

The contents of this document are preliminary and subject to change.

GRAY/21/530

February 22, 2021

**Statement by Mr. Palotai, Mr. Just, and Mr. Dogan on Bosnia and Herzegovina  
(Preliminary)  
Executive Board Meeting  
February 24, 2021**

We thank staff for the well-written report and Messrs. De Lannoy and Manchev for their helpful Buff statement. While the authorities' timely response helped limit the impact of the health crisis during the first wave, the second wave has exacerbated the risks to growth. Bosnia and Herzegovina's complex state structure makes effective action difficult to cope with the pandemic at a political and fiscal level and is complicating a policy response that would improve the prospects for sustainable and inclusive growth. **We concur with the thrust of staff's appraisal and policy recommendations and provide the following comments for emphasis.**

**We welcome that the authorities continue deploying fiscal support measures this year, which however need to become more targeted.** In view of the limited fiscal scope budget spending should be carefully balanced between pandemic related support and growth-friendly policies. We also welcome the authorities' approach to strengthen public financial management and join staff's call to mandate the fiscal council with supervising comprehensive prudent fiscal policy coordination and implementation. Further efforts to improve revenue mobilization, including by increasing the use of e-government/digitalization would complement these efforts. Staff encourage the authorities to increase and promote investments in green energy by seizing all available financing opportunities offered by IFIs. As a first step, we would see more work on direct and indirect fuel subsidies, energy costing to better reflect externalities as well as the regulatory and tax incentives that could support the green energy transition, as critical. The debt sustainability analysis is encouraging, but we note that GDP growth seems higher in the normative scenario at the cost of higher government debt over the medium term. *Staff's comments would be welcome.*

**We agree with staff that decisive and broad-ranging reforms in public enterprises (PEs) should be on top of the policy agenda** as they represent a significant drain on budgetary resources, offer corruption opportunities and impede inclusive growth. We therefore

appreciate the snapshot on the state of PEs in FBiH provided in Annex VIII. We note that the authorities do not think it possible to clear arrears without help from IFIs. *As an arrears clearance strategy has to go hand in hand with addressing the significant data, audit, PFM and governance shortcomings, we would appreciate staff's comments on proactive reform actions the authorities would have to take.*

**The central bank's (CBBH) prudent policy stance avoiding monetary financing of the budget is commendable,** especially under the challenging macroeconomic and institutional environment. We note that the recent RFI was very helpful in buttressing the CBA and helped safeguard it as an anchor for monetary policy. We agree that modernizing FX reserve management along the lines proposed by staff would contribute to increasing the resilience of the CCBH and strengthen the monetary policy framework. *In that regard, could staff comment on technical assistance need?* However, in the absence of a lender-of-last-resort we support the establishment of a Financial Stability Fund.

**We encourage the authorities to strengthen supervisory and resolution standards in the banking and financial sectors given potential risks.** Considering the potential increase in NPLs after phasing out the forbearances, the reporting and monitoring of the asset quality of households and corporates should be enhanced to ensure that risks to the quality of banks' balance sheets can be addressed proactively. Under the current circumstances, 'out-of-court' restructuring mechanisms would be helpful for best practice implementations. *Could staff comment on whether designing state-guaranteed schemes in the transition period after eliminating forbearance could be useful and how to finance such schemes?*

**Despite the complexity of the political environment, advancing structural reforms is crucial.** Improving governance as well as promoting competition will be conducive to more inclusive private sector-led growth and reducing the excessive role of the state, which is prone to corruption. Boosting the business environment requires easing doing business especially in strategic and value-added sectors. These could also be helpful in addressing the high unemployment rate particularly among women and youth. We take positive note of the steps taken to improve the AML/CFT framework and encourage the authorities for further improvement.