



INTERNATIONAL MONETARY FUND

OFFICE OF THE RESIDENT REPRESENTATIVE IN BOSNIA AND HERZEGOVINA

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STAND-BY ARRANGEMENT WITH BOSNIA AND HERZEGOVINA¹

February 2014

Stand-By Arrangement (SBA):

- Length: 24 months with additional 9 months extension (September 2012 to June 2015)
- Total amount: SDR 473.48 million (280 percent of quota; about €530 million)
- Disbursed to date: SDR 253.65 million (150 percent of quota; about €285 million)
- Disbursements: quarterly; subject to successful completion of quarterly reviews

Objectives:

- Improve national policy coordination
- Advance fiscal consolidation and public sector reform
- Safeguard financial sector stability and strengthen supervision
- Support growth and job creation through structural reforms

Key Reforms:

- Control of current expenditure, while protecting vulnerable and infrastructure spending: Two years in a row Institutions of BiH and entities adopted annual budgets in a timely manner and consistent with the objective of the fiscal consolidation.
- Reforms to support fiscal consolidation and enhance fiscal discipline: (i) law on budgets in FBiH adopted (ii) new law on privileged pensions introduced (in cooperation with the World Bank), (iii) legislation changed to ensure servicing of BiH foreign debt, (iv) adoption of the new BiH public procurement law advanced (in cooperation with the European Commission), (v) old-age pension reform in FBiH initiated (in cooperation with the World Bank), (vi) reform of the health sector revived (in cooperation with the World Bank).
- Reforms to improve tax revenue collection: (i) taxpayers data exchange between tax authorities started, (ii) equalize excises on tobacco products, (iii) publish list of 100 largest tax payers, (iv) focus on large tax payers and risk analysis.
- Banking sector remains stable, and the capacity to supervise banks and address potential difficulties has increased: (i) contingency plans developed, (ii) asset quality reviews initiated, (iii) development of new laws on banks initiated (in cooperation with the European Commission), (iii) deposit insurance coverage increased, (iv) provisional administration limited, (v) treatment of confidential information aligned to EU requirements (in cooperation with the European Commission), (vi) MoUs with foreign supervisors prepared to be signed, (vii) work on NPL resolution framework started.
- Work on labor market regulations and business environment commenced: (i) work on new labor laws in both entities restarted (in cooperation with the World Bank), (ii) legislative changes to FBiH laws on companies, inspectorates and business registration proposed (in cooperation with the World Bank).

Status:

- The IMF Executive Board completed the fifth review of BiH's economic performance under the program on January 31, 2014.
- Next review discussions are planned in the second half of February. Successful completion would pave the way for the release of the seventh tranche in the amount of SDR 42.275 million (25 percent of quota, about €48 million).

¹ For this and other information see www.imf.org/bihrr

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Outlook and Risks:

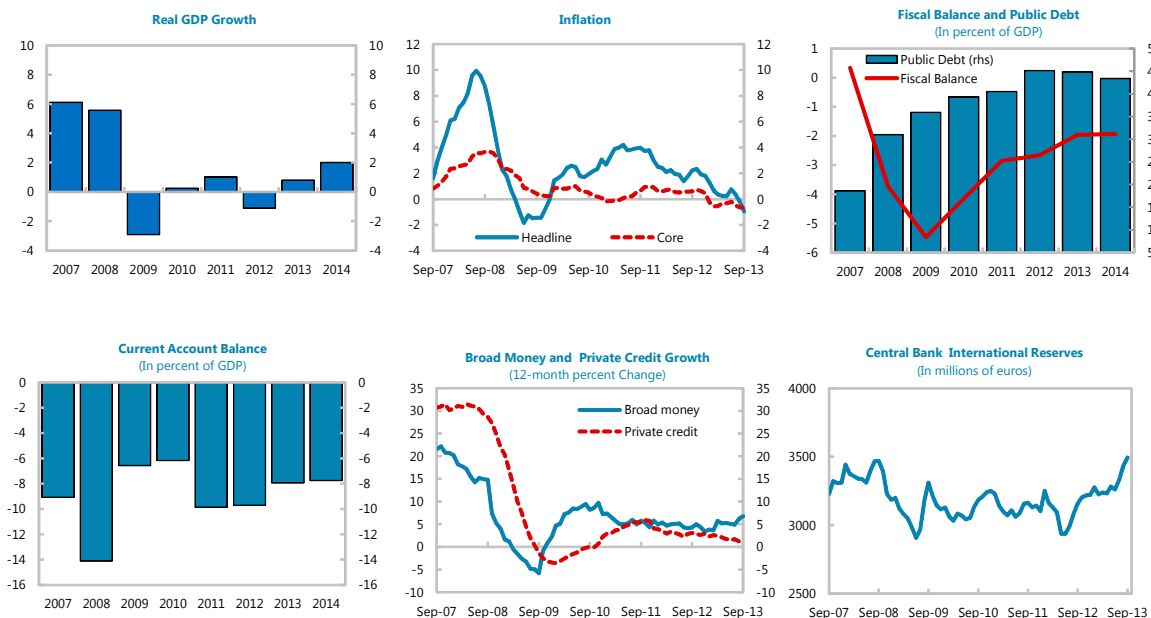
- The economy returned to growth in 2013, with real GDP estimated to have expanded by close to 1 percent. A further pick up is projected this year in line with developments in Europe.
- The banking sector is broadly stable but remains burdened by rising non-performing loans.
- Policy implementation remains strong despite some delays in structural reforms. Nonetheless, domestic risks stemming from general elections later this year loom large and could complicate the continued implementation of key measures envisaged under the program.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
				EBS/12/161	Proj.		Proj.		
Nominal GDP (KM million)	24,773	25,680	25,654	26,797	26,262	27,393	29,003	31,199	33,450
Gross national saving (in percent of GDP)	11.5	6.4	6.3	10.0	8.6	8.7	9.4	10.1	10.8
Gross investment (in percent of GDP)	17.1	15.6	16.0	19.1	16.6	16.3	16.4	16.2	15.9
				(Percent change)					
Real GDP	0.2	1.0	-1.1	0.5	0.8	2.0	3.5	4.0	4.0
CPI (period average)	2.1	3.7	2.0	2.4	0.3	1.1	1.5	1.9	2.1
Money and credit (end of period)									
Broad money	7.2	5.8	3.4	3.5	3.6	4.3	4.6	7.6	7.7
Credit to the private sector	2.1	4.2	2.8	3.5	2.4	5.0	6.6	8.5	8.4
				(In percent of GDP)					
Operations of the general government									
Revenue	46.5	46.1	46.3	46.3	45.9	46.2	45.7	45.7	45.6
Of which: grants	2.5	2.1	2.1	2.2	1.9	2.1	2.2	2.3	2.4
Expenditure	50.6	48.9	49.0	48.4	48.1	47.5	47.0	46.5	45.6
Of which: investment expenditure	8.0	6.3	6.2	6.6	6.7	6.5	6.6	6.7	6.8
Net lending	-4.2	-2.9	-2.7	-2.0	-2.2	-1.4	-1.3	-0.8	-0.4
Net lending, excluding interest payment	-3.5	-2.3	-1.9	-1.1	-1.3	-0.5	-0.4	0.0	0.3
Total public debt	39.3	40.9	44.8	43.0	43.4	42.5	40.7	38.5	34.0
Domestic public debt	13.9	15.0	16.9	13.5	13.9	12.0	11.2	11.2	10.5
External public debt	25.4	25.9	27.9	29.5	29.5	30.5	29.5	27.3	23.6
				(In millions of euros)					
Balance of payments									
Exports of goods and services	3,700	4,111	4,061	4,265	4,269	4,568	4,945	5,322	5,729
Imports of goods and services	6,522	7,714	7,109	7,573	7,313	7,713	8,133	8,610	9,091
Current transfers, net	1,805	1,791	1,837	1,859	1,853	1,934	2,011	2,110	2,213
Current account balance	-782	-1,295	-1,273	-1,237	-1,065	-1,071	-1,039	-984	-917
(In percent of GDP)	-6.2	-9.9	-9.7	-9.0	-7.9	-7.6	-7.0	-6.2	-5.4
Foreign direct investment (+ = inflow)	272.2	342.3	273.2	346.9	319.9	328.8	334.1	339.5	349.1
(In percent of GDP)	2.1	2.6	2.1	2.5	2.4	2.3	2.3	2.1	2.0
Gross official reserves	3,303	3,285	3,326	3,285	3,389	3,485	3,546	3,511	3,424
(In months of imports)	5.4	5.4	5.4	5.0	5.2	5.1	4.9	4.6	4.2
External debt, percent of GDP	51.6	49.1	52.4	54.0	53.0	53.9	52.4	49.5	44.5
External debt service/GNFS exports (percent)	19.7	14.9	12.6	17.4	14.7	14.7	12.6	12.9	14.4

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

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



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