BOSNA I HERCEGOVINA
MINISTARSTVO FINANCIJA/
FINANSIJA I TREZORA

БОСНА И ХЕРЦЕГОВИНА
МИНИСТАРСТВО ФИНАНСИЈА
И ТРЕЗОРА

BOSNIA AND HERZEGOVINA
MINISTRY OF FINANCE
AND TREASURY

2021-2024 Bosnia and Herzegovina Medium-Term Debt Management Strategy

Sarajevo, May 2022

CONTENT

I BOSNIA AND HERZEGOVINA MEDIUM TERM DEBT MANAGEMENT STRATEGY

Introduction

Debt management plays a significant role in the macroeconomic policy. The establishment and implementation of the debt management strategy, in the effort to obtain the required amount of funds at a low price in the medium- to long-term, requires consistency in the assessment of costs and risks in this context.

The Law on Borrowing, Debt and Guarantees of BiH defines the preparation of the BiH Medium-Term Debt Management Strategy (the BiH Strategy) which will include the debt of Entities and Brčko District of Bosnia and Herzegovina (BD BiH). In this regard, at its 101st session held on 12 May 2017 adopted the Calendar for the exchange of information required for the preparation of the BiH Strategy (the Calendar) as a procedural document defining the deadlines and activities of all who participate in the BiH Strategy preparation. In accordance with the Calendar, the BiH Strategy is prepared on the basis of medium-term debt management strategies of Republika Srpska (RS), the Federation of Bosnia and Herzegovina (FBiH) and Brčko District of Bosnia and Herzegovina (BD BiH), including the external debt of the Institutions of BiH. In fact, the preparation of the BiH Strategy purports that the governments of Entities and BD BiH prepare and adopt their debt management strategies on the basis of their gross financial needs, financing sources, and macroeconomic indicators, whereby they use the same shock scenario and the same initial projections in view of external debt interest rates and foreign exchange rate, while they use different projections for the development of Entity domestic debt interest rates.

The Strategy is revised annually and provides a wider picture of the BiH debt portfolio through the analysis of the current debt and variations of indebtedness in terms of shocks, and likewise defines the medium-term debt management goals and gives guidelines to the borrowing decision-makers.

In accordance with the above, the 2021-2024 Strategy represents the debt structures, estimates the state of indebtedness and defines the medium-term debt management goals and guidelines for the achievement of these goals.

1. Regulatory framework

The framework regulating debt in Bosnia and Herzegovina is determined in the Law on Borrowing, Debt, and Guarantees of BiH (*Official Gazette of BiH*, no. 52/05, 103/09 and 90/16) (BiH Borrowing Law), and the Law on Settlement of Obligations under the Old Foreign Currency Savings (*Official Gazette of BiH*, no. 28/06, 76/06, 72/07, 97/11 and 100/13) (BiH Old Foreign Currency Savings Law). The BiH Borrowing Law establishes the competence of the Ministry of Finance and Treasury of BiH (BiH MFT) in view of borrowing, i.e., the implementation of external borrowing procedures and state debt management, through managing, recording, monitoring, servicing and preparing plans related to state debt.

Debt of the Entities and BD BiH is regulated under the following framework:

- The Law on Borrowing, Debt and Guarantees of Republika Srpska (*Official Gazette of Republika Srpska*, no. 71/12, 114/17, 131/20, 28/21 and 90/21);
- The Law on the Conditions and Method of Settling Obligations under the Old Foreign Savings through Emission of Bonds in Republika Srpska (*Official Gazette of Republika Srpska*, no.: 1/08);

- The Law on Debt, Borrowing and Guarantees of the Federation of Bosnia and Herzegovina (*Official Gazette of the Federation of Bosnia and Herzegovina*, no. 86/07, 24/09, 44/10 and 30/16);
- The Law on the Conditions and Procedure of Verification of General Obligations of Republika Srpska (*Official Gazette of* Republika Srpska, no. 109/12);
- The Law on the Exercise of the Entitlement to a Compensation for Material and Non-material Damages during the War, from 20 May 1992 to 19 June 1996 (*Official Gazette of RS*, no. 103/05, 1/09, 49/09 and 118/09);
- The Law on Settlement of Obligations under the Old Foreign Savings in the Federation of Bosnia and Herzegovina (*Official Gazette of FBiH*, no. 62/09, 42/11, 91/13 and 101/16);
- The Law on Settlement of Obligations under the Old Foreign Savings through Emission of Bonds in Brčko District of Bosnia and Herzegovina (*Official Gazette of Brčko District*, no. 16/09, 19/10, 31/11, 20/13 and 06/18);
- The Law on the Treasury of Brčko District of Bosnia and Herzegovina (*Official Gazette of Brčko District*, no. 3/07, 19/07 and 2/08, 35/17, 52/18, 03/19 and 34/19);
- The Law on Domestic Debt of Brčko District of Bosnia and Herzegovina (*Official Gazette of BD BiH*, no. 27/04 and 19/07).
- The Law on Determining and the Method of Settlement of Domestic Obligations of FBiH (*Official Gazette of FBiH*, no. 66/04, 49/05, 35/06, 31/08, 32/09, 65/09, 42/11 and 35/14);
- The Law on Domestic Debt of Republika Srpska (*Official Gazette of Republika Srpska*, no. 1/12, 28/13, 59/13 and 44/14).

2. BiH Strategy Goals

The fundamental goal of the BiH Strategy is to secure financial funds for financing the needs of the State, Entities and BD BiH at an acceptable level of financing costs and risks. A further goal is to develop the domestic securities market.

3. BiH Strategy Scope

Bosnia and Herzegovina public indebtedness amounted to 12,193.0 million BAM in the end of 2020. The Strategy encompasses the debt[1] representing a direct or indirect liability of BiH Institutions, Entities and BD BiH, amounting to 11,174.3 million BAM, i.e., 91.6% of BiH public debt.

In accordance with the above stated, the BiH Strategy includes:

- The public state debt and the external debt of Entities and BD BiH
- The BiH domestic debt, i.e., the domestic debt of Entities and BD BiH representing their direct or indirect liability.

The Strategy does not encompass:

- The issued external state guarantees,
- The issued domestic guarantees of Entities,
- The external debt of local self-government units created through the direct borrowing of

[1] The remaining public debt is not serviced from the budgets of the BiH Institutions, Entities and BD BiH and the same is not included in the BiH Strategy.

the local self-government units and represent their direct liability,

- The domestic debt of Entities created through the borrowing of municipalities, cities, cantons, public enterprises and social security funds.

4. The overview of the structure, costs and existing debt risks

4.1. The existing debt structures

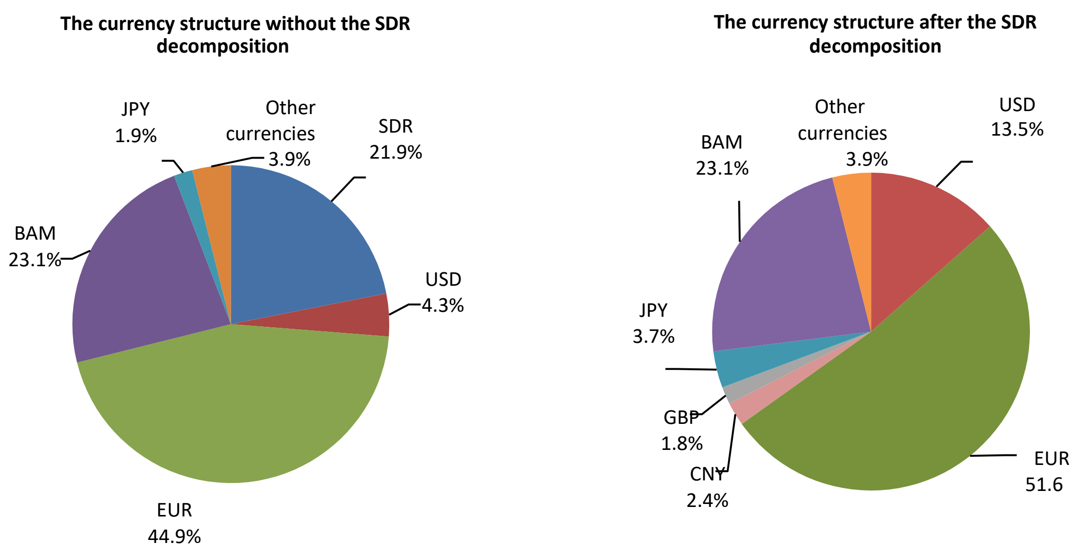
The total debt included in the BiH Strategy amounts to 11.174.3 million BAM in the end of 2020, representing 31.6% of GDP, shown in the table below.

Table 1: BiH total debt as of 31 December 2020

	Debt (in million KM)					
Description	FBiH	RS	BD BiH	BiH institu	**Total**	**Nominal debt as % of GDP[2]**
Foreign debt	4,982.7	3,495.6	52.5	66.4	**8,597.2**	**24.3%**
Domestic debt	849.9	1,725.4	1.8	0.0	**2,577.1**	**7.3%**
Total debt	**5,832.6**	**5,221.0**	**54.3**	**66.4**	**11,174.3**	**31.6%**

The share of external debt and domestic debt in the total debt is 76.9% and 23.1%, respectively. The share of the fixed interest rate debt and the share of the external non-EUR debt in the total debt is 70.0% and 32.1%, respectively. The currency structure of BiH total debt included in the BiH Strategy is shown in Figure 1, and it includes the currency structure after the SDR decomposition.

Figure 1. BiH total debt currency structure as of 31 December 2020

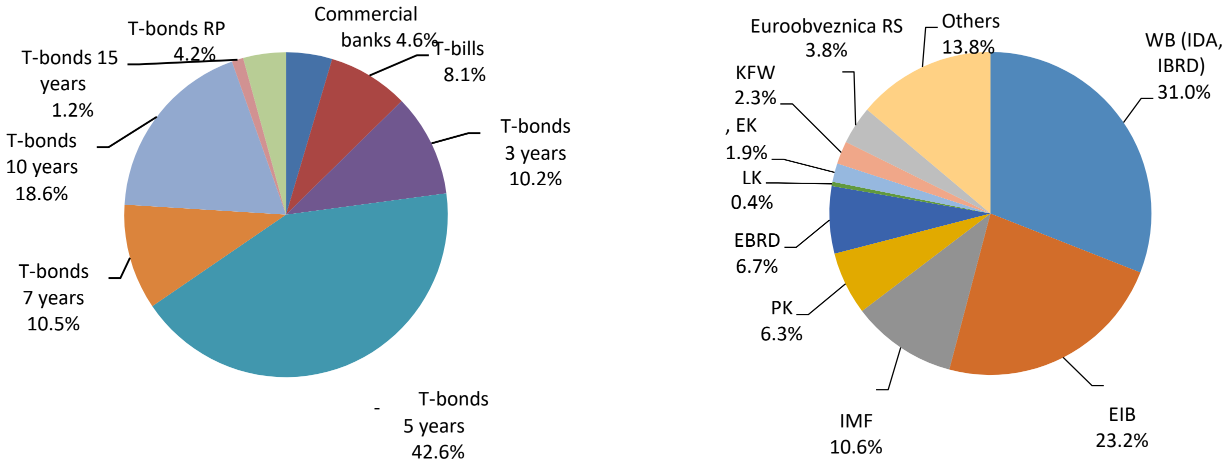


[2] GDP for 2020 = 35.452 million BAM, the BiH Agency for Statistics, gross domestic product - expenditures method, press release of 31 March 2022;

The external debt is mostly composed of obligations toward multilateral creditors (78.3%), while the domestic debt is composed of: treasury bonds (T-bonds), treasury bills (T-bills), credits with domestic commercial banks, and bonds issued for the settlement of the obligations created under the old foreign savings and war claims. The maturity of T-bonds ranges from 1 to 15 years. The external and domestic debt structure in view of creditors and domestic debt is shown in Figure 2.

Figure 2. BiH structure as of 31 December 2020

Domestic debt structure[3] **External debt structure**



[3] T-bonds 5 years RP are amortised bonds under war claims issued by the FBiH.

4.2. Existing debt costs and risks

The BiH total debt encompassed by the BiH Strategy is characterised by a relative low average weighted interest rate (Table 2). The weighted average interest rate of the total debt, external debt, and domestic debt is 1.8%, 1.5%, and 2.5%, respectively. For the most part, this is the result of external concessional borrowing and significant participation of external debts with a variable interest rate, and as well as the low interest rate on bonds issued for the old foreign savings and war claims.

Table 2 BiH: Indicators of costs and risks of the existing debt in the end of 2020

BOSNA I HERCEGOVINA				
Costs and risks indicators		**Foreig n**	**Domestic debt**	**Total debt**
Debt amount (million BAM)		8,597.2	2,577.1	11,174.3
Debt amount (million USD)		5,398.4	1,618.2	7,016.6
Nominal debt as % of GDP		24.3	7.3	31.6
Current debt value as % of GDP		19.8	7.3	27.1
Debt costs	Interest in comparison with GDP (%)	0.4	0.2	0.6
	Average weighted interest rate (%)	1.5	2.5	1.8
Refinancing risk	ATM (years)	6.7	3.5	6.0
	Debt maturity in the following year (% of the total	7.7	23.0	11.2
	Debt maturity in the following year (% of GDP)	1.9	1.7	3.6
Interest risk	ATR (years)	4.5	3.5	4.2
	Debt re-fixed in the following year (% of the total	42.6	23.8	38.3
	Fixed interest rate debt (% of the total debt)	61.5	98.3	70.0
Currency risk	External debt (% of the total debt)			76.9
	External debt, excluding the debt in EUR (% of the			32.1
	Short-term external debt (% of reserves)			4.7

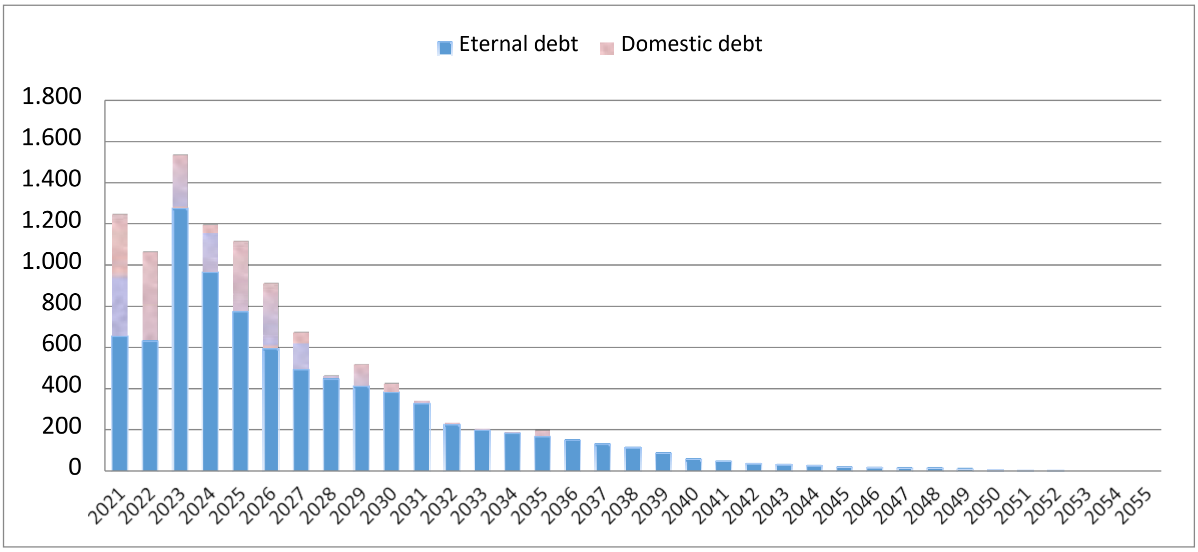
ATM = average time to maturity, ATR = average re-fixing time

The refinancing risk is moderate. The total debt repayment profile (Figure 3) indicates significant external debt servicing in 2023, when the credit of the European Commission for the macro financial assistance II in the amount of 50 million EUR will mature, as well as the RS Euro bond in the amount of 168 million EUR, and a part of the principal for the IMF RFI credit (Rapid Financial Instrument) for the mitigation of negative consequences of the slower economic activity caused by the Covid-19 pandemic in the amount of 87.44 million SDR. The ATM for the domestic debt and the external debt is 3.5 and 6.7 years, respectively.

The interest rate risk is moderate. The share of the fixed interest rate credits in the total debt structure is 70.0 per cent. In total, 42.6% of external and 23.8% of domestic debt have the interest rate re-fixed within one year. The result of such a high percentage of external debt being re-fixed within one year is a significant participation of the variable interest rate in the external debt portfolio (38.5%).

The **currency risk** is moderate and significantly lower when compared to the share of foreign debt in the total debt structure due to the currency clause (linking the BAM and EUR), whereby 32.1% of the total debt is exposed to the exchange rate fluctuations, although the share of external debt in the total debt is 76.9 per cent.

Figure 3 The existing total debt repayment profile



4.3. BiH Strategy goals implementation in 2020

The Strategy was first adopted on 26 April 2016 by the Council of Ministers of BiH, and the BiH Strategy implementation may be observed through a parallel overview of the indicators of costs and debt shown in the table below.

Table 3 BiH: The parallel overview of cost indicators and debt risk between 2015 and 2020

Costs and risks indicators		2015	2016	2017	2018	2019	2020
		BiH	BiH	BiH	BiH	BiH	BiH
Nominal debt amount compared to GDP (%)		36.7	35.9	31.9	29.9	28.7	31.6
Debt current value compared to GDP (%)		32.5	31.6	28.5	26.5	24.3	27.1
Interest compared to GDP (%)		0.7	0.7	0.6	0.6	0.6	0.6
Average weighted interest rate (%)		1.9	1.9	1.9	1.9	1.9	1.8
Refinancing risk	Debt maturity in the following year (% of the total debt)	11.2	13.3	14.6	10.9	9.6	11.2
	Debt maturity in the following year (% of GDP)	4.1	4.8	4.7	3.3	2.7	3.6
	External debt ATM (years)	7.3	7.1	7.2	7.3	7.1	6.7
	ATM domestic debt (years)	3.1	3.1	3.1	3.0	3.5	3.5
	ATM total debt (years)	6.3	6.2	6.2	6.4	6.4	6.0
Interest risk	ATR (years)	4.1	4.2	4.2	4.4	4.7	4.2
	Debt re-fixed in the following year (% of the total debt)	46.1	44.5	43.2	38.6	33.6	38.3
	Fixed interest debt (% of the total debt)	60.9	62.7	65.4	68.3	73.1	70.0
Currency risk	External debt (% of the total debt)	77.5	76.7	75.6	80.1	78.9	76.9
	External debt, excluding the debt in EUR (% of the total debt)	37.8	37.1	33.7	32.8	31.4	32.1
	External debt, excluding the debt in EUR (% of external debt)	48.8	48.4	44.5	40.9	39.9	41.7
	Short-term external debt (% of reserves)	7.4	8.9	7.6	5.7	4.9	4.7

The analysis of parallel indicators shows that the nominal debt compared to the GDP, and the current value compared to the GDP increased in 2020, while the share of interest in the GDP remains at the same level as in previous years. The average weighted interest rate of 1.8% is at its lowest in the observed period.

The re-financing risk in 2020 is higher when compared to 2018 and 2019 due to the significant increase of the debt maturing in the following year, and as the average maturity period of the total debt is at its lowest in the observed period.

Likewise, bearing in mind the worsening of all indicators related to this risk, the exposure of the interest rate to risk increased in 2020 when compared to the previous year.

Although the share of external debt in the total debt in 2020 is smaller when compared to the previous year, the external debt exposure to the foreign exchange rates risks is bigger. In fact, the share of the non-EUR external debt in the total and external debt increased, while the share of short-term external debt in foreign exchange reserves decreased.

The stated risk indicators were predominantly affected by the borrowing under the new IMF RFI arrangement aimed at mitigating the economic activity which was negatively affected by the Covid-19 pandemic, with the 47.7% share in the total engaged funds in 2020. The stated credit is denominated in SDR, which fluctuates when compared to BAM and EUR, the interest rate is variable and it was at the level of 1.08% as of 31 December 2020, while the repayment of the principal is carried out quarterly within 2 years of the expiration of the 3-year grace period.

Total engaged external funds in 2020 amount to 1.362.7 million BAM, of which 43.3% is in EUR, and 26.4% with a fixed interest rate.

17 new arrangements have been agreed in 2020, totalling to 1.629.9 million BAM, of which 93.4% is in EUR and 34.0% with a fixed interest rate.

5. Macroeconomic framework

Macroeconomic assumptions[4] used in the BiH Strategy preparation analysis are shown in Table

4. Table 4: Macroeconomic assumptions

	2020	2021	2022	2023	2024
Nominal GDP (million BAM)	35,452	37,578	39,590	41,344	43,303
Nominal growth (in %)	-3.0	6.0	5.4	4.4	4.7
GDP deflator (previous year=100)	100.2	100.6	103.2	101.3	101.7
Real growth (in %)	-3.2	5.4	2.1	3.1	3.0
Inflation measured by retail prices index in %	-1.0	2.0	6.0	1.8	1.7
Budget revenues[5] (in million BAM)	7.836	8.488	8.645	9.121	9.447
Budget expenditures[6] (in million BAM)	8.935	8.958	8.983	8.920	9.073

4 GDP, nominal growth, real growth, GDP deflator, and inflation, measured through the consumer prices index for the period between 2021 and 2024, represent the projections of the BiH Economic Planning Directorate from March 2022.
5 Aggregate revenues of Entities, BD BiH and BiH Institutions used in the preparation of strategies.
6 Aggregate expenditures of Entities, BD BiH and BiH Institutions used in the preparation of strategies.

6. Sources of financing

6.1. External financing sources

Potential external sources of financing envisaged in the BiH Strategy are stated in Table 5.

Table 5: External financing sources

Creditor's name	Interest rate	Grace period	Repayment deadline	Currency	Risks
IBRD	Fixed or variable	5-10	15-32	EUR	Re-financing risks for the
EIB	Fixed or variable	4-8	25-30	EUR	Re-financing risks for the variable
CEB	Fixed or variable	5	10-20	EUR	Re-financing risks for the
IFAD	Fixed or variable	3-10	18-30	SDR	Re-financing risk for the variable, re-financing, and
EBRD	Fixed or variable	3-5	12-15	EUR	Re-financing risks for the variable, and re-financing
EUROPEAN COMMISSION	Fixed or variable	14	15	EUR	Refinancing risk
OPEC FUND	Fixed	10	20	USD	Currency risk
KfW	Fixed	0.5-10	9-20	EUR	Refinancing risk
SAUDI FUND	Fixed	5	25	SAR	Currency risk
KUWAIT FUND	Fixed	5	25	KWD	Currency risk
EURO BOND	Fixed	4	5	EUR	Refinancing risk
EURO BOND	Fixed	6	7	EUR	Refinancing risk
OTHER CREDITORS	Fixed or variable	3-10	10-31	EUR/SDR/ JPY	Re-financing risk for the variable, re-financing, and currency risk for SDR and JPY

Bosnia and Herzegovina is rated in category B/positive perspectives, awarded by the International sovereign rating agency S&P, and B3/stable prospects awarded by the rating agency Moody's.

6.2. Domestic financing sources

RS plans to issue treasury bills with the maturity period of 6 months, and bonds with the maturity period of 3, 5, 7, and 10 years with "bullet" repayment and fixed interest rate, and to use, to a lesser extent, credits with fixed interest rate with domestic banks. FBiH plans to issue treasury bills with the maturity period of 3, 6, 9, and 12 months and bonds with the maturity period of 3, 5, 6, 7, and 10 years with "bullet" payment. BD BiH is not planning to borrow on the domestic market.

7. BiH Strategy analysis

Shock scenarios are used with the aim of determining the preferred strategies of Entities and BD BiH in order to analyse the influence of the growth of interest rates to the domestic and external debt and depreciation of currency exchange rates[7]. The costs are calculated on the basis of flows generated in accordance with the baseline scenario, while the risk is measured as increase of costs due to disturbances affecting exchange rates and increase of interest rates and increase of debt when compared to the GDP.

A short description of strategies adopted by Entities and BD BiH for the following medium-term period are given below.

7.1. Description of medium-term debt management strategies of Entities and BD BiH

FBiH chose a strategy under which FBiH borrowing would be in accordance with the 2022 FBiH Budget, the 2022-2024 FBiH Budget Framework Document, and the 2022-2024 Public Investments Programme (PIP). The financing of development projects by 2024 is estimated in the amount of 1.791.56 million BAM. The external financing sources are roughly identified, and, in the context of the assessment of costs and risks, the applied credit conditions are in accordance with creditors' general conditions in view of a fixed or variable interest rate, with EUR as the preferred currency. The budget support will be financed with the European Union funds under the macroeconomic assistance, as well from funds derived from the issuance of treasury bills and 3-, 5-, 6-, 7-, and 10-year bonds to the extent also ensuring development of the domestic market. The debt portfolio structure will strive to minimise the overall risks and continue the development of the domestic securities market. For more details on the stated Strategy, see Chapter II in Part B. FBiH Debt Management Strategy.

RS adopted the Strategy to Diversify Financing Sources, Instruments and Investors' Base[9]. This Strategy envisages that external financing sources will be used to finance investment projects as the result of maximum usage of the access to concessional sources (WB, EIB, EBRD, KfW, CEB, etc.), which contributes to the reduction of the re-financing risks, and costs. The issuance of medium-term securities on both the international and domestic financial markets, including the "bullet" repayment, and, to a lesser extent, domestic and external credits will be used to finance the budget spending. The average share of domestic financing is reduced in favour of external sources. For more details on the stated Strategy, see Chapter II in Part A. RS Debt Management Strategy.

BD BiH chose the Strategy of Preference of Multilateral Creditors[10] (new borrowing in EUR with the possibility of a fixed interest rate) for their investment projects of crucial importance for a faster economic growth and development of BD BiH since such a strategy will ensure an acceptable level of costs and financing risks; likewise, the conditions for borrowing from domestic commercial banks are still unfavourable, and there is no regulatory framework at the moment enabling the issuance of long-term treasury bonds. As per this Strategy, by the end of 2024, the percentage of nominal debt in the BD BiH GDP in BD BiH would amount to 5.8% when compared to the current 6%-rate, to which it amounted in the end of 2020. The amount of interest when compared to GDP remained at the same

7 Depreciation of BAM when compared to USD

8 Identified as S1 Strategy in the FBiH Debt Management Strategy.

9 https://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/PPP/ud/Pages/default.aspx#collapsible0

10 Identified as S2 Strategy in the BD BiH Debt Management Strategy.

level as in 2020.The re-financing risk in this Strategy is at its lowest since the ATM has been extended from 3.6 to 6.4 years. Approximately 70.4 per cent of the debt to be re-fixed within one year is the result of a large share of variable interest rate in the total debt portfolio (69.1%) when compared to 30.9% of debt with a fixed interest rate, while the average time to re-fix increased from 1.5 to 3.4 years. Likewise, this would mean an increase of the share of external debt in the total debt from 96.7% to 100.00%. For more details on the stated Strategy, see Chapter II in Part C. BD BiH Medium-term Debt Management Strategy.

The structure of the debt of BiH Institutions debt structure in the end of 2020 implies that the total debt of BiH Institutions is in fact an external debt with the average weighted interest rate of 1.3%. The share of the fixed interest rate is 97.8%, the average ATM is 6.6 years, while 8.3% of the debt is to mature in the following year. The analysis of the BiH Institutions debt structure showed that 2.2% of the total debt is exposed to the interest rate fluctuation risk, and 17.4 per cent to the exchange rate fluctuation risk since 82.6% of the total debt is denominated in EUR. In the observed period, BiH Institutions do not plan to borrow anew, except to withdraw funds under the existing contracted credits, and in case of a need for new external financing, the guidelines defined in the BiH Strategy will be applied.

7.2. Analysis of the BiH Strategy costs and risks

Table 6 shows the indicators of costs and risks for the BiH Strategy in the end of 2024, as well as the indicators of costs and risks for the BiH debt in the end of 2020.

Table 6: The existing debt (2020) and the BiH Strategy (2024) costs and risk indicators

Costs and risks indicators		**2020**	**2024**
Nominal debt amount compared to GDP (%)		31.6	29.5
Debt currnt value compared to GDP (%)		27.1	25.4
Interest compared to GDP (%)		0.6	0.6
Average weighted interest rate (%)		1.8	2.1
Refinancing risk	Debt maturity in the following year (% of the total debt)	11.2	11.5
	Debt maturity in the following year (% of GDP)	3.6	3.4
	External debt ATM (years)	6.7	6.9
	ATM domestic debt (years)	3.5	3.1
	ATM total debt (years)	6.0	6.1
Interest risk	ATR (years)	4.2	4.3
	Debt re-fixed in the following year (% of the total debt)	38.3	34.8
	Fixed interest debt (% of the total debt)	70.0	73.6
Currency risk	External debt (% of the total debt)	76.9	79.6
	External debt, excluding the debt in EUR (% of the total debt)	32.1	16.6
	External debt, excluding the debt in EUR (% of external debt)	41.7	20.8
	Short-term external debt (% of reserves)	4.7	5.0

The nominal amount of debt in the end of 2024 (12,769.7 million BAM) is increased by 14.3% when compared to the state of debt in the end of 2020 (11,174.3 million BAM). The stated increase is the result of the bigger budget support in view of the effects on the economy caused by the Covid-19 pandemic, growing inflation and needs to finance investment-development projects through borrowing.

The average weighted interest rate will not grow significantly.

The exposure to the refinancing risk in the end of 2024 slightly increased when compared to the end of 2020 since the average maturity date of external, domestic and total debt, as well as the debt maturing in the following year as the percentage of the total debt, remain on almost the same level, while the relation between debt and GDP, and the relation between the current debt value and GDP will decrease due to the higher GDP growth.

In the end of 2024, the interest rate risk indicators improve when compared to 2020 due to the higher external borrowing under fixed interest rate. In fact, in the BiH Strategy, the share of the debt with the fixed interest rate increases to 73.6% when compared to the current level, while the reflecting debt decreases due to the reduced external borrowing under variable interest rate.

The share of external debt in the total debt increases, but as the result of the preferred external borrowing in EUR, the share of the non-EUR debt in the total debt significantly decreases to 16.6% when compared to 32.1% in 2020, and the exposure to the exchange rate fluctuations is reduced, as well. Having in mind the currency board arrangement implemented by the Central Bank of Bosnia and Herzegovina (BiH CB), i.e., the relationship between BAM and EUR, the susceptibility to the exchange rate fluctuations, meaning the exposure to the currency risk, is lower when compared to the percentage share of the external debt in the total debt.

8. Guidelines

The chosen strategy secures a slight increase in the financing costs, in addition to the lower currency and interest risk and an acceptable level of the re-financing risk when compared to the current situations. With the aim to achieve the above-mentioned, it would be desirable to contract new external credits with a longer maturity and grace periods, fixed interest rates and in EUR where the creditor's conditions allow, and in consideration of the financing costs. In this regard, and in view of the external state debt, the operating guidelines up to 2024 are as follows:

- In view of new external borrowing, to choose, where possible, the type of the interest rate, to prefer fixed interest rates (unless the analysis provides strong arguments to opt for a variable interest rate).

- In view of new external borrowing, to choose, where possible, the maturity and grace periods, to prefer external borrowing with longer grace and repayment periods.

- In planning to borrow, ensure to maintain the even repayment structure by years, with the aim of minimising the re-financing risk.

- With the aim of reducing the currency risk in new borrowing, to choose, where possible, the currency and prefer EUR.

The guidelines for the Entities' and BD BiH domestic and external debt are defined within their respective strategies given in Chapter II herein (pages 29, 53 and 61).

II DEBT MANAGEMENT MEDIUM-TERM STRATEGIES OF ENTITIES AND BRČKO DISTRICT

A. RS DEBT MANAGEMENT STRATEGY

1. Goal, scope and premises

RS medium-term debt management strategy (RS Strategy) determines the medium-term goal and action plan in the debt management field planned to be implemented by the RS Government during the observed medium-term period. The implementation of the measures and activities included in the RS Strategy will ensure the desired debt portfolio structure in consideration of the cost and risk preferences of the RS Government.

Since one of the necessary leverages for the active debt management is regular determination and publication of the RS Strategy, the goals of which are based on the analysis of costs and risks, and in consideration of macroeconomic and market circumstances and limitation, the RS Strategy is continuously monitored and its execution is annually reported to the RS Government.

The RS Strategy encompasses debt representing direct or indirect liabilities of RS[11], including certain exceptions.

The information on the external debt include:

1) The RS debt (except the part of debt toward the Paris Club - Germany, for which the repayment conditions have not been determined);
2) The debt of local self-government units created under the RS indirect borrowing;
3) The debt of public companies and the RS Investment-Development Bank created under the RS indirect borrowing.

The information on the domestic debt include:

1) The RS debt (verified domestic debt regulated by the RS Law on Domestic Debt, treasury bills, medium-term bonds, credits and activated guarantees);
2) The debt of local self-government units created under the RS indirect borrowing;

The debt (domestic and external) created under the direct borrowing of local self-government units, social security funds, public companies and the RS Investment-Development Bank is not included in the RS Strategy as it does not represent neither the direct nor indirect liability of Republika Srpska and as it cannot be managed by the RS Ministry of Finance (RS MF) on behalf of the RS Government. The detailed overview of the RS Strategy scope is given in Schedule 1.

The aim of the RS debt management is to secure financial funds to finance the approved investment projects, re-finance the observed debt and execute the RS budget with minimal costs and risks.

The RS Strategy is based on the following premises:

1) In the medium-term, the RS Government will carry out fiscal consolidation and reform plan presented in the 2022-2024 RS Economic Reforms Programme (2022-2024 RS ERP) to secure long-term fiscal stability (in accordance with the Law on Fiscal Responsibility);

[11] In accordance with the Law on Borrowing, Debt and Guarantees of Republika Srpska (*Official Gazette of Republika Srpska*, 71/12, 52/14, 114/17, 131/20, 28/21 and 90/21), the RS indirect debt was created on behalf and for the account of debtors (local self-government units, social security funds, the RS Investment-Development Bank and the funds it manages, public companies and public sector institutions), and repaid by RS from funds that debtors pay for their respective debt.

2) The projections of macroeconomic indicators and fiscal framework (Tables 1 and 2) given in the 2022-2024 RS ERP[12] and the agreed 2022-2024 RS Framework Budget Document with the RS Government policies (2022-2024 RS FBD);

3) All new borrowing in which the RS Government acts as the borrower will be contracted in accordance with the procedures prescribed in the RS Law on Borrowing, Debt, and Guarantees, i.e., through the RS MF;

4) There is no recognition (takeover) of debt by the other levels of governance;

5) Verification and settlement of obligations regulated by the RS Law on Domestic Debt will be carried out in accordance with the projections included in the 2022-2024 FBD;

6) The CB BiH will continue to maintain monetary stability in accordance with the currency board arrangement and the provisions of the CB BiH Law, and will not issue securities on the domestic market;

7) The credit rating of BiH and RS will not be lowered in the medium-term13;

8) The basis of the institutional investors in the RS domestic finance market will be maintained and widened in the medium-term;

9) The reference interest rate of the European Central Bank will not increase significantly14;

10) The creditors will offer funds under acceptable conditions;

11) Other analytic premisses presented in Schedule 2 and used for the purpose of producing the quantitative RS Strategy.

[12] 2021-2024 RS ERP includes the detailed premises of macroeconomic projections and fiscal framework, as well as risks to their achievement.
[13] The current BiH credit rating is B with stable outlooks, as assessed by Standard and Poor's, and B3 with stable outlooks, as assessed by Moody's. The current BiH credit rating is B with stable outlooks, as assessed by Standard and Poor's, and B3 with stable outlooks, as assessed by Moody's.
[14] European Central Bank; Press release of 28 October 2021.

Table 1: Overview of macroeconomic indicators for the period from 2017 to 2021, estimate for 2022 an projections for the period from 2023 to 2024

	2017	2018	2019	2020	2021	2022	2023	2024
GDP								
Nominal GDP, in million BAM,	**10,099.3**	**10,701.6**	**11,251.3**	**11,131.8**	**11,894.5**	**12,690.2**	**13,410.3**	**14,260.1**
Population, in millions	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
GDP per capita, in BAM	8,759.0	9,322.0	9,848.0	9,795.0	10,529.0	11,287.1	11,986.1	12,809.5
% of GDP growth, nominally	4.6	6.0	5.1	-1.1	6.9	6.7	5.7	6.3
Inflation-average annual rate	**0.5**	**1.2**	**0.5**	**-1.2**	**1.2**	**1.9**	**1.1**	**1.3**
real growth rate %								
Real GDP growth	**3.1**	**3.9**	**2.5**	**-2.5**	**5.4**	**4.5**	**4.3**	**4.6**
Private spending	2.6	2.5	2.8	0.2	3.0	2.7	2.9	2.8
State spending	-0.8	1.8	1.5	3.9	-0.5	1.3	0.8	1.2
Gross investments in fixed assets	-0.7	11.0	-2.1	10.1	2.0	9.0	6.8	8.0
Premises:								
Average net salaries in BAM	831.0	857.0	906.0	956.3	1,005.0	1,055.3	1,086.9	1,130.4
Unemployment rate %[15]	-	-	-	-	14.6	13.7	13.0	12.5

Source: 2022-2024 RS ERP, RS MF, RS IS

Table 2: 2021-2024 Fiscal framework[16]

	2021 budget rebalance	Budget 2022	2023 FBD	2024 FBD
A. BUDGET REVENUES (I+II+III+IV)	**3,267.6**	**3,303.8**	**3,442.8**	**3,588.0**
I Tax revenues	2,825.2	3,021.9	3,187.6	3,320.3
Ii Non-tax revenues	436.6	275.7	249.0	261.4
III Grants	1.2	0.0	0.0	0.0
IV Transfers between or within governance units	4.7	6.3	6.3	6.3
B. BUDGET EXPENDITURES (I+II+III+IV)	**3,225.7**	**3,301.1**	**3,368.4**	**3,438.8**
I Current expenditures	2,821.9	2,920.6	2,952.0	3,019.7
IV Transfers between or within governance units	400.6	372.3	397.3	399.3
III Budget reserves	3.3	8.2	19.1	19.8
C. GROSS BUDGET SURPLUS/DEFICIT (A-B)	**41.9**	**2.8**	**74.4**	**149.2**
D. NET EXPENDITURES FOR NON-FINANCIAL ASSETS	-157.7	-212.9	-133.9	-132.9
E. BUDGET SURPLUS/DEFICIT (C+D)	**-115.8**	**-210.1**	**-59.5**	**16.3**
F. NET FINANCING (G+H+I)	**115.8**	**210.1**	**59.5**	**-16.3**
G. NET PROCEEDS FROM FINANCIAL ASSETS	73.3	82.1	113.4	110.3
H. NET BORROWING	68.9	159.8	-28.8	-105.6
I. OTHER NET PROCEEDS	-26.4	-31.9	-25.2	-21.0

Source: RS MF

[15] In accordance with the Regulation of the European Parliament and Council, which entered into force on 1 January 2021, the RS IS carried out the methodological alignment of the ARS Questionnaire by way of which information for 2021 are collected, whereby the indicators for the second trimester 2021 are not fully comparable to the indicators published for previous years. For this reason, the Table does not show data for the previous years.

[16] RS Budget in the narrower sense, i.e., the general fund 01.

2. The existing debt portfolio

2.1.Portfolio overview

The debt included in the RS Strategy amounts to 5,221.8 million BAM (3,278.9 million USD, i.e., 46.9% of GDP), as of 31 December 2020. The share of external debt is 66.9% of the total observed debt (3,495.6 million BAM or 2,194.9 million USD, representing 31.4% of GDP), while the share of domestic debt is 33.1% of the total observed debt (1,726.3 million BAM or 1,084.0 million USD, representing 15.5% of GDP).

The external debt included in the RS Strategy comprises:

1) The relevant external debt, i.e., credits contracted through the BiH MFT and the allocated old external debt (created up to 2 April 1992);

   As of 31 December 2020, the relevant external debt amounts to 3,133.6 million BAM (1,967.7 million USD, representing 60.0% of the total observed debt, and 28.2% of GDP).

2) The direct external debt (debt directly contracted by RS with external creditors);

   As of 31 December 2020, the relevant external debt amounts to 361.9 million BAM (227.3 million USD, representing 6.9% of the total observed debt, and 3.3% of GDP).

In the total observed external debt, the largest share is represented by the debt toward multilateral creditors (74.5%), followed by the debt toward bilateral creditors (15.8%) and the debt in the form of bonds issued on the international market (9.8%). Observed by individual creditors, the largest share in the total observed external debt is represented by the obligations toward the European Investment Bank (EIB: 30.2%), World Bank - IDA and IBRD (WB: 30.3%), International Monetary Fund (MF: 9.4%), Government of Japan (5.2%), and Paris Club (5.1%). In terms of the currency structure of the external debt, the largest share is represented by EUR and SDR at the rate of 61.9% and 26.5%, respectively, JPY at the rate of 5.2%, KRW at the rate 2.5% and other currencies at the rate of 3.9% (USD, CPU, CHF, SEK, DKK, CAD).

The domestic debt included in the RS Strategy comprises:

1) Treasury bills and medium-term bonds;

   As of 31 December 2020, the debt under treasury bills amounts to 108.7 million BAM (68.3 million USD, representing 2.1% of the total observed debt, and 1.0% of GDP). The original maturity of these securities is 6 and 12 months. As of 31 December 2020, the debt under medium-term bonds amounts to 1,084.6 million BAM (681.1 million USD, representing 20.8% of the total observed debt, and 9.7% of GDP). The maturity period of the bonds issued with the amortisation payment is 5 years, with the grace period of one year, while the maturity period of the bonds issued with a one-time repayment is 5, 7 and 10 years;

2) Commercial credits with domestic banks;

   As of 31 December 2020, the debt under these credits amounts to 246.7 million BAM (154.9 million USD, representing 4.7% of the total observed debt, and 2.2% of GDP). These credits are repaid at fixed or variable interest rate and their maturity period is 5 to 12 years, while the grace period is 1 to 3 years, with the amortisation repayment.

3) Bonds issued for the settlement of obligations defined in the RS Law on Domestic Debt, as follows:

   i) Bonds for the settlement of obligations under war damages, with the maturity period of 13 to 15 years and grace period from 3 to 5 years, interest rate of 1.5% and amortisation repayment;

   ii) Bonds for the settlement of obligations under old foreign currency savings, with the maturity period of 5 years, no grace period, interest rate of 2.5% and amortisation repayment;

iii) Bonds for the settlement of obligations toward suppliers and under final court decisions, with the maturity period 15 years and grace period of 5 years, interest rate of 1.5% and amortisation repayment;

As of 31 December 2020, the debt under these bonds amounts to 221.5 million BAM (139.1 million USD, representing 4.2% of the total observed debt and 2.0% of GDP).

4) Bonds for the settlement of verified obligations under war damages, with the maturity period 13 years and grace period of 3 years, interest rate of 1.5% and amortisation repayment;

   As of 31 December 2020, this debt amounts to 15.9 million BAM (10.0 million USD, representing 0.3% of the total observed debt, and 0.1% of GDP).

5) Cash payments (in accordance with the action plan) for the settlement of obligations in the name of final court decisions under war damages and general obligation, in accordance RS Law on Domestic Debts, cash payments under old foreign currency savings, and obligations under the refund of taxes to municipalities and funds on the basis of tax payments through bonds;

   As of 31 December 2020, this debt amounts to 48.8 million BAM (30.6 million USD, representing 0.9% of the total observed debt, and 0.4% of GDP).

Expenditures for the period from 2022 to 2024 planned in 2022-2024 RS FBD are increased for the estimated amount of the maturity of obligations under the planned issuances and cash payments (under the assessed war damages, old foreign currency savings and general obligations verification dynamics in the observed period), which is reflected onto the financing needs.

The most important current portfolio cost and risk indicators are given in Table 3, while Table 4 shows the values of cost and risk indicators in the period from 2014 to 2020.

Table 3: Current portfolio cost and risk indicators

	External debt	Domestic debt	Total debt
Debt (in million KM)[17]	3,495.6	1,725.5	5,221.0
Amount (in million USD)	2,194.9	1,083.4	3,278.4
Nominal debt amount compared to GDP (%)	**31.4**	**15.5**	**46.9**
Debt current value compared to GDP (%)	25.0	15.5	40.5
Borrowing cost			
Interest compared to GDP (%)	0.5	0.4	1.0
Weighted average interest rate18 in % (WAIR)	1.7	2.9	2.1
Refinancing risk			
Average time to maturity (ATM)	7.4	3.6	6.2
Debt maturing within one year (% of the total debt)	5.9	20.6	10.7
Debt maturing within one year (% of GDP)	1.8	3.2	5.0
Interest rate risk			
Average time to re-fixing (ATR)	5.4	3.6	4.8
Debt re-fixed within one year (% of the total debt)	33.3	21.8	29.5
Fixed interest rate debt (% of the total debt)	70.0	97.6	79.1
Currency risk			
External debt (% of the total debt)			67.0
Short-term external debt (in % of foreign currency reserves)			4.4

Source: RS MF

Table 4: End-of year 2014 initial portfolio cost and risk indicators, and values achieved by years from 2015 to 2020[19]

	2014	2015	2016	2017	2018	2019	2020
Nominal debt amount compared to GDP (%)	**47.7**	**47.9**	**49.2**	**45.4**	**43.7**	**43.0**	**46.9**
Debt current value compared to GDP (%)	41.4	40.7	41.9	39.1	37.0	36.7	40.5
Borrowing cost							
Interest amount to GDP (%)	1.0	1.1	1.1	1.0	1.0	1.0	1.0
Weighted average interest rate, in % (WAIR)	2.1	2.2	2.3	2.2	2.3	2.3	2.1
Refinancing risk							
Debt maturing within one year (% of the total debt)	10.2	12.1	13.7	16.0	10.4	7.9	10.7
Debt maturing within one year (% of GDP)	4.9	5.8	6.7	7.3	4.6	3.4	5.0
External debt average time to maturity, in years (ATM)	7.7	7.6	7.8	8.0	8.0	8.0	7.4
Domestic debt average time to maturity, in years (ATM)	4.2	3.2	3.4	3.4	3.5	3.9	3.6
Total debt average time to maturity, in years (ATM)	6.6	6.1	6.3	6.4	6.7	6.8	6.2
Interest rate risk							
Average time to re-fixing (ATR)	4.4	4.1	4.6	4.8	5.4	5.5	4.8
Debt re-fixed within one year (% of the total debt)	46.1	45.4	42.0	38.2	28.4	24.5	29.5
Fixed interest rate debt (% of the total debt)	60.7	62.5	66.0	71.9	78.6	81.3	79.1
Currency risk							
External debt (% of the total debt)	67.7	68.0	66.6	64.1	71.2	69.9	67.0
Short-term external debt (in % of foreign currency reserves)	5.7	7.4	9.2	8.1	5.8	4.6	4.4

Source: RS MF

[17] With the purpose of calculating the indicators and costs, the debt under treasury bills is shown in the amount of proceeds, i.e., 107.9 million BAM, whole the discount in the amount of 0.8 million BAM is shown as interest, due to which the domestic and total debt shown in the Table is different from the domestic and total debt expressed in the text, on page 5, and in Schedule 1.

[18] The weighted average interest rate is calculated by co-relating the aggregate of sums of interest rates (calculated by co-relating the 2021 interest and debt in the end of 2020) and the debt under individual instruments in the end of 2020, with the total debt under all instruments at the end of 2020.

[19] The values of indicators expressed as % of GDP were corrected for the period from 2014 to 2019 in comparison with the same presented in earlier documents, and in accordance with the GDP data of the RS Institute for Statistics (RS IS) published on 12 November 2021(„Gross domestic product, ESA 2010").

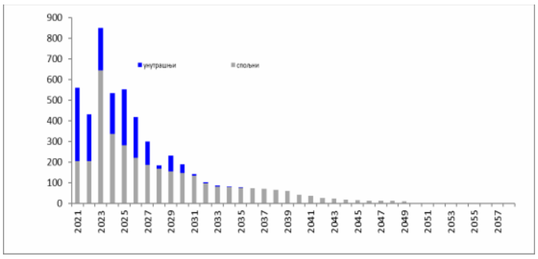
The RS debt structure analysed within the RS Strategy is mostly the result of the basic principle of borrowing in the past, which is to maximise external financing under concessional conditions. Therefore, the debt portfolio analysed under the RS Strategy is characterised by a large share of external debt with a relatively long maturity period and low average interest rate.

Generally speaking, the existing portfolio is characterised by a low-cost level. The weighted average interest rate of the total debt, external debt, and domestic debt is 2.1%, 1.7%, and 2.5%, respectively. This is mostly the result of external concessional credits and low interest rates borne by bonds for the settlement of domestic debt obligations defined in the RS Law on Domestic Debt.

The currency risk is moderate. Of the total portfolio, 41.5% is denominated in EUR, while 33.0% is denominated in BAM. In view of the applicable currency board arrangement tying the domestic currency to EUR, only 25.5% of the total portfolio is exposed to the currency risk (i.e., 20.0 per cent if SDR is decomposed and if EUR-based part is excluded). The share of the portfolio denominated in USD is 1.4% (i.e., 8.8% if SDR is decomposed), and this carries a certain level of risk bearing in mind the fluctuations of the USD in the previous, as well estimates for the following period.

The refinancing risk is moderate. Of the total portfolio, 79.1% is contracted under fixed terms. The average time to maturity of the observed portfolio is 6.2 years. The average time to maturity of the external debt is 7.4 years as the result of long-term concessional credits, while the average time to maturity of the domestic debt is 3.6 years. Figure 1 Represents the existing debt repayment profile, where there is an evident increase in the debt repayment in 2023 as the result of the maturity of obligations under external debt (18.5% of the total debt observed external debt), mostly under bonds issued in 2018, as well as due to the commencement of the repayment of the RFI IMF credit, several EIB credit tranches and one-time repayment of the European Commission credit.

Figure 1 Debt repayment profile under the existing debt



Source: RS MF

Maintaining the cost and risk indicators at a relatively low level represents a challenge for RS when the financing sources structure changes is taken into account. The existing debt portfolio is characterised by relatively favourable cost and risk indicators due to the significant share of concessional financing sources and bonds for the settlement of obligations under the domestic debt with low costs and long maturity. As concessional sources of finance will be less available in the future, it will be necessary to rely more heavily on commercial external and domestic sources and ensure that the increase of the level of costs and risks is acceptable.

[20] Rapid Financing Instrument, RFI.

2.2 Implementation of the RS Strategy in 2020 and the values of the identified indicators of the debt structure

In 2020, due to the COVID-19 pandemic, and the decision of the RS Government to implement, as fast as possible, the measures to mitigate the negative effects of the pandemic on the lives and health, as well as on the RS economy, the borrowing was carried out with significant deviations from the guidelines defined in the RS 2019-2022 Debt Management Strategy (2019-2022 RS Strategy) adopted by the RS Government in September 2019.

In order to achieve the basic goal of managing the debt defined in the 2019-2022 RS Strategy, i.e., in order to secure the necessary financial funds, investment projects in 2020 were financed from external concessional sources, while the financing of budget spending was predominantly secured from domestic sources, through the issuance of securities on the domestic market, as well as through credits granted by domestic banks, and in part from external sources, i.e., credits from international financial institutions.

Of the total financing in 2020, 45.1% was achieved through external instrument (of which 15.6% fixed and 21.4% in EUR), while the share of fixed instruments in the total financing was 61.9%. In view of the currency structure of total financing in 2020, 54.9% was achieved in BAM, 9.7% in EUR, while other non-EUR currencies comprised 35.4%.

When it comes to the sources of financing the budget spending in 2020, 37.1% was achieved through external variable instruments (representing 32.3% of total financing), while 62.9% was achieved through domestic fixed instruments (representing 54.9% of total financing). In view of the currency structure of budget spending financing structure in 2020, 62.9% was achieved in BAM, 2.7% in EUR, while other non-EUR currencies comprised 34.3%.

The following table represents the budget spending financing structure in 2020 planned in the 2019-2022 RS Strategy, and achieved financing in 2020, by instruments.

Table 5: The budget spending financing structure planned in the 2019-2022 RS Strategy and the achieved financing in 2020, by instruments

Instruments	Planned	Achieved
External variable, EUR	2.0%	2.7%
IMF variable, USD	0.0%	34.3%
Domestic credits	0.0%	6.3%
fixed treasury bills	6.6%	15.3%
Domestic bonds 3 years fixed	7.0%	0.0%
Domestic bonds 5 years fixed	10.9%	32.2%
Domestic bonds 7 years fixed	44.3%	4.9%
Domestic bonds 10 years fixed	29.2%	4.2%
	100.0%	100.0%

Source: RS MF

Of the planned budget spending financing in 2020, 309.1% was achieved, whereby the achievement of external variable instruments amounts to 5.711.3% (denominated in EUR, 419.2%), and domestic fixed 198.5%[21]

[21] The 2019-2022 RS Strategy planned the financing of budget spending in the amount of 230.2 million BAM, while 711.5 million BAM was achieved, i.e., 309.1% of the plan. The planned amount of external variable instruments was 4.6 million BAM (i.e., 2.0% of the total budget spending financing), while 236.6 million BAM was achieved (i.e., 37.1% of the total budget spending financing), representing 5.711.3%.

Of the total financing achieved in 2020, under investment projects, 54.9% was obtained through external fixed instruments (representing 7.0% of total financing), and 57.0% in EUR (representing 7.3% of total financing).

The following table represents the structure of financing the investment projects in 2020 planned in the 2019-2022 RS Strategy, and the achieved financing in 2020, by instruments.

Table 6: The structure of the investment projects financing planned in the 2019-2022 RS Strategy and the achieved financing in 2020, by instruments

Instruments	Planned	Achieved
External variable, EUR	24.4%	45.1%
External fixed USD	22.1%	43.0%
External fixed EUR	53.5%	12.0%
	100.0%	100.0%

Source: RS MF

When compared to the investment project financing planned in the 2019-2022 RS Strategy, 65.0% was achieved, whereby the achievement of external variable instruments (denominated in EUR) represents 120.1%, and external fixed 47.2% (14.6% denominated in EUR, and 126.3% denominated in non-EUR foreign currencies).

In 2020, the possibility to choose conditions for the withdrawal of tranches existed for two tranches achieved under two previously approved credits (representing 3.3% of external financing, i.e., 1.5% of total financing), and for both withdrawn tranches with the mentioned possibility, a fixed interest was chosen, while the average weighted interest rate amounted to 0.6%.

In 2020, five new external borrowings were accepted, of which four are denominated in EUR and one in SDR, three borrowings have a variable interest rate (of which there is a possibility to fix the interest rate after the withdrawal), and two for which the selection of the interest rate is done after withdrawal. The impact of the mentioned borrowings on the debt structure will be achieved in the following period, on the occasion of the withdrawal of funds.

The following table shows the indicators of the debt structure identified in the RS Strategy, their targeted scale and value in the period from 2015 to 2020 (end-period).

Table 7: The identified indicators of the debt structure and their values from 2015 to 2020

Goal	Indicator	Values determined in the Strategy	2015	2016	2017	2018	2019	2020
Currency risk management								
	The external debt, including debt in EUR (% of the observed debt)	≤ 35	32.6	30.6	26.5	25.9	24.5	25.5
Domestic market								
	Domestic debt (% of the total observed debt)	≥ 25	32.0	33.4	35.9	28.8	30.1	33.0
Re-financing risk management								
	ATM (years)	≥ 4	6.2	6.3	6.4	6.7	6.8	6.2
	Short-term debt - original maturity (% of revenues achieved in the previous year)	≤ 8	5.4	5.5	3.3	0.0	0.0	3.8
Interest rate risk management								
	Fixed interest debt (% of the total observed debt)	≥ 60	62.5	66.0	71.9	78.6	81.3	79.1
Debt cost management								
	Average weighted interest rate[22] (%)	≤ 3.5	2.3	2.3	2.2	2.3	2.3	2.1

Source: RS MF

From the debt structure indicators in the previous period, it results that the share of the external debt, excluding the EUR debt, is favourable, i.e., in decline up to 2020, when it increased due to the credit borrowing from the International Monetary Fund. The share of the domestic debt in the total debt by 2017 is increasing, and it decreases in 2018 (due to the transition from the domestic financing instruments to external instruments, primarily in the form of bonds issued on the international financial market); it increases again in 2019 and 2020, but still below the level recorded in 2017. The average time to maturity was increasing up to 2019, but decreased in 2020, mostly due to the credit borrowing from the International Monetary Fund because it is a shorter-maturity instrument. The share of the short-term debt in the revenues achieved in 2017 increased, while it declined by 2017, only to increase in 2020 to a value approximately close to the one in 2017. The share of the debt under fixed conditions in the total debt was increasing by 2019, while the value of this indicator decreased in 2020; however, it is still above the 2018 level, mostly as the result of the credit borrowing from the International Monetary Fund. The average weighted interest rate over the observed period was volatile, although the changes were not significant; over the last two years, i.e., by 2019, its value decreased and it reached its lowest level at the end of 2020.

22 As under item no. 7.

3. Sources of financing

In the observed medium-term period, the RS Strategy is mostly based on financing through the issuance of securities on the domestic and international financial market. In accordance with the achieved RS development level, the concessional multilateral and bilateral sources of financing will be available to a lesser extent in the observed period, and mostly so to finance investment projects. In addition, it is important to note that approval of concessional sources to finance budget spending is most often conditioned by the fulfilment of goals set at the level of BiH, which can be limiting.

The following table shows the external sources of financing envisaged in the RS Strategy.

Table 8: External sources of financing

Creditor's name	Interest rate	Repay ment	Grace period	Currency	Risks
IBRD	variable/fixed	15-32	5-7	EUR	re-financing risks for the variable interest rate
EIB	variable/fixed	25-30	5-8	EUR	re-financing risks for the variable interest rate
EBRD	variable	15	3	EUR	re-financing risks for the variable interest rate
KfW	fixed	9-16	0.5-7	EUR	refinancing risk
Euro bonds	fixed	5	4	EUR	refinancing risk
Euro bonds	fixed	7	6	EUR	refinancing risk
European Commission	fixed	15	14	EUR	refinancing risk
Other creditors[23]	variable/fixed	18-31	3-10	EUR/ SDR/ JPY	re-financing risk for the variable, re-financing, and currency risk for SDR and JPY

Source: RS MF

The domestic sources of financing are mostly used to finance budget spending. The investors in the domestic securities, i.e., bonds (3, 5, 7 and 10-year maturity, one-time repayment, and fixed interest rate) and treasury bills (6-month maturity), are predominantly investors seated in Bosnia and Herzegovina. In addition to expanding the investors' basis within BiH, investors outside BiH have lately shown interest in investing in domestic securities. The investors are primarily domestic banks followed by insurance companies, funds and others. Caution is necessary when it comes to the limitations in view of banks and their exposure toward the public sector, especially bearing in mind that in 2020, the fiscal deficit caused by the COVID-19, was mostly financed with the domestic market funds. The latter might represent a potential limitation to financing, bearing in mind the projected budget deficit between 2021 and 2023, and total borrowing needs from 2021 to 2024. Trade in bonds and treasury bills on the secondary market is enabled, but it is practised to a limited extent. The most frequent type of secondary trade is related to the trade in war damages bonds, old foreign currency savings and general liabilities. The development of the secondary securities market represents one of the preconditions to attract investors, and would, at the same time, benefit the reduction of the interest rate. In addition to securities, RS has the possibility to use domestic banks' credits as sources of financing.

In choosing the market to borrow, the currency and the financing instrument, the state and trend of the domestic

[23] Japan, IFAD, CEB,

and international financial market development (interest rate level, risk premium, yield curve, and alike) will be taken into account in the future period, as well as the acceptable level of risk exposure.

The policy of debt management will be carried out through the achievement, primarily of medium-term goals, where it is noted that the decision on short- and long-term borrowing will be adopted annually in accordance with the RS Law on Borrowing, Debt and Guarantees. Depending on the changes in the basic fiscal aggregates and unforeseen circumstances[24], it is possible that the borrowing plan will be corrected during a fiscal year.

4. RS Medium-term Debt Managament Strategy

The aim of the RS debt management is to secure financial funds to finance the approved investment projects, re-finance the observed debt and execute the RS budget with minimal costs and risks.

With the aim to achieve the debt management basic goal, the following operative goals and principles have been defined:

1) Continuous promotion and presence in the domestic and international financial markets through issuance of securities and other instruments, which would contribute to the decrease in the costs of borrowing in the medium- and long-term;
2) To ensure debt portfolio in accordance with previously identified debt structure indicators - maturity profile, interest rate structure, borrowing costs, domestic debt state, exposure to the currency risk (not taking into account the debt expressed in EUR due to the existence of the currency board arrangement) and their targeted levels25;
3) To continue with the implementation of the transparent and predictable borrowing process.

In the following medium-term period (2021-2024), the previously stated goals will be achieved through the strategy to diversify the financing sources and instruments, and the investors' basis. This strategy is based on the financing of budget spending mostly through the issuance of medium-term securities on both the international and domestic financial markets, including the "bullet" repayment, and, to a lesser extent, domestic credits. External financing sources are used to finance investment projects as the result of maximum usage of the access to concessional sources (WB, EIB, EBRD, KfW, etc.), which contributes to the reduction of the re-financing risks, and costs. The average share of domestic financing is reduced in favour of external sources.

This strategy enables for the RS position to be improved in terms of future sources of financing through the presence in the international financial market, domestic financial market development, short-term26 and medium-term instruments, with a focus on the instruments with longer maturity, with the acceptable growth of costs and risk level mitigated by the continued use of the available support by multilateral creditors.

The following table shows the stylised instruments of financing the debt portfolio, the share in gross financing for the period from 2021 to 2024, and their estimated share in the debt portfolio at the end of 2024.

[24] Unforeseen circumstances such as COVID-19 pandemic.

[25] For the following period, i.e., from 2021 to 2024, the targeted values presented in Table 7 are kept for each indicator, except for the domestic debt state as the percentage of the total observed debt, the value of which is changed to ≥ 20 due to a more significant reliance on external financing sources in the previously mentioned period, as shown in Table 9.

[26] Short-term instruments will be exclusively used for temporary financing of the deficit resulting from the cash flow.

Table 9: The stylised debt portfolio financing instruments, their share in the gross financing for the period from 2021 to 2024, and their estimated share in the debt portfolio at the end of 2024

Instrument name	Repayment period	Grace period	% of portfolio at the end of 2020	average over the period	% gross financing needs 2021	2022	2023	2024	% of portfolio at the end of 2024
External variable USD (concessional)	18	4	1.3	0.0	0.0	0.0	0.0	0.0	0.4
External variable EUR (concessional)	18	4	12.5	14.8	13.8	22.5	14.4	2.7	15.4
External fixed USD (concessional)	20	5	17.9	0.2	0.9	0.0	0.0	0.0	9.9
External fixed EUR (concessional)	20	5	22.7	11.3	14.6	10.4	11.2	7.1	21.3
IMF variable USD (concessional)	5	3	6.3	0.0	0.0	0.0	0.0	0.0	1.7
Euro bonds 5-year fixed EUR (market)	5	4	6.3	29.8	67.1	45.9	0.0	0.0	15.9
Euro bonds 7-year fixed EUR (market)	7	6	0.0	24.3	0.0	0.0	73.0	0.0	13.0
Domestic credit variable (market)	6	1	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Domestic credit fixed (market)[27]	10	1	3.5	3.8	0.0	0.0	0.0	27.7	2.0
Domestic bonds 3-year (market)	3	2	3.7	1.2	0.0	1.6	0.0	5.5	1.2
Domestic bonds 5-year (market)	5	4	11.2	6.6	0.0	10.5	0.0	27.4	7.7
Domestic bonds 7-year (market)	7	6	5.2	4.0	1.6	6.0	0.7	12.9	4.5
Domestic bonds 10-year (market)	10	9	8.6	3.9	2.0	3.0	0.7	16.6	7.0
External sources			**67.0**	**80.5**	**96.3**	**78.9**	**98.6**	**9.8**	**77.6**
Domestic sources			**33.0**	**19.5**	**3.7**	**21.1**	**1.4**	**90.2**	**22.4**

Source: RS MF

The standard cost and risk indicators of the RS Strategy, the estimated values for 2021, the targeted values for 2022, and orientation values for the period from 2023 to 2024 are shown in the table below.

27 The domestic credit fixed (market) indicator comprises the state of debt under treasury bills as of 31 December 2020 due to the limits in the form of the limited number of instruments in the quantitative analysis tool used to prepare the RS Strategy.

Table 10: The RS Strategy cost and risk indicators from 2021 to 2024

	Initial 2020	Strategy 2021	2022	2023	2024
Nominal debt amount compared to GDP (%)	**46.9**	**46.8**	**47.3**	**46.6**	**43.2**
Debt current value compared to GDP (%)	40.5	40.7	41.5	41.1	38.5
Borrowing cost					
Interest amount to GDP (%)	1.0	0.9	1.0	1.1	1.2
Weighted average interest rate, in % (WAIR)[28]	2.1	2.1	2.3	2.5	2.7
Refinancing risk					
Debt maturing within one year (% of the total debt)	10.7	7.8	14.3	8.7	9.3
Debt maturing within one year (% of GDP)	5.0	3.6	6.7	4.0	4.0
External debt average time to maturity, in years (ATM)	7.4	7.6	6.9	6.7	6.1
Domestic debt average time to maturity, in years (ATM)	3.6	4.9	4.5	4.0	3.5
Total debt average time to maturity, in years (ATM)	6.2	6.9	6.3	6.1	5.5
Interest rate risk					
Average time to re-fixing (ATR)	4.8	5.5	4.9	4.7	4.2
Debt re-fixed within one year (% of the total debt)	29.5	23.0	28.1	24.2	24.7
Fixed interest rate debt (% of the total debt)	79.1	81.5	81.5	81.1	82.5
Currency risk					
External debt (% of the total debt)	67.0	74.8	76.4	76.4	77.6
External debt, excluding the debt in EUR (% of the total debt)	25.5	23.1	19.6	15.8	12.0
Short-term external debt (in % of foreign currency reserves)	4.4	4.2	12.8	6.6	5.4

Source: RS MF

At the end of the observed four-year period, and when compared to the end of 2020, the borrowing cost indicators will worsen (interest in comparison with GDP and the average weighted interest rate), certain risk re-financing indicators (the average time to maturity), the interest rate risk (the average time to re-fix, the debt re-fixed within one year, of the total) and currency risk (the share of external debt in the total debt and the share of short-term external debt in foreign currency reserves), which is the result of the changed financing sources structure and the projected budget deficit, as well as the needs to borrow in the period from 2021 to 2024. On the other hand, at the end of the observed four-year period, the nominal debt amount will decrease when compared to GDP, and certain refinancing indicators will improve (debt maturing within one year as the percentage of the total debt and GDP), the interest rate risk (debt re-fixed within one year as the percentage of the total debt, the fixed interest rate debt as the percentage of the total debt), and the currency risk (the external debt, including debt in EUR, as the percentage of the total debt), as the result of using predominantly fixed interest to finance the needs.

With the aim of analysing the susceptibility of debt to the developments of key variables, the table below shows the values of certain indicators in accordance with the baseline scenario of the development of the foreign exchange rate and interest rates, and alternative scenarios, including the application of shocks and interest rate shocks

28 Values of the average weighted interest rate for the period 2021-2024 are calculated by bringing into relation of the amount of interest for the given year and the state of debt for the previous year. See the method of calculation of this indicator for 2020 in footnote no. 7

Table 11: Cost and risk indicators achieved from 2014 to 2020, and the estimated indicators for the period from 2021 to 2024 in accordance with different foreign exchange rate and interest rate development scenarios

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Nominal debt amount compared to GDP (%)											
The baseline scenario	**47.7**	**47.9**	**49.2**	**45.4**	**43.7**	**43.0**	**46.9**	**46.8**	**47.3**	**46.6**	**43.2**
Scenaro 1[29]	-	-	-	-	-	-	-	46.8	50.4	49.5	46.0
Scenaro 2[30]	-	-	-	-	-	-	-	46.8	47.3	47.1	43.9
Scenaro 3[31]	-	-	-	-	-	-	-	46.8	49.4	48.8	45.5
Interest amount compared with GDP (%)											
The baseline scenario	**1.0**	**1.1**	**1.1**	**1.0**	**1.0**	**1.0**	**1.0**	**0.9**	**1.0**	**1.1**	**1.2**
Scenario 1	-	-	-	-	-	-	-	0.9	1.1	1.2	1.3
Scenario 2	-	-	-	-	-	-	-	0.9	1.0	1.7	1.4
Scenario 3	-	-	-	-	-	-	-	0.9	1.0	1.4	1.3
Interest amount compared with revenues (%)											
The baseline scenario	**5.6**	**6.2**	**4.4**	**3.9**	**3.8**	**3.8**	**3.9**	**3.4**	**3.9**	**4.3**	**4.7**
Scenario 1	-	-	-	-	-	-	-	3.4	4.1	4.5	5.0
Scenario 2	-	-	-	-	-	-	-	3.4	3.9	6.5	5.6
Scenario 3	-	-	-	-	-	-	-	3.4	4.0	5.6	5.3

Source: RS MF

It results from the Table above that the most serious deterioration of the debt state indicators in comparison with GDP is the result of the extreme shock of the depreciation of the domestic currency in comparison with foreign currencies, while the most serious deterioration of the interest rate amount in comparison with GDP and revenues is the result of the extreme shock of interest rate values.

In implementing the RS Strategy, the borrowing activities will be implemented in accordance with the best practices, as follows:

1) Activities in the domestic and international financial market will be carried out professionally, transparently, purposefully and timely, while the contracted obligations will be regularly services;
2) The selection of the borrowing conditions will be directed (in accordance with the priorities' list) to re-financing the debt, securing the funds to finance the budget execution, alignment with the provisions of the RS Fiscal Responsibility Law and the achievement of the identified debt indicators;

[29] BAM/USD exchange rate depreciation by 30% p.p. in 2022

[30] Interest rates in 2022 are by 4% p.p. on the medium-term domestic and long-term external instruments, and by 2% p.p. On the short-term domestic instruments. As the short-term instruments will not be used in the following period to finance budget needs, but only to temporary finance the deficit arising from the cash flow, the application of shock on the short-term instruments does not result in any additional needs.

[31] The BAM/USD exchange rate depreciation in 2020 combined with the 2022 interest rates shock at the rate of 2% p.p. on the medium-term domestic and long-term external instruments and 1% p.p. on short-term domestic instruments. As the short-term instruments will not be used in the following period to finance budget needs, but only to temporary finance the deficit arising from the cash flow, the application of shock on the short-term instruments does not result in any additional needs.

3) When planning the borrowing, the accent will be placed on the development and extending the long-term possibilities of borrowing on the financial market, rather than on the short-term comparative benefits of each individual transaction;
4) Generally speaking, the most favourable borrowing conditions will be secured, bearing in mind the principle referred to under 2).

In order to implement the RS Strategy, the RS MF
determined the following tasks:

1) To develop and maintain cooperation with partners and investors on the domestic and foreign market;
2) To prepare and possibly revise, of the medium-term borrowing plan and auction calendar based on the cash flow in order to ensure a stable pattern of total monthly budget cash inflow;
3) To publish a calendar of auctions on a quarterly basis, in line with the possibilities, to ensure information on the planned auctions over a longer period and in the medium-term borrowing plan;
4) To continuously maintain the supply of short- and medium-term financial instruments on the domestic financial market; to ensure that the instruments and procedures are efficient and favourable for primary trade in order to enable further development of the domestic securities market;
5) To monitor the development of the debt portfolio in comparison with the identified debt indicators and annual
reporting on their values;
6) To explore the possibilities and harmonise practices and procedures on the domestic securities market with those on the EU market, if realistically possible over the medium-term period.
7) To manage the credit rating assessment process, including active participation of the representatives of the competent institutions.

With the aim of reducing the exposure to financial risks, the following measures need to be implemented:

1) To extend the average maturity of the debt issued in the form of securities, if possible, and taking into consideration the situation on the domestic and international markets,
2) To extend the domestic debt average maturity,
3) To reduce the share of external debt denominated in non-EUR currencies,
4) To equally distribute the debt repayment obligations by years in the following long-term period.

In accordance with the determined goals and debt management principles, and having in mind the debt structure, the changes in the financing structure and financial markets situation, the previously identified debt structure indicators will be retained, as well as their values represented in Table 7, except for the state of domestic debt as the percentage of the total observed debt, the value of which changes to ≥ 20 due to a more significant reliance on the external financing sources in the following period.

Schedule 1 RS Strategy scope

		Included/excluded	% of the total debt	Amounts as of 31 December 2020 in million BAM	in million USD[32]	% of GDP
1	**Total debt(1.1+1.2+2a)**		**100.0%**	**5,833.4**	**3.662,9 $**	**52.4%**
1.1	**External debt**		**60.5%**	**3,526.4**	**2.214,3 $**	**31.7%**
1.1.1.	RS		39.39%	2,297.6	1.442,7 $	20.6%
1.1.1.1.	The relevant external debt	✓[33]	33.6%	1,959.9	1.230,7 $	17.6%
1.1.1.2.	The relevant external debt - PK Germany	X[34]	0.2%	9.1	5,7 $	0.1%
1.1.1.3.	The direct external debt	✓	5.6%	328.6	206,3 $	3.0%
1.1.2.	Units of Local Government		2.1%	121.4	76,2 $	1.1%
1.1.2.1.	The relevant external debt	✓✓[35]	1.7%	99.7	62,6 $	0.9%
1.1.2.2.	The direct external debt	XX[36]	0.4%	21.8	13,7 $	0.2%
1.1.3.	Public Enterprises and IRB		19.0%	1,107.4	695,4 $	9.9%
1.1.3.1.	The relevant external debt	✓✓	18.4%	1,074.1	674,4 $	9.6%
1.1.3.3.	The direct external debt	✓✓	0.6%	33.3	20,9 $	0.3%
1.2.	**Domestic debt**		**39.5%**	**2,305.0**	**1.447,4 $**	**20.7%**
1.2.1.	RS		29.5%	1,721.8	1.081,1 $	15.5%
1.2.1.1.	Verified domestic debt		4.9%	286.2	179,7 $	2.6%
1.2.1.1.1.	The issued bonds for the settlement of the obligations defined under the RS Borrowing Law (SDŠ, RŠ, OO)	✓	3.8%	221.5	139,1 $	2.0%
1.2.1.1.2.	The planned issuances of bonds to settle the verified obligations defined under the RS Borrowing Law (RŠ)	✓	0.3%	15.9	10,0 $	0.1%
1.2.1.1.2.	Cash payments (OO, RŠ, SDŠ, tax refunds)	✓	0.8%	48.8	30,6 $	0.4%
1.2.1.2.	Medium-term bonds	✓	18.6%	1,084.6	681,1 $	9.7%
1.2.1.3.	Treasury notes	✓	1.9%	108.7	68,3 $	1.0%
1.2.1.4.	Long-term loans with commercial banks	✓	4.2%	242.2	152,1 $	2.2%
1.2.2.	Local self-government units	XX	6.4%	370.7	232,8 $	3.3%
1.2.3.	Social security funds		3.6%	212.6	133,5 $	1.9%
1.2.3.1.	Direct borrowing	XX	3.6%	210.1	131,9 $	1.9%
1.2.3.2.	Indirect borrowing	✓	0.0%	2.5	1,5 $	0.0%
2	**Guarantees (a+b+c)**			**656.1**	**412,0 $**	**5.9%**
a	RS activated guarantees	✓✓✓[37]	0.0%	2.0	1,3 $	0.0%
b	Non-active RS guarantees covered by the total	XX	3.0%	177.8	111,6 $	1.6%
C	RS inactive guarantees	XX[39]	-	476.2	299,0 $	4.3%
3	**Total debt included in the RS Strategy**		**89.5%**	**5,221.8**	**3.278,9 $**	**46.9%**
4	**Total debt excluded from the RS Strategy**		**10.5%**	**611.6**	**384,0 $**	**5.5%**

Source: RS MF

[32] The values expressed in USD are based on the exchange rate USD/BAM=1,592566, as per the exchange rate list of the BiH CB no. 259 of 31 December 2020.
[33] A direct obligation with a clearly determined repayment obligation.
[34] A direct obligation, but without a clearly determined repayment method.
[35] An indirect obligation with a clearly determined repayment obligation.
[36] Neither a direct nor an indirect obligation.
[37] Issued guarantees that have been activated and converted into an RS debt.
[38] RS guarantees issued for direct borrowing of the local self-government units and social security funds that have not been activated.
[39] RS guarantees issued for direct borrowing of public companies and public sector that have not been activated.

Schedule 2 Analytic premises

In this part, the other analytic premises used for the quantitative analysis of the RS Strategy are presented. The debt repayment plans are generated on the basis of the baseline and alternative scenarios, with the application of currency and interest rate shocks. The costs are calculated on the basis of the baseline debt repayment profile, while the risks are measured by the increase in the debt repayment as the result of the foreign exchange and interest rate shocks.

The baseline scenario is based on the most probable market conditions. The following table represents the stylised instrument interest rate and foreign exchange rate projections from 2021 to 2024, used in the baseline scenario.

Table: Stylised finance instrument and foreign exchange rate projections between 2021 and 2024

	2021	2022	2023	2024
Stylised instruments				
External variable USD (concessional)	1.2%	1.5%	1.9%	2.2%
External variable EUR (concessional)	0.5%	0.6%	0.7%	0.9%
External fixed USD (concessional)	2.5%	2.8%	3.2%	3.5%
External fixed EUR (concessional)	1.7%	1.8%	2.0%	2.2%
IMF variable USD (concessional)	1.1%	1.3%	1.7%	2.0%
Euro bonds 5-year fixed EUR (market)	4.8%	5.0%	5.2%	5.4%
Euro bonds 7-year fixed EUR (market)	5.0%	5.2%	5.4%	5.6%
Domestic credit variable (market)	2.0%	2.0%	2.2%	2.4%
Domestic credit fixed (market)	3.2%	3.3%	3.5%	3.6%
Domestic bonds 3-year (market)	1.7%	1.7%	1.9%	2.0%
Domestic bonds 5-year (market)	3.0%	3.1%	3.2%	3.4%
Domestic bonds 7-year (market)	3.3%	3.4%	3.5%	3.6%
Domestic bonds 10-year (market)	3.5%	3.6%	3.7%	3.8%
Exchange rate				
BAM/USD	1.6%	1.6%	1.6%	1.6%

Source: RS MF and BiH MFT.

The following shocks were applied to analyse the vulnerability:

- **Foreign exchange shock:** BAM/USD exchange rate depreciation in the amount of thirty percentage points in 2022 when compared to the initial premise on the value of the foreign exchange rate for that year;
- **Interest rate shock:** When compared to the baseline scenario of the interest rate development, in 2022, the interest rates on medium-term domestic and long-term external instruments are by 4% p.p. Higher, while those on short-term domestic instruments are by 2% p.p. As short-term instruments will not be used in the following period to finance budget needs, but only to temporary finance the deficit arising from the cash flow, the application of the shock to short-term instruments does not result in any new needs.
- **Combined shock:** The depreciation of the BAM/USD exchange rate of 20% p.p. in 2022, in comparison with the initial assumption, and combined with the 2022 interest rates shocks, in comparison with the initial assumptions on their development, in the amount of 2% p.p. on

short-term domestic and long-term external instruments, and 1% p.p. on short-term domestic instruments. As the short-term instruments will not be used in the following period to finance budget needs, but only to temporary finance the deficit arising from the cash flow, the application of shock on the short-term instruments does not result in any additional needs.

B. FBiH DEBT MANAGEMENT STRATEGY

1. REGULATORY AND INSTITUTIONAL FRAMEWORK

1.1. Regulatory framework

The complexity of the constitutional organisation of BiH resulted in the establishment of a multi-layered
regulatory and institutional framework to manage debt on all levels of governance.

- The procedure of contracting new external state loans is prescribed in Article 39 of the Law on Borrowing, Debt and Guarantees of BiH (*Official Gazette of BiH,* 52/05, 103/09 and 90/16) (BiH Borrowing Law), While the allocation of the obligation to repay the state debt is prescribed in Article 50
- of the BiH Borrowing Law, which also authorises both Entities and BD BiH to conclude borrowing contracts with external creditors as direct debt, which is subjected to a previous approval of the BiH Parliamentary Assembly;
- In accordance with the Law on Debt, Borrowing and Guarantees of FBiH (*Official Gazette of FBiH,* 86/07, 24/09, 44/10 and 30/16) (FBiH Borrowing Law), FBiH may borrow in the country and abroad, and in domestic or in foreign currencies. The Federal Ministry of Finance (FBiH MF) is competent to carry out the borrowing procedure, issue guarantees and manage the FBiH debt.
- The FBiH Borrowing Law establishes the FBiH borrowing limits, as well as the purposes for which the FBiH may borrow on either the domestic or an international market, and issue guarantees.

1.2. The institutional framework

All debt- and guarantee-related transactions within the FBiH MF are carried out by the Debt Management Division headed by the assistant minister who is directly responsible to the minister of finance.

The Division comprises three Departments:

1. The Department for Borrowing and Coordination of Development Funds (the front office)
2. The Department for Analysis and Reporting (the middle office)
3. The Department for Debt Settlement (the back office).

This organisation of the Division ensures clear separation between the duties of civil servants authorised to negotiate and carry out the borrowing transactions, and civil servants charged with accounting records on these transactions, and debt servicing, as well as the civil servants responsible for monitoring, i.e., analysis and reporting.

2. THE STRATEGY GOALS AND SCOPE

2.1. Debt management goals

The FBiH Government debt management goals are as follows:

1. To secure financial funds to finance the Government's needs with acceptable costs and risks and in the long-term;

2. To develop the domestic securities market.

2.2. The FBiH Strategy Scope

The FBiH Strategy encompasses the debt portfolio as of 31 December 2021, managed by the FBiH Government, and shown in the Table below.

Table 1 The debt portfolio as of 31 December 2021, included in the FBiH Strategy

Type of debt	Included (√) / excluded (x)	Amount (in million BAM)
FBiH external debt, of which:		5,402.00
– The relevant FBiH external debt	√	5,336.83
– The direct FBiH external debt	√	65.17
The FBiH domestic debt, of which:		754.27
– FBiH treasury bills	√	50.00
– FBiH treasury bonds	√	630.00
– Old foreign currency saving bonds	√	0.00
– War claims bonds	√	74.27
GUARANTEES[40]		
– PC guarantees owned by the FBiH	x	1,200.86
– FBiH Guarantee Fund	x	100.09
TOTAL debt included in the FBiH Strategy		6,156.28

40 FBiH guarantees are not included in the FBiH Strategy, as it is not expected these will be activated during the observed period. The FBiH issued a guarantee for the construction of the Tuzla Thermal Power Plant Block 7 in the amount of 613.99 million EUR. The credit became effective, and the debt under this guarantee is 0 BAM, as no funds have been engaged by 31 December 2021.

3. FBiH GOVERNMENT DEBT PORTFOLIO

As of 31 December 2021, the debt portfolio under the responsibility and management of the FBiH Government amounts to 6,156.28 million BAM (3,567.55 million USD or 26.82% of the FBiH GDP[42]), and comprises the external debt in the amount of 5,402.01 million BAM (3,130.45 million USD or 87.75% of the total debt) and domestic debt in the amount of 754.27 million BAM (437.10 million USD or 12.25% of the total debt).

Table 2 The FBiH total debt as of 31 December 2021, included in the FBiH Strategy

Description	Foreign debt	Domestic debt	Total debt
Amount (in million BAM)	5,402.01	754.27	6,156.28
Amount (in million USD)	3,130.45	437.1	3,567.55
Nominal debt as % of the FBiH GDP	23.53%	3.29%	26.82%

3.1. The FBiH external debt structure as of 31 December 2021

3.1.1. The FBiH external debt structure by creditors

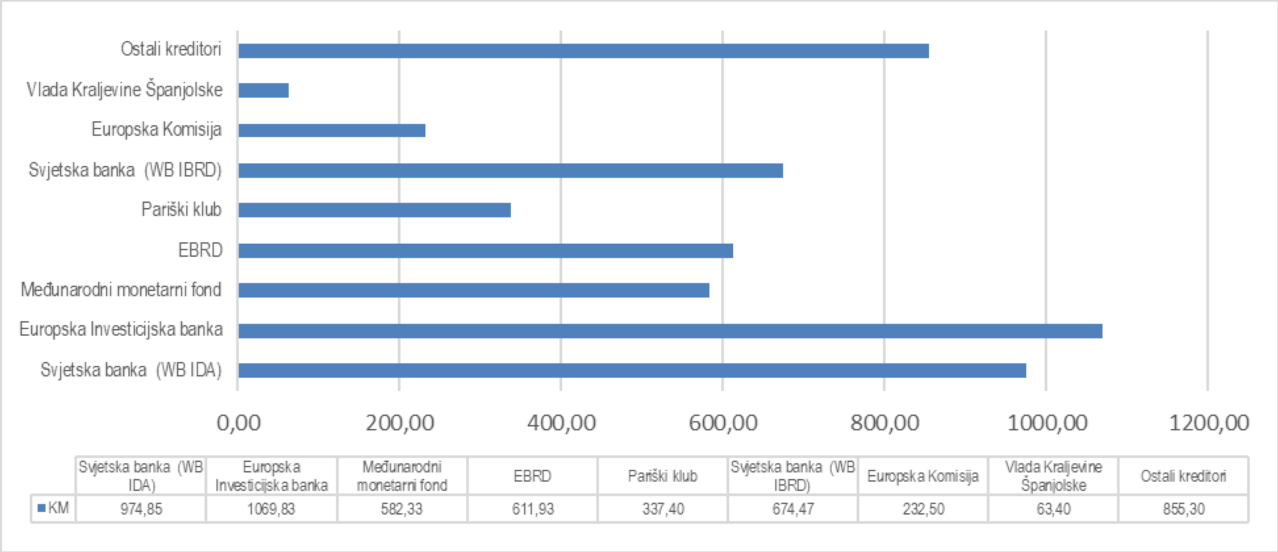
Due to the favourable credit conditions and concessional interest rates, the FBiH external debt is mostly contracted with international financial institutions and bilateral creditors.

Table 3 Overview of the FBiH external debt by creditors

Creditor	In USD	in BAM
World Bank - IDA	564,923,897	974,850,189
European Investment Bank	619,964,324	1,069,829,657
International Monetary Fund	337,458,973	582,329,665
EBRD	354,611,397	611,928,420
The Paris Club	195,521,969	337,398,771
World Bank - IBRD	390,854,459	674,470,570
European Commission	134,732,913	232,499,291
The Government of the Kingdom of Spain	36,737,546	63,395,448
Other creditors	495,646,843	855,303,557
Total	3,130,452,321	5,402,005,569

[41] The BiH CB foreign exchange rate list No. 259 as of 31 December 2021
[42] The estimated FBiH GDP in 2021 used for calculations amounts to 22.956 milliom BAM.

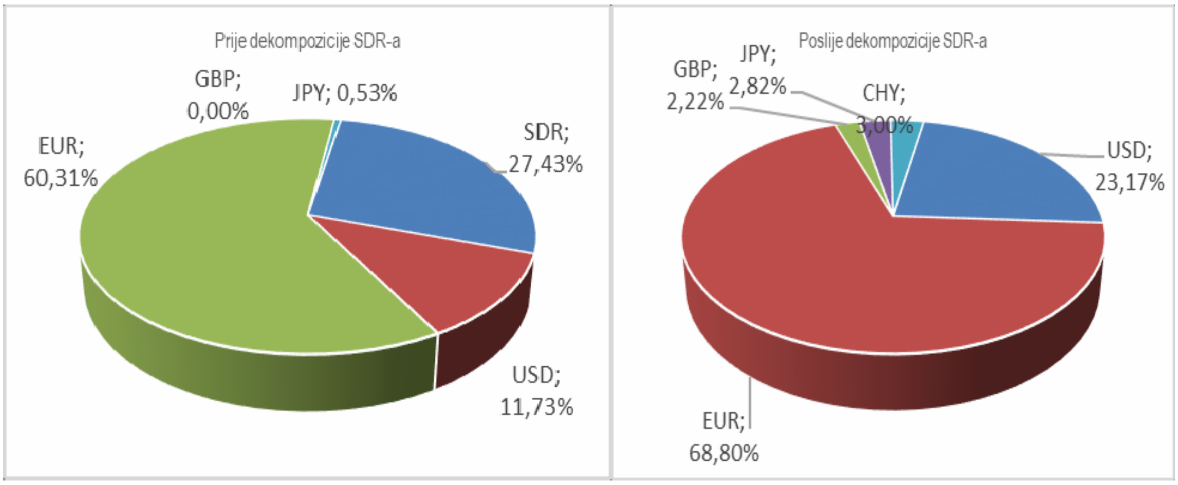
Figure 1. The FBiH external debt structure by creditors (in million BAM)



3.1.2. The FBiH external debt currency structure

The FBiH external debt currency structure is defined by the available financing sources. The most represented currency in the FBiH debt portfolio is EUR, followed by SDR[43] and USD.

Figure 2. The FBiH external debt currency structure



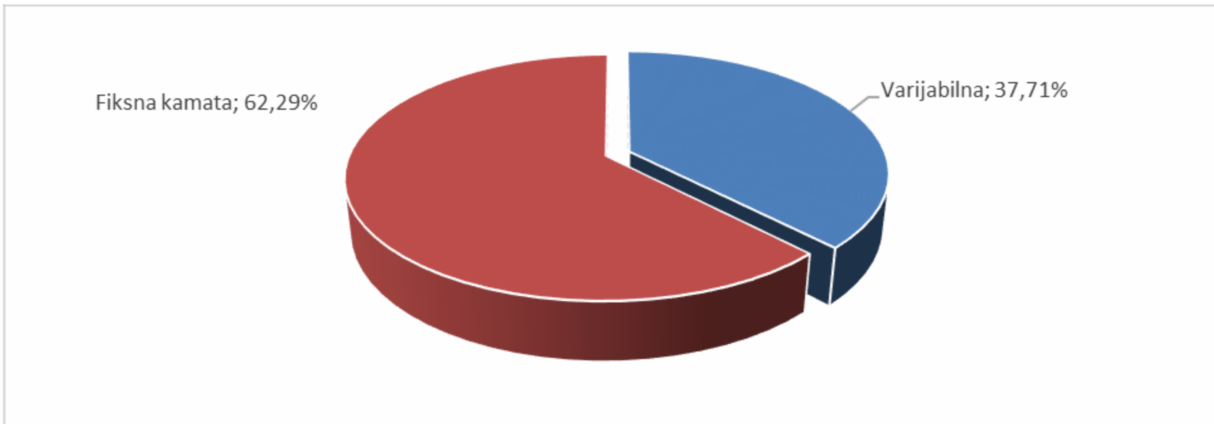
If SDR is decomposed, the EUR share grows to 68.80%, and the USD share to 23.17% of total external debt.

[43] SDR – the international reserve asset comprising the following currencies: Chinese Yuan (CNY) 1.0174, Euro (EUR) 0.38671, US dollar (USD) 0.58252, British pound (GBP) 0.085946 and Japanese Yen (JPY) 11.90.

3.1.3. The FBiH external debt interest structure

In total 3,834.98 million BAM or 62.29%, and 2,321.29 million BAM or 37.71% of external debt was contracted with a fixed and variable interest rate, respectively.

Figure 3. The FBiH external debt structure by the interest rate type



3.2. The FBiH domestic debt structure as of 31 December 2021

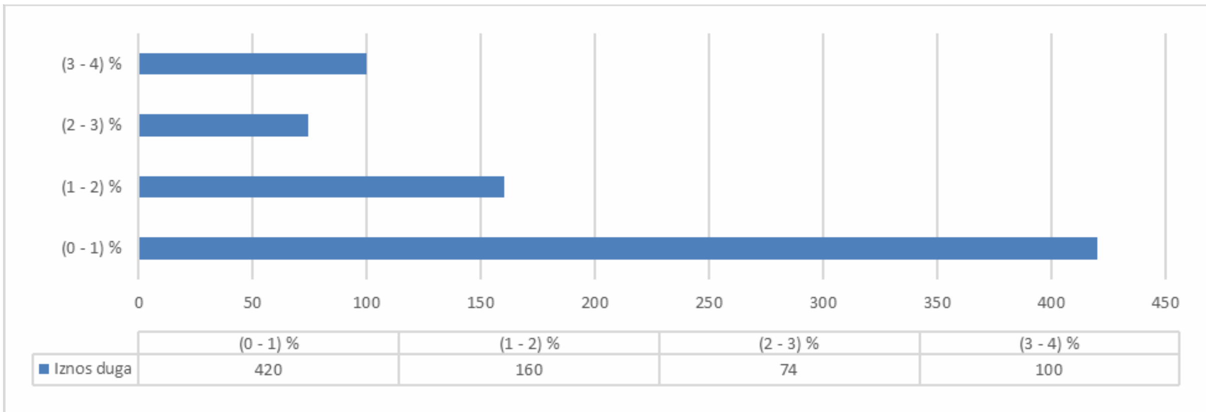
The domestic debt included in the FBiH Strategy comprises the debt created in accordance with the law, in the form of securities, and domestic debt created through the issuance of market securities. The domestic debt is contracted in the domestic currency (BAM) and with fixed interest rates.

Table 4 The FBiH domestic debt included in the Strategy

Type of debt	Included (√) / excluded (x)	Amount (in
The FBiH domestic debt, of which:		754.27
- FBiH treasury bills	√	50.00
- FBiH treasury bonds	√	630.00
- War claim bonds	√	74.27

3.2.1. The FBiH domestic debt interest structure

Figure 4. The FBiH domestic debt structure by the level of interest rate (BAM)



4. THE FBIH DEBT PORTFOLIO RISKS

4.1. The FBiH debt portfolio cost and risk characteristics

The average weighted implicit interest rate of the total FBiH debt portfolio is relatively low and amounts to 1.25%, and is the result of the proportion of the bonds issued to settle the war claims having the legally defined interest rate of 2.5% (74.28 million BAM) and market short-term and long-term securities in the form of bonds (680.0 million BAM). The external debt average weighted implicit interest rate also amounts to 1.25%.

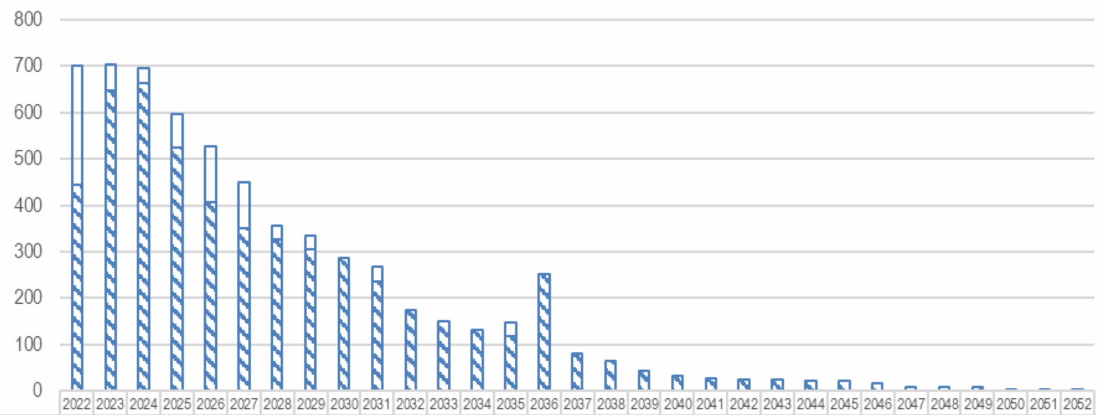
Table 5 The parallel view of the FBiH debt portfolio risk indicators as of 31 December 2021 compared with the indicators at the end of 2020.

Risk indicators		**Foreign debt**		**Domestic debt**		**Total debt**	
		2019.	2020	2019	2020	2019	2020
Debt amount (million BAM)		4,982.7	5,406.6	849.9	754.3	5,832.6	6,160.9
Debt amount (million USD)		3,128.7	3,133.1	533.6	437.1	3,662.4	3,570.2
Nominal debt in % of GDP		22.6	23.6	3.8	3.3	26.4	26.8
Current debt value as % of GDP		18.8	19.1	3.8	3.3	22.7	22.4
Debt costs	Interest as % of GDP	0.3	0.3	0.05	0.04	0.4	0.3
	Average weighted interest rate (%)	1.4	1.2	1.7	1.2	1.5	1.2
Re-financing risk	Average maturity (years)	6.2	6.6	3.3	3.6	5.8	6.2
	Debt maturity in the following year (% of the total debt)	8.9	8.2	27.7	33.9	11.6	11.5
	Debt maturity in the following year (% of	2	1.9	1.1	1.1	3.1	3.0
Interest risk	Average re-fixing period (years)	3.3	4.2	3.3	3.6	3.7	4.1
	Debt re-fixed in the following year (% of the total debt)	49.1	47.5	27.7	33.9	46	45.8
	Fixed interest rate debt (% of the total debt)	55.4	57.1	100	100.0	61.9	62.5
Currency risk	Foreign currency debt (% of the total debt)					85.4	87.8
	Short-term foreign currency debt (% of					3.7	3.0

4.2 Refinancing risk

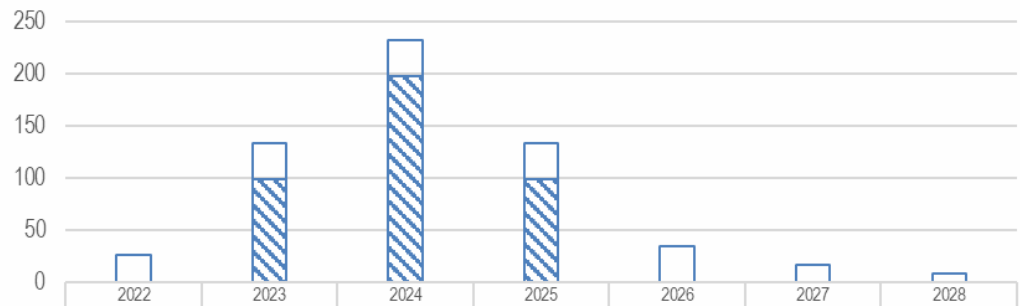
The re-financing risk is significant for both the domestic and external debt, and is concentrated on the short- and medium-term. The average maturity (ATM) of domestic debt is 3.6 years in comparison with 6.6 years for external debt. The average time to maturity of the total debt is 6.2 years. The shorter average time to maturity of the domestic debt in comparison with the external debt is the result of the degree of development of the domestic securities market, as there is no significant market potential to issue bonds with longer maturities, and of the obligations under the domestic debt prescribed by the law (bonds issued to settle war claims).

Figure 5. The FBiH domestic debt structure as of 31 December 2021 (in million BAM)



	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052
Unutarnji dug	256	56	31	71	120	101	30	30	0	30	0	0	0	30	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Vanjski dug	445	647	665	525	407	350	327	305	287	236	174	149	131	118	251	80	66	43	31	27	25	24	22	20	16	9	9	7	2	2	2

Figure 6. The profile of the FBiH debt repayment to the IMF as of 31 December 2021 (in million BAM)



	2022	2023	2024	2025	2026	2027	2028
Dospijeća glavnica EFF	26	34	34	34	34	17	9
Dospijeća glavnica RFI	0	99	197	99	0	0	0

4.3 Interest risk

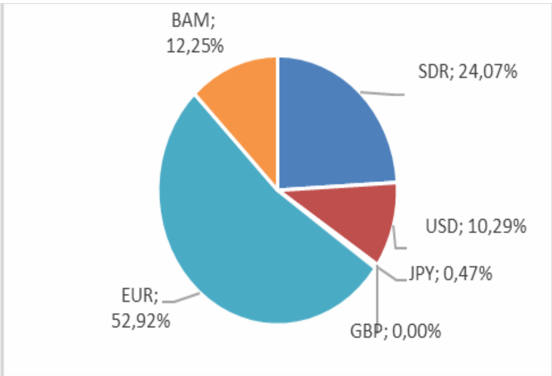
The share of the debt portfolio reflected within one-year amounts to 45.8%, and is the result of the fact that almost half of the external debt portfolio was contracted with a variable interest rate, and the shorter maturities of the market securities issued on the domestic market.

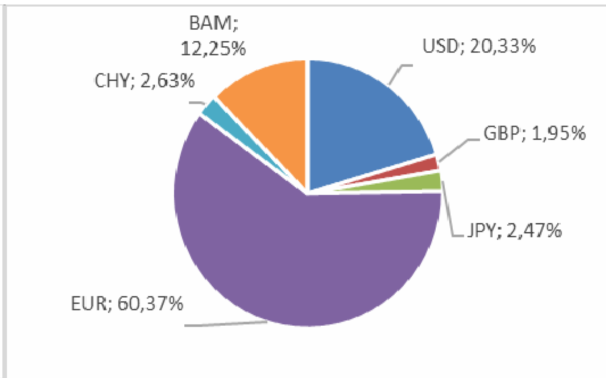
The average time of the FBiH debt portfolio reflection is 4.15 years, of which re-fixing of the external debt takes 4.22 years on average, and re-fixing of the domestic debt 3.63 years.

4.4 The FBiH debt portfolio currency risk

The most represented currencies in the FBiH debt portfolio are EUR (52.92%), SDR (24.07%), USD (10.29%) and BAM (12.25%). If SDR is decomposed, the EUR share grows to 68.80%, and the USD share to 23.17% (Figure 7).

Figure 7. The total FBiH debt currency structure as of 31 December 2021, before and after SDR decomposition





The FBiH debt portfolio currency structure is relatively high. Slightly more than 35% of the external debt is susceptible to the fluctuations in the foreign exchange rate, bearing in mind its structure (EUR – 60,31%, SDR – 27,43% and USD – 11,73%), in which, after the SDR decomposition, the share of EUR grows to 68.80%.

4.5 Potential obligations

The FBiH potential obligations are financial obligations under issued guarantees or FBiH Parliament decisions on the possible takeover of the obligations of cantons, cities, municipalities, or public companies, which may become the obligations of the FBiH budget.

4.5.1 Guarantees

In 2019, at the request of the PC Elektroprivreda BiH, the FBiH issued an external guarantee in favour of the Exim Bank of China in the amount of 613.99 million EUR (1,200.86 million BAM) with the purpose of the construction of the Tuzla TPP Block 7. Although the credit became effective on 5 December 2019, no funds have been engaged by 31 December 2021, whereby the debt under this guarantee is zero (0) BAM.

In the context of the measures to prevent the consequences of the COVID-19 pandemic, the FBiH government established the Guarantee Fund under the FBiH Development Bank, the total guarantee potential of which is 500 million BAM. As of 31 December 2021, the total funds amounted to 100.09 million BAM, while the exposure of the fund toward the issued guarantees amounts to

83.76 million BAM. Considering that the Guarantee Fund funds exceed the number of guaranteed obligations, the obligations under the guarantees do not affect the FBiH budget in the observed period in any way.

In the observed period, it is expected that the guarantees will be activated to the extent to which it would be necessary to engage additional budget funds, and are therefore not included in the FBiH Strategy.

4.5.2 Taking over the obligations of end-users

Although the FBiH Borrowing Law prescribes that the debt of cantons, cities, municipalities and public companies represents their absolute and unconditional obligation, and neither a direct nor indirect obligation of the FBiH, the current financial position of several cantons, municipalities and public companies to which the FBiH forwarded credits, points to possible difficulties in them servicing their obligations.

5. MACROECONOMIC FRAMEWORK[44]

In 2021, it is projected that the global, EU, and BiH economies will recover and grow.

In autumn 2021, the Directorate for Economic Planning (DEP)[45] with the Council of Ministers of BiH (BiH CoM) projected that BiH economy will recover in 2021 with the GDP growth rate of 3.1%, while from 2022 to 2024 The average GDP should grow at the rate of 3.5%. It is predicted that this growth of the economy will be predominantly affected by the improvement of economic developments in the surroundings, representing the most important determinant of the economic growth, and which are expected to positively affect the growth of the domestic production, spending, employment and investments.

In accordance with the officially published results, and when compared to the first quarter of 2020, in 2021, BiH achieved real growth at the rate of 2.5%, while the growth in the second quarter was 11.6%[46]. This growth in the second quarter is the result of the growth of other activities, of which the highest growth was recorded in the export of goods and services, export, gross investments and domestic spending at the rate of 51.3%, 38.8%, 14.9% and 13.2%, respectively.

In the period from 2021 to 2023, DEP projected the recovery of BiH at the rate of 3.4%, 3.5% and 3.7%, respectively, provided the improvement of the pandemic-related situation and improvement of the economic developments in the surrounding countries that will result in a more favourable business environment in BiH.

Overview of the growth of GDP in the Western Balkan countries

Projections	2020	2021	2022	2023
Albania	-4.0	7.2	3.8	3.7
BiH	-3.2	4.0	3.0	3.2
Kosovo	-5.3	7.1	4.1	4.4
Montenegro	-15.3	10.8	5.6	4.8
North Macedonia	-4.5	4.6	3.7	3.4
Serbia	-0.9	6.0	4.5	4.0
Western Balkan	-3.1	5.9	4.1	3.8
EU 27	-7.0	3.7	4.0	4.0

Source: World Bank, Regular Economic Report no. 20, autumn 2021.

44 The 2021-2023 FBiH Framework Budget Document, Sarajevo, September 2020

45 DEP: The Framework Budget Document, Macroeconomic projections, 2022-2024, September 2021.

46 BHAS: Gross domestic product-expenditure method-three-month data (chain values in the prices, 2015), from 4 October 2021.

For the Western Balkan countries, the World Bank projects growth at the rate of 5.9%, 4.1% and 3.8% in 2021, 2022 and 2023, respectively. The basis for such prognosis is the more favourable economic developments in the surrounding countries that will affect export and improve the domestic market and domestic spending, as well as activities in tourism.

Despite the measures taken by the Western Balkan countries, unemployment grew in 2021, and the labour market will demand for special attention in the following period.

In accordance with the officially published results[47], economy started to recover in 2021, i.e., in the first quarter of 2021 when compared to the same quarter of the previous year, when the growth rate was 2.2%, while the second quarter recorded a high growth rate of 13.3%. All these areas recorded growth in the second quarter, while the most significant growth was achieved in trade, motor vehicles and motorcycles repair, transport and storage, and hotel and hospitality industry, at the rate of 32.45, with the rate of 23.1% recorded in the export-oriented processing industry. It is important to note that the real GDP achieved in the first two quarters of 2021 was higher in its absolute amount when compared to the same quarters in 2019, pre-pandemic year (2021: IK-5,043,414 and IIK-5,463,284; 2019: IK-4,851,216 and IIK-5,316,536 – in thousands BAM, chain values in prices 2015).

Provided that the pandemic is suppressed, i.e., if the population is successfully vaccinated, international financial institutions project recovery and growth of economies on all levels over the following medium-term. Recovery of the surrounding countries, i.e., our most important foreign trade partners will strongly encourage the growth of both the BiH and FBiH economies. It is expected that BiH will return to the pre-pandemic growth in the medium-term, while the existing political difficulties resulting in the government paralysis, and the upcoming general elections in 2022 represent the primary risk for the growth projections.

It is projected that the growth in FBiH in 2021, 2022 and 2023 will be 3.2%, 3.4%, 3.6% and 3.9%, respectively, provided the growth of the most important determinants of economic growth, i.e., private spending and investments, as well as provided the recovery of the biggest employment-generating activities and increased personal income due to positive developments in the surrounding countries, and positive internal dynamics.

The FBiH Government will continue taking measures in 2022 to overcome the consequences of the pandemic, i.e., measures to maintain the liquidity of business entities, preserve jobs and rehabilitate the health sector. The FBiH Government's measures taken in view of the economy aim at increasing the level of competitiveness and improve business environment, i.e., to encourage economic growth in general. Likewise, the focus will be placed on the priorities related to joining the EU and more efficient and faster comprehensive reforms, which will positively affect the FBiH economic growth in the following period.

Table 6 FBiH macroeconomic indicators 2022 – 2024 (in million BAM)[48]

Indicator	2022	2023	2024
Public revenues (including grants) (in million BAM)	4,044.5	4,373.8	4,544.5
Primary public sector expenditures (in million BAM)	4,010.2	3,939.3	4,011.9
Primary public sector expenditures (in million BAM)	4,170.1	4,111.5	4,182.5
Expenditures for interests (in million BAM)	159.8	172.2	170.6
Foreign currency reserves (in million USD)[49]	8,866.32	9,040.17	9,329.92
GDP (nominal) (in million BAM)	24,219	25,216	26,646

47 FBiH SA: Three-month gross domestic product, 2nd quarter
48 FBiH Framework Budget Document 2022 – 2024, Sarajevo, September 2020
49 Source: BiH CB, calculation as per the USD foreign exchange rate as of 31 December 2021

Nominal growth in %	5.5	4.1	5.7
Real GDP (in million BAM) (previous year = 100)	23,861	24,795	25,989
Real growth in %	3.9	2.4	3.1

Table 7 Macroeconomic risks and implications on the FBiH Strategy

The real sector		
- Growth	Medium to high	Weak external demand or higher financial instability may decrease the growth potential, which would result in difficulties in the fiscal policy and in higher borrowing.
Fiscal sector		
- Debt sustainability	Medium	Pressure on the existing revenues and capital investments would increase financial needs. Potential liabilities, whether from the banking sector or state enterprises, might lead to the increase in gross financial needs and financing costs and deterioration of the fiscal balance, which might result in greater domestic and external borrowing.
Payment balance		
- External demand / exchange rate currency	Medium to high	Slow global growth, especially in the EU, may result in the decline of the export and foreign direct investments, and thus pressurise foreign currency reserves, which could, having in mind the currency board arrangement, result in higher external borrowing.
Inflation		
- Prices of goods / exchange rate	Medium to low	The growth of the prices of energy, food, beverages and utilities will have the biggest influence on the growth of prices. Higher inflation may lead to higher debt servicing costs.
Financial system		
- Overall state	Medium	The banking system capital adequacy rate is significantly higher than the legal minimum and shows a satisfactory capitalisation of the total system for the existing level of risk exposure, and represents a strong basis for the preservation of its security and stability.

6. SOURCES OF FINANCING

6.1. External sources of financing

Foreign financial funds available to the FBiH, which the FBiH plans to engage between 2022 and 2024 are estimated in the amount of 4,986.65 million BAM (2,889.75 million. USD). Having in mind the goals defined in the FBiH Strategy, and the costs and risks of contracting loans, the FBiH will continue its policy of maximising borrowing from multilateral financial institutions, and it is estimated that close to 90,5% of the planned needs might be met from financing from these sources.

Table 8: In addition to the contracted and planned external sources of financing between 2022 and 2024

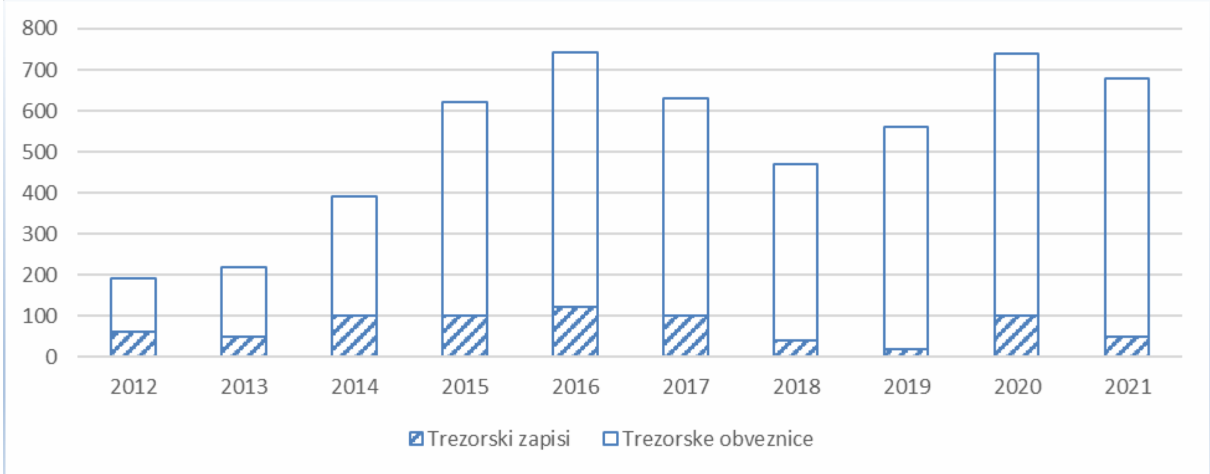
Creditor	Interest rate	Grace period	Repayment period	Currency	Financing in million USD	%	Risks
IBRD	Fixed or variable	5-10	18-30	EUR	281.01	9.72%	Re-financing risks for the
EIB	Fixed or variable	4-5	25	EUR	1,260.74	43.63%	Re-financing risks for the
EBRD	Fixed or variable	3-5	12-15	EUR	978.26	33.85%	Re-financing risks for the
Kuwait Fund	Fixed	5	25	KWD	62.67	2.17%	Currency risk
Saudi Fund	Fixed	5	25	SAR	23.45	0.81%	Currency risk
OPEC Fund	Fixed	10	20	USD	30.66	1.06%	Currency risk
CEB	Fixed or variable	5	10	EUR	12.47	0.43%	Re-financing risks for the
IFAD	Fixed	10	30	SDR	13.06	0.45%	Re-financing risk and currency risk
KfW	Fixed or variable	2.5 - 10	12-20	EUR	57.42	1.99%	Refinancing risk
Other funds	Fixed or variable	3-5	10-15	EUR	170.01	5.88%	Re-financing and re-fixing risks for the variable
TOTAL					2,889.75	100.00%	

6.2. Domestic sources of financing

The domestic securities market is relatively little and underdeveloped, but certain growth is recorded as the result of the adaptation to the FBiH Government needs.

Domestic commercial banks are the most important investors when it comes to securities and FBiH market bonds, and mostly hold them until their maturity.

Figure 8. The FBiH domestic debt development under market securities
2012 – 2021 (in million BAM)



With the aim of securing further development of the domestic securities market and transparency of borrowing, having in mind its financial needs and costs as well, the FBiH Government will continue to hold auctions of bonds to the extent necessary to maintain the amount of funds on the FBiH single treasury account at a satisfactory level, as well as auctions of treasury bills in case of a surplus on the FBiH single treasury account as the result of misalignment of cash flows.

The number of issues and the extent of the offer of treasury bills (maturities of three, six, nine, and twelve months) will vary depending on the needs of the Treasury in the process of managing the liquidity. For future issuances of bonds, the FBiH will take into account the interests of investor, but also try to extend the average maturity of securities through issuing bonds with maturity longer than five years.

The FBiH market securities auctions are carried out in accordance with the annual indicative auction calendar published by the FBiH MF on their web page, except in cases when the FBiH MF cancels auctions because of satisfactory liquidity of the FBiH single treasury account.

Table 9 Structure, costs and risks of domestic sources of financing

DESCRIPTION	Treasury bills	FBiH bonds
Structure	Discount, one-time payment	Fixed or variable interest, one-time payment
Characteristics	Simple, satisfactory demand	The demand meets the current needs, market development will affect the demand
Costs	Low, except in case of the liquidity crisis or larger issues	Larger issue volume and extended maturity may result in increased costs
Risks	Re-fixing and re-financing risks	The risks depend on the achieved maturity, and include re-financing risks, and in case of variable rates, re-fixing risk

7. PRICES PREMISES AND SHOCK SCENARIO DESCRIPTIONS

This section presents four baseline scenarios of the FBiH Government financing needs. Premises of the interest rates and the estimated foreign currency exchange rates developments for the external debt between 2022 and 2024 are taken from the BiH MFT.

The stated scenarios have been tested to shocks, one interest, one currency and one combined, Interest-currency shock.

The premises of future developments of interest rates on the external debt are based on the yield curves on German and American bonds in the first half of June 2020.

For the projections of variable interest rates, 6M LIBOR and 6M EURIBOR, it is assumed that the difference between the values of 6M EURIBOR (6M LIBOR) and yields on German one-year bonds (American one-year bonds) will be equal over the observed period.

These interest rates represent reference interest rates for debt instruments with variable interest rates, while the existing borrowing was taken into account for debt instruments with fixed interest rate in estimating the level of interest.

The developments of interest rates on the domestic debt is calculated on the basis of simple expectations, on the basis of interest rates of the existing FBiH domestic debt portfolio.

Table 10 The estimated interest rates on external debt instruments between 2022 and 2024 used in the MTDS AT

Instrument name	interest		
	2022	2023	2024
Concessional USD Fixed	2.84%	3.21%	3.54%
Concessional EUR Fixed	1.80%	1.95%	2.16%
Concessional USD Variable	0.50%	0.87%	1.20%
Concessional EUR Variable	-0.46%	-0.31%	-0.10%
IMF RFI USD Variable	0.33%	0.70%	1.04%
IMF EFF USD Variable	0.33%	0.70%	1.04%
5Y Eurobond	4.95%	5.15%	5.35%
10Y Eurobond	5.45%	5.65%	5.85%
15Y Eurobond	5.94%	6.14%	6.34%

Table 11 The estimated spread (margin) on debt instruments with variable interest rate between 2022 – 2024 used in MTDS AT

	2022	2023	2024
Concessional USD Variable	1.03%	1.03%	1.03%
Concessional EUR Variable	1.03%	1.03%	1.03%
IMF RFI USD Variable	1.00%	1.00%	1.00%
IMF EFF USD Variable	1.00%	1.00%	1.00%

S&P[50] and Moody's[51] affirmed sovereign credit rating on BiH at "B" and "B3", respectively. Both credit ratings put BiH in the group of countries with high credit risk – non-investor rating, i.e., in the group of countries that can settle their current long-term liabilities, but in which unfavourable economic developments may lead to problems in servicing their obligations.

Table 12: Overview of the long-term rating of certain countries in the wider environment

State	Moody's Investors Service	Standard & Poor's
	Long-term / outlook	Long-term / outlook
Albania	B1 / stable	B+/ stable
Bosnia and Herzegovina	**B3 / stable**	**B / stable**
Bulgaria	Baa1 / stable	BBB / stable
Montenegro	B1 / stable	B / stable
Greece	Ba3 / stable	BB / positive
Croatia	Ba1 / stable	BBB- / stable
Hungary	Baa2 / stable	BBB / stable
North Macedonia	-	BB- / stable
Romania	Baa3 / stable	BBB- / stable
Slovenia	A3 / stable	AA- / stable
Serbia	Ba2 / stable	BB+ / positive

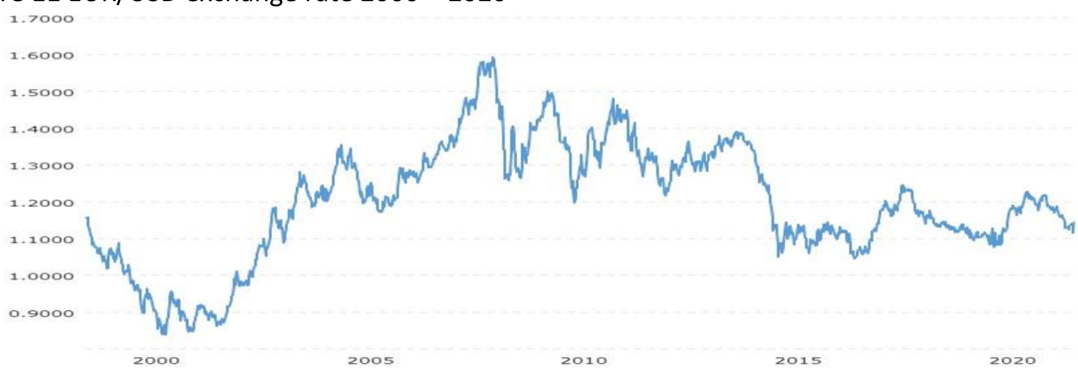
Source: BiH CB[52]

Although this would be desirable, FBiH still did not manage to issue its securities on the international market due to the inadequate regulatory framework at the level of BiH and evident political risk. With the aim of estimating costs of such borrowing, the FBiH MF tested several debt instruments (Euro bonds) of different maturity as the alternatives to the financing sources between 2022 and 2024.

In historical terms, the USD/EUR exchange rate has been relatively unstable. Having in mind the currency board arrangement, through which the BiH currency is tied to EUR in a fixed proportion (1EUR=1.95583 BAM), the main FBiH debt portfolio currency risk is the fluctuation of EUR in comparison with other currencies, predominantly USD and SDR.

It is assumed that the relationship between EUR and USD, i.e., KM and USD in the period covered by the FBiH Strategy will remain at the same level as at the end of 2021, i.e., that there will be no appreciation or depreciation of the foreign exchange rate.

Figure 11 EUR/USD exchange rate 2000 – 2020



Source: https://www.macrotrends.net/2548/euro-dollar-exchange-rate-historical-chart

50 Standard and Poor's – credit rating agency, the rating was confirmed on 4 February 2022
51 Moody's Investors Service - credit rating agency, the rating was confirmed on 21 August 2020
52 Bloomberg, data updated on 20 January 2022

7.1. Unforeseen events scenario (shock scenario)

Data from the FBiH debt portfolio, macroeconomic premises for the observed period and potential sources of financing were used to develop several debt scenarios and borrowing strategies.

Each analysed strategy was tested to sudden changes in view of interest rates and foreign exchange rates in order to assess the costs and risks of the stated change.

The currency (foreign) exchange rate:

- Smaller shock: depreciation of the BAM value by 20% in comparison with USD in the second year,
- Big shock: depreciation of the BAM value by 30% in comparison with USD in the

second year. Interest rate shock:

- Smaller shock: Increase in the estimated interest rates to long-term foreign and domestic Instruments at the level of 2% and 1% on short-term domestic instruments in the second year. The instruments comprising the old foreign currency savings and war claims remain unchanged;

- Bigger shock: increase in the estimated interest rates at the level of 4% to long-term foreign and domestic instruments and 2% to short-term domestic instruments in the second year. The instruments comprising the old foreign currency savings and war claims remain unchanged;

Shock scenarios:

- The currency (foreign) exchange rate: 30% depreciation of the KM/USD exchange rate in the second year;

- Interest rate shock: 4% increase in the interest rate on foreign and domestic long-term instruments and 2% on short-term domestic instruments in the second year, contributing to the levelling of the yield curve. The instruments including the old foreign currency savings and war claims remain unchanged;

- Combined shock: 20% depreciation of the KM/USD exchange rate combined with a 1% shock on short-term domestic instruments and 2% on long-term instruments in the second year. The instruments including the old foreign currency savings and war claims remain unchanged.

Table 13 FBiH debt portfolio stylised instruments

Instrument sign	Name or type of the	Fixed or variable	Concessional or market	Maturity (year)	Grace period (year)	Currency type	Currency
USD_2	Concessional USD	Fixed	Concessional	20	5	Foreign	USD
USD_3	Concessional EUR	Fixed	Concessional	20	5	Foreign	EUR
USD_4	Concessional USD	Variable	Concessional	18	4	Foreign	USD
USD_5	Concessional EUR	Variable	Concessional	18	4	Foreign	EUR
USD_6	IMF EFF USD	Variable	Concessional	10	4	Foreign	USD
USD_7	IMF RFI USD	Variable	Concessional	5	3	Foreign	USD
BAM_9	T-bill	Fixed	Market	1	0	Domestic	BAM
BAM_11	2-3Y T-bond	Fixed	Market	3	2	Domestic	BAM
BAM_12	5-7y T-bond	Fixed	Market	6	5	Domestic	BAM
BAM_16	10y T-bond	Fixed	Market	10	9	Domestic	BAM
BAM_17	15y T-bond	Fixed	Market	15	14	Domestic	BAM
USD_8	5y Euro bond	Fixed	Market	5	4	Foreign	EUR
USD_18	10Y Euro bond	Fixed	Market	10	9	Foreign	EUR
USD_19	15Y Euro bond	Fixed	Market	15	14	Foreign	EUR

Table 14 Comparison of current debt portfolio risk indicators and the chosen strategy risks

Risk indicators		Debt portfolio		
		2020	2021	Chosen strategy end-2024
Nominal debt (% of GDP)		26.4	26.8	24.5
Current value (% of GDP)		22.7	22.4	20.4
Weighted average rate (%)		1.5	1.3	1.5
Refinancing risk	AMT foreign debt (years)	6.2	6.6	7.6
	ATM domestic debt (years)	3.3	3.6	2.7
	ATM total debt (years)	5.8	6.2	6.7
Interest risk	ATR (years)	3.7	4.2	4.3
	Debt being re-fixed in year 1 (% of total debt)	46	45.8	44.2
	Fixed interest debt (% of the total debt)	61.9	62.5	65.4
Currency risk	Foreign currency debt (% of total debt)	85.4	87.8	81.3
	Short-term foreign currency debt (% of	3.7	3.0	3.3

7.2. Description of alternative borrowing strategies

FBiH external borrowing will be used to finance development programmes and as budget support. Development programmes are projects with previously identified creditors and known conditions, whereby the possibility of negotiating the credit terms is limited. These limitations should be managed in combination with the limitations described for domestic financing in order to mitigate the previously identified risks.

Strategy 1 (S1): FBiH borrowing in line with the 2022 FBiH budget, 2022-2024 FBiH Budget Framework Document and the 2022-2024 Public Investments Programme (PIP). Financing of development projects up to 2024 is estimated in the amount of 1,791.56 million BAM. The external sources of financing are loosely identified (Table 8). In the context of the estimation of costs and risks related to foreign credits intended to implement the FBiH PIP, the credit conditions were applied in accordance with the general operations of the creditor in terms of fixed or variable interest rate and EUR as the preferred currency, Budget support will be financed from the EU funds under the macro -economic assistance, and funds collected on the basis of treasury bills issuance and three-, five-, six-, seven-, and ten-year bonds to the extend ensuring the development of the domestic market as well.

Strategy 2 (S2): FBiH borrowing in line with the 2022 FBiH budget, 2022-2024 FBiH Budget Framework Document and the 2022-2024 Public Investments Programme (PIP). With the aim of assessing the costs and risks, the assessed credit risks imply credits with a contracted variable interest rate and EUR as the preferred currency. Budget support will be additionally financed from the EU funds under the macroeconomic assistance, and funds collected on the basis of treasury bills issuance and three-, five-, six-, seven-, and ten-year bonds to the extend ensuring the development of the domestic market as well.

Strategy 3 (S3): FBiH borrowing in line with the 2022 FBiH budget, 2022-2024 FBiH Budget Framework Document and the 2022-2024 Public Investments Programme (PIP). Credit conditions under which the FBiH should borrow to finance development projects (with the aim of assessing those costs) implying credits with a contracted fixed interest rate and EUR as the preferred currency. Budget support will be financed from funds collected on the basis of treasury bills issuance and three-, five-, six-, seven-, and ten-year bonds to the extend ensuring the development of the domestic market as well.

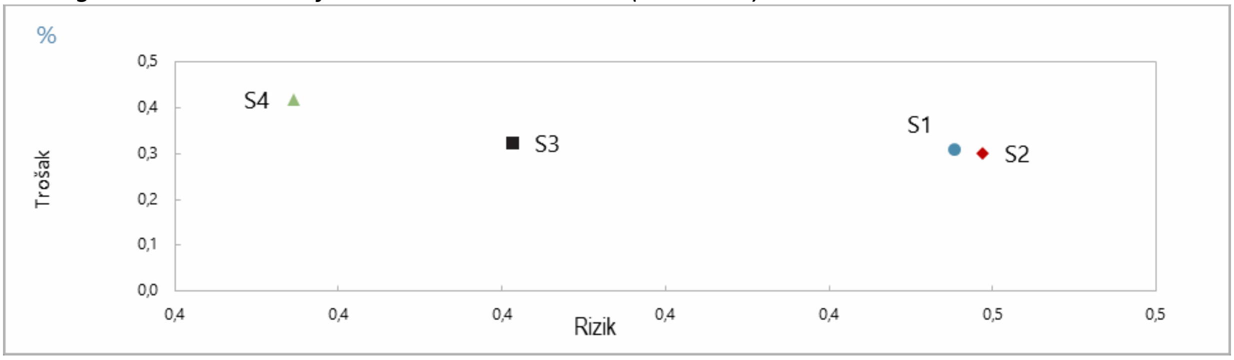
Strategy 4 (S4): FBiH borrowing in line with the 2022 FBiH budget, 2022-2024 FBiH Budget Framework Document and the 2022-2024 Public Investments Programme (PIP). Financing of development projects up to 2024 is estimated in the amount of 1,791.56 million BAM. The budget support planned to be financed from the EU funds under the macroeconomic assistance were replaced with the issuance of ten- and fifteen-year Euro bonds at the level adequate to the replaced sources, as well as from the funds collected on the basis of treasury bills issuance and three-, five-, six-, seven-, and ten-year bonds to the extend ensuring the development of the domestic market as well.

7.3. Cost and alternative borrowing strategies risks analysis

The impact of the proposed strategies is assessed in the baseline and shock scenarios. The two key cost indicators (debt/GDP and interest rate/GDP) were calculated in order to determine the ratio between costs and risks of different borrowing scenarios. Changes in the level of unpaid debt caused by the changes in the foreign currency exchange rate are reflected in the debt/GDP ratio. The share of the paid interest in the GDP provides for the assessment of the potential budget impact of each strategy. The given strategy risk is the difference between its costs under the risk scenario, i.e., under the shock scenario in comparison to the baseline scenario.

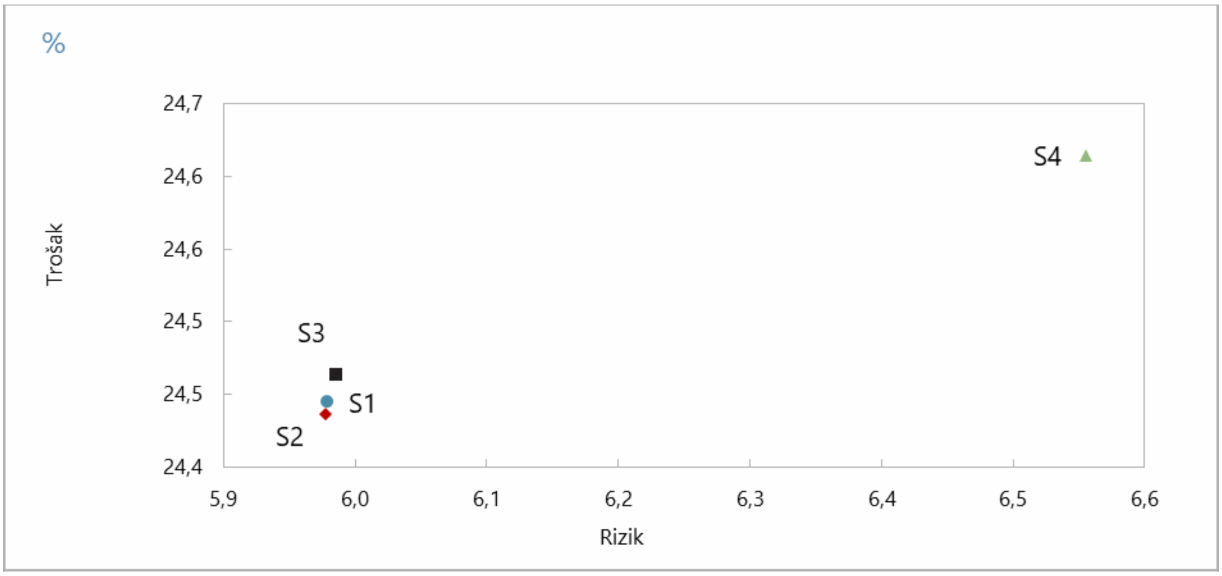
The debt servicing cost is directly related to the interest rate fluctuation. The high-interest rate debt generates higher debt costs over time, i.e., increases the need for refinancing. The S3 and S4 Strategies bear the smallest risk, but their costs are the highest (Figure 12) due to the debt structure dominated by external borrowing in EUR ad in which the share of fixed interest rate debt maintains the high share in the total debt portfolio. S4 Strategy is the costliest as it envisages higher-volume borrowing in the external capital market through a combination of ten- and fifteen-year Euro bonds under the market interest conditions. The costs of S1 and S2 Strategies are almost equal, with the S2 Strategy being riskier since S2 Strategy analyses credit conditions under which variable interest rates were assessed to a larger extent (when compared to the S1 Strategy). The biggest risk for all baseline strategies in view of the interest/GDP ratio is the extreme interest shock in the second year of the strategy. The divergence from the baseline scenario is 0.4488% – 0.4497% of the estimated GDP.

Figure 12. The share of interest rates in the GDP (end-2024)



The biggest debt portfolio risk for all four tested strategies, in view of the debt/GDP ratio is the currency risk in case of a sudden change in the foreign currency exchange rate, i.e., appreciation of USD in comparison with BAM and EUR (30% shock in the second year).
Portfolio with a larger share of non-EUR currencies in the unpaid external debt is exposed to a bigger risk in terms of appreciation of foreign currencies in comparison with the domestic currency. The S4 Strategy is the most vulnerable to the changes in foreign exchange rates due to a small share of domestic borrowing and a more significant external borrowing in non-EUR currencies (SDR, USD).
As this was the case with the previous indicator in observing the baseline scenario, the S1 and S2 Strategies bear smallest costs and are the least risky when compared to the S3 and S4 Strategies. The S4 Strategy is the riskiest and most costly when compared to the other Strategies.
The S4 Strategy is most susceptible to the foreign exchange rate changes and diverges the most from its baseline scenario (when compared to the other Strategies) which implies issuing Euro bonds on the external market and borrowing in non-EUR currencies (USD and SDR) with the aim of achieving the 2022-2024 PIP. In case of the extreme foreign exchange rate risk (appreciation of USD in comparison with BAM at the level of 30%), the divergence of the shock scenario from the baseline scenario is at the level of 5.9779%–6.5552% of the estimated GDP in 2024, but this divergence is smaller in the S2 Strategy, at the level of 5.9779%.

Figure 13. Debt share in the GDP (end-2024)



7.4. Alternative strategies risk indicators

As the debt/GDP and interest/GDP ratios are not sufficient to assess the risk, other indicators were analysed as well: the re-financing risk, interest risk and currency risk.

Table 15 Risk indicators by strategies at the end-2024

Risk indicators		Initial portfolio	S1	S2	S3	S4
Nominal debt in % of GDP		***26.84***	***24.45***	24.44	24.46	24.61
Current debt value as % of GDP		***22.35***	***20.35***	20.29	20.47	20.72
Interest rate costs in % of GDP		***0.33***	***0.31***	0.30	0.32	0.42
Implicit interest rate (%)		***1.25***	***1.47***	1.40	1.57	2.07
Refinancing risk	Debt maturing in year 1 (% of the total debt)	***11.46***	***13.63***	12.58	12.91	8.84
	Debt maturing in year 1 (% of GDP)	***2.99***	***3.33***	3.07	3.16	2.18
	Average debt portfolio maturity (years)	***6.21***	***6.69***	6.65	6.72	7.79
	Domestic debt average maturity (years)	***3.64***	***2.73***	2.94	2.97	2.95
	External debt average maturity (years)	***6.59***	***7.60***	7.50	7.67	8.11
Interest risk	Average re-fixing time (years)	***4.15***	***4.28***	3.69	5.10	5.99
	Debt re-fixing in year 1 (years)	***45.79***	***44.20***	48.65	35.37	33.20
	Fixed interest rate debt (% of total debt)	***62.47***	***65.42***	59.92	73.54	71.67
	Treasury bills (% of total debt)	***0.83***	***2.64***	1.59	1.94	0.00
Foreign currency	Foreign currency debt in % of the total debt	***87.76***	***81.28***	81.32	79.77	93.71
	Short-term foreign currency debt in % of the	***3.03***	***3.26***	3.26	3.26	3.26

By comparing the proposed strategies risk indicators with the current debt portfolio risks, we can conclude the following:

Debt costs – The average implicit weighted interest rate, having in mind the level of financial needs and available financing sources in all analysed strategies, increases and ranges from 1.25% to 2.07%, amounting to 1.47% in the preferred S1 Strategy at the end of 2024.

Re-financing risk– the amount of debt maturing in 2024 (13.63%) is bigger in relative terms from the initial 2021 debt portfolio, when it amounted to 11.46%, but it remained below the level stated as the upper limit in the guidelines on borrowing with the aim to achieve the desired FBiH debt portfolio (15% of total debt portfolio).

The average time to maturity (ATM) would increase in all analysed strategies and be in line with the defined strategic goals. The longest time to maturity would be in the S3 and S4 Strategies, having in mind the debt instrument repayment structure. In case the S1 Strategy is implemented, the debt portfolio ATM at the end of 2023 would be 6.7 years.

Interest rate risk - The average re-fixing time increases in the preferred strategy and is 4.28 years in comparison with the initial time of 4.15 years. The share of debt with fixed interest rates, including treasury bills, would increase in the preferred strategy when compared to the initial debt portfolio, and reach 65.42%. The S4 Strategy, considering borrowing through issuing Euro bonds under fixed interest rates has a significantly more favourable ATR of 5.99 years.

*The FBiH Government chose the **S1 Strategy** to be implemented from 2022 to 2024. The chosen strategy, i.e., risk indicators of the chosen S1 Strategy at the end of 2024 are for the most part aligned with the debt management guidelines. The S1 Strategy implies implementation of the 2022-2024 PIP in accordance with the recommendations in the Strategy. Macro financial assistance of the EU and issue of securities on the domestic market with the aim of obtaining budget support and re-financing the existing debt.*

8. DEBT MANAGEMENT GUIDELINES

Intending to secure funds for the budget liquidity, meet the demand and increase the liquidity of government securities, the FBiH Government will continue to issue treasury bills and bonds, whereby the extend and the dynamic of these issuances will be consistent with this medium-term Strategy.

8.1 The total debt portfolio structure

The portfolio structure will strive to minimise total risks and continue the development of the domestic securities market.

The guidelines for the desired debt portfolio structure are as follows:

- To maintain the share of BAM and EUR debt above 60% of the total debt portfolio;
- To maintain the share of the fixed interest rate debt above 50% of the total debt portfolio;
- The average time to maturity of the total debt portfolio should be extended to 6.5 years.

8.2 Borrowing guidelines

The main guidelines for the FBiH borrowing are as follows:

- To plan to maintain the equal repayment structure by years in order to minimise the re-financing rik;
- To maximise borrowing in EUR and BAM to reduce the currency risk;
- With the aim of reducing the debt re-financing risk: the maximum share of debt portfolio maturing within 12 months/one year will be 15% of the unpaid debt;
- In order to extend the average debt portfolio maturity over 6.5 years, future borrowing will be contracted with a longer grace and repayment periods. The average weighted debt portfolio to be extended to at least 6.5 years.

8.3 Quantitative strategic targets

On the basis of the current macroeconomic framework (2022-2024 FBiH Budget Framework Document), in case of observing the preferred strategy, the expected debt portfolio risks would be as follows:

- The ATM should not be shorter than 5.7 years;
- The ATR will be 4.28 years;
- The share of debt interest servicing in revenues will be less than 15%.

The targets defined in this Strategy are susceptible to changes of the premises on growth, fiscal deficit and the availability of the envisaged sources of financing, primarily concessional ones.

9. MARKET COMMUNICATION

The FBiH MF will continue to communicate with market participants in regular meetings and by publishing key information on debt and Government policies. The FBiH MF will continue to publish, on their web site, the indicative calendar of securities auctions, quarterly auction calendars, annual borrowing plan, quarterly debt reports and the FBiH Debt Management Strategy.

The information on the BiH credit rating and BiH financial sector can be found on the web page of the BiH CB http://www.cbbh.ba, and additional information and data on BiH public debt can be found on the web page of the BiH MFT http://www.mft.gov.ba.

C. BRČKO DISTRICT MEDIUM-TERM DEBT MANAGEMENT STRATEGY

The public debt of BD BiH as of 31 December 2020, expressed in USD, amounted to 34.10 million USD or 6.0% of the BD BiH GDP (in 2020, the GDP was 901 million BAM), of which foreign debt amounts to 33.0 million USD (5.8% of the BD BiH GDP), and domestic debt to 1.1 million USD (0.2% of the BD BiH GDP). The share of external debt in the total debt is 96.74%, and domestic 3.26%.

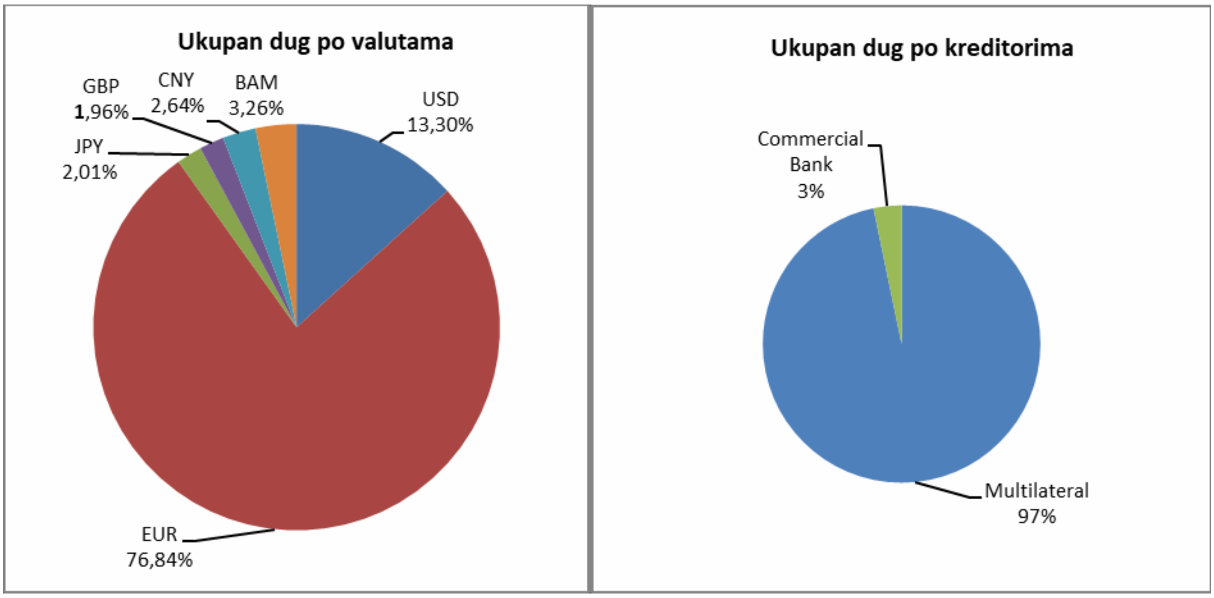
Up to and including 31 December 2021, there are no records of guarantees issued in the BD BiH Finance Directorate.

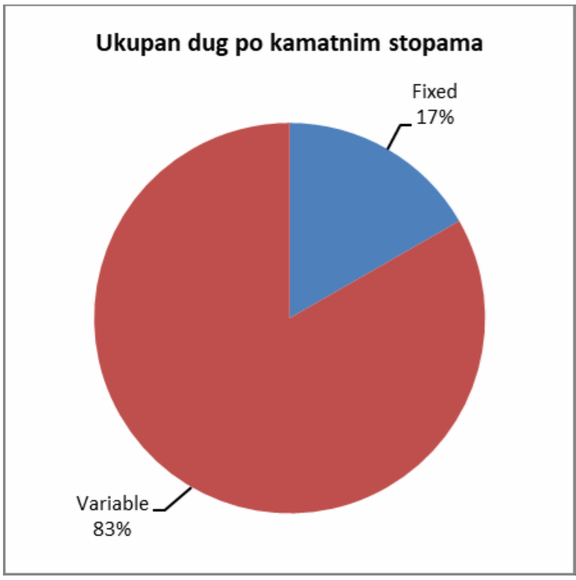
In the BD BiH public debt currency structure, the highest percentage pertains to EUR, 76.84%, followed by USD, BAM, GBP, CNY and JPY. The external debt comprises the debt contracted through BiH and debt contracted directly by the BD BiH authorities.

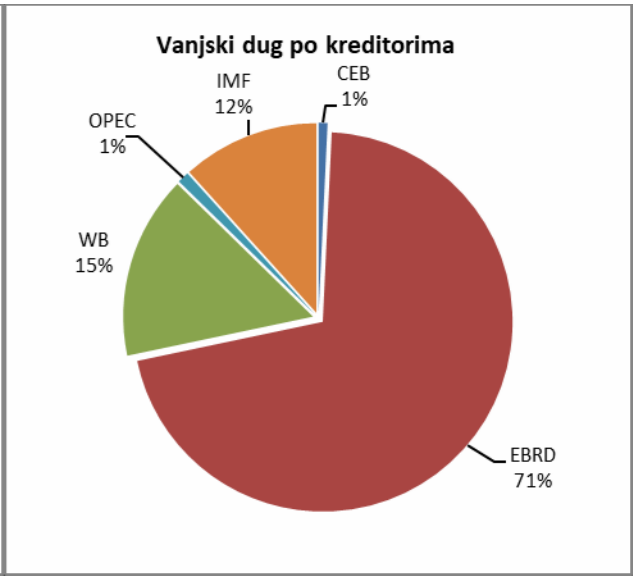
Approximately 97% of total debt relates to multilateral creditors (EBRD, WB, CEB, OPEC) and one bilateral creditor (Austria) who have been paid at the end of 2020.

The domestic debt is comprised of a commercial bank loan under a variable interest rate, and makes for 3% of the total BD BiH public debt. The old foreign currency savings bonds with the maturity from 2 to 3, and 5 years, which were previously included in the domestic debt structure, were paid during 2016.

Figure 1 BD BiH: The structure of the existing debt at the end of 2020







The total BD BiH debt structure is characterised by a low weighted average interest rate (Table 1), which amounts to 1.5% for the total debt, i.e., 1.5% for the external debt, and 4% for the domestic debt. This is the result of the high share of external borrowing and low reference interest rates. The ATM is relatively short, being 1.4 years for the domestic debt, and 3.7 for the external debt. The repayment profile (Figure 1) is inclined toward the shorter domestic debt repayment term and the hight of the external debt repayment in 2024. In order to reduce the re-financing risk, it is necessary to extend the total debt maturity on the occasion of new borrowing.

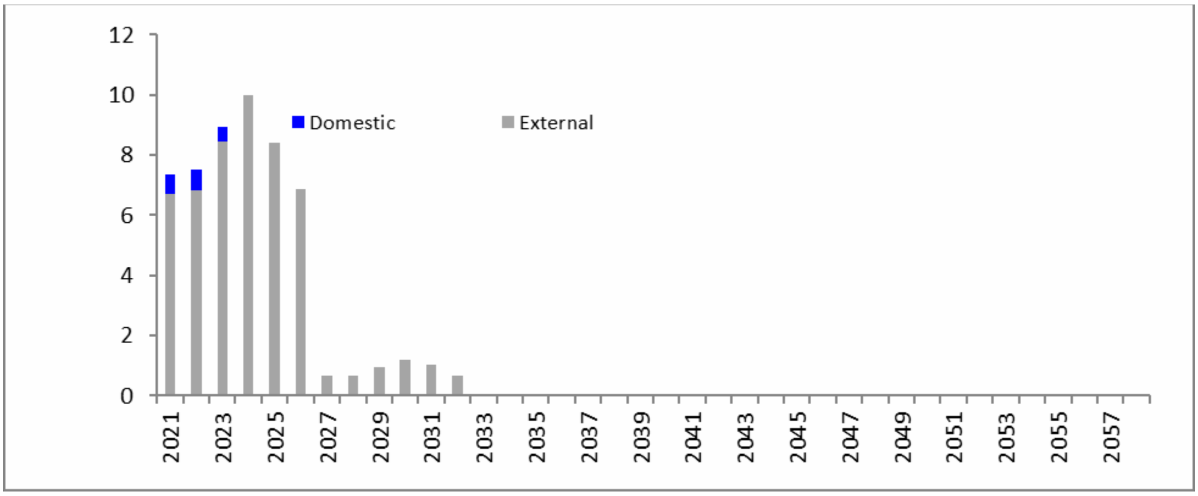
The interest risk for the total debt is high, since 100% of domestic and 83% of external debt is reflected in the following year as the consequence of the fact that 83% of total portfolio is represented by the debt with a variable interest rate.

The existing debt portfolio currency risk is low, although the share of the external debt in the total debt is 96.74%, and this is the result of the fact that EUR is highly represented in the external debt currency structure, thus resulting in only 23% of external debt being exposed to the currency risk.

Table 1 BD BiH: Cost and risk indicators at the end of 2020

Cost and risk indicators		Foreign debt	Domestic debt	Total debt
Debt amount (million BAM)		52.5	1.8	54.3
Debt amount (million USD)		33.0	1.1	34.1
Nominal debt in % of GDP		5.8	0.2	6.0
Current debt value as % of GDP		5.2	0.2	5.4
Costs costs	Interest rate in comparison with GDP	0.1	0.0	0.1
	Average weighted interest rate (%)	1.5	4.0	1.5
Re-financing risk	ATM (years)	3.7	1.4	3.6
	Debt maturity in the following year (of total	12.8	36.4	13.5
	Debt maturity in the following year (% of	0.7	0.1	0.8
Interest risk	ATR (years)	1.5	0.5	1.5
	Debt being re-fixed in the following year (% of total debt)	83.7	100.0	84.2
	Fixed interest rate debt (% of the total debt)	17.3	0.0	16.7
Currency risk	Foreign debt (% of total debt)			96.7
	Short-term external debt (% of foreign			

Figure 2 BD BiH: Public debt repayment profile at the end of 2020



Source: BD BiH Finance Directorate

MACROECONOMIC FRAMEWORK

The BD BiH current budget is balances, and the aim of all the borrowing is to finance capital expenditures. The local authorities estimated the total needs for investment borrowing for each year on the basis of the ongoing projects (macro financial assistance of the EU and the Port of Brčko reconstruction project) and the planned capital project of the construction of the main transport pipeline Plažulje-Potočari Brčko. (Table 2)

On this basis, the total needs for borrowing were included in the MTDS as a share of gross financial needs.

Table 2 BD BiH: Key economic indicators, 2021-2024

	2021	2022	2023	2024
in million BAM				
Public revenues (including grants)	226	223	230	240
Primary public sector expenditures	225	222	229	239
interest	1	1	1	1
Total expenditures (total expenditures-amortisation+new credit withdrawals)	221	224	234	240
GDP-2020 (901)	910	928	947	957
Borrowing needed for investments	2.8	8.5	13	10.6

SOURCES OF FINANCING

The main multilateral creditors are the EBRD, WB, IMF, CEB, OPEC and one bilateral creditor (Austria), to which the credit was repaid in 2020. In the MTDS period (2021-2024), the BD BiH saw borrowing from the EU-Macro financial assistance (MFA), and a new project with the EBRD.

Table 3 BD BiH: Current and potential sources of financing

Current sources of financing	Potential sources of financing
External - Multilateral: EBRD, WB, IMF, OPEC, CEB - Bilateral: Austria	External - Multilateral: EBRD, MMF
Domestic: - Commercial banks	Domestic;

Source: BD BiH Finance Directorate

SCENARIO ANALYSIS

Alternative borrowing strategies

The strategic goal of the BD BiH Government's debt management in the period from 2021 to 2024 is to secure such sources of financing (borrowing) the purpose of which is solely to finance investment projects of importance to encourage economic growth and BD BiH development, and which ensure the acceptable level of costs and financing risks.
In accordance with the existing BD BiH debt management goal, four alternative strategies were prepared for the purpose of the MTDS analysis:

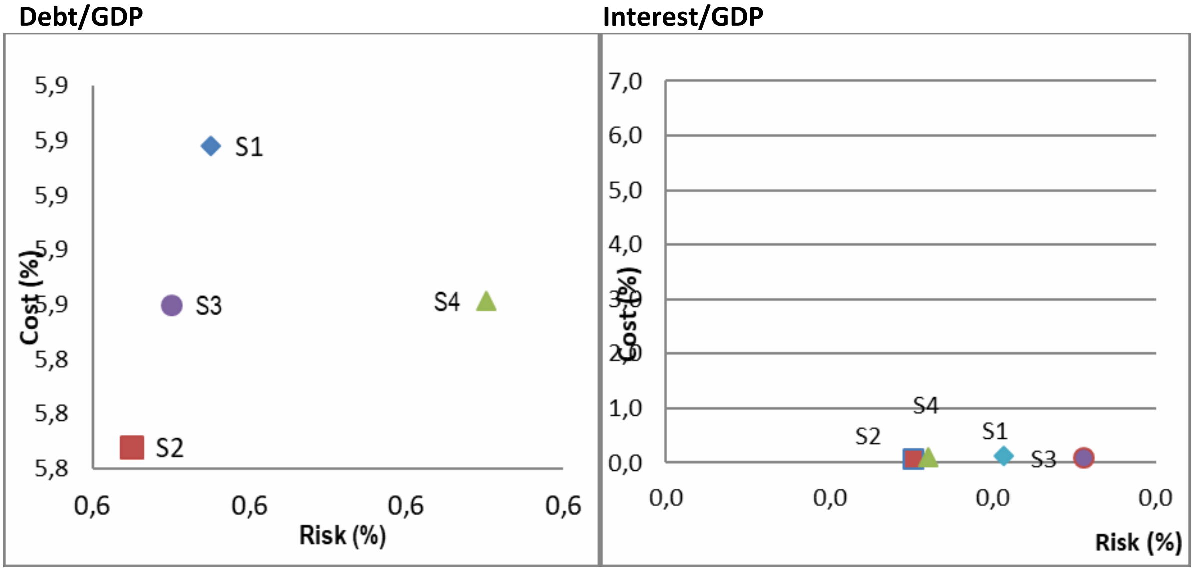
- **S1**: Development of the domestic market (new borrowing through the issuance of long-term bonds, credits with commercial banks)
- **S2**: The strategy of preferring multilateral creditors (new borrowing in EUR, preferably with a fixed interest rate)
- **S3**: The strategy of reducing the interest rate risk (new borrowing with fixed interest rate)
- **S4**: The strategy of reducing the currency risk (new borrowing in EUR and BAM)

The analysis of risks and costs of the alternative borrowing strategies

On the basis of the analysis of cost and risk indicators at the end of 2024 of all alternative strategies used in the MTDS, we conclude that the S2 is: The Strategy of preferring multilateral creditors (new borrowing in EUR, preferably with a fixed interest rate) is desirable and the preferred BD BiH borrowing strategy in the following medium-term period.

Under this strategy, the percentage of nominal debt in the projected BD BiH GDP would amount to 5.8% at the end of 2024, in comparison with the current 6.0% to which amounted at the end of 2020 (Table 4). The ratio between interest and GDP remained at the same level as in 2020. The re-financing risk in the S2 Strategy is at its lowest, since the ATM is extended from 3.7 to 6.4 years. Approximately 70.4% of debt to be re-fixed within one year is the result of the high share of the variable interest rate in the total debt portfolio (83%) in comparison with 17% of debt with a fixed interest rate, while the ATR is increased from 1.5 to 3.4 years. Under the S2 Strategy, new borrowing in EUR, preferably with a fixed interest rate, would result in the increase share of external debt in the total debt from 96.7 to 100%.

Figure 3. BD BiH: Cost and risk balance of the alternative strategies at the end of 2024



Source: BD BiH authorities

Table 4 BD BiH: Risk and cost indicators of different strategies at the end of 2024

Costs and risks indicators		2020.	end-2024			
		Currently	S1	S2	S3	S4
Nominal debt in % of GDP		6.0	5.9	5.824	5.850	5.851
Current debt value in % of GDP		5.4	5.3	4.8	5.0	5.0
Interest amount in comparison with the GDP (%)		0.1	0.1	0.1	0.1	0.1
The average weighted rate %		1.5	2.0	1.3	1.7	1.7
Re-financing risk	Maturity of debt in the following year (% of the	13.5	17.4	17.4	18.4	17.6
	Maturity of debt in the following year (% of	0.8	1.0	1.0	1.1	1.0
	External debt ATM (years)	3.7	4.9	6.4	6.3	6.2
	ATM domestic debt (years)	1.4	3.8		3.7	6.1
	ATM total debt (years)	3.6	4.5	6.4	6.0	6.2
Interest risk	ATR (years)	1.5	2.9	3.4	4.6	4.8
	Debt being re-financed in year one (of the total	84.2	56.5	70.4	51.1	52.7
	Debt under fixed interest rate (% of the total	16.7	44.8	30.9	51.3	48.6
Currency risk	External debt (% of the total debt)	96.7	68.0	100.0	87.2	87.2
	Short-term external debt (% of foreign					

Source: BD BiH authorities

	2020.	2024			
Debt state under instruments	Current	S1	S2	S3	S4
Existing and New AfDF/Existing IDA	0	0	0	0	0
Concessional FX Fixed_EUR	0	3	6	10	9
Concessional FX Variable_EUR	23	14	21	14	14
Concessional FX Fixed_USD	5	4	4	4	4
Concessional FX Variable_USD	0	0	0	0	0
IMF RFI FX Variable_USD	4	2	2	2	3
Commercial DX Variable_BAM	1	2	0	1	1
T-Bills DX Fixed_BAM	0	0	0	0	0
T-Bonds 2-3yr DX Fixed_BAM	0	0	0	0	0
T-Bonds 5-7yr DX Fixed_BAM	0	8	0	3	2
T-Bonds 10yr DX Fixed_BAM	0	0	0	0	2
IMF EFF USD Variable_USD	0	0	0	0	0
External	33	23	34	30	30
Domestic	1	11	0	4	4
Total	**34**	**34**	**34**	**34**	**34**

Table 5 BD BiH: The state of debt under the instruments of the alternative strategies at the end of 2024

In million USD	end	end

RECOMMENDATIONS

It is recommended by the BD BiH public debt management to accept as the preferred strategy the strategy of preferring multilateral creditors (borrowing in EUR, preferably with a fixed interest rate) for investment project of importance for a faster economic growth and BD BiH development, as well as because the conditions of borrowing from domestic commercial banks are still unfavourable and as there is no legal framework enabling the issuance of long-term treasury bonds.

With the aim of improving the public debt management system in the following medium-term period, the need arises to reform the regulatory and institutional framework for managing and strengthening the capacities in terms of human and material public debt management resources.