

**REPUBLIC OF SRPSKA**

**GOVERNMENT**

**REPUBLIC OF SRPSKA DEBT MANAGEMENT STRATEGY**

**FOR THE PERIOD 2022-2025**

**April, 2023**

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## 1. Legal framework

In Republic of Srpska, debt and borrowing is regulated by the Law on borrowing, debt and guaranties of Republic of Srpska, as well as Law on borrowing, debt and guaranties of Bosnia and Herzegovina. In accordance with the Law on borrowing, debt and guaranties of Republic of Srpska, borrowing is defined as realization of contracted loans, issuance of securities and issuing guaranties during the fiscal year. Also, this Law regulates borrowing methods and procedures, issuing guaranties and issuance of securities of Republic of Srpska, local governments and social security funds, ensuring funds for debt repayment, keeping records on debt and guaranties, and other issues related to debt and guaranties of Republic of Srpska, local governments and social security funds.

The Law also prescribes purpose of short term and long term borrowing of Republic of Srpska, at the domestic and international market, and accordingly in local and foreign currency.

Law on borrowing, debt and guaranties of Republic of Srpska sets the debt limits, so that total debt of Republic of Srpska at the end of fiscal year cannot exceed 60% of GDP in that year, while public debt of Republic of Srpska at the end of fiscal year cannot exceed 55% of GDP in that year, and short term debt cannot exceed 8% of operating revenues in previous fiscal year.

Besides the debt limits set by the Law on borrowing, debt and guaranties of Republic of Srpska, public debt limit is also determined by the general fiscal rules defined in the Fiscal discipline law in Republic of Srpska. In accordance with this Law, general fiscal rules imply rule on debt and rule on consolidated budget deficit. First rule defines that public debt of Republic of Srpska at the end of fiscal year cannot exceed 55% of GDP in that year, while second rule defines that consolidated budget deficit at the end of fiscal year cannot exceed 3% of GDP in that year.

Legal framework that defines debt and guaranties of Republic of Srpska is as follows:

- Law on borrowing, debt and guaranties of Republic of Srpska ("Official Gazette of Republic of Srpska", no. 71/12, 52/14, 114/17, 131/20, 28/21 and 90/21);
- Law on the budget system of Republic of Srpska ("Official Gazette of Republic of Srpska ", no. 121/12, 52/14, 103/15 and 15/16);
- Law on domestic debt of Republic of Srpska ("Official Gazette of Republic of Srpska ", no. 1/12, 28/13, 59/13 and 44/14);
- Law on terms and procedures for verification of general liabilities in Republic of Srpska ("Official Gazette of Republic of Srpska", no. 109/12);
- Law on the compensation rights related to material and non-material war damages originated in the period May 20, 1992 - June 19, 1996 ("Official Gazette of Republic of Srpska", no. 103/05, 1/09, 49/09 and 118/09);
- Law on the settlement of obligations under the old foreign currency savings ("Official Gazette of Bosnia and Herzegovina", no. 28/06, 76/06, 72/07, 97/11 and 100/13);
- Law on the terms and conditions of settlement of obligations under the old foreign currency savings by issuing bonds in Republic of Srpska ("Official Gazette of Republic of Srpska", no. 1/08);
- Fiscal responsibility law ("Official Gazette of Republic of Srpska", no 94/15 and 62/18).

## 2. Goal, scope and assumptions

**Republic of Srpska Medium-term debt management strategy 2022-2025 (RS MTDS) relies on the main goals and proven methods of improving debt sustainability and mitigation of associated risks defined in the last adopted RS MTDS 2021-2024. RS MTDS specifies medium term goals and plan of activities within the debt management, that Republic of Srpska Government intends to implement in the medium term. Implementation of Strategy measures and activities shall secure desired debt portfolio structure, taking into account cost and risk preferences of the Republic of Srpska Government.**

One of the key lever for active debt management is regular identification and publishing of debt management strategy implementation, with goals that are based on cost and risk analysis, taking into consideration macroeconomic and market circumstances and limitations. Accordingly, **Medium term Debt Management Strategy is being adopted regularly at the annual basis, its' implementation is continuously monitored and reported to the Republic of Srpska Government once a year.** At the same time, upon being adopted by the Republic of Srpska Government, RS MTDS is being regularly published at the web portal of the Ministry of Finance, in order to increase transparency in the debt management and to introduce the document to the general public.

**RS MTDS covers all debt representing direct or indirect obligation of Republic of Srpska<sup>1</sup>, with some exceptions.**

External debt data include:

- 1) Republic of Srpska debt (except the part of debt to the Paris Club of creditors - Germany, for which the repayment mechanism has not yet been determined);
- 2) Debt of local governments, incurred on the basis of Republic of Srpska indirect debt;
- 3) Debt of SOEs and the RS Investment Development Bank (RS IDB), incurred on the basis of Republic of Srpska indirect debt.

Domestic debt data include:

- 1) RS Government debt (verified domestic debt according to the RS Law on domestic debt, debt in the form of treasury bills<sup>2</sup>, medium-term bonds, bank loans and activated guarantee);
- 2) debt of the social security funds, incurred on the basis of Republic of Srpska indirect debt.

Debt (domestic and external) incurred by direct borrowing of local governments, social security funds, SOEs and RS IDB is not covered by the MTDS, since it represents neither direct nor indirect obligation for Republic of Srpska, hence it cannot be managed by Republic of Srpska Ministry of

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<sup>1</sup> In accordance with the RS Law on Borrowing, Debt and Guarantees („Official Gazette of Republic of Srpska “71/12, 52/14, 114/17, 131/20, 28/21 and 90/21), indirect debt of Republic of Srpska is debt incurred on behalf of debtors (local governments, social security funds, Investment-Development Bank and its' funds, public companies and public sector institutions) and is being repaid by Republic of Srpska, from the funds debtors are paying for their relevant debt.

<sup>2</sup> As of December 31<sup>st</sup> 2021, there were no liabilities on the basis of treasury bills, since all the treasury bills that were issued, were repayed as of December 31<sup>st</sup> 2021.

Finance (RS MoF), on behalf of RS Government. Detailed scope of the RS MTDS is presented in Annex I.

**The main borrowing and debt management objective is ensuring the funds necessary for Republic of Srpska budget execution, financing the approved investment projects and debt refinancing, at minimal costs and acceptable level of risk.**

**The RS MTDS is based on the following assumptions:**

- 1) In the medium-term, Republic of Srpska Government will continue with implementation of the fiscal consolidation and reform plan as presented in the RS Economic Reform Programme 2023-2025 (hereinafter: RS ERP 2023-2025), in order to ensure long term fiscal sustainability (in accordance with the Fiscal Responsibility Law);
- 2) Projections of macroeconomic indicators and fiscal framework (presented in Table 1 and 2), presented in the RS ERP 2023-2025<sup>3</sup> and Revised Medium term Budget Framework Document for the period 2023-2025 (hereinafter: RMTBFD 2023-2025);
- 3) Any new borrowing where the borrower is Republic of Srpska, i.e. Bosnia and Herzegovina, will be contracted in accordance with the Law on Borrowing, Debt and Guaranties of Republic of Srpska, i.e. Law on Borrowing, Debt and Guaranties of Bosnia and Herzegovina<sup>4</sup>, with active participation of the Republic of Srpska Ministry of Finance;
- 4) Any new borrowing where the borrower is Bosnia and Herzegovina and Republic of Srpska is subsidiary borrower, will be contracted in accordance with the Law on Borrowing, Debt and Guaranties of Bosnia and Herzegovina, i.e. through the Ministry of finance and Treasury of Bosnia and Herzegovina;
- 5) There will be no changes in legislation that would provide recognition (takeover) of debt from other levels of Government;
- 6) Verification and settlement of obligations regulated in the Law on Domestic Debt of the Republic of Srpska shall be performed in accordance with the projections included in RMTBFD 2023-2025;
- 7) Central Bank of Bosnia and Herzegovina (hereinafter: CBBH) will continue to maintain monetary stability in accordance with the Currency Board Arrangement, by the provisions of the Law on Central Bank, and will not be issuing any securities in the domestic financial market;
- 8) Credit rating of Republic of Srpska and Bosnia and Herzegovina will not be downgraded within the medium term<sup>5</sup>;
- 9) Institutional investor base of Republic of Srpska at the domestic and international financial market will be maintained and broadened in the medium term;
- 10) Possible new increase of the European Central bank reference rate<sup>6</sup>, as well as the US Federal Reserves reference rate, having in mind several consecutive increases in the previous year and current trends at the international market;

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<sup>3</sup> RS ERP 2023-2025 contains detailed assumptions of macroeconomic projections and fiscal framework, as well as associated risks.

<sup>4</sup> „Official Gazette of bosnia and Herzegovina“, no. 52/05, 103/09 and 90/16.

<sup>5</sup> [Current BH credit rating](#) is „B/stable outlook“ (Standard and Poors), and „B3/stable outlook“ (Moody's). Current credit rating of Republic of Srpska is „B/stable outlook“ (Standard and Poors) and „B3/stable outlook“ (Moody's).

<sup>6</sup> European Central Bank; [Press release as of March 16, 2023](#).

- 11) Creditors will provide funds at acceptable terms;  
 12) Other analytical assumptions used for quantitative analysis of the Strategy presented in Annex II.

**Table 1: Overview of the macroeconomic indicators for the period 2018-2022 and projections for the period 2023-2025**

	2018	2019	2020	2021	2022	2023	2024	2025
<b>GDP</b>								
<b>GDP nominal, mil. BAM</b>	<b>10.701,0</b>	<b>11.251,3</b>	<b>11.131,8</b>	<b>12.501,7</b>	<b>14.238,7</b>	<b>15.319,8</b>	<b>16.376,8</b>	<b>17.244,8</b>
Population, in mil.	1,1	1,1	1,1	1,1	1,1	1,1	1,1	1,1
GDP per capita, in BAM	9.322,0	9.848,0	9.795,0	11.080,1	12.664,4	13.692,7	14.711,0	15.490,7
GDP growth, nominal (%)	6,0	5,1	-1,1	12,3	13,9	7,6	6,9	5,3
<b>Inflation - average annual rate</b>	<b>1,2</b>	<b>0,5</b>	<b>-1,2</b>	<b>1,7</b>	<b>12,7</b>	<b>6,0</b>	<b>3,5</b>	<b>2,0</b>
<b>Real growth rates %</b>								
<b>GDP growth, real</b>	<b>3,9</b>	<b>2,5</b>	<b>-2,5</b>	<b>6,9</b>	<b>3,5</b>	<b>3,1</b>	<b>3,4</b>	<b>3,2</b>
Export	7,4	1,5	-13,9	23,7	17,5	7,0	7,5	8,0
Import	7,4	-2,4	-3,8	6,2	18,3	5,5	5,9	6,9
Private consumption	2,5	2,8	0,2	5,5	3,5	2,0	2,6	2,4
Public consumption	1,8	1,5	3,9	3,9	3,0	1,5	1,8	1,1
Gross investments in fixed assets	11,1	-2,2	10,1	-5,0	10,5	-1,0	9,0	3,9
<b>Assumptions:</b>								
Average net salaries, in BAM	857,0	906,0	956,3	1.004,0	1.144,0	1.208,4	1.261,6	1.312,0
Unemployment rate (%) <sup>7</sup>	-	-	-	14,3	11,2	10,7	9,9	9,2

Source: RS ERP 2023-2025, RS MoF, RS IoS

**Table 2: Fiscal framework for the period 2022-2025<sup>8</sup>**

	2022	Budget 2023	RMTBFD 2024	RMTBFD 2025
<b>A. BUDGET REVENUES (I+II+III+IV)</b>	<b>3.683,8</b>	<b>4.142,7</b>	<b>4.383,6</b>	<b>4.591,2</b>
I Tax revenues	3.408,4	3.822,0	4.033,3	4.200,6
II Non tax revenues	269,0	314,3	344,0	384,3
III Grants	0,0	0,0	0,0	0,0
IV Transfers among or within budgetary units	6,4	6,4	6,3	6,3
<b>B. BUDGET EXPENDITURES (I+II+III)</b>	<b>3.824,7</b>	<b>4.247,8</b>	<b>4.392,1</b>	<b>4.480,2</b>
I Current expenditures	3.390,5	3.824,6	3.974,3	4.058,4
II Transfers among or within budgetary units	434,2	415,4	408,0	412,2
III Budget reserve	0,0	7,8	9,8	9,6
<b>C. GROSS BUDGET SURPLUS/DEFICIT (A-B)</b>	<b>-140,9</b>	<b>-105,1</b>	<b>-8,5</b>	<b>111,0</b>
D. NET EXPENSES FOR NON-FINANCIAL ASSETS	-146,7	-156,1	-138,1	-138,1
<b>E. BUDGET SURPLUS/DEFICIT (C+D)</b>	<b>-287,6</b>	<b>-261,2</b>	<b>-146,5</b>	<b>-27,1</b>
<b>F. NET FINANCING (G+H+I)</b>	<b>211,0</b>	<b>261,2</b>	<b>146,5</b>	<b>27,1</b>
G. NET PROCEEDS FROM FINANCIAL ASSETS	78,1	100,2	109,4	111,8

<sup>7</sup> In accordance with the Regulation of EU Parliament and EU Council, that came into force on January 01<sup>st</sup>, 2021, RS Institute of Statistics performed methodological harmonization of the content of the ARS inquiry, used in data collection for 2021, therefore indicators for second quarter of 2021 are not completely comparable with indicators published for previous years. For that reason, previous years' data are not shown in the table.

<sup>8</sup> Republic of Srpska Budget means general fund 01.

**Table 2: Fiscal framework for the period 2022-2025<sup>8</sup>**

	2022	Budget 2023	RMTBFD 2024	RMTBFD 2025
H. NET BORROWING	154,0	187,4	59,6	-63,6
I. OTHER NET PROCEEDS	-21,1	-26,4	-22,4	-21,2

Source: RS MoF

### 3. Existing debt

#### 3.1. Portfolio overview

**RS MTDS debt amounts to 5.570,4<sup>9</sup> million BAM (3.228,0 million USD, i.e. 44,6% of GDP), as of December 31<sup>st</sup>, 2021.**

External debt amounts to 74,2% of the total (4.134,8 million BAM or 2.396,1 million USD, i.e. 33,1% of GDP), while domestic debt amounts to 25,8% of the total (1.435,6 million BAM or 831,9 million USD, i.e. 11,5% of GDP).

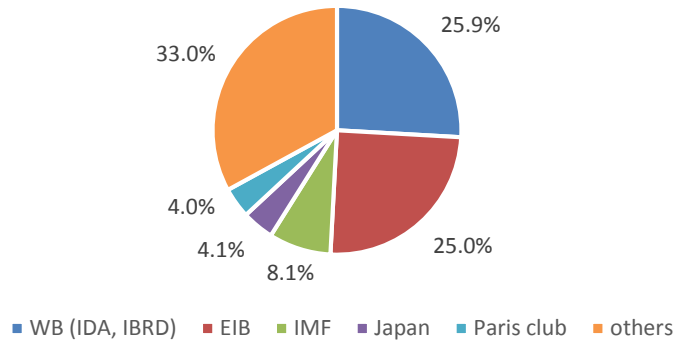
**External MTDS debt is composed of:**

- 1) relevant external debt i.e. loans contracted through the BH Ministry of Finance and Treasury, as well as allocated „old“ external debt (debt originated before April 02<sup>nd</sup>, 1992);  
As of December 31<sup>st</sup>, 2021, relevant external debt outstanding amounted to 3.187,9 million BAM (1.847,4 million USD, which is 57,2% of the total debt, and 25,5% of GDP).
- 2) direct external debt (debt directly contracted by Republic of Srpska with external creditors);  
As of December 31<sup>st</sup>, 2021, direct external debt outstanding amounted to 946,8 million BAM (548,7 million USD, which is 17,0% of the total debt or 7,6% of GDP).

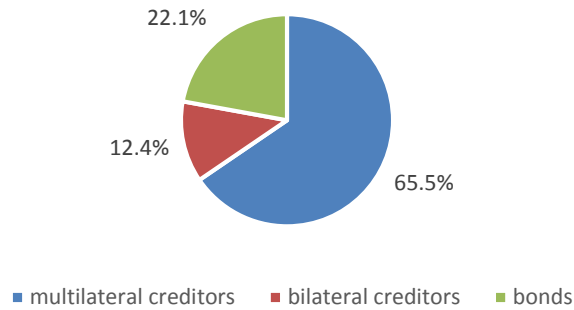
Following charts are showing external debt by individual creditors, external debt by creditor type and external debt currency structure.

<sup>9</sup> Debt outstanding as of December 31, 2021, analyzed in the RS MTDS 2022-2025, is 149.055,36 KM higher compared to the debt outstanding that was subject to the cost and risk analysis included in the Information on debt as of December 31, 2021. Difference exists due to the fact that Information on debt as of December 31, 2021, is based on data registered in the Treasury general ledger, as of December 31, 2021, where for some loans that are fully repaid, certain amount (positive or negative) of debt outstanding is registered, since for such loans the last repayment was in the amount higher or lower the amount outstanding (correction will be made after the reconciliation with BH Ministry of Finance and treasury). On the other hand, for the purpose of designing RS MTDS 2022-2025 it is assumed that for such loans debt outstanding is zero, since there are no more repayments in the future. Therefore, values of some cost and risk indicators as of December 31, 2021, presented in the RS MTDS 2022-2025, are different from those presented in the Information on debt as of December 31, 2021.

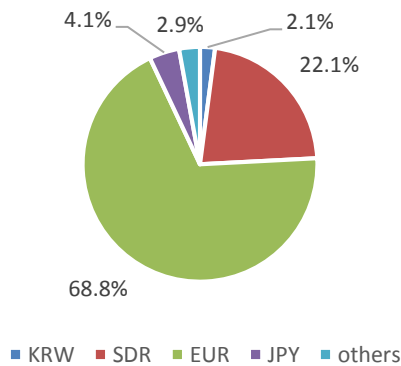
External debt by individual creditors



External debt by creditor type



External debt currency structure



Debt contracted with multilateral creditors accounts for the largest share in external MTDS debt (65,5%), followed by bonds issued at the international market (22,1%), as well as debt contracted with bilateral creditors (12,4%). In terms of individual creditors, the largest share in external MTDS debt is towards World bank - IDA и IBRD (WB; 25,9%), European Investment Bank (EIB;

25,0%), International Monetary Fund (IMF; 8,1%) Government of Japan (4,1%), and Paris Club of creditors (4,0%). In terms of currency composition of external debt, EUR and SDR have the largest share, with 68,8% and 22,1%, respectively, JPY participates with 4,1%, KRW with 2,1%, while other currencies (USD, CPU, CHF) participate with 2,9%.

**Domestic MTDS debt is composed of:**

1) medium-term bonds;

Debt outstanding in the form of medium-term bonds, as of December 31<sup>st</sup>, 2021, amounts to 999,5 million BAM (579,2 million USD, which is 17,9% of total debt or 8,0% of GDP). Maturity of bonds issued with amortisation repayment is 5 years, with 1-year grace period, while maturity of bonds with bullet repayment is 5, 7 and 10 years.

2) Domestic commercial bank loans;

Debt outstanding under these loans, as of December 31<sup>st</sup> 2021, amounts to 187,3 million BAM (108,5 million USD, which is 3,4% of total debt or 1,5% of GDP). These are amortizing loans with fixed or variable interest rate, maturity of 6-12 years and grace period of 1-3 years.

3) Bonds issued for repayment of debt stipulated by the RS Law on domestic debt, as follows:

- i) bonds for repayment of war claims with maturity of 13-15 years and grace period of 3-5 years, with 1,5% interest rate and amortising repayment;
- ii) amortising old foreign currency savings bonds with maturity of 5 years, without grace period, and with interest rate of 2,5%;
- iii) amortizing bonds for the settlement of liabilities to suppliers and liabilities under executive court decisions, with maturity of 15 years, grace period of 5 years and interest rate of 1,5%;

As of December 31<sup>st</sup>, 2021, debt outstanding in the form of these bonds amounts to 194,1 million BAM (112,5 million USD, which is 3,5% of total debt or 1,6% of GDP).

4) Planned bond issuance for repayment of verified debt - war claims, with maturity of 13 years and grace period of 3 years, interest rate of 1,5% and amortizing repayment;

As of December 31<sup>st</sup>, 2021, this debt outstanding amounts to 15,2 million BAM (8,8 million USD, which is 0,3% of total debt or 0,1% of GDP).

5) Cash payments (according to action plan) for settlement of obligations under the executive court decisions related to war damage claims and general liabilities, as stipulated by the RS Law on domestic debt, cash payments related to frozen foreign currency savings, as well as tax refund obligations towards municipalities and social funds, on the basis of replacement of tax obligations with bonds;

As of December 31<sup>st</sup>, 2021, this debt outstanding amounts to 39,5 million BAM (22,9 million USD, which is 0,7% of total debt or 0,3% of GDP).

Expenditures for the period 2023-2025 planned in RMTBFD 2023-2025 are increased by projected amount of liabilities coming due on the basis of planned issuances and cash payments (according

to projected dynamics of verification of war claims, old foreign currency savings and general liabilities), which affects financing needs.

The most important cost and risk indicators of the existing portfolio are presented in Table 3, while Table 4 shows cost and risk indicators in the period 2017-2021.

**Table 3: Cost and risk indicators of the existing portfolio <sup>10</sup>**

	External debt	Domestic debt	Total debt
Amount (in million BAM)	4.134,8	1.435,6	5.570,4
Amount (in million USD)	2.396,1	831,9	3.228,0
<b>Nominal value of debt to GDP (%)</b>	<b>33,1</b>	<b>11,5</b>	<b>44,6</b>
Present value of debt to GDP (%)	27,9	11,5	39,8
<b>Cost of debt</b>			
Interest to GDP (%)	0,7	0,3	1,0
Weighted average interest rate <sup>11</sup> , in % (WAIR)	2,1	3,0	2,3
<b>Refinancing risk</b>			
Average time to maturity, in years (ATM)	6,8	3,5	6,0
Debt maturing in 1 year (% of total)	5,1	16,3	8,0
Debt maturing in 1 year (% of GDP)	1,7	1,9	3,5
<b>Interest rate risk</b>			
Average time to refixing (ATR)	5,1	3,5	4,7
Debt refixing in 1 year (% of total)	29,3	17,2	26,1
Fixed rate debt (% of total)	74,1	98,5	80,4
<b>Currency risk</b>			
External debt (% of total)			74,2
Short term external debt <sup>12</sup> (% of reserves)			3,9

Source: RS MoF

**Table 4: Cost and risk indicators of the existing portfolio at the year end in the period 2017-2021**

	2017	2018	2019	2020	2021
<b>Nominal value of debt to GDP (%)</b>	<b>45,4</b>	<b>43,7</b>	<b>43,0</b>	<b>46,9</b>	<b>44,6</b>
Present value of debt to GDP (%)	39,1	37,0	36,7	40,5	39,8
<b>Cost of debt</b>					
Interest to GDP (%)	1,0	1,0	1,0	1,0	1,0
Weighted average interest rate, in % (WAIR)	2,2	2,3	2,3	2,1	2,3
<b>Refinancing risk</b>					
Debt maturing in 1 year (% of total)	16,0	10,4	7,9	10,7	8,0
Debt maturing in 1 year (% of GDP)	7,3	4,6	3,4	5,0	3,5
Average time to maturity of external debt, in years (ATM)	8,0	8,0	8,0	7,4	6,8
Average time to maturity of domestic debt, in years (ATM)	3,4	3,5	3,9	3,6	3,5

<sup>10</sup> See footnote 9.

<sup>11</sup> Weighted average interest rate is calculated as sumproduct of interest rates (ratio of interest in 2022 and debt outstanding at the end of 2021) and debt outstanding by each instrument at the end of 2021, put in a relation to total debt outstanding at the end of 2021.

<sup>12</sup> Term „short term external debt“ in MTDS means external debt maturing in next year, not original maturity.

**Table 4: Cost and risk indicators of the existing portfolio at the year end in the period 2017-2021**

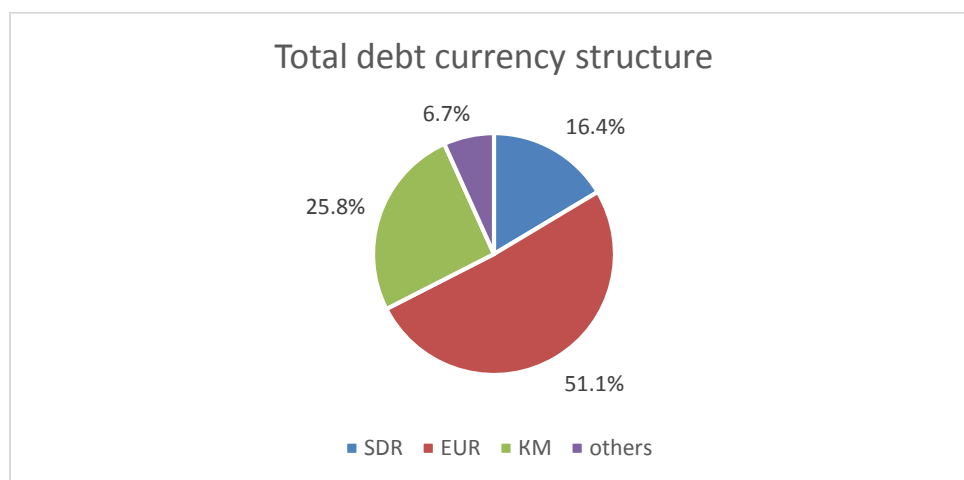
	2017	2018	2019	2020	2021
Average time to maturity of total debt, in years (ATM)	6,4	6,7	6,8	6,2	6,0
<b>Interest rate risk</b>					
Average time to refixing, in years (ATR)	4,8	5,4	5,5	4,8	4,7
Debt refixing in 1 year (% of total)	38,2	28,4	24,5	29,5	26,1
Fixed rate debt (% of total)	71,9	78,6	81,3	79,1	80,4
<b>Currency risk</b>					
External debt (% of total)	64,1	71,2	69,9	67,0	74,2
Short term external debt <sup>13</sup> (% of reserves))	8,1	5,8	4,6	4,4	3,9

Source: RS MoF

**The composition of Republic of Srpska debt analyzed under the MTDS (RS MTDS debt) is mostly the result of the basic debt management principle implemented in the past, which is maximization of external concessional borrowing.** Therefore, the RS MTDS debt portfolio is characterized by a high share of external debt with relatively long maturities and low average implied interest rate.

**Overall, existing portfolio is associated with low costs. Weighted average interest rate of the total portfolio is 2,3%, external portfolio 2,1%, and domestic portfolio 3,0%.** This is mainly the reflection of external concessional loans and low interest rate on bonds issued for reconciliation of domestic debt obligations, defined by the RS Law on domestic debt.

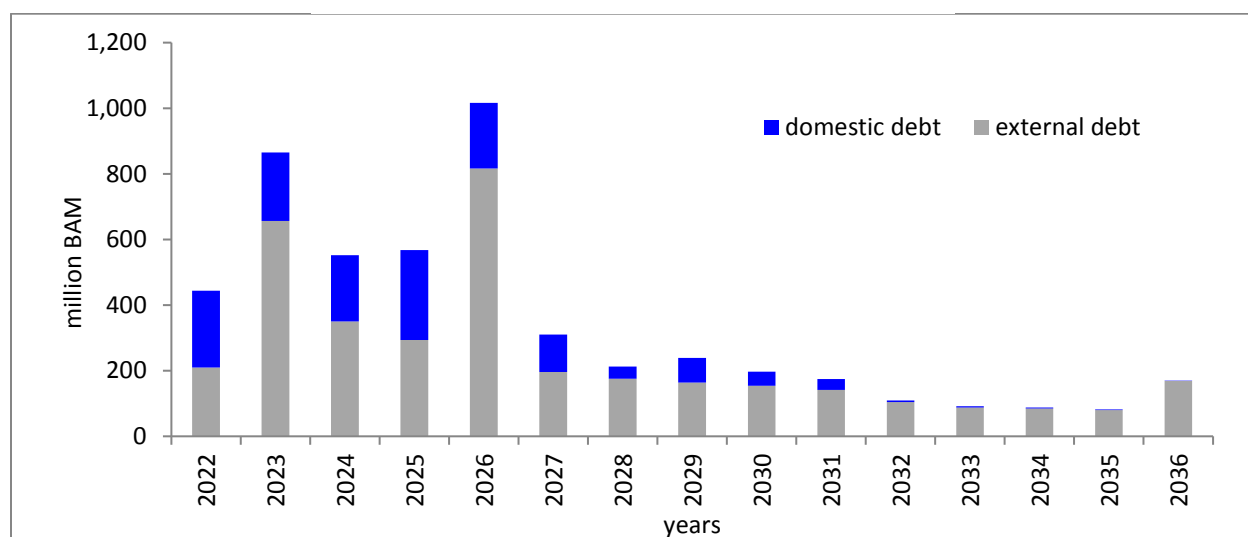
**Currency risk is moderate.** Out of the total portfolio, 51,1% is denominated in EUR, while 25,8% is denominated in BAM. Under the current currency board arrangement, with BAM pegged to EUR, only 23,2% of the portfolio is exposed to exchange rate risk (or 18,1% after SDR decomposition and excluding the debt in EUR). In USD is denominated 1,2% of the portfolio (or 8,1% after SDR decomposition), which impose some risk, having in mind historical volatility of the USD against the EUR, as well as projections for the future.



<sup>13</sup> Term „short term external debt“ in MTDS means external debt maturing in next year, not original maturity.

**Refinancing risk and refixing risk is moderate.** Fixed rate instruments stand for 80,4% of the total portfolio. Average time to maturity of the total portfolio is 6,0 years. Average time to maturity of external portfolio is 6,8 years, as a result of long-term concessional loans, while average time to maturity for domestic debt is 3,5 years. Redemption profile of existing debt, presented in Chart 1, shows the peak in 2023. години, as well as in 2026, as a result of significant amounts coming due on the basis of external debt (15,9% of the total MTDS external debt is coming due in 2023 and 19,7% is coming due in 2026), mainly bonds issued in 2018 and 2021, as well as beginning of repayment of IMF RFI<sup>14</sup>, several tranches of EIB loans, and bullet repayment of the first tranche of European commission loan - Microfinancial assistance II, withdrawn in 2013.

**Graph 1. Redemption profile of the existing portfolio**



Source: RS MoF

**Maintaining cost and risk indicators at a relatively low level is a challenge for RS, considering the change in the structure of financing sources.** The current debt portfolio is characterised by relatively favorable cost and risk indicators, as a result of significant use of the concessional financing sources, as well as bonds issued for reconciliation of domestic debt obligations with a relatively low costs and long maturities. As concessional financing sources are expected to be less available in the future, increased reliance on commercial funds from external and domestic sources will be needed, provided that increase in costs and risks is at the acceptable level. It is important also to have in mind current situation at the international financial market. Namely, global supply chains, that are disrupted since the pandemic, are now worsened further by the war in Ukraine, which caused increase in prices at the global markets, primarily food and energy prices, bringing up inflation, as well as disruptions at the international financial markets such as interest rates and exchange rates increase.

<sup>14</sup> Rapid Financing Instrument, RFI.

### 3.2. Strategy implementation in 2021 and evaluation of identified debt indicators

Debt management in 2021 was conducted in accordance with the guidelines defined by the Debt Management Strategy for the period 2020-2023 (MTDS 2020-2023), adopted by RS Government in February 2021.

For the purpose of achieving the main debt management goal defined in the MTDS 2020-2023, i.e. providing necessary financial resources through borrowing, in 2021 investment projects were financed from external concessional sources, while budget consumption was financed mainly through bonds issued at the international market (80,2%), as well as external loans (13,7%), while smaller portion of budget consumption (6,1%) was financed from domestic sources, i.e. through issuance of securities at the domestic market.

Out of the total financing in 2021 (for budget consumption and investment projects) 94,7% was provided through external instruments (out of which 89,7% in fixed instruments and 99,1% in EUR), while 90,3% was provided through fixed instruments. In terms of currency composition of total financing in 2021, 93,8% was denominated in EUR, 5,3% in BAM, while 0,9% was denominated in other foreign currencies except EUR.

In terms of instruments for financing budget consumption in 2021, 92,7% was provided through external fixed instruments (79,9% of total financing), 6,1% was provided through domestic fixed instruments (5,3% of total financing), while 1,2% was provided through external variable instruments (1,0% of total financing). With regards to the currency composition of the budget consumption financing in 2021, 6,1% was denominated in BAM and 93,9% in EUR.

Following table shows budget consumption financing structure in 2021, as it was planned in MTDS 2020-2023 and realization in 2021, by instruments.

Instruments	Plan	Realization
External variable EUR	11,1%	1,2%
External fixed EUR	0,0%	12,5%
Eurobonds	80,9%	80,2%
T-bills	1,5%	0,0%
Domestic bonds 3y fixed	1,2%	0,0%
Domestic bonds 7y fixed	2,4%	2,7%
Domestic bonds 10y fixed	3,0%	3,4%
	100,0%	100,0%

Source: RS MoF

Realization of budget consumption financing in 2021 was 86,5% of the plan in MTDS, while realization of external commercial fixed instruments was 85,7%, realization of domestic fixed instruments was 66,2% and realization of external concessional variable instruments was 9,2%<sup>15</sup>

<sup>15</sup> Budget consumption financing planned in MTDS 2020-2023 amounted to 845,9 million BAM and realization was 731,9 million BAM, which is 86,5% of the plan (since recovery of the economy has been faster than expected, which led to the higher rate of budget revenues collection comparing to the plan, as well as due to the receipt of funds from IMF on the basis of SDR allocation). Planned amount of the external concessional variable instruments was 93,7 million BAM (11,1% of the total budget consumption financing) and realization was 8,6 million BAM (1,2% of the

(all denominated in EUR), since those were replaced with external concessional fixed instruments.

Out of the total financing provided in 2021 for investment projects, 36,6% refers to external fixed instruments (5,0% of total financing), while 93,5% was denominated in EUR (12,9% of total financing).

Following table shows investment projects financing structure in 2021 as it was planned in MTDS 2020-2023 and realization in 2021, by instruments.

**Table 6: Investment projects financing structure planned in MTDS and realization in 2021, by instruments**

Instruments	Plan	Realization
External variable EUR	64,3%	63,4%
External fixed USD	18,5%	6,5%
External fixed EUR	17,1%	30,1%
	100,0%	100,0%

Source: RS MoF

Realization of investment projects financing in 2021 was 60,0% of the plan in MTDS, while realization of external variable instruments (denominated in EUR) was 59,1% and realization of external fixed instruments was 61,5% (denominated in EUR 105,3%, denominated in other foreign currencies except EUR 21,0%).

In 2021, the possibility of choosing repayment terms at withdrawal existed for four tranches, within three previously approved loans (which is 2,8% of external financing or 2,7% of total financing), and for all four tranches the fixed interest rate was chosen, while weighted average interest rate was 1,1%.

In 2021, five new external loans were accepted, all denominated in EUR, while three loans were with variable interest rate<sup>16</sup> (within two loans there is possibility of fixing the interest rate at withdrawal). Effects of the previously mentioned borrowings on debt structure will be visible in the following period after the withdrawal of funds.

The following table shows debt structure indicators identified by the Strategy, their target values and values in the period 2017-2021 (at the end of the period).

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total budget consumption financing), which is 9,2% of the plan, while 91,7 million BAM was provided through external concessional fixed instruments.

<sup>16</sup> World Bank loan (IBRD 9129) - „Sava and Drina Rivers Corridors Integrated Development Program using the Multiphase Programmatic Approach“, World Bank loan (IBRD 9183) - „Firm Recovery and support Project“, IFAD loan – “Rural Enterprises and Agriculture Development Project”.

**Table 7: Identified debt structure indicators and their values in the period  
2017-2021**

Goal	Indicator	Strategy defined	Values				
			2017	2018	2019	2020	2021
<b>Currency risk</b>							
	External debt, excluding debt in EUR (% of total)	≤ 35	26,5	25,9	24,5	25,5	23,2
<b>Domestic market development</b>							
	Domestic debt (% of total)	≥ 20	35,9	28,8	30,1	33,0	25,8
<b>Refinancing risk</b>							
	ATM (years)	≥ 4	6,4	6,7	6,8	6,2	6,0
	Short term debt - original maturity (% of last year revenues)	≤ 8	3,3	0,0	0,0	3,8	0,0
<b>Interest rate risk</b>							
	Fixed rate debt (% of total)	≥ 60	71,9	78,6	81,3	79,1	80,4
<b>Cost of debt</b>							
	WAIR <sup>17</sup> (%)	≤ 3,5	2,2	2,3	2,3	2,1	2,3

Source: RS MoF

Debt structure indicators in the previous years are showing that share of external debt, excluding debt in EUR, has favourable i.e. downward trend until 2020, when it starts to increase due to the borrowing from International Monetary fund, while in 2021 it is decreasing again.

Share of domestic debt in total debt is increasing until 2017, while in 2018 it is decreasing (due to due to the switch from domestic financing instruments to external instruments, mainly in the form of bonds issued at the international capital market), while in 2019 and 2020 it shows upward trend again, but still under the level recorded in 2017. In 2021, share of domestic debt in total debt is decreasing again, due to the issuance of bonds at the international capital market.

Average time to maturity showed upward trend until 2019, while in 2020 is decreasing (mainly due to the borrowing from International Monetary fund - RFI, which is instrument with relatively short maturity (5 years maturity, including 3 years grace period). Decreasing trend of average time to maturity is continued in 2021 when it reached its' lowest level in the whole period. Share of short term debt in the last year revenues had decreasing trend since 2017, while in 2020 this indicator increased reaching the value close to the one recorded in 2017. At the end of 2021 this indicator decreased since short term debt is repaid in total.

Share of fixed rate debt had an upward trend in the whole period, except in 2020 when it decreased, which is mainly a result of the borrowing from International Monetary fund (RFI).

Weighted average interest rate had volatile trend during whole period, even that variations were not significant.

<sup>17</sup> Same as footnote 10.

## 4. Financing sources

In the medium term, the Strategy is based on financing mostly through securities issued on domestic and international financial markets. According to the level of development of the Republic of Srpska, concessional financing sources will be less available in the Strategy period. Furthermore, it is important to point out that concessional funds are connected with certain conditions to be met at Bosnia and Herzegovina level, which could be a limitation factor.

Following table shows external financing sources included in the Strategy.

**Table 8: External financing sources**

Creditor	Interest rate	Maturity	Grace period	Currency	Risk
IBRD	variable/fixed	15-32	5-7	EUR	refixing risk for variable interest rate
EIB	variable/fixed	25-30	5-8	EUR	refixing risk for variable interest rate
EBRD	variable	15	3	EUR	refixing risk for variable interest rate
KfW	fixed	9-16	0,5-7	EUR	refinancing risk
Eurobonds	fixed	5	4	EUR	refinancing risk
Other <sup>18</sup>	variable/fixed	10-18	0-3	EUR	refixing risk for variable interest rate

Source: RS MoF

Domestic financing sources are used for financing the budget consumption. Investors in domestic securities i.e. bonds and T-bills are mainly entities with headquarters in Bosnia and Herzegovina. Investors are mostly domestic banks, but also insurance companies, funds and others. It is important to have in mind that bank limits, in terms of their exposure to public sector, could be potential financing constraint, considering budget deficit projected in the period 2023-2025 and gross financing needs in the period 2022-2025. Bonds and T-bills are traded at the secondary market, but to a limited extent. The most common type of trade at the secondary market refers to the bonds issued for war damage claims, old foreign currency savings and general liabilities. Development of the secondary market is certainly one of the preconditions for attracting investors. Along with previously mentioned securities, domestic banks loans are also available financing instrument for Republic of Srpska, given that at a certain point in time they are evaluated as more favourable comparing to bonds.

With regards to the market choice, currency and financing instrument choice, it will be taken into account current level and trend of domestic and international financial market development (interest rates level, risk premiums, yield curves, etc.), as well as acceptable level of risk exposure.

Debt management policy will be focused mainly on achieving identified medium-term goals, but decisions on short-term and long-term borrowing will be adopted annually in accordance with provisions of the Law on Borrowing, Debt and Guarantees of the Republic of Srpska. Borrowing

<sup>18</sup> IFAD, Hungarian Export-Import Bank

plan might be changed during the fiscal year, depending on the changes of general fiscal aggregates and contingencies<sup>19</sup>.

## 5. Medium term debt management strategy

**The main borrowing and debt management objective is ensuring the funds necessary for Republic of Srpska budget execution, financing the approved investment projects and debt refinancing, at minimal costs and acceptable level of risk.**

In order to achieve the main debt management objective, the following operational goals and borrowing principles are defined:

- 1) Continuous promotion and presence at the domestic and international financial markets through issuance of securities and other instruments, which could eventually lower the borrowing costs in the medium and long-term, under the conditions of unpredictable global shocks;
- 2) Achieving debt portfolio in accordance with previously identified debt structure indicators - maturity profile, interest rate structure, borrowing costs, domestic debt balance, currency risks exposure (excluding the debt in EUR, due to the currency board arrangement) and its' target values;
- 3) Continue to conduct transparent and predictable borrowing process.

**In the following medium term period (2022-2025), the above mentioned goals will be achieved through the Strategy of *diversifying financing sources, instruments and investor base*.** This strategy is based on financing the budget consumption through issuing medium-term securities, with bullet and amortizing repayment, mostly at the international financial market and to a lesser extent at the domestic market. Investment projects are financed from external financing sources, as a result of maximum exploitation of access to concessional sources (WB, EIB, EBRD, KfW etc.), which contributes to the reduction of refinancing risk and minimizing costs. Average share of financing from domestic sources is decreased in favor of financing from external sources.

This Strategy improves the position of Republic of Srpska regarding future sources of financing, through presence at the international financial market, domestic market development through the issuance of short-term<sup>20</sup> and medium-term instruments, with acceptable level of increase in costs and risks, which is softened by continued usage of available support from multilateral creditors.

The following table shows financing instruments of the debt portfolio, their share in the gross financing in the period 2022-2025, and their projected share in debt portfolio at the end of 2025.

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<sup>19</sup> Such as COVID-19 pandemic, Russia-Ukraine conflict, energy crisis, inflation, etc.

<sup>20</sup> Short term instruments will be used mainly to finance temporary cash flow deficit.

**Table 9: Debt portfolio financing instruments, their share in gross financing in the period 2022-2025, and their projected share in the debt portfolio at the end of 2025**

Instrument	Maturity	Grace period	% of portfolio at end-2021	Average in the period	gross financing needs (%)				% of portfolio at end-2025
					2022	2023	2024	2025	
External variable USD (concessional)	18	4	1,1	0,0	0,0	0,0	0,0	0,0	0,2
External variable EUR (concessional)	15	3	12,1	11,3	18,1	11,6	7,9	5,4	13,7
External fix USD (concessional)	20	5	16,1	0,0	0,0	0,0	0,0	0,0	8,3
External fix EUR (concessional)	20	5	22,5	17,7	34,0	11,1	3,5	27,4	24,3
IMF variable USD (concessional)	5	3	6,0	0,0	0,0	0,0	0,0	0,0	0,5
Eurobonds 5y fix EUR (market)	5	4	16,4	34,1	0,0	54,4	63,4	0,0	27,4
Domestic loans variable (market)	6	1	0,4	0,0	0,0	0,0	0,0	0,0	0,0
Domestic loans fix (market)	10	1	0,9	0,0	0,0	0,0	0,0	0,0	0,0
T-bills fix (market)	1	0	0,0	4,1	10,7	2,1	3,7	0,0	0,0
Domestic bonds 3y fix (market)	3	2	2,7	0,0	0,0	0,0	0,0	0,0	0,4
Domestic bonds 5y fix (market)	5	4	8,6	16,1	24,1	9,8	13,7	22,5	9,2
Domestic bonds 7y fix (market)	7	6	5,2	13,6	10,8	6,3	5,4	44,7	9,9
Domestic bonds 10y fix (market)	10	9	7,9	2,9	2,3	4,9	2,4	0,0	6,1
<b>External sources</b>			<b>74,2</b>	<b>63,2</b>	<b>52,1</b>	<b>77,0</b>	<b>74,9</b>	<b>32,7</b>	<b>74,4</b>
<b>Domestic sources</b>			<b>25,8</b>	<b>36,8</b>	<b>47,9</b>	<b>23,0</b>	<b>25,1</b>	<b>67,3</b>	<b>25,6</b>

Source: RS MoF

Standard cost and risk indicators, as well as projected values for the period 2022-2025 are shown in the following table.

**Table 10: Cost and risk indicators in the period 2022 - 2025**

	Initial	Strategy			
	2021	2022	2023	2024	2025
<b>Debt/GDP (%)</b>	<b>44,6</b>	<b>42,9</b>	<b>43,2</b>	<b>41,3</b>	<b>39,2</b>
Debt PV/GDP (%)	39,8	38,7	39,7	38,4	36,8
<b>Borrowing cost</b>					
Interest/GDP (%)	1,0	0,9	1,1	1,6	1,8
Weighted average interest rate, in % (WAIR) <sup>21</sup>	2,3	2,3	2,9	4,0	4,6
<b>Refinancing risk</b>					
Debt maturing in 1 year (% of total)	8,0	16,1	9,3	9,2	15,4
Debt maturing in 1 year (% of GDP)	3,5	6,9	4,0	3,8	6,1

<sup>21</sup> Weighted average interest rate for the period 2022-2025 is calculated as a ratio of interest amount for specific year and debt outstanding for previous year. Calculation of this indicator for 2021 is explained in footnote 11.

**Table 10: Cost and risk indicators in the period 2022 - 2025**

	Initial		Strategy		
	2021	2022	2023	2024	2025
Average time to maturity for external debt, in years (ATM)	6,8	7,1	6,9	6,3	5,7
Average time to maturity for domestic debt, in years (ATM)	3,5	5,0	4,6	4,1	3,7
Average time to maturity for total debt, in years (ATM)	6,0	6,5	6,2	5,7	5,2
<b>Interest rate risk</b>					
Average time to refixing, in years (ATR)	4,7	5,4	5,1	4,7	4,2
Debt refixing in 1 year (% of total)	26,1	25,7	21,6	21,6	28,6
Fixed rate debt (% of total)	80,4	83,5	83,4	84,9	85,6
<b>Currency risk</b>					
External debt (% of total)	74,2	71,4	71,7	72,5	74,4
External debt excluding debt in EUR (% of total)	23,2	20,8	16,7	12,2	9,0
Short-term external debt <sup>22</sup> (as % of reserves)	3,9	12,4	7,0	5,8	15,4

Source: RS MoF

At the end of four year period, comparing to the end-2021, some indicators will deteriorate, such as borrowing costs indicators (interest/GDP and weighted average interest rate), refinancing risk indicators (debt maturing in 1 year as % of GDP and % of total, average time to maturity for external and total debt), interest rate risk indicators (average time to refixing, debt refixing in 1 year as % of total) and currency risk indicators (external debt share, short-term external debt as % of reserves), which is a result of change in the financing structure, as well as projected budget deficit and financing needs for the period 2022-2025. In this context, it is important to have in mind current situation in the light of international market disruptions in terms of interest rates and exchange rates increase. On the other hand, at the end of four-year period, nominal value of debt as % of GDP will decrease, and also some other indicators will improve, such as refinancing risk indicator (average time to maturity of domestic debt), interest rate risk indicator (fixed rate debt as % of total), as a result of significant use of fixed instruments for financing the needs, as well as currency risk indicator (external debt excluding debt in EUR as % of total).

For the purpose of debt sensitivity analysis, the following table shows values of some cost and risk indicators under the baseline scenario and alternative scenarios after applying currency and interest rate shocks.

<sup>22</sup> See footnote 13.

**Table 11: Cost and risk indicators in the period 2017- 2021 and projections for period 2022 - 2025 under different scenarios for exchange rate and interest rate**

	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Debt/GDP (%)</b>									
<b>Baseline scenario</b>	<b>45,4</b>	<b>43,7</b>	<b>43,0</b>	<b>46,9</b>	<b>44,6</b>	<b>42,9</b>	<b>43,2</b>	<b>41,3</b>	<b>39,2</b>
Scenario 1 <sup>23</sup>	-	-	-	-	-	42,9	45,7	43,7	41,7
Scenario 2 <sup>24</sup>	-	-	-	-	-	42,9	43,2	41,9	40,2
Scenario 3 <sup>25</sup>	-	-	-	-	-	42,9	44,9	43,2	41,3
<b>Interest/GDP (%)</b>									
<b>Baseline scenario</b>	<b>1,0</b>	<b>1,0</b>	<b>1,0</b>	<b>1,0</b>	<b>1,0</b>	<b>0,9</b>	<b>1,1</b>	<b>1,6</b>	<b>1,8</b>
Scenario 1	-	-	-	-	-	0,9	1,2	1,7	1,9
Scenario 2	-	-	-	-	-	0,9	1,1	2,2	2,2
Scenario 3	-	-	-	-	-	0,9	1,2	2,0	2,1
<b>Interest/revenues (%)</b>									
<b>Baseline scenario</b>	<b>3,9</b>	<b>3,8</b>	<b>3,8</b>	<b>3,9</b>	<b>3,8</b>	<b>3,5</b>	<b>4,2</b>	<b>6,1</b>	<b>6,8</b>
Scenario 1	-	-	-	-	-	3,5	4,4	6,4	7,2
Scenario 2	-	-	-	-	-	3,5	4,2	8,4	8,1
Scenario 3	-	-	-	-	-	3,5	4,4	7,5	7,7

Source: RS MoF

From the previous table it is visible that the biggest deterioration in the value of debt/GDP is caused by the extreme shock of local currency depreciation (scenario 1 - 30% depreciation of BAM/USD exchange rate in 2023), while the biggest deterioration in the value of interest/GDP and interest/revenues is caused by the extreme shock of interest rates (scenario 2 - in 2023, interest rates on medium term domestic and long term external instruments are higher by 4% and interest rates on short term domestic instruments are higher by 2%).

During the strategy implementation, all borrowing activities will be performed in accordance with the following best practice principles:

- 1) activities at the domestic and international financial market will be performed professionally, transparently, expediently and in a timely manner, while contracted obligations will be fulfilled in due time and amount;
- 2) the choice of borrowing conditions will be (in priority order) based on the government debt refinancing, providing funds for financing the budget execution, compliance with the debt covenants set in the Fiscal Discipline Law and achievement of identified debt indicators;

<sup>23</sup> 30% depreciation of BAM/USD exchange rate in 2023.

<sup>24</sup> In 2023, interest rates on medium term domestic and long term external instruments are higher by 4%, while interest rates on short term domestic instruments are higher by 2%.

<sup>25</sup> 20% depreciation of BAM/USD exchange rate in 2023, in combination with 2% interest rate shock in 2023 on medium term domestic and long term external instruments and 1% interest rate shock on short term domestic instruments.

- 3) borrowing planning will be focused on the development and enhancement of long term borrowing opportunities at the financial market;
- 4) in general, the most favourable borrowing terms and conditions will be ensured, while taking into account principle under 2).

In order to implement the strategy, certain activities of RS MoF have been set out, which will be performed through:

- 1) developing and maintaining relations with partners and investors at the domestic and international market;
- 2) designing and optionally revising medium term Borrowing Plan and Auctions calendar based on the cash flow, in order to ensure stable model of total budget inflows on monthly basis;
- 3) publishing auction calendar on the quarterly basis and, whenever possible, providing information on planned issuances in the long term, as well as medium term borrowing plan;
- 4) continuously maintaining the offer of short term and medium term financial instruments at the domestic market, ensuring that instruments and procedures are efficient and favourable for primary and secondary trading in order to facilitate further development of the domestic securities market;
- 5) monitoring the debt portfolio with regards to identified debt indicators and reporting on their values on an annual basis, in order to actively manage the portfolio structure and to achieve optimal values of debt indicators;
- 6) analysing the opportunities and harmonization of practices and procedures related to domestic securities market with those of EU, if it's feasible in the medium-term;
- 7) managing the Republic of Srpska credit rating assessment process, providing active participation of line institutions representatives.

In order to minimize exposure to financial risks, following measures should be implemented:

- 1) extending the maturity of debt in the form of securities, as much as possible, with regards to the situation at the domestic and international market,
- 2) extending the average maturity of domestic debt,
- 3) decreasing the share of external debt denominated in other currencies except „EUR“,
- 4) smoothing the redemption profile in the long term.

In accordance with the defined objectives and basic principles of debt management, having in mind the debt structure, change in the financing structure, as well as situation at the financial markets, previously defined debt structure indicators and their values, as shown in the Table 7, will not be changed, except for weighted average interest rate which is changed to  $\leq 5$ , due to the current trends at the international financial market in terms of continuous increase of interest rates and predictions for further increase in the future.

**MINISTER**  
**Zora Vidović**

## Annex 1. Scope of the RS MTDS

		Included/ Excluded	% of total	Amount as of 31.12.2021.		% GDP
				mil. BAM	mil. USD <sup>26</sup>	
<b>1</b>	<b>Total debt (1.1.+1.2.+2.a.)</b>		<b>100,0%</b>	<b>6.162,5</b>	<b>3.571,2</b>	<b>49,3%</b>
<b>1.1.</b>	<b>External debt</b>		<b>67,6%</b>	<b>4.167,7</b>	<b>2.415,2</b>	<b>33,3%</b>
1.1.1.	Republika Srpska		48,2%	2.968,8	1.720,4	23,7%
1.1.1.1.	Relevant external debt	✓ <sup>27</sup>	33,2%	2.044,4	1.184,7	16,4%
1.1.1.2.	Relevant external debt - Paris Club Germany	X <sup>28</sup>	0,1%	9,1	5,3	0,1%
1.1.1.3.	Direct external debt	✓	14,9%	915,3	530,4	7,3%
1.1.2.	Local governments		2,0%	124,5	72,2	1,0%
1.1.2.1.	Relevant external debt	✓✓ <sup>29</sup>	1,6%	100,7	58,4	0,8%
1.1.2.2.	Direct external debt	XX <sup>30</sup>	0,4%	23,8	13,8	0,2%
1.1.3.	SOEs and Investment Development Bank		17,4%	1.074,4	622,6	8,6%
1.1.3.1.	Relevant external debt	✓✓	16,9%	1.042,9	604,3	8,3%
1.1.3.3.	Direct external debt	✓✓	0,5%	31,5	18,3	0,3%
<b>1.2.</b>	<b>Domestic debt</b>		<b>32,3%</b>	<b>1.993,4</b>	<b>1.155,2</b>	<b>15,9%</b>
1.2.1.	Republika Srpska		23,3%	1.432,8	830,3	11,5%
1.2.1.1.	Verified domestic debt		4,0%	248,8	144,2	2,0%
1.2.1.1.1.	Issued bonds (frozen foreign currency savings, war claims, general liabilities)	✓	3,1%	194,1	112,5	1,6%
1.2.1.1.2.	Planned bonds issuances (war claim bonds)	✓	0,2%	15,2	8,8	0,1%
1.2.1.1.3.	Cash payments (general liabilities, war claims, frozen foreign currency savings, tax refund)	✓	0,6%	39,5	22,9	0,3%
1.2.1.2.	Medium-term bonds	✓	16,2%	999,5	579,2	8,0%
1.2.1.3.	T-bills	✓	0,0%	0,0	0,0	0,0%
1.2.1.4.	Commercial bank loans	✓	3,0%	184,5	106,9	1,5%
1.2.2.	Local governments	XX	5,9%	365,8	212,0	2,9%
1.2.3.	Social security funds		3,2%	194,8	112,9	1,6%
1.2.3.1.	Direct debt	XX	3,1%	193,5	112,1	1,5%
1.2.3.2.	Indirect debt	✓	0,0%	1,3	0,7	0,0%
<b>2</b>	<b>Guaranties (a+b+c)</b>			<b>784,6</b>	<b>454,7</b>	<b>6,3%</b>
a	Activated RS guaranties	✓✓✓ <sup>31</sup>	0,0%	1,4	0,8	0,0%
b	Non activated RS guaranties included in total debt <sup>32</sup>	XX	3,0%	185,0	107,2	1,5%
c	Non activated RS guaranties	XXX <sup>33</sup>	-	598,2	346,6	4,8%
<b>3</b>	<b>Total debt included in MTDS</b>		<b>90,4%</b>	<b>5.570,3</b>	<b>3.228,0</b>	<b>44,6%</b>
<b>4</b>	<b>Total debt excluded from MTDS</b>		<b>9,6%</b>	<b>592,2</b>	<b>343,2</b>	<b>4,7%</b>

Source: RS MoF

<sup>26</sup> Values in USD are based on exchange rate USD/BAM = 1,725631 (CB BH currency exchange rates list number 259 as of 12/31/2021)

<sup>27</sup> Direct liability with clear repayment obligation.

<sup>28</sup> Direct liability with repayment method not defined yet.

<sup>29</sup> Indirect liability with clear repayment obligation.

<sup>30</sup> Neither direct nor indirect liability.

<sup>31</sup> Called guaranties converted in RS debt.

<sup>32</sup> RS guaranties issued for direct debt of local governments and social security funds, non-activated.

<sup>33</sup> RS guaranties issued for direct debt of SOEs and public sector, non-activated.

## Annex 2. Analytical underpinnings

This section presents other analytical underpinnings used for quantitative analysis of the Strategy. Debt service projections are generated under the baseline and alternative scenarios, applying interest rate and exchange rate shocks. Costs are calculated based on the debt service profile generated under the baseline scenario, while risk is measured as debt service increase due to the interest rate and exchange rate shocks applied.

Baseline scenario is based on most probable market conditions. Following table shows projections of interest rates and exchange rates in the period 2022-2025, used in the baseline scenario.

**Table: Interest rates and exchange rates projections in the period 2022-2025**

	2022	2023	2024	2025
<b>Instruments</b>				
External Var USD (concessional)	4,39%	6,68%	6,75%	6,82%
External Var EUR (concessional)	1,98%	3,83%	4,04%	4,24%
External Fix USD (concessional)	3,03%	5,32%	5,39%	5,46%
External Fix EUR (concessional)	2,84%	4,69%	4,90%	5,10%
IMF Var USD (concessional)	3,67%	3,74%	3,81%	3,88%
Eurobonds 5y fix EUR (market)	8,93%	9,49%	10,06%	10,62%
T-bills fix (market)	2,65%	2,03%	1,90%	1,99%
Domestic bonds 5y fix (market)	6,50%	6,41%	6,47%	6,56%
Domestic bonds 7y fix (market)	7,00%	6,96%	7,01%	7,09%
Domestic bonds 10y fix (market)	7,50%	7,48%	7,52%	7,58%
<b>Exchange rate</b>				
BAM/USD	1,86	1,94	1,94	1,94

Source: RS MoF and BH MoFT

For the purpose of sensitivity analysis of the strategy, following shocks are applied:

- **Exchange rate shock:** 30% depreciation of BAM/USD exchange rate in 2023, comparing to the initial exchange rate projection for the same year;
- **Interest rate shock:** comparing to the baseline scenario, in 2023 it has been applied 4% increase in interest rate for medium-term domestic and long-term external instruments and 2% increase in interest rate for short-term domestic instruments;
- **Combined shock:** comparing to the initial projection, it has been applied 20% depreciation of BAM/USD exchange rate in 2023, combined with 2% interest rate shock in 2023, for medium-term domestic and long-term external instruments, as well as 1% interest rate shock for short-term domestic instruments.