

## Financial restitution possibility assessment

Applying the budgetary liquidity approach to the period 2013-2028, when liabilities arising from financial restitution would be settled, the scope of financial restitution can be defined as a residual value left over after the total budgetary expenditure for foreign debt servicing is reduced by the payments relating to foreign debt servicing, old foreign currency savings and unsettled war damage.

Foreign debt servicing for the period 2013-2028 can only be estimated, as this period will see new debts arising, which will have to be serviced within the same period. It should particularly be noted that – despite the growth in foreign direct investments, i.e. private investments, relating to construction of roads, power-supply and other facilities – capital development facilities, based on a partnership of private and public capital (PPP Public – Private – Partnership), will require further public debts for development needs. This will also imply that Bosnia and Herzegovina, as a country with growing income, will lose its opportunities for obtaining loans with a high percentage of grant components (IDA loans and other forms of concession financing) and will be increasingly forced to search for capital at capital markets under market conditions. This, as well as estimated increase in interest rates, capacities and the total debt amount due to GDP growth, in addition to shortened loan service period, should result in an increase in liabilities relating to foreign debt servicing. In the past five years, the annual foreign debt servicing ranged between 260 and 320 million KM, while for the period 2013-2028 it could rise to 550-600 million KM. In relation to the above period, this would imply the outflow of approximately 9.2 billion KM.

Since the liabilities arising from old foreign currency savings are tied to a 13-year period, the total liabilities in the said period, according to the repayment schedule, amount to 1,128 million KM. As liabilities relating to war damages have not been agreed on, they cannot yet be defined as public debt – having in mind that public debt must unequivocally be legally based. These calculations imply the assumption that, out of all the claims for war damages amounting to 2,805 million KM, only 50% of them (i.e. 1,402.5 million KM) will be legally admissible. This latter amount would be payable within 13 years starting from 2008. At the beginning of the period of restitution payments (2013 to 2028) approximately 35% of the mentioned 1,402,5 million KM will have been paid. 65% of the debt related to war damage will have to be paid in the period starting from 2013 (some 917 million KM including interest payments amounting to 7,93% of that amount).

Calculation of the public debt framework based on the foreseen GDP growth for the period 2013-2028 results in the total budgetary expenditure amounting to 13,046 million KM. Based on this assumption, calculation given in the table below indicates that the amount of 1,801 KM can be allocated for restitution.

### Overview of public debt settlement coming from budgetary funds, 2013-2028

Public debt purpose	Amount in million KM
1. Foreign debt servicing (estimated amount)	9,200

2. Old foreign currency savings settlement	1,128
3. Payment of claims for war damages (estimate)	917
4. Payment relating to restitution	1,801
<b>T O T A L</b>	<b>13,046</b>

Source: Feasibility study for restitution in B&H, Economic Institute Sarajevo 2006, p. 68.

Having in mind the poor reliability of information relating to claims and the lack of definitive solutions relating to the current internal claims, the scope for financial restitution can be defined with  $\pm 10\%$  certainty, ranging from 1,620 million KM to 1,980 million KM. However, it should be noted that this amount also includes the interests relating to claims, as restitution claims will be settled by emitting bonds on the part of the state, the funds for which will be provided by the entities. As the interest accounts for approximately 23% of the capital amount in the 15-year repayment schedule with the interest rate of 2.5%, the principal debt arising from restitution would amount to 1,464 million KM, while the interest would amount to 337 million KM.

All these indicators suggest that restitution in BiH can only be implemented in the form of natural restitution, while financial restitution will be of marginal significance only. This is very significant in the light of the fact that the monetary aspects of restitution will be negligible in comparison with the natural ones, implying that the process itself will be carried out without major impacts on the macroeconomic stability. With the calculated scope of financial restitution, it is possible to ensure the macroeconomic stability and budgetary viability.

The public debt arising from restitution would be solved in a similar way, as well as the one relating to old foreign currency savings, with the suggested servicing period of 15 years.