

BiH: The Road to EU Convergence



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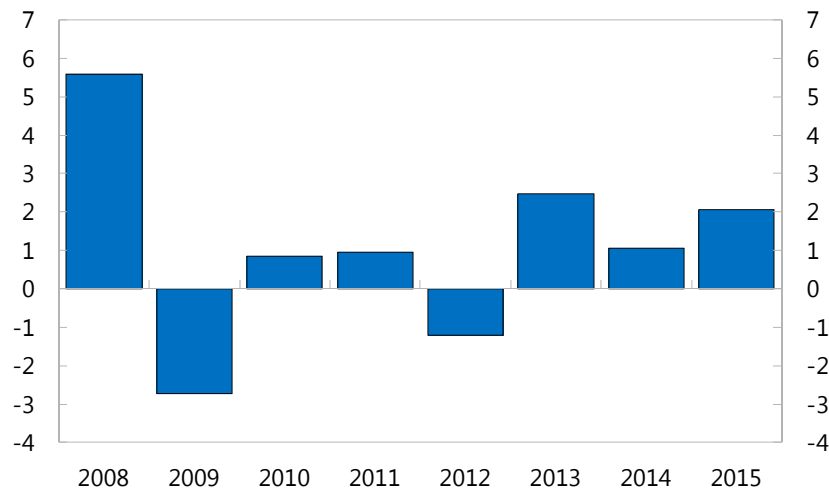
Sarajevo, October 1, 2015

Welcome signs of economic recovery



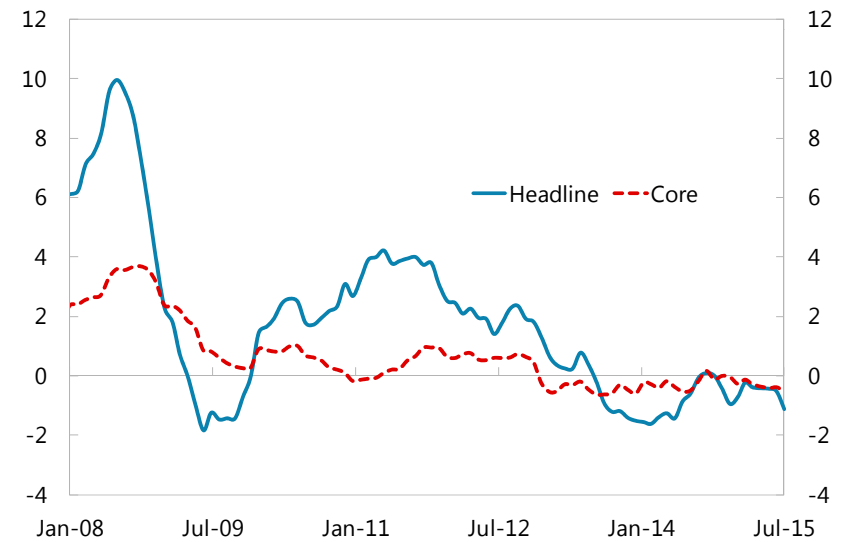
Growth expected to accelerate to 2 percent in 2015.

Real GDP Growth



Deflation is imported through currency board arrangement.

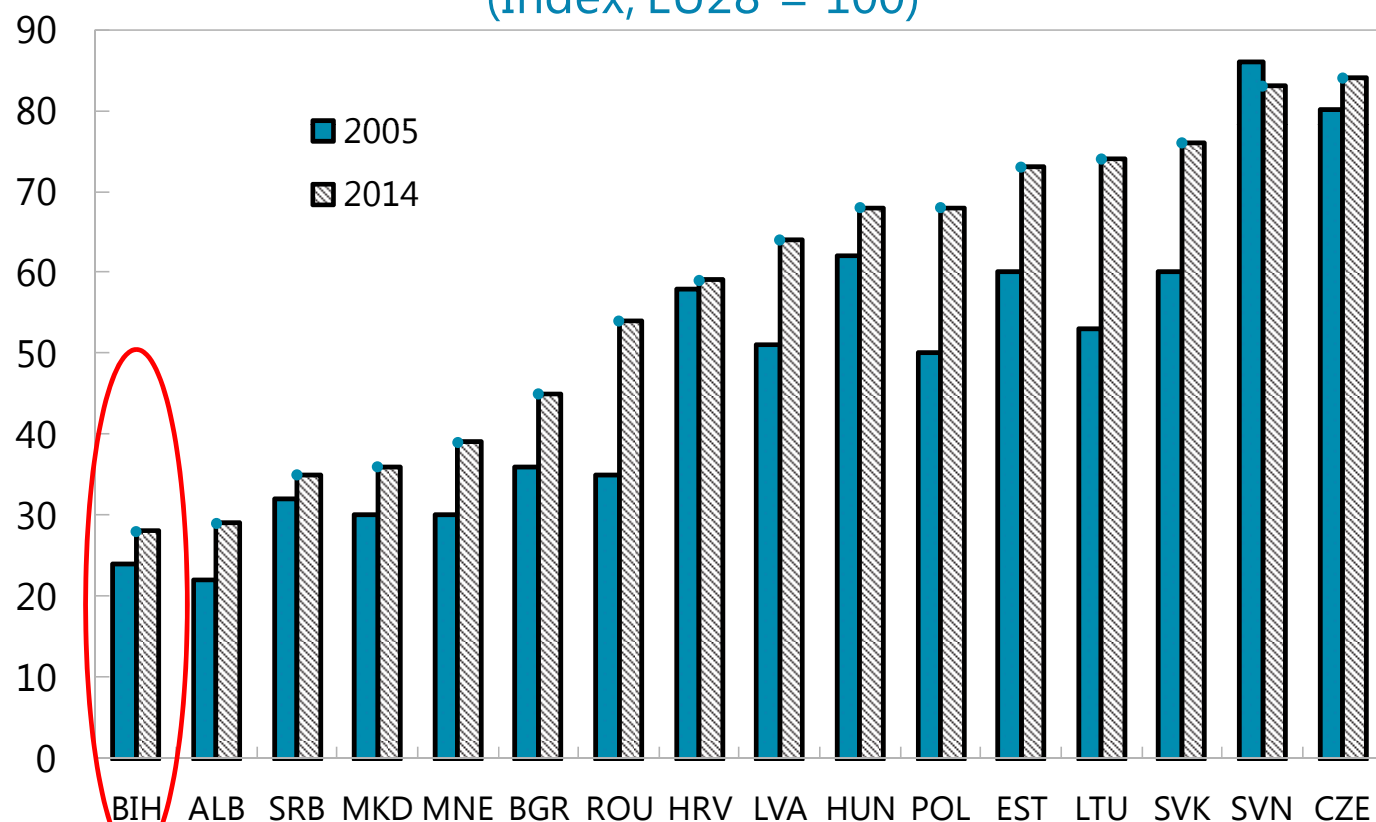
Inflation



Long road to catch up with EU incomes

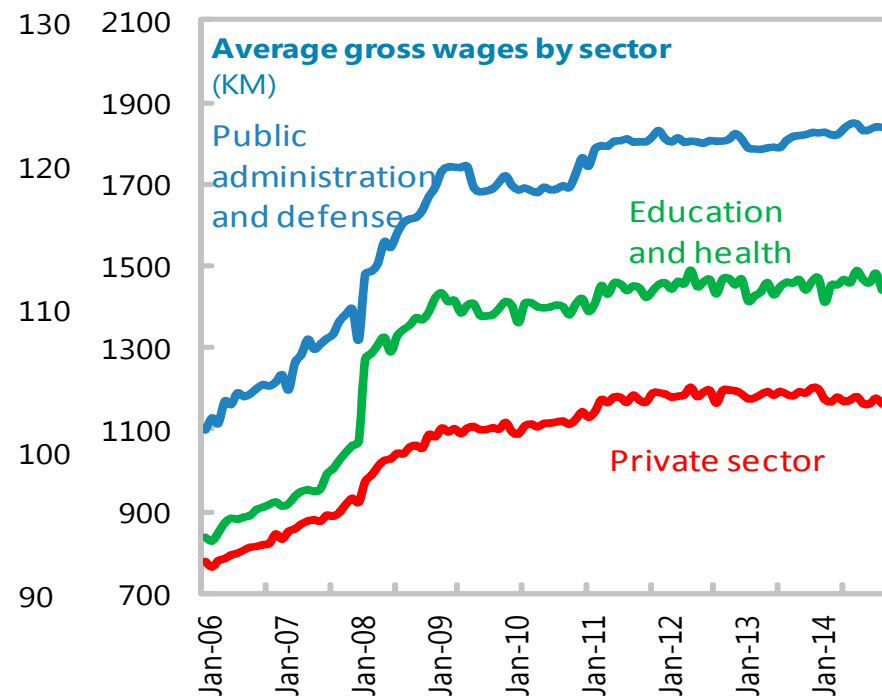
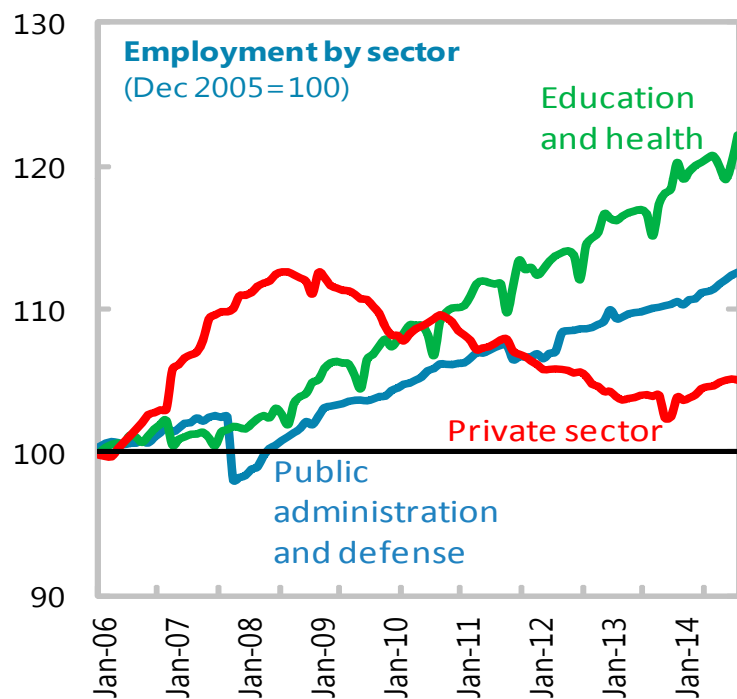


GDP per Capita in PPP
(Index, EU28 = 100)



Sources: Eurostat.

Large public sector is distorting labor market



Source: BiH Agency for statistics, and IMF staff calculations.

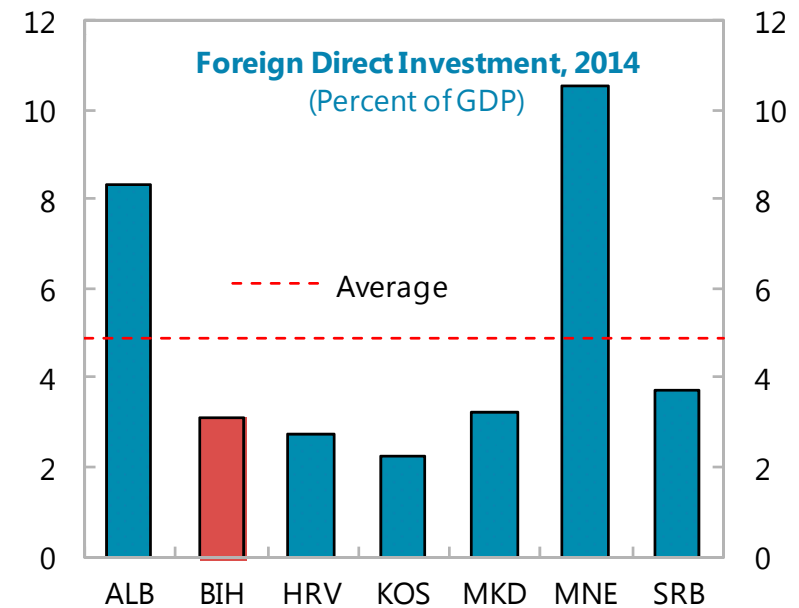
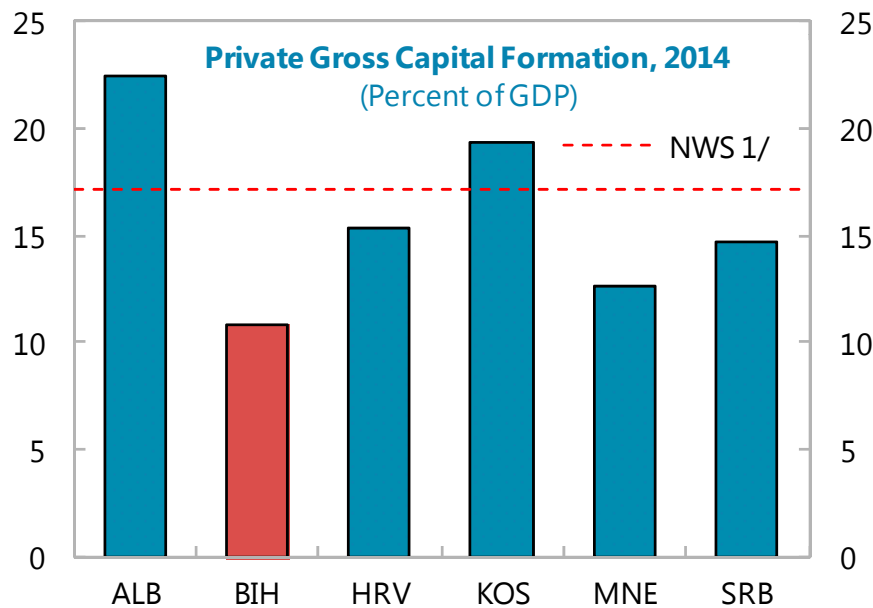
1/ Private sector employment includes workers employed by a number of state-owned enterprises.

Weak private investment

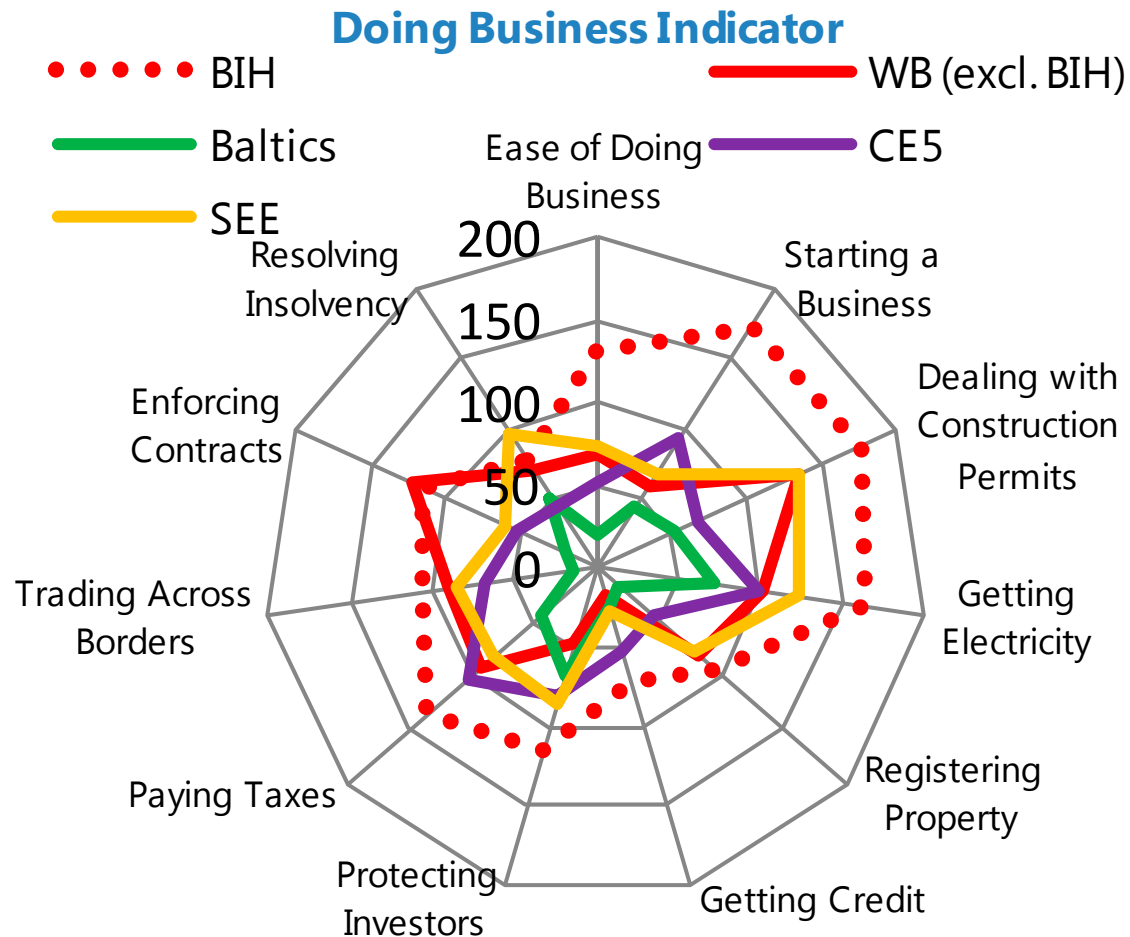


Private investment is low compared to region...

... especially in foreign direct investment.



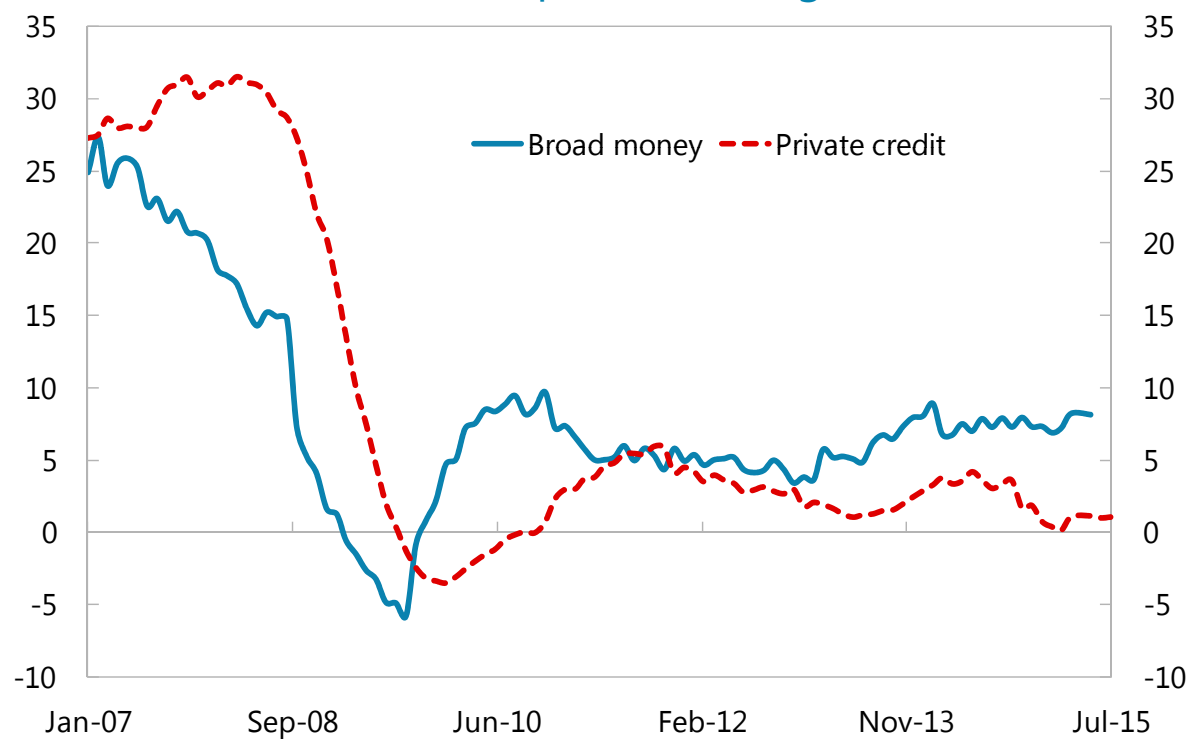
Poor business environment impacts competitiveness



Credit to private sector is stuck in low gear



Broad Money and Private Credit Growth
(12-month percent change)



Accelerating growth while maintaining macro stability



IMF Policy Recommendations:

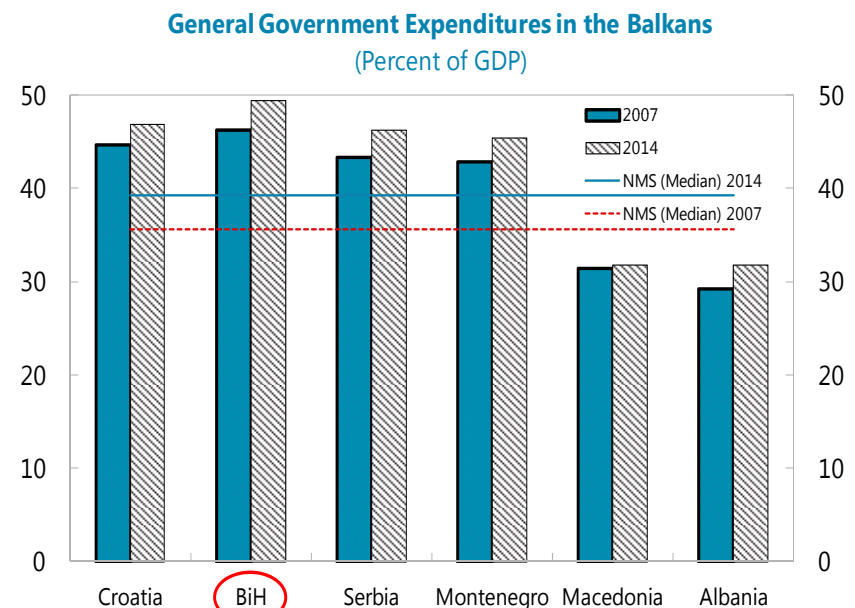
- I) Decrease public debt, while improving quality of spending
- II) Safeguard financial sector stability and revive bank lending
- III) Intensify business climate reforms to attract investments and raise growth potential

I. Fiscal consolidation and reforms



Policy Advice:

- Approve prudent budgets.
- Implement fiscal reforms
- Control extra-budgetary spending

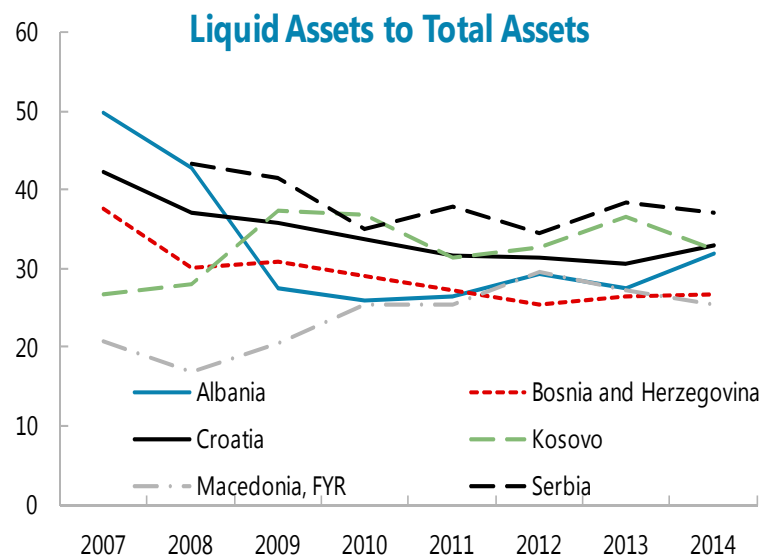
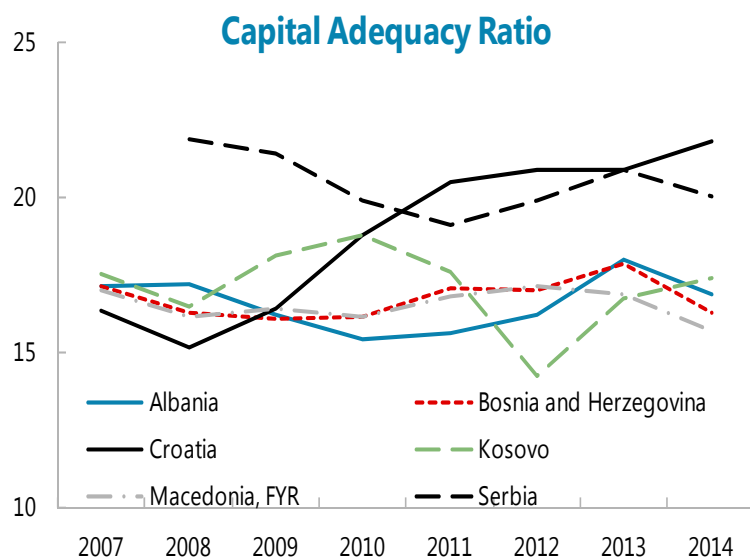


Source: IMF's Government Finance Statistics and World Economic Outlook
New Member States include: Bulgaria, Czech R., Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, Slovakia

II. Safeguarding financial stability and reviving bank lending



Main FSAP conclusion: Financial system at the aggregate level is **liquid, adequately capitalized, and resilient to shocks.**



II. Safeguarding financial stability and reviving bank lending (2)



Policy Advice:

- 1) Take strong action on weaker banks
- 2) Modernize legislation to bring banking system closer to EU standards
- 3) Deal with Non Performing Loans
- 4) Strengthen liquidity management framework
- 5) Remain vigilant on AML/CFT issues

II. Structural reforms



Urgent action is needed to:

1) Improve the business environment

- Harmonize legislation and reduce red tape
- Restructure and/or privatize state-owned companies
- Reform bankruptcy legislation and procedures
- Finalize WTO accession

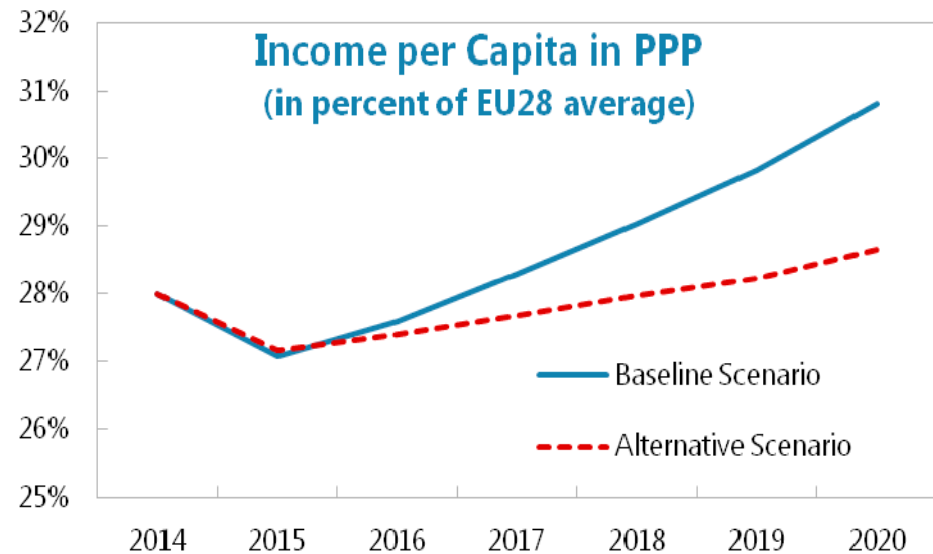
2) Enhance the functioning of the labor market

- Revitalize collective bargaining agreements
- Link wages to performance
- Allow part-time and fixed-term contracts
- Increase labor inspection

The road ahead



- Strong and sustained reform effort and sound economic policies will help achieve higher growth and faster convergence



Source: IMF staff estimates.

Implementation is key!



Thank you!