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**Statement by Mr. Buissé, Mr. Rozan, and Mr. Roman on Bosnia and Herzegovina
(Preliminary)
Executive Board Meeting
February 24, 2021**

We thank staff for a very comprehensive report and Mr. De Lannoy and Mr. Manchev for their insightful Buff statement. We share the thrust of staff's appraisal and we wish to make the following comments.

We commend the authorities for taking decisive measures to limit the impact of the crisis on the economy, and we encourage the authorities to continue strengthening the targeting and transparency of the support package. The authorities adequately used their solid pre-pandemic buffers – in particular with debt on a downward trajectory – to support households and businesses. Support should remain in place until the recovery is well entrenched and be more targeted towards the most in needs. Transparency in the list of the biggest beneficiaries from public support is necessary and would help confirm the authorities' commitment to progress towards more accountability. More broadly, and as in other countries, the pandemic has exacerbated many pre-existing structural challenges, notably in the education and health systems, or the difficult situation of the labour market, with elevated female unemployment and outward migration. It highlights the need for further improvements in these areas, as part of the authorities' medium-term recovery agenda.

The strengthening of fiscal coordination and public finance management are a priority area, and we welcome the authorities' efforts to follow staff recommendations in this regard. Better coordination and coherence of fiscal policies should be promoted at the federal level, although we note the political sensitivity around these recommendations. On the revenue side, revenue bases should be fully harmonized to reduce tax distortions. We encourage the authorities to also improve the transparency of public procurement law, in line with EU recommendations.

We share staff's recommendations to monitor financial stability and preserve the governance of the Central Bank. The independence of the Central Bank remains an important asset to preserve economic stability, and we noted with interest staff's recommendations on modernizing the CBBH's reserve requirement framework, as detailed in annex VII. It would also help reduce the euroization of the economy over time. While the banking system has generally remained solid, emerging vulnerabilities and the prospect of rising NPLs should deserve close monitoring, and we encourage the authorities to follow staff's advice on improving the resolution and insolvency frameworks. We welcome the authorities progress in strengthening the AML/CFT framework and would see merits in

the establishment of a country-wide registry of bank accounts of private individuals, and to include the name of beneficial owners in the registry for legal persons.

Structural reforms would help address long standing challenges, accelerate convergence with the EU, and support the transition to a low carbon economy. Reforming Public Enterprises (PEs) would improve fiscal sustainability and the functioning of the labour market. As evidenced in staff's report, and notably its Annex VIII, PEs account for a very large share of GDP, resulting in a distortion of the labour market and low competition and productivity. Better oversight and greater transparency would help rationalize this sector, and we encourage the authorities to follow staff's recommendation on key reforms to be implemented. On the energy sector, given the large coal subsidies in place, we support staff's call for accelerating the climate transition, including through the adoption of a state-level law on electricity and natural gas in line with EU legislation. We also welcome staff's recommendations on structural reforms in relation to digitalization, governance and labour market policies.

Lastly, on the engagement with the Fund, we note from the last briefing to the Board by the European Department that negotiations on a new program are on hold, and from the Buff that the authorities remain committed to their reform agenda under the 2016-20 EFF-supported program. *Could staff give us an update on the state-of-play regarding their ongoing engagement with the authorities and any perspective on a future program?* **Going forward, we underline the importance to ensure consistency between the IMF conditionalities and the policy conditions of the Macro-Financial Assistance from the European Union.** This should help address the main socio-economic vulnerabilities that need to be tackled, notably economic governance and institution building, financial sector stability, transparency and fight against corruption and a better functioning of the labour market.