
WITHOUT REFORMS, BOSNIA RISKS DELAY TO RELEASE OF FUNDS-IMF

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Unless Bosnia meets terms required for the first review of the International Monetary Fund's loan arrangement by end-March, they will have to be re-negotiated and the disbursement of cash delayed for months, an IMF senior official said on Friday.

A delay in the release of funds under the lender's 553 million-euro (\$595 million) loan would strain the budgets of the impoverished country's two autonomous regions, which are the main beneficiaries of the IMF aid program.

It will also mean that loans from other international creditors, such as the World Bank and the European Bank for Reconstruction and Development (EBRD), would be withheld.

Bosnia is made up of the Bosniak-Croat Federation and the Serb Republic which are linked via a weak central government.

The authorities agreed in November on a set of economic reforms required by the lender to release additional 80 million euros after it disbursed 79.2 million euros to the two regions in September, when the loan deal was approved.

Some measures were implemented but political quarrels have kept a number of key reforms blocked in the national and regional parliaments even after the lender put its loan on hold in February over the authorities' failure to enact them.

The IMF loan deal aimed at supporting economic reforms is part of a wider reform package devised by the European Union to guide Bosnia, mired in ethnic and political disputes, towards a faster integration with the bloc.

During talks with a visiting IMF team this month, the authorities committed themselves to push for reforms but it is unclear if they will be able to fulfill all conditions by the end-March deadline. The reform progress is evaluated quarterly.

If they do, the lender's executive board will be able to approve the completion of the first review in late April, Nadeem Ilahi, the head of the IMF team, told Reuters upon completion of the team's 10-day visit.

"If delay is longer ... then we have to open up things more and look at targets that are there for the first half of the year, and start discussions almost from scratch, and that may require a much longer delay," Ilahi said in an interview.

The IMF wants Bosnia to raise taxes on fuel to help build a pan-European highway, which would unlock support for infrastructure projects by external lenders, such as EBRD, but legislation has been held up in the national parliament.

"That would allow public spending investment to take place and growth impact to be realized over the next few years," Ilahi explained, pointing to a 4 percent growth target for Bosnia in the next years.

He said the national parliament also needs to amend a law on a deposit insurance agency and the central government to limit employment in state institutions this year.

The Bosniak-Croat Federation needs to pass a new banking law and take steps for due diligence in the region's two state-owned telecoms firms.

(Reporting by Daria Sito-Sucic; Editing by Toby Chopra)

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