pass-through to domestic rates. Long-run debt risks are moderate, driven by aging-related expenditures, especially if migration continues for the young working age population.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Bosnia and Herzegovina: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	No	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-government Debt Holdings

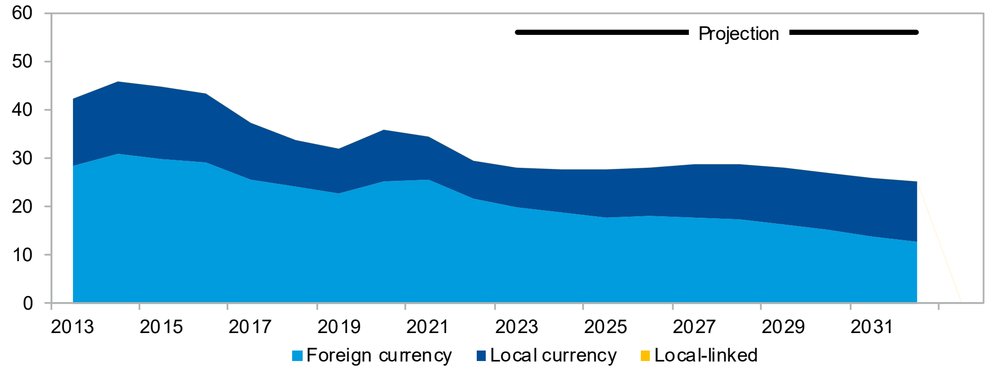
Issuer \ Holder			Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor ow es to the creditor. It reflects the value of the instrument at creation and subsequent economic flow s (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they w ere acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is for the gentral government and includes local and state government debt. SoEs' debt guaranteed by the gentral government is also included. We use CBBH data w hich also includes some SoE debt not guaranteed by the state. We add the SDR allocation to the CBBH data w hich does not report it. The FBIH data set has domestic debt for state and municipal domestic debt and data for the FBIH highw ay company. The RS includes domestic debt of SoEs in the MoF data only in the case w here the government issues guarantees or if the government transfers the loan to the SoE.

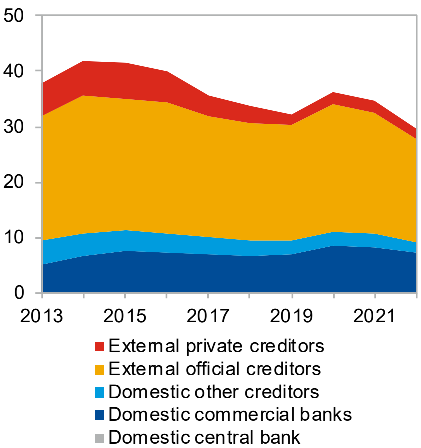
Bosnia and Herzegovina: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



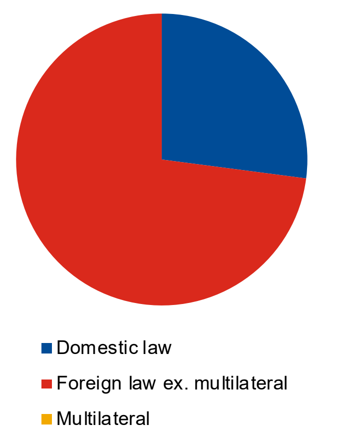
Note: The perimeter show n is general government.

Public Debt by Holder (percent of GDP)



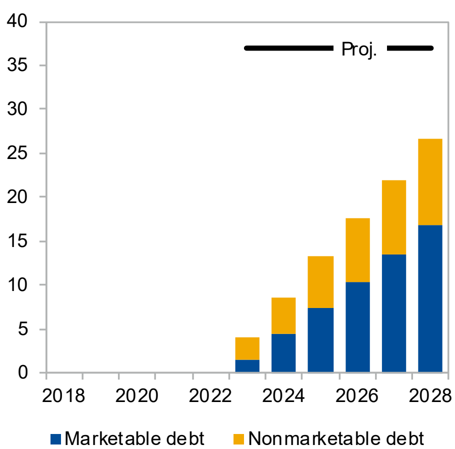
Note: The perimeter show n is general government.

Public Debt by Governing Law, 2022 (percent)



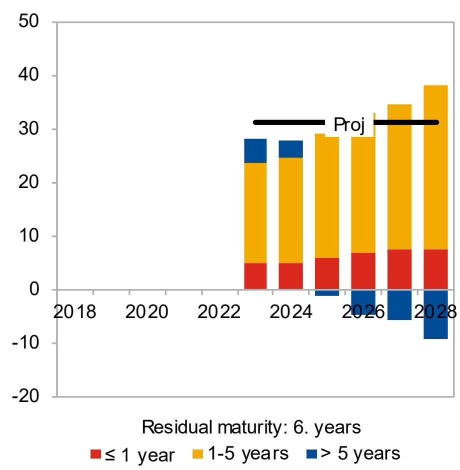
Note: The perimeter show n is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter show n is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter show n is general government.

Commentary: Within an overall decrease in debt to GDP, the share of domestic debt is expected to increase over time. External debt is expected to be driven by official creditors w ith the exception of RS Eurobond issuances. Potential new IFI financing in the area of climate projects and improved access to international markets might increase the trajectory of external debt in the future. Data on maturity and debt instruments w ill be seeked out.

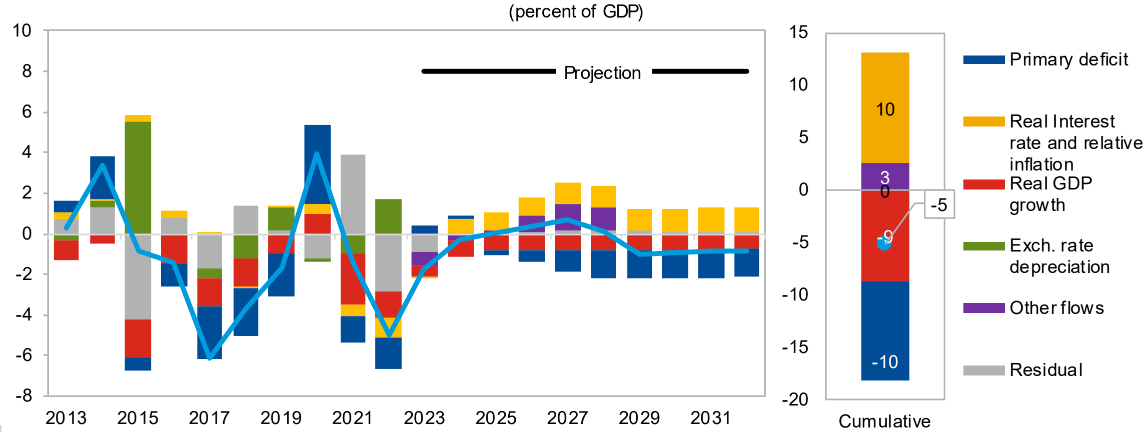
Bosnia and Herzegovina: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual		Medium-term projection						Extended projection			
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	34.6	29.6	27.9	27.7	27.7	28.1	28.8	28.9	27.9	27.0	26.1	25.3
Change in public debt	-1.4	-5.0	-1.7	-0.3	0.0	0.4	0.7	0.1	-1.0	-0.9	-0.9	-0.8
Contribution of identified flows	-5.4	-2.1	-0.8	-0.3	0.0	0.4	0.5	0.0	-1.1	-1.0	-1.0	-0.9
Primary deficit	-1.3	-1.5	0.4	0.1	-0.2	-0.6	-1.0	-1.4	-1.4	-1.4	-1.4	-1.4
Noninterest revenues	40.5	39.7	40.1	39.9	40.0	40.1	40.3	40.4	40.4	40.4	40.4	40.4
Noninterest expenditures	39.3	38.2	40.5	40.0	39.8	39.5	39.3	39.0	39.0	39.0	39.0	39.0
Automatic debt dynamics	-4.1	-0.6	-0.6	-0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.4
Real interest rate and relative inflation	-0.6	-1.0	0.0	0.7	0.9	0.9	1.0	1.0	1.1	1.1	1.2	1.2
Real interest rate	-0.9	-3.0	-1.0	0.7	0.8	0.9	1.1	1.0	1.1	1.1	1.1	1.2
Relative inflation	0.3	2.0	0.9	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Real growth rate	-2.5	-1.3	-0.6	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Real exchange rate	-1.0	1.7	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.0	-0.6	-0.3	0.2	0.8	1.3	1.2	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	-0.6	-0.3	0.2	0.8	1.3	1.2	0.0	0.0	0.0	0.0
Contribution of residual	3.9	-2.9	-0.9	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.1
Gross financing needs	1.2	0.6	4.6	6.2	6.2	7.2	8.0	8.5	9.3	10.0	11.3	11.2
of which: debt service	2.5	2.1	4.2	6.1	6.4	7.8	9.0	9.9	10.7	11.4	12.7	12.5
Local currency	0.2	0.0	1.2	2.9	3.6	5.4	6.8	6.8	7.6	8.3	8.6	9.2
Foreign currency	2.3	2.0	2.9	3.2	2.8	2.4	2.2	3.0	3.1	3.1	4.1	3.4
Memo:												
Real GDP growth (percent)	7.4	3.9	2.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Inflation (GDP deflator; percent)	4.9	12.2	7.3	2.7	2.4	2.2	1.9	2.2	2.2	2.2	2.2	2.2
Nominal GDP growth (percent)	12.6	16.6	9.4	5.8	5.5	5.3	5.0	5.3	5.3	5.3	5.3	5.3
Effective interest rate (percent)	2.1	2.1	3.7	5.2	5.7	5.6	5.8	5.9	6.1	6.4	6.7	6.9

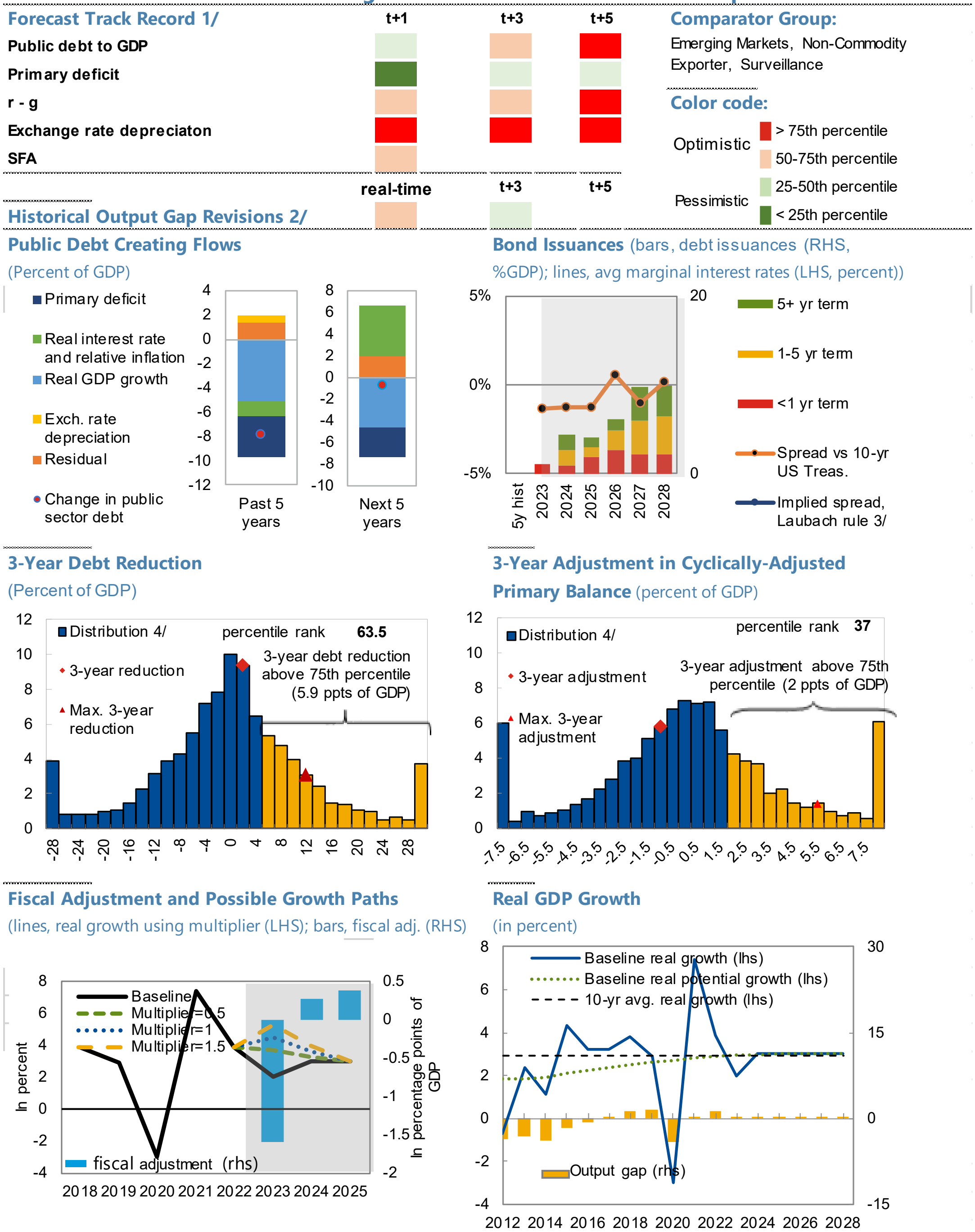
Contribution to Change in Public Debt

(percent of GDP)



Staff commentary: Debt dynamics deteriorated due to the pandemic but improved in 2021 and 2022. Public debt declined to 29.6 percent of GDP at end-2022, and is expected to further decline in the near term and stabilize between 27 and 29 percent of GDP throughout the projection period, declining further in the outer years. This profile largely reflects the improvement in the fiscal position in 2021 due to higher GDP growth and in 2022 due to higher than expected tax revenues and GDP growth. Moreover, lower issuance of domestic debt instruments and lower amounts of externally-financed capital spending also helped to prevent a higher accumulation of public debt. In the near term the two entities may experience different paths, with the RS likely to issue more external and domestic debt given the less favorable fiscal position.

Bosnia and Herzegovina: Realism of Baseline Assumptions



Commentary: Realism analysis does not trigger major concerns. The forecast record is reasonable in the near term. GDP projections are in line with recent averages and those implied with fiscal multipliers. We assume Eurobond issuances in 2026, and 2028 by the RS, explaining jumps in bond issuances in those years.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

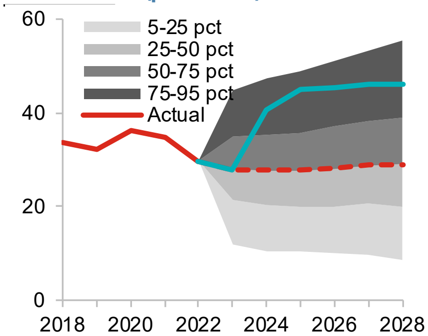
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

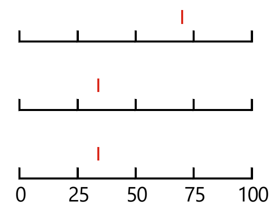
4/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Bosnia and Herzegovina: Medium-term Risk Assessment

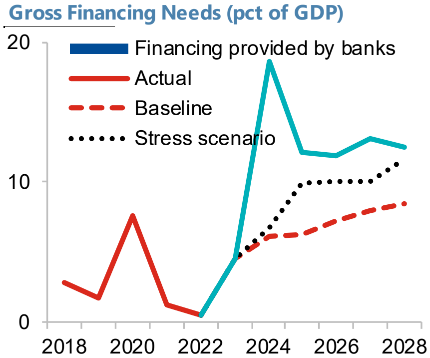
Final Fanchart (pct of GDP)



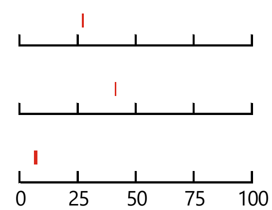
Debt fanchart module	Value	Contrib [1/]	Percentile in peer group [2/]
Fanchart width *(percent of GDP)*	46.6	0.7	
Probability of debt non-stabilizaiton *(percent)*	5.0	0.0	
Terminal debt-to-GDP x institutions index	21.9	0.5	
Debt fanchart index (DFI)		1.2	
Risk signal: [3/]		Moderate	



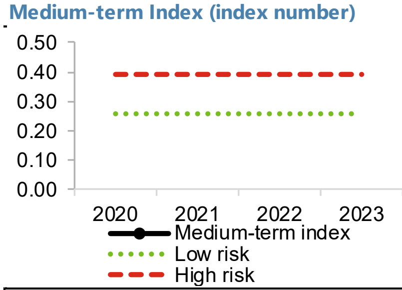
Gross Financing Needs (pct of GDP)



Gross financing needs (GFN) module	Value	Contrib	Percentile in peer group
Average baseline GFN *(percent of GDP)*	6.8	2.3	
Banks' claims on the gen. govt *(pct bank assets)*	8.1	2.6	
Chg. In banks' claims in stress *(pct banks' assets)*	2.0	0.7	
GFN financeability index (GFI)		5.6	
Risk signal: [4/]		Low	



Medium-term Index (index number)



Medium-term risk analysis

	Value	Weight	Contribution
Debt fanchart index (normalized)	0.3	0.5	0.1
GFN finaceability index (normalized)	0.1	0.5	0.1
Medium-term index	0.2		
Risk signal: 5/	Low		
Final assessment:	Moderate		

Prob. of missed crisis, 2023-2028, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 58.0 pct.

The fanchart analysis estimates risks to be moderate only in the event of a stress test of a banking crisis. The GFN module indicates lower risks than for competitors. In a stress scenario, financing needs would rise considerably, especially in the initial period, and debt-to-GDP ratio would increase substantially in the first few years and then plateau in the medium-term at a higher level.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging market, non-commodity exporting countries, with Fund-supported programs.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

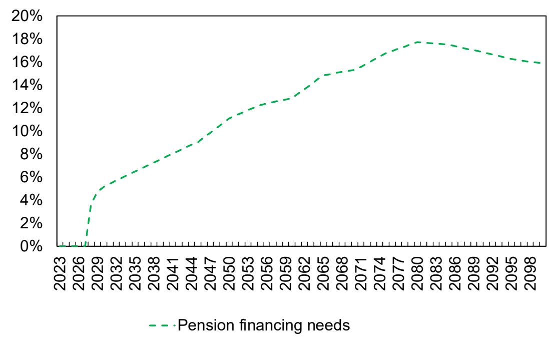
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Bosnia and Herzegovina: Long-term Risk Analysis

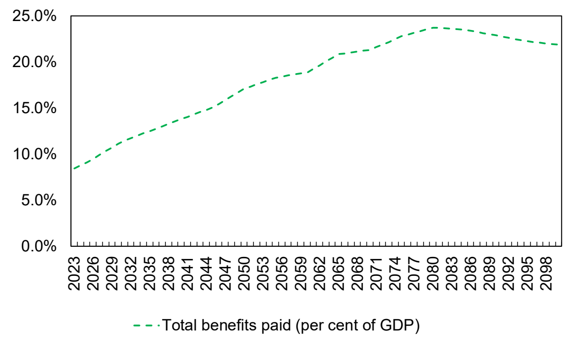
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	6.62%	9.60%	12.17%

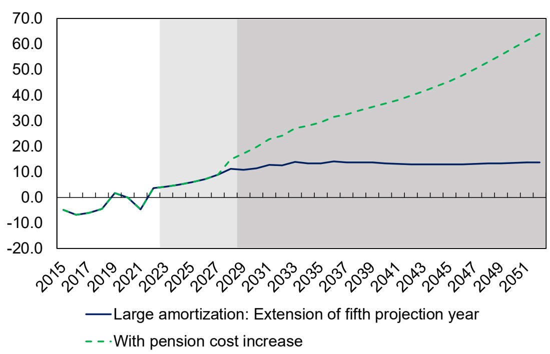
Pension Financing Needs



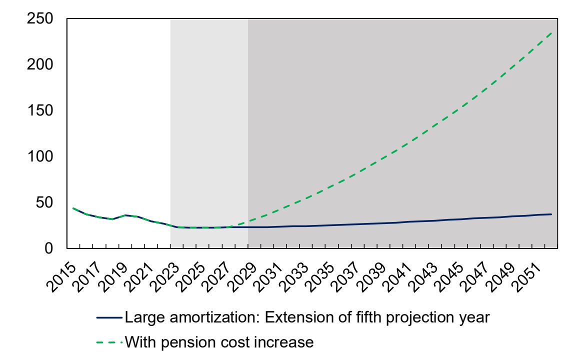
Total benefits paid



GFN-to-GDP ratio

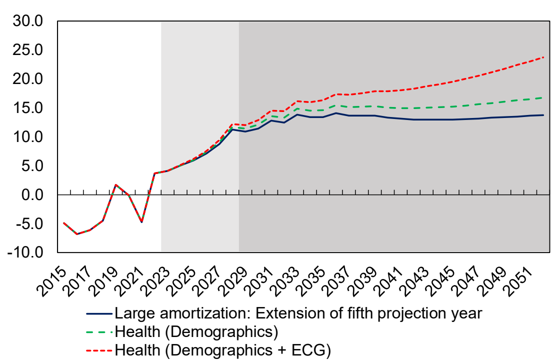


Total public debt-to-GDP ratio

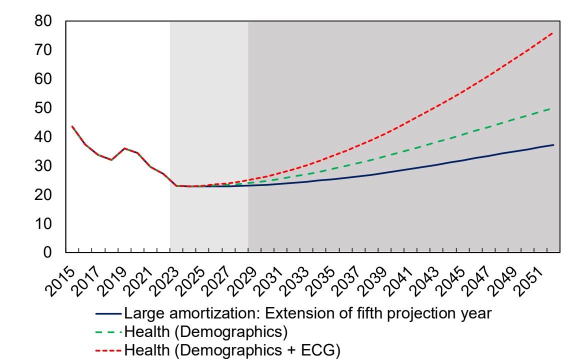


Demographics: Health

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Annex VII. External Debt Sustainability Analysis

Bosnia and Herzegovina's external debt is assessed to be sustainable over the medium term. Following the peak in 2020 due to COVID-related financing and the fall in GDP, the external debt-to-GDP ratio is on a declining path, while gross external financing needs are projected to increase in 2023 and remain stable thereafter. In this context, there is room to increase IFI financing of important domestic projects, which is needed to boost investment and the country's growth potential.

1. **Total external debt is expected to gradually decline over the medium term.** Total external debt, which covers public and private debt, has decreased in GDP terms since its peak in 2020 due to COVID-related financing and lower GDP. In 2021, lower external borrowing by the private sector partially offset additional public external borrowing to cover COVID-related needs and record IFI project loan disbursements. External debt to GDP fell to about 52 percent in 2022, and will continue to decline, reaching 41.5 percent in 2028 (Table 1). The main drivers of the decrease are net non-debt creating capital inflows, GDP growth, and, in 2023-24, expected price and exchange rate changes captured by the projection residual. Gross external financing needs to GDP are projected to increase to 28.6 percent in 2023 and remain stable or slightly decrease over the medium term**.**

2. **Structure of external debt.** As of end-2022, about 66 percent of BiH's external debt was long-term debt, with about 44 percent issued by the public sector and about 22 percent by the private sector, while about 22 percent is short-term debt (on a remaining maturity basis), mostly issued by the private sector. Long-term intercompany loans constituted about 12 percent of total external debt. 96.1 percent of BiH's public external debt is held by official creditors and 3.9 percent by private creditors, the latter including two Eurobond issuances, in 2018 and 2021.

3. **The decline of external debt is driven by real GDP growth, net FDI inflows, and other factors.** Despite a slowdown projected for 2023, economic growth will continue to contribute to a decreasing external-debt-to-GDP ratio, while net FDI flows will contribute around 2 percent. The current account is expected to put upward pressure in 2023 when the deficit stays elevated, but less so over the medium term as the deficit closes gradually. Pressures from tighter global financing conditions will increase in 2023 and persist over the medium term.

4. **The external debt path is only marginally affected by the standardized shock scenarios**, except the depreciation shock scenario. A 30 percent real depreciation of KM in 2024 would cause the external debt-to-GDP ratio to increase to 67.4 percent in 2024 and stabilize at around 66 percent by 2028 (Figure 1).

5. **Given the decline in debt, there is room to increase IFI financing to boost investment and growth potential.** The declining medium-term path of external debt and stable gross financing needs alleviate concerns regarding the sustainability of external debt. But this path is also a result of lower IFI project loans disbursements in 2022 and expected modest disbursements in the next five years. Going forward, minimizing obstacles and improving the take up of IFI financing is key to avoiding suboptimal investment and growth potential.

Table VII.1. Bosnia and Herzegovina: External Debt Sustainability Framework, 2016 – 2028

(In percent of GDP, unless otherwise indicated)

	Actual									Projections							
	2016	2017	2018	2019	2020	2021	2022	10-Year Historical Average	10-Year Standard Deviation	2023	2024	2025	2026	2027	2028	For debt stabilization	Debt-stabilizing non-interest current account 6/
Baseline: External debt	68.1	71.1	63.5	63.4	68.5	55.9	51.9			**47.5**	**45.7**	**44.3**	**43.2**	**42.3**	**41.5**		**-0.8**
Change in external debt	-2.0	3.0	-7.6	0.0	5.1	-12.6	-4.0			-4.4	-1.7	-1.4	-1.1	-0.8	-0.8	0.0	
Identified external debt-creating flows (4+8+9)	0.0	-1.9	-7.1	0.5	2.3	-9.9	-0.1			1.7	0.7	0.5	0.4	0.3	0.3	0.0	
Current account deficit, excluding interest payments	3.7	3.9	2.5	1.8	2.2	1.9	3.5			1.4	0.8	0.8	0.8	0.7	0.6	0.8	
Deficit in balance of goods and services	16.4	16.0	14.5	14.4	13.8	11.7	14.1			14.1	13.7	13.7	13.7	13.7	13.7		
Exports	35.9	40.6	41.9	40.0	34.3	42.1	46.9			41.6	42.1	42.3	42.3	42.4	42.5		
Imports	52.3	56.6	56.4	54.5	48.1	53.8	61.0			55.7	55.9	55.9	56.0	56.1	56.2		
Net non-debt creating capital inflows (negative)	-1.8	-2.2	-2.8	-2.1	-1.8	-2.4	-2.5			-2.1	-2.2	-2.2	-2.1	-2.1	-2.1	-2.1	
Automatic debt dynamics 1/	-1.9	-3.6	-6.7	0.8	1.8	-9.4	-1.1			2.4	2.1	1.9	1.7	1.7	1.8	1.3	
Contribution from nominal interest rate	1.0	0.9	0.8	0.8	1.0	0.5	1.0			3.3	3.4	3.2	3.0	3.0	3.0	2.9	
Contribution from real GDP growth	-2.2	-2.1	-2.4	-1.8	1.9	-4.3	-2.1			-0.9	-1.4	-1.3	-1.3	-1.2	-1.2	-1.2	
Contribution from price and exchange rate changes 2/	-0.7	-2.4	-5.1	1.8	-1.1	-5.6	0.0			...	...	...	...	...	...	-0.5	
Residual, including change in gross foreign assets (2-3) 3/	-1.9	5.0	-0.5	-0.6	2.8	-2.7	-3.9			-6.1	-2.5	-2.0	-1.5	-1.2	-1.1	0.0	
External debt-to-exports ratio (in percent)	189.5	175.3	151.3	158.5	199.8	132.9	110.6			114.0	108.5	104.7	102.0	99.9	97.9		
Gross external financing need (in billions of US dollars) 4/	3.8	4.5	4.9	5.4	5.7	5.7	6.5			7.8	7.8	8.0	8.5	8.5	9.1		
in percent of GDP	22.4	24.6	23.9	26.4	28.4	24.2	26.6			28.6	27.5	26.8	27.1	25.9	26.8		
Scenario with key variables at their historical averages 5/										**47.5**	**46.0**	**45.0**	**44.5**	**44.0**	**43.6**		**-3.2**
Key Macroeconomic Assumptions Underlying Baseline																	
Real GDP growth (in percent)	3.2	3.2	3.8	2.9	-3.0	7.4	3.9	2.9	2.6	2.0	3.0	3.0	3.0	3.0	3.0	3.0	
GDP deflator in US dollars (change in percent)	1.1	3.7	7.7	-2.8	1.8	8.9	0.0	0.9	6.6	8.2	1.9	2.1	1.8	1.4	1.2	1.2	
Nominal external interest rate (in percent)	1.4	1.4	1.2	1.2	1.6	0.9	1.8	1.4	0.3	7.0	7.6	7.3	7.1	7.2	7.4	7.4	
Growth of exports (US dollar terms, in percent)	6.8	20.9	15.6	-4.6	-15.4	43.4	15.8	8.7	16.8	-2.0	6.2	5.5	5.1	4.5	4.3		
Growth of imports (US dollar terms, in percent)	2.8	15.8	11.4	-3.5	-12.8	30.8	17.8	5.5	14.4	0.8	5.2	5.3	5.1	4.6	4.3		
Current account balance, excluding interest payments	-3.7	-3.9	-2.5	-1.8	-2.2	-1.9	-3.5	-3.4	1.3	-1.4	-0.8	-0.8	-0.8	-0.7	-0.6		
Net non-debt creating capital inflows	1.8	2.2	2.8	2.1	1.8	2.4	2.5	2.1	0.5	2.1	2.2	2.2	2.1	2.1	2.1		

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

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

3/ For projection, line includes the impact of price and exchange rate changes.

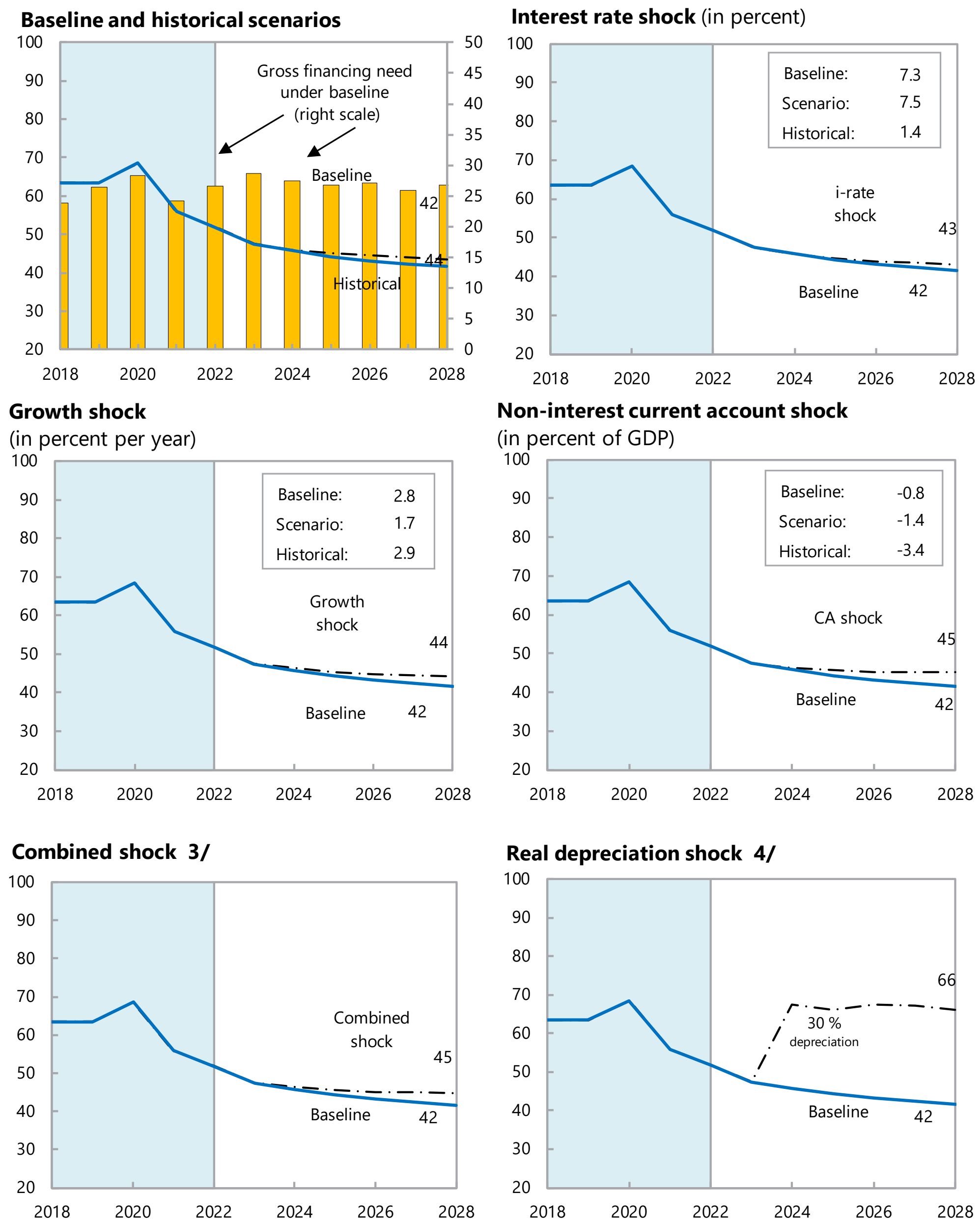
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data (and estimate for 2022). 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 2024.

Annex VIII. The Effectiveness of Bosnia and Herzegovina's Anti-Corruption and Anti-Money Laundering Legal and Institutional Frameworks at Mitigating Corruption[1]

Anti-corruption reforms in Bosnia and Herzegovina (BiH) have stalled, while public perception of corruption continues to deteriorate amid a complex political and legal system, entrenched patronage networks, and low accountability. Weak institutional arrangements and laws and poor enforcement hinder the independence and effectiveness of anti-corruption and anti-money laundering (AML) agencies and facilitate laundering proceeds of corruption. The authorities should prioritize legal amendments to strengthen conflict-of-interest, access-to-information, and AML/CFT frameworks in line with international standards and best practice, and ensure greater judicial and prosecutorial independence and integrity. They should also enhance AML/CFT supervisory activities by strengthening due diligence of politically exposed persons (PEPs) and focusing on entity transparency. Efforts to investigate and prosecute high-level corruption and money laundering should be strengthened, including by prioritizing the digitalization and interconnection of relevant registries and databases.

A. Context

1. **Widespread corruption has long been identified as a key obstacle to growth in BiH, but meaningful reforms to combat corruption have yet to be approved or implemented.** The public perceives corruption as endemic and perceptions continue to deteriorate (Box 1). The authorities have shown limited resolve in addressing legal weaknesses and implementation shortcomings in BiH's anti-corruption framework[2], with the EU[3] and the Group of States Against Corruption (GRECO)[4] reporting minimal progress between 2016 and 2022.

2. **A large public sector[5], highly complex and fragmented legal systems and government structures, and entrenched patronage networks, in the context of political divisions, are key corruption drivers.** Multiple levels of legislation and government result in complex legal, institutional, and regulatory systems and fragmented accountability institutions. Legal loopholes, non-compliance with laws, and weak enforcement further facilitate corruption opportunities. Power-sharing arrangements enable influence over public resources and enterprises by political parties.[6]

3. **There is also a perceived lack of merit-based and transparent appointment processes in civil service and public enterprises (PEs) that strengthens political clientelism.** Nepotism and

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[1] Prepared by Ron Snipeliski and Adrian Wardzynski, with support from Jaison Vega (LEG) and Estefania Cohn Bech (EUR), following the IMF's 2018 Framework for Enhanced Fund Engagement on Governance (see Governance and Anti-Corruption (imf.org)).

[2] EU Report on Bosnia and Herzegovina (2022).

[3] Ibid.

[4] GRECO Fourth Evaluation Round Evaluation Report for BiH (June 2023).

[5] The public sector employs 44 percent of all formal sector salaried workers, among the largest share in Europe, WB (2023) Bosnia and Herzegovina (BIH) Public Sector Labor Market and its Implications.

[6] Divjak, B. and Pugh, M., (2008) 'The Political Economy of Corruption in Bosnia and Herzegovina'.

cronyism are perceived as the most common types of corruption in BiH.[7] But although 73 percent of citizens consider public sector employment as being associated with high levels of corruption,[8] 61 percent prefer to work in the public sector or PEs[9], citing personal connections rather than merit as important factors for appointments and promotions[10]. Seventy-five percent of positions in PEs were reported to have links to political parties during 2012-21.[11] Public administration and PEs are thus perceived to serve as a patronage network for governing parties[12], including through non-compliance with selection and appointment criteria and rules (e.g., hiring without competitive calls for job applications or vacancy advertisement[13]) and poor transparency.

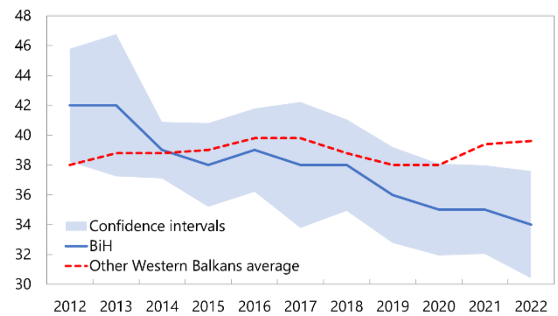
4. **Corrupt networks and individuals rely on a weak and ineffective AML framework to conceal the origin of unlawful funds.** In March 2023, the Council of Ministers adopted the 2022-24 Risk Assessment of Money Laundering and Terrorist Financing, which, in line with the previous assessment (2018-22), identified corruption as the highest, and increasing, threat to money laundering (ML) and the main source of criminal proceeds laundered in BiH. Corruption further weakens BiH's ability to collect taxes and may lead to revenue leakage that can negatively impact tax administration.

Box VIII.1. Public Perception of Corruption in BiH

BiH's score in the Corruption Perceptions Index is 34/100, down from 42 in 2012.

Corruption Perception Index

(CPI score; scale of 0 (highly corrupt) to 100 (very clean))

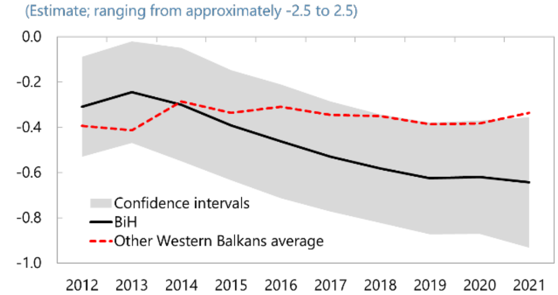


Sources: Transparency International; and IMF staff calculations.
Note: BiH is not included in Other Western Balkans average. Corruption perception index scores the countries by their perceived levels of public sector corruption, according to experts and business people.

The Worldwide Governance Indicators show BiH's estimate falling from -0.24 to -0.64 on control of corruption between 2013-21.

Control of Corruption, Perception

(Estimate; ranging from approximately -2.5 to 2.5)



Sources: Worldwide Governance Indicators: D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank); and IMF staff calculations.
Note: BiH is not included in Other Western Balkans average. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, ranging from approximately -2.5 to 2.5. Control of corruption index captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

[7] National Survey of Citizens' Perceptions in Bosnia and Herzegovina (2021).
[8] Ibidem.
[9] Balkan Barometer (2022) Opinion, See also WB (2023) Supra.
[10] WB (2023) Supra.
[11] Analysis by the Center for Civil Initiatives.
[12] Krista Lee-Jones (2018) Bosnia and Herzegovina: Overview of corruption and anti-corruption.
[13] Srđan Blagovčanin (2020) The Rule of the Cartel.

Box VIII.1. Public Perception of Corruption in BiH (concluded)

Trust in BiH public institutions is low, with 93 percent of citizens believing that high-level public officials and people with political power are corrupt to some extent and 58 percent that they are extremely corrupt. More than half of citizens (60 percent) consider that corruption is extremely integrated and an essential aspect of the economic, social, and political system[1], and 85 percent think that there is no political will to fight corruption[2]. Only 14 percent of businesses believe that corruption is being fought successfully.[3]

1. Assessment of Bosnia and Herzegovina e-Governance and e-Administration.
2. National Survey of Citizens' Perceptions in Bosnia and Herzegovina 2021, Supra.
3. Balkan Barometer 2022 Business.

B. Main Corruption and Money Laundering Prevention Functions

On top of a challenging political and legal system, the effectiveness of anti-corruption and AML agencies is affected by complex, inefficient, and politicized institutional designs; the lack of necessary legal tools to effectively apply and enforce their mandates; and poor coordination.

Agency for the Prevention of Corruption and Coordination of the Fight Against Corruption (APIK)

5. **Created in 2009 as a new independent institution, APIK has limited responsibilities and longstanding vacancies for leadership positions.** Its main anti-corruption functions—to develop and coordinate anti-corruption policies—do not require a high level of independence, while other relevant functions where independence is essential—access to information, conflict of interests and asset declarations—were ascribed to less institutionally independent bodies (see below). While APIK decides on whistleblower protection cases, the Administrative Inspectorate, a unit of the Ministry of Justice, conducts all investigations, effectively curtailing APIK's operational autonomy. The latest National Anti-Corruption Strategy expired in 2019, and a new strategy is still pending, impacting anti-corruption efforts.

Transparency and Access to Information

6. **The legal framework governing transparency and access to information lacks clarity and comprehensiveness, while compliance is weak and enforcement mechanisms are absent.** The Law on Free Access to Information in BiH[14] does not provide clear definitions, including of "personal information" in the context of exceptions to access to information. The law also fails to establish comprehensive proactive transparency obligations[15], especially on public spending. Although required by law, the authorities reportedly do not apply a public interest test when denying access to information and often do not respond to requests or do so with delay.

[14] This law applies to state-level institutions, but the FBiH, RS, and Brčko District have similar laws in substance and structure.

[15] The BiH Council of Ministers adopted Standards of Proactive Transparency, but they are not binding.

Consequently, citizens must initiate costly and lengthy judicial proceedings that are often not complied with by public institutions. There is no structure independent from the government to ensure that ministries, agencies, and PEs comply with their transparency obligations. The Ombudsman is empowered to receive complaints but can only issue non-binding recommendations, with low implementation by the authorities.[16]

Conflict of Interests and Asset Declarations

7. **The conflict of interest and asset declaration systems are highly fragmented and insufficiently regulated.** Regulations across the state and entities are not harmonized, and there are separate systems for different types of public officials, each administered by a different institution[17]. Provisions on types of conflicts of interest need to be strengthened, particularly incompatibilities with other non-remunerated positions in entities that receive government funds and "revolving doors". The coverage of asset declaration requirements also needs to be enhanced to incorporate assets beneficially owned, including by family members. Only asset declarations of elected officials are made public.[18]

8. **Sanctions and enforcement mechanisms are incomplete, ineffective, and perceived as politicized.** Six of nine members of the Commission for Deciding on Conflicts of Interest (CDCI) are acting legislators, with CDCI tenure linked to their legislature tenure, and all CDCI decisions must be adopted with the votes of at least two members from each BiH constituency[19], effectively making it a parliamentary committee subject to political influence. The operational arm of CDCI resides in APIK, creating administrative conflicts and blurring lines of accountability. The CDCI Secretariat indicates that it verifies all asset declarations, although the results from these efforts are not clear. Current sanctions at the state level are not dissuasive and are limited to salary retention, proposal for dismissal, and invitation to resign. There are no sanctions for false asset declarations, and non-compliance is seldom enforced.

Anti-Money Laundering

9. **There is significant institutional and legal fragmentation in the AML/CFT system and limited ongoing collaboration among the various institutions.** The AML/CFT law is approved at the state-level, but implementation is delegated to entities. This carries the risk of varied standards of compliance and supervisory approaches. In turn, the Financial Intelligence Department (FID) is a state-level entity, which, despite its central role and visibility, does not produce guidance notes or take an active role in raising awareness of commonly encountered issues. There is a dedicated Working Group of Institutions of BiH for the Prevention of Money Laundering and Financing of Terrorism, and an inter-ministerial body of the Council of Ministers to coordinate the activities of the

[16] GRECO (2023) Fourth Evaluation Round Evaluation Report for BiH, Supra.
[17] The CDCI covers elected officials, other high-level officials, and advisers; the High Judicial and Prosecutorial Council (HJPC) is responsible for judges and prosecutors; and the Civil Service Agency covers civil servants.
[18] In the judiciary it is voluntary; currently approximately 20 percent of individuals have agreed.
[19] Article 17a (2) of the Law on Conflicts of Interest of the Institutions of BiH.

various AML/CFT stakeholders. However, they remain largely inactive with few activities and limited impact.

10. The current AML/CFT law is not in line with international standards, including in relation to identification of PEPs. The law does not impose AML/CFT obligations or supervisory arrangements for all the relevant gatekeepers, including those dealing with virtual assets, despite cryptocurrencies reportedly being increasingly used in BiH to make payments to corrupt officials. The customer due diligence rules, including the enhanced procedures applicable to PEPs, allow for written statements or self-certifications from customers in lieu of independent identification and verification processes.

11. The risk-based approach to AML/CFT supervision is not well aligned with the high corruption risks stemming from PEPs or vulnerable sectors, such as real estate. Banks, many of which belong to international financial groups, generally have solid policies and procedures to comply with the enhanced due diligence obligations in relation to PEPs. The respective supervisors, however, need to ensure that these are effectively applied in relation to PEPs that are not elected officials, including persons that manage and sit on boards of PEs, as well as their close associates and family members. The risk-based approach to supervision is less sophisticated and only partly enforced in relation to other gatekeepers, e.g., notaries and real estate agents, as purchasing expensive real estate is among the most common techniques used in BiH to launder proceeds of corruption.

12. Sources of beneficial ownership information are limited, which weakens the identification of PEPs and the detection of corruption and ML. Laundering risks by shell companies and other legal vehicles are considered high in BiH, but the law does not adequately define the concept of beneficial ownership. A comprehensive risk assessment on the misuse of legal entities is still outstanding. Currently, obliged entities—primarily banks—are the main source of beneficial ownership information. There are no alternative sources of beneficial ownership information in the FBiH or Brcko District. In the RS, there are plans to create a beneficial ownership registry; the Agency for Intermediary, IT, and Financial Services (APIF) already requires submission of beneficial ownership to register new legal entities, but it does not verify this information, and there are no processes to ensure that the information is up to date. The verification is carried out by the courts, which focus on the controlling ownership threshold that may not always reveal the person who exercises the actual control over the entity, i.e., beneficial owner. Entity transparency is also instrumental for proper administration and enforcement of taxes.

Public Procurement

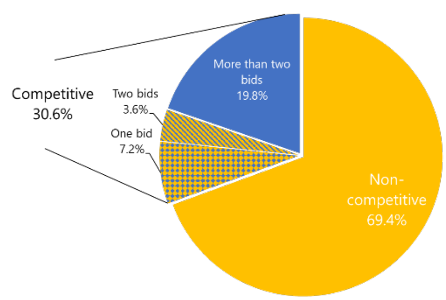
13. Increased transparency has not led to more competitive public procurement. The Law on Public Procurement requires higher levels of transparency through an e-procurement portal since 2014. However, data provided by the Public Procurement Agency (PPA) for 2015-22 raise corruption red flags (Box 2). While on average 85 percent of the total value of procurement across BiH was assigned through competitive procedures, 59 percent involved only 1 or 2 bids (45 percent and 14 percent, respectively). An average of 64 percent of the total value of contracts assigned through open procedure, the most competitive type of procurement, was decided with only 1 or 2 bids

(45.5 percent and 18.6 percent). BiH stands below Western Balkans peers in the share of open procedures by value and has the highest level of procurements assigned with only 1 bid.[20] These numbers suggest that competitive procurement procedures often lack genuinely competitive conditions. In addition, bidders are not required to provide beneficial ownership information.

Box VIII.2. Data on Procurement Procedures in Bosnia and Herzegovina (BiH)

A high number of contracts are assigned through non-competitive procedures.

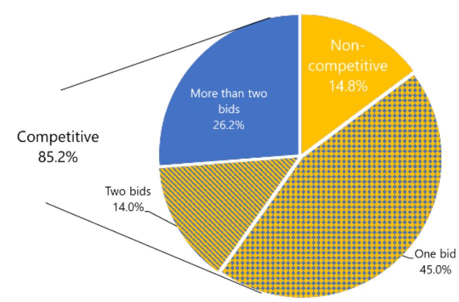
Average Share of Procurement Procedures, 2015-2022
(Percent of total number of contracts)



Sources: Public Procurement Authority (PPA); and IMF staff calculations.
Note: Competitive procedures include Open procedures, Limited procedures, Negotiated procedures without notice, Negotiation procedures with notice, and Competitive requests for bids.

A high share of procurement value is assigned through competitive procedures, but with low levels of competition.

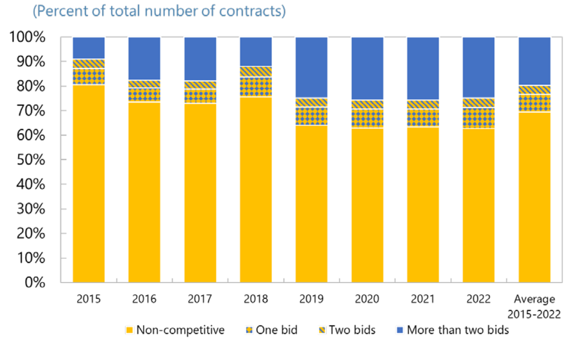
Average Share of Procurement Procedures, 2015-2022
(Percent of total value of contracts)



Sources: Public Procurement Authority (PPA); and IMF staff calculations.
Note: Competitive procedures include Open procedures, Limited procedures, Negotiated procedures without notice, Negotiation procedures with notice, and Competitive requests for bids.

The number of procurement contracts assigned through non-competitive procedures has been relatively stable since 2019.

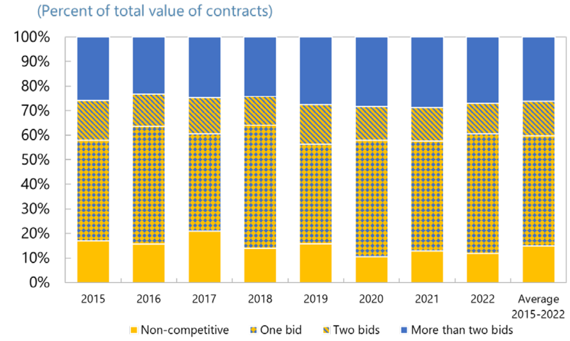
Share of Procurement Procedures, 2015-2022
(Percent of total number of contracts)



Sources: Public Procurement Authority (PPA); and IMF staff calculations.
Note: The patterned sub-categories are part of the Competitive procedures that include Open procedures, Limited procedures, Negotiated procedures without notice, Negotiation procedures with notice, and Competitive requests for bids.

The value of procurement assigned through competitive procedures with only 1 or 2 bids has also remained relatively stable.

Share of Procurement Procedures, 2015-2022
(Percent of total value of contracts)



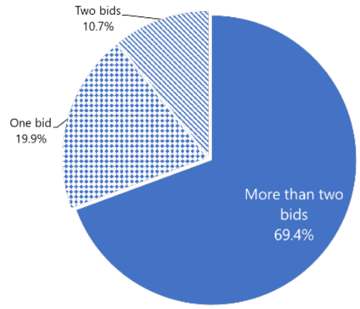
Sources: Public Procurement Authority (PPA); and IMF staff calculations.
Note: The patterned sub-categories are part of the Competitive procedures that include Open procedures, Limited procedures, Negotiated procedures without notice, Negotiation procedures with notice, and Competitive requests for bids.

[20] SIGMA Monitoring reports for 2021 and Balkan Tender Watch.

Box VIII.2. Data on Procurement Procedures in Bosnia and Herzegovina (BiH) (Concluded)

Contracts assigned through open procedures with only 1 or 2 bids amounted to 30 percent…

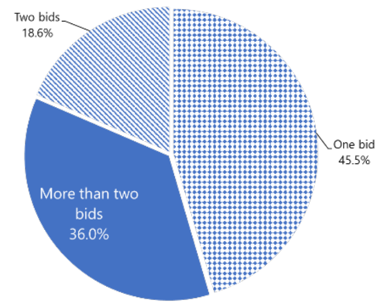
Average Share of Open Procurement Procedures, 2015-2022
(Percent of total number of open procedure contracts)



Sources: Public Procurement Authority (PPA); and IMF staff calculations.

…but they account for 64 percent of the value of all open procedure contracts.

Average Share of Open Procurement Procedures, 2015-2022
(Percent of total value of open procedure contracts)



Sources: Public Procurement Authority (PPA); and IMF staff calculations.

14. High irregularities in procurement procedures occur amid weak corruption detection mechanisms and limited analysis of patterns and risks. In a 2018 performance audit, the BiH Audit Office found law violations and other irregularities in over 85 percent of examined contracts. Despite abundant data, there is insufficient analysis to detect corruption patterns and risks. PPA monitors law implementation and sends recommendations to procuring institutions but follow-up on implementation is uncertain. The Audit Office of BiH performs an annual compliance audit on all state-level institutions but auditors are not trained in detecting corruption-related anomalies in procurement. Most procurement-related offenses are legally classified as misdemeanors. Draft amendments to establish criminal liability, prepared by the PPA, are pending approval.

Digitalization

15. Outdated and highly fragmented legal frameworks are holding up digitalization, including in areas relevant to fighting corruption.[21] BiH ranks last of 43 European countries in the United Nations E-Government Development Index.[22] The lack of harmonization of state and entity-level legislation discourages the use of e-signature, e-document, and e-archive services.[23] Delays in rolling out an updated and centralized legal framework for electronic identity and trust services (e-signature) are impeding anti-corruption reforms with potentially high impact, including establishing electronic asset declarations and facilitating e-government services that would reduce

[21] There is a state level Law on Electronic Signature of BiH (2006). The RS adopted its own e-signature law in 2008 that is not recognized in the FBiH, which in turn has no legal framework in place. The current legislation does not conform with the latest EU regulation (2014) on Electronic Identification and Trust Services (eIDAs). An e-signature law compatible with the latest EU regulations was voted down in parliament in 2020.

[22] E-Government Development Index (2022).

[23] Although e-signature and e-timestamp are currently available, these services are little utilized. In 2022, just 118 qualified e-signatures were issued in BiH. By comparison, Croatia issued 1.4 million eIDs in 2019.

direct contact between citizens and government.[24] Digitalization of land registries lacks progress, bearing on the efficiency of investigations into corruption and ML.

C. Corruption and Money Laundering Enforcement Functions

Political influence, weak judicial independence and integrity, and poor coordination and availability of information result in low levels of investigations and prosecutions of corruption and ML, which do not correspond with their pervasiveness in BiH.

16. Ineffective and inefficient information-sharing and coordination mechanisms delay investigations. Information is highly decentralized across government levels, and relevant databases are not interconnected and often not digitalized. The authorities indicated that land records are very relevant in criminal investigations, but inquiries need to be sent to over 30 different (non-digital) registries. Regarding ML, as part of law enforcement, FID has better access to investigatory tools and financial intelligence. FID is connected to banks through an electronic communications system, which enables electronic submission and follow-up on suspicious transaction reports filed by banks and timely enforcement of freezing orders. FID produces typology reports that it shares with competent authorities. There are no beneficial ownership registries.

17. High-level corruption and ML are insufficiently investigated and prosecuted, in part due to selective and non-transparent investigations and judicial follow up[25] and broad prosecutorial discretion. Only 5 percent of corruption cases are reportedly high-profile, and 83 percent of citizens believe that perpetrators of corruption in BiH are not adequately punished. The authorities recognize that acquittal rates in high-level corruption cases are higher than for medium and petty corruption[26] and that sanctions are lower for high-level corruption offenses. BiH prosecutors have to seek the approval of the Chief Prosecutor for all indictments, but there is no formal timeframe for this process, leaving space for unjustified delays. Prosecutors do not need to explain or make public decisions to not file an indictment. Regarding ML, the lack of readily available and timely beneficial ownership information complicates investigations and prosecutions in complex cases, including those involving corruption. It is difficult to pursue stand-alone ML cases, as courts require proving the underlying offense before proceeding with the money laundering charges. The police and prosecutors create joint investigative teams for complex cases related to economic crimes and carry out parallel ML and corruption investigations and prosecutions. A marginal increase in high-profile corruption and ML cases was observed in 2022 and the first half of 2023, although firm convictions have yet to be secured.

18. Weak judicial independence and integrity are seen as structural obstacles to enhanced anti-corruption and AML outcomes. Only 10 percent of the population trusts the judiciary and 23 percent believes it is independent, and 3 out of 4 citizens believe judges and prosecutors take

[24] In addition, a recent IMF survey showed that there is a strong positive link between the development of e-government and the level of development of information and communication technologies and the volume of foreign direct investment that the country has attracted. IMF research.
[25] EU Report (2022) Supra.
[26] Second Risk Assessment of Money Laundering and Terrorist Financing (2022).

bribes.[27] While acknowledging few individual instances of corruption in courts, judicial authorities consulted during the mission consider that the issue is not systemic. The HJPC, responsible for the appointment, evaluation, promotion, and discipline of prosecutors and judges at all levels of government, lacks appropriate safeguards against political influence, including in the appointment of its members. The appointments of prosecutors and judges are perceived as non-merit-based, nontransparent, and without integrity checks. The autonomy of the Office of Disciplinary Counsel is limited and the HJPC does not currently conduct verifications of the asset declarations of judges and prosecutors. A highly fragmented financing system does not guarantee the overall independence of the judiciary.

D. Recommendations

19. Better outcomes toward mitigating corruption and enhancing integrity would improve inclusive growth, strengthen resilience, and reduce risks. BiH should step up reform efforts to strengthen its anti-corruption and AML frameworks to enhance fiscal outcomes, PE performance, and the business environment. Reforms associated with fighting corruption are key in the EU accession process and would foster greater public participation and improved social cohesion. Strengthening legal and institutional frameworks should be a priority, followed by efficient implementation and improved capacities, including with support from donors.

20. The authorities are aiming to amend the anti-corruption legal framework, but the proposals put forward (as of May 2023) fall short of international standards and best practice. The draft law on access to information submitted to Parliament fails to establish an effective legal and institutional structure for monitoring and enforcing the law (the proposal envisions an appeals body that is not independent, located under the Council of Ministers), and proactive information obligations should be further strengthened and detailed. The new draft conflict-of-interest law contains some improvements in CDCI appointments, but it still leaves CDCI without operational and financial autonomy. The authorities should build on these proposals to ensure CDCI's independence (e.g., by requiring a higher qualified majority for the appointment of commission members), and autonomy (e.g., dedicated administrative structure). Authorities should also consider granting this commission competence and jurisdiction in the monitoring and enforcement of laws on conflict of interest, access to information, and whistleblower protections, and responsibility for coordinating and monitoring anti-corruption strategies and policies (effectively merging APIK with this proposed commission), to attain a more efficient institutional architecture.

[27] Ibid. and Balkan Barometer 2022 Opinion, Supra.

Priority Recommendations

Enhance the recruitment and selection processes for civil service and PE positions by implementing measures to ensure that they are open, competitive, merit-based, and transparent, with tenures extended beyond political cycles. Making public servants less reliant on political connections reduces the risks of corruption and can lower procurement costs.[28]	MT
Improve the anti-corruption legal and institutional frameworks following international standards and best practices, with a view to strengthening, harmonizing, consolidating, and simplifying government structures and competences; ensuring their independence, operational effectiveness, and efficiency; and enhancing coordination. In particular, the authorities should, without delay: o *Enact a new law on conflicts of interest*, including the obligation of high-levels officials to make asset declarations public. It should also specify effective and efficient enforcement mechanisms, including for non-compliance or false declarations, and extend coverage to assets beneficially owned, including by family members. The law should aim to harmonize the framework across all levels of government and within the judiciary. o *Approve a new HJPC law* that guarantees its independence and autonomy. Introduce stricter fit and proper criteria for the appointment of HJPC members and judicial and prosecutorial officials. through transparent and participatory procedures. Strengthen the overall integrity framework. o *Approve a new law on access to information* that, inter alia, requires government entities to proactively publish comprehensive information and establishes an effective and independent monitoring and enforcement body that guarantees citizens' rights to access information. o *Criminalize procurement-related offenses* and r*equire bidders to submit beneficial ownership information*. o *Approve a law on electronic identity and trust services* compatible with EU standards to promote the use of e-signatures across all levels of government and e-government tools that can reduce corruption opportunities. Once enacted, the authorities should adopt all necessary measures to ensure full and decisive implementation.	ST
Accelerate the adoption of a new National Anti-Corruption Strategy to anchor implementation of anti-corruption efforts and facilitate coordination and monitoring.	ST

[28] Charron et al. (2017) suggest that higher meritocracy can reduce the number of single-bidder procurement contracts by 7.5-11.6 percent.

Strengthen AML/CFT efforts by: ○ *Enacting—with high priority—a new AML/CFT law*. This is especially relevant considering the mutual evaluation by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) that is currently underway. Poor results from this evaluation will lead to the listing of BiH as a jurisdiction with strategic AML/CFT deficiencies, with likely significant economic consequences. ○ *Stepping up risk-based supervisory activities in relation to PEPs*, carrying out trainings and awareness-raising campaigns, producing relevant guidance notes, and ensuring effective enforcement of non-compliance cases. In addition to the financial sector, ensure adequate supervision of notaries and real estate agents that pose high risk for laundering of corruption proceeds. ○ *Complementing the 2022-24 National Risk Assessment with an assessment on the misuse of legal entities* in BiH and taking measures to ensure the timely availability of adequate, accurate, and up-to-date beneficial ownership information, including through the establishment of a beneficial ownership registry. ○ *Instituting and operationalizing a coordinating body* and introducing relevant processes to ensure effective cooperation and information sharing between the numerous AML/CFT agencies. ○ *Raising awareness and providing training* for law enforcement, prosecutors, and judiciary officials on ML investigations and prosecutions involving corruption proceeds, including by clarifying that ML convictions do not necessitate proving the underlying crime of corruption.	ST ST ST MT ST
Increase levels of competition in public procurement, including by enhancing analytical tools and capabilities to better identify and communicate procurement-related corruption risks, strengthening supervision and auditing in high-risk government institutions, and providing training for auditors to improve corruption detection capabilities.	MT
Prioritize the digitalization and interconnection of registries and databases that are critical for corruption and ML investigations (e.g., land registries), granting direct access to law enforcement agencies, including FID.	MT
Step up criminal investigations, prosecutions, and convictions of corruption and ML by strengthening corruption detection systems and whistleblower protections, reinforcing interinstitutional communication and coordination mechanisms, and enhancing the transparency of prosecutorial and judicial decisions. Prosecutorial discretion should be regulated.	ST
Conduct a comprehensive governance diagnostic assessment to identify critical governance weaknesses and corruption vulnerabilities and propose measures to address them, aiming to mitigate corruption and enhance integrity, to ultimately enhance economic stability and growth.	ST

ST= 1-2 years. MT= 2-4 years

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 31, 2023

Prepared By	The European Department

CONTENTS

FUND RELATIONS

(As of May 31, 2023)

Membership Status: Joined December 14, 1992; Article XIV

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	265.20	100.00
Fund holdings of currency	620.13	233.83
Reserve Tranche Position	0.36	0.14

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	415.07	100.00
Holdings	0.69	0.17

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
Emergency Assistance [1/]	265.20	100.00
Extended Arrangements	89.83	33.87

1/ Emergency Assistance may include ENDA, EPCA, and RFI

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Sep 07, 2016	April 19, 2020	443.04	126.83
Stand-By	Sep 26, 2012	Jun 30, 2015	558.03	422.75
Stand-By	Jul 08, 2009	Jul 07, 2012	1,014.60	338.20

Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR Millions)	Amount Drawn (SDR Millions)
RFI	Apr 20, 2020	Apr 22, 2020	265.20	265.20

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

	Forthcoming				
	2023	2024	2025	2026	2027
Principal	76.87	153.74	87.44	21.14	10.57
Charges/Interest	15.99	26.28	19.32	17.20	16.38
Total	92.85	180.01	106.76	38.34	26.95

Implementation of HIPC Initiative: Not Applicable
Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable
Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Safeguards Assessment

A virtual safeguard assessment mission was conducted during November 2–13, 2020 in connection with the RFI arrangement approved by the IMF Executive Board on April 20, 2020. The 2021 update safeguards assessment found that the central bank of Bosnia and Herzegovina (CBBH) continues to maintain robust safeguards and the legal framework is broadly aligned with leading practices and provides for institutional and financial autonomy. The CBBH has since implemented all recommendations in the Safeguards Assessment Report (March 1, 2021), including the adoption of a code of ethics to strengthen the framework for avoidance and management of conflicts of interest; improvements of internal practices to modernize the risk management function; amending the Audit Committee charter to enhance its scope, authority, and modalities in line with leading practices; and updating internal audit procedures in line with international standards. Further, the CBBH adopted the selection and rotation policy for external auditors, revised its bylaws to clarify the role and modalities of the Management Board, and underwent an external cyber security assessment in 2022. The CBBH continues to publish its audited financial statements, as required by the safeguards policy.

Exchange Rate Arrangements

Bosnia and Herzegovina (BiH)'s exchange rate arrangement is a currency board. The currency of BiH is the convertible marka (KM), introduced on August 11, 1997. On September 5, 2002, the Parliament of BiH approved an amendment to the CBBH law that changed the peg of the KM from the Deutsche Mark to the Euro under a currency board arrangement. The KM is pegged to the euro at KM 1 = Euro 0.5113. BiH has not accepted the obligations under Article VIII Sections 2, 3, and 4 and therefore avails itself of the transitional arrangements under Article XIV. BiH no longer maintains restrictions under the transitional provisions of Article XIV. It maintains restrictions on the transferability of balances and interest accrued on frozen foreign-currency deposits, subject to Fund jurisdiction under Article VIII. The authorities confirmed that no changes have been introduced in the foreign exchange system since the 2022 Article IV consultation. They also confirmed their willingness to formally accept the Article VIII obligations.

FSAP and ROSC Assessment

An FSAP mission took place in November 2014; and the Executive Board discussed the Financial System Stability Assessment in June 2015 (IMF Country Report No. 15/164). The authorities approved publishing the FSSA and all technical notes. A data ROSC mission was held in November 2007 and the ROSC Data Module was published in February 2008 (IMF Country Report No. 08/43).

Last Article IV Consultation

The last Article IV consultation was concluded on June 3, 2022 (IMF Country Report No. 22/167).

Resident Representative

The IMF has had a resident representative office in Bosnia and Herzegovina since 1996. Mr. Tudyka assumed the position of resident representative in August 2023.

Bosnia and Herzegovina: Technical Assistance, 2020–23		
Department	**Timing**	**Purpose**
FAD	January 15–28, 2020	RSTA Further Developing Compliance Risk Management Capacity
	February 12, 2020	BD Strengthening Oversight of PEs in Brčko District
	February 13–24, 2020	RS Strengthening Oversight of PEs in Republika Srpska
	June 3–November 30, 2020	BiH PFM Strategy
	November 1–December 18, 2020	BiH Revenue Administration
	January 11–March 12, 2021	FBiH Reform Progress Review
	January 26–February 24, 2021	SOE Reform
	March 15–April 16, 2021	ITA Enhancing Tax Audit Efficiency–Audit Manual
	June 22–September 14, 2021	ITA Developing Compliance Risk Management Capacity
	July 7–September 15, 2021	RSTA Developing Compliance Risk Management Capacity
	July 16–December 20, 2021	PFM Strategy
	August 31–October 15, 2021	ITA, FBiHTA, RSTA, BD Developing Data Exchange Capacity
	September 6–17, 2021	BD Strengthening Oversight of PEs in Brčko District
	October 5–November 2, 2021	ITA Enhancing Tax Investigation
	October 31–December 9, 2021	RSTA Data Analytics
	November 28–December 16, 2021	RSTA Arrears Management
	December 20, 2021–February 28, 2022	ITA Further Developing Customs Compliance Risk Management Capacity
	February 28–March 4, 2022	Regional PFM Workshop for Southeast Europe
	February 28–April 14, 2022	ITA VAT GAP Analysis
	February 28–March 30, 2022	RSTA Investigation
	March 16–25, 2022	PEs in BD: Financial Oversight and Budget Transparency
	March 13–April 7, 2022	Country-wide PFM Reform Strategy (virtual)
	March 1–April 15, 2022	ITA Streamlining the Processing and Auditing of Applications for VAT De-registration and VAT Refunds
	April 18–28, 2022	Country-wide PFM Reform Strategy (on-site)
	May 30–June 12, 2022	RSTA Indirect Audit Methods
	June 13–July 11, 2022	Country-wide PFM Reform Strategy–Planning and Reporting
	July 4–17, 2022	ITA Desk Audit
	July 5–18, 2022	BiH PFM Laws and Institutions
	August 29–September 11, 2022	ITA Data Analytics
	August 30–September 12, 2022	BiH PFM Laws and Institutions
	October 9–20, 2022	RSTA Data Analytics Follow-up

	October 31–December 29, 2022 November 15–28, 2022 October 12–25, 2022 November 21–December 1, 2022 November 21–December 7, 2022 December 5–16, 2022 March 7-31, 2023 March 15–28, 2023 April 18–28, 2023 April 24–May 31, 2023 April 24–May 24, 2023 June 19–21, 2023 June 22–26, 2023	Country-wide PFM Reform Strategy (follow up) ITA Customs Selectivity FTA Reform Program Strengthening Fiscal Risk Management in Republika Srpska FBIH Strengthening SOE Risk Management in the Federation of BiH RSTA Improving Transfer Pricing Capacity RS MoF Potential Fiscal Impact of a New Draft VAT Law on the Republika Srpska RS MoF Tax Expenditure Assessment ITA Streamlining of Debt Management Standard Business Processes and Standard Operating Procedures RS Strengthening Fiscal Risk Management of SOEs BiH Refining of BiH PFM Strategies' Performance Indicators Tax Arrears Management Function in all Four Tax Administrations in BiH ITA OECD Tax Debt Management Maturity Model
MCM	April 19–30, 2021 December 13–16, 2021 May 31–June 17, 2022	Preparing for IFRS 17 BiH Strengthening the Prudential Supervision and Oversight of Retail Payments CBBH Building A Resilient Currency Board
STA	April 12–17, 2021 May 24–June 5, 2023	Strengthening ESS Under IPA 2017 Multi-Country Program in Western Balkans RS MoF and FBiH MoF Government Finance Statistics
LEG	September 5–9, 2022 December 2022 May 11-12, 2023	BiH Ministry of Security AML/CFT Legal Framework CBBH Draft Decision on the Establishment of the Single Register of Accounts of Natural Persons BiH Ministry of Security AML/CFT Legal Framework
ICD	April 2021–March 2023	CBBH Establishing a Macro Projection and Policy Analysis Framework

IMF-WORLD BANK GROUP COLLABORATION

The WBG and the Fund country teams in Bosnia and Herzegovina (BiH) maintain close collaboration, coordinate the two institutions' activities and plans, and harmonize policy recommendations.

Key Areas of World Bank Involvement

World Bank's Country Partnership Framework (CPF) for BiH for the period 2023–27 was approved in July 2022. The program is based on the Systematic Country Diagnostic (SCD) update (June 2020) and identifies three Higher Level Outcomes (HLO) that will guide the WBG's engagement even beyond this CPF cycle. HLO1 aims to increase inclusive private sector employment, while HLO2 aims to focus on addressing key service delivery gap through improved quality and efficiency of health and water services. Finally, to reduce the risks of climate change impacts and protect the natural capital, the CPF will promote green growth under HLO 3 through investments in reducing air pollution and better use of BiH natural resources. All three HLOs and supporting CPF objectives mutually reinforce each other.

The current portfolio of Bank-supported operations in BiH consists of 13 projects totaling US$772.6 million. Areas of support include energy efficiency, real estate registration, water sector modernization, health sector improvement, road infrastructure modernization, firm recovery support, response to COVID-19 pandemic, employment support program, agriculture and competitiveness, air quality, and railways restructuring in Republika Srpska (RS).

Current projects	Project Amount (US$ million)	Objective
BiH Emergency COVID-19	36.20	Financing of supplies and equipment for healthcare and social protection programs for 48,000 families
BiH Firm Recovery and Support	65.30	Financing to companies affected by the pandemic and companies underserved by the financial sector
Energy Efficiency	63.99	Refurbishment of schools and hospitals to improve service and reduce energy consumption
Real Estate Registration	56.36	Improve public service delivery
FBiH Road Sector Modernization	64.60	Renovation of 42 kms of roads and 3 tunnels, and new construction of 38 kms of roads and 2 tunnels
Sava and Drina River Corridors Integrated Development Program[1]	32.60	Improve flood protection and enhance transboundary water cooperation

[1] This is a regional program. The program covers five riparian countries of the Sava and Drina rivers: Slovenia, Croatia, BiH, Serbia, and Montenegro, that collectively aspire to consolidate economic growth and enhance their prosperity.

RS Railways Restructuring	60.60	Enhance the financial sustainability and improve competitiveness of the railways company
Agriculture Resilience and Competitiveness	68.50	Enhance the competitiveness of agriculture sector through assistance to producers
Water Supply and Sanitation Modernization	60.90	Improve the sustainability and quality of water supply and sanitation
Healthcare Sector Reform Development Policy Operation 1	100.00	Healthcare sector reform development
Air Quality Improvement	50.00	Support the improvement of air quality in major cities
Employment Support 2	43.20	Support to newly unemployed people, matching of employers to job seekers, support to employers and training
Health Systems Improvement	75.00	Enhance the capacity of the healthcare sector and quality of service through investment

During the last six years, the Bank has been providing technical assistance to BiH's Banking Agencies in adapting their prudential framework to the European capital regulations and upgrading their banking supervision and bank resolution frameworks. From 2023 to 2027, under the EU funded Trust Fund for Strengthening Fiscal Governance, the World Bank will work on two components (i) strengthening fiscal responsibility frameworks and (ii) enhancing infrastructure governance through strengthening of public investment management and public asset management with a sectoral and institutional focus.

In addition to the ongoing program, the following operations are currently under preparation:

Projects under preparation	Indicative amount (US$ million)	Objective
Healthcare Sector Reform Development Policy Operation 2	75.00	Support a second package of reforms to enhance the financial sustainability of the healthcare sector
Forest Economy Development	50.00	Support the better use of natural resources to sustainably create better jobs and economic growth
Just Transition (PROPOSED)	TBC	Support in transitioning away from the coal to an affordable, reliable, and clean energy system
Solid Waste (PROPOSED)	TBC	Enhance the better management of solid waste
Multimodal transport (PROPOSED)	TBC	Enhance road safety conditions and improve mobility and connectivity

Key Areas of IFC Involvement

Since the beginning of operations in BiH, IFC's cumulative commitments reached US$378 million. Currently, IFC's portfolio stands at US$8.5 million in committed exposure, with US$8.1 million in outstanding loans. Although IFC's direct investments since 2015 remained low at US$18 million, an additional US$91 million was invested through regional programs in ProCredit bank, Green Growth Fund, European Fund for Southeast Europe V (EFSE V) regional funds and regional Distressed Assets Program (DARP) platform. Moreover, in December 2022, IFC completed an investment of US$175 million with Schwarz Group to support the expansion of a discount food retailer (Lidl and Kaufland) in 7 countries in Central and Southeast Europe, including US$39 million investment in Bosnia and Herzegovina. In addition to lending activities, IFC has an active portfolio of advisory services projects in the areas of investment climate, debt and NPL resolution, ESG standardization, FDI promotion, trade facilitation, renewable energy and energy efficiency, and access to finance.

As part of the new CPF, IFC envisages engaging in comprehensive financial sector development, increased inclusive private sector employment, improved quality of public services, and better SOE performance, as well as promoting green financial solutions, increasing renewable energy and energy efficiency investments and supporting municipalities to promote climate-friendly urban solutions, including a pipeline advisory project for the rehabilitation of the Butile Wastewater Treatment Plant in Sarajevo.

IFC 3.0 Country Strategy for BiH during FY21-25, approved in February 2022, is fully aligned with the CPF and aims to support country's connectivity to unlock export potential, boost private sector competitiveness, and tackle climate change.

STATISTICAL ISSUES

(As of July 20, 2023)

I. Assessment of Data Adequacy for Surveillance

- **General**: Data provision has some shortcomings but is broadly adequate for surveillance. The accuracy, timeliness, and publication of economic statistics have improved, but weaknesses in national accounts, government finance, and balance of payment statistics need to be addressed.

- **Real Sector**: Bosnia and Herzegovina (BiH) has made efforts to improve the real sector statistics. The country has benefited from extensive technical support from the IMF and the European Union. Efforts have been made into closing the gap between the production- and expenditure-based GDP estimates and improving coverage of GDP, including the non-observed economic activities (NOE). Country-level annual GDP by production is compiled using the bottom-up method as a sum of the estimates from entities and the district. Full consistency between regional and country-level GDP is achieved this way. Outstanding issues are the need for further improvements to the annual and quarterly compilation of GDP by expenditure and production approach at the country level. The annual Labor Force Survey follows international methodological standards and provides data for the country and the entities since 2006. Quarterly Labor Force Survey results have been made available starting from end-2020.

- **Price Statistics**: A consumer price index (CPI) is released monthly within four weeks of the reference period. The CPI weights have been derived from the 2015 Household Budget Survey since January 2018, with an update planned for next year. Prices are collected from outlets in 12 major urban centers throughout the country. However, there are no official statistics in BiH on core inflation. Monthly producer price indices (PPI) and industrial production indices are available for industrial activities, with weights based on the 2015 survey of establishments.

- **External Sector Statistics**: Balance of payments statistics (BoP) and International Investment Position (IIP) statistics are compiled on a quarterly basis by the central bank of BiH (CBBH), in line with the *sixth edition of the Balance of Payments Manual* (*BPM6*). The compilation of formal remittances relies on the International Transaction Reporting System and Money Transfer Organizations data, while compilation of the informal component of remittances relies on estimates supported by Household Budget Survey results. The Direct Investment component is one of the most important areas where data could be improved in the external sector statistics compilation. Additional efforts should also be invested on External Debt Statistics (EDS). EDS data is included in the IIP but not reported to the World Bank-IMF Quarterly External Debt Statistics database. Moreover, no information is currently available on BiH’s future external debt payments schedule by sector.

- **Government Finance Statistics**: The CBBH compiles annual and quarterly government finance statistics (GFS) for the entire BiH, which are disseminated on its website and submitted to the

IMF Statistics Department, which are broadly in accordance with the definitions and concepts of the *Government Finance Statistics Manual 2014*. CBBH also compiles and reports fiscal data in line with the European System of Accounts 2010 that are reported to Eurostat. While the institutional coverage of the GFS is broadly consistent with international guidelines, its scope does not cover all extrabudgetary units of the general government. Transactions are recorded on a mixed accrual/cash basis. CBBH also compiles and reports quarterly public sector debt statistics for the general government that are submitted to the World Bank Quarterly Public Sector Debt Database. Separately, GFS data is compiled and submitted to the IMF European Department by the respective Ministries of Finance for BiH's state institutions (IBiH), the two entities (FBiH and RS), and the Brcko District (BD). The data for the entities covers the majority of the general government units, including cantons, social funds, road funds, and municipalities, and is broadly aligned with the definitions and concepts of the *Government Finance Statistics Manual 2014*, although there are some data gaps and shortcomings that are being addressed though ongoing GFS Technical Assistance.

- **Monetary and Financial Statistics**: The CBBH reports monetary accounts to the IMF on a countrywide and entity basis, in Standardized Report Forms of the *Monetary and Financial Statistics Manual*. The CBBH extended the coverage of its financial sector statistics to encompass approximately 100 Other Financial Institutions. Other Financial Institutions statistics (investment funds, insurance companies, microcredit institutions, leasing companies, brokerage houses, and stock exchanges) are compiled on a quarterly basis. The CBBH reports data on several indicators of the Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals.

- **Financial Sector Surveillance**: The CBBH regularly reports quarterly Financial Soundness Indicators (FSIs) to the IMF for publication. Currently, the CBBH reports 17 core and 7 additional FSIs for deposit-takers.

II. Data Standards and Quality

- BiH participates to the IMF's Enhanced General Data Dissemination System (e-GDDS) and established a National Summary Data Page, a data portal for official macroeconomic and financial statistics, on July 10, 2018.

Table 1. Bosnia and Herzegovina: Table of Common Indicators Required for Surveillance

(As of July 20, 2023)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	07/2023	07/2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	05/2023	06/2023	M	M	M
Reserve/Base Money	05/2023	06/2023	M	M	M
Broad Money	05/2023	06/2023	M	M	M
Central Bank Balance Sheet	05/2023	06/2023	M	M	M
Consolidated Balance Sheet of the Banking System	05/2023	06/2023	M	M	M
Interest Rates[2]	05/2023	06/2023	M	M	M
Consumer Price Index	05/2023	06/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q1/2023	06/2023	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Q1/2023	06/2023	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1/2023	05/2023	Q	Q	Q
External Current Account Balance	Q1/2023	06/2023	Q	Q	Q
Exports and Imports of Goods and Services	05/2023	06/2023	M	M	M
GDP/GNP	Q1/2023	06/2023	Q	Q	Q
Gross External Debt	Q1/2023	05/2023	Q	Q	Q
International Investment Position	Q4/2022	03/2023	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of entities' general governments (entities' central governments, cantons, municipalities and EBFs), IBiH and BD general government. Q3 2022 data for the BD.
[5] Including currency and maturity composition.
[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by Mr. Dresse and Mr. Manchev on Bosnia and Herzegovina

August 30, 2023

On behalf of the authorities of Bosnia and Herzegovina, we would like to thank Ms. Iancu and her team for the report and constructive engagement, including the in-person consultations in Banja Luka and Sarajevo. The authorities highly value the work of the IMF Resident Representative Office and the wide-ranging technical assistance provided to Bosnia and Herzegovina over the years. They will consider staff's recommendations when designing and implementing future reforms to address the challenges faced by the economy.

Recent Developments, Outlook, and Risks

After a strong post-pandemic rebound in 2021, in 2022-23 growth moderated and inflation persisted. In Q1'23, GDP growth decelerated to just 1.1% y/y, from 1.7% y/y the quarter before, and the current account deficit increased by 0.5% y/y. CPI inflation peaked in October 2022 (17.4 percent y/y). Since then, it decelerated substantially, to 4.9 percent y/y in June, but core inflation remains uncomfortably high and volatile. Emigration intensified and further strained the already tight labor market. Global uncertainty related to Russia's war in Ukraine and lower external demand will likely continue to affect the export-oriented industrial sector. Nonetheless, in 2022 FDI inflows increased by 21% y/y, to €0.7bn, and on August 4th, the S&P Global Ratings upgraded Bosnia and Herzegovina's long-term local and foreign currency sovereign credit ratings from B to B+ with stable outlook.

On December 15, 2022, the European Council granted Bosnia and Herzegovina the status of candidate country. However, new governments at the state and entities levels formed after the parliamentary election last October, some of them with support from the UN Office of High-Representative in Bosnia and Herzegovina, are still looking for political consensus and broader popular support to progress with the needed reforms to improve the business climate and rule of law and address energy security, climate adaptation, and digitalization challenges. On July 24th, 2023, key political leaders reached an agreement in principle to stop inflammatory post-election rhetoric, find an accord on the steps needed to stabilize the state government and speed up the adoption of laws that would enable the opening of negotiations on EU membership.

The authorities remain cognizant of high and rising downside risks to the outlook. These apply to growth, inflation, fiscal position, labor market, financial stability, and willingness to progress with long-delayed structural reforms. Industrial activity may be strongly hit by a potential renewal of global supply disruptions or spiking energy prices in the event of a new regional energy crisis. The labor market outlook will depend highly on the impact of Russia's war in Ukraine on the EU and hence investments in Bosnia and Herzegovina. In such an environment, the authorities' immediate priorities remain to preserve institutional and social integrity, limit poverty and emigration, rebuild fiscal buffers, and address pressures arising from tighter global financial conditions. They already implemented measures to address arrears of healthcare institutions after the pandemic and to increase the efficiency of Bosnia and Herzegovina's social protection system, including social assistance programs.

Fiscal Policy and Public Finance Management (PFM)

While the conservative overall fiscal policy stance remained in place, the fiscal position of the entities in the post-pandemic period varies substantially, mainly determined by a few specific factors. Guided by the situation in the labor market, trends in emigration, and inflationary developments, the 2023 fiscal policy in both the Federation of Bosnia and Herzegovina and Republika Srpska aimed to preserve the purchasing power of citizens, especially socially vulnerable categories. Given that pensioners remain among the most vulnerable groups, regular pension increases determined by law were implemented in both entities, which helped to alleviate pressures from persistently high imported food and fuel prices. At the same time, the execution of capital spending was much weaker than budgeted due to capacity constraints, especially in the Federation of Bosnia and Herzegovina. Going forward, technical assistance under the IMF's Public Investment Management Assessments should help both entities implement comprehensive improvements in the governance of infrastructure projects, to increase efficiency and support economic growth.

The authorities agree with staff that credible medium-term fiscal consolidation and prudent debt management are essential to restrain the 2023 fiscal expansion, keep public debt on a sustainable path, support the currency board arrangement, and preserve financial stability. These agreements are well-reflected in the 2023-2025 Global Framework of Fiscal Balance and Policies and 2021-2025 PFM Strategy, adopted by the Fiscal Council of Bosnia and Herzegovina. The authorities are committed to maintaining a single VAT rate, avoiding fuel excise cuts, and further strengthening tax administration to preserve tax revenues and reduce the scope for tax avoidance. They also look forward to collaborating with development partners to strengthen the social protection framework and provide more targeted social spending, in line with the staff recommendations. The authorities will continue the cooperation with the Fund to optimize administrative costs and avoid distortions to the tax system but stress the need for staff's recommendations to better reflect the country-specific factors. The authorities are committed to continuing their work with development partners on establishing appropriate frameworks to assess and manage fiscal risks stemming from the SOEs.

Currency Board Arrangement (CBA) and Financial Stability

The CBA and the Central Bank of Bosnia and Herzegovina (CBBH) remain instrumental in maintaining macroeconomic and financial stability. The CBBH continues to adapt and calibrate its risk-based model to better assess and monitor the resilience of the CBA. In addition to recent adjustments in the reserve requirement framework, since July the CBBH has increased remuneration rates on bank reserves. These rates, however, have a limited pass-through to deposit and lending rates. Thus, the CBBH faces a difficult trade-off between the need to narrow the interest rate differential with the euro area and reduce the risk of capital outflows, on the one hand, while further strengthening its profitability to preserve a sustainable currency board coverage ratio.

The CBBH implemented all recommendations in the 2021 Safeguards Assessment Report and maintains robust safeguards. Its legal framework is broadly aligned with leading international practices and provides institutional and financial autonomy. The CBBH adopted the selection and rotation policy for external auditors, revised its bylaws to clarify the role and modalities of the Management Board, and underwent an external cyber security assessment in 2022. Regular CBBH macro- and credit analyses are considered by the banking supervisors when designing measures to enhance financial resilience.

The banking system remains well-capitalized, liquid, and profitable. In an environment of highly volatile international financial conditions, banks in Bosnia and Herzegovina still enjoy a stable depository base with sticky prices, given the low integration of domestic financial markets and scarce alternative investment opportunities. Banking agencies continue work to further strengthen their supervisory frameworks and methodology for systemic risk oversight. They introduced temporary measures, effective by the end-2023, to mitigate the impact of rising global interest rates. Although the Standing Committee for Financial Stability does not hold regular meetings, financial regulators at various levels have enhanced information sharing, cooperation, and coordination. The authorities continue discussions to improve the bank resolution framework, although the entities' views remain rather divergent on the creation of a single financial stability fund at the state level and on the establishment of a registry of individuals' bank accounts with the CBBH.

Macro-critical Structural Reforms

The authorities welcome staff's discussions on the various macro-critical structural reforms and policies, aiming to facilitate the transition to green energy and digitalization, address corruption and AML/CFT issues, and encourage private sector employment to strengthen competitiveness and growth. They agree that under certain conditions digital and greener transitions could generate the needed welfare gains and new jobs in the long-term. At the current juncture, the authorities' priority is to preserve energy security and safeguard recent investments and local employment in the sector given their financially constrained framework and tighter global financial conditions.

The authorities are mindful that a successful green transition and energy security will require phasing out coal, exploiting Bosnia and Herzegovina's ample wind and solar potential, and achieving greater energy diversification. While observing the hard budget constraints, they are committed to realizing space for additional spending on infrastructure and green investments to boost medium-term growth, preferably financed by IFIs and the EU. In line with this, both entities adopted laws on the use of renewable energy sources and efficient cogeneration. On May 11, the Council of Ministers of Bosnia and Herzegovina greenlighted negotiations for concluding agreements with Serbia and Croatia on the construction of gas interconnectors. The authorities continue to engage with development partners to prepare, enact, and implement comprehensive legislation to help strengthen the energy market, boost competition, and encourage private investment. The Federation of Bosnia and Herzegovina already adopted a set of legislation to improve strategic planning in the energy sector, including the introduction of a targeted system to protect the most vulnerable and end-customers of electricity. Amendments to the public procurement law were prepared, aiming to increase digitalization, transparency, and accountability of procedures.

The new Council of Ministers of Bosnia and Herzegovina recognizes corruption as the highest threat to effectively address money laundering, which necessitates a new AML/CFT law. The authorities are committed to building the necessary political and social consensus and improving institutional and legal frameworks, to help address corruption and AML/CFT issues in line with the well-established international standards and practice. This requires more time given that the law should also comply with the constitutional jurisdictions and competencies of all levels of government. On August 22, the lower house of the Bosnia and Herzegovina parliament adopted the bill amending the Law on High Judicial and Prosecutorial Council (HJPC) aimed at strengthening the independence, integrity, responsibility, efficiency, and alignment of the judicial system. The amendments also regulate issues related to the conflict of interests of members of HJPC and introduce the obligation of judges and prosecutors to report their assets and interests, as one of the measures to fight corruption in the judiciary system.