IMF Country Report No. 24/175

BOSNIA AND HERZEGOVINA

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT

June 2024

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 2024 Article IV consultation with Bosnia and Herzegovina, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on March 20, 2024, with the officials of Bosnia and Herzegovina on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 28, 2024.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

© 2024 International Monetary Fund

IMF Executive Board Concludes 2024 Article IV Consultation with Bosnia and Herzegovina

FOR IMMEDIATE RELEASE

Washington, DC – **June 20, 2024:** On June 13, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Bosnia and Herzegovina (BiH) on a lapse-of-time basis.[2]

Growth has proven resilient despite the continued fallout from the war in Ukraine. It decelerated to 1.7 percent in 2023 from 4.2 percent in 2022 but is projected to rise to 2.5 percent this year and remain subdued at around 3 percent in the medium term. Inflation has gradually decreased from a peak of 17.4 percent in October 2022 to 6 percent, on average, in 2023 and is expected to further decline to 3 percent in 2024. However, inflation excluding food and energy prices is proving to be stickier reflecting persistent wage pressures.

Uncertainty around the outlook is high and downside risks outweigh, including an abrupt slowdown in Europe, increased commodity price volatility, and rising domestic political tensions. On the other hand, progress on the European Union accession path could provide a reform boost, with positive spillovers.

The fiscal balance deteriorated from a surplus of 0.9 percent in 2022 to a deficit of 1.7 percent in 2023, reflecting the accumulated impact of several permanent increases in public wages and social benefits. The increased deficits and large debt repayments led to a large drawdown of government deposits, eroding buffers. Total government debt increased to 32.2 percent in 2023, and financing needs are high in both entities.

Executive Board Assessment

BiH's economy has shown resilience in a difficult environment. Growth is projected to strengthen starting this year, albeit to levels that will not lead to convergence to the EU. Inflation will continue to decline, but wage pressures linger. Risks remain elevated, including from an intensification of regional conflicts and an abrupt slowdown in Europe, and domestically, from rising political tensions and more expansionary macroeconomic policies. On the other hand, opening of EU accession talks could boost reform momentum and confidence.

Fiscal policy should focus on curbing current spending while preserving growth-enhancing investment expenditures. The overall fiscal balance is projected to widen to 2.4 percent of GDP in 2024 from 1.7 percent in 2023, reflecting the accumulated impact of several permanent increases in public wages and social benefits. The authorities should move to contain deficits by containing the public sector wage bill, avoiding discretionary increases in social benefits and new support measures, and revisiting other current spending. They should

---

[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] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

preserve growth-enhancing public investment outlays. Fiscal risks from minimum wage increases and capped electricity prices should be mitigated.

The authorities should reduce financing needs and prepare contingency plans in case financing cannot be secured. Fiscal buffers have been eroded due to increased budget deficits, large debt repayments, and drawdown of government deposits. Both entities face large financing needs this year that are unlikely to be met solely in the domestic market. Their budgets envisage large debt issuances, some of which are yet to be firmly identified. The authorities should reduce deficits to contain financing needs, firm up borrowing plans, and identify additional cuts to current spending to prepare for potential financing shortfalls.

Reforms are needed to rebuild fiscal buffers while improving spending quality. Reforms, including a review of public employment, wages, and social benefits are needed to support a return to surplus over the medium term. Resources should be reallocated from current to capital spending, primarily on infrastructure, green energy, and digitalization. Ultimately, additional revenue must be mobilized, including by reducing tax exemptions.

The currency board arrangement remains an anchor of stability and should be preserved. Pressure for the central bank to finance government budgets or to provide credit to banks should be strongly resisted.

CBBH should further strengthen the reserve requirement framework, including by increasing remuneration rates on bank reserves. It should continue fulfillment of required reserves on foreign exchange deposits in foreign exchange and move from partial to total fulfillment after the transitional period. Narrowing the gap with euro area interest rates would reduce incentives for banks to place funds abroad, thus containing capital outflows. Assuming the remuneration increase is passed through to lending rates, this could also help further reduce inflation.

Financial sector risks should continue to be closely monitored and crisis preparedness enhanced. Bank asset classifications and loan-loss provisions should accurately reflect credit risks and losses. Temporary measures that aim to contain increases in lending rates should be allowed to lapse this year as scheduled. The introduction of systemic risk buffers is welcome; introducing additional buffers and borrower-based measures would further enhance the macroprudential toolkit. Establishing a BiH-wide financial stability fund to facilitate bank restructurings and provide liquidity on an exceptional basis would substantially strengthen the financial safety net. The authorities are encouraged to request an FSAP, which would help assess resilience amid rising risks and provide a roadmap for financial sector reforms, including linked to EU accession.

Transitioning to green energy and preparing for the introduction of EU carbon pricing require immediate action. The authorities should introduce carbon pricing as soon as possible. They should phase out electricity subsidies and establish an EU-aligned ETS, with interim carbon pricing alternatives such as a tax or excise as a possible step, given that an ETS may take several years to implement.

Reforms to improve governance, protect financial integrity, fight corruption, and step up digitalization should be accelerated to boost growth. The oversight, transparency, and operations of public enterprises should be improved, weaknesses in public procurement addressed, and public investment management strengthened. The recent adoption of the AML and conflict of interest laws are welcome steps, and the authorities should move decisively and effectively to implement the new laws. The authorities are encouraged to request a comprehensive IMF governance diagnostic assessment to help inform and prioritize reforms. Placing BiH on a higher growth path and providing its people with more opportunities will ultimately reduce emigration.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2020-2029

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
Nominal GDP (KM billion)	34.7	39.1	45.6	48.9	51.8	54.8	57.9	60.9	63.9	67.2
Gross national saving (in percent of GDP)	19.7	23.7	23.1	22.5	22.3	21.7	21.7	21.8	21.8	21.9
Gross investment (in percent of GDP)	22.6	25.5	27.5	25.3	25.6	25.6	25.7	25.8	25.8	25.8
					(Percent change)					
Real GDP	-3.0	7.4	4.2	1.7	2.5	3.0	3.0	3.0	3.0	3.0
GDP deflator	0.1	5.0	11.8	5.5	3.2	2.7	2.6	2.1	2.0	2.0
CPI (period average)	-1.1	2.0	14.0	6.1	3.0	2.7	2.5	2.0	2.0	2.0
Money and credit (end of period)										
Base money	10.7	17.4	3.3	-1.7	3.5	--	--	--	--	--
Broad money	7.1	12.4	5.5	7.6	2.9	--	--	--	--	--
Credit to the private sector	-2.8	4.0	4.9	7.4	5.2	--	--	--	--	--
					(Percent of GDP)					
Operations of the general government										
Revenue, *of which*:	40.8	40.5	39.6	40.8	41.4	41.1	41.1	41.2	41.3	41.3
Taxes	21.5	22.0	21.8	22.3	22.7	22.6	22.6	22.7	22.8	22.8
Social security contributions	15.5	14.8	14.2	15.1	15.3	15.3	15.3	15.3	15.3	15.3
Expenditure	45.4	39.9	38.6	42.5	43.8	43.5	43.2	42.9	42.5	42.3
of which: Investment expenditure	5.4	4.1	3.8	4.0	4.2	4.3	4.3	4.3	4.3	4.3
Fiscal balance	-4.6	0.6	0.9	-1.7	-2.4	-2.4	-2.1	-1.7	-1.2	-0.9
Primary fiscal balance	-3.9	1.3	1.5	-0.8	-1.3	-1.1	-0.7	-0.2	0.2	0.6
Total general government debt	37.1	35.6	31.0	32.2	34.2	35.3	36.1	36.9	37.7	38.0
Domestic general government debt 1/2/	10.9	9.0	8.0	12.1	13.6	15.2	16.6	18.2	19.5	20.6
External general government debt	26.2	26.7	23.0	20.1	20.7	20.1	19.5	18.7	18.2	17.3
					(Percent of GDP)					
Balance of payments										
Exports of goods and services	34.6	42.5	48.1	44.1	43.6	43.6	43.5	43.4	43.3	43.1
Imports of goods and services	48.0	53.8	61.9	56.9	56.6	57.0	57.0	56.9	56.9	56.6
Trade balance	-13.4	-11.3	-13.8	-12.8	-13.0	-13.4	-13.5	-13.5	-13.6	-13.5
Current transfers, net	11.1	10.8	10.6	10.2	10.1	10.1	10.1	10.1	10.0	9.9
Current account balance	-2.8	-1.8	-4.3	-2.8	-3.3	-3.9	-4.1	-4.0	-4.0	-4.0
Foreign direct investment (+=inflow)	2.0	2.7	3.0	3.3	3.0	2.9	2.8	2.8	2.8	2.7
Gross official reserves (Euro million)	7,105	8,372	8,228	8,342	8,684	9,080	9,348	9,670	10,034	10,388
(In months of imports)	7.9	7.0	6.9	6.7	6.5	6.5	6.3	6.2	6.2	6.1
(In percent of monetary base)	112.9	113.3	107.8	111.2	--	--	--	--	--	--
(In percent of IMF ARA metric)	121.8	127.3	115.8	113.4	111.9	110.3	--	--	--	--
External debt 3/	63.9	57.4	51.7	49.5	49.4	48.8	48.1	47.5	47.0	46.5
Memorandum Items:										
Unemployment rate (national definition) 4/	15.9	17.4	15.4	13.2	--	--	--	--	--	--
GDP per capita (in euros)	5,092	5,750	6,716	7,225	7,660	8,127	8,612	9,082	9,569	10,086
Output gap (in percent of potential GDP)	-4.1	0.3	1.6	0.4	0.0	0.1	0.1	0.1	0.1	0.1
REER (Index 2016=100)	98.7	98.5	102.3	103.6	--	--	--	--	--	--
NEER (Index 2016=100)	115.9	117.1	117.4	120.4	--	--	--	--	--	--

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.

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

May 28, 2024

KEY ISSUES

Context: Growth decelerated to 1.7 percent in 2023 from 4.2 percent in 2022 but has proven resilient despite ongoing headwinds, such as spillovers from the war in Ukraine and from the economic slowdown in Europe. Inflation has moderated from 17.4 percent in October 2022 to 6 percent, on average, in 2023, but wage pressures linger due to minimum wage increases and emigration. The fiscal balance deteriorated from a surplus of 0.9 percent in 2022 to a deficit of 1.7 percent in 2023, reflecting the accumulated impact of several permanent increases in public wages and social benefits. Progress on structural reforms remains limited, although EU accession talks appear to have sparked some reform ambition.

Outlook: Continued fiscal expansion, higher real wages, and recovering private investment will help demand. Growth is expected to increase to 2.5 percent this year, but remain subdued at around 3 percent in the medium term, below levels needed to speed up convergence with the EU. Inflation is projected to decline to 3 percent in 2024, but core inflation will remain stickier. The fiscal deficit will further rise to 2.4 percent of GDP driven by current spending. Uncertainty around the outlook is high and downside risks outweigh, including an abrupt slowdown in Europe, increased commodity price volatility, and rising domestic political tensions.

Policy Recommendations:

- With output close to potential and financing pressures elevated, the authorities should identify current spending cuts to keep fiscal deficits unchanged while preserving investment. Both entities should prepare for financing shortfalls. Reforms are needed to rebuild fiscal buffers over the medium term while improving spending quality.
- The central bank should continue to strengthen the currency board and increase remuneration rates on bank reserves to narrow the gap with the euro area.
- The authorities should allow interest rates to rise to reflect market conditions and risks. They should closely monitor financial sector risks and enhance crisis preparedness, including by establishing a single financial stability fund for bank resolution and liquidity provision in exceptional cases.
- Transitioning to green energy and preparing for the introduction of the EU carbon border adjustment tax require immediate action. To accelerate growth, the authorities should also speed up reforms to improve governance, protect financial integrity, fight corruption, step up digitalization, and improve data sharing.

Approved By:
Mark Horton (EUR) and Boileau Loko (SPR)

Discussions were held in Sarajevo and Banja Luka during March 6–20, 2024. The mission comprised A. Iancu (head), N. Ben Ltaifa, C. Lopez-Quiles (EUR), A. Tudyka (Resident Representative), A. Shah (FAD), A. Miksjuk (SPR), and B. Čegar and A. Musić (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 Chair of the Bosnia and Herzegovina (BiH) Council of Ministers Krišto, BiH Finance Minister Amidžić, Central Bank of BiH Governor Selimović, Federation of BiH (FBiH) Prime Minister Nikšić, Republika Srpska (RS) Prime Minister Višković, FBiH Finance Minister Kraljević, RS Finance Minister Vidović, other government officials, and members of the business and diplomatic communities. L. Dresse and M. Ivanović (OED) attended mission meetings. The mission did not have the opportunity to meet with the BiH Fiscal Council, a key counterpart in previous consultations.

CONTENTS

TABLES

ANNEXES

RECENT DEVELOPMENTS AND CONTEXT

1. **The announcement in March that the EU will open accession negotiations could boost reform momentum, but challenges remain amid elevated domestic tensions** (Box 1). In the lead up to the announcement, BiH adopted several state-level laws, including on AML/CFT, prevention of conflict of interest, freedom to access information, ombudsman for human rights, and High Judicial and Prosecutorial Council (HJPC). However, before negotiations can formally start, more reforms need to be advanced, including to strengthen courts and ensure the integrity of elections. Domestic political tensions, including secessionist threats from Republika Srpska (RS) remain, contributing to limited policy coordination at the state level.

Box 1. EU Accession and the Growth Plan for the Western Balkans

The opening of accession negotiations is an early step on the road to possible EU membership. In its 2023 Enlargement Package, the European Commission recommended to open accession negotiations with BiH once a necessary degree of compliance with 14 pre-accession priorities was achieved.[1/] A positive decision was announced in March. While accession negotiations could provide a helpful roadmap and way forward, a sustained consensus and commitment to implement EU laws and standards will be needed.

A new EU Growth Plan for the Western Balkans (WB) could play a catalytic role for reforms. The plan, presented by the EC in November, aims at boosting growth and accelerating socio-economic convergence of the six WB countries within the region and with the EU single market.[2/] It includes a €6 billion facility for 2024–27.[3/] Planned allocations for BiH are about €1.2 billion, split evenly between grants and loans. Disbursements are conditional on successful reform implementation and may be redistributed to other participants after a grace period of 1–2 years. Although the financing is not sufficiently sizeable to be fully transformative, it would support the reform agenda by providing resources and by sustaining momentum.

EU Accession Process

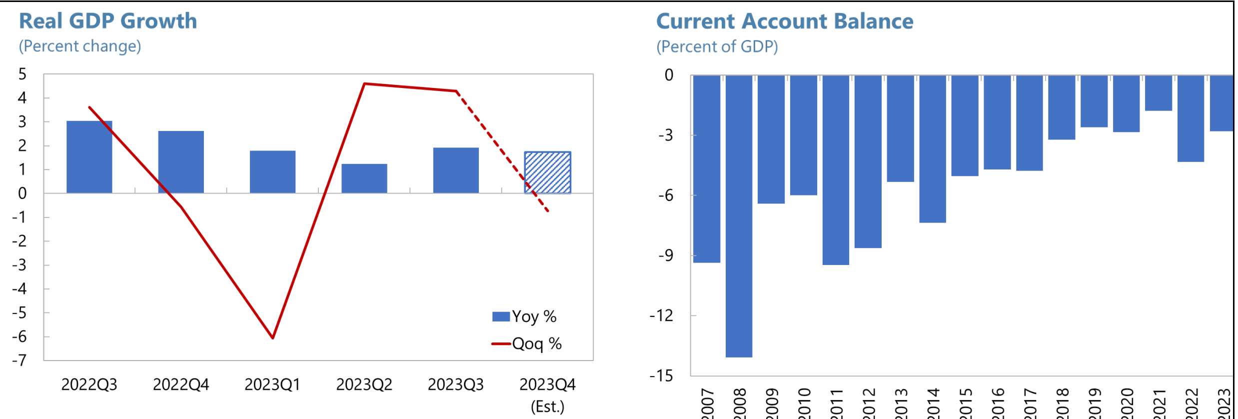
1/ These center on (i) Democracy/Functionality; (ii) Rule of Law; (iii) Fundamental Rights; (iv) Public Administration Reform.

2/ Reform areas are the same for all WB countries and comprise (i) Rule of Law and Other Fundamentals; (ii) Governance, Public Administration Reform, Public Financial Management; (iii) Human Capital; (iv) Energy and Green Transition; (v) Digitalization; and (vi) Private Sector Development and Business Environment.

3/ €2 billion in grants and €4 billion in concessional loans, of which at least €3 billion for investment (through the Western Balkans Investment Framework) and the rest for budget support.

2. The implementation of the last Article IV recommendations has been marginally better than in previous consultations. Some progress was made in implementing fiscal reforms, strengthening the currency board and the reserve requirement framework, and enhancing financial integrity (Annex I). Engagement on capacity development remains strong (Informational Annex).

3. Growth decelerated to 1.7 percent in 2023 from 4.2 percent in 2022. This reflected mainly a slowdown in exports and investment amid strong tourism and resilient domestic consumption (Figure 1). With inflation receding and real wages rising, private consumption rose in H2:2023 leading to stronger growth (1.8 versus 1.5 percent in H1). The labor market has tightened, with employment growing by 0.9 percent y/y in December 2023 and the unemployment rate declining to 12.7 percent in Q4:2023. Credit to the private sector increased by 4.8 percent y/y in real terms in 2023 and the external current account deficit narrowed from 4.3 percent of GDP in 2022 to 2.8 percent of GDP last year, helped by lower oil prices and higher investment income and remittances. The external position is moderately stronger than the level implied by fundamentals and desirable policies (Annex II).

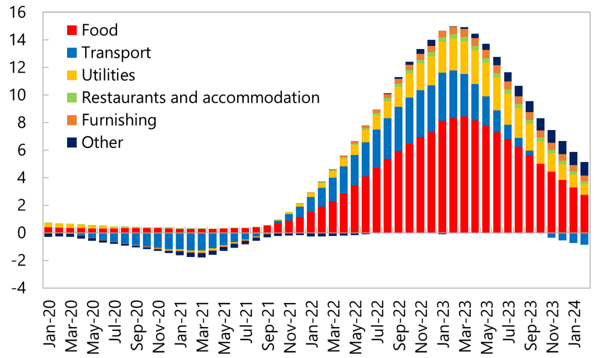


Source: Bosnia and Herzegovina Agency for Statistics.
Note: Growth numbers for 2023Q4 are projections.

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

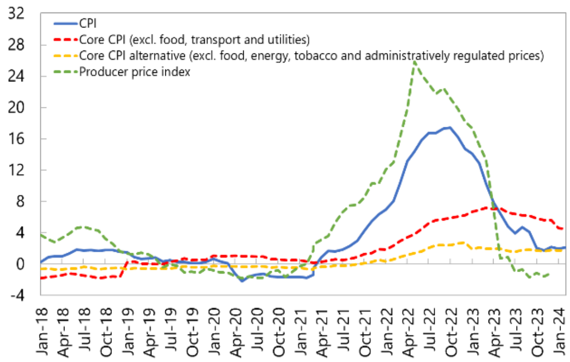
4. Inflation is receding. Amid a rapid slowdown in food, transportation, and utility prices, headline inflation decelerated to 2.0 percent y/y in March 2024 from a peak of 17.4 percent in October 2022. Core inflation peaked at 7.2 percent y/y in March 2023 before declining to 4.2 percent in March 2024. Annual headline and core inflation declined to 6.1 and 6.5 percent, respectively, on average in 2023. Nominal wages have been growing at a declining rate since May 2023, while real wages rose by 6.1 percent on average in 2023.

CPI Growth Contributions
(Percent, 12-month average)



Sources: Bosnia and Herzegovina Agency for Statistics; and IMF staff calculation

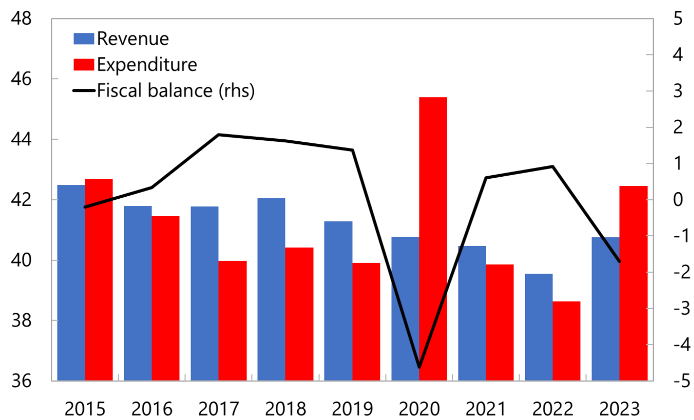
Consumer Price Indices and Producer Price Index
(Year-on-year percent change)



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

5. The fiscal balance in both entities deteriorated in 2023, driven by current spending. Revenues grew by 1.2 percentage points of GDP, primarily reflecting wage increases and strong corporate profits.[1] However, social spending increased by 1.8 ppt of GDP reflecting pension and social benefits increases in both entities, of which 1.3 ppt were mandated by law and 0.5 ppt discretionary (Text Table 1). This, combined with public wage increases and higher interest costs, pushed expenditures up by 3.9 ppt of GDP. For the first time in recent years, expansionary fiscal policies led to fiscal deficits in both entities (2 and 2.4 percent in FBiH and RS, respectively), with an overall deficit of 1.7 percent in 2023, compared to a surplus of 0.9 percent in 2022. Both entities prioritized debt repayments and statutory payments (wage and pensions), while other payments (some subsidies and grants) were deferred.

Revenues and Expenditures
(Percent of GDP)



Sources: Bosnia and Herzegovina authorities.

[1] There were no tax measures aside from an extension of VAT to credit card transactions, which was applied retroactively and is being disputed by banks.

Text Table 1. Bosnia and Herzegovina: Cost-of-living Crisis-Related Spending, 2023-2024

(Percent of respective GDP)

	Impact in 2023						Impact in 2024					
	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	**982**	**2.0**	**322**	**1.0**	**499**	**3.2**	**972**	**1.9**	**322**	**1.0**	**489**	**2.9**
Wage increase	387	0.8	18	0.1	208	1.3	387	0.7	18	0.1	208	1.2
Pension increase	500	1.0	304	1.0	196	1.2	500	1.0	304	0.9	196	1.2
o/w regular 3/	223	0.5	162	0.5	61	0.4	223	0.4	162	0.5	61	0.4
o/w discretionary 4/	277	0.6	142	0.4	135	0.9	277	0.5	142	0.4	135	0.8
One-off cash/in-kind social assistance 5/	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Permanent social benefit assistance	96	0.2	0	0.0	96	0.6	86	0.2	0	0.0	86	0.5
o/w regular 3/	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
o/w discretionary 6/	96	0.2	0	0.0	96	0.6	86	0.2	0	0.0	86	0.5
Household electricity subsidies	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Commodity reserves	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Measures introduced in 2023	**1,241**	**2.5**	**756**	**2.4**	**416**	**2.6**	**1,381**	**2.7**	**835**	**2.5**	**476**	**2.8**
Wage increase	202	0.4	26	0.1	106	0.7	202	0.4	26	0.1	106	0.6
Pension increase	634	1.3	470	1.5	164	1.0	700	1.4	536	1.6	164	1.0
o/w regular 3/	568	1.2	404	1.3	164	1.0	568	1.1	404	1.2	164	1.0
o/w discretionary 4/	66	0.1	66	0.2	0	0.0	132	0.3	132	0.4	0	0.0
One-off cash/in-kind social assistance 5/	10	0.0	10	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Permanent social benefit assistance	232	0.5	191	0.6	41	0.3	316	0.6	215	0.6	101	0.6
o/w regular 3/	34	0.1	13	0.0	21	0.1	34	0.1	13	0.0	21	0.1
o/w discretionary 6/	198	0.4	178	0.6	20	0.1	282	0.5	202	0.6	80	0.5
Subsidies for farmers 7/	163	0.3	58	0.2	105	0.7	163	0.3	58	0.2	105	0.6
Measures introduced in 2024							**618**	**1.2**	**361**	**1.1**	**257**	**1.5**
Wage increase							86	0.2	36	0.1	51	0.3
Pension increase							406	0.8	261	0.8	145	0.9
o/w regular 3/							400	0.8	255	0.8	145	0.9
o/w discretionary 4/							6	0.0	6	0.0	0	0.0
One-off cash/in-kind social assistance 5/							0	0.0	0	0.0	0	0.0
Permanent social benefit assistance							115	0.2	53	0.2	62	0.4
o/w regular 3/							53	0.1	37	0.1	15	0.1
o/w discretionary 6/							63	0.1	16	0.0	47	0.3
Subsidies for farmers							11	0.0	11	0.0	0	0.0
Total fiscal impact	**2,223**	**4.3**	**1,077**	**2.1**	**915**	**1.8**	**2,971**	**5.7**	**1,518**	**4.5**	**1,223**	**7.3**

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/ For pensions, regular increases are automatical, based on an inflation and GDP growth formula in the FBiH, and inflation and wage growth formula in the RS. For social benefits, depending of the type, formula is linked to real GDP and inflation or minimum salary or average salary.

4/ Extraordinary increases in the FBiH also include the effect of the minimum pension increase.

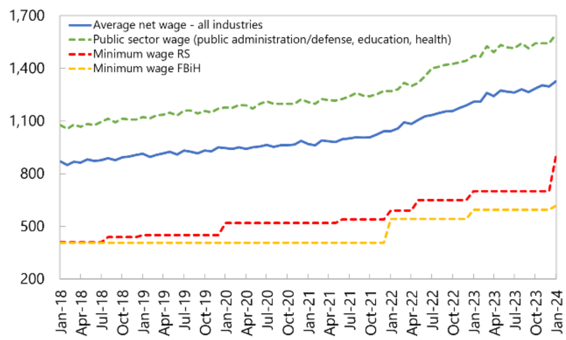
5/ In 2022 includes one-off cash assistance to war veterans, unemployed persons, pensioners and disabled persons (FBiH), and pensioners, war veterans, young people, children of fallen soldiers (RS), and one-off in-kind assistance in the form of aid package (FBiH), and one-off cash assistance of KM 11mn to state-level institutions employees (BiH). In 2023 it includes one-off assistance to the war veterans (FBiH).

6/ In 2022, includes allowances to war veterans and disabled and allowances for the families with 4 or more children (RS). In 2023, includes permanent increase of disabled allowances by linking it to the minimum salary and introduction of child care allowances (FBiH) and allowances to the war veterans by expanding the number of beneficiaries (RS). In 2024, war veteran allowances is increased (RS), while FBiH introduced a new pronatal measure (KM 1,000 for each newborn child).

7/ The planned amount of subsidies for farmers (RS) was not fully paid in 2023 and that liability is transferred to 2024.

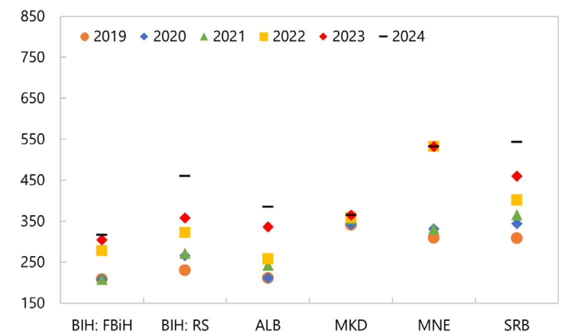
6. **Both entities have relied on public and minimum wage increases to mitigate the impact of the cost-of-living crisis**. In addition to sizable public wage increases in 2022-23, minimum wages were also increased multiple times. RS adopted a decision in late-December to increase the minimum wage by 28.6 percent (to 68 percent of average wage) effective January, while FBiH introduced a formula-based increase of 3.9 percent (47 percent of average wages). Overall, wages were 27 percent higher in January 2024 compared to end-2021, 8 percent higher in real terms, eroding competitiveness (SIP on Labor Market Issues). However, minimum wages in BiH remain below most European countries (Figure 3).

Average and Minimum Wages
(KM)



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

Western Balkans: Minimum Wages
(Average euros per year)

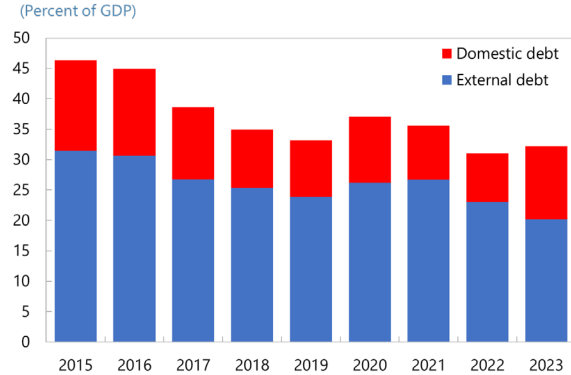


Sources: Eurostat; Central Banks; Haver Analytics; and IMF staff calculations.

7. The increased deficits and large debt repayments, paired with limited external financing, led to a rise in domestic financing and a drawdown of government deposits. RS faced particularly sizeable gross financing needs (GFN) of around €735 million (9.1 percent of GDP), raising €75 million in external financing and €380 million domestically. To close the year, the RS authorities drew down on deposits and delayed some payments, mostly subsidies to farmers. FBiH also experienced rising financing pressures, together with increased borrowing costs. FBiH had GFN of around €560 million (3.4 percent of GDP), and received €200 million in domestic financing and €228 million in external financing, and also drew down on deposits, thereby depleting buffers. Foreign loan disbursements for infrastructure picked up compared to 2022, but project implementation remains slow. Overall public debt increased to 32.2 percent of GDP in 2023, from 31 percent in 2022.

8. The coverage ratio of the currency board arrangement (CBA) has steadily increased since mid-2021 after the central bank (CBBH) rebalanced its portfolio. CBBH reported record profits last year, to be partially distributed to the budget of state institutions as mandated by law. Following IMF TA[2], it introduced in January partial fulfilment of required reserves in FX, with a transitional period of nine months. Jointly with the banking agencies, CBBH published a reference rate for bank funding costs. However, it did not narrow the gap in remuneration of bank reserves with respect to the euro area, and interest rate pass-through to lending and deposit rates remains limited (SIP on Financial Sector Issues). A new governor and governing board of CBBH were appointed in January, more than two years after previous mandates expired.

General Government Debt
(Percent of GDP)

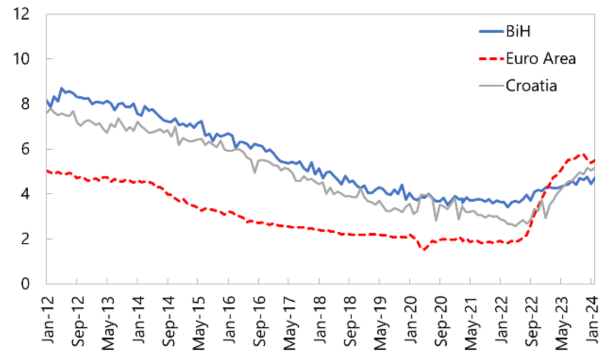


Sources: Bosnia and Herzegovina authorities.

[2] IMF (2019). Bosnia and Herzegovina: Technical Assistance Report-Implementation of a New Reserve Requirement Framework.

9. Banks have sizable buffers, but there are latent risks. Banks are well capitalized and liquid on aggregate, with record profits. NPLs declined to 3.8 percent in 2023, partly due to still-low interest rates. The authorities have extended measures to slow the rise in interest rates for lending through June 2024, and to limit exposure to foreign government securities through end-2024.[3] Companies in BiH, on average, borrow at rates lower than in the euro area, which may not adequately reflect credit risk (SIP on Financial Sector Issues). The gap in remuneration rates has also led banks to search for higher returns abroad and increase foreign-asset holdings, particularly money-market placements. Exposure to interest rate risk may be rising, as rates for new loans (including mortgages) are mostly fixed at low levels over long maturities, while deposits are increasingly short term and could experience upward pressures in financing costs. The U.S. authorities have recently cautioned BiH banks that conducting business with sanctioned individuals and companies exposes banks to potential sanctions. Finally, while a crypto asset-related lawsuit against one of the largest banks in RS was resolved in favor of the bank, an incomplete regulatory framework for virtual assets continues to be a source of risk and legal uncertainty.

Lending Rates on New Loans to Corporates
(Percent)



Sources: European Central Bank; and Central Bank of Bosnia and Herzegovina.
Note: Loans up to € 250,000, with floating rate and up to one-year maturity.

OUTLOOK AND RISKS

10. Growth is expected to strengthen in 2024 but remain at a subpar level in the medium term. Demand this year will be helped by higher real wages, continued fiscal expansion, and recovering private investment, while EU demand for BiH exports will remain tepid. Growth is projected to rise to 2.5 percent in 2024, and assuming no significant changes in reform momentum or political dynamics, to stay at 3 percent in the medium term, below the pace needed to speed up convergence with the EU. The current account deficit is expected to widen to 3.3 percent of GDP in 2024 and 4 percent in the medium term, reflecting higher interest payments on public debt and domestic demand, bringing the external position in line with the level implied by fundamentals and desirable policies (Annex II).

11. Inflation will further decelerate, but core inflation is expected to remain sticky reflecting wage pressures. Declining commodity prices, combined with regulated electricity prices, will further ease inflationary pressures.[4] The decline in core inflation will lag headline due to wage pressures. Headline inflation is projected to decline to 3 percent on average in 2024 and to

[3] An assessment of these measures as capital flow management measures (CFMs), and of their appropriateness under the Institutional View (IV) on the Liberalization and Management of Capital Flows is ongoing.

[4] There is no electricity price increase planned in the RS, while price increases in FBiH are capped at 20 percent.

2 percent, the euro area inflation target, by 2027; core inflation will decline but remain higher at around 5 percent in 2024.

12. Uncertainty around the outlook is high and risks are tilted to the downside. The intensification of conflicts (Ukraine, Israel-Gaza, Red Sea), an abrupt slowdown in Europe, or increased commodity price volatility could disrupt trade and raise food and energy prices, lower BiH exports and remittances, and dampen domestic demand. Rising domestic political tensions could increase economic fragmentation and weaken growth prospects (Annex III).

13. There are also policy-induced risks. Maintaining expansionary fiscal policies could undermine fiscal and external sustainability—financing needs have risen and proven challenging to meet. Public and minimum wage increases to mitigate the impact of the cost-of-living crisis have supported domestic demand, but also fueled inflation. The materialization of financial sector risks could lead to more capital outflows and financial distress. By contrast, progress on the EU accession path could provide a reform boost, with positive spillovers.

Authorities' Views

14. The authorities broadly agreed on the growth and inflation outlook. They agreed that domestic demand remains the main driver of growth and that inflation pressures—mostly from energy, transportation, and food prices—are receding. They project growth in 2024 at 2.5–3 percent and inflation to decline below 3 percent. They agreed that growth will likely remain subdued at 3–3.5 percent in the medium term, but see inflation declining to 2–2.3 percent already in 2025.

POLICY DISCUSSIONS

The discussions focused on containing current spending, while preserving growth-enhancing investment and rebuilding fiscal buffers over the medium term. The authorities should also further strengthen the CBA and the reserve requirement framework, monitor closely the financial sector and enhance crisis preparedness, and accelerate reforms to support private sector-led growth and EU accession and convergence.

A. Fiscal Policy and Reforms

15. The fiscal deficit is expected to widen further in 2024 and to decline gradually over the medium term.[5] The overall deficit will increase from 1.7 to 2.4 percent of GDP in 2024, driven by high current spending (text Table 2). RS's deficit will rise from 2.4 to 3.2 percent of GDP reflecting a sizable increase in social security allowances (mainly for veterans) and pensions. Notably, RS is also considering new support measures for firms that are significantly affected by minimum wage

[5] The baseline reflects the authorities' spending plans in 2024 as described in the RS and FBiH budgets. State institutions have not yet adopted a budget. The baseline assumes no new spending measures in the medium term as per the authorities' medium-term plans. On the revenue side, it reflects staff's more cautious revenue projections and no tax measures as per the authorities' stated policies.

increases. FBiH's deficit will rise from 2 to 2.6 percent of GDP, also reflecting large increases in wages and social benefits. State-level institutions will maintain a surplus due to weak execution of capital expenditure and insufficient hiring, and higher revenues. With no tax reform planned and interest costs elevated,[6] staff's projected decline in BiH's deficit to 0.9 percent of GDP by 2029 hinges on no additional wage or discretionary social benefit increases.

Text Table 2. Bosnia and Herzegovina: General Government Finances, 2022-2029

(Percent of respective GDP, general government)

	BiH				FBiH				RS			
	2022	2023	2024	2029	2022	2023	2024	2029	2022	2023	2024	2029
Revenue	**39.6**	**40.8**	**41.4**	**41.3**	**35.9**	**37.1**	**37.7**	**38.3**	**40.5**	**40.8**	**41.3**	**41.8**
Taxes	21.8	22.3	22.7	22.8	18.5	19.0	19.4	20.0	22.2	22.2	22.8	23.3
Social security contributions	14.2	15.1	15.3	15.3	14.7	15.9	15.9	15.9	13.8	14.5	14.9	14.9
Grants	0.3	0.4	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.1	0.1
Other revenue	3.3	2.9	3.2	3.0	2.5	1.9	2.2	2.2	4.2	3.8	3.5	3.5
Expenditure	**38.6**	**42.5**	**43.8**	**42.3**	**34.2**	**39.1**	**40.3**	**39.0**	**42.0**	**43.2**	**44.4**	**43.9**
Expense	**34.8**	**38.4**	**39.6**	**38.0**	**30.8**	**35.5**	**36.5**	**35.2**	**37.3**	**38.5**	**39.6**	**38.9**
Compensation of employees	10.0	10.6	11.0	10.3	8.0	8.5	9.0	8.6	9.3	9.4	9.4	9.3
Use of goods and services	6.5	6.8	7.0	6.8	7.5	8.0	8.1	8.1	3.1	3.2	3.2	3.2
Social benefits	14.4	16.3	16.7	15.8	12.3	14.5	14.7	14.0	19.6	20.7	21.5	20.5
Other	3.8	4.7	4.9	4.9	3.0	4.4	4.7	4.4	5.3	5.1	5.5	6.0
Net acquisition of nonfinancial assets	**3.8**	**4.0**	**4.2**	**4.3**	**3.4**	**3.6**	**3.8**	**3.9**	**4.7**	**4.8**	**4.8**	**4.9**
Acquisition of nonfinancial assets	4.0	4.2	4.4	4.4	3.5	3.7	3.9	3.9	4.9	5.0	5.1	5.2
Foreign financed capital spending	1.2	1.1	1.3	1.4	1.4	1.4	1.7	1.8	0.6	0.4	0.6	0.7
Domestically financed capital spending	2.8	3.1	3.0	3.0	2.1	2.2	2.2	2.2	4.3	4.6	4.5	4.5
Fiscal balance	**0.9**	**-1.7**	**-2.4**	**-0.9**	**1.7**	**-2.0**	**-2.6**	**-0.7**	**-1.5**	**-2.4**	**-3.2**	**-2.1**
Primary balance	1.5	-0.8	-1.3	0.6	2.1	-1.3	-1.8	0.5	-0.5	-1.1	-1.5	0.1

Sources: BiH authorities; and IMF staff calculations.

16. **With elevated deficits, public debt is projected to increase from 32.2 percent of GDP at end-2023 to 38 percent of GDP in the medium term (Annex IV), amid high uncertainty about budget financing**. Public debt is expected to peak at around 38 percent in the medium term and gradually decrease to around 36 percent in the outer years. Although the debt level is low, debt dynamics could pose liquidity risks as access to financing is limited. Gross financing needs for 2024 are significant in both entities, around 6 percent of GDP in FBiH and 9.8 percent of GDP in RS. The two entities' budgets envisage large debt issuances, some of which are yet to be firmly identified. RS is planning up to €414 million of external financing (5 percent of GDP; 60 percent of GFN); staff assumes via bilateral loans. RS could seek more domestic financing, including by issuing retail bonds, although volumes in this segment are likely to be small. FBiH is planning to roll over up to €184 million maturing T-bills (1 percent of GDP) and raise €378 million (2 percent of GDP) from domestic and external sources and has recently obtained a sub-sovereign rating for potential foreign issuances. Staff expects improved drawing of project loans in 2024 for a major transport corridor and on-track implementation of local green projects (text Table 3).

[6] The recent doubling of the VAT threshold is expected to have a negligible impact.

Text Table 3. Bosnia and Herzegovina: Foreign Loan Disbursements, 2021-2025

Foreign loan disbursements	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2021	2022	2023 Est.	2024 Proj.	2025 Proj.
	Million KM					Percent of GDP				
Project financing	717	427	554	647	739	1.8	0.9	1.1	1.2	1.4
o/w corridor Vc	394	256	269	347	382	1.0	0.6	0.5	0.7	0.7

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

17. With output close to potential and financing pressures elevated, staff urged the authorities to keep deficits unchanged in 2024 and stand ready to cut them in case of financing shortfalls. This requires identifying overall savings of about 0.7 percent of GDP. With the wage bill and social spending among the highest in the region (Figure 2), the authorities should avoid further wage and discretionary social benefit increases, as well as new support measures, and identify other current spending cuts (e.g., to goods and services) to keep deficits unchanged while preserving investment. The authorities should also firm up borrowing plans and identify further cuts to current spending if financing does not materialize. Staff also called for timely adoption of the state institutions' budget and improved budget execution, especially of capital spending. It discussed scope for additional revenues, including a dividend tax, and strongly advised against discretionary tax relief to firms affected by minimum wage increases in the RS, which would put additional pressure on the budget and are potentially distortive.

18. Fiscal reforms are needed to support rebuilding buffers and boosting potential growth, reallocating resources from current to capital spending. Staff called for a more rapid consolidation and return to surplus while enhancing spending quality. A review of employment and wages is needed to identify redundancies and reduce the wage bill. Staff also recommended higher, more efficient investment, better-targeted social spending, and more revenue mobilization.

- *Investment*: Infrastructure, green energy, and digitalization should be priority areas. Improved efficiency and execution and IFI financing take-up are also priorities in both entities. The authorities should follow IMF Public Investment Management Assessment (PIMA) recommendations to strengthen project appraisal, multi-year budgeting, and project portfolio management and oversight, as well as the vertical (within entities) and horizontal (among entities) coordination of public investment priorities.[7]
- *Social spending*: Regular annual pension increases pose risks in both entities given unfavorable demographics. Indexation and eligibility should be reviewed to align with best practices, and pension increases should be limited to those legislated. To better target social spending, the authorities should establish or link beneficiary registries, conduct a review of benefits, and introduce a social-card system.[8]

[7] RS PIMA report is publicly available: Bosnia and Herzegovina-Republika Srpska: Technical Assistance Report –Public Investment Management Assessment (PIMA) (imf.org). A PIMA for the Brcko District was carried out in 2023 while a PIMA update for FBiH and state institutions was conducted in April 2024.

[8] World Bank (2024). BiH Country Economic Memorandum.

- *<u>Revenues</u>:* Staff called for additional revenue mobilization by reducing exemptions, introducing a tax on dividends, modernizing VAT legislation, and improving property taxation system.[9] The FBiH Tax Administration and Indirect Tax Authority (ITA) should be modernized.[10] The authorities should maintain a single VAT rate and threshold. Personal income tax (PIT) and social security contribution (SSC) changes under consideration in FBiH should be budget neutral (SIP on Labor Issues).[11]

19. Improving oversight of public enterprises (PE) is proceeding slowly. In RS, the PE oversight unit is still developing software solutions, while a fiscal risk unit has started assessing PE-related risks, compiling a first risk statement in November 2023. In FBiH, PE oversight and fiscal risk units have yet to start operations. Staff urged FBiH to speed up activation and RS to adjust the oversight unit's legal framework to allow operations to commence.

20. Public financial management (PFM) should be strengthened at the state level and in both entities and procurement reforms advanced. A 2022 Public Expenditure and Financial Accountability (PEFA) assessment identified strengths but also weak strategic targeting of government budgets, insufficient focus on efficiency and impact, weak parliamentary scrutiny of budgets and fiscal strategies, and only basic risk and public investment management.[12] Procurement reforms have lagged. Procurement law amendments passed in 2022 improved conflict of interest, collusion, and transparency provisions, but did not address prevention or the fight against corruption. The authorities should address weaknesses in procurement methods, public access to information, and complaints management.[13]

Authorities' Views

21. The authorities in both entities acknowledged the deterioration of fiscal positions, erosion of buffers, and the challenging situation ahead given high financing needs. They confirmed that revenue mobilization plans are focused on administration and compliance gains (e.g., through online fiscalization), with no planned tax policy measures to directly increase revenues. The authorities agreed with the need to stabilize budgets but see limited room for current spending cuts given the predominance of statutory payments. They argued that public wages need to increase to attract and retain employees and to reduce emigration and that pensions remain low, given rising living costs and despite regular indexation and extraordinary increases. FBiH officials agreed that fiscal reforms to reduce the tax burden on labor should be advanced while containing

---

[9] IMF TA estimated potential gains of 2 percent of GDP from elimination of PIT and CIT exemptions in the RS, and 4.1 percent of GDP from elimination of VAT exemptions in BiH.

[10] FBiH reform efforts in risk analysis, compliance, and arrears management could yield 0.3-0.5 percent of GDP annually within 2-3 years.

[11] Fiscal reforms to reduce the tax burden on labor by reducing the SSC rate and broadening the bases for calculating PIT and SSCs have been under consideration in FBiH parliament since 2018. In the interim, employers have been allowed to pay up to two salaries per worker free of PIT and SSCs.

[12] See <u>Assessments | Public Expenditure and Financial Accountability (PEFA)</u>.

[13] <u>IMF Country Report No. 23/324</u>.

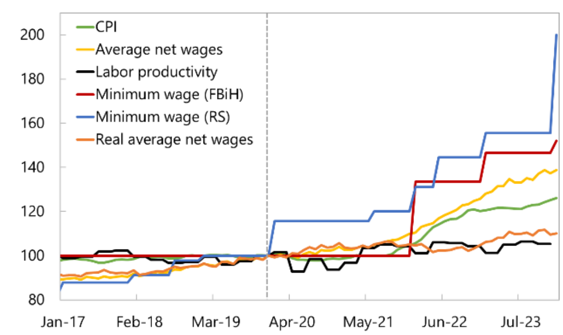
budgetary costs, and believe that such a reform would increase tax revenues over the longer term through an increase in cost competitiveness. Both entities are actively pursuing plans to secure financing this year. The state-level authorities intend to keep the state budget at current levels, noting that spending under-execution will likely continue.

B. Labor Market Reforms

22. Large minimum wage increases could erode external competitiveness and fuel inflationary pressures (SIP on Labor Issues). The exact impacts will depend on whether higher minimum wages are binding, the level of compliance, the level of informality, and wage distribution. Labor-intensive, export-oriented industries (such as wood-processing and textiles) are more likely to be affected, as they cannot easily change prices in the short term. Average wages edged up 2.4 percent m/m in January 2024 following the latest RS increase in minimum wages, while inflation has continued so far on its downward trend.

23. Minimum wage legislation and policies should be strengthened and social benefit adjustments delinked from wages. Staff advised using an agreed methodology for minimum wage increases to avoid further hikes above inflation. Both entities should avoid high or frequent adjustments or indexation that would undermine employment and competitiveness. The authorities should also build capacity to better monitor labor markets and poverty indicators and improve the quality of labor market data, including by enhancing the quality of Labor Force Survey data. Both entities should delink social benefit adjustments from wage changes.

Average Gross Wage, Minimum Wage, and CPI
(Index, Dec 2019=100)



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

24. Broader reforms are needed to enhance labor market participation and stem emigration. There are large potential gains from closing BiH gender gaps in employment, earnings, and hours worked (Figure 3). To improve labor market outcomes more generally, reforms should include encouraging flexible employment, expanding childcare to encourage higher female participation, and tackling skills mismatches and long-term unemployment.

Authorities' Views

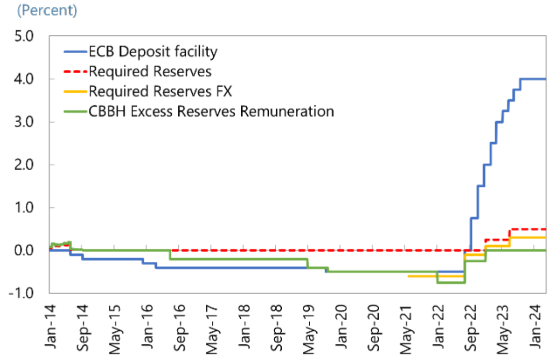
25. The authorities considered that higher minimum and overall wages are needed, including to stem emigration. In FBiH, the authorities deem that a significant increase in the minimum wage should be linked to a reduction in SSC to offset the cost of a higher wage burden on firms and preserve competitiveness. The RS authorities were mostly concerned about the impact of the minimum wage increase on utility companies owned by local governments, where the incidence of the minimum wage is very high. They are monitoring closely labor market outcomes and expressed readiness to intervene in support of affected companies.

C. CBA and Financial Sector Policies and Reforms

26. The CBA has continued to serve as a key anchor for macro-financial stability. Staff reiterated the need to preserve a strong CBA and central bank independence, welcoming the recent appointment of a new CBBH governor and governing board members. The CBBH has taken important steps to stabilize and increase the CBA coverage ratio and to modernize its reserve requirements framework. Options to strengthen the CBA further within the scope of the existing law, including by enhancing capital buffers, should be considered. Calls for the CBBH to finance government budgets or provide credit or liquidity assistance to commercial banks should be strongly resisted to safeguard the integrity of the CBA.

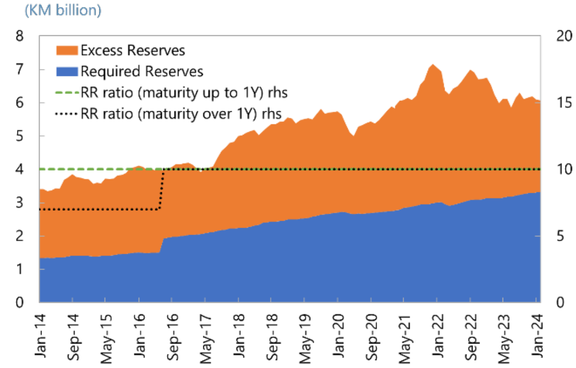
27. The CBBH should increase remuneration rates on bank reserves to narrow the gap with euro area rates. This would help mitigate capital outflows by reducing incentives for banks to place funds abroad. While the ECB increased key policy rates six times in 2023, the deposit facility rate to 4 percent, the CBBH increased remuneration on bank reserves once and only marginally. Staff called for a stepwise increase in remuneration rates, encouraging the CBBH to carefully monitor capital flows, including using quantitative models developed with IMF support to consider scenarios and test impacts on CBBH capital allocation, its balance sheet, and CBA coverage. Assuming the remuneration increase is passed through to lending rates, this could help further reduce inflation.

Remuneration on Required and Excess Reserves
(Percent)



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

Required and Excess Reserves
(KM billion)



Source: Central Bank of Bosnia and Herzegovina.

28. The CBBH should continue modernizing its reserve requirement framework and enhancing forecasting capacity. Staff welcomed the CBBH's decision to start partially fulfilling reserve requirements on FX deposits in FX. It recommended continuing this beyond the transitional period, gradually increasing the portion of reserve requirements on FX deposits fulfilled in FX in line with IMF TA recommendations. Staff also urged the CBBH to utilize its Quarterly Macro-Forecasting Framework recently developed with IMF assistance to improve forecasting and policy analysis.

29. Financial sector risks and vulnerabilities should continue to be closely monitored. Staff warned about rising interest rate risk and urged that banks appropriately hedge exposures. Interest rates should be allowed to adjust to reflect market conditions, and temporary regulatory measures on interest rates adopted in 2022-23 should be allowed to lapse in 2024, as scheduled. Current lending rates may not adequately reflect credit risk. Therefore, the supervisors must remain vigilant, with prudential and corrective actions strictly and timely enforced. Risks that banks could fall under U.S. sanctions pose concern; staff advised the authorities to monitor bank liquidity and enhance preparedness. Staff also followed up on crypto-asset lawsuits and encouraged the authorities to improve the regulatory framework. The authorities should consider requesting an IMF-World Bank Financial Sector Assessment Program (FSAP), critical for assessing resilience amid rising risks. The last FSAP was concluded in 2015.

Box 2. Key Considerations for a Financial Stability Fund (FSF)

Despite progress in enhancing the financial safety net in the past decade, gaps remain. Resolution authority and powers have been delegated and vested in the two banking agencies for banks within their respective jurisdictions. There is no resolution funding for systemically-important banks. Due to the CBA, an emergency liquidity assistance framework is also absent.

An FSF to provide resolution funding and liquidity assistance in times of distress could be established under and managed by the Deposit Insurance Agency (DIA). The IMF has called for such an FSF since the 2015 FSAP. Given CBBH's strict law and narrow mandate, establishing an FSF under the CBBH is not realistic. However, the FSF could be managed effectively by the DIA, which is already empowered to contribute funds to resolution on a least-cost basis. Moreover, the DIA possesses the staff resources, infrastructure, models, systems, and expertise from its management of a similar fund (DIF). To establish the FSF, the entity banking laws and deposit insurance law would need to be amended to recognize the DIA's new role. Completing the bank resolution framework and establishing a funding mechanism would be significant progress towards compliance with EU regulations, particularly the Bank Recovery and Resolution Directive.

A BiH-wide FSF would help minimize negative spillovers and contagion during stress. BiH's interconnected financial system and single country-wide market underscore the need for coordination and close dialogue among financial stakeholders in both entities as essential for effective bank resolution. Ten percent of branches of banks of one entity are located in the other entity; 18 percent of RS deposits are held by FBiH bank branches. Eliminating risks associated with potentially inconsistent resolution decisions and practices would strengthen confidence and bolster resilience.

Only a BiH-wide fund could mobilize sufficient funds to resolve systemically-important banks and provide exceptional liquidity while minimizing reliance on taxpayers. Without adequate funding, such a fund would fail to enhance credibility. Pooling resources at the country level is necessary given potential needs. 11 banks, representing 80 percent of banking sector assets, would qualify for resolution in case of failure, as going through normal insolvency proceedings would harm public interest and cause financial instability.

Box 2. Key Considerations for a Financial Stability Fund (FSF) (Concluded)

A BiH-wide fund would also lower and distribute funding costs more evenly across banks. Ideally, the FSF should be financed by banks, with access to additional resources, e.g., a state-level government backstop with ex-post levies or credit lines from IFIs. Entity-level solutions could lead to uneven burden sharing, imposing higher costs on banks within a single entity, reducing profitability and lending capacity. Single-FSF administrative costs would also be lower. While there is no international standard, the FSF's target size and levies should be calibrated based on scenario analyses and solvency and liquidity stress-testing. The calibration could usefully draw on the solvency and liquidity stress-testing already conducted by the CBBH, underscoring the need for close coordination of all financial sector stakeholders.

30. Reforms to strengthen the financial sector safety net should be advanced. Effective cooperation among authorities is fundamental to financial stability. Therefore, all institutions with a role in preserving financial stability should meet regularly to review developments, prospects, and risks; exchange information; and update and firm up contingency plans. The CBBH should take a coordinating role on financial stability and reinstate periodic meetings of all financial stakeholders. A comprehensive financial-stability MoU would help promote clarity of roles and responsibilities, enhanced cooperation, and information-sharing among relevant authorities. A country-wide FSF (Box 2) remains a key missing element for the financial safety net.

31. Financial sector regulatory frameworks should continue to be strengthened. The Systemic Risk Buffer (SRB) is a welcome introduction, along with higher risk weights for consumer loans. Banking agencies should strengthen the macroprudential framework by introducing additional capital buffers such as a Countercyclical Capital Buffer (CCyB) and a Domestic Systemically-important Bank (D-SIBs) Buffer. To address rising vulnerabilities, such as real estate market overheating, the authorities should also introduce borrower-based measures, such as Loan-to-Value (LTV) and Debt-Service-to-Income (DSTI) limits (SIP on Financial Sector Issues). Staff highlighted the need to strengthen the deposit insurance scheme, including by shortening the period for deposit payout and increasing insurance coverage, while preserving its current investment modalities.

Authorities' Views

32. The authorities agreed that the CBA is a pillar for macro-financial stability and should be preserved, but did not fully concur with staff's assessment of financial risks and vulnerabilities. They noted that the banking sector is stable and consider that the observed capital outflows do not pose concern, as they were mainly overnight money market placements and did not affect local credit. They do not consider that keeping interest rates low, including through temporary interest-rate measures, underprices risks and noted that banks can adequately hedge interest-rate risks. The need to establish an FSF was broadly recognized, but RS authorities consider a single, state-level fund to be a transfer of competences. There are plans to further develop the macroprudential toolkit, with discussions ongoing on the tasks of institutions.

D. Energy Policy and Reforms

33. Electricity pricing continues to pose a large fiscal risk. Prices for households are regulated largely at levels below cost recovery, with export revenues subsidizing domestic prices. However, export revenues decreased in 2023 compared to 2022, reflecting lower prices. In addition, the entities capped (FBiH) or froze (RS) price increases in 2024. In FBiH, the publicly-owned energy utility reported a loss in 2023, prompting it to propose a block-tariff structure, which would imply a 10 percent increase in average household prices (within the 20 percent cap), but which was subsequently rejected by the regulator. Staff flagged the risks related to electricity pricing and called for reforms to gradually liberalize prices going forward.

34. BiH has a carbon-intensive economy and severe air pollution from coal-fired power generation, but limited plans to decarbonize (SIP on Energy Issues). BiH's main mitigation targets are a 33.2 percent reduction in greenhouse gas emissions by 2030 relative to 1990 levels,[14] and net zero emissions by 2050. The national energy and climate plan seeks a gradual phase-out of fossil fuels and switch to renewables, with no new construction of coal or gas power plants after 2030. However, the EU Energy Community Secretariat determined that the plan lacks concrete policies to reach decarbonization goals.[15] Under current policies, BiH will not meet its nationally determined contribution (NDC).

35. To align with EU climate legislation and achieve its NDC, BiH needs to introduce carbon pricing and other mitigation actions as soon as possible. Establishment of an emissions trading system (ETS) would allow BiH to retain carbon revenues domestically as the EU Carbon Border Adjustment Mechanism (CBAM) is phased in, reduce air pollution, and advance toward climate mitigation goals. Electricity market integration and establishment of an EU-aligned state-level ETS by 2030 will allow BiH to secure a CBAM exemption for electricity, a key export.[16] While the authorities are preparing legislation to reform and couple entity electricity markets with the EU, establishing a state-level ETS in the required timeline seems unlikely given lack of progress and the need to centralize competencies. Without this, however, the full CBAM levy will apply to embedded emissions from in-scope exports to the EU.[17] Accordingly, staff emphasized the need to establish an EU-aligned ETS, ideally together with the liberalization of electricity prices, and suggested the authorities consider interim carbon-pricing alternatives (tax or excise), as an ETS is unlikely to be feasible by 2026. Carbon pricing and electricity price liberalization would lower emissions and pollution, and raise revenues, but also impact prices and growth. A more gradual phase-in could be offered to emissions-intensive trade-exposed firms (mirroring the EU's use and planned phase out

---

[14] Emissions in 2022 were 16 percent below 1990 levels.

[15] Recommendations 2/2023 by the Energy Community Secretariat on the Draft Integrated NECP of BiH.

[16] The EU's CBAM regulations (Article 2(7)) allows third countries to secure an exemption for electricity exports to the EU subject to conditions regarding application of EU law, market coupling, and ETS implementation.

[17] The CBAM is estimated to reduce BiH EU exports by about 1.1 to 2.5 percent of GDP (Annex III, IMF Country report No 23/324). Staff's baseline does not include this impact.

of free allowances), and revenues could be used to support vulnerable households, calibrated considering BiH's social safety net.

Authorities' Views

36. The authorities are aware of the need for energy sector and decarbonization reforms but reported limited progress. They acknowledged the fiscal burden and inefficiencies of the current electricity pricing structure and noted that some reforms are under consideration. Progress on state-level electricity and gas legislation has stalled, amid entity disagreements on gas issues, and plans to separate and move forward on electricity legislation are under consideration. While there is awareness of the CBAM, and the authorities are considering different modalities of an ETS, they reported no concrete progress to introduce an ETS or carbon pricing mechanism.

E. Other Structural Reforms

37. Strengthening corruption prevention and enforcement, enhancing transparency and accountability, and protecting financial integrity should remain top priorities. Poor governance and weak rule of law remain relevant impediments to sustained and inclusive growth. A new AML/CFT law further aligns BiH's AML/CFT framework with FATF standards; but additional efforts are needed to ensure the effectiveness of the framework to help mitigate risks of potential re-listing of BiH as a jurisdiction with strategic deficiencies and ensure the integrity of the financial sector and broader economy. The authorities also reported progress on improving anti-corruption legal and institutional frameworks, but no progress on stepping up investigation, prosecution, and conviction of corruption (Annex VI). Staff urged them to build on recent gains with effective implementation of conflict of interest and HJPC laws in line with past IMF advice. It encouraged the authorities to request a comprehensive IMF governance diagnostic assessment to identify and prioritize reforms.

38. The authorities should step up digitalization efforts. BiH ranks last in the region in digitalization, except for government services (Figure 4). Lack of progress impedes potential while prolonging corruption opportunities. The digitalization of services has been hampered by the lack of coordination among different government levels and insufficient allocation of budgetary resources for implementation. Countrywide harmonization of e-services is needed. Adopting a law on electronic identity and trust services for electronic transactions—a key EU priority—would lay the foundation for e-government, boost private sector services, accelerate convergence, and unlock financing. To digitalize public services, the ITA introduced the prerequisites for paperless tax clearance certificates including e-signature.

39. The authorities should improve data provision. Data is broadly adequate for surveillance. However, some gaps remain, especially in national accounts, government finance statistics, and the balance of payments (Annex VII). Moreover, RS has provided Q4:2023 fiscal data with a substantial delay. Staff encouraged the authorities to resume the timely provision of data, improve the quality of statistics, and close the gaps vis-à-vis the IMF Special Data Dissemination Standard (SDDS).

Authorities' Views

40. The authorities concurred that effective implementation of governance reforms would strengthen anti-corruption and related AML efforts. They highlighted the recent adoption of the new AML/CFT law as a major achievement which, inter alia, sets the ground for more efficient supervision of designated non-financial businesses and professions and introduces processes to ensure effective cooperation among the relevant AML/CFT agencies. They welcomed the proposal to participate in the SDDS to improve data dissemination.

STAFF APPRAISAL

41. BiH's economy has shown resilience in a difficult environment. Growth is projected to strengthen starting this year, albeit to levels that will not lead to convergence to the EU. Inflation will continue to decline, but wage pressures linger. Risks remain elevated, including from an intensification of regional conflicts and an abrupt slowdown in Europe, and domestically, from rising political tensions and more expansionary macroeconomic policies. On the other hand, opening of EU accession talks could boost reform momentum and confidence.

42. Fiscal policy should focus on curbing current spending while preserving growth-enhancing investment expenditures. The overall fiscal balance is projected to widen to 2.4 percent of GDP in 2024 from 1.7 percent in 2023, reflecting the accumulated impact of several permanent increases in public wages and social benefits. The authorities should move to contain deficits by containing the public sector wage bill, avoiding discretionary increases in social benefits and new support measures, and revisiting other current spending. They should preserve growth-enhancing public investment outlays. Fiscal risks from minimum wage increases and capped electricity prices should be mitigated.

43. The authorities should reduce financing needs and prepare contingency plans in case financing cannot be secured. Fiscal buffers have been eroded due to increased budget deficits, large debt repayments, and drawdown of government deposits. Both entities face large financing needs this year that are unlikely to be met solely in the domestic market. Their budgets envisage large debt issuances, some of which are yet to be firmly identified. The authorities should reduce deficits to contain financing needs, firm up borrowing plans, and identify additional cuts to current spending to prepare for potential financing shortfalls.

44. Reforms are needed to rebuild fiscal buffers while improving spending quality. Reforms, including a review of public employment, wages, and social benefits are needed to support a return to surplus over the medium term. Resources should be reallocated from current to capital spending, primarily on infrastructure, green energy, and digitalization. Ultimately, additional revenue must be mobilized, including by reducing tax exemptions.

45. The currency board arrangement remains an anchor of stability and should be preserved. Pressure for the central bank to finance government budgets or to provide credit to banks should be strongly resisted.

46. CBBH should further strengthen the reserve requirement framework, including by increasing remuneration rates on bank reserves. It should continue fulfillment of required reserves on foreign exchange deposits in foreign exchange and move from partial to total fulfillment after the transitional period. Narrowing the gap with euro area interest rates would reduce incentives for banks to place funds abroad, thus containing capital outflows. Assuming the remuneration increase is passed through to lending rates, this could also help further reduce inflation.

47. Financial sector risks should continue to be closely monitored and crisis preparedness enhanced. Bank asset classifications and loan-loss provisions should accurately reflect credit risks and losses. Temporary measures that aim to contain increases in lending rates should be allowed to lapse this year as scheduled. The introduction of systemic risk buffers is welcome; introducing additional buffers and borrower-based measures would further enhance the macroprudential toolkit. Establishing a BiH-wide financial stability fund to facilitate bank restructurings and provide liquidity on an exceptional basis would substantially strengthen the financial safety net. The authorities are encouraged to request an FSAP, which would help assess resilience amid rising risks and provide a roadmap for financial sector reforms, including linked to EU accession.

48. Transitioning to green energy and preparing for the introduction of EU carbon pricing require immediate action. The authorities should introduce carbon pricing as soon as possible. They should phase out electricity subsidies and establish an EU-aligned ETS, with interim carbon pricing alternatives such as a tax or excise as a possible step, given that an ETS may take several years to implement.

49. Reforms to improve governance, protect financial integrity, fight corruption, and step up digitalization should be accelerated to boost growth. The oversight, transparency, and operations of public enterprises should be improved, weaknesses in public procurement addressed, and public investment management strengthened. The recent adoption of the AML and conflict of interest laws are welcome steps, and the authorities should move decisively and effectively to implement the new laws. The authorities are encouraged to request a comprehensive IMF governance diagnostic assessment to help inform and prioritize reforms. Placing BiH on a higher growth path and providing its people with more opportunities will ultimately reduce emigration.

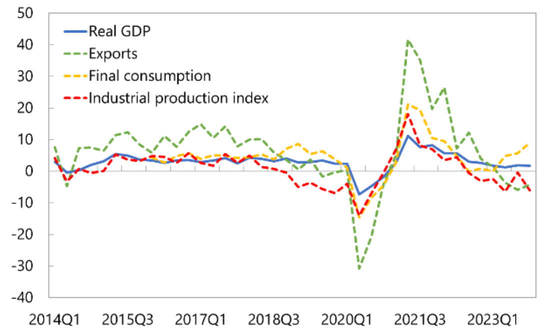
50. It is recommended that the next Article IV Consultation takes place on the standard 12-month cycle.

Figure 1. Bosnia and Herzegovina: Selected Economic Developments

Activity slowed in 2023 reflecting a slowdown in exports amid resilient domestic consumption.

Economic Activity Indicators

(Year-on-year percent change)

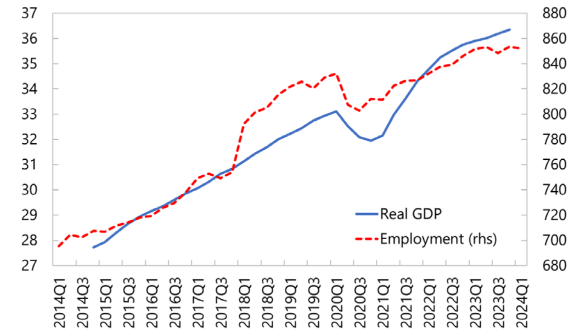


Sources: Bosnia and Herzegovina Agency for Statistics; Indirect Taxation Authority ; and IMF staff calculations.

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

Real GDP and Employment

(KM billion annualized; thousand people)

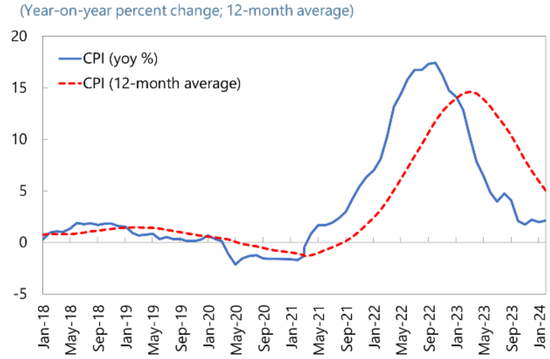


Sources: Bosnia and Herzegovina Agency for Statistics; and IMF staff calculations.

Inflation has continued to decline after peaking in October 2022.

CPI Inflation

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

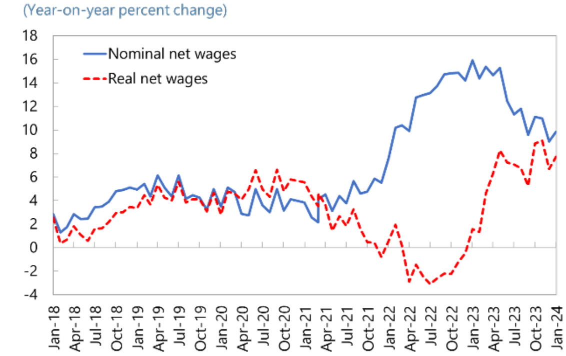


Sources: Bosnia and Herzegovina Agency for Statistics; and IMF staff calculations.

Real wages rose throughout 2023 peaking at 9 percent y/y in November and averaging 6 percent for the year.

Nominal and Real Net Wages Growth

(Year-on-year percent change)

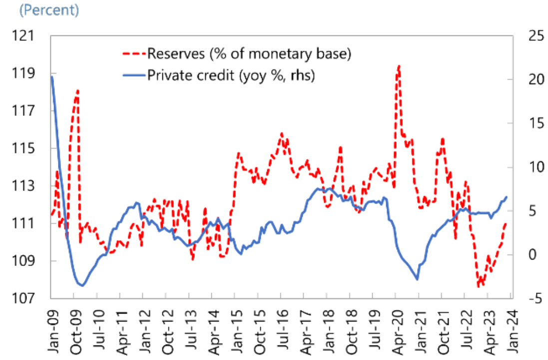


Sources: Bosnia and Herzegovina Agency for Statistics; and IMF staff calculations.

CBBH reserves increased and private sector credit picked up.

Central Bank Reserves and Private Credit Growth

(Percent)

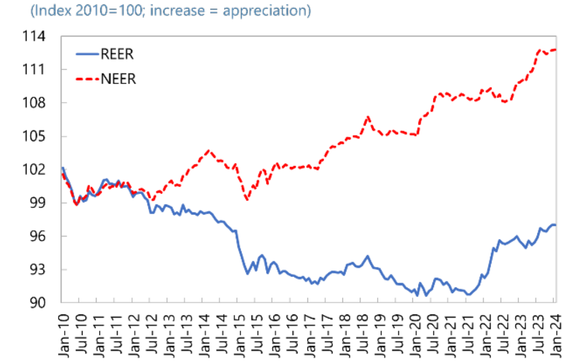


Source: Bosnia and Herzegovina Authorities.

The real effective exchange rates appreciated on average in 2023.

Effective Exchange Rate Indices

(Index 2010=100; increase = appreciation)



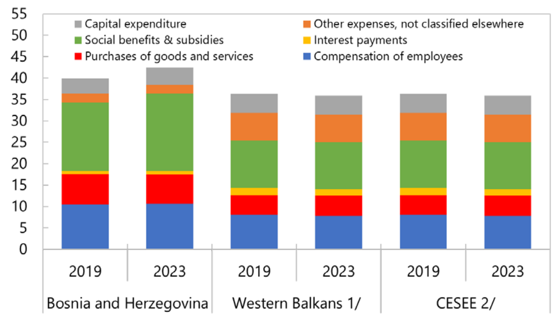
Source: IMF Information Notice System.

Figure 2. Bosnia and Herzegovina: Composition of Public Expenditure

Spending continues to be higher than elsewhere in the Western Balkans, although with similar composition.

Current and Capital Expenditure

(Percent of GDP)

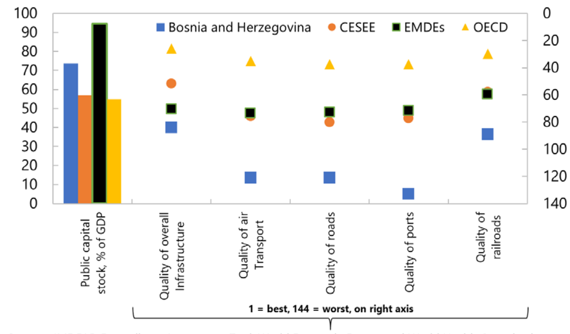


Sources: Bosnia and Herzegovina authorities; IMF World Economic Outlook; and IMF staff calculations.
1/ The Western Balkans average does not include North Macedonia due to data availability.
2/ CESEE average calculation includes Albania, Kosovo, Montenegro, and Serbia.

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 on right axis)

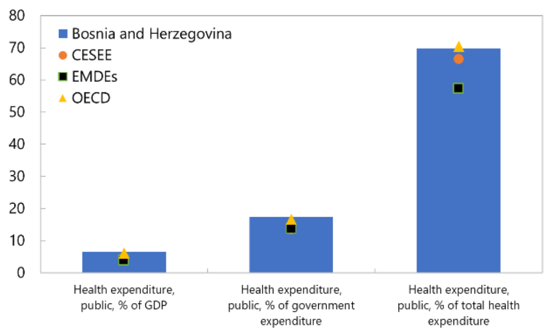


Sources: IMF FAD Expenditure Assessment Tool; World Economic Forum; and World Health Organization.
3/ Public capital stock is as of 2019 and Infrastructure quality is as of 2018.

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

Health Expenditure: Different Metrics 4/

(Percent)

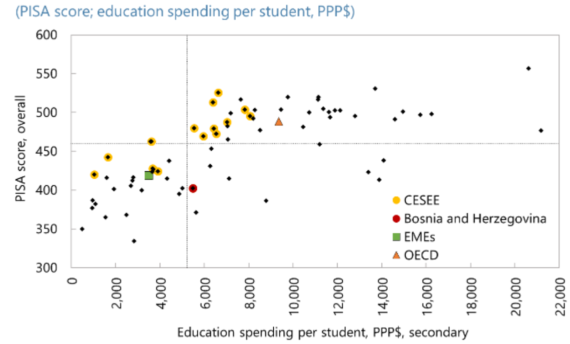


Sources: IMF FAD Expenditure Assessment Tool; World Economic Forum; and World Health Organization.
4/ The latest available data is 2018 for BIH and country groups.

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

Government Education Spending and Outcome, 2016

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



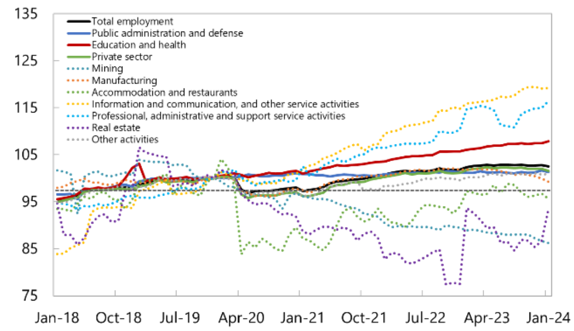
Sources: IMF FAD Expenditure Assessment Tool (EAT); and World Bank.
Note: Latest value available. Dashlines are the average of CESEE.

Figure 3. Bosnia and Herzegovina: Labor Market Indicators

Employment has exceeded pre-Covid levels since January 2022, led by strong performance in science and IT sectors.

Employment by Sector

(Index, Dec 2019=100)

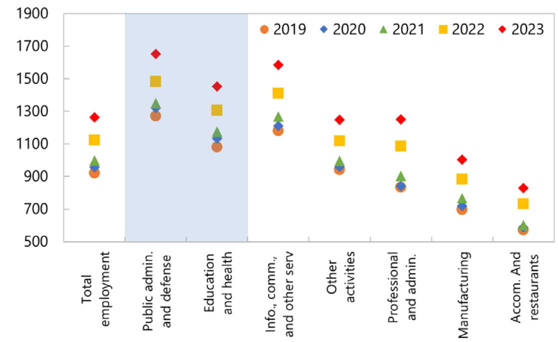


Sources: Bosnia and Herzegovina Agency for Statistics; Haver Analytics; and IMF staff calculations.
Note: All sectors (in bold lines) add up to total employment.

Public sector wages remain on average higher than wages in the private sector.

Average Net Wages by Sector

(KM)

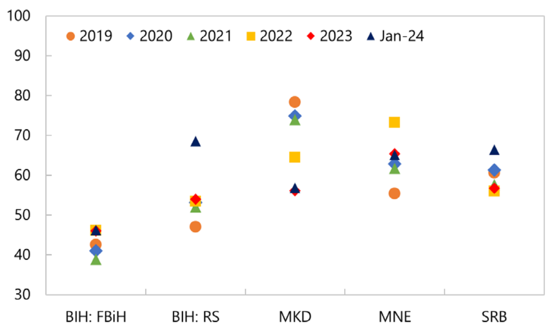


Sources: Bosnia and Herzegovina Agency of Statistics; and IMF staff calculations.

The minimum wage-to-average wage ratio in RS is high compared to other Western Balkans countries…

Western Balkans: Minimum Wages

(Percent of average net wages)

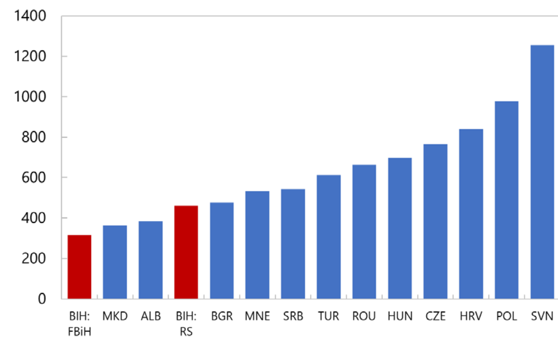


Sources: Eurostat; National statistical offices; Haver Analytics; and IMF staff calculations.
Note: Minimum wages are net of taxes and social security contributions (SSC) (take-home wage).

…but minimum wages remain, in Euro terms, below most other European countries.

Minimum Wages in Selected European Economies

(Euros, as of March 2024)



Sources: Eurostat; and National authorities.

Women continued to lag men substantially in labor market outcomes, including employment.

Labor Market Structure, 2023Q4

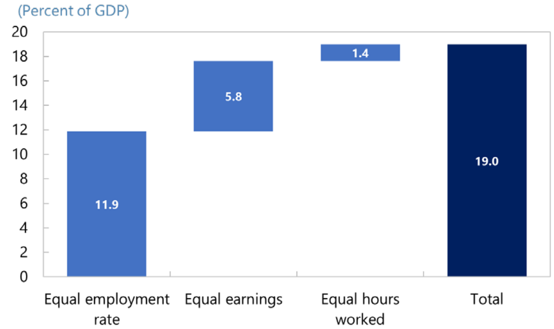
(Percent of total labor force by gender)

Sources: Bosnia and Herzegovina Agency for Statistics; and Haver Analytics.
Note: Working age population and Inactive population by gender as percent of Total working age population.

There are large potential gains from closing the employment gender gap.

Potential Gains to GDP from Closing Labor Market Gender Gaps, 2020

(Percent of GDP)

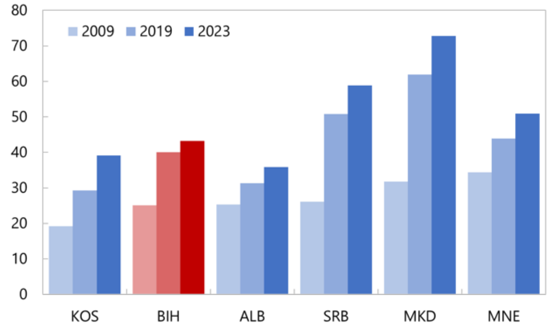


Source: IMF, Equity Gains Toolkit.

Figure 4. Bosnia and Herzegovina: Competitiveness and Governance Indicators

Export growth in 2023 was largely in line with peers.

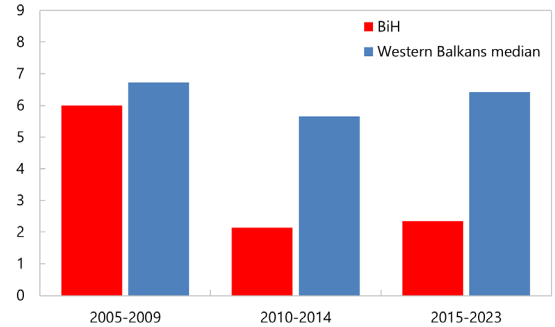
Exports of Goods and Services
(Percent of GDP in US dollars)



Source: IMF World Economic Outlook.

However, FDI remained low.

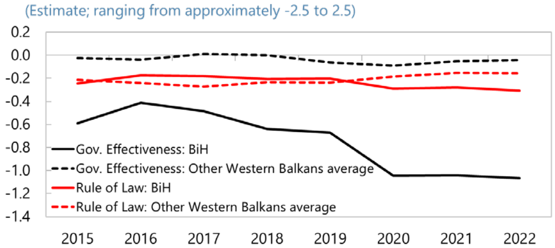
Foreign Direct Investment, Net Inflows
(Percent of GDP in US dollars)



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

Governance and perception of corruption in BiH remain well below those in the rest of Western Balkans.

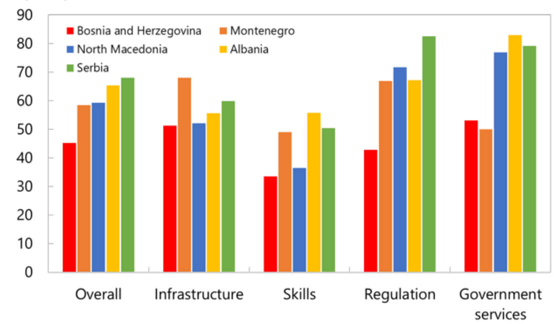
Governance Indicators, Perceptions
(Estimate; ranging from approximately -2.5 to 2.5)



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.

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

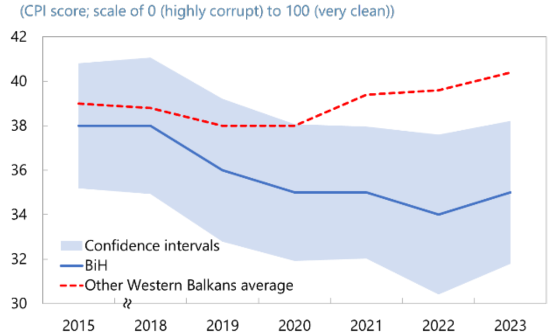
Digital Enabler Index 2020 1/
(Index)



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.

BiH's Corruption Perceptions Index score rose in 2023, but remains below 2015 and other Western Balkan countries.

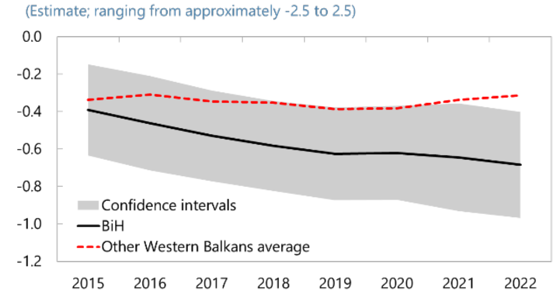
Corruption Perception Index
(CPI score; scale of 0 (highly corrupt) to 100 (very clean))



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.

Worldwide Governance Indicators show BiH's estimate falling on control of corruption from 2015…and further behind Western Balkan neighbors.

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.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2020-2029

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
Nominal GDP (KM billion)	34.7	39.1	45.6	48.9	51.8	54.8	57.9	60.9	63.9	67.2
Gross national saving (in percent of GDP)	19.7	23.7	23.1	22.5	22.3	21.7	21.7	21.8	21.8	21.9
Gross investment (in percent of GDP)	22.6	25.5	27.5	25.3	25.6	25.6	25.7	25.8	25.8	25.8
					(Percent change)					
Real GDP	-3.0	7.4	4.2	1.7	2.5	3.0	3.0	3.0	3.0	3.0
GDP deflator	0.1	5.0	11.8	5.5	3.2	2.7	2.6	2.1	2.0	2.0
CPI (period average)	-1.1	2.0	14.0	6.1	3.0	2.7	2.5	2.0	2.0	2.0
Money and credit (end of period)										
Base money	10.7	17.4	3.3	-1.7	3.5	--	--	--	--	--
Broad money	7.1	12.4	5.5	7.6	2.9	--	--	--	--	--
Credit to the private sector	-2.8	4.0	4.9	7.4	5.2	--	--	--	--	--
					(Percent of GDP)					
Operations of the general government										
Revenue, *of which* :	40.8	40.5	39.6	40.8	41.4	41.1	41.1	41.2	41.3	41.3
Taxes	21.5	22.0	21.8	22.3	22.7	22.6	22.6	22.7	22.8	22.8
Social security contributions	15.5	14.8	14.2	15.1	15.3	15.3	15.3	15.3	15.3	15.3
Expenditure	45.4	39.9	38.6	42.5	43.8	43.5	43.2	42.9	42.5	42.3
of which : Investment expenditure	5.4	4.1	3.8	4.0	4.2	4.3	4.3	4.3	4.3	4.3
Fiscal balance	-4.6	0.6	0.9	-1.7	-2.4	-2.4	-2.1	-1.7	-1.2	-0.9
Primary fiscal balance	-3.9	1.3	1.5	-0.8	-1.3	-1.1	-0.7	-0.2	0.2	0.6
Total general government debt	37.1	35.6	31.0	32.2	34.2	35.3	36.1	36.9	37.7	38.0
Domestic general government debt 1/2/	10.9	9.0	8.0	12.1	13.6	15.2	16.6	18.2	19.5	20.6
External general government debt	26.2	26.7	23.0	20.1	20.7	20.1	19.5	18.7	18.2	17.3
					(Percent of GDP)					
Balance of payments										
Exports of goods and services	34.6	42.5	48.1	44.1	43.6	43.6	43.5	43.4	43.3	43.1
Imports of goods and services	48.0	53.8	61.9	56.9	56.6	57.0	57.0	56.9	56.9	56.6
Trade balance	-13.4	-11.3	-13.8	-12.8	-13.0	-13.4	-13.5	-13.5	-13.6	-13.5
Current transfers, net	11.1	10.8	10.6	10.2	10.1	10.1	10.1	10.1	10.0	9.9
Current account balance	-2.8	-1.8	-4.3	-2.8	-3.3	-3.9	-4.1	-4.0	-4.0	-4.0
Foreign direct investment (+=inflow)	2.0	2.7	3.0	3.3	3.0	2.9	2.8	2.8	2.8	2.7
Gross official reserves (Euro million)	7,105	8,372	8,228	8,342	8,684	9,080	9,348	9,670	10,034	10,388
(In months of imports)	7.9	7.0	6.9	6.7	6.5	6.5	6.3	6.2	6.2	6.1
(In percent of monetary base)	112.9	113.3	107.8	111.2	--	--	--	--	--	--
(In percent of IMF ARA metric)	121.8	127.3	115.8	113.4	111.9	110.3	--	--	--	--
External debt 3/	63.9	57.4	51.7	49.5	49.4	48.8	48.1	47.5	47.0	46.5
Memorandum Items:										
Unemployment rate (national definition) 4/	15.9	17.4	15.4	13.2	--	--	--	--	--	--
GDP per capita (in euros)	5,092	5,750	6,716	7,225	7,660	8,127	8,612	9,082	9,569	10,086
Output gap (in percent of potential GDP)	-4.1	0.3	1.6	0.4	0.0	0.1	0.1	0.1	0.1	0.1
REER (Index 2016=100)	98.7	98.5	102.3	103.6	--	--	--	--	--	--
NEER (Index 2016=100)	115.9	117.1	117.4	120.4	--	--	--	--	--	--

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, 2020-2029

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.	*Projections*					
Real growth rates					*(Percent change)*					
GDP at constant 2010 prices	-3.0	7.4	4.2	1.7	2.5	3.0	3.0	3.0	3.0	3.0
Domestic demand	-3.9	7.8	2.3	1.1	3.2	3.6	3.6	3.4	3.6	3.2
Private	-7.3	10.6	3.1	0.6	2.3	3.9	3.7	3.6	3.8	3.3
Public	9.2	-1.4	-0.8	2.9	6.4	2.6	3.1	2.7	3.0	2.9
Consumption	-2.6	3.8	1.5	3.0	2.9	3.4	3.7	3.2	3.4	3.1
Private	-3.7	4.0	1.5	3.4	2.0	3.8	4.0	3.5	3.6	3.2
Public	1.5	2.9	1.3	1.7	6.2	2.1	2.8	2.4	2.7	2.7
Gross capital formation	-8.8	22.9	4.9	-4.6	4.0	4.4	3.3	4.0	4.3	3.6
Private	-18.7	35.4	7.8	-6.8	3.4	4.2	3.1	4.0	4.4	3.7
Public	49.5	-16.7	-9.9	9.2	7.5	5.1	4.3	3.7	4.2	3.5
Net Exports										
Exports of goods and services	-14.5	23.8	12.9	-2.3	4.4	5.8	4.7	4.4	4.0	3.7
Imports of goods and services	-13.1	20.0	6.6	-2.5	5.4	6.4	5.5	4.8	4.9	4.0
Contributions to real GDP growth					*(Year-on-year percent change over real GDP in previous year)*					
GDP at constant 2010 prices	-3.0	7.4	4.2	1.7	2.5	3.0	3.0	3.0	3.0	3.0
Domestic demand	-4.6	9.0	2.7	1.3	3.6	4.1	4.1	3.9	4.2	3.8
Private	-6.8	9.4	2.9	0.6	2.1	3.5	3.3	3.2	3.5	3.1
Public	2.2	-0.4	-0.2	0.7	1.5	0.6	0.8	0.7	0.7	0.7
Consumption	-2.3	3.4	1.3	2.5	2.5	3.0	3.2	2.8	3.0	2.8
Private	-2.6	2.8	1.0	2.2	1.3	2.5	2.7	2.3	2.5	2.2
Public	0.3	0.6	0.3	0.3	1.2	0.4	0.6	0.5	0.5	0.5
Gross capital formation	-2.3	5.6	1.4	-1.3	1.1	1.2	0.9	1.1	1.2	1.0
Private	-4.1	6.6	1.8	-1.7	0.7	1.0	0.7	0.9	1.0	0.8
Public	1.9	-1.0	-0.5	0.4	0.3	0.2	0.2	0.2	0.2	0.2
Net exports	1.6	-1.6	1.6	0.4	-1.1	-1.1	-1.1	-0.9	-1.2	-0.8
Exports of goods and services	-5.9	8.5	5.3	-1.0	1.9	2.5	2.1	2.0	1.8	1.7
Imports of goods and services	-7.4	10.1	3.8	-1.5	3.0	3.6	3.2	2.9	3.0	2.5
Deflators					*(Percent change)*					
GDP	0.1	5.0	11.8	5.5	3.2	2.7	2.6	2.1	2.0	2.0
Domestic demand	0.1	2.6	16.4	5.2	2.7	2.4	2.2	1.7	1.4	1.7
Consumption	0.4	2.7	15.5	5.6	2.7	2.7	2.0	1.8	1.6	1.7
Investment	-1.4	3.6	19.7	3.6	2.8	1.4	2.8	1.2	0.8	1.5
Exports of goods and services	-1.6	11.4	17.2	0.6	0.0	0.1	0.6	0.5	0.9	0.2
Imports of goods and services	-1.4	5.1	25.9	1.1	-0.2	0.1	0.2	0.1	0.1	0.0
					(Percent of GDP)					
Consumption	90.8	85.8	86.3	87.5	87.4	87.7	87.8	87.8	87.8	87.6
Private	70.1	66.4	67.6	67.5	66.9	67.5	67.7	67.9	68.0	68.0
Public	20.8	19.4	18.7	19.9	20.5	20.2	20.0	19.9	19.7	19.6
Gross capital formation	22.6	25.5	27.5	25.3	25.6	25.6	25.7	25.8	25.8	25.8
Private	17.2	21.4	23.7	21.3	21.4	21.4	21.4	21.5	21.5	21.5
Public	5.4	4.1	3.8	4.0	4.2	4.3	4.3	4.3	4.3	4.3
National savings	19.7	23.7	23.1	22.5	22.3	21.7	21.7	21.8	21.8	21.9
Private	19.4	18.8	18.7	21.7	20.4	20.2	19.7	19.4	19.0	18.8
Public	0.4	5.0	4.4	0.8	2.0	1.6	1.9	2.4	2.8	3.1
Saving-Investment balance	-2.8	-1.8	-4.3	-2.8	-3.3	-3.9	-4.1	-4.0	-4.0	-4.0
Memorandum items:					*(Percent)*					
Unemployment rate (national definition) 1/	15.9	17.4	15.4	13.2	--	--	--	--	--	--
Nominal GDP (KM million)	34,728	39,145	45,618	48,948	51,762	54,759	57,877	60,858	63,936	67,172

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, 2020-2029 1/

(Millions of euros, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
A. Current account	**-503**	**-354**	**-1,011**	**-703**	**-861**	**-1,092**	**-1,206**	**-1,244**	**-1,303**	**-1,362**
Trade balance	-2,371	-2,265	-3,209	-3,195	-3,450	-3,741	-4,004	-4,205	-4,434	-4,646
Goods	-3,206	-3,655	-5,207	-5,214	-5,526	-5,885	-6,252	-6,563	-6,905	-7,258
Export of goods (fob)	4,826	6,483	8,369	8,011	8,332	8,820	9,277	9,726	10,200	10,647
Import of goods (fob)	-8,033	-10,139	-13,575	-13,225	-13,858	-14,705	-15,530	-16,290	-17,105	-17,905
Services (net)	835	1,391	1,998	2,019	2,076	2,144	2,249	2,358	2,471	2,611
Exports	1,324	2,015	2,856	3,033	3,207	3,393	3,586	3,771	3,962	4,162
Imports	-489	-624	-859	-1,014	-1,131	-1,249	-1,338	-1,413	-1,491	-1,551
Primary income (net):	-99	-256	-270	-64	-93	-174	-180	-175	-139	-116
Total credit	477	609	737	1,006	1,026	1,019	1,079	1,132	1,187	1,240
Total debit	-576	-865	-1,007	-1,070	-1,119	-1,193	-1,259	-1,307	-1,326	-1,356
Of which : interest payments	-91	-78	-105	-184	-219	-275	-322	-351	-350	-360
Secondary income (net), *of which* :	1,967	2,166	2,468	2,556	2,682	2,824	2,978	3,136	3,270	3,400
Government (net)	68	32	31	-9	-10	-11	-12	-13	-13	-14
Workers' remittances	1,213	1,473	1,744	1,822	1,926	2,038	2,154	2,265	2,349	2,418
Social benefits and other	686	661	693	743	766	797	836	884	934	996
B. Capital account	**185**	**168**	**173**	**165**	**168**	**172**	**178**	**186**	**195**	**206**
Capital transfers (net)	185	168	173	165	168	172	178	186	195	206
General government	154	130	134	130	133	137	142	149	158	169
Other sectors	31	38	40	35	35	36	36	36	37	37
C. Financial account	**-755**	**-1,156**	**-832**	**-300**	**-1,035**	**-1,315**	**-1,296**	**-1,380**	**-1,473**	**-1,510**
Direct investment (net)	-351	-549	-689	-831	-789	-819	-832	-871	-908	-943
Assets	73	72	66	43	20	20	39	32	29	32
Liabilities	423	621	754	873	809	839	871	903	938	975
Portfolio investment (net)	3	42	133	210	-164	-14	-34	-14	-14	36
Assets (net)	-12	178	126	191	-14	-14	-14	-14	-14	-14
Liabilities (net)	-15	136	-8	-19	150	0	20	0	0	-50
Other investment (net)	-408	-649	-277	320	-82	-482	-431	-495	-550	-603
Assets (net)	-115	-61	376	549	433	192	118	118	120	122
Short-term	-136	-61	313	504	441	200	127	128	129	131
Banks	10	8	123	160	226	61	62	63	65	66
Other sectors, excl. government and central bank	-142	-74	77	279	150	75	0	0	0	0
Medium and long-term	21	1	62	45	-8	-9	-9	-10	-9	-9
Banks	-6	-3	-9	55	2	2	2	2	2	2
Other sectors, excl. government and central bank	27	3	71	-9	-10	-11	-11	-12	-12	-13
Liabilities (net)	293	588	653	229	515	674	548	613	670	725
Short-term	125	456	619	349	542	423	420	408	419	418
General government	5	9	7	7	0	0	0	0	0	1
Banks	-286	-82	6	-119	-5	12	13	14	14	15
Other sectors	406	528	606	461	547	411	407	394	405	402
Medium and long-term	168	133	34	-121	-27	251	129	205	251	307
Monetary authority	0	0	0	0	0	0	0	0	0	0
General government	92	186	12	-247	141	160	36	73	112	117
SDR allocation		306								
Disbursements of loans	387	508	360	282	718	733	569	559	582	607
Project	444	466	242	252	331	378	444	467	490	515
Budget	357	125	118	30	387	355	125	92	92	92
Other	0	0	0	0	0	0	0	0	0	0
Amortization of loans	296	322	348	529	577	573	533	486	471	491
Banks	-120	-112	-74	-52	-11	25	26	27	29	30
Other sectors	196	59	96	178	-157	66	66	105	111	160
D. Errors and omissions	-132	108	79	264	0	0	0	0	0	0
Overall balance (A+B-C+D)	304	1,078	73	26	342	396	268	321	364	354
Financing	-304	-1,078	-73	-26	-342	-396	-268	-321	-364	-354
Change in net international reserves ("-"=increase)	-304	-1,078	-73	-26	-342	-396	-268	-321	-364	-354
Memorandum items:										
Current account balance (in percent of GDP)	-2.8	-1.8	-4.3	-2.8	-3.3	-3.9	-4.1	-4.0	-4.0	-4.0
Trade balance-Goods (in percent of GDP)	-18.1	-18.3	-22.3	-20.8	-20.9	-21.0	-21.1	-21.1	-21.1	-21.1
Import of goods (change, percent)	-13.4	26.2	33.9	-2.6	4.8	6.1	5.6	4.9	5.0	4.7
Export of goods (change, percent)	-7.3	34.3	29.1	-4.3	4.0	5.8	5.2	4.8	4.9	4.4
Transfers (in percent of GDP)	11.1	10.8	10.6	10.2	10.1	10.1	10.1	10.1	10.0	9.9
Net foreign direct investment (in percent of GDP)	-2.0	-2.7	-3.0	-3.3	-3.0	-2.9	-2.8	-2.8	-2.8	-2.7
External debt/GDP (in percent)	63.9	57.4	51.7	49.5	49.4	48.8	48.1	47.5	47.0	46.5
Private sector	37.7	30.7	28.7	29.4	28.7	28.7	28.6	28.7	28.8	29.1
Public sector	26.2	26.7	23.0	20.1	20.7	20.1	19.5	18.7	18.2	17.3
External debt service/GNFS exports (percent)	63.1	42.2	31.4	36.7	37.6	38.4	38.2	38.0	37.6	37.8
Gross official reserves (in millions of Euro)	7,105	8,372	8,228	8,342	8,684	9,080	9,348	9,670	10,034	10,388
(In months of prospective imports of goods and services)	7.9	7.0	6.9	6.7	6.5	6.5	6.3	6.2	6.2	6.1
Reserves/IMF ARA metric (percent)	121.8	127.3	115.8	113.4	111.9	110.3	…	…	…	…

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

1/ Based on BPM6.

Table 4a. Bosnia and Herzegovina: Government Statement of Operations, 2020-2029

(Percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
Revenue	**40.8**	**40.5**	**39.6**	**40.8**	**41.4**	**41.1**	**41.1**	**41.2**	**41.3**	**41.3**
Taxes	21.5	22.0	21.8	22.3	22.7	22.6	22.6	22.7	22.8	22.8
Direct taxes	3.7	3.6	4.0	4.4	4.5	4.5	4.4	4.6	4.7	4.7
Individual income tax	1.8	1.7	1.8	2.1	2.2	2.2	2.2	2.2	2.2	2.2
Corporate income tax	1.7	1.7	1.9	2.1	2.1	2.1	2.1	2.2	2.2	2.2
Indirect taxes	17.7	18.3	17.7	17.8	18.1	18.0	18.0	18.0	18.0	18.0
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	15.5	14.8	14.2	15.1	15.3	15.3	15.3	15.3	15.3	15.3
Grants	0.5	0.4	0.3	0.4	0.2	0.2	0.2	0.2	0.2	0.2
Other revenue	3.3	3.3	3.3	2.9	3.2	3.0	3.0	3.0	3.0	3.0
Expenditure	**45.4**	**39.9**	**38.6**	**42.5**	**43.8**	**43.5**	**43.2**	**42.9**	**42.5**	**42.3**
Expense	**40.0**	**35.7**	**34.8**	**38.4**	**39.6**	**39.2**	**38.9**	**38.6**	**38.2**	**38.0**
Compensation of employees	11.3	10.3	10.0	10.6	11.0	10.8	10.6	10.5	10.4	10.3
Use of goods and services	7.4	6.8	6.5	6.8	7.0	6.9	6.9	6.9	6.9	6.8
Social benefits	16.1	14.8	14.4	16.3	16.7	16.5	16.3	16.2	16.0	15.8
Interest	0.7	0.7	0.6	0.9	1.1	1.3	1.4	1.5	1.5	1.5
Subsidies	2.4	1.9	1.6	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Other expense	2.1	1.3	1.6	2.0	2.0	1.9	1.8	1.7	1.6	1.6
Net acquisition of nonfinancial assets	**5.4**	**4.1**	**3.8**	**4.0**	**4.2**	**4.3**	**4.3**	**4.3**	**4.3**	**4.3**
Acquisition of nonfinancial assets	5.5	4.3	4.0	4.2	4.4	4.4	4.4	4.4	4.4	4.4
Foreign financed capital spending	2.1	1.9	1.2	1.1	1.3	1.3	1.4	1.4	1.4	1.4
Domestically financed capital spending	3.4	2.4	2.8	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Disposal of nonfinancial assets	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Gross/net operating balance (revenue - expense)	**0.8**	**4.7**	**4.8**	**2.3**	**1.8**	**1.8**	**2.2**	**2.6**	**3.1**	**3.4**
Net lending/borrowing (revenue - expenditure)	**-4.6**	**0.6**	**0.9**	**-1.7**	**-2.4**	**-2.4**	**-2.1**	**-1.7**	**-1.2**	**-0.9**
Net acquisition of financial assets	**-1.5**	**2.3**	**0.3**	**-1.0**	**-0.1**	**0.7**	**0.9**	**1.3**	**1.7**	**1.8**
Domestic assets	-1.5	2.3	0.3	-1.0	-0.1	0.7	0.9	1.3	1.7	1.8
Currency and deposits	-1.2	2.7	0.4	-0.8	0.0	0.8	0.9	1.3	1.7	1.8
Loans	-0.2	-0.4	-0.3	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Equity and investment fund shares	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**3.7**	**0.2**	**0.3**	**0.8**	**2.4**	**3.1**	**3.0**	**3.0**	**2.9**	**2.7**
Domestic liabilities	1.5	-1.5	0.2	2.4	1.8	2.4	2.4	2.6	2.4	2.2
Debt securities	1.3	-0.8	0.3	1.6	2.1	2.1	1.8	1.9	1.9	1.8
Other government obligations	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	-0.2	-0.2	-0.2	0.1	0.4	0.7	0.7	0.5	0.5
Other accounts payable	0.3	-0.5	0.2	1.1	-0.4	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	2.2	1.8	0.1	-1.6	0.6	0.7	0.6	0.4	0.5	0.5
Debt securities	0.0	1.5	0.0	-0.7	0.0	0.0	0.3	0.0	0.0	0.0
Loans	2.2	0.3	0.1	-1.0	0.6	0.7	0.3	0.4	0.5	0.5
Drawings	4.1	2.2	1.7	1.2	2.8	2.7	2.0	1.9	1.9	1.9
Amortization	1.8	1.8	1.6	2.2	2.2	2.0	1.8	1.5	1.4	1.4
Statistical discrepancy	**-0.6**	**1.5**	**-0.9**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:										
Net lending exc externally-financed operations	-2.9	2.3	1.9	-0.7	-1.2	-1.2	-0.8	-0.4	0.1	0.3
Structural balance (% of potential GDP)	-2.6	0.5	0.2	-1.9	-2.4	-2.5	-2.2	-1.7	-1.3	-1.0
Cyclically-adjusted primary balance	-2.2	1.1	0.9	-1.0	-1.3	-1.2	-0.8	-0.2	0.2	0.5

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

Table 4b. Bosnia and Herzegovina: Government Statement of Operations, 2020-2029

(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
Revenue	**14,158**	**15,841**	**18,044**	**19,948**	**21,412**	**22,484**	**23,777**	**25,075**	**26,386**	**27,749**
Taxes	7,475	8,599	9,925	10,913	11,745	12,357	13,077	13,825	14,569	15,334
Direct taxes	1,298	1,403	1,814	2,154	2,317	2,439	2,572	2,776	2,980	3,133
Individual income taxes	619	668	835	1,026	1,121	1,180	1,247	1,333	1,424	1,498
Corporate income tax	593	648	884	1,023	1,085	1,142	1,201	1,312	1,419	1,491
Indirect taxes	6,141	7,154	8,057	8,698	9,362	9,849	10,432	10,973	11,508	12,116
Other taxes	37	42	55	62	65	69	73	77	80	85
Social security contributions	5,384	5,798	6,484	7,412	7,904	8,362	8,838	9,293	9,763	10,257
Grants	166	157	115	188	121	124	128	133	139	145
Other revenue	1,133	1,286	1,520	1,435	1,642	1,641	1,735	1,824	1,916	2,013
Expenditure	**15,761**	**15,602**	**17,623**	**20,782**	**22,660**	**23,809**	**25,002**	**26,102**	**27,165**	**28,383**
Expense	**13,884**	**13,981**	**15,876**	**18,806**	**20,476**	**21,481**	**22,506**	**23,483**	**24,414**	**25,492**
Compensation of employees	3,920	4,036	4,566	5,209	5,688	5,903	6,157	6,396	6,660	6,938
Use of goods and services	2,560	2,665	2,979	3,335	3,603	3,794	4,009	4,195	4,387	4,590
Social benefits	5,587	5,795	6,589	7,972	8,624	9,030	9,446	9,834	10,235	10,643
Interest	253	257	281	424	572	708	794	909	929	1,006
Subsidies	830	735	749	868	937	991	1,048	1,102	1,157	1,216
Grants	18	11	15	19	13	14	14	15	16	17
Other expense	734	494	712	997	1,052	1,055	1,053	1,048	1,045	1,098
Net acquisition of nonfinancial assets	**1,877**	**1,621**	**1,747**	**1,976**	**2,184**	**2,328**	**2,496**	**2,619**	**2,751**	**2,891**
Acquisition of nonfinancial assets	1,923	1,676	1,826	2,058	2,252	2,399	2,571	2,698	2,834	2,977
Foreign financed capital spending	747	753	528	536	682	738	815	851	894	939
Domestically financed capital spending	1,176	923	1,298	1,522	1,570	1,661	1,756	1,846	1,940	2,038
Disposal of nonfinancial assets	46	56	79	82	68	72	75	79	83	86
Gross/net operating balance (revenue - expense)	**274**	**1,859**	**2,168**	**1,142**	**936**	**1,003**	**1,271**	**1,592**	**1,973**	**2,257**
Net lending/borrowing (revenue - expenditure)	**-1,603**	**239**	**421**	**-834**	**-1,248**	**-1,325**	**-1,225**	**-1,027**	**-778**	**-634**
Net acquisition of financial assets	**-520**	**900**	**152**	**-487**	**-30**	**397**	**509**	**777**	**1,073**	**1,177**
Domestic assets	-520	900	152	-486	-30	397	509	777	1,073	1,177
Currency and deposits	-424	1,056	188	-391	7	422	529	793	1,084	1,184
Loans	-71	-160	-155	-197	-93	-85	-83	-81	-81	-80
Equity and investment fund shares	26	4	-1	5	0	0	0	0	0	0
Foreign assets	0	0	0	-1	0	0	0	0	0	0
Net incurrence of liabilities	**1,295**	**93**	**149**	**382**	**1,218**	**1,721**	**1,734**	**1,804**	**1,851**	**1,811**
Domestic liabilities	535	-605	104	1,183	909	1,337	1,406	1,576	1,544	1,486
Debt securities	462	-306	153	783	1,088	1,124	1,038	1,178	1,236	1,176
Other government obligations	-50	-49	-48	-49	-16	-15	-14	-14	-13	-12
Loans	5	-71	-88	-83	61	229	382	412	320	323
Other accounts payable	118	-178	88	532	-224	0	0	0	0	0
Foreign liabilities	760	698	45	-801	309	384	327	228	308	325
Debt securities	-13	568	0	-329	0	0	163	0	0	0
Loans	773	130	45	-507	309	384	164	228	308	325
Drawings	1,415	843	792	593	1,424	1,481	1,177	1,161	1,211	1,263
Amortization	642	713	747	1,100	1,115	1,097	1,013	932	903	938
Statistical discrepancy	**-212**	**569**	**-418**	**-35**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:										
Indirect revenues	6,141	7,154	8,057	8,698	9,362	9,849	10,432	10,973	11,508	12,116
Net lending excl. externally-financed operations	-999	896	860	-352	-633	-655	-481	-250	37	221

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

Table 4c. Bosnia and Herzegovina: Entity Governments Statement of Operations, 2020-2029

(Percent of GDP)

	Federation								Republika Srpska							
	Central Government								Central Government							
	2020	2021	2022	2023	2024	2025	2026	2029	2020	2021	2022	2023	2024	2025	2026	2029
Revenue	**16.7**	**16.3**	**15.5**	**16.5**	**17.0**	**16.8**	**16.6**	**16.4**	**25.5**	**25.5**	**26.0**	**27.1**	**27.9**	**28.1**	**28.3**	**28.5**
Taxes	6.5	6.7	6.4	7.0	7.4	7.2	7.1	6.9	15.3	15.8	16.3	16.6	17.3	17.5	17.7	17.8
Direct taxes	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	3.4	3.1	3.7	4.0	4.3	4.3	4.3	4.6
Indirect taxes	6.2	6.4	6.1	6.6	7.1	6.9	6.7	6.5	11.8	12.4	12.4	12.4	12.8	12.9	13.1	13.1
Social security contributions	9.0	8.5	8.2	8.8	8.8	8.8	8.8	8.8	8.3	8.1	8.1	8.6	9.0	9.0	9.0	9.0
Grants	0.4	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.4	0.1	0.2	0.3	0.1	0.1	0.1	0.1
Other revenue	0.8	0.8	0.7	0.4	0.6	0.6	0.6	0.6	1.4	1.5	1.4	1.7	1.5	1.5	1.5	1.5
Expenditure	**18.8**	**16.2**	**14.4**	**17.6**	**19.0**	**18.9**	**18.8**	**18.3**	**30.2**	**27.2**	**28.6**	**29.3**	**30.7**	**30.7**	**30.7**	**30.3**
Expense	**17.8**	**15.4**	**14.2**	**17.2**	**18.0**	**18.0**	**17.8**	**17.3**	**28.5**	**25.9**	**27.4**	**27.7**	**29.0**	**28.9**	**28.8**	**28.3**
Compensation of employees	1.2	1.0	0.9	1.0	1.1	1.1	1.1	1.1	7.3	6.7	6.9	7.0	6.9	6.8	6.8	6.8
Use of goods and services	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5
Social benefits	12.3	11.1	10.3	12.3	12.8	12.6	12.4	11.9	12.6	11.9	12.4	13.0	13.9	13.7	13.5	12.9
Interest	0.4	0.4	0.3	0.5	0.7	0.9	1.0	1.1	1.0	0.9	0.9	1.1	1.5	1.7	1.8	2.0
Subsidies	1.2	0.9	0.7	0.7	0.8	0.8	0.8	0.8	2.0	1.2	1.2	1.6	1.6	1.6	1.6	1.6
Other expense	0.6	0.2	0.2	0.4	0.4	0.4	0.4	0.3	1.3	1.6	1.9	1.2	1.2	1.2	1.2	1.2
Net acquisition of nonfinancial assets	**1.0**	**0.8**	**0.2**	**0.4**	**0.9**	**0.9**	**1.0**	**1.0**	**1.7**	**1.3**	**1.2**	**1.6**	**1.7**	**1.8**	**1.9**	**1.9**
Acquisition of nonfinancial assets	1.0	0.8	0.2	0.4	0.9	0.9	1.0	1.0	1.8	1.4	1.3	1.7	1.7	1.9	2.0	2.0
Foreign financed capital spending	0.9	0.8	0.1	0.4	0.7	0.8	0.8	0.8	0.4	0.3	0.2	0.1	0.3	0.4	0.5	0.5
Domestically financed capital spending	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	1.4	1.1	1.0	1.6	1.5	1.5	1.5	1.5
Disposal of nonfinancial assets	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Gross/net operating balance (revenue - expense)	**-1.1**	**0.9**	**1.3**	**-0.7**	**-1.0**	**-1.2**	**-1.2**	**-0.9**	**-3.1**	**-0.3**	**-1.4**	**-0.6**	**-1.0**	**-0.8**	**-0.5**	**0.1**
Net lending/borrowing (revenue - expenditure)	**-2.1**	**0.1**	**1.1**	**-1.2**	**-2.0**	**-2.1**	**-2.1**	**-1.8**	**-4.8**	**-1.7**	**-2.6**	**-2.2**	**-2.7**	**-2.6**	**-2.4**	**-1.8**
Net acquisition of financial assets	**-2.1**	**0.5**	**-1.4**	**-1.7**	**-0.4**	**0.0**	**0.0**	**-0.1**	**-0.7**	**1.8**	**-0.8**	**-1.2**	**0.2**	**1.7**	**1.2**	**1.4**
Domestic assets	-2.1	-0.1	-0.9	-1.7	-0.4	0.0	0.0	-0.1	-0.7	1.8	-0.8	-1.2	0.2	1.7	1.2	1.4
Currency and deposits	-1.2	0.8	-0.3	-1.0	0.1	0.5	0.4	0.3	-0.3	2.0	-0.4	-0.8	0.4	1.6	0.9	1.1
Loans	-0.9	-0.9	0.0	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.1	-0.3	-0.4	-0.2	0.1	0.3	0.4
Net incurrence of liabilities	**4.9**	**3.6**	**1.7**	**3.2**	**1.6**	**2.1**	**2.1**	**1.8**	**4.1**	**3.4**	**1.8**	**0.9**	**2.9**	**4.3**	**3.6**	**3.2**
Domestic liabilities	0.6	-0.4	-0.3	0.7	2.7	2.9	2.5	2.0	2.6	-2.8	1.4	4.3	0.7	2.4	3.1	3.3
Debt securities	0.6	-0.4	-0.3	0.7	2.1	2.3	2.1	1.8	2.8	-1.5	1.8	3.5	2.3	1.6	1.4	1.8
Other government obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-0.4	-0.3	-0.3	-0.1	-0.1	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.6	0.5	0.4	0.2	0.0	-0.5	-0.4	-0.3	-0.2	0.8	1.8	1.6
Foreign liabilities	4.3	4.0	2.0	2.5	-1.1	-0.8	-0.3	-0.2	1.5	6.2	0.4	-3.4	2.2	1.9	0.5	-0.1
Loans	4.3	2.4	2.0	2.5	-1.1	-0.8	-0.3	-0.2	1.6	0.2	0.4	-1.3	2.2	1.9	-0.4	-0.1
Drawings	2.5	0.6	0.4	0.4	1.1	1.0	1.0	0.9	3.3	1.7	1.9	0.9	4.5	4.5	2.3	2.1
Amortization	1.8	1.8	1.5	2.1	2.2	1.8	1.4	1.1	1.6	1.5	1.5	2.3	2.3	2.6	2.6	2.2
Statistical discrepancy	**-4.9**	**-3.1**	**-4.3**	**-3.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:																
Net lending excl. externally-financed operations	-1.6	0.6	1.0	-0.8	-1.4	-1.5	-1.5	-1.2	-4.8	-1.6	-2.6	-2.4	-2.6	-2.3	-2.1	-1.4
Primary balance (% of GDP)	-1.7	0.4	1.5	-0.6	-1.2	-1.2	-1.2	-0.7	-3.8	-0.8	-1.7	-1.1	-1.2	-0.9	-0.6	0.2

	Federation									Republika Srpska								Bosnia and Herzegovina							
	General Government									General Government															
	2019	2020	2021	2022	2023	2024	2025	2026	2029	2020	2021	2022	2023	2024	2025	2026	2029	2020	2021	2022	2023	2024	2025	2026	2029
Revenue	**38.0**	**37.5**	**37.0**	**35.9**	**37.1**	**37.7**	**37.7**	**37.8**	**38.3**	**40.0**	**40.2**	**40.5**	**40.8**	**41.3**	**41.2**	**41.4**	**41.8**	**40.8**	**40.5**	**39.6**	**40.8**	**41.4**	**41.1**	**41.1**	**41.3**
Taxes	19.6	18.0	18.7	18.5	19.0	19.4	19.4	19.5	20.0	21.3	21.9	22.2	22.2	22.8	22.7	22.9	23.3	21.5	22.0	21.8	22.3	22.7	22.6	22.6	22.8
Direct taxes	3.6	3.6	3.5	3.9	4.3	4.3	4.2	4.2	4.4	4.0	3.7	4.3	4.7	5.1	5.1	5.1	5.3	3.7	3.6	4.0	4.4	4.5	4.5	4.4	4.7
Indirect taxes	15.9	14.4	15.2	14.6	14.7	15.2	15.2	15.3	15.6	17.0	17.8	17.5	17.1	17.3	17.3	17.5	17.7	17.7	18.3	17.7	17.8	18.1	18.0	18.0	18.0
Social security contributions	15.7	16.2	15.4	14.7	15.9	15.9	15.9	15.9	15.9	14.8	14.4	13.8	14.5	14.9	14.9	14.9	14.9	15.5	14.8	14.2	15.1	15.3	15.3	15.3	15.3
Grants	0.4	0.4	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.5	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.5	0.4	0.3	0.4	0.2	0.2	0.2	0.2
Other revenue	2.4	2.8	2.6	2.5	1.9	2.2	2.2	2.2	2.2	3.4	3.6	4.2	3.8	3.5	3.5	3.5	3.5	3.3	3.3	3.3	2.9	3.2	3.0	3.0	3.0
Expenditure	**36.8**	**41.9**	**36.5**	**34.2**	**39.1**	**40.3**	**40.1**	**39.8**	**39.0**	**45.3**	**40.4**	**42.0**	**43.2**	**44.4**	**44.4**	**44.4**	**43.9**	**45.4**	**39.9**	**38.6**	**42.5**	**43.8**	**43.5**	**43.2**	**42.3**
Expense	**33.8**	**37.3**	**32.5**	**30.8**	**35.5**	**36.5**	**36.2**	**35.9**	**35.2**	**38.7**	**36.1**	**37.3**	**38.5**	**39.6**	**39.5**	**39.4**	**38.9**	**40.0**	**35.7**	**34.8**	**38.4**	**39.6**	**39.2**	**38.9**	**38.0**
Compensation of employees	8.5	9.1	8.3	8.0	8.5	9.0	8.9	8.8	8.6	9.7	9.0	9.3	9.4	9.4	9.3	9.3	9.3	11.3	10.3	10.0	10.6	11.0	10.8	10.6	10.3
Use of goods and services	8.3	8.7	8.0	7.5	8.0	8.1	8.1	8.1	8.1	3.4	3.0	3.1	3.2	3.2	3.2	3.2	3.2	7.4	6.8	6.5	6.8	7.0	6.9	6.9	6.8
Social benefits	13.0	14.6	13.0	12.3	14.5	14.7	14.6	14.4	14.0	20.0	19.2	19.6	20.7	21.5	21.3	21.1	20.5	16.1	14.8	14.4	16.3	16.7	16.5	16.3	15.8
Interest	0.6	0.5	0.4	0.4	0.6	0.8	1.0	1.1	1.2	1.2	1.1	1.1	1.4	1.7	1.9	2.1	2.2	0.7	0.7	0.6	0.9	1.1	1.3	1.4	1.5
Subsidies	1.4	2.4	2.0	1.7	1.7	1.8	1.8	1.8	1.8	2.3	1.6	1.6	1.8	1.8	1.8	1.8	1.8	2.4	1.9	1.6	1.8	1.8	1.8	1.8	1.8
Other expense	2.1	2.0	0.7	0.9	2.0	2.0	1.8	1.7	1.4	2.1	2.3	2.6	1.9	2.0	2.0	2.0	2.0	2.1	1.3	1.6	2.0	2.0	1.9	1.8	1.6
Net acquisition of nonfinancial assets	**3.0**	**4.6**	**4.0**	**3.4**	**3.6**	**3.8**	**3.8**	**3.9**	**3.9**	**6.6**	**4.3**	**4.7**	**4.8**	**4.8**	**4.9**	**5.0**	**4.9**	**5.4**	**4.1**	**3.8**	**4.0**	**4.2**	**4.3**	**4.3**	**4.3**
Acquisition of nonfinancial assets	3.2	4.7	4.1	3.5	3.7	3.9	3.9	3.9	3.9	6.8	4.5	4.9	5.0	5.1	5.2	5.2	5.2	5.5	4.3	4.0	4.2	4.4	4.4	4.4	4.4
Foreign financed capital spending	1.6	2.7	2.5	1.4	1.4	1.7	1.7	1.8	1.8	1.3	0.8	0.6	0.4	0.6	0.7	0.7	0.7	2.1	1.9	1.2	1.1	1.3	1.3	1.4	1.4
Domestically financed capital spending	1.5	2.0	1.5	2.1	2.2	2.2	2.2	2.2	2.2	5.5	3.7	4.3	4.6	4.5	4.5	4.5	4.5	3.4	2.4	2.8	3.1	3.0	3.0	3.0	3.0
Disposal of nonfinancial assets	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Gross/net operating balance (revenue - expense)	**4.2**	**0.1**	**4.5**	**5.1**	**1.6**	**1.2**	**1.5**	**1.9**	**3.2**	**1.3**	**4.0**	**3.2**	**2.3**	**1.6**	**1.8**	**2.0**	**2.9**	**0.8**	**4.7**	**4.8**	**2.3**	**1.8**	**1.8**	**2.2**	**3.4**
Net lending/borrowing (revenue - expenditure)	**1.2**	**-4.4**	**0.5**	**1.7**	**-2.0**	**-2.6**	**-2.4**	**-2.0**	**-0.7**	**-5.2**	**-0.3**	**-1.5**	**-2.4**	**-3.2**	**-3.2**	**-3.0**	**-2.1**	**-4.6**	**0.6**	**0.9**	**-1.7**	**-2.4**	**-2.4**	**-2.1**	**-0.9**
Net acquisition of financial assets	**-0.3**	**-2.4**	**2.1**	**0.2**	**-0.9**	**-0.4**	**0.3**	**0.8**	**1.8**	**-0.4**	**2.8**	**-0.2**	**-1.9**	**-0.2**	**1.1**	**0.6**	**1.2**	**-1.5**	**2.3**	**0.3**	**-1.0**	**-0.1**	**0.7**	**0.9**	**1.8**
Domestic assets	-0.3	-2.4	2.1	0.2	-0.9	-0.4	0.3	0.8	1.8	-0.4	2.8	-0.2	-1.9	-0.2	1.1	0.6	1.2	-1.5	2.3	0.3	-1.0	-0.1	0.7	0.9	1.8
Currency and deposits	0.0	-2.1	2.6	0.6	-0.8	-0.4	0.4	0.8	1.8	-0.2	3.0	-0.7	-1.5	0.0	1.2	0.7	1.2	-1.2	2.7	0.4	-0.8	0.0	0.8	0.9	1.8
Loans	-0.3	-0.3	-0.5	-0.3	-0.4	0.0	0.0	0.0	0.0	0.0	-0.2	-0.3	-0.4	-0.5	-0.5	-0.4	-0.4	-0.2	-0.4	-0.3	-0.4	-0.2	-0.2	-0.1	-0.1
Net incurrence of liabilities	**-0.5**	**6.5**	**1.5**	**-0.3**	**0.9**	**2.1**	**2.7**	**2.8**	**2.5**	**5.2**	**3.1**	**1.4**	**0.7**	**2.9**	**4.3**	**3.6**	**3.2**	**3.7**	**0.2**	**0.3**	**0.8**	**2.4**	**3.1**	**3.0**	**2.7**
Domestic liabilities	-0.1	0.4	-0.5	-0.4	1.6	2.3	2.5	2.2	1.7	3.3	-3.0	1.3	4.2	0.7	2.4	3.1	3.3	1.5	-1.5	0.2	2.4	1.8	2.4	2.4	2.2
Debt securities	0.1	0.6	-0.4	-0.3	0.7	2.1	2.3	2.1	1.8	2.9	-1.5	1.8	3.5	2.3	1.6	1.4	1.8	1.3	-0.8	0.3	1.6	2.1	2.1	1.8	1.8
Other government obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-0.4	-0.3	-0.3	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Loans	-0.1	-0.2	-0.1	-0.1	0.0	0.3	0.2	0.1	-0.1	0.5	-0.3	-0.4	-0.4	-0.2	0.8	1.8	1.6	0.0	-0.2	-0.2	-0.2	0.1	0.4	0.7	0.5
Foreign liabilities	-0.4	6.1	2.1	0.1	-0.7	-0.2	0.2	0.6	0.8	1.9	6.1	0.1	-3.5	2.2	1.9	0.5	-0.1	2.2	1.8	0.1	-1.6	0.6	0.7	0.6	0.5
Loans	-0.4	6.1	0.5	0.1	-0.7	-0.2	0.2	0.6	0.8	2.0	0.1	0.1	-1.6	2.2	1.9	-0.4	-0.1	2.2	0.3	0.1	-1.0	0.6	0.7	0.3	0.5
Drawings	1.4	4.3	2.3	1.7	1.4	2.0	1.9	2.0	1.9	3.9	2.0	1.9	0.9	4.5	4.5	2.3	2.1	4.1	2.2	1.7	1.2	2.8	2.7	2.0	1.9
Amortization	1.8	1.8	1.8	1.6	2.1	2.2	1.8	1.4	1.1	1.9	1.9	1.8	2.6	2.3	2.6	2.6	2.2	1.8	1.8	1.6	2.2	2.2	2.0	1.8	1.4
Statistical discrepancy	**-1.0**	**-4.5**	**0.1**	**-1.2**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.3**	**-0.1**	**-0.1**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.6**	**1.5**	**-0.9**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:																									
Net lending excl. externally-financed operations	2.5	-2.1	2.8	3.0	-0.5	-1.0	-0.8	-0.3	0.9	-4.0	0.5	-0.9	-2.0	-2.6	-2.5	-2.3	-1.4	-2.9	2.3	1.9	-0.7	-1.2	-1.2	-0.8	0.3
Primary balance (% of GDP)	1.8	-3.9	0.9	2.1	-1.3	-1.8	-1.3	-0.9	0.5	-4.1	0.9	-0.5	-1.1	-1.5	-1.3	-0.9	0.1	-3.9	1.3	1.5	-0.8	-1.3	-1.1	-0.7	0.6

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

Note: Federation central government included pension fund in 2020.

Table 5a. Bosnia and Herzegovina: Institutions of BiH—Statement of Government Operations, 2020-2029

(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
Revenue	**943**	**987**	**1,044**	**1,242**	**1,315**	**1,235**	**1,245**	**1,255**	**1,265**	**1,275**
Taxes	780	780	866	1,021	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	780	780	866	1,021	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	17	47	13	34	34	34	34	34	34	34
Other revenue	145	160	165	188	261	180	191	201	211	221
Expenditure	**984**	**924**	**1,008**	**1,154**	**1,286**	**1,297**	**1,316**	**1,314**	**1,313**	**1,312**
Expense	**899**	**876**	**974**	**1,114**	**1,228**	**1,235**	**1,251**	**1,246**	**1,242**	**1,237**
Compensation of employees	681	695	737	881	975	978	981	983	986	988
Use of goods and services	142	154	185	186	217	211	222	214	205	196
Social benefits	10	12	23	15	12	12	12	12	12	12
Interest	1	1	1	1	1	1	1	1	1	1
Transfers to other general government units	44	2	5	3	1	1	1	1	1	1
Other expense	12	4	11	16	9	18	19	20	21	22
Net acquisition of nonfinancial assets	**85**	**47**	**34**	**40**	**58**	**62**	**65**	**68**	**71**	**75**
Acquisition of nonfinancial assets	86	49	41	55	58	62	65	69	72	76
Foreign financed capital spending	3	5	4	3	3	4	4	4	4	4
Domestically financed capital spending	83	44	37	52	55	58	61	65	68	71
Disposal of nonfinancial assets	0	1	7	15	0	0	0	1	1	1
Gross/net operating balance (revenue - expense)	**44**	**111**	**71**	**127**	**87**	**0**	**-6**	**9**	**23**	**38**
Net lending/borrowing (revenue - expenditure)	**-42**	**64**	**37**	**88**	**29**	**-62**	**-71**	**-59**	**-48**	**-36**
Net acquisition of financial assets	**31**	**-29**	**84**	**72**	**29**	**-62**	**-71**	**-59**	**-48**	**-36**
Domestic assets	31	-29	84	72	29	-62	-71	-59	-48	-36
Currency and deposits	30	-28	83	71	29	-62	-71	-59	-48	-36
Debt securities	0	0	0	0	0	0	0	0	0	0
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
Foreign assets	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	**79**	**-93**	**49**	**-15**	**0**	**0**	**0**	**0**	**0**	**0**
Domestic liabilities	83	-88	53	1	0	0	0	0	0	0
Foreign liabilities	-4	-4	-5	-16	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0	0
Loans	-4	-4	-5	-16	0	0	0	0	0	0
Drawings	0	0	0	0	0	0	0	0	0	0
Amortization	4	4	5	16	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 exc externally-financed operations	-38	68	41	91	32	-58	-67	-55	-44	-32

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

Table 5b. Bosnia and Herzegovina: Federation of BiH—Statement of General Government Operations, 2020-2029

(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
Revenue	**8,457**	**9,447**	**10,773**	**11,854**	**12,747**	**13,479**	**14,290**	**15,111**	**15,944**	**16,801**
Taxes	4,069	4,783	5,547	6,065	6,560	6,935	7,374	7,839	8,304	8,773
Direct taxes	821	905	1,165	1,375	1,438	1,510	1,590	1,719	1,845	1,938
Indirect taxes	3,247	3,877	4,382	4,690	5,122	5,425	5,784	6,120	6,459	6,835
Other taxes	1	1	0	0	0	0	0	0	1	1
Social security contributions	3,662	3,927	4,424	5,070	5,361	5,671	5,994	6,303	6,622	6,957
Grants	93	77	62	102	69	71	75	78	83	88
Other revenue	633	659	739	617	757	801	847	890	936	983
Expenditure	**9,453**	**9,319**	**10,258**	**12,490**	**13,624**	**14,320**	**15,028**	**15,707**	**16,369**	**17,116**
Expense	**8,424**	**8,307**	**9,249**	**11,336**	**12,339**	**12,958**	**13,561**	**14,166**	**14,751**	**15,415**
Compensation of employees	2,063	2,120	2,392	2,732	3,041	3,170	3,318	3,455	3,615	3,783
Use of goods and services	1,966	2,053	2,259	2,548	2,750	2,909	3,075	3,233	3,397	3,569
Social benefits	3,287	3,323	3,696	4,645	4,974	5,208	5,448	5,674	5,906	6,140
Interest	118	113	126	206	284	372	410	486	504	527
Subsidies	532	516	511	555	608	643	680	715	751	789
Other expense	450	180	262	645	682	655	630	603	578	607
Net acquisition of nonfinancial assets	**1,030**	**1,012**	**1,009**	**1,154**	**1,286**	**1,362**	**1,467**	**1,541**	**1,619**	**1,700**
Acquisition of nonfinancial assets	1,051	1,040	1,054	1,174	1,307	1,384	1,490	1,566	1,645	1,728
Foreign financed capital spending	599	649	435	463	579	614	676	710	745	783
Domestically financed capital spending	452	390	619	712	728	770	814	856	899	945
Disposal of nonfinancial assets	21	28	45	21	21	22	24	25	26	27
Gross/net operating balance (revenue - expense)	**33**	**1,140**	**1,524**	**518**	**409**	**522**	**729**	**945**	**1,193**	**1,386**
Net lending/borrowing (revenue - expenditure)	**-997**	**128**	**515**	**-636**	**-877**	**-840**	**-738**	**-596**	**-425**	**-315**
Net acquisition of financial assets	**-538**	**544**	**67**	**-297**	**-150**	**124**	**317**	**517**	**720**	**792**
Domestic assets	-538	544	67	-297	-150	124	317	517	720	792
Of which: Currency and deposits	-464	666	167	-269	-147	127	320	520	723	796
Net incurrence of liabilities	**1,464**	**395**	**-94**	**290**	**726**	**964**	**1,055**	**1,113**	**1,145**	**1,107**
Domestic liabilities	82	-136	-132	512	792	909	821	831	820	765
Of which: Debt securities	129	-110	-102	236	707	834	782	770	851	793
Foreign liabilities	1,382	532	38	-222	-66	55	233	282	325	342
Loans	1,382	130	38	-222	-66	55	233	282	325	342
Drawings	969	594	511	444	668	694	754	747	779	814
Amortization	413	464	473	667	734	639	521	465	455	471
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy / financing gap	**-1,005**	**20**	**-354**	**49**	**0**	**0**	**0**	**0**	**0**	**0**
Undentified financing / Discrepancy (historical data)		20	-354	49	0	0	0	0	0	0

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

Table 5c. Bosnia and Herzegovina: Federation of BiH—Statement of Central Government Operations, 2020-2029

(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
Revenue	**3,773**	**4,152**	**4,649**	**5,270**	**5,738**	**6,001**	**6,277**	**6,565**	**6,864**	**7,213**
Taxes	1,474	1,704	1,918	2,238	2,508	2,585	2,668	2,770	2,876	3,022
Direct taxes	81	72	89	115	122	129	136	148	160	168
Indirect taxes	1,393	1,633	1,829	2,123	2,386	2,456	2,531	2,622	2,716	2,854
Other taxes	0	0	0	0	0	0	0	0	0	0
Social security contributions	2,023	2,178	2,459	2,821	2,984	3,156	3,336	3,508	3,685	3,872
Grants	85	62	48	81	47	48	50	52	55	59
For budget support	0	0	0	81	0	0	0	0	0	0
For investment projects	85	62	48	0	47	48	50	52	55	59
Other revenue	187	205	197	124	200	212	224	235	247	260
Expenditure	**4,251**	**4,138**	**4,314**	**5,639**	**6,404**	**6,760**	**7,087**	**7,420**	**7,706**	**8,024**
Expense	**4,020**	**3,931**	**4,267**	**5,497**	**6,084**	**6,422**	**6,719**	**7,032**	**7,299**	**7,595**
Compensation of employees	260	262	283	325	384	402	425	447	474	503
Use of goods and services	83	88	80	88	150	158	167	176	185	194
Social benefits	2,777	2,840	3,085	3,926	4,312	4,501	4,693	4,869	5,048	5,234
Interest	101	91	103	175	251	337	373	447	463	485
Subsidies	265	230	200	234	269	285	301	317	333	349
Transfers to other general government units	409	374	449	611	572	599	626	652	678	705
Other expense	125	46	67	138	146	139	132	125	118	124
Net acquisition of nonfinancial assets	**231**	**208**	**47**	**142**	**320**	**338**	**368**	**387**	**407**	**429**
Acquisition of nonfinancial assets	232	209	66	142	320	338	368	387	407	429
Foreign financed capital spending	196	194	24	120	253	268	294	309	325	343
Domestically financed capital spending	36	15	42	23	66	70	74	78	82	86
Disposal of nonfinancial assets	0	1	19	0	0	0	0	0	0	0
Gross/net operating balance (revenue - expense)	**-247**	**222**	**383**	**-228**	**-346**	**-421**	**-442**	**-467**	**-435**	**-382**
Net lending/borrowing (revenue - expenditure)	**-478**	**14**	**336**	**-370**	**-665**	**-759**	**-810**	**-854**	**-843**	**-811**
Net acquisition of financial assets	**-474**	**121**	**-432**	**-543**	**-133**	**-9**	**-6**	**-16**	**0**	**-29**
Domestic assets	-474	-31	-280	-543	-133	-9	-6	-16	0	-29
Of which: Currency and deposits	-273	193	-103	-331	43	167	170	160	176	147
Foreign assets	0	152	-152	0	0	0	0	0	0	0
Net incurrence of liabilities	**1,104**	**907**	**511**	**1,034**	**533**	**750**	**804**	**838**	**842**	**782**
Domestic liabilities	130	-110	-86	236	905	1,022	934	938	919	861
Of which: Debt securities	130	-110	-86	236	707	834	782	770	851	793
Foreign liabilities	974	1,017	597	798	-373	-272	-130	-100	-76	-80
Loans	974	616	597	798	-373	-272	-130	-100	-76	-80
Drawings	564	157	133	120	361	367	391	365	378	392
Amortization	410	458	464	678	734	639	521	465	455	471
Equity and investment fund shares	0	0	0	0	0	0	0	0	0	0
Insurance, pensions, and standardized guarantee schem	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
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Statistical discrepancy	**-1,100**	**-801**	**-1,278**	**-1,207**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:										
Net lending excl. externally-financed operations	-367	146	312	-250	-459	-539	-566	-597	-573	-527

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. Bosnia and Herzegovina: Republika Srpska—Statement of General Government Operations, 2020-2029

(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
Revenue	**4,516**	**5,082**	**5,872**	**6,446**	**6,892**	**7,286**	**7,729**	**8,166**	**8,604**	**9,069**
Taxes	2,400	2,771	3,216	3,509	3,801	4,017	4,274	4,534	4,787	5,058
Direct taxes	451	472	620	747	846	894	945	1,017	1,094	1,151
Indirect taxes	1,914	2,259	2,544	2,704	2,894	3,058	3,260	3,444	3,617	3,827
Other taxes	35	40	52	58	62	65	69	73	76	80
Social security contributions	1,676	1,824	2,009	2,287	2,484	2,628	2,778	2,921	3,069	3,224
Grants	58	34	41	54	20	20	21	22	24	25
Other revenue	382	454	606	597	586	620	656	689	724	761
Expenditure	**5,108**	**5,116**	**6,096**	**6,830**	**7,423**	**7,845**	**8,288**	**8,689**	**9,067**	**9,515**
Expense	**4,365**	**4,572**	**5,414**	**6,079**	**6,617**	**6,976**	**7,361**	**7,718**	**8,047**	**8,443**
Compensation of employees	1,092	1,133	1,346	1,492	1,562	1,637	1,730	1,819	1,911	2,008
Use of goods and services	380	381	456	506	535	566	599	629	661	695
Social benefits	2,262	2,428	2,839	3,273	3,597	3,766	3,940	4,101	4,266	4,438
Interest	133	142	154	217	287	335	383	422	425	479
Subsidies	264	198	236	286	300	318	336	353	371	390
Other expense	235	290	384	305	335	354	374	393	413	434
Net acquisition of nonfinancial assets	**743**	**544**	**682**	**751**	**807**	**869**	**927**	**971**	**1,020**	**1,073**
Acquisition of nonfinancial assets	767	570	709	797	854	918	978	1,024	1,076	1,130
Foreign financed capital spending	144	99	88	70	100	120	135	138	145	152
Domestically financed capital spending	623	471	621	727	754	798	843	886	931	978
Disposal of nonfinancial assets	24	27	27	46	47	49	51	53	56	58
Gross/net operating balance (revenue - expense)	**151**	**510**	**457**	**367**	**275**	**309**	**367**	**448**	**557**	**626**
Net lending/borrowing (revenue - expenditure)	**-593**	**-33**	**-225**	**-384**	**-531**	**-559**	**-559**	**-522**	**-463**	**-447**
Net acquisition of financial assets	**-43**	**351**	**-33**	**-294**	**-39**	**198**	**120**	**170**	**243**	**258**
Domestic assets	-43	351	-33	-294	-39	198	120	170	243	258
Of which: Currency and deposits	-26	377	-101	-233	-6	220	137	182	251	261
Net incurrence of liabilities	**582**	**398**	**199**	**118**	**492**	**757**	**679**	**692**	**707**	**704**
Domestic liabilities, *of which:*	371	-380	184	671	117	428	585	745	724	722
Debt securities	333	-196	255	547	381	290	256	407	385	383
Loans	54	-44	-57	-69	-29	149	338	346	346	346
Foreign liabilities	211	777	15	-553	375	329	94	-53	-17	-17
Loans	224	9	15	-259	375	329	-69	-53	-17	-17
Drawings	440	247	278	148	756	787	423	414	431	449
Amortization	216	238	263	407	381	458	492	467	448	467
Other accounts payable	0	0	0	34	0	0	0	0	0	0
Statistical discrepancy / financing gap	**-32**	**-13**	**-7**	**-28**	**0**	**0**	**0**	**0**	**0**	**0**

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

Table 5e. Bosnia and Herzegovina: Republika Srpska—Statement of Central Government Operations, 2020-2029

(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			*Projections*			
Revenue	**2,874**	**3,231**	**3,774**	**4,284**	**4,668**	**4,960**	**5,279**	**5,573**	**5,849**	**6,168**
Taxes	1,733	1,995	2,360	2,621	2,895	3,085	3,298	3,490	3,660	3,868
Direct taxes	378	398	530	633	726	768	812	875	943	990
Indirect taxes	1,328	1,571	1,798	1,954	2,133	2,279	2,446	2,572	2,673	2,830
Other taxes	26	27	33	34	36	38	41	43	45	47
Social security contributions	935	1,022	1,176	1,352	1,496	1,583	1,673	1,759	1,848	1,942
Grants	49	18	29	45	20	20	21	22	24	25
For budget support	0	0	0	0	0	0	0	0	0	0
For investment projects	49	18	29	45	20	20	21	22	24	25
Other revenue	153	193	206	263	254	269	284	299	314	330
Expenditure	**3,410**	**3,443**	**4,152**	**4,631**	**5,122**	**5,420**	**5,736**	**6,010**	**6,253**	**6,558**
Expense	**3,218**	**3,275**	**3,976**	**4,374**	**4,841**	**5,102**	**5,380**	**5,635**	**5,858**	**6,143**
Compensation of employees	828	851	1,000	1,104	1,156	1,210	1,279	1,345	1,413	1,485
Use of goods and services	162	178	207	241	255	270	285	300	315	331
Social benefits	1,428	1,503	1,792	2,060	2,327	2,423	2,520	2,608	2,697	2,790
Interest	108	114	124	174	252	297	343	380	380	432
Subsidies	226	152	181	245	259	274	290	304	320	336
Transfers to other general government units	316	275	396	365	385	407	430	453	475	499
Other expense	150	202	275	185	208	220	233	245	257	270
Net acquisition of nonfinancial assets	**192**	**168**	**175**	**257**	**281**	**318**	**356**	**375**	**395**	**415**
Acquisition of nonfinancial assets	201	177	185	267	291	328	366	385	405	425
Foreign financed capital spending	46	34	33	12	46	69	92	96	101	106
Domestically financed capital spending	155	143	152	256	246	260	275	289	303	319
Disposal of nonfinancial assets	9	9	10	11	10	10	10	10	10	10
Gross/net operating balance (revenue - expense)	**-345**	**-44**	**-203**	**-89**	**-173**	**-142**	**-101**	**-62**	**-9**	**24**
Net lending/borrowing (revenue - expenditure)	**-537**	**-212**	**-378**	**-346**	**-454**	**-460**	**-457**	**-437**	**-404**	**-391**
Net acquisition of financial assets	**-75**	**223**	**-111**	**-193**	**37**	**297**	**222**	**255**	**303**	**314**
Domestic assets, *of which* :	-75	223	-111	-193	37	297	222	255	303	314
Currency and deposits	-33	256	-65	-120	66	278	163	187	227	229
Loans	-42	-18	-50	-61	-28	19	59	68	76	84
Equity and investment fund shares	28	2	0	1	0	0	0	0	0	0
Net incurrence of liabilities	**462**	**432**	**265**	**136**	**492**	**757**	**679**	**692**	**707**	**704**
Domestic liabilities, *of which* :	289	-356	209	678	117	428	585	745	724	722
Debt securities	317	-194	254	549	381	290	256	407	385	383
Loans	-4	-59	-51	-46	-29	149	338	346	346	346
Foreign liabilities	173	788	56	-542	375	329	94	-53	-17	-17
Loans	185	19	56	-213	375	329	-69	-53	-17	-17
Drawings	368	214	272	146	756	787	423	414	431	449
For budget support	331	1	217	59	603	548	98	72	72	72
For investment projects	37	213	55	88	153	239	325	342	359	377
Amortization	183	194	216	359	381	458	492	467	448	467
Other accounts payable	0	0	0	34	0	0	0	0	0	0
Statistical discrepancy	**-1**	**0**	**2**	**17**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:										
Net lending excl. externally-financed operations	-540	-197	-374	-380	-429	-412	-387	-363	-326	-310

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, 2019-2025

	2019	2020	2021	2022	2023	2024	2025
					Prel.	*Projections*	
Monetary Survey				*(Million KM, end of period)*			
Net foreign assets	13,949	16,014	19,111	19,272	20,536	21,183	22,008
Net domestic assets	12,207	12,004	12,394	13,968	15,229	16,934	16,920
Domestic credit	19,585	19,845	19,189	20,549	22,708	24,517	26,230
Claims on general government (net)	-172	591	-796	-509	131	768	1,106
Claims on public nonfinancial corporations	509	542	532	653	664	702	743
Claims on private sector	19,248	18,712	19,453	20,405	21,913	23,047	24,381
Other items (net)	-7,378	-7,841	-6,795	-6,581	-7,479	-7,583	-9,310
Broad money (M2)	26,156	28,017	31,505	33,240	35,765	36,795	37,589
Currency	4,330	5,044	5,533	6,126	6,543	5,735	6,113
Demand Deposits	8,744	9,780	12,384	13,752	15,061	11,886	11,699
Other Deposits	13,081	13,194	13,588	13,361	14,161	19,174	19,777
Time and savings deposits	2,998	3,035	3,044	2,879	2,890	7,668	7,547
Foreign currency deposits	10,083	10,159	10,544	10,483	11,271	11,506	12,230
Central Bank of the BIH (CBBH)							
Net Foreign Assets	12,625	13,895	16,375	16,094	16,316	16,485	17,259
Net Domestic Assets	-704	-665	-1,125	-686	-736	-778	-823
Base Money	11,120	12,305	14,448	14,931	14,670	15,181	15,686
Currency in circulation	5,200	6,172	6,924	7,436	7,565	7,057	7,452
Banks reserves	5,744	5,901	7,220	7,217	7,083	8,102	8,210
Other liabilities	177	232	305	278	22	23	24
Other items	802	926	800	485	918	529	754
Memorandum items:							
Monetary Survey				*(Annual percent change in terms of broad money)*			
Net foreign assets	6.2	7.9	11.1	0.5	3.8	1.8	2.2
Net domestic assets	2.9	0.8	-2.3	4.9	3.7	4.8	0.0
Domestic credit	4.2	1.0	-2.3	4.3	6.5	5.1	4.7
Claims on general government (net)	-0.9	2.9	-4.9	0.9	1.9	1.8	0.9
Claims on private sector	4.7	-2.0	2.6	3.0	4.5	3.2	3.6
				(Annual percent change)			
Broad money (M2)	8.7	7.1	12.4	5.5	7.6	2.9	2.2
Reserve money (RM)	6.9	10.7	17.4	3.3	-1.7	3.5	3.3
Credit to the private sector	6.3	-2.8	4.0	4.9	7.4	5.2	5.8
				(Percent)			
Credit to the private sector (in percent of GDP)	53.8	53.9	49.7	44.7	44.8	44.5	44.5
Broad money (in percent of GDP)	73.1	80.7	80.5	72.9	73.1	71.1	68.6
Central bank net foreign assets (in percent of reserve money)	113.5	112.9	113.3	107.8	111.2	108.6	110.1
				(Ratio)			
Velocity (GDP/end-of-period M2)	1.3	1.3	1.3	1.3	1.4	1.4	1.5
Reserve money multiplier (M2/RM)	2.4	2.3	2.2	2.2	2.4	2.4	2.4

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]	2023
Capital						
Tier 1 capital to total risk exposure	16.5	17.5	18.1	18.7	18.7	18.7
Total regulatory capital ratio	17.5	18.0	19.2	19.6	19.6	19.7
Financial leverage ratio (Tier 1 capital to assets)	10.4	10.5	10.2	10.0	9.9	10.1
Quality of assets						
Non-performing loans to total loans	8.8	7.4	6.1	5.8	4.5	3.8
Non-performing loans net of provisions to capital	11.4	9.6	7.4	7.0	4.7	3.8
Provisions to non-performing loans	77.4	77.0	78.4	78.4	81.4	81.7
Profitability						
Return on assets	1.3	1.4	0.7	1.3	1.6	2.0
Return on equity	8.5	9.1	5.6	9.6	12.0	15.0
Net interest income to gross income	58.8	56.8	56.0	59.2	56.6	63.3
Non-interest expenses to gross income	63.2	63.6	65.5	60.1	55.7	52.6
Liquidity						
Liquid assets to total assets	29.3	29.2	28.6	30.7	30.5	29.0
Liquid assets to short-term financial liabilities	60.4	61.0	51.3	51.3	48.4	47.2
Short-term financial liabilities to total financial liabilities	57.2	56.2	65.4	68.8	72.6	71.1
Foreign exchange risk						
Foreign currency and indexed loans to total loans	56.7	53.9	53.9	50.2	43.3	37.6
Foreign currency liabilities to total financial liabilities	53.3	50.7	48.1	44.4	42.5	41.2
Net open position in foreign exchange to capital	2.1	3.4	4.2	4.0	1.0	1.5

Source: CBBH.

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

Annex I. Implementation of 2023 Article IV Recommendations

IMF recommendations	Policy actions
Fiscal policy: restrain the fiscal expansion to contain inflationary and financing pressures	
Identify possible savings in current spending for 2023 and avoid cuts to already-low, growth-enhancing public investment. Contain public sector wages and avoid extraordinary pension increases.	**Not implemented.** There were extraordinary pension increases in FBiH, while RS increased and expanded the coverage of war veterans' allowances. Execution of public investment in FBiH is very low.
Strengthen project implementation and monitoring and improve the efficiency of public procurement.	**Partially implemented.** A PIMA mission to FBiH, RS, state institutions, and Brčko district identified several shortfalls in procurement procedures.
Improve targeting of social programs by i) developing registries of beneficiaries (at the entity level); ii) extending coverage as needed; and iii) reviewing and improving targeting.	**Not implemented.** The lack of comprehensive and updated social registries in both entities remains an obstacle for better targeting.
Establish a transparent and obligatory data exchange between tax administrations. Implement risk analysis recommendations. FBiH to modernize its tax administration.	**Partially implemented.** Data exchange is taking place in an orderly manner, while FBiH still has a lot to do to modernize its tax administration and implement risk analysis recommendations.
Maintain a single VAT rate and avoid fuel excise cuts.	**Implemented.** Multiple VAT rates were not introduced and there were no fuel excise cuts.
CBA and financial sector policies: strengthen the CBA and the reserve requirement framework	
Continue to use quantitative models to test the impact of different policy parameters on the coverage ratio and central bank's balance sheet.	**Implemented.** CBBH is using quantitative models provided through TA to test the impact of different policy parameters on the coverage ratio and its balance sheet.
Increase the CBBH remuneration rate on banks' excess reserves to narrow the gap with the ECB deposit rate.	**Not implemented.** CBBH has only marginally increased the remuneration rate on banks' excess reserves.
Fully implement the new reserve requirement framework. Maintain the current practice of reserve averaging.	**Implemented.** CBBH implemented the fulfillment of reserve requirements for FX deposits in FX in January 2024, with partial fulfillment in the first nine months. The current practice of reserve averaging was maintained.
Allow domestic interest rates to rise to help contain inflation and reduce the risk of capital outflows.	**Not implemented.** The banking agencies' temporary decisions to limit the increase of lending rates were extended until June 2024.
Closely monitor banks' liquidity positions, request updated recovery plans, strictly enforce prudential requirements, and monitor the timely recognition of impaired assets.	**Implemented.** The banking agencies are closely monitoring banks. RS banking agency did not extend its decision to allow banks to recognize revaluation losses only partially on certain government securities into 2024.

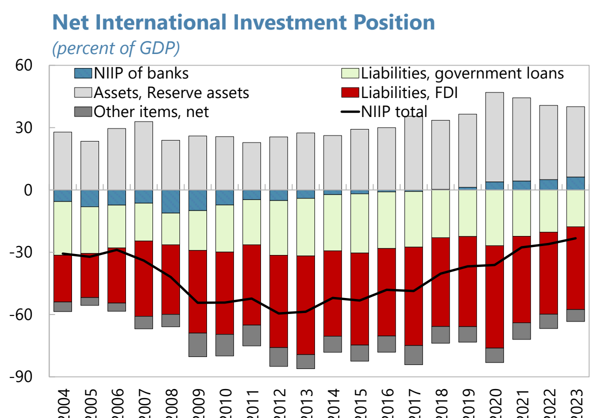
IMF recommendations	Policy actions
Establish a Financial Stability Fund (FSF).	**Not implemented.** The authorities disagree over whether an FSF should be established at the state level or separately at the entity level.
Enhance coordination among state- and entity-level authorities by holding regular 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.
Governance and transparency: strengthen public enterprise oversight and governance	
Pass the new AML/CFT law, which brings it in line with international standards.	**Implemented.** The new AML/CFT law was adopted in February 2024.
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 enterprise governance.	**Not implemented.** In RS, the PE oversight unit has started its operations, but activities are mostly limited to development of a software solution for exchanging data. In FBiH the unit has not started operations.
Other structural policies and reforms	
Increase electricity prices while protecting the most vulnerable.	**Partially implemented.** RS implemented a block tariff, while FBiH is considering doing the same.
Take immediate action to prepare for CBAM and accelerate efforts to decarbonize.	**Not implemented.** The authorities have not taken steps toward mitigating the impact of CBAM on exports. In August 2023, the FBiH government adopted laws on Energy and Regulation of Energy Activities, Electricity of the FBiH, and the Use of Renewable Energy Sources.
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 supervisory body for trust service providers should reside at the state level, as required by EU legislation, or at the entity level.
Expand childcare, improve public education and vocational training, and encourage flexible employment.	**Not implemented.** There were no changes to legislation or policies in this area.

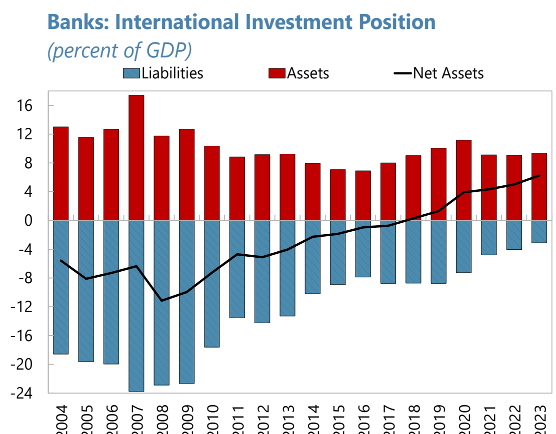
Annex II. External Sector Assessment

Overall Assessment:[1] *The external position of BiH in 2023 is estimated to have been moderately stronger than the level implied by fundamentals and desirable policies. Lower oil prices, a decline in energy import volumes, and strong income on international reserves helped to improve the current account balance in 2023. However, this trend is expected to reverse, and the current account deficit is projected to increase over 2024-25, reflecting higher interest payments on public debt and increasing domestic demand. Gross international reserves have been broadly stable in nominal terms but slowly declining in relative terms since 2021, falling below adjusted reserve-adequacy metrics but staying above the traditional reserve-adequacy thresholds. External risks are moderate, related to continuation of capital outflows, the ability of RS and FBiH to secure budget financing, and delays in bilateral and multilateral project loans and grants disbursements. In the medium term, the external position will be affected by the introduction of the EU Carbon Border Adjustment Mechanism (CBAM) and the ability of BiH to secure an exemption for electricity exports and to adjust in other affected sectors.*

Potential Policy Responses: *Tepid external demand for BiH exports amid projected global fiscal consolidation will help close the positive current account gap and bring the BiH external position in line with the level implied by fundamentals and desirable policies. In this context, BiH authorities should avoid relaxation of fiscal policies and any adjustments of wages that might jeopardize the economy's competitiveness. Increasing CBBH remuneration rates on bank reserves could help mitigate further capital outflows and foster additional accumulation of international reserves, which would provide an important buffer to address potential shocks. Structural reforms, including improving governance and strengthening 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. Policies advancing decarbonization and energy market reforms are needed to support key export sectors in the context of CBAM introduction.*

Foreign Assets and Liabilities: Position and Trajectory





Sources: Authorities and IMF staff calculations.

Background. The net international investment position (NIIP) has been improving gradually since 2012, reaching -23.4 percent of GDP at end-2023. The improvement largely reflects continuous increase in banks' NIIP over the period (with recent acceleration in search of higher yields abroad), accumulation of international reserves before the pandemic, and reduction in general government's loans over the last three years. FDI liabilities remained broadly stable since 2012, with small decline in 2021-22.

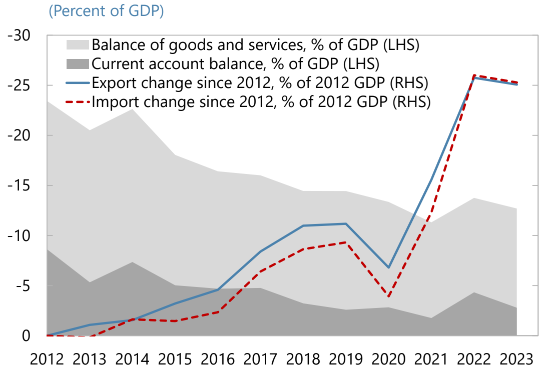
Assessment. The NIIP implies low risks to external sustainability and leaves space for the needed pick up in foreign project loans and a potential increase in foreign budget financing. Going forward, capital outflows from the banking sector are expected to moderate, which could, together with higher government liabilities, contribute to a slight deterioration in the NIIP.

2023Q4 (% GDP)	NIIP: -23.4	Gross Assets: 58.9	Debt Assets: 22.2	Gross Liab.: 82.4	Debt Liab.: 50.0

Current Account

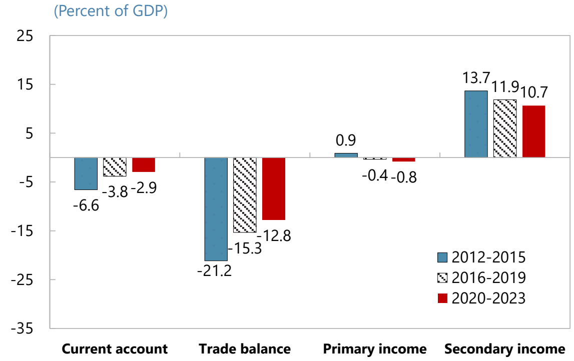
Background. The narrowing current account (CA) deficit trend after 2012, driven by improvement in the balance of goods and services, was a key driving factor behind the NIIP increase and accumulation of international reserves. The CA deficit to GDP ratio gradually declined by 6 percentage points over 2013-19 and remained broadly stable thereafter. In 2023, the CA deficit reached 2.8 percent of GDP, which is 1.5 percentage points below the 2022 level. The key factors behind the current account improvement in 2023 were a decline in trade deficit, reflecting a reduction in international oil prices and a decline in import volumes of some energy products (which is likely to be temporary), and an increase in the primary income due to higher yield on international reserves.[2] On the other hand, the balance of services and secondary income saw a small decline as percent of GDP. Staff expects an increase of the current account deficit over 2024-25 toward 3.9 percent of GDP, reflecting higher interest payments on public debt, increasing domestic demand, and some reduction of net services exports from the recent peak. In the medium term, efforts to secure an exemption from the CBAM for electricity exports, speed-up decarbonization, and adjust by moving up the production values chains and diversifying markets, are important to minimize the impact of CBAM on key BIH exports (SIP on energy).

Current Account and Trade Dynamics
(Percent of GDP)



Sources: Authorities and IMF staff calculations.

Current Account and Components
(Percent of GDP)



Sources: Authorities and IMF staff calculations.

Assessment. Staff assesses that the external position of BiH in 2023 was moderately stronger than the level implied by fundamentals and desirable policies. The EBA-lite CA model estimates a CA norm for BiH at -4.1 percent of GDP. Applying cyclical adjustment, leads to an adjusted CA of -2.6 percent of GDP. This implies a CA gap of 1.5 percent of GDP, or a real effective exchange rate (REER) undervaluation of 4.7 percent. The positive CA gap can be largely explained by the policy gap of 1.5 percent to GDP, including from fiscal policy (0.9 percent) and public health spending (1.0 percent), with negative effect from the reserve accumulation needs (-1.3 percent), among other factors.

Bosnia and Herzegovina: CA and IREER Model Estimates for 2023 (in percent of GDP)

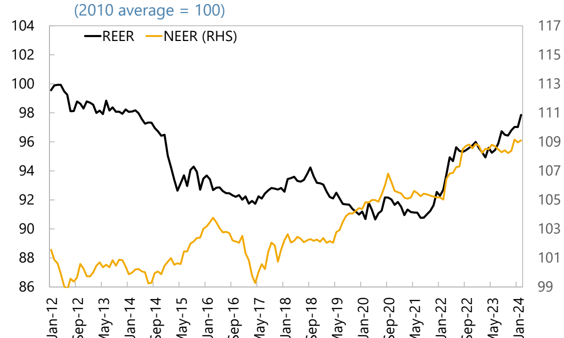
	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-2.8**	
Cyclical contributions (from model) (-)	-0.2	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-2.6**	
CA Norm (from model) 2/	**-4.1**	
Adjusted CA Norm	**-4.1**	
CA Gap	**1.5**	**3.8**
o/w Relative policy gap	1.5	
Elasticity	-0.3	
REER Gap (in percent)	**-4.7**	**-11.7**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The REER appreciated in 2022, reflecting a stronger Euro and an increase in the nominal effective exchange rate (NEER), and continued to appreciate in the second half of 2023 as BiH inflation was higher relative to its main trading partners.

Real and Nominal Effective Exchange Rates
(2010 average = 100)



Sources: Authorities and IMF staff calculations.

Assessment. EBA-lite Index Real Effective Exchange Rate (IREER) model shows a significant REER gap for 2023, with an undervaluation of REER estimated at 11.7 percent. This implies a CA gap of 3.8 percent according to the IREER model. While the IREER model therefore shows a stronger external position than fundamentals and desired policies, the REER gap is expected to narrow as inflation eases further in the next few years. Also, staff views IREER model's results as less reliable and sensitive to the modeling assumption of REER remaining close to equilibrium on average.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net financial inflows shrunk in 2023 to 1.2 percent of GDP. This is due to significant outflows from the banking sector (in the form of currency and deposits, loans, and portfolio investments), as well as slow disbursement of external project loans and external budget financing. Net FDI flows have been robust since 2021, while their increase in 2023 from 3 to 3.3 percent of GDP reflects a shift in debt instruments (as some external loans were transformed into FDI debt).

Assessment. For 2024, staff projects higher financial inflows, mostly due to higher expected RS and FBiH external borrowing (which includes World Bank DPL, EU growth plan financing, and additional financing in the form of loans and Eurobond), a modest increase in expected project loan disbursements, and stabilization of banks' capital outflows under the assumption of increased remuneration of excess reserves. FDI flows are expected to continue roughly at the same level. Risks related to capital flows are moderate and stem primarily from potential continued outflow of funds from the banking sector, the ability of RS and FBiH to secure external budget financing in 2024, and potential implementation delays or political obstacles to disbursements of bilateral and multilateral project loans and grants. Increasing CBBH remuneration rate on bank reserves, while allowing other domestic interest rates to rise to reflect market conditions, could stabilize capital flows and foster accumulation of international reserves.

FX Reserves

Background. Gross international reserves (GIR) were estimated at €8.3 billion at end-2023 (about 33.3 percent of estimated 2023 GDP). A small increase in nominal reserves in 2023 was driven by the current account improvement, despite the decline in net financial inflows.

Reserve Adequacy Ratios for Bosnia and Herzegovina, 2023 1/

	Minimum threshold	Gross reserves 2023Q4
Reserve/STD (percent)2/	100	204.7
Reserve/Months of prospective import goods and services 3/	3	6.7
Reserve/Broad money (percent) 4/	-	45.6
Reserves/ARA metric (percent) 5/	100	113.4
Reserves/Adjusted ARA metric (percent) 5/	100	98.7

1/ Based on Latest IIP data from the fourth quarter of 2023.
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. Official reserve coverage has decreased but is estimated to stay above the standard thresholds of reserve adequacy metrics in 2023. GIR at end-2023 are estimated at about 6.7 months of prospective imports of goods and services, 45.6 percent of broad money, and 204.7 percent of short-term debt at remaining maturity. According to the traditional IMF reserve adequacy metric, the reserve coverage is estimated at 113.4 percent, above the minimum suggested level of 100 percent. At the same time, official reserves fell slightly below the *adjusted* ARA metric, with the latter accounting for the significant role of remittances in BiH and allowing for higher coverage ratio to protect the currency board arrangement (CBA).[3] The stability of the CBA relies on sufficient FX reserves, since the central bank can only issue base money in exchange for FX and has no access to Eurosystem liquidity support lines. It would be therefore prudent to build higher reserve buffers, when possible, to strengthen the stability of the CBA.

[1] The external sector assessment is based on 2023 data.

[2] Large decline of metal export amid lower prices and lower production was largely offset with decline in metal imports.

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

Annex III. Risk Assessment Matrix[1]

(Scale—high, medium, or low)			
Source of Risks	**Relative Likelihood**	**Impact If Realized**	**Recommended Policy Response**
Global conjunctural risks			
Intensification of regional conflicts. Commodity price volatility.	**High**	**High** • Further slowdown in BiH exports to Europe and decline in remittance inflows dampening domestic demand and widening the current account deficit. • Rising uncertainty discouraging FDI and private sector investment. • A renewed surge in energy and commodity prices pushing up inflation and reducing growth prospects. • Lower/no access to financial markets and higher financing costs.	• Accelerate reforms to improve targeting of social assistance. Avoid permanent non targeted support; focus on temporary targeted support to the most vulnerable. • Accelerate structural governance reforms to encourage private sector investment. • Improve public spending composition and efficiency, including project implementation. • Implement critical reforms to mobilize additional official financing.
Abrupt global slowdown.	**Medium**	**High** • Further slowdown in BiH exports to Europe and decline in remittance inflows dampening domestic demand and widening the current account deficit. • Lower/no access to financial markets and higher financing costs.	• Accelerate structural and governance reforms to encourage private sector investment. • Support economic activity by scaling up public sector investment and enhancing public spending efficiency. • Implement critical reforms to mobilize additional official financing.
Global structural risks			
Deepening geoeconomic fragmentation.	**High**	**High/Medium** • Declining BiH exports, remittance inflows, and FDI, and weaker growth prospects.	• Accelerate structural and governance reforms. • Engage with international partners.

[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.

(Scale—high, medium, or low)			
Source of Risks	**Relative Likelihood**	**Impact If Realized**	**Recommended Policy Response**
		• Possible loss of critical donor support, delaying key infrastructure investments and rising borrowing costs.	
Country-specific risks			
Escalation of domestic political tensions blocking economic policy and reforms.	**Medium**	**Medium/High** • Rising uncertainty lowering investor confidence and discouraging FDI and private sector investment. • Increased economic fragmentation weakening growth prospects. • Halting of IFI support and bilateral project financing. • Delays on the EU path.	• Prioritize mutually agreed reforms pending resolution of disagreements. • Revitalize reform momentum through compromise and focus on common interest. • Seek to advance reforms to move the country forward on the EU path and invigorate wider EU support.
Capital outflows and financial instability, including from sanctions on banks, and delays in domestic interest rate adjustment or related to crypto assets.	**Medium**	**High** • Declining confidence in the banking system threatening financial stability. • Higher capital outflows further reducing bank credit.	• Monitor closely bank liquidity positions and obtain updated recovery plans. • Allow interest rates to rise. • Enforce strictly prudential requirements, including capital adequacy, loan-loss provisioning, and related-party exposures and governance. • Finalize regulatory framework for virtual assets. • Enhance cooperation among key financial sector stakeholders. • Create a single financial stability fund.
Delays in reforms required for CBAM exemption.	**High**	**Medium** • Loss of competitiveness and decline in exports of electricity and other carbon intense goods. • Decline in potential growth and employment.	• Increase electricity prices to encourage efficient energy consumption and savings. • Speed up reforms to couple BiH's electricity market with the EU's including carbon pricing/ETS. • Implement reforms to maintain competitiveness in other exporting industries.

(Scale—high, medium, or low)			
Source of Risks	**Relative Likelihood**	**Impact If Realized**	**Recommended Policy Response**
			• Accelerate development of renewables, including through legal reforms.
Fiscal policy expansionary beyond 2024 undermining medium-term sustainability	Medium	Medium • Untargeted, permanent increases in current spending reducing fiscal space and crowding out public sector investment. • Increase in domestic and external financing pressures raising government borrowing costs and threatening fiscal and external sustainability. • Rising inflationary pressures threatening macroeconomic stability, eroding real incomes, and weakening growth prospects.	• Curb current spending and rebuild fiscal buffers, informed by accelerated reviews of public employment, wages, and social benefits. • Enhance public spending composition and efficiency including through enhanced project implementation and procurement. • Implement reforms to mobilize additional official financing.
Progress on the EU accession path providing a reform boost	Medium	High • Accelerated economic and structural reforms boosting confidence and encouraging higher FDI and private sector-led investment and growth. • Improved external competitiveness boosting goods exports. • Mobilization of additional external concessional project financing further boosting public sector investment and growth	• Strengthen macroeconomic policy coordination and advance reforms to speed up convergence with EU. • Take advantage of the reform momentum to tackle more difficult reforms.

Annex IV. Public Debt Sustainability Analysis

Table AIV.1. Bosnia and Herzegovina: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	BIH's overall risk of sovereign stress is moderate, reflecting rising financing pressures, also from rising financing costs, even against the backdrop of low debt to GDP. In addition, there are gaps in debt coverage, especially for SoE debt.
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 but financial risks are 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 sovereign risks are increasing. The overall level of debt is low but rising, and financing pressures are mounting which could lead to liquidity stress. This, together with tighter financial conditions and rising financing costs, suggest moderate risks to BiH. Alternative stress tests also 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. Domestic financing is driven by banks and insurance companies and has become costlier recently as higher foreign interest rates pass through to domestic rates. Domestic absorption of financing needs may be limited in the medium term as demand is receding. 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.

Table AIV.2. 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:						

CPS / NFPS / GG: expected / CG		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/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	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

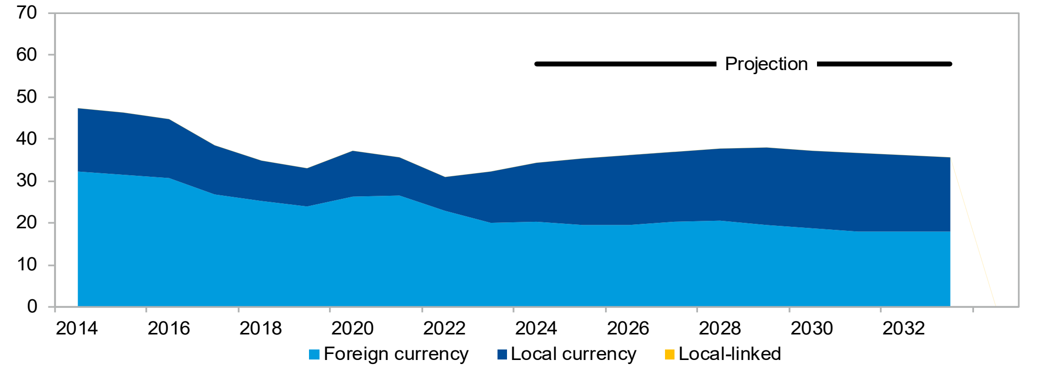
		Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS, NFPS, GG: expected, CG	1	Budget. central govt									0
CPS, NFPS, GG: expected, CG	2	Extra-budget. funds									0
CPS, NFPS, 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 owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (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 were 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 general government and includes local and state government debt. SoEs' debt guaranteed by the gentral government is also included. We use CBBH data which also includes some SoE debt not guaranteed by the state. We add the SDR allocation to the CBBH data which does not report it. The FBIH data set has domestic debt for state and municipal domestic debt and data for the FBIH highway company. The RS includes domestic debt of SoEs in the MoF data only in the case where the government issues guarantees or if the government transfers the loan to the SoE.

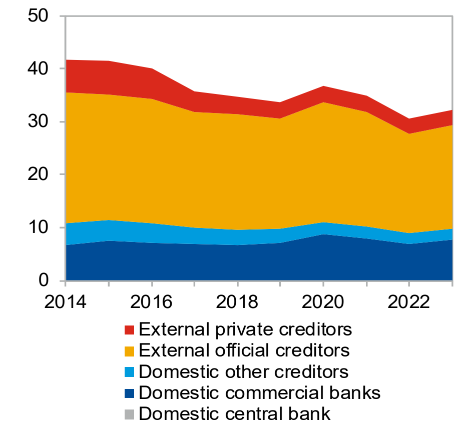
Figure AIV.1. Bosnia and Herzegovina: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



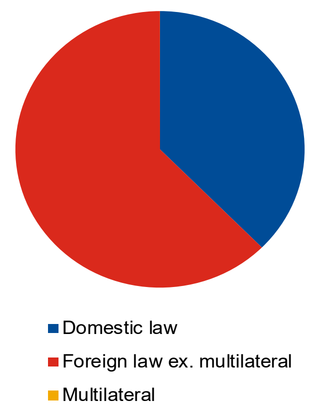
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



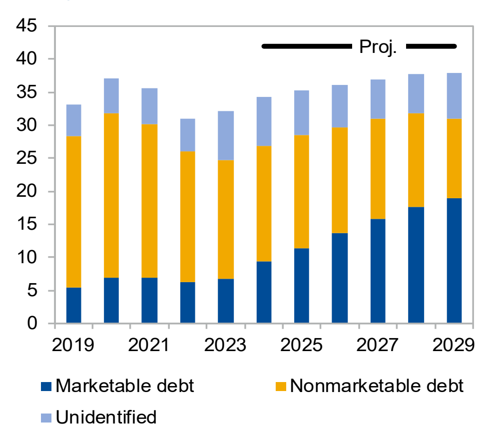
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



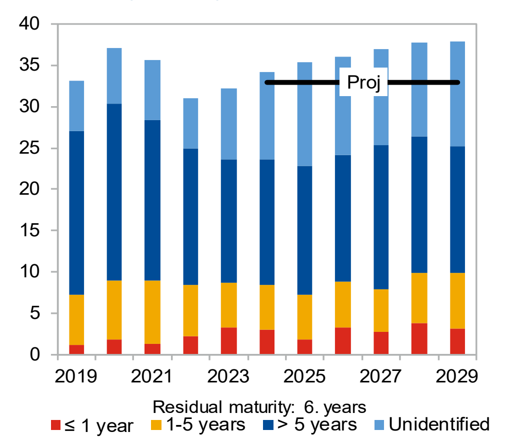
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: Debt to GDP is expected to increase in the medium term but remain below 40 percent, with an increase in the share of domestic debt. External debt is expected to be driven by official creditors and possibly some bilateral loans especially in the RS. 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.

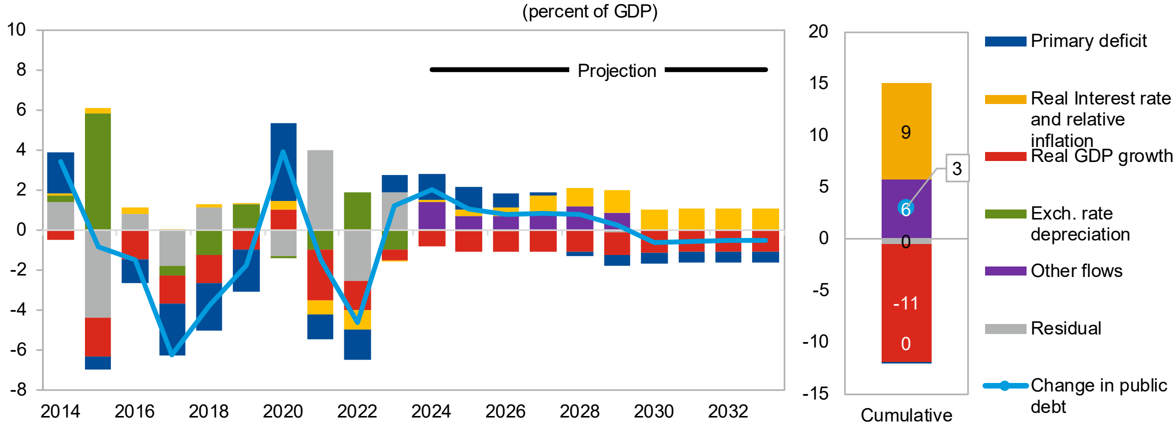
Figure AIV.2. Bosnia and Herzegovina: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual		Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	31.0	32.2	34.2	35.3	36.1	36.9	37.7	38.0	37.3	36.8	36.2	35.7
Change in public debt	-4.6	1.2	2.0	1.1	0.8	0.8	0.8	0.2	-0.6	-0.6	-0.5	-0.5
Contribution of identified flows	-2.1	-0.7	2.0	1.1	0.8	0.9	0.8	0.4	-0.6	-0.6	-0.5	-0.5
Primary deficit	-1.5	0.8	1.3	1.1	0.7	0.2	-0.2	-0.6	-0.6	-0.5	-0.5	-0.5
Noninterest revenues	39.6	40.8	41.4	41.1	41.1	41.2	41.3	41.3	41.3	41.3	41.3	41.3
Noninterest expenditures	38.0	41.6	42.7	42.2	41.8	41.4	41.0	40.8	40.8	40.8	40.8	40.8
Automatic debt dynamics	-0.5	-1.5	-0.7	-0.7	-0.6	-0.3	-0.2	0.1	-0.1	0.0	0.0	0.0
Real interest rate and relative inflation	-1.0	0.0	0.1	0.3	0.4	0.8	0.9	1.2	1.0	1.1	1.1	1.1
Real interest rate	-3.0	-0.7	-0.1	0.2	0.3	0.7	0.9	1.0	1.0	1.1	1.1	1.1
Relative inflation	2.0	0.7	0.2	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Real growth rate	-1.4	-0.5	-0.8	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Real exchange rate	1.9	-1.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.0	1.4	0.7	0.7	0.9	1.2	0.9	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	1.4	0.7	0.7	0.9	1.2	0.9	0.0	0.0	0.0	0.0
Contribution of residual	-2.5	1.9	0.1	-0.1	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Gross financing needs	1.6	5.0	5.7	7.3	8.7	10.0	9.9	9.7	9.5	10.7	8.7	8.8
of which: debt service	3.1	4.2	4.4	6.2	8.0	9.9	10.1	10.2	10.1	11.2	9.2	9.3
Local currency	1.1	1.3	1.8	3.5	5.4	7.3	7.3	6.3	7.0	7.2	7.4	7.4
Foreign currency	2.1	2.9	2.7	2.7	2.6	2.6	2.9	3.9	3.1	4.0	1.8	1.9
Memo:												
Real GDP growth (percent)	4.2	1.7	2.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Inflation (GDP deflator; percent)	11.8	5.5	3.2	2.7	2.6	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	16.5	7.3	5.7	5.8	5.7	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Effective interest rate (percent)	2.0	3.1	2.9	3.4	3.6	4.2	4.5	4.8	4.8	5.0	5.1	5.1

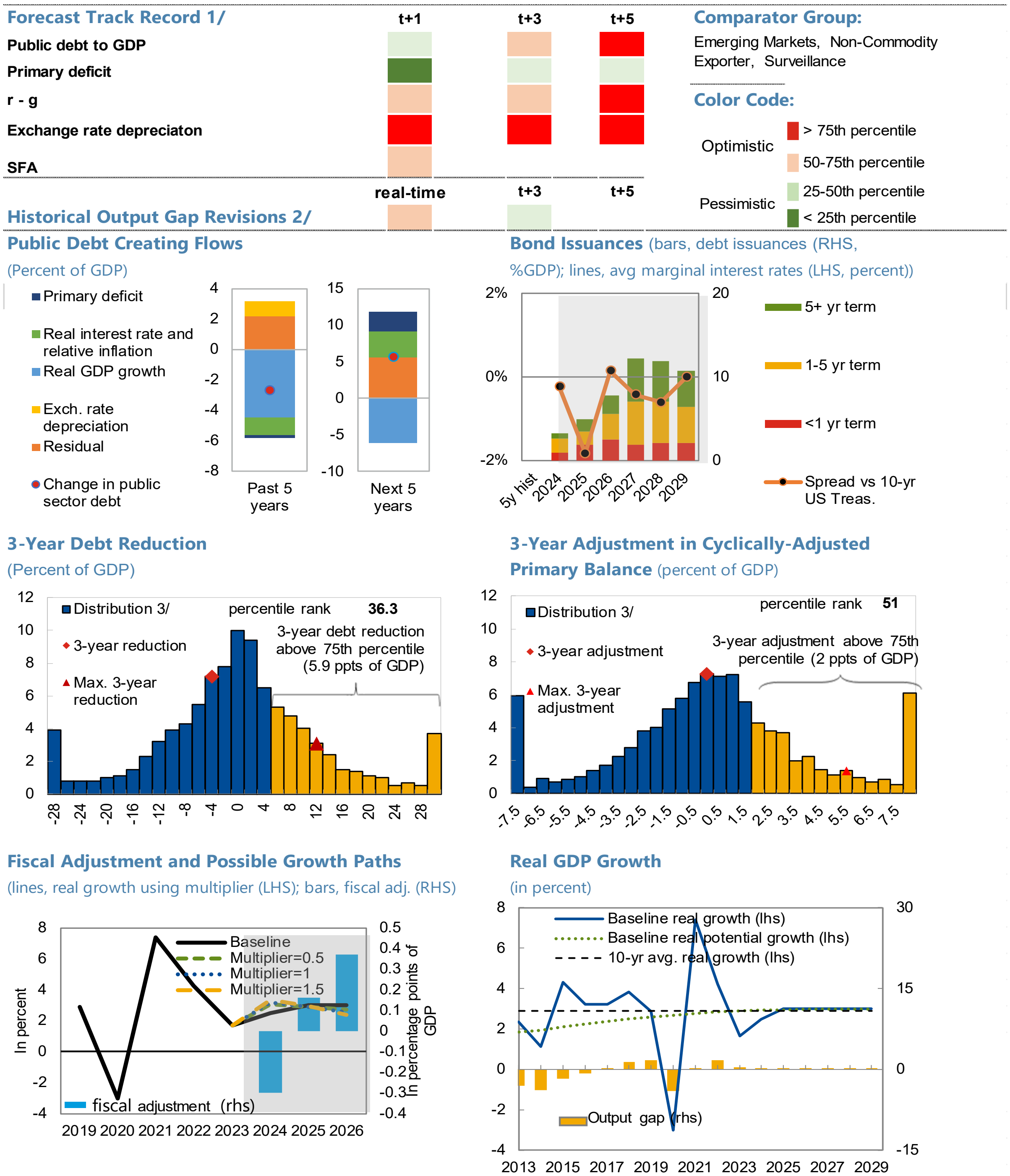
Contribution to Change in Public Debt

(percent of GDP)



Staff commentary: Debt has been stable in recent years at around 30 percent of GDP. However, recent expansionary fiscal policy is expected to increase the debt level in the medium term, up to 38 percent, and, assuming a return to fiscal surplus over the medium term, decreasing marginally towards 36 percent in the outer years. Higher current spending will continues to weigh on entity budgets. The largest driver of debt dynamics over the projection horizon is the real interest rate and relative inflation. The two entities showed diverging fiscal paths in past years, but recently they have both faced increasing financing pressures. Both entities are planning large debt issuances this year, from both domestic and external sources.

Figure AIV.3. 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 2024, and 2026.

Source : IMF Staff.

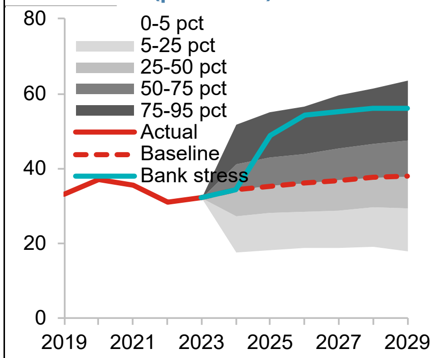
1/ Projections made in the October and April WEO vintage.

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

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

Figure AIV.4. Bosnia and Herzegovina: Medium Term Assessment

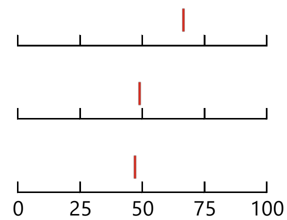
Final Fanchart (pct of GDP)



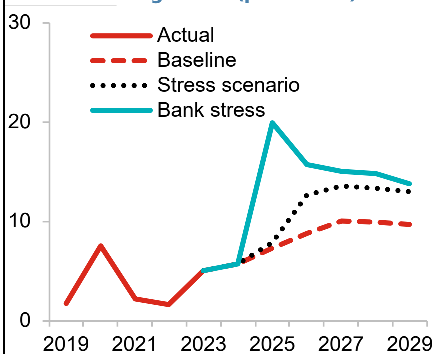
Debt fanchart module

	Value	Contrib [1/]
Fanchart width *(percent of GDP)*	45.4	0.7
Probability of debt non-stabilization *(percent)*	17.8	0.1
Terminal debt-to-GDP x institutions index	28.7	0.6
Debt fanchart index (DFI)		1.4
Risk signal: [3/]		**Moderate**

Percentile in peer group [2/]



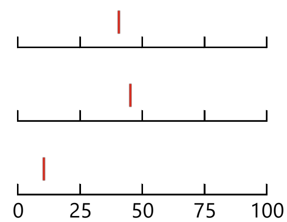
Gross Financing Needs (pct of GDP)



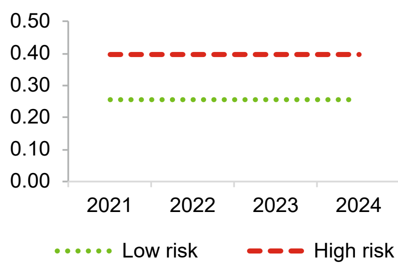
Gross financing needs (GFN) module

	Value	Contrib [1/]
Average baseline GFN *(percent of GDP)*	8.6	2.9
Banks' claims on the gen. govt *(pct bank assets)*	8.5	2.8
Chg. In banks' claims in stress *(pct banks' assets)*	2.6	0.9
GFN financeability index (GFI)		6.6
Risk signal: [4/]		**Low**

Percentile in peer group [2/]



Medium-term Index (index number)



Medium-term risk analysis

	Value	Weight	Contribution
Debt fanchart index (normalized)	0.3	0.5	0.2
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, 2024-2029, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 48.9 pct.

The fanchart analysis estimates risks to be moderate. In a banking 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. The risk signal to GFN is low. Baseline GFN steadily increase throughout the projection period, stabilizing in the outer years.

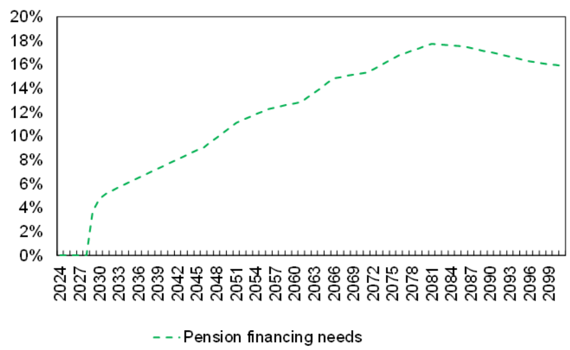
Source: IMF staff estimates and projections.
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging market, non-commodity exporting countries, with Fund-supported programs.
3/ The 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.

Figure AIV.5. Bosnia and Herzegovina: Long-Term Risk Analysis

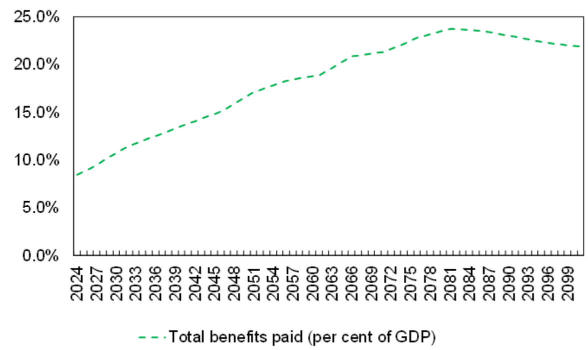
Demographics: Pension

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%

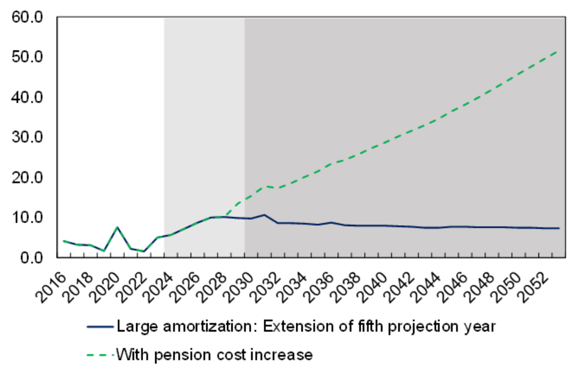
Pension Financing Needs



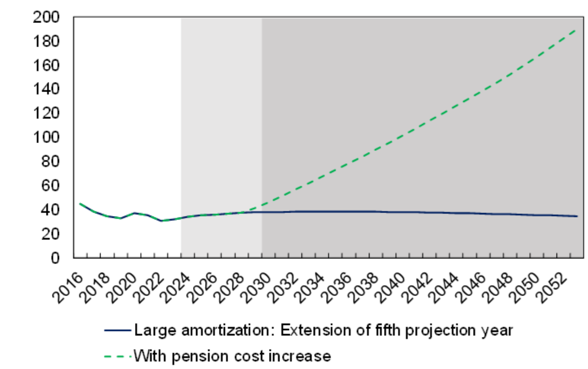
Total Benefits Paid



GFN-to-GDP Ratio

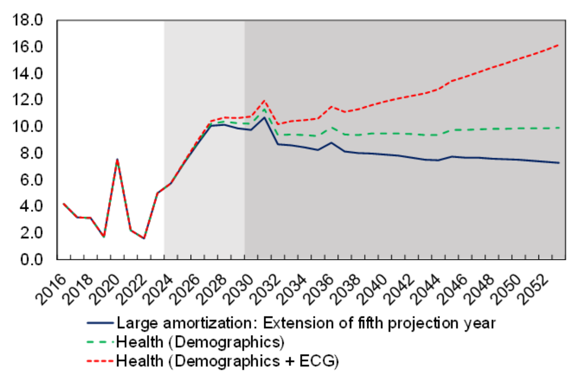


Total Public Debt-to-GDP Ratio

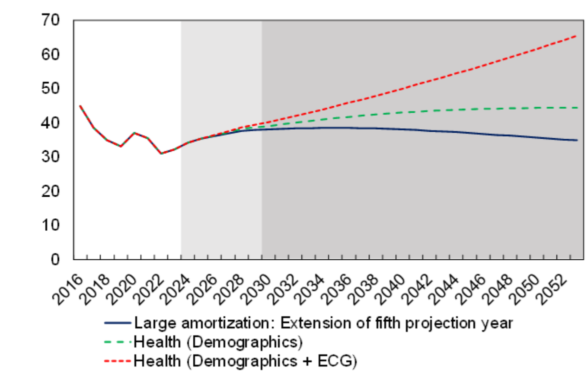


Demographics: Health

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Annex V. External Debt Sustainability Analysis

Bosnia and Herzegovina's external debt is assessed to be sustainable over the medium term. Following a peak in 2020 due to COVID-related financing and the fall in GDP, the external debt-to-GDP ratio is on a declining path. After a decline in 2023, gross external financing needs to GDP are projected to gradually increase in 2024-25. In these circumstances, there is room to increase IFI financing of important domestic projects, which are needed to boost investment and growth potential.

1. **Total external debt is expected to gradually decline over the medium term.** Total external debt, which covers public and private external debt, has decreased in GDP terms since its peak in 2020, with broad declines in external government loans, external deposits of banks, and debt of non-financial companies. Total external debt fell from 68.2 percent to GDP at end-2020 to 50.0 percent of GDP at end-2023 and is expected to gradually decrease toward 46.2 percent of GDP in 2029. Gross external financing needs decreased from 19.7 percent of GDP in 2022 to 18.6 percent of GDP in 2023, and are projected to increase back to 19.7 percent of GDP in 2024-25, with Eurobonds maturing in 2026**.**

2. **Structure.** As of end-2023, 79 percent of BiH's external debt was medium- or long-term, with 41 percent comprised by the public sector, 33 percent by the non-financial sector (mostly loans and FDI debt between companies), and 4 percent by banks. Short-term external debt was comprised largely by the private sector, mostly in the form of trade credits (13 percent of total external debt), short-term loans of non-financial companies (5 percent) and bank deposits (2 percent). About 96.2 percent of BiH's public external debt is held by official creditors and 3.8 percent by private creditors, which includes the Eurobonds.

3. **The downward path of the external debt-to-GDP ratio is driven by net FDI inflows and other factors in the absence of significant external imbalances.** Real GDP growth is projected to pick up to 2.5 percent in 2024 and to 3 percent in the medium-term, but its contribution to debt decline is more than offset by upward pressure of interest payments. Sustained net FDI inflows are projected to put downward pressure on debt, while contained current account deficits will put similar-in-size upward pressure. With other factors, including price and exchange rate changes, contributing to the downward pressure, the external debt-to-GDP ratio is projected to decrease on average by 0.6 percentage points annually over the medium-term.

4. **The external debt path is only marginally affected by standardized shocks**, except for a depreciation shock scenario. A 30 percent real KM depreciation in 2025 would cause the external debt-to-GDP ratio to increase to 72.4 percent of GDP (Figure 1).

5. **Given the decreasing external debt-to-GDP ratio, there is room to increase IFI financing to boost investment and growth potential.** While a declining medium-term path of the external debt and stable gross financing needs imply less concerns regarding the sustainability of external debt, such path is also a result of relatively slow IFI project loans disbursements in 2023 and expected modest disbursements of these loans in the next five years. Minimizing obstacles and improving the take-up of IFI financing going forward is key to avoid a suboptimal investment path and growth potential.

Table AV.1. Bosnia and Herzegovina: External Debt Sustainability Framework, 2017 – 2029

(In percent of GDP, unless otherwise indicated)

	Actual									Projections							
	2017	2018	2019	2020	2021	2022	2023			2024	2025	2026	2027	2028	2029		Debt-stabilizing non-interest current account 6/
Baseline: External debt	70.1	62.7	62.5	68.2	54.8	52.1	50.0			**49.4**	**48.7**	**48.0**	**47.4**	**47.0**	**46.2**		-2.9
Change in external debt	3.1	-7.4	-0.2	5.7	-13.4	-2.7	-2.1			-0.6	-0.6	-0.7	-0.6	-0.4	-0.8	0.0	
Identified external debt-creating flows (4+8+9)	-2.2	-7.2	0.8	1.5	-13.9	-0.1	-4.5			-0.3	0.1	0.3	0.3	0.3	0.3	0.0	
Current account deficit, excluding interest payments	3.9	2.5	1.8	2.0	1.1	3.5	1.5			1.8	2.1	2.1	2.0	2.1	2.1	2.9	
Deficit in balance of goods and services	16.0	14.5	14.4	13.4	11.3	13.8	12.8			13.0	13.4	13.5	13.5	13.6	13.4		
Exports	40.6	41.9	40.0	34.7	42.5	48.2	44.2			43.6	43.6	43.5	43.4	43.3	42.9		
Imports	56.6	56.4	54.5	48.1	53.8	62.0	56.9			56.6	57.0	57.0	56.9	56.9	56.3		
Net non-debt creating capital inflows (negative)	-2.5	-3.0	-1.8	-2.2	-5.7	-2.5	-2.5			-2.4	-2.4	-2.3	-2.3	-2.3	-2.3	-2.3	
Automatic debt dynamics 1/	-3.5	-6.6	0.8	1.7	-9.3	-1.1	-3.5			0.3	0.4	0.6	0.7	0.6	0.5	-0.6	
Contribution from nominal interest rate	0.9	0.8	0.8	0.9	0.6	0.8	1.3			1.5	1.8	2.0	2.0	1.9	1.9	1.8	
Contribution from real GDP growth	-2.0	-2.4	-1.8	1.9	-4.3	-2.2	-0.8			-1.2	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3	
Contribution from price and exchange rate changes 2/	-2.4	-5.0	1.8	-1.1	-5.6	0.3	-4.1			...	...	...	...	...	...	-1.1	
Residual, including change in gross foreign assets (2-3) 3/	5.2	-0.2	-1.0	4.2	0.5	-2.6	2.4			-0.3	-0.7	-1.1	-0.9	-0.7	-1.2	0.0	
External debt-to-exports ratio (in percent)	172.8	149.4	156.2	196.5	129.0	108.0	113.2			113.2	111.8	110.5	109.3	108.5	107.7		
Gross external financing need (in billions of US dollars) 4/	4.4	4.7	4.8	4.8	4.6	4.8	5.0			5.4	6.0	6.6	6.5	6.8	7.3		
in percent of GDP	23.8	22.9	23.6	23.7	19.5	19.7	18.6	10-Year	10-Year	18.8	19.7	20.6	19.4	19.2	19.4		
Scenario with key variables at their historical averages 5/										**49.4**	**49.1**	**48.4**	**47.6**	**47.0**	**46.2**		-3.7
Key Macroeconomic Assumptions Underlying Baseline								Historical Average	Standard Deviation							For debt stabilization	
Real GDP growth (in percent)	3.2	3.8	2.9	-3.0	7.4	4.2	1.7	2.9	2.7	2.5	3.0	3.0	3.0	3.0	3.0	3.0	
GDP deflator in US dollars (change in percent)	3.7	7.7	-2.8	1.8	9.0	-0.6	8.5	1.4	7.0	4.1	2.7	2.4	1.9	1.8	2.5	2.5	
Nominal external interest rate (in percent)	1.4	1.2	1.2	1.4	1.1	1.6	2.8	1.5	0.5	3.2	3.8	4.2	4.4	4.3	4.2	4.2	
Growth of exports (US dollar terms, in percent)	20.9	15.6	-4.6	-14.4	43.3	17.6	1.0	8.0	16.9	5.4	5.8	5.1	4.8	4.8	4.5		
Growth of imports (US dollar terms, in percent)	15.8	11.4	-3.5	-12.8	31.0	19.4	1.2	5.5	14.6	6.2	6.4	5.5	4.8	4.9	4.5		
Current account balance, excluding interest payments	-3.9	-2.5	-1.8	-2.0	-1.1	-3.5	-1.5	-3.0	1.5	-1.8	-2.1	-2.1	-2.0	-2.1	-2.1		
Net non-debt creating capital inflows	2.5	3.0	1.8	2.2	5.7	2.5	2.5	2.5	1.2	2.4	2.4	2.3	2.3	2.3	2.3		

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.

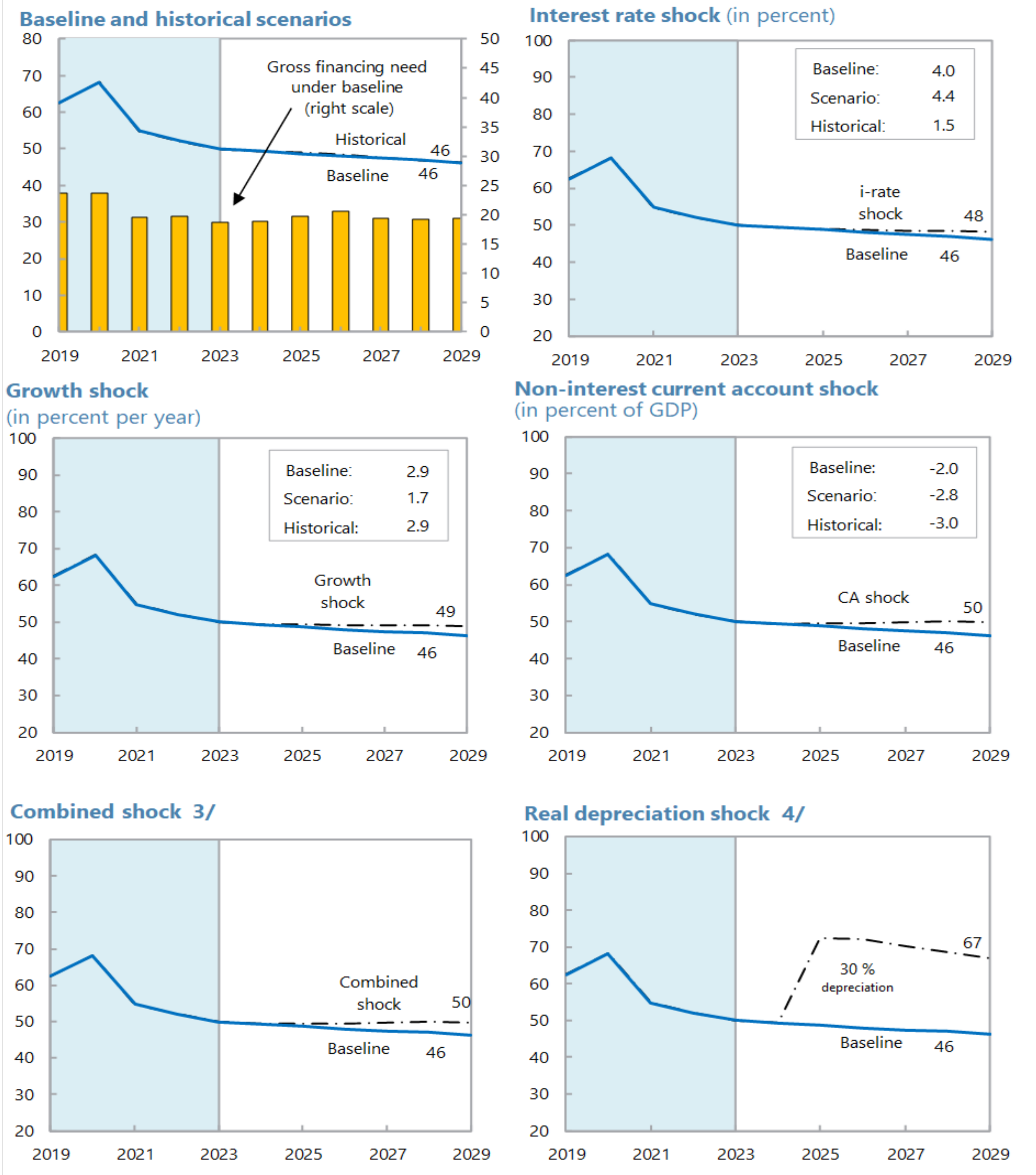
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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 AV.1. Bosnia and Herzegovina: External Debt Sustainability: Bound Tests 1/ 2/ 3/ 4/

(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 2023). 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 2025.

Annex VI. Progress on Anti-Corruption and AML/CFT Efforts[1]

1. **This annex provides a summary of the authorities' progress on the anti-corruption and AML/CFT recommendations from the 2023 Article IV Consultation.** It is based on the authorities' responses and does not include staff's assessment of the actions reported.[2]

2. **Several key laws were passed.** These include the Law on Prevention of Money Laundering and Financing of Terrorist Activities (Official Gazette 13/24), Freedom of Access to Information Act at the level of BiH Institutions (Official Gazette 61/23), Law on Prevention of Conflicts of Interest in the BiH Institutions (no publication data provided), amendments to the Law on Civil Service in the BiH Institutions (Official Gazette 18/24), and amendments to the Law on the High Judicial and Prosecutorial Council (HJPC) (Official Gazette 63/23 and 9/24).[3]

3. **Some measures were taken to increase competition in public procurement.** These include (i) an e-Audit module in the e-Procurement information system, allowing auditors to better inspect public procurement procedures and facilitating analysis and processes, (ii) automated monitoring of public procurement procedures (untimely publication of procurement plans, monitoring of non-publication of information for the negotiation procedure), and (iii) measures to increase competition in procurement, including by increasing the supervision, and limiting the use, of negotiated procedure without publication of notices and developing a module for detailed analytics and monitoring of public procurement procedures.

4. **Some action was also taken on criminal prosecution.** New cases of high-level corruption were reported. To enhance transparency and better regulate discretionary decisions, implementation of the Mandatory Guidelines (A-1/22, January 31, 2023) on additional standardization of relations within the Prosecutor's Office of BiH is ongoing. For more efficient inter-institutional cooperation, a normative framework was established by adopting Mandatory Guidelines (March 30, 2023) on prosecutors' and authorized officials' proceedings in detecting criminal offenses and perpetrators and conducting investigations.

5. **However, there was no action in other areas,** including to criminalize procurement-related offenses and require bidders to submit beneficial ownership information, and to enact a law on electronic identity and trust services (compatible with EU standards) and a new HJPC law. In addition, there was no meaningful action to step up criminal investigation, prosecution, and

[1] Prepared by Ron Snipeliski and Carolina Claver (LEG).

[2] Responses were received from the Ministries of Justice and Security, Agency for the Prevention of Corruption and Coordination of the Fight against Corruption, High Judicial and Prosecutorial Council, Prosecutor's Office, Public Procurement Agency, Federation of BiH Banking Agency, Republika Srpska Banking Agency, and State Investigation and Protection Agency (Financial Intelligence Department).

[3] The amendments increased responsibility of HJPC members by defining conflicts of interest, disciplinary offenses and procedures, and dismissal or termination of mandate procedures, and stipulating the submission of reports on the assets and interests of judges, prosecutors, and members of HJPC, and the actions of HJPC in the process of collecting, verifying, analyzing, and publishing data.

conviction of corruption and money laundering; enhance the transparency of prosecutorial and judicial decisions; prioritize the digitalization and interconnection of land registries and databases; and finalize a new National Anti-Corruption Strategy.

6. With IMF assistance, the authorities have passed a comprehensive AML/CFT Law. On the supervisory front, the authorities reported progress in stepping up AML/CFT risk-based supervision of politically exposed persons, including through enhanced training to obliged entities in the banking sector and the issuance of relevant guidance.

7. Further efforts are needed to align the legal framework to international standards to prevent a potential listing by the Financial Action Task Force and enhance financial integrity. Remaining gaps need to be addressed regarding the supervision of notaries and real estate agents that pose high risk for laundering the proceeds of corruption; assessing the misuse of legal entities; and the timely availability of adequate, accurate, and up-to-date beneficial ownership information, including through the establishment of a beneficial ownership registry. The AML/CFT coordination body should become fully operational and relevant AML/CFT agencies should have adequate mechanisms to cooperate and exchange information, including in implementing targeted financial sanctions related to United Nations Security Council Resolutions on terrorism and terrorism financing. Depending on the outcome of the ongoing Moneyval evaluation, there could be additional pressures on correspondent banking relationships. The authorities should continue to closely monitor developments and prioritize critical reforms.

Annex VII. Data Issues

Table AVII.1. Bosnia and Herzegovina: Assessment of Data Adequacy for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	A	B		
Granularity 3/	B		A	B	A		
			B		B		
Consistency			B	B		B	
Frequency and Timeliness	A	A	B	A	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provided by authorities has some shortcomings but is broadly adequate for surveillance purposes. The authorities have been consistently providing IMF staff with a wide array of standard economic and financial data. While there have been improvements in the accuracy, timeliness, and publication of the data, issues remain, especially in national accounts, government finance, and balance of payments statistics. In particular, some discrepancies between below and above the line in the Federation of BiH (FBiH) fiscal statistics are being addressed with support of STA, while Republika Srpska (RS) has provided Q4:2023 fiscal data with delay (mid-May 2024).

Changes since the last Article IV consultation. STA supported the authorities' recent progress in resolving the discrepancy between above and below the line in GFS. A temporary delay in publishing FSIs has been resolved in early 2024.

Corrective actions and capacity development priorities. Implement ongoing STA capacity development recommendations to improve the quality and consistency of fiscal data. Encourage the authorities to resume timely data provision, as well as address the identified gaps to participate in the Special Data Dissemination Standard (SDDS) and request TA as needed.

Use of data and/or estimates different from official statistics in the Article IV consultation. The data used in the Article IV is based on staff's best understanding of official statistics. Projections reflect staff assessment of reasonableness and estimates of the impact of government policies.

Other data gaps. The authorities should produce statistics on core inflation, while additional efforts should be invested to improve and disseminate External Debt Statistics. The authorities should also build capacity to closely monitor labor market developments, including the impact of minimum wage adjustments on labor market outcomes.

Table AVI.2. Data Standards Initiatives

Bosnia and Herzegovina participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since July 2018.

Table AVII.3. Bosnia and Herzegovina: Table of Common Indicators Required for Surveillance

As of May 17, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Expected Frequency[7,8]	Bosnia and Herzegovina[9]	Expected Timeliness[7,8]	Bosnia and Herzegovina[9]
Exchange Rates	17-May-24	17-May-24	D	D	D	M	...	1M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar-24	Apr-24	M	M	M	M	1M	5W
Reserve/Base Money	Mar-24	Apr-24	M	M	M	M	2M	5W
Broad Money	Mar-24	Apr-24	M	M	M	M	1Q	5W
Central Bank Balance Sheet	Mar-24	Apr-24	M	M	M	M	2M	5W
Consolidated Balance Sheet of the Banking System	Mar-24	Apr-24	M	M	M	M	1Q	5W
Interest Rates[2]	Mar-24	Apr-24	M	M	M	M	...	5W
Consumer Price Index	Mar-24	Apr-24	M	M	M	M	2M	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4, 5]	Dec-23	May-24	Q	Q	A	A	3Q	6M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government[5]	Dec-23	May-24	Q	Q	Q	Q	1Q	3M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Dec-23	Mar-24	Q	Q	Q	Q	2Q	3M
External Current Account Balance	Dec-23	Mar-24	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Dec-23	Mar-24	Q	Q	M	M	12W	30D
GDP/GNP	Dec-23	Apr-24	Q	Q	Q	Q	1Q	100D
Gross External Debt	Dec-23	Mar-24	Q	Q	Q	Q	2Q	1Q
International Investment Position	Dec-23	Mar-24	Q	Q	A	Q	3Q	1Q

[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.
[5] The RS submitted Q4:2023 fiscal data with delay (mid-May 2024), whereas data from FBiH, BiH Institutions, and Brcko District, was received in March and early April.
[6] Including currency and maturity composition.
[7] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[8] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[9] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

May 28, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	The European Department

CONTENTS

FUND RELATIONS

(As of March 31, 2024)

Membership Status: Joined December 14, 1992; Article XIV

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	265.20	100.00
Fund holdings of currency	499.55	188.37
Reserve Tranche Position	0.36	0.14

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	415.07	100.00
Holdings	1.12	0.27

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
Emergency Assistance [1/]	165.75	62.5
Extended Arrangements	68.70	25.90

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				
	2024	2025	2026	2027	2028
Principal	110.02	87.44	21.14	10.57	5.28
Charges/Interest	20.24	20.69	18.45	17.58	17.11
Total	130.26	108.13	39.58	28.15	22.39

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(a), 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 IMF jurisdiction under Article VIII. The authorities 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 August 30, 2023 (IMF Country Report No. 23/324).

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.

IMF Technical Assistance

Bosnia and Herzegovina is a substantial user of IMF TA at both the state and entity levels. TA has been particularly active in supporting strengthening of revenue administration, public investment management, AML/CFT, currency board arrangement, and macroeconomic modelling and forecasting.

Bosnia and Herzegovina: Technical Assistance 2020–2024

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 Public Entities 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
	Feb 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–March 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–April 28, 2022	Country-wide PFM Reform Strategy (on-site)
	May 30–Jun 12, 2022	RSTA Indirect Audit Methods

	June 13–July 11, 2022	Country-wide PFM Reform Strategy-Planning and Reporting
	July 4–July 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	Country-wide PFM Reform Strategy (follow up)
	November 15–November 28, 2022	ITA Customs Selectivity
	October 12–October 25, 2022	FTA Reform Program
	November 21–December 1, 2022	Strengthening Fiscal Risk Management in Republika Srpska
	November 21–December 7, 2022	FBIH Strengthening SOE Risk Management in Federation of Bosnia and Herzegovina
	December 5–16, 2022	RSTA Improving Transfer Pricing Capacity
	March 7–31, 2023	RS MoF Potential Fiscal Impact of a New Draft VAT Law on the Republika Srpska
	March 15–28, 2023	RS MoF Tax Expenditure Assessment
	April 18–28, 2023	ITA Streamlining of Debt Management Standard Business Processes and Standard Operating Procedures
	April 24–May 31, 2023	RS Strengthening Fiscal Risk Management of State-owned Enterprises
	April 24–May 24, 2023	BiH Refining of BiH PFM Strategies' Performance Indicators
	June 19–21, 2023	Tax Arrears Management Function in All Four Tax Administrations in BiH
	June 22–26, 2023	ITA OECD Tax Debt Management Maturity Model
	June 27–July 7, 2023	RSTA Improving Tax Compliance of High Wealth Individuals
	September 13–26, 2023	RS MoF Review of Select VAT Design Issues
	October 10–12, 2023	Regional Workshop Fiscal Reforms in Southeast Europe Tax Audit Community of Practice
	October 13–26, 2023	FTA Improving Compliance Risk Management, Tax Audit, and Investigation
	October 18–November 1, 2023	RS MoF, BD PIMA
	February 26–April 15, 2024	ITA Strengthening Revenue Administration Management and Governance Arrangements
	February 18–29, 2024	RSTA Property Taxes, Initial Review
	March 11–26, 2024	ITA Diagnostic Review
	March 14–27, 2024	RSTA Strengthened Revenue Administration Management and Governance Arrangements
	March 20–April 2, 2024	RS MoF Broad Personal Income Tax Diagnostic; Property Taxes

	April 12–26, 2024	PIMA FBiH and Institutions of BiH
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 Resiliant Currency Board
STA	April 12–7, 2021 May 24–June 5, 2023 January 29–February 2, 2024	Strengthening ESS Under IPA 2017 Multi-Country Program in Western Balkan RS MoF and FBiH MoF Government Finance Statistics FBiH MoF Government Finance Statistics–Follow up
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 12-20, 2021 August 16-18 and September 6-9, 2021 November 8-16, 2021 April 11-21, 2022 November 2-10, 2022 March 20-29, 2023 November 20-24, 2023 December 18-22, 2023	Macroeconomic Frameworks – Scoping mission Quarterly Macro-Forecasting Framework (QMFF) – Data sources and infrastructure QMFF – Model consistency and interface QMFF – Enhancing CBBH analytical and forecasting capacity QMFF – Model refinements and operationalization QMFF – Model refinements – Fiscal block QMFF – Enhancing CBBH analytical and forecasting capacity – Shadow forecast QMFF – Integration to policy analysis and forecast system

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 2023–2027 was approved in July 2022. The program is based on the Systematic Country Diagnostic (SCD) update (June 2020) and the emerging impact of COVID19 identifies three Higher Level Outcomes (HLO) that will guide the WBG's engagement even beyond this CPF cycle. HLO1 aims at increased 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 protecting the natural capital, the CPF will promote green growth under HLO3 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 10 projects totaling US$653.13 million. Areas of support include real estate registration, water sector modernization, health sector improvement, firm recovery support, employment support program, agriculture and competitiveness, air quality, and railways restructuring in Republika Srpska (RS).

Current projects	Project amount (US$ million)	Objective
BiH Firm Recovery and Support	65.30	Financing to companies affected by the pandemic and companies underserved by the financial sector
Real Estate Registration	56.36	Improve public service delivery
Sava and Drina River Corridors Integrated Development Program[1]	73.13	Improve flood protection and enhance transboundary water cooperation
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
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
[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.		

During the last six years, the Bank has been provided 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
BiH Geospatial Infrastructure and Valuation Enhancement Project (GIVE)	25.00	Improve public service delivery
Just Transition in Select Coal Regions of BiH	60.00	Support in transitioning away from the coal to an affordable, reliable, and clean energy system
Sustainable Solid Waste Management Project (PROPOSED)	TBC	Enhance the management of the solid waste
Sustainable, Integrated, and Safe Road Infrastructure	80.00	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 seven countries in Central and Southeast Europe, including US$39 million investment in BiH. 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 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