

International Monetary Fund

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Bosnia and Herzegovina: Letter of Intent

Press Release:
[IMF Executive Board Completes Sixth and Seventh Reviews Under the SBA for Bosnia and Herzegovina, Approves €95.7 Million Augmentation of the SBA and €191.4 Million Disbursement](#) April 17, 2014

June 13, 2014

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Letter of Intent

Sarajevo and Banja Luka, Bosnia and Herzegovina

June 13, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

1. The Stand-By Arrangement (SBA) for Bosnia and Herzegovina (BiH) approved in September 2012 by the Executive Board of the International Monetary Fund (IMF) and extended in January 2014 continues to anchor our economic policies in a difficult economic and political environment. We remain committed to implementing the broad policies described in our original Letter of Intent dated September 11, 2012, and that were further specified and augmented in our Supplementary Letters of Intent of December 6, 2012, April 23, 2013, June 12, 2013, October 9, 2013, and January 8, 2014. This Supplementary Letter of Intent provides information on our efforts and achievements since the completion of the fifth review under the arrangement in January 2014, as well as on the additional policy measures we plan to undertake in the remainder of 2014 to help ensure that the objectives of the program continue to be met.

2. Moreover, with this letter, we also request an augmentation of access under the SBA, to help us address the impact of the floods and landslides that followed massive rainfalls in May. Although the damage assessment conducted by the UN, the EU, and the World Bank is still underway, it is clear that the floods and landslides have caused major damage to housing, businesses, farmlands, and infrastructure. Very preliminary estimates suggest a loss equivalent to 5-10 percent of GDP. Production and exports are expected to fall and import needs will rise, creating an urgent balance of payments need that, if not addressed, would result in an immediate and severe economic disruption. Government finances are faced with substantial revenue losses and short-term spending needs for relief efforts. Banks' loan portfolios will worsen.

3. The economy returned to growth in 2013, with real GDP estimated to have expanded by nearly 2 percent. Production and exports grew strongly in 2013, although domestic demand remained weak. Growth was projected to pick up further in 2014 and to become gradually more broad-based, but due to the impact of the floods and landslides on production and incomes, we

now expect growth to slow considerably this year, to about 0.7 percent. Following a steady expansion of activity in the first quarter of the year, a sharp contraction is expected for the second quarter, but we hope that the economy will rebound towards the end of the year, depending also on the availability of international support to assist with the reconstruction efforts. Inflation, which remained low in 2013, is expected to pick up somewhat in 2014, in part reflecting a loss of agricultural production, but is still projected to remain low. Similarly, the current account deficit, which had narrowed substantially in 2013 on account of strong export growth, is expected to widen again in 2014, as export growth is likely to slow markedly and imports will rise. Unemployment remains high, meanwhile, at 28 percent, and may rise in the near future as businesses were destroyed or suffered severe damage.

Program Implementation and Further Reforms

4. In the period prior to the natural disaster, we continued to make progress toward meeting our program objectives, although our efforts were complicated by delays in securing parliamentary approval of key measures and the weak state of domestic demand. All end-March 2014 performance criteria on the fiscal balances of the Institutions of BiH and the central governments of the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) were observed. Also, neither the central governments of the FBiH and the RS, nor the Institutions of BiH, saw an increase in domestic arrears in the period through end-March 2014. Similarly, although data are still preliminary, the changes in the stock of other accounts payable for the general governments of the FBiH and the RS—and indicative target—are likely to have remained below their respective ceilings through end-March 2014. The indicative target for gross revenue collection by the Indirect Tax Authority (ITA) for end-March 2014 was also met, as domestic demand started to pick up and measures to improve collection started to yield result (see below), after the end-December 2013 target had still been missed by a considerable margin. Moreover, the indicative target on net lending by the consolidated general government for end-March 2014 was, based on available information, met as well. We did not contract or guarantee any new non-concessional short-term external debt, nor did we accumulate any external payment.

5. Fiscal policies were largely on track in 2013. The consolidated general government budget deficit is estimated to have declined to 1.9 percent of GDP in 2013, compared to our (unadjusted) goal of 2.0 percent of GDP (or 2.4 percent of GDP adjusted), and the indicative target on net lending by the consolidated general government for end-December 2013 was met. As noted, revenue collection was weaker than already had been anticipated, reflecting weak private consumption, falling prices, and growing exports that contributed to rising VAT refunds, but also because our efforts to strengthen collection did not yet generate the expected results. Thus, and despite a

significant compression of spending in the last months of the year, the (adjusted) end-December 2013 performance criteria on the fiscal balances of the central governments of the FBiH and the RS were missed, albeit by relatively small margins (the equivalent of about 0.02 percent and 0.13 percent of GDP, respectively). This was largely offset by the Institutions of BiH, which met the end-December 2013 performance criterion on its budget balance by a large margin.

6. Looking ahead, we intend to adhere as much as possible to the expenditure envelopes in the approved 2014 budgets for the Institutions of BiH, and the central governments of the FBiH and the RS, but we will reallocate spending depending on urgent disaster-relief needs. In line with this commitment, the cost of advancing the public sector wage increases in the RS that had already been planned were contained by the adoption of the revised Laws on Wages and offsetting measures identified in consultation with IMF staff. The requested additional disbursement under the SBA will primarily be used to offset the sizable revenue losses due to the recent natural disaster. In this context, we will also need to provide additional transfers from the entity central government budgets to the pension and health funds as contributions will fall, to ensure that these will be able to pay pensions and benefits without undermining their financial soundness. Against this background, we also request a modification of the performance criteria on the budget balances of the central governments of the FBiH and the RS and of the indicative target on net lending of the general government for the remainder of 2014 (Table 1). Given the uncertainty about the size and timing of donor assistance, we also propose to include adjustors to the performance criteria on the budget balances of the central governments that would enable us to utilize such donor support for our reconstruction efforts. Although the outlook is highly uncertain, as a result of the natural disaster we expect the consolidated general government budget deficit—including additional foreign assistance—to increase to over 4 percent of GDP this year.

Improving revenue collection

7. We have accelerated our efforts to improve tax collection, which has become even more important in light of the likely shortfall in revenues due to the impact of the floods and landslides. In particular:

- The exchange of taxpayer information among the four tax agencies (ITA, FTA, RSTA, and BDTA) that started in January 2014 has now been expanded, after some remaining legal and technical hurdles were overcome, so that the FTA, RSTA, BDTA, and ITA now have automated and unfettered access to each other's taxpayer data as defined in article 4 of the Memorandum of Understanding of June 12, 2013 (a prior action), in a process coordinated by a Technical Compliance Committee comprising senior staff from the four tax agencies.

Going forward, the directors of the four tax agencies will meet at least once every quarter, to coordinate and guide the process. In the coming months, we will also make comprehensive company information available in the entity business information agencies (AFIP and APIF) freely available to the tax agencies.

- The BiH parliament approved the harmonization of excise rates on different tobacco products, and excises on fine-cut tobacco were raised, effective July 2014 (a prior action). The amendments to the Law on Excises also ensure that the tax treatment of different tobacco products remains equivalent as we further raise the excise rate on cigarettes gradually in the coming years to achieve convergence with EU levels. The ITA, the entities' inspection offices, and the customs office will step up their cooperation to combat smuggling and evasion, including the sale in domestic markets of tobacco products that do not have excise stamps.
- The ITA Governing Board approved a new draft Law on Customs Policy that is consistent with EU legislation and we aim to submit the draft to the BiH parliament by end-September 2014.
- A revised staffing scheme for the ITA will be adopted shortly by the ITA Governing Board that will allow the ITA to establish the unit for the detection and prevention of VAT fraud within an unchanged overall staffing envelope. Following recent IMF technical assistance, the ITA will introduce a risk-based approach for the selection of VAT refunds for audit, one of the key elements of our strategy to strengthen the control of VAT refunds and credits. Moreover, the ITA will continue to ensure that VAT refunds will only be provided to taxpayers who are fully compliant with their VAT obligations.
- The entities will reach an agreement on the settlement of outstanding indirect tax revenue claims from 2012.
- Meanwhile, the ITA has started publication of the largest tax debtors on its website and will update this list monthly. The ITA will also publish monthly information on the stock of indirect tax arrears and the stock of rescheduled tax debts, as well as information regarding debt rescheduling agreements, in a format to be agreed with IMF staff. The ITA is actively engaging the largest tax debtors and by end-September 2014 it will seek to have reached agreements on payment schedules with the largest tax debtors—those with outstanding liabilities of KM 2.5 million or more as of March 31, 2014—requiring at least 15 percent of the outstanding liabilities to be paid upfront for an agreement to be reached and requiring

that taxpayers remain current on their tax payments for the agreement to remain in effect, and, if no agreement has been reached by then or when taxpayers fall into arrears again the ITA will pursue all options open to it under domestic law to enforce collection (a new structural benchmark for end-September 2014). The ITA will publish the results of its efforts on its website. In this context, we will also refrain from forgiving the full amount of penalty interest on any tax debts, to maintain adequate incentives for taxpayers to pay taxes on time. More broadly, the ITA will clarify its criteria for approval of rescheduling agreements of outstanding tax obligations—including collateral requirements—with the assistance of the IMF.

- The new corporate income tax law for the FBiH—which was prepared with assistance from the IMF with a view to broadening the tax base and clarifying the tax treatment of depreciation and banks' loan loss provisioning—was submitted to the FBiH parliament, with its adoption expected by end-July 2014. The RS will aim to complete the review of its corporate income tax law in the coming months with the assistance of the IMF, to foster consistency and to avoid double taxation, and with a particular focus also on its tax treatment of loan loss provisioning, as well as transfer pricing, with government approval expected by end-September 2014 and parliamentary approval by end-December 2014.

Strengthening public finances

8. On the expenditure side, we will continue to strive to streamline and increase the efficiency of government operations, and rationalize the benefit system. Thus:

- The FBiH parliament adopted an amendment to the FBiH Law on Budget Execution to ensure the uninterrupted operation of the FBiH Ministry of Finance in the absence of a finance minister (a prior action). This amendment designates an alternate person authorized by the government who has the authority to sign on the minister's behalf in the event of the minister's absence.
- Following the adoption of the new FBiH Law on Budgets, the implementing regulations and rulebooks are expected to be finalized and adopted shortly. Moreover, an FBiH Fiscal Coordination Body was established to coordinate fiscal policy between all levels of government in the FBiH, with a view to securing macroeconomic stability and fiscal sustainability, and met for the first time in May. The Fiscal Coordination Body is expected to play an important coordinating role in addressing the fiscal impact of the natural disaster in the FBiH.

- The BiH Fiscal Council adopted a common definition of arrears in the Institutions of BiH and both entities, with any amount that is not paid within 90 days after the due date considered to be in arrears.
- The new public procurement law for BiH, prepared with assistance of the OECD and the EU, was adopted by the BiH parliament in May 2014 (an end-February 2014 structural benchmark). This new law will align BiH's public procurement framework with EU standards.
- In the RS, the registration of farms in accordance with the rulebook on classification of household farms into commercial and non-commercial farms is ongoing. To help stabilize the financial condition of the social funds we will also ensure that registered farmers pay social contributions. To achieve better targeting of agricultural subsidies, we have made the necessary legal and administrative changes conditioning the eligibility of farmers for agricultural subsidies on their registration and payment of contributions (a prior action).
- A new Fiscal Responsibility Law has been prepared in the RS, with a view to ensuring long-term fiscal sustainability and enhancing transparency. The new law will establish clear fiscal rules and an independent Fiscal Council. The new law is expected to be adopted by the RS parliament by end-September 2014.
- Fiscal control on spending units in the RS that operate outside of the treasury general ledger and have their own transaction accounts will be tightened. Specifically, the new Law on Fiscal Responsibility will oblige all such units maintaining their own transaction accounts to obtain an approval of financial plans by the Ministry of Finance prior to their submission to the government. We will also ensure that these spending units maintain a balanced budget throughout the year or refrain from creating commitments in excess of approved allocations.
- Efforts are underway to establish a centralized database in the FBiH of all beneficiaries of social transfers. To this end, the draft Law on Single Registry of Beneficiaries of Cash Payments without Contribution was submitted to the FBiH parliament in April, and we expect it to be adopted by end-July 2014 (a new deadline for this structural benchmark). Subsequently, we will make the necessary financial and administrative resources available to make this database operational by end-September 2014.
- We continue to move ahead with the implementation of the new Law on Privileged Pensions in the FBiH. The audits to verify the eligibility of the existing beneficiaries are being carried out throughout the FBiH and the FBiH government has been working on amending the Law on Audits and the Law on Organization of Federation Ministries to improve the audit

process. Sufficient administrative resources have been made available to ensure that the screening of new entrants will be completed by end-March 2014. The FBiH Pension and Disability Insurance Fund (PIO) and the Ministry of War Veterans found that the deviation between the expected and actual savings from the adjustment of benefit levels of existing beneficiaries was due to insufficient information about the ranks of a number of beneficiaries when the initial estimates were made. Meanwhile, the main elements of the new law were upheld by the FBiH Constitutional Court, although other rulings by this and other courts that impact the privileged pension system would add to the cost of the system if no offsetting measures would be taken. We will continue to ensure, however, that the overall cost of the privileged pension system will remain within the agreed upon amounts, as included in the 2014 budget, to safeguard the financial health of PIO, and we will take corrective measures as envisaged by the law as needed to achieve this, including the use of a payment rationing coefficient if necessary.

- We recognize that improving the financial position of our health care system is needed to stem the increasing costs and to create conditions for reducing the tax burden on labor by lowering the health care contribution rate over the medium-term. As a precondition, this requires a comprehensive reform of our health care system. To this end, our key reform priorities—identified with the assistance of the World Bank—include: (i) improving the efficiency of procurement and dispensing of pharmaceuticals, medical devices, and equipment; (ii) restructuring hospitals to improve quality and efficiency of services; (iii) revising legal frameworks to delink employment services from the provision of health insurance coverage; and (iv) strengthening the regulation and public health interventions to improve public health. In the months ahead, we will work closely with the World Bank on developing specific measures underpinning these reform efforts.

Safeguarding financial sector stability

9. While our financial sector remains broadly stable and well capitalized, the sector's profitability had already come under pressure on account of subdued credit activity and the continued gradual deterioration of banks' loan portfolios, but the large destruction of housing and businesses due to the floods and landslides will cause a further rise in non-performing loans (NPLs) and create additional provisioning needs. In this context, and as set out below, we remain committed to safeguard financial sector stability and the Standing Committee on Financial Stability (SCFS) will coordinate our efforts and take measures to create an environment in which the financial

sector can support the economic recovery and reconstruction with a revival of sustainable credit activity, and safeguarding depositors.

10. Preserving financial sector stability by bolstering our contingency planning and crisis preparedness toolkit has remained the cornerstone of our financial sector policy agenda to date. The members of the SCFS have already each developed, with the assistance of the IMF, contingency plans detailing their respective responsibilities, as well as the coordination across institutions in the event of financial sector distress. On the basis of these individual plans and with the assistance of the IMF: (i) the Fiscal Council will develop the procedures for its role in the SCFS as recognized in the Memorandum of Understanding of the SCFS, and (ii) the SCFS, based on the work of a working group of representatives of all SCFS members and coordinated by the Central Bank of Bosnia and Herzegovina (CBBH) and in cooperation with the Fiscal Council Advisory Group, will adopt an overarching contingency plan for the SCFS and amend the Memorandum of Understanding that governs the SCFS as needed by end-September 2014 (a new structural benchmark). Going forward, the members of the SCFS will each continue to update their contingency plans.

11. The Banking Agencies have continued their close monitoring of the financial sector and, in particular, the enhanced supervision of those banks identified as vulnerable under adverse scenarios. All banks that have been under enhanced monitoring by the Banking Agencies have now completed the selection of external auditors to perform thorough asset quality reviews of these banks. The results of these reviews, expected to become available soon, will provide valuable information to the banking agencies about potential balance sheet risks. The banking agencies have also maintained a high level of engagement with foreign supervisory bodies as regards cross-border banks of systemic importance. We will seek to further formalize these engagements by signing Memoranda of Understanding with relevant foreign supervisors by end-July 2014.

12. We also continue our work to complement our contingency planning and supervisory efforts with a set of legislative and regulatory initiatives aimed at: (i) modernizing and strengthening the legal and regulatory framework; (ii) addressing the high level of non-performing loans (NPLs); and (iii) unlocking the credit channel. In particular:

- We are advancing the preparation of new banking laws in both entities by identifying existing gaps with EU legislation and Basel II requirements. We will coordinate the drafting of these new banking laws to ensure consistency between the entities with the support of further technical assistance from the IMF and the EU. Moreover, we will review and amend as necessary related legislation, such as the Deposit Insurance Agency law. As the preparatory work will require more time and assistance, we expect the respective entity governments to

approve the draft laws by end-September 2014 (proposed new deadlines for the end-June 2014 structural benchmarks).

- We are also preparing, with IMF assistance, legislation to regulate asset management companies, a crucial component in the NPL resolution framework, although more time and assistance is needed in this area too before we expect to be able to have drafts approved by the respective entity governments by end-September 2014 (proposed new deadlines for the end-June 2014 structural benchmarks), and revise tax legislation as needed to facilitate loan sales.
- We will furthermore bolster our NPL resolution strategy by establishing, with support of upcoming IMF assistance, a voluntary out-of-court-restructuring system in 2014, to promote the return of operationally viable companies to sustainable debt servicing. In this context, both entities will also review their bankruptcy laws to streamline and shorten bankruptcy proceedings.
- We are also advancing legislation that will create an environment more conducive to credit growth and economic activity. This includes:
 - Following the recent adoption by the FBiH parliament of a new Law on Protection of Consumers of Financial Services, we have requested the FBiH parliament to issue an authentic interpretation ruling out the retroactive application of the also recently adopted Law on Guarantors, to provide a better balance between the protection of creditor and borrower rights.
 - Adoption by the FBiH parliament by end-July 2014 of a new Law on Internal Payment Systems that will ensure the necessary flow of information across entities, also including the CBBH, regarding the registry of accounts and the designation of a main account.
 - The RS parliament adopted a new Law on the Single System for Multilateral Offsets aimed at reducing corporations' and governments' overdue liabilities, including those to banks and to each other. We expect this law to boost companies' liquidity and further spur investment and growth.
 - The RS parliament also adopted amendments to the Law on Foreign Exchange Operations to increase compliance with EU standards and to facilitate and streamline

firms' external operations, including transactions conducted with alternative methods of payment.

13. To help safeguard the integrity and stability of our financial markets, the BiH parliament recently adopted a new law on AML/CFT that is consistent with FATF recommendations. We expect the parliament to adopt the changes to the BiH Criminal Code that are also needed to align our legal framework with FATF recommendations by end-July 2014.

Supporting a vibrant private sector

14. Job creation and inclusive growth remain key objectives of our policies. To this end, we have made progress in improving the business environment, by making it easier to start and operate a business. In the RS, the one-stop business registration is fully operational and more than 300 new businesses have registered since its start in December 2013. To achieve similar results, in the FBiH the new Laws on Companies and Inspections, and amendments to the Law on Business Registration, which were prepared with the assistance of the World Bank, as well as a new Law on Offenses are expected to be adopted by the FBiH parliament by end-June 2014.

15. We have continued to seek consensus with the social partners on new labor market legislation in the FBiH and the RS that is more conducive to job creation. We had aimed to have the new labor laws adopted by the respective parliaments by end-December 2013 (structural benchmarks), but as we have so far been unable to reach a consensus with the social partners we were not able to complete this process as planned, and this has become even more difficult in the aftermath of the recent natural disaster. More time is therefore needed for our dialogue with the social partners, but as we are determined to move forward with this critical reform, the entity governments will improve the drafts of new labor laws in the coming months, with assistance of staff from the World Bank and the IMF, that can then form the basis for renewed discussions with the social partners. The drafts at a minimum will: (i) require all collective bargaining agreements to be time-bound, and with sector-specific collective agreements applying only to those enterprises and workers that want to be part of the agreement; (ii) allow differentiated wage setting based on skills, qualifications, experience, and performance; (iii) reduce disincentives for hiring; (iv) step up labor inspections and increase penalties for labor law violations; and (v) protect workers' rights consistent with ILO labor standards and EC labor directives. Given the time that would subsequently be needed for the required public debate and taking into account the timing of the parliamentary elections, we would expect the new laws, consistent with the above principles, to be adopted by the respective parliaments by end-December 2014 (a new deadline for these structural benchmarks). In the meantime, we will also continue drafting new laws on civil servants and employees, with the

assistance of the World Bank, to facilitate public administration reform, to allow for these laws to be adopted shortly following the adoption of the new entity labor laws. Adoption of the new labor laws will also enable the RS to eliminate the take-home-pay protection by end-December 2014 (a new deadline for this structural benchmark).

16. We continue making progress toward WTO accession. We will strive to adopt the FBiH Law on Trade and the BiH by-law on Genetically-Modified Organisms in the coming months. This would complete the legislative changes required for WTO accession.

Program Modalities

17. We believe that our economic program continues to be on course and that our policies set forth in our Letter of Intent of September 11, 2012, and supplemented by the policies described in the Supplementary Letters of Intent of December 6, 2012, April 23, 2013, June 12, 2013, October 9, 2013, January 8, 2014, and this Supplementary Letter of Intent remain adequate to achieve the objectives of our program. We stand ready, however, to take any additional measures that may be needed to achieve the objectives of our economic program. We will consult with the IMF on the adoption of additional policy measures and in advance of any revision to the policies contained in our economic program, in accordance with IMF policies on such consultation. We will continue to provide IMF staff with the necessary information for assessing progress in implementing our program and will maintain a close policy dialogue with IMF staff. We will provide any necessary information to facilitate the safeguards assessment update. We will also refrain from introducing or intensifying any exchange and trade restrictions and other measures or policies that could worsen balance of payments difficulties.

18. In light of the expected impact of the recent natural disaster on the central government budgets, we request the IMF Executive Board to approve a modification of the end-June 2014, end-September 2014, and end-December 2014 performance criteria on the fiscal balances (net lending) of the central governments of FBiH and the RS as detailed in Table 1. We also request the IMF Executive Board to complete the sixth and seventh reviews under the SBA, augment the amount of the eighth purchase by SDR 84.55 million (equivalent to 50 percent of quota) to meet the urgent balance of payments need caused by the natural disaster, and therefore to make available the seventh and eighth purchases in a total amount equivalent to SDR 169.1 million. The additional access of SDR 84.55 million will be used to alleviate the impact of the disaster and will be allocated with the RS receiving 49 percent, the FBiH 49 percent, and the Brcko District receiving 2 percent.

19. We authorize the IMF to publish this Supplementary Letter of Intent and its attachments, as well as the related staff report on the IMF's website following consideration of our request by the IMF's Executive Board.

/s/
Vjekoslav Bevanda
Chairman
of the Council of Ministers
Bosnia and Herzegovina

/s/
Nermin Nikšić
Prime Minister
Federation of Bosnia
and Herzegovina

/s/
Željka Cvijanović
Prime Minister
Republika Srpska

/s/
Nikola Špirić
Minister of Finance
and Treasury of
Bosnia and Herzegovina

/s/
Ante Krajina
Minister of Finance
Federation of Bosnia
and Herzegovina

/s/
Zoran Tegeltija
Minister of Finance
Republika Srpska

/s/
Kemal Kozarić
Governor
Central Bank of Bosnia and Herzegovina

Table 1. Bosnia and Herzegovina: Quantitative Performance Criteria and Indicative Targets Under the 2012–15 Stand-By Arrangement, 2013–14

(Cumulative flow since the end of the previous year; in millions of KM)

	2013				2014							
	End-December				End-March		End-June		End-September		End-December	
	EBS/12/161	EBS/13/131	Adjusted	Act.	EBS/14/4	Act.	EBS/14/4	Modified	EBS/14/4	Modified	EBS/14/4	Modified
Performance Criteria												
Floor on the net lending of 1/												
Institutions of BiH	-25.0	-5.0	-5.0	68.8	3.1	15.3	34.9	35.6	34.1	34.1	-10.1	-10.1
Federation central government	179.0	174.0	116.0	110.6	42.2	45.0	183.7	87.2	234.9	104.1	246.9	91.4
RS central government	120.0	105.0	63.0	50.4	31.2	31.5	126.0	54.9	162.2	49.7	122.6	-15.5
Ceiling on contracting and guaranteeing of new nonconcessional short-term external debt by												
Institutions of BiH	0	0	0	0	0	0	0	0	0	0	0	0
Federation general government	0	0	0	0	0	0	0	0	0	0	0	0
RS general government	0	0	0	0	0	0	0	0	0	0	0	0
CBBH	0	0	0	0	0	0	0	0	0	0	0	0
Ceiling on accumulation of domestic arrears by												
Institutions of BiH	0	0	0	0	0	0	0	0	0	0	0	0
Federation central government	0	0	0	0	0	0	0	0	0	0	0	0
RS central government	0	0	0	0	0	0	0	0	0	0	0	0
Ceiling on accumulation external payment arrears by 2/												
Institutions of BiH	0	0	0	0	0	0	0	0	0	0	0	0
Federation general government	0	0	0	0	0	0	0	0	0	0	0	0
RS general government	0	0	0	0	0	0	0	0	0	0	0	0
CBBH	0	0	0	0	0	0	0	0	0	0	0	0
Indicative targets												
Floor on the net lending of the general government of BiH 1/	-17.1	-17.1	-117.1	15.5	-7.6	-11.7	241.9	-14.1	167.6	-125.8	175.2	-266.8
Ceiling on changes in the stock of "other accounts payable"												
Federation general government	100.0	100.0	100.0	-56.3	100.0	-31.9	100.0	100.0	100.0	100.0	100.0	100.0
RS general government	160.0	160.0	160.0	135.9	100.0	...	100.0	100.0	100.0	100.0	100.0	100.0
Floor on the ITA gross revenue collection	...	6,056.0	6,056.0	5,882.0	1,395.0	1,395.2	2,957.0	2,881.7	4,649.0	4,506.7	6,297.0	6,115.7

1/ Excluding foreign financed projects as defined in TMU.

2/ Continuous.

Table 2. Bosnia and Herzegovina: Structural Conditionality Under the Stand-By Arrangement

Actions	Test date	Status
Prior actions		
1 Amend the Federation Law on Budget Execution to ensure the uninterrupted operation of the Federation Ministry of Finance in the absence of a finance minister		Met
2 Approve by BiH parliament the harmonization of excise rates on different tobacco products and raise excises on fine-cut tobacco effective July, 2014		Met
3 Start automated and unfettered exchange among the FTA, RSTA, BDTA, and ITA of taxpayer data as defined in article 4 of the Memorandum of Understanding of June 12, 2013		Met
4 Adopt necessary legal and administrative changes in the RS to condition farmers' eligibility for subsidies on their registration and payment of contribution		Met
Existing structural benchmarks		
1 Continue to adhere to the Currency Board Arrangement as constituted under the law	Continuous	Met
2 Refrain from introducing new privileged or special rights for retirement	Continuous	Met
3 Publish on the web site of the Institutions of BiH quarterly consolidated general government accounts with a 6 week lag	Quarterly	Met (with delay)
4 Carry out eligibility audits for war benefit recipients; publish results (quarterly within 4 weeks after the end of each quarter) of audits (Entities)	Quarterly	Met (with delay)
5 Amend legislation in the RS to eliminate the take-home pay protection for public sector employees	End-December 2013	Not met; proposed to re-set to end-December 2014
6 Adopt by the Federation parliament a new labor law with a view to facilitating job creation	End-December 2013	Not met; proposed to re-set to end-December 2014
7 Adopt by the RS parliament a new labor law with a view to facilitating job creation	End-December 2013	Not met; proposed to re-set to end-December 2014
8 Adopt by the BiH parliament a new public procurement law in line with EU standards	End-February 2014	Met (with delay)
9 Raise the excises on fine-cut tobacco to be fully equivalent with those on cigarettes	March 1, 2014	Not met; proposed as a prior action for the sixth and seventh review
10 Adopt by the Federation parliament a new law on Single Registry of Beneficiaries of Cash Payments without Contribution	End-March 2014	Not met; proposed to re-set to end-July 2014
11 Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the Federation parliament	End-June 2014	Proposed to re-set to end-September 2014
12 Submit legislation in line with IMF staff recommendations regulating the establishment and supervision of asset management companies to the RS parliament	End-June 2014	Proposed to re-set to end-September 2014
13 Submit to the Federation parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations	End-June 2014	Proposed to re-set to end-September 2014
14 Submit to the RS parliament a new draft law on banks and other lending institutions in line with IMF staff recommendations	End-June 2014	Proposed to re-set to end-September 2014
15 Submit to the Federation parliament the amendments to the relevant legislation to implement the Federation pension reform strategy	End-December 2014	
Newly proposed structural benchmarks		
1 Reach agreements on payment schedules with largest tax debtors to ITA in line with para. 7, bullet point 6 of the Supplementary Letter of Intent of [June xx], 2014. Otherwise, the ITA will pursue all options open to it under domestic law to enforce collection	End-September 2014	
2 Develop by the Fiscal Council the procedures for its role in SCFS, adopt by the SCFS an overarching contingency plan, and amend the MOU that governs the SCFS as needed, in line with para. 10 of the Supplementary Letter of Intent of [June xx], 2014	End-September 2014	

Addendum to the Technical Memorandum of Understanding on Definitions and Reporting Under the 2012–2015 Stand-By Arrangement

June 13, 2014

1. The Technical Memorandum of Understanding (TMU) on Definitions and Reporting Under the 2012–15 Stand-By Arrangement dated January 8, 2014 shall remain in effect except for the amendments below.

2. Paragraph 9 shall be replaced by a new adjustor to the performance criterion in Section A reading:

“The respective floors on the net lending will be adjusted downward by the full amount of the respective shares of any donor disbursement, excluding the IMF’s and the World Bank’s Development Policy Loans (DPL) disbursements for budget financing, disbursed for use by the budgets of the Institutions of Bosnia and Herzegovina, the central government of the Federation of Bosnia and Herzegovina, or the central government of the Republika Srpska.”

3. Paragraph 14 shall be replaced by a new adjustor to the indicative target in Section B reading:

“The target will be adjusted downward by the full amount of any donor disbursement in excess of the projected disbursements related to the recovery and reconstruction of the equivalent of €443 million, of which the equivalent of €280 is projected to be disbursed by international financial organizations other than the IMF and the World Bank, the equivalent of €68 million by the World Bank, and the equivalent of €95 million by the IMF.”