April 2010
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Bosnia and Herzegovina: Staff Report for the First Review Under the Stand-By Arrangement

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on March 31, 2010 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 March 18, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release

- A statement by the Executive Director for Bosnia and Herzegovina

The document(s) listed below will be separately released.

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

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

First Review Under the Stand-By Arrangement

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

Approved by Adam Bennett and Dominique Desruelle

March 8, 2010

Stand-By Arrangement (SBA). A 36-month, SDR 1,014.6 million (about US$1.6 billion, 600 percent of quota) SBA was approved by the Executive Board on July 8, 2009 (Country Report No. 09/226). An initial purchase of SDR 182.6 million (108 percent of quota) was made following the Board meeting. The program foresees a purchase of SDR 121.75 million (72 percent of quota) following the completion of this review after March 10, 2010.

Program status. All end-September 2009 and end-December 2009 quantitative performance criteria were met. An end-August 2009 structural benchmark on parliamentary approval of rebalanced entity budgets was also met, the continuous benchmark on the publication of fiscal statistics was partially met with a delay, and all other benchmarks pertaining to fiscal and financial sector reforms were met albeit with some delay. However, the program's fiscal deficit objective for 2009 was exceeded because of revenue shortfalls and, under unchanged policies, the fiscal deficit for 2010 would have exceeded the program's objective. On the basis of the corrective actions described in the attached letter of intent (LOI) and in the report, staff support the authorities' request for completion of the first review.

Discussions. During November 4–20, the staff team met with: (i) at the State level: Member of the Presidency Komšić, the Chair of the Council of Ministers Špirić, the Minister of Finance and Treasury Vrankić, and Central Bank Governor Kozarić; (ii) in the Federation of Bosnia and Herzegovina: Prime Minister Mujezinović and Minister of Finance Bevanda; and (iii) in the Republika Srpska: Prime Minister Dodik and Minister of Finance Džombić. The Fund staff also met with other senior officials, High Representative Inzko, ambassadors, trade unions, and representatives of the private sector.

Staff. The mission team comprised Mr. Christou (head); Mr. Iossifov (both EUR), Ms. Karpowicz (FAD), Mr. Darbar (MCM), and Ms. Khachatryan (SPR). Mr. Cuc (resident representative) assisted the mission and Ms. Kinoshita (EUR) supported the mission's work from HQ. Mr. Tomić (OED) attended all policy meetings. The mission coordinated closely with World Bank staff on structural issues.

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I. Background

1. **Macroeconomic developments remain broadly in line with program projections, except for a larger-than-anticipated contraction of the current account deficit.** Following several years of strong growth increasingly accompanied by external and internal imbalances, economic activity in Bosnia and Herzegovina (BiH) began to decelerate in late 2008. The downturn spread quickly across all sectors in 2009, with the exception of refined petroleum and electricity production in Republika Srpska (RS). The precipitous drop in demand for BiH's exports and the drying up of foreign direct investment triggered a sharp decline in private investment. Tightening credit conditions and the ensuing uncertainty put a further squeeze on spending on capital goods and consumer durables. Private consumption of non-durables softened but to a lesser extent, on the back of moderate growth in wages and social benefits. Core inflation has remained stable while headline inflation turned negative with declines in food and energy prices (Figure 1). The trade deficit has been narrowing faster than anticipated leading to a sharp reduction in the current account deficit (Figure 2).

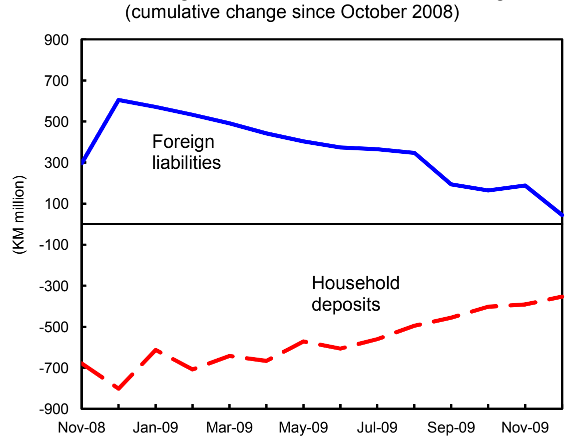
BIH: Leading Indicators, December 2009
(percent change year-to-date over corresponding period in previous year)

Industrial production		
Federation	-11.6	
RS	19.0	1
Gross wage, all sectors (12-month growth rate)	4.8	2
Net wage, all sectors (12-month growth rate)	1.9	2
Retail trade (Federation)	-12.4	
Value-added tax (net of refunds)	-9.3	
Imports	-24.4	
Capital goods	-39.0	
Durable consumer goods	-39.5	
Non-durable consumer goods	-4.4	
Exports	-17.9	
Foreign direct investment	-52.9	3
Credit to private sector (12-month growth rate)	-3.8	

[1] Figure affected by the re-start of a large refinery in late 2008.
[2] Nov, 2009.
[3] Jan - Sep, 2009.

2. **Financial market stress has eased, reflecting an improvement in market sentiment.** The currency board (with the convertible marka pegged to the euro) continues to enjoy strong support and remains a key macroeconomic policy anchor. Meanwhile, there are signs of a return of confidence in the banking system: nongovernment deposits have been flowing back, which has allowed foreign parent banks to scale down their support for local subsidiaries. Foreign reserves of the Central Bank of Bosnia and Herzegovina (CBBH) have strengthened by 9 percent from the June 2009 lows, in large part owing to the first purchase under the SBA and SDR allocations (Figure 3). Commercial banks appear liquid and adequately funded. Nevertheless, the general worsening of economic environment and stricter lending standards have brought private

Bosnia and Herzegovina: Commercial Banks' Funding Sources
(cumulative change since October 2008)



sector credit growth to a halt (3.8 percent y-o-y decline in December 2009 compared with a 21 percent y-o-y increase in December 2008). With the downturn taking its toll on the financial health of enterprises and households, the system-wide NPL ratio has been edging up, while increased provisioning and lower activity has hurt bank profitability. Banks have reacted by raising interest rates on loans, further tightening credit conditions.

BiH: Financial Soundness Indicators, 2008–09

	2008 Dec.	2009 Dec.
Tier 1 capital to risk-weighted assets	12.0	12.4
Nonperforming loans to total loans	3.1	5.8
Return on equity	4.3	1.1
Liquid assets to short- term financial liabilities	51.8	52.9
Net open position	6.2	1.7

Source: CBBH.

3. **External financing has been somewhat better than expected.** Non-bank private inflows—including FDI, and trade and private non-bank credits—were stronger than anticipated through September 2009. This was partly offset by lower-than-expected government foreign borrowing, and lower rollover rate for banks—91 percent against the program projection of 100 percent. Gross official international reserves were above program projections by €242 million at end-December 2009.

4. **The difficult political situation complicates policymaking.** Since the signing of the Stabilization and Association Agreement with the EU in June 2008, little progress has been made on reforms necessary for accession. Moreover, recent attempts by the international community to advance constitutional reform appear to have stalled, and conflicting views on the future makeup of the country suggest still little common ground. In addition, policymakers are keeping an eye on the October 2010 general elections.

5. **Nevertheless, early program performance has been promising.** All end-September and end-December 2009 quantitative performance criteria, an end-August 2009 structural benchmark on parliamentary approval of rebalanced entity budgets, and an end-February 2010 benchmark on the establishment of universal membership in the Deposit Insurance Agency were met (Tables 12 and 14). The authorities also took steps toward strengthening the financial sector, and reforming the budget process and the system of rights-based benefits—all corresponding structural benchmarks were met, albeit with some delay. Finally, substantial progress was made on improving fiscal data reporting, although only partial general government data have been published with a delay (continuous benchmark).

II. Policy Discussions

A. Macroeconomic Framework

6. **The approved program's macroeconomic framework remains broadly valid:**

- *Real GDP* is estimated to have contracted by 3½ percent in 2009 (compared to a 3 percent decline in the program). With external demand already showing signs of a recovery, output is set to grow modestly by ½ percent in 2010.

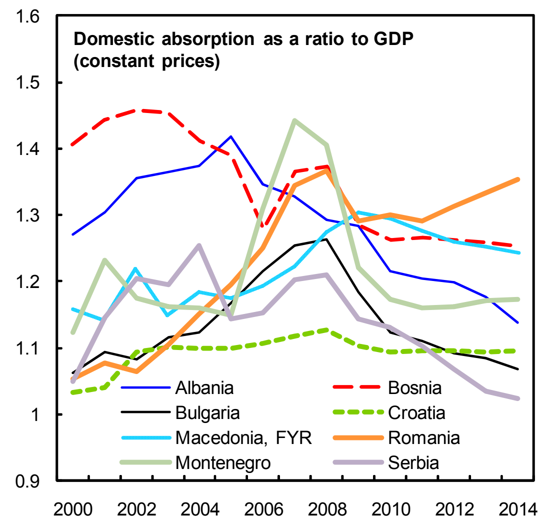
Bosnia and Herzegovina: Key Macroeconomic Indicators, 2008–10
(In percent of GDP, unless otherwise indicated)

	2008	2009		2010	
		EBS/09/94 Prog.	Proj.	EBS/09/94 Prog.	Prog.
Real GDP growth (percent)	5.4	-3.0	-3.4	0.5	0.5
CPI (change in percent; average)	7.4	1.6	-0.4	2.3	1.6
Credit to the private sector growth (percent)	20.8	0.0	-3.8	4.0	-2.7
Current account balance	-14.9	-9.7	-7.5	-9.6	-7.3
General government balance	-4.8	-4.7	-5.3	-4.0	-4.5
Reserve cover (months of imports)	5.7	4.7	5.3	4.5	5.4
Gross external debt	48.9	52.4	53.0	56.7	58.3
Total public debt	30.8	34.7	33.4	39.8	38.1

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

- *Inflation* is expected to be somewhat lower than in the program, and remain low in line with inflation in the euro area.

- The *current account deficit* has been narrowing faster than anticipated and the trend decline is expected to persist over the medium term, thus bringing the deficit to a level considered sustainable over the medium term (Appendix Table 1). This reflects the projected permanent decline in domestic absorption, and imports, relative to GDP (as in the rest of the region), driven by fiscal consolidation and the end of the rapid credit growth funded by foreign savings. Continued strong export performance should be underpinned by an assumed robust recovery in the growth of BiH's trading partners, adequate external competitiveness (Box 1) and ongoing reforms to enhance it further, and a shift toward higher value-added exports.

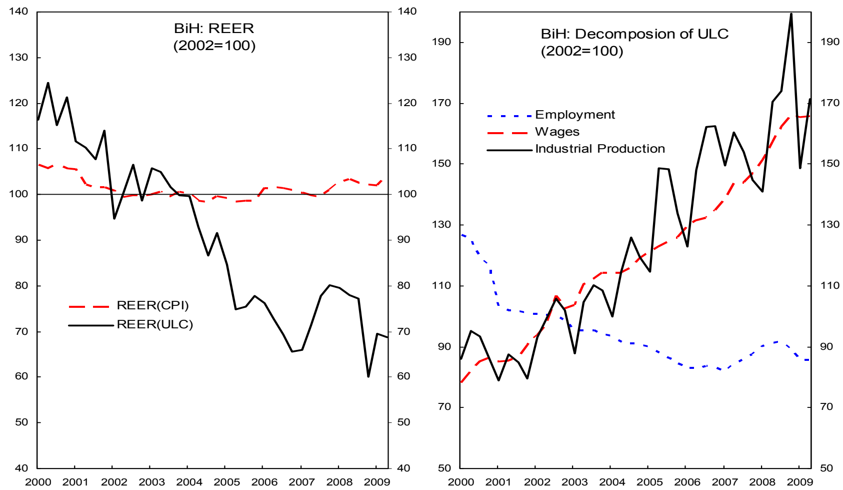


Source: IMF's WEO database and staff estimates.

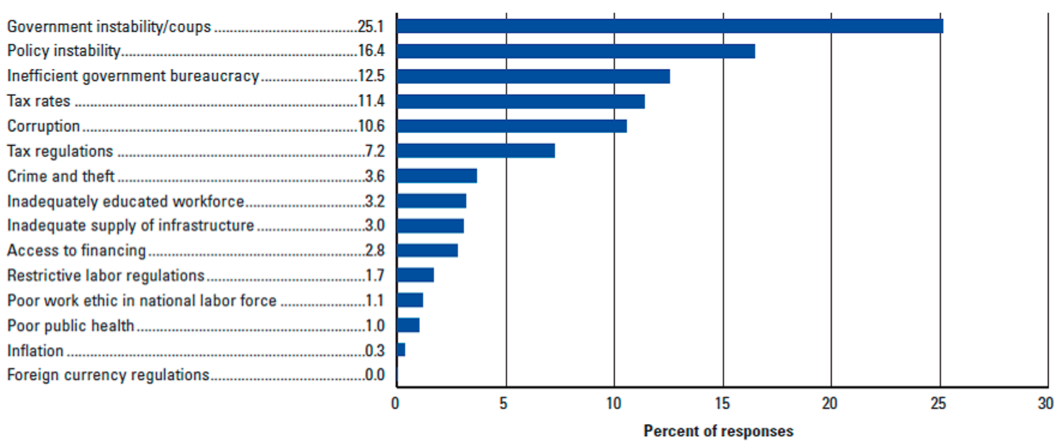
- The revised outlook for the *capital and financial accounts* reflects slower privatization in the Federation and lower debt rollover from parent banks to subsidiaries. Over the medium term, the program assumes that the entities will be able to service their external debt in part by privatization receipts (Federation) and by accessing international capital markets (RS). Official reserves are expected to remain adequate at 4-5 months of next-year imports.

Box 1. Bosnia and Herzegovina: Competitiveness

Real effective exchange rate (REER) developments indicate stable (based on relative consumer prices) to improving (based on relative unit labor costs) external competitiveness of BiH that has underpinned its growing export market shares. A closer look at the evolution of unit labor cost shows a decline in employment, while output and wages have been increasing. At the same time, BiH's export structure has shifted toward higher-value added manufacturing goods. The growth of the more capital-intensive export sector—metal and aluminum—implies an upward shift in the capital-labor ratio over time. This argues for caution in interpreting the otherwise positive trends in competitiveness based on labor cost indicators.



Private sector growth in BiH is hampered by various structural impediments. According to the World Bank Doing Business Report 2010, a cross-country ranking of business environment indicators shows BiH's sub-par performance relative to neighboring countries (116 out of 183 countries). This conclusion was confirmed in the mission's meetings with private sector representatives. According to them, key factors impeding FDI and higher access of companies to foreign markets include: (i) political instability; (ii) complicated and "expensive" bureaucracy; (iii) lack of clear vision for economic development; (iv) corruption and weak legislative framework; and (v) poor quality control (i.e., local certification and standardization). Substantial opportunities lie in enhanced productivity via bigger investment in R&D and human capital.



Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country/economy and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

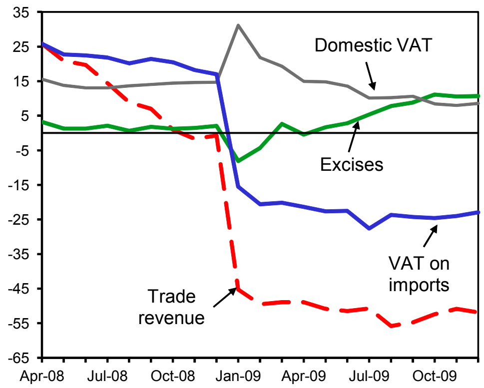
Source: World Economic Forum, Competitiveness Report 2009-2010.

7. **Risks to the outlook appear balanced.** High frequency indicators suggest that the economy may be bottoming out and that growth is likely to pick up in early 2010. Also, indications of a faster economic recovery in the EU support better prospects for external demand and private capital inflows. However, downside risks remain. With nonperforming loans still edging upward, banks need to maintain adequate capital cushions—something that may act as a drag on the projected recovery in bank credit growth. Moreover, the difficult political situation could hamper program implementation.

B. Fiscal Policy

8. **The 2009 fiscal deficit objective was exceeded and the fiscal outlook has worsened.** Preliminary data indicate that, on account of revenue shortfalls and despite lower-than-programmed expenditures, the 2009 general government deficit reached 5.3 percent of GDP compared with the program target of 4.7 percent. Overruns on wages and transfers were offset by strict control over other current spending and by underperformance of the capital budget. The end-September and end-December 2009 targets for net bank financing were met, as the entities partially replaced expected budget-support funds from the IMF and the World Bank with funds from the SDR allocations, and increased float (by 1 percent of GDP) to finance the deficit. However, under unchanged policies, the fiscal deficit would reach 6 percent in 2010, thus putting fiscal sustainability at risk.

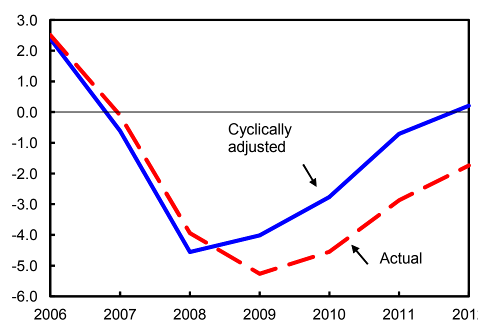
Bosnia and Herzegovina: Tax Revenue, 2008-09
(Percent change, year-to-date)



Source: Indirect Tax Authority; and staff estimates.

9. **Against this backdrop, the revised fiscal strategy accommodates a slightly higher deficit for 2010, while advancing structural fiscal reforms.** The fiscal balance has been revised to 4½ percent in 2010 (from the original 4 percent), with approval of all 2010 budgets and supporting legislation prior actions for the review (met). Structural fiscal reforms aim at putting public finances on a sustainable footing by helping reduce the public debt-to-GDP ratio to below 30 percent over the medium term (Appendix Table 2).[1] On the revenue side, further

Bosnia and Herzegovina: General Government Fiscal Balance, in percent of GDP



Source: BiH authorities and Fund staff estimates

[1] Keeping the primary fiscal deficit at its pre-program level over 2009-14 (no adjustment scenario) would have doubled the public debt-to-GDP ratio.

increases in tobacco excises to bring them more in line with the EU have already been approved. As for expenditure:

Bosnia and Herzegovina: General Government Operations, 2006–10
(In percent of GDP)

	2006	2007	2008	2009 Prog. EBS/09/94	2009 Proj.	2010 Prog. EBS/09/94	2010 Prog.
Revenue and grants	47.5	47.2	45.5	45.0	44.1	45.9	44.3
Tax	38.4	38.2	37.6	36.9	36.7	37.4	37.1
Non-tax	6.5	6.1	5.7	5.8	5.6	5.5	5.3
Grants	2.6	3.1	2.2	2.3	1.8	3.0	1.9
Expenditure	45.3	47.3	50.3	49.7	49.4	49.9	48.8
of which							
Current spending	39.1	40.6	41.5	42.1	42.9	41.8	42.4
of which							
Wage bill	11.1	11.4	12.0	12.4	12.7	12.5	12.3
Goods and services	10.0	9.5	9.1	9.8	9.9	9.5	10.1
Subsidies and transfers	13.7	15.8	16.3	16.1	17.2	15.9	16.6
Capital spending	6.1	6.6	6.5	7.1	6.0	7.9	6.2
Fiscal balance	2.2	-0.1	-4.8	-4.7	-5.3	-4.0	-4.5
Primary balance	2.9	0.5	-4.3	-3.8	-4.7	-3.0	-3.9

Sources: BiH authorities; and Fund staff estimates.

- ***State.*** Following wage reductions in 2009, the State will freeze wages at the 2009 levels. Substantial savings from past years will support an increase in employment in newly-created institutions and higher capital investment

- ***Federation.*** The 2010 budget targets reductions in recurrent expenditure, thus allowing for an increase in investment expenditure (0.3 percent of GDP). A new civil service wage law will be prepared (end-March 2010 structural benchmark), which, in addition to rationalizing the wage bill, will also improve transparency by consolidating a large number of allowances into the base wage. Moreover, substantial savings are envisaged in transfers due to the elimination of special unemployment benefits for demobilized soldiers effective May 1, 2010 (prior action—met), the implementation of eligibility audits for civil and war benefit recipients, and strict control over pensions provided with favorable terms (LOI, ¶20-24).

- ***RS.*** Spending on wages will be rationalized, including through reductions in wages of the highest paid government officials by 15 percent and of employees in public administration by 10 percent. Although spending on untargeted transfers to individuals has already been reduced substantially, the continuation of eligibility audits will yield further savings; and the first results of the pension reform will already be evident in 2010 (LOI, ¶25-27).

- ***State and Entity authorities*** stand ready to take further compensatory measures, if needed, focusing mainly on the expenditure side.

10. **Despite larger deficits in 2009-10, the envisaged exit strategy from the use of Fund resources for the budget remains appropriate.** Accommodating larger deficits in

2009–10 will widen the fiscal financing gap only slightly, and the additional financing needs will be met through bank financing. Over the medium term, the ongoing fiscal adjustment and the structural fiscal reforms envisaged under the program, along with a return of confidence and improved external conditions, would allow an exit from temporary budget financing using Fund resources. To this end, the Federation should be able to finance its transition to a more sustainable fiscal path through privatization proceeds, while the RS would tap international capital markets.

11. **The authorities will undertake a series of structural fiscal reforms.**

- ***Rights-based benefits.*** An action plan to reform the system of rights-based benefits—which is an end-November 2009 structural benchmark for the Federation—was prepared in consultation with the World Bank and approved by the government on December 14, 2009 (Box 2). Moreover, framework legislation has been enacted by the Federation and the RS (prior action—met), with the objective of rationalizing and streamlining those benefits, and improving targeting (LOI, ¶20-21 and ¶27). The authorities have committed to consult with staff on the introduction of new rights-based benefits.

- ***Pensions.*** The authorities plan to initiate reforms of the pensions systems (end-March 2010 structural benchmarks). In the Federation, a new law introducing second and third pillars is under preparation. The RS strategy—which has already been approved by government—aims at modifying the first pillar to ensure medium-term sustainability. Reform elements include efforts to increase contributions (through broadening of the tax base and improving administration) and streamline benefits (by increasing years of contributions and indexing pensions to inflation as opposed to wage growth) (LOI, ¶20-21 and ¶26).

- ***Budget process.*** Albeit with some delay, important first steps have been made by the Federation to improve the budget process: amendments to the Organic Budget Law forbidding passing of unfunded legislation—an end-November 2009 structural benchmark—were approved by government on December 14 and submitted to parliament. To further promote fiscal discipline, and drawing on advice from the Fund, the government will initiate the preparation of a Fiscal Responsibility Law (LOI, ¶24).

12. **The Entity governments are committed to safeguarding public investment and protecting vulnerable groups.** Capital spending is projected to increase by 0.2 percent of GDP in 2010 and efforts will be made to improve implementation capacity; also, a number of investment projects that could be executed through public-private partnerships are already in the pipeline. Moreover, the authorities are committed to protect vulnerable groups, by improving the targeting of social benefits, and preserving the financial integrity of the public pensions and unemployment insurance funds.

Box 2. Bosnia and Herzegovina: Social Sector Reforms

The proposed Development Policy Loan (DPL) from the World Bank aims to reform public expenditures that have been the main driver of pro-cyclical fiscal policies, notably excessive and regressive social transfers, and a high wage bill. In addition, the program will aim at lowering social contribution rates to encourage formal sector employment and enhance competitiveness and private sector development.

Pillar I of the reform program focuses on social benefits administration, and targeting of social protection programs. Short term measures include the revision of laws that would mandate means-testing for all civilian and war-related benefits, would reduce allowances for medal holders, and eliminate special unemployment benefits to demobilized soldiers.

In the medium term, census of income and property will be carried out to provide the basis for means testing. With a substantial elimination of double-dipping, expenditure on non-insurance social benefits would be reduced to a range of 1 to 2 percent of GDP by 2012 (from about 4 percent of GDP currently).

The public sector wage bill reform contemplated under Pillar II will result in more transparent salary laws that better link pay with responsibility. Wage growth would be contained and the wage bill lowered to give a signal of restraint for private sector settlements thus enhancing external competitiveness.

In support of competitiveness, Pillar III will harmonize the bases for social contributions, reduce health plan contributions and bring indirect taxes in line with EU legislation. Reforms in these areas will follow a number of steps, with the preparatory documents finalized by end-year, and enactment of relevant legislation to occur in 2010-11.

C. Financial Sector Policies

13. **The authorities remain vigilant to any signs of stress in the banking system, which has thus far withstood the impact of the global financial crisis.** The capital adequacy ratio has remained stable, partly reflecting the decline in risk-weighted assets in line with the decline in lending growth. Banks have also retained 2008 profits to increase their buffers. Nevertheless, profitability has declined and NPLs have crept up. Going forward, profitability is likely to be weak and NPLs are expected to edge up further. Thus, there was recognition of the need to continuously monitor developments and ensure that commercial banks have a forward looking plan to address any potential deterioration in capital. The authorities are also going to suggest to banks to retain their 2009 profits to further strengthen their capital base (LOI ¶29).

14. **The authorities have secured commitments from the parents of the largest foreign-owned banks toward their continued support to BiH** (LOI ¶30). Following meetings in Vienna in June 2009 and in Sarajevo in September 2009 under the European

Bank Coordination Initiative (EBCI), specific bilateral commitment letters were received from 9 parent banks. The 13 subsidiaries of these banks account for 87 percent of banking sector assets. Parent banks agreed to maintain their exposures at the end-2008 level throughout the program period and to recapitalize their subsidiaries as needed. It was also agreed that a review of these commitments will be undertaken on a semiannual basis.

15. **While exposure commitments of parent banks have been broadly consistent with expectations, lack of comprehensive data does not allow full evaluation of their exposure commitments.** Data for the 9 parents indicate that parent banks' exposure to their subsidiaries has declined by about 7 percent between December 2008 and December 2009. This trend is consistent with balance of payments developments. Nevertheless, banks have maintained liquidity buffers, as nongovernment deposits are flowing back into the system while credit demand remains weak amidst tighter lending standards. The decline in parent banks' exposure to subsidiaries was partially offset by an increase in exposure to other entities during the same period. The CBBH has developed a reporting format that will allow a comprehensive monitoring of overall exposures to BiH going forward.

Parent Bank Exposure in BIH
(In millions of KM)

	Dec '08	Dec '09	Percent change
Exposure to subsidiaries	5,270	4,919	-6.7
All other exposures [1]	1,134	1,296	14.3
Total	6,405	6,215	-3.0

[1] Partial data for 3 of the 9 banks.

16. **The program includes steps to ensure banks remain adequately capitalized.** To this end, the CBBH in cooperation with the banking agencies are in the process of conducting stress tests on the subsidiaries participating in the EBCI. The stress tests are based on two macroeconomic scenarios, one relying on the program macroeconomic assumptions and another, more pessimistic scenario.[2] Going forward, the authorities are expected to finalize the stress tests, discuss the results on a bilateral basis with the banks, and review each institution's capital adequacy as per the commitment under the EBCI (LOI ¶30). Staff urges the CBBH to continuously monitor vulnerabilities in the banking system in part by conducting top-down stress tests on a regular basis in cooperation with the banking agencies.

17. **Important steps have been made toward strengthening crisis preparedness and safeguarding financial stability.** A Standing Committee for Financial Stability (SCFS) has been established and a Memorandum of Understanding on financial stability, crisis preparedness and management has been signed on December 22, 2009 (end-November 2009

[2] The stress tests will be conducted in line with the framework of the IMF-led CESE regional stress testing exercise. The authorities also benefited from an MCM TA mission which overlapped with the review mission.

structural benchmark). The SCFS plans to meet at least once every quarter or as necessary to discuss and exchange information related to financial stability. The authorities have also amended the regulation (on October 28, 2009) to allow all banks, regardless of ownership, membership in the deposit insurance scheme (end-February 2010 structural benchmark) (LOI ¶32).

D. Other

18. **Substantial progress has been made on improving the quality of statistics (**LOI, ¶33)**.** A coordinating group has been set up, with the task of collecting and consolidating fiscal statistics harmonized with Eurostat and the IMF's Government Finance Statistics guidelines from all levels of government. Albeit with some delay, the group has already published partial general government data for end-September 2009 and end-December 2009 (continuous benchmark). The authorities have stepped up their efforts to ensure that they meet the benchmark without delay in the future.

III. Program Modalities

19. **The attached LOI describes the authorities' progress in implementing their economic program and sets out their commitments for 2010.**

- BiH continues to face sizeable balance of payments financing needs over the next three years. Nevertheless. the Fund arrangement remains adequate to meet BiH's balance of payments needs through 2012, alongside financing commitments from the European Commission and the World Bank. While the estimated external financing needs for 2009-10 have declined somewhat against the backdrop of a faster-than-expected external adjustment, it is proposed to leave the phasing as initially programmed given the fragility of the stabilization process and uncertainties going forward.

- The first review under the SBA was delayed to give the authorities more time to adopt a number of reforms of rights-based benefits. Since the conditions prescribed by the SBA for the authorities to request the purchase of the tranche that becomes available on March 10, 2010 have been met, the authorities intend to draw the amount available at the completion of the review (SDR 121.75 million), with the entire purchase used for budget support. As noted above, going forward it is envisaged to stick to the program's exit strategy from temporary budget financing using Fund resources.

- New structural conditionality will continue to focus on the fiscal area (Box 3), and it is deemed necessary to address long-standing structural problems and ensure a return of public finances to a sustainable medium-term path.

20. **BiH's capacity to repay the Fund is expected to remain good.** The country's excellent record of serving its Fund obligations, the expectation that the program would lay the foundations for the return to a sustainable medium-term growth path, and a strong political commitment to the Fund-supported program provide assurances that BiH will be able to discharge its Fund obligations in a timely manner. By the end of the SBA, Fund credit outstanding is projected to be 7.6 percent of GDP (28.7 percent of gross reserves).

21. **The updated safeguards assessment of the CBBH was completed in October 2009.** The assessment found that in general the CBBH has further improved its safeguards framework by adopting a bank-wide risks assessment methodology, strengthening the internal audit function, and amending the Audit Committees' by-laws. Nevertheless, the authorities have committed to further strengthen the safeguards framework (LOI ¶34).

IV. Staff Appraisal

22. **Initial implementation of Bosnia and Herzegovina's stabilization program has been encouraging.** Fiscal restraint and structural fiscal reforms are targeting expenditure categories that led to large imbalances in recent years. Financial sector policies are helping to support adequate liquidity in the banking sector. As a result, the severity of the downturn has been contained, confidence in the currency board maintained, household deposits are recovering, and the international reserve position has strengthened. Early performance under the program has been satisfactory, with all quantitative performance criteria for end-September 2009 and end-December 2009 having been met. Structural reforms have progressed, albeit with some delay.

23. **Continued challenges call for the steadfast implementation of strong policies.** Although the short-term economic and financial outlook has stabilized, strong efforts are still needed to ensure fiscal and external sustainability. Temporary measures now need to yield to more systemic reforms of: rights-based benefits and untargeted transfers; public wages in the Federation; and pension systems. Successful implementation of these reforms requires broad political support and stronger consensus among social partners and the public.

Box 3. Bosnia and Herzegovina: Stand-By Arrangement

Access: SDR 1,014.6 million, 600 percent of quota.
Length: 36 months.
Phasing: SDR182.6 million was made available upon the Board's approval of the arrangement to address fiscal and balance of payment needs during the rest of the year. The availability of the second tranche (SDR 87.9 million) is subject to the completion of this (first) review. The ten subsequent quarterly tranches ending in June 2012, will equal SDR 744 million, and be contingent upon completion of further quarterly reviews.

Conditionality

Quantitative Performance Criteria

- Ceiling on accumulation of net credit of the banking system to:
  - ✓ consolidated general government
  - ✓ State government
  - ✓ RS consolidated government
  - ✓ Federation consolidated government
- Ceiling on new guarantees and the assumption of enterprise debt to banks by the public sector
- Ceiling on accumulation external debt service arrears
- Ceiling on contracting new short-term nonconcessional external debt
- Ceiling on accumulation of domestic arrears of:
  - ✓ the State government
  - ✓ the RS Government
  - ✓ the Federation government

Prior Actions

- Approve by State and Entity Parliaments 2010 budgets consistent with the program, including supporting legislation
- Enact by Entity Parliaments framework legislation in preparation for the transition to a means-tested system of rights-based benefits (Federation, RS)
- Enact law to eliminate special unemployment benefits granted to demobilized soldiers effective May 1, 2010 (Federation)

Structural Benchmarks

- Adhere to the Currency Board Arrangement as constituted under the law *(Continuous)*
- Publish on the State government's web site quarterly consolidated general government accounts with a 5 week lag (*Continuous)*
- Agree on an action plan acceptable to the World Bank and IMF staffs to reform the system of rights-based transfers in the Federation (*end-November 2009)*
- Submit to the Federation Parliament a Law forbidding passing of unfunded legislation (*end-November 2009)*
- Form a standing committee of financial stability and sign the MoU on financial stability, crisis preparedness and crisis management (*end-November 2009)*
- The Deposit Insurance Agency to impose a principle of universal membership requirements, including for partially state-owned banks (*end-February 2010).*
- Carry out eligibility audits for civil and war benefit recipients; publish results (quarterly within 4 weeks after the end of each quarter) of audits, including expected savings from disqualifications (Federation, RS) (*Continuous*)
- Adopt by Parliament wage legislation consistent with the 2010 fiscal policy objectives (Federation) *(end March 2010)*
- Reform privileged pensions by entity governments (Federation, RS) *(end March 2010)*
- Prepare a strategy for pension reform by entity governments (Federation, RS) *(end March 2010)*

24. **Credible fiscal measures are critical to restore fiscal sustainability.** Staff acknowledges the authorities' efforts to keep expenditure under control, and recognizes that the program's 2009 fiscal deficit objective was exceeded owing to revenue shortfalls. With revenue performance still weak and strong expenditure pressures ahead of the October 2010 elections, the authorities are to be commended for their commitment to fiscal restraint. To this end, the revised 2010 general government deficit objective strikes an appropriate balance between fiscal policy's response to the cycle and medium-term consolidation objectives. The revised fiscal program focuses on measures that would secure a permanent reduction in recurrent government spending, and strengthens structural fiscal reform commitments.

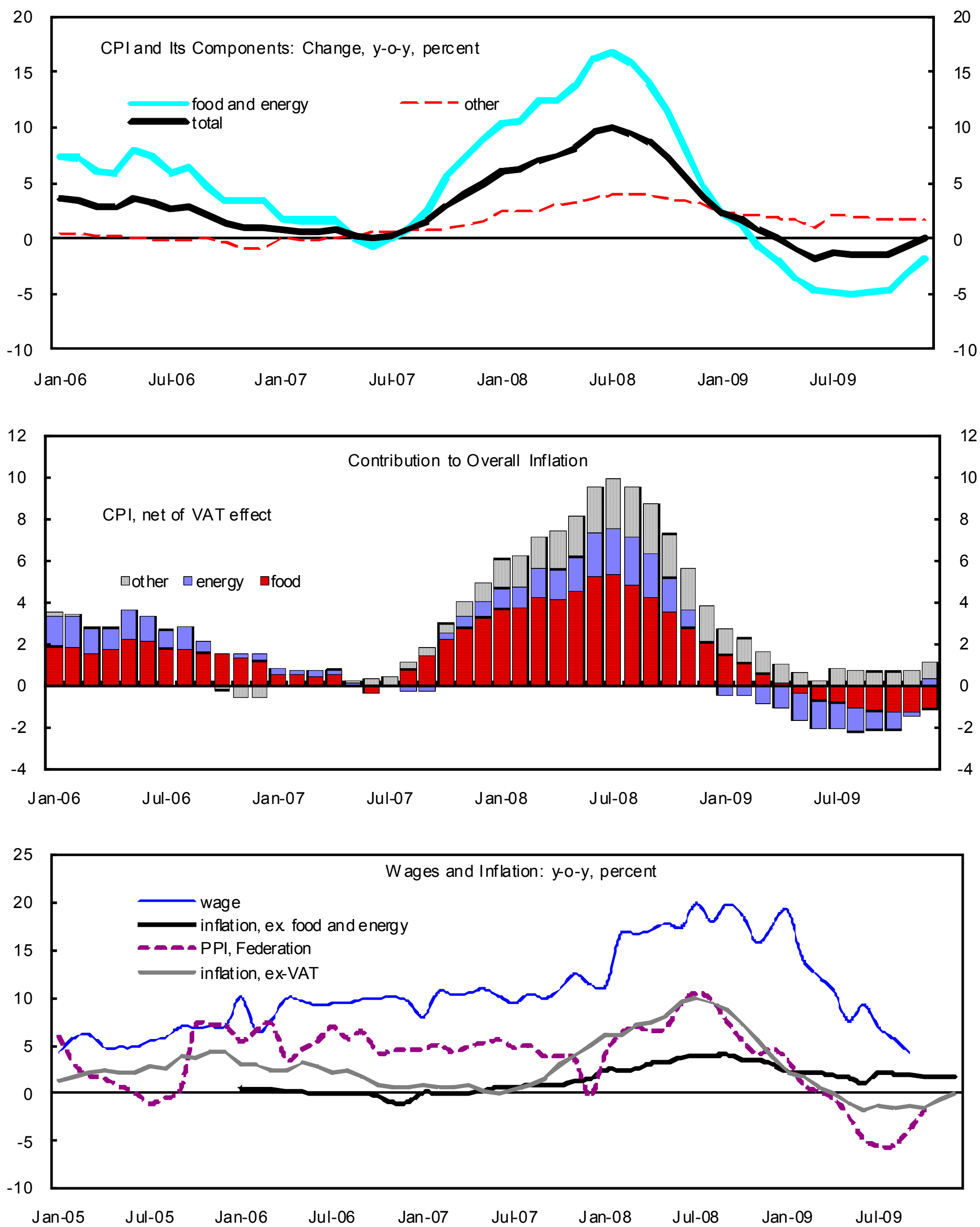
25. **There is a pressing need to protect spending on public investment and vulnerable social groups.** The program's focus on lasting reforms to reduce recurrent spending and provide more space for capital expenditure is welcome, and staff emphasizes the need to improve implementation capacity. Social protection is a key element of the authorities' program to reform social benefits. It is thus important to ensure that, through better targeting, these benefits reach the most vulnerable groups. Moreover, staff urges the authorities to strengthen the financial integrity of the public pension systems.

26. **It is essential to remain vigilant to any sign of stress in the financial sector.** Staff welcomes steps to enhance the monitoring of financial stability, and improve crisis preparedness and management, and urges the authorities to further increase cooperation between the central bank and banking agencies. The commitments by foreign parent banks to maintain their exposure vis-à-vis BiH and keep their subsidiaries well capitalized should help contain external financing gaps and support market confidence. Staff also welcomes improvements in the capacity to conduct stress tests and urges the authorities to continuously monitor vulnerabilities in the banking system.

27. **Political risks to the implementation of the program are rising.** With general elections approaching, the political support for the needed adjustment measures and key fiscal structural reforms may fade. To address these concerns, approval of the 2010 budgets and of key fiscal measures are prior actions for Board consideration of the request for completion of this review. In addition, the authorities recognize the need for continued careful program monitoring, and they are committed to adjust policies as circumstances change.

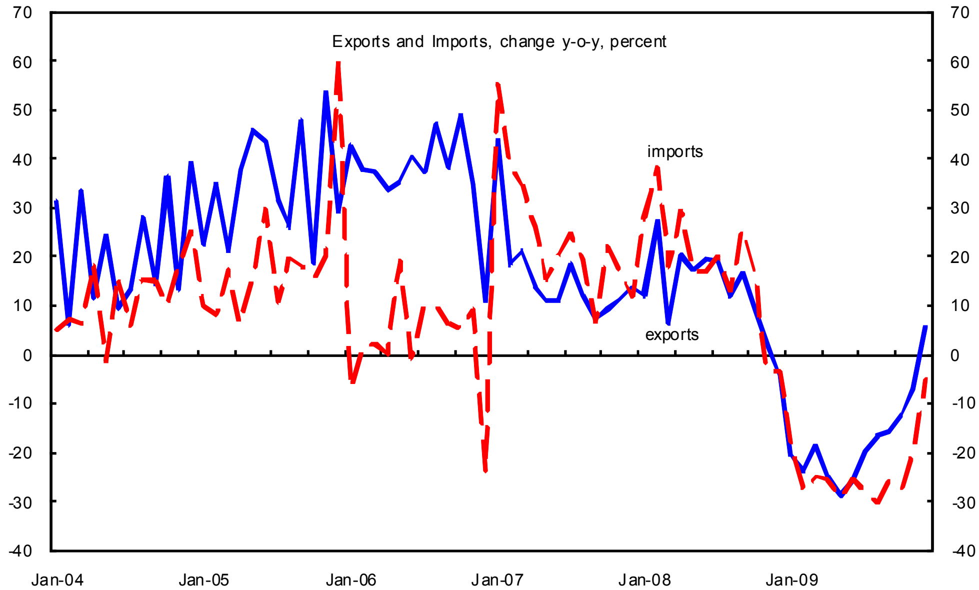
28. **Full implementation of the authorities' program offers the best chance for BiH to emerge from the economic crisis ready to resume stronger growth and make faster progress in EU-convergence.** In light of performance to date and the policy intentions expressed by the authorities, staff support their request for completion of the first review under the Stand-By Arrangement.

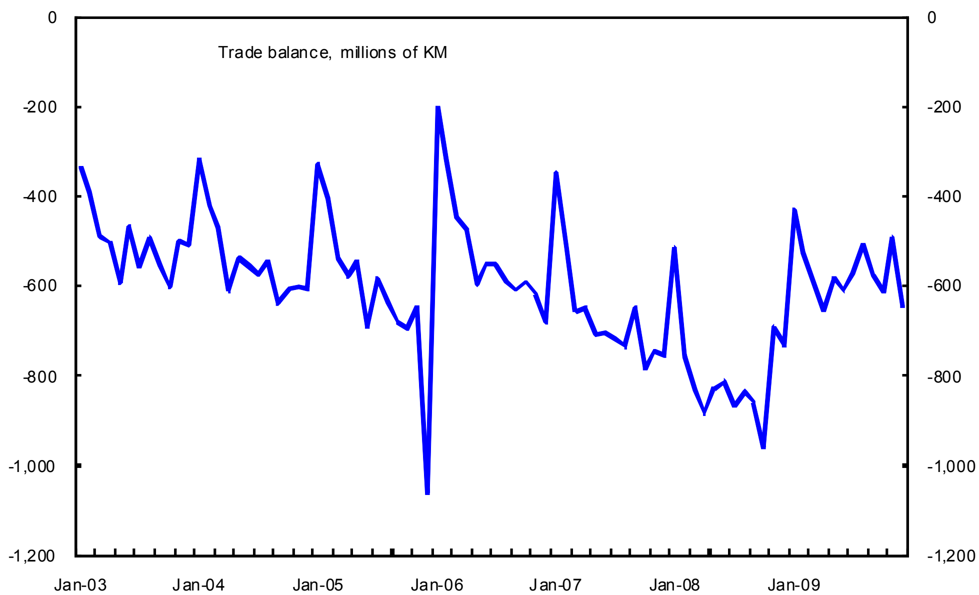
Figure 1. Bosnia and Herzegovina: Inflation Developments, 2005–09



Sources: BiH authorities; and IMF staff calculations.

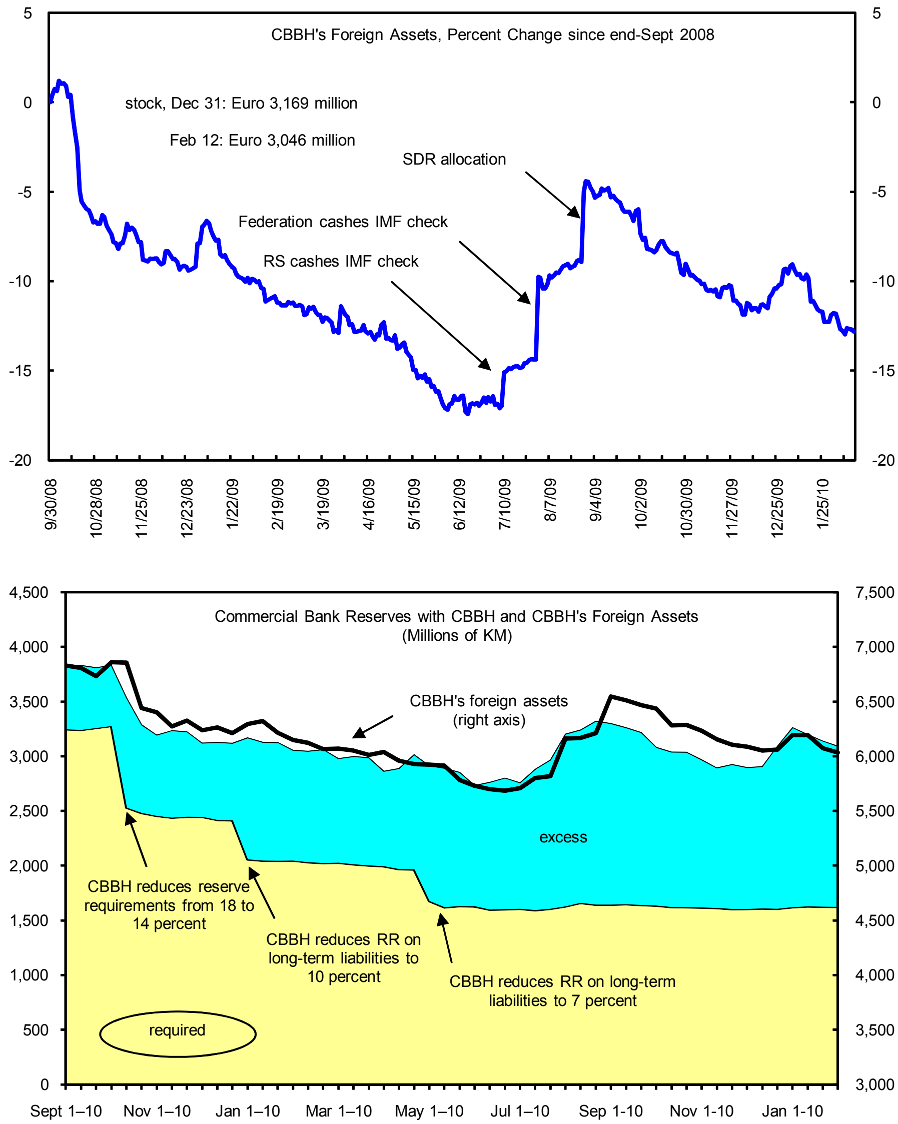
Figure 2. Bosnia and Herzegovina: External Trade, 2004–09





Sources: CBBH; and IMF staff calculations.

Figure 3. Bosnia and Herzegovina: Central Bank's Foreign Assets and Commercial Bank Reserves, 2008–09



Sources: CBBH; and IMF staff calculations.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2008–15

	2008	2009		2010		2011	2012	2013	2014	2015
		EBS/09/94 Prog.	Proj.	EBS/09/94 Prog.	Prog.	Proj.				
Nominal GDP (KM million)	24,717	24,298	24,121	25,036	24,775	26,411	28,641	30,904	33,231	35,734
Gross national saving (in percent of GDP)	9.9	10.6	11.6	13.4	14.0	15.9	15.9	16.6	17.2	17.1
Gross investment (in percent of GDP)	24.8	20.2	19.1	23.1	21.3	22.9	22.9	22.9	23.0	22.8
				(Percent change)						
Real GDP	5.4	-3.0	-3.4	0.5	0.5	4.0	5.8	5.3	4.5	4.5
CPI (period average)	7.4	1.6	-0.4	2.3	1.6	1.9	2.1	2.3	2.5	2.5
Money and credit (end of period)										
Broad money	4.3	0.6	1.7	3.9	0.3	6.6	8.4	7.9	7.5	7.5
Credit to the private sector	20.8	0.0	-3.8	4.0	-2.7	7.3	9.3	9.1	7.9	7.9
				(In percent of GDP)						
General government budget										
Revenue	45.5	45.0	44.1	45.9	44.3	44.3	44.7	44.8	44.9	44.9
Of which: grants	2.2	2.3	1.8	3.0	1.9	1.9	1.9	1.9	1.9	1.8
Expenditure (on a commitment basis)	50.3	49.7	49.4	49.9	48.8	47.2	46.4	46.0	45.4	44.9
Of which: investment expenditure	6.5	7.1	6.0	7.9	6.2	6.1	5.8	5.9	5.9	5.7
Primary balance	-4.3	-3.8	-4.7	-3.0	-3.9	-2.2	-1.0	-0.5	0.0	0.5
Overall balance	-4.8	-4.7	-5.3	-4.0	-4.5	-2.9	-1.7	-1.1	-0.5	0.0
External public debt	17.2	21.5	19.9	26.3	25.5	27.2	26.7	24.2	21.1	19.4
Total public debt	30.8	34.7	33.4	39.8	38.1	38.5	36.9	33.1	28.8	25.7
				(In millions of euros)						
Balance of payments										
Exports of goods and services	4,648	3,843	3,831	4,108	4,144	4,478	4,779	5,144	5,484	5,781
Imports of goods and services	8,780	7,050	6,725	7,476	7,194	7,631	8,094	8,578	9,077	9,505
Unrequited transfers, net	1,844	1,771	1,662	1,903	1,724	1,781	1,862	1,968	2,101	2,139
Current account balance	-1,879	-1,201	-921	-1,234	-930	-953	-1,018	-996	-981	-1,039
(In percent of GDP)	-14.9	-9.7	-7.5	-9.6	-7.3	-7.1	-7.0	-6.3	-5.8	-5.7
Foreign direct investment	716.9	258	300.0	500	350.0	678.0	728.0	758.0	778.0	778.0
(In percent of GDP)	5.7	2.1	2.4	3.9	2.8	5.0	5.0	4.8	4.6	4.3
Gross official reserves	3,219	2,932	3,176	3,007	3,421	3,751	3,915	3,821	3,636	3,618
(In months of imports)	5.7	4.7	5.3	4.5	5.4	5.6	5.5	5.1	4.6	4.6
External debt, percent of GDP	48.9	52.4	53.0	56.7	58.3	59.5	58.0	54.8	51.0	48.7
External debt service	415	433	452	504	542	571	628	802	1,005	831
(In percent of exports of goods and services)	8.9	11.3	11.8	12.3	13.1	12.8	13.1	15.6	18.3	14.4

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

Table 2. Bosnia and Herzegovina: Balance of Payments, 2008–15

(In millions of euros, unless otherwise indicated)

	2008	2009		2010						2011	2012	2013	2014	2015
	Est.	EBS/09/94 Prog.	Proj.	Flows by quarter				EBS/09/94 Prog.	Prog.	Proj.				
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec							
Merchandise trade	-4,819	-3,912	-3,480	-991	-762	-985	-920	-4,096	-3,658	-3,800	-3,997	-4,165	-4,374	-4,508
Exports, f.o.b.	3,522	2,713	2,819	738	777	843	735	2,941	3,093	3,365	3,600	3,887	4,144	4,406
Imports, f.o.b.	-8,341	-6,625	-6,298	-1,729	-1,539	-1,828	-1,656	-7,037	-6,751	-7,166	-7,597	-8,052	-8,519	-8,914
Reconstruction	-194	-321	-267	…	…	…	…	-357	-274	-291	-258	-279	-303	-306
Other	-8,147	-6,304	-6,032	…	…	…	…	-6,680	-6,478	-6,874	-7,339	-7,773	-8,216	-8,608
Services, net	687	704	585	135	175	148	150	728	608	648	682	730	781	784
Exports	1,126	1,130	1,012	216	279	319	238	1,167	1,051	1,113	1,179	1,257	1,339	1,375
Imports	-439	-425	-427	-79	-101	-176	-86	-439	-443	-465	-496	-526	-558	-591
Income, net	409	235	311	124	79	108	86	231	396	419	435	470	511	546
Credit	821	535	611	165	169	206	179	535	718	757	798	849	906	964
Debit	-411	-300	-300	-47	-88	-97	-90	-304	-322	-338	-363	-379	-395	-418
Of which : interest	-99	-125	-115	-22	-32	-22	-33	-147	-137	-145	-159	-164	-168	-178
Current transfers, net	1,844	1,771	1,662	375	447	468	433	1,903	1,724	1,781	1,862	1,968	2,101	2,139
Receipts	2,020	1,944	1,847	…	…	…	…	2,085	1,919	1,982	2,069	2,182	2,320	2,370
Public	169	180	120	…	…	…	…	272	146	151	171	193	214	214
Private	1,851	1,764	1,727	…	…	…	…	1,813	1,773	1,831	1,898	1,989	2,106	2,156
Payments	-176	-173	-185	…	…	…	…	-182	-195	-201	-207	-213	-220	-231
Current account balance	-1,879	-1,201	-921	-357	-61	-261	-251	-1,234	-930	-953	-1,018	-996	-981	-1,039
Capital and Financial Accounts	1,805	481	632	42	64	167	191	747	463	959	991	903	796	1,020
Capital account	198	218	191	45	52	47	50	230	195	210	215	221	226	232
Capital transfers	198	218	191	45	52	47	50	230	195	210	215	221	226	232
Official transfers	91	106	92	23	26	21	23	112	93	105	107	109	111	114
Private transfers	107	112	99	22	26	26	28	118	102	105	108	111	115	118
Financial account	1,607	263	441	-3	12	120	141	517	269	749	776	682	570	789
Direct investment	717	258	300	51	69	115	115	500	350	678	728	758	778	778
Outward	-9	0	0	0	0	0	0	0	0	0	0	0	0	0
Inward	726	258	300	51	69	115	115	500	350	678	728	758	778	778
Portfolio investment	-6	0	0	0	0	0	0	0	0	0	0	0	0	0
Other investment	896	5	141	-54	-57	4	26	17	-81	71	48	-76	-208	11
Assets (increase, –)	-221	103	-113	-52	-45	1	24	59	-73	-119	-124	-130	-122	-129
Commercial banks	230	82	60	-38	-29	-4	48	50	-23	-104	-106	-110	-102	-109
Other	-451	21	-173	-14	-17	5	-24	9	-50	-15	-18	-20	-20	-20
Liabilities	1,117	-98	255	-2	-12	3	2	-42	-8	190	171	54	-85	139
Trade credits	282	-5	178	42	49	50	45	70	187	205	226	248	273	300
Commercial banks	732	0	-287	7	7	7	7	0	29	148	187	198	210	223
Amortization	-279	-308	-337	-97	-114	-99	-96	-357	-405	-427	-469	-639	-837	-653
Drawing of loans	382	215	539	45	45	45	45	245	181	263	228	246	268	269
Project	103	215	175	45	45	45	45	245	181	186	151	170	192	192
Program	0	0	203	0	0	0	0	0	0	77	77	77	77	77
Other government liabilities	0	0	161	0	0	0	0	0	0	0	0	0	0	0
Reserve assets (increase, –)	206	287	45	100	-101	-56	-188	-75	-245	-329	-164	93	185	19
Net Errors and Omissions	-132	0	0					0	0	0	0	0	0	0
External financing gap	...	433	0	215	98	151	248	563	712	323	191	0	0	0
Memorandum items:														
Current account balance (percent of GDP)	-14.9	-9.7	-7.5	…	…	…	…	-9.6	-7.3	-7.1	-7.0	-6.3	-5.8	-5.7
Trade balance (percent of GDP)	-38.1	-31.5	-28.2	…	…	…	…	-32.0	-28.9	-28.1	-27.3	-26.4	-25.7	-24.7
Import of goods (change, percent)	15.3	-19.7	-24.5	…	…	…	…	6.2	7.2	6.1	6.0	6.0	5.8	4.6
Export of goods (change, percent)	13.9	-21.4	-20.0	…	…	…	…	8.4	9.7	8.8	7.0	8.0	6.6	6.3
Transfers (percent of GDP)	14.6	14.3	13.5	…	…	…	…	14.9	13.6	13.2	12.7	12.5	12.4	11.7
Net foreign direct investment (percent of GDP)	5.7	2.1	2.4	…	…	…	…	3.9	2.8	5.0	5.0	4.8	4.6	4.3
External debt/GDP (percent)	48.9	52.4	53.0	…	…	…	…	56.7	58.3	59.5	58.0	54.8	51.0	48.7
Private	31.8	30.8	33.0	…	…	…	…	30.4	32.8	32.2	31.3	30.6	29.9	29.3
Public	17.2	21.5	19.9	…	…	…	…	26.3	25.5	27.2	26.7	24.2	21.1	19.4
External public debt service/exports of G&S (%)	8.9	11.3	11.8	…	…	…	…	12.3	13.1	12.8	13.1	15.6	18.3	14.4
Gross official reserves	3,219	2,932	3,176	…	…	…	…	3,007	3,421	3,751	3,915	3,821	3,636	3,618
(Months of imports of goods and services)	5.7	4.7	5.3	…	…	…	…	4.5	5.4	5.6	5.5	5.1	4.6	4.6

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

Table 3. Bosnia and Herzegovina: Selected Vulnerability Indicators, 2004-09

	2004	2005	2006	2007	2008 Est.	2009 Latest	
External sector							
Exports of goods (change, percent, in euros)	28.7	22.8	30.5	15.0	13.9	-20.0	Dec-09
Imports of goods (change, percent, in euros)	7.6	12.5	1.2	18.7	15.3	-24.5	Dec-09
Terms of trade (change, percent)	3.8	6.2	8.4	5.5	-1.5	-6.4	Sep-09
Current account balance (percent of GDP)	-16.3	-18.0	-8.4	-12.6	-14.9	-6.8	Sep-09
Capital and financial account (percent of GDP)	16.8	19.7	12.7	16.6	14.3	6.3	Sep-09
Net FDI inflows (percent of GDP)	7.0	5.5	5.8	13.2	5.7	2.5	Sep-09
Gross international reserves (end of period, millions of euros)	1,768	2,145	2,761	3,425	3,219	3,176	Dec-09
In months of prospective imports of goods and services	3.3	4.0	4.3	4.7	5.7	5.3	Dec-09
In percent of short-term debt at remaining maturity	448.7	469.2	743.4	370.7	392.4	365.1	Dec-09
In percent of reserve money	106.7	105.7	106.9	107.5	110.4	110.0	Dec-09
Total gross external debt (percent of GDP)	48.7	52.7	47.2	48.2	48.9	52.4	Sep-09
Of which short-term external debt (remaining maturity, percent of GDP)	5.6	7.2	5.5	7.8	6.4	7.0	Sep-09
Of which extermal public debt (percent of GDP)	25.5	25.6	21.2	18.2	17.2	19.5	Sep-09
REER (annual average percentage change; depreciation =-)	-1.6	0.8	2.3	-1.8	2.2	…	2008
Exchange rate (per U.S. dollar, period average)	1.58	1.57	1.56	1.43	1.34	1.4	2009
Financial market indicators							
Stock market indices, end of period							
Banja Luka Stock Exchange [1]	1,150	1,367	2,885	2,564	1,028	1021	Oct-09
Sarajevo Stock Exchange [2]	...	1,612	2,856	3,685	1,234	1,129	Oct-09
Sovereign ratings							
Moody's foreign currency sovereign rating	B3/positive	B3/positive	B2/stable	B2/stable	B2/stable	B2/stable	Dec-09
S&P's sovereign rating	…	…	…	…	…	B+/stable	Dec-09

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

[1] Banja Luka Stock Exchange's BIRS index.
[2] Sarajevo Stock Exchange's SASX-10 index

Table 4. Bosnia and Herzegovina: General Government, 2008–15

(In percent of GDP)

	2008	2009		2010				2011	2012	2013	2014	2015
	Est.	Prog.	Proj.	Mar	Jun	Sep	Dec	Dec	Dec	Dec	Dec	Proj.
		EBS/09/94		Prog				Proj.				
Revenue	45.5	45.0	44.1	9.5	21.6	33.1	44.3	44.3	44.7	44.8	44.9	44.9
Tax	37.6	36.9	36.7	8.0	17.8	27.6	37.1	37.1	37.5	37.6	37.7	37.8
VAT / Sales tax	12.6	12.2	11.7	2.5	5.4	8.6	11.7	11.4	11.9	12.0	12.0	12.1
Excises	4.6	5.0	5.2	1.2	2.6	4.2	5.7	6.1	6.1	6.1	6.1	6.1
Trade taxes	2.6	1.7	1.4	0.3	0.6	1.0	1.3	1.1	1.1	1.1	1.1	1.0
Other indirect taxes	0.2	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Direct taxes	3.5	3.4	3.4	0.8	1.6	2.5	3.3	3.3	3.4	3.5	3.5	3.5
Social Security contributions	14.2	14.3	14.9	3.2	7.5	11.2	15.0	15.0	15.0	15.0	15.0	15.0
Other tax revenues	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax	5.4	5.4	5.1	0.9	2.5	3.7	4.8	4.8	4.8	4.8	4.8	4.8
Dividends	0.3	0.4	0.5	0.1	0.2	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Grants	2.2	2.3	1.8	0.5	0.9	1.4	1.9	1.9	1.9	1.9	1.9	1.8
For budget support	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign investment projects	2.1	2.3	1.7	0.5	0.9	1.4	1.9	1.9	1.9	1.9	1.9	1.8
Expenditure and net lending	50.3	49.7	49.4	10.9	24.2	36.4	48.8	47.2	46.4	46.0	45.4	44.9
Wage bill	12.0	12.4	12.7	3.0	6.1	9.3	12.3	11.9	11.7	11.6	11.5	11.4
Goods and services	9.1	9.8	9.9	2.3	5.0	7.5	10.1	9.7	9.6	9.6	9.5	9.5
Subsidies and transfers to non-public agents	16.3	16.1	17.2	3.8	8.2	12.2	16.6	16.2	16.0	15.6	15.5	15.4
Social benefits	10.0	10.0	11.1	2.9	5.4	8.0	10.7	10.5	10.5	10.3	10.2	10.2
Other transfers to households	4.9	4.5	4.4	0.6	1.9	2.8	4.0	3.8	3.8	3.8	3.7	3.7
Subsidies to industry and agriculture	1.5	1.6	1.7	0.3	0.9	1.3	1.9	1.8	1.7	1.6	1.5	1.5
Interest payments	0.5	0.8	0.5	0.1	0.3	0.5	0.7	0.6	0.7	0.6	0.5	0.5
Other current spending	3.5	3.0	2.5	0.3	1.4	2.1	2.7	2.5	2.5	2.5	2.4	2.3
Investment expenditure	6.5	7.1	6.0	1.2	3.1	4.6	6.2	6.1	5.8	5.9	5.9	5.7
Foreign financed investment projects	2.9	4.0	3.2	0.8	1.7	2.5	3.3	3.3	2.9	3.0	3.0	2.8
Other investment expenditure	3.6	3.0	2.8	0.4	1.4	2.2	2.9	2.8	2.9	2.9	2.9	2.9
Unrecorded expenditure (off budget)	1.3	0.9	0.7	0.2	0.4	0.6	0.7	0.0	0.0	0.0	0.0	0.0
Net lending	-0.3	-0.3	-0.2	0.0	-0.2	-0.3	-0.5	0.1	0.1	0.1	0.1	0.1
Consolidation error / discrepancy [1]	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance	-4.8	-4.7	-5.3	-1.4	-2.6	-3.4	-4.5	-2.9	-1.7	-1.1	-0.5	0.0
Financing	4.8	4.7	5.3	1.4	2.6	3.4	4.5	2.9	1.7	1.1	0.5	0.0
Domestic financing	4.5	0.4	2.9	-0.5	0.2	0.3	0.3	1.6	1.4	1.0	0.8	0.3
GSM proceeds	0.2	0.2	0.2	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
One-off operations [3]	0.6	0.7	2.0	0.0	0.0	0.0	0.0	1.7	1.6	1.5	1.4	1.3
Domestic claims (flow, + = increase)	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic amortization	-0.5	-0.6	-0.7	-0.2	-0.3	-0.8	-1.0	-0.7	-0.7	-0.6	-0.6	-0.5
Change in arrears and float	1.4	-1.6	0.7	-1.5	-1.5	-1.5	-1.5	0.0	0.0	0.0	0.0	0.0
Other domestic financing	3.0	1.6	0.6	1.1	1.9	2.5	2.6	0.4	0.4	0.1	-0.1	-0.5
Bank financing	3.8	2.8	1.4	1.3	2.3	3.1	3.4	0.4	0.4	0.1	-0.1	-0.5
Development Bank	-0.7	-1.1	-0.8	-0.2	-0.4	-0.6	-0.8	0.0	0.0	0.0	0.0	0.0
Foreign financing	0.3	0.8	2.5	0.2	0.3	0.5	0.5	0.9	0.3	0.1	-0.3	-0.3
For budget support [2]	0.0	0.0	1.7	0.0	0.0	0.0	0.0	0.6	0.5	0.5	0.5	0.4
For investment	0.9	1.7	1.5	0.4	0.7	1.1	1.4	1.4	1.0	1.1	1.1	1.1
Amortization	-0.6	-0.9	-0.7	-0.1	-0.5	-0.6	-0.9	-1.1	-1.2	-1.4	-1.9	-1.8
Other external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap [2]	0.0	3.5	-0.1	1.7	2.2	2.6	3.7	0.4	0.0	0.0	0.0	0.0
Identified financing	0.0	3.5	0.0	1.7	2.2	2.6	3.7	0.4	0.0	0.0	0.0	0.0
Remaining gap / Errors and omissions	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Primary balance	-4.3	-3.8	-4.7	-1.3	-2.3	-2.9	-3.9	-2.2	-1.0	-0.5	0.0	0.5

Sources: Ministries of Finance; and IMF staff estimates.

[1] The 2008 amount represents a discrepancy between above- and below-the-line totals.

[2] Disbursements of budget support loans and grants from multilateral creditors are recorded under "Foreign financing for budget support" and "Grants for budget support", respectively, in the year they are drawn, and under "Identified financing of financing gap" in projections. Projected issuance of international bonds in 2011-14 for general budget financing are recorded under "Foreign financing for budget support."

[3] Includes proceeds from privatization, succession funds, and the use of the 2009 SDR allocations.

Table 5. Bosnia and Herzegovina: General Government, 2008-15

(Millions of KM)

`	2008	2009		2010				2011	2012	2013	2014	2015
	Est.	Prog	Proj.	Mar	Jun	Sep	Dec	Dec	Dec	Dec	Dec	Dec
		EBS/09/94		Prog				Proj				
Revenue	11,245	10,942	10,643	2,349	5,340	8,189	10,973	11,694	12,803	13,857	14,928	16,037
Tax revenue	9,296	8,961	8,856	1,976	4,420	6,839	9,193	9,787	10,745	11,631	12,535	13,507
VAT / Sales tax	3,119	2,956	2,828	609	1,341	2,142	2,902	3,020	3,397	3,695	3,996	4,324
Excises	1,127	1,219	1,247	297	653	1,043	1,413	1,601	1,736	1,873	2,014	2,166
Trade taxes	646	422	341	69	151	242	328	297	315	334	353	370
Other indirect taxes	40	0	21	5	10	15	20	22	22	24	25	27
Direct taxes	864	814	827	203	406	609	812	884	976	1,068	1,158	1,257
Social Security contributions	3,500	3,464	3,590	792	1,857	2,786	3,715	3,960	4,295	4,635	4,984	5,359
Other tax revenues	0	86	2	1	1	2	2	3	3	3	3	4
Non- tax revenue	1,331	1,310	1,231	232	624	907	1,189	1,279	1,376	1,484	1,596	1,716
Dividends	83	102	117	24	60	90	120	128	139	150	161	173
Grants	535	569	439	118	235	353	471	501	544	591	636	641
Budget support	28	10	25	1	2	3	4	0	0	0	0	0
Foreign investment projects	508	559	414	117	233	350	467	501	544	591	636	641
Expenditure and net lending	12,432	12,083	11,912	2,700	5,992	9,022	12,100	12,454	13,303	14,207	15,101	16,055
Wage bill	2,958	3,001	3,069	734	1,514	2,305	3,058	3,140	3,344	3,592	3,823	4,071
Goods and services	2,260	2,378	2,387	564	1,243	1,863	2,491	2,566	2,755	2,959	3,149	3,386
Subsidies and transfers to non-public agents	4,038	3,907	4,157	942	2,020	3,030	4,109	4,275	4,588	4,836	5,149	5,492
Social benefits	2,463	2,431	2,687	725	1,328	1,992	2,656	2,780	3,015	3,188	3,405	3,636
Other transfers to households	1,199	1,096	1,069	142	469	704	979	1,017	1,093	1,167	1,241	1,327
Subsidies to industry and agriculture	376	380	400	75	223	334	475	478	481	481	504	528
Interest payments	130	206	130	27	75	113	162	169	202	195	175	187
Other current spending	863	733	614	83	341	511	678	670	727	784	808	833
Investment expenditure	1,604	1,717	1,437	304	767	1,150	1,533	1,608	1,659	1,810	1,964	2,052
Foreign financed investment projects	709	979	772	205	410	615	821	865	839	923	1,011	1,017
Other investment expenditure	895	738	664	99	356	535	712	743	820	887	952	1,035
Unrecorded expenditure	315	218	178	38	91	137	182	0	0	0	0	0
Net lending	-62	-78	-60	9	-57	-86	-113	26	28	30	33	35
Consolidation error / discrepancy [1]	326	0	0	0	0	0	0	0	0	0	0	0
Balance on a commitment basis	-1,187	-1,140	-1,270	-351	-653	-833	-1,127	-760	-500	-350	-173	-17
Financing on a commitment basis	1,187	1,140	1,270	351	653	833	1,127	760	500	350	173	17
Domestic financing	1,118	97	691	-125	51	68	78	409	407	311	271	121
GSM proceeds	48	42	40	12	25	37	50	28	28	28	28	28
One-off operations [3]	139	175	488	0	0	0	0	450	450	450	450	450
Domestic claims (flow, + = increase)	-40	-47	-5	0	0	0	0	0	0	0	0	0
Domestic amortization	-117	-91	-167	-52	-85	-209	-248	-186	-195	-195	-190	-167
Change in arrears and float	335	-384	180	-368	-368	-368	-368	0	0	0	0	0
Other domestic financing	752	401	155	283	480	609	645	118	124	28	-17	-189
Bank financing	932	676	344	333	580	759	845	118	124	28	-17	-189
Transfer to Development Bank (RS)	-180	...	-189	-50	-100	-150	-200	0	0	0	0	0
Foreign financing	69	198	596	55	63	117	120	237	93	39	-98	-104
For budget support [2]	0	0	398	0	0	0	0	150	150	150	150	150
For investment	214	420	358	88	177	265	354	364	295	332	375	376
Amortization	-145	-223	-161	-33	-114	-148	-234	-277	-352	-442	-623	-630
Change in arrears	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap [2]	0	846	-17	421	539	648	929	113	0	0	0	0
Identified financing	0	839	0	421	539	648	929	113	0	0	0	0
Remaining gap / Errors and omissions	0	7	-17	0	0	0	0	0	0	0	0	0

Sources: Ministries of Finance; and IMF staff estimates.

[1] The 2008 amount represents a discrepancy between above- and below-the-line totals.

[2] Disbursements of budget support loans and grants from multilateral creditors are recorded under "Foreign financing for budget support" and "Grants for budget support", respectively, in the year they are drawn, and under "Identified financing of financing gap" in projections. Projected issuance of international bonds in 2011-14 for general budget financing are recorded under "Foreign financing for budget support."

[3] Includes proceeds from privatization, succession funds, and the use of the 2009 SDR allocations.

Table 5a. Bosnia and Herzegovina: State Government, 2008-15

(Millions of KM)

	2008	2009		2010				2011	2012	2013	2014	2015
	Est.	Prog.	Proj.	Mar	Jun	Sep	Dec	Dec	Dec	Dec	Dec	Dec
		EBS/09/94		Prog				Proj				
Revenue	865	952	964	197	452	648	849	981	1,057	1,141	1,227	1,322
Tax revenue and contributions	675	729	729	172	342	513	689	811	883	953	1,025	1,105
Indirect taxes	675	729	729	172	342	513	689	811	883	953	1,025	1,105
Non-tax	168	219	204	25	110	135	160	171	174	188	202	217
Grants	23	4	31	0	0	0	0	0	0	0	0	0
For budget support	23	4	24	0	0	0	0	0	0	0	0	0
For investment	0	0	0	0	0	0	0	0	0	0	0	0
Expenditure on a commitment basis	849	1,013	943	237	505	791	1,043	1,002	1,065	1,141	1,227	1,322
Wage bill	552	688	635	152	320	515	671	585	644	695	747	804
Goods and services	178	202	178	50	115	170	235	250	254	274	295	317
Interest payments	0.0	0.0	1.0	0.4	0.4	0.7	0.7	0.6	0.6	0.5	0.4	3.4
Other current spending	53	76	62	15	30	45	57	61	66	72	77	83
Investment expenditure	57	47	67	20	40	60	79	105	99	99	107	115
Foreign financed investment projects	0	0	3	0	0	0	0	21	7	0	0	0
Other investment expenditure	57	47	64	20	40	60	79	85	92	99	107	115
Consolidation error / discrepancy [1]	9	0	0	0	0	0	0	0	0	0	0	0
Overall balance	16	-61	21	-40	-53	-143	-194	-21	-7	0	0	0
Financing	-16	61	-21	40	53	143	194	21	7	0	0	0
Domestic financing	-16	63	-15	41	15	106	157	3	3	3	3	0
GSM	9	18	14	5	9	14	18	0	0	0	0	0
One-off operations [3]	0	1	1	17	17	17	17	0	0	0	0	0
Domestic claims, amortization	0	0	0	0	0	0	0	0	0	0	0	0
Change in arrears and float	0	0	0	0	0	0	0	0	0	0	0	0
Other domestic financing	0	44	-30	20	-11	75	122	0	0	0	0	0
Banking system, net	-25	44	-30	20	-11	75	122	3	3	3	3	0
Foreign financing	0	-2	-2	-1	-1	-3	-3	18	4	-3	-3	0
For budget support [2]	0	0	0	0	0	0	0	0	0	0	0	0
For investment	0	0	0	0	0	0	0	21	7	0	0	0
Amortization	0	-2	-2	-1	-1	-3	-3	-3	-3	-3	-3	0
Financing gap [2]	0	0	-4	0	40	40	40	0	0	0	0	0
Identified financing	0	0	0	0	40	40	40	0	0	0	0	0
Remaining gap / Errors and omissions	0	0	-4	0	0	0	0	0	0	0	0	0

Sources: Ministry of Finance; and IMF staff estimates.

[1] The 2008 amount represents a discrepancy between above- and below-the-line totals.

[2] Disbursements of budget support loans and grants from multilateral creditors are recorded under "Foreign financing for budget support" and "Grants for budget support", respectively, in the year they are drawn, and under "Identified financing of financing gap" in projections.
Projected issuance of international bonds in 2011-14 for general budget financing are recorded under "Foreign financing for budget support."

[3] Includes proceeds from privatization, succession funds, and the use of the 2009 SDR allocations.

Table 5b. Bosnia and Herzegovina: Federation BiH Consolidated General Government, 2008-15

(Millions of KM)

	2008	2009		2010				2011	2012	2013	2014	2015
	Est.	Prog.	Proj.	Mar	Jun	Sep	Dec	Dec	Dec	Dec	Dec	Dec
		EBS/09/94		Prog				Proj				
Revenue	6,788	6,675	6,344	1,396	3,227	4,975	6,678	7,062	7,747	8,392	9,045	9,718
Tax revenue and contributions	5,739	5,510	5,350	1,180	2,694	4,177	5,613	5,925	6,513	7,058	7,610	8,204
Indirect taxes	2,719	2,506	2,407	522	1,171	1,891	2,566	2,667	2,962	3,211	3,464	3,734
Direct taxes	510	518	493	118	235	353	470	511	572	632	689	753
Social Security contributions	2,510	2,485	2,451	541	1,288	1,933	2,577	2,747	2,979	3,214	3,457	3,717
Non-tax	624	689	599	114	317	475	634	675	732	790	850	914
Grants	341	374	277	78	156	233	311	334	363	394	424	427
For budget support	3	1	1	0	0	0	0	0	0	0	0	0
For investment	339	373	276	78	156	233	311	334	363	394	424	427
Dividends	83	102	117	24	60	90	120	128	139	150	161	173
Expenditure on a commitment basis	7,515	7,220	6,895	1,531	3,519	5,277	7,117	7,571	8,142	8,724	9,264	9,875
Wage bill	1,556	1,406	1,528	353	738	1,108	1,477	1,627	1,749	1,871	1,996	2,131
of which: severance package	0	0	-26	0	0	0	0	0	0	0	0	0
Goods and services	1,393	1,395	1,456	334	751	1,127	1,502	1,564	1,692	1,825	1,935	2,080
Subsidies and transfers to non-public agents	2,821	2,709	2,742	601	1,315	1,973	2,699	2,844	3,082	3,255	3,486	3,739
Social benefits	1,706	1,667	1,699	478	855	1,282	1,709	1,822	1,976	2,089	2,247	2,416
Other transfers to households	909	826	806	82	346	520	733	755	823	879	935	1,000
Subsidies to industry and agriculture	206	216	236	40	114	171	257	268	283	287	304	323
Interest payments	71	127	73	16	51	75	110	109	125	120	109	113
Other current spending	552	489	385	41	234	351	469	467	506	546	562	580
Investment expenditure	851	1,143	753	171	459	688	918	933	959	1,076	1,143	1,196
Foreign financed investment projects	471	653	486	137	273	410	546	545	537	615	674	678
Other investment expenditure	380	490	267	35	186	279	371	388	423	461	468	519
Unrecorded expenditures	0											
Net lending	-64	-49	-41	15	-29	-44	-57	26	28	30	33	35
Consolidation error / discrepancy [1]	278	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-727	-545	-552	-135	-293	-302	-439	-509	-395	-332	-219	-157
Financing	727	545	552	135	293	302	439	509	395	332	219	157
Domestic financing	680	-199	183	-186	-88	-191	-230	414	446	399	373	316
GSM	15	0	16	6	11	17	22	22	22	22	22	22
One-off operations [3]	10	124	322	-14	-14	-14	-14	450	450	450	450	450
Domestic amortization	-14	-91	-73	-6	-16	-84	-97	-100	-87	-82	-76	-53
Domestic claims (flow, + = increase)	-40	16	-5	0	0	0	0	0	0	0	0	0
Change in arrears and float	335	-356	113	-232	-232	-232	-232	0	0	0	0	0
Other domestic financing	374	108	-191	61	164	122	91	42	61	9	-23	-103
Banking system, net	374	108	-191	61	164	122	91	42	61	9	-23	-103
Transfer to the Development Bank	0	0	0	0	0	0	0	0	0	0	0	0
Foreign financing	48	139	374	41	48	89	94	27	-51	-67	-154	-159
Loan disbursement	144	280	477	59	118	176	235	211	174	221	250	251
Project	144	280	210	59	118	176	235	211	174	221	250	251
Budget support [2]	0	0	267	0	0	0	0	0	0	0	0	0
Amortization	-97	-141	-103	-18	-69	-88	-141	-185	-225	-288	-404	-409
Financing gap [2]	0	605	-6	281	332	405	574	68	0	0	0	0
Identified financing	0	598	0	281	332	405	574	68	0	0	0	0
Remaining gap / Errors and omissions	0	7	-6	0	0	0	0	0	0	0	0	0

Sources: Ministry of Finance; and IMF staff estimates.

[1] The 2008 amount represents a discrepancy between above- and below-the-line totals.

[2] Disbursements of budget support loans and grants from multilateral creditors are recorded under "Foreign financing for budget support" and "Grants for budget support", respectively, in the year they are drawn, and under "Identified financing of financing gap" in projections. Projected issuance of international bonds in 2011-14 for general budget financing are recorded under "Foreign financing for budget support."

[3] Includes proceeds from privatization, succession funds, and the use of the 2009 SDR allocations.

Table 5c. Bosnia and Herzegovina: Republika Srpska Consolidated General Government, 2008-15

(Millions of KM)

	2008	2009		2010				2011	2012	2013	2014	2015
	Est.	Prog.	Proj.	Mar	Jun	Sep	Dec	Dec	Dec	Dec	Dec	Dec
		EBS/09/94		Prog				Proj				
Revenue	3,374	3,109	3,189	713	1,569	2,421	3,250	3,442	3,768	4,074	4,387	4,707
Tax	2,705	2,498	2,660	591	1,314	2,037	2,738	2,888	3,167	3,425	3,689	3,971
Indirect taxes	1,386	1,247	1,202	258	580	937	1,271	1,316	1,462	1,585	1,710	1,843
Direct taxes	330	272	319	83	165	247	329	359	389	420	452	486
Social Security contributions	989	979	1,140	250	569	854	1,138	1,213	1,316	1,420	1,527	1,642
Non-tax	497	421	391	82	176	264	352	386	419	452	486	523
Grants	171	191	138	40	80	120	160	167	181	197	212	214
For budget support	2	5	0	1	2	3	4	0	0	0	0	0
For investment	169	186	138	39	78	117	156	167	181	197	212	214
Expenditure on a commitment basis	3,872	3,655	3,914	884	1,872	2,811	3,749	3,694	3,883	4,115	4,341	4,572
Wage bill	781	828	839	208	413	620	826	854	872	941	988	1,038
Goods and services	689	737	705	167	352	528	704	697	749	797	851	915
Subsidies and transfers to non-public agents	1,179	1,160	1,384	332	687	1,030	1,373	1,392	1,464	1,535	1,614	1,700
Social benefits	758	764	988	247	473	710	946	958	1,039	1,099	1,158	1,220
Other transfers to households	263	241	242	53	111	166	221	236	241	257	273	291
Subsidies to industry and agriculture	158	154	154	32	103	154	206	198	184	179	183	188
Interest payments	59	78	56	10	23	36	50	58	76	74	66	70
Other current spending	251	153	163	26	74	110	147	136	148	160	161	163
Investment expenditure	649	509	608	109	261	392	523	556	574	608	660	686
Foreign financed investment projects	239	326	286	69	137	206	274	299	295	308	337	339
Other investment expenditure	411	183	322	41	124	186	248	257	279	301	323	348
Off-budget	259	218	178	38	91	137	182	0	0	0	0	0
Net lending (+/-)	2	-30	-18	-7	-28	-42	-56	0	0	0	0	0
Consolidation error / discrepancy [1]	2	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-498	-546	-725	-170	-303	-390	-500	-253	-116	-41	46	135
Financing	498	546	725	170	303	390	500	253	116	41	-46	-135
Domestic financing	476	244	519	14	121	156	157	15	-24	-69	-105	-190
GSM	25	8	10	2	5	7	10	6	6	6	6	6
One-off operations [3]	129	50	163	-8	-8	-8	-8	0	0	0	0	0
Domestic claims, amortization	-103	-47	-90	-46	-69	-121	-147	-82	-102	-107	-108	-108
Change in arrears and float	0	-27	67	-136	-136	-136	-136	0	0	0	0	0
Other domestic financing	425	261	370	201	329	414	438	91	73	33	-4	-89
Banking system, net	605	536	558	251	429	564	638	91	73	33	-4	-89
Transfer to the Development Bank	-180	-275	-189	-50	-100	-150	-200	0	0	0	0	0
Foreign financing	21	61	224	16	16	32	29	193	139	109	59	56
Loan disbursement	69	140	279	30	59	89	119	282	264	261	275	275
Project	69	140	148	30	59	89	119	132	114	111	125	125
Budget support [2]	0	0	131	0	0	0	0	150	150	150	150	150
Amortization	-48	-80	-56	-14	-44	-57	-90	-89	-125	-151	-216	-220
Financing gap [2]	0	241	-17	140	166	203	314	45	0	0	0	0
Identified financing	0	241	0	140	166	203	314	45	0	0	0	0
Remaining gap / Errors and omissions	0	0	-17	0	0	0	0	0	0	0	0	0

Sources: Ministry of Finance; and IMF staff estimates.

[1] The 2008 amount represents a discrepancy between above- and below-the-line totals.

[2] Disbursements of budget support loans and grants from multilateral creditors are recorded under "Foreign financing for budget support" and "Grants for budget support", respectively, in the year they are drawn, and under "Identified financing of financing gap" in projections.
Projected issuance of international bonds in 2011-14 for general budget financing are recorded under "Foreign financing for budget support."

[3] Includes proceeds from privatization, succession funds, and the use of the 2009 SDR allocations.

Table 6. Bosnia and Herzegovina: Monetary Survey, 2008–15

	2008	2009	2010				2011	2012	2013	2014	2015
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	Actual	Proj.	Prog.				Proj.				
	(Million KM, end of period)										
Net foreign assets	3,102	3,462	3,216	3,545	3,787	3,928	4,486	4,648	4,292	3,720	3,460
Foreign assets	9,410	9,210	8,978	9,322	9,579	9,733	10,581	11,109	11,141	10,980	11,155
Foreign liabilities	6,309	5,748	5,763	5,777	5,791	5,806	6,096	6,462	6,849	7,260	7,696
Net domestic assets	9,674	9,536	9,794	9,575	9,394	9,115	9,418	10,430	11,977	13,774	15,352
Domestic credit	12,993	12,845	13,085	13,165	12,998	12,745	13,291	14,297	15,935	17,637	18,902
Claims on general government (net)	-1,306	-912	-579	-405	-480	-639	-1,065	-1,392	-1,180	-831	-1,026
Claims on central (state and entity) government (net)	-1,466	-1,158	-825	-652	-726	-886	-1,311	-1,638	-1,426	-1,077	-1,272
Claims on public agencies (Social Security Funds)	14	39	39	39	39	39	39	39	39	39	39
Claims on local government	147	207	207	207	207	207	207	207	207	207	207
Claims on nongovernment	14,298	13,757	13,664	13,570	13,477	13,384	14,356	15,689	17,115	18,468	19,928
Other items (net)	-3,318	-3,309	-3,291	-3,590	-3,603	-3,630	-3,873	-3,867	-3,958	-3,862	-3,550
Broad money (M2)	12,776	12,998	13,009	13,120	13,181	13,042	13,903	15,077	16,269	17,494	18,811
Narrow money (M1)	5,994	5,887	5,822	5,858	5,843	5,629	5,932	6,321	6,738	7,154	7,594
Currency	2,302	2,009	2,007	2,105	2,152	2,000	2,032	2,036	2,074	2,096	2,107
Demand deposits	3,692	3,877	3,815	3,753	3,691	3,629	3,901	4,285	4,663	5,058	5,487
Quasi-money (M1)	6,782	7,111	7,187	7,263	7,338	7,414	7,971	8,757	9,531	10,340	11,217
Time and savings deposits	1,799	1,782	1,782	1,781	1,780	1,780	1,914	2,102	2,288	2,482	2,693
Foreign currency deposits	4,982	5,329	5,405	5,482	5,558	5,634	6,057	6,654	7,243	7,857	8,524
	(12-month change over broad money in same period last year, in percent)										
Net foreign assets	-16.7	2.8	2.5	7.4	0.9	3.6	4.3	1.2	-2.4	-3.5	-1.5
Net domestic assets	21.0	-1.1	1.7	-1.4	3.4	-3.2	2.3	7.3	10.3	11.0	9.0
Domestic credit	26.1	-1.2	0.9	0.3	4.5	-0.8	4.2	7.2	10.9	10.5	7.2
Claims on general government (net)	6.0	3.1	5.3	4.2	7.4	2.1	-3.3	-2.4	1.4	2.1	-1.1
Claims on nongovernment	20.1	-4.2	-4.3	-3.9	-2.9	-2.9	7.4	9.6	9.5	8.3	8.3
Other items (net)	-5.1	0.1	0.8	-1.7	-1.1	-2.5	-1.9	0.0	-0.6	0.6	1.8
Broad money (M2)	4.3	1.7	4.2	6.0	4.3	0.3	6.6	8.4	7.9	7.5	7.5
Memorandum items:											
	(Annual percent change)										
Broad money (M2)	4.3	1.7	4.2	6.0	4.3	0.3	6.6	8.4	7.9	7.5	7.5
Reserve money (RM)	-8.4	-1.0	4.1	8.6	-0.5	-0.1	3.3	-0.2	0.3	0.6	-1.5
Credit to the private sector	20.8	-3.8	-3.8	-3.4	-2.7	-2.7	7.3	9.3	9.1	7.9	7.9
	(Percent)										
Credit to the private sector (in percent of GDP)	57.8	57.0	…	…	…	54.0	54.4	54.8	55.4	55.6	55.8
Broad money (in percent of GDP)	51.7	53.9	…	…	…	52.6	52.6	52.6	52.6	52.6	52.6
Central bank net foreign assets (in percent of domestic currency outside banks)	274.6	310.5	301.1	296.5	295.0	335.9	362.4	377.3	361.6	340.6	337.1
	(Ratio)										
Velocity (GDP/end-of-period M2)	1.9	1.9	…	…	…	1.9	1.9	1.9	1.9	1.9	1.9
Reserve money multiplier (M2/RM)	2.2	2.3	…	…	…	2.3	2.4	2.6	2.8	3.0	3.3

Source: CBBH and IMF staff estimates and projections.

Table 7. Bosnia and Herzegovina: Central Bank and Commercial Banks, 2008–15
(Million KM, end of period)

	2008	2009	2010				2011	2012	2013	2014	2015
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	Actual	Proj.	Prog.				Proj.				
Central bank											
Net foreign assets	6,323	6,239	6,044	6,241	6,351	6,718	7,362	7,683	7,501	7,139	7,102
Foreign assets	6,324	6,240	6,044	6,242	6,352	6,719	7,363	7,684	7,502	7,140	7,103
Foreign liabilities	1	1	1	1	1	1	1	1	1	1	1
Of which: Medium- and long-term	0	0	0	0	0	0	0	0	0	0	0
Net domestic assets	-619	-590	-504	-677	-861	-1,073	-1,531	-1,864	-1,664	-1,269	-1,319
Claims on general government (net)	-23	-57	-57	-130	-316	-520	-1,039	-1,413	-1,202	-827	-849
Claims on central (state and entity) government (net)	-23	-57	-57	-130	-316	-520	-1,039	-1,413	-1,202	-827	-849
Claims	0	0	0	0	0	0	0	0	0	0	0
Deposits	-23	-57	-57	-130	-316	-520	-1,039	-1,413	-1,202	-827	-849
Claims on public agencies (Social Security Funds)	0	0	0	0	0	0	0	0	0	0	0
Claims on commercial banks (net)	0	0	0	0	0	0	0	0	0	0	0
Claims on nongovernment	2	1	1	1	1	1	1	1	1	1	1
Other items (net)	-597	-535	-450	-548	-547	-555	-494	-454	-464	-444	-472
Reserve money	5,704	5,649	5,539	5,565	5,490	5,645	5,831	5,819	5,837	5,870	5,783
Currency outside banks	2,302	2,009	2,007	2,105	2,152	2,000	2,032	2,036	2,074	2,096	2,107
Bank reserves	3,394	3,633	3,526	3,454	3,331	3,639	3,794	3,777	3,756	3,767	3,670
Vault cash	250	258	258	258	258	288	300	299	297	298	290
Deposits	3,144	3,375	3,268	3,195	3,073	3,351	3,493	3,478	3,459	3,469	3,379
Nonbank deposits	7	6	6	6	6	6	6	6	6	6	6
Deposit money banks											
Net foreign assets	-3,221	-2,777	-2,828	-2,696	-2,563	-2,790	-2,877	-3,036	-3,209	-3,419	-3,642
Foreign assets	3,087	2,970	2,934	3,080	3,227	3,015	3,218	3,425	3,640	3,840	4,052
Foreign liabilities	6,308	5,747	5,762	5,776	5,790	5,805	6,095	6,461	6,848	7,259	7,695
Of which: Medium- and long-term	5,644	5,171	5,171	5,171	5,171	5,222	5,483	5,812	6,161	6,531	6,923
Net domestic assets	13,687	13,760	13,830	13,711	13,592	13,827	14,743	16,071	17,398	18,812	20,341
Reserves	3,393	3,632	3,526	3,454	3,331	3,639	3,794	3,777	3,756	3,767	3,670
Vault cash	250	258	258	258	258	288	300	299	297	298	290
Deposits with central bank	3,143	3,374	3,268	3,195	3,073	3,351	3,493	3,478	3,459	3,469	3,379
Domestic credit	13,014	12,901	13,140	13,294	13,312	13,264	14,329	15,708	17,136	18,462	19,749
Claims on government (net)	-1,282	-855	-522	-275	-164	-119	-26	21	23	-4	-177
Claims on central (state and entity) government (net)	-1,442	-1,101	-768	-521	-410	-365	-272	-226	-224	-250	-424
Claims	104	104	253	316	243	104	104	104	104	104	104
Deposits	-1,547	-1,205	-1,021	-837	-653	-469	-376	-330	-328	-354	-528
Claims on public agencies (Social Security Funds)	14	39	39	39	39	39	39	39	39	39	39
Claims on local government	147	207	207	207	207	207	207	207	207	207	207
Claims on private sector	14,297	13,755	13,662	13,569	13,476	13,383	14,354	15,688	17,113	18,466	19,926
Other items (net)	-2,720	-2,773	-2,836	-3,036	-3,051	-3,075	-3,379	-3,414	-3,495	-3,418	-3,078
Liabilities to Central Bank	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.4	0.4	0.4	0.4
Deposit liabilities to nonbank residents	10,467	10,983	11,002	11,016	11,029	11,036	11,866	13,035	14,189	15,392	16,698
Of which: Local government	547	600	600	600	600	600	576	498	472	463	479
Public agencies (Social Security Funds)	226	211	211	211	211	211	211	211	211	211	211

Source: CBBH and IMF staff estimates and projections.

Table 8. Bosnia and Herzegovina: Financial Soundness Indicators, 2005–09

	2005	2006	2007	2008	2009 Prel.
Capital					
Tier 1 capital to risk-weighted assets (RWA)	13.7	13.6	12.6	12.0	12.4
Net capital to RWA	17.8	17.7	17.1	16.3	15.7
Quality of assets					
Nonperforming loans to total loans	5.3	4.0	3.0	3.1	5.8
Nonperforming assets (NPAs) to total assets	3.3	2.5	1.8	2.2	3.9
NPAs net of provisions to tier 1 capital	20.4	15.2	12.9	14.3	25.6
Provision to NPAs	40.1	39.6	37.2	37.9	34.4
Profitability					
Return on assets	0.7	0.9	0.9	0.4	0.1
Return on equity	6.2	8.5	8.9	4.3	1.1
Net interest income to gross income	54.1	54.3	59.9	60.6	61.5
Noninterest expenses to gross income	90.1	86.4	84.9	90.5	96.7
Liquidity					
Liquid assets to total assets	36.1	35.9	37.7	30.0	30.9
Liquid assets to short- term financial liabilities	61.9	60.8	61.3	51.8	52.9
Short- term financial liabilities to total financial liabilities	66.1	67.1	69.0	65.4	66.1
Foreign exchange risk					
Foreign currency and indexed loans to total loans	68.7	71.0	74.0	73.3	73.9
Foreign currency liabilities to total financial liabilities	64.4	62.8	65.0	69.5	69.2
Net open position	8.3	8.9	4.9	6.2	1.7

Source: CBBH.

Table 9. Bosnia and Herzegovina: Baseline Medium-Term Outlook, 2007–15 [1]

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Est.	Projections					
Real sector									
Real GDP growth (percent)	6.5	5.4	-3.4	0.5	4.0	5.8	5.3	4.5	4.5
CPI, period average percent change	1.5	7.4	-0.4	1.6	1.9	2.1	2.3	2.5	2.5
	(In percent of GDP, unless otherwise indicated)								
Savings and investment									
Consumption	107.4	108.0	104.4	102.8	100.4	99.8	98.8	98.2	97.6
Public	19.4	20.5	20.6	20.4	19.4	19.2	19.1	18.8	18.7
Private	88.0	87.5	83.8	82.4	81.0	80.6	79.7	79.3	78.9
Investment	24.9	24.8	19.1	21.3	22.9	22.9	22.9	23.0	22.8
Public	6.6	6.5	6.0	6.2	6.1	5.8	5.9	5.9	5.7
Private	18.3	18.4	13.2	15.1	16.8	17.1	17.1	17.1	17.1
National savings	12.3	9.9	11.6	14.0	15.9	15.9	16.6	17.2	17.1
Public	5.1	0.9	-0.2	0.9	2.4	3.3	4.0	4.7	5.1
Private	7.2	9.0	11.8	13.1	13.4	12.6	12.6	12.5	12.1
Foreign savings	12.6	14.9	7.5	7.3	7.1	7.0	6.3	5.8	5.7
General government									
Total revenue and grants	47.2	45.5	44.1	44.3	44.3	44.7	44.8	44.9	44.9
o/w Grants	3.1	2.2	1.8	1.9	1.9	1.9	1.9	1.9	1.8
Total expenditure	47.3	50.3	49.4	48.8	47.2	46.4	46.0	45.4	44.9
Current	40.6	43.8	43.4	42.7	41.1	40.7	40.1	39.5	39.2
Capital	6.6	6.5	6.0	6.2	6.1	5.8	5.9	5.9	5.7
Overall balance	-0.1	-4.8	-5.3	-4.5	-2.9	-1.7	-1.1	-0.5	0.0
Overall balance excl. grants	-3.3	-7.0	-7.1	-6.4	-4.8	-3.6	-3.0	-2.4	-1.8
Public debt (percent of GDP)	32.9	30.8	33.4	38.1	38.5	36.9	33.1	28.8	25.7
Balance of payments									
Current account balance (percent of GDP)	-12.6	-14.9	-7.5	-7.3	-7.1	-7.0	-6.3	-5.8	-5.7
Export growth rate (percent)	15.0	13.9	-20.0	9.7	8.8	7.0	8.0	6.6	6.3
Import growth rate (percent)	18.7	15.3	-24.5	7.2	6.1	6.0	6.0	5.8	4.6
Gross reserves (months of imports of GNFS)	4.7	5.7	5.3	5.4	5.6	5.5	5.1	4.6	4.6
	(In percent of exports of goods and services)								
Total external debt service	8.0	8.9	11.8	13.1	12.8	13.1	15.6	18.3	14.4
Memorandum item: GDP, millions of KM	21,759	24,717	24,121	24,775	26,411	28,641	30,904	33,231	35,734

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

[1] On the basis of recommended policies.

Table 10a. Bosnia and Herzegovina: Gross Financing Requirements 2008–15
(In millions of euros)

	2008	2009	2010	2011	2012	2013	2014	2015
Financing requirements	2,146	1,195	1,240	1,285	1,390	1,533	1,710	1,578
Current account deficit	1,879	921	930	953	1,018	996	981	1,039
Amortization	267	274	310	332	373	537	728	539
Government, excluding IMF repurchases	60	77	120	142	180	334	510	311
Other	207	196	191	190	193	203	218	228
Financing	2,146	1,195	1,240	1,285	1,390	1,533	1,710	1,578
Capital transfers	198	191	195	210	215	221	226	232
FDI	717	300	350	678	728	758	778	778
Net bank financing	962	-227	7	44	81	88	108	114
Foreign loans	664	717	367	468	453	495	542	569
Government	382	539	181	263	228	246	268	269
Other	282	178	187	205	226	248	273	300
Gross international reserves (– = increase)	206	45	-245	-329	-164	93	185	19
Other	-601	169	-145	-110	-114	-122	-129	-134
Financing gap [1]	...	…	712	323	191	0	0	0
Fiscal	...	…	475	58	0	...	...	...
Augmentation of reserves	...	…	237	265	191	...	...	...
IMF	...	…	474	265	191	...	...	...
World Bank	...	…	138	58	0	...	...	...
EU	...	…	100	0	0	...	...	...
Other (including London Club debt deferment)	...	…	0	0	0	...	...	...

Table 10b. Bosnia and Herzegovina: Gross Financing Requirements 2008–15
(In percent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015
Financing requirements	17.0	9.7	9.8	9.5	9.5	9.7	10.1	8.6
Current account deficit	14.9	7.5	7.3	7.1	7.0	6.3	5.8	5.7
Amortization	2.1	2.2	2.4	2.5	2.5	3.4	4.3	2.9
Government, excluding IMF repurchases	0.5	0.6	0.9	1.1	1.2	2.1	3.0	1.7
Other	1.6	1.6	1.5	1.4	1.3	1.3	1.3	1.2
Financing	17.0	9.7	9.8	9.5	9.5	9.7	10.1	8.6
Capital transfers	1.6	1.5	1.5	1.6	1.5	1.4	1.3	1.3
FDI	5.7	2.4	2.8	5.0	5.0	4.8	4.6	4.3
Net bank financing	7.6	-1.8	0.1	0.3	0.6	0.6	0.6	0.6
Foreign loans	5.3	5.8	2.9	3.5	3.1	3.1	3.2	3.1
Government	3.0	4.4	1.4	1.9	1.6	1.6	1.6	1.5
Other	2.2	1.4	1.5	1.5	1.5	1.6	1.6	1.6
Gross international reserves (– = increase)	1.6	0.4	-1.9	-2.4	-1.1	0.6	1.1	0.1
Other	-4.8	1.4	-1.1	-0.8	-0.8	-0.8	-0.8	-0.7
Financing gap [1]	...	…	5.6	2.4	1.3	0.0	0.0	0.0
Fiscal	...	…	3.7	0.4	0.0	...	...	...
Augmentation of reserves	...	…	1.9	2.0	1.3	...	...	...
IMF	...	…	3.7	2.0	1.3	...	...	...
World Bank	...	…	1.1	0.4	0.0	...	...	...
EU	...	…	0.8	0.0	0.0	...	...	...
Other (including London Club debt deferment)	...	…	0.0	0.0	0.0	...	...	...

Source: IMF staff projections and calculations.

[1] Disbursements of budget support loans and grants from multilateral creditors (incl. IMF) are recorded under "Foreign loans" and "Current transfers", respectively, in the year they are drawn, and under "Identified financing of financing gap" in projections.

Table 11. Bosnia and Herzegovina: Indicators of Capacity to Repay the Fund, 2008–15

	2008	2009	2010	2011	2012	2013	2014	2015
	Est.	Projections						
Fund repurchases and charges								
In millions of SDRs		1.3	5.5	9.6	35.6	174.5	322.8	319.0
In millions of U.S. dollars		2.1	8.6	14.8	55.1	270.0	499.5	494.4
In percent of exports of goods and NFS		0.0	0.1	0.2	0.8	3.9	6.7	6.4
In percent of debt service		1.2	4.9	5.9	19.1	75.8	120.9	94.2
In percent of quota		0.8	3.3	5.7	21.1	103.3	190.9	188.9
In percent of gross official reserves		0.0	0.2	0.3	1.0	5.2	10.2	10.2
Fund credit outstanding								
In millions of SDRs		182.6	608.8	845.5	991.8	829.4	516.2	202.9
In millions of U.S. dollars		281.7	943.5	1,306.7	1,533.5	1,283.2	798.9	314.5
In percent of quota		108.0	360.0	500.0	586.5	490.5	305.2	120.0
In percent of GDP		1.6	5.3	7.0	7.6	6.0	3.5	1.3
In percent of gross official reserves		6.1	19.9	25.3	28.7	24.7	16.3	6.5
Memorandum items:								
Exports of goods and services (millions of US$)	6,840	5,335	5,771	6,174	6,547	7,003	7,419	7,772.6
Debt service (millions of US$)	172	175	251	288	356	413	525	536
Quota (millions of SDRs)	169	169	169	169	169	169	169	169
Quota (millions of US$)	267	261	262	261	261	262	262	262
Gross official reserves (millions of US$)	4,385	4,637	4,738	5,155	5,348	5,187	4,905	4,850
GDP (millions of US$)	18,512	17,133	17,641	18,615	20,063	21,512	22,986	24,565

Source: Fund staff estimates.

Table 12. Bosnia and Herzegovina: Performance Criteria Under the 2009–12 Stand-By Arrangement, 2009
(In millions of KM)

	End-year stock	Cummulative flow within the calendar year				
	2008	2009				
	December	June	September		Dec	
	Actual	Actual	Program	Actual	Program	Actual
Ceiling on accumulation of net credit of the banking system to: [1]						
General government	-2,338	261	476	156	676	309
of which:						
State government	-412	-89	44	-69	44	-30
RS government	-1,109	285	424	398	536	523
Federation government	-737	86	15	-161	108	-191
Ceiling on new guarantees and the assumption of enterprise debt to banks by the State, Federation and RS governments [2]	…	0	0	0	0	0
Ceiling on accumulation external debt service arrears [2]	…	0	0	0	0	0
Ceiling on contracting new short-term external nonconcessional debt [2]	…	0	0	0	0	0
Ceiling on accumulation of domestic arrears of: [2]						
State government	…	0	0	0	0	0
RS government	…	0	0	0	0	0
Federation government	…	0	0	0	0	0

[1] Cumulative within each calendar year. Equal to the sum of the three listed sub-ceilings plus the net bank credit to the District of Brčko, which is not monitored individually due to its small size.

[2] Continuous.

Table 13. Bosnia and Herzegovina: Performance Criteria Under the 2009–12 Stand-By Arrangement, 2010
(In millions of KM)

	Stock	Cumulative flow since the beginning of the referenced year			
	2009	2010			
	December	March	June	September	December
	Actual	Program	Program	Ind target	Ind target
Ceiling on accumulation of net credit of the banking system to: [1, 2]					
General government	-2,029	333	580	759	845
of which:					
State government	-442	20	-11	75	122
RS government	-586	251	429	564	638
Federation government	-928	61	164	122	91
Ceiling on new guarantees and the assumption of enterprise debt to banks by the State, Federation and RS governments [3]	…	0	0	0	0
Ceiling on accumulation external debt service arrears [3]	…	0	0	0	0
Ceiling on contracting new short-term external nonconcessional debt [3]	…	0	0	0	0
Ceiling on accumulation of domestic arrears of: [3]					
State government	…	0	0	0	0
RS government	…	0	0	0	0
Federation government	…	0	0	0	0

[1] Equal to the sum of the three listed sub-ceilings plus the net bank credit to the District of Brčko, which is not monitored individually due to its small size.
[2] The targets on banking system net claims the general government will be adjusted upward (downward) by the full amount of any shortfall (surplus) in programmed disbursements of budget support loans and grants; and will also be adjusted upward (downward) by the amount by which reported change in float is arithmetically smaller (greater) than its targets in the fiscal program. The upward adjustment is limited to 10 percent of the absolute value of the respective change-in-float target (see Technical Memorandum of Understanding on Definitions and Reporting Under the 2009–12 Economic Program).
[3] Continuous.

Table 14. Bosnia and Herzegovina: Performance for the First Review under the 2009–12 Stand-By Arrangement

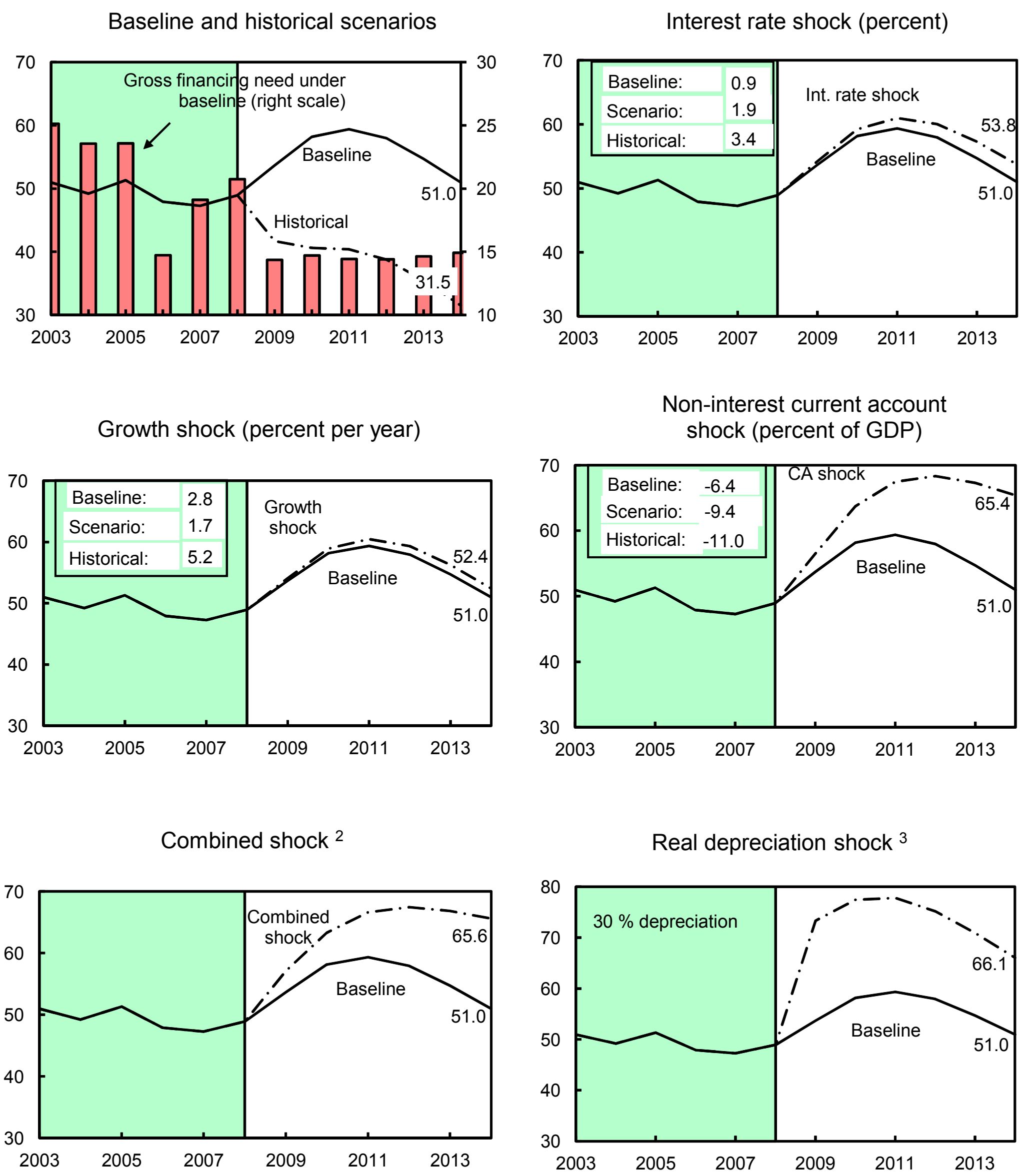
		Target date	Status
I.	**Quantitative performance criteria**		
1.	Ceiling on accumulation of net credit of the banking system to:	December 2009	
	general government		observed
	State government		observed
	RS government		observed
	Federation government		observed
2.	Ceiling on new guarantees and assumption of enterprise debt to banks by the State, Federation and RS governments	December 2009	observed
3.	Ceiling on accumulation of external payment arrears	December 2009	observed
4.	Ceiling on contracting new short-term external nonconcessional debt	December 2009	observed
5.	Ceiling on accumulation of domestic payment arrears	December 2009	
	State government		observed
	RS government		observed
	Federation government		observed
II.	**Current Structural Benchmarks**		
A.	Continued adherence of the Currency Board Arrangement as constituted under the law	continuous	observed
B.	**Fiscal Sector**		
1.	Approve the rebalanced budgets by the Entity Parliaments	end-August 2009	observed
2.	Agree on an action plan acceptable to the World Bank and IMF staffs to reform the system of rights-based transfers (Federation)	end-November 2009	observed with delay
3.	Submit to the Parliament a Law forbidding passing of unfunded legislation (Federation)	end-November 2009	observed with delay
4.	Publish on the State government's web site quarterly consolidated general government accounts with a 5 week lag	continuous	observed partially, with delay
C.	**Financial Sector**		
1.	Form a standing committee of financial stability and sign the MoU on financial stability, crisis preparedness and crisis management	end-November 2009	observed with delay
2.	The Deposit Insurance Agency to impose a principle of universal membership requirements, including for partially state-owned banks	end-February 2010	observed
III.	**Proposed New Conditionality**		
	Prior Actions		
1.	Approve by State and Entity Parliaments 2010 budgets consistent with the program, including supporting legislation		met
2.	Enact by Entity Parliaments framework legislation in preparation for the transition to a means-tested system of rights-based benefits (Federation, RS)		met
3.	Enact law to eliminate special unemployment benefits granted to demobilized soldiers effective May 1, 2010 (Federation)		met
	Structural Benchmarks		
1.	Carry out eligibility audits for civil and war benefit recipients; publish results (quarterly within 4 weeks after the end of each quarter) of audits, including expected savings from disqualifications (Federation, RS)	continuous	
2.	Adopt by Parliament wage legislation consistent with the 2010 fiscal policy objectives (Federation)	end-March 2010	
3.	Reform privileged pensions by entity governments (Federation, RS)	end-March 2010	
4.	Prepare a strategy for pension reform by entity governments (Federation, RS)	end-March 2010	

Table 15. Bosnia and Herzegovina: Schedule of Purchases
Under the Stand-By Arrangement, 2009–12

	Available on or after	Amount of Purchase: In millions of SDRs	Amount of Purchase: In percent of quota [1]	Conditions
1	July 8, 2009	182.63	108	Board approval of the arrangement.
2	December 10, 2009	87.93	52	Observance of end-September 2009 performance criteria and completion of the first program review.
3	March 10, 2010	33.82	20	Observance of end-December 2009 performance criteria, and completion of the quarterly program review.
4	June 10, 2010	33.82	20	Observance of end-March 2010 performance criteria and completion of the quarterly program review.
5	September 10, 2010	135.28	80	Observance of end-June 2010 performance criteria and completion of the quarterly program review.
6	December 10, 2010	135.28	80	Observance of end-September 2010 performance criteria and completion of the quarterly program review.
7	March 10, 2011	33.82	20	Observance of end-December 2010 performance criteria and completion of the quarterly program review.
8	June 10, 2011	33.82	20	Observance of end-March 2011 performance criteria and completion of the quarterly program review.
9	September 10, 2011	84.55	50	Observance of end-June 2011 performance criteria and completion of the quarterly program review.
10	December 10, 2011	84.55	50	Observance of end-September 2011 performance criteria and completion of the quarterly program review.
11	March 10, 2012	84.55	50	Observance of end-December 2011 performance criteria and completion of the quarterly program review.
12	June 10, 2012	84.55	50	Observance of end-March 2012 performance criteria and completion of the quarterly program review.
	Total	**1,014.60**	**600**	

[1] The quota is SDR 169.1 million.

Appendix Figure 1. Bosnia and Herzegovina: External Debt Sustainability: Bound Tests [1] (External debt in percent of GDP)



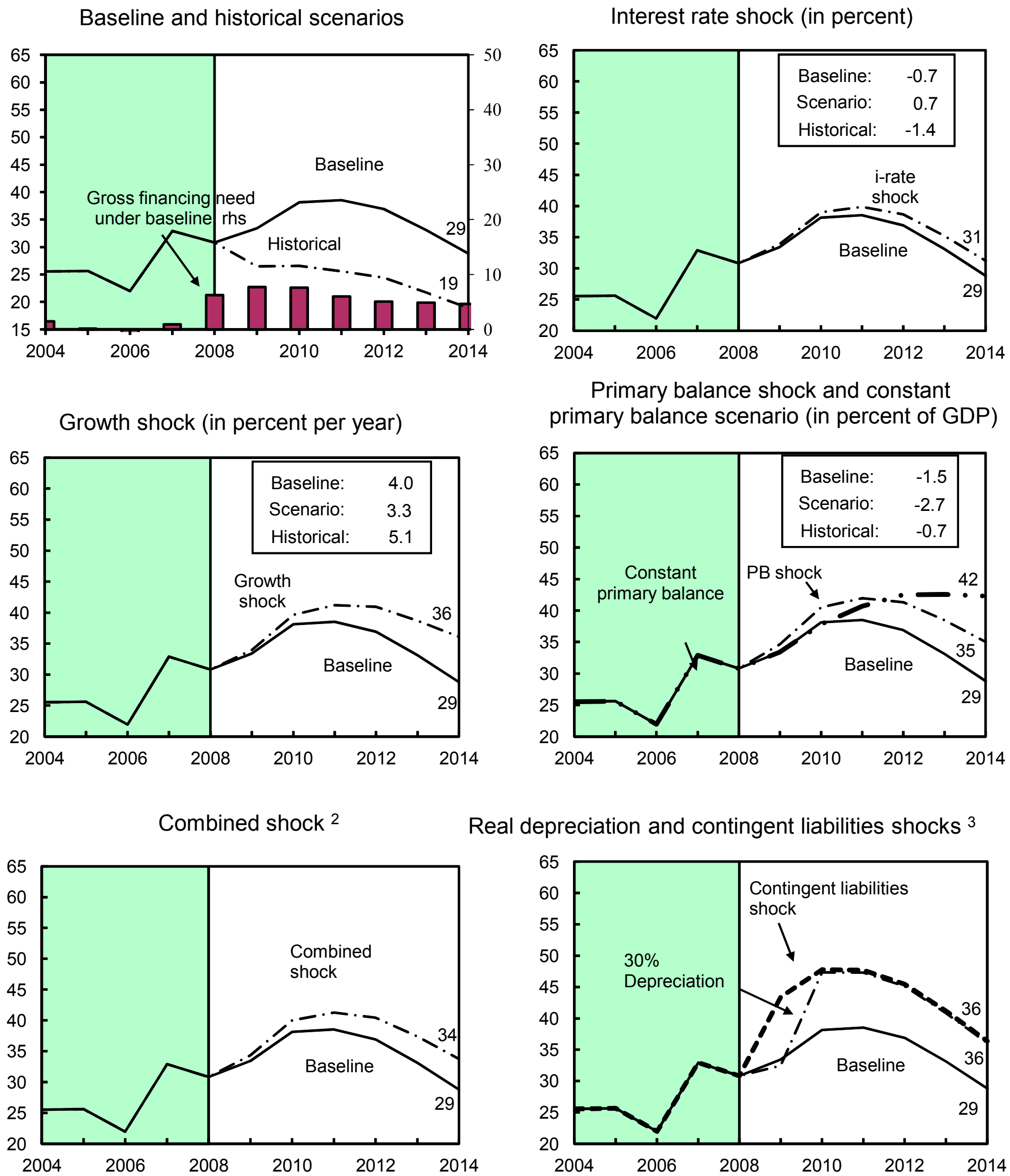
Sources: International Monetary Fund, Country desk data, and staff estimates.

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

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

[3] One-time real depreciation of 30 percent occurs in 2009.

Appendix Figure 2. Bosnia and Herzegovina: Public Debt Sustainability: Bound Tests [1] (Public debt in percent of GDP)



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

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

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

[3] One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix Table 1. Bosnia and Herzegovina: External Debt Sustainability Framework, 2005–2014

(In percent of GDP, unless otherwise indicated)

		Actual				Projections						Debt-stabilizing non-interest current account [6]
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
1	**Baseline: External debt**	51.3	47.9	47.3	48.9	53.7	58.2	59.4	58.0	54.7	51.0	**-8.8**
2	Change in external debt	2.1	-3.4	-0.6	1.7	4.8	4.5	1.2	-1.4	-3.2	-3.7	
3	Identified external debt-creating flows (4+8+9)	3.9	-8.2	-13.5	0.0	7.4	1.5	-2.5	-3.8	-3.8	-3.4	
4	Current account deficit, excluding interest payments	17.0	7.4	11.4	14.2	7.1	6.9	6.6	6.4	5.8	5.4	
5	Deficit in balance of goods and services	41.1	29.7	32.3	32.9	23.5	24.1	23.4	22.7	21.8	21.2	
6	Exports	32.7	36.7	36.5	37.0	31.1	32.7	33.1	32.6	32.5	32.3	
7	Imports	73.9	66.5	68.8	69.8	54.7	56.8	56.5	55.3	54.3	53.4	
8	Net non-debt creating capital inflows (negative)	-10.9	-10.3	-16.9	-6.2	-4.0	-4.3	-6.6	-6.4	-6.2	-5.9	
9	Automatic debt dynamics [1]	-2.3	-5.3	-7.9	-7.9	4.3	-1.1	-2.6	-3.7	-3.4	-2.9	
10	Contribution from nominal interest rate	1.0	1.0	1.2	0.8	0.4	0.5	0.5	0.5	0.5	0.5	
11	Contribution from real GDP growth	-1.8	-3.1	-2.7	-1.9	1.8	-0.3	-2.2	-3.2	-2.8	-2.3	
12	Contribution from price and exchange rate changes [2]	-1.4	-3.1	-6.5	-6.8	2.1	-1.3	-0.8	-1.1	-1.1	-1.0	
13	Residual, incl. change in gross foreign assets (2-3) [3]	-1.8	4.8	12.8	1.6	-2.6	3.0	3.7	2.3	0.5	-0.3	
	External debt-to-exports ratio (in percent)	156.8	130.4	129.5	132.4	172.4	177.9	179.1	177.7	168.2	158.1	
	Gross external financing need (in billions of US dollars) [4]	2.5	1.8	2.9	3.8	2.5	2.6	2.7	2.9	3.1	3.4	
	in percent of GDP	23.6	14.7	19.1	20.8	14.4	14.7	14.4	14.4	14.6	14.9	
	Scenario with key variables at their historical averages [5]					**41.7**	**40.6**	**40.4**	**38.8**	**35.5**	**31.5**	**-14.6**
	Key Macroeconomic Assumptions Underlying Baseline											
	Real GDP growth (in percent)	3.9	6.9	6.8	4.9	-3.4	0.5	4.0	5.8	5.3	4.5	
	GDP deflator in US dollars (change in percent)	3.0	6.5	15.6	16.8	-4.2	2.5	1.5	1.9	1.9	2.3	
	Nominal external interest rate (in percent)	2.1	2.2	3.1	2.0	0.7	0.9	0.9	1.0	0.9	0.8	
	Growth of exports (US dollar terms, in percent)	19.6	27.7	23.6	22.9	-22.0	8.1	7.0	6.0	7.0	5.9	
	Growth of imports (US dollar terms, in percent)	12.3	2.4	28.7	23.1	-27.5	7.0	5.0	5.4	5.3	5.1	
	Current account balance, excluding interest payments	-17.0	-7.4	-11.4	-14.2	-7.1	-6.9	-6.6	-6.4	-5.8	-5.4	
	Net non-debt creating capital inflows	10.9	10.3	16.9	6.2	4.0	4.3	6.6	6.4	6.2	5.9	

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

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

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

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

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

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

Appendix Table 2. Bosnia and Herzegovina: Public Sector Debt Sustainability Framework, 2005–14

(In percent of GDP, unless otherwise indicated)

		Actual				Projections						
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	**Debt-stabilizing primary balance** [9]
1	**Baseline: Public sector debt** [1]	25.6	22.0	32.9	30.8	**33.4**	**38.1**	**38.5**	**36.9**	**33.1**	**28.8**	**-3.0**
	o/w foreign-currency denominated	25.6	21.2	17.5	17.2	19.9	25.5	27.2	26.7	24.2	21.1	
2	Change in public sector debt	0.1	-3.7	10.9	-2.1	2.6	4.7	0.4	-1.6	-3.8	-4.3	
3	Identified debt-creating flows (4+7+12)	0.4	-7.7	-12.2	0.7	6.0	3.7	-1.2	-2.8	-3.0	-3.2	
4	Primary deficit	-1.4	-2.9	-0.5	4.3	4.7	3.9	2.2	1.0	0.5	0.0	
5	Revenue and grants	45.5	47.4	47.2	45.5	44.1	44.3	44.3	44.7	44.8	44.9	
6	Primary (noninterest) expenditure	44.2	44.5	46.6	49.8	48.8	48.2	46.5	45.7	45.3	44.9	
7	Automatic debt dynamics [2]	2.1	-4.6	-3.9	-3.0	1.3	-0.2	-1.7	-2.3	-2.1	-1.8	
8	Contribution from interest rate/growth differential [3]	-1.1	-2.2	-2.1	-3.2	1.3	-0.2	-1.7	-2.3	-2.1	-1.8	
9	Of which contribution from real interest rate	-0.2	-0.7	-0.8	-1.8	0.2	-0.1	-0.3	-0.2	-0.3	-0.4	
10	Of which contribution from real GDP growth	-0.9	-1.6	-1.3	-1.4	1.1	-0.2	-1.4	-2.1	-1.8	-1.4	
11	Contribution from exchange rate depreciation [4]	3.2	-2.4	-1.8	0.2	...	...	...	...	...	...	
12	Other identified debt-creating flows	-0.3	-0.1	-7.7	-0.6	-0.1	0.0	-1.7	-1.6	-1.5	-1.4	
13	Privatization receipts (negative)	-0.3	-0.1	-7.7	-0.6	-0.1	0.0	-1.7	-1.6	-1.5	-1.4	
14	Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15	Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16	Residual, including asset changes (2-3) [5]	-0.3	4.0	23.1	-2.8	-3.3	1.1	1.6	1.2	-0.8	-1.2	
	Public sector debt-to-revenue ratio [1]	56.3	46.3	69.8	67.7	75.8	86.1	87.0	82.6	73.9	64.1	
	Gross financing need [6]	0.1	-1.3	0.9	6.2	7.7	7.6	6.0	5.1	4.9	4.6	
	in billions of U.S. dollars	0.0	-0.2	0.1	1.2	1.3	1.3	1.1	1.0	1.1	1.1	
	Scenario with key variables at their historical averages [7]					**26.4**	**26.6**	**25.6**	**24.4**	**21.7**	**18.9**	**-2.4**
	Scenario with constant primary balance in 2009-2014					**33.4**	**37.8**	**40.7**	**42.5**	**42.5**	**42.3**	**-3.5**
	Key Macroeconomic and Fiscal Assumptions Underlying Baseline											
	Real GDP growth (in percent)	3.9	6.9	6.8	4.9	-3.4	0.5	4.0	5.8	5.3	4.5	
	Average nominal interest rate on public debt (in percent) [8]	2.5	3.1	3.2	1.8	1.7	2.0	1.8	2.0	1.8	1.7	
	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.7	-2.6	-3.9	-5.9	0.7	-0.2	-0.7	-0.5	-0.7	-1.2	
	Nominal appreciation (increase in US dollar value of local currency, in percent)	-11.6	11.4	10.3	-1.5	...	...	...	...	...	...	
	Inflation rate (GDP deflator, in percent)	3.2	5.7	7.1	7.7	1.0	2.2	2.5	2.5	2.5	2.9	
	Growth of real primary spending (deflated by GDP deflator, in percent)	4.1	7.8	11.3	12.5	-5.2	-0.9	0.4	4.0	4.3	3.5	
	Primary deficit	-1.4	-2.9	-0.5	4.3	4.7	3.9	2.2	1.0	0.5	0.0	

[1] General government.

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

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

[4] The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

[5] For projections, this line includes exchange rate changes.

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

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

[8] Derived as nominal interest expenditure divided by previous period debt stock.

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

ATTACHMENT I. BOSNIA AND HERZEGOVINA: LETTER OF INTENT

Sarajevo and Banja Luka, Bosnia and Herzegovina
March 5, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. The economy of Bosnia and Herzegovina (BiH) has been adversely affected by the global financial and economic crisis. The impact of the crisis has been aggravated by underlying imbalances in our economy, raising concerns about macroeconomic stability and BiH's long-term prospects. Economic activity has been contracting, hit by declines in exports and domestic demand. However, recent indicators suggest that the pace of the contraction is slowing and we expect a gradual improvement in 2010. The current account deficit of the balance of payments is shrinking, and external financial strains have eased. Foreign banks have broadly maintained their exposure to BiH, household deposits have resumed flowing into the banking system, and foreign exchange reserves have partly recovered.

2. Despite the challenging environment, policy implementation of the IMF-supported program has been broadly in line with our commitments (Tables 1 and 3). All quantitative performance criteria for end-September and end-December 2009 and structural benchmarks have been met albeit some with a delay. Regarding the structural benchmark for the publication on the State government's website of quarterly consolidated general government data (continuous structural benchmark), we have established a coordinating group with the task of collecting and consolidating fiscal statistics from all levels of government to ensure that we meet this benchmark on time in the future.

3. Although we were able to keep overall expenditures in check, revenue shortfalls led to a 2009 fiscal deficit outturn above the program objective, and ongoing fiscal pressures put achievement of the program's 2010 fiscal deficit objective at risk. We have thus identified corrective measures elaborated in this Letter. In view of this performance and our continued commitment to the program, we request completion of the first review under the Stand-By Arrangement.

4. The policies described in the letter of June 16, 2009 and in this Letter are adequate to achieve the objectives of our economic program, and we stand ready to take additional measures as appropriate to ensure the attainment of these objectives. As is standard under all

IMF arrangements, we will consult with the IMF before modifying measures contained in this letter or adopting new measures that would deviate from the goals of the program, and provide the IMF with the necessary information for program monitoring.

I. Recent Developments

5. Since the beginning of 2009, the downturn has quickly spread across the economy and, as elsewhere in the region, the sharp drop in domestic demand has helped drive down imports substantially, while exports have declined as well, but by a lesser amount. As a result, the trade deficit is narrowing faster than initially projected, leading to a sharp contraction in the current account deficit. Inflation has declined sharply from near 10 percent in mid-2008 to zero by end-2009, partly aided by drops in food and energy prices.

6. Financial market stress has eased, reflecting an improvement in market sentiment. Nongovernment deposits have been flowing back into the banking system and central bank reserves have strengthened in large part owing to the first purchase under the SBA and the SDR allocation. Commercial banks are liquid but their reluctance to assume increased risk and the general worsening of the economic environment have brought credit growth to a halt.

7. However, because of uneven implementation of fiscal policy measures included in the program and revenue shortfalls, the general government deficit has been widening. We now estimate that the consolidated general government deficit in 2009 reached 5.3 percent of GDP compared with a deficit of 4.8 percent in 2008 and against a deficit objective of 4.7 percent under the program. Limiting the consolidated fiscal deficit to this level took substantial efforts from all governments (see below). The State budget is estimated to have recorded a surplus. In the Federation, the fiscal slippage is mainly attributed to revenue shortfalls, while overruns in current expenditure were partially compensated by cuts in capital spending. In the Republika Srpska (RS), shortfalls in indirect tax revenues have been more than offset by better than budgeted social contributions and direct taxes. However, overruns took place in the wage bill and pressures on the finances of the pension fund have been increasing.

II. The Program

8. The main objectives of the program remain to preserve macroeconomic and financial stability, safeguard the currency board, and cushion the effects of the adverse external environment. Uneven implementation of our commitments in the fiscal area will necessitate stronger efforts in the coming months. The fiscal consolidation and public sector wage restraint will ensure stability in the short term, but also bring us back on the path of fiscal sustainability. Fiscal policy measures will be accompanied by measures to strengthen the financial sector and ambitious structural reforms to improve public finance management, and the competitiveness of our economy, thus providing an environment conducive to robust private sector activity.

A. Macroeconomic Framework

9. The macroeconomic framework has retained cautious assumptions. A gradual return to positive growth is projected, with GDP gaining about 0.5 percent in 2010, aided by recovery in the euro area. Inflation is expected to pick up slightly, approaching 1½ percent by end-2010. While exports are expected to lead the recovery, imports are also projected to grow, but at a fairly modest rate. As a result, the current account deficit is expected to remain flat, but considerably below pre-crisis levels.

B. Fiscal Policy

10. Since the approval of the program in July 2009, we have maintained fiscal prudence. We prepared rebalanced budgets of the two Entity budgets incorporating all our commitments. Since the delay in completion of the first SBA review also delayed the second disbursement from the Fund, the Fiscal Council recommended distribution of the funds from the SDR allocations to the two Entities, which used them for budget financing (within the agreed deficit objectives).

11. The Institutions of Bosnia and Herzegovina have adopted the amendments to wage legislation, effective from July 1st, 2009, as agreed under the Letter of Intent as of June 16 2009. In addition, BiH Institutions have implemented saving measures in 2009 as instructed by the ministry of finance and treasury. These measures are estimated to have achieved a surplus of 0.1 percent of GDP in 2009.

12. The Federation exercised restraint in spending, at all levels of government and across all types of expenditures in 2009. However, given the further shortfalls in revenue collection, in particular of indirect tax revenues, the Ministry of Finance adopted a budget rebalance, which provided for further cuts of public revenues of KM 55 million.

13. In July 2009, the Federation Parliament passed a Law on Savings, providing for savings on wages, allowances, transfers and other current spending for the duration of the program on a temporary basis, and until new legislation reforming spending in these categories is designed and adopted.

14. In order to legally regulate the wage cuts for government employees and the employees of other institutions financed from the Federation budget, the government passed amendments and changes to the Law on Savings providing for changes of Articles 1 and 2 in a way to include the following provisions regarding savings on: (i) gross wages and allowances through 10 percent cuts and (ii) employees' allowances by introducing a ceiling of 1 percent of the average wage on meal allowances and lowering the vacation allowance to 50 percent of the average wage from 75 percent of the individual wage. Until the Amendments and Changes to the Law on Savings become effective, the Federation

government has passed, as a temporary measure, a decision on coefficient cuts across wage grades of all budget users.

15. Republika Srpska adopted a rebalanced budget for 2009 by December 31, 2009 which incorporated lower overall spending.

16. We will continue fiscal consolidation in 2010. To this end, we will aim at a general government deficit of 4½ percent of GDP. Our adjustment efforts will focus on controlling current expenditure, thus allowing space for spending on much-needed infrastructure. Wages in the public sector have grown very rapidly over the past few years and we are committed to wage restraint across all levels of government. We are also planning comprehensive structural fiscal reforms to return public finances to a sustainable path.

17. On the revenue side, we have already approved a Law on Excises, which will lead to a full harmonization of excises on tobacco by 2015 with those stipulated in the EU directives. On January 1, 2010, these excises increased again (with an estimated impact KM 120 million—0.5 percent of GDP).

18. In 2010, the Institutions of Bosnia and Herzegovina will continue to implement restrictive wage policy based on legislation amended in 2009. Total spending in the 2010 budget of BiH Institutions will be slightly lower in comparison to the 2009 budget. As a result of a drawdown in deposits accumulated in 2008 and 2009, to finance part of the expenditures in 2010 budget, deficit will reach 0.8 percent of GDP (KM 194 million).

19. To address the weaknesses in the current system of public wages and transfers on a lasting basis, the Federation Government has elaborated a new draft law on wages and allowances for civil servants in all levels of government and draft legislation regulating social sector. These will allow a further reduction in the wage bill and keeping social transfers at the level of the rebalanced 2009 budget. As a result, the consolidated budget deficit will go down to KM 439 million in 2010.

20. The Federation Government shall undertake, in consultation with the World Bank, comprehensive reforms of the system of rights-based benefits, with the objective of better targeting through means-testing. We intend to: (i) introduce means-testing for acquisition of social benefit rights for disabled civilians, civilian war victims, and war-disabled (from January 1, 2011), and income tests for war medal holders (from May 1, 2010); (ii) link increases in all allowances to inflation, rather than average salary increases; and (iii) pass a law to eliminate the special benefits for unemployed demobilized soldiers, effective May 1, 2010 (prior action—already met). We will reform privileged pensions (structural benchmark, end-March 2010), specifically: (i) pension rights of war disabled people and demobilized soldiers; (ii) rights to pensions under favourable conditions of military insurees of FBiH Armed Forces, civil servants and employees of the former Federal Ministry of Defence. We will consult with the IMF on any new proposed legislation in the area of rights-based

benefits and ensure that it is consistent with the goal of fiscal sustainability and the objectives of the reform of these benefits. Specifically, any reintroduction of benefits for demobilized soldiers currently under consideration will not feature cash benefits, special pensions, housing loans or subsidized provision of housing.

21. These reforms will be supported through amendments to the following existing laws:

- Law on Audit of Rights of Beneficiaries Entitled to Defence-Invalid Protection (already adopted by parliament). Audits have started on January 1, 2010 and the disqualified beneficiaries will see their benefits cut immediately. The results of the audits will be published on a quarterly basis in the government's website, along with the estimates of realized monthly savings (continuous structural benchmark).

- Amendments to the Law on Rights of War Veterans and Members of their Families.

- Amendments to the Law on Rights of War Medal and Order Holders to become effective May 1, 2010;

- Law on Social Protection Basis and Social Security Minimum; Law on Basic Rights of Individuals with Disabilities; Law on Civilian War Victims by March 31, 2010;

- Framework Law on Targeting of Cash Benefits was adopted by Parliament (prior action).

- Law on Preferential Retirement of War Insurees which would unify all the FBiH Government provisions on preferential conditions for acquisition of rights to age retirement of military insurees of FBiH Armed Forces, civil servants and employees of the former Federal Ministry of Defence (Provision I, II and III). The purpose of the amendment will be to reduce the amounts paid out for privileged pensions (by tightening eligibility criteria and bringing the average amount closer to the average amount of regular pensions) and align the total cost with the resources earmarked for this purpose. This will help safeguard the financial integrity of the public pension system, on which the most vulnerable groups of society rely for income.

- To advance the transition to a means-tested system of social benefits, we will undertake the comprehensive property and revenue census, and introduce audits of property status for all the holders of civilian and war veteran rights by January 1, 2011.

22. The Government of the Federation will establish a centralised system of registration, control, and collection of taxes and contributions. This system will help improve implementation of laws and compliance with laws and regulations. For this purpose, we have

adopted the Law on Fiscal Systems regulating record keeping and control of sales through fiscal systems.

23. The Federation Government will adopt a comprehensive Law on Wages to establish a fully harmonized, comprehensive and transparent remuneration system across all levels of government (structural benchmark, end-March 2010). All allowances and contributions will be consolidated in the base wage. This law will prescribe payment classes and coefficients for the categories of elected officials, managers, advisors, civil servants and police officers. The base will be determined by Government in consultation with the Trade Union, in accordance with the transparency principle.

24. The Federation Government recognises the need to change the budget process to ensure that adopted laws are adequately financially supported. For this purpose, we will be working toward adoption of a law on fiscal responsibility. In the meantime, amendments to the Law on the Budget have been adopted. The purpose of the amendments is to ensure that no legislation can be adopted without a full analysis of its fiscal implications and financing. This will rule out adoption of legislation for which adequate funding has not been identified.

25. The Government of Republika Srpska adopted a 2010 budget envisaging a consolidated deficit of KM 497 million (2 percent of GDP). Substantial cuts are envisaged for the wage bill: (i) a wage cut of KM 3 million compared to the 2009 budget rebalance will be carried out through amendments and changes of the RS Law on wages of government employees, Law on wages of Ministry of Interior employees, of those employed with correction institutions and court police as well as the Law on wages of those employed in education and culture or by Government decision; (ii) wage cuts to the employees in local administration units of KM 8.5 million in 2010 compared to the 2009 budget execution; (iii) wage cuts to the extra-budgetary funds employees (PIO, Health Fund, Child Protection Fund and Employment Fund) of KM 3.7 million compared to the 2009 budget execution; and (iv) wage cuts to PE”RS Roads” employees of KM 0.3 million compared to the 2009 budget execution.

26. Savings of KM 40 million will be realized on extra-budgetary funds: (i) the Pension Fund will save KM 25 million in line with the Pension System Reform Strategy and Restoration of the first mandatory insurance pillar; (ii) the Health Fund will save KM 15 million in health system costs; (iii) the deficit of the PIO Fund will be reduced by clearing the arrears of the RS budget as pursuant to the Protocol on mutual reconciliation of obligations and claims for war veterans’ pension contributions (dated July 12, 2007) through escrow account payments—KM 38 million. Also savings in consolidated balance of KM 10 million are envisaged.

27. Republika Srpska has already amended and changed the Law on rights of war veterans and families of deceased soldiers and the Law on protection of the civil victims of

the war as envisaged under the World Bank DPL project. The RS National Assembly also amended and changed the Law on pension and disability insurance and the Pension System Reform Strategy will be adopted by end-March 2010 (structural benchmark).

28. The Entity governments understand that our adjustment program may have an impact on the vulnerable groups of our population. Thus, the envisaged reforms are critical to ensuring that financial public support for households is better targeted toward the most vulnerable groups of society, and that financial integrity of public pension and unemployment insurance schemes does not become jeopardized.

C. Financial Sector Policies

29. The banking system has been able to withstand the shock of the global financial crisis. However, nonperforming loans have increased from 3 percent of assets at end 2008 to 5.8 percent at end December 2009, and profitability has declined. The two banking agencies are closely monitoring banking sector developments and ensure that banks continue to have adequate capital. To this end, banks have been instructed to retain profits and build up their buffers to prevent capital depletion. The banking agencies will ensure that banks have a forward-looking capital plan that will show how any potential deterioration in capital levels will be addressed and the banking agencies and the banks will review such plans periodically, to account for changing macroeconomic environment.

30. Parent banks have also pledged to continue to support their subsidiaries in BiH and more specifically to maintain their exposure to BiH. The CBBH has received all 9 bilateral commitment letters from the parents of, mainly large, foreign-owned banks, confirming their commitments made in Vienna in June 2009 and Sarajevo in September 2009. The CBBH and the Banking Agencies are in the process of monitoring the parent banks' commitments. To help monitor the level of parent bank exposure to BiH, the parent banks have been requested to provide comprehensive data on their exposures on a regular basis. In addition, bilateral discussions with banks will be initiated to review their capital adequacy, on the basis of stress tests to be finalized by the CBBH in cooperation with the two banking agencies.

31. We continue to improve our framework for crisis preparedness and management. To this end we have established a Standing Committee for Financial Stability (SCFS), which consists of members of the Fiscal Council, the CBBH, the two banking agencies, and the Deposit Insurance Agency. A Memorandum of Understanding that establishes the formal framework of cooperation among the various parties has already been signed. We will be meeting on a regular basis to discuss and exchange information related to financial stability.

32. We are also continuing to improve our deposit insurance scheme to ensure continued confidence in our banking system. We have amended the deposit insurance regulation to enable all banks, regardless of the bank's ownership, to become a member of the deposit

insurance scheme if the bank fulfills the necessary prudential criteria (structural benchmark for end-February 2010). In addition, we have signed an agreement with EBRD on access to emergency credit.

D. Other

33. We have already made important progress in improving the quality of statistics, particularly of the government accounts with the objective of compiling data harmonized with Eurostat and the IMF's Government Statistics guidelines. Under the umbrella of the Fiscal Council, we created a coordinating group with the task of collecting and consolidating the fiscal statistics from all levels of government in BiH. We will ensure timely submission of all fiscal statistics by lower levels of government in the two Entities. We will make progress towards improving data collection and reconciliation of external grants and loan disbursements at the level of donors, state, and Entities. We will also broaden the coverage of reporting on fiscal execution to include foreign-financed projects and off-budget spending from escrow accounts in general government fiscal accounts in the two Entities.

34. On the basis of the conclusions of the updated safeguard assessment of the CBBH, we are planning to: (i) revise the Audit Committee charter to include into its responsibilities an oversight of the external audit process and the requirement that at least one member of the Committee is an expert in accounting and/or audit issues; and (ii) ensure that audit procedures for FY2009 include confirmation that foreign assets are not pledged.

35. The program will continue to be monitored through quarterly reviews, prior actions, quantitative performance criteria, and structural benchmarks. Revised quantitative targets for 2010 are set out in Table 2; and structural benchmarks are set out in Table 3. We request that the end-March and end-June 2010 targets be established as performance criteria. The understandings between the authorities of Bosnia and Herzegovina and IMF staff regarding the quantitative performance criteria described in this memorandum are further specified in the TMU attached to this memorandum.

36. IMF resources under the arrangement will be disbursed to the Central Bank of Bosnia and Herzegovina, which acts as the fiscal agent for BiH, and credited to an account of the State. The resources will be allocated to the two Entity budgets on the customary 2/3:1/3 split.

/s/	/s/	/s/
Nikola Špirić Chair of the Council of Ministers Bosnia and Herzegovina	Mustafa Mujezinović Prime Minister Federation of Bosnia and Herzegovina	Milorad Dodik Prime Minister Republika Srpska
/s/	/s/	/s/
Dragan Vrankić Minister of Finance of BiH Institutions Bosnia and Herzegovina	Vjekoslav Bevanda Minister of Finance Federation of Bosnia and Herzegovina	Aleksandar Džombić Minister of Finance Republika Srpska

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

Attachment

Attachment II. Technical Memorandum of Understanding

BOSNIA AND HERZEGOVINA

Technical Memorandum of Understanding on Definitions and Reporting Under the 2009–12 Economic Program

March 5, 2010

This memorandum sets out the understanding between the government of Bosnia and Herzegovina and the IMF mission regarding the definitions of quantitative and structural performance criteria and targets for the stand-by arrangement (Tables 1-3) as well as data reporting requirements for program monitoring (Table 5).

I. Definitions

In the following definitions, the end-quarter test dates apply to the last working day of each quarter for both banking and budgetary statistics.

A. Ceiling on the Cumulative Change in Net Credit from the Banking System to the General Government

Definitions

- ***The general government*** is defined to include the governments of the State, the Republika Srpska Entity (RS), the Federation of Bosnia and Herzegovina Entity (Federation) and the District Brcko. The Federation government is defined to include the central government, the cantonal governments, the municipal governments, the extrabudgetary funds and the road fund. The RS government is defined to include the central government, the municipal governments, the extrabudgetary funds and the road fund. Extrabudgetary funds include, but are not limited to, the pension funds, health funds, unemployment funds, and children's fund in the two Entities. Any new budgetary and extra budgetary funds, created during the program period will also be included in the definition of the general government consistent with the definitions of the IMF *Manual on Government Finance Statistics 2001*. The BIH authorities will inform IMF staff of the creation of any such new funds.

- ***The banking system consists*** of the Central Bank of Bosnia and Herzegovina (CBBH) and the commercial banks in both Entities and the District of Brcko.

- ***Net credit of the banking system to the general government*** (net bank claims on general government) is defined as all banking system claims on general government (e.g. loans, securities, bills, and other claims in both convertible marka and foreign currencies) minus general government claims on the banking system (deposits, loans and other claims, including deposits in entities' escrow accounts) as defined in the Table 4 below. For program purposes, those components of claims that are denominated in foreign currencies will be converted into convertible marka at current exchange rates.

Application of performance criteria

- The value of net bank claims on general government will be monitored from the accounts of the banking system, as compiled by the CBBH, and supplemented by information provided by the Ministries of Finance of each Entity and the State. Table 4 shows the banking system net claims on the general government as of end-December 2009.

- The ceilings on the cumulative change in net bank claims on general government will be defined, for each test date, as the cumulative change from the level existing on December 31 of the previous year.

- The ceilings on the cumulative change in net bank claims on general government will be defined in terms of three sub-ceilings that, together with the net bank claims on the District of Brčko,[1] sum to the ceiling for the general government. These sub-ceilings will be on the cumulative change in net bank claims on the government of the State, the governments of the Federation of Bosnia and Herzegovina and of the Republika Srpska. For the purposes of program monitoring, compliance with the ceiling on net bank claims on general government will require that each of these three sub-ceilings be observed independently.

Adjustors to performance criteria

- The targets on net bank claims on general government will be adjusted upward (downward)[2] by the full amount of any shortfall (surplus) in programmed disbursements of budget support loans and grants. Program budget support disbursements are defined as external disbursements from official creditors (e.g., World Bank, IMF, and European Commission) used for financing of general government budget deficits.

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[1] The net bank credit to the District of Brčko is not monitored individually because of its small size.

[2] In the case of both positive and negative targets on net bank claims on general government, upward means resetting of the target to an arithmetically bigger number, whereas downward means resetting of the target to an arithmetically smaller number.

- The targets on net bank claims on general government will be adjusted upward (downward)[3] by the amount by which reported change in float is arithmetically smaller (greater) than its targets in the fiscal program. Float is defined as accrued but unpaid purchases of goods and services, wages and salaries, pensions, social benefits, and investments that are not in arrears (as defined in the text below). The upward adjustment is limited to 10 percent of the absolute value of the respective change-in-float target.

BiH: General Government Change in Float, 2009
(In millions of KM)

	2009 Dec
Change in float ((1)-(2)-(3))	180
State government	0
FBiH government	113
RS government	67
District Brcko	0
(1) Change in arrears and float	180
State government	0
FBiH government	113
RS government	67
District Brcko	0
(2) External debt service arrears	0
State government	0
FBiH government	0
RS government	0
District Brcko	0
(3) Domestic arrears	0
State government	0
FBiH government	0
RS government	0
District Brcko	0

Sources: Ministries of Finance; and IMF staff estimates.

B. Operation of the Central Bank of Bosnia and Herzegovina

Under the Central Banking Law and the program, the CBBH is required to ensure that the value of its domestic liabilities does not exceed the convertible marka counter-value of its net foreign exchange reserves. Furthermore, the CBBH will pay a dividend only if its initial capital and general reserves exceed 5 percent of its monetary liabilities.

Definitions

- ***Net foreign exchange reserves of CBBH*** are defined as the value of foreign assets less the value of foreign liabilities, including short-term liabilities denominated in convertible currencies or convertible marka.

- ***Foreign assets*** are defined to include: (i) any gold, other precious metal and stones held by or for the account of the Central Bank; (ii) any banknotes and coins in freely convertible foreign currency held by or for the account of the Central Bank; (iii) convertible foreign exchange notes; (iv) credit balances in convertible foreign exchange—including SDRs—on the books of foreign central banks or other financial institutions; (v) liquid debt securities issued by the government and the central bank of the country on whose currency the securities are denominated; and (vi) officially

[3] In the case of both positive and negative targets on net bank claims on general government, upward means resetting of the target to an arithmetically bigger number, whereas downward means resetting of the target to an arithmetically smaller number.

guaranteed forward and repurchase contracts of different types providing for future payments in convertible foreign exchange by nonresidents. Excluded are (i) assets in nonconvertible currencies; (ii) any assets that are pledged, collateralized, or otherwise encumbered; (iii) claims on residents; and (iv) foreign exchange claims arising from derivatives in foreign currencies vis-à-vis domestic currency.

- ***Foreign liabilities*** are defined to include: (i) foreign exchange and convertible marka balances on the books of the CBBH due to nonresidents, including foreign central banks and international financial institutions; (ii) credit balances due to foreign central banks, governments, international organizations, and foreign financial institutions; (iii) forward and repurchase contracts of different types providing for future payments in foreign exchange by the CBBH to nonresidents; and (iv) any other liabilities due to nonresidents.

- ***Monetary liabilities*** are defined as the sum of (a) currency in circulation, (b) credit balances of resident banks at the CBBH, and (c) credit balances of other residents at the CBBH.

- ***Capital and reserves*** are defined as (a) initial capital, (b) accumulated profits of the CBBH since the beginning of its operation on August 11, 1997, (c) shares, (d) other reserves.

- ***Free reserves of the CBBH*** are defined as foreign exchange reserves not utilized as backing for the currency. They therefore consist of the stock of CBBH net foreign exchange reserves less the stock of CBBH monetary liabilities.

- Foreign currency holdings will be converted into convertible marka at the exchange rates of April 30, 2009, as published in the IMF *International Financial Statistics*. Valuation changes will therefore be monitored from the accounts of the CBBH, with information on net foreign assets provided monthly by the CBBH.[4]

[4] At end-April 2009, one SDR unit was equal to 1.1283 euro, or to 1.4978 U.S. dollars.

C. Ceiling on External Payment Arrears

Definitions

- ***External payment arrears*** are defined as overdue debt service arising in respect of debt obligations incurred directly or guaranteed by the general government, except on debt subject to rescheduling or restructuring.

- ***Debt obligations*** are defined as all current liabilities, which are created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require the general government to make one or more payments in the form of assets (including currency), at some future point(s) in time to discharge principal and/or interest liabilities incurred under the contract. In effect, all instruments that share the characteristics of debt as described above (including loans, suppliers' credits and leases) will be included in the definition and be subject to the ceiling. The definition of general government is as described above.

Application of performance criteria

- The ceiling on the change in external payments arrears applies to the change in the stock of overdue payments on medium- and long-term debt contracted or guaranteed by the State, the Federation, and the Republika Srpska. This criterion will apply continuously.

- The limit on the change in external payments arrears also applies to the change in the stock of overdue payments on short term debt in convertible currencies with an original maturity of up to and including one year. The limit excludes reductions in connection with rescheduling of official and commercial debt and debt buy back. Accumulation of new external arrears is prohibited under the program.

D. Ceiling on Domestic Expenditure Arrears

Definition

Expenditure arrears are defined as the difference between payment obligations due, and actual payments made. They can arise on any expenditure item, including transfers, debt service, wages, pensions, energy payments and goods and services. Expenditure arrears for goods and services to suppliers are defined as obligations to suppliers, which are due but not paid for more than 45 days as defined in BiH organic Budget law, and are nondisputed. Arrears between the Entity central government budgets and local government, and extrabudgetary funds are not counted towards the expenditure arrears' ceiling on the general government.

Application of performance criteria

The ceiling on accumulation of domestic payment arrears applies to obligations of the State, the Federation, and the Republika Srpska. This criterion will apply continuously.

E. Contracting or Guaranteeing of New External Debt

Governments will consult with the IMF before contracting or guaranteeing any new external debt.

Definitions

- ***The term "debt"*** is defined to include all current liabilities, which are created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require the general government to make one or more payments in the form of assets (including currency), at some future point(s) in time to discharge principal and/or interest liabilities incurred under the contract. In effect, all instruments that share the characteristics of debt as described above (including loans, suppliers' credits and leases) will be included in the definition. The definition of general government is as described above.

- ***New nonconcessional external debt*** is defined as including all debt (as defined above) contracted or guaranteed by the general government or the CBBH during the program period that is not on concessional terms.

- ***Concessional loans*** are defined as those with a grant element of at least 35 percent of the value of the loan, using currency-specific discount rates based on the commercial interest rates reported by the OECD (CIRRS). The average CIRRs over the last ten years--plus a margin reflecting the repayment period (1 percent for repayment period of 15-19 years; 1.15 percent for repayment period of 20-29 years; and 1.25 percent for repayment period of 30 years or more)—will be used as discount rates for assessing the concessionality of loans of a maturity of at least 15 years. For loans with shorter maturities, the average CIRRs of the proceeding six-month period (plus a margin of 0.75 percent) will be used.

- ***Short-term debt*** is defined as debt contracted or guaranteed by the general government with an original maturity of up to and including one year.

Application of performance criteria

The ceiling on contracting new short-term external nonconcessional debt applies to obligations of the State, the Federation, and the Republika Srpska. This criterion will apply continuously.

II. DATA REPORTING

The Bosnia and Herzegovina authorities will report the following data to the Fund within the time limits listed below. The authorities will also provide, no later than the first week of each month, a summary of key macroeconomic policy decisions taken during the previous month; a summary of regulatory changes in the area of banking and financial sector, report any revisions to monthly and annual fiscal reports as well as any amendments to the Entity and state budget and local government budgets within a week after their approval.

Any revisions to past data previously reported to the Fund will be reported to the Fund promptly, together with a detailed explanation. The data will be provided in an electronic form.

All magnitudes subject to performance criteria or indicative targets will be reported in millions of convertible marka where the corresponding target is in convertible marka, or in millions of euro where the target is in euro.

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

Table 1. Bosnia and Herzegovina: Performance Criteria Under the 2009–12 Stand-By Arrangement, 2009

(In millions of KM)

	End-year stock	Cummulative flow within the calendar year				
	2008	2009				
	December	June	September		Dec	
	Actual	Actual	Program	Actual	Program	Actual
Ceiling on accumulation of net credit of the banking system to: [1]						
General government	-2,338	261	476	156	676	309
of which:						
State government	-412	-89	44	-69	44	-30
RS government	-1,109	285	424	398	536	523
Federation government	-737	86	15	-161	108	-191
Ceiling on new guarantees and the assumption of enterprise debt to banks by the State, Federation and RS governments [2]	…	0	0	0	0	0
Ceiling on accumulation external debt service arrears [2]	…	0	0	0	0	0
Ceiling on contracting new short-term external nonconcessional debt [2]	…	0	0	0	0	0
Ceiling on accumulation of domestic arrears of: [2]						
State government	…	0	0	0	0	0
RS government	…	0	0	0	0	0
Federation government	…	0	0	0	0	0

[1] Cumulative within each calendar year. Equal to the sum of the three listed sub-ceilings plus the net bank credit to the District of Brčko, which is not monitored individually due to its small size.

[2] Continuous.

Table 2. Bosnia and Herzegovina: Performance Criteria Under the 2009–12 Stand-By Arrangement, 2010

(In millions of KM)

	Stock	Cumulative flow since the beginning of the referenced year			
	2009	2010			
	December	March	June	September	December
	Actual	Program	Program	Ind target	Ind target
Ceiling on accumulation of net credit of the banking system to: [1, 2]					
General government	-2,029	333	580	759	845
of which:					
State government	-442	20	-11	75	122
RS government	-586	251	429	564	638
Federation government	-928	61	164	122	91
Ceiling on new guarantees and the assumption of enterprise debt to banks by the State, Federation and RS governments [3]	…	0	0	0	0
Ceiling on accumulation external debt service arrears [3]	…	0	0	0	0
Ceiling on contracting new short-term external nonconcessional debt [3]	…	0	0	0	0
Ceiling on accumulation of domestic arrears of: [3]					
State government	…	0	0	0	0
RS government	…	0	0	0	0
Federation government	…	0	0	0	0

[1] Equal to the sum of the three listed sub-ceilings plus the net bank credit to the District of Brčko, which is not monitored individually due to its small size.

[2] The targets on banking system net claims the general government will be adjusted upward (downward) by the full amount of any shortfall (surplus) in programmed disbursements of budget support loans and grants; and will also be adjusted upward (downward) by the amount by which reported change in float is arithmetically smaller (greater) than its targets in the fiscal program. The upward adjustment is limited to 10 percent of the absolute value of the respective change-in-float target (see Technical Memorandum of Understanding on Definitions and Reporting Under the 2009–12 Economic Program).

[3] Continuous.

Table 3. Bosnia and Herzegovina: Performance for the First Review under the 2009–12 Stand-By Arrangement

		Target date	Status
I.	**Quantitative performance criteria**		
1.	Ceiling on accumulation of net credit of the banking system to:	December 2009	
	general government		observed
	State government		observed
	RS government		observed
	Federation government		observed
2.	Ceiling on new guarantees and assumption of enterprise debt to banks by the State, Federation and RS governments	December 2009	observed
3.	Ceiling on accumulation of external payment arrears	December 2009	observed
4.	Ceiling on contracting new short-term external nonconcessional debt	December 2009	observed
5.	Ceiling on accumulation of domestic payment arrears	December 2009	
	State government		observed
	RS government		observed
	Federation government		observed
II.	**Current Structural Benchmarks**		
A.	Continued adherence of the Currency Board Arrangement as constituted under the law	continuous	observed
B.	**Fiscal Sector**		
1.	Approve the rebalanced budgets by the Entity Parliaments	end-August 2009	observed
2.	Agree on an action plan acceptable to the World Bank and IMF staffs to reform the system of rights-based transfers (Federation)	end-November 2009	observed with delay
3.	Submit to the Parliament a Law forbidding passing of unfunded legislation (Federation)	end-November 2009	observed with delay
4.	Publish on the State government's web site quarterly consolidated general government accounts with a 5 week lag	continuous	observed partially, with delay
C.	**Financial Sector**		
1.	Form a standing committee of financial stability and sign the MoU on financial stability, crisis preparedness and crisis management	end-November 2009	observed with delay
2.	The Deposit Insurance Agency to impose a principle of universal membership requirements, including for partially state-owned banks	end-February 2010	observed
III.	**Proposed New Conditionality**		
	Prior Actions		
1.	Approve by State and Entity Parliaments 2010 budgets consistent with the program, including supporting legislation		met
2.	Enact by Entity Parliaments framework legislation in preparation for the transition to a means-tested system of rights-based benefits (Federation, RS)		met
3.	Enact law to eliminate special unemployment benefits granted to demobilized soldiers effective May 1, 2010 (Federation)		met
	Structural Benchmarks		
1.	Carry out eligibility audits for civil and war benefit recipients; publish results (quarterly within 4 weeks after the end of each quarter) of audits, including expected savings from disqualifications (Federation, RS)	continuous	
2.	Adopt by Parliament wage legislation consistent with the 2010 fiscal policy objectives (Federation)	end-March 2010	
3.	Reform privileged pensions by entity governments (Federation, RS)	end-March 2010	
4.	Prepare a strategy for pension reform by entity governments (Federation, RS)	end-March 2010	

Table 4. Bosnia and Herzegovina: Net Claims of the Banking System on the General Government, as of December 31, 2009

(In millions of KM)

Position	Stock
Total net bank claims on the general government ((1) + (2))	**-2,029**
(1) Central bank claims on general government (net)	-398
Claims	0
State government	0
FBiH government [1]	0
RS government [2]	0
District Brcko	0
Deposits	398
On-balance sheet deposits in KM [3]	50
State government [4]	48
FBiH government [1]	2
RS government [2]	0
District Brcko	0
Off-balance sheet deposits in foreign currency	347
State government [5]	347
FBiH government	0
District Brcko	0
(2) Commercial bank claims on general government (net)	-1,632
Claims	346
State government	1
FBiH government [1]	36
RS government [2]	303
District Brcko	6
Deposits	1,978
State government	48
FBiH government [1]	962
RS government [2, 6]	890
District Brcko	78

Source: CBBH.

[1] Includes FBiH central government, cantons, municipalities, road fund, and social funds.

[2] Includes RS central government, municipalities, road fund, and social funds.

[3] Excludes on-balance sheet accounts at CBBH used for safekeeping on behalf of State and Entity governments of the proceeds from sale of general and special SDR allocations.

[4] The deposits of the State government, as reported by CBBH, are adjusted to exclude the deposits of the Indirect Tax Administration (KM 33.65 million at end-September, 2009).

[5] Excludes the off-balance sheet account at CBBH used as a pass-through account for external debt servicing on behalf of Entity governments; and the off-balance sheet account at CBBH used for safekeeping on behalf of State and Entity governments of succession funds from the distribution of rights, obligations, assets and liabilities of the former Socialist Federal Republic of Yugoslavia among successor states.

[6] The deposits of the RS government are adjusted to exclude the deposits of investment funds managed by the RS Development Bank. Whereas the latter is not included in the definition of general government, some banks report the deposits of these investment funds as part of net bank credit to government. At end-September 2009, the amount of excluded deposits stood at KM 33.78 million.

Table 5. Bosnia and Herzegovina: Data Reporting Requirements under the 2009 SBA

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

[1] Up to six weeks after the end of each quarter
[2] Upon request within eight weeks

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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March 24, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review under Stand-By Arrangement with Bosnia and Herzegovina, Approves € 138.4 million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Bosnia and Herzegovina's economic performance under a program supported by a 36-month Stand-By Arrangement (SBA). The completion of the review enables the immediate disbursement of an amount equivalent to SDR 121.75 million (about € 138.4 million or US$ 184.6 million), bringing total disbursements under the program to an amount equivalent to SDR 304.38 million (about € 345.9 million or US$ 461.4 million).

The SBA was approved on July 8, 2009 (see Press Release No.09/258). Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The authorities are to be commended for their satisfactory policy implementation under the Stand-by Arrangement amid a difficult economic and political environment. Strong efforts will continue to be needed to ensure fiscal and external sustainability, and to provide the basis for robust, sustainable growth. The authorities are committed to carefully monitor program implementation and adjust policies as necessary.

"The program's fiscal deficit objective for 2010 has been adjusted to strike a balance between accommodating the still weak economic situation and preserving the medium-term consolidation objectives. The envisaged measures aim to secure a permanent reduction in recurrent government spending, thus providing more space for much-needed capital expenditure. The reform of social benefits, including through better targeting, is crucial for safeguarding social protection and ensuring that these benefits reach the most vulnerable groups of the population. The authorities are also committed to reforming the pension and wage systems, and improving the budget process and public finance management.

"The authorities are committed to continue to carefully monitor Bosnia and Herzegovina's competitiveness. Structural impediments to growth will be addressed through reforms aimed at enhancing productivity and fostering private sector development.

"The financial sector has coped well with the crisis. The commitment of foreign parent banks to maintain their exposure vis-à-vis Bosnia and Herzegovina and to keep their subsidiaries well capitalized has had a stabilizing effect. The recent enhancement of the monitoring of financial stability and improvements in crisis preparedness and management should increase the effectiveness of the authorities' response to future challenges. Continued vigilance and strengthened cooperation between the central bank and banking agencies will be important."

Statement by Mr. Bakker and Mr. Tomic on Bosnia and Herzegovina
Executive Board Meeting 10/27
March 24, 2010

Introduction

1. The authorities of Bosnia and Herzegovina (BiH) would like to thank staff for constructive policy discussions during the mission, the continued dialogue in the period after the visit, and the very helpful role the Fund has played in the Vienna Initiative. In addition, the authorities have benefited from the exemplary cooperation between WB and Fund staff.

2. While the counterfactual is hard to establish, it could be said that, so far, BiH has benefited from the IMF Stand-By Arrangement, at least, threefold: first, the IMF provided financing that helped mitigate the sharp fall in domestic and external demand; second, the initiated adjustment measures, some in the form of structural benchmarks, are key for securing long-term fiscal sustainability; and third, the program provided a strong signal for foreign banks to preserve their exposure and commitment to the BiH market. That said, the authorities remain aware that post-crisis progress depends on the continuation of the structural reforms, as high and increasing unemployment remains the major economic problem. Staff has presented an accurate description of both economic developments and future challenges.

Program Implementation and macroeconomic developments

3. The implementation of the Fund-supported program is on a satisfactory track, and all quantitative PCs, and major structural benchmarks have been met, albeit some with delay. The authorities remain committed to continuing this track record. With respect to the timely publication of fiscal data, the only structural benchmark fulfilled only partially, the authorities remain devoted to broadening the scope and shortening the time of making consolidated fiscal data publicly available. Delays in fulfilling some prior actions were used to gain further support of the wider public, as most of the adjustment measures consist of streamlining the entitlements provided during the upward cycle. Finally, the program performance should also be judged with a view to the general elections scheduled for October 2010.

4. Macroeconomic developments were mostly in line with the original program projections. Lower than expected growth and lower revenue outturn resulted in a

slightly breached fiscal deficit objective for 2009. At the same time, a sharp reduction in imports, particularly of capital and durable goods, contributed to the narrowing of the external deficit. The latest data indicate a recovery of external demand, and this could be a sign of the crisis bottoming out. However, the speed of the recovery remains dependent on exogenous factors, including developments in the economies of major trading partners and a resumption of bank credit activities. A small positive growth is expected in 2010.

Monetary policy and the financial system

5. The financial system, dominated by foreign-owned bank subsidiaries, withstood the impact of the global crisis. Although exposure of the foreign banks was slightly lower at the end of December 2009 than a year before, the banking system preserved stability, and deposits, after initial withdrawals, started recovering. The authorities established a standing committee on financial stability and improved crisis preparedness and risk management procedures. In addition, the deposit insurance regulation was changed and is now universal irrespective of the ownership structure. A credit line for strengthening the credibility of the increased deposit insurance was secured from the EBRD.

6. Credit expansion was negative, like elsewhere, as repaid loans exceeded new approvals. Similarly, nonperforming loans, although still at a comfortable level, have increased. In spite of these developments the capital adequacy ratio remained at a satisfactory level. CBBH and banking supervisory agencies have benefitted from MCM technical assistance, and are in the process of conducting stress tests. The monetary authorities remain committed to continuously monitoring the health of the financial system, including through bilateral discussions with banks.

7. The currency board arrangement (CBA), equally supported by market participants, the authorities and the broader public, remains an appropriate nominal anchor. The competiveness assessment by staff finds no evidence of misalignment. On the contrary, growing export market shares and low inflation expectations reinforce the overall impression of adequate competitiveness. In light of still present uncertainties related to a regional recovery, as well as depreciation among some trading partners, the authorities will continue to carefully monitor real effective exchange rate developments.

Fiscal Policy

8. Although the initial fiscal targets had to be somewhat relaxed partly because of revenue underperformance, the numerous measures adopted by all tiers of government helped maintain fiscal prudence by improving the expenditure structure. These measures were reflected in the 2009 supplementary as well as the adopted 2010 budgets. On top of expenditure reductions, additional savings will be achieved through improved legislation, most importantly the wage bill in the Federation BiH. Similarly, reforms of social transfers through the introduction of means-testing in both entities will allow better targeting the most vulnerable. Enacted amendments to

the budget law effectively rule out adoption of unfunded mandates.

9. The authorities are aware of the modest increase in the public debt to GDP ratio under the program until 2011, and remain determined to achieve a balanced budget over the medium term. More importantly, developing and implementing pension reform is considered as one of the priorities that will secure long-term fiscal sustainability.

Going forward

10. The program so far achieved the major objective of safeguarding macro stability and helping to initiate the needed structural reforms. Cognizant of the fact that continued success in achieving the program objectives critically depends on the implementation of the structural reforms, the authorities request approval of the first review.