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February 22, 2021

**Statement by Mr. Bhalla and Mr. Natarajan on Bosnia and Herzegovina
(Preliminary)
Executive Board Meeting
February 24, 2021**

1. We thank the staff for their detailed report and Mr. De Lannoy and Mr. Manchev for their helpful buff. The contraction in Bosnia-Herzegovina economy due to restrictions and containment measures taken after COVID-19 pandemic has been exacerbated by the current second wave of infections. Fiscal buffers accumulated in the previous years has allowed the authorities to respond quickly and effectively to the pandemic. The emergency support under RFI has complemented the resource base to meet the BOP needs arising due to external shocks and fiscal interventions.

2. The economy is expected to gradually revive in 2021 after sharp contraction of about 5 percent in 2020. The pace of recovery will be determined by the progress in vaccination coverage and revival of domestic and external demand. Effective measures to address policy coordination issues, accelerated investment growth and favorable labor-market conditions are important to realize the country's growth potential over the medium-term.

3. Fiscal condition has deteriorated due to decline in tax revenues and increase in current expenditure. Continued fiscal measures are required to implement health-sector support packages and support for households and firms. We encourage the authorities for undertaking well-targeted measures to support the vulnerable population and measures to support economic recovery. We commend the authorities for their commitment in shifting resources from current to capital spending. *Can the staff comment on the nature of investment measures undertaken which are targeted towards accelerating the economic recovery?*

4. Financial sector has remained stable with the active role played by the currency board and the central bank. With the weakening of banks' asset quality and concerns of elevated NPLs, there could be a need for adequate provisioning. Close monitoring of capital-adequacy and strengthening of insolvency framework can play a key role in

mitigating banking sector risks. The external sector is expected to weaken in 2021 due to decline in tourism and fall in remittances.

5. Governance reforms in public enterprises with enhanced oversight mechanism to monitor and manage fiscal risks can boost their performance. We concur with the staff suggestions to promote green economy, digitalization, strengthen AML/CFT framework and improve labor market policies. *In this context, could the staff provide details of financing opportunities available from IFIs for promoting green energy projects which can help to make such projects financially feasible and self-sustainable?*

6. Finally, we wish the authorities the best in their efforts.