INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/298

BOSNIA AND HERZEGOVINA

October 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BOSNIA AND HERZEGOVINA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with Bosnia and Herzegovina, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 23, 2015 consideration of the staff report that concluded the Article IV consultation with Bosnia and Herzegovina.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 23, 2015, following discussions that ended on September 23, 2015 with the officials of Bosnia and Herzegovina on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 9, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Bosnia and Herzegovina.

The document listed below has been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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October 23, 2015

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IMF Executive Board Concludes 2015 Article IV Consultation with Bosnia and Herzegovina

On October 23, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Bosnia and Herzegovina.

Economic growth in Bosnia and Herzegovina is expected to rebound to over 2 percent this year as economic activity is picking up in Europe. Industrial activity and exports have been gathering momentum and, together with the decline in fuel prices, boost incomes and consumption. Deflation has been imported through the currency board arrangement.

The economy of Bosnia and Herzegovina fell into recession in the aftermath of the global crisis. After several starts and stops, the economy started to recover in 2013, with growth reaching 2½ percent, but this progress was interrupted by the floods that hit the country in May 2014. Nonetheless, the economy proved more resilient to the impact of this natural disaster than initially expected and growth still reached over 1 percent in 2014.

Bosnia and Herzegovina still faces major challenges. Convergence to European Union (EU) income levels has been slow for both cyclical and structural reasons. A lack of progress in structural reforms—partly reflecting the country's complex constitutional set up—has held back private investment, limiting potential output and keeping unemployment high, especially among the youth. The authorities recently adopted a comprehensive Reform Agenda—prepared in cooperation with the EU and the international financial institutions—aiming to accelerate reforms and to move forward on the path toward EU accession.

Domestic political risks weigh heavily on the outlook. The risk of policy slippages and delays in implementation of the Reform Agenda is significant given the complex political set up and the strong opposition to reforms from vested interests. On the external side, risks are more balanced, as stagnation in Europe, possible financial market strains, or geopolitical tensions could dampen growth, while a faster recovery in Europe or the resolution of trade issues with the EU could spur exports.

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

Executive Board Assessment[2]

Executive Directors welcomed the recent pickup in Bosnia and Herzegovina's economic activity following last year's devastating floods and an unfavorable external environment. Directors commended the authorities for maintaining sound macroeconomic policies, and noted that the widening of external and fiscal imbalances, as well as the impact on the banking system, were much more limited than initially feared, despite the substantial damage and hardship caused by the natural disaster. Directors noted, however, that the economy still faces major challenges, and called on the authorities to accelerate critical reforms in order to achieve more sustainable growth and reduce high unemployment.

They agreed that fiscal policy will need to strike a balance between resuming consolidation—to place public debt on a firm downward path—and supporting the nascent recovery. Improving revenue collection, enhancing the quality and efficiency of public expenditure, and containing non-priority spending to create room for infrastructure investment are important priorities.

They recommended that financial policies address remaining vulnerabilities in the banking system, particularly among domestically-owned banks, while creating a stronger financial sector safety net and enabling banks' balance sheet repair. They welcomed the authorities' commitment to address the remaining shortcomings in the framework for anti-money laundering and combating the financing of terrorism.

They stressed that, more than anything, strong progress is needed to complete the still largely unfinished structural reform agenda, including by further improving the business environment and the functioning of the labor market, to attract investment, raise potential output, and reduce high unemployment.

They welcomed the authorities' recent adoption of a comprehensive Reform Agenda aimed at accelerating private sector growth and job creation while maintaining macroeconomic stability. They were encouraged by the country's broad support for this agenda, and noted that its implementation was off to a good start. Directors stressed, however, that reforms will take time and that the authorities will need to overcome strong opposition from vested interests. Moreover, the uncertain and fragile domestic political situation poses considerable risks to its timely implementation. Against this backdrop, Directors emphasized that strong and sustained implementation of reforms and sound economic policies will help mobilize external support, achieve faster growth, and make stronger progress toward EU accession. Developing adequate capacity to absorb external support will also be crucial.

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

Bosnia and Herzegovina: Selected Economic Indicators	2012	2013	2014	2015 Proj.	2016 Proj.
Nominal GDP (KM million)	25,734	26,282	26,779	27,381	28,621
Gross national saving (in percent of GDP)	9.3	11.2	10.1	9.7	10.6
Gross investment (in percent of GDP)	18.1	17.0	17.9	17.6	18.4
		(Percent change)			
Real GDP	-1.2	2.5	1.1	2.1	3.0
CPI (period average)	2.0	-0.1	-0.9	-0.3	1.0
Money and credit (end of period)					
Broad money	3.4	7.9	7.3	5.6	5.9
Credit to the private sector	2.8	2.3	1.8	2.0	2.3
		(In percent of GDP)			
Operations of the general government					
Revenue	46.3	45.3	45.9	46.5	47.0
Of which: grants	2.2	2.4	2.6	2.6	2.7
Expenditure	48.9	47.2	48.8	48.1	48.5
Of which: investment expenditure	6.3	6.3	7.0	6.6	7.4
Net lending	-2.7	-1.9	-3.0	-1.7	-1.5
Net lending, excluding interest payment	-1.9	-1.2	-2.2	-0.7	-0.4
Total public debt	43.6	41.6	44.8	45.5	45.0
Domestic public debt	15.8	13.4	14.2	15.5	14.6
External public debt	27.8	28.2	30.6	30.0	30.4
		(In millions of euros)			
Balance of payments					
Exports of goods and services	4,312	4,597	4,733	5,037	5,439
Imports of goods and services	7,483	7,414	7,943	8,259	8,838
Current transfers, net	1,881	1,876	1,993	1,908	2,022
Current account balance	-1,168	-773	-1,057	-1,112	-1,140
(In percent of GDP)	-8.9	-5.7	-7.7	-7.9	-7.8
Foreign direct investment (+=inflow)	260.3	224.7	422.4	368.4	385.4
(In percent of GDP)	2.0	1.7	3.1	2.6	2.6
Gross official reserves	3,340	3,627	4,013	3,901	4,151
(In months of imports)	5.4	5.5	5.8	5.3	5.4
(In percent of monetary base)	112.6	107.4	112.1	107.4	106.2
External debt, percent of GDP	52.2	52.2	51.9	54.6	55.1

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

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

October 9, 2015

EXECUTIVE SUMMARY

- Bosnia and Herzegovina (BiH) has made considerable progress in the last few years in reducing internal and external imbalances. Moreover, after several starts and stops since the global financial crisis the economic recovery is showing signs of taking a firmer hold. Growth is expected to rebound to over 2 percent this year, up from just over 1 percent last year when the country was hit by massive floods.
- The country still faces major challenges, however. Convergence to European Union (EU) income levels has been slow for both cyclical and structural reasons. Weak activity in Europe has hurt activity in BiH and last year's floods caused major damage. A lack of progress in structural reforms—partly reflecting the country's complex constitutional set-up—has held back private investment, limiting potential output and keeping unemployment high, especially among the youth.
- Policies should focus on accelerating private sector growth and job creation, while ensuring sustainability. A gradual recovery in Europe and low oil prices will aid growth in BiH. With deflation imported via the currency board arrangement, fiscal policy will need to strike a balance between supporting growth and returning public debt to a downward path, although room for policy maneuver will also depend on available financing. Financial policies will need to address banking sector vulnerabilities and aim to resuscitate bank lending. Attracting investment will require accelerating reforms to improve the business environment and labor market outcomes.
- The authorities recently adopted a comprehensive Reform Agenda—prepared in cooperation with the EU and the International Financial Institutions (IFIs)—aiming to accelerate reforms and to move forward on the path toward EU accession. The authorities are also seeking to mobilize financial and technical assistance to assist with the implementation of the Reform Agenda. Strong reform implementation, combined with external support, would help accelerate income convergence and job creation.
- Significant domestic political risks continue to weigh on the outlook, as the fragile and complex political situation poses risks to the timely implementation of policies envisaged in the Agenda. Delays in reform implementation would also delay official external financing and force a tighter fiscal stance. On the external side, risks are more balanced, as stagnation in Europe, possible financial market strains, or geo-political tensions could dampen growth, while a faster recovery in Europe would support it.

Approved By
Jörg Decressin (EUR) and Masato Miyazaki (SPR)

A staff team comprising Messrs. van Rooden (head), Llaudes, and Qu (all EUR), Ms. Benedek (FAD), and Ms. Maslova (SPR) visited Banja Luka and Sarajevo during April 28–May 12, June 10–24, and September 21–23, 2015. Mr. Atoyan (resident representative) and Ms. Jankulov (local economist) assisted the mission. Ms. Muñoz (MCM) joined some of the discussions in May to present the findings of the Financial System Stability Assessment. Mr. Manchev (OED) attended some of the policy discussions. The team met with: at the State level: Chairman of the Council of Ministers Zvizdić, Minister of Finance and Treasury Bevanda, Central Bank Governor Kozarić; in the Federation of BiH: Prime Minister Novalić and Finance Minister Milićević; and in the Republika Srpska: Prime Minister Cvijanović and Finance Minister Tegeltija. Staff also met with other senior officials, and representatives of the main political parties, the business sector, labor unions, and the diplomatic community. Ms. Samuel and Ms. Niman (both EUR) assisted with the preparation of this report.

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ECONOMIC DEVELOPMENTS: WEAK GROWTH AND HIGH UNEMPLOYMENT

A. Context

1. BiH has a complex constitutional set-up that has made it difficult to effect policy changes and implement reforms. It has a central government—the Institutions of Bosnia and Herzegovina—two regional entities with a high degree of autonomy—the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS)—and a small district, Brcko. Furthermore, the FBiH is comprised of ten highly autonomous cantons.

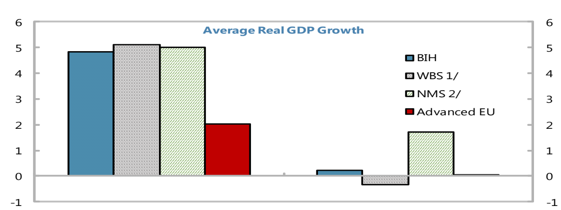
2. BiH has been lagging other countries in the region on the road toward EU integration, although progress has been made recently. While the 2012 Stand-By Arrangement (SBA) helped support macroeconomic stability in a difficult external environment, progress in addressing domestic structural weaknesses was limited. The adoption of a written commitment by the authorities in January 2015 to conduct all reforms needed to prepare BiH for future EU membership allowed the EU Foreign Affairs Council to let the Stabilization and Association Agreement enter into force in June this year. The Council also urged the authorities to develop an agenda for economic reforms, stressing that strong reform implementation would be necessary for a membership application to be considered by the EU.

3. The new governments that came to office following the October 2014 general elections have pledged to accelerate economic reforms. Against the backdrop of popular discontent with a high rate of unemployment, the new governments adopted a comprehensive Reform Agenda in July this year, in close cooperation with the EU and the International Financial Institutions (IFIs) (see below). Implementation of the Reform Agenda will face considerable challenges, however, given a difficult domestic political environment and the need to overcome strong opposition from vested interests.

4. Data are adequate for surveillance purposes. The authorities are working, including with Fund assistance, to address remaining shortcomings, notably in the coverage and quality of fiscal and real sector data.

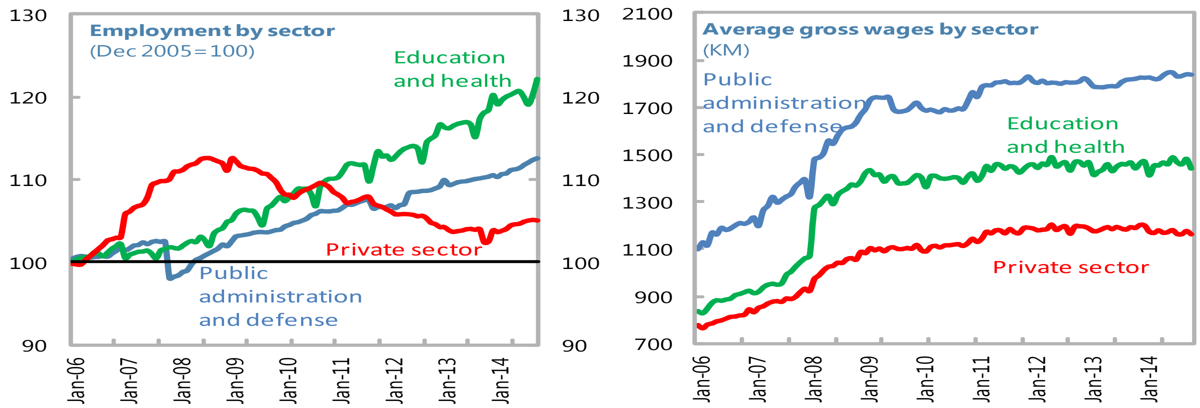
B. A Steady Reduction in External and Internal Imbalances since the Global Crisis and Signs of an Economic Recovery

5. BiH had experienced strong economic growth prior to the global financial crisis. Sizable inflows into the banking system fueled a credit boom, while the introduction of value added taxation in 2006 allowed for large increases in public



Source: Authorities and IMF staff estimates.
1/ WBS consists of ALB, HRV, MKD, MNE, SRB.
2/ NMS consists of BGR, CZE, EST, HUN, LVA, LTU, POL, ROU, SVK, SVN.

sector employment and in public sector wages and social benefits. But while incomes rose, so did domestic and external vulnerabilities. When the economy fell into recession in the aftermath of the global crisis, the current account and budget deficits rose sharply, and with that public debt. Growth was lackluster following the crisis, with several starts and stops, reflecting weak activity across Europe, deleveraging by foreign-owned banks, and slow progress with domestic reforms.



Source: BiH Agency for statistics, and IMF staff calculations.
1/ Private sector employment includes workers employed by a number of state-owned enterprises.

6. **External and internal imbalances have been gradually reduced in recent years, mainly through fiscal consolidation, but also reflecting lower investment and higher savings.** The budget deficit was brought down to just below 2 percent of GDP in 2013 by containing current expenditures and improving revenue collection. The economy started to recover in 2013, with growth reaching 2.5 percent. This progress was interrupted by the natural disaster that hit BiH in May 2014. However, the economy proved more resilient to the impact of the floods than initially expected. Production and exports rebounded faster than anticipated, and despite the limited disbursements of donor assistance—beyond the immediate emergency assistance—growth is estimated to have reached over 1 percent in 2014. The current account and budget deficits widened, but much less than had been feared, while public debt rose to 45 percent of GDP by end-2014.

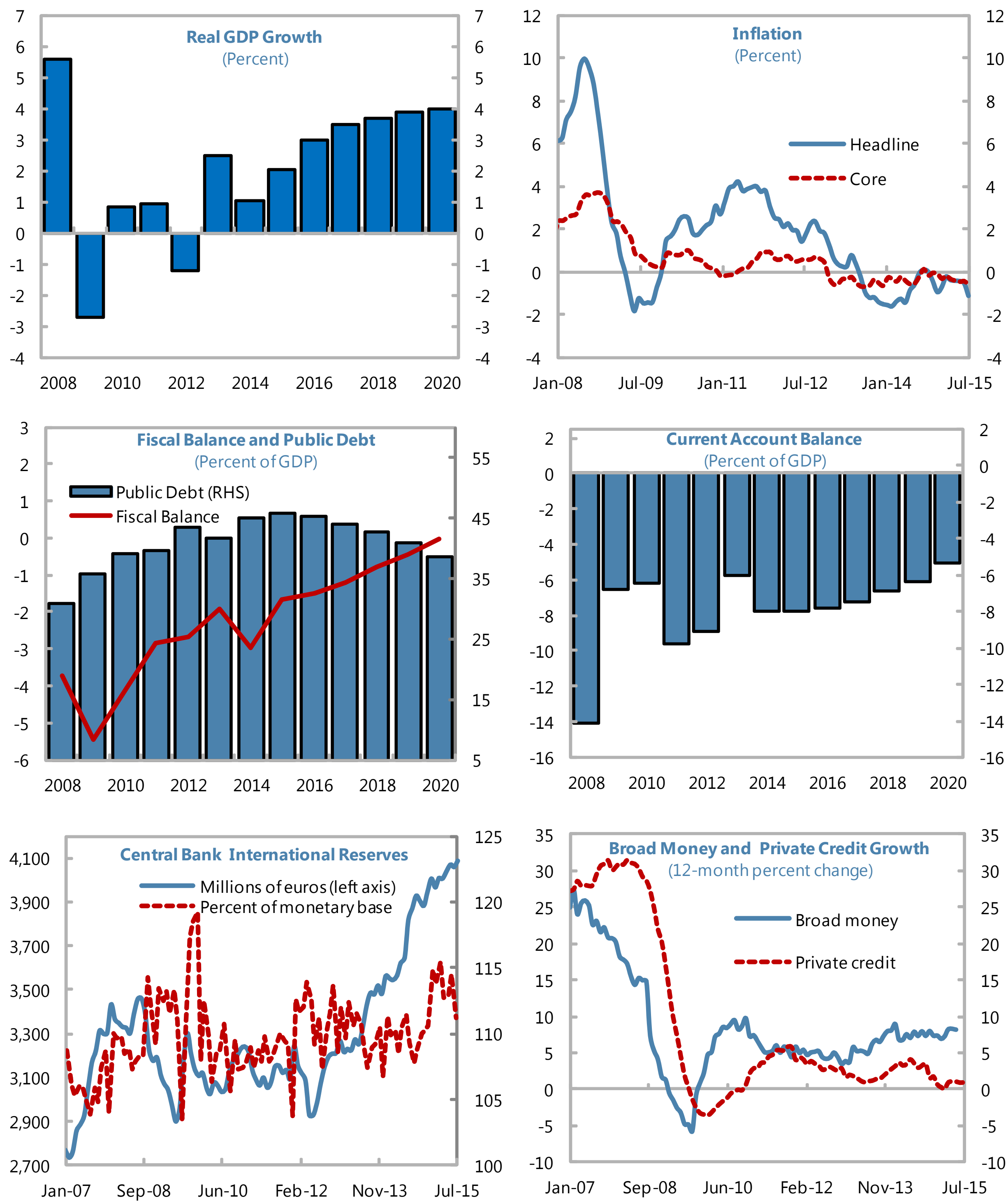
Bosnia and Herzegovina: Donor Support to Address the Floods
(in millions of Euros; as of end-June 2015)

Donor	Pleged	Disbursed
Bilateral	54.7	29.2
International Financial Institutions	755.8	175.6
IMF	95.7	95.7
World Bank	140.0	10.2
EU	85.0	39.1
EBRD, EIB, CEB	435.1	30.6
Total	810.5	204.7

Source: BiH authorities, preliminary data

7. **After these difficult years, an economic recovery is showing signs of taking a firmer hold.** As economic activity is slowly picking up in Europe, growth in BiH is expected to rebound to over 2 percent this year. Industrial activity and exports have been gathering momentum and, together with the decline in fuel prices, boost incomes and consumption. Meanwhile, deflation has been imported through the currency board arrangement.

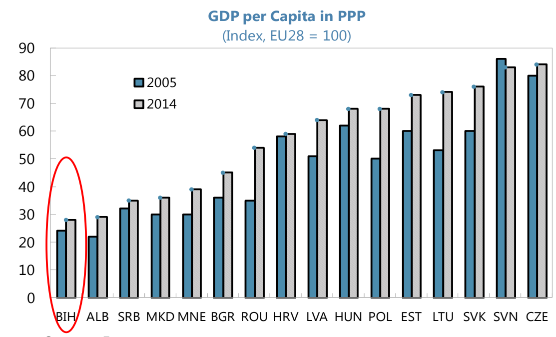
Figure 1. BiH: Selected Economic Indicators



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

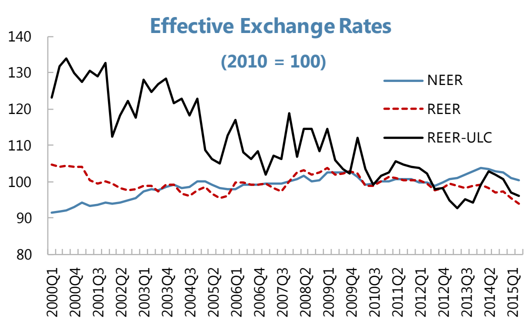
C. But Lagging Reform Implementation has held Back Incomes and Employment

8. While key macro-economic indicators have been improving, BiH still substantially lags its peers in income convergence to more advanced European economies. Per capita incomes average only about a quarter of the average EU income level. In addition, unemployment is stuck at a very high level—28 percent—and high youth and long-term unemployment are particularly worrisome. Unemployment rates appear relatively unresponsive to changes in economic growth, suggesting a large structural component in unemployment.



Sources: Eurostat.

9. Standard analyses do not suggest major issues with regard to external stability. In the wake of the global crisis, the current account balance has moved closer to its sustainable path. Assuming a continuation of fiscal consolidation, EBA-Lite methodologies suggest that the real effective exchange rate is broadly in line with fundamentals.

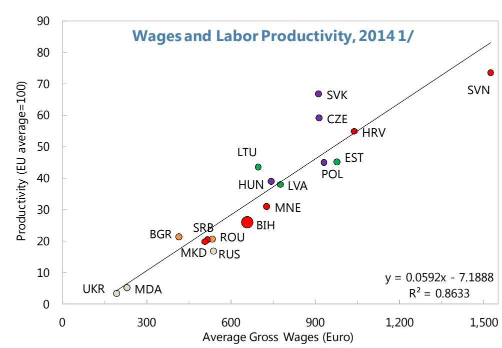


BIH Exchange Rate Assessment 1/

	Current account/ GDP		REER misalignment
Methodology	Norm	Underlying	
Current account model	-6.2	-7.7	4.2
External sustainability	-3.4	-4.9	3.9
Equilibrium real exchange rate	...	...	3.9

1/ Based on IMF EBA-Lite methodology. External sustainability provides medium term assessment of the current account, while the other two methods provide assessments of the projected current account balance and REER in 2015.

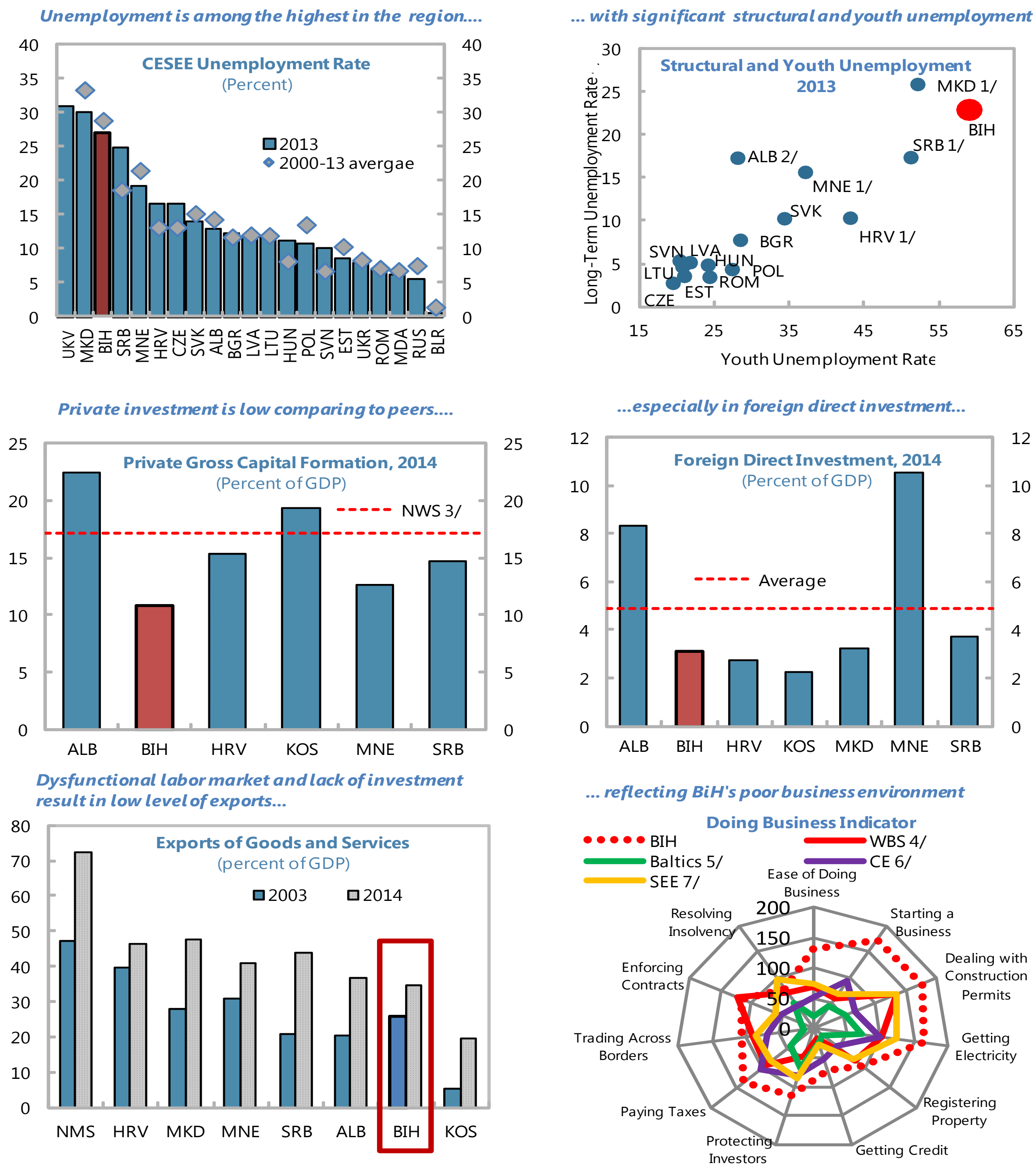
10. Other price indicators, such as average wages, also do not point to competitiveness problems. Wages in BiH are low in absolute levels and appear to be only moderately higher than labor productivity. Average wage levels are pushed up by high wages in the public sector; private sector wages—at least recorded wages—appear to be competitive. At the same time, labor productivity is quite low by regional standards, amounting to just over 25 percent of average productivity in EU countries. Minimum wages, however, are higher than elsewhere in the region.



1/ EU average = 100 (excl. Luxemburg), productivity calculated using 2014 IMF WEO projections for GDP. Wages for Montenegro, Poland, Russia, Serbia and Ukraine as of 2014q4.
Source: Haver Analytics, IMF World Economic Outlook and IMF staff calculations.

11. Private investment—and notably foreign direct investment—is low compared to other countries in the region, limiting potential output and private sector job creation. Low private sector activity has translated also in a relatively low level of exports.

Figure 2. BiH: Structural Weaknesses



Sources: national authorities, World Bank, Haver, Eurostat, OECD, CEA, IMF World Economic Outlook database, and IMF staff calculation.
1/ 2012 data used in place of 2013 data.
2/ Balkan average used for long-term unemployment rate. due to missing data.
3/ NMS consists of BGR, CZE, EST, HUN, LVA, LTU, POL, ROU, SVK, SVN.
4/ WBS consists of ALB, HRV, MKD, MNE, SRB.
5/ Baltics consists of EST, LVA, and LTU.
6/ CE consists of CZE, HUN, POL, SVK, and SVN.
7/ SEE consists of BGR and ROU.

12. This lack of private investment reflects not only political risks, but a still largely unfinished reform agenda, resulting in a poor business environment and labor market rigidities. The complex governing structure with its multitude of regulations and a fragmented economic space create major obstacles to businesses. Despite recent progress, BiH still substantially lags its regional peers in ease of doing business indicators.

13. The result is a high level of structural unemployment. With few private sector jobs and relatively high public sector wages, many unemployed are either waiting for a public sector job or are looking for opportunities abroad—in a 2013 survey 80 percent of young people indicated they would leave the country if they could. In the meantime, remittances provide an important source of income for many households, and may result in higher reservation wages.

POLICY DISCUSSIONS: ACCELERATING GROWTH WHILE MAINTAINING MACROECONOMIC STABILITY

14. The authorities agreed with staff that an ambitious policy agenda is necessary to accelerate growth and reduce unemployment, while maintaining macroeconomic stability. The Reform Agenda adopted in July sets out the governments' plans for economic and social reforms for the coming years, as well as measures to strengthen the rule of law, tackle corruption, and enhance administrative capabilities of public institutions. More specifically, with regard to economic policies, the authorities agreed that these need to focus on:

- intensifying reforms to improve the business environment, attract investment, and raise the economy's growth potential;
- resuming fiscal consolidation to place public debt on a steady downward path, while improving the quality of government spending;
- and safeguarding financial sector stability and reviving bank lending.

The international community has expressed strong support for the authorities' Reform Agenda and has pledged to help the authorities in their efforts, including by providing financial assistance, depending on progress in implementation. Following the adopting of the Reform Agenda, the authorities have been preparing detailed action plans and have started with its implementation.

A. Supporting a Vibrant Private Sector

Background

15. Some progress has been made in the last few years to improve the business environment, but much remains to be done. As noted above, structural reforms have been progressing slowly and face resistance from vested interests. Both entities have been making 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. Similarly, in the FBiH, amendments to the Law on Business Registration and a new Law on Companies and on Inspections were adopted. It had proven difficult in both entities, however, to achieve consensus between the social partners on new labor market legislation that would help create more jobs. The privatization process has yet to be completed, notably in the FBiH, as continued public ownership allows for a system of patronage and weak financial discipline.

Policy Advice

16. To attract investment and boost job creation in the formal economy, it will be critical to:

- ***Improve the business environment*** by: (i) further reducing the administrative burden on businesses, including by harmonizing regulations between the entities and reducing para-fiscal fees; (ii) restarting privatization of state-owned companies, notably in the FBiH, by divesting minority shares and the resolution of remaining state-owned enterprises either through the restructuring and privatization of viable enterprises or the liquidation of non-viable ones; (iii) improving the resolution framework for commercial and labor disputes, including by adopting new entity bankruptcy legislation and enhancing the court system by establishing commercial courts in the FBiH and improving their functioning in the RS to speed up the processing of disputes; (iv) enhancing anti-corruption efforts, including by implementing the anti-money laundering framework; and (v) finalizing the process of WTO accession and resolving trade issues with the EU.

- ***Enhance the functioning of the labor market*** by: (i) revitalizing the collective bargaining process by setting a limit on the duration of collective agreements and requiring renegotiation of existing ones; (ii) allowing wages to be better linked to performance; (iii) reducing disincentives for hiring by increasing opportunities for part-time work and fixed-term contracts and by limiting severance payments; and (iv) increasing labor inspections to reduce informal employment and better protect workers' rights. This will need to be accompanied by strengthening the system of unemployment benefits and active labor market policies, including by expanding training and education opportunities, and by broader education reform to reduce skills mismatches.

Authorities' Views

17. The authorities recognized that future growth must be based on attracting investment and agreed with staff's recommendations. The Reform Agenda includes a set of measures to make it easier to start and operate a business, including by simplifying and harmonizing regulations, as well as commitments to proceed with the restructuring, privatization, or liquidation of most remaining state-owned enterprises and to adopt new labor market legislation that is more conducive to job creation. In a major step forward and notwithstanding continued strong resistance from the labor unions, the FBiH parliament adopted a new Labor Law in line with IMF and World Bank recommendations by the end of July 2015. The RS authorities aim to adopt a new labor law in the coming months.

Box 1. Implementation of Recommendations of the 2012 Article IV Consultation and Performance under the 2012–14 SBA

The 2012 Article IV consultation coincided with the start of a new SBA aimed at countering the effects of a weak external environment and addressing domestic structural weaknesses. The program had as goals to: (i) improve national policy coordination; (ii) maintain fiscal discipline, and advance public sector reforms to reduce the size of the government and improve the composition of expenditure; (iii) safeguard financial sector stability in the context of the currency board; and (iv) intensify reforms to improve the business and investment environment to support growth, investment and job creation.

During the program period, the authorities have been successful in reducing external and internal imbalances. While the external environment proved more adverse than expected, the budget deficit was steadily reduced, the current account deficit narrowed, and official foreign exchange reserves rose steadily. An augmentation of the SBA in June 2014 helped address the urgent balance of payment needs created by the floods.

While macro-economic policies were sound—and remained so in the run up to the October 2014 elections—progress in structural reform implementation was mixed and reform efforts stalled once the election campaign got underway:

- Progress was made in strengthening public financial management—with the adoption of a new budget framework law in the FBiH, amendments to the Law on Financing of the Institutions of BiH, and a new BiH procurement law—and in the area of taxation—with an increase in tobacco excises and a start with the exchange of taxpayer information between the four tax agencies. In the FBiH, privileged pensions for war veterans were reduced, although the number of beneficiaries was increased. New pension legislation is under preparation. Little or no progress was made, however, in improving the composition and quality of government spending.
- Progress was also made in strengthening bank oversight and in safeguarding financial sector stability. Financial sector contingency plans were adopted, including a BiH-wide plan focusing on systemic events. Asset quality reviews of weaker banks were conducted or are underway. All banks conducted bottom-up stress tests for the first time in addition to the regular top-down stress testing. New banking laws are under preparation, while amendments had already been introduced regarding treatment of confidential information to allow for enhanced cooperation with foreign supervisors.
- Less progress was made in improving the business environment and labor market, although a one-stop business registration process was introduced in the RS and the last of a series of legislative changes was recently approved in the FBiH to achieve the same. Moreover, after long delays a new labor law that is more conducive to job creation was recently adopted in the FBiH, while this is still pending in the RS. No progress was made in restructuring or divesting remaining state-owned assets.

B. Fiscal Policies: Ensuring Sustainability, While Supporting Growth

Background

18. The authorities' gradual fiscal consolidation over the past several years brought the increase in the public debt ratio to a halt—and would have supported a decline if not for the floods. The overall budget deficit was reduced from its peak of 6 percent of GDP in 2009 to just under 2 percent of GDP in 2013, mainly by strictly containing current spending. This downward trend was interrupted by the floods in 2014. The reduction in the deficit was achieved despite a worse economic environment: economic growth during 2012–14—both in nominal and real terms—turned out to be much lower than anticipated at the start of the last Fund-supported arrangement in 2012, due to lower growth in Europe, deflation, the floods, and weak bank lending. Consequently, revenues also did not reach the levels projected three years ago, forcing much lower spending levels.

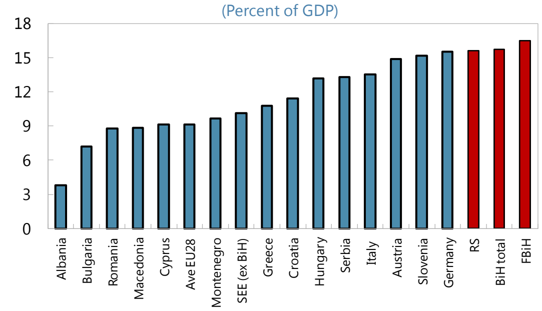
19. Despite the natural disaster and the elections, the overall fiscal stance in 2014 was tighter than anticipated. The overall deficit is estimated to have reached 3 percent of GDP in 2014, from an original pre-disaster target of 1.7 percent of GDP. However, this was much lower than the 4 percent of GDP deficit projected immediately following the disaster, owing to a faster than expected recovery in revenues, slower reconstruction efforts, and restraint on non-flood related expenditures. Public debt reached 45 percent of GDP by the end of 2014.

20. A number of key fiscal structural weaknesses remain:

- ***Deficiencies in tax policy and revenue administration.*** The overall level of tax and social security contributions is one of the highest in the region, with indirect taxes and social security contributions together providing more than 90 percent of revenues. Standard tax rates of both income taxes and VAT are low and competitive in the region. Notably, the single VAT rate of 17 percent and its broad base ensure a high efficiency of VAT collection. Some progress has been made in recent years in improving revenue administration, especially in the collection of indirect tax revenues. Revenues from corporate and personal income taxation on the other hand are very low, and not only because of low rates. Narrow tax bases, generous incentives, and low compliance erode revenues.

- ***A high tax burden on labor.*** The tax wedge—comprising both personal income taxes and social security contributions, but with most of the burden coming from the latter—is higher in the FBiH than in the RS, but it is relatively high in both entities compared to elsewhere in the region. The high burden on labor is a strong disincentive for people to move from informal to formal employment and for some, possibly, even to enter the labor market. The tax base of

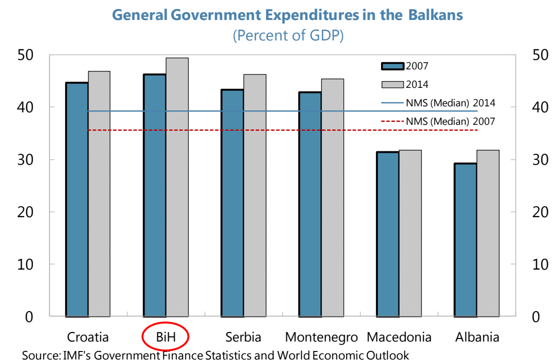
Social Security Contributions Revenue, 2012
(Percent of GDP)



Source: IMF's Government Finance Statistics and World Economic Outlook, Eurostat, and country authorities.

both personal income taxes and social security contributions is very narrow, with a substantial share of workers' compensation provided through untaxed benefits, in the form of allowances, especially in the FBiH.

- ***An outsized public sector with a high share of current spending, but with a low quality of spending.*** The public sector is among the largest in the region, and has the highest share of spending on wages and goods and services. And while public financial management has improved, outcome indicators of public spending on health care and social assistance are among the worst in the region, even though spending in these areas is the highest.



Source: IMF's Government Finance Statistics and World Economic Outlook
New Member States include: Bulgaria, Czech R., Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, Slovakia

- ***Moreover, due to administrative problems and difficulties in reaching agreements between the entities and the central government, the public sector has not managed to unlock all the donor support for reconstruction.*** Faster absorption of donor assistance could have provided a much-needed boost to the economy.

Policy Advice

21. Looking ahead, with a tight monetary policy and deflation imported via the currency board arrangement, a gradual fiscal consolidation would strike an appropriate balance between ensuring medium-term sustainability and supporting the nascent recovery. A gradual reduction of the budget deficit to between zero and one percent of GDP over the medium-term is a suitable target consistent with reducing public debt to below 40 percent of GDP—an appropriate level for an emerging economy with a currency board and limited access to international markets.

22. The 2015 central government budgets that were adopted in late 2014 and early 2015 and which aimed to contain current spending were consistent with this goal. The overall budget deficit was initially projected to decline to about 2½ percent of GDP this year, although this depended on the availability of sufficient financing, progress in implementing foreign-financed capital projects, and the ability to control spending by lower levels of government, extra-budgetary funds, and state-owned companies. Given delays, however, in the preparation and implementation of foreign-financed capital projects—including the ones to address the impact of last year's floods—the overall budget deficit is more likely to remain limited to just over 1½ percent of GDP this year.

23. Continuing with a gradual pace of fiscal consolidation will require the authorities to mobilize sufficient financing. External debt servicing obligations are projected to increase again in the coming years and BiH has little or no access to international capital markets. The authorities could raise additional domestic financing, as banks have ample liquidity, but banks may be reaching exposure limits, while too much reliance on domestic financing could crowd out private sector lending and hurt growth. A gradual fiscal adjustment will therefore depend on the authorities' ability to secure official external support. Without this, fiscal policy would have to be tightened considerably faster than appropriate—and cuts would likely fall heaviest on public investment, although spending on wages and benefits would be affected too—which would undermine the economic recovery.

24. In any event, comprehensive fiscal reforms are needed to make fiscal consolidation sustainable, create room for investment in infrastructure, and improve the efficiency of public finances:

- ***Improving revenue collection.*** Progress has been made in recent years to improve revenue collection, but more remains to be done to fight tax evasion and collect tax debts. Revenue collection and administration will need to be strengthened by: (i) enhancing the cooperation between the four tax authorities and strengthening the powers of the entity tax administrations to improve compliance; (ii) moving more toward a risk-based approach for the selection of tax audits and inspections; and (iii) increasing efforts to collect outstanding tax and social security contribution debts. Meanwhile, the single-rate VAT tax that is applied to a broad base is highly effective and will need to be preserved.

- ***Lowering the tax burden on formal employment.*** The tax wedge could be reduced by lowering social security contribution rates. This could be offset by broadening the tax base for labor income by taxing all sources of work-related income, in particular allowances, and by eliminating corporate income tax exemptions and incentives.

- ***Reducing public spending, while improving its composition and quality.*** This includes: (i) implementing public administration reform, including limiting new hiring and refraining from general public sector wage increases as wages in the public sector appreciably exceed those in the private sector; (ii) initiating health care reform; (iii) ensuring the sustainability of the pension system by completing pension reforms, including by increasing the effective retirement age and broadening the base for contributions; and (iv) improving the targeting of social assistance to protect the most vulnerable, while containing the costs of benefits to war veterans, including by completing audits of beneficiaries.

- ***Strengthening controls over lower levels of government, extra-budgetary funds, and state-owned enterprises.*** Efforts are needed to fully account for and stop the increase in uncovered liabilities by lower levels of government and loss-making state-owned enterprises. Further efforts are needed to strengthen fiscal accountability frameworks and reporting in both entities, including by adopting a new fiscal responsibility law in the RS and strengthening implementation of the new law on budgets in the FBiH. Moreover, a comprehensive strategy is needed to tackle the issue of unpaid social security contributions by state-owned enterprises.

Authorities' Views

25. The authorities agreed that fiscal policies need to be aimed at resuming fiscal consolidation, while making adequate room for capital spending. They are committed to strictly contain current spending, notably the wage bill, and to adopt new civil service laws to increase flexibility. The authorities are aiming to mobilize sufficient external financing to allow for a more gradual pace of fiscal consolidation and they expect that strong implementation of the Reform Agenda will help them in securing the necessary financing. They also noted the difficulties in controlling lower levels of government, given the high degree of decentralization.

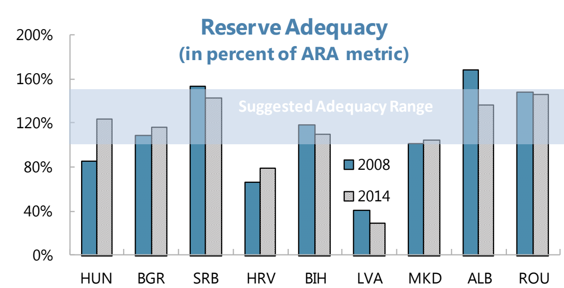
26. The authorities are planning to lower the tax burden on labor and adopt new income tax laws. New personal and corporate income tax laws are under preparation in the RS, with assistance from the Fund, while in the FBiH a new corporate income tax law, also developed with Fund assistance and substantially broadening the base by eliminating exemptions, has been submitted to parliament. While there was general agreement on the need to broaden the tax base and improve revenue administration, some expected only limited effect from enhanced cooperation between the tax agencies and stressed the need to adhere to constitutional competencies. Instead, they preferred raising the VAT rate to finance a reduction in social security contribution rates. Staff concurred that a VAT rate increase—albeit a more modest one—could be considered but stressed that this hike should only be a last resort measure if other measures proved insufficient.

27. The authorities are seeking the assistance of the World Bank and the EU to improve the effectiveness of government spending. Immediate efforts are to be focused on pension and health care reform, reform of state-owned enterprises, as well as on public administration reform. In the FBiH, new pension legislation, prepared with the assistance of the World Bank, is expected to be submitted to parliament in the coming months.

C. Safeguarding Financial Sector Stability and Reviving Bank Lending

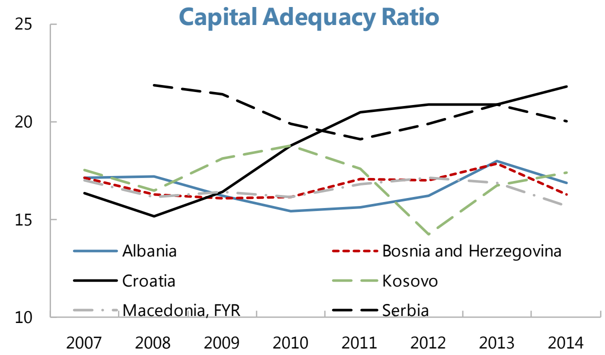
Background

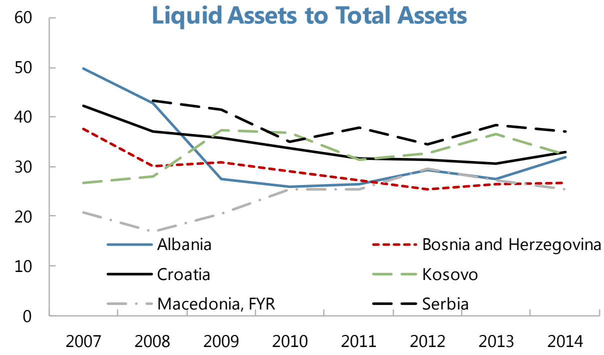
28. The currency board arrangement has served the country well by providing stability in an otherwise uncertain environment, even though more recently it resulted in the importation of low inflation. Official foreign exchange reserves are adequate and the currency board has a sizeable foreign exchange buffer. BiH continues to avail itself of the transitional arrangements under Article XIV, but no longer maintains restrictions under Article XIV. Restrictions subject to Fund jurisdiction under Article VIII remain on the transferability of frozen foreign-currency deposits.



Source: IMF staff estimates.

29. The Financial System Stability Assessment (FSSA) concluded in June 2015 found the financial system at the aggregate level to be liquid, adequately capitalized, and resilient to shocks. The financial system is dominated by a moderately concentrated banking sector which compromises mostly foreign subsidiaries. A conservative regulatory framework and a traditional banking model have supported high capital and liquidity buffers in the system. Banks have withstood the impact of the floods well and only made limited use of temporary regulations that allowed them to reschedule or temporarily halt the repayment of loans of clients affected by the floods.





30. Nevertheless, pockets of vulnerabilities exist among domestically-owned banks. Some domestically-owned banks with governance and risk management shortcomings, high loan concentration ratios, and higher levels of non-performing loans are struggling to meet capital requirements or rely on government support. A number of detailed asset quality reviews (AQRs) of banks that had been under enhanced supervision were conducted last year. Based on these, banking supervisors required several banks to raise additional capital, much of which has been already implemented. One small bank that failed to raise new capital was closed in late 2014 and insured deposits were paid out quickly.

31. Moreover, credit to the private sector is still stuck in low gear, as demand for new loans is weak and banks continue to repair their balance sheets. A deterioration in banks' asset quality and profitability, together with an inadequate resolution and insolvency framework, have resulted in a persistently high level of non-performing loans—14 percent of total loans at the end of the first quarter of 2015, although these are largely provisioned for.

32. Coordination among the various institutions involved in bank oversight has improved, but there remain critical gaps in the financial sector safety net. The Standing Committee on Financial Stability (SCFS) adopted an overarching contingency plan for BiH, focusing predominantly on systemic events, including the role of the Fiscal Council, the fiscal coordination body between the national and entity governments of BiH. The plan defines the principles of information exchange and communication; the triggers for actions by all levels of government; and the tools and actions in the event of severe financial sector difficulties. Significant deficiencies remain in the financial safety net, especially with regard to resolution powers, institutional responsibility for resolution, and recovery and resolution planning.

Policy advice

33. Further efforts are needed to ensure financial sector stability and to help revive bank lending. These include:

- ***Taking strong and timely actions to deal with weaker banks.*** This will require developing a more comprehensive strategy—backed by a thorough diagnostic assessment—including a credible backstop to deal with any systemic cases. This includes: (i) completing pending AQRs and requiring AQRs to be conducted also for banks that have been expanding rapidly in recent years; (ii) setting clear deadlines for banks where AQRs revealed capital shortfalls to remedy these; (iii) and closing any bank that continues to fail to meet capital requirements after the deadline.

- ***Finalizing new banking legislation, including elements to strengthen the financial sector safety net.*** Both entities, supported by Fund staff, have made good progress in preparing new banking laws that are consistent with EU directives and Basel requirements, but gaps remain, and further assistance will be needed. These laws are expected to strengthen supervisors' corrective and enforcement powers, introduce consolidated supervision, and improve crisis management and resolution frameworks, including by designating resolution authorities. Related legislation, such as the Deposit Insurance Agency law, and Banking Agency laws, will need to be reviewed and amended accordingly, also to allow for the establishment of a single resolution fund to deal with any failing systemic banks and for the Deposit Insurance Fund to provide funding for bank resolution subject to the least cost principle.

- ***Introducing legislative and regulatory changes to improve the framework for recovering and resolving non-performing loans***, including by facilitating out-of-court restructuring of debts and the sale of non-performing loans by banks—including by clarifying the tax treatment of loan sales and the establishment and supervision of private asset management companies.

- ***Strengthening the liquidity management framework.*** Adding liquidity coverage ratios to the liquidity regulations would help to improve banks' liquidity risk management. Also, given the current high level of liquidity in the system, reserve requirements for banks could be raised to rebuild liquidity buffers, while they could be better tailored toward prudential purposes by increasing the number of holding periods during which the bank under stress can breach the reserve requirements and supplementing this with minimum holding thresholds and higher penalty rates for a breach before more severe sanctions are applied.

- ***Ensuring that remaining deficiencies in the legal and regulatory framework for combating money laundering and the financing of terrorism are addressed.*** While progress has been made in the last year, failure to complete this work by fully implementing the action plan agreed with the Financial Action Task Force could result in serious obstacles to cross-border transactions.

Box 2. Financial System Stability Assessment—Key Findings and Recommendations[1]

Systemic Solvency and Liquidity. Aggregate solvency and liquidity indicators of the banking system appear broadly sound, but significant pockets of vulnerability exist within domestically-owned banks, some of which are struggling to meet capital requirements, while some others are relying on public support. Decisive and timely actions to deal with weak banks are critical for preserving financial stability, including by developing a comprehensive strategy—backed by a credible diagnostic assessment—to either facilitate the recovery of weak banks or to resolve them in a cost-effective manner, while maintaining financial stability and protecting insured depositors.

Financial Safety Net. The financial safety net needs to be strengthened by establishing resolution authorities with comprehensive powers, appropriate resolution tools, and temporary and limited emergency liquidity support—within the currency board arrangement—for solvent but illiquid banks. While the deposit insurance system is largely compliant with international standards, shortening the payout period would be appropriate. Well-coordinated contingency planning—domestic and cross-border—would contribute to an effective financial safety net. A macro-prudential framework should be established, underpinned by broader and more focused cooperation among the relevant agencies.

Banking and Insurance Oversight. Banking and insurance oversight has improved, but complex institutional arrangements for cooperation among the various oversight institutions and the lack of adequate governance and risk management have contributed to the vulnerabilities. The administrative powers of the agencies to sanction and fine supervisory board members and significant owners are inadequate, while the supervisory board selection process and internal audit functions of state banks need to be strengthened. The identification of ultimate beneficial owners of banks needs to be strengthened as related-party lending and group exposures are obscure. The prudential framework for the insurance sector should be updated to improve its risk sensitivity. Consumer protection and financial literacy in the insurance industry are weak and should be improved.

Resolution of NPLs. A High system-wide NPL ratio is a consequence of the impact of the crisis, low growth since then, and a history of lax lending policies. Bank governance problems, related-party loans and inadequate corporate resolution and insolvency frameworks pose significant obstacles to addressing asset quality problems. The legal framework governing creditor/debtor relationships is comprehensive, but neither debt resolution nor bankruptcy liquidation work effectively. There is a need to streamline execution procedures, introduce incentives to facilitate corporate debt restructurings and resolution, and adopt out-of-court restructuring guidelines. Hiring more commercial court judges and improving the regulation of the insolvency profession is needed.

Financial Market Infrastructure. The payment system meets the international standard, but liquidity and legal risks exist, arising from the high concentration of transaction values in the payment systems across a few banks and lack of legal certainty on finality and netting arrangements. Progress has been made in enhancing the AML/CFT framework, but further efforts are necessary to address remaining deficiencies. The securities market legal and regulatory framework is sound and the infrastructure is well developed. But the markets would benefit from introducing a 'passporting' framework, and from increased transparency and information disclosures. Leasing operations could be enhanced by revising collateral requirements and strengthening repossession of assets.

[1] The 2015 FSSA of Bosnia and Herzegovina was completed on June 29, 2015 (SM/15/120).

Authorities' Views

34. The authorities welcomed the FSSA findings and recommendations, especially its efforts to tailor the advice to the country's specific institutional set-up, and shared staff's assessment of banks' health. They acknowledged that not having a single body that has the mandate for financial supervision and crisis preparedness poses considerable challenges, particularly in case of systemic events. The authorities emphasized that it is the role of the SCFS to coordinate financial sector oversight and supervision, although they recognized that its efficiency and effectiveness could be strengthened further. The banking agencies are considering expanding the number of banks to undergo AQRs and are determined to close banks that continue to fail minimum capital requirements after deadlines given for recapitalization expire.

35. Views of the SCFS members on how best to create an effective bank restructuring and resolution framework diverged. Some considered a centralized restructuring and resolution authority at the state level to be optimal, while others preferred to keep resolution powers fully at the entity level. Staff's suggestion to establish a single resolution fund for systemic banks under the Deposit Insurance Agency, while maintaining the banking agencies as resolution authorities could be a pragmatic solution, provided an appropriate governance structure for the resolution fund can be agreed upon.

36. The authorities agreed with the need to revive bank lending to support economic growth. They expect greater impact from improving the court systems and new bankruptcy legislation to address non-performing loans than from facilitating out-of-court restructuring. Banks, on the other hand, saw greater merit in the latter. The authorities stressed they are committed to address remaining shortcomings in the AML/CFT framework.

OUTLOOK AND RISKS

37. Looking ahead, with strong implementation of economic reforms as outlined in the authorities' Reform Agenda, growth could reach 4 percent over the medium term. Moreover, if external official support can be mobilized, fiscal consolidation could be pursued more gradually, allowing fiscal policy—in the absence of an independent monetary policy—to better support the economic recovery. Reconstruction efforts could also substantially add to growth, if the authorities would be able to speed up the absorption of assistance that donors have made available, by accelerating the preparation and approval of projects. With sustained and strong growth, incomes could be expected to gradually catch up to levels elsewhere in Europe. This active policy scenario that reflects the authorities' commitment to reforms and sound economic policies is shown in tables 1–5. This scenario shows a financing need that could be filled with support from the EU and the IFIs, who have pledged support depending on strong implementation of the Reform Agenda.

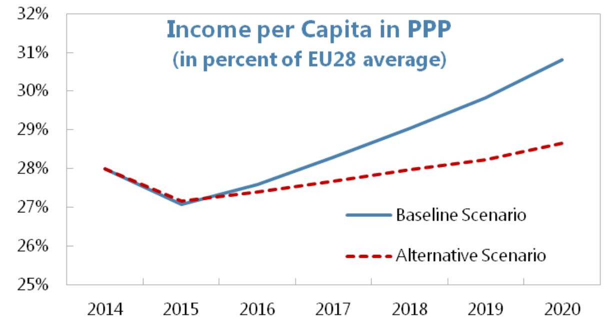
38. **This outlook is subject to substantial risks, however.** Notably, domestic political risks weigh heavily on the outlook, as the risk of policy slippages and delays in implementation of the Reform Agenda is significant given the complex political set-up and the strong opposition to reforms from vested interests. On the external side, as highlighted in the attached Risk Assessment Matrix, risks are more balanced, as stagnation in Europe, possible financial market strains, or geo-political tensions could dampen growth, while a faster recovery in Europe or the resolution of trade issues between BiH and the EU could spur exports.

Bosnia and Herzegovina: Key Economic Indicators, 2014–2020

	2014	2015	2016	2017	2018	2019	2020
Active scenario							
Real GDP (percent change)	1.1	2.1	3.0	3.5	3.7	3.9	4.0
Gross investment (percent of GDP)	17.9	17.6	18.4	18.6	18.9	19.2	19.6
CPI (percentage change)	-0.9	-0.3	1.0	1.2	1.3	1.9	2.1
Credit to the private sector (percentage change)	1.8	2.0	2.3	4.2	5.8	6.4	7.2
Government investment expenditure (million KM)	1882	1803	2116	2295	2455	2643	2862
Budget balance (percent of GDP)	-3.0	-1.7	-1.5	-1.2	-0.8	-0.4	0.0
Public debt (percent of GDP)	44.8	45.5	45.0	43.9	42.7	40.9	38.5
Export of goods and services (million EUR)	4733	5037	5439	5805	6184	6583	6993
Current account balance (percent of GDP)	-7.7	-7.9	-7.8	-7.4	-6.8	-6.2	-5.2
Gross official reserves (million EUR)	4013	3901	4151	4415	4732	4882	5281
Per capita GDP (EUR)	3529	3616	3789	3999	4241	4520	4828
Passive scenario							
Real GDP (percent change)	1.1	2.1	2.2	2.3	2.3	2.4	2.5
Gross investment (percent of GDP)	17.9	17.6	17.1	17.4	17.4	17.4	17.5
CPI (percentage change)	-0.9	-0.3	0.9	1.1	1.4	1.7	1.9
Credit to the private sector (percentage change)	1.8	2.0	1.6	2.0	2.8	3.2	3.9
Government investment expenditure (million KM)	1882	1803	1722	1877	2016	2146	2372
Budget balance (percent of GDP)	-3.0	-1.7	-0.2	0.0	0.0	0.0	0.0
Public debt (percent of GDP)	44.8	45.5	44.5	42.8	41.2	39.5	37.6
Export of goods and services (million EUR)	4733	5037	5268	5545	5840	6163	6528
Current account balance (percent of GDP)	-7.7	-7.9	-7.7	-8.1	-7.5	-7.1	-6.5
Gross official reserves (million EUR)	4013	3901	3906	3782	3682	3716	3860
Per capita GDP (EUR)	3529	3616	3751	3908	4095	4291	4508

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

39. In an alternative scenario without reforms and external financial support, growth prospects are likely to be much weaker than in the baseline. Fiscal policy, as noted above, would have to be tightened faster, hurting growth. Private investment would remain low, as would private sector job creation and export growth. Such a passive scenario of muddling through would not need to lead to economic instability, but would rather imply a lower growth path. This passive scenario is shown in tables 6–10. Incomes, however, would continue to fall behind relative to the rest of Europe, which could result in increased popular discontent and further emigration.



Source: IMF staff estimates.

STAFF APPRAISAL

40. The economy is showing welcome signs of recovery. Following last year's devastating floods, activity recovered more quickly than anticipated, testament to the resilience of the population. The widening of external and fiscal imbalances, as well as the impact on the banking system, remained much more limited than had been feared, despite the substantial damage and hardship caused by the disaster.

41. The authorities have implemented sound macro-economic policies in the last several years. External and internal imbalances have been gradually reduced, mainly through fiscal consolidation and in an economic environment that was much more adverse than had been projected. The exchange rate appears to be broadly in line with fundamentals, but poor business conditions and skills mismatches restrain external dynamism and growth. The overall budget deficit has been substantially reduced, although the public sector remains large while the quality of public spending is poor. The banking system has weathered the global financial crisis and subsequent period of weak growth relatively well, but pockets of vulnerabilities exist and lending is stuck in low gear.

42. Much remains to be done if incomes are to catch up faster to the levels in more advanced European countries and if the very high level of unemployment is to be reduced. The authorities will need to implement an ambitious policy agenda to accelerate private sector growth and reduce unemployment, while maintaining macroeconomic stability. The authorities will need to mobilize adequate external financing so that fiscal policy can strike a balance between resuming consolidation, to place public debt on a firm downward path, and supporting the nascent recovery. Financial policies will need to address remaining vulnerabilities in the banking system, while creating a stronger financial sector safety net and enabling banks' balance sheet repair. But most of all, strong progress will need to be made to complete the still largely unfinished structural reform agenda. Urgent action is needed to further improve the business environment and the functioning of the labor market to attract investment, raise potential output, and create more private sector jobs.

43. The adoption by the authorities of an ambitious and comprehensive Reform Agenda is a welcome and significant step, but what will matter is strong and sustained implementation. While there is broad support for the Reform Agenda and its implementation is off to a good start, reforms take time and the authorities will need to overcome strong opposition from vested interests. The uncertain and fragile domestic political situation poses considerable risks to the timely implementation of reform measures and continuation of sound macro-economic policies. Delays in reform implementation could also delay the availability of external support. On the other hand, strong implementation of reforms and sound economic policies would allow BiH to achieve faster growth and to make stronger progress on the road toward EU accession.

44. BiH has not accepted the obligations under Article VIII, Sections 2, 3, and 4, and maintains restrictions on the transferability of balances and interest accrued on foreign currency deposits, subject to Fund jurisdiction under Article VIII. Staff does not recommend approval of these restrictions.

45. It is recommended to hold the next Article IV consultation on the standard 12-month cycle.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, Active Scenario 2012–20

	2012	2013	2014		2015	2016	2017	2018	2019	2020
			EBS/14/74	Est.	Proj.					
Nominal GDP (KM million)	25,734	26,282	27,123	26,779	27,381	28,621	30,137	31,894	33,943	36,196
Gross national saving (in percent of GDP)	9.3	11.2	9.1	10.1	9.7	10.6	11.2	12.1	12.9	14.3
Gross investment (in percent of GDP)	18.1	17.0	19.8	17.9	17.6	18.4	18.6	18.9	19.2	19.6
(Percent change)										
Real GDP	-1.2	2.5	0.7	1.1	2.1	3.0	3.5	3.7	3.9	4.0
CPI (period average)	2.0	-0.1	1.1	-0.9	-0.3	1.0	1.2	1.3	1.9	2.1
Money and credit (end of period)										
Broad money	3.4	7.9	3.6	7.3	5.6	5.9	5.7	5.1	3.6	6.6
Credit to the private sector	2.8	2.3	3.2	1.8	2.0	2.3	4.2	5.8	6.4	7.2
(In percent of GDP)										
Operations of the general government										
Revenue	46.3	45.3	45.1	45.9	46.5	47.0	47.1	47.2	47.4	47.5
Of which: grants	2.2	2.4	2.5	2.6	2.6	2.7	2.7	2.7	2.7	2.7
Expenditure	48.9	47.2	49.2	48.8	48.1	48.5	48.3	47.9	47.8	47.5
Of which: investment expenditure	6.3	6.3	7.8	7.0	6.6	7.4	7.6	7.7	7.8	7.9
Net lending	-2.7	-1.9	-4.1	-3.0	-1.7	-1.5	-1.2	-0.8	-0.4	0.0
Net lending, excluding interest payment	-1.9	-1.2	-3.3	-2.2	-0.7	-0.4	0.0	0.3	0.8	1.1
Total public debt	43.6	41.6	46.2	44.8	45.5	45.0	43.9	42.7	40.9	38.5
Domestic public debt	15.8	13.4	13.2	14.2	15.5	14.6	13.8	13.4	13.3	12.3
External public debt	27.8	28.2	32.9	30.6	30.0	30.4	30.1	29.3	27.6	26.1
(In millions of euros)										
Balance of payments										
Exports of goods and services	4,312	4,597	4,412	4,733	5,037	5,439	5,805	6,184	6,583	6,993
Imports of goods and services	7,483	7,414	7,983	7,943	8,259	8,838	9,300	9,731	10,175	10,609
Current transfers, net	1,881	1,876	1,970	1,993	1,908	2,022	2,096	2,175	2,265	2,359
Current account balance	-1,168	-773	-1,489	-1,057	-1,112	-1,140	-1,143	-1,104	-1,083	-971
(In percent of GDP)	-8.9	-5.7	-10.7	-7.7	-7.9	-7.8	-7.4	-6.8	-6.2	-5.2
Foreign direct investment (+=inflow)	260.3	224.7	256.6	422.4	368.4	385.4	403.8	423.8	465.4	498.9
(In percent of GDP)	2.0	1.7	1.9	3.1	2.6	2.6	2.6	2.6	2.7	2.7
Gross official reserves	3,340	3,627	3,621	4,013	3,901	4,151	4,415	4,732	4,882	5,281
(In months of imports)	5.4	5.5	5.4	5.8	5.3	5.4	5.4	5.6	5.5	5.7
(In percent of monetary base)	112.6	107.4	108.6	112.1	107.4	106.2	108.3	110.4	110.0	111.6
External debt, percent of GDP	52.2	52.2	54.6	51.9	54.6	55.1	54.5	54.1	53.4	53.4

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

Table 2. Bosnia and Herzegovina: Real Sector Developments, Active Scenario 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Est.	Proj.					
Real aggregates	(Percent change)								
Growth rates									
GDP at constant 2010 prices	-1.2	2.5	1.1	2.1	3.0	3.5	3.7	3.9	4.0
Domestic demand	-2.3	0.6	3.2	2.2	3.4	3.3	3.3	3.5	3.5
Private	-2.7	1.1	2.6	2.7	3.0	3.2	3.2	3.4	3.3
Public	-1.0	-1.3	5.5	0.1	4.7	3.5	3.5	4.0	4.1
Consumption	-2.1	1.4	2.5	2.7	2.9	3.1	2.9	3.0	2.9
Private	-2.5	2.4	2.4	2.8	3.3	3.2	3.0	3.0	2.8
Public	-0.7	-3.1	2.9	2.5	1.1	2.5	2.9	3.3	3.3
Gross capital formation	-3.2	-3.4	7.2	-0.6	6.1	4.3	5.1	6.0	6.2
Private	-3.8	-7.2	3.9	2.6	1.2	3.2	5.3	6.3	6.4
Public	-2.0	3.6	12.7	-5.6	14.2	6.1	4.8	5.5	5.7
Net Exports									
Exports of goods and services	-1.4	8.2	4.6	5.1	7.0	7.1	7.3	7.4	7.3
Imports of goods and services	-4.1	1.1	8.8	4.2	6.4	5.2	5.1	5.3	5.0
Contributions to real GDP growth	(Year-on-year change over real GDP in previous year, in percent)								
GDP at constant 2005 prices	-1.2	2.5	1.1	2.1	3.0	3.5	3.7	3.9	4.0
Domestic demand	-2.8	0.7	3.7	2.6	4.0	3.9	3.9	4.2	4.1
Private	-2.5	1.1	2.4	2.5	2.8	3.0	3.0	3.1	3.1
Public	-0.3	-0.3	1.4	0.0	1.2	0.9	0.9	1.0	1.1
Consumption	-2.1	1.4	2.4	2.7	2.9	3.1	2.9	3.0	2.9
Private	-2.0	2.0	1.9	2.2	2.7	2.6	2.4	2.4	2.3
Public	-0.1	-0.6	0.5	0.5	0.2	0.4	0.5	0.6	0.6
Gross capital formation	-0.6	-0.7	1.3	-0.1	1.1	0.8	1.0	1.2	1.2
Private	-0.5	-0.9	0.4	0.3	0.1	0.4	0.6	0.7	0.8
Public	-0.1	0.2	0.9	-0.4	1.0	0.5	0.4	0.4	0.5
Net Exports	1.6	1.7	-2.7	-0.5	-1.0	-0.4	-0.2	-0.3	-0.1
Exports of goods and services	-0.4	2.3	1.4	1.5	2.2	2.3	2.4	2.5	2.6
Imports of goods and services	-1.9	0.5	4.0	2.1	3.2	2.7	2.7	2.8	2.7
Deflators	(Percent Change)								
GDP	1.1	-0.3	0.8	0.2	1.5	1.7	2.1	2.4	2.5
Domestic demand	2.1	-1.0	0.8	-0.3	1.3	1.5	1.7	1.9	2.1
Consumption	1.9	-1.1	1.0	-0.7	1.1	1.4	1.6	1.9	2.1
Investment	3.1	-1.0	0.1	1.4	2.7	2.3	2.1	2.1	2.4
Exports of goods and services	1.7	-1.5	-1.5	1.1	0.9	-0.3	-0.7	-0.8	-1.0
Imports of goods and services	4.2	-2.0	-1.4	-0.4	0.6	0.0	-0.4	-0.7	-0.7
Nominal aggregates									
Nominal GDP (KM million)	25,734	26,282	26,779	27,381	28,621	30,137	31,894	33,943	36,196
	(In percent of GDP)								
Consumption	106.0	104.0	105.6	105.4	104.9	104.1	102.9	101.5	100.0
Private	83.7	82.8	84.3	84.0	83.8	83.2	82.2	81.0	79.5
Public	22.3	21.2	21.3	21.4	21.1	20.9	20.7	20.5	20.4
Gross capital formation	18.1	17.0	17.9	17.6	18.4	18.6	18.9	19.2	19.6
Private	11.8	10.6	10.9	11.0	11.0	11.0	11.2	11.4	11.6
Public	6.3	6.3	7.0	6.6	7.4	7.6	7.7	7.8	7.9
National Savings	9.3	11.2	10.1	9.7	10.6	11.2	12.1	12.9	14.3
Private	7.0	8.3	7.2	5.7	5.6	5.7	6.8	6.4	7.2
Public	2.3	2.9	2.9	4.0	5.0	5.5	5.3	6.5	7.1
Saving-Investment balance	-8.9	-5.8	-7.7	-7.9	-7.8	-7.4	-6.8	-6.2	-5.2
Labor market	(In percent)								
Unemployment rate (ILO definition) [1]	28.0	27.5	27.5	27.7	…	…	…	…	…

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

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

[1] 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, Active Scenario 2012–20 1/

(In millions of euros, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Est.			Proj.			
Current account	-1,168	-773	-1,057	-1,112	-1,140	-1,143	-1,104	-1,083	-971
Trade balance	-3,171	-2,817	-3,210	-3,222	-3,399	-3,495	-3,547	-3,591	-3,616
Goods	-4,091	-3,741	-4,142	-4,198	-4,417	-4,557	-4,655	-4,750	-4,829
Export of goods (fob)	2,988	3,286	3,386	3,617	3,940	4,226	4,520	4,828	5,141
Import of goods (fob)	-7,079	-7,027	-7,528	-7,815	-8,357	-8,783	-9,176	-9,578	-9,969
Services (net)	921	923	932	977	1,018	1,062	1,109	1,159	1,213
Exports	1,324	1,311	1,347	1,420	1,499	1,579	1,664	1,755	1,852
Imports	-404	-388	-416	-444	-481	-518	-556	-596	-639
Primary Income (net)	122	169	160	202	236	257	268	243	286
Total credit	445	432	473	533	558	578	606	643	680
Total debit	-324	-263	-313	-331	-322	-321	-338	-400	-394
Of which, Interest payments	-154	-112	-111	-150	-133	-124	-132	-184	-167
Secondary Income (net)	1,881	1,876	1,993	1,908	2,022	2,096	2,175	2,265	2,359
Government (net)	162	169	193	228	250	275	299	324	352
Workers' remittances	1,042	1,069	1,132	1,071	1,163	1,211	1,267	1,332	1,398
Other (NGOs etc.)	757	720	761	761	761	761	761	761	761
Capital and Financial Accounts (excl. Reserves)	1,097	974	1,279	956	1,138	1,107	1,168	1,204	1,369
Capital account	172	172	264	274	293	314	335	358	383
Capital transfers (net)	172	172	264	274	293	314	335	358	383
General government	118	122	119	122	126	130	132	135	137
Other sectors	54	50	145	152	168	184	203	223	245
Financial account	-925	-802	-1,015	-681	-845	-793	-833	-846	-987
Direct investment (net)	-260	-225	-422	-368	-385	-404	-424	-465	-499
Assets	1	16	-3	10	10	10	10	10	10
Liabilities	261	241	419	378	395	414	434	475	509
Portfolio investment (net)	8	67	48	20	20	20	20	20	20
Other investment (net)	-673	-644	-641	-333	-480	-409	-429	-400	-508
Assets (net)	-192	-100	-298	-105	-105	-105	-105	-105	-104
Short-term	-199	-120	-296	-55	-55	-55	-55	-55	-55
Banks	-108	18	-15	-10	-10	-10	-10	-10	-10
Other sectors, excl. government and central bank	-81	-144	-247	-30	-30	-30	-30	-30	-30
Medium and long-term	6	19	-1	-51	-51	-51	-50	-50	-49
Banks	1	14	-7	-1	-1	-1	-1	-1	-1
Other sectors, excl. government and central bank	6	5	6	-50	-50	-50	-50	-50	-49
Liabilities (net)	480	543	343	228	374	304	325	296	404
Short-term	248	176	282	164	248	287	354	164	167
General government	0	0	0	0	0	0	0	0	0
Banks	21	-77	15	0	4	4	11	14	17
Other sectors	227	254	266	164	244	283	343	150	150
Medium and long-term	-103	114	-201	64	126	17	-29	132	237
Monetary authority	0	0	0	0	0	0	0	0	0
General government	0	0	0	14	1	-114	-263	-171	-100
Disbursements of loans	0	0	0	261	324	329	338	349	359
Project	-121	-226	-355	261	324	329	338	349	359
Budget	121	226	355	45	0	0	0	0	0
Amortization of loans	0	0	0	247	323	443	601	519	459
Banks	-139	1	-186	-20	30	31	109	152	186
Other sectors	36	113	-16	70	95	100	125	150	150
Errors and omissions	108	161	128	0	0	0	0	0	0
Overall balance	-37	-362	-350	156	2	36	-64	-120	-399
Financing	37	362	350	-156	-2	-36	64	120	399
Change in net international reserves ("+"=increase)	37	362	350	-111	249	265	316	150	399
Unidentified external financing 2/					251	301	252	30	
Memorandum items									
Current account balance (in percent of GDP)	-8.9	-5.7	-7.7	-7.9	-7.8	-7.4	-6.8	-6.2	-5.2
Trade balance (in percent of GDP)	-31.1	-27.8	-30.3	-30.0	-30.2	-29.6	-28.5	-27.4	-26.1
Import of goods (change, percent)	-0.1	-0.7	7.1	3.8	6.9	5.1	4.5	4.4	4.1
Export of goods (change, percent)	1.2	10.0	3.0	6.8	8.9	7.3	7.0	6.8	6.5
Transfers (in percent of GDP)	14.3	14.0	14.6	13.6	13.8	13.6	13.3	13.0	12.7
Net foreign direct investment (in percent of GDP)	-2.0	-1.7	-3.1	-2.6	-2.6	-2.6	-2.6	-2.7	-2.7
External debt/GDP (in percent)	52.2	52.2	51.9	54.6	55.1	54.5	54.1	53.4	53.4
Private sector	24.4	24.0	21.4	24.6	24.7	24.4	24.8	25.8	27.3
Public sector	27.8	28.2	30.6	30.0	30.4	30.1	29.3	27.6	26.1
External debt service/GNFS exports (percent)	11.9	14.2	15.1	15.8	16.4	17.9	18.3	18.6	6.8
Gross official reserves (in millions of Euro)	3,340	3,627	4,013	3,901	4,151	4,415	4,732	4,882	5,281
(In months of prospective imports of goods and services)	5.4	5.5	5.8	5.3	5.4	5.4	5.6	5.5	5.8

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

1/. Based on BPM6.

2/ External financing gap is expected to be filled by donors if reforms are implemented as planned.

Table 4. Bosnia and Herzegovina: General Government Statement of Operations, Active Scenario 2012–20

(Percent of GDP)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Act.			Proj.			
Revenue	**46.3**	**45.3**	**45.9**	**46.5**	**47.0**	**47.1**	**47.2**	**47.4**	**47.5**
Taxes	23.0	22.2	22.1	23.1	23.4	23.5	23.5	23.7	23.9
Direct taxes	3.6	3.6	3.4	3.6	3.8	3.8	3.8	3.9	3.9
Indirect taxes	19.4	18.5	18.7	19.4	19.5	19.6	19.6	19.8	19.9
Other taxes	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	15.8	15.5	16.0	15.6	15.7	15.7	15.7	15.8	15.8
Grants	2.2	2.4	2.6	2.6	2.7	2.7	2.7	2.7	2.7
Other revenue	5.3	5.2	5.2	5.2	5.3	5.2	5.2	5.2	5.1
Expenditure	**48.9**	**47.2**	**48.8**	**48.1**	**48.5**	**48.3**	**47.9**	**47.8**	**47.5**
Expense	**42.6**	**40.8**	**41.8**	**41.5**	**41.1**	**40.7**	**40.2**	**40.0**	**39.6**
Compensation of employees	13.0	12.2	12.3	12.2	11.9	11.7	11.4	11.3	11.2
Use of goods and services	10.8	10.4	10.5	10.6	10.6	10.6	10.6	10.6	10.6
Social benefits	14.5	14.4	15.1	14.7	14.4	14.3	14.1	13.9	13.8
Interest	0.8	0.7	0.8	0.9	1.1	1.2	1.1	1.3	1.1
Subsidies	1.6	1.4	1.3	1.3	1.3	1.2	1.2	1.1	1.1
Other expense	1.9	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Net acquisition of nonfinancial assets	**6.3**	**6.3**	**7.0**	**6.6**	**7.4**	**7.6**	**7.7**	**7.8**	**7.9**
Acquisition of nonfinancial assets	6.5	6.5	7.2	6.7	7.5	7.7	7.8	7.9	8.0
Foreign financed capital spending	3.3	4.2	4.8	4.1	4.7	4.7	4.6	4.5	4.4
Domestically financed capital spending	3.2	2.3	2.4	2.6	2.8	3.0	3.2	3.4	3.6
Disposal of nonfinancial assets	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Gross / Net Operating Balance (revenue minus expense)	**3.7**	**4.4**	**4.1**	**4.9**	**5.9**	**6.4**	**6.9**	**7.4**	**7.9**
Net lending/borrowing (revenue minus expenditure)	**-2.7**	**-1.9**	**-3.0**	**-1.7**	**-1.5**	**-1.2**	**-0.8**	**-0.4**	**0.0**
Net acquisition of financial assets	**0.6**	**0.6**	**0.2**	**0.2**	**0.2**	**0.3**	**0.4**	**0.5**	**0.6**
Domestic assets	0.6	0.5	0.2	0.2	0.2	0.3	0.4	0.5	0.6
Currency and deposits	0.1	0.3	0.9	0.1	0.0	0.1	0.2	0.3	0.4
Loans	0.4	0.1	-0.6	0.2	0.2	0.2	0.2	0.2	0.2
Equity and investment fund shares	0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**2.9**	**1.6**	**2.8**	**1.9**	**0.0**	**-0.4**	**-0.4**	**0.8**	**0.6**
Domestic liabilities	0.5	-0.1	0.9	1.3	-0.3	-0.1	0.0	0.5	0.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.3	0.1	1.0	1.3	0.8	0.0	0.2	-0.1	0.7
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-0.9	-0.9	-0.6	-1.1	-1.2	-0.9	-0.5	-0.7	-0.4
Loans	0.7	0.2	0.5	1.2	0.1	0.8	0.3	1.3	-0.2
Equity and investment fund shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance, pensions, and standardized guarantee schemes	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
Foreign liabilities	2.4	1.8	2.0	0.5	0.3	-0.3	-0.3	0.2	0.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2.4	1.8	2.0	0.5	0.3	-0.3	-0.3	0.2	0.5
Drawings	3.7	4.1	4.4	2.3	2.5	2.5	2.4	2.3	2.2
Amortization	1.2	2.3	2.4	1.7	2.2	2.9	2.7	2.1	1.7
Equity and investment fund shares	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
Financial derivatives and employee stock options	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
Unidentified financing 1/	**0.0**	**0.0**	**0.0**	**0.0**	**1.7**	**2.0**	**1.5**	**0.2**	**0.0**
Statistical discrepancy	**0.3**	**0.9**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items									
Net lending excluding externally-financed operations	-1.5	0.1	-0.6	-0.1	0.7	0.9	1.2	1.5	1.8
Structural balance (% of potential GDP)	-1.0	-0.7	-1.5	0.0	-0.2	-0.4	…	…	…

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

1/ Financing gap is expected to be filled by donors if reforms are implemented as planned.

Table 5. Bosnia and Herzegovina: General Government Statement of Operations, Active Scenario 2012–20

(KM million)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
						Proj.			
Revenue	**11912.4**	**11899.0**	**12282.2**	**12726.0**	**13458.6**	**14191.0**	**15038.4**	**16092.7**	**17194.8**
Taxes	5923.6	5832.2	5923.4	6318.7	6692.1	7070.7	7504.7	8057.3	8646.1
Direct taxes	918.6	943.2	913.3	977.2	1084.2	1146.2	1216.2	1320.8	1418.4
Indirect taxes	4992.2	4873.4	5000.8	5316.8	5582.1	5897.4	6259.8	6706.1	7195.2
Other taxes	12.8	15.7	9.4	24.6	25.7	27.1	28.7	30.5	32.5
Social security contributions	4056.9	4084.5	4285.3	4266.1	4488.6	4726.4	5002.0	5349.8	5704.8
Grants	570.2	620.3	690.4	706.5	759.2	816.8	869.1	925.6	986.6
Other revenue	1361.8	1361.9	1383.1	1434.8	1518.8	1577.1	1662.7	1760.0	1857.3
Expenditure	**12595.5**	**12403.1**	**13076.8**	**13177.9**	**13877.8**	**14553.0**	**15283.3**	**16234.5**	**17195.7**
Expense	**10967.6**	**10734.2**	**11194.5**	**11375.1**	**11762.1**	**12258.4**	**12828.5**	**13591.5**	**14333.6**
Compensation of employees	3356.5	3206.5	3283.9	3344.4	3415.8	3517.2	3649.4	3843.6	4057.5
Use of goods and services	2774.8	2734.5	2802.0	2906.8	3030.5	3201.1	3387.7	3605.3	3844.6
Social benefits	3736.7	3771.6	4047.0	4023.1	4127.5	4295.4	4506.8	4730.4	5008.4
Interest	193.2	195.5	209.8	256.6	308.9	349.5	346.8	426.6	400.0
Subsidies	414.5	377.0	357.2	358.3	368.3	366.8	376.1	386.8	382.2
Grants	18.1	16.4	13.3	13.3	13.9	14.6	15.5	16.5	17.6
Other expense	491.8	436.0	478.2	479.5	504.5	528.5	561.8	598.6	640.9
Net acquisition of nonfinancial assets	**1627.9**	**1668.9**	**1882.3**	**1802.7**	**2115.7**	**2294.6**	**2454.8**	**2643.0**	**2862.1**
Acquisition of nonfinancial assets	1670.2	1700.9	1934.0	1833.8	2148.1	2328.7	2491.0	2681.5	2903.1
Foreign financed capital spending	849.8	1093.5	1280.8	1114.8	1343.0	1411.0	1469.7	1534.6	1595.1
Domestically financed capital spending	820.4	607.3	653.1	719.0	805.1	917.8	1021.3	1146.9	1308.0
Disposal of nonfinancial assets	42.3	32.0	51.7	31.0	32.4	34.1	36.1	38.5	41.0
Gross / Net Operating Balance (revenue minus expense)	**944.9**	**1164.8**	**1087.7**	**1350.8**	**1696.5**	**1932.6**	**2210.0**	**2501.2**	**2861.2**
Net lending/borrowing (revenue minus expenditure)	**-683.0**	**-504.1**	**-794.6**	**-451.9**	**-419.1**	**-362.0**	**-244.9**	**-141.8**	**-0.9**
Net acquisition of financial assets	**142.8**	**145.8**	**47.6**	**61.1**	**59.5**	**97.7**	**134.3**	**174.0**	**217.2**
Domestic assets	142.8	126.2	47.6	61.1	59.5	97.7	134.3	174.0	217.2
Currency and deposits	14.4	72.9	238.1	14.5	-3.7	31.3	64.3	100.1	139.1
Loans	105.7	13.2	-160.3	46.6	63.1	66.4	70.0	73.9	78.1
Equity and investment fund shares	43.3	16.4	-37.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	19.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**753.1**	**424.1**	**762.3**	**513.1**	**-12.5**	**-129.0**	**-114.0**	**257.2**	**218.1**
Domestic liabilities	123.4	-36.7	233.7	367.0	-87.0	-30.6	-11.7	184.4	25.1
Debt securities	87.7	21.6	268.1	351.2	228.8	8.8	76.3	-37.5	250.3
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-237.7	-231.2	-159.2	-303.7	-352.2	-282.7	-171.2	-221.3	-159.9
Loans	169.7	56.6	133.4	319.5	36.4	243.4	83.2	443.1	-65.3
Foreign liabilities	629.6	460.8	528.6	146.1	74.5	-98.4	-102.3	72.8	193.0
Loans	629.6	460.8	528.6	146.1	74.5	-98.4	-102.3	72.8	193.0
Drawings	947.7	1077.9	1173.0	624.6	702.2	762.6	773.7	787.4	792.6
Amortization	318.0	617.1	644.4	478.5	627.7	861.0	876.0	714.6	599.6
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing 1/	**0.0**	**0.0**	**0.0**	**0.0**	**491.2**	**588.7**	**493.2**	**58.7**	**0.0**
Statistical discrepancy	**72.8**	**225.8**	**79.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items									
Indirect revenues	4992.2	4873.4	5000.8	5316.8	5582.1	5897.4	6259.8	6706.1	7195.2
Net lending excluding externally-financed operations	-375.3	15.6	-151.4	-21.3	188.0	256.7	381.7	494.8	637.1

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

1/ Financing gap is expected to be filled by donors if reforms are implemented as planned.

Table 6. Bosnia and Herzegovina: Selected Economic Indicators, Passive Scenario 2012–20

	2012	2013	2014		2015	2016	2017	2018	2019	2020
			EBS/14/74	Est.			Proj.			
Nominal GDP (KM million)	25,734	26,282	27,123	26,779	27,381	28,336	29,445	30,797	32,221	33,799
Gross national saving (in percent of GDP)	9.3	11.2	9.1	10.1	9.7	9.5	9.2	9.9	10.3	11.1
Gross investment (in percent of GDP)	18.1	17.0	19.8	17.9	17.6	17.1	17.4	17.4	17.4	17.5
					(Percent change)					
Real GDP	-1.2	2.5	0.7	1.1	2.1	2.2	2.3	2.3	2.4	2.5
CPI (period average)	2.0	-0.1	1.1	-0.9	-0.3	0.9	1.1	1.4	1.7	1.9
Money and credit (end of period)										
Broad money	3.4	7.9	3.6	7.3	5.6	3.1	2.6	2.6	3.3	3.6
Credit to the private sector	2.8	2.3	3.2	1.8	2.0	1.6	2.0	2.8	3.2	3.9
					(In percent of GDP)					
Operations of the general government										
Revenue	46.3	45.3	45.1	45.9	46.5	46.9	47.0	47.1	47.4	47.6
Of which: grants	2.2	2.4	2.5	2.6	2.6	2.7	2.8	2.8	2.9	2.9
Expenditure	48.9	47.2	49.2	48.8	48.1	47.1	47.1	47.1	47.4	47.6
Of which: investment expenditure	6.3	6.3	7.8	7.0	6.6	6.1	6.4	6.5	6.7	7.0
Net lending	-2.7	-1.9	-4.1	-3.0	-1.7	-0.2	0.0	0.0	0.0	0.0
Net lending, excluding interest payment	-1.9	-1.2	-3.3	-2.2	-0.7	0.9	1.2	1.3	1.6	1.4
Total public debt	43.6	41.6	46.2	44.8	45.5	44.5	42.8	41.2	39.5	37.6
Domestic public debt	15.8	13.4	13.2	14.2	15.5	16.1	16.7	17.5	17.6	17.0
External public debt	27.8	28.2	32.9	30.6	30.0	28.4	26.2	23.8	21.9	20.5
					(In millions of euros)					
Balance of payments										
Exports of goods and services	4,312	4,597	4,412	4,733	5,037	5,268	5,545	5,840	6,163	6,528
Imports of goods and services	7,483	7,414	7,983	7,943	8,259	8,638	9,125	9,465	9,844	10,293
Current transfers, net	1,881	1,876	1,970	1,993	1,908	2,022	2,096	2,175	2,265	2,359
Current account balance	-1,168	-773	-1,489	-1,057	-1,112	-1,109	-1,222	-1,176	-1,168	-1,117
(In percent of GDP)	-8.9	-5.7	-10.7	-7.7	-7.9	-7.7	-8.1	-7.5	-7.1	-6.5
Foreign direct investment (+=inflow)	260.3	224.7	256.6	422.4	368.4	375.2	382.3	389.5	420.7	442.4
(In percent of GDP)	2.0	1.7	1.9	3.1	2.6	2.6	2.5	2.5	2.6	2.6
Gross official reserves	3,340	3,627	3,621	4,013	3,901	3,906	3,782	3,682	3,716	3,860
(In months of imports)	5.4	5.5	5.4	5.8	5.4	5.1	4.8	4.5	4.3	4.3
(In percent of monetary base)	112.6	107.1	108.6	112.1	107.1	106.4	103.0	100.0	100.4	101.6
External debt, percent of GDP	52.2	52.2	54.6	51.9	54.6	53.3	51.1	49.4	49.1	49.7

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

Table 7. Bosnia and Herzegovina: Real Sector Developments, Passive Scenario 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Est.			Proj.			
Real aggregates					(Percent change)				
Growth rates									
GDP at constant 2010 prices	-1.2	2.5	1.1	2.1	2.2	2.3	2.3	2.4	2.5
Domestic demand	-2.3	0.6	3.2	2.2	2.6	2.9	2.1	2.3	2.5
Private	-2.7	1.1	2.6	2.7	3.9	2.9	2.0	2.2	2.1
Public	-1.0	-1.3	5.5	0.1	-2.3	2.6	2.8	2.8	3.9
Consumption	-2.1	1.4	2.5	2.7	3.5	2.8	2.0	2.3	2.3
Private	-2.5	2.4	2.4	2.8	4.4	3.2	2.1	2.3	2.3
Public	-0.7	-3.1	2.9	2.5	-0.5	1.2	1.9	2.2	2.2
Gross capital formation	-3.2	-3.4	7.2	-0.6	-2.1	3.1	2.6	2.4	3.6
Private	-3.8	-7.2	3.9	2.6	0.8	1.2	1.1	1.2	0.8
Public	-2.0	3.6	12.7	-5.6	-6.9	6.6	5.2	4.4	8.0
Net Exports									
Exports of goods and services	-1.4	8.2	4.6	5.1	3.5	5.6	6.0	6.4	6.9
Imports of goods and services	-4.1	1.1	8.8	4.2	4.0	5.6	4.2	4.7	5.3
Contributions to real GDP growth				(Year-on-year change over real GDP in previous year, in percent)					
GDP at constant 2005 prices	-1.2	2.5	1.1	2.1	2.2	2.3	2.3	2.4	2.5
Domestic demand	-2.8	0.7	3.7	2.6	3.1	3.4	2.6	2.8	3.0
Private	-2.5	1.1	2.4	2.5	3.7	2.8	1.9	2.1	2.0
Public	-0.3	-0.3	1.4	0.0	-0.6	0.6	0.7	0.7	1.0
Consumption	-2.1	1.4	2.4	2.7	3.5	2.9	2.1	2.3	2.3
Private	-2.0	2.0	1.9	2.2	3.6	2.6	1.7	1.9	1.9
Public	-0.1	-0.6	0.5	0.5	-0.1	0.2	0.3	0.4	0.4
Gross capital formation	-0.6	-0.7	1.3	-0.1	-0.4	0.6	0.5	0.4	0.6
Private	-0.5	-0.9	0.4	0.3	0.1	0.1	0.1	0.1	0.1
Public	-0.1	0.2	0.9	-0.4	-0.5	0.4	0.3	0.3	0.6
Net Exports	1.6	1.7	-2.7	-0.5	-0.9	-1.1	-0.2	-0.4	-0.5
Exports of goods and services	-0.4	2.3	1.4	1.5	1.1	1.8	2.0	2.2	2.4
Imports of goods and services	-1.9	0.5	4.0	2.1	2.0	2.9	2.2	2.5	2.9
Deflators					(Percent Change)				
GDP	1.1	-0.3	0.8	0.2	1.3	1.6	2.2	2.2	2.3
Domestic demand	2.1	-1.0	0.8	-0.3	1.1	1.5	1.8	1.7	1.9
Consumption	1.9	-1.1	1.0	-0.7	0.7	1.3	1.7	1.6	1.8
Investment	3.1	-1.0	0.1	1.4	2.6	2.2	2.2	2.0	2.3
Exports of goods and services	1.7	-1.5	-1.5	1.1	1.0	-0.3	-0.7	-0.8	-1.0
Imports of goods and services	4.2	-2.0	-1.4	-0.4	0.6	0.0	-0.4	-0.7	-0.7
Nominal aggregates									
Nominal GDP (KM million)	25,734	26,282	26,779	27,381	28,336	29,445	30,797	32,221	33,799
					(In percent of GDP)				
Consumption	106.0	104.0	105.6	105.4	106.1	106.4	105.6	105.0	104.3
Private	83.7	82.8	84.3	84.0	85.2	85.7	85.1	84.4	83.7
Public	22.3	21.2	21.3	21.4	20.9	20.7	20.6	20.5	20.5
Gross capital formation	18.1	17.0	17.9	17.6	17.1	17.4	17.4	17.4	17.5
Private	11.8	10.6	10.9	11.0	11.0	11.0	10.8	10.7	10.5
Public	6.3	6.3	7.0	6.6	6.1	6.4	6.5	6.7	7.0
National Savings	9.3	11.2	10.1	9.7	9.5	9.2	9.9	10.3	11.1
Private	7.0	8.3	7.2	5.7	4.5	3.8	4.6	4.5	4.9
Public	2.3	2.9	2.9	4.0	5.0	5.4	5.3	5.8	6.2
Saving-Investment balance	-8.9	-5.8	-7.7	-7.9	-7.7	-8.1	-7.5	-7.1	-6.5
Labor market					(In percent)				
Unemployment rate (ILO definition) [1]	28.0	27.5	27.5	27.7	…	…	…	…	…

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

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

[1] Based on the BiH Labor Survey. The unemployment rate based on the number of unemployed persons registered in Unemployment Offices is significantly higher.

Table 8. Bosnia and Herzegovina: Balance of Payments, Passive Scenario 2012–20 1/

(In millions of euros, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Est.			Proj.			
Current account	-1,168	-773	-1,057	-1,112	-1,109	-1,222	-1,176	-1,168	-1,117
Trade balance	-3,171	-2,817	-3,210	-3,222	-3,371	-3,580	-3,625	-3,680	-3,765
Goods	-4,091	-3,741	-4,142	-4,198	-4,383	-4,630	-4,721	-4,827	-4,966
Export of goods (fob)	2,988	3,286	3,386	3,617	3,781	3,985	4,200	4,438	4,709
Import of goods (fob)	-7,079	-7,027	-7,528	-7,815	-8,164	-8,615	-8,922	-9,265	-9,675
Services (net)	921	923	932	977	1,012	1,051	1,096	1,146	1,201
Exports	1,324	1,311	1,347	1,420	1,487	1,561	1,640	1,725	1,819
Imports	-404	-388	-416	-444	-475	-510	-544	-579	-618
Primary Income (net)	122	169	160	202	239	262	274	247	289
Total credit	445	432	473	533	558	577	604	634	666
Total debit	-324	-263	-313	-331	-319	-315	-330	-387	-377
Of which, Interest payments	-154	-112	-111	-150	-132	-121	-130	-181	-163
Secondary Income (net)	1,881	1,876	1,993	1,908	2,022	2,096	2,175	2,265	2,359
Government (net)	162	169	193	228	250	275	299	324	352
Workers' remittances	1,042	1,069	1,132	1,071	1,163	1,211	1,267	1,332	1,398
Other (NGOs etc.)	757	720	761	761	761	761	761	761	761
Capital and Financial Accounts (excl. Reserves)	1,097	974	1,279	956	1,113	1,099	1,076	1,203	1,260
Capital account	172	172	264	274	293	314	335	358	365
Capital transfers (net)	172	172	264	274	293	314	335	358	365
General government	118	122	119	122	126	130	132	135	137
Other sectors	54	50	145	152	168	184	203	223	228
Financial account	-925	-802	-1,015	-681	-820	-785	-741	-845	-895
Direct investment (net)	-260	-225	-422	-368	-375	-382	-390	-421	-442
Assets	1	16	-3	10	10	10	10	10	10
Liabilities	261	241	419	378	385	392	400	431	452
Portfolio investment (net)	8	67	48	20	20	20	20	20	20
Other investment (net)	-673	-644	-641	-333	-465	-422	-371	-444	-473
Assets (net)	-192	-100	-298	-105	-105	-105	-105	-105	-104
Short-term	-199	-120	-296	-55	-55	-55	-55	-55	-55
Banks	-108	18	-15	-10	-10	-10	-10	-10	-10
Other sectors, excl. government and central bank	-81	-144	-247	-30	-30	-30	-30	-30	-30
Medium and long-term	6	19	-1	-51	-51	-51	-50	-50	-49
Banks	1	14	-7	-1	-1	-1	-1	-1	-1
Other sectors, excl. government and central bank	6	5	6	-50	-50	-50	-50	-50	-49
Liabilities (net)	480	543	343	228	360	317	267	340	369
Short-term	248	176	282	164	353	387	424	364	342
General government	0	0	0	0	0	0	0	0	0
Banks	21	-77	15	0	4	4	11	14	17
Other sectors	227	254	266	164	349	383	413	350	325
Medium and long-term	-103	114	-201	64	6	-70	-157	-24	27
Monetary authority	0	0	0	0	0	0	0	0	0
General government	0	0	0	14	-84	-171	-346	-277	-219
Disbursements of loans	0	0	0	261	239	273	256	242	239
Project	-121	-226	-355	261	239	273	256	242	239
Budget	121	226	355	0	0	0	0	0	0
Amortization of loans	0	0	0	247	323	443	601	519	459
Banks	-139	1	-186	-20	30	31	109	152	146
Other sectors	36	113	-16	70	60	70	80	100	100
Errors and omissions	108	161	128	0	0	0	0	0	0
Overall balance	-37	-362	-350	156	-4	123	100	-34	-143
Financing	37	362	350	-156	4	-123	-100	34	143
Change in net international reserves ("+"=increase)	37	362	350	-111	4	-123	-100	34	143
External financing gap (for budgets)				45	0	0	0		
Memorandum items									
Current account balance (in percent of GDP)	-8.9	-5.7	-7.7	-7.9	-7.7	-8.1	-7.5	-7.1	-6.5
Trade balance (in percent of GDP)	-31.1	-27.8	-30.3	-30.0	-30.3	-30.8	-30.0	-29.3	-28.7
Import of goods (change, percent)	-0.1	-0.7	7.1	3.8	4.5	5.5	3.6	3.8	4.4
Export of goods (change, percent)	1.2	10.0	3.0	6.8	4.5	5.4	5.4	5.7	6.1
Transfers (in percent of GDP)	14.3	14.0	14.6	13.6	14.0	13.9	13.8	13.7	13.6
Net foreign direct investment (in percent of GDP)	-2.0	-1.7	-3.1	-2.6	-2.6	-2.5	-2.5	-2.6	-2.6
External debt/GDP (in percent)	52.2	52.2	51.9	54.6	53.3	51.2	49.5	49.2	49.8
Private sector	24.4	24.0	21.4	24.6	24.9	25.0	25.7	27.2	29.2
Public sector	27.8	28.2	30.6	30.0	28.4	26.2	23.8	22.0	20.6
External debt service/GNFS exports (percent)	11.9	14.2	15.1	15.8	16.9	18.7	19.3	19.8	7.2
Gross official reserves (in millions of Euro)	3,340	3,627	4,013	3,901	3,906	3,782	3,682	3,716	3,860
(In months of prospective imports of goods and services)	5.4	5.5	5.8	5.4	5.1	4.8	4.5	4.3	4.3

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

1/. Based on BPM6.

Table 9. Bosnia and Herzegovina: General Government Statement of Operations, Passive Scenario 2012–20

(Percent of GDP)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Act.			Proj.			
Revenue	**46.3**	**45.3**	**45.9**	**46.5**	**46.9**	**47.0**	**47.1**	**47.4**	**47.6**
Taxes	23.0	22.2	22.1	23.1	23.4	23.5	23.6	23.8	23.9
Direct taxes	3.6	3.6	3.4	3.6	3.8	3.8	3.8	3.9	3.9
Indirect taxes	19.4	18.5	18.7	19.4	19.5	19.6	19.6	19.7	19.9
Other taxes	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	15.8	15.5	16.0	15.6	15.6	15.6	15.6	15.7	15.7
Grants	2.2	2.4	2.6	2.6	2.7	2.8	2.8	2.9	2.9
Other revenue	5.3	5.2	5.2	5.2	5.2	5.2	5.1	5.1	5.0
Expenditure	**48.9**	**47.2**	**48.8**	**48.1**	**47.1**	**47.1**	**47.1**	**47.4**	**47.6**
Expense	**42.6**	**40.8**	**41.8**	**41.5**	**41.0**	**40.7**	**40.5**	**40.7**	**40.5**
Compensation of employees	13.0	12.2	12.3	12.2	12.0	11.8	11.6	11.5	11.4
Use of goods and services	10.8	10.4	10.5	10.6	10.4	10.3	10.4	10.4	10.5
Social benefits	14.5	14.4	15.1	14.7	14.5	14.3	14.2	14.2	14.3
Interest	0.8	0.7	0.8	0.9	1.1	1.3	1.3	1.6	1.4
Subsidies	1.6	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.1
Other expense	1.9	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Net acquisition of nonfinancial assets	**6.3**	**6.3**	**7.0**	**6.6**	**6.1**	**6.4**	**6.5**	**6.7**	**7.0**
Acquisition of nonfinancial assets	6.5	6.5	7.2	6.7	6.2	6.5	6.7	6.8	7.1
Foreign financed capital spending	3.3	4.2	4.8	4.1	4.2	4.4	4.4	4.3	4.2
Domestically financed capital spending	3.2	2.3	2.4	2.6	2.0	2.1	2.3	2.5	2.9
Disposal of nonfinancial assets	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Gross / Net Operating Balance (revenue minus expense)	**3.7**	**4.4**	**4.1**	**4.9**	**5.9**	**6.3**	**6.6**	**6.7**	**7.0**
Net lending/borrowing (revenue minus expenditure)	**-2.7**	**-1.9**	**-3.0**	**-1.7**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**
Net acquisition of financial assets	**0.6**	**0.6**	**0.2**	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**
Domestic assets	0.6	0.5	0.2	0.2	0.2	0.3	0.3	0.4	0.4
Currency and deposits	0.1	0.3	0.9	0.1	0.0	0.1	0.2	0.2	0.3
Loans	0.4	0.1	-0.6	0.2	0.2	0.2	0.2	0.1	0.1
Equity and investment fund shares	0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**2.9**	**1.6**	**2.8**	**1.9**	**0.4**	**0.3**	**0.3**	**0.3**	**0.4**
Domestic liabilities	0.5	-0.1	0.9	1.3	0.7	1.1	1.1	0.7	0.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.3	0.1	1.0	1.3	1.8	1.7	0.8	0.2	0.5
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-0.9	-0.9	-0.6	-1.1	-1.2	-1.0	-0.6	-0.7	-0.5
Loans	0.7	0.2	0.5	1.2	0.1	0.4	0.9	1.2	0.5
Equity and investment fund shares	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
Financial derivatives and employee stock options	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	2.4	1.8	2.0	0.5	-0.4	-0.8	-0.8	-0.4	-0.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2.4	1.8	2.0	0.5	-0.4	-0.8	-0.8	-0.4	-0.1
Drawings	3.7	4.1	4.4	2.3	1.9	2.1	2.0	1.8	1.7
Amortization	1.2	2.3	2.4	1.7	2.2	2.9	2.8	2.2	1.8
Equity and investment fund shares	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
Financial derivatives and employee stock options	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
Statistical discrepancy	**0.3**	**0.9**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items									
Net lending excluding externally-financed operations	-1.5	0.1	-0.6	-0.1	1.4	1.7	1.7	1.5	1.4
Structural balance (% of potential GDP)	-1.0	-0.7	-1.5	0.0	1.4	…	…	…	…

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

Table 10. Bosnia and Herzegovina: General Government Statement of Operations, Passive Scenario 2012–20

(KM million)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
						Proj.			
Revenue	**11912.4**	**11899.0**	**12282.2**	**12726.0**	**13297.0**	**13849.8**	**14502.4**	**15275.0**	**16074.6**
Taxes	5923.6	5832.2	5923.4	6318.7	6634.6	6919.1	7256.1	7659.2	8088.6
Direct taxes	918.6	943.2	913.3	977.2	1073.9	1120.4	1174.9	1254.3	1325.0
Indirect taxes	4992.2	4873.4	5000.8	5316.9	5520.2	5756.7	6037.2	6358.9	6715.3
Other taxes	12.8	15.7	9.4	24.6	40.5	42.0	44.0	46.0	48.3
Social security contributions	4056.9	4084.5	4285.3	4266.1	4421.4	4594.5	4805.4	5052.5	5299.9
Grants	570.2	620.3	690.4	706.5	758.9	816.2	868.2	924.2	984.7
Other revenue	1361.8	1361.9	1383.1	1434.8	1482.0	1520.0	1572.7	1639.1	1701.5
Expenditure	**12595.5**	**12403.1**	**13076.8**	**13177.9**	**13347.2**	**13860.7**	**14491.7**	**15265.1**	**16071.8**
Expense	**10967.6**	**10734.2**	**11194.5**	**11375.1**	**11624.9**	**11984.2**	**12475.6**	**13119.0**	**13699.4**
Compensation of employees	3356.5	3206.5	3283.9	3344.4	3399.6	3477.3	3568.5	3707.4	3862.0
Use of goods and services	2774.8	2734.5	2802.0	2906.8	2936.1	3036.0	3195.4	3358.1	3542.6
Social benefits	3736.7	3771.6	4047.0	4023.1	4097.7	4210.8	4384.9	4581.3	4825.1
Interest	193.2	195.5	209.8	256.6	307.3	368.6	402.3	512.6	484.5
Subsidies	414.5	377.0	357.2	358.3	366.0	362.2	369.3	376.8	371.0
Grants	18.1	16.4	13.3	13.3	13.7	14.3	14.9	15.6	16.4
Other expense	491.8	436.0	478.2	479.5	511.7	529.2	555.3	582.9	614.2
Net acquisition of nonfinancial assets	**1627.9**	**1668.9**	**1882.3**	**1802.7**	**1722.3**	**1876.5**	**2016.1**	**2146.1**	**2372.4**
Acquisition of nonfinancial assets	1670.2	1700.9	1934.0	1833.8	1754.5	1909.9	2051.0	2182.6	2410.7
Foreign financed capital spending	849.8	1093.5	1280.8	1114.8	1176.8	1299.6	1347.7	1376.8	1420.5
Domestically financed capital spending	820.4	607.3	653.1	719.0	577.7	610.3	703.3	805.8	990.2
Disposal of nonfinancial assets	42.3	32.0	51.7	31.0	32.1	33.4	34.9	36.5	38.3
Gross / Net Operating Balance (revenue minus expense)	**944.9**	**1164.8**	**1087.7**	**1350.9**	**1672.1**	**1865.6**	**2026.8**	**2156.0**	**2375.3**
Net lending/borrowing (revenue minus expenditure)	**-683.0**	**-504.1**	**-794.6**	**-451.9**	**-50.3**	**-10.9**	**10.6**	**9.9**	**2.9**
Net acquisition of financial assets	**142.8**	**145.8**	**47.6**	**61.1**	**50.7**	**77.1**	**98.0**	**120.3**	**146.9**
Domestic assets	142.8	126.2	47.6	61.1	50.7	77.1	98.0	120.3	146.9
Currency and deposits	14.4	72.9	238.1	14.5	-3.3	24.2	47.8	72.0	98.0
Loans	105.7	13.2	-160.3	46.6	54.0	52.9	50.2	48.3	48.9
Equity and investment fund shares	43.3	16.4	-37.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	19.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**753.1**	**424.1**	**762.3**	**513.0**	**101.0**	**88.1**	**87.4**	**110.4**	**144.0**
Domestic liabilities	123.4	-36.7	233.7	366.9	202.6	319.9	343.7	236.5	172.0
Debt securities	87.7	21.6	268.1	351.2	520.5	490.5	240.5	77.7	164.7
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-237.7	-231.2	-159.2	-303.7	-352.1	-282.5	-170.7	-220.6	-159.0
Loans	169.7	56.6	133.4	319.4	34.2	111.9	274.0	379.4	166.3
Foreign liabilities	629.6	460.8	528.6	146.1	-101.6	-231.8	-256.3	-126.1	-28.0
Loans	629.6	460.8	528.6	146.1	-101.6	-231.8	-256.3	-126.1	-28.0
Drawings	947.7	1077.9	1173.0	624.6	526.1	629.2	619.7	588.5	571.6
Amortization	318.0	617.1	644.4	478.5	627.7	861.0	876.0	714.6	599.6
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**72.8**	**225.8**	**79.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items									
Indirect revenues	4992.2	4873.4	5000.8	5316.9	5520.2	5756.7	6037.2	6358.9	6715.3
Net lending excluding externally-financed operations	-375.3	15.6	-151.4	-21.2	390.7	496.4	515.3	488.7	466.2

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 11a. Institutions of Bosnia and Herzegovina: Statement of Operations, 2012–15 1/
(KM million)

	2012	2013	2014	2015			
			Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Act.	Proj.	Proj.
Revenue	**924.4**	**968.6**	**971.6**	**219.3**	**481.0**	**695.2**	**950.7**
Taxes	750.0	750.0	750.0	180.9	367.7	557.4	750.0
Direct taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indirect taxes	750.0	750.0	750.0	180.9	367.7	557.4	750.0
Other taxes	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
Grants	22.7	39.5	31.7	5.7	8.8	3.7	11.3
Other revenue	151.7	179.0	190.0	32.7	104.5	134.2	189.4
Expenditure	**882.1**	**903.6**	**904.7**	**205.0**	**410.5**	**668.4**	**944.5**
Expense	**844.5**	**848.6**	**841.7**	**193.1**	**393.8**	**619.2**	**863.2**
Compensation of employees	628.3	626.4	627.9	157.5	315.6	479.9	640.4
Use of goods and services	162.4	172.3	175.1	31.3	64.7	118.7	184.1
Social benefits	11.5	5.3	3.2	0.3	0.7	1.7	3.2
Interest	0.0	0.0	0.5	0.2	0.3	0.0	0.5
Transfers to other general government units	19.5	13.1	16.5	0.8	3.6	0.5	6.5
Other expense	22.8	31.5	18.5	3.0	9.0	18.4	28.5
Net acquisition of nonfinancial assets	**37.6**	**55.0**	**63.0**	**12.0**	**16.7**	**49.2**	**81.3**
Acquisition of nonfinancial assets	45.3	56.3	64.8	12.1	18.1	49.2	81.3
Foreign financed capital spending	2.2	3.8	3.9	0.3	0.8	2.9	4.0
Domestically financed capital spending	43.0	52.5	60.9	11.8	17.3	46.3	77.3
Disposal of nonfinancial assets	7.7	1.4	1.8	0.2	1.4	0.0	0.0
Gross / Net Operating Balance (revenue minus expense)	**79.9**	**120.0**	**129.9**	**26.2**	**87.2**	**76.0**	**87.5**
Net lending/borrowing (revenue minus expenditure)	**42.3**	**65.0**	**66.9**	**14.3**	**70.5**	**26.8**	**6.2**
Net acquisition of financial assets	**8.0**	**120.3**	**93.2**	**14.3**	**28.8**	**26.8**	**6.2**
Domestic assets	8.0	100.8	93.2	14.3	28.8	26.8	6.2
Foreign assets	0.0	19.6	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**-34.0**	**56.2**	**26.5**	**0.0**	**0.0**	**0.0**	**0.0**
Domestic liabilities	-34.0	36.7	9.3	0.0	0.0	0.0	0.0
Foreign liabilities	0.0	19.5	17.2	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	19.5	17.2	0.0	0.0	0.0	0.0
Drawings	0.0	19.5	17.2	0.0	0.0	0.0	0.0
Amortization	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
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF	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
EU	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
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**0.3**	**-0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items							
Net lending excluding externally-financed operations	44.5	68.8	70.8	14.6	71.3	29.7	10.2

Sources: BiH authorities; and IMF staff estimates and projections.
1/ Tables 11a, 11c and 11e comprise central government according to international standards.

Table 11b. Federation of Bosnia and Herzegovina: General Government Statement of Operations, 2012–15 1/

(KM million)

	2012	2013	2014	2015			
			Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Act.	Proj.	Proj.
Revenue	**6896.6**	**6932.3**	**7138.6**	**1742.1**	**3578.4**	**5493.9**	**7399.7**
Taxes	3130.8	3156.7	3226.3	777.2	1641.8	2535.8	3414.8
Direct taxes	472.9	485.4	493.0	137.2	281.3	379.0	508.2
Indirect taxes	2652.0	2659.4	2729.8	638.9	1358.1	2156.1	2903.1
Other taxes	5.8	11.8	3.4	1.2	2.4	0.8	3.5
Social security contributions	2670.6	2707.2	2820.1	680.2	1380.1	2087.7	2811.5
Grants	354.1	389.3	427.9	118.8	210.4	342.1	467.1
Other revenue	741.1	679.1	664.3	165.8	346.0	528.3	706.4
Expenditure	**7392.1**	**7330.7**	**7577.0**	**1715.4**	**3486.4**	**5561.9**	**7769.5**
Expense	**6419.7**	**6247.3**	**6436.9**	**1504.3**	**3103.0**	**4951.7**	**6687.4**
Compensation of employees	1694.0	1602.9	1640.0	411.5	823.1	1267.0	1682.4
Use of goods and services	1559.1	1531.1	1536.5	361.6	751.6	1295.1	1663.9
Social benefits	2492.2	2485.4	2602.7	633.2	1294.2	1933.1	2640.1
Interest	105.5	97.5	108.6	25.7	62.8	100.5	137.0
Subsidies	256.3	232.3	223.5	23.8	54.2	128.0	226.0
Other expense	312.6	298.2	325.5	48.5	117.0	228.0	338.0
Net acquisition of nonfinancial assets	**972.3**	**1083.4**	**1140.1**	**211.1**	**383.5**	**610.2**	**1082.2**
Acquisition of nonfinancial assets	983.2	1093.8	1159.1	212.2	386.5	619.5	1095.5
Foreign financed capital spending	530.8	760.8	846.7	97.8	161.7	334.8	682.3
Domestically financed capital spending	452.4	333.0	312.4	114.3	224.8	284.7	413.2
Disposal of nonfinancial assets	10.9	10.4	19.0	1.1	3.0	9.2	13.3
Gross / Net Operating Balance (revenue minus expense)	**476.9**	**685.0**	**701.7**	**237.8**	**475.4**	**542.2**	**712.4**
Net lending/borrowing (revenue minus expenditure)	**-495.5**	**-398.4**	**-438.4**	**26.7**	**92.0**	**-68.0**	**-369.8**
Net acquisition of financial assets	**-26.2**	**-100.9**	**-135.7**	**-55.9**	**-117.9**	**-27.7**	**-43.8**
Domestic assets	-26.2	-100.9	-135.7	-55.9	-117.9	-27.7	-43.8
Currency and deposits	22.0	-68.2	22.6	-46.1	-59.8	0.0	0.0
Net incurrence of liabilities	**332.6**	**115.0**	**315.1**	**5.6**	**2.7**	**40.3**	**267.4**
Domestic liabilities	29.0	-144.4	10.5	38.3	67.6	79.2	352.6
Debt securities	101.6	30.1	169.9	60.3	43.8	636.7	213.6
Foreign liabilities	303.6	259.4	304.6	-32.8	-64.9	-38.9	-85.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	303.6	259.4	304.6	-32.8	-64.9	-38.9	-85.2
Drawings	503.0	663.7	718.4	28.8	87.4	162.2	226.2
Amortization	199.4	404.3	413.8	61.5	152.3	201.1	311.4
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy / financing gap	**136.6**	**182.5**	**-12.5**	**-88.2**	**-212.6**	**0.0**	**58.6**

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 11c. Federation of Bosnia and Herzegovina: Central Government Statement of Operations, 2012–15 1/

KM million)

	2012	2013	2014	2015			
			Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Act.	Proj.	Proj.
Revenue	**1809.1**	**1845.9**	**1930.1**	**433.3**	**882.9**	**1467.9**	**1982.9**
Taxes	1171.3	1262.5	1310.4	289.3	623.9	960.4	1319.2
Direct taxes	47.1	49.3	46.1	10.6	20.4	33.1	40.2
Indirect taxes	1124.1	1213.0	1264.2	278.7	603.5	927.3	1279.0
Other taxes	0.1	0.1	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
Grants	347.7	380.4	406.6	114.0	202.6	342.1	456.1
Other revenue	290.1	203.1	213.1	30.0	56.4	165.4	207.6
Expenditure	**1881.8**	**2002.7**	**1827.8**	**344.9**	**697.1**	**1282.1**	**1875.0**
Expense	**1377.7**	**1342.1**	**1353.1**	**256.4**	**546.4**	**971.5**	**1426.9**
Compensation of employees	226.1	224.9	231.1	54.3	110.4	174.5	236.3
Use of goods and services	66.7	73.4	57.9	7.7	23.6	59.5	77.0
Social benefits	460.5	460.6	465.4	105.0	223.1	339.7	475.4
Interest	91.8	84.2	92.3	19.6	52.2	89.2	120.3
Subsidies	128.6	126.2	116.3	5.9	7.7	57.6	116.3
Transfers to other general government units	308.6	317.0	321.0	61.3	123.0	212.8	340.8
Other expense	95.4	55.8	69.1	2.6	6.3	38.3	60.8
Net acquisition of nonfinancial assets	**504.1**	**660.6**	**474.7**	**88.5**	**150.8**	**310.5**	**448.0**
Acquisition of nonfinancial assets	505.7	660.6	480.1	88.5	150.8	310.5	448.0
Foreign financed capital spending	494.4	647.7	465.5	88.5	150.3	305.1	429.3
Domestically financed capital spending	11.2	12.9	14.6	0.0	0.4	5.4	18.7
Disposal of nonfinancial assets	1.6	0.0	5.4	0.0	0.0	0.0	0.0
Gross / Net Operating Balance (revenue minus expense)	**431.4**	**503.8**	**577.0**	**177.0**	**336.5**	**496.3**	**556.0**
Net lending/borrowing (revenue minus expenditure)	**-72.7**	**-156.8**	**102.3**	**88.5**	**185.8**	**185.8**	**107.9**
Net acquisition of financial assets	**48.1**	**-84.3**	**-79.4**	**-56.3**	**-110.0**	**-27.7**	**-63.8**
Domestic assets	48.1	-84.3	-79.4	-56.3	-110.0	-27.7	-63.8
Currency and deposits	87.0	-51.9	28.0	-46.1	-59.8	0.0	0.0
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**122.0**	**72.8**	**-171.3**	**-126.2**	**-288.2**	**-213.5**	**-230.3**
Domestic liabilities	13.5	-78.1	-77.1	-34.9	-71.8	24.7	107.9
Debt securities	100.4	30.1	169.6	39.9	19.4	636.7	213.6
Foreign liabilities	108.5	150.9	-94.2	-91.3	-216.4	-238.1	-338.2
Loans	108.5	150.9	-94.2	-91.3	-216.4	-238.1	-338.2
Drawings	302.1	547.1	337.2	-25.6	-52.2	-37.0	-26.8
For budget support	155.3	279.8	278.2	0.0	0.0	0.0	0.0
For investment projects	146.8	267.3	59.0	-25.6	-52.2	-37.0	-26.8
Amortization	193.6	396.2	431.4	65.8	164.2	201.1	311.4
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**58.6**
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	58.6
IMF	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	58.6
EU	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
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**-1.2**	**-0.3**	**-10.4**	**-18.5**	**-7.6**	**0.0**	**0.0**
Memorandum items							
Net lending excluding externally-financed operations	74.1	110.6	161.3	62.9	133.6	148.8	81.2

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

1/ Tables 11a, 11c and 11e comprise central government according to international standards.

Table 11d. Republika Srpska: General Government Statement of Operations, 2012–15 1/
(KM million)

	2012	2013	2014	2015			
			Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Act.	Proj.	Proj.
Revenue	**3850.6**	**3766.9**	**3951.6**	**1033.2**	**1830.9**	**3056.8**	**4133.7**
Taxes	1858.9	1745.0	1763.7	608.9	905.4	1531.9	1959.3
Direct taxes	423.0	434.9	399.4	100.8	221.6	333.3	447.8
Indirect taxes	1430.2	1307.3	1359.7	480.5	653.4	1185.4	1491.8
Other taxes	5.7	2.9	4.6	27.6	30.4	13.2	19.7
Social security contributions	1350.6	1341.6	1429.5	322.5	678.4	1023.6	1418.1
Grants	194.4	193.4	231.1	2.5	4.8	171.0	228.1
Other revenue	446.7	486.8	527.2	99.3	242.3	330.2	528.3
Expenditure	**4148.9**	**3917.3**	**4348.3**	**864.4**	**1779.7**	**3068.2**	**4255.0**
Expense	**3536.2**	**3409.3**	**3687.8**	**836.3**	**1690.4**	**2654.7**	**3634.9**
Compensation of employees	952.5	901.1	949.4	235.5	475.6	704.8	954.8
Use of goods and services	978.7	955.8	1020.1	242.2	458.2	755.0	1005.6
Social benefits	1232.9	1244.4	1397.7	311.9	640.1	983.8	1347.2
Interest	87.2	97.6	100.5	19.9	58.7	80.7	118.8
Subsidies	146.4	123.4	110.1	9.7	25.2	44.6	108.8
Other expense	138.3	86.9	110.1	17.1	32.6	85.8	99.7
Net acquisition of nonfinancial assets	**612.7**	**508.1**	**660.4**	**28.1**	**89.3**	**413.5**	**620.1**
Acquisition of nonfinancial assets	636.5	528.3	691.3	37.3	107.4	424.8	637.8
Foreign financed capital spending	316.7	328.9	430.2	4.2	62.5	282.6	428.4
Domestically financed capital spending	319.8	199.4	261.1	33.1	44.9	142.1	209.3
Disposal of nonfinancial assets	23.8	20.3	30.9	9.2	18.2	11.2	17.7
Gross / Net Operating Balance (revenue minus expense)	**314.5**	**357.6**	**263.7**	**196.9**	**140.5**	**402.1**	**498.8**
Net lending/borrowing (revenue minus expenditure)	**-298.2**	**-150.5**	**-396.7**	**168.8**	**51.2**	**-11.5**	**-121.3**
Net acquisition of financial assets	**173.1**	**79.2**	**39.3**	**19.5**	**-29.9**	**86.4**	**76.3**
Domestic assets	173.1	79.2	39.3	19.5	-29.9	86.4	76.3
Currency and deposits	-23.6	-5.3	81.6	21.4	-17.1	0.0	-0.1
Net incurrence of liabilities	**462.7**	**262.3**	**413.3**	**-147.1**	**-95.8**	**97.8**	**168.3**
Domestic liabilities	136.6	80.4	214.4	-160.7	-67.7	13.4	24.9
Debt securities	-13.8	-8.6	98.1	13.8	44.3	126.3	137.5
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-117.4	-109.6	-19.3	-16.4	-0.4	-108.2	-177.3
Loans	183.5	62.7	33.3	-85.1	-38.1	-4.8	64.7
Other accounts payable	84.4	135.9	102.2	-73.0	-73.5	0.0	0.0
Loans	326.0	181.9	198.9	13.6	-27.1	84.4	143.4
Drawings	444.7	394.7	430.8	52.8	67.2	196.5	310.5
For budget support	78.1	179.4	154.3	0.0	0.0	0.0	0.0
For investment projects	366.6	215.3	276.5	52.8	67.2	196.5	310.5
Amortization	118.7	212.8	231.9	39.2	94.3	112.0	167.1
Other accounts payable	0.0	0.0	0.0	0.0	-1.0	0.0	0.0
Statistical discrepancy / financing gap	**8.6**	**-32.6**	**22.8**	**-2.1**	**14.6**	**0.0**	**29.3**

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 11e. Republika Srpska: Consolidated Government Statement of Operations, 2012–15 1/

(KM million)

	2012	2013	2014	2015			
			Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Act.	Proj.	Proj.
Revenue	**1875.3**	**1808.2**	**1919.1**	**423.2**	**863.7**	**1418.1**	**1994.8**
Taxes	1437.3	1360.7	1374.3	347.1	711.4	1100.4	1484.7
Direct taxes	345.1	350.5	324.2	84.7	183.9	274.1	363.9
Indirect taxes	1088.2	1007.9	1046.8	235.0	499.4	814.1	1102.4
Other taxes	4.1	2.4	3.3	27.3	28.1	12.1	18.4
Social security contributions	0.0	0.0	42.6	17.7	37.0	0.0	0.0
Grants	182.6	190.2	224.8	2.5	4.1	171.0	228.1
Other revenue	255.0	257.1	267.0	55.4	110.5	146.7	282.0
Expenditure	**1945.4**	**1777.1**	**2155.8**	**342.8**	**737.3**	**1421.5**	**2046.2**
Expense	**1672.7**	**1524.0**	**1761.6**	**339.8**	**725.8**	**1160.7**	**1661.4**
Compensation of employees	722.6	677.7	718.0	180.2	362.7	532.6	724.0
Use of goods and services	150.6	156.9	163.0	21.3	49.8	101.4	156.0
Social benefits	247.7	230.6	327.5	51.9	117.9	178.6	256.6
Interest	64.6	64.6	68.4	15.3	41.8	55.6	86.0
Subsidies	128.8	112.8	99.8	7.4	22.2	38.2	98.3
Transfers to other general government units	284.5	242.7	320.3	61.2	121.3	216.9	307.2
Other expense	73.8	38.7	64.7	2.5	10.1	37.4	33.3
Net acquisition of nonfinancial assets	**272.7**	**253.2**	**394.2**	**3.0**	**11.5**	**260.8**	**384.8**
Acquisition of nonfinancial assets	280.4	259.9	407.8	8.4	21.8	260.8	384.8
Foreign financed capital spending	223.7	209.5	286.4	4.2	8.6	223.6	318.4
Domestically financed capital spending	56.7	50.4	121.4	4.2	13.2	37.2	66.5
Disposal of nonfinancial assets	7.7	6.7	13.6	5.4	10.4	0.0	0.0
Gross / Net Operating Balance (revenue minus expense)	**202.6**	**284.3**	**157.5**	**83.4**	**137.9**	**257.4**	**333.4**
Net lending/borrowing (revenue minus expenditure)	**-70.1**	**31.1**	**-236.8**	**80.4**	**126.5**	**-3.4**	**-51.4**
Net acquisition of financial assets	**344.0**	**109.7**	**59.1**	**17.1**	**-12.0**	**86.4**	**76.4**
Domestic assets	344.0	109.7	59.1	17.1	-12.0	86.4	76.4
Currency and deposits	-33.8	12.7	69.0	21.4	-15.1	0.0	0.0
Loans	322.7	93.5	42.9	6.2	2.9	86.4	76.4
Equity and investment fund shares	43.4	4.3	-40.4	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**407.5**	**74.2**	**296.4**	**-64.6**	**-133.8**	**89.8**	**98.5**
Domestic liabilities	129.1	-13.9	165.1	-77.3	-113.1	61.8	65.2
Debt securities	-14.1	-3.9	101.6	13.8	45.7	126.3	137.5
Government obligations under the Law on Internal Debt, issued guarantees, and other obligations from previous years	-66.5	-7.4	-19.3	-0.1	-0.4	-91.9	-112.3
Loans	148.4	11.5	15.2	-15.1	-29.9	27.4	40.0
Foreign liabilities	278.4	88.1	131.3	12.7	-20.8	28.0	33.3
Drawings	390.3	296.7	361.1	52.0	67.2	140.0	200.4
Amortization	111.9	208.6	229.8	39.2	88.0	112.0	167.1
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**29.3**
Identified financing	0.0	0.0	0.0	0.0	0.0	0.0	29.3
IMF	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	29.3
EU	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
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	**-5.1**	**4.4**	**-0.5**	**1.3**	**-4.6**	**0.0**	**0.0**
Memorandum items							
Net lending excluding externally-financed operations	-29.0	50.4	-133.5	82.2	131.0	49.2	38.9

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

1/ Tables 11a, 11c and 11e comprise central government according to international standards.

Table 12. Bosnia and Herzegovina: Monetary Survey, 2012–15

	2012	2013	2014	2015
	Dec	Dec	Dec	Dec
				Proj.
	(Million KM, end of period)			
Net foreign assets	5,092	6,033	7,111	7,271
Foreign assets	9,040	9,731	10,475	10,635
Foreign liabilities	3,947	3,698	3,364	3,364
Net domestic assets	9,821	10,060	10,191	11,033
Domestic credit	15,415	15,991	16,455	17,084
Claims on general government (net)	204	404	581	905
Claims on nongovernment	15,211	15,587	15,874	16,179
Other items (net)	-5,594	-5,931	-6,264	-6,051
Broad money (M2)	14,910	16,094	17,270	18,304
Narrow money (M1)	6,143	6,696	7,310	8,001
Currency	2,414	2,542	2,814	3,390
Demand deposits	3,728	4,153	4,496	4,611
Quasi-money (M1)	8,768	9,399	9,959	10,303
Time and savings deposits	2,673	3,006	3,377	2,954
Foreign currency deposits	6,095	6,392	6,582	7,349
	(12-month change over broad money in same period last year, in percent)			
Net foreign assets	0.6	6.3	6.7	0.9
Net domestic assets	2.8	1.6	0.8	4.9
Domestic credit	5.1	3.9	2.9	3.6
Claims on general government (net)	2.2	1.3	1.1	1.9
Claims on nongovernment	2.8	2.5	1.8	1.8
Other items (net)	-2.3	-2.3	-2.1	1.2
Broad money (M2)	3.4	7.9	7.3	6.0
Memorandum items:				
	(Annual percent change)			
Broad money (M2)	3.4	7.9	7.3	6.0
Reserve money (RM)	-0.8	10.3	9.4	3.8
Credit to the private sector	2.8	2.3	1.8	2.0
	(Percent)			
Credit to the private sector (in percent of GDP)	56.0	56.1	56.1	56.0
Broad money (in percent of GDP)	57.9	61.2	64.5	66.8
Central bank net foreign assets (in percent of monetary base)	112.6	110.8	112.1	110.2
	(Ratio)			
Velocity (GDP/end-of-period M2)	1.7	1.6	1.5	1.5
Reserve money multiplier (M2/RM)	2.6	2.5	2.5	2.5

Source: CBBH and IMF staff estimates and projections.

Table 13. Bosnia and Herzegovina: Financial Soundness Indicators, 2009–15
(In Percent)

	2010	2011	2012	2013	2014	2015
						Mar.
Capital						
Tier 1 capital to risk-weighted assets (RWA)	12.6	13.6	14.1	15.2	14.4	14.6
Net capital to RWA	16.2	17.2	17.0	17.8	16.3	16.2
Quality of assets [1]						
Nonperforming loans to total loans	11.4	11.8	13.5	15.1	14.0	14.2
Nonperforming assets (NPAs) to total assets	8.1	8.8	10.3	11.4	10.5	10.8
NPAs net of provisions to tier 1 capital	46.1	26.1	30.4	31.5	27.9	28.1
Provision to NPAs	40.8	68.2	67.4	68.0	71.3	71.4
Profitability						
Return on assets [2]	-0.6	0.7	0.6	-0.2	0.7	0.8
Return on equity [2]	-5.5	5.9	5.0	-1.4	5.7	6.1
Net interest income to gross income	60.1	63.8	63.7	62.3	61.5	61.5
Noninterest expenses to gross income	109.0	86.3	87.2	101.2	84.6	72.2
Liquidity						
Liquid assets to total assets	29.0	27.3	25.4	26.4	26.8	24.7
Liquid assets to short- term financial liabilities	49.7	46.7	44.1	46.2	46.1	43.3
Short- term financial liabilities to total financial liabilities	66.9	68.4	67.9	67.3	68.5	67.8
Foreign exchange risk						
Foreign currency and indexed loans to total loans	70.0	66.7	63.1	62.9	62.3	62.4
Foreign currency liabilities to total financial liabilities	67.0	66.0	65.2	63.8	62.7	62.5
Net open position	4.4	16.1	5.4	6.7	10.6	11.9

Source: CBBH.

[1] Prior to 2010, assets classified as loss, alongside the provisions made against them, were held off-balance sheet by banks in BiH. This lowered the reported NPL ratios and coverage of nonperforming loans by provisions. Starting with the December 2010 data 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.

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

Table 14. Bosnia and Herzegovina: External Debt Sustainability Framework, 2010–2020

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2010	2011	2012	2013	2014			2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	51.4	48.9	52.2	52.2	51.9			**55.8**	**55.9**	**55.0**	**54.1**	**53.2**	**53.3**	**0.1**
2 Change in external debt	-3.0	-2.5	3.3	-0.1	-0.3			3.8	0.2	-1.0	-0.9	-0.9	0.1	
3 Identified external debt-creating flows (4+8+9)	9.7	8.1	14.9	4.7	9.9			9.3	8.8	8.2	7.5	7.0	6.0	
4 Current account deficit, excluding interest payments	4.2	7.9	7.1	4.5	6.5			6.1	6.2	6.0	5.4	4.4	3.7	
5 Deficit in balance of goods and services	22.0	24.2	24.1	21.0	23.5			22.8	23.0	22.5	21.6	20.5	19.4	
6 Exports	16.0	19.4	19.7	21.6	21.7			22.9	23.9	24.3	24.6	24.7	24.6	
7 Imports	38.0	43.6	43.8	42.5	45.2			45.7	46.9	46.8	46.1	45.2	44.0	
8 Net non-debt creating capital inflows (negative)	2.1	2.6	2.0	1.7	3.1			2.6	2.6	2.6	2.6	2.7	2.7	
9 Automatic debt dynamics 1/	3.3	-2.4	5.9	-1.5	0.3			0.6	0.0	-0.4	-0.5	-0.2	-0.4	
10 Contribution from nominal interest rate	2.0	1.7	1.8	1.2	1.2			1.9	1.6	1.4	1.4	1.8	1.5	
11 Contribution from real GDP growth	-0.5	-0.5	0.6	-1.2	-0.5			-1.2	-1.6	-1.8	-1.9	-2.0	-2.0	
12 Contribution from price and exchange rate changes 2/	1.8	-3.7	3.4	-1.5	-0.4			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-12.6	-10.7	-11.6	-4.8	-10.2			-5.5	-8.7	-9.2	-8.3	-7.8	-5.9	
External debt-to-exports ratio (in percent)	321.6	252.1	265.9	241.8	238.9			243.4	234.0	225.9	220.1	215.9	216.7	
Gross external financing need (in billions of US dollars) 4/	3.1	4.0	3.5	3.5	4.0			4.0	4.3	4.7	5.0	3.9	2.3	
in percent of GDP	18.7	21.6	20.6	19.4	22.2	10-Year	10-Year	25.9	26.3	27.3	27.0	19.6	10.7	
Scenario with key variables at their historical averages 5/								**55.8**	**56.2**	**56.7**	**58.1**	**59.9**	**64.0**	**0.4**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	0.8	1.0	-1.2	2.5	1.1	2.3	3.0	2.1	3.0	3.5	3.7	3.9	4.0	
GDP deflator in US dollars (change in percent)	-3.2	7.7	-6.6	3.0	0.8	3.9	8.0	-16.0	1.7	2.8	3.1	3.2	4.2	
Nominal external interest rate (in percent)	3.5	3.7	3.4	2.5	2.4	3.9	1.2	3.1	3.0	2.7	2.7	3.6	3.1	
Growth of exports (US dollar terms, in percent)	41.9	31.9	-6.5	15.9	2.5	-33.4	200.7	-9.6	9.2	8.4	8.0	7.5	8.1	
Growth of imports (US dollar terms, in percent)	5.2	24.7	-7.4	2.6	8.2	11.8	35.7	-13.3	7.5	6.2	5.4	5.0	5.4	
Current account balance, excluding interest payments	-4.2	-7.9	-7.1	-4.5	-6.5	-7.5	3.6	-6.1	-6.2	-6.0	-5.4	-4.4	-3.7	
Net non-debt creating capital inflows	-2.1	-2.6	-2.0	-1.7	-3.1	-1.8	5.1	-2.6	-2.6	-2.6	-2.6	-2.7	-2.7	

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

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

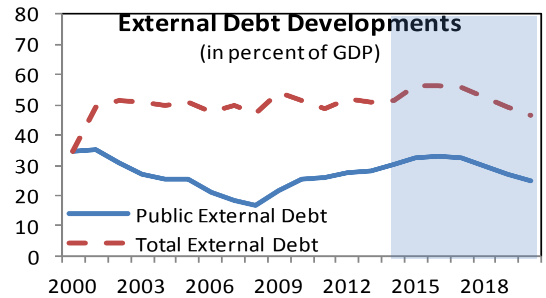
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Box 3. Bosnia and Herzegovina: External Public Debt



Most of BiH's external debt is public debt. Following the end of the wars in the region, the private sector gradually accumulated external debt as BiH integrated into the global economy. At the same time, small government borrowing needs led to the decline in public external debt. This picture changed after the global financial crisis, as the private sector's access to international capital markets worsened, while government finances worsened and the public sector started to accumulate debt.

Table 1. Debt by Main Creditors
(in million KMs, end-2014)

	RS	FBiH
EIB	625.71	837.57
WB IDA	583.40	1,178.53
IMF	383.00	690.10
EBRD	168.22	550.87
Republic of Korea	99.44	58.57
WB IBRD	332.24	364.20
Austrian government	150.58	
European Commission	74.30	150.60
Poland	35.17	
Spain	3.80	138.60
Others	438.66	1,150.44
Total	2,894.52	5,119.48

BiH has borrowed mostly from official creditors. Unlike other emerging economies, BiH has not accessed international capital markets. Multilateral and bilateral official creditors have provided substantial financial support for the country. The largest creditors are the World Bank (22 percent of public external debt), the European Investment Bank (18 percent) and the IMF (13 percent). As for the World Bank, BiH graduated to IBRD only status in 2014. In addition, BiH recently acquired credit ratings from Moody's (B3) and Standard and Poor's (B).

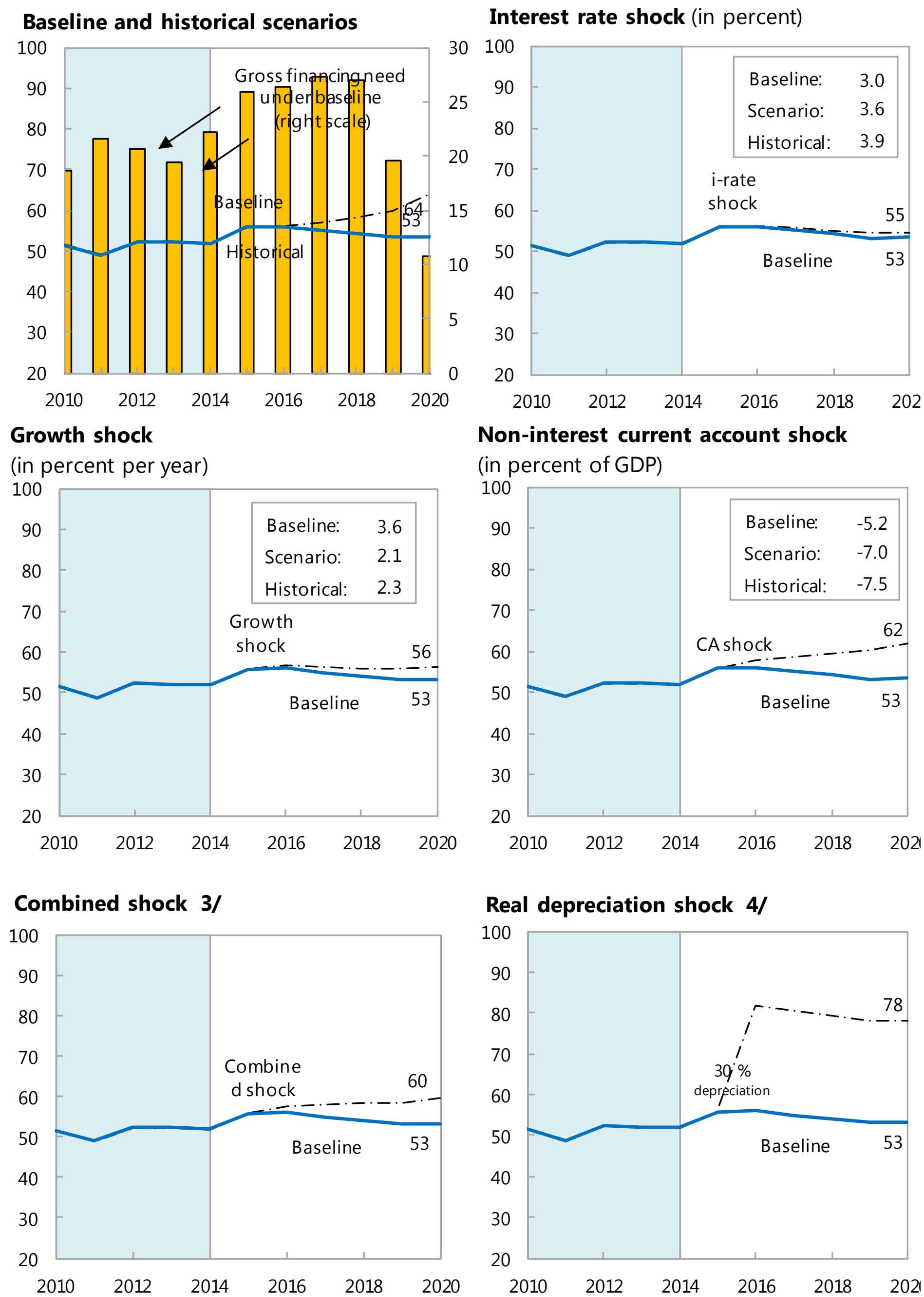
The two entities (the FBiH and the RS) are the main borrowers, although they usually borrow with a guarantee of the Institutions of BiH. A large part of the loans are on-lent by the entity governments to local governments and public companies, such as the railways and the Highway Funds. Some of these companies have difficulties in servicing their external debts, requiring the entity governments to cover the debt service obligations from their budgets. External debt servicing obligations have a high priority in government payments, as included in each government's budget law, and debt service obligations are set aside from collected indirect tax revenues before revenues are distributed for other uses.

Table 2: Debt by Level of Government in Entities
(in million KMs, end-2014)

	RS	FBiH
New Debt (from 1995)	2,260.41	4,145.90
Central Government	1,232.98	1,857.55
Local Governments	63.45	365.05
SOEs	963.98	1,923.30
Old Debt (before 1992)	634.11	973.58
Total	2,894.52	5,119.48

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.
4/ One-time real depreciation of 30 percent occurs in 2010.

Box 4. Bosnia and Herzegovina: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2004-2012 [2/]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	30.7	41.6	44.8	45.5	45.0	43.9	42.7	40.9	38.5
Public gross financing needs	2.9	5.8	7.9	6.7	7.1	7.5	7.0	6.1	4.6
Real GDP growth (in percent)	2.8	2.5	1.1	2.1	3.0	3.5	3.7	3.9	4.0
Inflation (GDP deflator, in percent)	3.6	-0.3	0.8	0.2	1.5	1.7	2.1	2.4	2.5
Nominal GDP growth (in percent)	6.6	2.1	1.9	2.3	4.5	5.3	5.8	6.4	6.6
Effective interest rate (in percent) [4/]	2.4	1.8	1.9	2.1	2.5	2.7	2.6	3.1	2.9

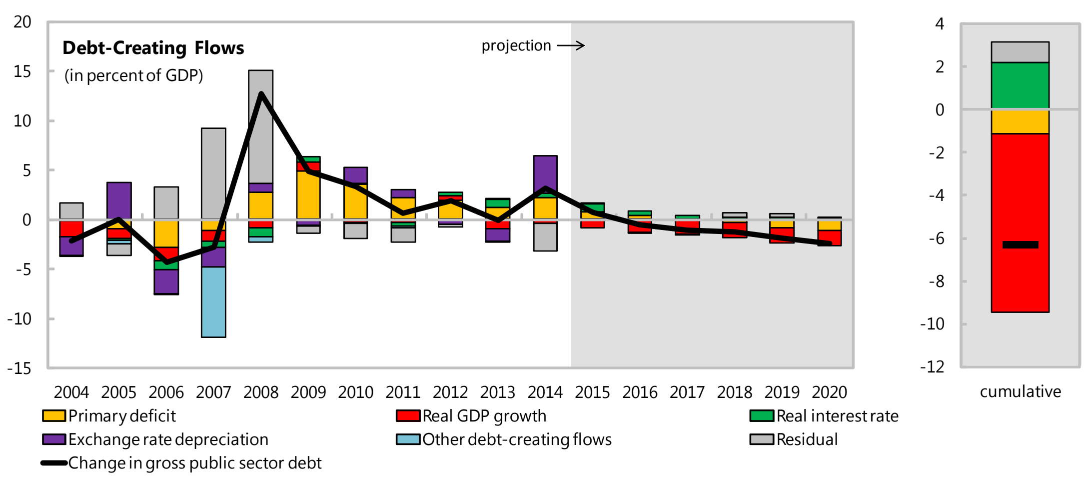
As of September 27, 2015

Sovereign Spreads	
EMBIG (bp) 3/	n.a.
5Y CDS (bp)	n.a.

Ratings	Foreign	Local
Moody's	B3	Baa2
S&Ps	B	B
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.6	-0.1	3.2	0.8	-0.5	-1.1	-1.2	-1.8	-2.4	-6.3	
Identified debt-creating flows	-0.7	-0.2	6.0	0.7	-0.5	-1.1	-1.7	-2.2	-2.5	-7.3	
Primary deficit	1.1	1.2	2.2	0.7	0.4	0.0	-0.3	-0.8	-1.1	-1.1	-1.4
Primary (noninterest) revenue and gra	46.2	45.3	45.9	46.5	47.0	47.1	47.2	47.4	47.5	282.7	
Primary (noninterest) expenditure	47.3	46.4	48.0	47.2	47.4	47.1	46.8	46.6	46.4	281.5	
Automatic debt dynamics [5/]	-0.8	-1.3	3.8	0.0	-0.9	-1.1	-1.3	-1.3	-1.4	-6.1	
Interest rate/growth differential [6/]	-0.8	-0.1	0.0	0.0	-0.9	-1.1	-1.3	-1.3	-1.4	-6.1	
Of which: real interest rate	-0.2	0.9	0.4	0.8	0.4	0.4	0.2	0.2	0.1	2.2	
Of which: real GDP growth	-0.6	-1.0	-0.4	-0.9	-1.3	-1.5	-1.5	-1.6	-1.5	-8.3	
Exchange rate depreciation [7/]	0.0	-1.2	3.8	...	...	...	...	...	...	...	
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	
Please specify (2) (e.g., 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 [8/]	2.2	0.1	-2.8	0.1	0.0	0.0	0.4	0.3	0.1	1.0	



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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = 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 - π (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.

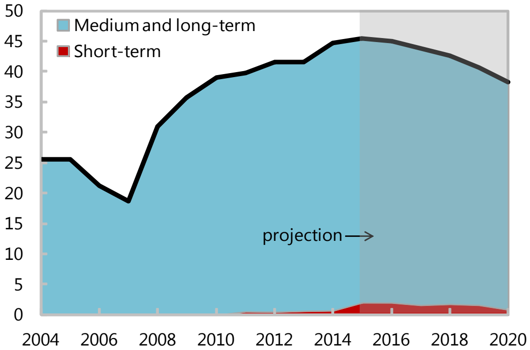
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Bosnia and Herzegovina: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

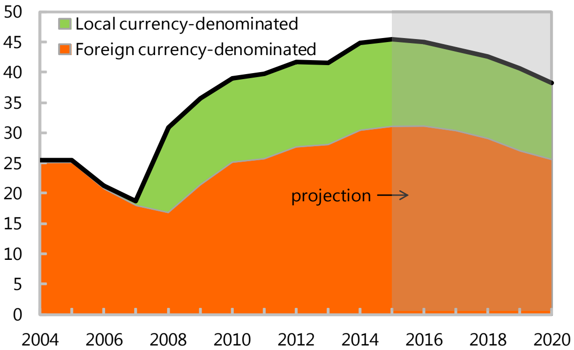
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

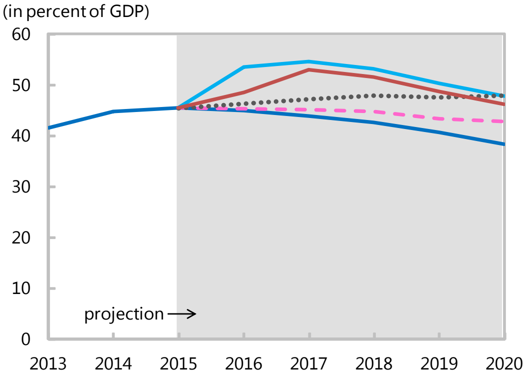


Alternative Scenarios

Baseline
Contingent Liability Shock
Historical
Real GDP Growth Shock
Constant Primary Balance

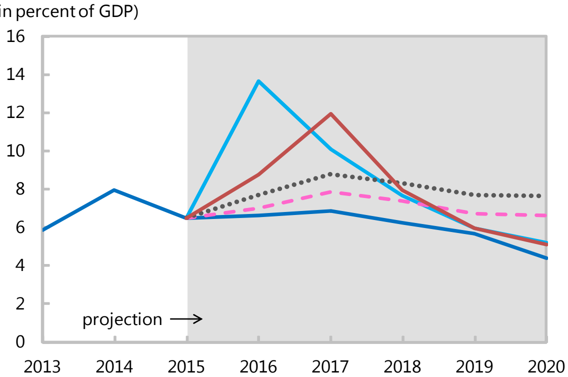
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	2.1	3.0	3.5	3.7	3.9	4.0
Inflation	0.2	1.5	1.7	2.1	2.4	2.5
Primary Balance	-0.7	-0.4	-0.1	0.3	0.8	1.1
Effective interest rate	2.1	2.4	2.7	2.6	3.2	3.0
Constant Primary Balance Scenario						
Real GDP growth	2.1	3.0	3.5	3.7	3.9	4.0
Inflation	0.2	1.5	1.7	2.1	2.4	2.5
Primary Balance	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	2.1	2.0	2.5	3.0	3.5	3.7
Real GDP Growth Shock						
Real GDP growth	2.1	0.0	0.5	3.7	3.9	4.0
Inflation	0.2	0.7	1.0	2.1	2.4	2.5
Primary balance	-0.7	-2.2	-3.7	0.3	0.8	1.1
Effective interest rate	2.1	2.0	2.6	3.5	3.8	4.1

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	2.1	2.3	2.3	2.3	2.3	2.3
Inflation	0.2	1.5	1.7	2.1	2.4	2.5
Primary Balance	-0.7	-1.4	-1.4	-1.4	-1.4	-1.4
Effective interest rate	2.1	2.0	2.3	2.7	2.9	3.1
Contingent Liability Shock						
Real GDP growth	2.1	0.0	0.5	3.7	3.9	4.0
Inflation	0.2	0.7	1.0	2.1	2.4	2.5
Primary Balance	-0.7	-7.0	-0.1	0.3	0.8	1.1
Effective interest rate	2.1	2.2	3.1	3.6	3.9	4.2

Source: IMF staff.

Box 5. Bosnia and Herzegovina: Risk Assessment Matrix
Potential Deviations from Baseline[1]

Sources of risks	Relative likelihood	Possible Impact if Risk Realized	Policy Response
External Risks			
1. Tighter or more volatile global financial conditions.	**Staff assessment: High** • Slow and uneven growth as well as asymmetric monetary exit may lead investors to reassess underlying risk and move to safe-haven assets, triggering an abrupt surge in financial volatility.	**Staff assessment: Medium** • BiH is still quite dependant on external (bank) financing, especially from the EU, to support activity and finance the current account deficit. Given the CBA, lower availability of FX would constrain base money.	Sustained fiscal adjustment and progress in structural reforms, including financial sector reforms, will help safeguard the CBA and maintain financial sector stability.
2. Structurally weak growth in key advanced and emerging economies.	**Staff assessment: High** • Lower-than-anticipated potential growth and persistently low inflation from a failure to fully address crisis legacies could lead to secular stagnation in advanced economies.	**Staff assessment: High** • With limited buffers to cushion the impact, spillovers on BiH could be sizeable, notably through trade, services, remittances and financial channels.	Allow automatic stabilizers to work on the revenue side of the budget, provided financing is available. Rationalizing public spending and taxation to make it more growth-friendly, while accelerating structural reforms to enhance competitiveness, boost private sector growth and FDI.
3. Geopolitical tensions surrounding Russia/Ukraine.	**Staff assessment: Medium** • Depress business confidence and heighten risk aversion, amid disturbances in global financial, trade and commodity markets.	**Staff assessment: Low** • Direct trade and financial linkages are small but indirect spillovers could be sizeable. • One small Russian-owned bank operates in BiH.	Ensure macroeconomic stability and remain vigilant of indirect spillovers. Closely monitor Russian-owned banks.
4. Risks to energy prices.	**Staff assessment: Medium** • Increased volatility in or persistently low prices	**Staff assessment: Low** Low fossil fuel prices aid the current account and lower the overall price level.	Attract investment in the local energy sector to improve its efficiency and capacity.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (staff's most likely scenario.

Box 5. Bosnia and Herzegovina: Risk Assessment Matrix Potential Deviations from Baseline (Concluded)			
Domestic Risks			
5. Political gridlock may derail economic reforms and jeopardize fiscal sustainability.	**Staff assessment: High** • Government access to financing becomes constrained.	**Staff assessment: High** • Official external support would be unavailable and governments will rely on increasingly more expensive domestic financing.	Move ahead with structural reforms to boost growth and job creation.
6. Further deterioration in the health of commercial banks.	**Staff assessment: Medium** • Sluggish activity could increase NPLs and require bank recapitalization.	**Staff assessment: High** • Higher NPLs may call for additional provisions and capital, which may be difficult to obtain. Depositor confidence loss may ensue.	Need to safeguard financial sector stability and revamp regulatory and legislative frameworks, including for NPL resolution. May need support to recapitalize banks.

INTERNATIONAL MONETARY FUND

BOSNIA AND HERZEGOVINA

October 9, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The European Department

CONTENTS

FUND RELATIONS

(As of September 30, 2015)

Membership Status: Joined December 14, 1992; Article XIV

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	169.10	100.00
Fund holdings of currency	596.05	352.48
Reserve Tranche Position	0.05	0.03

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	160.89	100.00
Holdings	2.63	1.63

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
Stand-by Arrangements	426.98	252.50

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Sep 26, 2012	Jun 30, 2015	558.03	422.75
Stand-By	Jul 08, 2009	Jun 30, 2012	1,014.60	338.20
Stand-By	Aug 02, 2002	Feb 29, 2004	67.60	67.60

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	10.57	67.64	136.34	143.74	68.70
Charges/Interest	2.31	4.31	3.37	1.66	0.37
Total	12.88	71.95	139.70	145.39	69.07

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Safeguards Assessment

An update of the safeguards assessment of the Central Bank of Bosnia and Herzegovina (CBBH) was conducted in August 2014 in connection with the Stand-By Arrangement (SBA) augmentation and extension approved on June 30, 2014. The last safeguards assessment for the CBBH was completed in March 2013. The update found that the CBBH continues to maintain a robust governance structure and that all key recommendations from the March 2013 assessment have been implemented. External audit oversight has increased, and the legal function has been strengthened. Additionally, while controls in reserve management, currency operations and transactions with government were deemed adequate, the assessment noted that a comprehensive risk management framework has yet to be established.

Exchange Rate Arrangements

Bosnia and Herzegovina's exchange rate arrangement is a currency board. The currency of Bosnia and Herzegovina is the convertible marka (KM), introduced on August 11, 1997. On September 5, 2002, the Parliament of Bosnia and Herzegovina approved an amendment to the CBBH law that changes the peg of the KM from the Deutsch Mark to the Euro under a currency board arrangement. The KM is pegged to the euro at KM 1 = 0.5113 euro. Bosnia and Herzegovina (BiH) has not accepted the obligations under Article VIII Sections 2, 3, and 4 and therefore avails itself of the transitional arrangements under Article XIV. BiH no longer maintains restrictions under the transitional provisions of Article XIV. It maintains restrictions on the transferability of balances and interest accrued on frozen foreign-currency deposits, subject to Fund jurisdiction under Article VIII. An Article VIII mission by LEG and MCM took place in October 2012 to address pending Article VIII issues.

FSAP and ROSC Assessment

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

Last Article IV Consultation

The last Article IV consultation was concluded on October 05, 2012 (IMF Country Report No. 12/282).

Resident Representative

The IMF has had a resident representative office in Bosnia and Herzegovina since 1996. Mr. Francisco Parodi assumed his position as a resident representative in August 2015.

Technical Assistance 2010–2015

Department	Timing	Purpose
FAD	March 2010, July 2010, November 2011, December 2012, January 2013	Public Financial Management with regional peripatetic advisor
	August 2010	Reform and modernization of tax administration
	April 2011	Revenue Administration
	September 2012	Revenue Administration follow-up
	February 2013	Public Financial Management
	April 2014, July–August 2014, September 2014	Revenue Administration (ongoing)
	April 2015	Tax Policy
	April 2015	Public Financial Management with regional peripatetic advisor
	July 2015	Macro-forecasts
FIN	November 2012	Safeguard Assessment of the Central Bank of Bosnia and Herzegovina
LEG	April 2013	Non-performing loans
	October 2013	Corporate income legislation
	March 2014, June 2014, December 2014	Law on banks and banking resolution
	March 2014	Out of court restructuring
MCM	March–April 2010, June 2010, May 2012, September 2013, February 2014	Contingency planning (multiple TAs)
	January 2012	Stress Testing
	April 2013	Non-performing loans
	May 2013	Bank Resolution
	March 2014	Law on banks
	June 2014	FSAP (scoping mission)
	November 2014	FSAP (primary mission)
	May 2015	FSAP (report presentation)
STA	April 2011	Monetary and Financial Statistics
	January 2012	Government Finance Statistics
	June 2012–2014	Real sector statistics advisor
	June 2013	Price statistics
	April 2014	Government Finance Statistics
	April 2015	Government Finance Statistics
	September 2015	National Accounts

IMF-WORLD BANK COLLABORATION

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

Key Areas of World Bank Involvement

- The current World Bank program in Bosnia and Herzegovina was based on the Country Partnership Strategy (CPS) adopted in 2011, and focusing on three pillars: (i) competitiveness, (ii) social inclusion, and (iii) environmental sustainability. In support of the ***competitiveness agenda***, the World Bank provided two Development Policy Loans (DPLs) supporting macroeconomic stability and business environment. Additionally, the Bank portfolio includes investment lending in irrigation and land registration, and has provided access to finance for small and medium enterprises via financial intermediaries. The International Financial Corporation (IFC) also provides support through advisory services in the areas of regulatory reform and regulatory simplification, as well as investment policy work. Under ***social inclusion***, the Bank program supports improvement in targeting social benefits, more effective job-brokerage services, expanded access to primary health care, and improved access to basic public services. To promote ***environmental sustainability***, the Bank supports projects to respond to past disasters and prepare for a growing risk of floods and droughts, and to improve the energy efficiency of public buildings. The Bank's Country Partnership Strategy also actively promotes the EU accession agenda and this represents a cross-cutting theme of the strategy.

- The current portfolio of Bank-supported operations in Bosnia and Herzegovina consists of 13 projects totaling $590.82 million. Areas of support include agriculture and irrigation services, health and social protection, environment, local infrastructure and services, real estate registration, and support for small and medium enterprises.

Bosnia and Herzegovina Bank Active Portfolio as of September 15, 2015

Project name	Effective	Closing	Original commitment (US $m)
Water Quality Protection	11/18/2005	02/28/2016	8.90
Agriculture and Rural Development	02/26/2008	06/30/2016	21.00
Second Solid Waste Management	10/23/2009	02/28/2016	35.74
Sarajevo Waste Water	07/15/2010	11/30/2015	35.00

Bosnia and Herzegovina Bank Active Portfolio as of September 15, 2015 (Concluded)			
Enhancing SME Access to Finance	08/16/2010	07/31/2016	190.00
Social Safety Nets and Employment Support	10/07/2010	10/31/2015	14.50
Irrigation Development	03/29/2013	12/31/2017	40.00
Real Estate Registration	09/23/2013	07/31/2018	34.10
Sustainable Forest and Landscape Management	06/09/2014	05/31/2019	5.58
Floods Emergency Recovery	09/15/2014	12/31/2018	100.00
Drina Flood Protection	05/21/2015	12/31/2019	24.00
Energy Efficiency	05/27/2015	06/30/2018	32.00
Business Environment DPL	not yet effective	12/31/2015	50.00
13 ACTIVE PROJECTS			**590.82**

- BiH is also a member of the IFC, which has invested about $385.1 million since starting operations there in 1996. The IFC portfolio in BiH is currently $92.8 million and focuses on improvements in the country's investment climate, manufacturing, agribusiness, infrastructure, and climate change. IFC is also focusing its efforts in BiH on supporting private sector participation in infrastructure development in roads, health, and renewable energy.

- The Bank is currently preparing its new Country Partnership Framework for the five-year engagement in Bosnia and Herzegovina. The proposed CPF structure focuses on: (i) increasing public sector performance; (ii) creating conditions for accelerated private sector growth; and (iii) building resilience to natural shocks, with Inclusion as the cross-cutting theme.

- The Bank's planned activities in BiH covering structural reform areas will depend on the outcome of the CPF discussions with governments in BiH. One of the first planned operations under the new CPF is Public Finance Development Policy Loan (DPL) which is currently under preparation. This operation will support the policy efforts of the government of Bosnia and Herzegovina to strengthen public finances, in particular, (1) improve the management and transparency of public resources through interlinked reforms related to debt management, public investment management, public arrears and financial sector; and (2) improve the efficiency of government spending by tackling labor rigidities in public employment and increasing the efficiency of health and social protection spending.

Indicative lending for FY16–FY17		
Project	**Total ($M)**	**Bank Approval**
BiH Business Environment (RBL)	60	FY17
Bosnia and Herzegovina: Management of Fiscal Resources for Growth (DPL)	50	FY16
Bosnia and Herzegovina Health Project (IPF)	22	FY16
Bosnia and Herzegovina Employment Support Program (IPF)	50	FY16
Federation Road Sector Modernization Project (IPF)	55	FY16
Total	**237**	

STATISTICAL ISSUES

(As of September 2, 2015)

I. ASSESSMENT OF DATA ADEQUACY FOR SURVEILLANCE
General: Data provision has some shortcomings but is broadly adequate for surveillance. The accuracy, timeliness, and publication of economic statistics has improved, but weaknesses in national accounts, government finance, and balance of payment statistics need to be addressed.
Real Sector: BiH has made efforts to improve the real sector statistics. The country has benefited from extensive technical support from the IMF and the European Union. With the assistance of the IMF resident real sector statistics advisor, BiH started compiling and publishing quarterly national accounts as of mid-2014. Additional efforts have been invested into closing the gap between the production and expenditure-based GDP estimates and in the improvement of coverage of GDP, mainly with an ongoing review of the calculations of the non-observed economic activities (NOE). Outstanding issues are the need for further improvements to the annual and quarterly compilation of GDP by expenditure at the country level. **Price statistics:** A consumer price index (CPI), based on internationally-recommended practices, has been implemented. This CPI was released in 2007, and consistent series are available monthly countrywide and for each entity, with the series starting in January 2005. The CPI weights are derived from the household budget survey, conducted since 2004. Also, producer price indices (PPI) are available for both Entities and countrywide. The Industrial Production index at the country level has been made available in 2009 with historical time series going back till 2006. Both the industrial production index and the producer price index are compiled and disseminated at the national and entity level based on harmonized methodology. The annual Labor Force Survey follows international methodological standards and provides data for the country and the entities since 2006.
External Sector: Balance of payments statistics are compiled by the CBBH. Stating from 2012, BOP are completed in line with sixth edition of the *Balance of Payments Manual* (BPM6) and is of good quality. To improve the compilation of services the implementation of new surveys will be required that follow BPM6. The compilation of remittances relies heavily on estimates. Export and import data are produced from customs records, but on a special trade basis rather than on a general trade basis. Trade data may also be subject to incomplete coverage and under-invoicing.
Government Finance Statistics: The CBBH compiles government finance statistics (GFS) in accordance with the definitions and concepts of the *Government Finance Statistics Manual 2001*. While the institutional coverage of the GFS is broadly consistent with international

guidelines, its scope does not cover all economic stocks (balance sheet data) and flows. To address this issue and with help of the IMF TA, the CBBH has been preparing the balance sheet and debt data for general government. However, the data have not been published yet. In addition, the GFS does not include full transactions related to projects directly financed by international donors, and quarterly statistics exclude all transactions in financial assets and liabilities due to incomplete quarterly source data. Transactions are recorded on a mixed accrual/cash basis.[1] External government debt data are published quarterly; however work remains to be done on compiling and publishing public sector debt statistics. Authorities have made an effort to improve the quality of the GFS prepared by ministries of finance. More work is required to improve the quality of consolidated general government data.
Monetary and Financial Statistics: The CBBH reports monetary accounts to the Fund on a countrywide and Entity basis. As of 2011, the CBBH reports monetary data to the Fund in the Standardized Report Forms developed by STA that embody the methodology of the *Monetary and Financial Statistics Manual*. The CBBH collects data using the standardized report forms. As of 2002, interest rate statistics compiled and published by the CBBH produces harmonized data on level of the average weighted lending and deposit nominal interest rates of commercial banks in BiH, presented at the annual level. Finally, the CBBH extended the coverage of its annual financial sector statistics to encompass approximately 98 financial institutions (investment funds, insurance companies, microcredit institutions, leasing companies, brokerage houses, and stock exchanges).
II. DATA STANDARDS AND QUALITY
BiH is subscriber to the Fund's General Data Dissemination Standard (GDDS) since April 2013.

[1] At the State level, some earmarked revenues are not recorded until the corresponding expenditure takes place. In the Federation, expenditures are not entered into the Treasury payment system if there are no available funds to pay them out or if obligations exceed the budgeted amounts.

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

(As of September 3, 2015)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	09/01/15	09/02/15	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	06/2015	08/2015	M	M	M		
Reserve/Base Money	06/2015	08/2015	M	M	M	O, O, LO, O	O, O, O, O, O
Broad Money	06/2015	08/2015	M	M	M		
Central Bank Balance Sheet	07/2015	08/2015	M	M	M		
Consolidated Balance Sheet of the Banking System	06/2015	08/2015	M	M	M		
Interest Rates[2]	06/2015	07/2015	M	M	M		
Consumer Price Index	07/2015	09/2015	M	M	M	LNO, NO, LNO, LO	LNO, LO, LNO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Q2/2015	08/2015	Q	Q	Q	O, LNO, LO, LO	LNO, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	07/2015	08/2015	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2/2015	07/2015	Q	Q	Q		
External Current Account Balance	Q1/2015	07/2015	Q	Q	Q	O, O, LO, LO	LNO, O, LO, O, LO
Exports and Imports of Goods and Services	07/2015	08/2015	M	M	M		
GDP/GNP	Q1/2015	07/2015	Q	Q	Q	O, LNO, LO, LO	LNO, LNO, LO, LO, LO
Gross External Debt	Q2/2015	07/2015	Q	Q	Q		
International Investment Position	2014	08/2015	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions. [2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds. [3] Foreign, domestic bank, and domestic nonbank financing. [4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. [5] Including currency and maturity composition. [6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA). [7] Reflects the assessment provided in the data ROSC or the Substantive Update (published on February 2008 and based on the findings of the mission that took place during March 13–28, 2007) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA). [8] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by Menno Snel, Executive Director for Bosnia and Herzegovina and Tsvetan Manchev, Advisor to Executive Director October 23, 2015

The authorities of Bosnia and Herzegovina (BiH) very much appreciate the informative and constructive dialogue with the Fund. They would like to express their gratitude to the IMF team, headed by Mr. van Rooden, for its dedicated work and good advice in the recent years. The authorities broadly agree with the staff's assessment and policy recommendations provided in the report and accompanying selected issues paper. These, together with the substantial technical assistance by the Fund and other donors, have contributed to the adoption by the authorities of a comprehensive Reform Agenda earlier this year.

Continuous discussions with the international community have helped the authorities to steadily frame the adequate policy measures needed to boost the growth and resilience of the economy, and safeguard the macro-financial stability and fiscal sustainability going forward. The external and internal imbalances have been gradually reduced in the recent years, mainly through fiscal consolidation and some progress in structural reforms. A firm budget deficit reduction under the recent Fund-supported program was achieved despite a worsened external economic environment, a complex domestic institutional setup and political situation, and last year's devastating floods. The economic recovery is under way, and growth is expected to rebound to over 2 percent this year, and to reach 3 percent in 2016.

The authorities stand ready to use every window of opportunity and further progress with the necessary reforms to unleash the economic potential of the country. They have been working on a possible successor arrangement with the Fund. The new governments keep focusing on structural reforms to support private sector development and job creation, while its near-term plan includes two main pillars: (1) sustainable further fiscal consolidation and a more efficient management of public finance resources; and (2) strengthening financial stability through system-wide legal amendments and institutional enhancements in line with the recent FSAP recommendations.

Structural reforms

The governments at every level that came to office following the general elections in October 2014 recognize the urgent need to step up the pace of economic reforms to accelerate economic growth and create more jobs, and to improve the living standards of the people of BiH. The Reform Agenda adopted in July this year sets out the main plans of the BiH Council of Ministers and the governments of the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) for socio-economic reforms in the coming years. Through the new Reform Agenda implementation, efforts to ensure fiscal and financial sustainability will be augmented by measures to strengthen the rule of law and the fight against corruption, and to invigorate administrative capabilities and increase the efficiency of public institutions at all levels of government. The authorities are confident that steadfast implementation of their Reform Agenda will also help them on the road toward accession to the EU. However, the highly uncertain and volatile environment, both external and domestic, poses challenges and makes it difficult to achieve the needed broad political and social consensus for smooth and timely policy implementation.

Important steps have been made in the last two years under the Fund-supported program to improve the business environment. In line with the WB recommendations a one-stop shop for business registration was established in the RS to make it easier to start and operate a business. Similarly, in the FBiH, the Law on Business Registration was amended, and a new Law on Inspections and a Law on Companies were adopted. The authorities work to further reduce the administrative burden on businesses, with a particular emphasis on harmonizing regulations between the entities. They also aim to improve the commercial dispute resolution framework, including by adopting new entity bankruptcy legislation developed with the assistance of the WB, and to enhance the court system. Based on the achievements, the authorities expect to complete the process of WTO accession in the coming year and to resolve the remaining trade issues with the EU. With the assistance of the EBRD, restructuring plans for the energy sector, public utility companies and railways are in the process of preparation, focused on increased efficiency, costs savings, and tariff adjustment to provide full cost recovery and sustainable commercial operations.

Unemployment reduction is the top priority of the BiH authorities. The country failed to significantly benefit from employment gains during the boom years while it still registers significant job losses in the aftermath of the global crisis. In this regard, the authorities welcome the staff paper that devotes more attention to this main challenge for economic policymaking and provides valuable policy recommendations on the labor market reforms. The FBiH has already adopted a new Labor Code in line with the WB recommendations, and the parliament of the RS will soon consider the new Labor Code. These new laws will be supported by stepped-up labor inspections, active labor market policies, including by expanding training and education opportunities, and reform in the system of unemployment benefits.

Fiscal Policy

To make fiscal consolidation sustainable, the authorities will continue to implement fiscal reforms, which aim to improve revenue collection, contain current non-priority spending to create room for investment in infrastructure, and improve the efficiency of public finances. They are committed to preserving the integrity of the system of indirect taxation and broadening the base at the state level in order to ensure the continued high level of budget revenues delivered by indirect taxes. In line with the staff advice, amendments at the entity level will be made to the corporate and personal taxation to strengthen budgetary revenues.

The public administration reform, which is implemented with the EU assistance, remains critical to contain current non-priority spending to create room for investment in infrastructure, and improve the efficiency of public finances. It is supported by an attrition rule in public administration hiring and stringent control over the public sector wage increases. The authorities also strive to improve the targeting of social assistance to protect the most vulnerable, and to strengthening controls over lower levels of government, extra-budgetary funds, and state-owned enterprises. The implementation of a more efficient spending control is facilitated by the progressive expansion of the treasury systems to lower levels of government.

Financial stability and sustainability

The authorities firmly believe that the Currency Board Arrangements (CBA) remains the appropriate anchor for all its policies in the long run and until the potential EU accession and eventual euro adoption. The CBA, however, needs to be continuously supported by the other policies in line with the recent FSAP recommendations. Given that the model of financial supervision set at the entities level in BiH is unique among the world supervisory practices, the authorities have established a high-level Standing Committee for Financial Stability to coordinate, and especially to better sequence and synchronize the financial sector oversight and supervision. The authorities are committed to steadily increase the institutional capacity of all supervisors and their enforcement power.

The recent FSSA concluded that the financial system at the aggregate level is liquid, adequately capitalized and resilient to shocks, although some pockets of vulnerability exist. Bosnia and Herzegovina’s economy and financial system are still dealing with the aftershocks of the global financial crisis and underlying vulnerabilities arising from sluggish growth, tight macroeconomic conditions, slow credit growth, high NPLs and weakened profitability of financial institutions. Against this background, the authorities are committed to further developing systemic liquidity management in a conservative manner and strictly observing the limitations of the legal framework underpinning the CBA. They work on broadening the scope of the 2014 Contingency Plan. In the current juncture, one of the most pressing issues for the authorities remains the creation of a credible, transparent and effective bank restructuring and resolution mechanism. The authorities also envisage signing Memoranda of Understanding (MoUs) with the remaining home country supervisors of the systemically important banks, and extending the coverage of existing MoUs.

Finally, the authorities have made progress with addressing the AML/CFT issues through the enactment of a new AML/CFT Law and amendments to the Criminal Code. To enhance implementation of the existing AML/CFT action plan, the authorities envisage improvements in coordination and cooperation among the various agencies at the state and entity levels.