

**REPUBLIC OF SRPSKA**

**GOVERNMENT**

**REPUBLIC OF SRPSKA DEBT MANAGEMENT STRATEGY**

**FOR THE PERIOD 2023-2026**

**January, 2024**

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## 1. Legal framework

Debt and borrowing in Republic of Srpska 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 by 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 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 the previous fiscal year.

In addition, Law on Fiscal Responsibility in Republic of Srpska, within the general fiscal rules, defines the rule on debt so that public debt of Republic of Srpska at the end of fiscal year cannot exceed 55% of GDP in that year, while within special fiscal rules the threshold for debt is determined, which implies that if public debt of Republic of Srpska at the end of the fiscal year reaches 50% of GDP in that year, budget for next year must be with a budget surplus.

Legal framework that defines debt and guaranties of Republic of Srpska is given below:

- 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 for 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 2023-2026 (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 measures and activities defined in the Strategy shall secure desired debt portfolio structure, taking into account cost and risk preferences of the Republic of Srpska Government.**

One of the key elements for active debt management is regular identification of debt management strategy, with goals based on cost and risk analysis, taking into consideration macroeconomic and market circumstances and limitations, as well as reporting on the Strategy implementation. 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.** Upon being adopted by the Republic of Srpska Government, RS MTDS is published at the web portal of the Ministry of Finance, in order to increase transparency in the debt management.

**RS MTDS covers the 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 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, medium-term bonds, bank loans and activated guarantee);
- 2) debt of 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 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 to ensure funds necessary for Republic of Srpska budget execution, financing the approved investment projects and debt refinancing, at minimal costs and acceptable level of risk.**

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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.

## 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 2024-2026 (hereinafter: RS ERP 2024-2026), as well as Fiscal Consolidation Programme 2024-2026, 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), in accordance with RS ERP 2024-2026 and Revised Medium term Budget Framework Document for the period 2024-2026 (hereinafter: RMTBFD 2024-2026);
- 3) Any new borrowing where Republic of Srpska appears as borrower, or subsidiary borrower (in case when Bosnia and Herzegovina is borrower), will be contracted in accordance with the Law on Borrowing, Debt and Guaranties of Republic of Srpska, as well as Law on Borrowing, Debt and Guaranties of Bosnia and Herzegovina<sup>2</sup>, with active participation of the Republic of Srpska Ministry of Finance;
- 4) There will be no changes in legislation that would provide recognition (takeover) of debt from other government levels;
- 5) Verification and settlement of obligations regulated by the Law on Domestic Debt of Republic of Srpska shall be performed in accordance with the projections included in RMTBFD 2024-2026;
- 6) 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;
- 7) Credit rating of Republic of Srpska and Bosnia and Herzegovina will not be downgraded within the medium term<sup>3</sup>;
- 8) Investor base of Republic of Srpska at the domestic and international financial market will be maintained and broadened in the medium term;
- 9) In accordance to the latest announcement, European Central Bank will keep reference rate at the current level<sup>4</sup>, after several consecutive increases in 2023, while at the same time future interest rate decisions will depend on estimates of the inflation outlook, in light of the current economic and financial situation;
- 10) Other analytical assumptions used for quantitative analysis of the Strategy presented in Annex II.

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<sup>2</sup> „Official Gazette of Bosnia and Herzegovina“, no. 52/05, 103/09 and 90/16.

<sup>3</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>4</sup> European Central Bank; [Press release as of December 14, 2023](#).

**Table 1: Overview of the macroeconomic indicators for the period 2019-2022 and projections for the period 2023-2026**

	2019	2020	2021	2022	2023	2024	2025	2026
<b>GDP</b>								
<b>GDP nominal, mil. BAM</b>	<b>11.251,3</b>	<b>11.131,8</b>	<b>12.501,7</b>	<b>14.537,0</b>	<b>15.474,4</b>	<b>16.557,6</b>	<b>17.468,3</b>	<b>18.437,8</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	9.848,0	9.795,0	11.080,1	12.976,7	13.830,9	14.873,4	15.772,1	16.735,3
GDP growth, nominal (%)	5,1	-1,1	12,3	16,3	6,4	7,0	5,5	5,6
<b>Inflation - average annual rate</b>	<b>0,5</b>	<b>-1,2</b>	<b>1,7</b>	<b>12,7</b>	<b>7,0</b>	<b>3,0</b>	<b>2,2</b>	<b>1,8</b>
<b>Real growth rates %</b>								
<b>GDP growth, real</b>	<b>2,5</b>	<b>-2,5</b>	<b>6,9</b>	<b>3,9</b>	<b>1,5</b>	<b>3,0</b>	<b>3,2</b>	<b>3,5</b>
Export	1,5	-13,9	23,7	4,1	1,9	5,5	6,2	6,5
Import	-2,4	-3,8	6,2	0,3	2,0	4,5	4,6	4,8
Private consumption	2,8	0,2	5,5	1,4	1,4	2,2	2,1	2,5
Public consumption	1,5	3,9	3,9	1,1	1,4	1,9	1,1	1,5
Gross investments in fixed assets	-2,2	10,1	-5,0	5,6	1,6	5,0	1,0	6,2
<b>Assumptions:</b>								
Average net salaries, in BAM	906,0	956,3	1.004,0	1.144,0	1.272,0	1.405,0	1.457,0	1.506,5
Unemployment rate (%) <sup>5</sup>	-	-	14,3	11,2	9,4	9,1	8,8	8,5

Source: RS ERP 2024-2026, RS MoF, RS IoS

**Table 2: Fiscal framework for the period 2023-2026**

	Revised Budget 2023	RMTBFD 2024	RMTBFD 2025	RMTBFD 2026
<b>A. BUDGET REVENUES (I+II+III+IV)</b>	<b>4.222,0</b>	<b>4.659,7</b>	<b>4.885,0</b>	<b>5.107,3</b>
I Tax revenues	3.866,6	4.249,3	4.455,5	4.656,3
II Non tax revenues	348,7	404,1	423,2	444,7
III Grants	0,0	0,0	0,0	0,0
IV Transfers among or within budgetary units	6,6	6,3	6,3	6,3
<b>B. BUDGET EXPENDITURES (I+II+III)</b>	<b>4.295,9</b>	<b>4.697,8</b>	<b>4.877,6</b>	<b>4.981,4</b>
I Current expenditures	3.863,1	4.270,2	4.447,9	4.550,7
II Transfers among or within budgetary units	430,3	416,0	419,7	420,7
III Budget reserve	2,5	11,7	10,0	10,0
<b>C. GROSS BUDGET SURPLUS/DEFICIT (A-B)</b>	<b>-73,9</b>	<b>-38,1</b>	<b>7,5</b>	<b>125,9</b>
D. NET EXPENSES FOR NON-FINANCIAL ASSETS	-181,5	-162,6	-149,8	-152,0
<b>E. BUDGET SURPLUS/DEFICIT (C+D)</b>	<b>-255,4</b>	<b>-200,7</b>	<b>-142,3</b>	<b>-26,1</b>
<b>F. NET FINANCING (G+H+I)</b>	<b>255,4</b>	<b>200,7</b>	<b>142,3</b>	<b>26,1</b>
G. NET PROCEEDS FROM FINANCIAL ASSETS	97,5	88,0	90,9	108,6
H. NET BORROWING	173,2	130,6	67,8	-66,8
I. OTHER NET PROCEEDS	-15,3	-17,9	-16,4	-15,8

Source: RS MoF

<sup>5</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.

### 3. Existing debt

#### 3.1. Portfolio overview

RS MTDS debt amounted to 5.792,8 million BAM (3.159,0 million USD, i.e. 39,8% of GDP), as of December 31<sup>st</sup>, 2022.

External debt amounted to 72,4% of the total (4.191,4 million BAM or 2.285,8 million USD, i.e. 28,8% of GDP), while domestic debt amounted to 27,6% of the total (1.601,3 million BAM or 873,3 million USD, i.e. 11,0% of GDP).

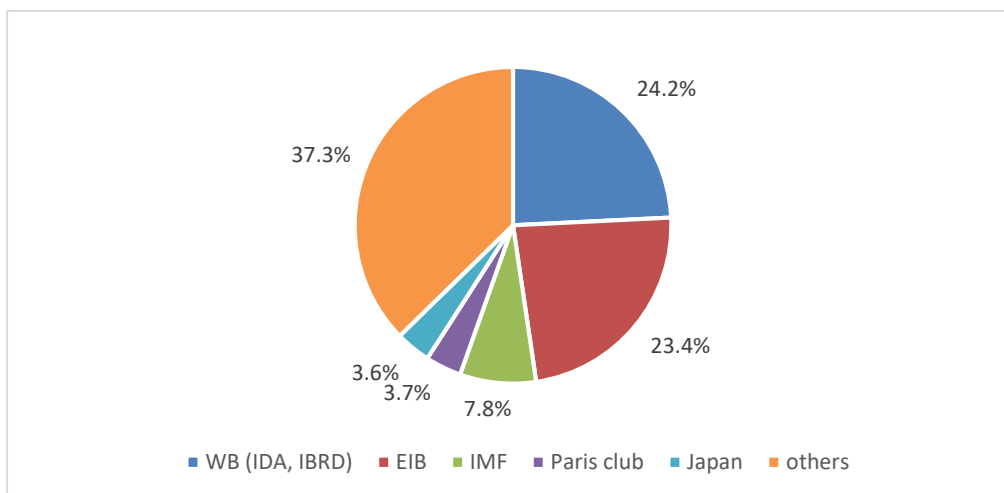
**External MTDS debt is composed of:**

- 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>, 2022, relevant external debt outstanding amounted to 3.033,4 million BAM (1.654,2 million USD, which is 52,4% of the total debt, and 20,9% of GDP).
- 2) direct external debt (debt contracted directly by Republic of Srpska with external creditors);  
As of December 31<sup>st</sup>, 2022, direct external debt outstanding amounted to 1.158,1 million BAM (631,5 million USD, which is 20,0% of the total debt or 8,0% of GDP).

Debt contracted with multilateral creditors accounts for the largest share in external MTDS debt (62,1%), followed by bonds issued at the international market (21,8%) and debt contracted with bilateral creditors (16,0%). In terms of individual creditors, the largest share in external MTDS debt is towards The World bank - WB IDA и WB IBRD (24,2%), European Investment Bank – EIB (23,4%), International Monetary Fund - IMF (7,8%), Paris Club of creditors (3,7%) and Government of Japan (3,6%). In terms of currency composition of external debt, EUR and SDR have the largest share, with 72,0% and 20,2%, respectively, JPY participates with 3,6%, KRW with 1,8%, while other currencies (USD, CPU, CHF) participate with 2,4%.

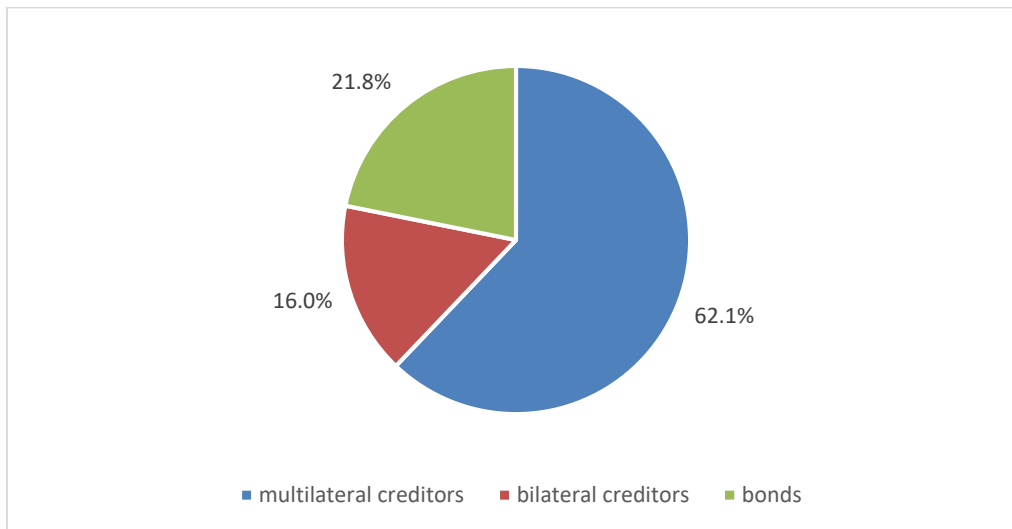
Following charts are showing external debt by individual creditors, by creditor type and currency structure.

**Chart 1. External debt by individual creditors**



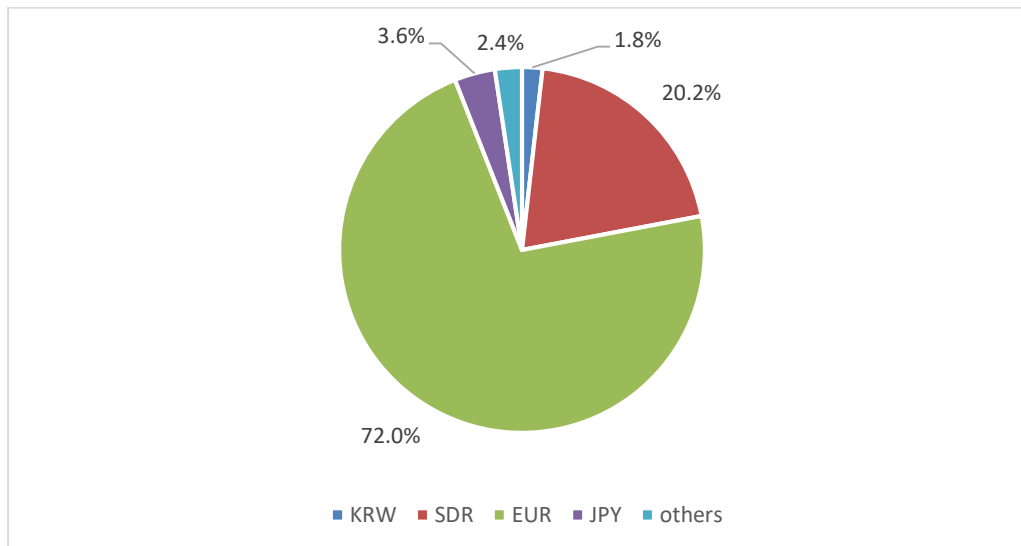
Source: RS MoF

**Chart 2. External debt by creditor type**



Source: RS MoF

**Chart 3. External debt by currency**



Source: RS MoF

**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>, 2022, amounted to 1.174,2 million BAM (640,4 million USD, which is 20,3% of total debt or 8,1% 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) Commercial bank loans

Debt outstanding under these loans, as of December 31<sup>st</sup> 2022, amounted to 135,3 million BAM (73,8 million USD, which is 2,3% of the total debt or 0,9% of GDP). These are amortizing loans with fixed or variable interest rate, maturity 6-12 years and grace period of 1-3 years.

- 3) Bonds issued for settlement of obligations stipulated by the RS Law on domestic debt, as follows:
  - i) bonds issued 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) bonds issued for repayment of obligations under the old foreign currency savings, with maturity of 5 years, without grace period, with 2,5% interest rate and amortising repayment;
  - iii) bonds issued for settlement of liabilities to suppliers and liabilities under executive court decisions, with maturity of 15 years, grace period of 5 years, 1,5% interest rate and amortising repayment.

As of December 31<sup>st</sup>, 2022, debt outstanding in the form of these bonds amounted to 160,6 million BAM (87,6 million USD, which is 2,8% of the total debt or 1,1% of GDP).

- 4) Verified domestic debt under the war claims, to be repaid by issuing bonds with maturity of 13 years and grace period of 3 years, 1,5% interest rate and amortising repayment;  
As of December 31<sup>st</sup>, 2022, this debt outstanding amounted to 14,3 million BAM (7,8 million USD, which is 0,2% of the total debt or 0,1% of GDP).

- 5) Action plan for cash payments regarding 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 old foreign currency savings, as well as tax refund obligations towards municipalities and social funds, arising from replacing tax obligations with bonds;

As of December 31<sup>st</sup>, 2022, this debt outstanding amounted to 30,6 million BAM (16,7 million USD, which is 0,5% of the total debt or 0,2% of GDP).

Expenditures for the period 2023-2026 planned in RMTBFD 2024-2026 are including 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 as of December 31<sup>st</sup>, 2022 are presented in Table 3, while Table 4 shows cost and risk indicators in the period 2018-2022.

**Table 3: Cost and risk indicators of the existing portfolio**

	External debt	Domestic debt	Total debt
Amount (in million BAM)	4.191,6	1.600,7	5.792,3
Amount (in million USD)	2.285,9	872,9	3.158,8
<b>Nominal value of debt to GDP (%)</b>	<b>28,8</b>	<b>11,0</b>	<b>39,8</b>
Present value of debt to GDP (%)	25,5	11,0	36,6
<b>Cost of debt</b>			
Interest to GDP (%)	0,7	0,3	1,0
Weighted average interest rate, in % (WAIR)	2,4	3,1	2,6
<b>Refinancing risk</b>			
Average time to maturity, in years (ATM)	6,1	3,4	5,4
Debt maturing in 1 year (% of total)	16,3	18,7	17,0
Debt maturing in 1 year (% of GDP)	4,7	2,1	6,8
<b>Interest rate risk</b>			
Average time to refixing (ATR)	4,6	3,4	4,2
Debt refixing in 1 year (% of total)	38,3	19,0	33,0
Fixed rate debt (% of total)	74,7	99,2	81,5
<b>Currency risk</b>			
External debt (% of total)			72,4
Short term external debt (% of reserves)			12,7

Source: RS MoF

**Table 4: Cost and risk indicators in the period 2018-2022**

	2018	2019	2020	2021	2022
<b>Nominal value of debt to GDP (%)</b>	<b>43,7</b>	<b>43,0</b>	<b>46,9</b>	<b>44,6</b>	<b>39,8</b>
Present value of debt to GDP (%)	37,0	36,7	40,5	39,8	36,6
<b>Cost of debt</b>					
Interest to GDP (%)	1,0	1,0	1,0	1,0	1,0
Weighted average interest rate, in % (WAIR)	2,3	2,3	2,1	2,3	2,6
<b>Refinancing risk</b>					
Debt maturing in 1 year (% of total)	10,4	7,9	10,7	8,0	17,0
Debt maturing in 1 year (% of GDP)	4,6	3,4	5,0	3,5	6,8
Average time to maturity of external debt, in years (ATM)	8,0	8,0	7,4	6,8	6,1
Average time to maturity of domestic debt, in years (ATM)	3,5	3,9	3,6	3,5	3,4
Average time to maturity of total debt, in years (ATM)	6,7	6,8	6,2	6,0	5,4
<b>Interest rate risk</b>					
Average time to refixing, in years (ATR)	5,4	5,5	4,8	4,7	4,2
Debt refixing in 1 year (% of total)	28,4	24,5	29,5	26,1	33,0
Fixed rate debt (% of total)	78,6	81,3	79,1	80,4	81,5
<b>Currency risk</b>					
External debt (% of total)	71,2	69,9	67,0	74,2	72,4
Short term external debt (% of reserves))	5,8	4,6	4,4	3,9	12,7

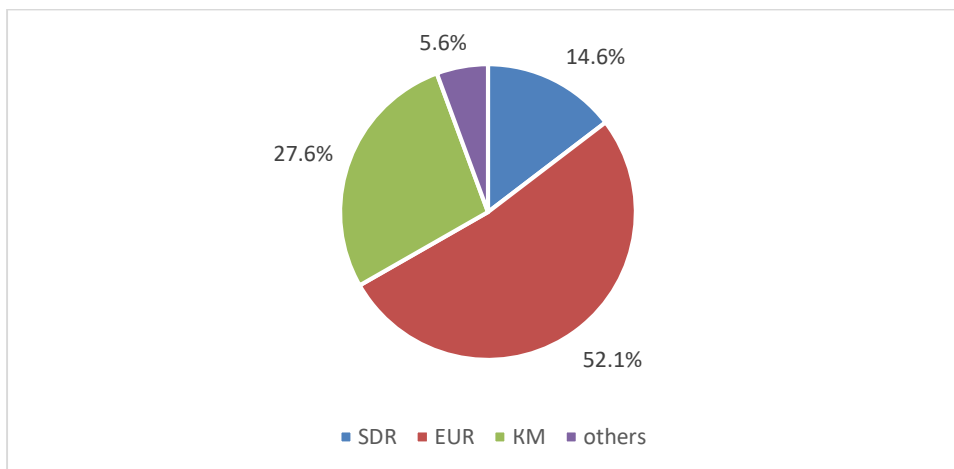
Source: RS MoF

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 interest rate.

Overall, existing portfolio is associated with low costs. Weighted average interest rate of the total portfolio is 2,6%, external portfolio 2,4%, and domestic portfolio 3,1%. This is mostly the result of external concessional loans and low interest rate on bonds issued for settlement of domestic debt obligations, defined by the RS Law on domestic debt.

Currency risk is moderate. Out of the total portfolio, 52,1% is denominated in EUR, while 27,6% is denominated in BAM. Under the current currency board arrangement, with BAM pegged to EUR, only 20,3% of the portfolio is exposed to currency risk (or 15,7% after SDR decomposition and excluding the debt in EUR). In USD is denominated 1,0% of the portfolio (or 7,1% 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.

Chart 4. Total debt currency structure



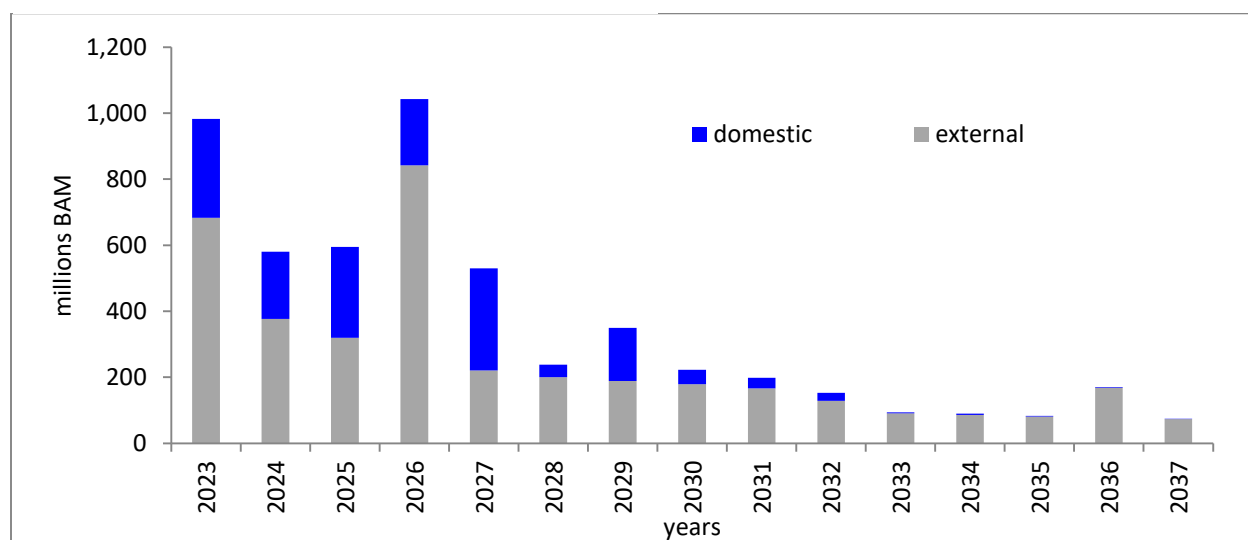
Source: RS MoF

Refinancing risk and refixing risk is moderate. Fixed rate instruments stand for 81,5% of the total portfolio. Average time to maturity of the total portfolio is 5,4 years. Average time to maturity of external portfolio is 6,1 years, as a result of long-term concessional loans, while average time to maturity for domestic debt is 3,4 years. Redemption profile of existing debt over the next 15 years, presented in Chart 5, shows the peak in 2023, as well as in 2026, as a result of significant amounts coming due on the basis of external debt (16,3% of the total MTDS external debt is coming due in 2023 and 20,1% is coming due in 2026), mainly bonds issued in 2018 and 2021, as well as the beginning of repayment of IMF RFI<sup>6</sup> in 2023, as well as several tranches of EIB loans,

<sup>6</sup> Rapid Financing Instrument, RFI.

and bullet repayment of the first tranche related to Microfinancial assistance II (European commission loan), withdrawn in 2013.

**Chart 5. 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 funding sources.** The current debt portfolio is characterised by relatively favorable cost and risk indicators, as a result of significant use of the concessional funding sources, as well as bonds issued for reconciliation of domestic debt obligations with a relatively low costs and long maturities. Having in mind that greater reliance on commercial external and domestic sources will be required in the future, it is important to secure that increase in level of costs and risks is acceptable, which is challenging in the light of current situation at the international financial market, in terms of significant increase of interest rates and exchange rates and persistent high inflation (due to the conflict in Ukraine and Middle East, which have further exacerbated problems in global supply chains, disrupted since the Covid-19 pandemic, causing increase in the prices of goods at the global markets, primarily food and energy prices).

### 3.2. Strategy implementation in 2022 and evaluation of identified debt indicators

Debt management in 2022 was conducted in accordance with the guidelines defined by the Debt Management Strategy for the period 2021-2024 (MTDS 2021-2024), adopted by RS Government in December 2021.

In order to achieve the main debt management goal defined in the MTDS 2021-2024, i.e. providing necessary funding sources through borrowing, in 2022 investment projects were financed from external concessional sources, while budget consumption was financed mainly

from domestic sources through issuance of securities at the domestic market (64,0%) and, to a lesser extent, through the external loans concluded with international creditors (36,0%).

Out of the total financing in 2022 (for budget consumption and investment projects) 41,3% was provided through external instruments (out of which 79,5% in fixed instruments and 99,9% in EUR), while 91,5% was provided through fixed instruments. In terms of currency composition of total financing in 2022, 41,3% was denominated in EUR, 58,7% in BAM, while 0,03% was denominated in other foreign currencies except EUR.

In terms of instruments used for financing budget consumption in 2022, 35,7% was provided through external fixed instruments (32,7% of total financing), 64,0% was provided through domestic fixed instruments (58,7% of total financing), while the remaining 0,3% was provided through external variable instruments (0,28 % of total financing). With regards to the currency composition of the budget consumption financing in 2022, 64,0% was denominated in BAM and 36,0% in EUR.

Following table shows budget consumption financing structure in 2022, as it was planned in MTDS 2021-2024, and realization in 2022, by instruments.

**Table 5: Budget consumption financing structure planned in MTDS and realization in 2022, by instruments**

Instruments	Plan	Realization
External variable EUR	0,6%	0,3%
External fixed EUR	0,0%	35,7%
Eurobonds	65,1%	0,0%
T-bills	0,0%	14,3%
Domestic bonds 3y fixed	2,6%	0,0%
Domestic bonds 5y fixed	17,1%	32,3%
Domestic bonds 7y fixed	9,8%	14,3%
Domestic bonds 10y fixed	4,9%	3,0%
	100,0%	100,0%

Source: RS MoF

Realization of budget consumption financing in 2022 was 98,1%<sup>7</sup> of the amount planned in MTDS, where realization of external concessional variable instruments was 54,0% of the planned amount (all denominated in EUR), while financing planned through external commercial fixed instruments was partially replaced with external concessional fixed instruments, which was not planned by the strategy, as well as with domestic fixed instruments in the amount of 182,9% of the plan.

<sup>7</sup> Budget consumption financing planned in MTDS 2021-2024 amounted to 614,4 million BAM and realization was 603,0 million BAM or 98,1% of the plan. Planned amount of the external concessional variable instruments was 3,4 million BAM (0,6% of the total budget consumption financing) and realization was 1,9 million BAM (0,3% of the total budget consumption financing), financing through external concession fixed instruments amounted to 215,1 million BAM (35,8% of the total budget consumption financing) and it was not planned by the strategy, while financing through domestic fixed instruments was planned in the amount of 211,0 million BAM (34,3% of the total budget consumption financing) and realization was 386,0 million BAM (64,0% of the total budget consumption financing).

Out of the total financing provided in 2022 for investment projects, 1,5% refers to external fixed instruments (0,1% of the total financing) and 98,5% refers to external variable instruments (8,2% of the total financing), while 99,7% was denominated in EUR (8,3% of the total financing). Following table shows investment projects financing structure in 2022 as it was planned in MTDS 2021-2024 and realization in 2022, by instruments.

**Table 6: Investment projects financing structure planned in MTDS and realization in 2022, by instruments**

Instruments	Plan	Realization
External variable EUR	67,9%	98,5%
External fixed USD	0,1%	0,3%
External fixed EUR	32,0%	1,2%
	100,0%	100,0%

Source: RS MoF

Realization of investment projects financing in 2022 was 19,2% of the amount planned in MTDS, while realization of external variable instruments (denominated in EUR) was 27,9% and realization of external fixed instruments was 0,9% (denominated in EUR 0,7%, denominated in other foreign currencies except EUR 56,8%).

During 2022, three new external loans were accepted<sup>8</sup>, all denominated in EUR, one loan is with variable interest rate<sup>9</sup>, one loan with fixed interest rate, while for one loan interest rate will be determined 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 with their target values identified by the Strategy, as well as values in the period 2018-2022 (at the end of the period).

**Table 7: Identified debt structure indicators and their values in the period 2018-2022**

Goal	Indicator	Strategy defined	Values				
			2018	2019	2020	2021	2022
<b>Currency risk</b>							
	External debt, excluding debt in EUR (% of total)	≤ 35	25,9	24,5	25,5	23,2	20,3

<sup>8</sup> World Bank loan (IBRD 9302) - „Water and Sanitation Services Modernization Project“, European Investment Bank loan (EIB 91071) - „Banja Luka Medical Complex“, Hungarian Export-Import Bank loan (EXIM Bank) - „Loan Facility Agreement“ for budget support.

<sup>9</sup> That is World Bank loan with variable interest rate and a possibility to fix the reference rate (provided within World Bank instruments for managing interest rate risk). The spread on reference rate remains variable, since the World Bank suspended fixed spread since April 01<sup>st</sup>, 2021).

**Table 7: Identified debt structure indicators and their values in the period  
2018-2022**

Goal	Indicator	Strategy defined	Values				
			2018	2019	2020	2021	2022
<b>Domestic market development</b>							
	Domestic debt (% of total)	≥ 20	28,8	30,1	33,0	25,8	27,6
<b>Refinancing risk</b>							
	ATM (years)	≥ 4	6,7	6,8	6,2	6,0	5,4
	Short term debt - original maturity (% of last year revenues)	≤ 8	0,0	0,0	3,8	0,0	2,6
<b>Interest rate risk</b>							
	Fixed rate debt (% of total)	≥ 60	78,6	81,3	79,1	80,4	81,5
<b>Cost of debt</b>							
	WAIR (%)	≤ 5,0	2,3	2,3	2,1	2,3	2,6

Source: RS MoF

Debt structure indicators in the previous years are showing that share of external debt, excluding debt in EUR, had favourable i.e. downward trend until 2020, when it increased due to the borrowing from International Monetary fund, while in 2021 this indicator is decreasing again, and same trend continued in 2022.

Share of domestic debt in total debt decreased in 2018 compared to previous years, 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, while in 2022 the value of this indicator increased comparing to the previous year.

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 and in 2022 when it reached its' lowest level in the whole period.

Share of short term debt in the last year revenues was equal to zero in most of the years of the observed period, given that at the end of the year short-term debt was fully settled, except in 2020 and 2022.

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).

During the observed period, weighed average interest rate had a downward trend in the years 2019-2020, followed by an upward trend afterwards, and in 2022 the weighted average interest rate reaches the maximum value in the observed period, due to the current situation at the international financial market in terms of continuous interest rate growth.

## 4. Financing sources

In the medium term, the Strategy is based mostly on financing in the form of securities at the 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 emphasise that availability of concessional funds for budget support is usually connected to 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
Eurobonds	fixed	5	4	EUR	refinancing risk
Other <sup>10</sup>	variable/fixed	10-18	0-3	EUR	refixing risk for variable interest rate

Source: RS MoF

Domestic financing sources are used for budget support. Investors in domestic securities i.e. bonds and T-bills are dominantly entities based in Bosnia and Herzegovina, mostly domestic banks, but also insurance companies, funds and others. It is important to have in mind that limits of the banks, in terms of their exposure to public sector, could be potential financing constraint, considering budget deficit projected in the period 2024-2026 and gross financing needs in the period 2023-2026. Bonds and T-bills are traded at the secondary market, but to a limited extent. 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, if at a certain point in time they are evaluated as more favourable, comparing to bonds.

With regards to the market choice, choice of currency and financing instrument, it will be taken into account current situation at the domestic and international financial market (interest rate level, risk premium, yield curve, etc.), as well as acceptable level of risk exposure.

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

<sup>10</sup> IFAD, Hungarian Export-Import Bank

Srpska. Borrowing plan might be changed during the fiscal year, depending on the changes of general fiscal aggregates and contingencies<sup>11</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 market through issuance of securities and other instruments, which could eventually lower the borrowing costs in the medium and long-term, in the conditions of unpredictable global shocks;
- 2) Providing debt portfolio in accordance with previously identified debt structure indicators - maturity profile, interest rate structure, borrowing costs, domestic debt balance, currency risk exposure (excluding the debt in EUR, due to the currency board arrangement) and its' target values;
- 3) To continue to conduct transparent and predictable borrowing process.

**In the following medium term period (2023-2026) 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 funds (WB, EIB, EBRD, IFAD, 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 funding sources, through the presence at the international financial market, domestic market development through issuance of short-term<sup>12</sup> and medium-term instruments, with acceptable level of 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 2023-2026, and their projected share in debt portfolio at the end of 2026.

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<sup>11</sup> Such as COVID-19 pandemic, Russia-Ukraine conflict, energy crisis, inflation, etc.

<sup>12</sup> Short term instruments will be used mostly to finance temporary cash flow deficit.

**Table 9: Debt portfolio financing instruments, their share in gross financing in the period 2023-2026, and their projected share in the debt portfolio at the end of 2026**

Instrument	Maturity	Grace period	% of portfolio at end-2022	Average in the period	gross financing needs (%)				% of portfolio at end-2026
					2023	2024	2025	2026	
External variable USD (concessional)	18	4	0,9	0,0	0,0	0,0	0,0	0,0	0,0
External variable EUR (concessional)	15	3	11,8	9,3	8,4	11,7	7,3	9,7	13,5
External fix USD (concessional)	20	5	13,7	0,0	0,0	0,0	0,0	0,0	5,8
External fix EUR (concessional)	20	5	24,5	16,0	40,1	7,9	8,0	3,1	25,8
IMF variable USD (concessional)	5	3	5,6	0,0	0,0	0,0	0,0	0,0	0,2
Eurobonds 5y fix EUR (market)	5	4	15,8	41,3	0,0	68,4	48,2	58,4	27,4
Domestic loans variable (market)	6	1	0,2	0,0	0,0	0,0	0,0	0,0	0,0
Domestic loans fix (market)	10	1	0,4	0,0	0,0	0,0	0,0	0,0	0,0
T-bills fix (market)	1	0	1,5	2,2	6,1	0,0	0,0	1,6	0,3
Domestic bonds 3y fix (market)	3	2	1,8	3,9	13,4	0,0	0,0	0,0	0,2
Domestic bonds 5y fix (market)	5	4	9,9	16,4	29,8	7,6	20,9	5,8	14,0
Domestic bonds 7y fix (market)	7	6	6,5	10,4	2,2	2,1	15,7	21,4	8,9
Domestic bonds 10y fix (market)	10	9	7,3	0,5	0,0	2,3	0,0	0,0	4,0
<b>External sources</b>			<b>72,4</b>	<b>66,6</b>	<b>48,5</b>	<b>88,0</b>	<b>63,4</b>	<b>71,2</b>	<b>72,7</b>
<b>Domestic sources</b>			<b>27,6</b>	<b>33,4</b>	<b>51,5</b>	<b>12,0</b>	<b>36,6</b>	<b>28,8</b>	<b>27,3</b>

Source: RS MoF

Standard cost and risk indicators and their projected values for the period 2023-2026 are shown in the following table.

**Table 10: Cost and risk indicators in the period 2023 - 2026**

	Initial	Strategy			
	2022	2023	2024	2025	2026
<b>Debt/GDP (%)</b>	<b>39,8</b>	<b>39,9</b>	<b>39,4</b>	<b>39,4</b>	<b>37,7</b>
Debt PV/GDP (%)	36,6	37,3	37,3	37,6	36,3
<b>Borrowing cost</b>					
Interest/GDP (%)	1,0	1,0	1,3	1,5	1,7
Weighted average interest rate, in % (WAIR)	2,6	2,6	3,5	4,1	4,7
<b>Refinancing risk</b>					
Debt maturing in 1 year (% of total)	17,0	10,8	9,2	17,8	8,1
Debt maturing in 1 year (% of GDP)	6,8	4,3	3,6	7,0	3,0
Average time to maturity for external debt, in years (ATM)	6,1	7,4	6,8	6,1	6,1
Average time to maturity for domestic debt, in years (ATM)	3,4	4,6	4,1	3,5	3,2

**Table 10: Cost and risk indicators in the period 2023 - 2026**

	Initial		Strategy		
	2022	2023	2024	2025	2026
Average time to maturity for total debt, in years (ATM)	5,4	6,5	6,0	5,4	5,3
<b>Interest rate risk</b>					
Average time to refixing, in years (ATR)	4,2	5,5	5,0	4,4	4,3
Debt refixing in 1 year (% of total)	33,0	19,4	18,5	26,6	20,9
Fixed rate debt (% of total)	81,5	85,6	86,8	87,5	86,3
<b>Currency risk</b>					
External debt (% of total)	72,4	69,9	70,9	72,1	72,7
External debt excluding debt in EUR (% of total)	20,3	16,0	11,3	7,9	6,0
Short-term external debt (as % of reserves)	12,7	7,5	6,3	16,2	4,4

Source: RS MoF

At the end of four year period, comparing to the end-2022, some cost indicators will deteriorate, such as increase of interest/GDP, as well as weighted average interest rate (due to a significant increase in interest rates, as a result of distortions at the international financial market), refinancing risk indicators will also deteriorate, since average time to maturity for internal debt and total debt slightly decreasing, and currency risk indicator will deteriorate as well, in the form of share of external debt in total debt (due to the changes in the structure of funding sources, as well as projected budget deficit and borrowing needs in the period 2023-2026).

On the other hand, at the end of four-year period, some indicators will improve, such as nominal and present value of debt as % of GDP that will decrease, refinancing risk indicators such as share of debt maturing in one year in GDP and in total debt which are decreasing, interest rate risk indicators such as average time to refixing which is slightly increasing and share of debt refixing in 1 year in total debt which is decreasing, share of fixed rate debt is increasing (as a result of using mostly fixed instruments for financing the needs) and also currency risk indicators will be improved, such as reduction in the share of external debt (excluding the debt in EUR) in total debt, as well as reduction in the share of short-term external debt in foreign exchange reserves.

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>13</sup>.

<sup>13</sup>In accordance with the adopted Data Exchange Calendar for the preparation of the BiH Medium-Term Debt Management Strategy, the Ministry of Finance and Treasury of BiH submits to the entities and Brčko District a proposal of price assumptions for external debt and shock scenarios, which is subject to further agreement between the Ministry of Finance and Treasury of BiH, entity ministries of finance and Directorate of Finance of Brčko District.

**Table 11: Cost and risk indicators in the peiord 2018 - 2022 and projections for the period 2023 - 2026 under different scenarios for exchange rate and interest rate**

	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Debt/GDP (%)</b>									
<b>Baseline scenario</b>	<b>43,7</b>	<b>43,0</b>	<b>46,9</b>	<b>44,6</b>	<b>39,8</b>	<b>39,9</b>	<b>39,4</b>	<b>39,4</b>	<b>37,7</b>
Scenario 1 <sup>14</sup>	-	-	-	-	-	39,9	41,3	41,2	39,5
Scenario 2 <sup>15</sup>	-	-	-	-	-	39,9	39,4	39,8	38,4
Scenario 3 <sup>16</sup>	-	-	-	-	-	39,9	40,7	40,8	39,2
<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>1,0</b>	<b>1,3</b>	<b>1,5</b>	<b>1,7</b>
Scenario 1	-	-	-	-	-	1,0	1,3	1,6	1,8
Scenario 2	-	-	-	-	-	1,0	1,3	2,0	2,0
Scenario 3	-	-	-	-	-	1,0	1,3	1,8	1,9
<b>Interest/revenues (%)</b>									
<b>Baseline scenario</b>	<b>3,8</b>	<b>3,8</b>	<b>3,9</b>	<b>3,8</b>	<b>3,4</b>	<b>3,5</b>	<b>4,6</b>	<b>5,5</b>	<b>6,3</b>
Scenario 1	-	-	-	-	-	3,5	4,8	5,7	6,6
Scenario 2	-	-	-	-	-	3,5	4,6	7,0	7,1
Scenario 3	-	-	-	-	-	3,5	4,7	6,4	6,9

Source: RS MoF

The previous shows 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 2024), 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 2024, 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 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 settled in due time and amount;
- 2) providing funds for budget execution, having in mind compliance with the provisions of the Fiscal Discipline Law and achievement of identified debt indicators;
- 3) in terms of borrowing planning, focus will be on the development and enhancement of long term borrowing opportunities at the financial market;

<sup>14</sup> 30% depreciation of BAM/USD exchange rate in 2024.

<sup>15</sup> In 2024, 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>16</sup> 20% depreciation of BAM/USD exchange rate in 2024, in combination with 2% interest rate shock in 2024 on medium term domestic and long term external instruments and 1% interest rate shock on short term domestic instruments.

- 4) in general, the most favourable borrowing terms and conditions will be ensured, having in mind current situation at the financial market.

In order to implement the strategy, certain activities of RS MoF have been set out:

- 1) maintaining and developing relations with partners and investors at the domestic and international market;
- 2) designing and, if needed, revising medium term Borrowing Plan and Auction 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 medium term borrowing plan and planned issuances in the long term;
- 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 achieving optimal values of debt indicators;
- 6) analysing the opportunities and harmonization of practices and procedures at the domestic securities market with those at the international markets, if it's feasible in the medium-term;
- 7) managing the Republic of Srpska credit rating assessment process, with active participation of line institutions representatives.

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

- 1) extending average maturity of debt in the form of securities, as much as possible, having in mind current 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 structure of financing, as well as current situation at the financial markets, previously defined debt structure indicators and their target values, as shown in the Table 7, will not be changed.

**MINISTER**  
**Zora Vidović**

## Annex 1. Total debt, guarantees and scope of RS MTDS

		Included/ Excluded	% of total	Amount as of 31.12.2022.		% GDP
				mil. BAM	mil. USD <sup>17</sup>	
<b>1</b>	<b>Total debt (1.1.+1.2.)</b>		<b>100,0%</b>	<b>6.357,2</b>	<b>3.466,9 \$</b>	<b>43,7%</b>
<b>1.1.</b>	<b>External debt</b>		<b>66,5%</b>	<b>4.225,8</b>	<b>2.304,5 \$</b>	<b>29,1%</b>
1.1.1.	Republika Srpska		48,6%	3.090,6	1.685,4 \$	21,3%
1.1.1.1.	Relevant external debt	✓ <sup>18</sup>	30,7%	1.951,0	1.064,0 \$	13,4%
1.1.1.2.	Relevant external debt - Paris Club Germany	X <sup>19</sup>	0,1%	9,1	4,9 \$	0,1%
1.1.1.3.	Direct external debt	✓	17,8%	1.130,5	616,5 \$	7,8%
1.1.2.	Local governments		1,9%	121,8	66,4 \$	0,8%
1.1.2.1.	Relevant external debt	✓ <sup>20</sup>	1,5%	96,5	52,6 \$	0,7%
1.1.2.2.	Direct external debt	X <sup>21</sup>	0,4%	25,3	13,8 \$	0,2%
1.1.3.	SOEs and Investment Development Bank		15,9%	1.013,5	552,7 \$	7,0%
1.1.3.1.	Relevant external debt	✓	15,5%	985,9	537,6 \$	6,8%
1.1.3.2.	Direct external debt	✓	0,4%	27,6	15,1 \$	0,2%
<b>1.2.</b>	<b>Domestic debt</b>		<b>33,5%</b>	<b>2.131,3</b>	<b>1.162,3 \$</b>	<b>14,7%</b>
1.2.1.	Republika Srpska		25,2%	1.600,5	872,8 \$	11,0%
1.2.1.1.	Verified domestic debt		3,2%	205,5	112,1 \$	1,4%
1.2.1.1.1.	Issued bonds (frozen foreign currency savings, war claims, general liabilities)	✓	2,5%	160,6	87,6 \$	1,1%
1.2.1.1.2.	Planned bonds issuances (war claim bonds)	✓	0,2%	14,3	7,8 \$	0,1%
1.2.1.1.3.	Cash payments (general liabilities, war claims, frozen foreign currency savings, tax refund)	✓	0,5%	30,6	16,7 \$	0,2%
1.2.1.2.	Medium-term bonds	✓	18,5%	1.174,2	640,4 \$	8,1%
1.2.1.3.	T-bills	✓	1,4%	86,3	47,1 \$	0,6%
1.2.1.4.	Commercial bank loans	✓	2,1%	133,6	72,9 \$	0,9%
1.2.1.5.	Activated RS guaranties	✓	0,01%	0,8	0,4 \$	0,01%
1.2.2.	Local governments	X	5,7%	360,2	196,5 \$	2,5%
1.2.3.	Social security funds		2,7%	170,6	93,0 \$	1,2%
1.2.3.1.	Direct debt	X	2,7%	169,8	92,6 \$	1,2%
1.2.3.2.	Indirect debt	✓	0,0%	0,8	0,4 \$	0,0%
<b>2</b>	<b>Non activated guaranties (a+b)</b>			<b>818,1</b>	<b>446,1 \$</b>	<b>5,6%</b>
a	Non activated RS guaranties included in total debt	X <sup>22</sup>	3,0%	172,1	93,8 \$	1,2%
b	Non activated RS guaranties excluded from total debt	X <sup>23</sup>	-	646,0	352,3 \$	4,4%
<b>3</b>	<b>Total debt included in MTDS</b>		<b>91,1%</b>	<b>5.792,8</b>	<b>3.159,0 \$</b>	<b>39,8%</b>
<b>4</b>	<b>Total debt excluded from MTDS<sup>24</sup></b>		<b>8,9%</b>	<b>564,4</b>	<b>307,8 \$</b>	<b>3,9%</b>

Source: RS MoF

<sup>17</sup> Values in USD are based on exchange rate USD/BAM = 1,833705 (CB BH currency exchange rates list number 259 as of 12/31/2022)

<sup>18</sup> Direct liability with clear repayment obligation.

<sup>19</sup> Direct liability without repayment method determined.

<sup>20</sup> Indirect liability with clear repayment obligation.

<sup>21</sup> Neither direct nor indirect liability.

<sup>22</sup> RS guaranties issued for direct debt of local governments and social security funds, non-activated.

<sup>23</sup> RS guaranties issued for direct debt of SOEs and public sector institutions, non-activated (this debt is not included in the public debt and total debt, in accordance with the Law on Borrowing, Debt and Guarantees).

<sup>24</sup> Debt incurred by direct borrowing of local governments, social security funds, SOEs and the Investment Development Bank of the Republic of Srpska is not included in the Strategy, because it represents neither direct nor indirect obligation of the Republic of Srpska, as well as part of debt to the Paris Club of creditors - Germany, for which repayment mechanism have not been determined.

## Annex 2. Analytical underpinnings

This section presents certain analytical underpinnings<sup>25</sup> 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 the most probable market conditions. Following table shows interest rates and exchange rates projections in the period 2023-2026, used in the baseline scenario.

**Table: Interest rates and exchange rates projections in the period 2023-2026**

	2023	2024	2025	2026
<b>Instruments</b>				
External Var USD (concessional)	7,36%	7,46%	7,56%	7,66%
External Var EUR (concessional)	5,29%	5,36%	5,43%	5,50%
External Fix USD (concessional)	6,00%	6,10%	6,20%	6,30%
External Fix EUR (concessional)	4,79%	4,86%	4,92%	4,99%
IMF Var USD (concessional)	5,05%	5,15%	5,25%	5,35%
Eurobonds 5y fix EUR (market)	7,91%	8,31%	8,71%	9,11%
T-bills fix (market)	3,15%	2,30%	1,96%	1,96%
Domestic bonds 5y fix (market)	6,00%	5,82%	5,83%	5,94%
Domestic bonds 7y fix (market)	6,50%	6,41%	6,45%	6,55%
Domestic bonds 10y fix (market)	7,00%	6,96%	7,00%	7,09%
<b>Exchange rate</b>				
BAM/USD	1,86	1,87	1,87	1,87

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 2024, comparing to the initial exchange rate projection for the same year;
- **Interest rate shock:** comparing to the baseline scenario, in 2024 it has been applied 4% increase in interest rate on medium-term domestic and long-term external instruments and 2% increase in interest rate on short-term domestic instruments;
- **Combined shock:** comparing to the initial projection, in 2024 it has been applied 20% depreciation of BAM/USD exchange rate, combined with 2% interest rate shock on

<sup>25</sup> See footnote 13.

medium-term domestic and long-term external instruments, as well as 1% interest rate shock on short-term domestic instruments.