

**Bosnia and Herzegovina: First Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of a Performance Criterion —Staff Report; Press Release; and Statement by the Executive Director**

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 November 20, 2012 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 December 7, 2012. 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 and Request for Waiver of Nonobservance of a Performance Criterion**

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

Approved by Aasim M. Husain and Masato Miyazaki

December 7, 2012

**Stand-By Arrangement (SBA).** The Board approved Bosnia and Herzegovina's (BiH) request for a two-year SBA with access of SDR338.2 million (200 percent of quota) on September 26, 2012. SDR 50.73 million (30 percent of quota) was made available upon Board approval and the same amount would become available after completion of the first review.

**Program objectives.** The authorities' program aims at countering the effects of the worsening external environment and addressing domestic structural weaknesses. The program aims to: (i) improve national policy coordination; (ii) maintain fiscal discipline, and advance public sector reforms to reduce the size of the government and improve the composition of expenditure; (iii) safeguard financial sector stability in the context of the currency board; and (iv) intensify reforms to improve the business environment to support growth, investment, and job creation.

**Program status.** All end-September 2012 quantitative performance criteria were met, except for the Federation central government fiscal balance, which was missed as payments of already planned agricultural support were advanced in light of a severe drought. All structural benchmarks were also met, albeit with delay in some cases. However, the indicative target on general government fiscal balance for end-September 2012 was exceeded due to faster-than-expected spending by extra-budgetary funds and lower-level governments. Nevertheless, the authorities re-affirmed their commitment to adhere to the program targets for end-2012. On the basis of this and the authorities' policies for 2013, staff supports the authorities' requests for a waiver of the non-observance of the end-September 2012 performance criterion on the Federation central government fiscal balance and for the completion of the first review.

**Discussions.** A staff team comprising Messrs. van Rooden (head), Zhan, Llaudes, Meyer Cirkel (all EUR), Kapsoli (FAD), and Ms. Shirono (SPR) visited Sarajevo and Banja Luka during November 7–20. Mr. Atoyan (resident representative) and local staff assisted the mission. The team met with: at the State level: Chairman of the Council of Ministers Bevanda, Minister of Finance and Treasury Špirić, and Central Bank Governor Kozarić; in the Federation of BiH: Prime Minister Nikšić and Finance Minister Krajina; and in Republika Srpska: Prime Minister Džombić and Finance Minister Tegeltija. Staff also met with other senior officials, members of the Federation of BiH parliament, and representatives of labor unions, the private sector, and the diplomatic community.

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## I. RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

### 1. High frequency indicators point to a further slowing of economic activity.

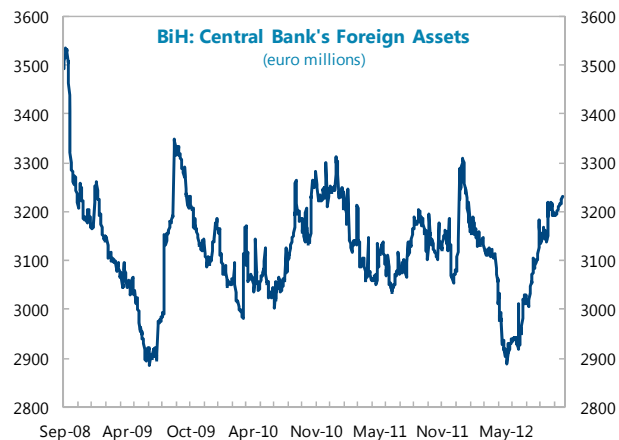
A largely export-led recovery in 2010–11 started to lose steam in early 2012 as growth slowed in Europe, BiH's largest trading block. Exports fell by 4 percent in the first nine months of 2012 relative to the same period last year, while imports have been flat. Industrial production and private sector employment have also continued to decline in recent months, while credit growth has remained subdued. Inflation is well contained at close to 2 percent, mostly reflecting higher food and energy prices while core inflation is low at around ½ percent. Central bank foreign reserves in recent months have recovered the earlier loss in the year and remain strong at 109 percent of base money. Staff now expects a mild recession in 2012, with real output contracting by ½–1 percent, followed by a modest recovery of around ½ percent in 2013. Inflation is expected to remain around 2 percent in 2013, reflecting weak demand (Table 1).

BiH: Selected High-Frequency Indicators, 2011-12

Indicator	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
(Change, ytd, percent unless otherwise noted)					
RS Real GDP <sup>1</sup>	0.7	0.2	-0.9	-0.3	..
Industrial production (real)	7.7	6.4	-9.4	-6.7	-5.6
Capital Goods	4.6	-1.2	-36.7	-27.9	-20.3
Private sector employment	-1.0	-1.3	-1.4	-1.4	0.4
Value-added tax revenues	7.0	6.3	-0.6	-1.5	0.2
Real net private sector wage	-1.3	-1.2	-1.0	-1.0	-0.4
Imports (nominal), of which	15.4	14.0	0.4	-0.6	-0.2
Capital goods	12.0	12.9	-1.5	0.4	-1.2
Consumer non-durables	8.0	6.3	-1.5	0.0	1.5
Exports (nominal)	18.0	15.9	-10.6	-5.1	-4.0
Headline inflation	3.8	3.7	2.3	2.2	2.1
Core inflation	0.1	0.3	0.6	0.6	0.6

Sources: BiH authorities; and IMF staff estimates.

<sup>1</sup> Percent change over the same quarter in previous year.



Source: BiH authorities.

2. **Risks are tilted to the downside.** An intensification of the euro area crisis would significantly affect BiH's growth outlook, mainly through its impact on exports, remittances, and capital inflows. Foreign bank subsidiaries' parent banks could withdraw funding if conditions in home countries deteriorate significantly. A further worsening of credit quality could impede the fragile recovery in bank lending. Exports could also be hampered by a failure to harmonize quality standards ahead of Croatia's EU accession (see para. 18). The difficult domestic political situation will continue to pose significant risks to program implementation.

## II. PERFORMANCE UNDER THE PROGRAM

3. **All but one performance criteria for end-September 2012 were observed.** Both the Institutions of BiH and the central government of the Republika Srpska (RS) met their respective fiscal balance targets with comfortable margins. However, the performance

criterion on the Federation central government fiscal balance (the net lending of the Federation central government) was missed, mainly as payments of already planned agricultural support were advanced in light of a severe drought. The indicative target for the balance of the general government was also missed, caused by a faster-than-anticipated pace of spending by the Highway Fund in the Federation and the Health Fund and local governments in the RS ahead of local elections. The authorities request a waiver of the non-observance of the end-September 2012 performance criterion on the Federation central government fiscal balance, as the non-observance was entirely a timing issue. As corrective actions they re-affirmed that the annual spending envelope as defined in the approved budget will not be exceeded, while they will also take steps to strengthen cash management and expenditure controls (see below).

4. **Progress in meeting structural benchmarks has been satisfactory.** The continuous structural benchmarks pertaining to the adherence to the currency board and the prohibition of introducing new privileged retirement benefits were observed. Regarding the latter, the Federation authorities considered granting privileged pensions to a group of decommissioned soldiers of the army of BiH, whose benefits had been repealed at the level of the Institutions of BiH. Similar groups of veterans in the Federation already receive benefits and the authorities intended to ensure equal treatment. However, when the authorities realized this would violate their commitments under the program, they withdrew the proposal from parliament and agreed to consider this group only in the context of a comprehensive overhaul of the privileged pension system planned for early 2013 (see below), which would be consistent with the intentions of the original program. All structural benchmarks for end-September were met, albeit with delay in some cases. In addition, the required inter-entity payments to settle past disputes on indirect tax revenue allocation were initiated in early September and will continue until end-December 2012. The Federation has completed the payment of accrued rights to the decommissioned soldiers whose benefits were repealed at the level of BiH Institutions—funded from a transfer from the Institutions of BiH budget—and the RS has done so for most of eligible beneficiaries (an end-December 2012 structural benchmark).

### III. POLICY DISCUSSIONS

#### A. Fiscal Policy

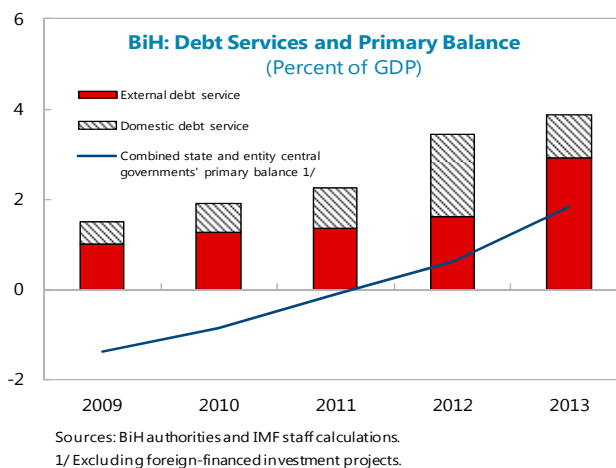
5. **The authorities are broadly on track to meet the end-year overall deficit target of 3 percent of GDP.** Despite the slowdown in economic activity, revenues collected through November have been on target, in part due to efforts to increase tax collection, including publication of the largest VAT debtors. On the expenditure side, the Institutions of BiH, and the Federation and RS central governments are firmly committed to stay within their respective expenditure envelopes, and some under-execution of (capital) spending is likely. Lower-level governments and public companies are also expected to largely stay within their respective budgets and financial plans, due to their very limited capacity to

borrow without prior approval. Nevertheless, both entity governments will closely monitor spending outside the central budgets.

6. **Fiscal consolidation will continue in 2013, balancing the need for supporting domestic demand with ensuring medium-term sustainability.** The 2013 budgets have been based on conservative revenue assumptions, given the weak state of the economy.

Despite the weaker growth outlook, a reduction in the general government deficit to 2 percent of GDP—a somewhat larger reduction than envisaged at the time of the program request—is targeted. This faster pace in fiscal consolidation is made possible by strictly containing—and in the case of RS even reducing—current spending at the central government level and owing to a sizable one-off dividend payment to the Entity budgets by the joint electricity company,

Transco (equivalent to nearly 0.4 percent of GDP). Excluding this one-off operation, the budgets entail a reduction in the overall structural deficit of 1.1 percent of GDP, a slightly larger adjustment than had been originally envisaged. By firmly containing current spending, the combined State and Entity central government budgets are further moving into a primary surplus, creating room for meeting BiH's sizable debt service obligations that peak in 2013 and 2014.



BiH: General Government Operations, 2011-15  
(Percent of GDP, unless otherwise noted)

	2011	2012		2013		2014	2015
	Prel.	EBS/12/120	Proj.	EBS/12/120	Proj.	Proj.	
Revenue	46.5	46.5	46.4	46.2	46.3	46.1	46.2
Expenditure	49.3	49.5	49.5	48.6	48.4	48.0	47.5
Net lending	-2.9	-3.0	-3.0	-2.3	-2.0	-1.9	-1.3
Structural balance (% of potential GDP)	-2.5	-1.7	-1.3	-0.7	-0.2	0.2	0.1

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

7. **By strictly containing current spending at the central government level, overall general government spending is targeted to shrink by 1 percentage point of GDP in 2013, relative to the projected outturn for 2012.** Capital spending is projected to increase marginally. The Institutions of BiH and entity central governments will freeze employment at the 2012 level in 2013. This, along with unchanged base wages in the Institution of BiH and the Federation central governments, as well as a 10 percent cut in civil servants' wages in the

RS central government will reduce the public sector wage bill by 0.6 percent of GDP in 2013, to less than 12½ percent of GDP. In addition, both entities will continue with eligibility audits of recipients of war-related benefits, and ensure that social funds discharge all obligations without incurring arrears or budget overruns. By containing or reducing the wage bills, some room was made for an increase in social and private sector support, to help foster growth and increase social assistance.

8. **To mitigate risks to the program, the 2013 budgets were adopted by the respective parliaments as prior actions for this review.** This was the first time since the war that the budgets of the Institutions of BiH and the central governments of the Federation and the RS were all adopted before the start of the fiscal year.

9. **In the event that downside risks to the economic outlook materialize during 2013, the authorities agreed to continue to adhere to the expenditure envelope, while automatic stabilizers could be allowed to work to some extent on the revenue side.** Possible contingency measures on the expenditure side could include a reduction in social benefits and delaying capital spending. Similarly, should the economy grow faster than envisaged and revenues were to over-perform, staff advised the authorities also to continue to adhere to the expenditure envelope, allowing for a faster reduction in the overall deficit.

## **B. Advancing Public Sector Reforms**

10. **The authorities agreed that sustainable fiscal consolidation calls for progress in structural public expenditure reforms.** The overall fiscal deficit has been brought down substantially in recent years, but this achievement largely reflects across-the-board cuts in the wage bill, benefits, and (privileged) pensions (the latter by lowering the coefficient that links benefit levels to the available financing envelope). While this approach is understandable in the short term, given the urgent need to stabilize public finances, it may not be sustainable over the medium-term as it does not address the need to reduce the size of the government and to stop the expansion of war-related benefits and better target benefits to the most vulnerable. Against this backdrop, staff and the authorities agreed that structural savings should be generated by moving ahead with benefit and payroll reforms. In addition, better control over lower-level governments, extra-budgetary funds, and public companies, together with tax administration reforms, would also help improve government finances.

11. **Comprehensive reforms of rights-based benefits are imperative both for medium-term fiscal sustainability and for improving the functioning of labor markets.** Notably, benefits to veterans and demobilized soldiers, so-called privileged pensions, which on average are substantially higher than regular old-age pensions, have ballooned in recent years. These benefits not only absorb a sizable share of budget resources, and at times also resources from the regular pension funds—to the extent that pension funds were asked to help fund privileged pensions from their collections of regular pension contributions, thus undermining their own financial viability—but they also adversely affect labor participation.

Some progress in reining in these benefits has been made, particularly in the RS, but more remains to be done. Specifically:

- The Institutions of BiH and the RS will refrain from introducing any new privileged or special retirement benefits. The Federation will do so too, at least until it adopts a new law on privileged pensions (see below). The Institutions of BiH provided funds to the Entities to settle the accumulated benefits of decommissioned army personnel of the Armed Forces of BiH whose benefits were repealed earlier this year.
- The RS implemented a comprehensive reform of war veterans' pensions in early 2012, separating the subsidy portion of the privileged pensions from that of regular contributory pensions and making the subsidy portion an allowance to be paid directly from the RS budget. At the same time, these allowances were substantially reduced for many beneficiaries. However, yielding to strong pressure from veteran groups, the government agreed to provide an additional payment to veterans to partially compensate for these reductions. This compensation will remain in place in 2013, but will be gradually phased out in subsequent years.
- The Federation is preparing a comprehensive pension reform strategy, with the assistance from the Fund and the World Bank, aimed at keeping people longer in the active workforce. Given the challenging demographics, pension reform will need to focus on raising the retirement age, discouraging early retirement, and rewarding later retirement. The authorities expect to adopt this strategy by March 2013.
- The Federation is also preparing a new law to consolidate the different types of privileged pensions in a single law, and with the aim to establish a system that is financially sustainable and socially fair. As has been done in the RS, the contributory portion of pensions will be separated from the privileged portion. Pension fund obligations would cover only pension entitlements based on years of contributions and age, while any form of special benefits would be paid from the central government budget. The new law will also harmonize privileged pension levels across similar groups and, more importantly, reduce the average level of privileged pensions and introduce penalties for early retirement. The number of beneficiaries is expected to increase somewhat—to ensure equal treatment of similar categories as noted above—but the total budgetary costs will be reduced relative to the 2012 level; the new law will continue to allow for the use of the rationing coefficient to guarantee that privileged pension payments will remain within the overall amount allocated in the central government budget. The adoption of the law incorporating these elements is a new structural benchmark for end-January 2013.
- Both entities are continuing with the eligibility audits, which have resulted in some structural savings and which will help contain the number of beneficiaries.
- A centralized database of all beneficiaries of social benefits will be established in the Federation by end-January 2013.



**12. Replacing ad-hoc wage restraints with sustainable structural measures in the RS will help contain the wage bill in the medium term:**

- The RS authorities are amending the various laws and regulations that govern wages in different parts of the public sector, with a view to harmonizing them by end-2012.
- Following this, a centralized payroll system for all employees in the public sector will be set up for improved recording, control, and planning.
- The RS authorities will amend the legislation to eliminate the take-home pay protection for public sector employees, to ensure that future changes in income tax rates and social contributions do not automatically lead to changes in the gross pay of public employees (a new structural benchmark for end-December 2013).

**13. Stepping up control over lower levels of government, extra-budgetary funds, and public companies is needed to help safeguard fiscal sustainability.** Expenditure control over lower levels of government is particularly weak in the Federation, given its heavily decentralized structure. In this area:

- The Federation authorities, with the assistance from the Fund, are preparing a new law on budgets aimed at strengthening control over—and monitoring of—spending by lower levels of government, extra-budgetary funds, and public companies. The new law is expected to be adopted by March 2013 (a new structural benchmark).
- In addition, the Federation Ministry of Finance will strengthen the unit responsible for the collection and consolidation of lower-level government data, and seek technical assistance from the Fund to improve its cash management.
- The Federation authorities also plan to accelerate the introduction of treasury systems at lower levels of government and link them to the central government treasury system.
- Highway funds in both entities have ambitious investment plans. While external borrowing for road projects—as all external borrowing—is subject to strict controls in both entities, the authorities agreed that the spending envelope of these funds should be realistically set, and they need to step up the monitoring and reporting of investment spending by extra-budgetary funds and public companies. Moreover, the authorities will work with Fund staff to strengthen their capacity to conduct debt sustainability analyses and to incorporate the findings more into the decision-making process for new projects.

**14. While most structural reforms focus on the expenditure side, the authorities are also taking steps to improve tax administration.** Given an already high tax and social contribution burden, the authorities plan to keep the rate structure broadly stable. They will continue to maintain a single VAT rate and refrain from introducing any form of tax expenditure. To strengthen tax administration:

- The Institutions of BiH and the Entities will improve the exchange of information between the tax administration agencies to help improve compliance. In particular, the four tax administrations will sign a joint Memorandum of Understanding on data exchange by end-May 2013 (a new structural benchmark), with automated systems of information exchange becoming operational in the remainder of 2013.
- All tax administrations are taking steps to strengthen the large-taxpayer units to ensure that they capture the largest taxpayers and employers.
- The Indirect Taxation Authority (ITA) will establish a unit in its headquarters with the responsibility for detection and coordination of activities for the prevention of VAT fraud.

### C. Mitigating Financial Sector Risks

15. **BiH's banking system has remained relatively stable.** Banks have a large deposit base, and the sector as a whole is profitable and has improved its capital adequacy through capital injections and profit retention. Stress tests using end-June 2012 data did not reveal major weaknesses. Nonperforming loans (NPLs) have remained at around 12½ percent, but provisioning stands at 67 percent of non-performing assets, broadly in line with the regional average. BiH banks' parents are committed to maintain their exposure to BiH, and the data for the first two quarters of 2012 show that parent banks' exposure to BiH banks has remained broadly stable.

16. **The authorities are taking measures to strengthen bank supervision,** and will seek further technical assistance from the Fund on practical steps and procedures in the event of banking sector difficulties. Specifically:

- Given the dominance of foreign ownership in the BiH's banking system, cooperation with home supervisors is essential. In this context, the Federation authorities have amended the legal framework related to the treatment of confidential information to align it with EU requirements and the RS authorities plan to do this soon (an existing structural benchmark for end-December 2012). This would help to pave the way for the signing of Memoranda of Understanding with the Austrian and Italian banking supervision authorities.
- In addition, to further strengthen the bank resolution frameworks, the authorities plan to shorten the provisional administration period and to redraft the law governing the Deposit Insurance Agency in line with Fund staff recommendations (existing structural benchmarks for end-December 2012 and end-March 2013, respectively).
- The authorities are also working to improve their coordination in conducting top-down stress tests and will agree upon a joint Memorandum of Understanding on the stress-testing procedures by end-March 2013.

- The authorities are in the process of identifying financial institutions that are considered systemically important, and will increase their focus on these institutions, including by conducting bottom-up stress tests.

17. **Improving the NPL resolution framework would further enhance BiH's capacity in crisis resolution.** NPL resolution is currently hindered by legal, tax, and institutional shortcomings. The authorities will conduct a comprehensive review of the legal and institutional frameworks, with the assistance from the Fund, in order to create a system that encourages NPL resolution. As part of these efforts, the authorities plan to adopt legislation on factoring—allowing banks to sell loans—and review personal bankruptcy legislation in light of the high level of indebtedness of individuals.

#### D. Encouraging Private Sector Development

18. **Urgent actions are required to harmonize export quality standards ahead of Croatia's EU accession.** Without coordinated efforts by all levels of governments, exports to Croatia, one of BiH's largest export markets for agricultural products, could be adversely affected when Croatia joins the EU in mid-2013. Against this backdrop, the authorities are working to ensure that a unified set of rules and procedures to guarantee food and animal safety, consistent with EU requirements, is in place by end-May 2013.

19. **The authorities will also take further steps to improve the business environment.** The RS authorities are amending a number of laws to create a one-stop-shop for business registration by end-September 2013 (a new structural benchmark). Similarly, the Federation authorities are preparing a new Law on Companies, for adoption also by end-September 2013, and also with the aim to streamline the business registration process. In the meantime, both entities will ensure that business registries will be harmonized and easily accessible.

#### IV. PROGRAM AND DATA ISSUES

20. **The attached supplementary Letter of Intent describes the authorities' progress in implementing their economic program and additional policy measures for the remainder of 2012 and 2013 to ensure that program objectives will be met.** Quarterly performance criteria through end-2013 and additional structural conditionality are proposed in Tables 1 and 2 attached to the letter.

21. **BiH's capacity to repay the Fund remains good.** By the end of the SBA, the level of Fund credit outstanding is projected to be slightly above 3 percent of GDP (13 percent of gross international reserves), and Fund repurchases and charges would peak at 43¼ percent of total debt service in 2013 (Table 10). The country's good record of meeting Fund financial obligations, and the expectation that the program will lay the foundations for the return to a sustainable medium-term growth path, provide assurances that BiH should be able to discharge its Fund obligations in a timely manner. In addition, while the institutional arrangements in BiH already attach a high priority to meeting foreign debt service

obligations, the authorities are amending the Law on Financing of BiH Institutions (a structural benchmark for end-December 2012), to ensure that these obligations can continue to be met in the absence of an adopted budget. Moreover, within one month of these amendments coming into force, the Ministry of Finance and Treasury of BiH and the Central Bank of Bosnia and Herzegovina (CBBH) will sign an agreement to ensure the timely payment of all external debt service obligations.

22. **A safeguards mission that visited the CBBH during November 2012 found no major weaknesses.** The safeguards assessment of the CBBH is substantially complete. The mission found that the CBBH maintains strong financial reporting and transparent publication of its annual and quarterly financial statements. The CBBH's foreign reserves management practices and currency operations are well controlled and managed. Internal audit is in compliance with international standards, although the effectiveness of the internal audit function could be further enhanced by adding additional qualified staff. An area with room for improvement is the external audit process, where the CBBH should strengthen its process for the selection of the external auditor and enhance quality control of the audit. In line with the Fund's safeguards policy requirements for direct budget financing, the Ministry of Finance and Treasury of BiH, the Ministry of Finance of the Federation, the Ministry of Finance of the RS, and the CBBH will sign a Memorandum of Understanding to regulate the disbursements from and servicing of all related obligations to the IMF (a new structural benchmark for end-December 2012).

23. **Data provision is improving, but further efforts are needed to address remaining shortcomings.** The authorities have notified the Fund of their intention to participate in the GDDS, and a national coordinator has been appointed, a major obstacle that had forestalled progress in this area. With help from STA, BiH should be able to meet the GDDS requirements in the near future. Significant progress has been made—with extensive technical assistance from the Fund—in improving fiscal reporting, but more efforts will be needed to ensure accurate reporting by lower levels of government and extra-budgetary funds, especially in the Federation. Similarly, the authorities have completed the transition of balance of payments data to BPM6, also with assistance from the Fund.

## V. STAFF APPRAISAL

24. **Bosnia and Herzegovina's early performance under the SBA has been encouraging.** Fiscal restraint continued and policy measures have appropriately targeted expenditure categories that led to large imbalances in recent years. Financial sector policies are focusing on strengthening contingency planning and crisis preparedness. Confidence in the currency board has been maintained, and the international reserve position has strengthened. All but one of the quantitative performance criteria for end-September 2012 were met, as well as the structural benchmarks, albeit with some delay in a few cases.

25. **Strict expenditure control remains critical to ensure medium-term fiscal sustainability.** The 2013 budgets strike a good balance between supporting growth and the need for medium-term consolidation. With revenue performance still weak and strong expenditure pressures from stakeholders, the authorities are to be commended for their strong commitment to fiscal restraint, as witnessed by their efforts to strictly contain or even reduce current spending in the 2013 budgets.

26. **Sustainable consolidation also requires continuing with structural fiscal reforms.** Although the government deficits have declined, strong efforts continue to be needed to ensure fiscal sustainability, including by moving ahead with the reform of the privileged pension system in the Federation, and by the streamlining of government ministries and agencies in all of BiH. Additional areas of focus are enhanced control over lower-level governments, extra-budgetary funds, and public companies, as well as steps to improve tax administration. Successful implementation of these reforms will require strong political will.

27. **It is essential to remain vigilant to any sign of stress in the financial sector.** Staff welcomes steps already taken by the authorities to enhance the monitoring of banks, and to improve crisis preparedness and management. In this context, continued close coordination and cooperation between the CBBH, the banking supervision agencies, and the deposit insurance agency will be crucial to help ensure financial sector stability.

28. **Risks to the implementation of the program remain high.** Risks range from a fragile domestic political situation and a possible weakening of support for key fiscal structural reforms, to a further worsening of the external economic environment.

29. **Despite the risks, in light of the authorities' actions to date and their policies for 2013 expressed in the supplementary Letter of Intent, staff supports the authorities' request for the completion of the first review under the Stand-By arrangement.** In this context, staff also supports the authorities' request for a waiver of the non-observance of the end-September 2012 performance criterion on the Federation central government fiscal balance, given the authorities' corrective actions and commitment to adhere to the end-2012 fiscal targets. Continued adherence to the program will help BiH to achieve fiscal sustainability and a resumption of economic growth.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2009–17

	2009	2010	2011	2012		2013	2014	2015	2016	2017
			Prel.	EBS/12/120	Proj.			Proj.		
Nominal GDP (KM million)	24,051	24,584	25,474	25,970	25,885	26,797	28,369	30,381	32,607	34,973
Gross national saving (in percent of GDP)	14.9	14.4	9.2	10.9	9.0	10.0	11.7	13.0	14.1	15.2
Gross investment (in percent of GDP)	20.9	19.4	18.1	18.5	18.9	19.1	19.3	19.6	19.8	20.2
	(Percent change)									
Real GDP	-2.9	0.7	1.3	0.0	-0.7	0.5	2.0	3.5	4.0	4.0
CPI (period average)	-0.4	2.1	3.7	2.2	2.5	2.4	2.4	2.4	2.4	2.4
Money and credit (end of period)										
Broad money	2.2	7.2	5.8	1.9	1.6	3.5	5.9	7.1	7.3	7.3
Credit to the private sector	-3.9	2.1	4.2	1.0	0.8	3.5	6.7	7.9	8.2	8.1
	(In percent of GDP)									
Operations of the general government										
Revenue	45.0	46.7	46.5	46.5	46.4	46.3	46.1	46.2	46.3	46.5
<i>Of which: grants</i>	2.1	2.4	2.1	2.1	2.2	2.2	2.2	2.3	2.4	2.5
Expenditure	50.5	50.9	49.3	49.5	49.5	48.4	48.0	47.5	46.9	46.6
<i>Of which: investment expenditure</i>	7.4	7.9	6.3	6.4	6.7	6.6	6.8	7.0	7.1	7.4
Net lending	-5.5	-4.2	-2.9	-3.0	-3.0	-2.0	-1.9	-1.3	-0.5	-0.1
Net lending, excluding interest payment	-5.0	-3.6	-2.2	-2.1	-2.2	-1.1	-0.9	-0.3	0.4	0.8
Total public debt	36.2	39.6	40.7	43.1	43.9	43.0	40.2	37.7	34.8	30.8
Domestic public debt	14.4	14.0	14.6	14.9	15.4	13.5	11.1	9.9	8.4	6.5
External public debt	21.8	25.6	26.1	28.2	28.5	29.5	29.1	27.8	26.3	24.3
	(In millions of euros)									
Balance of payments										
Exports of goods and services	3,071	3,701	4,106	5,471	3,953	4,265	4,615	4,980	5,342	5,741
Imports of goods and services	6,080	6,498	7,307	8,539	7,264	7,573	7,921	8,327	8,786	9,312
Current transfers, net	1,708	1,796	1,792	1,789	1,824	1,859	1,949	2,060	2,184	2,322
Current account balance	-813	-702	-1,247	-1,008	-1,310	-1,237	-1,111	-1,033	-951	-898
(In percent of GDP)	-6.6	-5.6	-9.6	-7.6	-9.9	-9.0	-7.7	-6.7	-5.7	-5.0
Foreign direct investment	-176.0	-185.9	-273.2	200.0	-404.0	-346.9	-304.4	-316.5	-329.0	-341.9
(In percent of GDP)	-1.4	-1.5	-2.1	1.5	-3.1	-2.5	-2.1	-2.0	-2.0	-1.9
Gross official reserves	3,174	3,303	3,285	3,229	3,245	3,285	3,522	3,774	4,077	4,341
(In months of imports)	5.9	5.4	5.4	4.3	5.1	5.0	5.1	5.2	5.3	5.3
External debt, percent of GDP	55.0	52.0	49.4	51.6	52.5	54.0	53.8	52.4	50.8	48.6
External debt service/GNFS exports (percent)	36.4	19.7	14.9	9.8	13.2	17.4	17.7	16.1	15.6	17.4

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

Table 2. Bosnia and Herzegovina: Real Sector Developments, 2009–17

	2009	2010	2011	2012	2013	2014	2015	2016	2017
			Prel.			Proj.			
<i>Real aggregates</i>									
	(Percent change)								
<i>Growth rates</i>									
GDP at constant 2005 prices	-2.9	0.7	1.3	-0.7	0.5	2.0	3.5	4.0	4.0
Domestic demand	-5.6	-2.8	1.6	-1.9	-0.1	2.3	3.8	4.3	4.3
Private	-7.8	-4.5	3.3	-2.1	0.1	2.1	3.5	4.2	4.0
Public	2.2	2.7	-3.2	-1.3	-0.5	2.9	4.6	4.6	5.3
Consumption	-1.1	-1.6	3.3	-2.4	-0.6	1.5	2.9	3.6	3.4
Private	-2.4	-2.4	3.3	-2.4	-0.5	1.6	2.8	3.6	3.4
Public	3.9	1.2	3.6	-2.5	-0.7	1.4	3.1	3.4	3.4
Gross capital formation	-21.4	-8.0	-6.4	0.4	2.4	6.0	8.2	7.3	8.4
Private	-29.0	-16.1	3.2	-0.7	3.8	5.0	7.7	7.0	7.4
Public	-2.2	6.8	-20.3	2.5	0.0	7.8	9.0	7.8	10.2
Net Exports									
Exports of goods and services	0.2	9.9	2.6	-8.1	6.2	8.6	7.4	6.4	6.6
Imports of goods and services	-7.4	-2.6	2.9	-7.8	2.4	6.6	6.5	6.0	6.3
	(Year-on-year change over real GDP in previous year, in percent)								
<i>Contributions to real GDP growth</i>									
GDP at constant 2005 prices	-2.9	0.7	1.3	-0.7	0.5	2.0	3.5	4.0	4.0
Domestic demand	-7.3	-3.6	2.0	-2.4	-0.1	2.8	4.6	5.2	5.3
Private	-7.9	-4.4	3.0	-2.0	0.1	1.9	3.2	3.8	3.7
Public	0.6	0.8	-1.0	-0.4	-0.2	0.9	1.4	1.4	1.6
Consumption	-1.1	-1.7	3.4	-2.5	-0.6	1.5	2.9	3.6	3.4
Private	-2.0	-1.9	2.6	-1.9	-0.4	1.2	2.2	2.8	2.6
Public	0.8	0.3	0.8	-0.6	-0.2	0.3	0.7	0.7	0.7
Gross capital formation	-6.2	-1.9	-1.4	0.1	0.5	1.2	1.7	1.6	1.9
Private	-6.0	-2.4	0.4	-0.1	0.5	0.7	1.1	1.0	1.1
Public	-0.2	0.6	-1.8	0.2	0.0	0.6	0.7	0.6	0.8
Net Exports	4.4	4.3	-0.7	1.7	0.6	-0.8	-1.1	-1.2	-1.3
Exports of goods and services	0.0	2.9	0.8	-2.6	1.8	2.7	2.4	2.2	2.3
Imports of goods and services	-4.4	-1.4	1.6	-4.3	1.2	3.4	3.5	3.4	3.6
	(Percent change)								
<i>Deflators</i>									
GDP	0.1	1.5	2.3	2.3	3.0	3.8	3.5	3.2	3.1
Domestic demand	-4.1	3.3	3.9	4.0	2.9	2.4	2.1	2.2	2.2
Consumption	-3.4	3.2	3.7	3.8	3.1	3.1	2.6	2.5	2.6
Investment	-8.6	3.0	3.7	5.1	2.1	1.5	0.6	0.9	1.0
Exports of goods and services	-8.8	9.5	8.0	4.7	1.6	-0.4	0.5	0.8	0.8
Imports of goods and services	-13.6	9.6	9.2	7.7	1.8	-1.9	-1.3	-0.5	-0.3
	(In percent of GDP)								
<i>Nominal aggregates</i>									
Nominal GDP (KM million)	24,051	24,584	25,474	25,885	26,797	28,369	30,381	32,607	34,973
Consumption	103.6	102.9	106.5	106.2	105.1	103.4	101.9	100.8	99.7
Private	82.1	81.3	84.2	84.3	83.6	82.4	81.1	80.4	79.5
Public	21.5	21.6	22.2	21.9	21.5	21.0	20.8	20.5	20.2
Gross capital formation	20.9	19.4	18.1	18.9	19.1	19.3	19.6	19.8	20.2
Private	13.5	11.4	11.8	12.1	12.4	12.5	12.7	12.7	12.9
Public	7.4	7.9	6.3	6.7	6.6	6.8	7.0	7.1	7.4
National Savings	14.9	14.4	9.2	9.0	10.0	11.7	13.0	14.1	15.2
Private	14.2	11.5	6.9	6.3	6.2	7.6	8.1	8.3	8.7
Public	0.7	3.0	2.3	2.6	3.8	4.1	4.9	5.8	6.5
Saving-Investment balance	-6.0	-5.0	-8.9	-9.9	-9.0	-7.7	-6.7	-5.7	-5.0
Current account balance	-6.6	-5.6	-9.6	-9.9	-9.0	-7.7	-6.7	-5.7	-5.0
	(In percent)								
<i>Labor market</i>									
Unemployment rate (ILO definition) <sup>1</sup>	24.1	27.2	27.6	27.6	26.5	...	...	...	...

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

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

<sup>1</sup> Based on the BiH Labor Survey. The unemployment rate based on the number of unemployed persons registered in Unemployment Offices is significantly higher.

Table 3. Bosnia and Herzegovina: Balance of Payments, 2009–17 1/  
(In millions of euros, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
			Prel.			Proj.			
Current account	-813	-702	-1,247	-1,310	-1,237	-1,111	-1,033	-951	-898
Trade balance	-3,009	-2,796	-3,201	-3,311	-3,308	-3,306	-3,348	-3,445	-3,571
Goods	-3,981	-3,901	-4,267	-4,329	-4,410	-4,500	-4,614	-4,756	-4,935
Export of goods (fob)	1,643	2,189	2,625	2,528	2,747	2,987	3,243	3,521	3,825
Import of goods (fob)	-5,624	-6,090	-6,892	-6,856	-7,157	-7,487	-7,857	-8,277	-8,760
Services (net)	972	1,104	1,066	1,018	1,102	1,195	1,267	1,311	1,365
Exports	1,428	1,512	1,480	1,425	1,518	1,628	1,737	1,820	1,917
Imports	-456	-408	-414	-407	-416	-434	-470	-509	-552
Primary Income (net)	488	299	162	176	212	246	255	309	350
Total credit	647	450	477	423	479	526	572	625	668
Total debit	-158	-152	-315	-247	-267	-280	-317	-316	-318
Of which, interest payments	-222	-170	-162	-131	-149	-158	-191	-184	-179
Secondary Income (net)	1,708	1,796	1,792	1,824	1,859	1,949	2,060	2,184	2,322
Government (net)	166	168	153	161	173	194	224	264	314
Workers' remittances	999	989	999	1,001	1,016	1,078	1,151	1,228	1,309
Other (NGOs etc.)	617	718	726	733	740	748	755	763	770
Capital and Financial Accounts (excl. Reserves)	719	772	1,144	1,098	1,042	1,163	1,285	1,254	1,163
Capital account	179	193	182	186	190	195	201	207	214
Capital transfers (net)	179	193	182	186	190	195	201	207	214
General government	102	122	111	112	114	116	118	121	123
Other sectors	77	71	72	74	76	79	82	87	91
Financial account	-540	-580	-961	-912	-852	-968	-1,085	-1,047	-949
Direct investment (net)	-176	-186	-273	-404	-347	-304	-317	-329	-342
Assets	-68	59	1	0	0	0	0	0	0
Liabilities	107	245	274	404	347	304	317	329	342
Portfolio investment (net)	140	89	23	28	0	0	0	0	0
Other investment (net)	-505	-483	-712	-536	-505	-664	-768	-718	-607
Assets (net)	112	-386	-292	-105	-105	-175	-175	-175	-175
Short-term	105	-404	-287	-125	-125	-125	-125	-125	-125
Banks	-72	-252	-36	0	0	0	0	0	0
Other sectors, excl. government and central bank	251	-111	-176	-50	-50	-50	-50	-50	-50
Medium and long-term	7	18	-5	20	20	-50	-50	-50	-50
Banks	-15	-3	0	0	0	0	0	0	0
Other sectors, excl. government and central bank	22	21	-5	20	20	-50	-50	-50	-50
Liabilities (net)	617	97	420	431	400	489	593	543	432
Short-term	-7	332	209	143	177	175	180	165	168
General government	0	0	0	0	0	0	0	0	0
Banks	-52	67	-62	-18	2	15	16	17	18
Other sectors	45	265	271	161	175	160	164	148	150
Medium and long-term	471	-238	216	289	223	314	414	378	264
Monetary authority <sup>1</sup>	0	0	0	0	0	0	0	0	0
General government	347	462	192	218	90	40	132	75	-52
Disbursements of loans	416	543	284	375	417	402	413	362	362
Project	213	280	283	375	417	402	413	362	362
Budget	203	263	0	0	0	0	0	0	0
Amortization of loans	69	81	91	157	327	362	281	287	414
Banks	-133	-558	-248	-132	17	114	116	124	131
Other sectors	258	-141	272	202	115	160	165	180	185
Errors and omissions	40	62	87	0	0	0	0	0	0
Overall balance	53	-132	17	212	195	-52	-252	-303	-265
Financing	-53	132	-17	-212	-195	52	252	303	265
Change in net international reserves ("+"=increase)	-53	132	-17	-40	41	236	252	303	265
External financing gap				172	236	184			
IMF				122	186	103			
World Bank				0	0	81			
EU				50	50	0			
<i>Memorandum items</i>									
Current account balance (in percent of GDP)	-6.6	-5.6	-9.6	-9.9	-9.0	-7.7	-6.7	-5.7	-5.0
Trade balance (in percent of GDP)	-32.4	-31.0	-32.8	-32.7	-32.2	-31.0	-29.7	-28.5	-27.6
Import of goods (change, percent)	-21.8	8.3	13.2	-0.5	4.4	4.6	4.9	5.3	5.8
Export of goods (change, percent)	-5.4	33.2	19.9	-3.7	8.7	8.7	8.6	8.6	8.6
Transfers (in percent of GDP)	13.9	14.3	13.8	13.8	13.6	13.4	13.3	13.1	13.0
Net foreign direct investment (in percent of GDP)	-1.4	-1.5	-2.1	-3.1	-2.5	-2.1	-2.0	-2.0	-1.9
External debt/GDP (in percent)	55.0	52.0	49.4	52.5	54.0	53.8	52.4	50.8	48.6
Private sector	33.2	26.5	23.3	24.0	24.5	24.7	24.6	24.4	24.3
Public sector	21.8	25.6	26.1	28.5	29.5	29.1	27.8	26.3	24.3
External debt service/GNFS exports (percent)	36.4	19.7	14.9	13.2	17.4	17.7	16.1	15.6	17.4
Gross official reserves (in millions of Euro)	3,174	3,303	3,285	3,245	3,285	3,522	3,774	4,077	4,341
(In months of prospective imports of goods and services)	5.9	5.4	5.4	5.1	5.0	5.1	5.2	5.3	5.3

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

1/. Based on BPM6.



Table 4. Bosnia and Herzegovina: General Government Statement of Operations, 2009-17  
(Percent of GDP)

	2009	2010	2011	2012		2013		2014	2015	2016	2017
				EBS/12/120	Proj.	EBS/12/120	Proj.				
<b>Revenue</b>	<b>45.0</b>	<b>46.7</b>	<b>46.5</b>	<b>46.5</b>	<b>46.4</b>	<b>46.2</b>	<b>46.3</b>	<b>46.1</b>	<b>46.2</b>	<b>46.3</b>	<b>46.5</b>
Taxes	22.0	23.2	23.3	22.9	23.1	22.9	22.7	22.7	22.7	22.7	22.7
Direct taxes	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.5
Indirect taxes	18.4	19.5	19.6	19.3	19.4	19.2	19.0	19.1	19.2	19.1	19.1
Other taxes	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Social security contributions	15.1	15.5	15.9	15.7	15.6	15.7	15.4	15.4	15.4	15.4	15.4
Grants	2.1	2.4	2.1	2.1	2.2	2.2	2.2	2.2	2.3	2.4	2.5
Other revenue	5.7	5.7	5.2	5.8	5.6	5.5	6.1	5.8	5.8	5.8	5.8
<b>Expenditure</b>	<b>50.5</b>	<b>50.9</b>	<b>49.3</b>	<b>49.5</b>	<b>49.5</b>	<b>48.6</b>	<b>48.4</b>	<b>48.0</b>	<b>47.5</b>	<b>46.9</b>	<b>46.6</b>
<b>Expense</b>	<b>43.1</b>	<b>43.0</b>	<b>43.0</b>	<b>43.1</b>	<b>42.8</b>	<b>42.1</b>	<b>41.8</b>	<b>41.2</b>	<b>40.5</b>	<b>39.8</b>	<b>39.2</b>
Compensation of employees	13.1	12.9	13.1	13.1	13.0	12.7	12.4	12.0	11.7	11.4	11.2
Use of goods and services	9.8	10.2	10.6	10.6	10.4	10.6	10.6	10.5	10.5	10.5	10.4
Social benefits	15.4	15.0	14.7	14.6	14.7	14.2	14.4	14.1	13.8	13.4	13.3
Interest	0.5	0.6	0.6	0.9	0.9	1.0	0.9	1.0	1.0	0.9	0.9
Subsidies	1.5	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.5	1.4	1.4
Other expense	2.7	2.6	2.2	2.3	2.2	2.2	2.0	2.1	2.1	2.1	2.0
<b>Net acquisition of nonfinancial assets</b>	<b>7.4</b>	<b>7.9</b>	<b>6.3</b>	<b>6.4</b>	<b>6.7</b>	<b>6.5</b>	<b>6.6</b>	<b>6.8</b>	<b>7.0</b>	<b>7.1</b>	<b>7.4</b>
Acquisition of nonfinancial assets	7.4	7.9	6.4	6.7	6.9	6.7	7.1	7.0	7.1	7.2	7.5
Foreign financed capital spending	3.6	4.2	3.7	4.1	3.9	4.2	4.1	3.9	4.0	4.0	4.0
Domestically financed capital spending	3.8	3.7	2.8	2.6	3.0	2.5	3.0	3.0	3.2	3.3	3.5
Disposal of nonfinancial assets	0.0	0.0	0.1	0.3	0.2	0.3	0.5	0.1	0.1	0.1	0.1
<b>Gross / Net Operating Balance (revenue minus expense)</b>	<b>1.9</b>	<b>3.8</b>	<b>3.5</b>	<b>3.4</b>	<b>3.7</b>	<b>4.1</b>	<b>4.6</b>	<b>4.9</b>	<b>5.7</b>	<b>6.6</b>	<b>7.3</b>
<b>Net lending/borrowing (revenue minus expenditure)</b>	<b>-5.5</b>	<b>-4.2</b>	<b>-2.9</b>	<b>-3.0</b>	<b>-3.0</b>	<b>-2.3</b>	<b>-2.0</b>	<b>-1.9</b>	<b>-1.3</b>	<b>-0.5</b>	<b>-0.1</b>
<b>Net acquisition of financial assets</b>	<b>-1.4</b>	<b>0.1</b>	<b>-1.0</b>	<b>-0.1</b>	<b>-0.3</b>	<b>0.2</b>	<b>-0.5</b>	<b>-0.6</b>	<b>-0.3</b>	<b>-0.1</b>	<b>0.0</b>
Domestic assets	-1.4	0.1	-0.5	-0.1	-0.4	0.2	-0.4	-0.6	-0.3	-0.1	0.0
Currency and deposits	0.0	0.0	-1.1	-0.9	-1.0	0.1	-1.2	-0.6	-0.1	-0.1	0.1
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.6	0.3	0.2	0.8	0.6	0.1	0.6	0.1	-0.2	0.0	-0.1
Equity and investment fund shares	-2.0	-0.2	0.3	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.0	-0.5	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	0.0
<b>Net incurrence of liabilities</b>	<b>3.9</b>	<b>4.5</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>	<b>0.3</b>	<b>-0.2</b>	<b>0.0</b>	<b>1.0</b>	<b>0.5</b>	<b>0.1</b>
Domestic liabilities	1.3	1.4	0.7	-0.7	0.1	-0.4	-0.8	-0.3	0.1	-0.2	0.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	1.0	0.3	0.1	0.0	-0.1	0.0	0.8	0.5	0.1
Amortization	-0.6	-0.6	-1.0	-1.1	-1.0	-0.8	-1.0	-0.8	-0.8	-0.7	-0.2
Loans	1.5	2.3	0.5	0.6	0.9	0.4	0.4	0.5	0.1	0.0	0.2
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.4	-0.3	0.2	-0.5	0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Foreign liabilities	2.6	3.0	1.2	2.4	1.5	0.7	0.6	0.3	0.9	0.7	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2.6	3.0	1.2	2.4	1.5	0.7	0.6	0.3	0.9	0.7	0.0
Drawings	3.2	3.9	2.2	3.6	2.8	3.0	3.0	2.8	2.7	2.4	2.3
Amortization	0.6	0.9	0.9	1.2	1.2	2.4	2.4	2.5	1.8	1.7	2.3
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.3</b>	<b>1.3</b>	<b>2.3</b>	<b>1.7</b>	<b>1.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Identified financing	0.0	0.0	0.0	1.3	1.3	2.3	1.7	1.3	0.0	0.0	0.0
IMF	0.0	0.0	0.0	0.9	0.9	1.3	1.4	0.7	0.0	0.0	0.0
WB	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.6	0.0	0.0	0.0
EU	0.0	0.0	0.0	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Undertaken financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Statistical discrepancy</b>	<b>0.2</b>	<b>-0.2</b>	<b>-0.1</b>	<b>0.0</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Memorandum items</b>											
Indirect revenues	18.4	19.5	19.6	19.3	19.4	19.2	19.0	19.1	19.2	19.1	19.1
Net lending excluding externally-financed operations	-4.0	-2.3	-1.2	-0.9	-1.3	-0.2	-0.1	-0.1	0.5	1.1	1.5
Structural balance (% of potential GDP)	-6.4	-4.2	-2.5	-1.7	-1.3	-0.7	-0.2	0.2	0.1	...	...

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

Table 5. Bosnia and Herzegovina: General Government Statement of Operations, 2009-14  
(KM million)

	2009	2010	2011	2012						2013				2014
				Jun		Sep		Dec		Mar.	Jun.	Sep.	Dec.	
				Rel.	EBS/12/120	Proj.	EBS/12/120	Proj.	Proj.					
<b>Revenue</b>	<b>10820.3</b>	<b>11486.4</b>	<b>11834.4</b>	<b>5654.5</b>	<b>8894.4</b>	<b>8745.6</b>	<b>12080.1</b>	<b>12015.1</b>	<b>2766.5</b>	<b>5884.4</b>	<b>9040.4</b>	<b>12413.9</b>	<b>13070.2</b>	
Taxes	5294.9	5693.1	5929.1	2783.0	4421.2	4366.0	5958.8	5974.0	1370.1	2892.4	4486.3	6069.8	6437.0	
Direct taxes	857.8	890.2	907.2	475.5	716.8	686.2	944.5	929.3	240.8	488.1	678.8	954.5	1000.9	
Indirect taxes	4437.1	4802.9	5004.6	2303.8	3700.3	3674.0	5002.1	5033.6	1127.4	2401.0	3802.5	5100.6	5422.1	
Other taxes	0.0	0.0	17.3	3.7	4.6	5.8	12.3	11.1	1.9	3.3	5.0	14.7	14.0	
Social security contributions	3633.4	3804.0	4046.3	1940.7	2957.8	2960.7	4080.5	4032.9	948.7	2015.8	3006.4	4134.2	4376.6	
Grants	515.0	593.1	539.7	282.3	397.6	410.9	539.1	560.7	156.1	324.6	498.6	576.8	622.8	
Other revenue	1377.0	1396.2	1319.4	648.4	1117.3	1008.0	1501.7	1447.4	291.6	651.5	1049.1	1633.0	1633.8	
<b>Expenditure</b>	<b>12145.0</b>	<b>12515.7</b>	<b>12566.5</b>	<b>5763.1</b>	<b>8800.4</b>	<b>8960.3</b>	<b>12861.2</b>	<b>12804.5</b>	<b>2893.9</b>	<b>6059.8</b>	<b>9386.6</b>	<b>12961.1</b>	<b>13613.8</b>	
<b>Expense</b>	<b>10369.9</b>	<b>10563.9</b>	<b>10954.6</b>	<b>5089.8</b>	<b>7712.7</b>	<b>7795.9</b>	<b>11189.7</b>	<b>11068.0</b>	<b>2589.3</b>	<b>5287.5</b>	<b>8050.4</b>	<b>11188.7</b>	<b>11674.8</b>	
Compensation of employees	3155.6	3165.6	3337.3	1636.0	2454.6	2442.3	3397.3	3353.5	815.1	1614.4	2409.9	3311.6	3404.3	
Use of goods and services	2367.9	2498.5	2711.4	1266.8	1765.1	1898.8	2754.6	2690.1	658.8	1348.3	2036.6	2833.5	2973.4	
Social benefits	3713.6	3679.8	3749.9	1803.6	2726.8	2753.9	3792.2	3817.2	915.9	1829.5	2820.4	3854.1	3993.1	
Interest	127.0	150.0	164.7	97.9	158.8	138.5	225.9	220.4	42.6	109.7	152.9	245.1	288.4	
Subsidies	364.9	426.1	440.7	116.0	265.6	246.8	423.0	418.9	94.7	203.7	312.2	407.7	423.4	
Grants	0.0	0.0	10.2	2.4	5.3	14.1	11.6	11.6	2.0	4.0	7.0	12.0	12.7	
Other expense	640.8	643.9	550.6	169.5	341.7	315.6	596.7	568.0	62.2	180.1	318.4	536.7	592.3	
<b>Net acquisition of nonfinancial assets</b>	<b>1775.1</b>	<b>1951.8</b>	<b>1612.0</b>	<b>673.3</b>	<b>1087.7</b>	<b>1164.4</b>	<b>1671.6</b>	<b>1736.5</b>	<b>304.6</b>	<b>774.1</b>	<b>1336.2</b>	<b>1772.4</b>	<b>1939.0</b>	
Acquisition of nonfinancial assets	1775.1	1951.8	1643.0	688.9	1129.2	1187.8	1742.7	1780.2	312.3	790.0	1360.0	1907.5	1979.4	
Foreign financed capital spending	860.7	1030.8	937.6	438.1	716.7	685.9	1057.4	996.6	231.6	469.3	738.4	1091.5	1115.5	
Domestically financed capital spending	914.4	921.0	705.4	250.7	412.5	501.9	685.2	783.6	80.7	320.7	621.6	816.1	863.9	
Disposal of nonfinancial assets	0.0	0.0	31.1	15.6	41.4	23.4	71.1	43.8	7.7	15.9	23.8	135.1	40.4	
<b>Gross / Net Operating Balance (revenue minus expense)</b>	<b>450.5</b>	<b>922.6</b>	<b>879.9</b>	<b>564.6</b>	<b>1181.7</b>	<b>949.7</b>	<b>890.5</b>	<b>947.1</b>	<b>177.1</b>	<b>598.7</b>	<b>990.0</b>	<b>1225.2</b>	<b>1395.4</b>	
<b>Net lending/borrowing (revenue minus expenditure)</b>	<b>-1324.6</b>	<b>-1029.2</b>	<b>-732.1</b>	<b>-108.7</b>	<b>94.0</b>	<b>-214.7</b>	<b>-781.1</b>	<b>-789.4</b>	<b>-127.5</b>	<b>-175.4</b>	<b>-346.2</b>	<b>-547.2</b>	<b>-543.6</b>	
<b>Net acquisition of financial assets</b>	<b>-344.1</b>	<b>29.2</b>	<b>-264.2</b>	<b>51.3</b>	<b>210.5</b>	<b>9.9</b>	<b>-13.5</b>	<b>-70.5</b>	<b>15.6</b>	<b>-21.0</b>	<b>-95.9</b>	<b>-126.5</b>	<b>-177.2</b>	
Domestic assets	-344.1	29.2	-129.2	14.3	210.5	9.9	-13.5	-91.9	30.9	-5.2	-80.1	-109.4	-165.7	
Currency and deposits	0.0	0.0	-273.4	-59.7	50.9	-96.4	-227.6	-263.8	-37.1	-118.1	-211.0	-310.7	-180.7	
Debt securities	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Loans	142.2	77.7	63.3	67.1	149.5	70.1	201.3	145.6	63.2	90.2	101.3	173.6	14.9	
Equity and investment fund shares	-486.3	-48.5	71.0	27.7	11.1	33.7	12.7	38.3	4.9	22.7	29.6	27.7	0.1	
Other accounts receivable	0.0	0.0	9.6	-20.8	-1.0	2.6	0.0	-12.1	0.0	0.0	0.0	0.0	0.0	
Foreign assets	0.0	0.0	-135.0	37.0	0.0	0.0	0.0	21.4	-15.3	-15.8	-15.8	-17.1	-11.5	
<b>Net incurrence of liabilities</b>	<b>933.9</b>	<b>1096.7</b>	<b>484.6</b>	<b>135.5</b>	<b>-1.9</b>	<b>228.1</b>	<b>432.9</b>	<b>426.5</b>	<b>62.3</b>	<b>-7.0</b>	<b>-12.1</b>	<b>-40.3</b>	<b>5.8</b>	
Domestic liabilities	306.3	347.7	176.2	-102.0	-417.1	-95.7	-181.7	31.0	20.8	12.7	4.9	-208.6	-82.8	
Debt securities	0.0	0.0	256.2	59.4	-29.3	26.1	69.6	34.5	4.9	4.0	-13.0	-16.7	9.2	
Amortization	-138.3	-140.5	-261.0	-88.9	-206.3	-199.1	-282.5	-264.2	-76.0	-88.7	-217.7	-267.7	-226.7	
Loans	351.2	556.2	124.6	52.9	110.4	210.6	160.8	241.0	-6.5	25.6	17.2	103.5	134.6	
Other accounts payable	93.5	-68.0	56.3	-125.5	-291.9	-133.2	-129.6	19.7	98.4	71.9	218.3	-27.6	0.0	
Foreign liabilities	627.6	749.0	308.5	237.5	415.2	323.8	614.6	395.6	41.6	-19.7	-16.9	168.3	88.6	
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Loans	627.6	749.0	310.7	237.5	415.4	323.8	613.2	395.0	41.6	-19.7	-16.9	168.3	85.7	
Drawings	781.1	963.0	550.5	362.9	584.6	479.3	932.1	712.3	138.6	270.9	407.9	808.9	792.1	
Amortization	153.5	214.0	239.8	125.5	169.2	155.5	318.8	317.3	97.1	290.6	424.8	640.6	706.3	
Other accounts payable	0.0	0.0	-2.2	0.0	0.0	0.0	1.4	0.6	0.0	0.0	0.0	0.0	2.9	
<b>Financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>118.5</b>	<b>118.2</b>	<b>334.7</b>	<b>336.5</b>	<b>80.7</b>	<b>161.5</b>	<b>262.4</b>	<b>461.0</b>	<b>360.6</b>	
Identified financing	0.0	0.0	0.0	0.0	118.5	118.2	334.7	336.5	80.7	161.4	262.3	461.0	360.6	
IMF	0.0	0.0	0.0	0.0	118.5	118.2	236.9	238.7	80.7	161.4	262.3	363.2	202.3	
WB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	158.4	
EU	0.0	0.0	0.0	0.0	0.0	0.0	97.8	97.8	0.0	0.0	0.0	97.8	0.0	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Undertaken financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Statistical discrepancy</b>	<b>46.6</b>	<b>-38.2</b>	<b>-16.8</b>	<b>24.5</b>	<b>0.0</b>	<b>-121.8</b>	<b>0.0</b>	<b>-44.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
<b>Memorandum items</b>														
Indirect revenues	4437.1	4802.9	5004.6	2303.8	3700.3	3674.0	5002.1	5033.6	1127.4	2401.0	3802.5	5100.6	5422.1	
Net lending excluding externally-financed operations	-952.7	-565.8	-314.1	48.1	413.0	61.5	-237.6	-328.2	-50.9	-24.6	-97.1	-17.1	-34.9	

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

Table 5a. Institutions of Bosnia and Herzegovina: Statement of Operations, 2009-14  
(KM million)

	2009	2010	2011	2012					2013				2014
				Jun.		Sep.		Dec.	Mar.	Proj.			
				Prel.	EBS/12/120	Prel.	EBS/12/120	Proj.		Jun.	Sep.	Dec.	
<b>Revenue</b>	<b>970.5</b>	<b>885.4</b>	<b>848.3</b>	<b>445.8</b>	<b>681.6</b>	<b>682.7</b>	<b>909.7</b>	<b>911.6</b>	<b>193.1</b>	<b>445.8</b>	<b>676.3</b>	<b>923.2</b>	<b>938.5</b>
Taxes	729.0	689.0	689.0	353.6	558.9	558.1	750.0	750.0	167.6	367.8	558.9	750.0	750.0
Direct taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indirect taxes	729.0	689.0	689.0	353.6	558.9	558.1	750.0	750.0	167.6	367.8	558.9	750.0	750.0
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	24.0	22.0	17.7	9.1	12.1	12.1	15.0	15.0	0.7	5.0	5.8	7.2	7.6
Other revenue	217.5	174.4	141.6	82.0	110.6	111.4	144.7	145.6	24.8	73.0	111.6	166.0	180.9
Transfers from other general government units	0.0	0.0	1.2	1.1	0.0	1.1	0.0	1.1	0.0	0.0	0.0	0.0	0.0
<b>Expenditure</b>	<b>944.9</b>	<b>972.7</b>	<b>898.7</b>	<b>401.5</b>	<b>672.9</b>	<b>637.2</b>	<b>950.0</b>	<b>900.0</b>	<b>208.4</b>	<b>461.5</b>	<b>697.6</b>	<b>950.0</b>	<b>950.0</b>
<b>Expense</b>	<b>874.0</b>	<b>904.5</b>	<b>877.3</b>	<b>394.6</b>	<b>632.2</b>	<b>618.5</b>	<b>889.7</b>	<b>845.7</b>	<b>200.1</b>	<b>415.0</b>	<b>630.5</b>	<b>877.9</b>	<b>888.7</b>
Compensation of employees	636.0	634.0	648.4	314.9	475.4	473.1	635.5	632.0	160.6	317.0	476.3	636.2	645.0
Use of goods and services	182.8	204.7	179.3	66.6	115.8	105.9	179.9	159.9	35.0	80.7	128.3	193.7	194.2
Social benefits	0.0	0.0	38.5	6.1	9.0	9.1	12.0	12.0	0.6	5.8	8.8	11.5	11.5
Interest	0.5	0.5	0.3	0.0	0.7	0.0	0.7	0.0	0.0	0.0	0.0	0.5	3.4
Transfers to other general government units	-7.0	-3.0	-1.2	0.0	0.0	19.9	19.9	19.9	0.0	0.0	0.0	0.0	0.0
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expense	61.7	68.2	12.1	7.0	31.3	10.4	41.7	21.8	3.9	11.5	17.1	35.9	34.5
<b>Net acquisition of nonfinancial assets</b>	<b>71.0</b>	<b>68.3</b>	<b>21.4</b>	<b>6.9</b>	<b>40.6</b>	<b>18.7</b>	<b>60.3</b>	<b>54.3</b>	<b>8.3</b>	<b>46.5</b>	<b>67.1</b>	<b>72.1</b>	<b>61.3</b>
Acquisition of nonfinancial assets	71.0	68.3	21.9	6.9	44.3	18.7	67.7	61.7	8.3	46.5	67.1	72.8	61.3
Foreign financed capital spending	0.0	0.0	3.4	1.3	1.9	2.1	2.1	3.0	0.3	0.8	1.3	1.8	0.0
Domestically financed capital spending	71.0	68.3	18.5	5.6	42.4	16.6	65.6	58.7	7.9	45.7	65.8	71.0	61.3
Disposal of nonfinancial assets	0.0	0.0	0.6	0.0	3.7	0.0	7.4	7.4	0.0	0.0	0.0	0.7	0.0
<b>Gross / Net Operating Balance (revenue minus expense)</b>	<b>96.5</b>	<b>-19.1</b>	<b>-29.0</b>	<b>51.2</b>	<b>49.4</b>	<b>64.2</b>	<b>20.0</b>	<b>66.0</b>	<b>-7.0</b>	<b>30.8</b>	<b>45.9</b>	<b>45.3</b>	<b>49.9</b>
<b>Net lending/borrowing (revenue minus expenditure)</b>	<b>25.6</b>	<b>-87.3</b>	<b>-50.4</b>	<b>44.3</b>	<b>8.7</b>	<b>45.6</b>	<b>-40.3</b>	<b>11.6</b>	<b>-15.3</b>	<b>-15.7</b>	<b>-21.2</b>	<b>-26.8</b>	<b>-11.4</b>
<b>Net acquisition of financial assets</b>	<b>-0.7</b>	<b>-17.5</b>	<b>-83.0</b>	<b>34.7</b>	<b>4.4</b>	<b>0.0</b>	<b>-25.1</b>	<b>21.4</b>	<b>-15.3</b>	<b>-15.8</b>	<b>-15.8</b>	<b>-17.1</b>	<b>-11.5</b>
Domestic assets	-0.7	-17.5	52.0	-2.3	4.4	0.0	-25.1	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	49.0	-2.3	4.4	0.0	-25.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	-0.7	-17.5	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.0	-135.0	37.0	0.0	0.0	0.0	21.4	-15.3	-15.8	-15.8	-17.1	-11.5
<b>Net incurrence of liabilities</b>	<b>-15.3</b>	<b>34.6</b>	<b>-34.1</b>	<b>-5.7</b>	<b>-4.3</b>	<b>0.0</b>	<b>5.4</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.1</b>	<b>5.4</b>	<b>0.0</b>	<b>0.0</b>
Domestic liabilities	-14.7	36.7	-33.0	-5.7	-4.3	0.0	0.0	0.0	0.0	-0.1	5.4	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-27.8	43.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	13.1	-7.0	-33.0	-5.7	-4.3	0.0	0.0	0.0	0.0	-0.1	5.4	0.0	0.0
Foreign liabilities	-0.6	-2.1	-1.1	0.0	0.0	0.0	5.4	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-0.6	-2.1	-1.1	0.0	0.0	0.0	5.4	0.0	0.0	0.0	0.0	0.0	0.0
Drawings	0.0	0.0	0.0	0.0	0.0	0.0	5.4	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.6	2.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>9.8</b>	<b>9.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>9.8</b>	<b>0.0</b>
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	9.8	9.8	0.0	0.0	0.0	9.8	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
WB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU	0.0	0.0	0.0	0.0	0.0	0.0	9.8	9.8	0.0	0.0	0.0	9.8	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Undertaken financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Statistical discrepancy</b>	<b>-11.0</b>	<b>35.3</b>	<b>1.5</b>	<b>-3.9</b>	<b>0.0</b>	<b>45.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Memorandum items</b>													
Indirect revenues	729.0	689.0	689.0	353.6	558.9	558.1	750.0	750.0	167.6	367.8	558.9	750.0	750.0
Net lending excluding externally-financed operations	25.6	-87.3	-47.0	45.6	10.7	47.6	-38.2	14.6	-15.0	-15.0	-20.0	-25.0	-11.4

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

Table 5b. Federation of Bosnia and Herzegovina: General Government Statement of Operations, 2009-14  
(KM million)

	2009	2010	2011	2012						2013				2014
				Jun		Sep		Dec.		Mar.	Jun.	Sep.	Dec.	
				Prel.	EBS/12/120	Proj.	EBS/12/120	Proj.	Proj.					
<b>Revenue</b>	<b>6415.6</b>	<b>6918.5</b>	<b>6926.5</b>	<b>3308.5</b>	<b>5249.1</b>	<b>5104.2</b>	<b>7079.1</b>	<b>7028.8</b>	<b>1641.2</b>	<b>3453.8</b>	<b>5355.5</b>	<b>7287.5</b>	<b>7693.8</b>	
Taxes	2873.3	3161.2	3177.8	1473.2	2342.2	2310.2	3172.5	3176.9	737.2	1541.8	2405.2	3250.5	3473.2	
Direct taxes	508.2	529.5	468.8	251.1	369.4	356.3	495.3	480.9	133.4	263.1	365.6	507.2	527.4	
Indirect taxes	2365.1	2631.7	2700.2	1220.1	1970.8	1950.8	2668.8	2688.8	602.9	1277.1	2037.3	2732.3	2934.4	
Other taxes	0.0	0.0	8.9	2.0	2.0	3.0	8.5	7.3	0.9	1.6	2.3	11.0	11.4	
Social security contributions	2467.8	2615.5	2649.0	1290.3	1963.4	1957.4	2660.0	2651.4	630.5	1315.9	1996.2	2703.9	2862.4	
Foreign grants	353.0	382.0	352.3	190.3	273.6	275.6	352.7	365.7	108.7	226.1	352.5	382.4	412.8	
Other revenue	721.5	759.8	747.4	391.0	656.6	611.6	872.3	834.8	164.9	370.0	601.7	950.7	945.4	
<b>Expenditure</b>	<b>7011.8</b>	<b>7279.8</b>	<b>7317.5</b>	<b>3437.9</b>	<b>5241.2</b>	<b>5357.9</b>	<b>7577.6</b>	<b>7572.7</b>	<b>1745.1</b>	<b>3590.1</b>	<b>5525.8</b>	<b>7691.9</b>	<b>8068.7</b>	
<b>Expense</b>	<b>6140.3</b>	<b>6280.8</b>	<b>6424.2</b>	<b>2986.3</b>	<b>4542.8</b>	<b>4594.0</b>	<b>6602.7</b>	<b>6493.2</b>	<b>1526.2</b>	<b>3093.6</b>	<b>4700.6</b>	<b>6548.0</b>	<b>6877.5</b>	
Compensation of employees	1605.8	1621.7	1675.5	807.9	1212.6	1203.3	1726.3	1691.3	415.6	810.3	1207.0	1696.3	1765.5	
Use of goods and services	1405.5	1457.5	1528.5	738.6	1050.0	1097.7	1547.6	1502.8	390.8	784.9	1154.3	1583.0	1660.5	
Social benefits	2451.2	2421.3	2467.4	1209.9	1818.8	1848.1	2522.0	2514.2	609.5	1214.1	1874.1	2519.7	2611.5	
Interest	70.9	92.1	96.6	53.7	84.4	75.9	121.8	121.8	21.5	55.6	78.6	128.2	165.0	
Subsidies	211.2	261.2	250.5	66.5	166.2	158.3	280.0	251.7	50.9	119.8	175.9	241.9	247.9	
Other expense	316.7	379.7	405.7	109.7	210.9	210.8	405.1	411.4	37.9	108.9	210.7	378.7	427.1	
<b>Net acquisition of nonfinancial assets</b>	<b>871.5</b>	<b>999.0</b>	<b>893.3</b>	<b>451.6</b>	<b>698.4</b>	<b>763.9</b>	<b>974.9</b>	<b>1079.5</b>	<b>218.9</b>	<b>496.5</b>	<b>825.2</b>	<b>1144.0</b>	<b>1191.2</b>	
Acquisition of nonfinancial assets	871.5	999.0	900.8	455.2	719.2	770.6	1011.9	1089.5	220.0	500.2	831.9	1201.2	1202.2	
Foreign financed capital spending	574.7	680.2	638.5	327.5	535.0	507.2	693.3	707.3	177.6	360.3	553.0	818.3	809.1	
Domestically financed capital spending	296.8	318.8	262.3	127.8	184.2	263.4	318.6	382.2	42.4	139.9	278.9	382.9	393.1	
Disposal of nonfinancial assets	0.0	0.0	7.6	3.7	20.8	6.8	37.0	10.0	1.1	3.7	6.7	57.2	11.0	
<b>Gross / Net Operating Balance (revenue minus expense)</b>	<b>275.3</b>	<b>637.7</b>	<b>489.1</b>	<b>322.2</b>	<b>706.4</b>	<b>510.2</b>	<b>476.4</b>	<b>535.5</b>	<b>115.0</b>	<b>360.2</b>	<b>654.9</b>	<b>739.6</b>	<b>816.3</b>	
<b>Net lending/borrowing (revenue minus expenditure)</b>	<b>-596.2</b>	<b>-361.3</b>	<b>-404.2</b>	<b>-129.4</b>	<b>8.0</b>	<b>-253.7</b>	<b>-498.4</b>	<b>-543.9</b>	<b>-103.9</b>	<b>-136.3</b>	<b>-170.3</b>	<b>-404.4</b>	<b>-374.9</b>	
<b>Net acquisition of financial assets</b>	<b>-331.1</b>	<b>-44.2</b>	<b>-288.4</b>	<b>-35.7</b>	<b>4.1</b>	<b>-135.4</b>	<b>-321.9</b>	<b>-292.9</b>	<b>-22.3</b>	<b>-78.4</b>	<b>-149.3</b>	<b>-220.3</b>	<b>-269.0</b>	
Domestic assets	-331.1	-44.2	-288.4	-35.7	4.1	-135.4	-321.9	-292.9	-22.3	-78.4	-149.3	-220.3	-269.0	
Currency and deposits	0.0	0.0	-213.0	15.1	91.1	-79.5	-229.8	-216.8	-22.6	-78.9	-151.9	-219.6	-182.9	
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Loans	-8.7	-38.4	-69.2	-50.8	-82.3	-56.2	-89.1	-71.0	-0.1	-0.2	-0.3	6.4	-86.2	
Equity and investment fund shares	-322.3	-5.8	-6.2	0.0	-4.7	0.3	-3.0	-5.1	0.3	0.6	3.0	-7.0	0.1	
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Net incurrence of liabilities</b>	<b>174.9</b>	<b>374.5</b>	<b>199.0</b>	<b>25.7</b>	<b>-82.9</b>	<b>54.4</b>	<b>-17.8</b>	<b>57.4</b>	<b>27.7</b>	<b>-49.7</b>	<b>-154.0</b>	<b>-116.7</b>	<b>-134.6</b>	
Domestic liabilities	-214.8	-116.8	49.5	-78.9	-240.5	-110.8	-165.1	-90.4	23.9	5.8	-78.5	-139.9	-74.9	
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Debt securities	0.0	0.0	89.7	67.3	-28.2	56.8	42.9	42.8	4.9	5.3	-11.7	40.0	3.9	
Amortization	-44.4	-77.4	-95.1	-27.3	-74.1	-108.5	-134.5	-134.5	-36.2	-37.0	-146.7	-175.9	-140.7	
Loans	-179.1	21.5	6.0	-10.5	25.1	24.8	56.1	37.7	4.1	35.2	38.3	23.4	61.9	
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other accounts payable	8.6	-60.9	48.9	-108.4	-163.3	-83.9	-129.6	-36.3	51.1	2.3	41.6	-27.5	0.0	
Foreign liabilities	389.7	491.3	149.5	104.6	157.6	165.3	147.3	147.8	3.8	-55.5	-75.4	23.3	-59.7	
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Loans	389.7	491.3	151.7	104.6	157.6	165.3	147.3	148.3	3.8	-55.5	-75.4	23.3	-59.7	
Drawings	486.9	624.7	295.3	181.5	265.8	259.7	350.8	351.8	69.3	135.4	203.9	447.8	409.7	
Amortization	97.1	133.4	143.6	76.9	108.2	94.5	203.5	203.5	65.5	191.0	279.4	424.5	469.4	
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other accounts payable	0.0	0.0	-2.2	0.0	0.0	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	
<b>Statistical discrepancy / financing gap</b>	<b>90.3</b>	<b>-57.4</b>	<b>-83.2</b>	<b>68.0</b>	<b>79.0</b>	<b>63.9</b>	<b>194.3</b>	<b>193.6</b>	<b>53.8</b>	<b>107.6</b>	<b>174.9</b>	<b>300.8</b>	<b>240.4</b>	

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

Table 5c. Federation of Bosnia and Herzegovina: Central Government Statement of Operations, 2009-14  
(KM million)

	2009	2010	2011	2012					2013				2014
				Jun		Sep.		Dec.	Mar.	Jun.	Sep.	Dec.	
				Prel.	EBS/12/120	Prel.	EBS/12/120						
<b>Revenue</b>	<b>1594.0</b>	<b>1810.8</b>	<b>1672.3</b>	<b>875.0</b>	<b>1383.4</b>	<b>1339.9</b>	<b>1804.8</b>	<b>1823.0</b>	<b>434.5</b>	<b>982.3</b>	<b>1532.5</b>	<b>2042.9</b>	<b>2146.3</b>
Taxes	1049.8	1218.2	1137.5	546.4	853.5	842.7	1190.8	1166.7	290.6	637.1	978.6	1342.7	1451.8
Direct taxes	68.0	95.4	46.6	32.8	52.0	38.7	64.9	49.5	24.4	34.2	40.4	51.7	54.6
Indirect taxes	981.9	1122.8	1090.8	513.6	801.5	804.0	1125.9	1117.2	266.2	602.9	938.3	1291.1	1397.2
Other taxes	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	351.7	378.2	343.5	187.5	269.2	269.7	342.5	355.5	108.3	224.9	349.0	374.1	404.4
Other revenue	192.5	214.4	191.3	141.1	260.6	227.5	271.5	300.8	35.7	120.3	204.8	326.2	290.1
<b>Expenditure</b>	<b>1817.2</b>	<b>2054.9</b>	<b>1955.1</b>	<b>880.2</b>	<b>1424.9</b>	<b>1377.3</b>	<b>2029.4</b>	<b>2027.3</b>	<b>493.1</b>	<b>1004.5</b>	<b>1537.8</b>	<b>2204.1</b>	<b>2248.1</b>
<b>Expense</b>	<b>1178.3</b>	<b>1339.6</b>	<b>1372.0</b>	<b>558.2</b>	<b>925.8</b>	<b>917.8</b>	<b>1399.6</b>	<b>1401.9</b>	<b>319.6</b>	<b>669.5</b>	<b>1018.5</b>	<b>1436.2</b>	<b>1477.0</b>
Compensation of employees	228.2	220.0	239.7	111.8	171.8	166.8	232.5	232.5	57.6	114.4	170.6	237.8	243.5
Use of goods and services	63.3	85.7	67.0	23.9	45.5	39.8	63.0	63.0	35.0	45.0	58.9	93.1	70.0
Social benefits	526.1	480.5	468.7	218.4	342.7	334.0	460.7	460.7	107.1	216.0	350.4	456.1	458.5
Interest	65.1	81.4	84.7	47.7	74.3	66.6	105.8	105.8	19.1	49.7	69.5	110.1	146.2
Subsidies	108.4	131.9	115.5	10.5	60.0	72.8	127.5	126.0	26.2	70.0	100.0	130.5	130.5
Transfers to other general government units	147.4	276.8	327.6	134.8	201.5	207.4	272.3	310.7	62.4	139.7	192.9	272.1	283.7
Other expense	39.9	63.2	69.0	11.2	30.0	30.3	137.8	103.2	12.3	34.8	76.2	136.5	144.5
<b>Net acquisition of nonfinancial assets</b>	<b>638.9</b>	<b>715.3</b>	<b>583.1</b>	<b>321.9</b>	<b>499.1</b>	<b>459.5</b>	<b>629.9</b>	<b>625.4</b>	<b>173.5</b>	<b>335.0</b>	<b>519.2</b>	<b>767.9</b>	<b>771.1</b>
Acquisition of nonfinancial assets	638.9	715.3	583.1	321.9	499.1	459.5	629.9	625.4	173.5	335.0	519.2	767.9	771.1
Foreign financed capital spending	574.7	632.2	569.4	317.9	491.1	453.8	611.1	607.3	166.8	307.1	474.3	714.2	714.3
Domestically financed capital spending	64.1	83.1	13.7	4.0	8.0	5.6	18.8	18.1	6.7	27.9	44.9	53.7	56.8
Disposal of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Gross / Net Operating Balance (revenue minus expense)</b>	<b>415.7</b>	<b>471.2</b>	<b>300.3</b>	<b>316.8</b>	<b>457.6</b>	<b>422.1</b>	<b>405.2</b>	<b>421.2</b>	<b>115.0</b>	<b>312.8</b>	<b>513.9</b>	<b>606.7</b>	<b>669.3</b>
<b>Net lending/borrowing (revenue minus expenditure)</b>	<b>-223.2</b>	<b>-244.1</b>	<b>-282.8</b>	<b>-5.1</b>	<b>-41.5</b>	<b>-37.4</b>	<b>-224.6</b>	<b>-204.2</b>	<b>-58.6</b>	<b>-22.2</b>	<b>-5.3</b>	<b>-161.2</b>	<b>-101.8</b>
<b>Net acquisition of financial assets</b>	<b>-220.8</b>	<b>-26.5</b>	<b>-238.0</b>	<b>16.5</b>	<b>-52.2</b>	<b>2.8</b>	<b>-52.3</b>	<b>-43.7</b>	<b>-20.6</b>	<b>-41.3</b>	<b>-59.9</b>	<b>-109.0</b>	<b>-146.7</b>
Domestic assets	-220.8	-26.5	-238.0	16.5	-52.2	2.8	-52.3	-43.7	-20.6	-41.3	-59.9	-109.0	-146.7
Currency and deposits	0.0	0.0	-162.6	59.6	15.8	50.8	3.0	27.0	0.0	0.0	0.0	-27.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	88.3	-38.5	-69.7	-43.2	-64.6	-48.7	-54.8	-68.1	-21.0	-41.9	-62.9	-74.9	-146.7
Equity and investment fund shares	-309.1	12.0	-5.6	0.1	-3.4	0.7	-0.5	-2.6	0.3	0.6	3.0	-7.1	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net incurrence of liabilities</b>	<b>35.2</b>	<b>171.7</b>	<b>69.8</b>	<b>20.4</b>	<b>-89.6</b>	<b>-31.3</b>	<b>-44.2</b>	<b>-57.3</b>	<b>-15.9</b>	<b>-126.7</b>	<b>-229.5</b>	<b>-248.7</b>	<b>-285.4</b>
Domestic liabilities	-354.5	-271.5	-8.2	-31.1	-204.6	-118.7	-111.5	-107.7	-9.1	-18.4	-76.2	-166.5	-129.1
Debt securities	0.0	0.0	89.0	67.5	-28.4	55.9	42.1	42.0	4.9	5.3	-11.8	40.0	3.9
Amortization	-59.8	-72.9	-93.3	-25.4	-70.0	-106.5	-129.3	-129.3	-33.7	-34.2	-143.4	-174.0	-138.8
Loans	-84.6	-96.5	-8.8	-1.7	0.0	-3.6	0.0	3.9	0.0	0.0	0.0	-5.0	5.9
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.5	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-210.1	-102.2	4.9	-71.4	-106.2	-64.4	-24.3	-24.3	19.7	10.4	79.0	-27.5	0.0
Foreign liabilities	389.7	443.2	78.0	51.5	115.0	87.3	67.3	50.4	-6.8	-108.2	-153.3	-82.1	-156.3
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	389.7	443.2	78.0	51.5	115.0	87.3	67.3	50.4	-6.8	-108.2	-153.3	-82.1	-156.3
Drawings	486.9	576.7	226.0	130.4	221.9	184.2	268.6	251.8	58.5	82.3	125.3	340.2	309.9
For budget support <sup>1</sup>	262.9	322.7	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
For investment projects	224.0	254.0	225.9	130.4	221.9	184.2	268.6	251.8	58.5	82.3	125.3	340.2	309.9
Amortization	97.1	133.4	148.0	79.0	107.0	96.8	201.4	201.4	65.3	190.5	278.6	422.3	466.2
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>79.0</b>	<b>78.6</b>	<b>216.6</b>	<b>217.8</b>	<b>53.8</b>	<b>107.6</b>	<b>174.9</b>	<b>300.8</b>	<b>240.4</b>
Identified financing	0.0	0.0	0.0	0.0	79.0	78.6	216.6	217.8	53.8	107.6	174.9	300.8	240.4
IMF	0.0	0.0	0.0	0.0	79.0	78.6	157.9	159.1	53.8	107.6	174.9	242.1	134.9
WB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	105.6
EU	0.0	0.0	0.0	0.0	0.0	0.0	58.7	58.7	0.0	0.0	0.0	58.7	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Statistical discrepancy</b>	<b>-32.9</b>	<b>45.8</b>	<b>-25.0</b>	<b>1.3</b>	<b>0.0</b>	<b>-7.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Memorandum items</b>													
Indirect revenues	981.9	1122.8	1090.8	513.6	801.5	804.0	1125.9	1117.2	266.2	602.9	938.3	1291.1	1397.2
Net lending excluding externally-financed operations	0.8	9.9	-57.0	125.2	180.4	146.8	44.0	47.6	0.0	60.0	120.0	179.0	208.1

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

Table 5d. Republika Srpska: General Government Statement of Operations, 2009-14  
(KM million)

	2009	2010	2011	2012						2013				2014
				Jun		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.	
				Prel.	EBS/12/120	Proj.	EBS/12/120	Proj.	Proj.					
<b>Revenue</b>	<b>3198.1</b>	<b>3407.8</b>	<b>3873.7</b>	<b>1810.3</b>	<b>2826.2</b>	<b>2781.3</b>	<b>3862.9</b>	<b>3845.2</b>	<b>884.0</b>	<b>1885.3</b>	<b>2843.3</b>	<b>3948.2</b>	<b>4165.6</b>	
Taxes	1520.6	1638.5	1881.6	868.7	1385.8	1358.5	1857.1	1866.9	424.2	895.7	1381.6	1886.0	2017.4	
Direct taxes	318.6	304.4	421.6	214.7	334.9	312.6	431.6	430.8	102.7	215.0	295.5	429.0	454.2	
Indirect taxes	1202.0	1334.1	1452.4	652.8	1049.0	1043.8	1422.7	1433.3	320.8	679.6	1084.2	1454.2	1561.7	
Other taxes	0.0	0.0	7.5	1.2	2.0	2.0	2.8	2.8	0.7	1.1	1.9	2.7	1.5	
Social security contributions	1139.5	1154.0	1365.7	649.1	994.4	975.9	1392.1	1353.2	318.2	699.9	1010.2	1400.9	1483.1	
Grants	138.0	189.1	176.0	93.9	128.4	140.0	171.2	179.8	46.8	93.5	140.3	187.0	202.2	
Other revenue	400.0	426.1	460.7	197.5	319.1	307.0	439.1	445.3	94.7	196.2	311.2	474.3	462.9	
<b>Expenditure</b>	<b>3944.6</b>	<b>4056.3</b>	<b>4133.4</b>	<b>1862.6</b>	<b>2761.4</b>	<b>2871.6</b>	<b>4105.8</b>	<b>4104.0</b>	<b>895.7</b>	<b>1922.1</b>	<b>3018.1</b>	<b>4056.6</b>	<b>4321.5</b>	
<b>Expense</b>	<b>3145.6</b>	<b>3175.8</b>	<b>3443.8</b>	<b>1652.7</b>	<b>2427.1</b>	<b>2497.7</b>	<b>3492.8</b>	<b>3524.6</b>	<b>823.2</b>	<b>1702.9</b>	<b>2596.6</b>	<b>3532.7</b>	<b>3669.3</b>	
Compensation of employees	838.6	829.1	934.1	473.1	703.2	705.2	949.4	944.0	218.8	446.8	666.2	891.9	905.5	
Use of goods and services	704.6	757.9	928.1	450.3	577.1	675.3	943.7	943.9	223.1	462.7	714.0	970.4	1027.2	
Social benefits	1230.0	1225.4	1211.9	587.7	881.5	896.7	1225.8	1258.6	299.7	602.0	928.5	1289.3	1334.6	
Interest	55.6	57.4	67.4	43.6	73.0	62.3	102.4	97.6	20.4	53.7	74.1	115.6	119.4	
Subsidies	153.7	158.0	180.1	47.6	98.0	77.8	133.2	157.4	42.7	82.0	130.3	155.6	164.7	
Other expense	163.1	148.0	122.2	50.4	94.2	80.4	138.2	123.1	18.5	55.8	83.6	110.0	117.9	
<b>Net acquisition of nonfinancial assets</b>	<b>799.0</b>	<b>880.5</b>	<b>689.6</b>	<b>209.9</b>	<b>334.4</b>	<b>374.0</b>	<b>613.1</b>	<b>579.4</b>	<b>72.4</b>	<b>219.2</b>	<b>421.5</b>	<b>523.9</b>	<b>652.1</b>	
Acquisition of nonfinancial assets	799.0	880.5	712.5	221.8	351.3	390.6	639.8	605.7	79.0	231.4	438.6	601.1	681.6	
Foreign financed capital spending	286.0	350.6	295.6	109.4	179.7	176.6	362.1	286.4	53.6	108.2	184.1	271.3	306.4	
Domestically financed capital spending	513.0	530.0	416.9	112.4	171.5	214.0	277.8	319.4	25.4	123.2	254.5	329.7	375.2	
Disposal of nonfinancial assets	0.0	0.0	22.9	11.9	16.9	16.6	26.7	26.3	6.6	12.2	17.1	77.2	29.4	
<b>Gross / Net Operating Balance (revenue minus expense)</b>	<b>52.5</b>	<b>232.0</b>	<b>429.9</b>	<b>157.6</b>	<b>399.1</b>	<b>283.6</b>	<b>370.1</b>	<b>320.6</b>	<b>60.7</b>	<b>182.4</b>	<b>246.7</b>	<b>415.5</b>	<b>496.3</b>	
<b>Net lending/borrowing (revenue minus expenditure)</b>	<b>-746.5</b>	<b>-648.5</b>	<b>-259.7</b>	<b>-52.3</b>	<b>64.8</b>	<b>-90.3</b>	<b>-242.9</b>	<b>-258.8</b>	<b>-11.7</b>	<b>-36.8</b>	<b>-174.8</b>	<b>-108.4</b>	<b>-155.9</b>	
<b>Net acquisition of financial assets</b>	<b>-5.7</b>	<b>120.1</b>	<b>97.0</b>	<b>52.5</b>	<b>210.9</b>	<b>145.5</b>	<b>315.6</b>	<b>227.4</b>	<b>54.1</b>	<b>69.9</b>	<b>64.4</b>	<b>127.9</b>	<b>113.8</b>	
Domestic assets	-5.7	120.1	97.0	52.5	210.9	145.5	315.6	227.4	54.1	69.9	64.4	127.9	113.8	
Currency and deposits	0.0	0.0	-111.1	-72.5	-35.9	-17.0	9.0	-21.0	-13.7	-42.5	-63.9	-77.0	9.7	
Debt securities	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Loans	157.5	116.1	106.7	118.1	232.1	126.6	290.8	217.0	63.2	90.3	101.6	170.1	104.1	
Equity and investment fund shares	-163.2	4.0	78.2	27.7	15.7	33.3	15.7	43.4	4.6	22.1	26.6	34.7	0.0	
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other accounts receivable	0.0	0.0	5.6	-20.8	-1.0	2.6	0.0	-12.1	0.0	0.0	0.0	0.0	0.0	
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Net incurrence of liabilities</b>	<b>763.1</b>	<b>711.8</b>	<b>326.1</b>	<b>126.8</b>	<b>106.6</b>	<b>181.9</b>	<b>450.3</b>	<b>377.4</b>	<b>38.9</b>	<b>52.9</b>	<b>151.8</b>	<b>85.8</b>	<b>149.4</b>	
Domestic liabilities	539.4	452.0	166.1	-6.1	-151.0	23.4	-10.9	129.5	1.2	17.1	93.3	-59.2	2.1	
Debt securities	0.0	0.0	166.5	-7.9	-1.1	-30.7	25.2	-8.3	0.0	-1.3	-1.3	-56.8	5.3	
Amortization	-90.4	-58.1	-159.6	-61.6	-125.0	-82.5	-140.8	-121.4	-38.8	-51.8	-71.0	-82.4	-76.0	
Loans	558.0	510.3	117.7	63.4	85.3	185.8	104.7	203.3	-10.6	-9.6	-21.0	80.0	72.8	
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other accounts payable	71.8	-0.2	40.5	-0.1	-110.2	-49.3	0.0	56.0	51.5	79.8	186.6	-0.1	0.0	
Foreign liabilities	223.7	259.8	160.0	132.9	257.6	158.5	461.2	247.9	37.7	35.8	58.5	145.0	147.3	
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Loans	223.7	259.8	160.0	132.9	257.6	158.5	460.5	246.7	37.7	35.8	58.5	145.0	145.4	
Drawings	279.4	338.3	255.1	181.4	318.8	219.5	575.8	360.5	69.3	135.4	203.9	361.1	382.4	
For budget support	131.4	176.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
For investment projects	148.0	161.5	255.1	181.4	318.8	219.5	575.8	360.5	69.3	135.4	203.9	361.1	382.4	
Amortization	55.7	78.4	95.1	48.5	61.2	61.0	115.3	113.8	31.6	99.6	145.4	216.1	236.9	
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.2	0.0	0.0	0.0	0.0	1.9	
<b>Statistical discrepancy / financing gap</b>	<b>-22.3</b>	<b>56.8</b>	<b>30.5</b>	<b>-22.0</b>	<b>39.5</b>	<b>54.0</b>	<b>108.3</b>	<b>108.8</b>	<b>26.9</b>	<b>53.8</b>	<b>87.4</b>	<b>150.5</b>	<b>120.2</b>	

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

Table 5e.Republika Srpska: Consolidated Central Government Statement of Operations, 2009-14  
(KM million)

	2009	2010	2011	2012					2013				2014
				Jun		Sep.		Dec.	Mar.	Jun.	Sep.	Dec.	
				Prel.	EBS/12/120	Prel.	EBS/12/120	Proj.					
				Proj.									
<b>Revenue</b>	<b>1473.7</b>	<b>1620.1</b>	<b>1880.4</b>	<b>873.7</b>	<b>1327.8</b>	<b>1355.2</b>	<b>1776.6</b>	<b>1794.9</b>	<b>414.2</b>	<b>871.9</b>	<b>1345.6</b>	<b>1861.7</b>	<b>1958.2</b>
Taxes	1159.7	1252.5	1440.0	674.7	1028.6	1048.4	1380.6	1387.6	323.3	691.3	1050.6	1426.9	1528.6
Direct taxes	262.6	246.7	340.3	180.5	268.7	258.7	340.3	339.6	86.6	179.6	239.6	334.6	354.2
Indirect taxes	897.1	1005.8	1094.7	493.5	758.9	788.4	1038.9	1046.6	236.3	511.1	809.9	1091.0	1174.4
Other taxes	0.0	0.0	5.0	0.7	1.0	1.3	1.4	1.4	0.4	0.6	1.1	1.3	0.0
Social security contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	138.0	189.1	171.7	88.9	128.4	133.3	171.2	177.8	46.8	93.5	140.3	187.0	202.2
Other revenue	176.0	178.5	268.7	110.2	170.7	173.5	224.7	229.6	44.1	87.1	154.6	247.8	227.4
<b>Expenditure</b>	<b>1997.8</b>	<b>2059.1</b>	<b>2013.1</b>	<b>852.6</b>	<b>1283.2</b>	<b>1283.8</b>	<b>1941.5</b>	<b>1912.0</b>	<b>407.6</b>	<b>871.4</b>	<b>1334.0</b>	<b>1804.2</b>	<b>1936.5</b>
<b>Expense</b>	<b>1489.5</b>	<b>1547.1</b>	<b>1729.8</b>	<b>732.1</b>	<b>1096.2</b>	<b>1101.6</b>	<b>1614.3</b>	<b>1605.8</b>	<b>355.9</b>	<b>744.0</b>	<b>1143.0</b>	<b>1566.2</b>	<b>1597.0</b>
Compensation of employees	626.7	620.3	713.4	360.6	529.3	535.3	716.2	716.2	164.9	332.1	493.0	659.7	659.7
Use of goods and services	98.7	93.1	163.1	53.8	72.0	85.5	150.1	149.8	19.9	55.9	108.7	155.5	164.6
Social benefits	197.5	206.7	275.9	102.9	145.9	158.5	250.2	252.6	60.9	103.5	169.5	255.0	259.4
Interest	41.5	36.2	46.0	32.5	50.5	45.7	63.6	66.5	15.8	42.2	56.9	83.4	85.3
Subsidies	147.3	157.9	165.6	26.4	86.1	41.4	117.5	117.4	30.0	60.0	92.6	114.2	120.9
Transfers to other general government units	272.9	350.7	304.4	134.8	173.0	203.6	253.7	243.4	61.0	125.0	189.2	254.8	261.2
Other expense	104.8	82.1	61.4	20.9	39.4	31.6	63.0	59.9	3.4	25.3	33.1	43.7	45.8
<b>Net acquisition of nonfinancial assets</b>	<b>508.3</b>	<b>512.0</b>	<b>283.4</b>	<b>120.6</b>	<b>187.0</b>	<b>182.2</b>	<b>327.2</b>	<b>306.2</b>	<b>51.7</b>	<b>127.5</b>	<b>191.0</b>	<b>238.0</b>	<b>339.5</b>
Acquisition of nonfinancial assets	508.3	512.0	293.8	123.9	191.2	186.8	332.2	310.9	52.7	130.9	195.6	292.7	345.2
Foreign financed capital spending	222.2	292.8	201.3	97.6	141.7	150.3	258.5	236.4	50.2	103.0	158.7	249.5	283.4
Domestically financed capital spending	286.1	219.2	92.5	26.4	49.5	36.5	73.8	74.5	2.5	27.9	36.9	43.2	61.8
Disposal of nonfinancial assets	0.0	0.0	10.5	3.4	4.2	4.6	5.1	4.7	1.0	3.4	4.6	54.7	5.7
<b>Gross / Net Operating Balance (revenue minus expense)</b>	<b>-15.8</b>	<b>73.0</b>	<b>150.6</b>	<b>141.7</b>	<b>231.5</b>	<b>253.6</b>	<b>162.2</b>	<b>189.1</b>	<b>58.2</b>	<b>127.9</b>	<b>202.6</b>	<b>295.5</b>	<b>361.2</b>
<b>Net lending/borrowing (revenue minus expenditure)</b>	<b>-524.1</b>	<b>-439.0</b>	<b>-132.8</b>	<b>21.1</b>	<b>44.6</b>	<b>71.4</b>	<b>-164.9</b>	<b>-117.1</b>	<b>6.6</b>	<b>62.5</b>	<b>11.6</b>	<b>57.5</b>	<b>21.7</b>
<b>Net acquisition of financial assets</b>	<b>4.7</b>	<b>121.4</b>	<b>217.6</b>	<b>143.9</b>	<b>229.0</b>	<b>291.5</b>	<b>295.7</b>	<b>298.9</b>	<b>37.0</b>	<b>63.6</b>	<b>68.0</b>	<b>106.7</b>	<b>131.5</b>
Domestic assets	4.7	121.4	217.6	143.9	229.0	291.5	295.7	298.9	37.0	63.6	68.0	106.7	131.5
Currency and deposits	0.0	0.0	-127.6	-75.1	-80.9	-26.6	-80.9	-80.9	-21.9	-21.9	-21.9	-36.4	0.0
Debt securities	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	167.9	117.4	282.1	202.3	305.2	284.8	360.9	336.4	54.3	63.4	63.3	108.4	131.5
Equity and investment fund shares	-163.2	4.0	75.4	27.7	15.7	33.3	15.7	43.4	4.6	22.1	26.6	34.7	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	-12.6	-11.0	-11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net incurrence of liabilities</b>	<b>518.4</b>	<b>576.9</b>	<b>343.1</b>	<b>107.8</b>	<b>145.2</b>	<b>176.6</b>	<b>352.4</b>	<b>307.1</b>	<b>3.5</b>	<b>9.3</b>	<b>-31.0</b>	<b>-101.2</b>	<b>-10.4</b>
Domestic liabilities	358.5	374.9	177.7	-27.4	-115.9	14.5	7.1	75.5	-34.3	-26.5	-89.5	-156.2	-65.9
Debt securities	0.0	0.0	161.3	-10.7	-4.3	-32.4	20.5	-13.0	0.0	-1.3	-1.3	-56.8	5.3
Amortization	-49.0	-58.1	-88.5	-43.9	-77.9	-55.2	-77.9	-58.6	-38.7	-50.0	-67.8	-77.4	-70.3
Loans	362.5	461.3	73.0	70.8	67.7	150.2	64.5	147.0	-11.1	-10.6	-22.5	-22.0	-0.9
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	45.0	-28.3	31.9	-43.7	-101.5	-48.1	0.0	0.0	15.6	35.4	2.0	0.0	0.0
Foreign liabilities	159.9	202.0	165.3	135.2	261.1	162.1	345.3	231.6	37.7	35.8	58.5	55.0	55.4
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	159.9	202.0	165.3	135.2	261.1	162.1	345.3	231.6	37.7	35.8	58.5	55.0	55.4
Drawings	215.6	280.5	255.9	181.4	318.8	219.5	455.8	340.6	69.3	135.4	203.9	271.1	292.4
For budget support	131.4	176.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
For investment projects	84.2	103.7	255.9	181.4	318.8	219.5	455.8	340.6	69.3	135.4	203.9	271.1	292.4
Amortization	55.7	78.4	90.6	46.2	57.7	57.5	110.5	109.0	31.6	99.6	145.4	216.1	236.9
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>39.3</b>	<b>39.6</b>	<b>108.3</b>	<b>108.9</b>	<b>26.9</b>	<b>53.8</b>	<b>87.4</b>	<b>150.4</b>	<b>120.2</b>
Identified financing	0.0	0.0	0.0	0.0	39.5	39.6	108.3	108.9	26.9	53.8	87.4	150.4	120.2
IMF	0.0	0.0	0.0	0.0	39.5	39.6	79.0	79.6	26.9	53.8	87.4	121.1	67.4
WB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	52.8
EU	0.0	0.0	0.0	0.0	0.0	0.0	29.3	29.3	0.0	0.0	0.0	29.3	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Undertaken financing	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Statistical discrepancy</b>	<b>10.4</b>	<b>-16.5</b>	<b>7.3</b>	<b>15.0</b>	<b>0.0</b>	<b>3.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Memorandum items</b>													
Indirect revenues	897.1	1005.8	1094.7	493.5	758.9	788.4	1038.9	1046.6	236.3	511.1	809.9	1091.0	1174.4
Net lending excluding externally-financed operations	-439.9	-335.3	-103.1	29.8	57.8	88.4	-77.7	-58.5	10.0	10.0	30.0	120.0	102.9

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

Table 6. Bosnia and Herzegovina: Monetary Survey, 2009–14

	2009	2010	2011	2012	2013	2014
	Dec	Dec	Dec		Dec	
					Proj.	
	(Million KM, end of period)					
Net foreign assets	3,681	4,518	4,999	5,213	5,254	5,464
Foreign assets	9,425	9,302	9,177	9,098	9,177	9,639
Foreign liabilities	5,744	4,784	4,177	3,885	3,924	4,176
Net domestic assets	9,029	9,110	9,420	9,438	9,914	10,593
Domestic credit	12,734	13,494	14,683	15,386	15,743	16,657
Claims on general government (net)	-1,098	-726	-117	473	331	258
Claims on nongovernment	13,833	14,219	14,800	14,913	15,411	16,399
Other items (net)	-3,705	-4,383	-5,263	-5,948	-5,829	-6,064
Broad money (M2)	12,710	13,628	14,418	14,651	15,167	16,056
Narrow money (M1)	5,546	5,900	6,185	6,424	6,650	7,002
Currency	2,009	2,211	2,366	2,617	2,710	2,814
Demand deposits	3,536	3,689	3,819	3,806	3,940	4,188
Quasi-money (M1)	7,164	7,728	8,233	8,227	8,517	9,054
Time and savings deposits	1,844	1,991	2,286	2,288	2,369	2,518
Foreign currency deposits	5,320	5,737	5,947	5,939	6,149	6,536
	(12-month change over broad money in same period last year, in percent)					
Net foreign assets	4.5	6.6	3.5	1.5	0.3	1.4
Net domestic assets	-2.4	0.6	2.3	0.1	3.2	4.5
Domestic credit	-0.9	6.0	8.7	4.9	2.4	6.0
Claims on general government (net)	3.3	2.9	4.5	4.1	-1.0	-0.5
Claims on nongovernment	-4.2	3.0	4.3	0.8	3.4	6.5
Other items (net)	-1.5	-5.3	-6.5	-4.7	0.8	-1.6
Broad money (M2)	2.2	7.2	5.8	1.6	3.5	5.9
<i>Memorandum items:</i>						
	(Annual percent change)					
Broad money (M2)	2.2	7.2	5.8	1.6	3.5	5.9
Reserve money (RM)	-1.0	4.4	-0.9	-1.8	1.1	7.2
Credit to the private sector <sup>1</sup>	-3.9	2.1	4.2	0.8	3.5	6.7
	(Percent)					
Credit to the private sector (in percent of GDP)	54.9	54.8	55.1	54.6	54.6	55.1
Broad money (in percent of GDP)	52.8	55.4	56.6	56.6	56.6	56.6
Central bank net foreign assets (in percent of monetary base)	110.4	109.9	110.3	110.9	111.0	111.0
	(Ratio)					
Velocity (GDP/end-of-period M2)	1.9	1.8	1.8	1.8	1.8	1.8
Reserve money multiplier (M2/RM)	2.2	2.3	2.5	2.5	2.6	2.6

Source: CBBH and IMF staff estimates and projections.

<sup>1</sup> Starting with the December 2010 data, the RS Banking Agency requires banks to record on-balance sheet the "loss" loans and related accrued interest and provisions, which were previously recorded off-balance sheet. The data prior to December 2010 have not been revised, resulting in a structural break. Using consistent series, the growth of credit to the private sector was only 0.8 percent at end-2010.



Table 7. Bosnia and Herzegovina: Schedule of Purchases  
Under the Stand-By Arrangement, 2012–14

	Available on or after	Amount of Purchase		Conditions
		In millions of SDRs	In percent of quota <sup>1</sup>	
1	September 26, 2012	50.730	30	Board approval of the arrangement.
2	December 15, 2012	50.730	30	Observance of end-September 2012 performance criteria and completion of the first program review.
3	March 15, 2013	33.820	20	Observance of end-December 2012 performance criteria, and completion of the quarterly program review.
4	June 15, 2013	33.820	20	Observance of end-March 2013 performance criteria and completion of the quarterly program review.
5	September 15, 2013	42.275	25	Observance of end-June 2013 performance criteria and completion of the quarterly program review.
6	December 15, 2013	42.275	25	Observance of end-September 2013 performance criteria and completion of the quarterly program review.
7	March 15, 2014	42.275	25	Observance of end-December 2013 performance criteria and completion of the quarterly program review.
8	June 15, 2014	42.275	25	Observance of end-March 2014 performance criteria and completion of the quarterly program review.
<b>Total</b>		<b>338.20</b>	<b>200.00</b>	

<sup>1</sup> The quota is SDR 169.1 million.

Table 8. Bosnia and Herzegovina: Quantitative Performance Criteria and Indicative Target Under the 2012–14 Stand-By Arrangement, 2012-13  
(Cumulative flow since the end of the previous year; in millions of KM)

	2012				2013			
	End-September		End-December	End-March	End-June	End-September	End-December	
	EBS/12/120	Est	EBS/12/120					
<b>Performance Criteria</b>								
Floor on the net lending of 1/								
Institutions of BiH	10.7	47.6	-38.2	-15.0	-15.0	-20.0	-25.0	
Federation central government	180.4	146.8	44.0	0.0	60.0	120.0	179.0	
RS central government	57.8	88.4	-77.7	10.0	10.0	30.0	120.0	
Ceiling on contracting and guaranteeing of new nonconcessional short-term external debt by								
Institutions of BiH	0	0	0	0	0	0	0	
Federation general government	0	0	0	0	0	0	0	
RS general government	0	0	0	0	0	0	0	
CBBH	0	0	0	0	0	0	0	
Ceiling on accumulation of domestic arrears by								
Institutions of BiH	0	0	0	0	0	0	0	
Federation general government	0	0	0	0	0	0	0	
RS general government	0	0	0	0	0	0	0	
Ceiling on accumulation external payment arrears by 2/								
Institutions of BiH	0	0	0	0	0	0	0	
Federation general government	0	0	0	0	0	0	0	
RS general government	0	0	0	0	0	0	0	
CBBH	0	0	0	0	0	0	0	
<b>Indicative target</b>								
Floor on the net lending of the general government of BiH 1/	413.0	61.5	-237.6	-50.9	-24.6	-97.1	-17.1	

1/ Excluding foreign financed projects as defined in TMU.

2/ Continuous.

Table 9. Bosnia and Herzegovina: Structural Conditionality

Actions	Rationale	Test date	Status
<b>Prior Actions for Board consideration of the first review</b>			
1 Adoption by the BiH Parliament of the 2013 Institutions of BiH budget, incorporating agreed measures	Fiscal sustainability		Completed
2 Adoption by the Federation of BiH Parliament of the 2013 Federation budget, incorporating agreed measures	Fiscal sustainability		Completed
3 Adoption by the RS Parliament of the 2013 RS budget, incorporating agreed measures	Fiscal sustainability		Completed
<b>Existing structural benchmarks</b>			
1 Continue to adhere to the Currency Board Arrangement as constituted under the law	Anchor for macroeconomic policy; contributing to economic and political stability	Continuous	Met
2 Refrain from introducing new privileged or special rights for retirement, in line with ¶18 of the Supplementary LOI	Reducing recurrent spending through better targeting of transfer programs	Continuous	Met
3 Publish on the web site of the Institutions of BiH quarterly consolidated general government accounts with a 6 week lag	Fiscal transparency	Quarterly	Met
4 Carry out eligibility audits for war benefit recipients; publish results (quarterly within 4 weeks after the end of each quarter) of audits (Entities)	Reducing recurrent spending through better targeting of transfer programs	Quarterly	Met with delay
5 Pay obligations accrued through May 2012 arising from early retirement provisions under the Law on Service in the Armed Forces of BiH	Arrear clearance	End-December 2012	
6 Amend the Law on Financing of the Institutions of BiH to allow for continued servicing of foreign debt in the absence of an adopted budget	Contributing to economic and political stability as well as to investor	End-December 2012	
7 Amend the banking law in Federation to limit provisional administration to one year with a possible six month extension	Strengthening bank supervision as well as the bank resolution framework	End-December 2012	
8 Amend the banking law in the RS to limit provisional administration to one year with a possible six month extension	Strengthening bank supervision as well as the bank resolution framework	End-December 2012	
9 Amend the legal frameworks related to the treatment of confidential information in Federation and RS to align them with EU requirements	Improving information sharing and policy coordination	End-December 2012	
10 Submit to the BiH Parliament a revised law governing the Deposit Insurance Agency along the lines specified in ¶28 of the LOI of September 11, 2012	Improving crisis preparedness and contingency planning	End-March 2013	
<b>Newly proposed structural benchmarks</b>			
1 Sign a Memorandum of Understanding by the Ministry of Finance and Treasury of BiH, the Ministry of Finance of the Federation, the Ministry of Finance of the RS, and the CBBH, which will regulate the disbursements from and servicing of all related obligations to the IMF	Safeguarding Fund Resources	End-December 2012	
2 Adopt a new law on privileged pensions in the Federation in line with IMF staff recommendations	Reducing recurrent spending through better targeting of transfer programs	End-January 2013	
3 Adopt a new law on budget in the Federation that improves data reporting and enhancing control over lower level governments, extra-budgetary funds, and public companies	Fiscal sustainability	End-March 2013	
4 Sign a joint Memorandum of Understanding between the Entities' tax administrations and the ITA on data exchange to further improve the exchange of information	Reducing tax evasion and enhancing policy cooperation	End-May 2013	
5 Establish a one-stop shop process for business registration in RS	Improving business environment	End-September 2013	
6 Amend legislation in the RS to eliminate the take-home pay protection for public sector employees	Controlling the public sector wage bill in the medium term	End-December 2013	

Table 10. Bosnia and Herzegovina: Indicators of Capacity to Repay the Fund, 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Actual			Projections					
<b>Fund repurchases and charges 1/</b>									
In millions of SDRs	4.8	24.3	142.1	151.2	42.4	80.6	149.3	92.9	16.1
In millions of U.S. dollars	7.6	37.1	214.8	228.3	63.9	121.6	225.0	140.0	24.2
In percent of exports of goods and NFS	0.1	0.7	4.1	4.0	1.0	1.9	3.2	1.9	0.3
In percent of external public debt service	3.1	13.6	43.2	42.1	14.7	27.9	38.7	27.5	4.4
In percent of quota	3.0	13.9	83.4	89.3	25.0	47.6	88.2	54.9	9.5
In percent of gross official reserves	0.2	0.9	5.3	5.3	1.4	2.4	4.3	2.5	0.4
<b>Fund credit outstanding 1/</b>									
In millions of SDRs	338.2	416.8	432.1	370.3	331.9	254.7	107.8	15.9	0.0
In millions of U.S. dollars	534.0	634.9	653.2	559.4	500.9	384.1	162.4	23.9	0.0
In percent of quota	200.0	246.5	255.5	219.0	196.3	150.6	63.7	9.4	0.0
In percent of GDP	2.9	3.8	3.8	3.1	2.6	1.9	0.7	0.1	0.0
In percent of gross official reserves	12.3	15.8	16.1	12.9	10.8	7.7	3.1	0.4	0.0
<b>Memorandum items:</b>									
Exports of goods and services (millions of US\$)	5,713	5,005	5,284	5,700	6,122	6,539	7,000	7,493	8,021
External public debt service (millions of US\$)	248	273	497	543	434	436	582	509	545
Quota (millions of SDRs)	169	169	169	169	169	169	169	169	169
Quota (millions of US\$)	267	258	256	255	255	255	255	255	255
Gross official reserves (millions of US\$)	4,329	4,021	4,064	4,340	4,631	4,981	5,283	5,603	5,943
GDP (millions of US\$)	18,106	16,758	16,974	17,913	19,098	20,409	21,801	23,288	24,876
U.S. dollars per SDR	1.58	1.52	1.51	1.51	1.51	1.51	1.51	1.51	1.51

Source: Fund staff estimates.

1/ Based on existing and prospective drawings.

Table 11a. Bosnia and Herzegovina: Gross Financing Requirements 2012–17  
(In millions of euros)

	2012	2013	2014	2015	2016	2017
Financing requirements	1,702	1,830	1,771	1,644	1,603	1,718
Current account deficit	1,310	1,237	1,111	1,033	951	898
Amortization	392	593	660	611	652	819
Government	157	327	362	281	287	414
Other	235	267	298	330	365	405
Financing	1,530	1,595	1,587	1,644	1,603	1,718
Capital transfers	186	190	195	201	207	214
FDI	404	347	304	317	329	342
Net bank financing	-149	20	129	132	141	149
Foreign loans	663	632	648	667	615	622
Government	300	342	328	338	287	287
Other	363	290	320	329	328	335
Gross international reserves (+ = increase)	-40	41	236	252	303	265
Other	386	446	547	580	614	654
Financing gap	172	236	184	0	0	0
IMF	122	186	103	0	0	0
EU	50	50	0	0	0	0
World Bank	0	0	81	0	0	0

Table 11b. Bosnia and Herzegovina: Gross Financing Requirements 2012–17  
(In percent of GDP)

	2012	2013	2014	2015	2016	2017
Financing requirements	12.9	13.4	12.2	10.6	9.6	9.6
Current account deficit	9.9	9.0	7.7	6.7	5.7	5.0
Amortization	3.0	4.3	4.6	3.9	3.9	4.6
Government	1.2	2.4	2.5	1.8	1.7	2.3
Other	1.8	1.9	2.1	2.1	2.2	2.3
Financing	11.6	11.6	10.9	10.6	9.6	9.6
Capital transfers	1.4	1.4	1.3	1.3	1.2	1.2
FDI	3.1	2.5	2.1	2.0	2.0	1.9
Net bank financing	-1.1	0.1	0.9	0.9	0.8	0.8
Foreign loans	5.0	4.6	4.5	4.3	3.7	3.5
Government	2.3	2.5	2.3	2.2	1.7	1.6
Other	2.7	2.1	2.2	2.1	2.0	1.9
Gross international reserves (+ = increase)	-0.3	0.3	1.6	1.6	1.8	1.5
Other	2.9	3.3	3.8	3.7	3.7	3.7
Financing gap	1.3	1.7	1.3	0.0	0.0	0.0
IMF	0.9	1.4	0.7	0.0	0.0	0.0
EU	0.4	0.4	0.0	0.0	0.0	0.0
World Bank	0.0	0.0	0.6	0.0	0.0	0.0

Source: IMF staff projections and calculations.

Table 12. Bosnia and Herzegovina: Financial Soundness Indicators, 2008-12  
(In percent)

	2008	2009	2010	2011	2012		
					Mar	Jun	Sep
<i>Capital</i>							
Tier 1 capital to risk-weighted assets (RWA)	12.0	12.4	12.6	13.6	14.3	14.1	14.1
Net capital to RWA	16.3	16.1	16.2	17.2	17.5	16.7	16.8
<i>Quality of assets 1/</i>							
Nonperforming loans to total loans	3.1	5.9	11.4	11.8	12.1	12.7	12.7
Nonperforming assets (NPAs) to total assets	2.2	3.9	8.1	8.8	9.3	9.7	9.7
NPAs net of provisions to tier 1 capital	14.3	25.9	46.1	26.1	25.9	28.7	28.9
Provision to NPAs	37.9	34.6	40.8	68.2	68.1	67.4	66.6
<i>Profitability</i>							
Return on assets 2/	0.4	0.1	-0.6	0.7	0.7	0.8	1.1
Return on equity 2/	4.3	0.8	-5.5	5.9	6.0	6.5	8.7
Net interest income to gross income	60.6	61.5	60.1	63.8	65.5	64.2	63.6
Noninterest expenses to gross income	90.5	97.4	109.0	86.3	83.2	81.0	81.1
<i>Liquidity</i>							
Liquid assets to total assets	30.0	30.9	29.0	27.3	24.7	24.7	24.9
Liquid assets to short- term financial liabilities	51.8	52.9	49.7	46.7	42.3	43.0	43.5
Short- term financial liabilities to total financial liabilities	65.4	66.2	66.9	68.4	69.0	67.7	67.4
<i>Foreign exchange risk</i>							
Foreign currency and indexed loans to total loans	73.3	73.9	70.0	66.7	63.3	63.5	63.7
Foreign currency liabilities to total financial liabilities	69.5	69.2	67.0	66.0	65.4	67.0	66.5
Net open position	6.2	1.7	4.4	16.1	6.4	8.3	6.4

Source: CBBH.

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

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

**ATTACHMENT I—BOSNIA AND HERZEGOVINA: SUPPLEMENTARY LETTER OF INTENT**

Sarajevo and Banja Luka, Bosnia and Herzegovina

December 6, 2012

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

Dear Ms. Lagarde:

1. The Stand-By Arrangement (SBA) for Bosnia and Herzegovina (BiH) that was approved in September 2012 by the Executive Board of the International Monetary Fund (IMF) provides us with a valuable anchor for our economic policies and helps us address the challenges created by the difficult external and domestic economic environment. The key objectives of our economic program that is supported by the SBA remain to: (i) improve policy coordination; (ii) ensure fiscal sustainability and advance public sector reforms; (iii) safeguard financial sector stability; and (iv) improve the business environment to support growth and job creation.
2. We remain committed to implementing the policies described in our Letter of Intent dated September 11, 2012. This supplementary Letter of Intent provides information on our recent efforts and achievements, as well as on additional policy measures we plan to undertake during the remainder of 2012 and in 2013 to help ensure that the objectives of the SBA will be met.
3. The overall economic situation is proving more difficult than we expected at the time the program was designed. Recent indicators point to a decline in economic activity, owing to lower demand from our main trading partners, a drought affecting our agricultural production, and weak domestic demand. Thus, we expect real GDP to fall by about  $\frac{3}{4}$  percent in 2012. Moreover, with only modest growth projected for the Euro zone and our other main export markets in 2013, we expect that growth in BiH will remain below 1 percent next year, with risks tilted toward the downside. Inflation, meanwhile, is expected to remain at around 2 percent.
4. Despite the more difficult economic environment, we have made good progress in implementing our program. All but one of the quantitative performance criteria for end-September 2012 were met. The performance criterion on the Federation's fiscal balance was missed due to earlier-than-anticipated payments of planned agricultural support related to the drought. The indicative target for the balance of the general government was also missed, as

spending by extra-budgetary funds and public companies was somewhat faster than anticipated. We are confident, however, that the end-2012 fiscal targets will be met, given that indirect tax collection is slightly higher than projected and our commitment to limit spending to the budget envelopes. We are furthermore taking steps to improve our control over—and monitoring of—the operations of lower levels of government, extra-budgetary funds, and public companies (see below).

5. We have also met the continuous and quarterly structural benchmarks, albeit with delays in some cases. We have continued to adhere to the Currency Board Arrangement (CBA) as constituted under the law. In addition, we have refrained from introducing new privileged or special rights for retirement. Similarly, we have published on the website of the Institutions of BiH quarterly consolidated general government accounts and we have carried out and published results from eligibility audits for war benefit recipients. Moreover, we are making good progress to meet the end-December benchmarks by preparing the amendments to the relevant legislation.

### **Fiscal Policies**

6. Our fiscal policies remain anchored by the need to maintain fiscal discipline and ensure fiscal sustainability. We are convinced that progressing with fiscal consolidation provides the best assurance that BiH's economy will successfully weather the current difficult environment and will be able to recover faster once the global economy improves. Against this backdrop, the 2013 budgets for the Institutions of BiH and the central governments of the Federation and the Republika Srpska that have been adopted by the respective parliaments are consistent with a reduction in the overall general government deficit to about 2 percent of GDP (prior actions for this review). These budgets have been based on conservative revenue assumptions. More specifically, the central government budgets of the Federation and the Republika Srpska each target a primary surplus (excluding foreign-financed projects) that combined is equivalent to more than 1½ percent of GDP.<sup>1</sup> This is achieved mainly by firmly containing current spending. Respective wage bills are contained or even reduced to make room for an increase in social and private sector support, to help foster growth and protect the poor.

7. We remain firmly committed to maintaining the integrity of our system of indirect taxation, including by maintaining the single account of the ITA; maintaining a single VAT rate; and refraining from introducing any form of tax expenditure. Meanwhile, we are stepping up our efforts to increase tax collection, including the collection of tax arrears. In this regard, and in line with IMF staff recommendations:

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<sup>1</sup> The primary surplus is defined as revenues minus expenditures, excluding debt service.



- We will further improve the exchange of information between the Entities' tax administrations and the Indirect Taxation Authority (ITA) by signing a joint Memorandum of Understanding on data exchange by end-May 2013 (a new structural benchmark), and with automated systems of information exchange becoming operational later in 2013.
  - We will strengthen the large taxpayers units in each tax administration by end-September 2013 to ensure that the largest taxpayers and employers are captured, including by deploying additional large taxpayer auditors, and investigating compliance risks in the large taxpayer segment.
  - We will also establish a unit in ITA headquarters by end-June 2013 with the responsibility for detection and coordination of activities for the prevention of VAT fraud.
8. Ensuring medium-term fiscal sustainability will also require further efforts in pension, benefit, and health care reforms:
- With regard to privileged pensions, no new benefit categories will be introduced at the level of the Institutions of BiH or the Republika Srpska, and neither will this be done in the Federation until the adoption of a new law on privileged pensions consistent with the principles described below (an existing continuous benchmark).
  - The Republika Srpska already introduced far-reaching pension and benefit reforms earlier this year. To further improve the financial health of its pension system, it will broaden the collection base. No additional amounts will be allocated in the 2013 budget to compensate beneficiaries for earlier reductions in benefits, and the existing allocations are expected to gradually decline over time.
  - The recession has put a heavy toll particularly on the Health Fund in the Republika Srpska, worsening its financial position. To tackle this problem we will seek to broaden the collection base, increase the transfer from the central budget, and accelerate the collection of contribution arrears. To contain health care spending, we will adjust the network of health centers in line with our Primary Health Care Strategy by reducing the number of organizational units of the Health Fund and by optimizing the number of employees in the health care system.
  - A comprehensive pension reform strategy is being prepared in the Federation, in consultation with the IMF and the World Bank, in light of the challenging demographic trends. This reform will be aimed at keeping people longer in the active workforce, including by raising the retirement age, deterring early retirement, and rewarding later retirement. We expect to adopt this strategy by end-March 2013.
  - The Federation will also adopt a new law on privileged pensions to consolidate them with the aim to establish a system that is financially sustainable and socially just. This new law will be designed to ensure that it: (i) separates the payments for contributory

pensions from those obtained under special rights (i.e., pension fund obligations would cover only pension entitlements based on years of contributions and age, while any form of special benefits would be paid from the central government budget); (ii) does not significantly broaden eligibility beyond what has already been legislated and increases targeting to the most vulnerable; (iii) introduces penalties for early retirement; (iv) harmonizes benefits across categories and gradually reduces the average levels of privileged pensions closer to the levels of average contributory pensions; (v) continues to allow for the use of the rationing coefficient to guarantee that privileged pension payments will not exceed the amount allocated in the central government budget; and (vi) does not increase the annual budgetary cost of privileged pensions above KM 197 million (a new structural benchmark for end-January 2013). We will also step up the pace of eligibility audits.

- A centralized database of all beneficiaries of social transfers will be set up in the Federation by end-January 2013.

9. Control over and monitoring of government finances of lower levels of government, extra-budgetary funds, and public companies remains a challenge, particularly in the Federation due to its more complex constellation.

- To improve monitoring, the Federation finance ministry will expand its consolidation unit and seek additional assistance to train its staff. The ministry will also seek technical assistance from the IMF to strengthen its cash management.
- Moreover, the Federation will strengthen its law on budgets in consultation with IMF staff with a view to increase its ability to enforce spending limits of lower levels of government, extra-budgetary funds, and public companies (a new structural benchmark for end-March 2013).
- In the Republika Srpska, a centralized payroll system for all employees in the public sector will be set up for improved recording, control, and planning. We will start this process in July 2013 and it will be fully implemented by July 2014.
- In addition, the planned elimination of the take-home pay protection for public sector employees in the Republika Srpska will be completed by end-December 2013, by amending the relevant laws to ensure that future changes in income tax rates and social contributions do not automatically lead to changes in the gross pay of public employees (a new structural benchmark for end-December 2013).

10. We are also strengthening our arrangements for servicing external debt obligations:

- The Law on Financing of the Institutions of BiH will be amended by end-2012 to ensure that external debt service obligations can continue to be made in the absence of an approved government budget (an existing structural benchmark). In this regard, the amendments agreed with IMF staff will secure that: (i) payments to meet international financial obligations of BiH and repayments of foreign debt can

continue regardless of the status of approval of the budget; and (ii) the Institutions of BiH and its ministries ensure that sufficient balances are accumulated and available in the relevant accounts held with the Central Bank of Bosnia and Herzegovina (CBBH) to service foreign debt. Within one month of the adoption of these amendments, the Ministry of Finance and Treasury of BiH and the CBBH will sign a contract to ensure the timely payment of external debt service obligations.

- In line with IMF safeguards policy requirements for direct budget financing, the Ministry of Finance and Treasury of BiH, the Ministry of Finance of the Federation of BiH, the Ministry of Finance of the Republika Srpska, and the CBBH will sign a Memorandum of Understanding to regulate the disbursements from and servicing of all related obligations to the IMF, including that all disbursements under the SBA will be exchanged in domestic currency by the CBBH and deposited in the subaccounts of the Federation (two thirds) and the Republika Srpska (one third) at the CBBH for budgetary purposes (a new structural benchmark for end-December 2012). This memorandum will provide the CBBH a standing authorization to execute debt obligations vis-à-vis the IMF as they fall due using the designated IMF payment account and the Indirect Tax Authority accounts designated for debt servicing. We—upon approval by the CBBH Governing Board—intend to further strengthen the CBBH’s safeguards framework in line with the recommendations of the IMF’s recent safeguards assessment mission.

### **Monetary and Financial Policies**

11. We reaffirm our commitment to maintaining the CBA as constituted by law (an existing continuous structural benchmark) and to safeguard the independence of the CBBH. As such, we will continue to refrain from any actions that would weaken, or cast doubt on, the CBA and the institution entrusted with its operation: the CBBH.
12. We will further increase our crisis preparedness and contingency planning:
  - The CBBH and the Banking Agencies are in the process of identifying financial institutions that are considered systemically important. This list of systemically important banks will serve as a platform to monitor developments in the financial sector more closely and discuss possible risks. On the basis of this assessment, the CBBH and Banking Agencies will also enhance communication and cooperation with the identified institutions and develop bottom-up stress tests for these institutions.
  - The CBBH and the Banking Agencies have set up a Working Group to formalize stress testing procedures with a view to ensuring the credibility, objectivity, and timeliness of top-down stress tests. We expect to sign a joint Memorandum of Understanding on the stress-testing procedures by end-March 2013.
  - The CBBH and Banking Agencies will also request technical assistance from the IMF to conduct practical crisis simulation exercises to drill down on the necessary steps and procedures in the event of a banking crisis.

13. The high level of non-performing loans (NPLs) in the banking sector represents a key financial vulnerability and a significant drag on economic activity. While banks have attempted to reduce their portfolio of NPLs, progress has been slow. We will seek technical assistance from the IMF in early 2013 to strengthen our legal and regulatory framework for NPL resolution. In this context, we will also review our legislation on personal bankruptcy.

### **Improving the Business Environment**

14. BiH's economic recovery will not be possible without a vibrant private sector. Improving the business environment will encourage private investment, both foreign and domestic, and will support medium-term growth. We continue to make progress in streamlining procedures and enhancing transparency regarding business regulation, but much more remains to be done. In the period ahead, we will, partly with the assistance also from the World Bank and the International Finance Corporation:

- Establish a one-stop shop process for business registration in Republika Srpska by end-September 2013 (a new structural benchmark).
- Adopt a new Law on Companies in the Federation that will streamline the business registration process, by end-September 2013.
- Ensure that business registries are harmonized and easily accessible.
- Complete enabling laws and regulations for digital signature and allow for its application throughout BiH by early 2014.
- Ensure that a unified set of rules and procedures to guarantee food and animal safety, consistent with EU requirements, are in place by end-May 2013, to facilitate the continued export of agricultural products to neighboring countries acceding to the EU. In this context, the relevant authorities and agencies—among them the Entity Ministries of Agriculture, State Veterinary Office, Food Safety Agency, and respective inspectorates—will closely cooperate in order to facilitate a timely inspection and approval by the European Commission's (EC) Food and Veterinary Office, and the approval of the Residue Monitoring Plan by the EC.

### **Program Modalities**

15. We believe that our economic program is off to a good start, despite a difficult environment, and that our policies set forth in our Letter of Intent of September 11, 2012 and supplemented by the policies described in this supplementary Letter of Intent are adequate to achieve the objectives of our program. We request the IMF's Executive Board to grant a waiver of the non-observance of the end-September 2012 performance criterion for the fiscal balance of the Federation central government, given the reason for the non-observance and our re-affirmation that the annual spending envelope as defined in the approved budget will not be exceeded, as well as our efforts to improve spending controls. We also request the Executive Board to complete the first review under the SBA and approve the second purchase under the arrangement in the amount of SDR 50.73 million.

16. We are fully aware of the many challenges ahead and we will take any additional measures that may be needed to achieve the objectives of our economic program. We will closely coordinate fiscal policy issues through the Fiscal Council, which will meet at least quarterly, and with the Advisory Group of the Fiscal council continuing to coordinate all issues related to program implementation and monitoring. We will consult with the IMF on the adoption of additional policy measures and in advance of any revision to the policies contained in our economic program, in accordance with IMF policies on such consultation. We will continue to provide IMF staff with the necessary information for assessing progress in implementing our program and will maintain a close policy dialogue with IMF staff.

17. The program will continue to be monitored through quarterly reviews based on quantitative performance criteria, indicative targets, and structural benchmarks. Quantitative performance criteria and indicative targets for end-March 2013, end-June 2013, end-September 2013, and end-December 2013 are proposed for establishment in Table 1. Existing and new prior actions and structural benchmarks against which to measure progress under the program are summarized in Table 2. The second review is expected to take place on or after March 15, 2013; the third review on or after June 15, 2013, the fourth review on or after September 15, 2013; the fifth review on or after December 15, 2013; and the sixth review on or after March 15, 2014. We authorize the IMF to publish this Letter of Intent and its attachments, as well as the related staff report on the IMF's website following consideration of our request by the IMF's Executive Board.

/s/	/s/	/s/
Vjekoslav Bevanda Chairman of the Council of Ministers Bosnia and Herzegovina	Nermin Nikšić Prime Minister Federation of Bosnia and Herzegovina	Aleksandar Džombić Prime Minister Republika Srpska
/s/	/s/	/s/
Nikola Špirić Minister of Finance and Treasury of Bosnia and Herzegovina	Ante Krajina Minister of Finance Federation of Bosnia and Herzegovina	Zoran Tegeltija Minister of Finance Republika Srpska
/s/		
Kemal Kozarić Governor Central Bank of Bosnia and Herzegovina		

Table 1. Bosnia and Herzegovina: Quantitative Performance Criteria and Indicative Target Under the 2012–14 Stand-By Arrangement, 2012-13  
(Cumulative flow since the end of the previous year; in millions of KM)

	2012			2013			
	End-September		End-December	End-March	End-June	End-September	End-December
	EBS/12/120	Est.	EBS/12/120				
<b>Performance Criteria</b>							
Floor on the net lending of 1/							
Institutions of BiH	10.7	47.6	-38.2	-15.0	-15.0	-20.0	-25.0
Federation central government	180.4	146.8	44.0	0.0	60.0	120.0	179.0
RS central government	57.8	88.4	-77.7	10.0	10.0	30.0	120.0
Ceiling on contracting and guaranteeing of new nonconcessional short-term external debt by							
Institutions of BiH	0	0	0	0	0	0	0
Federation general government	0	0	0	0	0	0	0
RS general government	0	0	0	0	0	0	0
CBBH	0	0	0	0	0	0	0
Ceiling on accumulation of domestic arrears by							
Institutions of BiH	0	0	0	0	0	0	0
Federation general government	0	0	0	0	0	0	0
RS general government	0	0	0	0	0	0	0
Ceiling on accumulation external payment arrears by 2/							
Institutions of BiH	0	0	0	0	0	0	0
Federation general government	0	0	0	0	0	0	0
RS general government	0	0	0	0	0	0	0
CBBH	0	0	0	0	0	0	0
<b>Indicative target</b>							
Floor on the net lending of the general government of BiH 1/	413.0	61.5	-237.6	-50.9	-24.6	-97.1	-17.1

1/ Excluding foreign financed projects as defined in TMU.

2/ Continuous.

Table 2. Bosnia and Herzegovina: Structural Conditionality

Actions	Test date	Status
<b>Prior Actions for Board consideration of the first review</b>		
1 Adoption by the BiH Parliament of the 2013 Institutions of BiH budget, incorporating agreed measures		Completed
2 Adoption by the Federation of BiH Parliament of the 2013 Federation budget, incorporating agreed measures		Completed
3 Adoption by the RS Parliament of the 2013 RS budget, incorporating agreed measures		Completed
<b>Existing structural benchmarks</b>		
1 Continue to adhere to the Currency Board Arrangement as constituted under the law	Continuous	Met
2 Refrain from introducing new privileged or special rights for retirement, in line with ¶18 of the Supplementary LOI	Continuous	Met
3 Publish on the web site of the Institutions of BiH quarterly consolidated general government accounts with a 6 week lag	Quarterly	Met
4 Carry out eligibility audits for war benefit recipients; publish results (quarterly within 4 weeks after the end of each quarter) of audits (Entities)	Quarterly	Met with delay
5 Pay obligations accrued through May 2012 arising from early retirement provisions under the Law on Service in the Armed Forces of BiH	End-December 2012	
6 Amend the Law on Financing of the Institutions of BiH to allow for continued servicing of foreign debt in the absence of an adopted budget	End-December 2012	
7 Amend the banking law in Federation to limit provisional administration to one year with a possible six month extension	End-December 2012	
8 Amend the banking law in the RS to limit provisional administration to one year with a possible six month extension	End-December 2012	
9 Amend the legal frameworks related to the treatment of confidential information in Federation and RS to align them with EU requirements	End-December 2012	
10 Submit to the BiH Parliament a revised law governing the Deposit Insurance Agency along the lines specified in ¶28 of the LOI of September 11, 2012	End-March 2013	
<b>Newly proposed structural benchmarks</b>		
1 Sign a Memorandum of Understanding by the Ministry of Finance and Treasury of BiH, the Ministry of Finance of the Federation, the Ministry of Finance of the RS, and the CBBH, which will regulate the disbursements from and servicing of all related obligations to the IMF	End-December 2012	
2 Adopt a new law on privileged pensions in the Federation in line with IMF staff recommendations	End-January 2013	
3 Adopt a new law on budget in the Federation that improves data reporting and enhancing control over lower level governments, extra-budgetary funds, and public companies	End-March 2013	
4 Sign a joint Memorandum of Understanding between the Entities' tax administrations and the ITA on data exchange to further improve the exchange of information	End-May 2013	
5 Establish a one-stop shop process for business registration in RS	End-September 2013	
6 Amend legislation in the RS to eliminate the take-home pay protection for public sector employees	End-December 2013	

**ATTACHMENT II—BOSNIA AND HERZEGOVINA:  
ADDENDUM TO TECHNICAL MEMORANDUM OF UNDERSTANDING ON DEFINITIONS AND  
REPORTING UNDER THE 2012–14 STAND-BY ARRANGEMENT**

1. The Technical Memorandum of Understanding on Definitions and Reporting Under the 2012–14 Stand-By Arrangement dated September 11, 2012 shall remain effective except for the amendments below:
2. Paragraph 9 should read “The floor on the net lending will be adjusted downward by the full amount of any shortfall in programmed dividend payments from Elektroprenos (Transco).”
3. Paragraph 14 should read “The target will be adjusted downward by the full amount of any shortfall in programmed dividend payments from Elektroprenos (Transco).”





Press Release No. 12/497  
FOR IMMEDIATE RELEASE  
December 19, 2012

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Completes First Review under Stand-By Arrangement with Bosnia and Herzegovina and Approves €58.9 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 24-month Stand-By Arrangement (SBA). The completion of the review enables the disbursement of SDR 50.73 million (about €58.9 million, or US\$78.4 million), bringing total disbursements under the program to an amount equivalent to SDR 101.46 million (about €117.9 million, or US\$156.8 million).

The SBA with Bosnia and Herzegovina was approved on September 26, 2012 (see [Press Release No. 12/366](#)) in an amount of SDR 338.2 million (about €392.9 million, or US\$522.7 million). In completing the review, the Executive Board also approved a request for the waiver of nonobservance of the end-September 2012 performance criterion on the Federation of Bosnia and Herzegovina's central government fiscal balance.

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

“Bosnia and Herzegovina's (BiH) strong performance thus far under the program is encouraging, with continued fiscal restraint, improved economic policy coordination, and prudent financial sector policies. The Fund-supported program continues to provide a valuable anchor for economic policy amid a difficult external and domestic environment.

“The 2013 budgets strike a good balance between supporting growth and pursuing medium-term consolidation. By containing or reducing current spending, room has been created for increased social assistance and private sector support.

“Success in achieving sustainable fiscal consolidation over the medium term will depend on progress in structural fiscal reforms. Moving ahead with the reform of the privileged pension system in the Federation, and streamlining the government wage structure and the ministries and agencies in all of BiH will generate structural savings and create room for growth-

enhancing capital investments and priority social spending. In addition, enhanced control over lower-level governments, extra-budgetary funds, and public companies, as well as steps to improve tax administration will help improve government finances. The success of these reforms will require strong political will and a careful design of reform measures.

“Prudent financial sector policies continue to promote financial stability. Nevertheless, vigilance to any sign of stress in the financial sector is essential. Plans to enhance the monitoring of banks and improve crisis preparedness and review the resolution framework for non-performing loans are steps in the right direction. Close coordination and cooperation among the central bank, the banking supervision agencies and home-country supervisors, and the deposit insurance agency will be crucial.”

## **Statement by Mr. Snel and Mr. Friedman on Bosnia and Herzegovina**

**December 19, 2012**

The economy of Bosnia and Herzegovina continues to face strong headwinds to recovery, as economic conditions in the European countries remain tough. Since the approval of the SBA in September, the economic activity has weakened further, and the 2012 growth is now expected to be negative. The growth outlook for 2013 was reduced accordingly, and the downside risks loom large.

Notwithstanding the tougher conditions, the Stand-By Arrangement program, launched in September this year, is well on track and off to a strong start. During the short time elapsed since the SBA was approved, the authorities have made important progress on all of the fronts that the program touches on: fiscal policy, structural reforms, and financial stability.

### ***Fiscal policy***

All structural benchmarks were met, but one quantitative performance criterion on fiscal balance in the Federation was missed. This, however, reflects a temporary deviation from the intra-year expenditure pattern that will be offset in the fourth quarter, so that the annual fiscal deficit targets for 2012, set at 3 percent of GDP, will be met. A drought that has resulted in high subsidy payouts to farmers up to September contributed to this breach.

For the first time in the post-war period, the budgets for the entities of Bosnia and Herzegovina - *The Federation of Bosnia and Herzegovina* and *Republika Srpska* - as well as the budget of the Institutions of Bosnia and Herzegovina were all adopted by respective parliaments almost simultaneously, early in December for the next fiscal year. This positive precedent manifests the strong commitment of the authorities to the program as well as their ability to improve national coordination on timing and on substance – a key deliverable of the SBA. The governments in BiH are determined to continue implementing restrictive fiscal policies, aimed at securing macroeconomic stability, enhancing financial sector stability, and promoting structural reforms.

Although growth in 2013 is now expected to be lower than before, fiscal consolidation is expected to take place at a faster pace than initially planned. The overall public deficit target in 2013 is now set to a level of about 2 percent of GDP, a lower deficit than was envisaged in the Letter of Intent that was submitted when the program was approved. Entity budgets, which were based on conservative revenue assumptions, are expected to result in a primary surplus, which will offset the rising costs of debt servicing. Equally important, consolidation is achieved through a cut in current expenditure. Thus, the major hurdle of the first review was crossed successfully. Cognizant of the fact that fiscal adjustment during the time of sluggish growth prospects could add further pressures to economic activity, the authorities are determined to improve the investment climate and promote infrastructure projects for which the funding has already been secured.

### ***Structural Reforms***

In the Federation, a comprehensive law on privileged pensions that will consolidate the overall expenditure and rationalize eligibility for the various levels of benefits will be submitted to the parliament in early 2013. Although the details and modalities are yet to be determined, a cap on the total expenditure under this item has been already set, and this ensures that the new legislation will be well-contained. In addition, a blueprint for a pension reform will be finalized in early 2013.

The central government of the Federation will repay 10 percent of the total verified debt to the pension fund in 2013. Compared to 2012, the transfer for privileged pensions will be reduced by KM 9 million, whereas transfer for war invalids will be reduced by KM 5 million, savings gained partly due to auditing of eligibility of beneficiaries. In addition, a strict hiring freeze will be implemented in 2013.

In its 2013 budget, the RS government reduced current expenditures in almost every category in order to secure fiscal stability. The budget also includes a payment of obligations from the previous years in the amount of KM 35 million, while net government financing is less than half of that in 2012. In addition to the public wage cut in 2008, the RS Government cut the wage bill by additional KM 56 million in 2013. This measure will help to improve not only the structure of public expenditure, but it will reduce the difference between the wages in the public and the private sector. The government has also secured additional KM 10 million for supporting private sector employment.

As before, the authorities remain fully committed to the state-level policies and institutions, including the Currency Board and the independence of the Central Bank, the Indirect Tax Authority (ITA), and a single, broad-based VAT. Moreover, the entities will continue to improve information sharing through the ITA.

### ***Financial Stability***

A few steps were taken by the CBBH and the banking supervision agencies in order to strengthen financial supervision and to enhance financial stability. The CBBH and the banking agencies have set up a working group to formalize stress testing procedures. A joint Memorandum of Understanding on the stress-testing procedures is expected to be finalized and signed by end-March, 2013. Cooperation between the supervisors will allow coping better with stress in the financial system, which suffers from a low quality credit portfolio, as evidenced by the high level of NPLs. This is a crucial issue that has to be addressed, as the high level of NPLs creates an internal force that can lead to deleveraging – a problem that is exacerbated by liquidity conditions of the foreign parent banks that own most of the banking system in BiH. In order to deal with this problem, the supervisors are promoting legislative changes that will ease NPL resolution. In addition, the legal framework will be amended in such a way as to allow for tighter cooperation and better information sharing with foreign supervisors.

The law on *Financing of the Institutions of BiH* will be amended by end-2012 to ensure that external debt service obligations continue to be made in the absence of an approved government budget. During this review, the detailed modalities for reaching this goal have been further refined.

The authorities are implementing tough, unpopular steps in order to improve the fiscal position of BiH and to increase the efficiency of its economy. They are prepared to take even further additional measures, if necessary, in order to fulfill the program's objectives and to ensure its success.

Similarly to how it was done during this review, the authorities will continue to consult with the IMF on their policy measures, and update the Fund on any revisions in their economic program. The authorities would like to express their gratitude to the newly appointed mission chief, Mr. van Rooden, and to the team, for their professional, balanced and careful advice, and for completing this fruitful review.