



# BOSNIA AND HERZEGOVINA

July 2014

## SIXTH AND SEVENTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUESTS FOR AUGMENTATION OF ACCESS AND MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; PRESS RELEASE AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BOSNIA AND HERZEGOVINA

In the context of the sixth and seventh reviews under the Stand-By Arrangement and requests for augmentation of access and modification of performance criteria, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 30, 2014, following discussions that ended on May 30, 2014, with the officials of Bosnia and Herzegovina on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 17, 2014
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Bosnia and Herzegovina.

The following documents have been or will be separately released.

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

\*Also included in Staff Report

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

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**International Monetary Fund**  
**Washington, D.C.**



# BOSNIA AND HERZEGOVINA

June 17, 2014

## SIXTH AND SEVENTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUESTS FOR AUGMENTATION OF ACCESS AND MODIFICATION OF PERFORMANCE CRITERIA

### KEY ISSUES

**Stand-By Arrangement (SBA):** The Board approved Bosnia and Herzegovina's (BiH) request for a two-year SBA with access of SDR 338.2 million (200 percent of quota) in September 2012. The fifth review was completed on January 31, 2014 when the Board also approved a nine-month extension of the arrangement through end-June 2015 and an augmentation of access by SDR 135.28 million (80 percent of quota). So far, SDR 253.65 million (150 percent of quota) has been disbursed and SDR 84.55 million (50 percent of quota) would become available upon completion of these reviews.

**Outlook:** BiH was on a good track in 2013: the economy returned to growth, expanding by nearly 2 percent despite some domestic demand weakness, while external imbalances narrowed. However, following torrential rains in May this year that caused substantial damage and hardship, growth is now projected to slow. The damage is estimated at 5–10 percent of GDP. Unemployment remains high, especially among the youth.

**Risks:** The outlook is subject to a high degree of uncertainty as the impact of the natural disaster is unclear and the recovery will depend on the speed at which donor support can be mobilized and absorbed. The elections scheduled for October 2014 pose considerable risks to the timely and sustained implementation of policies envisaged under the program and, together with an uncertain external environment, also cloud the outlook.

**Program performance** became more uneven in late 2013 and early 2014, reflecting both economic factors and delays in policy implementation. Fiscal policies were broadly on track, but two end-December 2013 fiscal performance criteria (PCs) were missed as the compression of government spending in the last months of the year was not enough to offset shortfalls in revenues, due to weak domestic demand but also delays in the implementation of measures to improve revenue collection. Securing parliamentary approval of economic measures has become more difficult in the run-up to the elections, while measures to enhance internal cooperation have also met with growing resistance, creating delays in the implementation of structural benchmarks. Thus, the sixth and seventh reviews had to be combined to allow time for the completion of four prior actions to demonstrate progress in reform implementation and improving revenue collection. As revenue collection steadily improved, all end-March 2014 PCs were met.

**SBA augmentation:** The authorities request an augmentation of access by SDR 84.55 million (50 percent of quota) to address the urgent balance of payments need created by the natural disaster, and to make the additional funds available upon completion of these combined reviews, for a total purchase of SDR 169.1 million.

**Staff's view:** Given the authorities' overall performance and corrective actions, staff recommends the completion of the sixth and seventh reviews. Staff also supports the authorities' request for an augmentation of access to help address the urgent balance of payments need created by the disaster. The program will continue to provide the authorities with a framework for economic policies in a now even more difficult and uncertain environment.

Approved By  
**Jörg W. Decressin and  
 Masato Miyazaki**

A staff team comprising Messrs. van Rooden (head), Zhan, and Llaudes (all EUR), Ms. Maslova (SPR), and Ms. Benedek (FAD) visited Banja Luka and Sarajevo during February 19–28 and May 21–30, 2014. Mr. Atoyan (resident representative) and Ms. Jankulov (local economist) assisted the mission. The team met with: at the State level: Chairman of the Council of Ministers Bevanda, Minister of Finance and Treasury Špirić, Central Bank Governor Kozarić; in the Federation of BiH: Prime Minister Nikšić and Finance Minister Krajina; and in the Republika Srpska: Prime Minister Cvijanović and Finance Minister Tegeltija. Staff also met with other senior officials, and representatives of the business sector, labor unions, and the diplomatic community. Ms. Blasco and Ms. Nguyen (both EUR) assisted with the preparation of this report.

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## OUTLOOK AND RISKS

1. **The economy rebounded stronger than expected in 2013, with real GDP estimated to have expanded by nearly 2 percent, and external imbalances were reduced.** Supported by growing external demand, especially from EU countries, exports continued to lead the recovery. This despite a decline in exports to Croatia, one of BiH's largest trading partners, due to unresolved trade issues following Croatia's EU accession. The expansion of industrial production became gradually more broad-based. High unemployment, fiscal consolidation, and weak consumer confidence continued to dampen domestic demand, however, while inflation turned negative in the second half of the year. Credit growth, although still weak, started to pick up, including to enterprises. With strong export growth and weak domestic demand, the current account deficit is estimated to have narrowed to 5½ percent of GDP, and international reserves continued to rise to a record high (about 5.4 month of prospective imports). However, the increase in economic activity did not yet result in a decline in unemployment, which remains high at 27½ percent.

2. **Growth was set to accelerate in 2014, but record rainfalls in May that caused massive flooding and a large number of landslides dramatically changed the outlook.** This natural disaster caused major human suffering and hardship, affecting almost one quarter of the population (Box 1). A large number of houses, businesses, farmlands, and infrastructure were destroyed or severely damaged. Dislodged landmines will complicate the recovery and reconstruction process. Preliminary estimates suggest a loss equivalent to 5–10 percent of GDP, and an immediate rehabilitation need of essential infrastructure amounting to nearly 2–4 percent of GDP.

3. **The level of uncertainty is high, as the impact of the disaster has yet to become fully clear, but growth is expected to slow considerably this year, to about 0.7 percent, with considerable downside risks.** Production will fall sharply in the immediate aftermath of the disaster, not only in the directly affected areas, but also elsewhere through interruptions in supply chains and damage to roads, railroads, and other essential infrastructure. As a result, exports will fall too, and together with a likely rise in imports, particularly of such items as food, equipment, and construction materials, this has created an urgent balance of payments need. The current account deficit is projected to increase to nearly 11 percent of GDP, cushioned by an increase in remittances

### Bosnia and Herzegovina: Macroeconomic Impact of Natural Disaster

|                                   | 2013     |      | 2014     |       | 2015     |       |
|-----------------------------------|----------|------|----------|-------|----------|-------|
|                                   | EBS/14/4 | Est. | EBS/14/4 | Proj. | EBS/14/4 | Proj. |
| Economic growth                   | 0.8      | 1.8  | 2.0      | 0.7   | 3.5      | 3.5   |
| Inflation                         | 0.3      | -0.1 | 1.1      | 1.1   | 1.5      | 1.5   |
| Current account balance           | -7.9     | -5.4 | -7.6     | -10.7 | -7.0     | -8.6  |
| General government budget balance | -2.2     | -1.9 | -1.7     | -4.1  | -1.3     | -2.7  |
| Public debt                       | 44.9     | 42.5 | 42.8     | 46.2  | 40.2     | 46.0  |

Sources: IMF staff estimates and projections.

### Box 1. Impact of the Flooding and Landslides

In May 2014, the heaviest rainfall in more than a century hit BiH, causing intense flooding and a large number of landslides. Three months worth of rainfall fell within a period of three days. A comprehensive Recovery and Needs Assessment, conducted by the European Union (EU), the World Bank, and the United Nations, is underway, but very preliminary estimates suggest that this natural disaster:

- Affected 1 million people, or more than a quarter of the population.
- Affected more than a quarter of the total area of BiH. 72 municipalities, half of the total number of municipalities, were hit by floods and landslides, of which 25 were severely impacted.
- Damaged over 50,000 homes and destroyed about 2,000.
- Damaged or destroyed large parts of critical infrastructure: roads, railroads, bridges, and electricity and water supplies.
- Damaged about 200 schools, hospitals, and other public buildings.

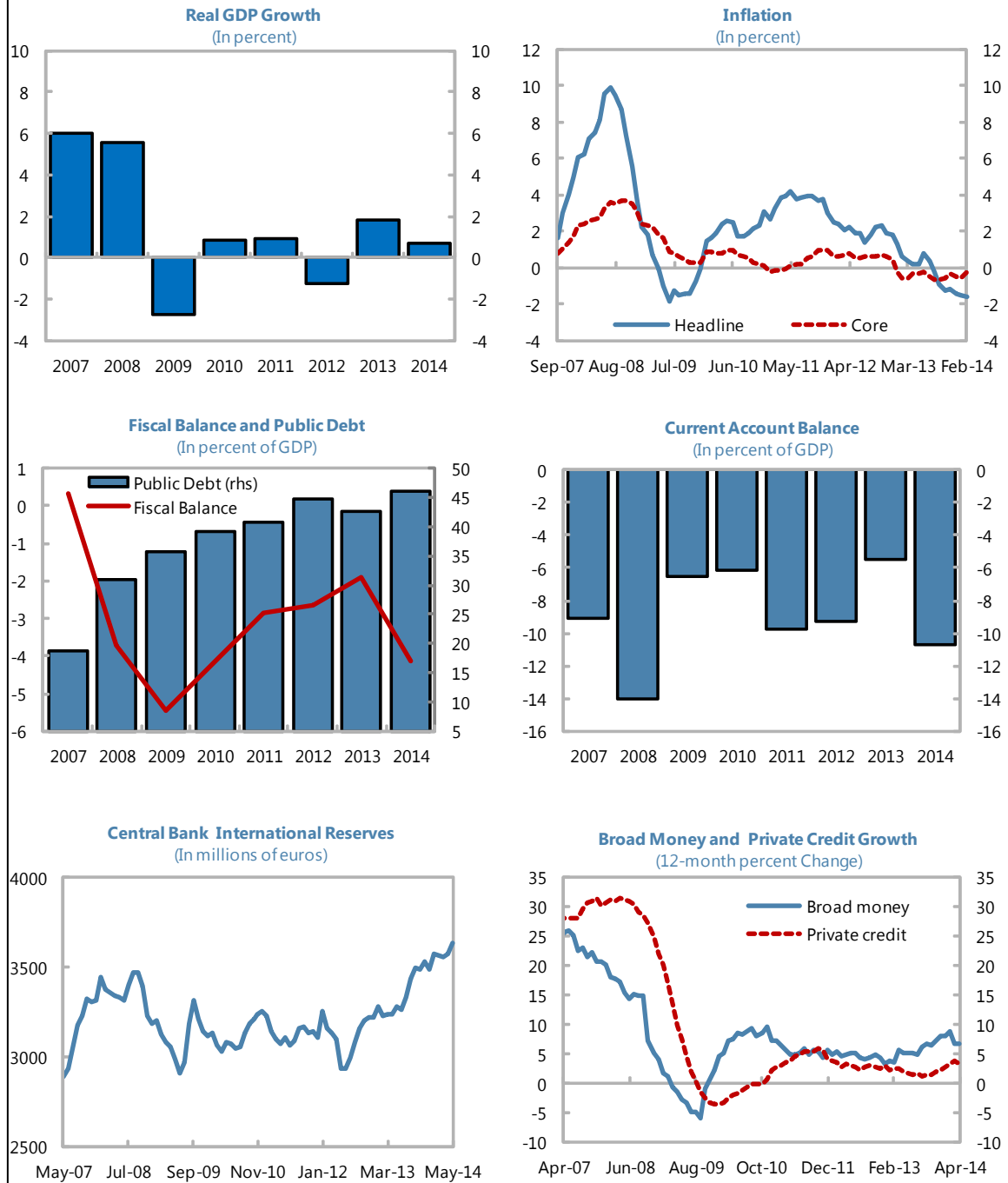
The total damage, including economic losses, is estimated at a range between €1–1½ billion, equivalent to 5–10 percent of GDP, of which roughly €0.5 billion is the estimated immediate damage to buildings and infrastructure.

The clean-up and reconstruction will be complicated as a large part of the impacted areas could now contain mines and other unexploded ordinance, which are feared to have become dislodged as a result of the flooding and landslides. This could add substantially to the cost of the recovery.

as the diaspora responds to the emergency. Output is expected to gradually recover in the course of the year, as the clean-up and reconstruction get underway. The extent to which activity is affected and the speed at which the economy will recover in the course of this year and next will not only depend on the size of the damage, but will also depend heavily on the speed at which support for the reconstruction effort can be mobilized and absorbed. Growth is likely to accelerate in 2015 as reconstruction continues and activity rebounds. Inflation is projected to increase, albeit from a lower base.

4. **The outlook for 2014 also remains clouded by significant domestic political risks and uncertainty about the external environment.** As the general elections—scheduled for October 2014—approach, an already difficult political situation is becoming more unpredictable, even more so as political parties may propose sub-optimal policies to ease the hardship caused by the disaster. This poses significant risks to the sustained implementation of policies envisaged under the program. Large protests erupted in February, reflecting socio-economic and political grievances, especially of the younger generation, and it has become more difficult to obtain parliamentary support for economic reform measures. On the external side, rising geo-political tensions, financial market strains, or stagnation in Europe also pose risks to the outlook.

**Figure 1. BiH: Selected Economic Indicators, 2007–14**



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



## PERFORMANCE UNDER THE PROGRAM

5. **Fiscal consolidation was largely on track in 2013 and public debt was put on a downward path.** The overall government budget deficit is estimated to have been reduced to 1.9 percent of GDP in 2013, compared to an (unadjusted) target of 2 percent of GDP (or 2.4 percent of GDP adjusted), and down from a deficit of 2.7 percent of GDP in 2012.<sup>1</sup> Sizable revenue shortfalls—including lower-than-budgeted indirect tax revenues, a delay in the distribution of dividends from the electricity transmission company TRANSCO, and lower receipts from the sale of military assets—combined with delays in securing external financing forced the authorities to significantly compress non-priority spending toward the end of the year. In addition, foreign loans to finance road construction have been disbursing at a somewhat slower pace than originally planned. The indicative target on net lending by the general government (excluding foreign-financed projects) based on staff's estimates is expected to have been met by a considerable margin.<sup>2</sup> The public debt-to-GDP ratio fell for the first time in several years from nearly 45 percent in 2012 to 43 percent in 2013.

6. **Revenue collection continued to lag behind, however, and the end-2013 indicative target for the gross collection of indirect taxes was missed by a wide margin.** For the largest part, this was due to the weak state of domestic consumption—and falling prices—but it also reflected delays in the full implementation of measures to improve tax collection (see below).

7. **As a result, the entities missed the end-December 2013 performance criteria on their central government fiscal balances (net lending).** All other end-December 2013 performance criteria and indicative targets were met. Despite considerable efforts to compress spending toward the end of the year—spending by the entity central governments was 6 percent less than originally budgeted—this was not enough to fully offset the shortfall in indirect tax revenues. The Institutions of BiH met its fiscal balance target by a wide margin, however, and the three central governments combined still recorded a budget surplus of 0.8 percent of GDP in 2013 as planned.<sup>3</sup>

8. **Indirect tax collection started to show encouraging signs in the first quarter of 2014.** Gross collection rose by 6½ percent in the first quarter of 2014, meeting the indicative target, and by over 8 percent through mid-May compared to the same period last year, suggesting that domestic demand was starting to recover and that recent measures to improve collection had started to generate results.

<sup>1</sup> The program included an adjustor for the end-2013 targets for any shortfalls in programmed dividend payments from TRANSCO (equivalent to 0.4 percent of GDP; see EBS/12/161) that allowed the authorities to seek alternative financing.

<sup>2</sup> Due to capacity constraints and recent resignations of four (out of ten) canton governments, reporting by the lower levels of government in the FBiH has yet to be fully completed and staff estimates have to be used. However, the outcome is unlikely to materially change due to the relative small sizes of the units that have not yet reported.

<sup>3</sup> Excluding foreign-financed projects.

9. **With revenue collection picking up and with continued tight control over spending, all end-March 2014 fiscal performance criteria were met.** Also, neither the entity central governments, nor the Institutions of BiH accumulated any new domestic spending arrears through end-March 2014. The performance criteria on non-concessional short-term debt and external payment arrears were also met. Based on preliminary data and staff's estimates the indicative target for net lending by the general government for end-March is expected to have been met as well, while data to assess observance of the indicative ceilings for changes in the stock of other accounts payable of the general governments of the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) are not yet available.<sup>2</sup>

10. **Progress continued to be made in implementing structural reforms, albeit with increasing delays.** These delays largely reflected the increasing difficulties in the run-up to the elections to obtain parliamentary approval of key measures and to implement measures aimed at strengthening inter-entity cooperation and joint institutions. Nevertheless, all continuous and quarterly structural benchmarks were observed, albeit also with some delays, and:

- **The authorities harmonized excises on different tobacco products.** The BiH parliament approved an increase in excises on fine-cut tobacco, to make them equivalent to those on cigarettes, effective July 2014 (a prior action). This will help reverse the decline in tobacco excises due to substitution between different tobacco products that had emerged in recent years—as excises on cigarettes were gradually raised closer to EU levels, while excises on fine-cut tobacco were left unchanged. However, its effectiveness will also depend on increased cooperation between the Indirect Tax Authority (ITA), the entity inspection offices, and customs to combat smuggling and evasion.
- **The four tax agencies (ITA, FTA, RSTA, and BDTA) expanded their exchange of taxpayer information, which had started in January 2014.** With the removal of remaining technical and legal hurdles, the tax agencies now have comprehensive and automated access to each other's taxpayer information (a prior action) to help improve compliance.
- **The ITA has continued to publish updates of the list of largest tax debtors to enhance transparency.** The ITA will also start to publish information on the stock of indirect tax arrears and rescheduled tax debts, and information on rescheduling agreements. This enhanced transparency has increased pressure on debtors to reduce their outstanding tax obligations, and the stock of arrears was reduced by close to KM 20 million in the first quarter of 2014.
- **The RS government linked farmers' eligibility for agricultural subsidies to their registration and payment of contributions.** The necessary legal and administrative changes have been completed (a prior action). This will help to improve the pension funds' financial position and enable the authorities to better target agricultural subsidies.
- **The FBiH authorities amended the annual Law on Budget Execution to ensure the continued functioning of the finance ministry in the absence of a minister** (a prior action). The amendment allows the government to assign an alternate to the finance minister who can sign payment orders. This will prevent a recurrence of the disruption to the

government's financial transactions in January 2014 when the finance minister was dismissed by the president—a decision later suspended by the FBiH Constitutional Court.

- **The implementation of the new Law on Budgets for the FBiH is well underway.** The required by-laws and implementation regulations have largely been completed. A new FBiH Fiscal Coordinating Body—including the central government, the cantons, and representatives of municipalities—first met in May. The Coordinating Body will be able to play a useful coordinating role in addressing the fiscal impact of the recent natural disaster.
- **The BiH Fiscal Council endorsed a common definition of arrears.** Any amount that is not paid within 90 days after the due date is considered to be in arrears. This common definition, together with the earlier requirement to enter payment due dates for all commitments into the treasury systems, is expected to improve the reporting and monitoring of budget execution at all levels.
- **The BiH parliament approved a new procurement law for BiH in May** (an end-February 2014 structural benchmark). The new law was prepared with assistance from the EU and the OECD, and will align BiH's procurement framework with EU standards.
- **The BiH parliament also approved a new law to combat money laundering and the financing of terrorism in early June.** The new law is consistent with Financial Action Task Force (FATF) recommendations. However, parallel changes to the BiH criminal code that are needed for the new AML/CFT framework to become fully effective are still under parliamentary consideration. These will need to be adopted soon to ensure that MONEYVAL can reverse its listing of BiH as having made insufficient progress to address AML/CFT shortcomings.<sup>4</sup> Adoption of the changes to the criminal code is expected by end-July.
- **All banks under intensified supervision have hired external auditors to conduct a thorough asset quality review** (an end-December 2013 structural benchmark). The review process is expected to be completed in the coming months—the process will be somewhat delayed due to the impact of the disaster—and provide valuable information to the banking agencies about potential balance sheet risks in those banks that had already been identified as vulnerable under adverse scenarios.

## POLICY DISCUSSIONS

*Policy discussions took place in the immediate aftermath of the disaster. The uncertainty about the impact of the disaster is still large, but it is clear that fiscal consolidation will need to be temporarily interrupted as the country recovers and rebuilds. Discussions focused mainly on addressing the impact of the disaster on government finances and the banking system, and particularly on the need to ensure the continued function of the governments—including by paying wages and benefits—in light of the expected fall in revenues, also to avoid a further drop in economic activity. Meanwhile, the need to continue with economic reforms has become even larger if the economy is to recover stronger and*

<sup>4</sup> MONEYVAL is a FATF-style regional body of which BiH is a member.

create more jobs. Thus, existing and proposed new structural conditionality for the period ahead of the elections focuses not only on strengthening revenue collection and safeguarding financial stability, but also on the preparatory work for critical but complex reform measures, such as new banking and labor laws, with the aim to have these ready to be taken forward immediately after the elections.

## A. Fiscal Policy

11. **While uncertainty is still very high, it is clear that fiscal consolidation will need to be temporarily interrupted to absorb the large shock to the economy posed by the natural disaster.** The authorities had been on track so far this year to reduce the overall fiscal deficit to the target of 1.7 percent of GDP (excluding the one-off dividend distribution by the electricity transmission company TRANSCO).<sup>5</sup> However, based on current information and estimates, staff expects the overall deficit, including foreign assistance, to increase to over 4 percent of GDP this year, causing public debt to increase to over 46 percent of GDP. The entity central governments will need to amend their budgets for 2014 in the coming months, in consultation with Fund staff, as the situation becomes clearer. The deficit is projected to narrow in 2015 as the economy recovers, but will still be higher than projected prior to the disaster as rehabilitation efforts will continue into 2015. More specifically:

- **Revenues will fall significantly this year.** The collection of indirect taxes and social contributions fell sharply in the immediate aftermath of the disaster, by some 20–30 percent. Revenues are expected to gradually recover, however, in the course of the year as the rehabilitation process gets underway and activity resumes. Also, the bulk of economic activity is located outside of the directly affected areas. The collection of direct taxes and social contributions is expected to remain depressed for a longer period in the directly affected areas, but to remain strong elsewhere. On balance, domestic revenues—taxes and contributions—are projected to fall short by about 4 percent of original forecasts for this year, equivalent to about 1½ percent of (2013) GDP.
- **Spending needs will rise, but execution will depend on availability of resources and absorption capacity.** A key near-term challenge is to ensure the continued functioning of the governments as revenues fall—including the payment of wages and benefits—also to avoid a further collapse in activity. The central governments will also need to increase transfers to the social funds and lower levels of government to help offset revenue losses at those levels.<sup>6</sup> Several donors have already made pledges of support to help with the recovery and reconstruction, either by providing new financing or redirecting and

<sup>5</sup> The dividends, equivalent to 0.4 percent of GDP, were paid out in April 2014 following parliamentary approval of the necessary legislative changes and the adoption of an investment plan that ensures the longer-term viability of the transmission system. New management had already been appointed in late 2013 when audited financial accounts of the company had also been approved. Given the one-off nature of the dividends, staff decided to treat these as a financing item, below the line, consistent with GFSM 2001.

<sup>6</sup> In the FBiH, cantons and municipalities receive about two-thirds of the entity's share in indirect taxes, while in the RS, municipalities receive about one-third on the entity's share. Social contributions accrue directly to the entity pension and health funds.

accelerating existing programs. Much of this support will take the form of loans, adding to the general government deficit, but as the implementation of assistance is likely to carry over into 2015, staff expects the impact on the 2014 overall fiscal balance to be equivalent to about 1–1½ percent of (2013) GDP.

- **The higher deficit is envisaged to be largely financed by additional foreign assistance.** Other international financial institutions than the Fund are expected to provide assistance for the recovery and rehabilitation, while additional Fund support is envisaged to be used to help offset the revenue losses.
  - **As the impact of the disaster—including its impact on government finances—gradually becomes clearer, fiscal policies may need to be further adjusted during the remainder of the year.** A sharper-than-projected decline in revenues would increase financing needs—which could be covered by mobilizing additional external or domestic financing—and may require a further compression of non-priority spending. Alternatively, should revenues decline by less the overall deficit could be contained to below the current forecast.
12. **To contain current spending, the authorities agreed to:**
- **Strictly contain spending on wages and benefits and to curtail non-priority spending where possible.** In this regard, they will refrain from wage and pension increases other than those that had already been included in the 2014 budgets. Moreover, the cost of advancing the public sector wage increases in the RS that had already been planned to come in effect mid-year will be offset by the recently revised law on public sector wages and by savings elsewhere within the budget envelope, mainly on non-priority current spending (goods and services, transfers, and grants).<sup>7</sup>
  - **Ensure that the costs of privileged pensions in the FBiH stay within allocated amounts.** With the exception of some minor elements, the new law on privileged pensions that was adopted last year was upheld in a review by the FBiH Constitutional Court. Savings from reducing benefits of existing beneficiaries, by 20 percent on average, have been somewhat less than anticipated, mainly as the audits of existing beneficiaries are taking longer to complete. This has been offset, however, by fewer-than-projected new entrants. Audits are taking longer to complete following a Constitutional Court ruling to ensure due process.
  - **Finish work to establish a centralized database of all beneficiaries of social benefits in FBiH.** The new law for this purpose was submitted to the FBiH parliament in April and is expected to be adopted by end-July 2014 (a new deadline for this structural benchmark). This database will help the authorities to improve the targeting of benefits and avoid double-dipping.

<sup>7</sup> Prior to the disaster, the RS authorities advanced a 5 percent public sector wage increase that had been budgeted for mid-year (thus fully reversing the wage cut of early 2013) and had granted the lowest-paid workers higher increases, up to 15 percent, at an additional cost to the budget of about 0.1 percent of GDP

13. **Efforts to improve revenue collection remain of critical importance.** The authorities aim to mitigate the impact of the disaster on revenues by continuing with their efforts to improve tax collection:

- **The ITA is stepping up its fight against VAT fraud.** A new unit for the detection and prevention of VAT fraud will be set up within the ITA, and with the help of technical assistance from the Fund, it will implement a risk-based approach for the selection of VAT refunds for audit, focusing more on a claimant's compliance history than the amount of the refund—also as the scope for VAT fraud is likely to increase with a loss of records and higher levels of foreign assistance. In addition, only taxpayers that are fully compliant with their VAT obligations can request VAT refunds.
- **The ITA will also increase its efforts to collect outstanding tax debts.** Building on the momentum generated by the publication of the largest tax debtors, the ITA will try to work out payment plans with tax debtors that owe more than KM 2.5 million, requiring at least 15 percent payment upfront and that debtors remain current thereafter. If no agreement can be reached by end-September 2014—or if taxpayers fall into arrears again—the ITA will pursue all options open to it under domestic law to enforce collection (a new structural benchmark for end-September 2014). The ITA already transferred several cases to the BiH prosecutor's office in recent months.
- **The FBiH government is finalizing a new corporate income tax law and its adoption by parliament is expected by end-July 2014.** The new law, prepared with assistance from the Fund, aims to broaden the tax base by reducing deductions and tax expenditures and to clarify the tax treatment of depreciation and banks' loan loss provisioning to bring these in line with international practice. Similarly, the RS plans to conduct a review of its corporate income tax law to foster consistency between the two entities and with a particular focus also on its tax treatment of loan loss provisioning and transfer pricing. The new laws would become effective at the start of 2015.
- **A new customs policy law is expected to be submitted to the BiH parliament in July 2014.** The new law was developed with the assistance of the Austrian and Slovenian authorities, to bring customs policies in line with EU legislation, and was approved by the ITA governing board in December 2013.

## B. Financial Sector Policies

14. **The natural disaster will also affect the financial sector.** The banking system has been well capitalized and liquid at the aggregate level, but the impact from a prolonged period of weak economic growth had already been evident. The quality of banks' loan portfolios had continued to deteriorate steadily in the last few years and non-performing loans (NPLs) stood at close to 15 percent prior to the disaster. This, together with a subdued demand and a lack of a comprehensive framework for NPL resolution, created a significant drag on bank lending and put

pressure on banks' profits. NPLs are expected to increase significantly as a result the natural disaster: some loans will need to be written off, while many others will need to be restructured.<sup>8</sup> This will create a need for additional provisioning by banks and may also require some banks to raise additional capital.

15. **The Standing Committee on Financial Stability (SCFS) is taking the lead in coordinating the efforts to manage the impact of the disaster on the banking system.** The central bank has ensured that depositors have been able to access their funds while bank branches in the affected areas had become inoperable. The banking agencies have requested banks to make a first assessment of the impact on their loan portfolios. The SCFS is also developing guidelines for the restructuring of loans to clients who were directly or indirectly impacted. In this regard, staff stressed it was crucial that banks continue to classify loans and provision in line with regulations, to be able to accurately assess banks' health. In doing so, the banking agencies could then allow some forbearance for banks that may need additional capital as a result of the impact of the disaster, to avoid excessive deleveraging, by allowing longer timeframes for remedial actions, provided banks can present a credible plan to return to meeting capital adequacy requirements, including such actions as profit retention, dividend bans, potential asset sales, and equity issuances.

16. **The recovery and reconstruction will also require new bank loans.** Businesses affected by the disaster will require new funding to get back on their feet and be able to service existing debts. Several donors have already indicated they are willing to provide new, or redirect undisbursed, loans that can be channeled through banks or micro-credit institutions to facilitate the recovery.

17. **Meanwhile, the authorities will continue to build on the progress made in safeguarding financial sector stability.** These efforts focus on improving contingency planning and crisis preparedness; enhancing risk monitoring; and strengthening the legal and regulatory framework for the banking sector, including the framework for NPL resolution. In particular:

- **The Standing Committee on Financial Stability (SCFS) is preparing an overarching contingency plan for BiH.** All SCFS members, with the assistance from the Fund, developed contingency plans in their respective areas, detailing possible actions and coordination with others in the event of financial sector difficulties. Based on these individual plans, the SCFS will adopt a consolidated contingency plan, and amend the Memorandum of Understanding that governs the SCFS as needed, by end-September 2014, with a view to ensuring that the SCFS can effectively fulfill its coordinating role in crisis resolution (a new structural benchmark for end-September 2014).
- **The detailed asset quality reviews of banks that had already been under enhanced supervision will be completed soon.** The banking agencies already asked four banks to increase their capital, of which two already did. Meanwhile, the banking agencies have

<sup>8</sup> About one quarter to one third of banks' corporate loan portfolio is directly or indirectly exposed to the disaster.

increased communication and cooperation with home supervisors and expect to sign Memoranda of Understanding with the home supervisors of the largest foreign-owned banks in the coming months.

- **Work has started on drafting new banking laws in both entities**, with assistance from the Fund and the EU. The laws will be in line with EU banking directives and Basel II requirements, while the tool-kit for dealing with problem banks will be expanded. As preparing the new laws will require more time—and further technical assistance—the authorities aim to have drafts approved by the respective governments by end-September 2014 (new deadlines for the end-June 2014 structural benchmarks).
- **Efforts are also underway to improve the framework for recovering and resolving NPLs, and to enhance creditors' and consumers' rights.** This includes legislative and regulatory changes needed to support the establishment of asset management companies—which will also require more time and technical assistance, with drafts now expected to be ready by end-September 2014 (new deadlines for the end-June 2014 structural benchmarks)—and establishing a voluntary out-of-court restructuring system. To protect consumers' rights, the FBiH adopted a new Law on the Protection of Consumers of Financial Services, and at the same time, to protect creditors' rights, the FBiH authorities have asked parliament to issue an authentic interpretation of the newly adopted Law on Guarantors, to clarify that guarantees cannot be revoked retroactively. Both entities will also review bankruptcy laws to streamline and shorten bankruptcy proceedings.

### C. Improving the Business Environment and Job Creation

18. **Reforms to improve the business environment are moving forward, but labor market reforms are faced with resistance.** In particular:

- **Both entities have been making substantial progress in making it easier to start and operate a business.** In the RS, the one-stop shop for business registration has been fully operational since late 2013, resulting in a surge in business registration. To further streamline the process, online e-registration will be introduced in the RS by mid-2014. Similarly, the FBiH parliament is expected to approve shortly the new Laws on Companies and Inspections and amendments to the Law on Business Registration that had been prepared with the assistance of the World Bank.
- **Achieving consensus with the social partners on new labor market legislation that would help create more jobs is proving difficult, however.** The dialogue with the social partners has been progressing only slowly with frequent setbacks and the recent natural disaster—causing near-term job losses estimated between 10,000 and 20,000—and the approaching elections have further complicated the process. Nevertheless, both entities remain committed to move ahead with this critical reform. They will continue to work with World Bank and Fund staff in the coming months to finalize draft labor laws that are more conducive to job creation. These drafts can then form the basis for further discussions with



the social partners, and with sufficient time also needed for public debate, approval of the new laws would fall to the next parliaments by end-December 2014 (new deadline for these structural benchmarks). The adoption of new labor market legislation will also pave the way for the elimination of take-home pay protection for public sector employees in the RS by end-December 2014 (a new deadline for this structural benchmark).

19. **Good progress continues to be made in WTO accession discussions and the authorities expect to complete the process by end-2014.** The remaining legislative changes requested by partner countries are expected to be completed in the coming months, including adoption of a revised FBiH Law on Trade and the BiH By-Law on Genetically-Modified Organisms. On the other hand, little progress has been made in resolving trade disputes with Croatia and the EU following Croatia's EU accession, which continues to adversely affect BiH's agricultural exports to Croatia.

#### D. Program Modalities

20. **The authorities are requesting an augmentation of access of SDR 84.55 million (50 percent of quota) to help address the balance of payments need created by the recent natural disaster.** The drop in production and exports and the increased import needs as a result of the flooding and landslides have created an urgent balance of payments need. As this financing need is immediate, the authorities request that the additional financing is made available upon completion of the sixth and seventh reviews. The requested augmentation would bring total access under the arrangement to SDR 558.03 million (330 percent of quota). The additional access would not trigger exceptional access policy, neither under annual nor under cumulative access limits. As noted above, within the context of BiH's currency board arrangement, the additional support would be channeled to the entity central government budgets, to help cover the revenue losses due to the disaster and thus avoid a further collapse in activity.

21. **Other international financial institutions are also expected to help cover BiH's additional financing needs.** This includes the World Bank, which is planning to provide \$100 million in emergency relief, as well as the EU, the European Investment Bank, the Council of Europe Development Bank, and the European Bank for Reconstruction and Development, which together are considering to provide new or to redirect existing assistance toward the rehabilitation in the amount of €200–300 million, of which the EU already committed to provide €42 million in immediate emergency relief. With this, the program will remain fully financed, but any additional support would help limit the decline in reserves.

22. **The authorities are also requesting a modification of the fiscal performance criteria for end-June, end-September, and end-December of 2014,** to reflect the expected loss in revenues and additional spending needs, as shown in Table 1 attached to the authorities' supplementary Letter of Intent of June 13, 2014. As the degree of uncertainty is very high, further revisions may be needed during the remainder of the program.

## Bosnia and Herzegovina: Estimated Financing Requirements

(in millions of euros)

|   | 2014     |       | 2015     |       | Incremental<br>needs 2014-15 |
|---|----------|-------|----------|-------|------------------------------|
|   | EBS/14/4 | Proj. | EBS/14/4 | Proj. |                              |
| Government support                          | 758      | 1,188 | 432      | 620   | 618                          |
| Project financing and rehabilitation        | 444      | 707   | 373      | 565   | 455                          |
| Existing projects                           | 444      | 427   | 373      | 379   | -11                          |
| Rehabilitation                              | --       | 280   | --       | 187   | 467                          |
| BoP gap (budget gap)                        | 314      | 481   | 59       | 55    | 163                          |
| IMF 1/                                      | 276      | 371   | 19       | 19    | 95                           |
| World Bank                                  | 38       | 110   | 40       | 36    | 68                           |
| Gross international reserves (+ = increase) | 96       | 8     | 62       | 15    | -135                         |

Sources: IMF staff estimates and projections.

1/ EBS/14/4 2014 figure includes sixth purchase that was disbursed in January 2014.

23. **Notwithstanding the natural disaster, BiH has sufficient capacity to discharge its obligations to the Fund in a timely manner.** Public and external debt will increase this year and next given the large amounts of financing that are needed to offset the revenue losses and to facilitate the reconstruction. Debt sustainability analysis suggests that with a resumption of economic growth and fiscal consolidation next year, public and external debt will return to a downward path and debt servicing obligations will be manageable. Debt indicators could deteriorate rapidly to unsustainable levels, however, in case of sustained adverse shocks, notably in

### Box 2. Structural Conditionality until the October Elections

#### **Tax collection**

- Parliamentary approval of harmonization of excises on tobacco products PA
- Full exchange of taxpayer information between tax agencies PA
- Collection of indirect tax arrears from largest tax debtors SB (Sep)

#### **Public financial management**

- Ensure uninterrupted operation of the FBiH finance ministry in the absence of a finance minister PA
- Condition farmers' eligibility for agricultural subsidies in the RS on their registration and payment of contributions PA
- Establishment of single registry of beneficiaries of social benefits in the FBiH SB (Jul)

#### **Financial stability**

- Adoption of overarching contingency plan by SCFS SB (Sep)

#### **Preparing draft legislation for adoption after the elections**

- Government approval of new entity banking laws SB (Sep)
- Government approval of new entity legislation on asset management companies SB (Sep)

case of a prolonged growth shock or a departure from the currency board arrangement. BiH has an excellent record of meeting Fund financial obligations. With the expectation that performance under the program remains strong, BiH would return to a sustainable medium-term growth path, providing assurance that it should continue to be able to service its obligations to the Fund on time.

24. **A safeguards assessment of the central bank is currently underway.** This assessment updated the previous assessment completed in March 2013. All recommendations from this previous assessment, including strengthening of the audit mechanism and legal functions, have since been implemented.

## STAFF APPRAISAL

25. **Performance under the program had been broadly satisfactory prior to the natural disaster in May, but had become more uneven as the elections approach.** Economic growth and external adjustment had been on track, but weaker domestic demand and lower inflation, as well as policy slippages contributed to revenue shortfalls and two missed end-December 2013 performance criteria. Notably the implementation of measures that required parliamentary approval or aim to strengthen inter-entity cooperation and joint institutions proved more difficult as elections near, causing delays in meeting structural benchmarks. By implementing the prior actions, however, the authorities ensured that progress continued to be made in advancing reforms, including strengthening revenue collection. With revenue collection improving and continued tight spending control, the authorities were able to meet all end-March 2014 performance criteria.

26. **The massive flooding and landslides in May will have a large impact on economic activity and government finances.** Growth will slow, but the extent of the slowdown will depend on the speed at which support for the reconstruction effort can be mobilized and absorbed. With a considerable loss in revenues and additional spending needs, the overall government deficit will rise and will require additional financing to ensure that governments can continue to function. Non-priority government spending will need to be strictly contained and efforts to improve revenue collection will need to continue. Against this background, it is unavoidable that the process of fiscal consolidation is temporarily interrupted this year and that public debt rises to facilitate the rehabilitation and avoid a further decline in economic activity.

27. **The authorities will need to closely monitor the impact of the disaster on the financial sector.** The banking system has been stable and liquid, but vigilance is warranted. NPLs are likely to increase further and some banks may need additional capital. This underscores the need to continue with improving bank supervision and contingency planning, and to strengthen the legal and regulatory framework for the banking sector in general and NPL resolution in particular. As new bank financing will be crucial to help businesses and households recover, efforts to improve the legislative and regulatory framework will help place the banking system in a better position to support the economic recovery.

28. **While the immediate focus is rightly on relief and rehabilitation efforts, it also remains important to maintain the reform momentum.** This will require parliamentary support, as well as

close policy coordination and cooperation between the Institutions of BiH and the entities to come out of the current crisis stronger, and to achieve faster growth and create more jobs in the years ahead. Improvements in business environment that make it easier to start and operate a business have already started to yield positive results, but more needs to be done to improve economic governance. It is also disappointing that the social partners have so far been unable to agree on new labor market legislation that would be more conducive to job creation, thus helping to reduce the high level of unemployment.

29. **Risks to the program have increased, as the outlook is subject to a high degree of uncertainty, and domestic political risks are large.** While the authorities re-affirmed their commitment to the policies under the program, the impact of the natural disaster in combination with the upcoming general elections in an already fragile domestic political environment with growing popular discontent, and combined with capacity constraints and the complex legal framework, pose significant risks to the timely and sustained implementation of policies envisaged under the program. On the external side, any softening of Europe's economic recovery or increased financial market nervousness will directly affect BiH's economic outlook through its adverse impact on exports, remittances, and capital flows.

30. **Despite these risks, in view of the authorities' performance so far, corrective actions already taken, and their policy commitment for the period ahead as summarized in the attached supplementary Letter of Intent of June 13, 2014, staff supports the authorities' request for the completion of the sixth and seventh reviews under the SBA.** Staff also supports the authorities' request for an augmentation of access under the SBA to address the immediate balance of payments need and for the modification of performance criteria on the fiscal balances (net lending) of the central governments of the FBiH and the RS. Staff believes that the arrangement continues to provide a valuable anchor for economic policies during this uncertain and difficult period, as the impact of the disaster is addressed and the rehabilitation gets underway, at the same time as elections are held and the next governments are formed.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2011–19

|  | 2011                   | 2012   | 2013   | 2014     |        | 2015   | 2016   | 2017   | 2018   | 2019   |
|--|------------------------|--------|--------|----------|--------|--------|--------|--------|--------|--------|
|  |                        |        |        | EBS/14/4 | Proj.  |        |        |        |        |        |
| Nominal GDP (KM million)                     | 25,772                 | 25,734 | 26,385 | 27,393   | 27,123 | 28,735 | 30,574 | 32,730 | 35,027 | 37,472 |
| Gross national saving (in percent of GDP)    | 9.0                    | 8.9    | 12.8   | 8.7      | 9.1    | 11.0   | 11.9   | 12.5   | 12.9   | 13.3   |
| Gross investment (in percent of GDP)         | 18.1                   | 18.1   | 18.2   | 16.3     | 19.8   | 19.7   | 18.8   | 18.7   | 18.4   | 18.2   |
|  | (Percent change)       |        |        |          |        |        |        |        |        |        |
| Real GDP                                     | 1.0                    | -1.2   | 1.8    | 2.0      | 0.7    | 3.5    | 3.7    | 4.0    | 4.0    | 4.0    |
| CPI (period average)                         | 3.7                    | 2.0    | -0.1   | 1.1      | 1.1    | 1.5    | 1.8    | 2.0    | 2.1    | 2.1    |
| Money and credit (end of period)             |                        |        |        |          |        |        |        |        |        |        |
| Broad money                                  | 5.8                    | 3.4    | 7.9    | 5.0      | 3.6    | 4.7    | 4.5    | 5.2    | 5.8    | 5.8    |
| Credit to the private sector                 | 4.2                    | 2.8    | 2.3    | 2.4      | 3.2    | 6.7    | 7.2    | 7.9    | 7.9    | 8.0    |
|  | (In percent of GDP)    |        |        |          |        |        |        |        |        |        |
| Operations of the general government         |                        |        |        |          |        |        |        |        |        |        |
| Revenue                                      | 45.9                   | 46.3   | 45.1   | 46.2     | 45.1   | 45.3   | 45.5   | 45.6   | 45.6   | 45.6   |
| <i>Of which: grants</i>                      | 2.1                    | 2.2    | 2.4    | 2.1      | 2.5    | 2.6    | 2.7    | 2.8    | 2.9    | 3.0    |
| Expenditure                                  | 48.8                   | 48.9   | 47.0   | 47.5     | 49.2   | 48.0   | 46.8   | 46.4   | 45.9   | 45.6   |
| <i>Of which: investment expenditure</i>      | 6.3                    | 6.3    | 6.4    | 6.5      | 7.8    | 7.8    | 7.1    | 7.2    | 7.1    | 7.1    |
| Net lending                                  | -2.8                   | -2.7   | -1.9   | -1.4     | -4.1   | -2.7   | -1.4   | -0.8   | -0.3   | 0.0    |
| Net lending, excluding interest payment      | -2.2                   | -1.9   | -1.2   | -0.5     | -3.3   | -1.7   | -0.4   | 0.0    | 0.4    | 0.8    |
| Total public debt                            | 40.8                   | 44.6   | 42.5   | 42.8     | 46.2   | 46.0   | 44.6   | 42.2   | 38.7   | 35.9   |
| Domestic public debt                         | 15.0                   | 16.8   | 14.5   | 12.3     | 13.2   | 13.0   | 13.7   | 14.5   | 13.9   | 12.6   |
| External public debt                         | 25.8                   | 27.8   | 28.1   | 30.5     | 32.9   | 33.0   | 30.9   | 27.6   | 24.8   | 23.2   |
|  | (In millions of euros) |        |        |          |        |        |        |        |        |        |
| Balance of payments                          |                        |        |        |          |        |        |        |        |        |        |
| Exports of goods and services                | 4,103                  | 4,062  | 4,298  | 4,568    | 4,412  | 4,744  | 5,094  | 5,432  | 5,781  | 6,160  |
| Imports of goods and services                | 7,694                  | 7,116  | 6,914  | 7,713    | 7,983  | 8,026  | 8,369  | 8,804  | 9,234  | 9,682  |
| Current transfers, net                       | 1,792                  | 1,862  | 1,840  | 1,934    | 1,970  | 1,901  | 2,035  | 2,138  | 2,249  | 2,367  |
| Current account balance                      | -1,284                 | -1,218 | -734   | -1,071   | -1,489 | -1,270 | -1,085 | -1,036 | -990   | -945   |
| (In percent of GDP)                          | -9.7                   | -9.3   | -5.4   | -7.6     | -10.7  | -8.6   | -6.9   | -6.2   | -5.5   | -4.9   |
| Foreign direct investment (+ =inflow)        | 342.3                  | 273.2  | 259.3  | 328.8    | 256.6  | 333.3  | 355.4  | 379.4  | 405.5  | 433.9  |
| (In percent of GDP)                          | 2.6                    | 2.1    | 1.9    | 2.3      | 1.9    | 2.3    | 2.3    | 2.3    | 2.3    | 2.3    |
| Gross official reserves                      | 3,285                  | 3,326  | 3,613  | 3,485    | 3,621  | 3,637  | 3,647  | 3,675  | 3,675  | 3,784  |
| (In months of imports)                       | 5.4                    | 5.6    | 5.4    | 5.1      | 5.4    | 5.2    | 4.9    | 4.7    | 4.5    | 4.5    |
| External debt, percent of GDP                | 48.9                   | 52.2   | 50.8   | 53.9     | 54.6   | 54.2   | 51.6   | 47.7   | 44.3   | 42.1   |
| External debt service/GNFS exports (percent) | 14.9                   | 12.6   | 13.7   | 14.7     | 14.8   | 12.8   | 13.0   | 15.2   | 13.7   | 8.9    |

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

Table 2. Bosnia and Herzegovina: Real Sector Developments, 2011–19

|   | 2011   | 2012   | 2013   | 2014     |        | 2015   | 2016   | 2017   | 2018   | 2019   |
|---|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|
|   |        |        |        | EBS/14/4 | Proj.  |        |        | Proj.  |        |        |
| <i>Real aggregates</i> (Percent change)   |        |        |        |          |        |        |        |        |        |        |
| Growth rates  |        |        |        |          |        |        |        |        |        |        |
| GDP at constant 2005 prices   | 1.0    | -1.2   | 1.8    | 2.0      | 0.7    | 3.5    | 3.7    | 4.0    | 4.0    | 4.0    |
| Domestic demand   | 1.0    | -2.0   | -1.0   | 2.1      | 5.8    | 0.3    | 3.3    | 4.3    | 3.9    | 3.8    |
| Private   | 2.6    | -2.3   | -0.7   | 2.6      | 4.7    | 0.2    | 4.0    | 4.0    | 3.7    | 3.6    |
| Public  | -4.5   | -1.0   | -1.9   | 0.7      | 9.9    | 0.5    | 1.0    | 5.3    | 4.4    | 4.3    |
| Consumption   | -1.6   | -1.8   | -1.5   | 2.3      | 5.0    | -0.3   | 4.2    | 4.3    | 4.0    | 3.9    |
| Private   | -2.7   | -2.1   | -1.1   | 2.6      | 5.1    | -0.2   | 4.2    | 4.2    | 3.9    | 3.8    |
| Public  | 3.6    | -0.7   | -3.3   | 1.1      | 4.8    | -0.8   | 4.0    | 5.0    | 4.6    | 4.5    |
| Gross capital formation   | 16.5   | -3.1   | 2.0    | 1.5      | 9.6    | 3.0    | -0.8   | 3.9    | 3.1    | 3.2    |
| Private   | 56.5   | -3.7   | 1.9    | 2.8      | 2.0    | 2.8    | 2.3    | 2.7    | 2.4    | 2.6    |
| Public  | -21.6  | -1.9   | 2.0    | -0.4     | 23.8   | 3.3    | -5.7   | 6.0    | 4.1    | 4.0    |
| Net Exports   |        |        |        |          |        |        |        |        |        |        |
| Exports of goods and services   | 3.4    | -2.8   | 8.3    | 9.7      | -0.4   | 11.7   | 8.2    | 7.3    | 6.7    | 6.9    |
| Imports of goods and services   | 2.4    | -4.2   | -1.7   | 7.0      | 13.6   | 0.1    | 5.4    | 6.7    | 5.4    | 5.4    |
| Contributions to real GDP growth (Year-on-year change over real GDP in previous year, in percent) |        |        |        |          |        |        |        |        |        |        |
| GDP at constant 2005 prices   | 1.0    | -1.2   | 1.8    | 2.0      | 0.7    | 3.5    | 3.7    | 4.0    | 4.0    | 4.0    |
| Domestic demand   | 1.2    | -2.4   | -1.1   | 2.6      | 6.7    | 0.4    | 3.9    | 5.0    | 4.5    | 4.5    |
| Private   | 2.4    | -2.2   | -0.6   | 2.4      | 4.3    | 0.2    | 3.6    | 3.6    | 3.4    | 3.3    |
| Public  | -1.2   | -0.3   | -0.5   | 0.2      | 2.5    | 0.1    | 0.3    | 1.4    | 1.2    | 1.1    |
| Consumption   | -1.6   | -1.8   | -1.5   | 2.3      | 4.9    | -0.3   | 4.0    | 4.2    | 3.9    | 3.8    |
| Private   | -2.3   | -1.7   | -0.9   | 2.0      | 4.0    | -0.1   | 3.3    | 3.3    | 3.1    | 3.0    |
| Public  | 0.7    | -0.1   | -0.6   | 0.3      | 0.9    | -0.1   | 0.7    | 0.9    | 0.8    | 0.8    |
| Gross capital formation   | 2.8    | -0.6   | 0.4    | 0.3      | 1.9    | 0.6    | -0.2   | 0.8    | 0.6    | 0.6    |
| Private   | 4.7    | -0.5   | 0.2    | 0.3      | 0.3    | 0.4    | 0.3    | 0.3    | 0.3    | 0.3    |
| Public  | -1.9   | -0.1   | 0.1    | 0.0      | 1.6    | 0.3    | -0.5   | 0.5    | 0.3    | 0.3    |
| Net Exports   | -0.2   | 1.2    | 2.9    | -0.6     | -6.0   | 3.1    | -0.2   | -1.0   | -0.5   | -0.5   |
| Exports of goods and services   | 0.9    | -0.7   | 2.2    | 3.4      | -0.1   | 3.2    | 2.4    | 2.2    | 2.1    | 2.2    |
| Imports of goods and services   | 1.1    | -2.0   | -0.8   | 4.0      | 5.9    | 0.1    | 2.6    | 3.2    | 2.7    | 2.7    |
| <i>Deflators</i> (Percent Change)   |        |        |        |          |        |        |        |        |        |        |
| GDP   | 2.6    | 1.1    | 0.7    | 2.3      | 2.1    | 2.4    | 2.6    | 2.9    | 2.9    | 2.9    |
| Domestic demand   | 4.4    | 2.0    | 0.8    | 2.0      | 1.3    | 2.7    | 1.9    | 2.0    | 2.3    | 2.3    |
| Consumption   | 4.8    | 1.8    | 0.8    | 2.2      | 1.3    | 2.9    | 1.7    | 1.9    | 2.2    | 2.3    |
| Investment  | 3.8    | 3.0    | 1.1    | 1.2      | 1.9    | 2.1    | 2.6    | 2.3    | 2.5    | 2.3    |
| Exports of goods and services   | 7.2    | 1.8    | -2.4   | -2.5     | 3.1    | -3.7   | -0.7   | -0.6   | -0.3   | -0.3   |
| Imports of goods and services   | 9.4    | 4.0    | -0.1   | -1.2     | -0.7   | 0.2    | -1.0   | -1.5   | -0.5   | -0.5   |
| <i>Nominal aggregates</i>   |        |        |        |          |        |        |        |        |        |        |
| Nominal GDP (KM million)  | 25,772 | 25,734 | 26,385 | 27,393   | 27,123 | 28,735 | 30,574 | 32,730 | 35,027 | 37,472 |
| (In percent of GDP)   |        |        |        |          |        |        |        |        |        |        |
| Consumption   | 106.1  | 106.2  | 102.8  | 106.4    | 106.4  | 103.0  | 102.5  | 101.8  | 101.2  | 100.5  |
| Private   | 84.1   | 83.9   | 81.7   | 85.0     | 84.8   | 82.2   | 81.8   | 81.1   | 80.5   | 79.9   |
| Public  | 22.0   | 22.3   | 21.1   | 21.4     | 21.6   | 20.8   | 20.7   | 20.7   | 20.7   | 20.6   |
| Gross capital formation   | 18.1   | 18.1   | 18.2   | 16.3     | 19.8   | 19.7   | 18.8   | 18.7   | 18.4   | 18.2   |
| Private   | 11.9   | 11.8   | 11.9   | 9.8      | 12.0   | 11.9   | 11.7   | 11.5   | 11.3   | 11.1   |
| Public  | 6.3    | 6.3    | 6.4    | 6.5      | 7.8    | 7.8    | 7.1    | 7.2    | 7.1    | 7.1    |
| National Savings  | 9.0    | 8.9    | 12.8   | 8.7      | 9.1    | 11.0   | 11.9   | 12.5   | 12.9   | 13.3   |
| Private   | 6.8    | 6.6    | 9.9    | 4.2      | 6.5    | 7.0    | 7.2    | 7.1    | 7.6    | 7.0    |
| Public  | 2.3    | 2.3    | 2.9    | 4.5      | 2.6    | 4.0    | 4.7    | 5.4    | 5.3    | 6.3    |
| Saving-Investment balance   | -9.1   | -9.3   | -5.4   | -7.6     | -10.7  | -8.6   | -6.9   | -6.2   | -5.5   | -4.9   |
| <i>Labor market</i> (In percent)  |        |        |        |          |        |        |        |        |        |        |
| Unemployment rate (ILO definition) <sup>1</sup>   | 27.6   | 28.0   | 27.5   | ...      | ...    | ...    | ...    | ...    | ...    | ...    |

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, 2011–19 1/**  
(In millions of euros, unless otherwise indicated)

|  | 2011   | 2012   | 2013   | 2014     |        | 2015   | 2016   | 2017   | 2018   | 2019   |
|--|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|
|  |        |        |        | EBS/14/4 | Proj.  |        |        |        |        |        |
| Current account  | -1,284 | -1,218 | -734   | -1,071   | -1,489 | -1,270 | -1,085 | -1,036 | -990   | -945   |
| Trade balance  | -3,185 | -3,199 | -2,836 | -3,181   | -3,632 | -3,329 | -3,334 | -3,430 | -3,513 | -3,583 |
| Goods  | -4,267 | -4,318 | -3,989 | -4,399   | -4,866 | -4,646 | -4,702 | -4,848 | -4,991 | -5,134 |
| Export of goods (fob)                                    | 2,625  | 2,575  | 2,799  | 2,927    | 2,784  | 3,007  | 3,272  | 3,522  | 3,772  | 4,036  |
| Import of goods (fob)                                    | -6,892 | -6,893 | -6,788 | -7,326   | -7,650 | -7,653 | -7,974 | -8,371 | -8,763 | -9,170 |
| Services (net)   | 1,082  | 1,118  | 1,153  | 1,218    | 1,234  | 1,317  | 1,369  | 1,418  | 1,478  | 1,551  |
| Exports  | 1,477  | 1,487  | 1,499  | 1,641    | 1,629  | 1,738  | 1,822  | 1,910  | 2,009  | 2,124  |
| Imports  | -396   | -369   | -346   | -423     | -395   | -420   | -454   | -491   | -531   | -573   |
| Primary Income (net)                                     | 110    | 119    | 262    | 176      | 173    | 158    | 213    | 255    | 274    | 271    |
| Total credit   | 477    | 442    | 425    | 504      | 497    | 527    | 567    | 604    | 639    | 673    |
| Total debit  | -367   | -323   | -163   | -328     | -324   | -369   | -354   | -349   | -365   | -402   |
| Of which, interest payments                              | -162   | -154   | -112   | -151     | -148   | -185   | -162   | -147   | -154   | -181   |
| Secondary Income (net)                                   | 1,792  | 1,862  | 1,840  | 1,934    | 1,970  | 1,901  | 2,035  | 2,138  | 2,249  | 2,367  |
| Government (net)   | 152    | 162    | 171    | 194      | 194    | 224    | 264    | 314    | 364    | 414    |
| Workers' remittances                                     | 999    | 1,042  | 1,049  | 1,088    | 1,209  | 1,110  | 1,205  | 1,257  | 1,318  | 1,386  |
| Other (NGOs etc.)  | 726    | 738    | 703    | 723      | 710    | 710    | 710    | 710    | 710    | 710    |
| Capital and Financial Accounts (excl. Reserves)          | 1,208  | 1,136  | 961    | 897      | 1,016  | 1,231  | 1,096  | 1,065  | 989    | 1,054  |
| Capital account  | 182    | 172    | 173    | 144      | 196    | 201    | 210    | 219    | 229    | 240    |
| Capital transfers (net)                                  | 182    | 172    | 173    | 144      | 196    | 201    | 210    | 219    | 229    | 240    |
| General government                                       | 110    | 118    | 124    | 91       | 142    | 145    | 148    | 151    | 154    | 157    |
| Other sectors  | 72     | 54     | 49     | 53       | 54     | 57     | 62     | 68     | 75     | 83     |
| Financial account  | -1,026 | -965   | -788   | -754     | -820   | -1,029 | -885   | -846   | -760   | -815   |
| Direct investment (net)                                  | -342   | -273   | -259   | -329     | -257   | -333   | -355   | -379   | -405   | -434   |
| Assets   | -4     | 0      | -15    | 10       | 10     | 10     | 10     | 10     | 10     | 10     |
| Liabilities  | 338    | 273    | 244    | 339      | 267    | 343    | 365    | 389    | 415    | 444    |
| Portfolio investment (net)                               | 23     | 9      | 68     | 20       | 20     | 20     | 20     | 20     | 20     | 20     |
| Other investment (net)                                   | -707   | -701   | -597   | -445     | -584   | -716   | -550   | -486   | -375   | -401   |
| Assets (net)   | -281   | -220   | -78    | -80      | -64    | -84    | -84    | -84    | -83    | -83    |
| Short-term   | -276   | -233   | -98    | -30      | -13    | -33    | -33    | -33    | -33    | -33    |
| Banks  | -36    | -108   | 18     | -10      | -10    | -10    | -10    | -10    | -10    | -10    |
| Other sectors, excl. government and central bank         | -166   | -116   | -122   | -10      | -10    | -30    | -30    | -30    | -30    | -30    |
| Medium and long-term                                     | -5     | 13     | 20     | -51      | -51    | -51    | -51    | -51    | -50    | -50    |
| Banks  | 0      | 1      | 14     | -1       | -1     | -1     | -1     | -1     | -1     | -1     |
| Other sectors, excl. government and central bank         | -5     | 13     | 6      | -50      | -50    | -50    | -50    | -50    | -50    | -50    |
| Liabilities (net)  | 426    | 480    | 519    | 365      | 520    | 632    | 466    | 403    | 291    | 318    |
| Short-term   | 238    | 249    | 127    | 176      | 165    | 178    | 209    | 259    | 281    | 168    |
| General government                                       | 0      | 0      | 0      | 0        | 0      | 0      | 0      | 0      | 0      | 0      |
| Banks  | -35    | 21     | -77    | 16       | 5      | 14     | 15     | 16     | 17     | 18     |
| Other sectors  | 273    | 227    | 204    | 160      | 160    | 164    | 194    | 243    | 264    | 150    |
| Medium and long-term                                     | 194    | 111    | 266    | 189      | 356    | 454    | 257    | 143    | 10     | 149    |
| Monetary authority                                       | 0      | 0      | 0      | 0        | 0      | 0      | 0      | 0      | 0      | 0      |
| General government                                       | 199    | 213    | 125    | 87       | 343    | 269    | -15    | -210   | -326   | -149   |
| Disbursements of loans                                   | 290    | 337    | 397    | 444      | 700    | 559    | 367    | 367    | 367    | 367    |
| Project  | 290    | 216    | 171    | 444      | 700    | 559    | 367    | 367    | 367    | 367    |
| Budget   | 0      | 121    | 226    | 0        | 0      | 0      | 0      | 0      | 0      | 0      |
| Amortization of loans                                    | 91     | 124    | 272    | 357      | 357    | 290    | 381    | 576    | 692    | 516    |
| Banks  | -275   | -139   | 1      | 45       | -37    | 85     | 112    | 119    | 116    | 124    |
| Other sectors  | 270    | 36     | 140    | 57       | 49     | 100    | 160    | 234    | 220    | 175    |
| Errors and omissions                                     | 59     | 119    | 136    | 0        | 0      | 0      | 0      | 0      | 0      | 0      |
| Overall balance  | 17     | -37    | -362   | 173      | 473    | 39     | -10    | -29    | 1      | -109   |
| Financing  | -17    | 37     | 362    | -173     | -473   | -39    | 10     | 29     | -1     | 109    |
| Change in net international reserves ("+"=increase)      | -17    | 37     | 362    | 96       | 8      | 15     | 10     | 29     | -1     | 109    |
| External financing gap (for budgets)                     |        |        |        | 269      | 481    | 55     |        |        |        |        |
| <i>Memorandum items</i>                                  |        |        |        |          |        |        |        |        |        |        |
| Current account balance (in percent of GDP)              | -9.7   | -9.3   | -5.4   | -7.6     | -10.7  | -8.6   | -6.9   | -6.2   | -5.5   | -4.9   |
| Trade balance (in percent of GDP)                        | -32.4  | -32.8  | -29.6  | -31.4    | -35.1  | -31.6  | -30.1  | -29.0  | -27.9  | -26.8  |
| Import of goods (change, percent)                        | 13.2   | 0.0    | -1.5   | 5.8      | 12.7   | 0.0    | 4.2    | 5.0    | 4.7    | 4.7    |
| Export of goods (change, percent)                        | 19.9   | -1.9   | 8.7    | 6.9      | -0.5   | 8.0    | 8.8    | 7.7    | 7.1    | 7.0    |
| Transfers (in percent of GDP)                            | 13.6   | 14.2   | 13.6   | 13.8     | 14.2   | 12.9   | 13.0   | 12.8   | 12.6   | 12.4   |
| Net foreign direct investment (in percent of GDP)        | -2.6   | -2.1   | -1.9   | -2.3     | -1.9   | -2.3   | -2.3   | -2.3   | -2.3   | -2.3   |
| External debt/GDP (in percent)                           | 48.9   | 52.2   | 50.8   | 53.9     | 54.6   | 54.2   | 51.6   | 47.7   | 44.3   | 42.1   |
| Private sector   | 23.0   | 24.4   | 22.7   | 23.4     | 21.7   | 21.2   | 20.7   | 20.0   | 19.4   | 18.9   |
| Public sector  | 25.8   | 27.8   | 28.1   | 30.5     | 32.9   | 33.0   | 30.9   | 27.6   | 24.8   | 23.2   |
| External debt service/GNFS exports (percent)             | 14.9   | 12.6   | 13.7   | 14.7     | 14.8   | 12.8   | 13.0   | 15.2   | 13.7   | 8.9    |
| Gross official reserves (in millions of Euro)            | 3,285  | 3,326  | 3,613  | 3,485    | 3,621  | 3,637  | 3,647  | 3,675  | 3,675  | 3,784  |
| (In months of prospective imports of goods and services) | 5.4    | 5.6    | 5.4    | 5.1      | 5.4    | 5.2    | 4.9    | 4.7    | 4.5    | 4.5    |

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

1/. Based on BPM6.

Table 4. Bosnia and Herzegovina: General Government Statement of Operations, 2011–19

(Percent of GDP)

|   | 2011        | 2012        | 2013        | 2014        |             | 2015        | 2016        | 2017        | 2018        | 2019        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   |             |             |             | EBS/14/4    | Proj.       |             |             |             |             |             |
| <b>Revenue</b>  | <b>45.9</b> | <b>46.3</b> | <b>45.1</b> | <b>46.2</b> | <b>45.1</b> | <b>45.3</b> | <b>45.5</b> | <b>45.6</b> | <b>45.6</b> | <b>45.6</b> |
| Taxes   | 23.0        | 23.0        | 22.1        | 22.2        | 21.6        | 21.9        | 21.9        | 21.7        | 21.7        | 21.6        |
| Direct taxes  | 3.5         | 3.6         | 3.6         | 3.5         | 3.3         | 3.4         | 3.5         | 3.5         | 3.5         | 3.5         |
| Indirect taxes  | 19.4        | 19.4        | 18.5        | 18.7        | 18.2        | 18.4        | 18.3        | 18.2        | 18.0        | 17.9        |
| Other taxes   | 0.1         | 0.0         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         | 0.1         |
| Social security contributions   | 15.7        | 15.8        | 15.5        | 15.8        | 15.3        | 15.5        | 15.7        | 15.7        | 15.7        | 15.7        |
| Grants  | 2.1         | 2.2         | 2.4         | 2.1         | 2.5         | 2.6         | 2.7         | 2.8         | 2.9         | 3.0         |
| Other revenue   | 5.1         | 5.3         | 5.2         | 6.0         | 5.7         | 5.3         | 5.3         | 5.3         | 5.3         | 5.3         |
| <b>Expenditure</b>  | <b>48.8</b> | <b>48.9</b> | <b>47.0</b> | <b>47.5</b> | <b>49.2</b> | <b>48.0</b> | <b>46.8</b> | <b>46.4</b> | <b>45.9</b> | <b>45.6</b> |
| <b>Expense</b>  | <b>42.5</b> | <b>42.6</b> | <b>40.7</b> | <b>41.0</b> | <b>41.4</b> | <b>40.2</b> | <b>39.8</b> | <b>39.2</b> | <b>38.8</b> | <b>38.5</b> |
| Compensation of employees   | 12.9        | 13.0        | 12.2        | 12.3        | 12.4        | 11.8        | 11.8        | 11.9        | 11.8        | 11.8        |
| Use of goods and services   | 10.5        | 10.8        | 10.4        | 10.5        | 10.7        | 10.4        | 10.3        | 10.3        | 10.2        | 10.2        |
| Social benefits   | 14.6        | 14.5        | 14.3        | 14.4        | 14.4        | 14.1        | 13.8        | 13.7        | 13.5        | 13.3        |
| Interest  | 0.6         | 0.8         | 0.7         | 0.9         | 0.8         | 1.0         | 1.0         | 0.8         | 0.7         | 0.8         |
| Subsidies   | 1.7         | 1.6         | 1.4         | 1.3         | 1.3         | 1.3         | 1.2         | 1.1         | 1.1         | 1.0         |
| Other expense   | 2.1         | 1.9         | 1.7         | 1.6         | 1.8         | 1.7         | 1.6         | 1.5         | 1.4         | 1.3         |
| <b>Net acquisition of nonfinancial assets</b>   | <b>6.3</b>  | <b>6.3</b>  | <b>6.4</b>  | <b>6.5</b>  | <b>7.8</b>  | <b>7.8</b>  | <b>7.1</b>  | <b>7.2</b>  | <b>7.1</b>  | <b>7.1</b>  |
| Acquisition of nonfinancial assets  | 6.4         | 6.5         | 6.5         | 6.8         | 8.1         | 8.0         | 7.3         | 7.3         | 7.3         | 7.3         |
| Foreign financed capital spending   | 3.6         | 3.3         | 4.2         | 4.1         | 5.6         | 5.4         | 4.7         | 4.7         | 4.7         | 4.7         |
| Domestically financed capital spending  | 2.7         | 3.2         | 2.3         | 2.7         | 2.5         | 2.5         | 2.6         | 2.6         | 2.6         | 2.6         |
| Disposal of nonfinancial assets   | 0.1         | 0.2         | 0.1         | 0.3         | 0.3         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         |
| <b>Gross / Net Operating Balance (revenue minus expense)</b>  | <b>3.4</b>  | <b>3.7</b>  | <b>4.4</b>  | <b>5.1</b>  | <b>3.7</b>  | <b>5.1</b>  | <b>5.7</b>  | <b>6.4</b>  | <b>6.8</b>  | <b>7.1</b>  |
| <b>Net lending/borrowing (revenue minus expenditure)</b>  | <b>-2.8</b> | <b>-2.7</b> | <b>-1.9</b> | <b>-1.4</b> | <b>-4.1</b> | <b>-2.7</b> | <b>-1.4</b> | <b>-0.8</b> | <b>-0.3</b> | <b>0.0</b>  |
| <b>Net acquisition of financial assets</b>  | <b>-1.0</b> | <b>0.6</b>  | <b>0.6</b>  | <b>0.4</b>  | <b>0.0</b>  | <b>1.1</b>  | <b>1.2</b>  | <b>1.1</b>  | <b>2.4</b>  | <b>2.3</b>  |
| Domestic assets   | -0.5        | 0.6         | 0.5         | 0.4         | 0.0         | 1.1         | 1.2         | 1.1         | 2.4         | 2.3         |
| Currency and deposits   | -1.1        | 0.1         | 0.3         | 0.2         | -0.3        | 0.8         | 1.1         | 1.0         | 2.2         | 2.2         |
| Debt securities   | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Loans   | 0.2         | 0.4         | 0.0         | 0.2         | -0.2        | 0.3         | 0.1         | 0.1         | 0.2         | 0.2         |
| Equity and investment fund shares   | 0.3         | 0.2         | 0.1         | 0.0         | 0.5         | 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         |
| 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         |
| Other accounts receivable   | 0.0         | -0.1        | 0.1         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Foreign assets  | -0.5        | 0.0         | 0.1         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Net incurrence of liabilities</b>  | <b>1.9</b>  | <b>2.9</b>  | <b>1.6</b>  | <b>-0.2</b> | <b>0.7</b>  | <b>3.5</b>  | <b>2.6</b>  | <b>1.9</b>  | <b>2.7</b>  | <b>2.3</b>  |
| Domestic liabilities  | 0.7         | 0.5         | -0.1        | -0.6        | -2.3        | 1.6         | 2.4         | 2.9         | 4.0         | 2.6         |
| Currency and deposits   | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Debt securities   | 1.0         | 0.3         | 0.1         | -0.1        | -0.4        | 0.0         | 0.0         | -0.3        | -0.4        | -0.1        |
| Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years | -1.0        | -0.9        | -0.9        | -0.9        | -1.3        | -1.2        | -1.1        | -0.6        | -0.4        | -0.4        |
| Loans   | 0.5         | 0.7         | 0.2         | 0.5         | -0.6        | 2.8         | 3.5         | 3.9         | 4.8         | 3.1         |
| 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         |
| 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         |
| 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         |
| Other accounts payable  | 0.2         | 0.4         | 0.4         | -0.1        | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Foreign liabilities   | 1.2         | 2.4         | 1.8         | 0.5         | 3.0         | 1.8         | 0.2         | -1.0        | -1.3        | -0.3        |
| Currency and deposits   | 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         |
| Loans   | 1.2         | 2.4         | 1.8         | 0.5         | 3.0         | 1.8         | 0.2         | -1.0        | -1.3        | -0.3        |
| Drawings  | 2.1         | 3.7         | 4.1         | 3.0         | 5.5         | 3.8         | 2.6         | 2.4         | 2.3         | 2.1         |
| Amortization  | 0.9         | 1.2         | 2.3         | 2.5         | 2.6         | 2.0         | 2.4         | 3.4         | 3.6         | 2.4         |
| 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         |
| 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         |
| 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         |
| Other accounts payable  | 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>1.9</b>  | <b>3.5</b>  | <b>0.4</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b>  |
| Identified financing  | 0.0         | 0.0         | 0.0         | 1.9         | 3.5         | 0.4         | 0.0         | 0.0         | 0.0         | 0.0         |
| IMF   | 0.0         | 0.0         | 0.0         | 1.7         | 2.7         | 0.1         | 0.0         | 0.0         | 0.0         | 0.0         |
| WB  | 0.0         | 0.0         | 0.0         | 0.3         | 0.8         | 0.2         | 0.0         | 0.0         | 0.0         | 0.0         |
| EU  | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Other   | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| Unidentified financing  | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>Statistical discrepancy</b>  | <b>-0.1</b> | <b>0.3</b>  | <b>0.9</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>   |             |             |             |             |             |             |             |             |             |             |
| Net lending excluding externally-financed operations  | -1.2        | -1.5        | 0.1         | 0.6         | -1.0        | 0.2         | 0.7         | 1.1         | 1.5         | 1.7         |
| Structural balance (% of potential GDP)   | -3.0        | -1.4        | -0.7        | 0.7         | -1.3        | -0.9        | ...         | ...         | ...         | ...         |

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



Table 5. Bosnia and Herzegovina: General Government Statement of Operations, 2011–14

(KM million)

|   | 2011           | 2012           | 2013           | 2014          |               |               |               |               |               |                |                |
|---|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
|   |                |                |                | Mar.          |               | Jun.          |               | Sep.          |               | Dec.           |                |
|   |                |                |                | EBS/14/4      | Act.          | EBS/14/4      | Proj.         | EBS/14/4      | Proj.         | EBS/14/4       | Proj.          |
| <b>Revenue</b>  | <b>11833.8</b> | <b>11912.4</b> | <b>11905.1</b> | <b>2743.6</b> | <b>2812.7</b> | <b>6048.0</b> | <b>5864.2</b> | <b>9152.7</b> | <b>8888.3</b> | <b>12646.0</b> | <b>12235.1</b> |
| Taxes   | 5929.1         | 5923.6         | 5832.2         | 1358.7        | 1376.1        | 2921.5        | 2818.1        | 4475.8        | 4296.6        | 6093.4         | 5865.7         |
| Direct taxes  | 907.2          | 918.6          | 943.2          | 243.7         | 241.7         | 493.8         | 466.6         | 701.7         | 666.2         | 951.3          | 906.9          |
| Indirect taxes  | 5004.6         | 4992.2         | 4873.4         | 1109.8        | 1132.8        | 2418.9        | 2343.0        | 3759.7        | 3616.6        | 5109.7         | 4927.3         |
| Other taxes   | 17.3           | 12.8           | 15.7           | 5.2           | 1.6           | 8.9           | 8.5           | 14.3          | 13.8          | 32.4           | 31.6           |
| Social security contributions   | 4046.3         | 4056.9         | 4084.5         | 988.8         | 961.3         | 2072.1        | 1991.7        | 3161.0        | 3029.5        | 4331.7         | 4150.6         |
| Grants  | 539.0          | 570.2          | 625.5          | 140.5         | 178.1         | 283.4         | 333.6         | 427.4         | 502.7         | 568.7          | 679.1          |
| Other revenue   | 1319.4         | 1361.8         | 1362.9         | 255.5         | 297.2         | 771.0         | 720.8         | 1088.5        | 1059.5        | 1652.3         | 1539.6         |
| <b>Expenditure</b>  | <b>12565.9</b> | <b>12595.5</b> | <b>12412.8</b> | <b>2845.1</b> | <b>2994.0</b> | <b>5993.7</b> | <b>6213.4</b> | <b>9276.7</b> | <b>9610.7</b> | <b>13024.2</b> | <b>13357.7</b> |
| <b>Expense</b>  | <b>10954.6</b> | <b>10967.6</b> | <b>10734.2</b> | <b>2563.1</b> | <b>2516.0</b> | <b>5343.8</b> | <b>5331.2</b> | <b>8160.9</b> | <b>8149.6</b> | <b>11245.7</b> | <b>11238.8</b> |
| Compensation of employees   | 3337.3         | 3356.5         | 3206.5         | 828.1         | 809.6         | 1660.7        | 1655.3        | 2490.4        | 2482.5        | 3367.9         | 3357.8         |
| Use of goods and services   | 2711.4         | 2774.8         | 2734.5         | 623.4         | 614.0         | 1320.3        | 1325.8        | 2021.6        | 2028.2        | 2883.2         | 2891.3         |
| Social benefits   | 3749.9         | 3736.7         | 3771.6         | 936.4         | 944.2         | 1908.8        | 1894.0        | 2903.7        | 2881.5        | 3948.8         | 3910.4         |
| Interest  | 164.7          | 193.2          | 195.5          | 48.6          | 44.3          | 122.2         | 114.4         | 171.5         | 160.2         | 237.0          | 230.4          |
| Subsidies   | 440.7          | 414.5          | 377.0          | 49.9          | 37.0          | 153.6         | 152.0         | 251.8         | 254.6         | 361.4          | 362.9          |
| Grants  | 10.2           | 18.1           | 16.4           | 0.9           | 1.3           | 2.5           | 2.6           | 15.0          | 13.3          | 19.3           | 17.0           |
| Other expense   | 550.6          | 491.8          | 436.0          | 76.7          | 66.9          | 178.2         | 189.7         | 322.0         | 342.5         | 443.9          | 482.3          |
| <b>Net acquisition of nonfinancial assets</b>   | <b>1611.3</b>  | <b>1627.9</b>  | <b>1678.6</b>  | <b>281.9</b>  | <b>478.0</b>  | <b>649.9</b>  | <b>882.2</b>  | <b>1115.8</b> | <b>1461.1</b> | <b>1778.6</b>  | <b>2118.9</b>  |
| Acquisition of nonfinancial assets  | 1642.4         | 1670.2         | 1710.6         | 304.8         | 483.5         | 692.9         | 933.0         | 1166.0        | 1522.3        | 1852.0         | 2207.1         |
| Foreign financed capital spending   | 937.0          | 849.8          | 1102.2         | 233.1         | 335.7         | 466.0         | 663.8         | 709.3         | 1089.8        | 1110.3         | 1523.3         |
| Domestically financed capital spending  | 705.4          | 820.4          | 608.4          | 71.6          | 147.8         | 226.9         | 269.2         | 456.7         | 432.6         | 741.7          | 683.8          |
| Disposal of nonfinancial assets   | 31.1           | 42.3           | 32.0           | 22.8          | 5.5           | 43.0          | 50.8          | 50.2          | 61.2          | 73.4           | 88.2           |
| <b>Gross / Net Operating Balance (revenue minus expense)</b>  | <b>879.3</b>   | <b>944.9</b>   | <b>1170.9</b>  | <b>180.4</b>  | <b>296.6</b>  | <b>704.2</b>  | <b>533.0</b>  | <b>991.8</b>  | <b>738.7</b>  | <b>1400.4</b>  | <b>996.3</b>   |
| <b>Net lending/borrowing (revenue minus expenditure)</b>  | <b>-732.1</b>  | <b>-683.0</b>  | <b>-507.7</b>  | <b>-101.5</b> | <b>-181.4</b> | <b>54.3</b>   | <b>-349.2</b> | <b>-124.0</b> | <b>-722.5</b> | <b>-378.2</b>  | <b>-1122.6</b> |
| <b>Net acquisition of financial assets</b>  | <b>-267.0</b>  | <b>142.8</b>   | <b>145.8</b>   | <b>-56.2</b>  | <b>-90.1</b>  | <b>72.3</b>   | <b>248.5</b>  | <b>-94.5</b>  | <b>306.3</b>  | <b>105.6</b>   | <b>0.3</b>     |
| Domestic assets   | -132.0         | 142.8          | 126.2          | -56.2         | -90.1         | 72.3          | 248.5         | -94.5         | 306.3         | 105.6          | 0.3            |
| Currency and deposits   | -276.2         | 14.4           | 72.9           | 2.7           | -43.1         | 64.4          | 125.6         | -74.4         | 101.5         | 55.7           | -85.0          |
| Debt securities   | 0.4            | 0.0            | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| Loans   | 63.3           | 105.7          | 13.2           | -58.9         | -79.1         | 7.9           | 5.2           | -20.1         | 85.0          | 44.9           | -45.1          |
| Equity and investment fund shares   | 71.0           | 43.3           | 16.4           | 0.0           | 27.5          | 0.0           | 117.7         | 0.0           | 119.8         | 5.0            | 130.5          |
| Other accounts receivable   | 9.6            | -20.6          | 23.7           | 0.0           | 4.5           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| Foreign assets  | -135.0         | 0.0            | 19.6           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| <b>Net incurrence of liabilities</b>  | <b>484.6</b>   | <b>753.1</b>   | <b>427.6</b>   | <b>-48.9</b>  | <b>166.6</b>  | <b>-244.0</b> | <b>132.0</b>  | <b>-364.5</b> | <b>420.2</b>  | <b>-42.1</b>   | <b>182.2</b>   |
| Domestic liabilities  | 176.2          | 123.4          | -36.6          | -48.1         | 2.2           | -170.8        | -8.3          | -343.6        | -66.0         | -170.3         | -619.2         |
| Debt securities   | 256.2          | 87.7           | 21.6           | -51.2         | -45.8         | -68.6         | -119.0        | -43.6         | -44.0         | -22.4          | -106.3         |
| Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years | -261.0         | -237.7         | -231.2         | -79.2         | -31.9         | -93.2         | -108.1        | -215.9        | -241.9        | -246.8         | -356.4         |
| Loans   | 124.6          | 169.7          | 56.7           | 82.3          | -5.7          | -41.9         | 185.7         | -84.1         | 219.8         | 126.3          | -156.5         |
| Other accounts payable  | 56.3           | 103.7          | 116.3          | 0.0           | 85.6          | 33.0          | 33.0          | 0.0           | 0.0           | -27.4          | 0.0            |
| Foreign liabilities   | 308.5          | 629.6          | 464.3          | -0.8          | 164.4         | -73.2         | 140.3         | -20.9         | 486.2         | 128.2          | 801.3          |
| Debt securities   | 0.0            | 0.0            | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| Loans   | 310.7          | 629.6          | 464.3          | -0.8          | 164.4         | -73.2         | 140.3         | -20.9         | 486.2         | 128.2          | 801.3          |
| Drawings  | 550.5          | 947.7          | 1081.4         | 141.9         | 302.1         | 297.3         | 498.3         | 492.5         | 991.9         | 824.8          | 1496.4         |
| Amortization  | 239.8          | 318.0          | 617.1          | 142.7         | 137.7         | 370.5         | 358.0         | 513.4         | 505.7         | 696.6          | 695.1          |
| Other accounts payable  | -2.2           | 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>94.2</b>   | <b>-75.4</b>  | <b>261.9</b>  | <b>465.7</b>  | <b>393.9</b>  | <b>608.5</b>  | <b>525.8</b>   | <b>940.8</b>   |
| Identified financing 1/   | 0.0            | 0.0            | 0.0            | 94.2          | 93.1          | 262.0         | 465.7         | 393.9         | 608.6         | 525.9          | 940.8          |
| IMF   | 0.0            | 0.0            | 0.0            | 94.2          | 93.1          | 188.5         | 465.7         | 320.4         | 465.7         | 452.4          | 726.5          |
| WB  | 0.0            | 0.0            | 0.0            | 0.0           | 0.0           | 73.5          | 0.0           | 73.5          | 142.9         | 73.5           | 214.3          |
| EU  | 0.0            | 0.0            | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| Other   | 0.0            | 0.0            | 0.0            | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0            | 0.0            |
| Unidentified 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>-19.6</b>   | <b>72.8</b>    | <b>225.8</b>   | <b>0.0</b>    | <b>-168.5</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   | 5004.6         | 4992.2         | 4873.4         | 1109.8        | 1132.8        | 2418.9        | 2343.0        | 3759.7        | 3616.6        | 5109.7         | 4927.3         |
| Net lending excluding externally-financed operations  | -314.1         | -375.3         | 15.5           | -7.6          | -11.7         | 241.9         | -14.1         | 167.6         | -125.8        | 175.2          | -266.8         |

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

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

**Table 5a. Institutions of Bosnia and Herzegovina: Statement of Operations, 2011–14 1/**  
(KM million)

|   | 2011         | 2012         | 2013         | 2014         |              |              |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   |              |              |              | Mar.         |              | Jun.         |              | Sep.         |              | Dec.         |              |
|   |              |              |              | EBS/14/4     | Act.         | EBS/14/4     | Proj.        | EBS/14/4     | Proj.        | EBS/14/4     | Proj.        |
| <b>Revenue</b>  | <b>848.3</b> | <b>924.4</b> | <b>968.6</b> | <b>209.3</b> | <b>219.5</b> | <b>459.1</b> | <b>459.1</b> | <b>691.2</b> | <b>691.2</b> | <b>937.0</b> | <b>937.0</b> |
| Taxes   | 689.0        | 750.0        | 750.0        | 180.9        | 180.9        | 364.8        | 364.8        | 557.4        | 557.4        | 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          |
| Indirect taxes  | 689.0        | 750.0        | 750.0        | 180.9        | 180.9        | 364.8        | 364.8        | 557.4        | 557.4        | 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          |
| 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          |
| Grants  | 18.9         | 22.7         | 39.5         | 0.2          | 8.4          | 1.4          | 1.4          | 1.8          | 1.8          | 3.7          | 3.7          |
| Other revenue   | 141.6        | 151.7        | 179.0        | 28.2         | 29.8         | 92.9         | 92.9         | 132.1        | 132.1        | 183.2        | 183.2        |
| <b>Expenditure</b>  | <b>898.7</b> | <b>882.1</b> | <b>903.6</b> | <b>206.4</b> | <b>204.8</b> | <b>424.6</b> | <b>423.9</b> | <b>657.8</b> | <b>656.6</b> | <b>947.8</b> | <b>945.3</b> |
| <b>Expense</b>  | <b>877.3</b> | <b>844.5</b> | <b>848.6</b> | <b>202.5</b> | <b>202.3</b> | <b>415.5</b> | <b>414.7</b> | <b>631.4</b> | <b>630.2</b> | <b>881.2</b> | <b>878.7</b> |
| Compensation of employees   | 648.4        | 628.3        | 626.4        | 163.5        | 163.5        | 322.7        | 322.7        | 484.8        | 484.8        | 643.7        | 643.7        |
| Use of goods and services   | 179.3        | 162.4        | 172.3        | 35.8         | 35.8         | 82.7         | 82.7         | 131.5        | 131.5        | 201.6        | 201.6        |
| Social benefits   | 38.5         | 11.5         | 5.3          | 0.1          | 0.1          | 1.1          | 1.1          | 1.6          | 1.6          | 2.0          | 2.0          |
| Interest  | 0.3          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.7          | 0.7          |
| Transfers to other general government units   | -1.2         | 19.5         | 13.1         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 3.5          | 3.5          |
| Other expense   | 12.1         | 22.8         | 31.5         | 3.1          | 2.8          | 9.1          | 8.3          | 13.5         | 12.3         | 29.7         | 27.2         |
| <b>Net acquisition of nonfinancial assets</b>   | <b>21.4</b>  | <b>37.6</b>  | <b>55.0</b>  | <b>3.9</b>   | <b>2.5</b>   | <b>9.2</b>   | <b>9.2</b>   | <b>26.4</b>  | <b>26.4</b>  | <b>66.6</b>  | <b>66.6</b>  |
| Acquisition of nonfinancial assets  | 21.9         | 45.3         | 56.3         | 3.9          | 2.5          | 9.2          | 9.2          | 26.4         | 26.4         | 67.3         | 67.3         |
| Foreign financed capital spending   | 3.4          | 2.2          | 3.8          | 0.2          | 0.6          | 0.4          | 0.4          | 0.7          | 0.7          | 0.7          | 0.7          |
| Domestically financed capital spending  | 18.5         | 43.0         | 52.5         | 3.7          | 1.9          | 8.7          | 8.7          | 25.8         | 25.8         | 66.6         | 66.6         |
| Disposal of nonfinancial assets   | 0.6          | 7.7          | 1.4          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.8          | 0.8          |
| <b>Gross / Net Operating Balance (revenue minus expense)</b>  | <b>-29.0</b> | <b>79.9</b>  | <b>120.0</b> | <b>6.8</b>   | <b>17.2</b>  | <b>43.6</b>  | <b>44.4</b>  | <b>59.9</b>  | <b>61.0</b>  | <b>55.7</b>  | <b>58.3</b>  |
| <b>Net lending/borrowing (revenue minus expenditure)</b>  | <b>-50.4</b> | <b>42.3</b>  | <b>65.0</b>  | <b>2.9</b>   | <b>14.7</b>  | <b>34.4</b>  | <b>35.2</b>  | <b>33.5</b>  | <b>34.6</b>  | <b>-10.8</b> | <b>-8.3</b>  |
| <b>Net acquisition of financial assets</b>  | <b>-83.0</b> | <b>8.0</b>   | <b>120.3</b> | <b>2.9</b>   | <b>-5.9</b>  | <b>34.4</b>  | <b>50.4</b>  | <b>33.5</b>  | <b>49.8</b>  | <b>-10.8</b> | <b>17.8</b>  |
| Domestic assets   | 52.0         | 8.0          | 100.8        | 2.9          | -5.9         | 34.4         | 50.4         | 33.5         | 49.8         | -10.8        | 17.8         |
| Currency and deposits   | 49.0         | 16.0         | 98.3         | 2.9          | -12.2        | 34.4         | 50.4         | 33.5         | 49.8         | -10.8        | 17.8         |
| 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   | 0.0          | 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   | -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   | 4.0          | -8.0         | 2.5          | 0.0          | 6.3          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Foreign assets  | -135.0       | 0.0          | 19.6         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Net incurrence of liabilities</b>  | <b>-34.1</b> | <b>-34.0</b> | <b>56.2</b>  | <b>0.0</b>   | <b>-20.6</b> | <b>0.0</b>   | <b>15.2</b>  | <b>0.0</b>   | <b>15.2</b>  | <b>0.0</b>   | <b>15.2</b>  |
| Domestic liabilities  | -33.0        | -34.0        | 36.7         | 0.0          | -20.6        | 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          |
| Issuance  | 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          |
| Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years | 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          |
| Other accounts payable  | -33.0        | -34.0        | 36.7         | 0.0          | -20.6        | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Foreign liabilities   | -1.1         | 0.0          | 19.5         | 0.0          | 0.0          | 0.0          | 15.2         | 0.0          | 15.2         | 0.0          | 15.2         |
| 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   | -1.1         | 0.0          | 19.5         | 0.0          | 0.0          | 0.0          | 15.2         | 0.0          | 15.2         | 0.0          | 15.2         |
| Drawings  | 0.0          | 0.0          | 19.5         | 0.0          | 0.0          | 0.0          | 15.2         | 0.0          | 15.2         | 0.0          | 15.2         |
| Amortization  | 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          |
| <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>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>10.9</b>  |
| Identified financing  | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 10.9         |
| IMF   | 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          |
| EU  | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 10.9         |
| Other   | 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          |
| <b>Statistical discrepancy</b>  | <b>1.5</b>   | <b>0.3</b>   | <b>-0.8</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>0.0</b>   |
| <b>Memorandum items</b>   |              |              |              |              |              |              |              |              |              |              |              |
| Net lending excluding externally-financed operations  | -47.0        | 44.5         | 68.8         | 3.1          | 15.3         | 34.9         | 35.6         | 35.3         | 35.3         | -7.6         | -7.6         |

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

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

**Table Sb. Federation of Bosnia and Herzegovina: General Government Statement of Operations, 2011–14 1/**  
(KM million)

|   | 2011          | 2012          | 2013          | 2014          |               |               |               |               |               |               |               |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   |               |               |               | Mar.          |               | Jun.          |               | Sep.          |               | Dec.          |               |
|   |               |               |               | EBS/14/4      | Act.          | EBS/14/4      | Proj.         | EBS/14/4      | Proj.         | EBS/14/4      | Proj.         |
| <b>Revenue</b>  | <b>6926.1</b> | <b>6896.6</b> | <b>6936.7</b> | <b>1603.1</b> | <b>1676.7</b> | <b>3541.1</b> | <b>3431.7</b> | <b>5380.8</b> | <b>5173.9</b> | <b>7409.5</b> | <b>7122.1</b> |
| Taxes   | 3177.8        | 3130.8        | 3156.7        | 735.9         | 738.3         | 1591.6        | 1515.4        | 2486.4        | 2300.8        | 3314.5        | 3143.5        |
| Direct taxes  | 468.8         | 472.9         | 485.4         | 141.8         | 134.2         | 279.3         | 259.6         | 387.7         | 360.6         | 528.3         | 491.5         |
| Indirect taxes  | 2700.2        | 2652.0        | 2659.4        | 591.4         | 603.5         | 1307.6        | 1250.9        | 2091.7        | 1932.9        | 2774.7        | 2639.9        |
| Other taxes   | 8.9           | 5.8           | 11.8          | 2.6           | 0.6           | 4.7           | 4.9           | 7.0           | 7.3           | 11.4          | 12.1          |
| Social security contributions   | 2649.0        | 2670.6        | 2707.2        | 653.4         | 657.8         | 1363.7        | 1335.1        | 2068.7        | 2025.3        | 2822.6        | 2763.3        |
| Grants  | 351.9         | 354.1         | 392.8         | 93.9          | 113.2         | 189.2         | 222.7         | 286.3         | 336.5         | 379.8         | 446.8         |
| Other revenue   | 747.4         | 741.1         | 680.1         | 119.9         | 167.3         | 396.6         | 358.5         | 539.3         | 511.3         | 892.6         | 768.5         |
| <b>Expenditure</b>  | <b>7317.0</b> | <b>7392.1</b> | <b>7338.7</b> | <b>1730.7</b> | <b>1906.9</b> | <b>3636.3</b> | <b>3862.8</b> | <b>5552.9</b> | <b>5898.4</b> | <b>7728.8</b> | <b>8078.8</b> |
| <b>Expense</b>  | <b>6424.2</b> | <b>6419.7</b> | <b>6247.3</b> | <b>1509.8</b> | <b>1473.6</b> | <b>3171.6</b> | <b>3174.8</b> | <b>4805.5</b> | <b>4813.4</b> | <b>6558.0</b> | <b>6573.5</b> |
| Compensation of employees   | 1675.5        | 1694.0        | 1602.9        | 420.9         | 402.3         | 841.0         | 843.7         | 1263.4        | 1267.4        | 1722.0        | 1727.7        |
| Use of goods and services   | 1528.5        | 1559.1        | 1531.1        | 362.0         | 350.3         | 768.0         | 778.9         | 1150.9        | 1166.3        | 1605.1        | 1626.4        |
| Social benefits   | 2467.4        | 2492.2        | 2485.4        | 635.5         | 622.3         | 1284.3        | 1262.9        | 1951.0        | 1918.0        | 2602.6        | 2554.8        |
| Interest  | 96.6          | 105.5         | 97.5          | 24.2          | 22.0          | 61.4          | 59.3          | 87.0          | 83.5          | 119.6         | 115.6         |
| Subsidies   | 250.5         | 256.3         | 232.3         | 34.5          | 26.5          | 115.2         | 112.8         | 160.7         | 155.9         | 237.2         | 229.6         |
| Other expense   | 405.7         | 312.6         | 298.2         | 32.7          | 50.3          | 101.6         | 117.3         | 192.4         | 222.2         | 271.5         | 319.3         |
| <b>Net acquisition of nonfinancial assets</b>   | <b>892.9</b>  | <b>972.3</b>  | <b>1091.4</b> | <b>220.8</b>  | <b>433.3</b>  | <b>464.7</b>  | <b>688.0</b>  | <b>747.4</b>  | <b>1085.0</b> | <b>1170.8</b> | <b>1505.3</b> |
| Acquisition of nonfinancial assets  | 900.4         | 983.2         | 1101.8        | 222.1         | 434.6         | 468.9         | 692.1         | 754.9         | 1092.4        | 1181.5        | 1515.9        |
| Foreign financed capital spending   | 638.1         | 530.8         | 767.7         | 185.6         | 317.8         | 371.3         | 547.9         | 556.9         | 902.5         | 846.4         | 1192.0        |
| Domestically financed capital spending  | 262.3         | 452.4         | 334.1         | 36.5          | 116.8         | 97.6          | 144.2         | 198.0         | 189.9         | 335.1         | 323.8         |
| Disposal of nonfinancial assets   | 7.6           | 10.9          | 10.4          | 1.3           | 1.4           | 4.2           | 4.1           | 7.5           | 7.4           | 10.7          | 10.6          |
| <b>Gross / Net Operating Balance (revenue minus expense)</b>  | <b>488.7</b>  | <b>476.9</b>  | <b>689.4</b>  | <b>93.3</b>   | <b>203.1</b>  | <b>369.5</b>  | <b>256.9</b>  | <b>575.3</b>  | <b>360.6</b>  | <b>851.5</b>  | <b>548.6</b>  |
| <b>Net lending/borrowing (revenue minus expenditure)</b>  | <b>-404.2</b> | <b>-495.5</b> | <b>-402.0</b> | <b>-127.5</b> | <b>-230.2</b> | <b>-95.2</b>  | <b>-431.1</b> | <b>-172.1</b> | <b>-724.4</b> | <b>-319.3</b> | <b>-956.7</b> |
| <b>Net acquisition of financial assets</b>  | <b>-288.4</b> | <b>-26.2</b>  | <b>-100.9</b> | <b>-83.9</b>  | <b>-147.6</b> | <b>-71.4</b>  | <b>48.0</b>   | <b>-150.3</b> | <b>111.9</b>  | <b>-52.3</b>  | <b>15.9</b>   |
| Domestic assets   | -288.4        | -26.2         | -100.9        | -83.9         | -147.6        | -71.4         | 48.0          | -150.3        | 111.9         | -52.3         | 15.9          |
| Currency and deposits   | -213.0        | 22.0          | -68.2         | 4.9           | -55.8         | -11.0         | 49.9          | -51.4         | 49.6          | -9.7          | -48.9         |
| Debt securities   | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Loans   | -69.2         | -48.1         | -32.6         | -88.8         | -91.8         | -60.5         | -59.9         | -98.9         | 4.3           | -47.5         | 1.8           |
| Equity and investment fund shares   | -6.2          | -0.1          | -0.1          | 0.0           | 0.0           | 0.0           | 58.0          | 0.0           | 58.0          | 5.0           | 63.0          |
| Insurance, pensions, and standardized guarantee schemes   | -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           |
| 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           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Net incurrence of liabilities</b>  | <b>199.0</b>  | <b>332.6</b>  | <b>118.6</b>  | <b>-19.2</b>  | <b>157.4</b>  | <b>-150.9</b> | <b>201.6</b>  | <b>-240.8</b> | <b>490.9</b>  | <b>-83.6</b>  | <b>405.7</b>  |
| Domestic liabilities  | 49.5          | 29.0          | -144.3        | -20.5         | -25.2         | -89.2         | 107.7         | -180.0        | 248.7         | -94.6         | 114.6         |
| Debt securities   | 89.7          | 101.6         | 30.1          | 0.0           | 29.9          | 0.0           | -58.9         | 25.0          | -8.9          | 30.0          | -77.9         |
| Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years | -95.1         | -112.1        | -112.2        | -55.9         | -31.2         | -53.4         | -52.4         | -140.4        | -136.3        | -146.2        | -141.9        |
| Loans   | 6.0           | -13.7         | -6.0          | 35.4          | 7.9           | -68.8         | 186.0         | -64.6         | 393.9         | 48.9          | 334.5         |
| 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  | 48.9          | 53.3          | -56.3         | 0.0           | -31.9         | 33.0          | 33.0          | 0.0           | 0.0           | -27.4         | 0.0           |
| Foreign liabilities   | 149.5         | 303.6         | 262.9         | 1.3           | 182.6         | -61.7         | 93.9          | -60.8         | 242.2         | 11.0          | 291.1         |
| 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           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Loans   | 151.7         | 303.6         | 262.9         | 1.3           | 182.6         | -61.7         | 93.9          | -60.8         | 242.2         | 11.0          | 291.1         |
| Drawings  | 295.3         | 503.0         | 667.1         | 92.8          | 270.6         | 185.6         | 328.8         | 278.5         | 573.8         | 475.1         | 753.7         |
| Amortization  | 143.6         | 199.4         | 404.3         | 91.5          | 87.9          | 247.4         | 234.8         | 339.3         | 331.6         | 464.1         | 462.6         |
| 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  | -2.2          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Statistical discrepancy / financing gap</b>  | <b>-83.2</b>  | <b>136.6</b>  | <b>182.5</b>  | <b>62.8</b>   | <b>-74.8</b>  | <b>174.7</b>  | <b>277.5</b>  | <b>262.6</b>  | <b>345.4</b>  | <b>350.6</b>  | <b>566.9</b>  |

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

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

Table 5c. Federation of Bosnia and Herzegovina: Central Government Statement of Operations, 2011–14 1/

(KM million)

|   | 2011          | 2012          | 2013          | 2014         |              |               |               |               |               |               |               |
|---|---------------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   |               |               |               | Mar.         |              | Jun.          |               | Sep.          |               | Dec.          |               |
|   |               |               |               | EBS/14/4     | Act.         | EBS/14/4      | Proj.         | EBS/14/4      | Proj.         | EBS/14/4      | Proj.         |
| <b>Revenue</b>  | <b>1671.9</b> | <b>1809.1</b> | <b>1849.4</b> | <b>414.9</b> | <b>423.1</b> | <b>1068.3</b> | <b>1015.6</b> | <b>1560.0</b> | <b>1493.9</b> | <b>2041.5</b> | <b>2001.8</b> |
| Taxes   | 1137.5        | 1171.3        | 1262.5        | 305.0        | 292.4        | 682.1         | 649.2         | 1032.5        | 967.4         | 1376.3        | 1324.2        |
| Direct taxes  | 46.6          | 47.1          | 49.3          | 26.4         | 20.7         | 37.1          | 35.2          | 43.8          | 41.6          | 53.3          | 50.7          |
| Indirect taxes  | 1090.8        | 1124.1        | 1213.0        | 278.6        | 271.7        | 645.1         | 614.0         | 988.7         | 925.8         | 1323.0        | 1273.5        |
| Other taxes   | 0.2           | 0.1           | 0.1           | 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           |
| Grants  | 343.1         | 347.7         | 383.9         | 92.8         | 109.6        | 185.6         | 219.1         | 278.5         | 328.7         | 371.3         | 438.3         |
| Other revenue   | 191.3         | 290.1         | 203.1         | 17.1         | 21.1         | 200.6         | 147.2         | 249.1         | 197.7         | 293.8         | 239.3         |
| <b>Expenditure</b>  | <b>1954.7</b> | <b>1881.8</b> | <b>2009.6</b> | <b>453.4</b> | <b>464.0</b> | <b>1040.5</b> | <b>1222.5</b> | <b>1526.5</b> | <b>1743.1</b> | <b>2152.5</b> | <b>2252.5</b> |
| <b>Expense</b>  | <b>1372.0</b> | <b>1377.7</b> | <b>1342.1</b> | <b>276.1</b> | <b>268.2</b> | <b>689.0</b>  | <b>704.1</b>  | <b>1032.6</b> | <b>1053.7</b> | <b>1395.2</b> | <b>1457.4</b> |
| Compensation of employees   | 239.7         | 226.1         | 224.9         | 62.7         | 54.3         | 124.6         | 120.6         | 185.9         | 180.0         | 251.9         | 244.0         |
| Use of goods and services   | 67.0          | 66.7          | 73.4          | 10.0         | 10.4         | 27.4          | 27.4          | 45.6          | 45.6          | 76.4          | 76.4          |
| Social benefits   | 468.7         | 460.5         | 460.6         | 109.0        | 108.2        | 239.8         | 239.2         | 356.0         | 355.0         | 462.3         | 460.4         |
| Interest  | 84.7          | 91.8          | 84.2          | 20.1         | 18.7         | 51.3          | 49.3          | 72.2          | 68.9          | 98.5          | 94.8          |
| Subsidies   | 115.5         | 128.6         | 126.2         | 14.2         | 6.6          | 75.0          | 74.9          | 99.6          | 98.4          | 122.9         | 120.9         |
| Transfers to other general government units   | 327.6         | 308.6         | 317.0         | 57.6         | 58.3         | 145.2         | 166.9         | 213.9         | 246.0         | 312.4         | 389.5         |
| Other expense   | 69.0          | 95.4          | 55.8          | 2.6          | 11.9         | 25.7          | 25.8          | 59.5          | 59.8          | 70.6          | 71.5          |
| <b>Net acquisition of nonfinancial assets</b>   | <b>582.7</b>  | <b>504.1</b>  | <b>667.5</b>  | <b>177.2</b> | <b>195.8</b> | <b>351.5</b>  | <b>518.5</b>  | <b>494.0</b>  | <b>689.3</b>  | <b>757.3</b>  | <b>795.0</b>  |
| Acquisition of nonfinancial assets  | 582.7         | 505.7         | 667.5         | 177.2        | 195.8        | 351.5         | 518.5         | 494.0         | 689.3         | 757.3         | 795.0         |
| Foreign financed capital spending   | 569.0         | 494.4         | 654.6         | 173.5        | 195.5        | 341.5         | 513.2         | 479.9         | 682.0         | 729.2         | 780.4         |
| Domestically financed capital spending  | 13.7          | 11.2          | 12.9          | 3.7          | 0.3          | 10.0          | 5.2           | 14.1          | 7.3           | 28.1          | 14.6          |
| Disposal of nonfinancial assets   | 0.0           | 1.6           | 0.0           | 0.0          | 0.1          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Gross / Net Operating Balance (revenue minus expense)</b>  | <b>299.8</b>  | <b>431.4</b>  | <b>507.3</b>  | <b>138.8</b> | <b>154.9</b> | <b>379.4</b>  | <b>311.6</b>  | <b>527.5</b>  | <b>440.2</b>  | <b>646.3</b>  | <b>544.3</b>  |
| <b>Net lending/borrowing (revenue minus expenditure)</b>  | <b>-282.8</b> | <b>-72.7</b>  | <b>-160.2</b> | <b>-38.5</b> | <b>-40.9</b> | <b>27.9</b>   | <b>-206.9</b> | <b>33.5</b>   | <b>-249.2</b> | <b>-111.0</b> | <b>-250.7</b> |
| <b>Net acquisition of financial assets</b>  | <b>-238.0</b> | <b>48.1</b>   | <b>-84.3</b>  | <b>-42.2</b> | <b>-29.9</b> | <b>-61.1</b>  | <b>50.2</b>   | <b>-124.0</b> | <b>80.1</b>   | <b>-61.7</b>  | <b>18.2</b>   |
| Domestic assets   | -238.0        | 48.1          | -84.3         | -42.2        | -29.9        | -61.1         | 50.2          | -124.0        | 80.1          | -61.7         | 18.2          |
| Currency and deposits   | -162.6        | 87.0          | -51.9         | -42.2        | -29.9        | -60.9         | 0.0           | -101.0        | 0.0           | 0.0           | -39.1         |
| 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   | -69.7         | -39.9         | -33.7         | 0.0          | 0.0          | -0.3          | -7.8          | -23.0         | 22.1          | -66.7         | -5.7          |
| Equity and investment fund shares   | -5.6          | 1.0           | 1.4           | 0.0          | 0.0          | 0.0           | 58.0          | 0.0           | 58.0          | 5.0           | 63.0          |
| 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           | 0.0           | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Net incurrence of liabilities</b>  | <b>69.8</b>   | <b>122.0</b>  | <b>76.2</b>   | <b>-66.6</b> | <b>7.4</b>   | <b>-263.6</b> | <b>-20.4</b>  | <b>-420.2</b> | <b>-16.2</b>  | <b>-301.3</b> | <b>-298.1</b> |
| Domestic liabilities  | -8.2          | 13.5          | -78.1         | -56.1        | -54.2        | -173.2        | -80.8         | -284.2        | -39.7         | -197.4        | -179.8        |
| Debt securities   | 89.0          | 100.4         | 30.1          | 0.0          | 30.1         | 0.0           | -58.9         | 25.0          | -8.9          | 30.0          | -77.9         |
| Issuance  | 89.0          | 248.6         | 119.2         | 30.0         | 59.9         | 50.0          | 50.0          | 100.0         | 100.0         | 150.0         | 150.0         |
| Amortization  | 0.0           | -148.3        | -89.1         | -30.0        | -29.7        | -50.0         | -108.9        | -75.0         | -108.9        | -120.0        | -227.9        |
| Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years | -93.3         | -110.2        | -110.3        | -52.8        | -31.1        | -53.2         | -52.3         | -139.4        | -135.3        | -144.2        | -140.0        |
| Loans   | -8.8          | -5.6          | -5.0          | -3.3         | 0.0          | -153.0        | -2.6          | -169.8        | 104.5         | -55.8         | 38.2          |
| 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  | 4.9           | 28.9          | 7.1           | 0.0          | -53.2        | 33.0          | 33.0          | 0.0           | 0.0           | -27.4         | 0.0           |
| Foreign liabilities   | 78.0          | 108.5         | 154.3         | -10.4        | 61.7         | -90.4         | 60.3          | -136.0        | 23.5          | -103.9        | -118.3        |
| Debt securities   | 0.0           | 0.0           | 0.0           | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Loans   | 78.0          | 108.5         | 154.3         | -10.4        | 61.7         | -90.4         | 60.3          | -136.0        | 23.5          | -103.9        | -118.3        |
| Drawings  | 226.0         | 302.1         | 550.6         | 80.7         | 148.2        | 155.8         | 294.1         | 201.4         | 353.3         | 357.9         | 342.1         |
| For budget support  | 0.1           | 155.3         | 279.8         | 0.0          | 62.3         | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| For investment projects   | 225.9         | 146.8         | 270.8         | 80.7         | 85.9         | 155.8         | 294.1         | 201.4         | 353.3         | 357.9         | 342.1         |
| Amortization  | 148.0         | 193.6         | 396.2         | 91.1         | 86.6         | 246.2         | 233.8         | 337.4         | 329.8         | 461.9         | 460.4         |
| 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           |
| 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>62.8</b>  | <b>62.1</b>  | <b>174.7</b>  | <b>277.6</b>  | <b>262.6</b>  | <b>345.4</b>  | <b>350.6</b>  | <b>566.9</b>  |
| Identified financing  | 0.0           | 0.0           | 0.0           | 62.8         | 62.1         | 174.7         | 277.6         | 262.6         | 345.4         | 350.6         | 566.9         |
| IMF   | 0.0           | 0.0           | 0.0           | 62.8         | 62.1         | 125.7         | 277.6         | 213.6         | 277.6         | 301.6         | 451.4         |
| WB  | 0.0           | 0.0           | 0.0           | 0.0          | 0.0          | 49.0          | 0.0           | 49.0          | 67.9          | 49.0          | 115.5         |
| EU  | 0.0           | 0.0           | 0.0           | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Other   | 0.0           | 0.0           | 0.0           | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Unidentified 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>-25.0</b>  | <b>-1.2</b>   | <b>-0.3</b>   | <b>0.0</b>   | <b>-58.5</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>   |               |               |               |              |              |               |               |               |               |               |               |
| Net lending excluding externally-financed operations  | -57.0         | 74.1          | 110.6         | 42.2         | 45.0         | 183.7         | 87.2          | 234.9         | 104.1         | 246.9         | 91.4          |

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

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

Table 5d. Republika Srpska: General Government Statement of Operations, 2011–14 1/

(KM million)

|   | 2011          | 2012          | 2013          | 2014         |              |               |               |               |               |               |               |
|---|---------------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
|   |               |               |               | Mar.         |              | Jun.          |               | Sep.          |               | Dec.          |               |
|   |               |               |               | EBS/14/4     | Act.         | EBS/14/4      | Proj.         | EBS/14/4      | Proj.         | EBS/14/4      | Proj.         |
| <b>Revenue</b>  | <b>3873.5</b> | <b>3850.6</b> | <b>3768.6</b> | <b>883.1</b> | <b>865.0</b> | <b>1945.4</b> | <b>1872.6</b> | <b>2966.0</b> | <b>2842.4</b> | <b>4030.9</b> | <b>3932.5</b> |
| Taxes   | 1881.6        | 1858.9        | 1745.0        | 402.0        | 415.1        | 877.0         | 852.9         | 1372.9        | 1303.5        | 1839.1        | 1789.9        |
| Direct taxes  | 421.6         | 423.0         | 434.9         | 97.1         | 101.8        | 204.1         | 196.9         | 295.7         | 287.8         | 398.8         | 391.8         |
| Indirect taxes  | 1452.4        | 1430.2        | 1307.3        | 302.7        | 312.9        | 669.3         | 652.8         | 1070.8        | 1009.8        | 1420.7        | 1379.6        |
| Other taxes   | 7.5           | 5.7           | 2.9           | 2.2          | 0.5          | 3.5           | 3.2           | 6.4           | 5.9           | 19.6          | 18.5          |
| Social security contributions   | 1365.7        | 1350.6        | 1341.6        | 334.8        | 297.7        | 707.0         | 649.5         | 1062.9        | 976.5         | 1471.2        | 1351.5        |
| Grants  | 175.8         | 194.4         | 195.2         | 46.4         | 56.5         | 92.8          | 109.6         | 139.2         | 164.4         | 185.6         | 229.1         |
| Other revenue   | 460.7         | 446.7         | 486.8         | 99.9         | 95.7         | 268.6         | 260.6         | 391.0         | 398.1         | 534.9         | 561.9         |
| <b>Expenditure</b>  | <b>4133.2</b> | <b>4148.9</b> | <b>3919.1</b> | <b>882.3</b> | <b>841.1</b> | <b>1865.6</b> | <b>1862.1</b> | <b>2918.1</b> | <b>2907.7</b> | <b>4088.9</b> | <b>4077.6</b> |
| <b>Expense</b>  | <b>3443.8</b> | <b>3536.2</b> | <b>3409.3</b> | <b>825.1</b> | <b>802.4</b> | <b>1698.3</b> | <b>1685.7</b> | <b>2589.9</b> | <b>2571.7</b> | <b>3571.1</b> | <b>3553.5</b> |
| Compensation of employees   | 934.1         | 952.5         | 901.1         | 223.1        | 226.2        | 455.6         | 451.3         | 679.2         | 673.0         | 917.4         | 909.3         |
| Use of goods and services   | 928.1         | 978.7         | 955.8         | 221.9        | 216.5        | 457.4         | 452.2         | 695.1         | 687.4         | 996.8         | 985.4         |
| Social benefits   | 1211.9        | 1232.9        | 1244.4        | 300.8        | 316.7        | 623.4         | 630.0         | 951.0         | 961.9         | 1305.6        | 1315.3        |
| Interest  | 67.4          | 87.2          | 97.6          | 24.1         | 22.2         | 60.5          | 54.9          | 83.9          | 76.1          | 116.1         | 113.6         |
| Subsidies   | 180.1         | 146.4         | 123.4         | 15.3         | 8.3          | 36.5          | 35.9          | 79.6          | 78.6          | 111.6         | 111.1         |
| Other expense   | 122.2         | 138.3         | 86.9          | 40.0         | 12.5         | 64.9          | 61.4          | 101.0         | 94.6          | 123.5         | 118.9         |
| <b>Net acquisition of nonfinancial assets</b>   | <b>689.4</b>  | <b>612.7</b>  | <b>509.8</b>  | <b>57.2</b>  | <b>38.6</b>  | <b>167.3</b>  | <b>176.5</b>  | <b>328.1</b>  | <b>336.1</b>  | <b>517.8</b>  | <b>524.0</b>  |
| Acquisition of nonfinancial assets  | 712.3         | 636.5         | 530.1         | 78.7         | 42.8         | 206.2         | 223.2         | 370.8         | 389.9         | 579.7         | 600.8         |
| Foreign financed capital spending   | 295.4         | 316.7         | 330.7         | 47.3         | 17.2         | 94.3          | 115.5         | 151.7         | 186.6         | 263.1         | 330.5         |
| Domestically financed capital spending  | 416.9         | 319.8         | 199.4         | 31.4         | 25.6         | 111.9         | 107.7         | 219.1         | 203.3         | 316.6         | 270.4         |
| Disposal of nonfinancial assets   | 22.9          | 23.8          | 20.3          | 21.6         | 4.2          | 38.9          | 46.7          | 42.7          | 53.8          | 62.0          | 76.8          |
| <b>Gross / Net Operating Balance (revenue minus expense)</b>  | <b>429.7</b>  | <b>314.5</b>  | <b>359.3</b>  | <b>57.9</b>  | <b>62.6</b>  | <b>247.2</b>  | <b>186.9</b>  | <b>376.1</b>  | <b>270.7</b>  | <b>459.8</b>  | <b>379.0</b>  |
| <b>Net lending/borrowing (revenue minus expenditure)</b>  | <b>-259.7</b> | <b>-298.2</b> | <b>-150.5</b> | <b>0.8</b>   | <b>23.9</b>  | <b>79.9</b>   | <b>10.4</b>   | <b>48.0</b>   | <b>-65.3</b>  | <b>-58.0</b>  | <b>-145.1</b> |
| <b>Net acquisition of financial assets</b>  | <b>94.2</b>   | <b>173.1</b>  | <b>79.2</b>   | <b>9.9</b>   | <b>63.3</b>  | <b>89.9</b>   | <b>125.9</b>  | <b>94.8</b>   | <b>140.3</b>  | <b>128.2</b>  | <b>-56.0</b>  |
| Domestic assets   | 94.2          | 173.1         | 79.2          | 9.9          | 63.3         | 89.9          | 125.9         | 94.8          | 140.3         | 128.2         | -56.0         |
| Currency and deposits   | -113.9        | -23.6         | -5.3          | -20.1        | 24.9         | 21.5          | 4.7           | 15.7          | 8.2           | 34.5          | -76.5         |
| Debt securities   | 0.4           | 0.0           | 0.0           | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Loans   | 106.7         | 154.1         | 46.9          | 30.0         | 12.7         | 68.4          | 61.4          | 79.1          | 70.3          | 93.7          | -47.0         |
| Equity and investment fund shares   | 78.2          | 43.4          | 16.5          | 0.0          | 27.5         | 0.0           | 59.7          | 0.0           | 61.8          | 0.0           | 67.5          |
| 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   | 5.6           | -0.9          | 21.2          | 0.0          | -1.8         | 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           |
| <b>Net incurrence of liabilities</b>  | <b>326.1</b>  | <b>462.7</b>  | <b>262.3</b>  | <b>-22.3</b> | <b>37.1</b>  | <b>-77.3</b>  | <b>-69.0</b>  | <b>-84.4</b>  | <b>-46.7</b>  | <b>10.8</b>   | <b>-273.9</b> |
| Domestic liabilities  | 166.1         | 136.6         | 80.4          | -20.2        | 55.4         | -65.7         | -100.2        | -124.4        | -275.4        | -106.3        | -768.9        |
| Debt securities   | 166.5         | -13.8         | -8.6          | -51.2        | -75.7        | -68.6         | -60.1         | -68.6         | -35.1         | -52.4         | -28.3         |
| Issuance  | 207.7         | 128.7         | 118.6         | 25.0         | 24.0         | 50.0          | 83.3          | 75.0          | 108.3         | 116.2         | 149.5         |
| Amortization  | 41.2          | -142.6        | 127.1         | 76.2         | 99.8         | 118.6         | 143.4         | 143.6         | 143.4         | 168.6         | 177.9         |
| Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years | -159.6        | -117.4        | -109.6        | -23.3        | -0.7         | -39.8         | -55.7         | -65.4         | -95.5         | -90.5         | -204.4        |
| Loans   | 117.7         | 183.5         | 62.7          | 54.3         | -6.2         | 42.7          | 15.6          | 9.6           | -144.9        | 36.6          | -536.2        |
| 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  | 40.5          | 84.4          | 135.9         | 0.0          | 138.1        | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Foreign liabilities   | 160.0         | 326.0         | 181.9         | -2.1         | -18.2        | -11.5         | 31.2          | 39.9          | 228.8         | 117.1         | 495.0         |
| 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   | 160.0         | 326.0         | 181.9         | -2.1         | -18.2        | -11.5         | 31.2          | 39.9          | 228.8         | 117.1         | 495.0         |
| Drawings  | 255.1         | 444.7         | 394.7         | 49.1         | 31.6         | 111.6         | 154.3         | 214.0         | 402.9         | 349.6         | 727.4         |
| For budget support  | 0.0           | 78.1          | 179.4         | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| For investment projects   | 255.1         | 366.6         | 215.3         | 49.1         | 31.6         | 111.6         | 154.3         | 214.0         | 402.9         | 349.6         | 727.4         |
| Amortization  | 95.1          | 118.7         | 212.8         | 51.2         | 49.8         | 123.2         | 123.1         | 174.1         | 174.1         | 232.5         | 232.5         |
| 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>Statistical discrepancy / financing gap</b>  | <b>27.7</b>   | <b>8.6</b>    | <b>-32.6</b>  | <b>31.4</b>  | <b>2.2</b>   | <b>87.3</b>   | <b>184.4</b>  | <b>131.3</b>  | <b>252.3</b>  | <b>175.3</b>  | <b>363.0</b>  |

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

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

Table 5e.Republika Srpska: Consolidated Central Government Statement of Operations, 2011–14 1/

(KM million)

|   | 2011          | 2012          | 2013          | 2014         |              |              |               |               |               |               |               |
|---|---------------|---------------|---------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
|   |               |               |               | Mar.         |              | Jun.         |               | Sep.          |               | Dec.          |               |
|   |               |               |               | EBS/14/4     | Act.         | EBS/14/4     | Proj.         | EBS/14/4      | Proj.         | EBS/14/4      | Proj.         |
| <b>Revenue</b>  | <b>1880.2</b> | <b>1875.3</b> | <b>1810.0</b> | <b>410.9</b> | <b>446.7</b> | <b>925.7</b> | <b>882.9</b>  | <b>1407.7</b> | <b>1338.0</b> | <b>1890.7</b> | <b>1840.1</b> |
| Taxes   | 1440.0        | 1437.3        | 1360.7        | 311.1        | 329.7        | 679.7        | 659.5         | 1050.0        | 994.4         | 1403.7        | 1358.8        |
| Direct taxes  | 340.3         | 345.1         | 350.5         | 80.5         | 86.9         | 167.7        | 159.4         | 238.1         | 226.5         | 315.6         | 300.5         |
| Indirect taxes  | 1094.7        | 1088.2        | 1007.9        | 228.8        | 242.5        | 509.1        | 497.1         | 806.3         | 762.2         | 1070.2        | 1040.5        |
| Other taxes   | 5.0           | 4.1           | 2.4           | 1.9          | 0.3          | 3.0          | 3.0           | 5.6           | 5.6           | 17.8          | 17.8          |
| 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           |
| Grants  | 171.5         | 182.6         | 191.9         | 46.4         | 54.8         | 92.8         | 109.6         | 139.2         | 164.4         | 185.6         | 219.1         |
| Other revenue   | 268.7         | 255.0         | 257.1         | 53.4         | 62.1         | 153.1        | 113.8         | 218.5         | 179.2         | 301.2         | 261.9         |
| <b>Expenditure</b>  | <b>2012.9</b> | <b>1945.4</b> | <b>1778.9</b> | <b>374.9</b> | <b>371.0</b> | <b>792.5</b> | <b>821.0</b>  | <b>1238.8</b> | <b>1282.0</b> | <b>1777.6</b> | <b>1866.0</b> |
| <b>Expense</b>  | <b>1729.8</b> | <b>1672.7</b> | <b>1524.0</b> | <b>343.8</b> | <b>353.3</b> | <b>714.3</b> | <b>717.5</b>  | <b>1100.3</b> | <b>1106.3</b> | <b>1574.3</b> | <b>1628.2</b> |
| Compensation of employees   | 713.4         | 722.6         | 677.7         | 167.6        | 172.4        | 337.6        | 337.6         | 501.2         | 501.2         | 676.6         | 676.6         |
| Use of goods and services   | 163.1         | 150.6         | 156.9         | 16.5         | 19.6         | 46.2         | 46.2          | 83.4          | 83.4          | 138.6         | 138.6         |
| Social benefits   | 275.9         | 247.7         | 230.6         | 51.4         | 63.3         | 104.8        | 104.8         | 161.4         | 161.4         | 251.7         | 251.7         |
| Interest  | 46.0          | 64.6          | 64.6          | 16.6         | 14.7         | 42.1         | 40.7          | 56.5          | 55.1          | 79.2          | 78.1          |
| Subsidies   | 165.6         | 128.8         | 112.8         | 5.8          | 7.1          | 20.1         | 20.1          | 51.5          | 51.5          | 98.0          | 98.0          |
| Transfers to other general government units   | 304.4         | 284.5         | 242.7         | 61.0         | 73.8         | 124.5        | 124.8         | 188.2         | 189.2         | 266.8         | 306.8         |
| Other expense   | 61.4          | 73.8          | 38.7          | 25.0         | 2.4          | 39.0         | 43.2          | 58.1          | 64.6          | 63.4          | 78.4          |
| <b>Net acquisition of nonfinancial assets</b>   | <b>283.1</b>  | <b>272.7</b>  | <b>254.9</b>  | <b>31.1</b>  | <b>17.6</b>  | <b>78.2</b>  | <b>103.5</b>  | <b>138.5</b>  | <b>175.6</b>  | <b>203.3</b>  | <b>237.8</b>  |
| Acquisition of nonfinancial assets  | 293.6         | 280.4         | 261.6         | 46.9         | 18.6         | 108.0        | 133.3         | 168.3         | 205.4         | 248.1         | 282.6         |
| Foreign financed capital spending   | 201.1         | 223.7         | 211.3         | 41.6         | 10.5         | 85.7         | 102.7         | 132.5         | 158.1         | 195.1         | 229.6         |
| Domestically financed capital spending  | 92.5          | 56.7          | 50.4          | 5.3          | 8.0          | 22.3         | 30.6          | 35.8          | 47.4          | 53.0          | 53.0          |
| Disposal of nonfinancial assets   | 10.5          | 7.7           | 6.7           | 15.8         | 1.0          | 29.8         | 29.8          | 29.8          | 29.8          | 44.8          | 44.8          |
| <b>Gross / Net Operating Balance (revenue minus expense)</b>  | <b>150.4</b>  | <b>202.6</b>  | <b>286.0</b>  | <b>67.1</b>  | <b>93.3</b>  | <b>211.3</b> | <b>165.4</b>  | <b>307.4</b>  | <b>231.7</b>  | <b>316.4</b>  | <b>211.9</b>  |
| <b>Net lending/borrowing (revenue minus expenditure)</b>  | <b>-132.8</b> | <b>-70.1</b>  | <b>31.1</b>   | <b>36.0</b>  | <b>75.7</b>  | <b>133.2</b> | <b>61.9</b>   | <b>168.9</b>  | <b>56.0</b>   | <b>113.2</b>  | <b>-26.0</b>  |
| <b>Net acquisition of financial assets</b>  | <b>217.6</b>  | <b>344.0</b>  | <b>109.7</b>  | <b>38.6</b>  | <b>72.2</b>  | <b>121.6</b> | <b>134.6</b>  | <b>140.3</b>  | <b>208.2</b>  | <b>105.7</b>  | <b>188.5</b>  |
| Domestic assets   | 217.6         | 344.0         | 109.7         | 38.6         | 72.2         | 121.6        | 134.6         | 140.3         | 208.2         | 105.7         | 188.5         |
| Currency and deposits   | -127.6        | -33.8         | 12.7          | -13.2        | 36.6         | 13.4         | 13.4          | 12.1          | 12.1          | -5.0          | -20.0         |
| Debt securities   | 0.4           | 0.0           | 0.0           | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Loans   | 282.1         | 322.7         | 93.5          | 51.8         | 10.1         | 108.2        | 61.4          | 128.2         | 134.3         | 110.7         | 141.0         |
| Equity and investment fund shares   | 75.4          | 43.4          | 4.3           | 0.0          | 27.5         | 0.0          | 59.7          | 0.0           | 61.8          | 0.0           | 67.5          |
| 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   | -12.6         | 11.7          | 0.0           | 0.0          | 0.0          | -1.0         | -1.0          | -1.1          | -1.1          | 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           |
| <b>Net incurrence of liabilities</b>  | <b>343.1</b>  | <b>407.5</b>  | <b>74.2</b>   | <b>-28.9</b> | <b>-3.6</b>  | <b>-98.9</b> | <b>-111.7</b> | <b>-159.9</b> | <b>-100.1</b> | <b>-182.8</b> | <b>-148.5</b> |
| Domestic liabilities  | 177.7         | 129.1         | -13.9         | -26.0        | 17.9         | -72.5        | -48.3         | -149.6        | -9.4          | -209.9        | -20.3         |
| Debt securities   | 161.3         | -14.1         | -3.9          | -51.2        | -75.1        | -68.6        | -60.1         | -68.6         | -35.1         | -52.4         | -28.3         |
| Issuance  | 196.9         | 125.0         | 118.6         | 25.0         | 24.0         | 50.0         | 83.3          | 75.0          | 108.3         | 116.2         | 149.5         |
| Amortization  | 35.6          | 139.1         | 122.5         | 76.2         | 99.2         | 118.6        | 143.4         | 143.6         | 143.4         | 168.6         | 177.9         |
| Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years | -88.5         | -66.5         | -7.4          | -23.0        | -0.6         | -39.2        | -52.1         | -64.3         | -89.1         | -84.9         | -110.2        |
| Loans   | 73.0          | 148.4         | 11.5          | 48.2         | -4.1         | 35.3         | 63.9          | -16.8         | 114.8         | -72.7         | 118.2         |
| 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  | 31.9          | 61.4          | 0.0           | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Foreign liabilities   | 165.3         | 278.4         | 88.1          | -2.8         | -21.6        | -26.4        | -63.5         | -10.3         | -90.8         | 27.1          | -128.2        |
| 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   | 165.3         | 278.4         | 88.1          | -2.8         | -21.6        | -26.4        | -63.5         | -10.3         | -90.8         | 27.1          | -128.2        |
| Drawings  | 255.9         | 390.3         | 296.7         | 48.3         | 27.7         | 96.8         | 59.7          | 163.8         | 83.3          | 259.6         | 104.2         |
| For budget support  | 0.0           | 78.1          | 179.4         | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| For investment projects   | 255.9         | 312.3         | 117.3         | 48.3         | 27.7         | 96.8         | 59.7          | 163.8         | 83.3          | 259.6         | 104.2         |
| Amortization  | 90.6          | 111.9         | 208.6         | 51.2         | 49.3         | 123.2        | 123.1         | 174.1         | 174.1         | 232.5         | 232.5         |
| 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>31.4</b>  | <b>31.0</b>  | <b>87.3</b>  | <b>184.4</b>  | <b>131.3</b>  | <b>252.3</b>  | <b>175.3</b>  | <b>363.0</b>  |
| Identified financing  | 0.0           | 0.0           | 0.0           | 31.4         | 31.0         | 87.3         | 184.4         | 131.3         | 252.3         | 175.3         | 363.0         |
| IMF   | 0.0           | 0.0           | 0.0           | 31.4         | 31.0         | 62.8         | 184.4         | 106.8         | 184.4         | 150.8         | 271.3         |
| WB  | 0.0           | 0.0           | 0.0           | 0.0          | 0.0          | 24.5         | 0.0           | 24.5          | 67.9          | 24.5          | 91.7          |
| EU  | 0.0           | 0.0           | 0.0           | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Other   | 0.0           | 0.0           | 0.0           | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Unidentified 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>7.3</b>    | <b>-5.1</b>   | <b>4.4</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>   |               |               |               |              |              |              |               |               |               |               |               |
| Net lending excluding externally-financed operations  | -103.1        | -29.0         | 50.4          | 31.2         | 31.5         | 126.0        | 54.9          | 162.2         | 49.7          | 122.6         | -15.5         |

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

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

Table 6. Bosnia and Herzegovina: Monetary Survey, 2011–14

|   | 2011   | 2012   | 2013   | 2014   |
|---|--------|--------|--------|--------|
|   | Dec    | Dec    | Dec    | Dec    |
|   |        |        |        | Proj.  |
| (Million KM, end of period)   |        |        |        |        |
| Net foreign assets  | 4,999  | 5,092  | 6,033  | 5,975  |
| Foreign assets  | 9,177  | 9,040  | 9,731  | 9,747  |
| Foreign liabilities   | 4,177  | 3,947  | 3,698  | 3,772  |
| Net domestic assets   | 9,420  | 9,821  | 10,060 | 10,707 |
| Domestic credit   | 14,683 | 15,415 | 15,991 | 15,625 |
| Claims on general government (net)                                      | -117   | 204    | 404    | -436   |
| Claims on nongovernment   | 14,800 | 15,211 | 15,587 | 16,061 |
| Other items (net)   | -5,263 | -5,594 | -5,931 | -4,918 |
| Broad money (M2)  | 14,418 | 14,910 | 16,094 | 16,681 |
| Narrow money (M1)   | 6,185  | 6,143  | 6,696  | 7,216  |
| Currency  | 2,366  | 2,414  | 2,542  | 3,000  |
| Demand deposits   | 3,819  | 3,728  | 4,153  | 4,217  |
| Quasi-money (M1)  | 8,233  | 8,768  | 9,399  | 9,465  |
| Time and savings deposits   | 2,286  | 2,673  | 3,006  | 2,714  |
| Foreign currency deposits   | 5,947  | 6,095  | 6,392  | 6,751  |
| (12-month change over broad money in same period last year, in percent) |        |        |        |        |
| Net foreign assets  | 3.5    | 0.6    | 6.3    | -0.4   |
| Net domestic assets   | 2.3    | 2.8    | 1.6    | 4.0    |
| Domestic credit   | 8.7    | 5.1    | 3.9    | -2.3   |
| Claims on general government (net)                                      | 4.5    | 2.2    | 1.3    | -5.2   |
| Claims on nongovernment   | 4.3    | 2.8    | 2.5    | 2.9    |
| Other items (net)   | -6.5   | -2.3   | -2.3   | 6.3    |
| Broad money (M2)  | 5.8    | 3.4    | 7.9    | 3.6    |
| <i>Memorandum items:</i>  |        |        |        |        |
| (Annual percent change)   |        |        |        |        |
| Broad money (M2)  | 5.8    | 3.4    | 7.9    | 3.6    |
| Reserve money (RM)  | -0.9   | -0.8   | 10.3   | 2.2    |
| Credit to the private sector  | 4.2    | 2.8    | 2.3    | 3.2    |
| (Percent)   |        |        |        |        |
| Credit to the private sector (in percent of GDP)                        | 54.4   | 56.0   | 55.9   | 56.2   |
| Broad money (in percent of GDP)   | 55.9   | 57.9   | 61.0   | 61.5   |
| Central bank net foreign assets (in percent of monetary base)           | 110.3  | 112.6  | 110.8  | 108.6  |
| (Ratio)   |        |        |        |        |
| Velocity (GDP/end-of-period M2)   | 1.8    | 1.7    | 1.7    | 1.6    |
| Reserve money multiplier (M2/RM)  | 2.5    | 2.6    | 2.5    | 2.5    |
| Source: CBBH and IMF staff estimates and projections.                   |        |        |        |        |

**Table 7. Bosnia and Herzegovina: Schedule of Purchases  
Under the Stand-By Arrangement, 2012–15**

|              | Available on<br>or after | Amount of Purchase     |                                     | Conditions  |
|--------------|--------------------------|------------------------|-------------------------------------|---|
|              |                          | In millions<br>of SDRs | In percent<br>of quota <sup>1</sup> |   |
| 1            | September 26, 2012       | 50.730                 | 30                                  | Board approval of the arrangement.  |
| 2            | December 19, 2012        | 50.730                 | 30                                  | Observance of end-September 2012 performance criteria and completion of the first program review.     |
| 3            | May 6, 2013              | 33.820                 | 20                                  | Observance of end-December 2012 performance criteria, and completion of the quarterly program review. |
| 4            | June 28, 2013            | 33.820                 | 20                                  | Observance of end-March 2013 performance criteria and completion of the quarterly program review.     |
| 5            | October 28, 2013         | 42.275                 | 25                                  | Observance of end-June 2013 performance criteria and completion of the quarterly program review.      |
| 6            | January 31, 2014         | 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            | 126.825                | 75                                  | Observance of end-March 2014 performance criteria and completion of the quarterly program review.     |
| 9            | September 15, 2014       | 59.185                 | 35                                  | Observance of end-June 2014 performance criteria and completion of the quarterly program review.      |
| 10           | December 15, 2014        | 59.185                 | 35                                  | Observance of end-September 2014 performance criteria and completion of the quarterly program review. |
| 11           | March 15, 2015           | 8.455                  | 5                                   | Observance of end-December 2014 performance criteria and completion of the quarterly program review.  |
| 12           | June 15, 2015            | 8.455                  | 5                                   | Observance of end-March 2015 performance criteria and completion of the quarterly program review.     |
| <b>Total</b> |                          | <b>558.03</b>          | <b>330.00</b>                       |   |

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



Table 8. Bosnia and Herzegovina: Quantitative Performance Criteria and Indicative Targets Under the 2012–15 Stand-By Arrangement, 2013–14

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

|  | 2013         |            |          |         | 2014      |         |          |          |               |          |              |          |
|--|--------------|------------|----------|---------|-----------|---------|----------|----------|---------------|----------|--------------|----------|
|  | End-December |            |          |         | End-March |         | End-June |          | End-September |          | End-December |          |
|  | EBS/12/161   | EBS/13/131 | Adjusted | Act.    | EBS/14/4  | Act.    | EBS/14/4 | Modified | EBS/14/4      | Modified | EBS/14/4     | Modified |
| <b>Performance Criteria</b>  |              |            |          |         |           |         |          |          |               |          |              |          |
| Floor on the net lending of 1/   |              |            |          |         |           |         |          |          |               |          |              |          |
| Institutions of BiH  | -25.0        | -5.0       | -5.0     | 68.8    | 3.1       | 15.3    | 34.9     | 35.6     | 34.1          | 34.1     | -10.1        | -10.1    |
| Federation central government  | 179.0        | 174.0      | 116.0    | 110.6   | 42.2      | 45.0    | 183.7    | 87.2     | 234.9         | 104.1    | 246.9        | 91.4     |
| RS central government  | 120.0        | 105.0      | 63.0     | 50.4    | 31.2      | 31.5    | 126.0    | 54.9     | 162.2         | 49.7     | 122.6        | -15.5    |
| Ceiling on contracting and guaranteeing of new nonconcessional short-term external debt by |              |            |          |         |           |         |          |          |               |          |              |          |
| Institutions of BiH  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| Federation general government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| RS general government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| CBBH   | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| Ceiling on accumulation of domestic arrears by   |              |            |          |         |           |         |          |          |               |          |              |          |
| Institutions of BiH  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| Federation central government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| RS central government  | 0            | 0          | 0        | 0       | 0         | 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        | 0        | 0             | 0        | 0            | 0        |
| Federation general government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| RS general government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| CBBH   | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| <b>Indicative targets</b>  |              |            |          |         |           |         |          |          |               |          |              |          |
| Floor on the net lending of the general government of BiH 1/                               | -17.1        | -17.1      | -117.1   | 15.5    | -7.6      | -11.7   | 241.9    | -14.1    | 167.6         | -125.8   | 175.2        | -266.8   |
| Ceiling on changes in the stock of "other accounts payable"                                |              |            |          |         |           |         |          |          |               |          |              |          |
| Federation general government  | 100.0        | 100.0      | 100.0    | -56.3   | 100.0     | -31.9   | 100.0    | 100.0    | 100.0         | 100.0    | 100.0        | 100.0    |
| RS general government  | 160.0        | 160.0      | 160.0    | 135.9   | 100.0     | ...     | 100.0    | 100.0    | 100.0         | 100.0    | 100.0        | 100.0    |
| Floor on the ITA gross revenue collection  | ...          | 6,056.0    | 6,056.0  | 5,882.0 | 1,395.0   | 1,395.2 | 2,957.0  | 2,881.7  | 4,649.0       | 4,506.7  | 6,297.0      | 6,115.7  |

1/ Excluding foreign financed projects as defined in TMU.

2/ Continuous.

Table 9. Bosnia and Herzegovina: Structural Conditionality Under the Stand-By Arrangement

| Actions   | Test date          | Status   |
|---|--------------------|--|
| <b>Prior actions</b>  |                    |  |
| 1 Amend the Federation Law on Budget Execution to ensure the uninterrupted operation of the Federation Ministry of Finance in the absence of a finance minister   |                    | Met  |
| 2 Approve by BiH parliament the harmonization of excise rates on different tobacco products and raise excises on fine-cut tobacco effective July, 2014  |                    | Met  |
| 3 Start automated and unfettered exchange among the FTA, RSTA, BDTA, and ITA of taxpayer data as defined in article 4 of the Memorandum of Understanding of June 12, 2013   |                    | Met  |
| 4 Adopt necessary legal and administrative changes in the RS to condition farmers' eligibility for subsidies on their registration and payment of contribution  |                    | Met  |
| <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  | 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 (with delay)   |
| 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 Amend legislation in the RS to eliminate the take-home pay protection for public sector employees   | End-December 2013  | Not met; proposed to re-set to end-December 2014                     |
| 6 Adopt by the Federation parliament a new labor law with a view to facilitating job creation   | End-December 2013  | Not met; proposed to re-set to end-December 2014                     |
| 7 Adopt by the RS parliament a new labor law with a view to facilitating job creation   | End-December 2013  | Not met; proposed to re-set to end-December 2014                     |
| 8 Adopt by the BiH parliament a new public procurement law in line with EU standards  | End-February 2014  | Met (with delay)   |
| 9 Raise the excises on fine-cut tobacco to be fully equivalent with those on cigarettes   | March 1, 2014      | Not met; proposed as a prior action for the sixth and seventh review |
| 10 Adopt by the Federation parliament a new law on Single Registry of Beneficiaries of Cash Payments without Contribution   | End-March 2014     | Not met; proposed to re-set to end-July 2014                         |
| 11 Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the Federation parliament  | End-June 2014      | Proposed to re-set to end-September 2014                             |
| 12 Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the RS parliament  | End-June 2014      | Proposed to re-set to end-September 2014                             |
| 13 Submit to the Federation parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations   | End-June 2014      | Proposed to re-set to end-September 2014                             |
| 14 Submit to the RS parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations   | End-June 2014      | Proposed to re-set to end-September 2014                             |
| 15 Submit to the Federation parliament the amendments to the relevant legislation to implement the Federation pension reform strategy   | End-December 2014  |  |
| <b>Newly proposed structural benchmarks</b>   |                    |  |
| 1 Reach agreements on payment schedules with largest tax debtors to ITA in line with para. 7, bullet point 6 of the Supplementary Letter of Intent of [June xx], 2014. Otherwise, the ITA will pursue all options open to it under domestic law to enforce collection | End-September 2014 |  |
| 2 Develop by the Fiscal Council the procedures for its role in SCFS, adopt by the SCFS an overarching contingency plan, and amend the MOU that governs the SCFS as needed, in line with para. 10 of the Supplementary Letter of Intent of [June xx], 2014             | End-September 2014 |  |

Table 10. Bosnia and Herzegovina: Indicators of Capacity to Repay the Fund, 2011–20

|   | 2011   | 2012   | 2013   | 2014        | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   |
|---|--------|--------|--------|-------------|--------|--------|--------|--------|--------|--------|
|   | Actual |        |        | Projections |        |        |        |        |        |        |
| Fund repurchases and charges 1/                   |        |        |        |             |        |        |        |        |        |        |
| In millions of SDRs                               | 4.8    | 24.3   | 142.1  | 152.0       | 44.2   | 73.0   | 148.1  | 168.4  | 87.5   | 3.41   |
| In millions of euros                              | 5.5    | 29.0   | 162.6  | 171.3       | 49.4   | 81.2   | 163.5  | 186.0  | 96.7   | 3.8    |
| In percent of exports of goods and NFS            | 0.1    | 0.7    | 3.8    | 3.9         | 1.0    | 1.6    | 3.0    | 3.2    | 1.6    | 0.1    |
| In percent of external public debt service        | 3.1    | 13.6   | 45.9   | 41.3        | 13.0   | 17.6   | 25.2   | 30.4   | 20.5   | 0.7    |
| In percent of general government revenues         | 0.1    | 0.5    | 2.7    | 2.7         | 0.7    | 1.1    | 2.1    | 2.3    | 1.1    | 0.0    |
| In percent of gross official reserves             | 0.2    | 0.9    | 4.5    | 4.7         | 1.4    | 2.2    | 4.4    | 5.1    | 2.6    | 0.1    |
| Fund credit outstanding 1/                        |        |        |        |             |        |        |        |        |        |        |
| In millions of SDRs                               | 338.2  | 416.8  | 389.8  | 488.7       | 467.1  | 399.5  | 255.8  | 89.8   | 3.2    | 0.0    |
| In millions of euros                              | 383.8  | 496.6  | 446.0  | 550.5       | 522.0  | 444.1  | 282.5  | 99.2   | 3.5    | 0.0    |
| In percent of quota                               | 200.0  | 246.5  | 230.5  | 289.0       | 276.3  | 236.3  | 151.2  | 53.1   | 1.9    | 0.0    |
| In percent of GDP                                 | 2.9    | 3.8    | 3.3    | 4.0         | 3.6    | 2.8    | 1.7    | 0.5    | 0.0    | 0.0    |
| In percent of gross official reserves             | 11.7   | 14.9   | 12.3   | 15.2        | 14.4   | 12.2   | 7.7    | 2.7    | 0.1    | 0.0    |
| Memorandum items:                                 |        |        |        |             |        |        |        |        |        |        |
| Exports of goods and services (millions of euros) | 4,103  | 4,062  | 4,298  | 4,412       | 4,744  | 5,094  | 5,432  | 5,781  | 6,160  | 6,564  |
| External public debt service (millions of euros)  | 178    | 214    | 355    | 415         | 378    | 462    | 648    | 612    | 470    | 541    |
| Quota (millions of SDRs)                          | 169    | 169    | 169    | 169         | 169    | 169    | 169    | 169    | 169    | 169    |
| Quota (millions of euros)                         | 192    | 201    | 193    | 190         | 189    | 188    | 187    | 187    | 187    | 187    |
| Gross official reserves (millions of euros)       | 3,285  | 3,326  | 3,613  | 3,621       | 3,637  | 3,647  | 3,675  | 3,675  | 3,784  | 3,897  |
| GDP (millions of euros)                           | 13,165 | 13,150 | 13,486 | 13,868      | 14,692 | 15,632 | 16,734 | 18,163 | 19,700 | 21,366 |
| Euros per SDR                                     | 1.13   | 1.19   | 1.14   | 1.13        | 1.12   | 1.11   | 1.10   | 1.10   | 1.10   | 1.10   |
| Source: Fund staff estimates.                     |        |        |        |             |        |        |        |        |        |        |
| 1/ Based on existing and prospective drawings.    |        |        |        |             |        |        |        |        |        |        |

**Table 11a. Bosnia and Herzegovina: Gross Financing Requirements 2014–18**

(In millions of euros)

|   | 2014  | 2015  | 2016  | 2017  | 2018  |
|---|-------|-------|-------|-------|-------|
| Financing requirements                      | 1,996 | 1,693 | 1,584 | 1,716 | 1,631 |
| Current account deficit                     | 1,489 | 1,270 | 1,085 | 1,036 | 990   |
| Amortization                                | 507   | 423   | 499   | 680   | 641   |
| Government                                  | 357   | 290   | 381   | 576   | 542   |
| Other                                       | 150   | 133   | 118   | 104   | 99    |
| Financing                                   | 1,515 | 1,639 | 1,584 | 1,716 | 1,631 |
| Capital transfers                           | 196   | 201   | 210   | 219   | 229   |
| FDI   | 257   | 333   | 355   | 379   | 405   |
| Net bank financing                          | -43   | 89    | 116   | 124   | 123   |
| Foreign loans                               | 916   | 829   | 727   | 851   | 857   |
| Government                                  | 707   | 565   | 373   | 373   | 373   |
| Existing projects                           | 427   | 379   |       |       |       |
| Post-Flood                                  | 280   | 187   |       |       |       |
| Other                                       | 209   | 264   | 354   | 477   | 484   |
| Gross international reserves (- = increase) | -8    | -15   | -10   | -29   | 1     |
| Other                                       | 198   | 201   | 185   | 171   | 16    |
| Financing gap                               | 481   | 55    | 0     | 0     | 0     |
| IMF   | 371   | 19    | 0     | 0     | 0     |
| EU  | 0     | 0     | 0     | 0     | 0     |
| World Bank                                  | 110   | 36    | 0     | 0     | 0     |

**Table 11b. Bosnia and Herzegovina: Gross Financing Requirements 2014–18**

(In percent of GDP)

|   | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------|------|------|------|------|
| Financing requirements                      | 14.4 | 11.5 | 10.1 | 10.3 | 9.1  |
| Current account deficit                     | 10.7 | 8.6  | 6.9  | 6.2  | 5.5  |
| Amortization                                | 3.7  | 2.9  | 3.2  | 4.1  | 3.6  |
| Government                                  | 2.6  | 2.0  | 2.4  | 3.4  | 3.0  |
| Other                                       | 1.1  | 0.9  | 0.8  | 0.6  | 0.6  |
| Financing                                   | 10.9 | 11.2 | 10.1 | 10.3 | 9.1  |
| Capital transfers                           | 1.4  | 1.4  | 1.3  | 1.3  | 1.3  |
| FDI   | 1.9  | 2.3  | 2.3  | 2.3  | 2.3  |
| Net bank financing                          | -0.3 | 0.6  | 0.7  | 0.7  | 0.7  |
| Foreign loans                               | 6.6  | 5.6  | 4.7  | 5.1  | 4.8  |
| Government                                  | 5.1  | 3.8  | 2.4  | 2.2  | 2.1  |
| Other                                       | 1.5  | 1.8  | 2.3  | 2.9  | 2.7  |
| Gross international reserves (- = increase) | -0.1 | -0.1 | -0.1 | -0.2 | 0.0  |
| Other                                       | 1.4  | 1.4  | 1.2  | 1.0  | 0.1  |
| Financing gap                               | 3.5  | 0.4  | 0.0  | 0.0  | 0.0  |
| IMF   | 2.7  | 0.1  | 0.0  | 0.0  | 0.0  |
| EU  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  |
| World Bank                                  | 0.8  | 0.2  | 0.0  | 0.0  | 0.0  |

Source: IMF staff projections and calculations.

| <b>Table 12. Bosnia and Herzegovina: Financial Soundness Indicators, 2009–14</b>   |      |       |      |      |       |      |
|--|------|-------|------|------|-------|------|
| (In Percent)   |      |       |      |      |       |      |
|  | 2009 | 2010  | 2011 | 2012 | 2013  | 2014 |
|  |      |       |      |      |       | Mar  |
| <i>Capital</i>   |      |       |      |      |       |      |
| Tier 1 capital to risk-weighted assets (RWA)   | 12.4 | 12.6  | 13.6 | 14.1 | 15.2  | 15.5 |
| Net capital to RWA   | 16.1 | 16.2  | 17.2 | 17.0 | 17.8  | 17.3 |
| <i>Quality of assets</i> <sup>1</sup>  |      |       |      |      |       |      |
| Nonperforming loans to total loans   | 5.9  | 11.4  | 11.8 | 13.5 | 15.1  | 14.9 |
| Nonperforming assets (NPAs) to total assets  | 3.9  | 8.1   | 8.8  | 10.3 | 11.4  | 11.5 |
| NPAs net of provisions to tier 1 capital   | 25.9 | 46.1  | 26.1 | 30.4 | 31.5  | 29.4 |
| Provision to NPAs  | 34.6 | 40.8  | 68.2 | 67.4 | 68.0  | 69.3 |
| <i>Profitability</i>   |      |       |      |      |       |      |
| Return on assets <sup>2</sup>  | 0.1  | -0.6  | 0.7  | 0.6  | -0.2  | -0.1 |
| Return on equity <sup>2</sup>  | 0.8  | -5.5  | 5.9  | 5.0  | -1.4  | -1.0 |
| Net interest income to gross income  | 61.5 | 60.1  | 63.8 | 63.7 | 62.3  | 62.5 |
| Noninterest expenses to gross income   | 97.4 | 109.0 | 86.3 | 87.2 | 101.2 | 78.1 |
| <i>Liquidity</i>   |      |       |      |      |       |      |
| Liquid assets to total assets  | 30.9 | 29.0  | 27.3 | 25.4 | 26.4  | 24.7 |
| Liquid assets to short- term financial liabilities   | 52.9 | 49.7  | 46.7 | 44.1 | 46.2  | 43.6 |
| Short- term financial liabilities to total financial liabilities   | 66.2 | 66.9  | 68.4 | 67.9 | 67.3  | 67.0 |
| <i>Foreign exchange risk</i>   |      |       |      |      |       |      |
| Foreign currency and indexed loans to total loans  | 73.9 | 70.0  | 66.7 | 63.1 | 62.9  | 61.8 |
| Foreign currency liabilities to total financial liabilities  | 69.2 | 67.0  | 66.0 | 65.2 | 63.8  | 63.2 |
| Net open position  | 1.7  | 4.4   | 16.1 | 5.4  | 6.7   | 4.7  |
| Source: CBBH.  |      |       |      |      |       |      |
| <sup>1</sup> 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 in the RS, and the December 2011 data in the Federation, banks record on-balance sheet the "loss" loans and related accrued interest and provisions, resulting in a structural break in the series. |      |       |      |      |       |      |
| <sup>2</sup> Interyear values obtained by summing up the quarterly net income in the current and the preceding three quarters.   |      |       |      |      |       |      |

**Table 13. Bosnia and Herzegovina: External Debt Sustainability Framework, 2009-2019**  
(In percent of GDP, unless otherwise indicated)

|   | Actual |       |       |       |       | Projections           |                       |             |             |             |             | Debt-stabilizing<br>non-interest<br>current account 6/<br>0.2 |      |
|---|--------|-------|-------|-------|-------|-----------------------|-----------------------|-------------|-------------|-------------|-------------|---|------|
|   | 2009   | 2010  | 2011  | 2012  | 2013  | 2014                  | 2015                  | 2016        | 2017        | 2018        | 2019        |   |      |
| <b>1 Baseline: External debt</b>                                    | 54.4   | 51.4  | 48.9  | 52.2  | 50.8  | <b>54.6</b>           | <b>54.2</b>           | <b>51.6</b> | <b>47.7</b> | <b>44.3</b> | <b>42.1</b> |   |      |
| 2 Change in external debt   | 7.2    | -3.0  | -2.5  | 3.3   | -1.4  | 3.9                   | -0.5                  | -2.6        | -3.9        | -3.4        | -2.2        |   |      |
| 3 Identified external debt-creating flows (4+8+9)                   | 11.9   | 9.6   | 8.2   | 15.4  | 4.4   | 12.3                  | 9.1                   | 7.4         | 6.6         | 6.0         | 5.6         |   |      |
| 4 Current account deficit, excluding interest payments              | 4.0    | 4.2   | 8.0   | 7.5   | 3.9   | 9.2                   | 6.9                   | 5.5         | 5.0         | 4.4         | 3.7         |   |      |
| 5 Deficit in balance of goods and services                          | 24.3   | 22.0  | 24.2  | 24.3  | 21.0  | 26.2                  | 22.7                  | 21.3        | 20.5        | 19.6        | 18.7        |   |      |
| 6 Exports   | 9.6    | 14.0  | 16.9  | 16.8  | 18.2  | 17.2                  | 17.6                  | 18.0        | 18.1        | 18.1        | 18.1        |   |      |
| 7 Imports   | 33.9   | 36.1  | 41.1  | 41.1  | 39.2  | 43.4                  | 40.3                  | 39.4        | 38.6        | 37.7        | 36.8        |   |      |
| 8 Net non-debt creating capital inflows (negative)                  | 1.4    | 2.1   | 2.6   | 2.1   | 1.9   | 1.9                   | 2.3                   | 2.3         | 2.3         | 2.3         | 2.3         |   |      |
| 9 Automatic debt dynamics 1/  | 6.5    | 3.3   | -2.4  | 5.9   | -1.4  | 1.2                   | 0.0                   | -0.4        | -0.7        | -0.6        | -0.4        |   |      |
| 10 Contribution from nominal interest rate                          | 2.5    | 2.0   | 1.7   | 1.8   | 1.5   | 1.5                   | 1.8                   | 1.4         | 1.2         | 1.2         | 1.3         |   |      |
| 11 Contribution from real GDP growth                                | 1.4    | -0.5  | -0.5  | 0.6   | -0.9  | -0.3                  | -1.8                  | -1.9        | -1.9        | -1.8        | -1.6        |   |      |
| 12 Contribution from price and exchange rate changes 2/             | 2.6    | 1.8   | -3.7  | 3.4   | -2.0  | ...                   | ...                   | ...         | ...         | ...         | ...         |   |      |
| 13 Residual, incl. change in gross foreign assets (2-3) 3/          | -4.7   | -12.6 | -10.8 | -12.1 | -5.8  | -8.4                  | -9.6                  | -9.9        | -10.5       | -9.4        | -7.7        |   |      |
| External debt-to-exports ratio (in percent)                         | 567.1  | 366.5 | 288.7 | 311.2 | 279.2 | 317.3                 | 307.8                 | 286.2       | 263.1       | 244.7       | 233.1       |   |      |
| <b>Gross external financing need (in billions of US dollars) 4/</b> | 3.5    | 3.1   | 4.0   | 3.6   | 3.6   | 4.8                   | 4.3                   | 4.4         | 4.9         | 5.0         | 4.0         |   |      |
| in percent of GDP   | 20.3   | 18.7  | 21.7  | 21.2  | 19.9  | 10-Year               | 10-Year               | 25.1        | 21.2        | 20.0        | 20.4        | 19.0  | 14.1 |
| <b>Scenario with key variables at their historical averages 5/</b>  |        |       |       |       |       | <b>54.6</b>           | <b>54.1</b>           | <b>53.1</b> | <b>51.8</b> | <b>51.4</b> | <b>52.6</b> | <b>-1.4</b>   |      |
| <b>Key Macroeconomic Assumptions Underlying Baseline</b>            |        |       |       |       |       | Historical<br>Average | Standard<br>Deviation |             |             |             |             |   |      |
| Real GDP growth (in percent)  | -2.7   | 0.8   | 1.0   | -1.2  | 1.8   | 5.3                   | 9.1                   | 0.7         | 3.5         | 3.7         | 4.0         | 4.0   |      |
| GDP deflator in US dollars (change in percent)                      | -5.2   | -3.2  | 7.7   | -6.6  | 4.1   | 3.2                   | 10.8                  | 5.2         | 4.2         | 3.9         | 4.5         | 4.4   |      |
| Nominal external interest rate (in percent)                         | 4.9    | 3.5   | 3.7   | 3.4   | 3.1   | 4.1                   | 0.9                   | 3.2         | 3.5         | 2.9         | 2.5         | 2.6   |      |
| Growth of exports (US dollar terms, in percent)                     | -16.1  | 42.8  | 31.2  | -8.6  | 14.9  | 16.6                  | 31.7                  | 0.4         | 10.2        | 10.3        | 9.2         | 8.4   |      |
| Growth of imports (US dollar terms, in percent)                     | -28.8  | 3.9   | 24.0  | -7.8  | 1.1   | 5.1                   | 18.0                  | 17.3        | 0.0         | 5.3         | 6.7         | 6.0   |      |
| Current account balance, excluding interest payments                | -4.0   | -4.2  | -8.0  | -7.5  | -3.9  | -8.3                  | 4.3                   | -9.2        | -6.9        | -5.5        | -5.0        | -4.4  |      |
| Net non-debt creating capital inflows                               | -1.4   | -2.1  | -2.6  | -2.1  | -1.9  | -0.8                  | 5.7                   | -1.9        | -2.3        | -2.3        | -2.3        | -2.3  |      |

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

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

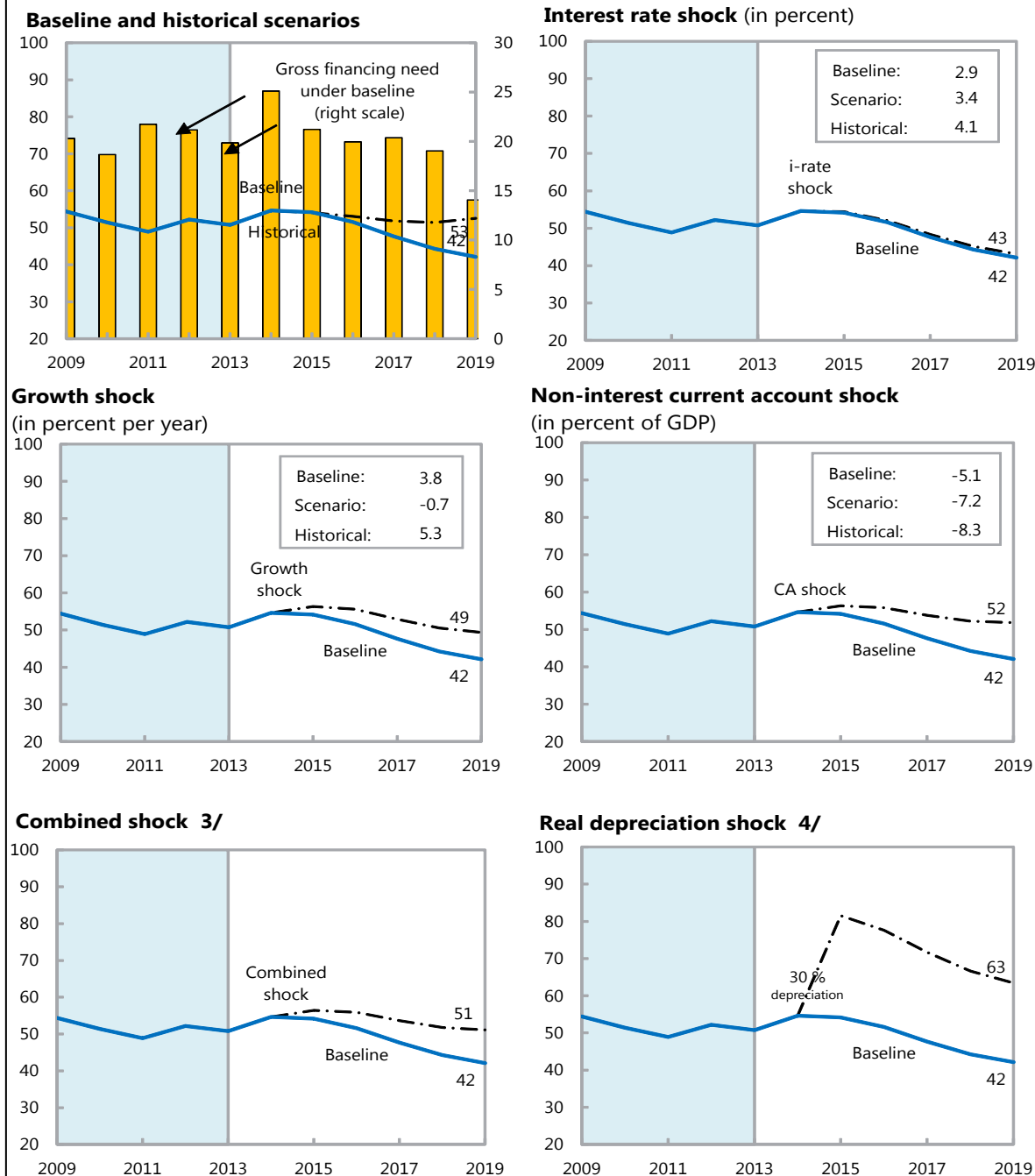
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

**Figure 2. Bosnia and Herzegovina: External Debt Sustainability: Bound Tests 1/ 2/**  
(External debt in percent of GDP)



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

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

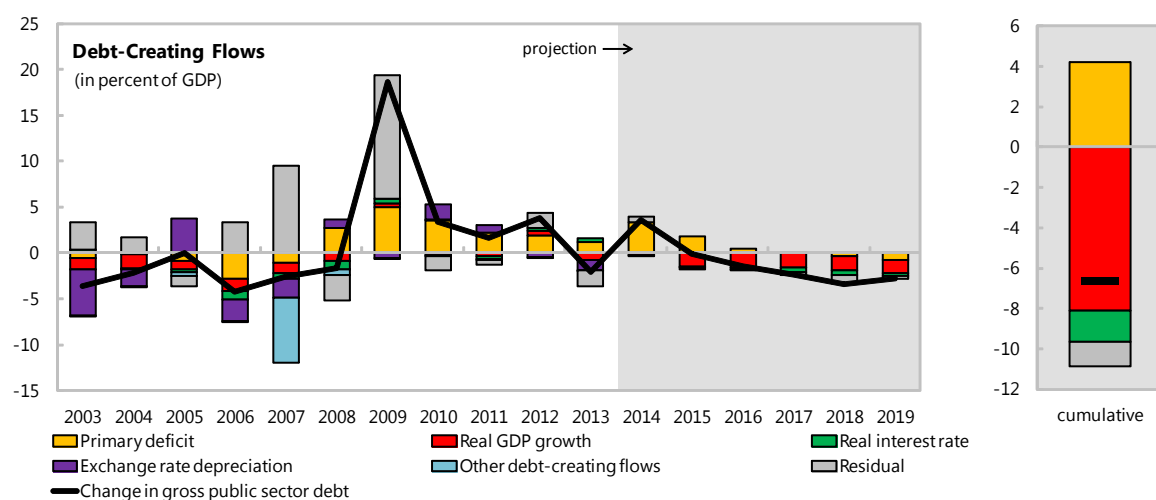
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

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

**Table 14a. Bosnia and Herzegovina: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario**  
(in percent of GDP unless otherwise indicated)

| Debt, Economic and Market Indicators <sup>1/</sup> |                         |      |      |             |      |      |      |      |      | As of October 30, 2013   |               |
|--|-------------------------|------|------|-------------|------|------|------|------|------|--------------------------|---------------|
|  | Actual                  |      |      | Projections |      |      |      |      |      |                          |               |
|  | 2003-2011 <sup>2/</sup> | 2012 | 2013 | 2014        | 2015 | 2016 | 2017 | 2018 | 2019 | EMBIG (bp) <sup>3/</sup> | n.a.          |
| Nominal gross public debt                          | 27.9                    | 44.6 | 42.5 | 46.2        | 46.0 | 44.6 | 42.2 | 38.7 | 35.9 | 5Y CDS (bp)              | n.a.          |
| Public gross financing needs                       | 2.4                     | 5.4  | 5.6  | 9.0         | 6.8  | 5.3  | 5.3  | 4.2  | 2.4  |                          |               |
| Real GDP growth (in percent)                       | 3.4                     | -1.2 | 1.8  | 0.7         | 3.5  | 3.7  | 4.0  | 4.0  | 4.0  | Ratings                  | Foreign Local |
| Inflation (GDP deflator, in percent)               | 3.7                     | 1.1  | 0.7  | 2.1         | 2.4  | 2.6  | 2.9  | 2.9  | 2.9  | Moody's                  | B3 B3         |
| Nominal GDP growth (in percent)                    | 7.2                     | -0.1 | 2.5  | 2.8         | 5.9  | 6.4  | 7.1  | 7.0  | 7.0  | S&Ps                     | B B           |
| Effective interest rate (in percent) <sup>4/</sup> | 2.5                     | 1.8  | 1.7  | 2.1         | 2.3  | 2.2  | 2.0  | 1.8  | 2.2  | Fitch                    | n.a. n.a.     |

| Contribution to Changes in Public Debt          |           |      |      |             |      |      |      |      |      |            |  |
|---|-----------|------|------|-------------|------|------|------|------|------|------------|--|
|   | Actual    |      |      | Projections |      |      |      |      |      | cumulative | debt-stabilizing<br>primary<br>balance <sup>9/</sup> |
|   | 2003-2011 | 2012 | 2013 | 2014        | 2015 | 2016 | 2017 | 2018 | 2019 |            |  |
| Change in gross public sector debt              | 1.1       | 3.8  | -2.1 | 3.6         | -0.1 | -1.5 | -2.4 | -3.4 | -2.8 | -6.6       |  |
| Identified debt-creating flows                  | -1.7      | 2.2  | -0.4 | 3.0         | 0.1  | -1.4 | -2.1 | -2.4 | -2.6 | -5.4       |  |
| Primary deficit                                 | 0.8       | 1.9  | 1.2  | 3.3         | 1.7  | 0.4  | 0.0  | -0.4 | -0.8 | 4.2        | -1.7   |
| Primary (noninterest) revenue and grants        | 46.3      | 46.3 | 45.1 | 45.1        | 45.3 | 45.5 | 45.6 | 45.6 | 45.6 | 272.6      |  |
| Primary (noninterest) expenditure               | 47.1      | 48.2 | 46.3 | 48.4        | 47.0 | 45.9 | 45.6 | 45.2 | 44.8 | 276.9      |  |
| Automatic debt dynamics <sup>5/</sup>           | -1.6      | 0.3  | -1.5 | -0.3        | -1.6 | -1.8 | -2.1 | -2.1 | -1.7 | -9.6       |  |
| Interest rate/growth differential <sup>6/</sup> | -1.1      | 0.8  | -0.4 | -0.3        | -1.6 | -1.8 | -2.1 | -2.1 | -1.7 | -9.6       |  |
| Of which: real interest rate                    | -0.3      | 0.3  | 0.4  | 0.0         | -0.1 | -0.2 | -0.5 | -0.5 | -0.3 | -1.5       |  |
| Of which: real GDP growth                       | -0.8      | 0.5  | -0.8 | -0.3        | -1.5 | -1.6 | -1.7 | -1.6 | -1.4 | -8.1       |  |
| Exchange rate depreciation <sup>7/</sup>        | -0.5      | -0.5 | -1.2 | ...         | ...  | ...  | ...  | ...  | ...  | ...        |  |
| Other identified debt-creating flows            | -1.0      | 0.0  | 0.0  | 0.0         | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0        |  |
| General Govt - Financing - Privatizati          | -1.0      | 0.0  | 0.0  | 0.0         | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0        |  |
| Contingent liabilities                          | 0.0       | 0.0  | 0.0  | 0.0         | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0        |  |
| Other debt flows (incl. ESM and Euro)           | 0.0       | 0.0  | 0.0  | 0.0         | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0        |  |
| Residual, including asset changes <sup>8/</sup> | 2.8       | 1.6  | -1.7 | 0.6         | -0.3 | -0.1 | -0.3 | -1.0 | -0.3 | -1.2       |  |



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

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

6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

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

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

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

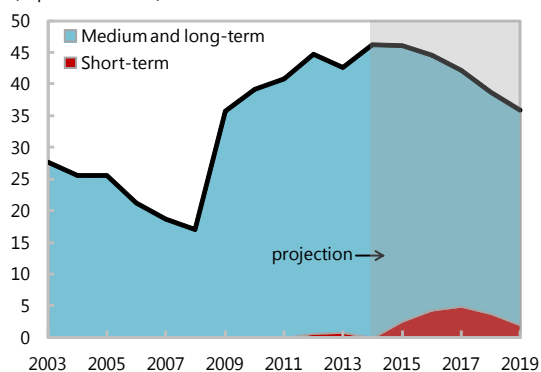


Table 14b. Bosnia and Herzegovina Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

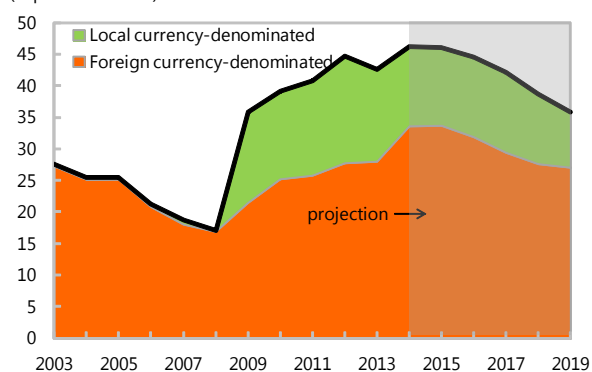
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

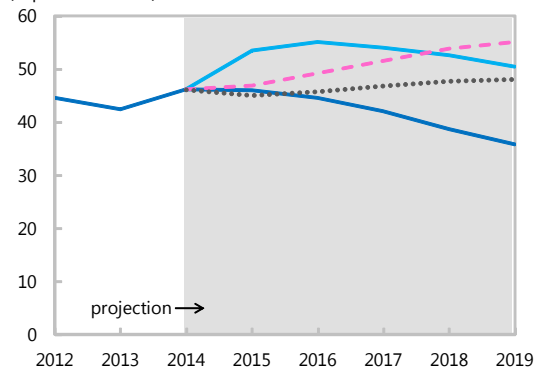
■ Baseline  
■ Contingent Liability Shock

..... Historical

--- Constant Primary Balance

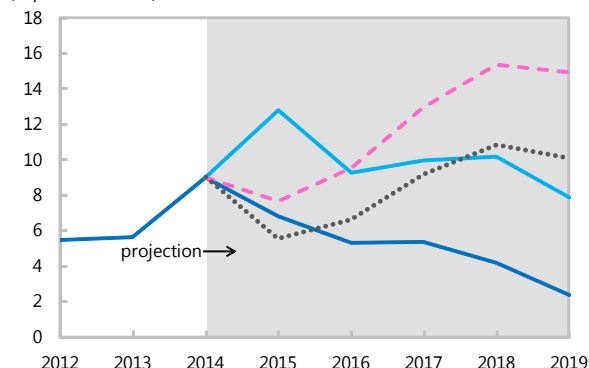
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

| Baseline Scenario       | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|------|------|------|------|------|------|
| Real GDP growth         | 0.7  | 3.5  | 3.7  | 4.0  | 4.0  | 4.0  |
| Inflation               | 2.1  | 2.4  | 2.6  | 2.9  | 2.9  | 2.9  |
| Primary Balance         | -3.3 | -1.7 | -0.4 | 0.0  | 0.4  | 0.8  |
| Effective interest rate | 2.1  | 2.3  | 2.2  | 2.0  | 1.8  | 2.2  |

| Constant Primary Balance Scenario | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-----------------------------------|------|------|------|------|------|------|
| Real GDP growth                   | 0.7  | 3.5  | 3.7  | 4.0  | 4.0  | 4.0  |
| Inflation                         | 2.1  | 2.4  | 2.6  | 2.9  | 2.9  | 2.9  |
| Primary Balance                   | -3.3 | -3.3 | -3.3 | -3.3 | -3.3 | -3.3 |
| Effective interest rate           | 2.1  | 1.3  | 1.5  | 1.8  | 1.9  | 2.0  |

| Historical Scenario     | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|------|------|------|------|------|------|
| Real GDP growth         | 0.7  | 2.7  | 2.7  | 2.7  | 2.7  | 2.7  |
| Inflation               | 2.1  | 2.4  | 2.6  | 2.9  | 2.9  | 2.9  |
| Primary Balance         | -3.3 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 |
| Effective interest rate | 2.1  | 1.3  | 1.4  | 1.6  | 1.7  | 1.7  |

| Contingent Liability Shock | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|----------------------------|------|------|------|------|------|------|
| Real GDP growth            | 0.7  | 0.3  | 0.5  | 4.0  | 4.0  | 4.0  |
| Inflation                  | 2.1  | 1.6  | 1.8  | 2.9  | 2.9  | 2.9  |
| Primary Balance            | -3.3 | -8.1 | -0.4 | 0.0  | 0.4  | 0.8  |
| Effective interest rate    | 2.1  | 1.5  | 2.0  | 1.9  | 2.0  | 2.0  |

Source: IMF staff.

## Appendix. Letter of Intent

Sarajevo and Banja Luka, Bosnia and Herzegovina

June 13, 2014

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) approved in September 2012 by the Executive Board of the International Monetary Fund (IMF) and extended in January 2014 continues to anchor our economic policies in a difficult economic and political environment. We remain committed to implementing the broad policies described in our original Letter of Intent dated September 11, 2012, and that were further specified and augmented in our Supplementary Letters of Intent of December 6, 2012, April 23, 2013, June 12, 2013, October 9, 2013, and January 8, 2014. This Supplementary Letter of Intent provides information on our efforts and achievements since the completion of the fifth review under the arrangement in January 2014, as well as on the additional policy measures we plan to undertake in the remainder of 2014 to help ensure that the objectives of the program continue to be met.

2. Moreover, with this letter, we also request an augmentation of access under the SBA, to help us address the impact of the floods and landslides that followed massive rainfalls in May. Although the damage assessment conducted by the UN, the EU, and the World Bank is still underway, it is clear that the floods and landslides have caused major damage to housing, businesses, farmlands, and infrastructure. Very preliminary estimates suggest a loss equivalent to 5-10 percent of GDP. Production and exports are expected to fall and import needs will rise, creating an urgent balance of payments need that, if not addressed, would result in an immediate and severe economic disruption. Government finances are faced with substantial revenue losses and short-term spending needs for relief efforts. Banks' loan portfolios will worsen.

3. The economy returned to growth in 2013, with real GDP estimated to have expanded by nearly 2 percent. Production and exports grew strongly in 2013, although domestic demand

remained weak. Growth was projected to pick up further in 2014 and to become gradually more broad-based, but due to the impact of the floods and landslides on production and incomes, we now expect growth to slow considerably this year, to about 0.7 percent. Following a steady expansion of activity in the first quarter of the year, a sharp contraction is expected for the second quarter, but we hope that the economy will rebound towards the end of the year, depending also on the availability of international support to assist with the reconstruction efforts. Inflation, which remained low in 2013, is expected to pick up somewhat in 2014, in part reflecting a loss of agricultural production, but is still projected to remain low. Similarly, the current account deficit, which had narrowed substantially in 2013 on account of strong export growth, is expected to widen again in 2014, as export growth is likely to slow markedly and imports will rise. Unemployment remains high, meanwhile, at 28 percent, and may rise in the near future as businesses were destroyed or suffered severe damage.

### **Program Implementation and Further Reforms**

4. In the period prior to the natural disaster, we continued to make progress toward meeting our program objectives, although our efforts were complicated by delays in securing parliamentary approval of key measures and the weak state of domestic demand. All end-March 2014 performance criteria on the fiscal balances of the Institutions of BiH and the central governments of the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) were observed. Also, neither the central governments of the FBiH and the RS, nor the Institutions of BiH, saw an increase in domestic arrears in the period through end-March 2014. Similarly, although data are still preliminary, the changes in the stock of other accounts payable for the general governments of the FBiH and the RS—and indicative target—are likely to have remained below their respective ceilings through end-March 2014. The indicative target for gross revenue collection by the Indirect Tax Authority (ITA) for end-March 2014 was also met, as domestic demand started to pick up and measures to improve collection started to yield result (see below), after the end-December 2013 target had still been missed by a considerable margin. Moreover, the indicative target on net lending by the consolidated general government for end-March 2014 was, based on available information, met as well. We did not contract or guarantee any new non-concessional short-term external debt, nor did we accumulate any external payment.

5. Fiscal policies were largely on track in 2013. The consolidated general government budget deficit is estimated to have declined to 1.9 percent of GDP in 2013, compared to our (unadjusted) goal of 2.0 percent of GDP (or 2.4 percent of GDP adjusted), and the indicative target on net lending by the consolidated general government for end-December 2013 was met. As noted, revenue collection was weaker than already had been anticipated, reflecting weak private consumption,

falling prices, and growing exports that contributed to rising VAT refunds, but also because our efforts to strengthen collection did not yet generate the expected results. Thus, and despite a significant compression of spending in the last months of the year, the (adjusted) end-December 2013 performance criteria on the fiscal balances of the central governments of the FBiH and the RS were missed, albeit by relatively small margins (the equivalent of about 0.02 percent and 0.13 percent of GDP, respectively). This was largely offset by the Institutions of BiH, which met the end-December 2013 performance criterion on its budget balance by a large margin.

6. Looking ahead, we intend to adhere as much as possible to the expenditure envelopes in the approved 2014 budgets for the Institutions of BiH, and the central governments of the FBiH and the RS, but we will reallocate spending depending on urgent disaster-relief needs. In line with this commitment, the cost of advancing the public sector wage increases in the RS that had already been planned were contained by the adoption of the revised Laws on Wages and offsetting measures identified in consultation with IMF staff. The requested additional disbursement under the SBA will primarily be used to offset the sizable revenue losses due to the recent natural disaster. In this context, we will also need to provide additional transfers from the entity central government budgets to the pension and health funds as contributions will fall, to ensure that these will be able to pay pensions and benefits without undermining their financial soundness. Against this background, we also request a modification of the performance criteria on the budget balances of the central governments of the FBiH and the RS and of the indicative target on net lending of the general government for the remainder of 2014 (Table 1). Given the uncertainty about the size and timing of donor assistance, we also propose to include adjustors to the performance criteria on the budget balances of the central governments that would enable us to utilize such donor support for our reconstruction efforts. Although the outlook is highly uncertain, as a result of the natural disaster we expect the consolidated general government budget deficit—including additional foreign assistance—to increase to over 4 percent of GDP this year.

### ***Improving revenue collection***

7. We have accelerated our efforts to improve tax collection, which has become even more important in light of the likely shortfall in revenues due to the impact of the floods and landslides. In particular:

- The exchange of taxpayer information among the four tax agencies (ITA, FTA, RSTA, and BDTA) that started in January 2014 has now been expanded, after some remaining legal and technical hurdles were overcome, so that the FTA, RSTA, BDTA, and ITA now have automated and unfettered access to each other's taxpayer data as defined in article 4 of the

Memorandum of Understanding of June 12, 2013 (a prior action), in a process coordinated by a Technical Compliance Committee comprising senior staff from the four tax agencies. Going forward, the directors of the four tax agencies will meet at least once every quarter, to coordinate and guide the process. In the coming months, we will also make comprehensive company information available in the entity business information agencies (AFIP and APIF) freely available to the tax agencies.

- The BiH parliament approved the harmonization of excise rates on different tobacco products, and excises on fine-cut tobacco were raised, effective July 2014 (a prior action). The amendments to the Law on Excises also ensure that the tax treatment of different tobacco products remains equivalent as we further raise the excise rate on cigarettes gradually in the coming years to achieve convergence with EU levels. The ITA, the entities' inspection offices, and the customs office will step up their cooperation to combat smuggling and evasion, including the sale in domestic markets of tobacco products that do not have excise stamps.
- The ITA Governing Board approved a new draft Law on Customs Policy that is consistent with EU legislation and we aim to submit the draft to the BiH parliament by end-September 2014.
- A revised staffing scheme for the ITA will be adopted shortly by the ITA Governing Board that will allow the ITA to establish the unit for the detection and prevention of VAT fraud within an unchanged overall staffing envelope. Following recent IMF technical assistance, the ITA will introduce a risk-based approach for the selection of VAT refunds for audit, one of the key elements of our strategy to strengthen the control of VAT refunds and credits. Moreover, the ITA will continue to ensure that VAT refunds will only be provided to taxpayers who are fully compliant with their VAT obligations.
- The entities will reach an agreement on the settlement of outstanding indirect tax revenue claims from 2012.
- Meanwhile, the ITA has started publication of the largest tax debtors on its website and will update this list monthly. The ITA will also publish monthly information on the stock of indirect tax arrears and the stock of rescheduled tax debts, as well as information regarding debt rescheduling agreements, in a format to be agreed with IMF staff. The ITA is actively engaging the largest tax debtors and by end-September 2014 it will seek to have reached agreements on payment schedules with the largest tax debtors—those with outstanding

liabilities of KM 2.5 million or more as of March 31, 2014—requiring at least 15 percent of the outstanding liabilities to be paid upfront for an agreement to be reached and requiring that taxpayers remain current on their tax payments for the agreement to remain in effect, and, if no agreement has been reached by then or when taxpayers fall into arrears again the ITA will pursue all options open to it under domestic law to enforce collection (a new structural benchmark for end-September 2014). The ITA will publish the results of its efforts on its website. In this context, we will also refrain from forgiving the full amount of penalty interest on any tax debts, to maintain adequate incentives for taxpayers to pay taxes on time. More broadly, the ITA will clarify its criteria for approval of rescheduling agreements of outstanding tax obligations—including collateral requirements—with the assistance of the IMF.

- The new corporate income tax law for the FBiH—which was prepared with assistance from the IMF with a view to broadening the tax base and clarifying the tax treatment of depreciation and banks' loan loss provisioning—was submitted to the FBiH parliament, with its adoption expected by end-July 2014. The RS will aim to complete the review of its corporate income tax law in the coming months with the assistance of the IMF, to foster consistency and to avoid double taxation, and with a particular focus also on its tax treatment of loan loss provisioning, as well as transfer pricing, with government approval expected by end-September 2014 and parliamentary approval by end-December 2014.

### ***Strengthening public finances***

8. On the expenditure side, we will continue to strive to streamline and increase the efficiency of government operations, and rationalize the benefit system. Thus:

- The FBiH parliament adopted an amendment to the FBiH Law on Budget Execution to ensure the uninterrupted operation of the FBiH Ministry of Finance in the absence of a finance minister (a prior action). This amendment designates an alternate person authorized by the government who has the authority to sign on the minister's behalf in the event of the minister's absence.
- Following the adoption of the new FBiH Law on Budgets, the implementing regulations and rulebooks are expected to be finalized and adopted shortly. Moreover, an FBiH Fiscal Coordination Body was established to coordinate fiscal policy between all levels of government in the FBiH, with a view to securing macroeconomic stability and fiscal sustainability, and met for the first time in May. The Fiscal Coordination Body is expected to

play an important coordinating role in addressing the fiscal impact of the natural disaster in the FBiH.

- The BiH Fiscal Council adopted a common definition of arrears in the Institutions of BiH and both entities, with any amount that is not paid within 90 days after the due date considered to be in arrears.
- The new public procurement law for BiH, prepared with assistance of the OECD and the EU, was adopted by the BiH parliament in May 2014 (an end-February 2014 structural benchmark). This new law will align BiH's public procurement framework with EU standards.
- In the RS, the registration of farms in accordance with the rulebook on classification of household farms into commercial and non-commercial farms is ongoing. To help stabilize the financial condition of the social funds we will also ensure that registered farmers pay social contributions. To achieve better targeting of agricultural subsidies, we have made the necessary legal and administrative changes conditioning the eligibility of farmers for agricultural subsidies on their registration and payment of contributions (a prior action).
- A new Fiscal Responsibility Law has been prepared in the RS, with a view to ensuring long-term fiscal sustainability and enhancing transparency. The new law will establish clear fiscal rules and an independent Fiscal Council. The new law is expected to be adopted by the RS parliament by end-September 2014.
- Fiscal control on spending units in the RS that operate outside of the treasury general ledger and have their own transaction accounts will be tightened. Specifically, the new Law on Fiscal Responsibility will oblige all such units maintaining their own transaction accounts to obtain an approval of financial plans by the Ministry of Finance prior to their submission to the government. We will also ensure that these spending units maintain a balanced budget throughout the year or refrain from creating commitments in excess of approved allocations.
- Efforts are underway to establish a centralized database in the FBiH of all beneficiaries of social transfers. To this end, the draft Law on Single Registry of Beneficiaries of Cash Payments without Contribution was submitted to the FBiH parliament in April, and we expect it to be adopted by end-July 2014 (a new deadline for this structural benchmark). Subsequently, we will make the necessary financial and administrative resources available to make this database operational by end-September 2014.

- We continue to move ahead with the implementation of the new Law on Privileged Pensions in the FBiH. The audits to verify the eligibility of the existing beneficiaries are being carried out throughout the FBiH and the FBiH government has been working on amending the Law on Audits and the Law on Organization of Federation Ministries to improve the audit process. Sufficient administrative resources have been made available to ensure that the screening of new entrants will be completed by end-March 2014. The FBiH Pension and Disability Insurance Fund (PIO) and the Ministry of War Veterans found that the deviation between the expected and actual savings from the adjustment of benefit levels of existing beneficiaries was due to insufficient information about the ranks of a number of beneficiaries when the initial estimates were made. Meanwhile, the main elements of the new law were upheld by the FBiH Constitutional Court, although other rulings by this and other courts that impact the privileged pension system would add to the cost of the system if no offsetting measures would be taken. We will continue to ensure, however, that the overall cost of the privileged pension system will remain within the agreed upon amounts, as included in the 2014 budget, to safeguard the financial health of PIO, and we will take corrective measures as envisaged by the law as needed to achieve this, including the use of a payment rationing coefficient if necessary.
- We recognize that improving the financial position of our health care system is needed to stem the increasing costs and to create conditions for reducing the tax burden on labor by lowering the health care contribution rate over the medium-term. As a precondition, this requires a comprehensive reform of our health care system. To this end, our key reform priorities—identified with the assistance of the World Bank—include: (i) improving the efficiency of procurement and dispensing of pharmaceuticals, medical devices, and equipment; (ii) restructuring hospitals to improve quality and efficiency of services; (iii) revising legal frameworks to delink employment services from the provision of health insurance coverage; and (iv) strengthening the regulation and public health interventions to improve public health. In the months ahead, we will work closely with the World Bank on developing specific measures underpinning these reform efforts.

### ***Safeguarding financial sector stability***

9. While our financial sector remains broadly stable and well capitalized, the sector's profitability had already come under pressure on account of subdued credit activity and the continued gradual deterioration of banks' loan portfolios, but the large destruction of housing and businesses due to the floods and landslides will cause a further rise in non-performing loans (NPLs)



and create additional provisioning needs. In this context, and as set out below, we remain committed to safeguard financial sector stability and the Standing Committee on Financial Stability (SCFS) will coordinate our efforts and take measures to create an environment in which the financial sector can support the economic recovery and reconstruction with a revival of sustainable credit activity, and safeguarding depositors.

10. Preserving financial sector stability by bolstering our contingency planning and crisis preparedness toolkit has remained the cornerstone of our financial sector policy agenda to date. The members of the SCFS have already each developed, with the assistance of the IMF, contingency plans detailing their respective responsibilities, as well as the coordination across institutions in the event of financial sector distress. On the basis of these individual plans and with the assistance of the IMF: (i) the Fiscal Council will develop the procedures for its role in the SCFS as recognized in the Memorandum of Understanding of the SCFS, and (ii) the SCFS, based on the work of a working group of representatives of all SCFS members and coordinated by the Central Bank of Bosnia and Herzegovina (CBBH) and in cooperation with the Fiscal Council Advisory Group, will adopt an overarching contingency plan for the SCFS and amend the Memorandum of Understanding that governs the SCFS as needed by end-September 2014 (a new structural benchmark). Going forward, the members of the SCFS will each continue to update their contingency plans.

11. The Banking Agencies have continued their close monitoring of the financial sector and, in particular, the enhanced supervision of those banks identified as vulnerable under adverse scenarios. All banks that have been under enhanced monitoring by the Banking Agencies have now completed the selection of external auditors to perform thorough asset quality reviews of these banks. The results of these reviews, expected to become available soon, will provide valuable information to the banking agencies about potential balance sheet risks. The banking agencies have also maintained a high level of engagement with foreign supervisory bodies as regards cross-border banks of systemic importance. We will seek to further formalize these engagements by signing Memoranda of Understanding with relevant foreign supervisors by end-July 2014.

12. We also continue our work to complement our contingency planning and supervisory efforts with a set of legislative and regulatory initiatives aimed at: (i) modernizing and strengthening the legal and regulatory framework; (ii) addressing the high level of non-performing loans (NPLs); and (iii) unlocking the credit channel. In particular:

- We are advancing the preparation of new banking laws in both entities by identifying existing gaps with EU legislation and Basel II requirements. We will coordinate the drafting of these new banking laws to ensure consistency between the entities with the support of

further technical assistance from the IMF and the EU. Moreover, we will review and amend as necessary related legislation, such as the Deposit Insurance Agency law. As the preparatory work will require more time and assistance, we expect the respective entity governments to approve the draft laws by end-September 2014 (proposed new deadlines for the end-June 2014 structural benchmarks).

- We are also preparing, with IMF assistance, legislation to regulate asset management companies, a crucial component in the NPL resolution framework, although more time and assistance is needed in this area too before we expect to be able to have drafts approved by the respective entity governments by end-September 2014 (proposed new deadlines for the end-June 2014 structural benchmarks), and revise tax legislation as needed to facilitate loan sales.
- We will furthermore bolster our NPL resolution strategy by establishing, with support of upcoming IMF assistance, a voluntary out-of-court-restructuring system in 2014, to promote the return of operationally viable companies to sustainable debt servicing. In this context, both entities will also review their bankruptcy laws to streamline and shorten bankruptcy proceedings.
- We are also advancing legislation that will create an environment more conducive to credit growth and economic activity. This includes:
  - Following the recent adoption by the FBiH parliament of a new Law on Protection of Consumers of Financial Services, we have requested the FBiH parliament to issue an authentic interpretation ruling out the retroactive application of the also recently adopted Law on Guarantors, to provide a better balance between the protection of creditor and borrower rights.
  - Adoption by the FBiH parliament by end-July 2014 of a new Law on Internal Payment Systems that will ensure the necessary flow of information across entities, also including the CBBH, regarding the registry of accounts and the designation of a main account.
  - The RS parliament adopted a new Law on the Single System for Multilateral Offsets aimed at reducing corporations' and governments' overdue liabilities, including those to banks and to each other. We expect this law to boost companies' liquidity and further spur investment and growth.

- The RS parliament also adopted amendments to the Law on Foreign Exchange Operations to increase compliance with EU standards and to facilitate and streamline firms' external operations, including transactions conducted with alternative methods of payment.

13. To help safeguard the integrity and stability of our financial markets, the BiH parliament recently adopted a new law on AML/CFT that is consistent with FATF recommendations. We expect the parliament to adopt the changes to the BiH Criminal Code that are also needed to align our legal framework with FATF recommendations by end-July 2014.

### ***Supporting a vibrant private sector***

14. Job creation and inclusive growth remain key objectives of our policies. To this end, we have made progress in improving the business environment, by making it easier to start and operate a business. In the RS, the one-stop business registration is fully operational and more than 300 new businesses have registered since its start in December 2013. To achieve similar results, in the FBiH the new Laws on Companies and Inspections, and amendments to the Law on Business Registration, which were prepared with the assistance of the World Bank, as well as a new Law on Offenses are expected to be adopted by the FBiH parliament by end-June 2014.

15. We have continued to seek consensus with the social partners on new labor market legislation in the FBiH and the RS that is more conducive to job creation. We had aimed to have the new labor laws adopted by the respective parliaments by end-December 2013 (structural benchmarks), but as we have so far been unable to reach a consensus with the social partners we were not able to complete this process as planned, and this has become even more difficult in the aftermath of the recent natural disaster. More time is therefore needed for our dialogue with the social partners, but as we are determined to move forward with this critical reform, the entity governments will improve the drafts of new labor laws in the coming months, with assistance of staff from the World Bank and the IMF, that can then form the basis for renewed discussions with the social partners. The drafts at a minimum will: (i) require all collective bargaining agreements to be time-bound, and with sector-specific collective agreements applying only to those enterprises and workers that want to be part of the agreement; (ii) allow differentiated wage setting based on skills, qualifications, experience, and performance; (iii) reduce disincentives for hiring; (iv) step up labor inspections and increase penalties for labor law violations; and (v) protect workers' rights consistent with ILO labor standards and EC labor directives. Given the time that would subsequently be needed for the required public debate and taking into account the timing of the parliamentary elections, we would expect the new laws, consistent with the above principles, to be adopted by the respective

parliaments by end-December 2014 (a new deadline for these structural benchmarks). In the meantime, we will also continue drafting new laws on civil servants and employees, with the assistance of the World Bank, to facilitate public administration reform, to allow for these laws to be adopted shortly following the adoption of the new entity labor laws. Adoption of the new labor laws will also enable the RS to eliminate the take-home-pay protection by end-December 2014 (a new deadline for this structural benchmark).

16. We continue making progress toward WTO accession. We will strive to adopt the FBiH Law on Trade and the BiH by-law on Genetically-Modified Organisms in the coming months. This would complete the legislative changes required for WTO accession.

### **Program Modalities**

17. We believe that our economic program continues to be on course and that our policies set forth in our Letter of Intent of September 11, 2012, and supplemented by the policies described in the Supplementary Letters of Intent of December 6, 2012, April 23, 2013, June 12, 2013, October 9, 2013, January 8, 2014, and this Supplementary Letter of Intent remain adequate to achieve the objectives of our program. We stand ready, however, to take any additional measures that may be needed to achieve the objectives of our economic program. We will consult with the IMF on the adoption of additional policy measures and in advance of any revision to the policies contained in our economic program, in accordance with IMF policies on such consultation. We will continue to provide IMF staff with the necessary information for assessing progress in implementing our program and will maintain a close policy dialogue with IMF staff. We will provide any necessary information to facilitate the safeguards assessment update. We will also refrain from introducing or intensifying any exchange and trade restrictions and other measures or policies that could worsen balance of payments difficulties.

18. In light of the expected impact of the recent natural disaster on the central government budgets, we request the IMF Executive Board to approve a modification of the end-June 2014, end-September 2014, and end-December 2014 performance criteria on the fiscal balances (net lending) of the central governments of FBiH and the RS as detailed in Table 1. We also request the IMF Executive Board to complete the sixth and seventh reviews under the SBA, augment the amount of the eighth purchase by SDR 84.55 million (equivalent to 50 percent of quota) to meet the urgent balance of payments need caused by the natural disaster, and therefore to make available the seventh and eighth purchases in a total amount equivalent to SDR 169.1 million. The additional access of SDR 84.55 million will be used to alleviate the impact of the disaster and will be allocated with the RS receiving 49 percent, the FBiH 49 percent, and the Brcko District receiving 2 percent.

19. We authorize the IMF to publish this Supplementary 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/  
Vjekoslav Bevanda  
Chairman  
of the Council of Ministers  
Bosnia and Herzegovina

/s/  
Nermin Nikšić  
Prime Minister  
Federation of Bosnia  
and Herzegovina

/s/  
Željka Cvijanović  
Prime Minister  
Republika Srpska

/s/  
Nikola Špirić  
Minister of Finance  
and Treasury of  
Bosnia and Herzegovina

/s/  
Ante Krajina  
Minister of Finance  
Federation of Bosnia  
and Herzegovina

/s/  
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 Targets Under the 2012–15 Stand-By Arrangement, 2013–14**

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

|  | 2013         |            |          |         | 2014      |         |          |          |               |          |              |          |
|--|--------------|------------|----------|---------|-----------|---------|----------|----------|---------------|----------|--------------|----------|
|  | End-December |            |          |         | End-March |         | End-June |          | End-September |          | End-December |          |
|  | EBS/12/161   | EBS/13/131 | Adjusted | Act.    | EBS/14/4  | Act.    | EBS/14/4 | Modified | EBS/14/4      | Modified | EBS/14/4     | Modified |
| <b>Performance Criteria</b>  |              |            |          |         |           |         |          |          |               |          |              |          |
| Floor on the net lending of 1/   |              |            |          |         |           |         |          |          |               |          |              |          |
| Institutions of BiH  | -25.0        | -5.0       | -5.0     | 68.8    | 3.1       | 15.3    | 34.9     | 35.6     | 34.1          | 34.1     | -10.1        | -10.1    |
| Federation central government  | 179.0        | 174.0      | 116.0    | 110.6   | 42.2      | 45.0    | 183.7    | 87.2     | 234.9         | 104.1    | 246.9        | 91.4     |
| RS central government  | 120.0        | 105.0      | 63.0     | 50.4    | 31.2      | 31.5    | 126.0    | 54.9     | 162.2         | 49.7     | 122.6        | -15.5    |
| Ceiling on contracting and guaranteeing of new nonconcessional short-term external debt by |              |            |          |         |           |         |          |          |               |          |              |          |
| Institutions of BiH  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| Federation general government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| RS general government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| CBBH   | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| Ceiling on accumulation of domestic arrears by   |              |            |          |         |           |         |          |          |               |          |              |          |
| Institutions of BiH  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| Federation central government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| RS central government  | 0            | 0          | 0        | 0       | 0         | 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        | 0        | 0             | 0        | 0            | 0        |
| Federation general government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| RS general government  | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| CBBH   | 0            | 0          | 0        | 0       | 0         | 0       | 0        | 0        | 0             | 0        | 0            | 0        |
| <b>Indicative targets</b>  |              |            |          |         |           |         |          |          |               |          |              |          |
| Floor on the net lending of the general government of BiH 1/                               | -17.1        | -17.1      | -117.1   | 15.5    | -7.6      | -11.7   | 241.9    | -14.1    | 167.6         | -125.8   | 175.2        | -266.8   |
| Ceiling on changes in the stock of "other accounts payable"                                |              |            |          |         |           |         |          |          |               |          |              |          |
| Federation general government  | 100.0        | 100.0      | 100.0    | -56.3   | 100.0     | -31.9   | 100.0    | 100.0    | 100.0         | 100.0    | 100.0        | 100.0    |
| RS general government  | 160.0        | 160.0      | 160.0    | 135.9   | 100.0     | ...     | 100.0    | 100.0    | 100.0         | 100.0    | 100.0        | 100.0    |
| Floor on the ITA gross revenue collection  | ...          | 6,056.0    | 6,056.0  | 5,882.0 | 1,395.0   | 1,395.2 | 2,957.0  | 2,881.7  | 4,649.0       | 4,506.7  | 6,297.0      | 6,115.7  |

1/ Excluding foreign financed projects as defined in TMU.

2/ Continuous.

Table 2. Bosnia and Herzegovina: Structural Conditionality Under the Stand-By Arrangement

| Actions   | Test date          | Status   |
|---|--------------------|--|
| <b>Prior actions</b>  |                    |  |
| 1 Amend the Federation Law on Budget Execution to ensure the uninterrupted operation of the Federation Ministry of Finance in the absence of a finance minister   |                    | Met  |
| 2 Approve by BiH parliament the harmonization of excise rates on different tobacco products and raise excises on fine-cut tobacco effective July, 2014  |                    | Met  |
| 3 Start automated and unfettered exchange among the FTA, RSTA, BDTA, and ITA of taxpayer data as defined in article 4 of the Memorandum of Understanding of June 12, 2013   |                    | Met  |
| 4 Adopt necessary legal and administrative changes in the RS to condition farmers' eligibility for subsidies on their registration and payment of contribution  |                    | Met  |
| <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  | 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 (with delay)   |
| 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 Amend legislation in the RS to eliminate the take-home pay protection for public sector employees   | End-December 2013  | Not met; proposed to re-set to end-December 2014                     |
| 6 Adopt by the Federation parliament a new labor law with a view to facilitating job creation   | End-December 2013  | Not met; proposed to re-set to end-December 2014                     |
| 7 Adopt by the RS parliament a new labor law with a view to facilitating job creation   | End-December 2013  | Not met; proposed to re-set to end-December 2014                     |
| 8 Adopt by the BiH parliament a new public procurement law in line with EU standards  | End-February 2014  | Met (with delay)   |
| 9 Raise the excises on fine-cut tobacco to be fully equivalent with those on cigarettes   | March 1, 2014      | Not met; proposed as a prior action for the sixth and seventh review |
| 10 Adopt by the Federation parliament a new law on Single Registry of Beneficiaries of Cash Payments without Contribution   | End-March 2014     | Not met; proposed to re-set to end-July 2014                         |
| 11 Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the Federation parliament  | End-June 2014      | Proposed to re-set to end-September 2014                             |
| 12 Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the RS parliament  | End-June 2014      | Proposed to re-set to end-September 2014                             |
| 13 Submit to the Federation parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations   | End-June 2014      | Proposed to re-set to end-September 2014                             |
| 14 Submit to the RS parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations   | End-June 2014      | Proposed to re-set to end-September 2014                             |
| 15 Submit to the Federation parliament the amendments to the relevant legislation to implement the Federation pension reform strategy   | End-December 2014  |  |
| <b>Newly proposed structural benchmarks</b>   |                    |  |
| 1 Reach agreements on payment schedules with largest tax debtors to ITA in line with para. 7, bullet point 6 of the Supplementary Letter of Intent of [June xx], 2014. Otherwise, the ITA will pursue all options open to it under domestic law to enforce collection | End-September 2014 |  |
| 2 Develop by the Fiscal Council the procedures for its role in SCFS, adopt by the SCFS an overarching contingency plan, and amend the MOU that governs the SCFS as needed, in line with para. 10 of the Supplementary Letter of Intent of [June xx], 2014             | End-September 2014 |  |

## Attachment. Addendum to the Technical Memorandum of Understanding on Definitions and Reporting Under the 2012–2015 Stand-By Arrangement

June 13, 2014

1. The Technical Memorandum of Understanding (TMU) on Definitions and Reporting Under the 2012–15 Stand-By Arrangement dated January 8, 2014 shall remain in effect except for the amendments below.

2. Paragraph 9 shall be replaced by a new adjustor to the performance criterion in Section A reading:

“The respective floors on the net lending will be adjusted downward by the full amount of the respective shares of any donor disbursement, excluding the IMF’s and the World Bank’s Development Policy Loans (DPL) disbursements for budget financing, disbursed for use by the budgets of the Institutions of Bosnia and Herzegovina, the central government of the Federation of Bosnia and Herzegovina, or the central government of the Republika Srpska.”

3. Paragraph 14 shall be replaced by a new adjustor to the indicative target in Section B reading:

“The target will be adjusted downward by the full amount of any donor disbursement in excess of the projected disbursements related to the recovery and reconstruction of the equivalent of €443 million, of which the equivalent of €280 is projected to be disbursed by international financial organizations other than the IMF and the World Bank, the equivalent of €68 million by the World Bank, and the equivalent of €95 million by the IMF.”





INTERNATIONAL MONETARY FUND



Press Release No. 14/320  
FOR IMMEDIATE RELEASE  
June 30, 2014

International Monetary Fund  
Washington, D.C. 20431 USA

## **IMF Executive Board Completes Sixth and Seventh Reviews Under the SBA for Bosnia and Herzegovina, Approves €95.7 Million Augmentation of the SBA and €191.4 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and seventh reviews of Bosnia and Herzegovina's (BiH) economic performance under a program supported by a Stand-By Arrangement (SBA). The Executive Board also approved an augmentation of the SBA by SDR 84.55 million (about €95.7million) to meet the country's urgent balance of payments need caused by severe floods in May 2014. The completion of the reviews and the augmentation enables a total disbursement of an amount equivalent to SDR 169.1 million (about €191.4 million), which will bring total disbursements under the arrangement to SDR 422.75 million (about €478.5 million).

The Board also granted the authorities' request for modification of the end-June 2014, end-September 2014, and end-December 2014 performance criteria on the fiscal balances (net lending) of the central government of the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) to reflect the impact of the natural disaster on government finances.

The 24-month SBA was approved on September 26, 2012 (see [Press Release No. 12/366](#)) and was extended for nine months and augmented by SDR 135.28 million (about €153.1 million) on January 31, 2014 to meet additional financing needs that arose mainly in late 2014 (see [Press Release No. 14/36](#)). The total arrangement will reach SDR 558.03 million (about €631.6 million, or 330 percent of quota) after the two augmentations.

Following the Executive Board's discussion, Mr. David Lipton, First Deputy Managing Director and Acting Chair, stated:

“The Executive Board expressed its regret at the major damage and hardship caused by the recent natural disaster that affected Bosnia and Herzegovina. The economy had been on a good track prior to the disaster, with growth picking up and external imbalances narrowing. The impact of the disaster has made the economic outlook more uncertain. Growth is

expected to slow down appreciably and the current account deficit to widen substantially. The donor conference planned for mid-July will be critical to mobilize international donor support for the reconstruction.

“With fiscal consolidation having progressed largely as planned prior to the disaster, there is room for a temporary easing of fiscal policies to absorb the revenue losses and additional spending needs and avoid a further decline in activity. Nonetheless, to maintain public debt firmly anchored, it will be critical to strictly contain non-priority spending and sustain ongoing efforts to improve revenue collection.

“The authorities have adopted a well-coordinated strategy to assess and manage the impact of the disaster on the banking system. Continued progress in improving bank supervision and contingency planning, as well as the legal and regulatory framework for the banking sector in general and the resolution of non-performing loans in particular, will deliver a more resilient banking sector. Remaining shortcomings in the anti-money laundering framework will also need to be addressed.

“Renewed efforts to drive forward the structural reform agenda will be crucial to emerge from the disaster stronger, with faster growth and more jobs. Measures to facilitate business registration and operation are already yielding positive results, but more needs to be done to improve economic governance. Adopting new labor market legislation that is more conducive to job creation is essential to reduce the high level of unemployment.

“Given the authorities’ performance and the additional financing needs created by the natural disaster, an augmentation of the Stand-By Arrangement is appropriate to smooth the adjustment process. The Arrangement remains a valuable anchor for economic policies during this uncertain and difficult period.”

**Statement by Mr. Snel and Mr. Friedman on Bosnia and Herzegovina  
June 30, 2014**

**The economy of BiH recovered in 2013, and GDP grew by 1.8 percent.** The composition of the national accounts aggregates pointed to a balanced and robust, albeit moderate recovery, driven mainly by an increase in exports by 8.3 percent. As a result, the current account deficit, which is a longtime weakness of the economy, contracted sharply to a level of 5.4 percent of GDP, and public debt went down to 42.5 percent of GDP. These positive developments continued in the first quarter of 2014, and were expected to intensify throughout this year.

**While the economy was recovering the authorities continued to make progress with their economic plan.** First and foremost, fiscal consolidation was secured, and a responsible budget for 2014 was legislated on time. The fiscal policy implemented in 2014 continued to adhere to the program's targets, and the end-March 2014 fiscal performance criteria were met in full.

**The authorities were able to make progress with their reform agenda.** Although progress was sometimes slower than expected, as some of the measures turned out to be tough to implement, resolution and patience led to favorable outcomes and completion of the main structural benchmarks. These include strengthening the cooperation between the different tax authorities, legislation of a new procurement law that is aligned with EU standards, implementation of a new law on budgets in the Federation of BiH, registration of commercial farming activities in *Republika Srpska*. Most importantly, the legislation of the excises law, which was the stumbling block that prevented the completion of the 6<sup>th</sup> review on time, is now completed.

**Unfortunately, these positive developments have been interrupted by the May floods.** The floods have caused loss of life and severe damage, which is yet to be fully assessed. The initial estimates were between 5 and 10 percent of GDP. The latest estimates published after the staff report was distributed, point to a damage of about euro 2 billion, about 15 percent of GDP, larger than quoted in the report. The uncertainty around the damage assessment is compounded by additional uncertainty regarding the pace of recovery, resulting in an exceptionally wide range of economic forecasts for growth, public deficit and current account. International experience shows that the pace of recovery after similar shocks is largely unknown. Thus, the risks are now much higher than before.

**Although the extent of the damage is still unclear, it is obvious that it is of a macroeconomic scale.** The floods hit infrastructure, production facilities, farms and residential buildings in an area that is geographically larger than one quarter of the country. The result is a temporary sharp contraction of economic activity. Going forward, the blow to the capital stock will negatively affect the supply side, while the negative wealth effect will weigh on demand. Property insurance in BiH is uncommon, and the implication is that many

households suffered a major wealth effect. The reconstruction phase will require massive investments, some of which are imported, and hence will lead to a deterioration of the current account balance.

**These unfortunate events require a recalibration of the economic targets.** Lower economic activity and lower tax collection will lead to an increase in public deficit and debt, which are now expected to be at about 4 percent and 45 percent, respectively. This implies a temporary deviation from the consolidation process, which was on track in 2013 and in early 2014. The authorities are now recalibrating their policies to aim at feasible targets while alleviating immediate needs. Therefore, the authorities are requesting a modification of the fiscal performance criteria for end-June, end-September, and end-December of 2014.

**The natural disaster caused an urgent balance of payments need.** In order to deal with that, and the higher than expected financing gap, the authorities are requesting an augmentation of 50 percent of quota of the current SBA. The augmentation will allow smoothing of the consolidation process, which has become more painful now, by financing part of the larger financing gap. The augmentation is of the size of a disbursement under the RFI, which would probably be the channel through which the Fund would have assisted BiH if an SBA had not been in place. The Fund's assistance is expected to be matched by significant help from the international community, which has already taken initial action. This is going to be crucial in the reconstruction phase, which requires substantial public investments.

**The augmentation would be allocated between the entities according to an internal agreement.** The additional access of SDR 84.55 million will be used to finance the larger deficits of the entities, thus alleviating the impact of the disaster, and finance part of the reconstruction. The allocation of the additional tranche will be 49 percent to the *Republika Srpska*, and 49 percent to the Federation of BiH, while the Brcko District will receive the remaining 2 percent. This breakdown, which is different from the usual way SBA tranches are handled, reflects the entities' internal agreement.

**The reform agenda for the next months is ambitious.** The authorities understand that continued progress on this front is of the essence. Therefore, they plan to keep promoting the following issues during the run-up to the elections: legislation of new corporate income tax laws at the entity level; legislation of a fiscal responsibility law that will define the fiscal targets in *Republika Srpska*, the establishment of a centralized database of all beneficiaries of social transfers in the Federation BiH, and legislation of new banking laws in both entities.

**The authorities continue to be committed to the SBA-supported program.** The authorities see the SBA as the cornerstone of their economic policies. The challenges in the coming period are substantial, as the country is approaching the elections and a period of political uncertainty. The authorities will do their utmost to make continuous progress throughout this period. The previous extension of the SBA, which now covers the period of political transition, is instrumental in this regard.

We would like to thank the team, headed by Ron van Rooden, for their excellent report and work. The Fund has reacted swiftly to the unfortunate conditions and has shown both flexibility and creativity.