

Table 1. Bosnia and Herzegovina: Quantitative and Structural Performance Criteria Under the 2002-2003 Stand-By Arrangement  
(In millions of KM, unless otherwise noted)

	2002				2003	
	End-Mar. 1/	End-June 1/	End-Sep. 2/	End-Dec. 2/	End-Mar. 1/	End-June 1/
<b>A. Quantitative performance criteria</b>						
Ceiling on gross credit of the banking system to the consolidated general government						
the State government	0	0	0	0	0	0
the RS government and municipalities	10	10	10	10	10	10
the RS extra-budgetary funds	2	2	2	2	2	2
the Federation government 3/	20	20	20	20	20	20
the Federation cantons	10	10	10	10	10	10
the Federation municipalities	8	8	8	8	8	8
the Federation extra-budgetary funds	0	0	0	0	0	0
Ceiling on contracting or guaranteeing of new concessional external debt with original maturity of more than one year by the public sector	0	445	445	445	445	445
Ceiling on contracting or guaranteeing of new non-concessional external debt by the general government or the public sector 3/	0	0	0	0	0	0
Ceiling on new external debt owed by the consolidated general government or guaranteed by the public sector with an original maturity of up to and including one year	0	0	0	0	0	0
Ceiling on outstanding external payments arrears 4/	0	0	0	0	0	0
<b>B. Structural Performance Criteria</b>						
Continued adherence of the Currency Board Arrangement as constituted under the law, incorporating the amendments described in paragraph 10 of the MEFP.						

1/ Targets are indicative.

2/ Targets for end-September and end-December are performance criteria.

3/ Excluding letters of credit at the state level for CIPS financing up to KM 40 million.

4/ This will apply on a continuous basis

Table 2. Bosnia and Herzegovina: Prior Actions and Structural Benchmarks, March 2002-March 2003

	Implementation Date	Lead Institution	Paragraph in the MEFP
<b>I. Prior Actions</b>			
1. The Entities will make transfers to the State, at least according to the agreed cumulative monthly schedule reported in Annex 3 of the MEFP.		IMF	16
2. (a) All privatization receipts accruing to the central governments of the RS and the Federation, and to the Cantons in the Federation will be placed in escrow accounts alongside all succession monies pending a comprehensive strategy to clear arrears.		IMF	16
(b) This is reflected in state law governing the use of succession assets, and Federation laws on privatization will be amended accordingly.		IMF	16
3. The Entities will formulate a plan to complete the introduction of modern Treasury Systems at their central government levels, and introduce modern Treasury Systems in local governments. The State will develop a plan to introduce a modern Treasury system.		World Bank/USAID	16
4. The Federation will pass a strengthened tax administration law on the basis of a draft proposed by the U.S. Treasury.		IMF	16
5. Distribution of the first tranche of the succession monies to the entities and the state budget will take place in accordance with Annex 4.		IMF	16
<b>II. Structural Benchmarks</b>			
<b>A. Fiscal Sector</b>			
1. (a) The Entities and the Brcko District will pass laws establishing the excise attribution mechanism as previously agreed with the World Bank.	End-July 2002	World Bank	15
(b) The Entities and the Brcko District will implement these laws and stop double taxation on excises.	continuous	World Bank	
2. The customs administration in both Entities and the Brcko District will introduce the ASYCUDA++ information system.	End-July 2002	EU	16
3. There will be no new free trade zones.	continuous	IMF	
4. Any changes to the current indirect tax system should retain or strengthen the principle of harmonization.	continuous	IMF	15
5. The Federation pension fund will adhere to the cut-off dates for contribution collections at the end of each month as specified in the 2000 pension law. The RS pension fund will adhere to the cut-off date of the 10th of each month for contributions collect	continuous	IMF	16
6. (a) The Brcko District will amend its legislation to include excise taxes in the base for calculating the sales tax.	End-Sept 2002	IMF	15
(b) The base of the Brcko District sales tax will be aligned with that in the Entities.	End-Sept 2002	IMF	15
(c) The two rates of sales tax in the Brcko District will be 8 and 18 percent unless changes are agreed with IMF staff.	End-Sept 2002	IMF	15
(d) The Brcko District will bring the retail units in the "Arizona" market into the tax net.	End-Sept 2002	IMF	15
7. A comprehensive strategy to clear arrears will be prepared. All arrears, including frozen foreign currency deposits, will be audited by the Supreme Auditor Institutions.	End-June-2003	IMF	
8. Bosnia & Herzegovina will not clear domestic arrears that were accrued before end-2000, pending a comprehensive strategy to clear arrears.	continuous	IMF	16
9. The RS, and the Federation will amend their budget laws to give effect to the requirement that cantons, municipalities, and extra-budgetary funds individually shall not increase their indebtedness to commercial banks or development banks except for borrowing undertaken under World Bank programs.	End-June 2002	IMF	12
10. There will be no offset operations for tax liabilities that are incurred after 2001.	continuous	IMF	16
<b>B. Financial Sector</b>			
1. Banking supervision will be strengthened by enforcing the current prudential regulations.	continuous	IMF/World Bank	21

Bosnia and Herzegovina: Federation Fiscal Operations, 2002 Expenditures Under Delayed Payment

	Amount in the Budget	Amount under Delayed Payment	Code in the Treasury System
Arrears clearance			
Soldiers wages arrears	24.0	24.0	611100
Arrears to suppliers of the ministry of transport and telecommunication	18.8	18.8	613000
War invalids benefits arrears	29.5	29.5	614201
Pensions arrears	20.0	20.0	614202
Transfer to the Pension Fund	25.0	10.0	614203
Subsidies			
Agriculture (more details needed)	54.9	44.8	614401
SME	15.0	15.0	614204
Employment	40.0	40.0	614205
Water	1.2	1.2	614402
Forests	2.9	2.9	614403
Veterinary	4.5	4.5	614404
Industry	1.1	1.1	614405
Capital expenditures			
Road Novi Travnik - Bujogno	3.0	3.0	821601
By-pass Bujogno	1.0	1.0	821602
Road Odzak-Bosanski Brod	0.2	0.2	821603
Reconstruction of the road to Gradacac	0.5	0.5	821604
Road Posusje-Jablanica	0.8	0.8	821605
Road Jajce-Dobretici	0.4	0.4	821606
Road Jabuka-Praca	0.5	0.5	821607
Road Srednje-Olovo	0.8	0.8	821608
Road Sanski Most-Mejdan	0.8	0.8	821609
Road Lucki Most-Mostar	0.5	0.5	821610
Road Ravno-Cepikuce	0.4	0.4	821611
By-pass Velika Kladusa	0.2	0.2	821612
Sanacija regional road R-464 Orasje-Domaljevac and Odzak-Prut	1.0	1.0	821613
Environment expenses	0.2	0.2	821614
Spending on environment protection (swap to German debt)	9.5	9.5	821615
Total		231.3	
<u>Memorandum items:</u>			
Total expenditure in the approved budget		1,559,375,930.0	
Total amount in the delayed payments list		231,300,000.0	
Remaining expenditures		1,328,175,930.0	

Source: Federation Ministry of Finance.

### Military Demobilization

The Federation plans to demobilize 10,500 soldiers during 2002. The demobilized soldiers will each receive KM 10,000 in severance pay.

The demobilization will be implemented as follows:

- All soldiers to be demobilized during 2002 will be given notice of termination of their contracts effective April 1, 2002.
- Soldiers will be assured that termination benefits will total KM 10,000. No payments will be made to or on behalf of the soldiers after March 31, 2002.
- We will make clear that this will not be the last demobilization. Subsequent demobilizations will take place on less generous terms.
- All efforts will be made to elicit donor grant funding for the scheme.

Pursuant to Chapter II, Article 7, Point 1 of the Law on Foreign Debt and Article 14, Point b of the Treasury Law, and in the context of the preparations of the program to be supported by a Stand-by Arrangement from the IMF, the entity finance Ministers and the Minister for BH institutions treasury have reached the following

AGREEMENT ON THE TIME SCHEDULE FOR THE PAYMENT  
OF RESPECTIVE AMOUNTS FOR FOREIGN DEBT SERVICING  
AND ENTITY CONTRIBUTIONS FOR ADMINISTRATIVE  
SEGMENT OF THE 2002 BUDGET OF THE BH INSTITUTIONS

I

In order to ensure timely payment of foreign liabilities and 2002 liability projections arising from foreign debt, in total amount of KM 293,3 million, out of which KM 181,9 million is the Federation liability and KM 110,4 million is the RS liability,

the Federation of BH and the Republika Srpska shall pay the required amounts against each due liability, 5 days ahead of the respective maturity date.

II

Total transfers in 2002 for administrative segment of the budget of the BH institutions amount to KM 77,3 million, out of which KM 51,5 million to be paid by the Federation and KM 25,8 million by the Republika Srpska.

The transfers to the budget of the BH institutions shall be paid on a weekly basis, ensuring so for 1/12 (one twelfth) of the total transfer to be remitted for every current month.

In Sarajevo,

/s/

The Minister of the Treasury  
of the BH Institutions  
Prof.Dr. Ante Domazet

/s/

The Minister of finance  
of the Federation of BH  
Prof.Dr. Nikola Grabovac

/s/

The Minister of finance  
of the Republika Srpska  
Milenko Vracar