



BOSNIA AND HERZEGOVINA

September 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE ALTERNATE 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 2025 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 August 27, 2025 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 August 27, 2025, following discussions that ended on July 1, 2025, 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 July 28, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Alternate Executive Director** for Bosnia and Herzegovina.

The document listed below will be separately released.

Selected Issues

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IMF Executive Board Concludes 2025 Article IV Consultation with Bosnia and Herzegovina

FOR IMMEDIATE RELEASE

- Growth has remained resilient despite a challenging environment and is projected at 2.4 percent in 2025. Downside risks are elevated, including trade tensions, weaker external demand, heightened domestic political tensions and policy slippages ahead of the 2026 elections.
- Fiscal policy should focus on medium-term consolidation, rebuilding buffers, and improving the quality of public spending, supported by a strong structural reform agenda.
- Safeguarding central bank independence, strengthening its policy toolkit, enhancing macroprudential oversight, and closely monitoring financial sector risks are essential to preserving the currency board arrangement and ensuring financial stability.

Washington, DC – August 27, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Bosnia and Herzegovina.¹ The authorities have consented to the publication of the Staff Report prepared for this consultation.

Growth has remained resilient despite domestic and global challenges. It accelerated to 2.5 percent in 2024 (2023: 2.0 percent). While political uncertainty dampened Q1 consumption, high-frequency indicators point to a recovery from Q2, with growth expected to ease slightly to 2.4 percent in 2025 before returning to its potential of 3 percent by 2027, driven by consumption and exports. After rapidly receding to 1.7 percent in 2024 (2023: 6.1 percent), average headline inflation picked up to 2.3 percent in May 2025, while core inflation remained broadly stable at about 4 percent. Inflation is forecast to rise to 3.8 percent in 2025 due to higher imported food prices, before stabilizing at 2 percent over the medium term.

The external position is expected to remain broadly unchanged in 2025, while credit growth is projected to moderate somewhat. The current account deficit is expected to widen to 4.1 percent of GDP, from 4.0 percent of GDP in 2024, with a recovery in electricity exports after last year's droughts, and lower oil prices offsetting adverse effects of U.S. tariffs on exports. Gross international reserves reached €9 billion, 6.9 months of imports, providing adequate coverage for the currency board arrangement. Private credit growth is projected to slow to 7.7 percent in 2025, slightly outpacing nominal GDP growth.

The outlook is subject to downside risks. Trade uncertainty, a slowdown in Europe, volatile commodity prices, tighter global financial conditions, and further escalation of political tensions pose significant downside risks to growth. Strong growth in real wages and private sector credit could put upward pressure on inflation. Policy slippages ahead of the 2026 elections could worsen

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.

the fiscal position and the current account deficit. On the upside, progress on EU accession would boost investor confidence and growth.

Executive Board Assessment²

Executive Directors agreed with the thrust of the staff appraisal. They noted that, while growth has remained resilient amid a challenging domestic and external environment, it continues to fall short of potential, hindering Bosnia and Herzegovina's swift convergence with the EU. Given elevated downside risks, Directors underscored the importance of maintaining political stability, avoiding policy slippages, and leveraging the EU accession process to accelerate reforms. Continued strong engagement with capacity development partners will be critical to support this process.

Directors concurred that fiscal policy should prioritize medium-term consolidation while rebuilding fiscal buffers, broadening the revenue base, and enhancing the efficiency of public spending. In the near term, it is essential to avoid further deficit-widening actions and to strengthen contingency planning. To bolster policy credibility, Directors called for upgraded fiscal frameworks, with greater harmonization and stronger monitoring and enforcement of fiscal rules. Reforms are also needed in public sector employment, wages, and social benefits, as well as in public investment management, procurement processes, fiscal risk oversight, and the governance of public enterprises.

Directors underscored the importance of safeguarding central bank independence and further strengthening the central bank's policy toolkit to preserve the credibility of the currency board arrangement, which remains an anchor of stability. They called for close monitoring of financial stability risks associated with rapid credit expansion, as well as for enhancements in the macroprudential framework. Directors stressed the need to enhance crisis preparedness, including through the establishment of a country-wide financial stability fund to support bank restructuring. They also supported the phasing out of temporary distortive regulatory measures and urged a joint commitment to undertake a Financial Stability Assessment Program (FSAP).

Directors emphasized the importance of advancing structural reforms under the EU Growth Plan to support EU accession and unlock faster, more sustainable economic growth. They highlighted that energy sector reforms—including phasing out electricity subsidies, improving the operational efficiency of state-owned energy enterprises, and introducing a carbon pricing system—are essential to attract private investment and position the sector as a long-term growth driver. Directors also stressed the need for reforms to boost labor force participation, reduce informality, advance digitalization, and strengthen governance and anti-corruption efforts. They underscored the urgency of effectively implementing MONEYVAL priority actions to avoid grey-listing and to secure further growth dividends.

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>.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2020-2030

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Prel.	Projections					
Nominal GDP (KM billion)	34.7	39.1	45.6	49.9	52.8	56.4	59.5	62.7	66.0	69.4	72.9
Gross national saving (in percent of GDP)	19.7	23.7	23.1	23.5	25.3	25.2	25.3	25.2	25.2	25.2	25.1
Gross investment (in percent of GDP)	22.6	25.4	27.4	25.8	29.3	29.3	29.1	29.1	29.0	29.0	29.0
	(Percent change)										
Real GDP	-3.0	7.4	4.2	2.0	2.5	2.4	2.7	3.0	3.0	3.0	3.0
GDP deflator	0.1	5.0	11.8	7.3	3.2	4.3	2.8	2.3	2.2	2.1	2.0
CPI (period average)	-1.1	2.0	14.0	6.1	1.7	3.8	2.6	2.0	2.0	2.0	2.0
Money and credit (end of period)											
Base money	10.7	17.4	3.3	-1.7	5.2	--	--	--	--	--	--
Broad money	7.1	12.4	5.5	7.7	9.3	--	--	--	--	--	--
Credit to the private sector	-2.8	4.0	4.9	7.4	9.3	--	--	--	--	--	--
	(Percent of GDP)										
Operations of the general government											
Revenue, of which:	40.9	40.5	39.5	40.0	42.0	42.8	42.5	42.5	42.5	42.5	42.5
Taxes	21.5	22.0	21.8	21.9	23.0	23.2	23.2	23.2	23.2	23.2	23.2
Social security contributions	15.5	14.8	14.2	14.8	15.5	15.8	15.8	15.8	15.8	15.8	15.8
Expenditure	45.4	40.6	39.4	41.7	43.9	45.4	45.4	45.4	45.2	45.2	45.2
of which: Investment expenditure	5.4	4.1	3.8	4.0	4.4	4.8	4.8	4.8	4.8	4.8	4.8
Fiscal balance	-4.5	-0.2	0.1	-1.7	-1.9	-2.6	-2.9	-2.8	-2.7	-2.7	-2.7
Primary fiscal balance	-3.8	0.5	0.8	-0.8	-0.9	-1.7	-1.7	-1.6	-1.5	-1.4	-1.3
Total general government debt	37.2	35.8	31.2	29.0	29.9	31.3	32.2	33.1	34.1	34.9	36.1
Domestic general government debt 1/2/	11.1	9.1	8.2	9.2	10.3	10.8	12.8	14.7	16.6	18.2	19.9
External general government debt	26.2	26.7	23.0	19.7	19.6	20.4	19.4	18.4	17.5	16.7	16.2
	(Percent of GDP)										
Balance of payments											
Exports of goods and services	34.6	42.5	48.3	43.9	41.6	40.9	39.3	39.0	38.8	38.7	38.5
Imports of goods and services	48.0	53.8	61.9	55.7	55.5	54.6	52.8	52.6	52.4	52.3	52.1
Trade balance	-13.4	-11.3	-13.6	-11.8	-13.9	-13.7	-13.5	-13.6	-13.6	-13.6	-13.6
Current account balance	-2.8	-1.8	-4.4	-2.3	-4.0	-4.1	-3.8	-3.9	-3.9	-3.9	-3.9
Foreign direct investment (+inflow)	2.0	2.7	3.1	3.4	3.6	3.2	3.3	3.3	3.3	3.3	3.3
Gross official reserves (Euro million)	7,105	8,382	8,276	8,443	8,992	9,670	10,191	10,615	11,050	11,539	12,055
(In months of imports)	7.9	7.0	7.0	6.8	6.9	7.2	7.2	7.2	7.2	7.1	7.1
External debt 3/	63.0	57.7	51.9	48.0	48.3	48.6	47.4	46.5	45.6	45.0	44.7
Memorandum Items:											
Unemployment rate (national definition) 4/	15.9	17.4	15.4	13.2	12.6	--	--	--	--	--	--
GDP per capita (in euros)	5,092	5,750	6,716	7,368	7,811	8,369	8,859	9,361	9,881	10,420	10,987
Output gap (in percent of potential GDP)	-4.1	0.3	1.7	0.8	0.4	0.0	-0.2	-0.1	0.0	0.0	0.0
REER (Index 2016=100)	98.7	98.5	102.4	103.6	102.9	--	--	--	--	--	--
NEER (Index 2016=100)	115.9	117.1	117.4	120.4	122.4	--	--	--	--	--	--

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

1/ On average, half of the domestic debt stock is indexed to the Euro.

2/ The stock of general government domestic debt does not include domestic arrears and those of public enterprises.

3/ Includes inter-company loans in private external debt.

4/ The 2021 unemployment rate is not comparable with 2020 due to redesign of BHAS Labor Force Survey (LFS) methodology in line with EU regulations.



BOSNIA AND HERZEGOVINA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 28, 2025

KEY ISSUES

Context: Heightened political tensions are slowing reforms and progress toward EU accession. Growth has been resilient, but inflation has accelerated recently following a rapid decline in 2024. Fiscal policy in 2025 has turned expansionary, driven by discretionary measures; spending composition has deteriorated. Larger deficits in both entities (FBiH, RS) are expected to be financed mainly through foreign borrowing. The currency board (CBA) coverage ratio continues to rise, and the financial sector remains healthy and profitable amid high household credit growth. Nevertheless, central bank independence is under pressure. Furthermore, large increases in the minimum wage risk undermining competitiveness and encouraging labor market informality.

Outlook: Growth is projected to decline slightly from 2.5 percent in 2024 to 2.4 percent in 2025. Without significant reforms, growth in the medium term will not exceed 3 percent—insufficient for rapid EU income convergence. Inflation is projected to rise from 1.7 percent in 2024 to 3.8 percent in 2025 before gradually declining to 2 percent by 2027. Risks remain high, including greater domestic political instability, an abrupt slowdown in Europe due to trade tensions, and commodity price volatility. Fiscal policies could remain expansionary beyond 2025, weighing on fiscal and external sustainability. On the upside, progress on EU accession could boost investor confidence and growth.

Policy recommendations:

- **Fiscal policy:** In 2025, avoid widening the deficit further with new discretionary measures and strengthen contingency planning. From 2026, focus on consolidation within the medium-term fiscal framework, boosting long-term growth, and rebuilding buffers. Improve tax collection, spending efficiency, and fiscal institutions.
- **Monetary policy:** Safeguard the CBA by strengthening the central bank's policy toolkit and protecting its institutional independence.
- **Financial sector policies:** Monitor systemic risks amid increasing private sector credit growth, while strengthening the macroprudential policy framework and financial crisis preparedness. End distortionary regulatory measures.
- **Structural reforms:** Strengthen labor market functioning, improve governance, speed up digital adoption, enhance the business environment to attract more investment, and implement energy sector reforms to reduce fiscal risks and mitigate the impact from the EU's Carbon Border Adjustment Mechanism (CBAM).

Approved By:
Mark Horton (EUR)
and Jacques Miniane (SPR)

Discussions were held in Sarajevo and Banja Luka from June 18 to July 1, 2025. The mission comprised D. Amaglobeli (head), I. Stuart, C. Lopez-Quiles (EUR), A. Tudyka (Resident Representative), A. Shah (FAD), A. Miksjuk (SPR), and B. Čegar Babić and A. Musić (local economists). E. Cohn Bech and N. Gonzales (EUR) assisted in the preparation of the report. S. Teskeredžić and N. Fazlagić (Resident Representative office) assisted in mission planning and logistics. The mission met with Central Bank of BiH Governor Selimović, BiH Minister of Transport and Communications Forto, Federation of BiH (FBiH) Prime Minister Nikšić, Republika Srpska (RS) Prime Minister Višković, FBiH Finance Minister Kraljević, RS Finance Minister Vidović, other government officials, members of parliament, and representatives of the business and diplomatic communities. The mission did not have the opportunity to meet with the BiH Fiscal Council as in previous consultations. M. van Rij and H. Abaspahić (OED) attended mission meetings.

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CONTEXT

1. **Bosnia and Herzegovina's (BiH) complex political situation has been affected by political developments in 2025.** Following the initial sentencing of President Dodik of Republika Srpska (RS) by the Court of BiH—the highest state-level administrative, criminal, and appellate court—for defying the decisions of the High Representative, the RS passed laws restricting jurisdiction of state-level judicial and law-enforcement institutions and advanced a draft constitution asserting the right to self-determination. In addition, policymaking has been hampered by disagreements and a lack of progress by the state-level governing coalition. Only the authority of a few key state-level institutions—notably the central bank (CBBH) and the Indirect Tax Administration (ITA)—has not been contested.
2. **BiH faces significant headwinds in achieving stronger growth and narrowing gaps with advanced Europe.** Per capita income is 35 percent of the EU average—among the lowest in Europe. BiH's current potential growth rate of 3 percent is insufficient for rapid income convergence. Political uncertainty continues to risk undermining investor and consumer confidence and weakening growth drivers, while global trade tensions could reduce exports and raise borrowing costs.
3. **Advancing EU accession could boost growth, but political tensions are hindering reform progress.** In the early 2000s, new EU entrants experienced faster growth than existing member states.¹ Despite the opening of accession negotiations in March 2024, progress has remained limited. However, at the end of June, BiH authorities broke a deadlock by reaching agreement in principle on the draft Reform Agenda under the EU Growth Plan.²
4. **Implementation of the last Article IV recommendations has been somewhat better than in previous consultations.** Some progress was made in advancing fiscal reforms and in strengthening the currency board arrangement (CBA), the reserve requirement framework, and financial integrity (Annex I). Engagement on capacity development (CD) remains strong (Annex II).

¹ Enlargement in 2004 boosted GDP per capita of new member states by 30 percent after 15 years compared to non-accession scenarios (IMF EUR REO, October 2024).

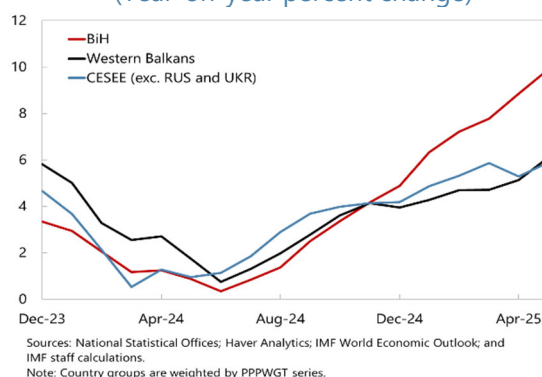
² The 2023 EU Growth Facility for the Western Balkans amounts to €6 billion (€2 billion grants and €4 billion concessional loans) of which €976.6 million (3½ percent of GDP) is earmarked for BiH. Policy priority areas are: Green and Digital Transition, Private Sector Development and Business Environment, Human Capital Retention and Development, and Rule of Law. Approval of the Reform Agenda will unlock €70 million.

RECENT DEVELOPMENTS

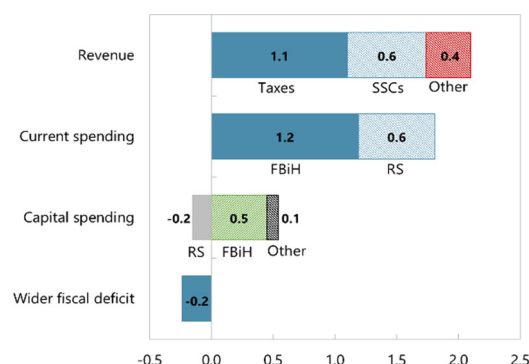
5. Growth accelerated in 2024, while inflation receded. GDP grew by 2.5 percent in 2024 (2023: 2.0 percent), led by domestic demand. Household consumption—supported by strong credit growth and remittances—and private investment (inventories) were key contributors; net exports were a drag. Employment grew by 0.6 percent (yoy) and unemployment declined to 11.7 percent in Q4:2024, with real wages growing by an annual rate of 7.9 percent. The direct impact of the October 2024 floods was limited (World Bank estimate: ½ percent of GDP). Due to a slowdown in fuel and utilities prices, headline inflation fell to 1.7 percent in 2024 (2023: 6.1 percent). Average inflation picked up to 2.3 percent in May 2025, however, driven by imported food prices (food and non-alcoholic beverages account for more than 1/3 of the CPI basket), and likely by wage hikes in both entities. Despite this increase, core inflation remained broadly stable at about 4 percent as of May 2025.³

6. Despite a weakening external current account, gross reserves—key to the CBA—have remained adequate. The current account deficit widened to 4.0 percent of GDP in 2024 (2023: 2¼ percent), reflecting weak demand for exports, a drought-induced decline in electricity exports, and higher imports associated with strong domestic demand. External debt increased by 0.3 ppts of GDP but remained relatively low at 48.3 percent of GDP. Gross international reserves reached €9 billion, 6.9 months of imports. (2023: €8.4 billion and 6.8 months) The external position is broadly in line with the level implied by fundamentals (Annex III) and desirable policies.

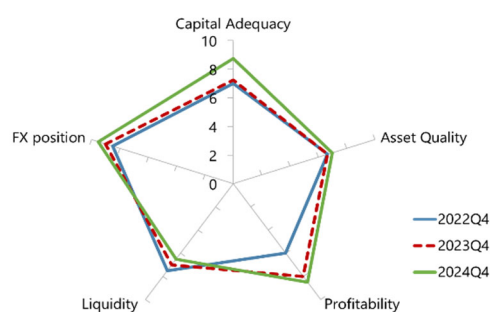
Text Figure 1. Food and Non-Alcoholic Beverages Inflation
(Year-on-year percent change)



Text Figure 2. Change in Fiscal Deficit, 2023 to 2024 (Percent of GDP)



Text Figure 3. Banking Sector Soundness
(Value)



³ The new core inflation measure, released by the CBBH in April 2025, excludes food and energy prices. The persistently higher level of core inflation, driven by services inflation, may reflect the impact of large wage increases.

7. The overall fiscal deficit widened in 2024, with divergent trends at the entity level.

FBiH's deficit increased from 2 to 2.7 percent of FBiH GDP, driven by higher spending on wages, pensions, other social benefits, and capital expenditure. Revenues were higher (indirect taxes and SOE dividends). In RS, the deficit declined from 2.3 to 1.3 percent of RS GDP, driven by higher revenues from direct taxes and social security contributions (SSC), as well as lower capital expenditure. BiH's overall deficit increased to 1.9 percent of GDP (1.7 percent in 2023), while public debt rose from 29.0 to 29.9 percent of GDP. FBiH largely financed its deficit domestically, while RS borrowed externally.

8. Amid rapid credit growth, financial soundness indicators have remained strong.

Private sector credit rose by 9.3 percent in 2024—the fastest since the GFC—with strong demand for housing and consumer loans. NPLs declined to 3.2 percent (2023: 3.8 percent), bank capital and liquidity remained adequate, and profitability improved. The regulatory capital ratio neared 20 percent and return on equity rose to 16 percent (2023: 15 percent). Lending surveys suggest looser household lending conditions in 2024 due to stronger bank competition, while corporate lending tightened.

OUTLOOK AND RISKS

9. Growth is expected to soften in 2025, with inflation rising temporarily. Political uncertainty weighed on household consumption in Q1, but high-frequency indicators point to a recovery. As a result, growth is projected to slow marginally to 2.4 percent in 2025 before returning to its potential of 3 percent by 2027, driven by consumption and exports. Under the baseline, the impact of higher U.S. tariffs and trade uncertainty is expected to be mild as the U.S. accounts for only 1½ percent of BiH's exports, and the euro area slowdown will be moderate.⁴ Inflation is forecast to rise to 3.8 percent in 2025 due to higher imported food prices, before stabilizing at 2 percent over the medium term.

10. The external position is projected to remain broadly unchanged in 2025, with a small improvement over the medium term. The current account (CA) deficit is expected to widen to 4.1 percent of GDP, from 4.0 percent of GDP in 2024, with a recovery of electricity exports after last years' droughts, and lower oil prices offsetting adverse effects of U.S. tariffs on exports. The CA deficit is projected to decline to 3.8 percent of GDP in 2026 and remain broadly stable over the medium term.⁵

11. Credit growth is expected to moderate but remain robust, and the financial sector should remain resilient. Private credit growth is projected to slow to 7.7 percent in 2025, slightly outpacing nominal GDP growth. CBBH stress tests indicate that the banking sector can withstand

⁴ A July 7 letter from President Trump to the BiH authorities announced a 30 percent tariff on BiH, effective August 1.

⁵ Projections exclude the EU Growth Plan financing due to uncertainty around the Reform Agenda implementation.

significant shocks. Sanctions risks have eased, as RS banks appear to have ceased services to sanctioned entities.

12. The outlook is subject to considerable downside risks. Trade uncertainty, a slowdown in Europe, and volatile commodity prices could weaken investment, exports, and remittances, putting additional pressure on public finances. A further escalation of political tensions could undermine activity and reduce potential growth. Tighter global financial conditions could reduce budget financing, necessitating consolidation, and weaken private capital inflows, pressuring FX reserves. Strong growth in real wages and private sector credit could put an upward pressure on inflation. Policy slippages ahead of the 2026 elections could worsen the fiscal position and the CA deficit. Recurring flooding and other climate shocks could cause significant damage. Under an adverse scenario with heightened trade uncertainty, growth could decline to 1.7 percent in 2025 and 2 percent in 2026 (2.7 percent in the baseline). Allowing automatic stabilizers to operate would help cushion the impact, though spending cuts may be necessary if financing conditions tighten unexpectedly (Annex IV). On the upside, progress on EU accession would boost investor confidence and growth (Annex V).

Authorities' Views

13. The authorities broadly agreed with the staff's projections and risk assessment. They concurred that domestic demand remains the main driver of growth and that inflationary pressures—mostly from food prices—are rising. For 2025, they also project growth slowing to 2.4 percent and inflation reaching 3½ percent. Compared with staff estimates, they are more optimistic on growth in 2026–27—averaging 3.6 percent; inflation projections are closely aligned.

POLICY DISCUSSIONS

Fiscal policy should prioritize building buffers, containing current expenditures, and scaling up investment. Strengthening the CBA and reserve requirement framework, closely monitoring the financial sector, and enhancing crisis preparedness are essential for financial stability. Accelerating structural reforms and advancing EU accession would support income convergence.

A. Fiscal Policy and Reforms

14. Fiscal policy is expected to ease in 2025, driven by current spending. At the entities' central government level, budgets and subsequently adopted measures envisage a large increase in wages (by 13 percent in FBiH, 10 percent in RS)⁶, and pensions (7.2 percent in FBiH, 9 percent in RS).⁷ The FBiH budget also includes increased subsidies for companies to cope with higher minimum

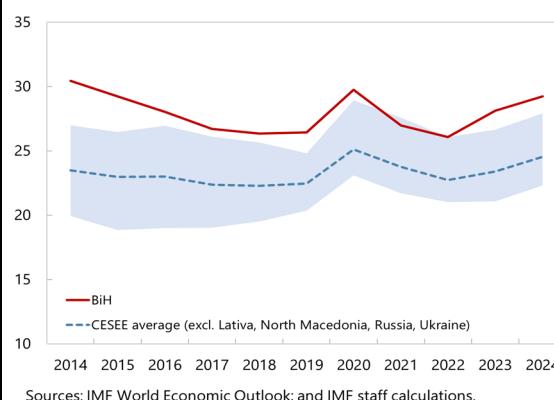
⁶ Salary increases at the central and subnational levels will result in wage bill increases of 0.5 and 0.9 percent of entity GDP in FBiH and RS, respectively. In RS, an additional 30 percent wage increase was implemented for police officers.

⁷ Pension and other social benefits increase by 0.3 and 0.2 percent of entity GDP in FBiH and RS, respectively. These include legally mandated indexation (4.5 percent in FBiH, 6 percent in RS), plus discretionary increases in both FBiH and RS.

wages (0.3 percent of FBiH GDP). While the approved FBiH budget envisaged additional revenues from higher minimum wages, gains will now be offset by a recent cut in the social security contribution (SSC) rate by 5.5 ppts. BiH's fiscal deficit is expected to widen to 2.6 percent of GDP (2024—1.9 percent). The fiscal stance is expected to remain expansionary in 2026—an election year—with overall deficits broadly unchanged on current policies till 2030.⁸ In 2025, FBiH has issued a debut €350 million Eurobond (1.9 percent of FBiH GDP); RS will continue relying on bilateral loans (€245 million, 2.6 percent of RS GDP) and local banks.⁹ RS has a €300 million (3 percent of RS GDP) Eurobond due in 2026. Debt is expected to rise in 2025 and to increase gradually over the medium term; still, sovereign stress risks remain moderate (Annex VI). At the IBiH level, the 2025 budget has not yet been adopted, constraining spending to 2024 levels.

15. The authorities should avoid further deficit-widening measures and strengthen contingency planning. The expansionary stance worsens spending quality, adds to price pressures and public debt, and may widen external imbalances. Moreover, the plans are at odds with entity fiscal rules, notably, the FBiH deficit rule (Box 1). Accordingly, the authorities should avoid additional discretionary measures—for example, proposed introduction of a zero-rate VAT on food and reduced rates for other products—and save any spending under-execution and revenue overperformance. They should build treasury cash buffers and develop contingency spending and revenue measures. Should a shock similar to the adverse scenario occur, the authorities should use available buffers, and only at the extreme, activate contingency plans.¹⁰ Under-execution of capital investment or resorting to arrears should be avoided.¹¹

Text Figure 4. Compensation and Social Benefits (Percent of GDP)



16. Beyond 2025, the authorities should aim to anchor policies in the medium-term fiscal framework, reduce deficits, further strengthen buffers, and enhance the economy's long-term potential. Fiscal consolidation should start in 2026, aiming to reduce the primary deficit from 1.7 percent of GDP to the debt stabilizing level of about 0.3 percent of GDP by 2030, while improving spending quality and building fiscal buffers. Priority should be given to spending

⁸ Projections for 2026–30 assume wages and social benefits will grow with nominal GDP. This implies discretionary increases to pensions and veteran benefits beyond statutory indexation, consistent with past policy practices.

⁹ FBiH amended a law in June to enable issuance of a Eurobond without state-level parliamentary approval. The ability of FBiH and RS to access foreign markets without the state-level approval, further reinforces the case for strengthening fiscal responsibility legislation.

¹⁰ Contingency measures could include reducing spending on goods and services and subsidies, freezing hiring, introducing a tax on dividends, and increasing excises.

¹¹ In 2024, arrears increased by 7 percent to 0.7 percent of GDP in FBiH. They declined by 50 percent to 0.6 percent of GDP in RS.

measures (e.g., restraining wages), complemented by revenue increases. If EU Growth Plan reforms advance in earnest, a temporary widening of deficits within the fiscal rules could be justified to support growth-enhancing spending—particularly on infrastructure but also on healthcare and education—given BiH’s large development needs.

Fiscal reforms should focus on:

- **Enhancing growth-friendly revenue collection.** The objective should be to broaden tax bases by reducing exemptions and strengthening new revenue sources.¹² Any further cuts in SSC rates should be implemented in a fiscally neutral way, offset by other measures. There is significant scope for gains from tax administration reforms. The ITA should continue implementing its comprehensive reform program, developed based on the 2024 IMF diagnostic review.
- **Increasing spending efficiency and effectiveness.** Wage and social assistance spending are above regional averages. A functional review of employment would help identify redundancies and rationalize the wage bill. Ad hoc pension adjustments should be avoided. To better target social assistance, the authorities should speed up the establishment of a unified social registry and consider reviewing benefit coverage and levels. Given the low level and quality of the public capital stock,¹³ increasing investment and implementing PIMA recommendations on project appraisal, multi-year budgeting, and project portfolio management are crucial (Annex VII).
- **Strengthening fiscal risk management.** While fiscal risk management practices vary across entities, both should accelerate reforms to strengthen analysis and oversight of fiscal risks, including ensuring comprehensive coverage of all sources of risk, such as from public enterprises (PEs) and contingent liabilities from international arbitration cases.^{14 15}
- **Improving governance and oversight of PEs.** Although RS has advanced by publishing its first report on specially-supervised PEs and initiated legislative amendment to better align with international corporate governance standards, the FBiH PE oversight unit has yet to start activities. It is essential to expedite its functioning.
- **Upgrading the fiscal framework. A review of existing fiscal rules is warranted to achieve** harmonization across entities, better alignment with policy priorities, and stronger compliance mechanisms.

¹² Recent FAD TA estimated gains of 2 percent of GDP from removing PIT and CIT exemptions in RS and 4.1 percent of GDP from removing VAT exemptions in BiH. Property tax revenues are well below neighboring and EU countries.

¹³ The IMF’s PIMA finds that access to public infrastructure, particularly health services and drinking water, and the perceived quality of infrastructure, is low compared to comparator countries.

¹⁴ Ongoing arbitration cases involve claims of 4½ percent of GDP.

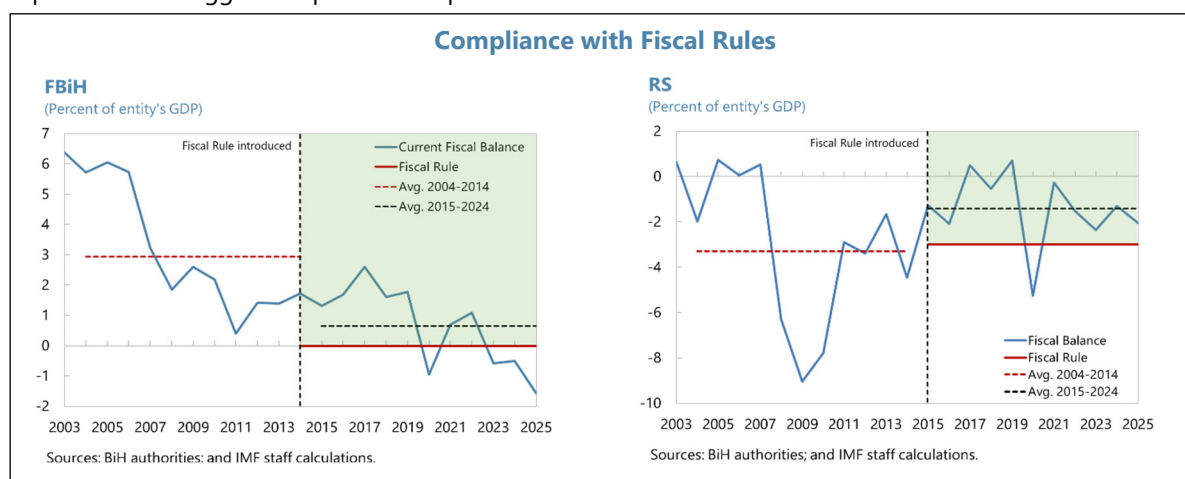
¹⁵ RS is currently working on its third fiscal risk statement focusing on PEs risks. RS plans to include risk from macro-economic trends. FBiH is just beginning analysis and management of fiscal risks.

Box 1. Fiscal Rules

Fiscal rules in BiH are fragmented and lack effective enforcement mechanisms. Fiscal rules are important commitment devices intended to support fiscal discipline and debt sustainability. In BiH, the rules are defined at the level of entities, the Brcko District (BD), and BiH institutions (IBiH). Debt and budget balance rules with escape clauses and corrective mechanisms exist but are inconsistent across jurisdictions. Institutional responsibilities for enforcing rules are defined by the laws; however, the state level Fiscal Council—comprising entity PMs and MOFs, the chair of the state council of ministers, and the state MOF (with the CBBH governor and BD mayor as observers)—has no mandate to oversee rule implementation beyond the state. RS has a functioning fiscal council while effective institutional mechanisms are missing in FBiH and BD.

- **FBiH.** The current budget balance rule, effective since 2014, requires the deficit to be at most zero, except when damage from natural disasters exceeds 20 percent of budget expenditures. Any deficit must be corrected within the next three years. With the adoption of a new law on debt, borrowing and guarantees (June 2025), debt rules were introduced with FBiH public debt capped at 60 percent of GDP and predefined measures triggered at lower thresholds. Guarantees cannot exceed 15 percent of GDP. Meetings of the Fiscal Coordination Body, comprising finance ministers of FBiH and cantons and a representative of the union of municipalities, are irregular; the law carries fines only for the person responsible for violating the debt rule.
- **RS.** A 2015 rule requires the overall deficit and debt not to exceed 3 percent and 55 percent of GDP, respectively. Temporary deviations are allowed in the event of natural disasters, recession, or the implementation of large infrastructure projects. If the deficit and/or debt reach 2.5 percent and/or 50 percent of GDP, the following year's budget must be in surplus. Total public sector debt (including PEs) cannot exceed 60 percent of GDP, short-term debt 8 percent of revenues, and guarantees 15 percent of GDP. The legislation also sets debt and debt service limits for extra-budgetary funds and subnational governments. A Fiscal Council (RSFC), an independent watchdog, is appointed by the RS Parliament. Fiscal rule violation requires the government to submit a consolidation plan to the RSFC and the Parliament. Failure to do so may result in fines for the person responsible.
- **BD.** A 2023 rule limits the deficit to no more than 3 percent of GDP. Short- and long-term domestic debt cannot exceed 5 percent and 10 percent of revenues, respectively. There is no entity to oversee the rule, and the law includes no penalties.
- **IBiH.** Long-term debt service costs cannot exceed 18 percent of revenues.

Compliance with rules and their impact on fiscal discipline has been uneven across entities. FBiH deviated from the current balance rule in 2023–25, while a deviation in 2020 was permitted under the escape clause. Compliance with the rule is key for fiscal sustainability and the credibility of fiscal policy. In RS, the 3-percent deficit limit was exceeded in 2020 under the escape clause, and minimally again in 2022, triggering remedial measures.¹ A comparison of 10-year average balances before and after the introduction of respective rules suggests improved discipline in RS.



Box 1. Fiscal Rules (Concluded)

Fiscal rules in BiH should be reformed to achieve greater harmonization across entities, better alignment with policy objectives, and stronger monitoring and enforcement. Existing rules should be reviewed to ensure they are appropriately designed and calibrated to balance fiscal sustainability, development needs, and stabilization objectives. Simplification of the rules could also be explored, as complex frameworks can undermine credibility and complicate communication and enforcement. Harmonizing rules across entities would help align incentives, strengthen policy coordination and fiscal discipline, and support EU convergence. Finally, effective implementation will also require a robust monitoring and enforcement framework, including the active role of independent fiscal institutions.

¹ The consolidated deficit in 2022 was below 3 percent (Figure). However, the RS Fiscal Council applies a different method for the fiscal rule, summing the deficits of all general government units without netting out surpluses.

Authorities' Views

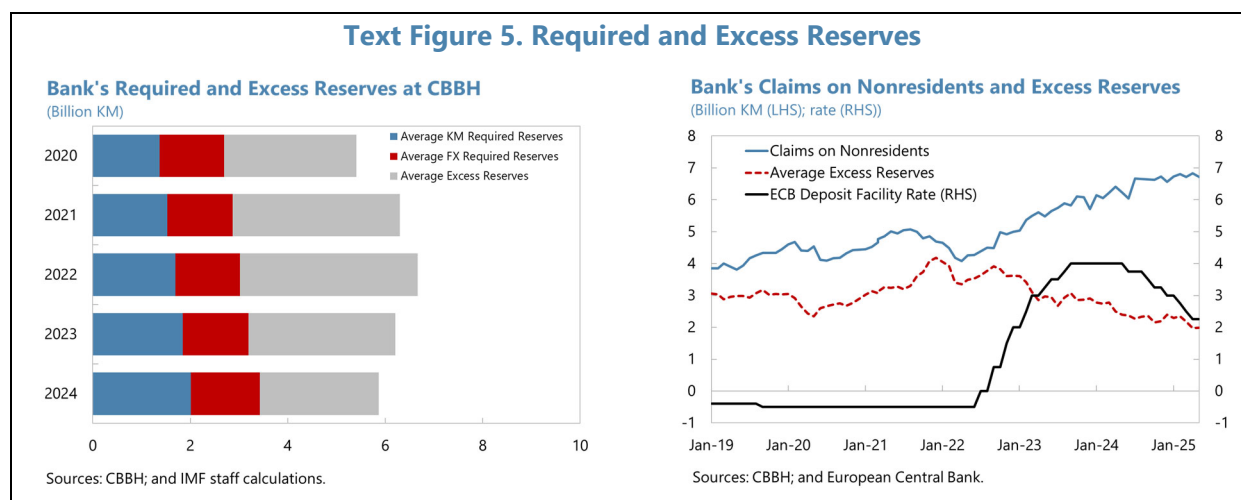
17. Both entities acknowledged increased budgetary pressures from higher wage and social spending, but assured staff that 2025 financing is proceeding as planned. They agreed that greater uncertainties warrant contingency planning. Both entities noted that recent wage increases have generated revenue gains from PIT and SSC, paving the way for the SSC rate cut in FBiH and higher capital expenditure in RS. At the state level, the authorities expressed concern that the non-adoption of the budget is delaying harmonization of salaries in line with the legislated formula and payment of new obligations. The authorities in both entities concurred with the need for spending-based consolidation starting from 2026, an increase in growth-enhancing capital spending, and building buffers in light of heightened uncertainty. However, they flagged challenges of election-year consolidation. The FBiH authorities recognized the fiscal costs of SSC rate cuts including for pension financing; they agreed that any further reductions in SSC rates should be considered with offsetting measures. The RS authorities are closely monitoring compliance with the fiscal rule and a fiscal consolidation plan after the 2022 deviation. The FBiH authorities supported suggestions to review the adequacy of the rule and framework but emphasized the need to coordinate with ongoing PFM reforms. In terms of revenue mobilization, while no tax policy measures are planned, both entities are optimistic about gains from real-time electronic transaction reporting; at the state level, the ITA expressed commitment to its new reform plan to improve performance and emphasized the need to maintain a single VAT rate.

B. CBA and Financial Sector Policies and Reforms

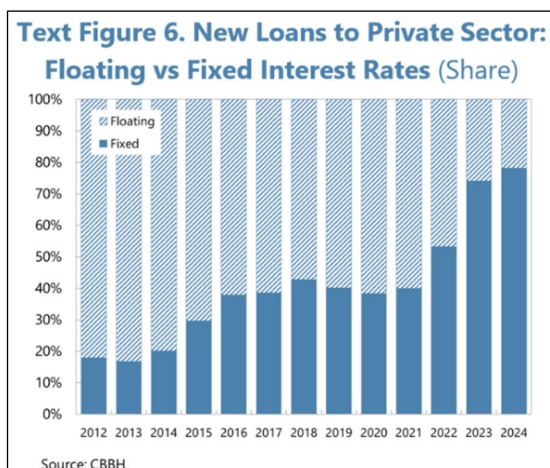
18. Elevated risks underscore the need to sustain strong reserves and protect CBBH institutional independence. The CBA has served as a pillar of macroeconomic stability and has remained strong, with a coverage ratio above 110 percent. Falling euro area interest rates should support accumulation of reserves by narrowing the rate gap with BiH. Staff recommends maintaining current rates—staff had previously recommended raising rates in line with the ECB—and raising them if pressures on FX reserves emerge. Preserving CBBH independence is essential for CBA credibility; actions that threaten independence should be avoided. CBBH's property and assets

should be protected against proceedings that could lead to seizure.¹⁶ Given relatively low SDR holdings, staff encouraged the authorities to build SDR buffers.¹⁷

19. The CBBH has been implementing previous IMF advice on reserve requirements (RR) and will undertake a further review with IMF support. In line with that advice, CBBH applies differentiated RR remuneration rates for foreign and domestic currency liabilities. However, despite a declining interest rate gap with the euro area, rates remain misaligned with opportunity costs as they are still below ECB policy rates. The CBBH also requires reserves to be maintained in FX for the underlying FX liabilities, but during the transition period, it caps fulfilment in FX at 5 percent, allowing the remainder to be fulfilled in local currency. The forthcoming review by the IMF will guide future reforms to the RR framework.



20. While the financial sector remains broadly healthy, strong private sector credit growth calls for close monitoring of systemic risk and reforms to enhance resilience. Rapid lending has been supported by increases in wages, financial inclusion, and real estate prices. Despite sound stability indicators, monitoring risks, such as interest rate risk from fixed rate loans, remains essential. Staff recommended that temporary regulatory measures on interest rates not be extended.¹⁸ In line with the IMF's Institutional View on Liberalization and



¹⁶ In early 2025, after winning an arbitration against BiH over a hydropower concession in RS, a company Viaduct initiated enforcement of its claim by attempting to seize and sell CBBH properties in BiH. In response, the CBBH Governing Board suspended profit transfer to the BiH Ministry of Finance and Treasury. In July, the High Representative, citing risks to CBBH operations, ordered the BiH Ministry of Finance and Treasury to use RS's share of blocked road toll reserves to settle Viaduct's debt.

¹⁷ As of June 2025, BiH's SDR holdings amount to SDR 2.39 million, 0.58 percent of their allocation. Countries with holdings below their allocation incur net charges.

¹⁸ To limit rate increases, the banking agencies in 2023 required extra provisions for loans with rate hikes >200 bps.

Management of Capital Flows, staff advised removing limits on exposures to foreign sovereigns, which constitute residency-based capital flow management measure.¹⁹ Blanket loan moratoria, currently in place in RS, which allows businesses to defer debt service for up to 12 months should lapse as scheduled in 2025. Staff reiterated concerns with risks from possible acceptance of deposits by the RS Investment Development Bank. Given the absence of a lender of last resort, staff reiterated advice to establish a country-wide Financial Stability Fund, which has faced resistance over perceived shifts in authority from entities to the state level. While emergency liquidity assistance is limited, foreign-owned banks—mainly large international groups holding three-quarters of assets—are likely to draw on parent support.

21. The authorities are making progress on macroprudential policy, although the framework is still evolving. Following the introduction of a systemic risk buffer (SyRB), banking agencies are implementing a buffer for domestic systemically important banks (D-SIBs) and are considering a countercyclical capital buffer (CCyB).²⁰ The authorities will require banks to report LTV and DSTI ratios but will not impose limits for now. Staff recommended against reducing regulatory capital from 12 to 10 percent from end-2026, introduced by RS to foster credit growth. Staff advised advancing CCyB and borrower-based measures (beyond reporting) and strengthening the macroprudential framework to address risks from credit growth and rising real estate prices (see real estate SIP). Enhancing coordination among key stakeholders for financial stability is key.²¹ Staff reiterated the benefits of an FSAP, which requires commitment from both entities.

22. Further efforts are needed to develop non-bank financial institutions (NBFIs) and promote financial inclusion. NBFIs—mainly insurers—account for about 10 percent of the financial sector. Greater harmonization of insurance regulations across entities and alignment with the Solvency II regime would strengthen the framework. Advancing digitalization and financial literacy would help deepen market activity. While RS has adopted e-money legislation, its impact is limited; progress in FBiH is still pending.

23. The authorities are making efforts to integrate BiH with the Single Euro Payments Area (SEPA). SEPA integration will enable faster and more convenient cross-border euro payments, lower transaction costs—particularly for remittances—and foster deeper trade and economic ties with Europe. Legislative amendments are being prepared for application for SEPA membership. The CBBH is preparing technical aspects for SEPA to accelerate integration. In addition, development of the TIPS Clone—implemented by CBBH with help from the Bank of Italy—will provide infrastructure for instant payments.

¹⁹ In 2023, the banking agencies introduced exposure limits of 100 percent of regulatory capital. In 2024, RS lowered this to 50 percent.

²⁰ Depending on NPLs and expected credit losses, the SyRB is set in a 0-2 percent range. D-SIBs are 1.5-3 percent depending on systemic importance.

²¹ Coordination takes place through a Standing Committee on Financial Stability, which includes the CBBH governor, directors of both banking agencies, ministers of finance of BiH and the entities, and director of the deposit insurance agency.

Authorities' Views**24. The authorities agreed that safeguarding CBBH independence is essential to the CBA.**

They did not object to staff's assessment that the external position is broadly in line with fundamentals and desirable policies. The CBBH noted the rising CBA coverage ratio and narrowing gap between the RR remuneration rate and euro area interest rates, with the decline in ECB rates. The CBBH looks forward to the comprehensive review of the effects of the reserve requirement policies supported by the IMF, which has been requested by the CBBH in the context of the new required reserves framework. RS justified the planned reduction of the capital adequacy ratio with the need to align with EU standards and asserted it would not increase financial stability risks. However, FBiH and state-level authorities stressed the importance of a harmonized regulatory framework across the entities. Both entities acknowledged staff's assessment that temporary limits on bank exposures to foreign sovereigns constitute a CFM measure but reiterated that it was introduced as a credit risk management tool. The authorities shared staff's view that strong credit growth requires close monitoring; measures will be taken if warranted. They echoed staff's calls to further develop the macroprudential toolkit and emphasized progress on the preparation of the list of D-SIBs and on reporting requirements for LTV and DSTI ratios. The authorities are pleased with progress towards SEPA membership and TIPS Clone and emphasized that strong inter-agency coordination will be key to a successful outcome. The need to establish a Financial Stability Fund was broadly recognized, but a single state-level fund remains politically difficult.

C. Energy Policies

25. The energy sector faces considerable challenges and poses risks. After years of underinvestment, poor maintenance, and declining coal production, electricity production has stagnated. Hydropower output—one-third of generation—fluctuates based on weather conditions, leading to volatility in the electricity mix. New investment in generation infrastructure remains limited due to low domestic tariffs, limited transmission capacity, and potential land use constraints.²² Household tariffs are set below cost-recovery levels. While utilities typically offset losses with revenue from sales to industrial consumers and exports, recent power shortages present risks to this approach and may force utilities to seek financial relief. In 2024, the RS distribution utility narrowly broke even, while the FBiH utility reported a loss. Both utilities received approvals for price increases for 2025, taking effect in RS from January, and in FBiH from September. Staff emphasized the need to phase out subsidies, with compensating measures for vulnerable households.

26. Without a domestic carbon pricing mechanism, BiH exporters to the EU will face CBAM charges from 2026. The electricity sector is expected to be most affected, particularly public utilities exporting coal-generated electricity to EU countries. Introducing carbon pricing would allow BiH to retain revenues domestically as CBAM is phased in and incentivize emissions reductions.

²² In 2024, the BiH Constitutional Court ruled in two cases that state-owned land cannot be repurposed or disposed of by the entities. This may present legal obstacles to the construction of new generation, transmission and distribution energy infrastructure.

Electricity market integration and the establishment of an EU-aligned, state-level ETS by 2030 would allow BiH to secure CBAM exemption for electricity. While progress has been made in drafting a new electricity law and an ETS roadmap, neither will be sufficiently advanced. Staff stressed the need to establish a carbon pricing scheme as soon as possible and that alternative options such as a carbon tax or excise charge, using existing administrative structures, should be considered as expeditious alternatives to a new ETS. Regardless of the chosen approach, revenue recycling measures should be designed to support emissions-intensive, trade-exposed firms and vulnerable households.

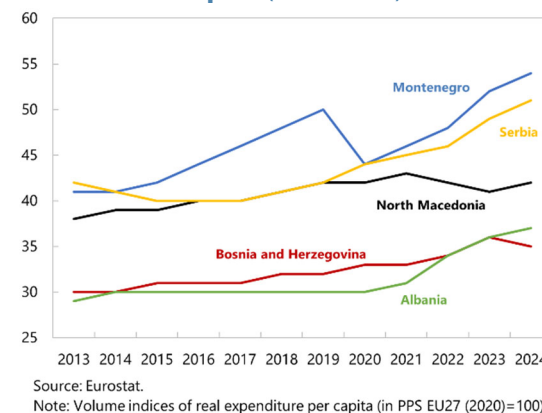
Authorities' Views

27. The authorities stressed that they are making efforts to mitigate negative CBAM impacts, particularly for electricity. They noted that after a decade of discussion, the text of the new state-level electricity law has been agreed among the entities and Brcko District and will soon be submitted for parliamentary approval. This will lay the foundation for an electricity power exchange and future market coupling with the EU. An ETS roadmap has also been drafted; discussions are ongoing on entity concerns on allocation of competences. The authorities did acknowledge that there is unlikely to be sufficient progress to obtain CBAM exemption for electricity by 2026. They expressed interest in staff suggestions to consider alternative carbon pricing instruments, if ETS progress stalls, although this would constitute a change in official government strategy. The authorities are also aware of the fiscal risks associated with the current electricity pricing and subsidy structure and noted the urgent need to address inefficiencies in energy SOEs. They suggested that further price increases are likely to be considered once the unbundling of the electricity sector in each entity is complete.

D. Structural Reforms

28. Faster progress towards EU accession would provide significant benefits. Over the past decade, despite having amongst the lowest per capita GDP in the Western Balkans, BiH has made limited progress in closing the income gap to the EU average. Implementing comprehensive structural reforms is critical to enhance competitiveness, attract investment, and foster sustainable growth. The European Commission's 2024 progress report lists 43 reform areas, half of which show 'no progress', a third 'limited progress', and the remainder 'some progress'. Political fragmentation, lack of consensus among governing bodies, and limited capacity hinder comprehensive reform implementation. However, the recent adoption by the Council of Ministers of the draft EU Growth Plan reform agenda is promising. The plan, comprising 110 reforms in digitalization, energy, business environment, human

Text Figure 7. Gross Domestic Product per Capita (EU27=100)



capital and the rule of law, will need to be submitted to the EU for approval. If accepted, the package would unlock €1 billion in grants and subsidized loans to support the reform agenda.

29. While the labor market has improved in recent years, holistic reforms to address structural weaknesses are needed. The unemployment rate fell from 16.7 percent in 2022Q1 to 11.7 percent at end-2024, despite rising labor participation. However, unemployment rates for women and youth remain high, emigration persists, and informality is widespread. Reducing large labor tax wedges would help. The recent reduction in the FBiH's SSC rate is a start; any further cuts should be fiscally neutral. Base broadening could support further SSC rate reductions, including removing preferential treatment for certain categories of work and harmonizing tax treatment across entities (see tax wedge SIP). Complementary reforms are required—flexible employment arrangements, expanded childcare, and support for job search and skills mismatches.²³ Large ad hoc minimum wage (MW) increases are likely to have important economic, distributional and fiscal effects (Annex VIII). Staff recommended a structured approach that avoids large, discretionary MW adjustments.²⁴

30. BiH has made progress in implementing governance reforms, but more remains to be done. In 2024, a state-level Law on the Prevention of Conflict of Interest was adopted and a state-level strategy and action plan passed; additional progress is required to strengthen the judiciary, reduce corruption and fight organized crime by completing the legislative and institutional framework and stepping up implementation of the rules:²⁵

- While the publication of asset declarations is progressing, competitive public procurement and transparency remain weak and expose the economy to risks of corruption. RS, BD, and a few FBiH cantons have established publicly accessible registries with asset and interest declarations, but the extent and comprehensiveness of available data and verification efforts are unclear. The state and FBiH should also set up public registries.
- BiH remains behind its peers in competitive procurement. Over half of tenders received only one bid, and over 85 percent of public contracts used price as the only award criterion, which is high. The Public Procurement Authority has not published monitoring data on competition since 2022, and there appears to have been no improvement in procurement efficiency. A new Public Procurement Strategy for 2024-28 was adopted and a new draft law on public procurement is expected by end-2025. The authorities should ensure that public reporting on procurement is timely, that information on beneficial ownership of contractors is collected and made public, and that audit and accountability institutions can access data to perform their functions.

²³ FBiH subsidizes SSCs and job search costs for certain categories of workers, while RS provides some subsidies to promote female and rural employment. RS is also drafting legislation to simplify hiring of foreign workers.

²⁴ See 2024 SIP.

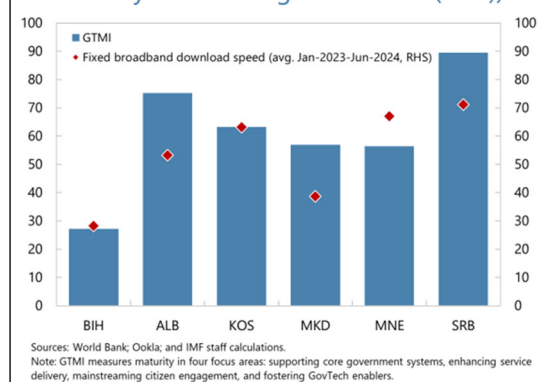
²⁵ EC Staff Working Document, Bosnia and Herzegovina 2024 Report.

- Staff urged effective implementation of MONEYVAL priority actions to avoid grey-listing. MONEYVAL identified shortcomings in the Designated Non-Financial Businesses and Professions (DNFBP) sector, which the authorities are currently addressing. The authorities have drafted legislation to enable targeted financial sanctions, expected to be submitted to the BiH Council of Ministers by September, and are planning to establish soon a permanent state-level body to coordinate AML/CFT policy.

31. BiH lags in public sector digital adoption, although there has been some progress.

Digital adoption by government can strengthen public finance operations and improve service delivery. However, BiH ranked only 107th on the 2024 UN e-Government Development Index (EGDI) and achieved a 'C' category on the World Bank's 2022 GovTech Maturity Index. The BiH Agency for Identification Documents, Registers, and Data Exchange (IDDEEA) has started issuing biometric credentials, digital IDs, and e-signatures and is working on e-wallets to pave the way for other e-government and banking reforms. The ITA is now offering e-services, including VAT declarations. Nevertheless, gaps remain with the EU digital regulations, particularly in e-identification, trusts, cybersecurity, and cross-border interoperability.²⁶

Text Figure 8. GovTech Maturity Index and Fixed Broadband Download Speed
(Index, 2022 (LHS); average Mbps from January 2023 through June 2024 (RHS))



32. Strengthening the business environment is crucial to attract FDI. Staff welcome FBiH efforts to reduce administrative burden on businesses and RS SOE reform commitments. Further reforms are needed to streamline and unify business-related regulations across the entities to reduce administrative burdens and regulatory fragmentation—including changes to company law, intellectual property rights, and competition policy. As stressed by the authorities, improved public infrastructure would also play an important role in fostering higher growth. The efficiency of public infrastructure management is lower than peers (see Annex VII). The IMF's PIMA recommends that the authorities develop a national public investment plan, improve coordination across government levels, strengthen project appraisal and selection, streamline procurement processes, and develop portfolio oversight.

33. The authorities are making progress with data dissemination. In 2024, BiH transitioned to the IMF Special Data Dissemination Standard (SDDS). Staff stressed the importance of further enhancing statistics quality, particularly national accounts and government finance statistics (Annex IX). As part of the transition to the UN COICOP standard, the authorities anticipate a revision to historical GDP data in September.

²⁶ World Bank. 2025. E-Government Assessment in FBiH.

Authorities' Views

34. The authorities acknowledged the need to accelerate EU accession reforms and were pleased with the recent adoption of the EU Growth Plan reform agenda. They highlighted efforts to improve the business environment, including lowering the labor tax wedge in FBiH, strengthening SOE oversight and management, and streamlining fees. They noted ongoing digitalization efforts, particularly in e-government. They are hopeful that their efforts to address MONEYVAL priority actions will avoid FATF grey-listing. They reiterated their commitment to governance and anti-corruption reforms.

STAFF APPRAISAL

35. Growth has remained resilient despite a challenging domestic and global environment.

In 2025, higher contributions from public consumption and net exports are expected to support activity, with growth reaching its potential of 3 percent over the medium term, below the pace needed for rapid EU convergence. Inflation has accelerated in 2025, driven by higher imported food prices, and likely, minimum wage increases. Downside risks are elevated, including from trade tensions, weaker external demand, heightened domestic political tensions and policy slippages ahead of the 2026 elections. On the upside, tangible progress on EU accession would boost confidence and growth.

36. Fiscal policy should focus on medium-term consolidation, rebuilding buffers, and improving the quality of public spending.

For 2025, the authorities should refrain from further discretionary measures that would widen the deficit and strengthen contingency planning. From 2026, deficit reduction should be pursued by both entities, with efforts to enhance spending efficiency and effectiveness and broaden tax bases. Consolidation should be accompanied by structural reforms, including a review of public employment, wages, and social benefits, improvements in public investment management, strengthened fiscal risk oversight, enhanced governance of public enterprises, and upgraded fiscal frameworks.

37. Respecting central bank independence and further strengthening the CBBH's policy toolkit are crucial for the currency board arrangement.

The CBA is a key anchor of stability. Efforts to undermine or target the CBBH, including seizing its assets or property, should be firmly resisted. The CBBH should enhance its policy framework and continue building reserves to bolster confidence and resilience. The external position is broadly in line with the level implied by fundamentals and desirable policies

38. The authorities should closely monitor financial sector risks and enhance the macroprudential policy framework.

While financial soundness indicators are favorable, rapid credit growth and rising real estate prices call for heightened vigilance, and if needed, timely action to address risks. Establishing a BiH-wide financial stability fund would strengthen the safety net. A joint commitment to undertake an FSAP would send a strong positive signal, identify potential vulnerabilities, and guide future reforms. Temporary regulatory measures—such as blanket loan

moratoria, limits on exposures to foreign sovereigns, and caps on lending rates—should not be extended. Efforts to strengthen capital- and borrower-based macroprudential tools should continue.

39. Advancing energy reforms is crucial to reducing fiscal risks and preparing for the EU

CBAM. Phasing out electricity subsidies while protecting vulnerable households and improving the operational and financial performance of energy SOEs would help contain contingent liabilities. To mitigate CBAM impacts, a domestic power exchange system should be established and a roadmap and legislative framework for carbon pricing adopted at the state level. These reforms will help attract private investment and position the energy sector as a driver of long-term growth.

40. Structural reforms are essential to raise medium-term growth.

Labor market reforms are needed to address boost labor force participation, reduce informality and emigration, and alleviate skills mismatches. Strengthening governance and accelerating digitalization would yield significant growth dividends. The authorities should urgently implement MONEYVAL priority actions to avoid grey-listing in 2026. The authorities should leverage EU accession to anchor reforms and unlock additional financing. Faster progress will require complex reforms and compromise.

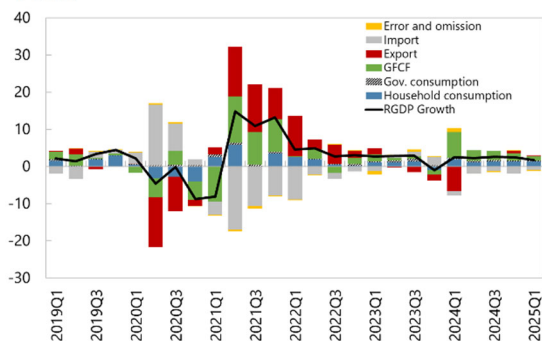
41. It is recommended that the next Article IV Consultation takes place on the standard 12-month cycle.

Figure 1. Bosnia and Herzegovina: Selected Economic Developments

Strong domestic demand supported the economy in 2024...

Real GDP Growth - Demand Side

(Percent)

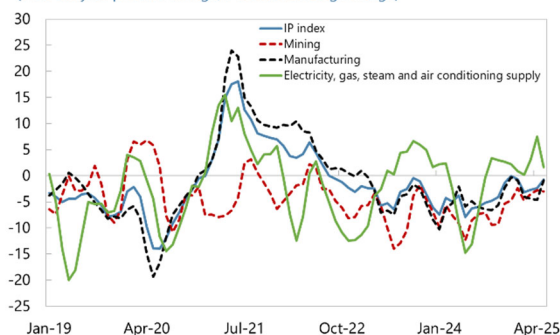


Sources: BHAS; and IMF staff calculations.

...with industrial and mining production continuing to decline.

Industrial Production

(Year-on-year percent change; 3-month moving average)

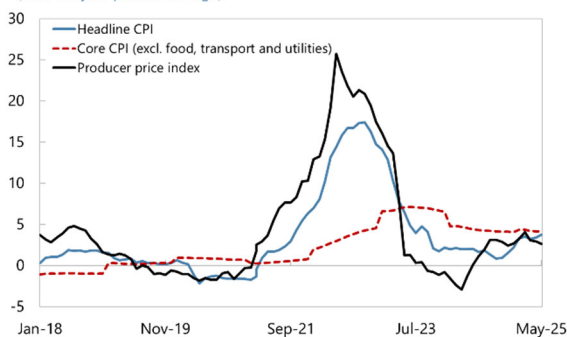


Sources: BHAS; and IMF staff calculations.

After bottoming out in December 2024, CPI inflation has ticked up in recent months...

Headline CPI, Core CPI, and PPI

(Year-on-year percent change)

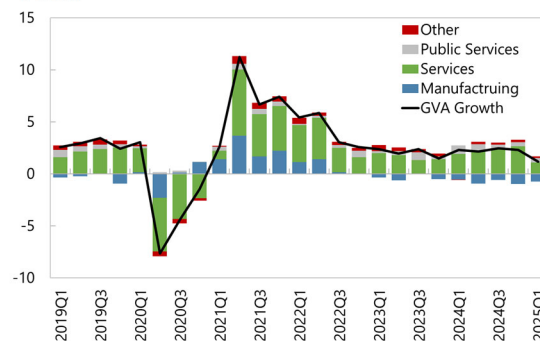


Sources: BHAS; CCBH; and IMF staff calculations.

...reflected in high services sector growth. Manufacturing contracted further...

Real GDP Growth - Supply Side

(Percent)



Sources: BHAS; and IMF staff calculations.

The labor market generated more jobs, with falling unemployment and higher labor participation.

Labor Market

(Number of employed people (LHS); percent (RHS))

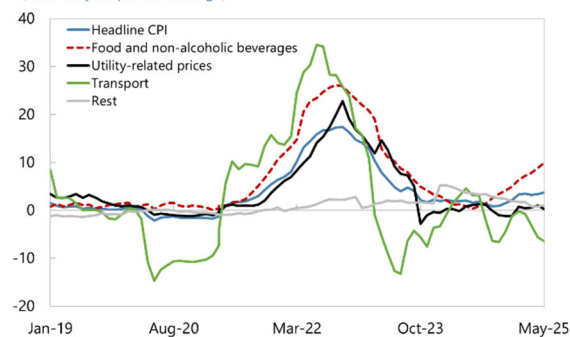


Sources: BHAS; and IMF staff calculations.

...driven mainly by imported food and beverage inflation.

CPI by Main Items

(Year-on-year percent change)

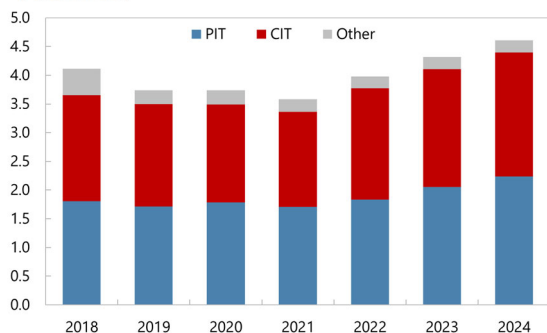


Sources: BHAS; and IMF staff calculations.

Figure 2. Bosnia and Herzegovina: Fiscal Sector

Wage growth and higher prices have contributed to higher PIT and CIT revenues.

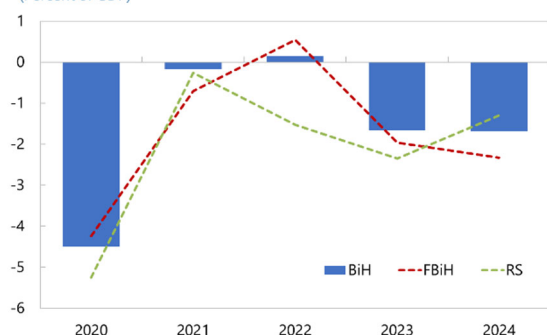
Direct Taxes (Percent of GDP)



Sources: MoF; and IMF staff calculations.

Expansionary fiscal policy led to a deterioration in the fiscal position of both entities.

General Government Fiscal Deficit (Percent of GDP)

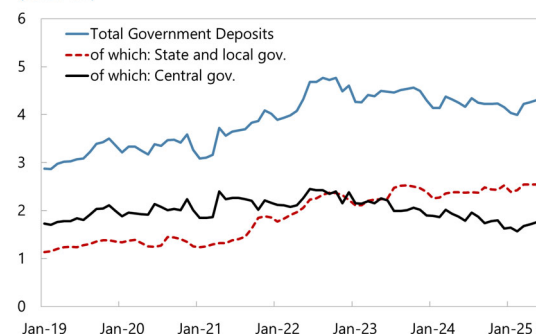


Sources: MoF; and IMF staff calculations.

Government deposits have decreased the last two years.

Government Deposits

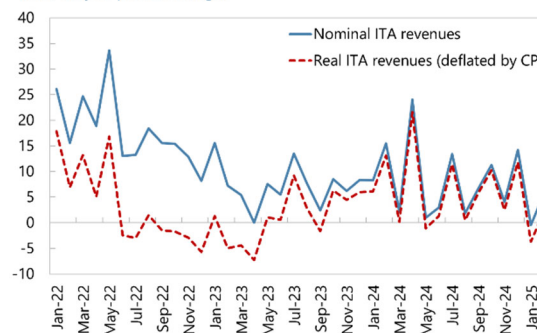
(Billion KM)



Source: CBBH.

With lower inflation, real growth in indirect tax revenues has been positive.

ITA Revenues (Year-on-year percent change)

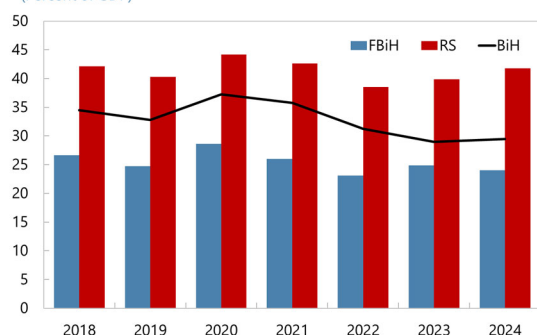


Source: ITA.

Debt levels have not changed significantly in recent years.

General Government Debt

(Percent of GDP)

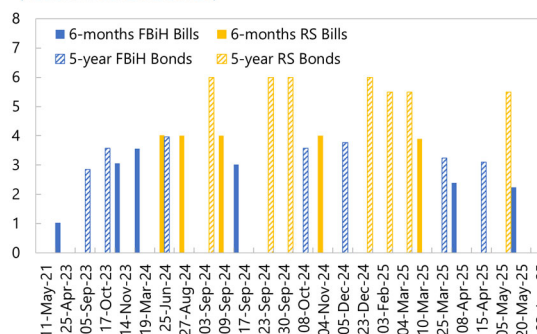


Sources: MoF; and IMF staff calculations.

There has recently been a decline in yields on securities in both entities, especially on treasury bills in FBiH

Yields at Issuance: 5-Year Bonds and 6-Month Bills

(Percent; five latest issuances)



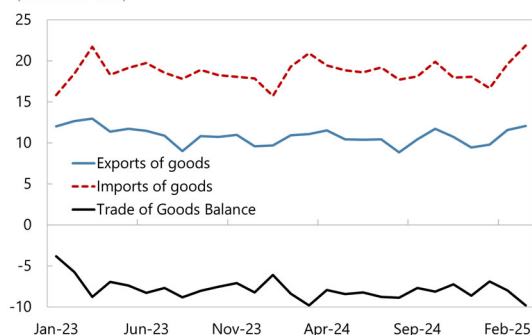
Source: Sarajevo and Banja Luka Stock Exchange database.

Figure 3. Bosnia and Herzegovina: External Sector

The trade balance weakened in 2024 due to strong domestic demand and disruptions to electricity exports...

Total Trade of Goods

(Percent of GDP)

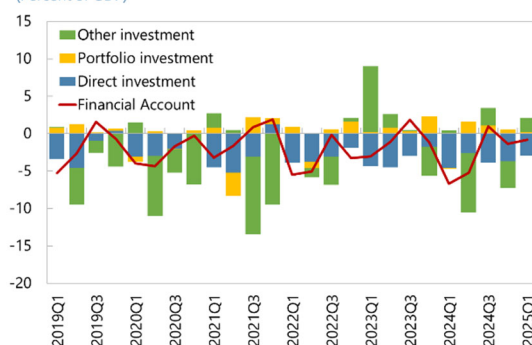


Sources: Central Bank of Bosnia and Herzegovina; and IMF staff calculations.

Financial account net inflows fully offset the current account deficit in 2024, driven by FDIs and other investments (incl. increase in government loans)...

Financial Account Balance

(Percent of GDP)

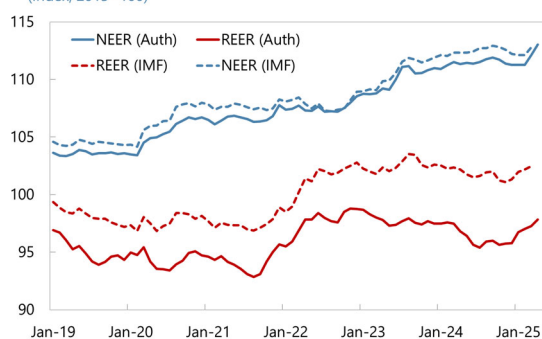


Sources: Central Bank of Bosnia and Herzegovina; and IMF staff calculations.

The trade balance deteriorated despite the REER depreciating in 2024...

BiH Effective Exchange Rate

(Index, 2015=100)

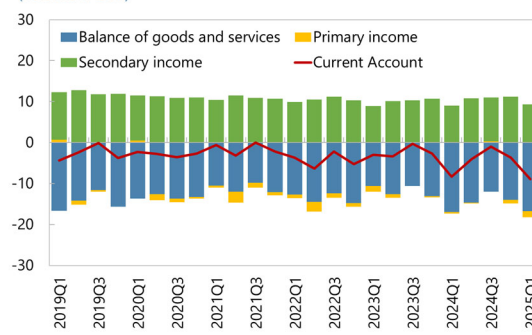


Sources: CBBH; and IMF staff calculations.

... which, combined with a worsening of balance of services, led to wider current account deficit.

Current Account Balance

(Percent of GDP)

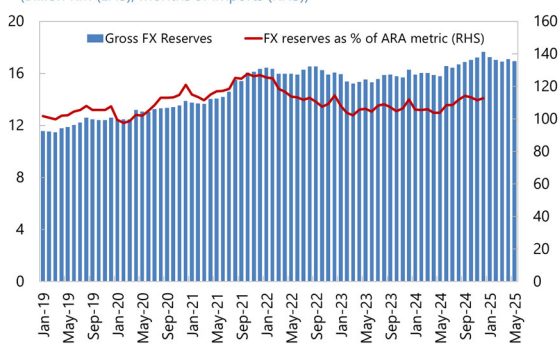


Sources: Central Bank of Bosnia and Herzegovina; Bosnia and Herzegovina Agency for Statistics; and IMF staff calculations.

... leading to higher FX reserves, but broadly unchanged relative to the ARA metric.

Monthly Foreign Reserves

(Billion KM (LHS); months of imports (RHS))

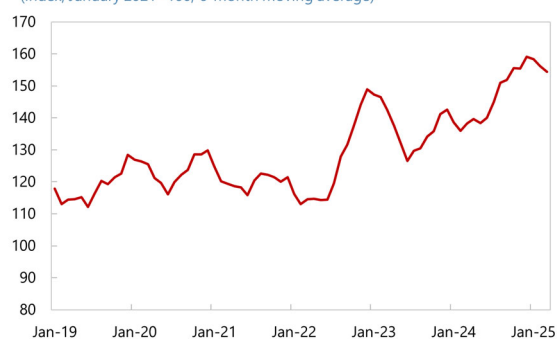


Sources: CBBH; and IMF staff calculations.

... and despite improvements in the terms of trade due to a more rapid decline in import prices.

Terms of Trade: Goods

(Index, January 2021=100; 6-month moving average)



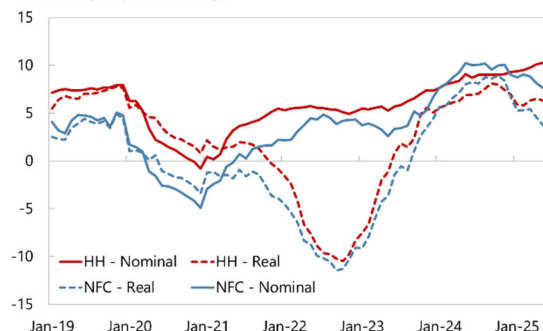
Sources: CBBH; and IMF staff calculations.

Figure 4. Bosnia and Herzegovina: Financial Sector

Credit growth is strong but decelerating in real terms.

Credit Growth

(Year-on-year percent change)

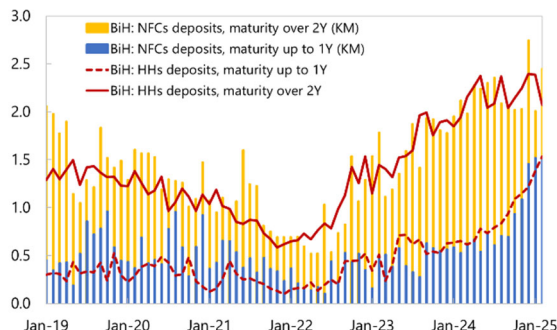


Sources: CBBH; and IMF staff calculations.

...while deposit rates have increased.

Interest Rates on NFCs and HHs Deposits

(Percent)

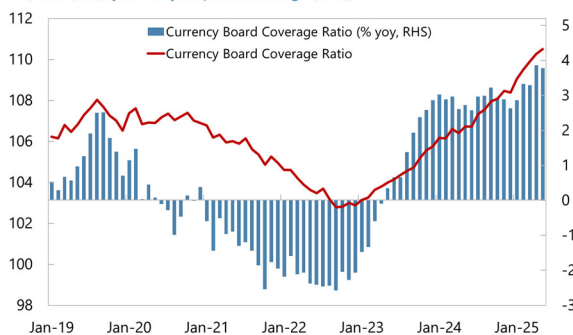


Source: CBBH.

The CBA coverage ratio has made a strong recovery.

Currency Board Coverage Ratio

(Ratio (LHS); year-on-year percent change (RHS))

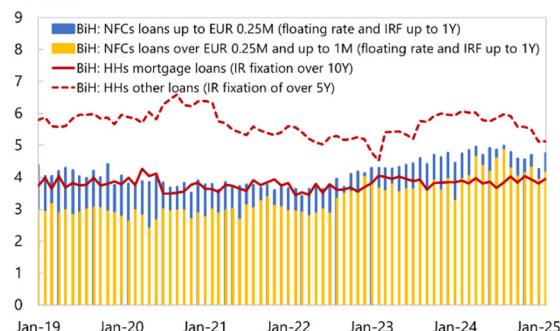


Sources: CBBH; and IMF staff calculations.

Lending rates remain low....

Lending Rates on NFCs and HHs Loans

(Percent)

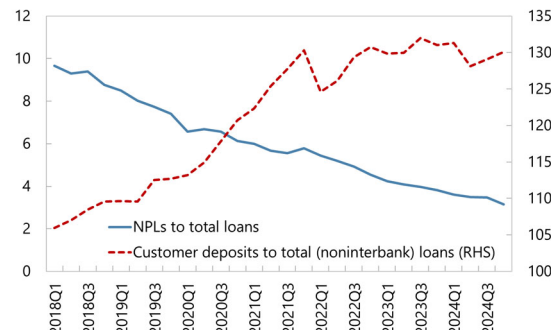


Source: CBBH.

Banks are liquid and NPLs continue to decline.

Asset Quality and Liquidity

(Percent)

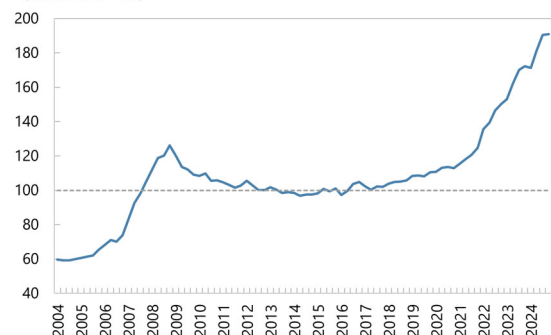


Source: CBBH.

House prices have increased since the pandemic.

House Prices

(Index, 2015=100)



Source: CBBH.

Table 1. Bosnia and Herzegovina: Selected Economic Indicators, 2020–30

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Prel.	Projections					
Nominal GDP (KM billion)	34.7	39.1	45.6	49.9	52.8	56.4	59.5	62.7	66.0	69.4	72.9
Gross national saving (in percent of GDP)	19.7	23.7	23.1	23.5	25.3	25.2	25.3	25.2	25.2	25.2	25.1
Gross investment (in percent of GDP)	22.6	25.4	27.4	25.8	29.3	29.3	29.1	29.1	29.0	29.0	29.0
	(Percent change)										
Real GDP	-3.0	7.4	4.2	2.0	2.5	2.4	2.7	3.0	3.0	3.0	3.0
GDP deflator	0.1	5.0	11.8	7.3	3.2	4.3	2.8	2.3	2.2	2.1	2.0
CPI (period average)	-1.1	2.0	14.0	6.1	1.7	3.8	2.6	2.0	2.0	2.0	2.0
Base money	10.7	17.4	3.3	-1.7	5.2	--	--	--	--	--	--
Broad money	7.1	12.4	5.5	7.7	9.3	--	--	--	--	--	--
Credit to the private sector	-2.8	4.0	4.9	7.4	9.3	--	--	--	--	--	--
	(Percent of GDP)										
Operations of the general government											
Revenue, of which :	40.9	40.5	39.5	40.0	42.0	42.8	42.5	42.5	42.5	42.5	42.5
Taxes	21.5	22.0	21.8	21.9	23.0	23.2	23.2	23.2	23.2	23.2	23.2
Social security contributions	15.5	14.8	14.2	14.8	15.5	15.8	15.8	15.8	15.8	15.8	15.8
Expenditure	45.4	40.6	39.4	41.7	43.9	45.4	45.4	45.4	45.2	45.2	45.2
of which : Investment expenditure	5.4	4.1	3.8	4.0	4.4	4.8	4.8	4.8	4.8	4.8	4.8
Fiscal balance	-4.5	-0.2	0.1	-1.7	-1.9	-2.6	-2.9	-2.8	-2.7	-2.7	-2.7
Primary fiscal balance	-3.8	0.5	0.8	-0.8	-0.9	-1.7	-1.7	-1.6	-1.5	-1.4	-1.3
Total general government debt	37.2	35.8	31.2	29.0	29.9	31.3	32.2	33.1	34.1	34.9	36.1
Domestic general government debt 1/2/	11.1	9.1	8.2	9.2	10.3	10.8	12.8	14.7	16.6	18.2	19.9
External general government debt	26.2	26.7	23.0	19.7	19.6	20.4	19.4	18.4	17.5	16.7	16.2
	(Percent of GDP)										
Balance of payments											
Exports of goods and services	34.6	42.5	48.3	43.9	41.6	40.9	39.3	39.0	38.8	38.7	38.5
Imports of goods and services	48.0	53.8	61.9	55.7	55.5	54.6	52.8	52.6	52.4	52.3	52.1
Trade balance	-13.4	-11.3	-13.6	-11.8	-13.9	-13.7	-13.5	-13.6	-13.6	-13.6	-13.6
Current account balance	-2.8	-1.8	-4.4	-2.3	-4.0	-4.1	-3.8	-3.9	-3.9	-3.9	-3.9
Foreign direct investment (+ = inflow)	2.0	2.7	3.1	3.4	3.6	3.2	3.3	3.3	3.3	3.3	3.3
Gross official reserves (Euro million)	7,105	8,382	8,276	8,443	8,992	9,670	10,191	10,615	11,050	11,539	12,055
(In months of imports)	7.9	7.0	7.0	6.8	6.9	7.2	7.2	7.2	7.2	7.1	7.1
External debt 3/	63.0	57.7	51.9	48.0	48.3	48.6	47.4	46.5	45.6	45.0	44.7
Memorandum Items:											
Unemployment rate (national definition) 4/	15.9	17.4	15.4	13.2	12.6	--	--	--	--	--	--
GDP per capita (in euros)	5,092	5,750	6,716	7,368	7,811	8,369	8,859	9,361	9,881	10,420	10,987
Output gap (in percent of potential GDP)	-4.1	0.3	1.7	0.8	0.4	0.0	-0.2	-0.2	-0.1	0.0	0.0
REER (Index 2016=100)	98.7	98.5	102.4	103.6	102.9	--	--	--	--	--	--
NEER (Index 2016=100)	115.9	117.1	117.4	120.4	122.4	--	--	--	--	--	--

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

1/ On average, half of the domestic debt stock is indexed to the Euro.

2/ The stock of general government domestic debt does not include domestic arrears and those of public enterprises.

3/ Includes inter-company loans in private external debt.

4/ The 2021 unemployment rate is not comparable with 2020 due to redesign of BHAS Labor Force Survey (LFS) methodology in line with EU regulations.

Table 2. Bosnia and Herzegovina: Real Sector Developments, 2020–30

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					<i>Prel.</i>	<i>Projections</i>					
Real growth rates	<i>(Percent change)</i>										
GDP at constant 2010 prices	-3.0	7.4	4.2	2.0	2.5	2.4	2.7	3.0	3.0	3.0	3.0
Domestic demand	-3.6	7.4	2.1	1.7	4.9	3.2	3.7	3.5	3.3	3.3	3.4
Private	-6.8	9.9	2.9	1.2	5.3	1.9	3.8	3.6	3.4	3.5	3.5
Public	8.8	-1.2	-0.8	3.9	3.5	8.2	3.3	3.0	3.0	2.9	2.9
Consumption	-2.2	3.5	1.2	2.2	2.3	2.6	3.0	3.6	3.2	3.2	3.3
Private	-3.3	3.7	1.2	2.3	2.3	1.4	3.1	3.7	3.3	3.4	3.5
Public	1.5	2.9	1.3	2.1	2.2	6.6	2.7	3.0	2.9	2.8	2.8
Gross capital formation	-8.8	22.6	5.0	0.0	13.6	5.0	5.7	3.2	3.5	3.7	3.6
Private	-18.7	35.0	8.1	-2.1	14.4	3.2	5.6	3.3	3.5	3.7	3.6
Public	49.5	-16.7	-10.8	13.1	9.8	15.0	5.9	3.0	3.6	3.5	3.5
Net Exports											
Exports of goods and services	-14.7	24.1	12.7	-1.2	-3.1	3.3	3.5	3.3	3.5	3.4	3.3
Imports of goods and services	-13.3	20.1	6.5	-1.3	2.8	4.8	5.3	4.2	4.0	4.0	4.0
Contributions to real GDP growth	<i>(Year-on-year percent change over real GDP in previous year)</i>										
GDP at constant 2021 prices	-3.0	7.4	4.2	2.0	2.5	2.4	2.7	3.0	3.0	3.0	3.0
Domestic demand	-4.0	8.2	2.3	1.9	5.3	3.5	4.1	3.9	3.7	3.8	3.9
Private	-6.0	8.5	2.5	1.0	4.5	1.7	3.3	3.2	3.0	3.1	3.2
Public	2.0	-0.3	-0.2	0.9	0.8	1.9	0.8	0.7	0.7	0.7	0.7
Consumption	-2.0	3.2	1.0	1.9	1.9	2.2	2.5	3.0	2.7	2.7	2.8
Private	-2.2	2.6	0.8	1.5	1.5	0.9	2.0	2.4	2.1	2.2	2.3
Public	0.3	0.6	0.3	0.4	0.4	1.3	0.5	0.6	0.6	0.5	0.5
Gross capital formation	-2.1	5.0	1.3	0.0	3.4	1.4	1.6	0.9	1.0	1.1	1.1
Private	-3.8	5.9	1.7	-0.5	3.0	0.8	1.3	0.8	0.9	0.9	0.9
Public	1.7	-0.9	-0.4	0.5	0.4	0.6	0.3	0.1	0.2	0.2	0.2
Net exports	1.0	-0.8	1.9	0.1	-2.8	-1.1	-1.4	-0.9	-0.7	-0.8	-0.9
Exports of goods and services	-6.1	8.9	5.4	-0.6	-1.4	1.4	1.5	1.4	1.5	1.4	1.4
Imports of goods and services	-7.1	9.7	3.5	-0.7	1.5	2.5	2.9	2.3	2.2	2.3	2.3
Deflators	<i>(Percent change)</i>										
GDP	0.1	5.0	11.8	7.3	3.2	4.3	2.8	2.3	2.2	2.1	2.0
Domestic demand	-0.3	3.1	16.5	5.9	2.7	3.3	1.7	1.9	1.9	1.7	1.7
Consumption	0.0	3.0	15.5	6.8	1.8	3.9	2.5	2.0	2.0	1.8	1.8
Investment	-1.4	3.6	19.7	2.9	5.6	1.8	-0.6	1.9	1.4	1.4	1.3
Exports of goods and services	-1.5	11.3	17.6	0.8	3.2	1.7	-1.8	1.1	1.3	1.3	1.2
Imports of goods and services	-1.4	5.1	25.9	-0.3	2.5	0.3	-2.9	0.7	0.9	0.8	0.7
	<i>(Percent of GDP)</i>										
Consumption	90.8	85.9	86.2	86.0	84.6	84.4	84.3	84.5	84.6	84.5	84.6
Private	70.0	66.5	67.5	66.8	65.6	64.7	64.7	64.9	65.0	65.0	65.1
Public	20.8	19.4	18.7	19.1	19.0	19.7	19.7	19.6	19.6	19.5	19.5
Gross capital formation	22.6	25.4	27.4	25.8	29.3	29.3	29.1	29.1	29.0	29.0	29.0
Private	17.2	21.3	23.6	21.8	24.9	24.4	24.3	24.3	24.2	24.2	24.2
Public	5.4	4.1	3.8	4.0	4.4	4.8	4.8	4.8	4.8	4.8	4.8
National savings	19.7	23.7	23.1	23.5	25.3	25.2	25.3	25.2	25.2	25.2	25.1
Private	18.9	19.5	19.0	22.7	23.4	23.1	23.7	23.6	23.4	23.4	23.4
Public	0.9	4.2	4.1	0.8	1.8	2.1	1.6	1.7	1.7	1.7	1.7
Saving-Investment balance	-2.8	-1.8	-4.4	-2.3	-4.0	-4.1	-3.8	-3.9	-3.9	-3.9	-3.9
<i>Memorandum items:</i>	<i>(Percent)</i>										
Unemployment rate (national definition) 1/	15.9	17.4	15.4	13.2	--	--	--	--	--	--	--
Nominal GDP (KM million)	34,728	39,145	45,618	49,920	52,782	56,394	59,539	62,729	66,024	69,400	72,938

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

1/ The 2021 unemployment rate is not comparable with 2020 due to redesign of BHAS Labor Force Survey (LFS) methodology in line with EU regulations.

Table 3. Bosnia and Herzegovina: Balance of Payments, 2020–30 1/

(Millions of euros, unless otherwise indicated)

	2023	2024	2025	2026	2027	2028	2029	2030
		<i>Prel.</i>			<i>Projections</i>			
A. Current account	-592	-1,088	-1,173	-1,158	-1,238	-1,301	-1,371	-1,454
Balance of goods and services	-3,000	-3,754	-3,943	-4,103	-4,367	-4,582	-4,812	-5,066
Goods	-5,245	-6,006	-6,340	-6,605	-6,983	-7,319	-7,675	-8,061
Export of goods (fob) 2/	7,929	7,765	8,123	8,167	8,513	8,922	9,337	9,747
Import of goods (fob)	-13,174	-13,771	-14,463	-14,772	-15,496	-16,241	-17,012	-17,809
Services (net)	2,245	2,252	2,397	2,502	2,616	2,737	2,864	2,996
Exports	3,284	3,452	3,664	3,810	3,994	4,190	4,392	4,602
Imports	-1,039	-1,200	-1,267	-1,308	-1,379	-1,453	-1,528	-1,606
Primary income (net):	-147	-82	-136	-99	-93	-97	-99	-101
Total credit	996	1,207	1,218	1,226	1,292	1,350	1,410	1,474
Total debit	-1,143	-1,290	-1,353	-1,325	-1,385	-1,446	-1,509	-1,575
Of which : interest payments	-153	-213	-230	-191	-191	-191	-191	-191
Secondary income (net), of which :	2,556	2,748	2,906	3,044	3,222	3,377	3,540	3,712
Government (net)	-9	-3	0	-39	-49	-59	-69	-79
Workers' remittances (net)	1,822	1,990	2,169	2,301	2,441	2,564	2,693	2,829
Other, incl. social benefits	743	761	737	782	830	872	916	962
B. Capital account	165	183	187	190	194	197	201	205
Capital transfers (net)	165	183	187	190	194	197	201	205
General government	130	134	137	140	142	145	148	150
Other sectors	35	49	50	51	52	53	54	55
C. Financial account	-239	-1,339	-1,665	-1,488	-1,469	-1,538	-1,659	-1,765
Direct investment (net)	-864	-968	-933	-1,016	-1,070	-1,126	-1,184	-1,244
Assets	93	73	78	83	87	92	96	101
Liabilities	957	1,041	1,012	1,099	1,157	1,218	1,280	1,346
Portfolio investment (net)	230	201	-155	192	20	20	20	20
Assets (net)	209	199	20	20	20	20	20	20
Liabilities (net)	-21	-2	175	-172	0	0	0	0
Financial derivatives (net)	1	1	1	1	1	1	1	1
Other investment (net)	394	-573	-577	-664	-419	-432	-496	-541
Assets (net)	580	353	147	148	150	152	155	193
Short-term debt instruments	551	263	147	148	150	151	153	191
Of which : Banks	156	291	47	48	50	51	53	91
Of which : Other sectors, excl. gov. and CB	334	-38	100	100	100	100	100	100
Medium and long-term debt instruments	29	91	0	0	0	1	2	2
Monetary authority, non-reserve gross assets	0	0	0	0	0	0	0	0
General government	0	0	0	0	0	1	2	2
Of which : Banks	55	14	0	0	0	0	0	0
Of which : Other sectors, excl. gov. and CB	-26	77	0	0	0	0	0	0
Liabilities (net)	187	926	724	813	569	585	650	735
Short-term debt instruments	358	554.4	409	326	406	411	418	428
Of which : Banks	-105	-6	17	17	18	19	20	25
Of which : Other sectors, excl. gov. and CB	456	553	392	309	387	392	397	401
Medium and long-term debt instruments	-166	373	315	487	163	174	233	307
Of which : Monetary authority	0	0	0	0	0	0	0	0
Of which : General government	-241	155	169	263	-6	-4	16	94
Disbursements of loans	282	700	663	728	493	498	519	541
Project	252	316	351	371	390	411	432	454
Budget	30	384	312	358	102	87	87	87
Amortization of loans (incl. IMF)	523	545	494	466	498	502	503	447
Of which : Banks	-40	220	33	35	37	38	40	51
Of which : Other sectors	115	-2	114	189	132	140	176	162
D. Errors and omissions	214	122	0	0	0	0	0	0
Overall balance (A+B-C+D)	26	555	679	520	424	434	489	516
Financing	-26	-555	-679	-520	-424	-434	-489	-516
Change in net international reserves ("-"=increase)	-26	-555	-679	-520	-424	-434	-489	-516
<i>Memorandum items:</i>								
Current account balance (in percent of GDP)	-2.3	-4.0	-4.1	-3.8	-3.9	-3.9	-3.9	-3.9
Trade balance-Goods (in percent of GDP)	-20.6	-22.3	-22.0	-21.7	-21.8	-21.7	-21.6	-21.6
Import of goods (change, percent)	-3.0	4.5	5.0	2.1	4.9	4.8	4.7	4.7
Export of goods (change, percent)	-5.3	-2.1	4.6	0.5	4.2	4.8	4.6	4.4
Transfers (in percent of GDP)	10.0	10.2	10.1	10.0	10.0	10.0	10.0	10.0
Net foreign direct investment (in percent of GDP)	-3.4	-3.6	-3.2	-3.3	-3.3	-3.3	-3.3	-3.3
External debt/GDP (in percent)	48.0	48.3	48.6	47.4	46.5	45.6	45.0	44.7
Private sector	28.3	29.1	28.8	28.8	28.8	28.9	29.1	29.2
Public sector	19.7	19.2	19.8	18.6	17.6	16.7	16.0	15.4
External debt service/GNFS exports (percent)	36.3	37.9	39.1	39.7	39.5	39.4	39.3	38.9
Gross official reserves (in millions of Euro)	8,443	8,992	9,670	10,191	10,615	11,050	11,539	12,055
(In months of prospective imports of goods and services)	6.8	6.9	7.2	7.2	7.2	7.2	7.1	7.1
Reserves/IMF ARA metric (percent)	113.2	112.9	112.4	111.4	...	...	...	...
Reserves/Adjusted ARA metric (percent)	98.7	98.1	97.7	96.6	...	...	...	...

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

1/ Based on BPM6.

2/ Export projections assume gradual phasing in of CBAM, with small effects on exports of aluminum, cement, electricity, fertilizers, iron and steel in 2026-27.

In the medium term, the projection assumes that sufficient progress will be made to secure CBAM exemption for electricity, the principal export product affected.

Table 4a. Bosnia and Herzegovina: General Government Statement of Operations, 2020–30
(Percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					<i>Prel.</i>			<i>Projections</i>			
Revenue	40.9	40.5	39.5	40.0	42.0	42.8	42.5	42.5	42.5	42.5	42.5
Taxes	21.5	22.0	21.8	21.9	23.0	23.2	23.2	23.2	23.2	23.2	23.2
Direct taxes	3.7	3.6	4.0	4.3	4.6	4.8	4.8	4.8	4.8	4.8	4.8
Individual income tax	1.8	1.7	1.8	2.1	2.2	2.4	2.4	2.4	2.4	2.4	2.4
Corporate income tax	1.7	1.7	1.9	2.0	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Indirect taxes	17.7	18.3	17.7	17.4	18.2	18.3	18.2	18.3	18.2	18.3	18.3
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions	15.5	14.8	14.2	14.8	15.5	15.8	15.8	15.8	15.8	15.8	15.8
Grants	0.5	0.4	0.2	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Other revenue	3.4	3.3	3.3	2.9	3.3	3.6	3.4	3.3	3.3	3.3	3.3
Expenditure	45.4	40.6	39.4	41.7	43.9	45.4	45.4	45.4	45.2	45.2	45.2
Expense	40.0	36.5	35.6	37.7	39.5	40.5	40.6	40.6	40.4	40.4	40.4
Compensation of employees	11.3	10.3	10.0	10.4	10.7	11.3	11.3	11.3	11.2	11.2	11.2
Use of goods and services	7.4	6.8	6.5	6.7	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Social benefits	16.1	14.8	14.4	16.0	16.7	17.0	17.0	17.0	17.0	17.0	17.0
Interest	0.7	0.7	0.6	0.9	1.0	0.9	1.2	1.3	1.3	1.3	1.3
Subsidies	2.4	1.9	1.6	1.7	1.9	1.9	1.7	1.7	1.7	1.7	1.7
Other expense	2.1	2.0	2.3	2.0	2.1	2.3	2.3	2.2	2.1	2.1	2.1
Net acquisition of nonfinancial assets	5.4	4.1	3.8	4.0	4.4	4.8	4.8	4.8	4.8	4.8	4.8
Acquisition of nonfinancial assets	5.5	4.3	4.0	4.2	4.6	4.9	4.9	4.9	4.9	4.9	4.9
Foreign financed capital spending	2.1	1.9	1.1	1.2	1.2	1.3	1.2	1.2	1.2	1.2	1.2
Domestically financed capital spending	3.4	2.4	2.8	3.0	3.4	3.7	3.7	3.7	3.7	3.7	3.7
Disposal of nonfinancial assets	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Gross/net operating balance (revenue - expense)	0.9	4.0	3.9	2.4	2.5	2.3	2.0	2.0	2.1	2.1	2.1
Net lending/borrowing (revenue - expenditure)	-4.5	-0.2	0.1	-1.7	-1.9	-2.6	-2.9	-2.8	-2.7	-2.7	-2.7
Net acquisition of financial assets	-1.2	2.1	0.8	-1.0	0.0	0.7	-0.2	0.0	0.1	0.1	0.4
Domestic assets	-1.2	2.1	0.8	-1.0	0.0	0.7	-0.2	0.0	0.1	0.1	0.4
Currency and deposits	-1.1	2.6	0.6	-0.8	0.7	0.8	-0.1	0.1	0.2	0.1	0.5
Loans	-0.2	-0.5	-0.1	-0.5	-1.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Equity and investment fund shares	0.1	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.4	1.9	0.4	0.8	2.0	3.3	2.7	2.8	2.9	2.8	3.1
Domestic liabilities	1.1	-1.5	-0.2	2.4	1.5	1.4	2.7	2.7	2.8	2.6	2.8
Debt securities	1.3	-0.8	0.3	1.6	1.0	1.3	2.2	2.1	2.4	2.2	2.3
Other government obligations	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Loans	0.0	-0.2	-0.2	-0.2	0.2	0.3	0.6	0.7	0.5	0.5	0.6
Other accounts payable	-0.1	-0.4	-0.3	1.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign liabilities	2.3	3.4	0.6	-1.5	0.5	1.9	0.0	0.1	0.1	0.1	0.3
Debt securities	0.0	1.5	0.0	-0.7	0.0	1.2	-1.0	0.0	0.0	0.0	0.0
Loans	2.3	0.4	0.2	-1.0	0.5	0.7	1.0	0.1	0.1	0.1	0.3
Drawings	4.1	2.2	1.7	1.2	2.6	2.4	2.5	1.6	1.5	1.5	1.5
Amortization	-1.8	-1.7	-1.5	-2.1	-2.1	-1.7	-1.5	-1.5	-1.5	-1.4	-1.2
Statistical discrepancy	-0.1	0.4	0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>											
Net lending exc externally-financed operations	-2.8	1.5	1.1	-0.7	-0.9	-1.4	-1.7	-1.7	-1.6	-1.6	-1.5
Structural balance (% of potential GDP)	-2.5	-0.3	-0.6	-2.0	-2.1	-2.6	-2.8	-2.8	-2.7	-2.8	-2.7
Cyclically-adjusted primary balance	-2.1	0.4	0.1	-1.1	-1.1	-1.7	-1.6	-1.5	-1.5	-1.4	-1.4

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

Table 4b. Bosnia and Herzegovina: General Government Statement of Operations, 2020–30
(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					<i>Prel.</i>	<i>Projections</i>					
Revenue	14,198	15,841	18,027	19,986	22,183	24,124	25,329	26,682	28,046	29,489	30,995
Taxes	7,475	8,599	9,925	10,913	12,121	13,087	13,789	14,562	15,301	16,102	16,936
Direct taxes	1,298	1,403	1,814	2,154	2,432	2,712	2,864	3,017	3,175	3,338	3,508
Individual income taxes	619	668	835	1,026	1,181	1,381	1,458	1,536	1,617	1,700	1,786
Corporate income tax	593	648	884	1,023	1,137	1,210	1,277	1,346	1,417	1,489	1,565
Indirect taxes	6,141	7,154	8,057	8,698	9,619	10,300	10,846	11,462	12,038	12,672	13,331
Other taxes	37	42	55	62	70	75	80	84	88	93	97
Social security contributions	5,384	5,798	6,484	7,412	8,172	8,928	9,426	9,931	10,453	10,987	11,547
Grants	166	157	98	227	156	102	114	112	110	107	105
Other revenue	1,172	1,286	1,520	1,435	1,734	2,006	1,999	2,076	2,183	2,292	2,406
Expenditure	15,761	15,910	17,959	20,821	23,190	25,581	27,041	28,460	29,860	31,370	32,958
Expense	13,884	14,289	16,229	18,806	20,854	22,848	24,162	25,439	26,686	28,040	29,464
Compensation of employees	3,920	4,036	4,566	5,209	5,661	6,401	6,733	7,070	7,418	7,773	8,145
Use of goods and services	2,560	2,665	2,979	3,335	3,746	4,016	4,234	4,455	4,683	4,916	5,161
Social benefits	5,587	5,795	6,589	7,972	8,803	9,566	10,100	10,641	11,199	11,772	12,372
Interest	253	257	281	424	528	520	696	806	847	909	981
Subsidies	830	735	749	868	987	1,066	1,019	1,074	1,130	1,188	1,249
Grants	18	11	15	19	17	13	14	14	15	16	17
Other expense	415	791	1,050	978	1,112	1,266	1,366	1,379	1,394	1,465	1,539
Net acquisition of nonfinancial assets	1,877	1,620	1,730	2,014	2,336	2,733	2,879	3,021	3,174	3,330	3,494
Acquisition of nonfinancial assets	1,923	1,676	1,809	2,097	2,433	2,790	2,938	3,084	3,239	3,398	3,565
Foreign financed capital spending	746	753	511	574	632	710	742	770	804	839	875
Domestically financed capital spending	1,176	923	1,298	1,522	1,801	2,080	2,196	2,313	2,435	2,559	2,690
Disposal of nonfinancial assets	46	56	79	82	97	57	60	62	65	68	71
Gross/net operating balance (revenue - expense)	314	1,551	1,798	1,180	1,329	1,276	1,167	1,243	1,361	1,449	1,531
Net lending/borrowing (revenue - expenditure)	-1,563	-69	68	-834	-1,007	-1,457	-1,712	-1,779	-1,813	-1,881	-1,963
Net acquisition of financial assets	-400	834	347	-515	-12	405	-104	-20	79	37	296
Domestic assets	-401	834	347	-514	-12	405	-104	-20	79	37	296
Currency and deposits	-381	1,029	288	-391	369	465	-45	37	135	93	350
Loans	-85	-200	-60	-225	-616	-65	-65	-63	-63	-62	-62
Equity and investment fund shares	26	4	-1	5	356	0	0	0	0	0	0
Foreign assets	0	0	0	-1	0	0	0	0	0	0	0
Net incurrence of liabilities	1,186	731	187	413	1,059	1,862	1,608	1,759	1,892	1,918	2,259
Domestic liabilities	394	-602	-99	1,183	787	797	1,625	1,719	1,846	1,829	2,017
Debt securities	462	-306	153	783	508	725	1,328	1,329	1,564	1,507	1,649
Other government obligations	-50	-49	-48	-49	-29	-89	-58	-56	-56	-51	-41
Loans	5	-71	-88	-83	112	161	355	446	337	373	409
Other accounts payable	-23	-176	-116	532	197	0	0	0	0	0	0
Foreign liabilities	792	1,333	286	-771	272	1,066	-17	40	47	89	242
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Debt securities	-13	568	0	-329	0	685	-587	0	0	0	0
Loans	805	163	85	-476	271	381	570	40	47	89	242
Drawings	1,415	843	792	595	1,362	1,334	1,464	1,005	1,018	1,061	1,107
For budget support	785	29	376	61	752	610	700	200	170	171	171
For investment projects	630	814	416	534	610	724	764	805	848	891	936
Amortization	-610	-680	-706	-1,071	-1,091	-953	-895	-965	-971	-973	-865
Statistical discrepancy	-23	171	92	-93	-64	0	0	0	0	0	0
<i>Memorandum items:</i>											
Indirect revenues	6,141	7,154	8,057	8,698	9,619	10,300	10,846	11,462	12,038	12,672	13,331
Net lending excl. externally-financed operations	-959	588	507	-352	-459	-791	-1,024	-1,059	-1,056	-1,085	-1,127

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

Table 4c. Bosnia and Herzegovina: Government Statement of Operations, 2021–30
(Percent of GDP)

	Federation							Republika Srpska							Federation							Republika Srpska							Bosnia and Herzegovina													
	Central Government							Central Government							General Government							General Government							General Government							General Government						
	2021	2022	2023	2024	2025	2026	2030	2021	2022	2023	2024	2025	2026	2030	2021	2022	2023	2024	2025	2026	2030	2021	2022	2023	2024	2025	2026	2030	2021	2022	2023	2024	2025	2026	2030							
Revenue	16.3	15.5	16.4	16.9	16.8	16.6	16.4	25.5	25.7	26.2	28.0	29.0	29.2	29.0	37.0	36.1	36.7	38.6	39.3	39.2	39.5	40.2	39.9	39.4	41.9	42.5	42.6	42.7	40.5	39.5	40.0	42.0	42.8	42.5	42.5							
Taxes	6.7	6.4	6.9	7.2	7.1	6.9	6.7	15.8	16.0	16.0	17.6	17.7	17.8	17.9	18.7	18.6	18.7	19.8	20.3	20.2	20.5	21.9	21.9	21.5	22.8	23.0	23.1	23.4	22.0	21.8	21.9	23.0	23.2	23.2	23.2							
Direct taxes	0.3	0.3	0.4	0.3	0.3	0.3	0.3	3.1	3.6	3.9	4.4	4.6	4.6	4.6	3.5	3.9	4.2	4.4	4.6	4.6	4.6	3.7	4.2	4.6	5.2	5.4	5.4	5.4	3.6	4.0	4.3	4.6	4.8	4.8	4.8							
Indirect taxes	6.4	6.1	6.6	6.9	6.7	6.5	6.4	12.4	12.2	12.0	13.0	12.9	13.0	13.0	15.2	14.7	14.5	15.5	15.7	15.7	15.9	17.8	17.3	16.5	17.2	17.2	17.3	17.5	18.3	17.7	17.4	18.2	18.3	18.2	18.3							
Social security contributions	8.5	8.2	8.7	9.0	8.9	8.9	8.9	8.1	8.0	8.3	8.9	9.6	9.6	9.6	15.4	14.8	15.7	16.1	16.2	16.2	16.2	14.4	13.7	14.0	15.0	15.9	15.9	15.9	14.8	14.2	14.8	15.5	15.8	15.8	15.8							
Grants	0.2	0.1	0.4	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.1	0.1	0.0	0.3	0.2	0.4	0.2	0.2	0.2	0.1	0.4	0.3	0.3	0.3	0.1	0.1	0.0	0.4	0.2	0.5	0.3	0.2	0.2	0.1							
Other revenue	0.8	0.7	0.4	0.6	0.8	0.8	0.7	1.5	1.4	1.6	1.3	1.5	1.6	1.4	2.6	2.5	1.9	2.4	2.6	2.6	2.7	3.6	4.1	3.6	3.8	3.5	3.6	3.5	3.3	3.3	2.9	3.3	3.6	3.4	3.3	3.3						
Expenditure	16.0	14.6	17.3	17.8	18.9	18.6	18.6	27.2	28.2	28.3	29.1	31.6	31.1	31.2	37.7	35.5	38.7	41.2	42.5	42.8	42.7	40.4	41.4	41.8	43.2	44.5	44.8	44.8	40.6	39.4	41.7	43.9	45.4	45.4	45.4							
Expense	15.6	14.5	17.0	17.4	18.5	18.1	18.2	25.9	27.0	26.7	28.2	29.8	29.3	29.4	33.7	32.2	35.0	36.8	37.9	38.2	38.2	36.1	36.8	37.2	39.1	39.6	39.9	39.9	36.5	35.6	37.7	39.5	40.5	40.6	40.6							
Compensation of employees	1.0	1.0	1.0	1.0	1.2	1.2	1.2	6.7	6.8	6.7	6.6	7.3	7.3	7.3	8.3	8.0	8.4	8.9	9.4	9.4	9.4	9.0	9.2	9.1	9.1	10.0	10.0	10.0	10.3	10.0	10.4	10.7	11.3	11.3	11.3	11.3						
Use of goods and services	0.3	0.3	0.3	0.3	0.4	0.4	0.4	1.4	1.4	1.5	1.8	1.6	1.6	1.6	8.0	7.6	7.9	8.3	8.4	8.4	8.4	3.0	3.1	3.1	3.5	3.4	3.4	3.4	6.8	6.5	6.7	7.1	7.1	7.1	7.1							
Social benefits	11.1	10.3	12.1	12.7	13.0	13.0	13.0	11.9	12.2	12.6	13.6	13.7	13.7	13.7	13.0	12.4	14.3	15.0	15.3	15.3	15.3	19.2	19.3	20.0	20.9	21.1	21.1	21.1	14.8	14.4	16.0	16.7	17.0	17.0	17.0	17.0						
Interest	0.4	0.3	0.5	0.6	0.6	0.8	1.1	0.9	0.8	1.1	1.3	1.2	1.5	1.6	0.4	0.4	0.6	0.7	0.7	0.9	1.2	1.1	1.0	1.3	1.6	1.4	1.7	1.8	0.7	0.6	0.9	1.0	0.9	1.2	1.3							
Subsidies	0.9	0.7	0.7	0.8	0.9	0.7	0.7	1.2	1.2	1.5	1.6	1.4	1.4	1.4	2.0	1.7	1.7	1.9	2.0	1.7	1.7	1.6	1.6	1.8	1.8	1.6	1.6	1.6	1.9	1.6	1.7	1.9	1.9	1.7	1.7							
Other expense	0.4	0.4	0.4	0.5	1.1	1.0	0.8	1.6	1.9	1.1	1.5	1.5	1.5	1.5	1.9	2.1	2.0	2.1	2.0	2.4	2.1	2.3	2.6	1.9	2.1	2.1	2.1	2.1	2.0	2.3	2.0	2.1	2.3	2.3	2.3	2.3						
Net acquisition of nonfinancial assets	0.4	0.2	0.3	0.3	0.4	0.4	0.4	1.3	1.2	1.6	1.0	1.8	1.8	1.8	4.0	3.3	3.7	4.4	4.6	4.6	4.6	4.3	4.6	4.6	4.1	5.0	4.9	4.9	4.1	3.8	4.0	4.4	4.8	4.8	4.8							
Acquisition of nonfinancial assets	0.4	0.2	0.3	0.3	0.4	0.4	0.4	1.4	1.3	1.6	1.2	1.8	1.9	1.8	4.1	3.5	3.7	4.4	4.7	4.7	4.6	4.5	4.8	4.9	4.5	5.1	5.0	5.0	4.3	4.0	4.2	4.6	4.9	4.9	4.9							
Foreign financed capital spending	0.4	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.3	0.3	0.3	0.3	2.5	1.4	1.5	1.5	1.6	1.6	1.6	0.8	0.6	0.4	0.6	0.6	0.5	0.5	1.9	1.1	1.2	1.2	1.3	1.2	1.2							
Domestically financed capital spending	0.1	0.1	0.1	0.1	0.2	0.2	0.2	1.1	1.0	1.6	1.0	1.6	1.6	1.6	1.5	2.1	2.2	2.9	3.1	3.1	3.1	3.7	4.2	4.4	3.9	4.5	4.5	4.5	2.4	2.8	3.0	3.4	3.7	3.7	3.7							
Disposal of nonfinancial assets	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.3	0.0	0.0	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1							
Gross/net operating balance (revenue - expense)	0.7	1.1	-0.6	-0.5	-1.7	-1.5	-1.8	-0.3	-1.4	-0.5	-0.2	-0.8	-0.1	-0.3	3.3	3.9	1.7	1.7	1.4	1.0	1.3	4.0	3.1	2.2	2.8	2.9	2.8	2.8	4.0	3.9	2.4	2.5	2.3	2.0	2.1							
Net lending/borrowing (revenue - expenditure)	0.3	0.9	-0.9	-0.8	-2.1	-1.9	-2.2	-1.7	-2.6	-2.1	-1.1	-2.6	-1.9	-2.1	-0.7	0.5	-2.0	-2.7	-3.2	-3.6	-3.3	-0.3	-1.5	-2.3	-1.3	-2.1	-2.1	-2.1	-0.2	0.1	-1.7	-1.9	-2.6	-2.9	-2.7							
Net acquisition of financial assets	0.8	-1.2	-1.4	-0.9	-0.1	-0.1	0.3	1.8	-0.8	-1.2	0.6	1.7	0.7	0.5	1.9	0.9	-1.0	-0.8	-0.2	-0.7	0.2	2.8	-0.2	-1.8	0.7	2.0	0.4	0.5	2.1	0.8	-1.0	0.0	0.7	-0.2	0.4							
Domestic assets	0.2	-0.7	-1.4	-0.9	-0.1	-0.1	0.3	1.8	-0.8	-1.2	0.6	1.7	0.7	0.5	1.9	0.9	-1.0	-0.8	-0.2	-0.7	0.2	2.8	-0.2	-1.8	0.7	2.0	0.4	0.5	2.1	0.8	-1.0	0.0	0.7	-0.2	0.4							
Currency and deposits	0.7	0.0	-1.0	0.1	0.1	0.1	0.3	2.0	-0.4	-0.7	0.6	1.7	0.6	0.3	2.5	0.9	-0.8	0.2	-0.2	-0.7	0.2	3.0	-0.7	-1.4	0.9	2.3	0.7	0.8	2.6	0.6	-0.8	0.7	0.8	-0.1	0.5							
Loans	-0.5	0.0	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1	-0.3	-0.4	-2.1	0.1	0.1	0.2	-0.6	0.0	-0.5	-0.7	0.0	0.0	0.0	-0.2	-0.3	-0.3	-2.2	-0.4	-0.3	-0.3	-0.5	-0.1	-0.5	-1.2	-0.1	-0.1	-0.1							
Net incurrence of liabilities	0.0	-2.1	-0.5	0.6	2.0	1.9	2.4	3.4	1.8	0.8	1.8	4.4	2.6	2.6	1.6	-0.9	1.3	2.2	3.0	2.9	3.5	3.1	1.4	0.7	2.1	4.1	2.5	2.6	1.9	0.4	0.8	2.0	3.3	2.7	3.1							
Domestic liabilities	-0.4	-1.0	1.2	1.9	1.1	2.7	2.7	-2.8	1.4	4.1	-0.6	2.4	3.0	3.0	-0.5	-1.1	2.0	2.5	1.1	2.7	2.7	-3.0	1.3	0.7	2.1	4.0	2.1	2.9	3.0	-1.5	-0.2	2.4	1.5	1.4	2.7							
Debt securities	-0.4	-0.3	0.7	1.4	0.8	2.1	2.2	-1.5	-1.7	3.4	0.2	2.4	2.7	2.5	-0.4	-0.3	0.7	1.4	0.8	2.1	2.2	-1.5	-1.7	3.3	0.2	2.4	2.7	2.5	-0.8	0.3	1.6	1.0	1.3	2.2	2.3							
Other government obligations	0.0	0.0	0.0	0.1	-0.1	-0.1	0.0	-0.4	-0.3	-0.3	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.4	-0.3	-0.3	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1							
Loans	0.0	0.0	0.0	0.4	0.4	0.5	0.5	-0.5	-0.3	-0.3	-0.1	0.1	0.1	0.6	-0.1	-0.1	0.0	0.0	0.4	0.7	0.9	-0.3	-0.4	-0.4	0.6	0.0	0.3	0.6	-0.2	-0.2	-0.2	0.5	0.3	0.6	0.6							
Foreign liabilities	0.4	-1.1	-1.7	-1.2	1.0	-0.8	-0.2	6.2	0.4	-3.3	2.4	2.0	-0.4	-0.4	2.1	0.2	-0.8	-0.3	1.9	0.1	0.7	6.1	0.1	-3.4	2.1	2.0	-0.4	-0.9	-3.4	-0.6	-1.5	0.2	0.9	0.3	0.3							
Debt securities	0.0	0.0	0.0	0.0	1.9	0.0	0.0	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.0	0.0	4.5	0.0	-2.0	0.0	0.0	-3.0	0.0	0.0	0.0	-0.7	0.0	1.2	0.0	0.0							
Loans	-1.2	-1.1	-1.7	-1.2	-0.9	-0.8	-0.2	0.2	0.4	-1.3	2.4	2.0	2.6	-0.4	0.6	0.2	-0.8	-0.3	0.0	0.1	0.7	0.1	0.1	-1.6	2.1	2.0	2.6	-0.4	0.2	-1.0	0.5	0.7	1.0	0.3	0.3							
Drawings	0.6	0.4	0.4	0.8	0.7	0.5	0.7	1.7	1.8	0.9	4.6	3.9	4.6	1.3	2.3	1.7	1.4	1.7	1.7	1.5	1.7	2.0	1.9	0.9	4.6	3.9	4.6	1.3	2.2	1.7	1.2	2.6	2.4	2.5	1.5							
Amortization	-1.8	-1.6	-2.1	-2.1	-1.6	-1.3	-1.0	1.5	1.5	2.2	2.2	1.9	2.0	1.7	-1.8	-1.5	-2.1	-2.0	-1.6	-1.3	-1.0	1.9	1.8	2.5	2.5	1.9	2.0	1.7	-1.7	-1.5	-2.1	-2.1	-1.7	-1.5	-1.2							
Statistical discrepancy	0.5	0.0	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.1	-0.1	0.0	0.0	0.0	1.0	1.3	-0.3	-0.3	0.0	0.0	0.0	-0.1	0.0	-0.2	-0.1	0.0	0.0	0.0	0.4	0.2	-0.2	-0.1	0.0	0.0	0.0							
Memorandum items:																																										

Table 5a. Bosnia and Herzegovina: Institutions of BiH—General Government Statement of Operations, 2020–30

(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					<i>Prel.</i>	<i>Projections</i>					
Revenue	943	987	1,044	1,242	1,331	1,416	1,334	1,340	1,379	1,419	1,460
Taxes	780	780	866	1,021	1,021	1,021	1,049	1,077	1,105	1,134	1,163
Direct taxes	0	0	0	0	0	0	0	0	0	0	0
Indirect taxes	780	780	866	1,021	1,021	1,021	1,049	1,077	1,105	1,134	1,163
Other taxes	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
Grants	17	47	13	34	48	30	30	30	30	30	30
Other revenue	145	160	165	188	263	365	255	232	244	255	267
Expenditure	984	924	1,008	1,154	1,314	1,441	1,372	1,413	1,454	1,495	1,538
Expense	899	876	974	1,114	1,227	1,349	1,274	1,310	1,345	1,381	1,418
Compensation of employees	681	695	737	881	913	975	1,003	1,029	1,056	1,083	1,111
Use of goods and services	142	154	185	186	204	218	225	231	237	243	249
Social benefits	10	12	23	15	17	16	17	18	19	20	21
Interest	1	1	1	1	0	1	1	1	1	1	1
Transfers to other general government units	44	2	5	3	57	3	4	4	4	4	4
Other expense	12	4	11	16	16	121	12	13	13	14	15
Net acquisition of nonfinancial assets	85	47	34	40	88	92	98	103	109	114	120
Acquisition of nonfinancial assets	86	49	41	55	90	96	101	106	112	118	124
Foreign financed capital spending	3	5	4	3	3	4	4	4	4	5	5
Domestically financed capital spending	83	44	37	52	86	92	97	102	108	113	119
Disposal of nonfinancial assets	0	1	7	15	2	3	3	3	3	3	3
Gross/net operating balance (revenue - expense)	44	111	71	127	105	67	60	30	34	38	42
Net lending/borrowing (revenue - expenditure)	-42	64	37	88	17	-25	-38	-73	-75	-77	-78
Net acquisition of financial assets	31	-29	84	72	91	-25	-38	-73	-75	-77	-78
Domestic assets	31	-29	84	72	91	-25	-38	-73	-75	-77	-78
Currency and deposits	30	-28	83	71	89	-25	-38	-73	-75	-77	-78
Debt securities	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0
Equity and investment fund shares	0	0	0	0	0	0	0	0	0	0	0
Foreign assets	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	79	-93	49	-15	75	0	0	0	0	0	0
Domestic liabilities	83	-88	53	1	79	0	0	0	0	0	0
Foreign liabilities	-4	-4	-5	-16	-4	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0	0	0	0
Loans	-4	-4	-5	-16	-4	0	0	0	0	0	0
Drawings	0	0	0	0	0	0	0	0	0	0	0
Amortization	4	4	5	16	4	0	0	0	0	0	0
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy	0	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>											
Net lending exc externally-financed operations	-38	68	41	91	21	-21	-34	-69	-70	-72	-73

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

Table 5b. Bosnia and Herzegovina: Federation of BiH—General Government Statement of Operations, 2020-30

(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	<i>Prel</i>					<i>Projections</i>					
Revenue	8,496	9,447	10,756	11,892	13,202	14,368	15,148	16,029	16,854	17,743	18,671
Taxes	4,069	4,783	5,547	6,065	6,793	7,423	7,817	8,281	8,704	9,182	9,679
Direct taxes	821	905	1,165	1,375	1,496	1,673	1,766	1,861	1,959	2,059	2,164
Indirect taxes	3,247	3,877	4,382	4,690	5,296	5,749	6,050	6,419	6,744	7,122	7,515
Other taxes	1	1	0	0	0	0	1	1	1	1	1
Social security contributions	3,662	3,927	4,424	5,070	5,525	5,932	6,263	6,598	6,945	7,300	7,672
Grants	93	77	45	141	62	60	68	67	66	65	64
Other revenue	673	659	739	617	821	954	1,000	1,084	1,139	1,196	1,256
Expenditure	9,453	9,627	10,594	12,528	14,113	15,537	16,542	17,383	18,266	19,210	20,213
Expense	8,424	8,615	9,602	11,336	12,615	13,850	14,757	15,509	16,299	17,149	18,052
Compensation of employees	2,063	2,120	2,392	2,732	3,056	3,449	3,642	3,837	4,038	4,245	4,461
Use of goods and services	1,966	2,053	2,259	2,548	2,826	3,064	3,235	3,408	3,587	3,771	3,963
Social benefits	3,287	3,323	3,696	4,645	5,128	5,611	5,924	6,241	6,568	6,904	7,256
Interest	118	113	126	206	256	254	363	405	459	499	554
Subsidies	532	516	511	555	637	739	674	710	748	786	826
Other expense	450	488	615	645	710	733	919	908	898	944	992
Net acquisition of nonfinancial assets	1,030	1,012	992	1,192	1,498	1,688	1,785	1,875	1,967	2,061	2,161
Acquisition of nonfinancial assets	1,051	1,040	1,037	1,213	1,523	1,713	1,813	1,903	1,997	2,093	2,194
Foreign financed capital spending	599	649	418	501	522	597	634	661	690	719	750
Domestically financed capital spending	452	390	619	712	1,001	1,116	1,179	1,242	1,307	1,374	1,444
Disposal of nonfinancial assets	21	28	45	21	24	26	27	29	30	32	33
Gross/net operating balance (revenue - expense)	73	832	1,154	556	586	518	391	521	555	594	618
Net lending/borrowing (revenue - expenditure)	-957	-180	162	-636	-912	-1,169	-1,395	-1,354	-1,412	-1,468	-1,542
Net acquisition of financial assets	-419	477	262	-325	-273	-64	-280	-176	-91	-191	91
Domestic assets	-419	477	262	-325	-273	-64	-280	-176	-91	-191	91
Of which: Currency and deposits	-421	639	267	-269	71	-64	-280	-176	-91	-191	91
Net incurrence of liabilities	503	409	-280	416	755	1,105	1,115	1,178	1,321	1,277	1,633
Domestic liabilities	-59	-134	-336	659	866	406	1,059	1,037	1,051	981	1,295
Of which: Debt securities	129	-110	-102	236	478	279	801	798	894	786	1,044
Foreign liabilities	562	543	56	-243	-111	699	56	140	270	296	338
Loans	562	141	56	-243	-111	15	56	140	270	296	338
Drawings	969	594	511	447	566	614	565	596	729	761	795
Amortization	-407	-453	-456	-690	-677	-600	-509	-455	-459	-465	-457
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy / financing gap	35	248	380	-106	-116	0	0	0	0	0	0
Undertaken financing / Discrepancy (historical data)	35	248	380	-106	-116	0	0	0	0	0	0

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

Table 5c. Bosnia and Herzegovina: Federation of BiH—Central Government Statement of Operations, 2020-30
(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					<i>Prel.</i>			<i>Projections</i>			
Revenue	3,807	4,152	4,632	5,308	5,798	6,153	6,428	6,704	7,020	7,383	7,755
Taxes	1,474	1,704	1,918	2,238	2,467	2,580	2,648	2,765	2,870	3,017	3,162
Direct taxes	81	72	89	115	114	118	124	131	138	145	152
Indirect taxes	1,393	1,633	1,829	2,123	2,353	2,462	2,523	2,634	2,732	2,872	3,010
Other taxes	0	0	0	0	0	0	0	0	0	0	0
Social security contributions	2,023	2,178	2,459	2,821	3,068	3,259	3,441	3,626	3,816	4,011	4,216
Grants	85	62	31	120	36	31	38	36	33	30	27
For budget support	0	0	0	81	0	0	0	0	0	0	0
For investment projects	85	62	31	38	36	31	38	36	33	30	27
Other revenue	221	205	197	124	221	283	301	278	301	325	350
Expenditure	4,167	4,084	4,357	5,588	6,079	6,925	7,180	7,540	7,926	8,342	8,790
Expense	4,020	3,975	4,309	5,497	5,971	6,768	7,008	7,365	7,746	8,157	8,600
Compensation of employees	260	262	283	325	352	439	464	489	514	540	568
Use of goods and services	83	88	80	88	99	161	170	179	188	198	208
Social benefits	2,777	2,840	3,085	3,926	4,350	4,761	5,027	5,296	5,574	5,859	6,158
Social security benefits	2,293	2,357	2,559	3,185	3,547	3,847	4,061	4,279	4,504	4,734	4,975
Transfers to unemployed	0	0	0	0	0	0	0	0	0	0	0
Family benefits and parental compensations	0	0	0	0	0	0	0	0	0	0	0
Pensions	2,293	2,357	2,559	3,185	3,547	3,847	4,061	4,279	4,504	4,734	4,975
Sickness benefits and other transfers for health insurance	0	0	0	0	0	0	0	0	0	0	0
Social security allowances	481	479	522	735	797	906	957	1,008	1,061	1,115	1,172
Transfers to civilian disabled	138	135	139	219	264	285	301	317	334	351	369
Transfers to war disabled, war veterans, metal handicapped	266	259	266	279	276	380	401	423	445	468	492
Other social security allowances	76	84	117	237	257	8	254	268	282	297	312
Other transfers to individuals and households	4	4	4	6	6	241	9	9	10	10	11
Interest	101	91	103	175	216	212	319	358	410	448	500
Subsidies	265	230	200	234	265	341	255	269	283	297	312
Transfers to other general government units	409	374	449	611	508	463	404	423	444	465	486
Other expense	125	91	110	138	181	390	370	351	333	350	368
Net acquisition of nonfinancial assets	148	109	48	91	108	157	171	176	180	185	190
Acquisition of nonfinancial assets	148	110	67	91	108	157	171	176	180	185	190
Foreign financed capital spending	112	95	25	68	78	78	88	88	88	88	88
Domestically financed capital spending	36	15	42	23	30	79	83	88	92	97	102
Disposal of nonfinancial assets	0	1	19	0	0	0	0	0	0	0	0
Gross/net operating balance (revenue - expense)	-213	177	323	-189	-173	-614	-581	-661	-726	-774	-845
Net lending/borrowing (revenue - expenditure)	-361	68	275	-280	-281	-771	-752	-836	-906	-959	-1,035
Net financial transactions = Net acquisition of financial assets - Net incurrence of liabilities	-444	199	0	-280	-510	-771	-752	-836	-906	-959	-1,035
Net acquisition of financial assets	-301	193	-350	-453	-296	-33	-24	-66	-13	-134	123
Domestic assets	-301	41	-198	-453	-296	-33	-24	-66	-13	-134	123
Of which: Currency and deposits	-273	167	-3	-331	29	44	45	-5	39	-90	158
Debt securities	90	0	0	-58	-228	0	0	0	0	0	0
Privatization proceeds	0	0	0	0	0	0	0	0	0	0	0
Other	1	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	143	-6	-621	-173	214	739	728	770	892	825	1,158
Domestic liabilities	-11	-107	-290	383	640	388	1,039	1,017	1,030	957	1,271
Of which: Debt securities	130	-110	-86	236	478	279	801	798	894	786	1,044
Foreign liabilities	154	101	-331	-556	-426	351	-311	-247	-137	-132	-112
Debt securities	0	0	0	0	0	685	0	0	0	0	0
Loans	154	-301	-331	-556	-426	-334	-311	-247	-137	-132	-112
Drawings	564	157	133	122	278	266	198	209	322	333	345
Amortization	-410	-458	-464	-678	-704	-600	-509	-455	-459	-465	-457
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy	-83	130	-3	0	-230	0	0	0	0	0	0
<i>Memorandum items:</i>											
Net lending excl. externally-financed operations	-333	101	269	-250	-238	-725	-702	-784	-851	-901	-975

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

Notes: Central government includes pension fund since 2020. Budget support does not include MFA in 2021.

Table 5d. Bosnia and Herzegovina: Republika Srpska—General Government Statement of Operations, 2020–30

(KM million)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					<i>Prel.</i>	<i>Projections</i>					
Revenue	4,516	5,082	5,872	6,446	7,243	7,843	8,317	8,752	9,222	9,703	10,207
Taxes	2,400	2,771	3,216	3,509	3,950	4,258	4,510	4,767	5,029	5,299	5,580
Direct taxes	451	472	620	747	903	1,004	1,060	1,117	1,175	1,235	1,298
Indirect taxes	1,914	2,259	2,544	2,704	2,980	3,182	3,374	3,570	3,770	3,975	4,188
Other taxes	35	40	52	58	67	72	76	80	84	89	93
Social security contributions	1,676	1,824	2,009	2,287	2,586	2,931	3,095	3,260	3,432	3,607	3,791
Grants	58	34	41	54	48	14	17	15	14	13	12
Other revenue	382	454	606	597	659	641	696	709	746	784	824
Expenditure	5,108	5,116	6,096	6,830	7,469	8,230	8,730	9,244	9,695	10,192	10,708
Expense	4,365	4,572	5,414	6,079	6,754	7,315	7,774	8,242	8,640	9,084	9,543
Compensation of employees	1,092	1,133	1,346	1,492	1,574	1,847	1,950	2,054	2,162	2,273	2,388
Use of goods and services	380	381	456	506	613	624	659	694	731	768	807
Social benefits	2,262	2,428	2,839	3,273	3,615	3,894	4,111	4,332	4,559	4,792	5,037
Interest	133	142	154	217	270	265	332	401	387	409	426
Subsidies	264	198	236	286	315	293	309	326	343	360	379
Other expense	235	290	384	305	366	391	413	435	458	481	506
Net acquisition of nonfinancial assets	743	544	682	751	715	916	956	1,002	1,055	1,108	1,165
Acquisition of nonfinancial assets	767	570	709	797	786	944	985	1,032	1,086	1,141	1,199
Foreign financed capital spending	144	99	88	70	107	110	105	105	110	115	120
Domestically financed capital spending	623	471	621	727	679	834	880	927	976	1,026	1,078
Disposal of nonfinancial assets	24	27	27	46	71	28	29	30	31	33	34
Gross/net operating balance (revenue - expense)	151	510	457	367	489	529	542	510	581	620	664
Net lending/borrowing (revenue - expenditure)	-593	-33	-225	-384	-225	-387	-413	-492	-473	-489	-501
Net acquisition of financial assets	-43	351	-33	-294	129	370	80	89	98	153	125
Domestic assets	-43	351	-33	-294	129	370	80	89	98	153	125
Of which: Currency and deposits	-26	377	-101	-233	161	429	138	146	154	208	179
Net incurrence of liabilities	582	398	199	118	371	757	493	581	571	641	626
Domestic liabilities, of which:	371	-380	184	671	4	390	567	682	795	849	721
Debt securities	333	-196	255	547	30	445	527	531	670	721	605
Loans	54	-44	-57	-69	98	0	67	179	156	155	141
Foreign liabilities	211	777	15	-553	367	367	-73	-100	-224	-207	-95
Loans	224	9	15	-259	366	367	513	-100	-224	-207	-95
Drawings	440	247	278	148	796	720	899	410	289	300	312
Amortization	216	238	263	407	431	353	386	510	512	507	407
Other accounts payable	0	0	0	34	1	0	0	0	0	0	0
Statistical discrepancy / financing gap	-32	-13	-7	-28	-16	0	0	0	0	0	0

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

**Table 5e. Bosnia and Herzegovina: Republika Srpska—Consolidated Central Government
Statement of Operations, 2020–30**

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	<i>Prel.</i>					<i>Projections</i>					
Revenue	2,874	3,231	3,774	4,284	4,837	5,351	5,692	6,023	6,325	6,640	6,941
Taxes	1,733	1,995	2,360	2,621	3,045	3,277	3,481	3,719	3,903	4,095	4,269
Direct taxes	378	398	530	633	766	857	905	954	1,004	1,055	1,109
Indirect taxes	1,328	1,571	1,798	1,954	2,241	2,379	2,532	2,720	2,851	2,990	3,107
Other taxes	26	27	33	34	38	41	43	45	48	50	53
Social security contributions	935	1,022	1,176	1,352	1,535	1,772	1,871	1,971	2,075	2,181	2,292
Grants	49	18	29	45	34	14	17	15	14	13	12
For budget support	0	0	0	0	0	0	0	0	0	0	0
For investment projects	49	18	29	45	34	14	17	15	14	13	12
Other revenue	153	193	206	263	220	271	305	298	313	329	346
Expenditure	3,410	3,443	4,152	4,631	5,033	5,835	6,065	6,441	6,745	7,091	7,449
Expense	3,218	3,275	3,976	4,374	4,868	5,501	5,711	6,068	6,352	6,678	7,015
Compensation of employees	828	851	1,000	1,104	1,146	1,345	1,420	1,496	1,575	1,655	1,739
Use of goods and services	162	178	207	241	305	295	312	328	346	363	382
Social benefits	1,428	1,503	1,792	2,060	2,347	2,540	2,681	2,825	2,973	3,125	3,285
Interest	108	114	124	174	220	223	287	354	338	357	371
Subsidies	226	152	181	245	277	254	268	282	297	312	328
Transfers to other general government units	316	275	396	365	315	570	454	478	503	529	556
Other expense	150	202	275	185	256	274	289	305	321	337	354
Net acquisition of nonfinancial assets	192	168	175	257	165	335	354	373	393	413	434
Acquisition of nonfinancial assets	201	177	185	267	216	341	361	380	399	419	440
Foreign financed capital spending	46	34	33	12	48	53	57	59	62	65	68
Domestically financed capital spending	155	143	152	256	168	288	304	320	337	354	373
Disposal of nonfinancial assets	9	9	10	11	51	7	7	7	7	6	6
Gross/net operating balance (revenue - expense)	-345	-44	-203	-89	-30	-149	-19	-45	-27	-38	-74
Net lending/borrowing (revenue - expenditure)	-537	-212	-378	-346	-195	-484	-373	-418	-419	-451	-508
Net acquisition of financial assets	-75	223	-111	-193	106	323	140	164	152	190	118
Domestic assets, of which:	-75	223	-111	-193	106	323	140	164	152	190	118
Currency and deposits	-33	256	-65	-120	111	308	121	138	122	155	77
Loans	-42	-18	-50	-61	-362	14	19	25	30	36	41
Equity and investment fund shares	28	2	0	1	360	0	0	0	0	0	0
Net incurrence of liabilities	462	432	265	136	313	807	513	581	571	641	626
Domestic liabilities, of which:	289	-356	209	678	-99	440	587	682	795	849	721
Debt securities	317	-194	254	549	37	445	527	531	670	721	605
Loans	-4	-59	-51	-46	-22	20	87	179	156	155	141
Foreign liabilities	173	788	56	-542	412	367	-73	-100	-224	-207	-95
Loans	185	19	56	-213	412	367	513	-100	-224	-207	-95
Drawings	368	214	272	146	795	720	899	410	289	300	312
For budget support	331	1	217	59	643	532	700	200	68	68	68
For investment projects	37	213	55	88	152	188	199	210	221	232	244
Amortization	183	194	216	359	383	353	386	510	512	507	407
Other accounts payable	0	0	0	34	1	0	0	0	0	0	0
Statistical discrepancy	-1	0	2	17	-13	0	0	0	0	0	0
<i>Memorandum items:</i>											
Net lending excl. externally-financed operations	-540	-197	-374	-380	-181	-444	-333	-374	-371	-399	-452

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

Note: MFA was recorded as investment loans in 2021.

Table 6. Bosnia and Herzegovina: Monetary Survey, 2020–26

Table 6. Bosnia and Herzegovina: Monetary Survey, 2020–26							
	2020	2021	2022	2023	2024	2025	2026
					Prel.	Projections	
Monetary Survey	<i>(Million KM, end of period)</i>						
Net foreign assets	16,014	19,111	19,272	20,497	22,283	23,644	24,694
Net domestic assets	12,003	12,394	13,968	15,294	16,849	18,509	21,167
Domestic credit	19,845	19,189	20,549	22,677	25,319	27,640	30,955
Claims on general government (net)	591	-796	-509	125	637	1,058	2,788
Claims on public nonfinancial corporations	542	532	653	645	734	785	828
Claims on private sector	18,712	19,453	20,405	21,907	23,947	25,797	27,339
Other items (net)	-7,842	-6,795	-6,581	-7,383	-8,470	-9,131	-9,788
Broad money (M2)	28,017	31,505	33,240	35,791	39,135	42,153	45,861
Currency	5,044	5,533	6,126	6,551	6,868	7,070	7,443
Demand Deposits	9,780	12,384	13,752	15,064	17,244	18,073	14,953
Other Deposits	13,194	13,588	13,361	14,176	15,022	17,011	23,465
Time and savings deposits	3,035	3,044	2,879	2,891	3,174	4,304	9,650
Foreign currency deposits	10,159	10,544	10,483	11,285	11,849	12,706	13,815
Central Bank of the BIH (CBBH)							
Net Foreign Assets	13,895	16,375	16,094	16,316	17,666	18,993	20,011
Net Domestic Assets	-665	-1,125	-686	-736	-845	-820	-782
Banks reserves	5,901	7,220	7,217	7,083	7,455	8,181	8,564
Other liabilities	232	305	278	22	20	21	22
Other items	926	800	485	918	1,394	1,571	1,806
<i>Memorandum items:</i>							
Monetary Survey	<i>(Annual percent change in terms of broad money)</i>						
Net foreign assets	7.9	11.1	0.5	3.7	5.0	3.5	2.5
Net domestic assets	0.8	-2.3	4.9	3.7	4.6	4.2	6.3
Domestic credit	1.0	-2.3	4.3	6.4	7.4	5.9	7.9
Claims on general government (net)	2.9	-4.9	0.9	1.9	1.4	1.1	4.1
Claims on public nonfinancial corporations	0.1	0.0	0.4	0.0	0.3	0.1	0.1
Claims on private sector	-2.0	2.6	3.0	4.5	5.7	4.7	3.7
Other items (net)	-0.2	0.0	0.6	-2.7	-2.8	-1.7	-1.6
	<i>(Annual percent change)</i>						
Broad money (M2)	7.1	12.4	5.5	7.7	9.3	7.7	8.8
Reserve money (RM)	10.7	17.4	3.3	-1.7	5.2	7.6	4.9
Credit to the private sector	-2.8	4.0	4.9	7.4	9.3	7.7	6.0
Credit to the private sector (in percent of GDP)	53.9	49.7	44.7	43.9	45.4	45.7	45.9
Broad money (in percent of GDP)	80.7	80.5	72.9	71.7	74.1	74.7	77.0
Central bank net foreign assets (in percent of reserve money)	112.9	113.3	107.8	111.3	114.5	114.4	114.9
Velocity (GDP/end-of-period M2)	1.3	1.3	1.3	1.4	1.4	1.4	1.4
Reserve money multiplier (M2/RM)	2.3	2.2	2.2	2.4	2.5	2.5	2.6
Source: CBBH; and IMF staff estimates and projections.							

Table 7. Bosnia and Herzegovina: Financial Soundness Indicators, 2018–2024

(Percent)

	2018	2019	2020	2021	2022	2023	2024
Capital							
Tier 1 capital to total risk exposure	16.5	17.5	18.1	18.7	18.7	18.7	18.7
Total regulatory capital ratio	17.5	18.0	19.2	19.6	19.6	19.7	19.8
Financial leverage ratio (Tier 1 capital to assets)	10.4	10.5	10.2	10.0	9.9	10.1	10.6
Quality of assets							
Non-performing loans to total loans	8.8	7.4	6.1	5.8	4.5	3.8	3.2
Non-performing loans net of provisions to capital	11.4	9.6	7.4	7.0	4.7	3.8	3.2
Provisions to non-performing loans	77.4	77.0	78.4	78.4	81.4	81.7	80.3
Profitability							
Return on assets	1.3	1.4	0.7	1.3	1.6	2.0	2.2
Return on equity	8.5	9.1	5.6	9.6	12.0	15.0	16.0
Net interest income to gross income	58.8	56.8	56.0	59.2	56.6	63.3	61.2
Non-interest expenses to gross income	63.2	63.6	65.5	60.1	55.7	52.6	51.3
Liquidity							
Liquid assets to total assets	29.3	29.2	28.6	30.7	30.5	29.0	28.2
Liquid assets to short-term financial liabilities	60.4	61.0	51.3	51.3	48.4	47.2	45.8
Short-term financial liabilities to total financial liabilities	57.2	56.2	65.4	68.8	72.6	71.1	71.8
Foreign exchange risk							
Foreign currency and indexed loans to total loans	56.7	53.9	53.9	50.2	43.3	37.6	31.9
Foreign currency liabilities to total financial liabilities	53.3	50.7	48.1	44.4	42.5	41.2	40.0
Net open position in foreign exchange to capital	2.1	3.4	4.2	4.0	1.0	1.5	3.6

Source: CBBH.

Note: Financial Soundness Indicators are based on the 2019 FSI Compilation Guide.

Annex I. Implementation of 2024 Article IV Recommendations

IMF recommendations	Policy actions
Fiscal policy: restrain the fiscal expansion to contain financing pressures	
Identify current spending cuts to keep fiscal deficits unchanged while preserving investment.	Partially implemented. Current spending is higher in both entities. Public investments have increased in BiH in 2024 but are still relatively low.
Timely adopt state institutions' budget and improve budget execution, especially of capital spending	Not implemented. 2025 budget for state institutions has not been adopted yet and they operate under the temporary financing regime, which negatively impacts execution.
Follow IMF Public Investment Management Assessment (PIMA) recommendations to strengthen project appraisal, multi-year budgeting, and project portfolio management and oversight.	Partially implemented. Institutions of BiH are working on PIMIS improvements which will be used by all the levels of government within BiH. The authorities also have adopted or advancing amendments on rules for selection, evaluation, and prioritization of public investment projects.
Improve targeting of social programs by i) developing registries of beneficiaries (at the entity level); ii) extending coverage as needed; and iii) reviewing and improving targeting.	Partially implemented. While the RS Parliament adopted the Law on Social Card in July 2025, the lack of comprehensive and updated social registries in both entities remains an obstacle for better targeting.
Additional revenue mobilization by reducing exemptions, introducing a tax on dividends, modernizing VAT legislation, and improving property taxation system.	Partially implemented. The RS has amended PIT and SSC laws by reducing tax expenditures related to entrepreneurs' activities. No significant progress has been made in terms of modernizing VAT legislation and improving property taxation systems.
Personal income tax (PIT) and social security contribution (SSC) changes under consideration in FBiH should be budget neutral.	Not implemented. Amendments to the SSC law adopted by FBiH parliament include a decrease in the SSC rate by 5.5 percentage points without broadening of the PIT base and are hence not budgetary neutral.
Address weaknesses in procurement methods, public access to information, and complaints management.	Partially implemented. Some measures have been implemented to enhance the efficiency of public procurement procedures by reducing the opportunities for unfounded and malicious complaints.
Strengthen public enterprise governance.	Partially implemented. In the RS, the PE oversight unit has started its operations and published its first report about operations of PEs. In the FBiH the unit has not started its operations yet.
CBA and financial sector policies: strengthen the CBA and the reserve requirement framework	
Continue to use quantitative models to test the impact of different policy parameters on the coverage ratio and central bank's balance sheet.	Partially implemented. CBBH has been using quantitative models provided through TA to test the impact of different policy parameters on the coverage ratio and its balance sheet, although this is not done consistently and does not utilize the full scope of models.

IMF recommendations	Policy actions
Increase the CBBH remuneration rate on banks' excess reserves to narrow the gap with the ECB deposit rate.	Not implemented. CBBH has not increased the remuneration rate on banks' excess reserves since the last AIV consultation.
Fully implement the new reserve requirement framework. Maintain the current practice of reserve averaging.	Partially implemented. Partial fulfillment of reserve requirements for FX deposits in FX was extended until end-2025. Reserve averaging was maintained.
Allow domestic interest rates to rise to help contain inflation and reduce the risk of capital outflows.	Not implemented. The banking agencies' temporary decisions to limit the increase of lending rates were extended until the end of 2025.
Closely monitor banks' liquidity positions, request updated recovery plans, strictly enforce prudential requirements, and monitor the timely recognition of impaired assets.	Implemented. The banking agencies are closely monitoring banks to ensure the stability of the financial system.
Establish a Financial Stability Fund (FSF).	Not implemented. The authorities disagree over whether an FSF should be established at the state level or separately at the entity level.
Enhance coordination among state- and entity-level authorities by reinstating regular meetings of the Standing Committee on Financial Stability (SCFS).	Implemented. Meetings of the Standing Committee for Financial Stability have resumed since October 2024.
Finalize the Financial Sector Memorandum of Understanding (FSMOU).	Not implemented. An FSMOU has not been concluded, owing mainly to disagreements over the role that the central bank should play in assessing risks to financial stability.
Strengthen the macroprudential framework by introducing additional capital buffers (CCyB and D-SIBs buffer) and borrower-based measures (LTV and DSTI).	Partially implemented. Banking agencies have introduced the D-SIBs buffer and are considering implementing LTV and DSTI as a reporting requirement as a first step. CCyB has not yet been implemented, given the disagreements over the central bank's role.
Energy Policy and Reforms	
Liberalize electricity prices while protecting the most vulnerable.	Partially implemented. The RS has increased household tariffs while FBiH has not.
Take immediate action to prepare for CBAM and accelerate efforts to decarbonize.	Not implemented. The authorities have not taken steps toward mitigating the impact of CBAM on exports. In August 2023, the FBiH government adopted the laws on Energy and Regulation of Energy Activities, Electricity of the FBiH, and the Use of Renewable Energy Sources.
Establish an EU-aligned ETS and consider interim carbon-pricing alternatives (tax or excise).	Not implemented, but the authorities have expressed interest in Fund TA support.

IMF recommendations	Policy actions
Other structural policies and reforms	
Adopt a new law on electronic identification and trust services for electronic transactions to ensure further alignment with existing EU legislation.	Not implemented. The authorities disagree over whether the supervisory body for trust service providers should reside at the state level, as required by EU legislation, or at the entity level.
Encourage flexible employment, expand childcare to encourage higher female participation, and tackle skills mismatches and long-term unemployment.	Not implemented. There were no changes to legislation or policies in this area.
Better monitor labor markets and poverty indicators and improve the quality of labor market data, including by enhancing the quality of Labor Force Survey data.	Partially implemented. In addition to administrative data, the authorities regularly report the Labor Force Survey data, which is compliant with EU standards. Multidimensional poverty indicators are out of date and there is an urgent need to update them for effective poverty surveillance.
Use an agreed methodology for minimum wage increases and delink social benefit adjustments from wage changes.	Partially implemented. FBiH significantly increased the minimum wage in 2025 beyond the formula-based increase. The RS does not have a rules-based methodology. Both entities delinked some of the social benefits from the minimum wage.
Enhance corruption prevention and enforcement efforts along with transparency and accountability.	Partially implemented. The authorities adopted a state-level Law on the Prevention of Conflict of Interest and subsequently a state-level strategy and action plan. Overall, progress is limited as public perception of corruption continues to deteriorate amid a complex political and legal system, entrenched patronage networks, and low accountability.

Annex II. Capacity Development (CD)

A. Context

1. BiH EU accession requirements have meant further CD needs and demand. In March 2024, the European Council decided to open accession negotiations with BiH following the country's adoption of legislation on integrity in the judiciary, anti-money laundering, and conflict of interest. The European Commission's November 2024 country report outlined the fundamentals of the accession process, including measures to strengthen the judicial and prosecutorial system, improve the electoral process, and align financial oversight rules and statistical reporting standards with the EU. BiH's track record in adopting and implementing EU accession-related reforms remains limited, particularly at the state level. But some improvements have been made in the areas of public finance management, public procurement, financial integrity (i.e., AML/CFT, banking sector supervision and regulation), macroeconomic frameworks, SOE oversight, and government finance statistics, all core IMF CD areas.

2. Against this background, the overarching policy priorities and CD needs for BiH are: (i) greater efficiency of public spending; (ii) strengthening domestic revenue mobilization; (iii) enhancing the financial safety net and cooperation on financial stability; (iv) further alignment of financial sector supervision and regulatory framework to EU legislation, including access to the Single Euro Payments Area (SEPA); (v) governance reforms, including corruption prevention and enforcement efforts along with improving transparency and accountability; (vi) energy market and climate-related reforms; (vii) digitalization of e-government services; and (viii) data compilation and quality of statistics.

B. Medium-Term Reform Priorities

3. BiH is an intensive surveillance country and a large user of IMF CD, including in the areas of tax policy and revenue administration, PFM, central banking, AML/CFT, macro modelling and statistics. The Southeast Europe Technical Assistance Center (SEETAC) initiative would help scale up and tailor IMF CD. Key priorities in each area of CD activities are:

- **Fiscal:** (i) *PFM*: PFM strategy, fiscal rules, medium-term budgeting, PIM, and fiscal risks; (ii) *Tax policy*: reduce discrepancies with EU acquis, harmonize taxes, reduce tax burden on labor and broaden tax base; support introducing modern value-based property tax; tax expenditures; (iii) *Revenue administration*: enhance cooperation among entities, harmonize customs administration with EU policy, modernize tax administration including human resources, compliance risk management (CRM), collection and debt management, and risk-based compliance; (iv) *Expenditure policy*: better targeting of social spending, rationalize the wage bill, pension system sustainability.
- **Monetary, Exchange Rate, Financial Sector:** (i) *Monetary and macroprudential policies*: enhancing macro-prudential framework. (ii) *Central bank operations*: upgrading reserve requirements, transparency review, (iii) *Financial supervision and regulation*: coordination

between supervisory entities, implement EU policies on banking and insurance supervision; (iv) *Financial crisis management*: strengthening financial crisis preparedness, including bank resolution framework (v) *Payments and infrastructure*: strengthen regulations for virtual assets, upgrading national payments and the integration with the EU, cybersecurity.

- **Macroeconomic Statistics:** align national accounts with the EU acquis, develop financial accounts statistics, produce official core CPI, align external sector statistics with EU *vademecum*, implement standardized EU-compliant GFS accounting and reporting across entities.
- **Other TA areas:** policy responses to ETS and CBAM, macroeconomic analysis and forecasting, governance diagnostic, fiscal and financial legal drafting to align with the EU acquis.

C. Partnerships and Other Providers of Capacity Development Assistance

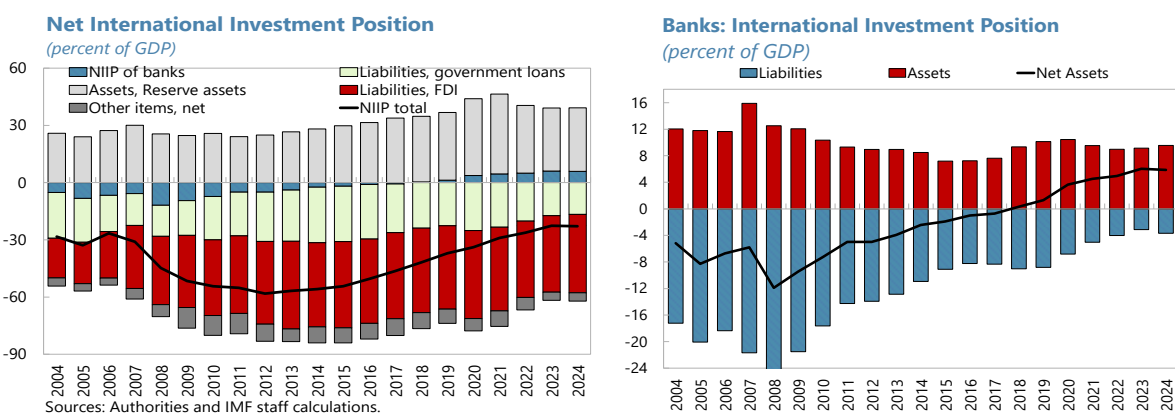
4. The BiH authorities take the lead in coordinating CD from various donors—mainly the IMF, EU, World Bank, and SECO. The World Bank is supporting the authorities on meeting the preconditions for joining SEPA and improving forecasting capacities. The EU is providing CD to enhance capacities for the full implementation of program budgeting, strengthen medium-term budgeting processes, further harmonize statistics with EU and international standards, and bolster the capacities of Supreme Audit Institutions in BiH. SECO is helping the central bank to strengthen FX management, research capacities, statistics, and communications. The authorities strongly support the initiative to consider a new IMF regional technical assistance center for the Western Balkans countries and Moldova—SEETAC.

Annex III. External Sector Assessment

Overall Assessment:¹ The external position of BiH in 2024 is estimated to have been broadly in line with the level implied by fundamentals and desirable policies, with a small, positive current account gap (0.6 percent to GDP). The current account deficit (CAD) reversed its 2023 improvement and reached 4.0 percent of GDP in 2024. The CAD is projected to remain broadly unchanged at 4.1 percent to GDP in 2025 and close to 4 percent of GDP over the medium term. Gross international reserves remained above the traditional reserve-adequacy thresholds but below the adjusted reserve-adequacy metrics. External risks are tilted to the downside.

Potential Policy Responses: The authorities should avoid relaxation of fiscal policies and labor policy changes that undermine competitiveness. The CBBH should increase remuneration rates on bank reserves if downside risks materialize. Structural reforms should enhance governance and improve the business environment. Policies advancing decarbonization and energy market reforms are needed in the context of CBAM introduction. Progress with EU accession negotiations would unlock important low-cost financing.

Foreign Assets and Liabilities: Position and Trajectory



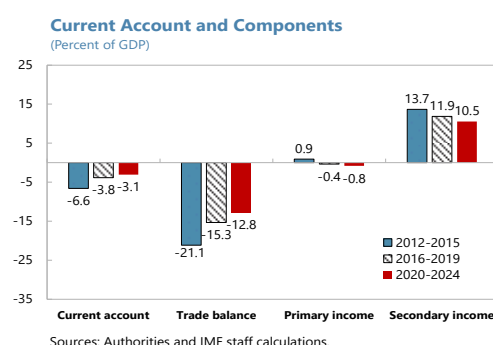
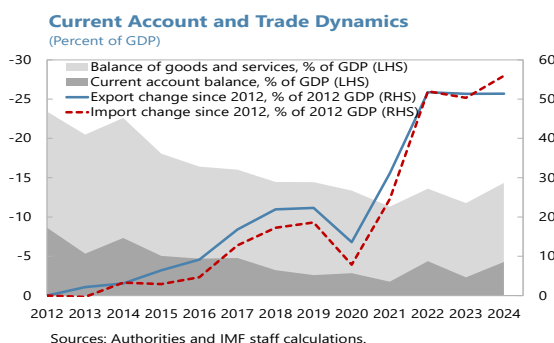
Background. The net international investment position (NIIP) improved gradually during 2013-23 and stabilized in 2024 at -22.9 percent of GDP. The improvement reflected increases in banks' NIIP (search for higher yields abroad), accumulation of international reserves before the pandemic, and net reduction in general government loans after the pandemic. FDI liabilities have exhibited some variation, but remained broadly stable since 2012, reaching 41.0 percent to GDP in 2024.

Assessment. The NIIP implies low risks to external sustainability and leaves space for the needed pick up in foreign project loans and a potential increase in external budget financing. Going forward, some deterioration in the NIIP is projected, primarily driven by sustained FDI inflows.

2024Q4 (% GDP)	NIIP: -22.9	Gross Assets: 58.7	Debt Assets: 23.0 (ex. FX reserves)	Gross Liab.: 81.6	Debt Liab.: 48.3
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Current Account

Background. The narrowing current account deficit (CAD) trend after 2012, driven by improvement in the balance of goods and services, was a key driving factor behind the NIIP increase and accumulation of international reserves before the pandemic. The CAD to GDP ratio gradually declined by 6 ppts. over 2013-19 and remained broadly stable thereafter. In 2024, the CAD increased by almost 2 ppts. of GDP and reached 4.0 percent of GDP, largely driven by trade balance deterioration (reflecting export supply decline in hydro power plants, coal mines, and metal production, weak demand for other export from neighboring countries, and broad-based increase in imports amid strong domestic demand) and by some balance of services decline reflecting strong outbound tourism. Primary and secondary income balances saw little change in 2024. Staff expects the CAD to remain broadly unchanged in 2025, with a deficit of 4.1 percent to GDP, as the recovery of the electricity exports, the slowdown in consumer demand for imports, and the decline in oil prices is to offset the negative effects from the tariffs. The CAD is projected to decrease modestly to 3.8 percent of GDP in 2026 and remain broadly stable over the medium term. Efforts to secure an exemption from the CBAM for electricity exports, speed-up decarbonization, and adjust by moving up the production values chains and diversifying markets, are important to minimize the impact of CBAM on key BIH exports. External risks are tilted to the downside and reflect higher-than-projected impact of the tariff increase on the economies of the trading partners, delay in the CBAM exemption for electricity beyond 2028 (which would strongly affect the electricity exports), and the negative effect of the 90/180 Schengen rule implementation on the transportation services.



Assessment. Staff assesses that the external position of BiH in 2024 was broadly in line with the level implied by fundamentals and desirable policies. The EBA-lite CA model estimates a CA norm for BiH at -4.4 percent of GDP. Applying cyclical adjustment, leads to an adjusted CA of -3.8 percent of GDP in 2024. This implies a CA gap of 0.6 percent of GDP. The positive CA gap can be largely explained by the policy gap of 1.2 percent to GDP, including from fiscal policy (0.6 percent) and public health spending (0.9 percent), among other factors.

Bosnia and Herzegovina: EBA-lite Model Results, 2024

	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	-4.0	
Cyclical contributions (from model) (-)	-0.2	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	-3.8	
CA Norm (from model) 2/	-4.4	
Adjusted CA Norm	-4.4	
CA Gap	0.6	0.2
o/w Relative policy gap	1.2	
Elasticity	-0.3	
REER Gap (in percent)	-1.8	-0.6

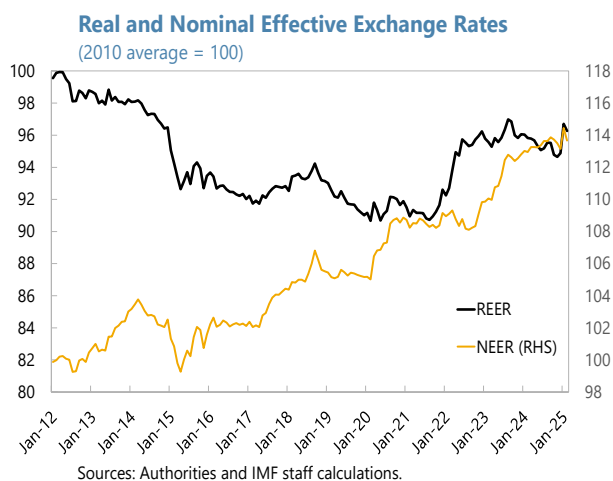
1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The REER saw a depreciating trend in 2024, but appreciated in January-February 2025 by about 1.5 percent, reflecting a relatively strong euro leading to nominal effective exchange rate (NEER) appreciation.

Assessment. The CA gap estimate implies real effective exchange rate (REER) undervaluation of 1.8 percent. At the same time, EBA-lite Index Real Effective Exchange Rate (IREER) model shows REER to have been close to its fundamental level in 2024, with REER undervaluation of REER estimated at 0.6 percent. However, staff views the IREER model results as less reliable and sensitive to the modeling assumption of REER remaining close to equilibrium on average.



Capital and Financial Accounts: Flows and Policy Measures

Background. Net financial inflows revived and increased to 5.0 percent of GDP in 2024. The increase was primarily driven by external budget financing (1.4 percent to GDP in 2024) and moderation of banking sector capital outflows (from 1.4 percent of GDP in 2023 to 0.3 percent of GDP in 2024). Net FDI inflows showed small increase (from 3.4 percent of GDP in 2023 to 3.6 percent of GDP in 2024), with most of the inflow representing reinvested earnings.

Assessment. For 2025, staff projects an increase in financial inflows to 5.8 percent of GDP. The projection reflects an increase in external budget support (including Eurobond, World Bank DPL, and a bilateral loan) and further stabilization of bank capital flows in view of the ECB-CBBH interest rate gap reduction. Risks related to capital flows are tilted to the downside and stem primarily from stronger-than-expected global financial conditions tightening, which might spur outflow of funds from the banking sector. Increasing the CBBH remuneration rate on bank reserves, while allowing other domestic interest rates to rise to reflect market conditions, would likely stabilize capital flows and foster accumulation of international reserves.

FX Reserves

Background. Gross international reserves (GIR) reached €9.0 billion at end-2024 (33 percent of GDP). An increase in nominal reserves by €0.5 billion in 2024 was driven by resumption of net financial inflows, despite deterioration in the current account balance.

Reserve Adequacy Ratios for Bosnia and Herzegovina, 2024 1/		
	Minimum threshold	Gross reserves 2024Q4
Reserve/STD (percent) 2/	100	205.5
Reserve/Months of prospective import goods and services 3/	3	6.9
Reserve/Broad money (percent) 4/	-	44.9
Reserves/ARA metric (percent) 5/	100	112.9
Reserves/Adjusted ARA metric (percent) 5/	100	98.1
1/ Based on Latest IIP data from the fourth quarter of 2024.		
2/ Suggested threshold for adequacy: 100 percent.		
3/ Suggested range for adequacy: 3-6 months;		
4/ Suggested threshold for adequacy: 20 percent		
5/ Suggested range for adequacy: 100-150 percent, depending on tolerance of exchange rate swings.		

Assessment. Official reserve coverage stayed above the standard thresholds of reserve adequacy metrics in 2024. GIR at end-2024 were estimated at 6.9 months of prospective imports of goods and services, 44.9 percent of broad money, and 205.5 percent of short-term debt at remaining maturity. According to the

traditional IMF reserve adequacy metric, reserve coverage was estimated at 112.9 percent, above the minimum suggested level of 100 percent. Official reserves fell below 100 percent of the *adjusted* ARA metric, with the latter accounting for the significant role of remittances in BiH and higher coverage ratio to protect the currency board arrangement (CBA).² The stability of the CBA relies on sufficient FX reserves, since the central bank can only issue base money in exchange for FX and has no access to Eurosystem liquidity support lines. It would be therefore prudent to build higher reserve buffers to strengthen the CBA.

¹ The external sector assessment is based on the 2024 actual data, as reported by the authorities.

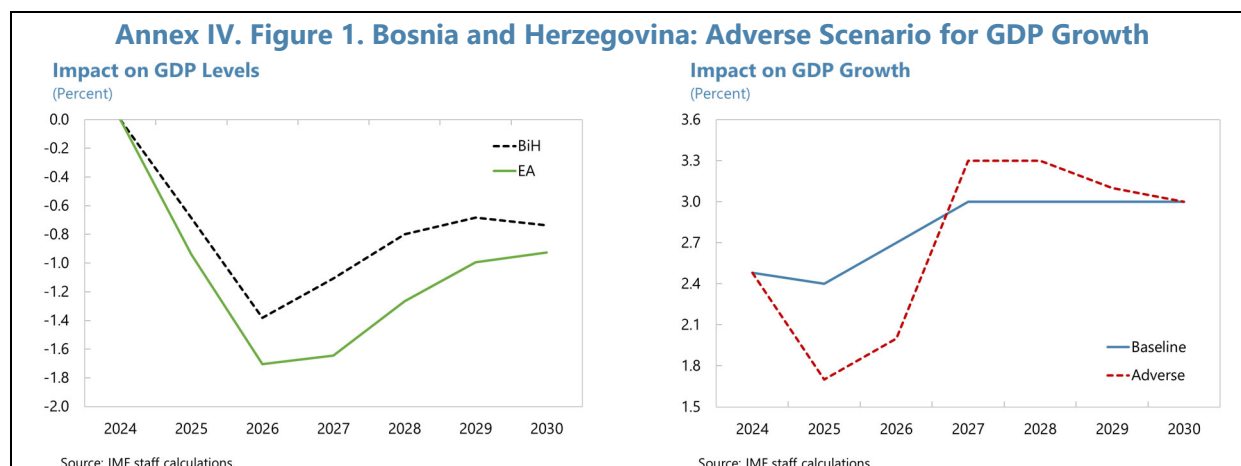
² See IMF Country Report No. 21/43, 2021, for details on adjusted ARA metric.

Annex IV. Adverse Scenario Under Trade Tensions

1. Under an illustrative adverse scenario, growth would decline, exerting pressure on public finances. Based on Box 1.1 of the April 2025 WEO (Scenario A), staff have calibrated a downside scenario for BiH that links slower growth in Europe to a decline in BiH manufacturing and exports. Under this scenario, staff projects that annual growth in BiH declines by 0.7 ppts. to 1.7 percent in 2025 and 2 percent in 2026. Growth would rebound in 2027 before recovering close to the baseline projections by 2030. Lower growth would put a moderate strain on the budget with the primary deficit widening by 0.2 percent of GDP in each year of the forecast. Staff assume that the authorities draw down on cash deposits to absorb most of this difference, resulting in the public debt-to-GDP ratio averaging about 0.3 ppts. above the baseline.

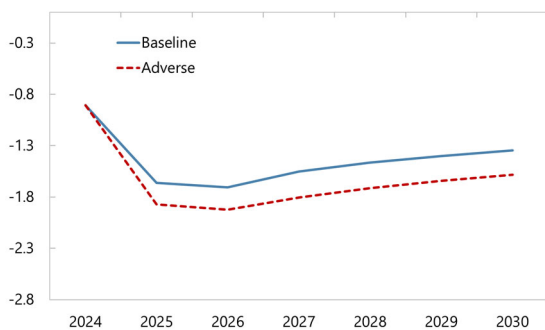
2. The appropriate fiscal response to the adverse scenario will depend on liquidity conditions. Given relatively low debt levels, favorable financing, and a widening output gap, a more accommodative fiscal stance could be warranted. Authorities should allow automatic stabilizers to work while refraining from discretionary measures that could further deplete buffers and increase debt. Staff would recommend adhering to the nominal spending targets set out in the 2025 budget and drawing down on reserves, ensuring that debt in the adverse scenario would stay close to the baseline by 2030. Should financing conditions unexpectedly tighten, however, spending cuts and revenue gains would be required.

3. Accelerating structural reforms during an economic downturn would be essential. Reforms should prioritize strengthening governance and the rule of law, improving the business environment, promoting foreign investment, enhancing the labor market, and implementing structural fiscal and financial reforms to bolster institutions and the effectiveness of policies. Implementation of these reforms would aid in EU accession and could unlock additional concessional and grant financing through the EU Growth Plan. These are the same reforms as in the baseline, but decisive implementation in case of a more severe scenario would be important.



Annex IV. Figure 1. Bosnia and Herzegovina: Adverse Scenario for GDP Growth (Concluded)**General Government Primary Deficit**

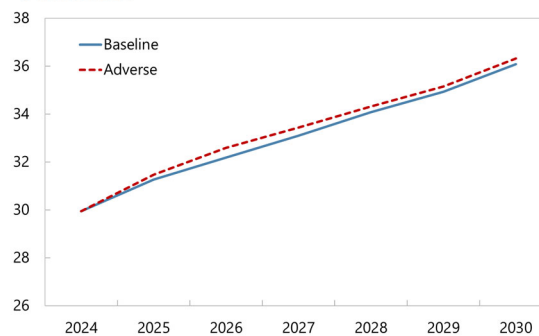
(Percent of GDP)



Source: IMF staff calculations.

General Government Debt

(Percent of GDP)



Source: IMF staff calculations.

Annex V. Risk Assessment Matrix¹

Source of Risks	Relative Likelihood	Impact If Realized	Recommended Policy Response
Global conjunctural risks			
Trade policy and investment shocks	High	High <ul style="list-style-type: none"> Slowdown in BiH exports to Europe. Rising uncertainty discouraging FDI and private sector investment. Higher inflation 	<ul style="list-style-type: none"> Accelerate EU accession reforms to improve market integration. Allow automatic stabilizers to function but limit discretionary fiscal measures. Prepare additional fiscal measures in the event of worsening financing conditions
Intensification of regional conflicts. Commodity price volatility.	Medium	High <ul style="list-style-type: none"> Further slowdown in BiH exports to Europe and decline in remittance inflows dampening domestic demand and widening the current account deficit. Rising uncertainty discouraging FDI and private sector investment. A renewed surge in energy and commodity prices pushing up inflation and reducing growth prospects. Lower/no access to financial markets and higher financing costs. 	<ul style="list-style-type: none"> Accelerate structural governance reforms to encourage private sector investment. Improve public spending composition and efficiency, including project implementation. Implement critical reforms to mobilize additional official financing.
Global structural risks			
Deepening geoeconomic fragmentation.	High	High/Medium <ul style="list-style-type: none"> Declining BiH exports, remittance inflows, and FDI, and weaker growth prospects. Possible loss of critical donor support, delaying key infrastructure investments and rising borrowing costs. 	<ul style="list-style-type: none"> Accelerate structural and governance reforms. Engage with international partners.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Relative Likelihood	Impact If Realized	Recommended Policy Response
Country-specific risks			
Escalation of domestic political tensions blocking economic policy and reforms.	High	Medium/High <ul style="list-style-type: none"> Rising uncertainty lowering investor confidence and discouraging FDI and private sector investment. Increased economic fragmentation weakening growth prospects. Halting of IFI support and bilateral project financing. Delays on the EU path. 	<ul style="list-style-type: none"> Deescalate tensions. Prioritize mutually agreed reforms pending resolution of disagreements. Revitalize reform momentum through compromise and focus on common interest. Advance reforms to move the country forward on the EU path and invigorate wider EU support.
Delays in reforms required for CBAM exemption.	High	Medium <ul style="list-style-type: none"> Loss of competitiveness and decline in exports of electricity and other carbon intense goods. Decline in potential growth and employment. 	<ul style="list-style-type: none"> Increase electricity prices to encourage efficient energy consumption and savings. Speed up reforms to couple BiH's electricity market with the EU's including carbon pricing/ETS. Implement reforms to maintain competitiveness in other exporting industries. Accelerate development of renewables, including through legal reforms.
Loose fiscal policy undermining medium-term sustainability	Medium	Medium <ul style="list-style-type: none"> Untargeted, permanent increases in current spending reducing fiscal space and crowding out public sector investment. Increase in domestic and external financing pressures raising government borrowing costs and threatening fiscal and external sustainability. Rising inflationary pressures threatening macroeconomic stability, eroding real incomes, and weakening growth prospects. 	<ul style="list-style-type: none"> Curb current spending and rebuild fiscal buffers, informed by accelerated reviews of public employment, wages, and social benefits. Enhance public spending composition and efficiency including through enhanced project implementation and procurement. Implement reforms to mobilize additional official financing.

Source of Risks	Relative Likelihood	Impact If Realized	Recommended Policy Response
Progress on the EU accession path providing a reform boost	Medium	<p>High</p> <ul style="list-style-type: none"> Accelerated economic and structural reforms boosting confidence and encouraging higher FDI and private sector-led investment and growth. Improved external competitiveness boosting goods exports. Mobilization of additional external concessional project financing further boosting public sector investment and growth 	<ul style="list-style-type: none"> Strengthen macroeconomic policy coordination and advance reforms to speed up convergence with EU. Take advantage of the reform momentum to tackle more difficult reforms.

Annex VI. Public Debt Sustainability Analysis

Annex VI. Figure 1. Bosnia and Herzegovina: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	BIH's overall risk of sovereign stress is moderate, reflecting rising financing needs, even against the backdrop of low debt to GDP. In addition, there are gaps in debt coverage, especially for SOE debt.
Near term 1/			
Medium term	Moderate	Moderate	Medium term risks for GFN are low, but GFN are increasing on the back of continued fiscal deficits and a high debt service burden. The probability of debt non-stabilization increased due to worsened primary balance projections. A stress scenario involving a banking crisis poses risks for financing and the level of debt to GDP. The overall assessment for medium term risks is therefore moderate.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test	...	...
Long term	...	Moderate	Long-term risks are driven by the high dependency ratio in Bosnia and Herzegovina as a result of the migration of the working age young. Aging-related expenditures on health and pensions feed into debt dynamics and pose a long-term risk on government finances and could lead to a significantly higher debt-to-GDP ratio in the long run.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA summary assessment

Commentary: The DSA indicates that sovereign risks are increasing. The overall level of debt is low but rising, and financing needs are increasing which could lead to liquidity stress. Alternative stress tests also suggest moderate debt sustainability risks under a banking crisis shock. Lower growth and a deterioration of the external position due to global uncertainty and EU CBAM could also lead to risks to debt dynamics in the medium-term. Domestic financing is driven by banks and insurance companies and has become costlier in recent years, although costs may come down in the near term following decreasing euro area policy rates. Long-run debt risks are moderate, driven by aging-related expenditures, especially if migration continues for the young working age population.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex VI. Figure 2. Bosnia and Herzegovina: Debt Coverage and Disclosures

										Comments									
1. Debt coverage in the DSA: 1/																			
1a. If central government, are non-central government entities insignificant?										n.a.									
2. Subsectors included in the chosen coverage in (1) above:																			
Subsectors captured in the baseline										Inclusion									
CPS	NFPS	GG: expected	CG	1	Budgetary central government					Yes	Not applicable								
				2	Extra budgetary funds (EBFs)					No									
				3	Social security funds (SSFs)					No									
				4	State governments					Yes									
				5	Local governments					Yes									
				6	Public nonfinancial corporations					Yes									
				7	Central bank					No									
				8	Other public financial corporations					No									
3. Instrument coverage:																			
										Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/					
4. Accounting principles:																			
										Basis of recording		Valuation of debt stock							
										Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/					
5. Debt consolidation across sectors:										Consolidated		Non-consolidated							
Color code:										■ chosen coverage	■ Missing from recommended coverage		■ Not applicable						
Reporting on Intra-Government Debt Holdings																			
										Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt	Local govt	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
										Issuer									
CPS	NFPS	GG: expected	CG	1	Budget. central govt												0		
				2	Extra-budget. funds												0		
				3	Social security funds												0		
				4	State govt.												0		
				5	Local govt.												0		
				6	Nonfin pub. corp.												0		
				7	Central bank												0		
				8	Oth. pub. fin. corp												0		
Total										0	0	0	0	0	0	0	0	0	

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

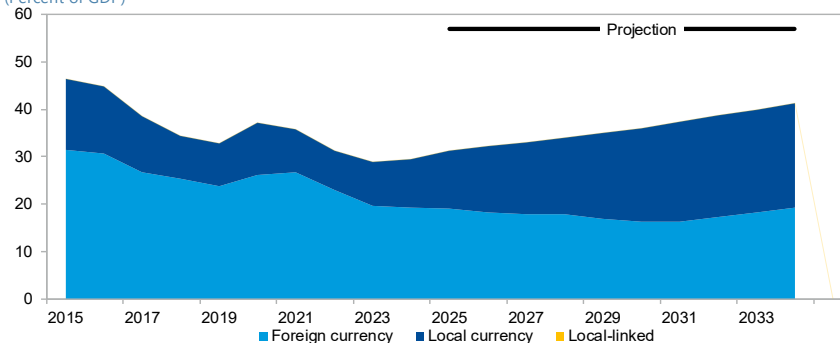
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is for the general government and includes local and state government debt. SOEs' debt guaranteed by the central government is also included. We use CBBH data which also includes some SOE debt not guaranteed by the state. We add the SDR allocation to the CBBH data which does not report it. The FBIH data includes domestic debt for state and municipal domestic debt and data for the FBIH highway company. Local government debt in the RS is not provided but estimated by staff.

Annex VI. Figure 3. Bosnia and Herzegovina: Public Debt Structure Indicators

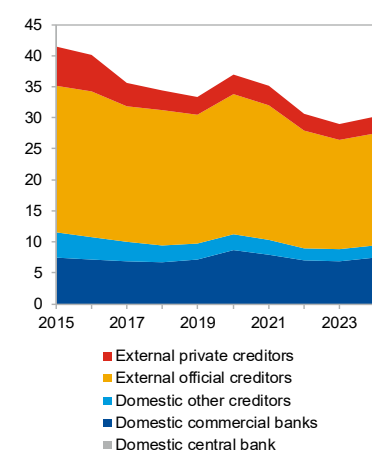
Debt by Currency

(Percent of GDP)



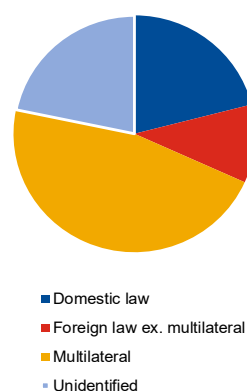
Public Debt by Holder

(Percent of GDP)



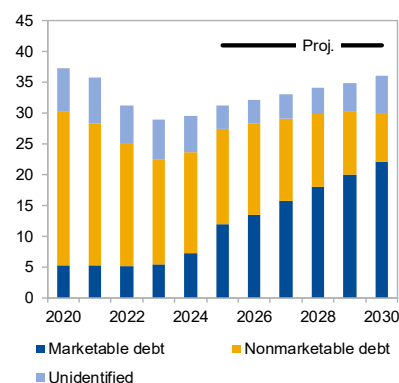
Public Debt by Governing Law, 2024

(Percent)



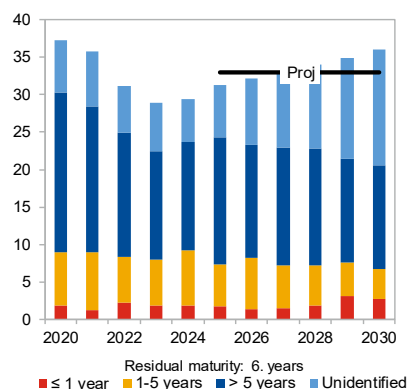
Debt by instruments

(Percent of GDP)



Public debt by maturity

(Percent of GDP)



Note: The perimeter shown is general government.

Note: The perimeter shown is general government.

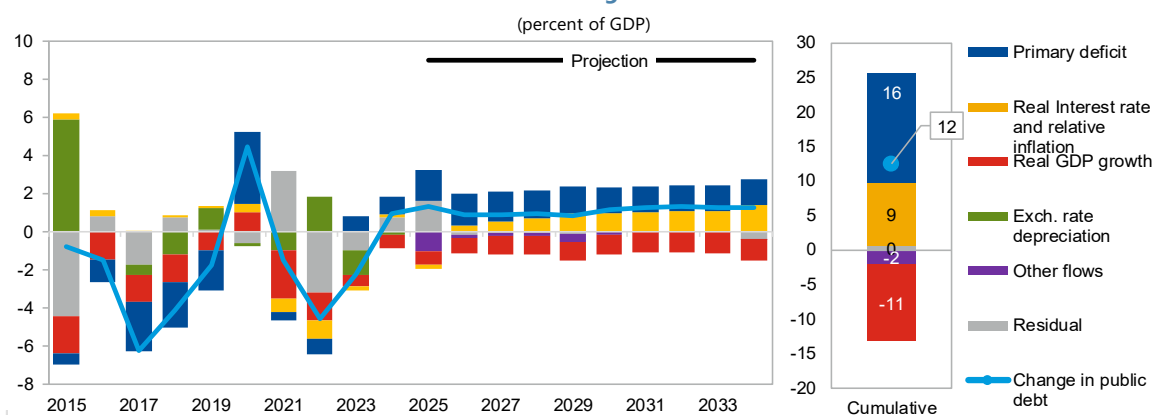
Commentary: Debt to GDP is expected to increase in the medium term to above 40 percent. External debt is expected to be driven by official creditors, a Eurobond in FBiH, and some bilateral loans in the RS. Potential new IFI financing in the area of climate projects, the EU Growth Plan, and improved access to international markets might increase the trajectory of external debt in the future.

Annex VI. Figure 4. Bosnia and Herzegovina: Baseline Scenario

(Percent of GDP unless indicated otherwise)

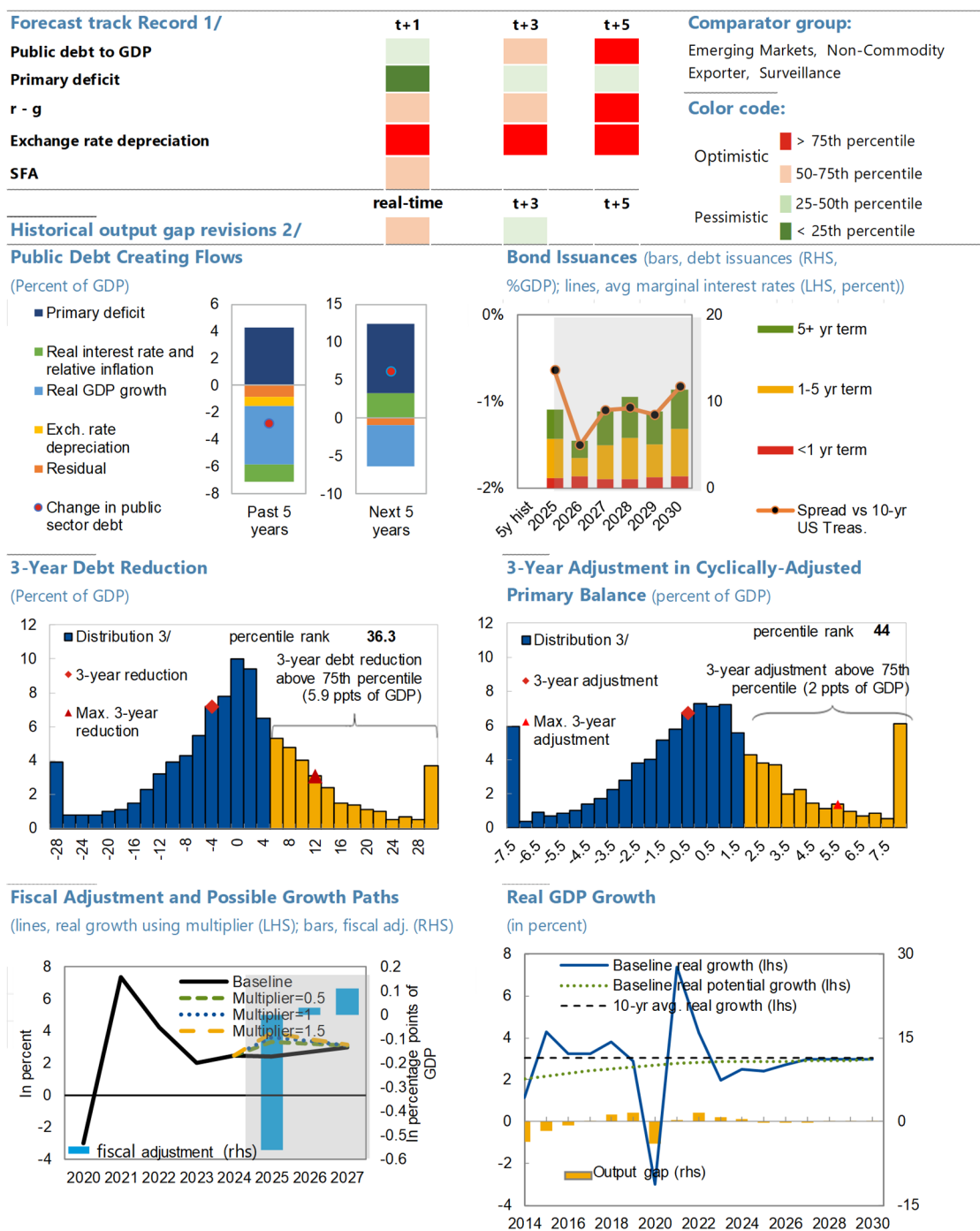
	Actual		Medium-term projection							Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
Public debt	29.0	29.9	31.3	32.2	33.1	34.1	34.9	36.1	37.4	38.7	40.0	41.2	
Change in public debt	-2.2	1.0	1.3	0.9	0.9	1.0	0.9	1.2	1.3	1.3	1.3	1.3	
Contribution of identified flows	-1.3	0.2	-0.3	1.1	1.0	1.0	1.0	1.2	1.3	1.3	1.3	1.6	
Primary deficit	0.8	0.9	1.7	1.7	1.6	1.5	1.4	1.3	1.3	1.4	1.4	1.4	
Noninterest revenues	40.0	42.0	42.8	42.5	42.5	42.5	42.5	42.5	42.5	42.5	42.5	42.5	
Noninterest expenditures	40.9	42.9	44.4	44.2	44.1	43.9	43.9	43.8	43.8	43.8	43.8	43.8	
Automatic debt dynamics	-2.1	-0.7	-0.9	-0.5	-0.4	-0.3	0.0	0.0	0.0	0.0	-0.1	0.2	
Real interest rate and relative inflatio	-0.2	0.2	-0.2	0.3	0.5	0.7	1.0	1.0	1.0	1.1	1.1	1.4	
Real interest rate	-1.2	0.0	-0.6	0.2	0.5	0.6	0.8	1.0	1.0	1.0	1.0	1.1	
Relative inflation	1.0	0.2	0.4	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.4	
Real growth rate	-0.6	-0.7	-0.7	-0.8	-0.9	-1.0	-1.0	-1.0	-1.1	-1.1	-1.1	-1.2	
Real exchange rate	-1.3	-0.2	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	-1.0	-0.2	-0.2	-0.2	-0.4	-0.2	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	0.0	0.0	
Other transactions	0.0	0.0	-1.0	-0.2	-0.2	-0.2	-0.4	-0.2	0.0	0.0	0.0	0.0	
Contribution of residual	-1.0	0.7	1.6	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	-0.3	
Gross financing needs	0.6	1.0	6.1	7.8	8.5	9.5	9.2	11.0	10.9	9.9	10.5	10.9	
of which: debt service	-0.2	0.0	4.5	6.1	6.9	8.1	7.8	9.6	9.6	8.6	9.2	9.5	
Local currency	1.3	1.4	1.8	3.2	4.1	5.1	4.7	5.5	6.3	6.8	7.2	7.3	
Foreign currency	-1.5	-1.4	2.6	2.9	2.8	2.9	3.1	4.1	3.2	1.8	2.0	2.2	
Memo:													
Real GDP growth (percent)	2.0	2.5	2.4	2.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	
Inflation (GDP deflator; percent)	7.3	3.2	4.3	2.8	2.3	2.2	2.1	2.1	2.1	2.1	2.1	2.1	
Nominal GDP growth (percent)	9.4	5.7	6.8	5.6	5.4	5.3	5.1	5.1	5.1	5.1	5.1	5.1	
Effective interest rate (percent)	3.0	3.3	2.3	3.5	3.8	4.2	4.6	5.0	4.9	5.0	4.9	4.8	

Contribution to Change in Public Debt



Staff commentary: Debt has been stable in recent years below 30 percent of GDP. However, recent expansionary fiscal policy is expected to increase the debt level, reaching 41 percent in the outer years. Higher current spending will continue to weigh on entity budgets and staff projections do not foresee a return to a surplus in the medium term. Debt dynamics over the projection horizon are driven by primary deficits and the real interest rate and relative inflation. The two entities showed diverging fiscal paths in previous years, but recently they have both faced increasing financing pressures. Both entities are planning large debt issuances this year, from both domestic and external sources.

Annex VI. Figure 5. Bosnia and Herzegovina: Realism of Baseline Assumptions



Commentary: Realism analysis does not trigger major concerns. The forecast record is reasonable in the near term. GDP projections are in line with recent averages and those implied with fiscal multipliers. We assume a Eurobond issuances in 2025 and 2030.

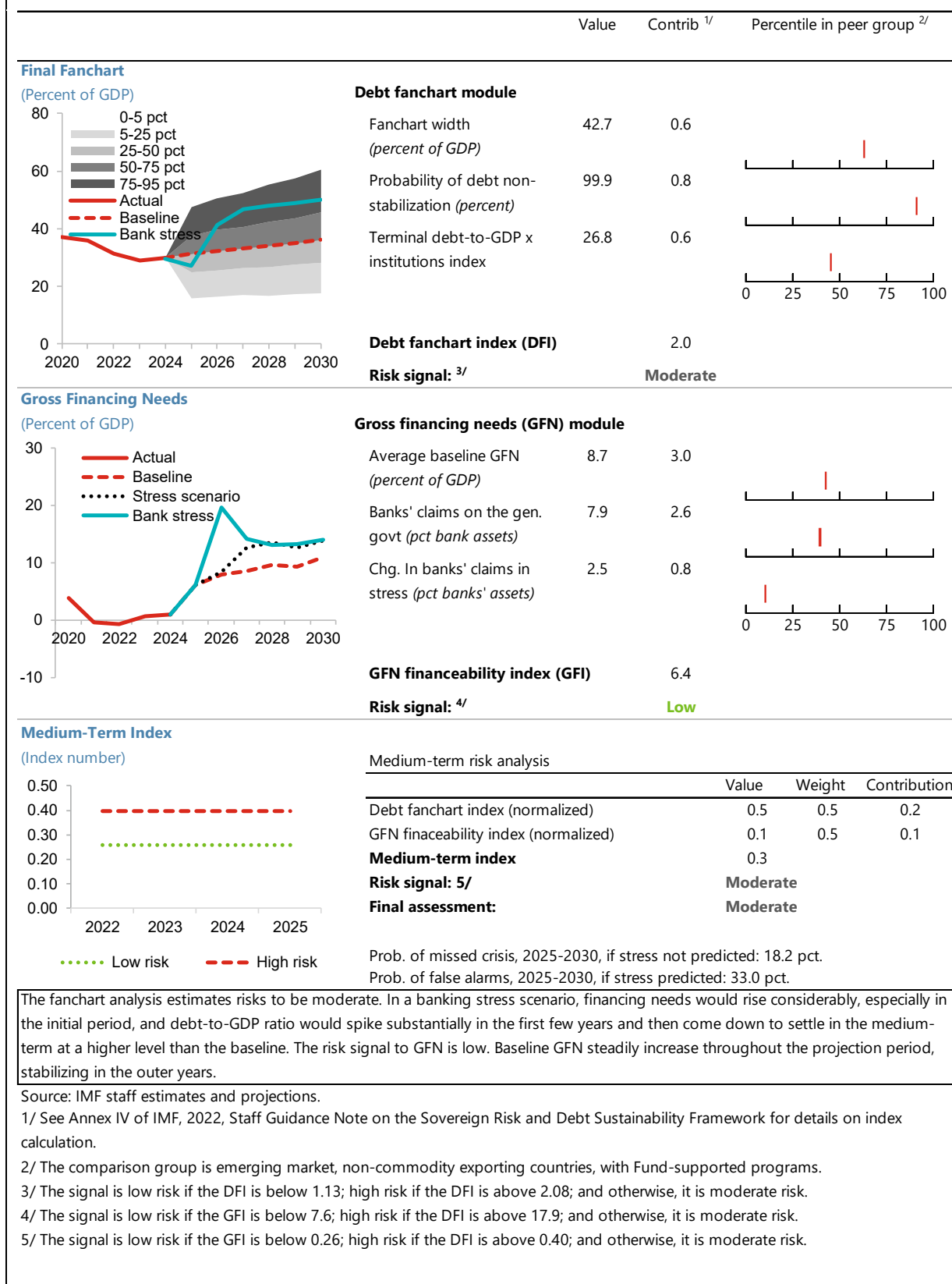
Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estim

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Annex VI. Figure 6. Bosnia and Herzegovina: Medium-Term Risk Assessment

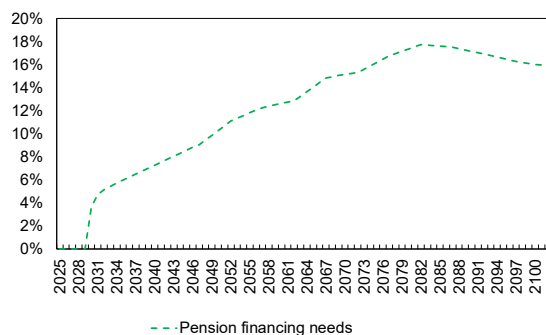


Annex VI. Figure 7. Bosnia and Herzegovina: Long-term Risk Analysis

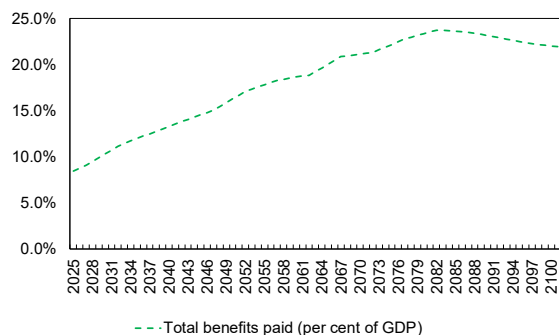
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	6.62%	9.60%	12.17%

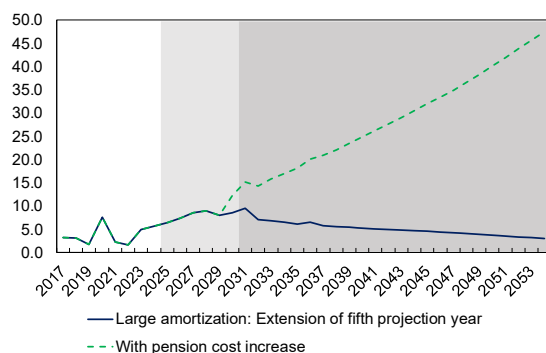
Pension Financing Needs



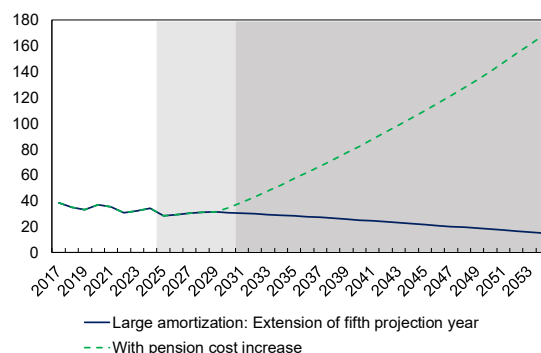
Total Benefits Paid



GFN-to-GDP Ratio

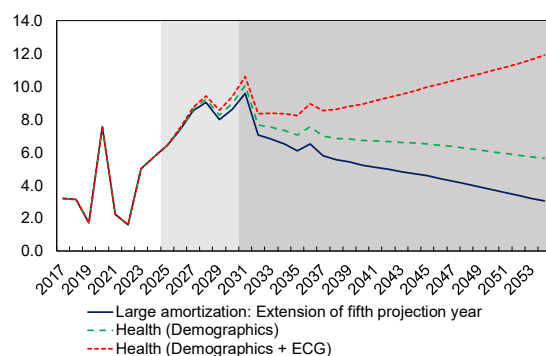


Total Public Debt-to-GDP Ratio

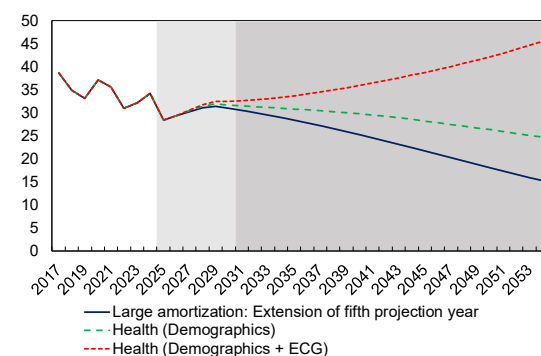


Demographics: Health

GFN-to-GDP Ratio

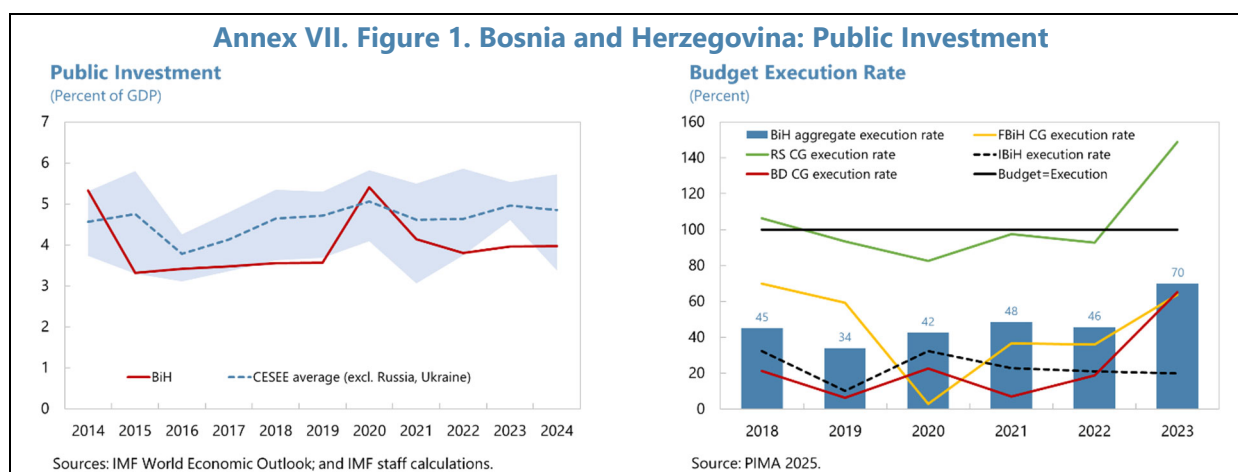


Total Public Debt-to-GDP Ratio

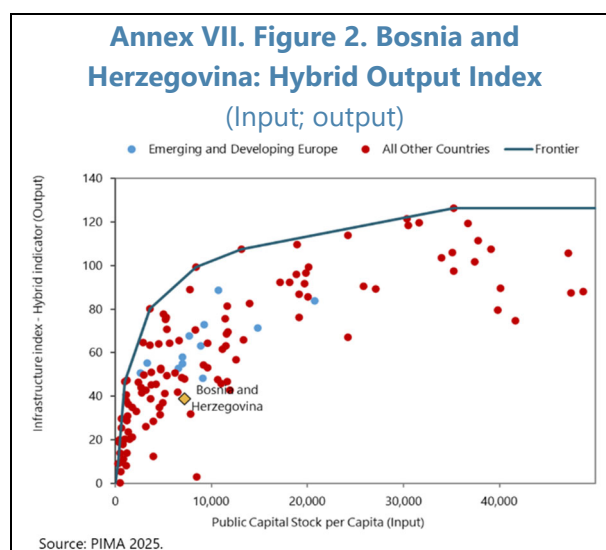


Annex VII. Strengthening Public Investment Management in BiH

1. Public investment in BiH has been on a declining path while execution rates remain low. At around 4 percent of GDP, public investment spending in BiH is lower than in most countries in the Central, Eastern and Southeastern Europe (CESEE) region (Annex VII, Figure 1). Execution rates (i.e., actual vs. planned expenditure) remained at 50 percent or less from 2018 to 2022, although it showed improvement in 2023. The RS generally reported higher execution rates compared to other entities, while the Brcko District (BD) and the IBiH had notably low rates. Unrealistic capital budgets and weak project implementation practices are the main causes of low execution.



2. Efficiency of public investment spending is low. BiH is relatively far from the efficiency frontier (Annex VII, Figure 2)—that is for the given level of public capital stock BiH has lower coverage and quality of infrastructure. For example, BiH has lower access levels to health infrastructure or drinking water than other emerging and developing European countries. On the other hand, BiH has better access levels for education infrastructure and electricity. The low efficiency metric also reflects perceptions of infrastructure quality, where BiH ranks below comparator countries.



3. Public investment management (PIM) institutional design is assessed to be stronger than effectiveness. PIM institutions, which include laws, regulations and organizational features, are assessed with medium scores, meaning that appropriate organizations and policies are in place. The highest score was given to 'fiscal targets and rules' and the lowest to 'portfolio management and oversight.' Average scores were similar across the different levels of government, with FBiH being the most consistent. Scores for effectiveness, however, were weaker, indicating that the impact of

institutions is low. There was more variation in effectiveness among levels of government, with BD having a significantly lower score than others.

Annex VII. Figure 3. Bosnia and Herzegovina: Summary Assessment for BiH

Phase/Institution		IBiH		FBiH		RS		BD	
		Institutional Strength	Effectiveness	Institutional Strength	Effectiveness	Institutional Strength	Effectiveness	Institutional Strength	Effectiveness
A. Planning	1	Fiscal targets and rules							
	2	National and sectoral planning							
	3	Coordination between entities							
	4	Project appraisal							
	5	Alternative infrastructure financing							
B. Allocation	6	Multi-year budgeting							
	7	Budget comprehensive-ness and unity							
	8	Budgeting for investment							
	9	Maintenance funding							
	10	Project selection							
C. Implementation	11	Procurement							
	12	Availability of funding							
	13	Portfolio management and oversight							
	14	Management of project implementation							
	15	Monitoring of public assets							

■ 1 = To no or a lesser extent
 ■ 2 = To some extent
 ■ 3 = To a greater extent

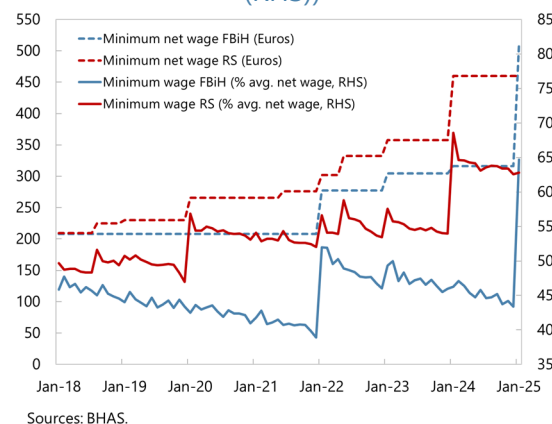
Source: PIMA 2025.

4. A more centralized approach to procurement complemented with other PIM reforms would enhance efficiency and effectiveness. The procurement system, overseen by the Public Procurement Agency (PPA), faces challenges, including from limited competition and a high volume of appeals and an overreliance on lowest-price selection. A Public Procurement Strategy for 2024-2028 has been introduced, emphasizing professionalization, green public procurement, and the digitization of processes (e.g., electronic bidding and system interoperability). BiH should consider consolidating procurement activities in fewer entities with high procurement skills at each level of government. In parallel, the authorities should prioritize establishing multi-year public investment programs (PIPs) with cost estimates and updating regulations to strengthen project appraisal.

Annex VIII. Minimum Wage Increases

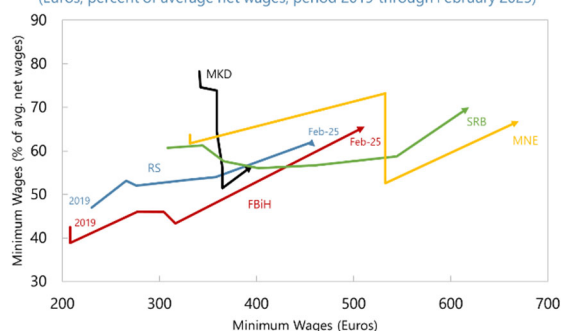
1. During 2024-25, both entities increased minimum wages (MW) considerably. Starting from 2025, FBiH raised the MW by 61½ percent, and RS, on top of a 28 percent increase in 2024, by 5½ to 44 percent depending on the required level of worker's education. Key motivations for these increases included lagging post-pandemic wage growth, unfavorable regional comparisons, potential fiscal benefits, and expectation that higher wages would help stem emigration. The cumulative increase in MW from end-2019 through January 2025 was 146 and 100 percent in FBiH and RS, and the MW as a share of average wage reached nearly 70 percent in both entities.

Annex VIII. Figure 1. Bosnia and Herzegovina: Minimum Wages in BiH (Euros (LHS); percent of average net wage (RHS))

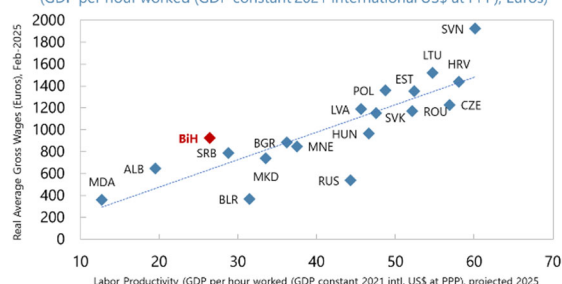


Annex VIII. Figure 2. Bosnia and Herzegovina: Regional Wage Estimates

Western Balkans: Minimum Wages
(Euros; percent of average net wages; period 2019 through February 2025)



Labor Productivity and Real Average Gross Wages
(GDP per hour worked (GDP constant 2021 international US\$ at PPP); Euros)



2. The large MW increases will have significant effects:

- **Economic.** Higher wage costs could weaken competitiveness and long-term growth. Labor productivity in BiH—one of the lowest in CESEE—increased by 8 percent vs. 13 percent in real wages (2019-24). This may drive firms into the informal sector (already 30 percent, World Bank) or lead to cuts in non-wage benefits. In the short term, higher MWs could boost consumption and GDP, but also raise inflation.
- **Distributional.** Although only 5 percent of workers earned MW in FBiH, the new rate now aligns with the net median wage at end-2024. The impact is likely to be greater on small businesses, and low-wage sectors like construction and hospitality, where profitability has been weak and wage bills are high.

- **Fiscal.** The short-term fiscal impact is expected to be positive, boosting SSC and PIT, and indirectly VAT and excises. SSC rose by 14.3 percent in Q1:2025. However, to ease the burden on firms, the FBiH decided to cut employer SSC from 10.5 to 5 percent starting July 1, 2025. Staff estimates a net effect of about $\frac{1}{4}$ percent of GDP in FBiH in 2025, with potential negative effects on the central government budget, as the SSC cut affects mostly pension contributions.

Annex IX. Data Issues Annex

Annex IX. Table 1. Bosnia and Herzegovina: Data Adequacy Assessment for Surveillance

Annex IX. Table 1. Bosnia and Herzegovina: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	A	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	A	B		
Granularity 3/	B		A	B	A		
			B		A		
Consistency			B	B		B	
Frequency and Timeliness	A	A	B	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. The data provided by the authorities has some shortcomings but is broadly adequate for surveillance purposes. The authorities have been consistently providing IMF staff with a wide array of standard economic and financial data. While there have been improvements in the accuracy, timeliness, and publication of the data, issues remain, particularly in national accounts and government finance statistics. Specifically, some mismatches in the recording of intra-government transfers in the Federation of BiH (FBiH) are being addressed with the support of STA. Additionally, a temporary delay in publishing FSIs was resolved in early 2024 and there have been no further delays since then. Additionally, the authorities should make greater efforts to reduce discrepancies between the production and expenditure approaches in national accounts, improve the reporting of inventories, and better capture informal activities.</p>							
<p>Changes since the last Article IV consultation. STA has supported the authorities in advancing to the Special Data Dissemination Standard (SDDS) and enhancing the country's capacity for data compilation and dissemination. The sectoral coverage of external debt has been extended beyond the general government to include all other sectors. The details regarding the Republic of Srpska's (RS) external borrowing have become less transparent since the last AIV consultation.</p>							
<p>Corrective actions and capacity development priorities. The capacity development priorities will include improving GFS statistics and developing financial accounts statistics over the coming year. In particular, an emphasis will be on implementing ongoing STA capacity development recommendations to reduce data mismatches in flows within and between FBiH general government units. Additionally, staff will encourage the RS authorities to enhance the transparency of external borrowing. The authorities should produce statistics on core inflation, while also investing additional efforts to develop and disseminate supply-use tables and long-term demographic trends. They should build capacity to closely monitor labor market developments, including the impact of minimum wage adjustments on labor market outcomes. The consistency between state-level and entity-level GDP data should be improved, and discrepancies between the production and expenditure approaches should be reduced or resolved.</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.</p>							
<p>Other data gaps. Multidimensional poverty indicators are out of date and there is a need to update them for effective poverty surveillance.</p>							

Annex IX. Table 2. Bosnia and Herzegovina: Data Standards Initiatives

Bosnia and Herzegovina subscribes to the Special Data Dissemination Standard (SDDS) since September 2024 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Annex IX. Table 3. Bosnia and Herzegovina: Table of Common Indicators Required for Surveillance

As of July 25, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Bosnia and Herzegovina ⁸	Expected Timeliness ^{6,7}	Bosnia and Herzegovina ⁸
Exchange Rates	25-Jul-25	25-Jul-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	May-25	Jun-25	M	M	M	M	1W	1W
Reserve/Base Money	May-25	Jun-25	M	M	M	M	2W	2W
Broad Money	May-25	Jun-25	M	M	M	M	1M	1M
Central Bank Balance Sheet	May-25	Jun-25	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	May-25	Jun-25	M	M	M	M	1M	1M
Interest Rates ²	May-25	Jun-25	M	M	D	...	...	...
Consumer Price Index	Jun-25	Jul-25	M	M	M	M	1M	1M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	Mar-25	Jun-25	Q	Q	A	A	2Q	6M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Mar-25	Jun-25	Q	Q	M	Q	1M	3M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Mar-25	Jun-25	Q	Q	Q	Q	1Q	3M
External Current Account Balance	Mar-25	Jun-25	Q	Q	Q	Q	1Q	1Q
Merchandise Trade	May-25	Jun-25	M	M	M	M	8W	20D
GDP/GNP	Mar-25	Jun-25	Q	Q	Q	Q	1Q	90D
Gross External Debt	Mar-25	Jun-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	Mar-25	Jun-25	Q	Q	Q	Q	1Q	1Q

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 entities' general governments (entities' central governments, cantons, municipalities and EBFs), IBIH and BD general government.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



BOSNIA AND HERZEGOVINA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 28, 2025

Prepared By

The European Department

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FUND RELATIONS

(As of June 30, 2025)

Membership Status: Joined December 14, 1992; Article XIV

General Resources Account:	<u>SDR Million</u>	<u>Percent Quota</u>
<u>Quota</u>	265.20	100.00
<u>Fund holdings of currency</u>	312.66	117.90
<u>Reserve Tranche Position</u>	0.36	0.14
SDR Department:	<u>SDR Million</u>	<u>Percent Allocation</u>
<u>Net cumulative allocation</u>	415.07	100.00
<u>Holdings</u>	2.39	0.58
<u>Outstanding Purchases and Loans:</u>	<u>SDR Million</u>	<u>Percent Quota</u>
Extended Arrangements	47.56	17.93

Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
EFF	Sep 07, 2016	April 19, 2020	443.04	126.83
Stand-By	Sep 26, 2012	Jun 30, 2015	558.03	422.75
Stand-By	Jul 08, 2009	Jul 07, 2012	1,014.60	338.20

Outright Loans:

<u>Type</u>	<u>Date of Commitment</u>	<u>Date Drawn</u>	<u>Amount Approved (SDR Millions)</u>	<u>Amount Drawn (SDR Millions)</u>
RFI	Apr 20, 2020	Apr 21, 2020	265.20	265.20

Projected Payments to Fund

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

	<u>Forthcoming</u>				
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Principal	10.57	21.14	10.57	5.28	
Charges/Interest	6.91	13.05	12.45	12.13	12.06
Total	17.48	34.19	23.02	17.41	12.06

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

A virtual safeguard assessment mission was conducted during November 2–13, 2020 in connection with the RFI arrangement approved by the IMF Executive Board on April 20, 2020. The 2021 update safeguards assessment found that the Central Bank of Bosnia and Herzegovina (CBBH) continues to maintain robust safeguards and the legal framework is broadly aligned with leading practices and provides for institutional and financial autonomy. The CBBH has since implemented all recommendations in the Safeguards Assessment Report (March 1, 2021), including the adoption of a code of ethics to strengthen the framework for avoidance and management of conflicts of interest; improvements of internal practices to modernize the risk management function; amending the Audit Committee charter to enhance its scope, authority, and modalities in line with leading practices; and updating internal audit procedures in line with international standards. Further, the CBBH adopted the selection and rotation policy for external auditors, revised its bylaws to clarify the role and modalities of the Management Board, and underwent an external cyber security assessment in 2022. The CBBH continues to publish its audited financial statements, as required by the safeguards policy.

Exchange Rate Arrangements

Bosnia and Herzegovina (BiH)'s exchange rate arrangement is a currency board. The currency of BiH is the convertible marka (KM), introduced on August 11, 1997. On September 5, 2002, the Parliament of BiH approved an amendment to the CBBH law that changed the peg of the KM from the Deutsche Mark to the Euro under a currency board arrangement. The KM is pegged to the euro at $\text{KM } 1 = \text{Euro } 0.5113$. BiH has not accepted the obligations under Article VIII Sections 2(a), 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 IMF jurisdiction under Article VIII. The authorities confirmed their willingness to formally accept the Article VIII obligations.

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 June 11, 2024 (IMF Country Report No. 24/175).

Resident Representative

The IMF has had a resident representative office in Bosnia and Herzegovina since 1996. Mr. Tudyka assumed the position of resident representative in August 2023.

Table 1. Bosnia and Herzegovina: Technical Assistance 2021–2025

Department	Timing	Purpose
FAD	January 11–March 12, 2021	FBiH Reform Progress Review
	January 26–February 24, 2021	SOE Reform
	March 15–April 16, 2021	ITA Enhancing Tax Audit Efficiency—Audit Manual
	June 22–September 14, 2021	ITA Developing Compliance Risk Management Capacity
	July 7–September 15, 2021	RSTA Developing Compliance Risk Management Capacity
	July 16–December 20, 2021	PFM Strategy
	August 31–October 15, 2021	ITA, FBiHTA, RSTA, BD Developing Data Exchange Capacity
	September 6–17, 2021	BD Strengthening Oversight of Public Entities in Brčko District
	October 5–November 2, 2021	ITA Enhancing Tax Investigation
	October 31–December 9, 2021	RSTA Data Analytics
	November 28–December 16, 2021	RSTA Arrears Management
	December 20, 2021–February 28, 2022	ITA Further Developing Customs Compliance Risk Management Capacity
	Feb 28–March 4, 2022	Regional PFM Workshop for Southeast Europe
	February 28–April 14, 2022	ITA VAT GAP Analysis
	February 28–March 30, 2022	RSTA Investigation
	March 16–March 25, 2022	PEs in BD Financial Oversight and Budget Transparency
	March 13–April 7, 2022	Country-wide PFM Reform Strategy (virtual)
	March 1–April 15, 2022	ITA Streamlining the Processing and Auditing of Applications for VAT De-registration and VAT Refunds
	April 18–April 28, 2022	Country-wide PFM Reform Strategy (on-site)
	May 30–Jun 12, 2022	RSTA Indirect Audit Methods
	June 13–July 11, 2022	Country-wide PFM Reform Strategy-Planning and Reporting
	July 4–July 17, 2022	ITA Desk Audit
	July 5–18, 2022	BiH PFM Laws and Institutions
	August 29–September 11, 2022	ITA Data Analytics
	August 30–September 12, 2022	BiH PFM Laws and Institutions
	October 9–20, 2022	RSTA Data Analytics Follow-up
	October 31–December 29, 2022	Country-wide PFM Reform Strategy (follow up)
	November 15–November 28, 2022	ITA Customs Selectivity
	October 12–October 25, 2022	FTA Reform Program
	November 21–December 1, 2022	Strengthening Fiscal Risk Management in Republika Srpska

Table 1. Bosnia and Herzegovina: Technical Assistance 2021–2025 (continued)

Department	Timing	Purpose
	November 21–December 7, 2022	FBIH Strengthening SOE Risk Management in Federation of Bosnia and Herzegovina
	December 5–16, 2022	RSTA Improving Transfer Pricing Capacity
	March 7–31, 2023	RS MoF Potential Fiscal Impact of a New Draft VAT Law on the Republika Srpska
	March 15–28, 2023	RS MoF Tax Expenditure Assessment
	April 18–28, 2023	ITA Streamlining of Debt Management Standard Business Processes and Standard Operating Procedures
	April 24–May 31, 2023	RS Strengthening Fiscal Risk Management of State-owned Enterprises
	April 24–May 24, 2023	BiH Refining of BiH PFM Strategies' Performance Indicators
	June 19–21, 2023	Tax Arrears Management Function in All Four Tax Administrations in BiH
	June 22–26, 2023	ITA OECD Tax Debt Management Maturity Model
	June 27–July 7, 2023	RSTA Improving Tax Compliance of High Wealth Individuals
	September 13–26, 2023	RS MoF Review of Select VAT Design Issues
	October 10–12, 2023	Regional Workshop Fiscal Reforms in Southeast Europe
	October 13–26, 2023	Tax Audit Community of Practice
	October 13–26, 2023	FTA Improving Compliance Risk Management, Tax Audit, and Investigation
	October 18–November 1, 2023	RS MoF, BD PIMA
	February 26–April 15, 2024	ITA Strengthening Revenue Administration Management and Governance Arrangements
	February 18–29, 2024	RSTA Property Taxes, Initial Review
	March 11–26, 2024	ITA Diagnostic Review
	March 14–27, 2024	RSTA Strengthened Revenue Administration Management and Governance Arrangements
	March 20–April 2, 2024	RS MoF Broad Personal Income Tax Diagnostic; Property Taxes
	April 12–26, 2024	PIMA FBIH and Institutions of BiH
	May 20–29, 2024	PFM Improving Indicators for PFM Monitoring Framework in BiH
	Sept 16–27, 2024	RS MoF Towards a Better Taxation of Individuals in Republika Srpska
	Nov 13–19, 2024	PIMA Follow-up Institutions of BiH
	Jan 20–30, 2025	RS SOE Fiscal Risk
	Feb 4–17, 2025	FBIH Reforming the Immovable Property Tax
	March 18–21, 2025	Interactive workshop: RA Strengthening Revenue Administration for Gender Equality

Table 1. Bosnia and Herzegovina: Technical Assistance 2021–2025 (concluded)

Department	Timing	Purpose
	April 2–3, 2025 April 9–10, 2025 April 15–18, 2025 April 23–24, 2025 May 6–16, 2025 May 27–28, 2025 June 10–19, 2025 July 7–11, 2025	Interactive workshop: RA Community of Practice PIMA Workshop Interactive workshop: RA Tax Collection and Debt Management Interactive workshop: RA Improving Compliance and Risk Management FBIH Tax Expenditures Interactive workshop: SEE Digitalization RS MoF Tax Policy RS MoF Fiscal Rules
MCM	April 19–30, 2021 December 13–16, 2021 May 31–June 17, 2022	Preparing for IFRS 17 BiH Strengthening Prudential Supervision and Oversight of Retail Payments CBBH Building A Resilient Currency Board
STA	April 12–7, 2021 May 24–June 5, 2023 January 29–February 2, 2024 May 5–9, 2025	Strengthening ESS Under IPA 2017 Multi-Country Program in Western Balkan RS MoF and FBIH MoF Government Finance Statistics FBIH MoF Government Finance Statistics–Follow up CBBH Financial Accounts Statistics
LEG	September 5–9, 2022 December 2022 May 11–12, 2023	BiH Ministry of Security AML/CFT Legal Framework CBBH Draft Decision on the Establishment of the Single Register of Accounts of Natural Persons BiH Ministry of Security AML/CFT Legal Framework
ICD	April 12–20, 2021 August 16–18 and September 6–9, 2021 November 8–16, 2021 April 11–21, 2022 November 2–10, 2022 March 20–29, 2023 November 20–24, 2023 December 18–22, 2023	Macroeconomic Frameworks TA – Scoping mission Quarterly Macro-Forecasting Framework (QMFF) – Data sources and infrastructure QMFF – Model consistency and interface QMFF – Enhancing CBBH analytical and forecasting capacity QMFF – Model refinements and operationalization QMFF – Model refinements – fiscal block QMFF – Enhancing CBBH analytical and forecasting capacity – Shadow forecast QMFF – Integration to policy analysis and forecast system

IMF-WORLD BANK GROUP COLLABORATION

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

International Financial Institution	Hyperlink
The World Bank Group	www.worldbank.org/en/country/bosniaandherzegovina

Key Areas of World Bank Involvement

World Bank's Country Partnership Framework (CPF) for BiH for the period 2023–2027 was approved in July 2022. The program is based on the Systematic Country Diagnostic (SCD) update (June 2020) and the emerging impact of COVID19 identifies three Higher Level Outcomes (HLO) that will guide the WBG's engagement even beyond this CPF cycle. HLO1 aims at increased inclusive private sector employment, while HLO2 aims to focus on addressing key service delivery gap through improved quality and efficiency of health and water services. Finally, to reduce the risks of climate change impacts and protecting the natural capital, the CPF will promote green growth under HLO3 through investments in reducing air pollution and better use of BiH natural resources. All three HLOs and supporting CPF objectives mutually reinforce each other.

The current BiH portfolio consists of 8 investment projects, one DPL, and one regional project with total commitments of \$637.63 million. Areas of support include air quality, real estate, water sector modernization, health sector improvement, employment, agriculture, transport and energy.

Project		Project amount (US\$ million)
1.	Air Quality Improvement Project	50.00
	Objective: Support the improvement of air quality in major cities	
2.	Regional Sava and Drina River Corridors Integrated Development Program	70.00
	Objective: Improve flood protection and enhance transboundary water cooperation	
3.	Geospatial Infrastructure and Valuation Enhancement Project	24.90
	Objective: Improve public service delivery	
4.	Agriculture Resilience and Competitiveness	68.50
	Objective: Enhance the competitiveness of agriculture sector through assistance to producers	
5.	Water Supply and Sanitation Modernization	60.90
	Objective: Improve the sustainability and quality of water supply and sanitation	

Project		Project amount (US\$ million)
6.	Health Systems Improvement	75.00
	Objective: Contribute to improvement in the quality of care and financial sustainability of the health care systems in Republika Srpska and the Federation of Bosnia and Herzegovina	
7.	Second Employment Support	45.00
	Objective: Support to newly unemployed people, matching of employers to job seekers, support to employers and training	
8.	Development Policy Operation 2 - Healthcare Sector Reform	75.00
	Objective: The second in a series of two programmatic operations, supports BiH's efforts to enhance the financial sustainability and service quality of its healthcare sectors in FBiH and RS	
9.	Sustainable, Integrated and Safe Road Infrastructure Project	85.00
	Objective: Enhance the sustainability of the roads company and rehabilitate and improve roads infrastructure	
10.	Pilot Approaches to a Just Transition in Select Coal Regions of BiH	83.33
	Objective: Support in transitioning away from the coal to an affordable, reliable and clean energy system	

The World Bank has been providing technical assistance to the banking agencies and Deposit Insurance Agency (DIA) to support alignment with European Union standards and regulations. This includes strengthening their supervisory and regulatory frameworks in accordance with CRR2/CRDV, ESG-related regulations, and the Deposit Guarantee Schemes Directive (DGSD). The assistance also focuses on operationalizing the resolution framework in collaboration with relevant agencies and enhancing the operational stress testing framework to improve preparedness for deposit reimbursement and resolution funding via the DIA.

In addition, through an EU-funded regional project aimed at modernizing payment systems, the Bank is assisting BiH in improving payment interoperability and legal frameworks to enable future accession to the Single Euro Payments Area (SEPA). This support also includes development of QR code standards and the streamlining of licensing procedures for payment service providers.

To promote greater digital financial inclusion, the World Bank is working with the Central Bank of Bosnia and Herzegovina (CBBH) on a comprehensive consumer and merchant survey of digital payments. The study aims to provide a detailed analysis of the current electronic payments ecosystem and deliver actionable recommendations to increase the acceptance and usage of electronic payments across the country.

On the non-bank financial sector front, the Bank has delivered technical assistance to insurance regulators through assessments against International Core Principles (ICPs), identifying regulatory gaps and offering recommendations to enhance alignment with international standards. From 2023 to 2027, under the EU funded Trust Fund for Strengthening Fiscal Governance, the World Bank will work on two components: (i) strengthening fiscal responsibility frameworks, and (ii) enhancing infrastructure governance through strengthening of public investment management and public asset management with a sectoral and institutional focus.

In addition to the ongoing program, the following operations are currently under preparation:

Pipeline		Project amount (US\$ million)
1.	Sustainable Solid Waste Management	72.50
2.	FBIH Roads Project (POTENTIAL PROPOSED)	TBD
2.	BiH Renewable Energy Project (POTENTIAL PROPOSED)	TBD
3.	Pension, Social and Tax Administration Project (POTENTIAL PROPOSED)	TBD
4.	Public Transport Company (GRAS) Restructuring (POTENTIAL PROPOSED)	TBD

Key Areas of IFC Involvement

Since the beginning of operations in BiH, IFC's cumulative commitments reached US\$378 million. Currently, IFC's portfolio stands at US\$7.3 million in direct committed exposure, and US\$79.2 million in committed exposure through regional investments. Although IFC's direct investments since 2015 remained low at US\$18 million, an additional US\$91 million was invested through regional programs in ProCredit bank, Green Growth Fund, European Fund for Southeast Europe V (EFSE V) regional funds and regional Distressed Assets Program (DARP) platform. Moreover, IFC completed two investments of US\$300 million with Schwarz Group to support the expansion of a discount food retailer (Lidl and Kaufland) in seven countries in Central and Southeast Europe, including US\$71.1 million investment in BiH. In approval process, there is an additional investment in microfinance sector of US\$20 million. In addition to lending activities, IFC has an active portfolio of advisory services projects in the areas of investment climate, debt and NPL resolution, ESG standardization, FDI promotion, trade facilitation, renewable energy and energy efficiency, and access to finance. As part of the new CPF, IFC envisages engaging in comprehensive financial sector development, increased inclusive private sector employment, improved quality of public services, and better SOE performance, as well as promoting green financial solutions, increasing renewable energy and energy efficiency investments and supporting municipalities to promote climate-friendly urban solutions.

Current investment projects	Project amount (US\$ million)
Evolving EUR I	1.5
SCV FUND III	0.5
EFSE IV	2.0
GGF 3	1.9
EFSE MSME	0.6
DARP SPV EOS II	N/A
EFSE gender	1.6
Lidl Balkans	38
EUR Food Retail	33.1
Poslovni sistem CIMOS TMD (NPL)	7.3
EUR Tourism Recovery and Investment project	0.3
Strengthening PPP Governance Framework	0.3
BUTILA WWTP	0.8
Eco Industrial Parks Western Balkans	N/A
Sarajevo Airport PPP	0.1
Digital Financial Services	N/A

IFC 3.0 Country Strategy for BiH FY21-25, approved in February 2022, is fully aligned with the CPF and aims to support country's connectivity to unlock export potential, boost private sector competitiveness, and tackle climate change



BOSNIA AND HERZEGOVINA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

August 22, 2025

Approved By:
Mark Horton (EUR)
and **Jacques Miniane (SPR)**

Prepared by the European Department (EUR) in consultation with Strategy, Policy, and Review (SPR) and Legal (LEG) Departments.

This supplement provides updated information on selected developments since the issuance of the staff report (SM/25/182) on July 30, 2025. The additional information does not change the thrust of the staff appraisal.

1. Political uncertainty has increased following confirmation of the initial sentencing of President Dodik of Republika Srpska (RS). On August 1, the Appeals Chamber of the Court of Bosnia and Herzegovina (BiH) upheld President Dodik's one-year prison sentence and six-year ban from public office, though it converted the jail term into a monetary fine. In response, the Central Election Commission (CEC) of BiH revoked his mandate and announced plans to hold snap elections for the RS presidency within 90 days. The date of the elections has not been announced yet. Mr. Dodik—who has served three terms as RS president since 2010—rejected the CEC's decision, vowing to block elections in RS. Amid the crisis, RS PM Višković resigned on August 18 to facilitate the formation of a broader coalition government; Mr. Dodik's invitation to opposition parties was rejected. With Mr. Dodik's mandate ended by the CEC, the question of who will serve as interim RS president remains unresolved; no successor has been named.

2. An escalation in political tensions could affect economic activity, and if sustained, reduce potential growth—as highlighted in the staff report. Should RS advance secession from BiH—this could obstruct the functioning of state-level institutions and significantly hamper BiH's broader political landscape—both internally, and potentially, externally. On the other hand, the legal and constitutional election of a new RS president—via formal and recognized political processes—could foster a more stable political landscape.

3. The prolonged dispute over obligations to the foreign-owned Viaduct hydroelectric project, which threatened the assets of the Central Bank of Bosnia and Herzegovina (CBBH), has been settled. Following intervention from the High Representative in July, the BiH Ministry of Finance and Treasury (MoFT) paid Viaduct

€56 million (0.2 percent of GDP) in early August—including accumulated interest—from the RS's share of road toll reserves (the project is located in RS). As a result, enforcement actions against the CBBH were lifted, prompting the CBBH Governing Board to unfreeze its profit transfer to the BiH MoFT.

**Statement by Marnix van Rij, Alternate Executive Director for Bosnia and Herzegovina,
and Haris Abaspahic, Advisor to the Executive Director
August 27, 2025**

The authorities of Bosnia and Herzegovina (BiH) extend their gratitude to the IMF mission team, led by Mr. Amaglobeli, for facilitating constructive and candid discussions during the 2025 Article IV Consultation. We recognize and value the comprehensive staff report and the informed selected issues paper (SIP) addressing the tax wedge and real estate market in BiH.

We generally concur with the staff assessments and approve the publication of the report and related materials.

Macroeconomic Outlook and Risks

Bosnia and Herzegovina's economy remains resilient amid global and domestic challenges.

Growth reached 2.5 percent in 2024, driven by strong household consumption supported by 9.3 percent credit growth, remittances, and private investment. The IMF projects 2.4 percent growth in 2025, slightly below the 2.6 percent forecast by the Central Bank (CBBH), which expects an average 3.6 percent growth in 2026 and 2027. Inflation rose from 3.7 percent in May to 4.6 percent in June 2025 (y/y), mainly due to price increases for food, non-alcoholic beverages and energy. It is expected to ease to the 2 percent target over the medium term. To offset price hikes, authorities responded with targeted social transfers and minimum wage increases to support vulnerable groups.

The current account deficit widened to 4.0 percent of GDP in 2024, is projected to reach 4.1 percent in 2025, and expected to stabilize over the mid-term. The widening has been driven by weak EU export demand, drought-hit electricity exports, and strong import-fueled consumption. The trade deficit rose to 13.9 percent of GDP. Exports, especially of electricity, may recover in 2025, while lower oil prices help curb import costs. The IMF estimates that FDI rose from 2 percent of GDP in 2020 to 3.6 percent of GDP in 2024 mainly in the energy and financial sectors. Over the mid-term, unemployment fell from 18 percent in 2020 to 11.7 percent in 2024, with marginally higher labor force participation. The informal economy, low participation rates and emigration remain challenges.

S&P recently confirmed B+/B sovereign credit ratings with a stable outlook.

We recognize elevated downside risks, including high political tension, external demand shocks, global financial tightening and natural disasters. The authorities remain committed to mitigating these risks through prudent macroeconomic management and reform implementation. To safeguard stability, they are maintaining the currency board arrangement and central bank independence, planning financing and gradual fiscal consolidation, strengthening financial oversight, and making continuous efforts in advancing EU accession reforms in a complex political environment.

Fiscal policy

Bosnia and Herzegovina's fiscal position remains stable, despite a widening of the deficit in 2025.

The overall fiscal deficit is projected to increase from 1.9 percent of GDP in 2024 to 2.6 percent in 2025, driven by higher current spending. Public debt is expected to rise moderately to 31.3 percent of GDP in 2025, remaining well below regional and EU averages. Financing plans are proceeding as planned, with

the Federation of Bosnia and Herzegovina (FBiH) successfully issuing its first Eurobond of €350 million, Republika Srpska (RS) continuing to rely on bilateral loans and domestic bank financing.

Revenue performance has been strong, supported by wage growth and improved compliance.

General government revenue is projected to grow by 8.7 percent in 2025. Personal income tax (PIT) revenue is expected to increase from 2.2 to 2.4 percent of GDP, while corporate income tax (CIT) revenue should rise to around 2.1 percent of GDP. Social security contributions (SSC) are projected to grow from 15.5 to 15.8 percent of GDP, due to increases in minimum wage and despite a 5.5 percentage point rate cut in the FBiH. Collection of indirect taxes, including VAT, is proceeding well, reaching 18.2 percent of GDP in 2024 with a projection of 18.3 percent of GDP in 2025, to remain at that level till 2030. BiH applies relatively low tax rates compared to regional and EU peers. The CIT is set at a flat 10%, as is the PIT, but with some progressivity in RS. VAT stands at a single rate of 17%.

The authorities appreciate staff's assessment of fiscal developments and agree on the importance of preserving fiscal sustainability.

The 2025 fiscal stance reflects increased spending on wages, pensions, and social transfers, aimed at supporting household incomes and addressing social needs. These measures were adopted in the context of strong revenue performance and are accompanied by efforts to improve spending efficiency. The authorities of FBiH agree that any further reductions in the tax wedge should be paired with offsetting measures.

The authorities concur with the need for fiscal consolidation to be anchored in a medium-term fiscal framework.

RS has already begun implementing consolidation measures, while FBiH is pursuing a gradual approach. The ITA is working to enhance revenue mobilization including digitalization and improved tax administration. The authorities are optimistic about the revenue potential of real-time electronic transaction reporting, which is expected to enhance compliance and broaden the tax base. The ITA is implementing a reform plan based on the 2024 IMF diagnostic review, focusing on performance improvement and maintaining a unified VAT rate. On the expenditure side, efforts are focused on better targeting social assistance and strengthening public investment management. The authorities recognize the need to review fiscal rules cautiously and stress the need to avoid excessive rigidity and ensure alignment with ongoing public financial management reforms.

The authorities also support staff's view that fiscal policy should aim to enhance supply capacity,

with planned investments in infrastructure, energy efficiency, and human capital. In line with the IMF's Public Investment Management Assessment (PIMA) recommendations, the authorities are focusing on strengthening project appraisal, multi-year budgeting, and portfolio management.

Monetary Policy

Bosnia and Herzegovina's monetary policy has been shaped by its continued adherence to the

currency board arrangement (CBA), which remains an anchor of macroeconomic stability. Maintaining CBBH independence remains core for CBA credibility. The CBA coverage ratio remains strong, exceeding 110 percent, supported by gross international reserves equivalent to 6.9 months of imports.

The CBBH has advanced implementation of IMF recommendations on the reserve requirement

(RR) framework. Differentiated remuneration rates for foreign and domestic currency liabilities have been introduced, and FX reserve maintenance requirements have been aligned with the underlying liabilities. A review of the RR framework is planned to assess effectiveness of measures with the technical support of the IMF.

Efforts to strengthen the macroprudential toolkit are ongoing. The authorities recognize the need to establish a financial stability fund, which would enhance crisis preparedness, but an institutional arrangement is yet to be agreed. Coordination on bank supervision is being reinforced through regular engagement between the CBBH and entity-level banking agencies.

The Single Euro Payments Area (SEPA) accession is expected to reduce transaction costs, improve payment efficiency, and strengthen cross-border financial links. In support of financial integration, the authorities are pursuing full participation in SEPA. Technical preparations are underway, and the CBBH is coordinating with relevant stakeholders to meet compliance requirements. Instant payment infrastructure TIPS Clone system is in the making, with support from the Bank of Italy,

Financial Sector

The financial sector in Bosnia and Herzegovina remains stable, well-capitalized, and profitable.

The non-performing loans (NPL) ratio declined to 3.2 percent, with particularly low levels in the mortgage segment. Banks maintain robust capital buffers, with the regulatory capital ratio nearing 20 percent and return on equity rising to 16 percent. Liquidity indicators are also strong, and the household debt-to-GDP ratio stood at 23.7 percent in 2023, among the lowest in Europe. In 2024, private sector credit expanded by 9.3 percent, the fastest pace since the global financial crisis—driven primarily by household lending.

We are closely observing developments in the housing market, where prices rose by 13 percent year-on-year in 2023. As elaborated in the SIP, high demand is likely to be the result of low mortgage rates and limited alternative investment options. Investments from abroad are often made in larger apartments in the capital without borrowing. High construction costs and market saturation have likely held back supply, further pushing prices up. As rising real estate prices have outpaced income growth, housing has become less affordable for average households. The structure of household deposits—where 98.2 percent of accounts fall below the insured threshold—further suggests limited borrowing capacity for housing purposes. Despite rising prices, housing loans remain a modest share of total credit. Most mortgages are fixed-rate, which helps mitigate interest rate risk, although the growing prevalence of fixed-rate lending warrants close monitoring.

The authorities are taking a cautious and data-driven approach to macroprudential policy. They recognize the need to improve data collection on borrower-based indicators (such as LTV and DSTI), while noticing that these measures are most effective when average citizens who rely on loans drive demand. The authorities are also considering the introduction of a countercyclical capital buffer and enhancing coordination among financial stability agencies. Temporary regulatory measures on interest rates are expected to be phased out, and blanket loan moratoria in RS are set to expire in 2025.

Structural reforms

The authorities agree that accelerating reforms is essential to boost potential growth and support income convergence with the EU.

European accession. In March 2024, the European Commission recommended opening EU accession negotiations with Bosnia and Herzegovina, recognizing substantial progress in judicial reform, anti-corruption, migration management, and alignment with EU foreign policy. Negotiations remain pending as several requirements remain to be met. The recent agreement on the EU Growth Plan reform agenda covers 110 reforms across digitalization, energy, the business environment, human capital, and the rule of

law. Although formal adoption is pending due to complex decision-making across multiple government levels, the authorities emphasize the substantial political and administrative effort invested and remain hopeful of an imminent implementation, and of unlocking associated EU support

Labor market reforms are a key priority. The recent increases in the minimum wage, accommodated by a reduction in the SSC rate in the FBiH aims to lower the labor tax wedge, to promote formal employment, while partially offsetting prolonged stagnant wages and food prices hikes. The authorities underscore the reforms' medium-term benefits, the distributional and social motivations behind these decisions. Although a structured approach is preferable, recent adjustments were necessary to address continuing wage stagnation and reduce emigration pressures. The authorities believe this reform will support employment and competitiveness over the medium term. We concur with the SIP finding that the effective tax wedge in Bosnia and Herzegovina may be overstated by conventional measures, especially in FBiH where non-taxable benefits and preferential treatments are extensive.

In the area of governance, a state-level Law on the Prevention of Conflict of Interest and a new public procurement strategy have been adopted. The authorities remain committed to strengthening anti-corruption efforts, improving transparency, and enhancing institutional effectiveness. Digitalization is advancing through digital IDs and expanded e-government services.

Bosnia and Herzegovina is in the early stages of its energy transition. Having been only a net energy exporter in the region until recently, coal still provides around 63% of electricity, renewables—mainly hydropower—account for 37%, and efforts are underway to boost solar and wind capacity as part of the 2050 decarbonization goal of zero emission. Bosnia and Herzegovina is making tangible progress, currently implementing EUR 83 million in World Bank support for renewable energy projects and coal site repurposing. This includes closing underground coal mines and launching social support programs. We share the staff view that energy sector reform is critical, especially considering the EU's Carbon Border Adjustment Mechanism (CBAM). Progress is being made on the legislative framework for electricity market integration, and a roadmap for an emissions trading system (ETS) has been drafted. Further efforts will be made to warrant timely implementation.

With these remarks, the authorities look forward to continuing close engagement with the Fund and highly appreciate the valuable technical assistance received so far.