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The Acting Chair's Summing Up
Bosnia and Herzegovina—2023 Article IV Consultation
Executive Board Meeting 23/68
August 30, 2023

Executive Directors agreed with the thrust of the staff appraisal. They noted that following a rebound in 2021, growth in Bosnia and Herzegovina has slowed down, while inflation, although declining, remains elevated. Given continued high risks and uncertainty related to the outlook, Directors stressed the need for determined policy and reform efforts to strengthen macroeconomic stability and spur medium-term growth. In this context, they highlighted the importance of greater political consensus and encouraged leveraging the EU candidacy to promote the necessary reforms. Strengthening the implementation of the Fund's recommendations, supported with capacity development, will also be important.

Directors underscored the need to restrain the fiscal expansion to help contain inflationary pressures given limited monetary policy tools, and ease financing pressures. To strengthen fiscal sustainability, Directors encouraged the authorities to further contain current spending, including by containing the public wage bill, improve targeting of social spending, boost public investment, and improve revenue collection. They also noted that investment in infrastructure, green energy, and digitalization, supported by public financial management reforms, will help spur sustainable growth.

Directors welcomed the authorities' timely steps to strengthen the currency board arrangement, which has served the country well. They advised the authorities to allow interest rates to rise in response to market conditions, while taking measures to preserve financial stability. Directors also urged against calls on the central bank to finance entity budgets or provide credit to the private sector. The central bank should further increase remuneration rates on bank reserves to narrow the interest rate gap with the euro area and reduce the risk of capital outflows. Directors emphasized that banking agencies should eliminate measures that distort interest rates and enhance monitoring and crisis preparedness, including by strict and timely enforcement of all prudential and corrective actions. They highlighted the need to improve information exchange and establish a country-wide financial stability fund to facilitate bank restructuring and provide liquidity in exceptional cases.

Directors emphasized the importance of structural reforms to accelerate growth, promote green and digital transition, and raise living standards. They called for accelerating governance reforms and encouraged the authorities to request an IMF governance diagnostic to help identify key weaknesses and prioritize reforms. Directors also encouraged the authorities to urgently adopt a new anti-money laundering law and prioritize the

implementation of the anti-corruption legal frameworks. Continuing efforts to strengthen public enterprise oversight and transparency also remain important. On the climate front, they recommended stepping up efforts to decarbonize the economy, coupling the electricity market with the EU market, and transitioning to renewables.

It is expected that the next Article IV Consultation with Bosnia and Herzegovina will be held on the standard 12-month cycle.