

GOVERNMENT OF REPUBLIC OF SRPSKA

MINISTRY OF FINANCE

REPUBLIC OF SRPSKA DEBT MANAGEMENT STRATEGY

FOR THE PERIOD 2024-2027

January, 2025

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Introduction

Republic of Srpska Medium-term debt management strategy 2024-2027 (RS MTDS) presents the debt outstanding as of December 31st, 2023, debt structure, values of main cost and risk indicators of the existing portfolio, as well as their estimates for the mid-term period. In addition, the Strategy includes debt sensitivity analysis after applied shocks, it defines medium-term debt management goals and provides guidelines to decision makers.

RS MTDS debt amounted to 5.682,0 million BAM (2.905,1 million EUR, i.e. 35,3% of GDP), as of December 31st, 2023.

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 ("Official Gazette of Republic of Srpska", no. 71/12, 52/14, 114/17, 131/20, 28/21 and 90/21), 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 that Republic of Srpska can borrow at the domestic and international market, and accordingly in local and foreign currency, as well as purpose of short term and long term borrowing.

There is specific legal framework that regulates settlement of internal debt obligations in the form of old foreign currency savings, compensation rights related to material and non-material war damages originated in the period May 20, 1992 - June 19, 1996, and other rights:

- 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).

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 ("Official Gazette of Republic of Srpska", no 94/15 and 62/18), 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.

2. Goal, scope and assumptions

Republic of Srpska Medium-term debt management strategy 2024-2027 specifies medium term goal 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 necessary for active debt management is regularly drafting the debt management strategy, with the 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 drafted regularly, its' implementation is continuously monitored and reported to the Republic of Srpska Government, annually.** Upon being adopted by the Republic of Srpska Government, RS MTDS is published at the web page 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 Srpska¹, 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 repayment terms have 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.

¹ 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.

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 guarantee²);
- 2) debt of social security funds, incurred on the basis of Republic of Srpska indirect debt³.

Debt (domestic and external) incurred by direct borrowing of local governments, social security funds, SOEs and RS IDB is not covered by 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.

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 2025-2027 (hereinafter: RS ERP 2025-2027), 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 2025-2027 and Revised Medium term Budget Framework Document for the period 2025-2027 (hereinafter: RMTBFD 2025-2027);
- 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 Herzegovina⁴, with active participation of the Republic of Srpska Ministry of Finance;
- 4) There will be no changes in legislation that would create new debt obligations for Republic of Srpska, including 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 2025-2027;
- 6) Budget users will create liabilities up to the amount of funds allocated to them, and there will be no accumulation of obligations that would result in creating new debt for the Republic of Srpska;

² Republic of Srpska guarantee for the borrowing of Public company "Nikola Tesla" d.o.o. Banja Luka, at the commercial bank "Banka Srpske", in the amount of 5,00 million BAM, was activated in July 2014, and it was fully repaid as of March 31st, 2024.

³ Debt of social security funds, incurred on the basis of Republic of Srpska indirect debt, was fully repaid during 2024.

⁴ Law on Borrowing, Debt and Guaranties of Bosnia and Herzegovina („Official Gazette of Bosnia and Herzegovina “, no. 52/05, 103/09 and 90/16).

- 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 market;
- 8) Credit rating of Republic of Srpska and Bosnia and Herzegovina will not be downgraded within the medium term⁵;
- 9) Investor base of Republic of Srpska at the domestic and international financial market will be maintained and broadened in the medium term;
- 10) Decreasing trend of the key European Central Bank interest rates, in accordance with the Governing Council decisions as of last quarter of 2024⁶;
- 11) Other analytical assumptions used for quantitative analysis of the Strategy, as presented in Annex II.

Table 1: Overview of the macroeconomic indicators for the period 2020-2023 and projections for the period 2024-2027

	2020	2021	2022	2023	2024	2025	2026	2027
GDP								
GDP nominal, mil. BAM	11.131,8	12.501,7	14.537,0	16.085,9	16.799,6	17.577,5	18.411,2	19.300,2
Population, in mil.	1,1	1,1	1,1	1,1	1,1	1,1	1,1	1,1
GDP per capita, in BAM	9.795,0	11.080,1	12.976,7	14.429,2	15.100,6	15.883,8	16.728,0	17.634,2
GDP growth, nominal (%)	-1,1	12,3	16,3	0,1	0,0	0,0	0,0	0,0
Inflation - average annual rate	-1,2	1,7	12,7	7,0	1,8	1,7	1,5	1,4
Real growth rates %								
GDP growth, real	-2,5	6,9	3,9	1,9	2,5	2,8	3,1	3,3
Export	-13,9	23,7	4,0	3,0	-2,3	5,8	6,1	6,3
Import	-3,8	6,2	0,2	2,6	2,7	3,7	4,2	4,4
Private consumption	0,2	5,5	1,4	1,9	2,1	1,9	2,2	1,8
Public consumption	3,9	3,9	1,1	2,2	1,9	1,3	2,0	1,4
Gross investments in fixed assets	10,1	-5,0	5,6	5,7	5,3	1,9	5,1	2,0
Assumptions:								
Average net salaries, in BAM	956,3	1.004,0	1.144,0	1.274,0	1.405,0	1.465,4	1.529,9	1.599,5
Unemployment rate (%) ⁷	-	14,3	11,2	9,1	9,0	8,7	8,4	8,1

Source: RS ERP 2025-2027, RS MoF, RS IoS

⁵ [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).

⁶ European Central Bank; [Press release as of December 12, 2024](#).

⁷ In accordance with the Regulation of EU Parliament and EU Council, that came into force on January 01st, 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, 2020 data are not shown in the table.

Table 2: Fiscal framework for the period 2024-2027

	Revised Budget 2024	RMTBFD 2025	RMTBFD 2026	RMTBFD 2027
A. BUDGET REVENUES (I+II+III+IV)	4.728,4	5.086,1	5.323,2	5.605,5
I Tax revenues	4.402,6	4.731,4	4.952,8	5.221,6
II Non tax revenues	319,2	354,4	370,1	383,6
III Grants	0,0	0,0	0,0	0,0
IV Transfers among or within budgetary units	6,6	0,3	0,3	0,3
B. BUDGET EXPENDITURES (I+II+III)	4.711,8	5.017,8	5.097,2	5.209,2
I Current expenditures	4.312,7	4.544,7	4.636,5	4.748,7
II Transfers among or within budgetary units	396,4	454,8	454,2	453,4
III Budget reserve	2,8	18,3	6,4	7,1
C. GROSS BUDGET SURPLUS/DEFICIT (A-B)	16,6	68,2	226,0	396,3
D. NET EXPENSES FOR NON-FINANCIAL ASSETS	-123,1	-166,6	-149,6	-122,1
E. BUDGET SURPLUS/DEFICIT (C+D)	-106,6	-98,4	76,4	274,2
F. NET FINANCING (G+H+I)	106,6	98,4	-76,4	-274,2
G. NET PROCEEDS FROM FINANCIAL ASSETS	58,5	89,8	104,5	98,7
H. NET BORROWING	81,9	46,1	-156,7	-346,6
I. OTHER NET PROCEEDS	-33,8	-37,4	-24,2	-26,3

Source: RS MoF

3. Existing debt

3.1. Portfolio overview

RS MTDS debt amounted to 5.682,0 million BAM (2.905,1 million EUR, i.e. 35,3% of GDP), as of December 31st, 2023.

External debt amounted to 63,8% of the total (3.623,1 million BAM or 1.852,5 million EUR, i.e. 22,5% of GDP), while domestic debt amounted to 36,2% of the total (2.058,9 million BAM or 1.052,7 million EUR, i.e. 12,8% of GDP).

External MTDS debt is composed of:

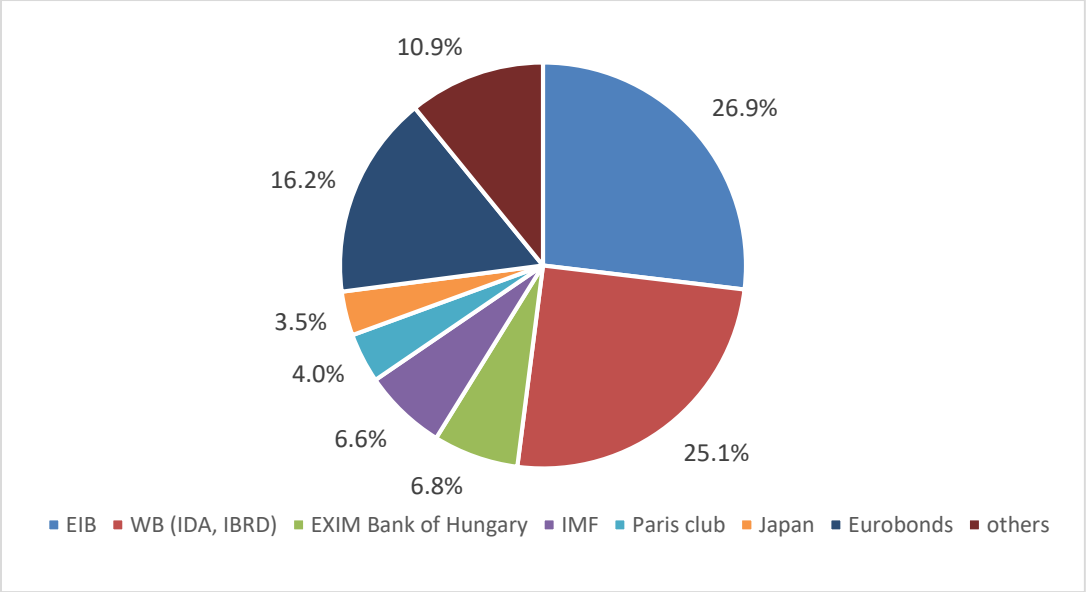
- 1) relevant external debt i.e. loans contracted through the BH Ministry of Finance and Treasury, as well as allocated „old” external debt (debt originated before April 02nd, 1992);
As of December 31st, 2023, relevant external debt outstanding amounted to 2.766,2 million BAM (1.414,3 million EUR, which is 48,7% of the total debt or 17,2% of GDP).
- 2) direct external debt (debt contracted directly by Republic of Srpska with external creditors);
As of December 31st, 2023, direct external debt outstanding amounted to 856,9 million BAM (438,1 million EUR, which is 15,1% of the total debt or 5,3% of GDP).

Debt contracted with multilateral creditors accounts for the largest share in external MTDS debt (65,8%), followed by debt contracted with bilateral creditors (18,0%) and bonds issued at the international market (16,2%). In terms of individual creditors, the largest share in external MTDS debt is debt to European Investment Bank - EIB (26,9%), World bank - WB IDA и WB IBRD (25,1%),

bonds issued at the international market (16,2%), EXIM Bank of Hungary (6,8%), International Monetary Fund - IMF (6,6%) and other creditors (10,9%). In terms of currency composition of external debt, EUR and SDR have the largest share, with 74,0% and 18,5%, respectively, JPY participates with 3,5%, KRW with 2,0%, while other currencies (USD, CPU, CHF) participate with 2,0%.

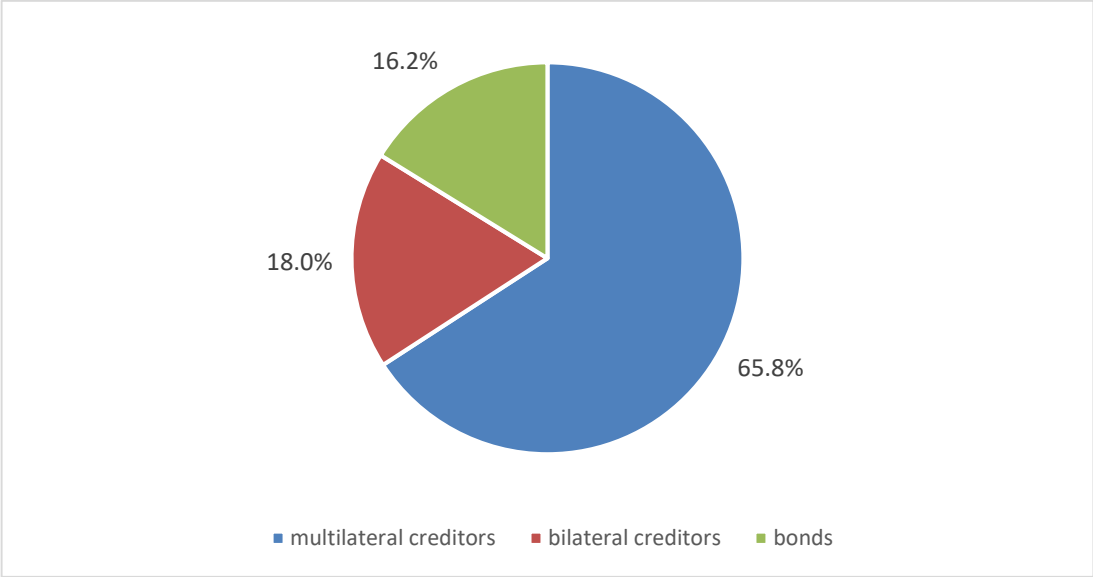
Following charts are showing external debt by individual creditors, by creditor type and currency structure.

Chart 1. External debt by individual creditors



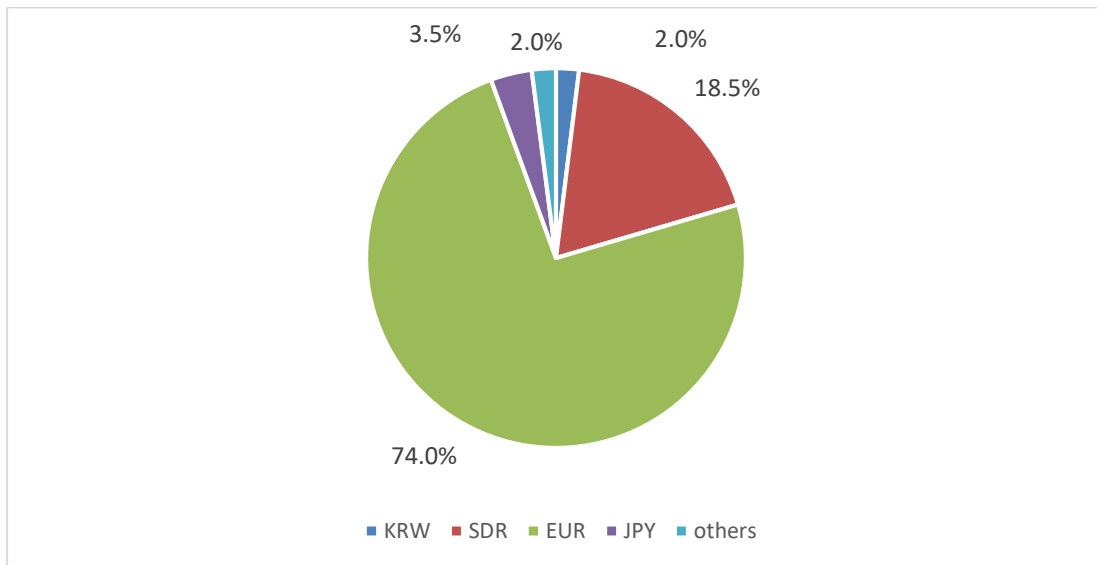
Source: RS MoF

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 31st, 2023, amounted to 1.660,1 million BAM (848,8 million EUR, which is 29,2% of the total debt or 10,3% of GDP). Maturity of bonds issued with amortisation repayment is 5 years, with 1-year grace period or without 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 31st 2023, amounted to 88,0 million BAM (45,0 million EUR, which is 1,5% of the total debt or 0,5% of GDP). These are amortizing loans with fixed or variable interest rate, maturity 8-12 years, including grace period of 1-2 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, including 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, including grace period of 5 years, with 1,5% interest rate and amortising repayment.

As of December 31st, 2023, debt outstanding in the form bonds mentioned above amounted to 118,3 million BAM (60,5 million EUR, which is 2,1% of the total debt or 0,7% of GDP).

- 4) Verified domestic debt under the war claims, to be repaid by issuing bonds with maturity of 13 years, including grace period of 3 years, 1,5% interest rate and amortising repayment;
As of December 31st, 2023, this debt outstanding amounted to 12,9 million BAM (6,6 million EUR, which is 0,2% of the total debt or 0,1% of GDP).
- 5) Cash payments action plan for settlement of obligations related to executive court decisions, 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 refunds towards municipalities and social security funds, arising from settlement of tax obligations through bonds;
As of December 31st, 2023, this debt outstanding amounted to 24,3 million BAM (12,4 million EUR), which is 0,4% of the total debt or 0,2% of GDP).

Expenditures for the period 2024-2027 planned in the RMTBFD 2025-2027 include projected amounts 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 31st, 2023 are presented in Table 3, while Table 4 shows cost and risk indicators in the period 2019-2023.

Table 3: Cost and risk indicators of the existing portfolio

	External debt	Domestic debt	Total debt
Amount (in million BAM)	3.623,2	2.056,3	5.679,5
Amount (in million USD)	2.047,0	1.161,7	3.208,8
Nominal value of debt to GDP (%)	22,5	12,8	35,3
Present value of debt to GDP (%)	19,9	12,8	32,7
Cost of debt			
Interest to GDP (%)	0,5	0,3	0,8
Weighted average interest rate, in % (WAIR)	2,2	2,5	2,4
Refinancing risk			
Average time to maturity, in years (ATM)	6,4	3,0	5,2
Debt maturing in 1 year (% of total)	8,8	20,7	13,1
Debt maturing in 1 year (% of GDP)	2,0	2,7	4,6
Interest rate risk			
Average time to refixing (ATR)	4,7	3,0	4,1
Debt refixing in 1 year (% of total)	32,0	20,7	27,9
Fixed rate debt (% of total)	73,1	99,8	82,7
Currency risk			
External debt (% of total)			63,8
Short term external debt (% of reserves)			5,9

Source: RS MoF

Table 4: Cost and risk indicators in the period 2019-2023

	2019	2020	2021	2022	2023
Nominal value of debt to GDP (%)	43,0	46,9	44,6	39,8	35,3
Present value of debt to GDP (%)	36,7	40,5	39,8	36,6	32,7
Cost of debt					
Interest to GDP (%)	1,0	1,0	1,0	1,0	0,8
Weighted average interest rate, in % (WAIR)	2,3	2,1	2,3	2,6	2,4
Refinancing risk					
Debt maturing in 1 year (% of total)	7,9	10,7	8,0	17,0	13,1
Debt maturing in 1 year (% of GDP)	3,4	5,0	3,5	6,8	4,6
Average time to maturity of external debt, in years (ATM)	8,0	7,4	6,8	6,1	6,4
Average time to maturity of domestic debt, in years (ATM)	3,9	3,6	3,5	3,4	3,0
Average time to maturity of total debt, in years (ATM)	6,8	6,2	6,0	5,4	5,2
Interest rate risk					
Average time to refixing, in years (ATR)	5,5	4,8	4,7	4,2	4,1
Debt refixing in 1 year (% of total)	24,5	29,5	26,1	33,0	27,9
Fixed rate debt (% of total)	81,3	79,1	80,4	81,5	82,7
Currency risk					
External debt (% of total)	69,9	67,0	74,2	72,4	63,8
Short term external debt (% of reserves))	4,6	4,4	3,9	12,7	5,9

Source: RS MoF

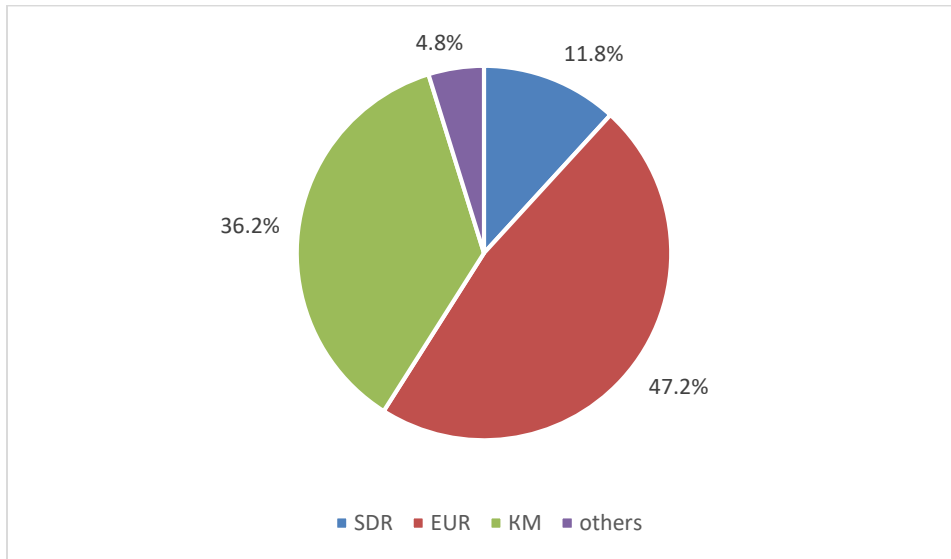
The composition of Republic of Srpska debt analyzed under the MTDS (RS MTDS debt) is mostly the result of the basic debt management principle implemented in the past, which is maximization of external concessional borrowing. Therefore, the RS MTDS debt portfolio is characterized by a high share of external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

Overall, existing portfolio is associated with low costs. Weighted average interest rate of the total portfolio is 2,4%, external portfolio 2,2%, and domestic portfolio 2,5%. 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, 47,2% is denominated in EUR, while 36,2% is denominated in BAM. Under the current currency board arrangement, with BAM pegged to EUR, only 16,6% of the total portfolio is exposed to currency risk (or 12,9% after SDR decomposition and excluding the debt in EUR). In SDR is denominated 11,8% of the portfolio, which impose some risk, having in mind the fluctuations in the exchange rate of USD, which is currency with the largest share in SDR currency basket⁸.

⁸ In accordance with the decision of the Executive Board of the IMF dated November 30, 2015, which became effective on October 1, 2016, the SDR currency basket include RMB ("Chinese renminbi", i.e. the Chinese yuan), and the ratio of the currencies in the basket is as follows: USD 41.73%, JPY 8.33%, EUR 30.93%, GBP 8.09% and RMB 10.92%.

Chart 4. Total debt currency structure

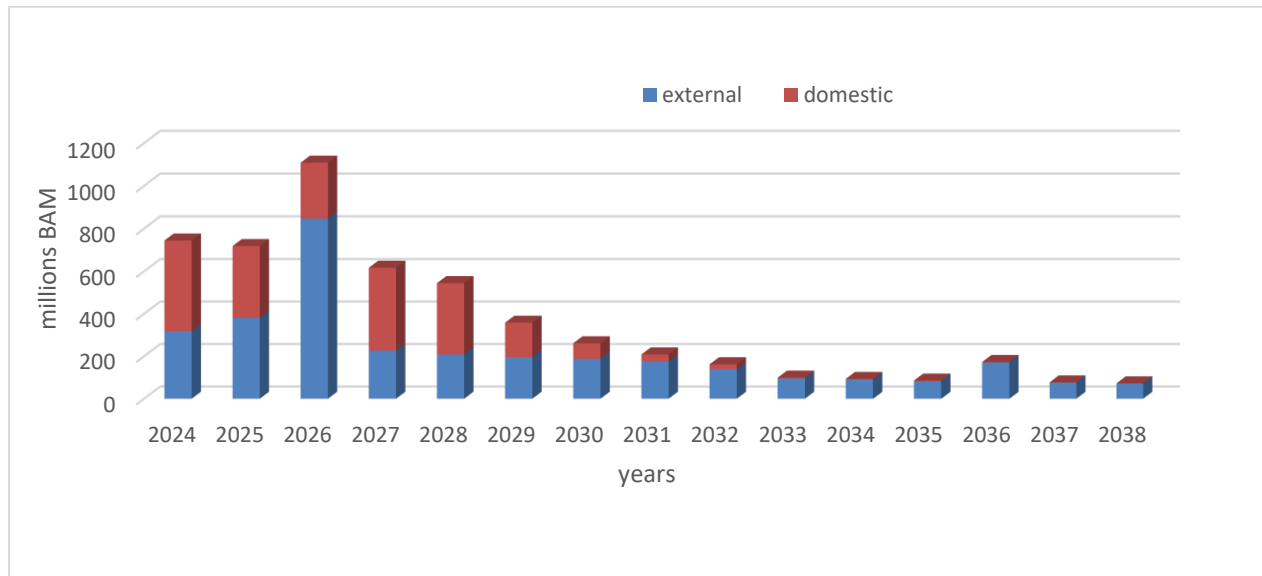


Source: RS MoF

Refinancing risk and refixing risk is moderate. Fixed rate instruments stand for 82,7% of the total portfolio. Average time to maturity of the total portfolio is 5,2 years. Average time to maturity of external portfolio is 6,4 years, as a result of long-term concessional loans, while average time to maturity for domestic debt is 3,0 years.

Redemption profile of the existing debt over the next 15 years, presented in Chart 5, shows significant maturities in the period 2024-2028, both for external and domestic debt. A peak can be seen in 2026, when the bond issued on the London Stock Exchange is coming due.

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 the level of costs and risks is acceptable. That is quite challenging for any country, having in mind the instability of both financial market and the global market in general.

3.2. Strategy implementation in 2023 and evaluation of identified debt indicators

In order to achieve the main debt management goal, i.e. to provide necessary funding sources through borrowing, in 2023 investment projects were financed from external concessional sources, while budget consumption was financed partly from external sources, through the loans contracted with international creditors (7,3%), and to a greater extent, from domestic sources through issuance of securities at the domestic market (92,7%).

The share of fixed instruments in the total financing was 94,8%. In terms of currency composition of total financing in 2023, in EUR was denominated 17,3%, while 82,7% was denominated in BAM. Out of the total financing in 2023 (for budget consumption-fund 01 and investment projects-fund 05), 17,3% was provided through external instruments (out of which 70,0% in fixed terms and the entire amount is in EUR).

With regards to financing the budget consumption in 2023, in terms of instruments, 7,3% was provided through external fixed instruments, 92,7% was provided through domestic fixed instruments, while the remaining 0,1% was provided through external variable instruments. With regards to the currency composition of the budget consumption financing in 2023, in BAM was denominated 92,7% and in EUR 7,3%.

Following table shows the budget consumption financing structure in 2023, as it was planned in MTDS 2022-2025, and realization in 2023, by instruments.

Table 5: Budget consumption financing structure planned in MTDS and realization in 2023, by instruments

Instruments	Plan	Realization
External variable EUR	0,1%	0,1%
External fixed EUR	0,0%	7,3%
Eurobonds	70,2%	0,0%
T-bills	2,7%	19,1%
Domestic bonds 5y fixed	12,6%	69,8%
Domestic bonds 7y fixed	8,1%	3,7%
Domestic bonds 10y fixed	6,3%	0,0%
	100,0%	100,0%

Source: RS MoF

Out of the total financing provided for budget consumption in 2023, by individual instruments, 7,3% refers to external fixed instruments, 0,1% refers to external variable instruments, 19,1% refers to short-term securities on the domestic market, while 73,5% refers to medium-term securities on the domestic market. The amount of financing planned in MTDS through international bonds was partially replaced with external fixed instruments (loans), which has not been planned by the Strategy, and the remaining part was replaced with domestic fixed instruments (securities on the domestic market).

Out of the total financing provided in 2023 for investment projects, 52,5% refers to external fixed instruments and 47,5% refers to external variable instruments, while the entire amount was denominated in EUR.

Following table shows investment projects financing structure in 2023 as it was planned in MTDS 2022-2025, as well as realization in 2023, by instruments.

Table 6: Investment projects financing structure planned in MTDS and realization in 2023, by instruments

Instruments	Plan	Realization
External variable EUR	50,9%	47,5%
External fixed EUR	49,1%	52,5%
	100,0%	100,0%

Source: RS MoF

Realization of investment projects financing in 2023 amounted to 30,3% of the amount planned in MTDS, while realization of external variable instruments was 28,3% and realization of external fixed instruments was 32,5% (all denominated in EUR). With regards to loan funds approved for financing the investment projects, the disbursement plans are taken from the project implementation units. At the same time, it is necessary to emphasize that the nature of projects influence their multi-year implementation, and the dynamics of the loan funds disbursement is closely related to the fulfillment of certain conditions, both those set by the creditors and the specific conditions for realization of each individual project, which is the reason of low execution compared to plan.

During 2023, three new external loans were accepted, all denominated in EUR, two loans with variable interest rate (there is a possibility of fixing the part of the interest rate⁹) and one loan with fixed interest rate¹⁰. Influence of those borrowings on debt structure is visible at the time of the funds withdrawal.

⁹ These are World Bank loans - WB IBRD (Employment Support Project II and BiH Second Health Sectors Programmatic Development Policy Loan - DPF) 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 01st, 2021).

¹⁰ Loan provided by Hungarian Export-Import Bank - Loan Facility Agreement.

The following table shows debt structure indicators with their target values identified by the Strategy, as well as values in the period 2019-2023 (at the end of the period).

Table 7: Identified debt structure indicators and their values in the period 2019-2023

Goal	Indicator	Strategy defined	Values				
			2019	2020	2021	2022	2023
Currency risk							
	External debt, excluding debt in EUR (% of total)	≤ 35	24,5	25,5	23,2	20,3	16,6
Domestic market development							
	Domestic debt (% of total)	≥ 20	30,1	33,0	25,8	27,6	36,2
Refinancing risk							
	ATM (years)	≥ 4	6,8	6,2	6,0	5,4	5,2
	Short term debt - original maturity (% of last year revenues)	≤ 8	0,0	3,8	0,0	2,6	4,2
Interest rate risk							
	Fixed rate debt (% of total)	≥ 60	81,3	79,1	80,4	81,5	82,7
Cost of debt							
	WAIR (%)	≤ 3,5	2,3	2,1	2,3	2,6	2,4

Source: RS MoF

Debt structure indicators in the previous years are showing that share of external debt, excluding debt in EUR, had downward trend except in 2020, when it increased due to the borrowing from International Monetary fund.

Share of domestic debt in total debt had upward trend until 2021, when it decreased due to the bond issuance at the international market. In 2022, share of domestic debt in total debt increased again, and the same trend is continued in 2023, when it reached its' highest level in the observed period.

Average time to maturity in the period 2019-2023 had a moderate decreasing trend.

With regards to the share of short-term debt in the last year revenues, in 2019 and 2021 short-term debt was fully settled, while from 2022 this indicator has an increasing trend.

Share of fixed rate debt in total had an upward trend in the whole period, except in 2020 when it decreased, due to the borrowing from International Monetary fund (Rapid Financing Instrument - RFI).

Weighted average interest rate had a volatile trend during the observed period, but changes were not significant. In 2022, weighted average interest rate reached its' highest value in the observed period, due to the continuous growth of interest rates at the international financial market, while in 2023 this indicator decreased.

4. Financing sources

In the medium term, the Strategy is based mostly on financing in the form of securities at the domestic financial market and loans at the international financial market. In the Strategy period, concessional financing sources will be less available, due to the level of development of the Republic of Srpska. 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
Other ¹¹	variable/fixed	5-18	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 treasury bills are dominantly based in Bosnia and Herzegovina, mostly domestic banks, but also insurance companies, investment funds and others. Recently, there is increasing number of individuals investing in the Republic of Srpska securities. It is important to have in mind that banks' limits, in terms of their exposure to public sector, could be potential financing constraint, considering budget deficit projected in the period 2025-2027 and gross financing needs in the period 2024-2027. Bonds and treasury 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, provided that at the specific moment they are more favourable, comparing to securities.

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, while 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 Srpska. Borrowing plan might be changed during the fiscal year, depending on the changes of general fiscal aggregates and contingencies¹².

¹¹ IFAD, CEB, Hungarian Export-Import Bank

¹² Such as COVID-19 pandemic, Russia-Ukraine conflict, energy crisis, inflation, etc.

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 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 and its' target values - maturity profile, interest rate structure, borrowing costs, domestic debt balance, currency risk exposure (excluding the debt in EUR, due to the currency board arrangement);
- 3) To continue to conduct transparent and predictable borrowing process.

In the following medium term period (2024-2027) 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 repayment, at the domestic financial market and through loans at the international financial market, with an acceptable increase in costs and level of risk. Investment projects are financed from external financing sources, as a result of maximum exploitation of access to concessional funds (WB, EIB, EBRD, IFAD, CEB, etc.), which contributes to the reduction of refinancing risk, as well as reduction of costs.

The following table shows individual financing instruments in the debt portfolio, their share in the gross financing in the period 2024-2027 and projected share in the debt portfolio at the end of 2027.

Table 9: Individual financing instruments, their share in the gross financing in the period 2024-2027 and projected share in the debt portfolio at the end of 2027

Instrument	Maturity	Grace period	% of portfolio at end-2023	Average in the period	gross financing needs (%)				% of portfolio at end-2027
					2024	2025	2026	2027	
External variable USD (concessional)	18	4	0,7	0,0	0,0	0,0	0,0	0,0	0,0
External variable EUR (concessional)	15	3	12,3	13,2	16,2	15,2	11,2	3,3	16,7
External fix USD (concessional)	20	5	11,7	10,0	32,7	0,0	0,0	0,0	10,9

Table 9: Individual financing instruments, their share in the gross financing in the period 2024-2027 and projected share in the debt portfolio at the end of 2027

Instrument	Maturity	Grace period	% of portfolio at end-2023	Average in the period	gross financing needs (%)				% of portfolio at end-2027
					2024	2025	2026	2027	
External fix EUR (concessional) ¹³	20	5	24,6	45,1	23,1	49,6	60,4	49,2	44,1
IMF variable USD (concessional)	5	3	4,2	0,0	0,0	0,0	0,0	0,0	0,1
Eurobonds 5y fix EUR (market)	5	4	10,3	0,0	0,0	0,0	0,0	0,0	0,0
Domestic loans variable (market)	6	1	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Domestic loans fix (market)	10	1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
T-bills fix (market)	1	0	2,7	2,5	8,2	0,0	0,0	0,0	0,0
Domestic bonds 3y fix (market)	3	2	4,2	0,0	0,0	0,0	0,0	0,0	0,6
Domestic bonds 5y fix (market)	5	4	16,7	27,0	19,7	32,2	24,3	47,5	20,9
Domestic bonds 7y fix (market)	7	6	5,7	2,2	0,0	2,9	4,1	0,0	3,3
Domestic bonds 10y fix (market)	10	9	6,8	0,0	0,0	0,0	0,0	0,0	3,3
External sources			63,8	68,3	72,1	64,8	71,6	52,5	71,8
Domestic sources			36,2	31,7	27,9	35,2	28,4	47,5	28,2

Source: RS MoF

Standard cost and risk indicators and their projected values for the period 2024-2027 are shown in the following table.

Table 10: Cost and risk indicators in the period 2024 - 2027

	Initial 2023	2024	Strategy		
			2025	2026	2027
Debt/GDP (%)	35,3	35,2	34,5	32,8	29,4
Debt PV/GDP (%)	32,7	33,3	32,8	31,3	28,2
Borrowing cost					
Interest/GDP (%)	0,8	0,8	1,1	1,2	1,2
Weighted average interest rate, in % (WAIR)	2,4	2,4	3,3	3,6	3,9
Refinancing risk					
Debt maturing in 1 year (% of total)	13,1	13,4	18,2	10,2	9,8
Debt maturing in 1 year (% of GDP)	4,6	4,7	6,3	3,3	2,9
Average time to maturity for external debt, in years (ATM)	6,4	8,8	8,4	9,0	8,4
Average time to maturity for domestic debt, in years (ATM)	3,0	3,8	3,4	2,8	2,4
Average time to maturity for total debt, in years (ATM)	5,2	7,2	6,9	7,0	6,7
Interest rate risk					

¹³ Due to the limited number of instruments in the analytical tool for the preparation of the Strategy, the External fixed EUR (concessional) instrument also includes planned financing through external commercial fixed instruments in EUR, considering that, with regards to the currency, maturity and repayment method, it has the most similarities with that instrument.

Table 10: Cost and risk indicators in the period 2024 - 2027

	Initial	Strategy			
	2023	2024	2025	2026	2027
Average time to refixing, in years (ATR)	4,1	6,0	5,7	5,8	5,6
Debt refixing in 1 year (% of total)	27,9	22,9	28,5	24,9	25,4
Fixed rate debt (% of total)	82,7	84,5	85,4	84,0	83,2
Currency risk					
External debt (% of total)	63,8	67,4	69,6	68,4	71,8
External debt excluding debt in EUR (% of total)	16,6	18,0	13,6	11,7	11,0
Short-term external debt (as % of reserves)	5,9	7,3	16,6	4,4	4,4

Source: RS MoF

At the end of four-year period, comparing to the end-2023, some indicators will be less favourable, such as cost indicators (increase of interest/GDP and weighted average interest rate), refinancing risk indicator (decrease of the average time to maturity for internal debt), and currency risk indicator (increased 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 2024-2027).

On the other hand, at the end of four-year period, some indicators will be improved.

Namely, the value of debt as % of GDP will decrease, as well as present value of debt-to-GDP ratio, also refinancing risk indicators will improve, such as reduction in the value of debt maturing in 1 year, both in GDP and in total debt.

Furthermore, average time to maturity for external and total debt will be extended. With regards to the interest rate risk indicators, average time to refixing will be extended, share of debt refixing in 1 year in the total debt will decrease, and share of fixed rate debt will increase (as a result of using predominantly fixed instruments for financing the needs).

At the end, currency risk indicators will be improved, due to the reduction of the share of external debt (excluding debt in EUR) in the total debt, as well as reduction in the share of short-term external debt in the foreign exchange reserves¹⁴.

¹⁴ Data on foreign exchange reserves is provided by the Central Bank of Bosnia and Herzegovina, where the amount for Republika Srpska is 1/3 of the amount related to Bosnia and Herzegovina.

For the purpose of the debt sensitivity analysis, following table shows the values of some cost and risk indicators under the baseline scenario and alternative scenarios, after applying currency and interest rate shocks¹⁵.

	2020	2021	2022	2023	2024	2025	2026	2027
Debt/GDP (%)								
Baseline scenario	46,9	44,6	39,8	35,3	35,2	34,5	32,8	29,4
Scenario 1 ¹⁶	-	-	-	-	35,2	36,3	34,6	31,2
Scenario 2 ¹⁷	-	-	-	-	35,2	34,5	33,2	30,0
Scenario 3 ¹⁸	-	-	-	-	35,2	35,7	34,2	30,9
Interest/GDP (%)								
Baseline scenario	1,0	1,0	1,0	0,8	0,8	1,1	1,2	1,2
Scenario 1	-	-	-	-	0,8	1,2	1,3	1,3
Scenario 2	-	-	-	-	0,8	1,1	1,6	1,4
Scenario 3	-	-	-	-	0,8	1,1	1,4	1,4
Interest/revenues (%)								
Baseline scenario	3,9	3,8	3,4	4,3	2,8	3,8	4,1	4,2
Scenario 1	-	-	-	-	2,8	4,0	4,4	4,4
Scenario 2	-	-	-	-	2,8	3,8	5,4	4,8
Scenario 3	-	-	-	-	2,8	3,9	5,0	4,7

Source: RS MoF

The previous table 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 2025), 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 2025, 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%).

¹⁵In 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.

¹⁶ 30% depreciation of BAM/USD exchange rate in 2025.

¹⁷ In 2025, 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%.

¹⁸ In 2025, 20% depreciation of BAM/USD exchange rate, in combination with 2% interest rate shock on medium term domestic and long term external instruments and 1% interest rate shock on short term domestic instruments.

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

- 1) borrowing 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 accordance with the agreed conditions;
- 2) providing funds for budget execution in accordance to the provisions of the Fiscal Discipline Law, while securing that target values of identified debt indicators are achieved;
- 3) borrowing plans will be focused on creation and maintainance of the Republic of Srpska credibility, in order to secure access to financial markets in the long term;
- 4) the most favourable borrowing terms and conditions will be ensured, having in mind market circumstances at the specific moment.

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

- 1) continuously developing and maintaining 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 harmonization of total budget inflows and outflows on monthly basis;
- 3) publishing auction calendar on the quarterly basis and, whenever possible, providing information on medium term borrowing plan and auctions in the long term;
- 4) maintaining the offer of short term and medium term financial instruments at the domestic market, in order to adapt the instruments to the needs of Republic of Srpska, as well as to the needs of investors, in a way that instruments are attractive for primary and secondary trading, contributing to the 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 secure active management of the portfolio structure and achievement of the 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;
- 8) regular monitoring of the Republika Srpska exposure under issued guarantees, while ensuring compliance with the limits on guarantees, established by the Law on Borrowing, Debt and Guarantees of the Republic of Srpska, as well as identifying potential problems in repayment of the guaranteed obligations by final debtors, which could result in creating new debt for the Republic of Srpska if the guarantee is activated.

In order to minimize exposure to financial risks, following objectives have been identified:

- 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) decreasing the share of external debt denominated in other currencies except EUR,
- 3) smoothing the redemption profile in the long term.

In accordance with the defined objectives and basic debt management principles, 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 31.12.2023.		% GDP
				mil. BAM	mil. EUR	
1	Total debt (1.1.+1.2.)		100,0%	6.251,4	3.196,3	38,9%
1.1.	External debt		58,5%	3.656,3	1.869,4	22,7%
1.1.1.	Republika Srpska		41,3%	2.581,5	1.319,9	16,0%
1.1.1.1.	Relevant external debt	✓	27,8%	1.739,2	889,3	10,8%
1.1.1.2.	Relevant external debt - Paris Club Germany	X ¹⁹	0,1%	9,1	4,6	0,1%
1.1.1.3.	Direct external debt	✓	13,3%	833,2	426,0	5,2%
1.1.2.	Local governments		2,0%	127,6	65,3	0,8%
1.1.2.1.	Relevant external debt	✓	1,7%	103,5	52,9	0,6%
1.1.2.2.	Direct external debt	X ²⁰	0,4%	24,1	12,3	0,1%
1.1.3.	SOEs and Investment Development Bank		15,2%	947,1	484,3	5,9%
1.1.3.1.	Relevant external debt	✓	14,8%	923,5	472,2	5,7%
1.1.3.2.	Direct external debt	✓	0,4%	23,7	12,1	0,1%
1.2.	Domestic debt		41,5%	2.595,1	1.326,9	16,1%
1.2.1.	Republika Srpska		32,9%	2.058,6	1.052,5	12,8%
1.2.1.1.	Verified domestic debt		2,5%	155,5	79,5	1,0%
1.2.1.1.1.	Issued bonds (frozen foreign currency savings, war claims, general liabilities)	✓	1,9%	118,3	60,5	0,7%
1.2.1.1.2.	Planned bonds issuances (war claim bonds)	✓	0,2%	12,9	6,6	0,1%
1.2.1.1.3.	Cash payments (general liabilities, war claims, frozen foreign currency savings, tax refund)	✓	0,4%	24,3	132,4	0,2%
1.2.1.2.	Medium-term bonds	✓	26,6%	1.660,1	848,8	10,3%
1.2.1.3.	T-bills	✓	2,5%	155,1	79,3	1,0%
1.2.1.4.	Commercial bank loans	✓	1,4%	87,7	44,9	0,5%
1.2.1.5.	Activated RS guaranties	✓	0,0%	0,2	0,1	0,0%
1.2.2.	Local governments	X	5,7%	356,3	182,2	2,2%
1.2.3.	Social security funds		2,9%	180,3	92,2	1,1%
1.2.3.1.	Direct debt	X	2,9%	180,0	92,0	1,1%
1.2.3.2.	Indirect debt	✓	0,0%	0,3	0,1	0,0%
2	Non activated guaranties (a+b)			813,0	415,7	5,1%
a	Non activated RS guaranties included in total debt	X ²¹	3,0%	183,6	93,9	1,1%
b	Non activated RS guaranties excluded from total debt	X ²²	-	629,4	321,8	3,9%
3	Total debt included in MTDS		90,9%	5.682,0	2.905,1	35,3%
4	Total debt excluded from MTDS²³		9,1%	569,4	291,1	3,5%

Source: RS MoF

¹⁹ Part of the so-called "old debt" of the Republic of Srpska to the Paris Club of creditors - Germany, for which the repayment terms have not been determined, considering that the Decision on borrowing defines that repayment method will be specified with the creditor afterwards, however, creditor has not determined such terms so far.

²⁰ Neither direct nor indirect liability.

²¹ RS guaranties issued for direct debt of local governments and social security funds, non-activated.

²² 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).

²³ 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 has not been determined.

Annex 2. Analytical underpinnings

This section presents certain analytical underpinnings²⁴ used for the 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 2024-2027, used in the baseline scenario.

Table: Interest rates and exchange rates projections in the period 2024-2027

	2024	2025	2026	2027
Instruments				
External Var USD (concessional)	7,25%	7,31%	7,37%	7,43%
External Var EUR (concessional)	5,14%	5,26%	5,38%	5,52%
External Fix USD (concessional)	6,00%	6,06%	6,12%	6,18%
External Fix EUR (concessional)	4,44%	4,56%	4,68%	4,81%
IMF Var USD (concessional)	5,07%	5,13%	5,19%	5,25%
T-bills fix (market)	4,00%	3,48%	3,56%	3,74%
Domestic bonds 5y fix (market)	6,00%	6,01%	6,15%	6,30%
Domestic bonds 7y fix (market)	6,30%	6,34%	6,46%	6,58%
Exchange rate				
BAM/USD	1,73	1,72	1,72	1,72

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 2025, comparing to the initial exchange rate projection for the same year;
- **Interest rate shock:** comparing to the baseline scenario, in 2025 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 2025 it has been applied 20% depreciation of BAM/USD exchange rate, combined with 2% interest rate shock on medium-term domestic and long-term external instruments, as well as 1% interest rate shock on short-term domestic instruments.

²⁴ 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.