

Newsletter



Economic Reform and Reconstruction
Bosnia and Herzegovina

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INTRODUCTION TO SPRING ECONOMIC NEWSLETTER

Getting Better Numbers

Three points leap out of this month's macroeconomic survey. The first is that BiH is still not attracting the levels of foreign investment it needs in order to secure economic takeoff. The second is that there has been a rise in the value and volume of BiH exports to countries in the region with which Free Trade Agreements have been implemented – in other words, the Free Trade strategy is working. And the third is that despite the fact that BiH goods can be exported duty free to the EU and the US, BiH exporters are still not competitive enough to take full advantage of this.

Two bits of bad news and one bit of good news.

The survey notes that foreign companies located in Hungary produce some 60 percent of Hungarian exports. An even more arresting figure was published in a recent issue of the Economist Magazine. It reported that by 1998 US multinationals accounted for 70 percent of Irish exports.

Successful economies such as Ireland and Hungary, both of which have made exponential leaps in productivity, job creation and standards of living in the last decade, are showing the way to countries such as BiH.

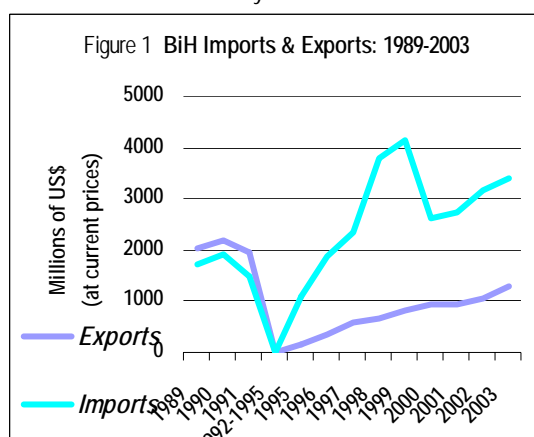
However, one reason investors remain wary of BiH is the dismal economic picture painted by BiH's statistical agencies and/or the absence of sound statistical data about the country and its economy. So, another entry in this quarter's newsletter makes particularly depressing reading. "In spite of considerable international and donor support in previous years, BiH statistics institutions have failed to establish an efficient statistics system. The lack of skilled staff, equipment and coordination among Entity and State statistics agencies has combined to compromise the quality of BiH statistical data. The grey economy is reported inaccurately, which does not reflect adequately this growing sector of the economy. A lack of agricultural and macroeconomic statistics has had a negative impact on policy-making at all levels of government. If this situation is not addressed, BiH will have the dubious distinction of creating a worse picture of its own economy than is warranted and thus working officially against its own interests – the attraction of investment and improvement of the overall economy."

Some things take time – sorting out the difficulties of the three BiH statistical agencies need not be one of those things. The authorities must take a handful of sensible steps without further delay – BiH is waiting needlessly for the foreign investment it needs in order to create jobs and raise living standards.

Ambassador Donald S. Hays
Principal Deputy High Representative

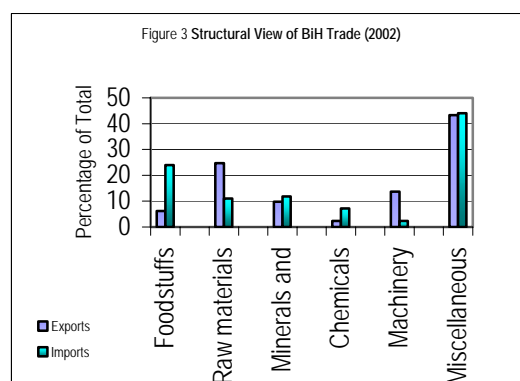
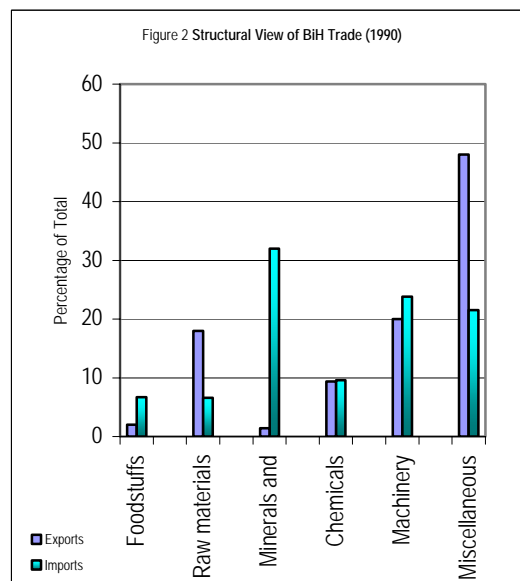
MACROECONOMIC REVIEW

In the years since 1995 BiH's balance of payments has been a matter of concern owing to persistently large deficits; and, although the large chasm between the value of BiH imports and exports has been somewhat narrowed in recent years, balance of payments deficits still loom over the economy in the foreseeable future.



There is an additional dimension to this issue owing to the fact that BiH monetary policy relies on the operation of a strict currency board. Under this arrangement, the Central Bank of Bosnia-Herzegovina (CBBH) has committed itself to converting the local currency on demand at a fixed exchange rate. Thus, unlike other central banks, the CBBH can only issue local currency if there is an equivalent value in the foreign exchange to back the issue. Under these arrangements, the quantity of high-powered money (ΔH) in circulation is directly linked to the quantity of Net Foreign Assets (ΔNFA) of the CBBH. In other words $\Delta NFA = \Delta H$. The local supply of high-powered money is thus totally dependent on either the extent of BiH foreign exchange reserves, and the extent to which the country can borrow abroad, and/or the extent to which it can attract foreign investment. Therefore, if foreign exchange comes into BiH thanks to a large loan or foreign investment drive, there will ultimately be more KM in circulation and the economy would have to adjust to a higher level of prices. If, on the other hand, foreign exchange flows out of the country (e.g. to pay for imports), there will ultimately be fewer KM in circulation and the economy would need to adjust to a lower level of prices. In this context, it is impossible to maintain and finance balance of payments deficits indefinitely. The economy has to find a suitable means of redressing this disequilibrium: either by attracting more inward investment or by borrowing more abroad. Ultimately, however, the deficit will have to be reduced or eliminated.

Even though BiH had a foreign trade surplus before the war, the structural view of BiH trading patterns points to a profound shift having taken place – it's not simply a matter of BiH now buying more than it sells. The composition of BiH trade, rather than the sheer volume is what probably matters more. Figures 2 and 3 compare the composition of BiH foreign trade as it was in 1990 and 2002. The implications are quite clear: BiH imports have swung in favour of foodstuffs and manufactures, away from the imports of machinery and minerals/fuels that predominated before the war.



These trends point to the fact that the environment in which the BiH economy is now operating has changed considerably from the one in which it used to operate. There are both endogenous and exogenous reasons for this. On the endogenous side it is clear that the 1992-1995 war caused considerable physical destruction and dislocation of many BiH industries with the attendant impact on BiH trading volumes and patterns. In other words, the country's output capacity was partly destroyed by the war and this is reflected in the country's ability to export. At the same time many of the industries that were not seriously affected by

hostilities suffer from plant and machinery obsolescence and this also affects their output capacity and competitiveness. Similarly, the transition process from a socialist to a free market economy has also meant that some industries that may have been unprofitable even before the war could no longer receive public assistance and, as a result, had either to close down or reduce their output with the concomitant reduction of the total output of the BiH economy. This explains the slightly lower levels of imports of materials such as minerals and fuels as well as chemicals because heavy industries that used to process these and turn them into finished or semi finished products that formed a great proportion of BiH exports are in the doldrums.

On the exogenous side, it is safe to conclude that owing to the war, BiH lost many outlets for its goods and services as former buyers turned elsewhere for their supplies. Similarly, because much of the prewar trade was probably conducted on a barter or bilateral clearing basis (especially with the countries of the former Soviet Bloc) much of this trade depended on reciprocity and political currents as opposed to the workings of 'the invisible hand' of free markets. Consequently, it is doubtful that many of these trading patterns (that probably underpinned some of the former trade surplus) could have survived for very long after the end of the Cold War. Finally, and perhaps most significantly, it is not clear what was the extent of BiH trade with other republics of the former Yugoslavia. It may well be that the recent deficit that BiH has been experiencing on its trade with the former Yugoslav republics is nothing new and that similar patterns of trade existed even during the period when BiH was supposedly experiencing a balance of trade surplus. This 'deficit' would not have been registered since trade within the former Yugoslavia would have been regarded as domestic and it would have been settled among the former six republics by clearance in the local currency.

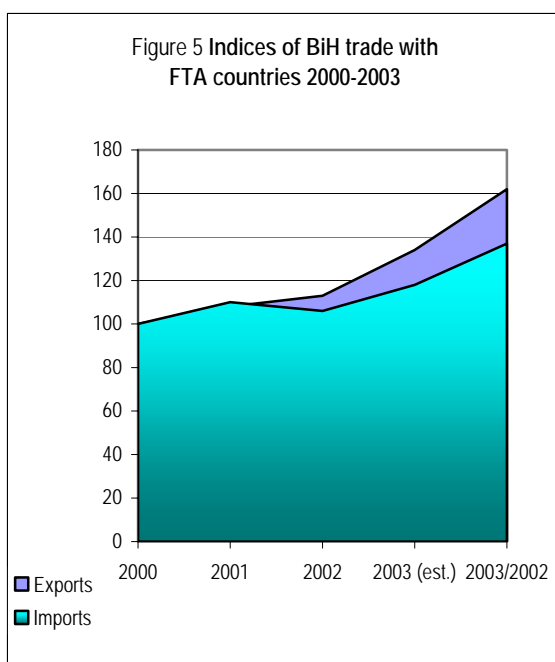
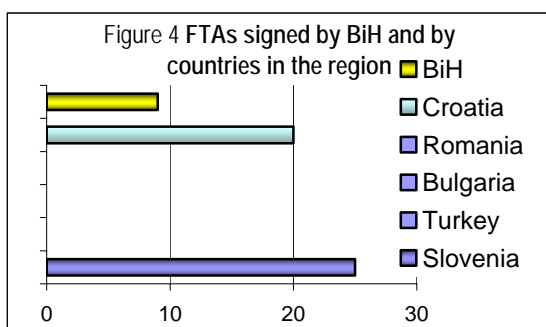
Trading patterns that supported whole industries across a market of more than 20 million consumers would have thus left a legacy of supply networks and taste patterns that the appearance of customs houses would not have been able to erase overnight. In the last decade or so, trade patterns of this kind have, however, become classified as international trade and thus constitute a leakage from the domestic economy that was not the case back in 1990. One good example of this would be BiH imports of foodstuffs. In 1990 this category constituted less than 10 percent of the total import bill while in 2002 imports of foodstuffs constituted more than 25 percent of total imports by value. Even with suitable adjustments that take into account the decrease of BiH supply of this class of goods, it is safe to conclude that BiH import patterns in

this respect may not be vastly different from those recorded in 1990, except that the subsequent increase in imports was due to the changes in the geo-political landscape – an exogenous factor that has a precedent in the break up of the Habsburg Monarchy in 1918.

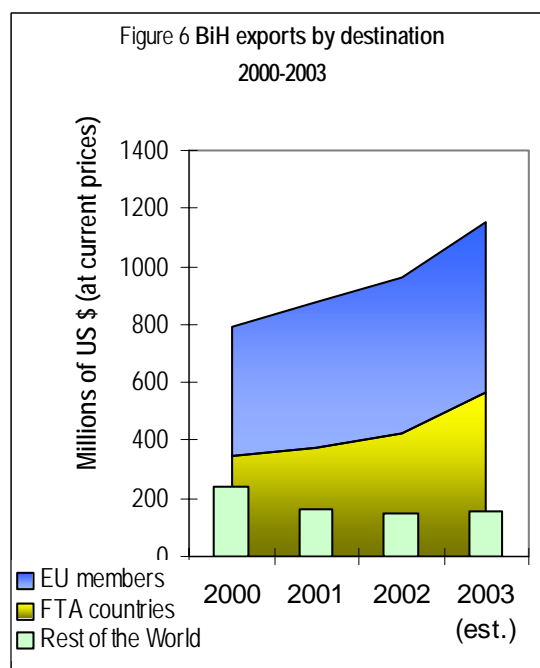
Although BiH foreign trade may be constrained by a set of factors for which there is very little immediate remedy this does not, however, alter the fact that the current deficits cannot continue indefinitely. The Foreign Trade Strategy contained within the BiH governments' Poverty Reduction Strategy Paper (PRSP), dated November 2003, notes that 'in the period of the next three years, the export growth rate will have to increase and remain at 15 percent by 2007. Simultaneously, the import growth rate will have to be reduced from 9 percent in this year to 5 percent by the end of 2007.' This export drive, the PRSP notes, will represent a significant precondition for the maintenance of macroeconomic stability in BiH. Opening up the economy, rather than protectionism, seems to be the accepted strategy in this respect. Various studies point out that developing countries with an open economy achieve much faster rates of economic growth than those with relatively closed economies. Even a basic comparison of the key macroeconomic statistics (such as annual GDP growth) between the countries of Southeast Europe and the CIS that also takes into account the estimates of openness of their economies would tend to confirm that these studies have a strong basis in fact. Being essentially a small market with a relatively low purchasing power, BiH needs to be able to export with a minimum of hindrance not only to improve its balance of payments figures but also in order to attract foreign investment. In this respect, the PRSP puts forward an interesting example: it appears that foreign companies located in Hungary produce some 60 percent of Hungarian exports.

Nevertheless, the EBRD's empirical models point to the fact that the foreign trade performance of Southeast Europe and the CIS countries is still significantly below their full potential. There are a number of reasons for this but it appears that fallout from the break up of the former Yugoslavia has affected the trade performance of the Southeast Europe group of countries more than any other plausible explanatory factor. It has also been suggested that a mix of improved access to Western markets and a reduction of trade and transit barriers among countries in the region would provide the most optimal environment for the future growth of trade and greater integration of this region in the world economy. The EU has already taken steps to ensure this by linking access to its own markets to the liberalisation of trade within the member countries of the Stability Pact of Southeast Europe. Within this context BiH has signed nine bilateral Free Trade Agreements (FTA). It

was hoped that the FTAs would ensure that BiH has enough of a market catchment area to be able to attract new investors who might not otherwise be interested in a market of fewer than four million people. However, when compared with the number of FTAs that BiH's neighbours and competitors for investments have signed so far, nine FTAs is not a very large number, especially since only four of these are being implemented at the moment.

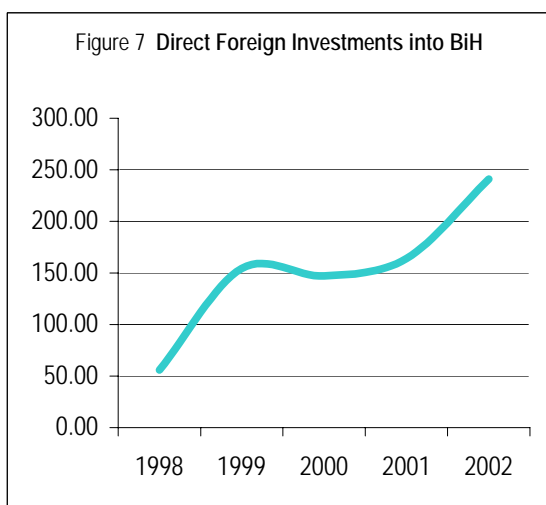


So far as economic effects are concerned, the main question to ask is whether the FTAs have, so far, succeeded in stimulating trade and investment in BiH. According to information gathered to date, they have. Evidence recently compiled by the Ministry of Foreign Trade and Economic Relations (MOFTER) indicates that FTAs achieved as much as one could reasonably have expected them to achieve in a relatively short period of time. As Figure 5 indicates, the trend of BiH exports to FTA countries has been growing faster than the trend of BiH imports from the same set of countries.



Also, the most important markets for BiH exports are those with which BiH has FTAs. The comparative rates of BiH export growth as differentiated by destination (Figure 6) point to the fact that BiH exports to FTA countries have experienced the fastest growth rates in recent years. Clearly, FTAs that are currently applicable have already started to show benefits, although it will certainly take time before current discrepancies in the import-export ratios with these countries are somewhat normalised. In fact, MOFTER tends to argue that if it had not been for the FTAs and other preferential treatments that BiH enjoys at present, the recent export rally, although relatively modest, may not have occurred at all. In fact, even though EU markets have been notionally open to BiH exports and while even the US has allowed BiH products to enter its market under the Generalised System of Preferences (a renewable preferential trade programme that allows the eligible products of designated developing countries to enter the US free of duty), BiH can only export a relatively narrow range of products mainly consisting of raw materials and semi finished goods. This is partly due to a failure to meet international free trade regulations and quality standards and partly due to a lack of competitiveness. On the whole, however, a discernible growth trend of BiH exports is evident (averaging 13percent annually) and, if sustained, could lead towards fulfilment of the goals expressed in PRSP.

However, an important caveat must be added at this point. Trade policy is not really a stimulator of overall employment since it tends to affect the pattern of jobs, rather than their overall number; although, those



industries that benefit from a liberal trading regime may produce multipliers in associated industries and give a boost to the service sector. Hence FTAs can succeed in stimulating trade and investment, at the same time as jobs in each FTA country are created in some industries and destroyed in others. This is bound to be a somewhat painful process in some sectors, even if it ultimately succeeds in making the member countries' economies more efficient overall, thus raising their average incomes. Plenty of economic evidence suggests that expanded trade, as a rule, raises incomes and future rates of growth and, for that reason all countries in question could reasonably expect to make aggregate gains.

As noted already, EBRD studies have shown how important it is for transitional countries to integrate well with their neighbours and other Western countries. In view of this, it is encouraging to see the considerable extent of economic integration that BiH has achieved with neighbouring countries and even the EU. WTO membership would also serve to bring similar benefits, with the added advantage of being able to plug BiH into a network of 148 countries that account for 96 percent of world trade. Past experience and trends clearly illustrate the benefits of membership in this body and the desirability of BiH joining as soon as possible. In the years since 1950, international trade has grown four times faster than the world GDP while the ratio of world exports to GDP has more than doubled, from 7 percent to 15 percent over the same period. The fact that the international economy has become more integrated than it was in the 1950s should, however, not be confused with world output: according to The Economist, the current volume of trade in manufactures is about 16 times that of the 1950s while the current level of output is only 5 ½ times larger. Thus the rapid rise of international trade can be explained more in terms of increased liberalisation than increased

production worldwide. Much of this liberalisation has come as a result of the impetus given by the World Trade Organisation's predecessor – GATT (General Agreement on Tariffs and Trade) that was launched in 1948. Fifty-five years and eight 'rounds' of international trade talks later, the average tariffs are about a tenth of what they were when GATT first came into being.

BiH's strategy of seeking accession to both the WTO and the EU also means that the authorities will have to undertake a series of reforms of varying magnitude. In this context, the presence of "external anchors" such as the WTO or the EU has been identified by the EBRD as one key factor in promoting institutional reform (thereby improving a country's ability to attract investment and, ultimately, to export). Thus although WTO accession stops short of deeper institutional reforms, membership and access to markets can exert a significant indirect impact on the speed of reform by increasing incentives for openness and by strengthening initiatives for economic and institutional reform. On the other hand, it is likely that the impact of the EU's *acquis communautaire* will be much more profound since the EU reform package is extensive and more rigorous. Therefore, if one considers that the current policy objectives are BiH's full integration with the mainstream European and, ultimately, world economy, then the authorities' recent efforts to integrate the BiH economy with that of the surrounding region could be viewed as concrete steps towards the realisation of the stated goals.

AGRICULTURE

The BiH Agency for Animal Identification (AAI)

The AAI, headquartered in Banja Luka, started officially in May 2003 and is a part of the BiH Veterinary Office. During the period 2002-2003 the EU funded this project to the value of 2 Million EUR. The AAI now employs 20 people.

The main tasks of the IAA are:

- To establish and run the national register of cattle-breeding households
- To establish and run the national register of slaughterhouses
- To establish and run the national register of animal markets
- To supervise the identification and movement control of animals.

Animal identification legislation was passed in 2003, and AAI staff have been trained in animal identification.

The IAA work plan for 2004 envisages:

- Registering cattle-breeding households, animal markets and slaughterhouses in BiH
- Identifying at least 50 percent of BiH livestock
- Preparing an Action Plan for Identification of other animals such as sheep, goats, pigs and horses.

The IAA is well equipped and properly staffed. Implementation of identification and movement control of animals will facilitate BiH exports to the EU and other countries.

Recently the CoM adopted conclusions on the application of Provision 26 of the BiH Law on Veterinary. Practically, this means that it is no longer possible to import animal and animal-origin products to BiH from companies and facilities that are not registered in the EU and/or in BiH. Implementation of this law's provision, together with the CoM's decision on reducing the number of border crossings open to trade in animal and animal origin products, is a step forward in protecting animal health and improving health protection of consumers in BiH.

The current scale of illegal border crossings and illegal trade in animal and animal-origin products has undermined animal and human health in BiH. Frequent violations of basic OIE (World Veterinary Organisation) regulations are evidence that the BiH veterinary inspection system is inadequate. One area in which rapid improvement is possible is in the establishment of an efficient State veterinary border inspection system. In this regard the CoM recently adopted conclusions and tasked the Ministry of Foreign Trade and Economic Relations (MOFTER) to prepare to bring veterinary border inspectorates under State jurisdiction.

Strengthening regional cooperation is an important means of increasing export and trade promotion. At the February Investment Conference in Mostar the BiH Minister of Foreign Trade and Economic Relations, Dragan Doko, signed protocols on veterinary cooperation with Croatia, and Serbia & Montenegro. These protocols are starting points for concluding agreements that will further contribute to foreign trade balance equalisation, regional cooperation and economic development.

Phytosanitary

For more than six months the BiH authorities were unable to agree on establishing the Phytosanitary Administration (Administration for Plant Health Protection), which is an EC requirement. At the end of March, however, the CoM finally adopted a decision establishing this key institution.

The Phytosanitary Administration will be charged with drafting numerous by-laws and other secondary legislation that will contribute directly to consolidating the Single Economic Space, raising BiH's export potential, and improving plant health protection. Farmers, food processors and the agricultural sector as a whole will benefit.

The Administration now has to be staffed, and premises and basic equipment must be provided without any further delay.

It is to be hoped that the authorities have now grasped the urgency of implementing these basic administrative steps, which will deliver a major boost to BiH's agricultural sector.

STATISTICS

The BiH Council of Ministers continues to delay the appointment of a director and deputy director of the BiH Statistics Agency. Those two positions are crucial for the implementation of the BiH Law on Statistics, as well as for fulfilment of preconditions for the EC's Stabilisation and Association negotiations.

In spite of considerable international and donor support in previous years, BiH statistics institutions have failed to establish an efficient statistics system. The lack of skilled staff, equipment, and coordination among Entity and State statistics agencies has combined to compromise the quality of BiH statistics data. The vast grey economy is reported inaccurately, and a lack of agricultural statistics and macroeconomic statistics has a negative impact on policy-making at all levels of government. If this is not addressed, BiH will lay claim to the dubious distinction of having one of the worst statistics-gathering systems in the world.

To overcome this situation the BiH authorities must begin implementing the BiH Law on Statistics immediately. The appointment of a director and deputy director to the BiH Statistics Agency is a basic precondition for this.

FINANCE and FISCAL SECTOR

Banking

The banking sector continues to be the star of BiH economic reform and vitality, with dramatic growth and consolidation. Citizens have readily accepted and shown confidence in the small number of foreign owned banks that now dominate the market. Four banking companies hold about 65 percent of total deposits in BiH. The rate of deposit growth continues strong, indicating that considerable funds were being held outside the banking system or hoarded, but are now working into the system. Total deposits reached 5 billion KM in September 2003 and 6 billion in late-March 2004.

The banks that are also leading the way in deposit gathering are likewise leading in lending and bank services. Loans to citizens approximate 45 percent of total loans (consumer goods, home improvement and investment in small businesses) and loans to private businesses (SMEs) are over 40 percent of total loans.

The number of banks declined from its peak of 73 at yearend 1998 to 37 as non-viable banks were removed and progressive strengthening of standards encouraged consolidation. That number will shrink further in coming months under the pressure of meeting the criteria for deposit insurance, privatization or liquidation of the Federation government-owned banks, increasing prudent banking standards and increasing competition.

Twenty banks are now in the deposit insurance program. Banks that did not qualify by the August 12, 2003 deadline were required to develop plans by November 30, 2003 for meeting the requirements. A few banks appear unable to meet the requirements and will require intervention.

The following numbers reflect the continuing strong growth in deposits and loans.

Bosnia and Herzegovina Banking System KM millions

	YE-1999	YE-2000	YE-2001	YE-2002	YE-2003
Total Deposits	1,838	2,094	3,323	4,158	5,300
Total Loans	1,455	1,652	2,104	3,214	4,200

Banking Supervision:

In a significant policy development, general consensus has been reached to consolidate the two banking agencies into a bank supervision unit under the Central Bank. This move had been delayed due to political opposition to moving governmental or regulatory units from the Entity to State level. The consolidation will enable better supervision of banking in the developing single financial space. The necessary legal changes are under review now, and completion of the consolidation is projected during Q-3 2004.

Country Rating

Moody's Investor Service has evaluated Bosnia and Herzegovina as B3+ and indicated a positive view of the future. This announcement signaled an important step forward in integrating BiH with the international financial community and attracting investment that generates jobs. In the long run this will mean greater access to bank loans to finance further economic development and improve services to citizens. Moody's said it had given BiH a rating because the country has a reliable currency and has taken the necessary legislative steps to establish the Independent Taxation Authority, that will administer customs and VAT. The B3+ rating can be upgraded in six months to a year and a half if further progress is made in implementing economic reforms.

In a cautionary sidebar, Moody's alluded to the poor quality of statistical data in BiH as a reason for not initially giving BiH a higher rating, which would give it access to loans at lower interest rates.

Single Registry of Bank Accounts

Central Bank Governor Peter Nicholl announced on 26 March that a contract had been signed to upgrade the giro-clearing system, which will make possible the establishment of a single registry of bank accounts of legal entities in BiH. A key feature of the upgraded system will be to provide additional means to combat money-laundering and to facilitate the collection and implementation of court decisions.

Budgets

The Federation Parliament adopted the 2004 budget in late March. The budget reflects an expenditure level of KM 1.25 billion, increased from the initial draft budget of KM 1.185 billion.

The justification for the increase in expenditures was based on the apparent availability of additional

dividends from BH Telecom, and certain expenditure items in the budget (most notably road building) may only go ahead if the full scope of these dividends is realised.

The State Budget, as of 31 March, had been adopted by the Council of Ministers and the Presidency. State Parliamentary procedure should follow in April.

Law on the Indirect Taxation System of Bosnia and Herzegovina (ITA Law)

The Law on the Indirect Taxation System of Bosnia and Herzegovina (ITS Law) is now in effect. The Chairman of the ITS Governing Board, Joly Dixon, was appointed by a Decision of the High Representative.

The Governing Board has approved the Indirect Tax Authority's (ITA) budget for 2004, and working groups are preparing laws concerned with the single payment account, the revenue distribution system, customs policy law, VAT law and ITA Administration Law. The Governing Board has made a certain degree of progress in its initial three months of formal existence.

The GTZ draft Profit Tax Law was submitted to both Entity Ministries of Finance in March. The adoption of this draft law will allow Entity governments to adopt previously accepted Bulldozer Committee proposals for the removal of double profit taxation and for full harmonisation of the profit taxation system throughout BiH.

Internal debt

One of the key economic reforms to be undertaken in 2004 has been to draw up and agree a strategy on dealing with BiH's internal debt. The total amount of internal debt as of 31 December 2002 in the RS was estimated to be 1,761.7 million KM, which is 49 percent of GDP and in the Federation 3,263.4 million KM, or 40 percent of GDP. Debt at the State level is estimated to be 208 million KM, and can be dealt with within the context of regular budget income.

The structure of the debt is similar in the two Entities; a major portion is related to frozen foreign currency savings (775 million KM in the RS and 1,110 million KM in the Federation), war claims (600 million KM in the RS and 900 million KM in the Federation) and the remainder is related to general arrears - wages, pensions, liabilities towards suppliers, invalidity payments and other - (386.8 million KM in the RS and 953.4 million KM in the Federation).

The strategy for dealing with this problem is to set a fixed amount to be paid out in cash and a fixed amount to be settled through the issuance of bonds with a maturity from 20 to 50 years, and to write off the remainder. The Sum of the NPV (Net Present Value) of cash payments and issued bonds should not exceed 10 percent of GDP.

The verification procedures are now being defined. These should help ensure that the laws written by 30 June 2004, as planned and recommended by the IMF, incorporate positive solutions to the problem arising from the fact that not all claims are now precisely expressed in terms of figures, and not all claims can be paid out; however, all claims should be paid out under equal terms.

INFRASTRUCTURE AND UTILITIES SECTOR

Transport

Longstanding issues in the transport sector, namely, the Law on Railways and Corridor Vc, have recorded relatively slow progress in the last quarter. The Working Group on Railways has not been able to find a rapprochement on the issue of single management of railway infrastructure in BiH, in spite of the fact that this is *sine qua non* for any future development of this mode of transport. In this context, the reconstruction and modernisation that BiH Railways Public Corporation proposed in the Investment Plan 2005-2009 might be seriously compromised. The modernisation and reconstruction that ought to be done in accordance with the Trans European Railway (TER) standards will not be feasible without a single infrastructure management in place, nor would it be possible to realise the goal of harmonising the development of railway infrastructure on corridors with the neighbouring countries. Similarly, the lack of agreement on crucial points to be contained within the proposed Law on Railways may result in jeopardising any future financing from external sources in view of the fact that the BiH authorities' full commitment to a plan that is meant to increase operational efficiency and passenger safety has been missing thus far.

It has finally emerged from the information presented to the Council of Ministers that of the twenty firms that responded to the international tender for the production of a suitable feasibility study for the Corridor, a shortlist of seven firms has been drawn up by the relevant commission. On 25 March, the Council of Ministers suggested seven possible candidates (3 from FBiH, 3

from RS and 1 from Brcko District) for membership of the State Concessions Commission.

These appointments will have to be ratified by the Parliamentary Assembly of BiH. Any slowdown in this respect may further delay the process related to the construction of the motorway.

More locally, there has been an encouraging sign of Inter-Entity cooperation between the public transport providers of Canton Sarajevo and the Municipality of Serb Sarajevo. It appears that the parties concerned have decided that the existing tram line ought to be



Figure 1 BiH section of the Pan-European Corridor Vc

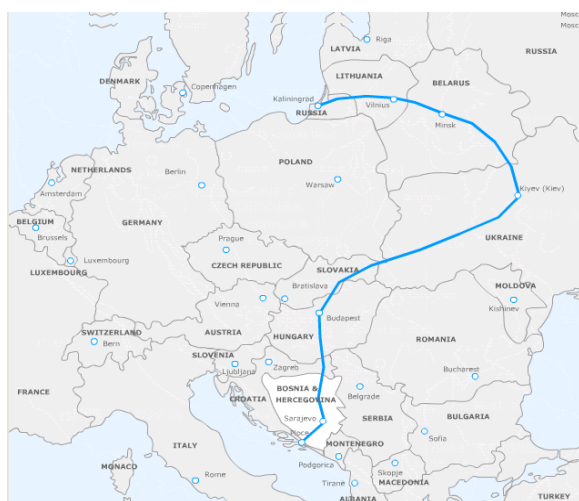


Figure 2 The proposed Corridor Vc in its entirety

extended from its current terminus in Ilidza to Hrasnica and Vojkovići. This project is an integral part of Sarajevo Economic Region's regional transportation plan. A meeting has been held with the Czech company

"ZS Brno" and the company's representatives have expressed their intention to work on technical and financial aspects of the project.

Civil Aviation

On 26 February 2004, the plane carrying the Macedonian delegation to the International Investment Conference in Mostar, including the president, Boris Trajkovski, crashed in the vicinity of Mostar Airport. The investigation of the technical commission is still in progress analyzing the two black boxes. The aim of this commission is not to attribute blame but to find the causes of the crash, in order to prevent a similar accident in the future.

Hand-Over of Mostar Airport

On 22 March 2004, a Memorandum of Understanding was signed between SFOR and the civil authorities for the hand-over of authority and the provision of air traffic services under the direct responsibility of the FBiH Civil Aviation Directorate. As of 1 April, local personnel have run the airport, which is now in full compliance with ICAO standards and Eurocontrol recommendations as far as controllers and technical equipment are concerned.

After Banja Luka and Sarajevo, Mostar Airport is the third airport to come under the full control of local personnel. The last international airport, Tuzla, was opened to commercial flights on 5 March 2004, but is still under the control of US military personnel.

Improving governance of public companies

Last year the Special Auditor discovered that Public Companies in Bosnia and Herzegovina were losing tens of millions of KM annually, through dishonesty or incompetence (sometimes through of a combination of the two). In October 2003 the Entity Prime Ministers promised to act. They said they would enact laws that will make it impossible for senior managers at public companies to line their own or their friends' or their political masters' pockets. These laws have detailed rules that managers will have to stick to. They are designed to make Public Companies operate competitively and efficiently, so that they can keep existing jobs and create new jobs. These laws will help ensure that public companies work as they are supposed to work – as engines of BiH's economic growth. The laws lay down in detail the way public

companies are to be organised and the kind of ethical and professional behaviour that is required of managers.

The package consists of the following laws:

- Entity Laws on Public Enterprises, that align the corporate structure of public companies with that of private companies. Clear provisions on accountability of management and other corporate bodies, rules on conflict of interests, greater independence of internal auditors, etc., have been introduced.
- Entity Laws on Investment of Public Funds, that ensure that allocations of available cash at every level of the government pyramid and public companies are only made according to clear and enforceable criteria on where public money can be placed. The underlying objective is to rationalise the placement of existing funds.
- BiH Law on Public Procurement, that introduces a European procurement regime, and establishes a State-level Public Procurement Agency, which will be responsible for making sure the Law is carried out.
- BiH Framework Law on Auditing and Accounting, that sets the same standards for accountants and auditors throughout BiH and harmonises their professional training and registration.
- Entity Laws on Obligations.

Despite the Prime Ministers' commitments and numerous assurances that they would treat this package as a priority issue, only the Law on Accounting has been adopted by the Government so far. All other laws are still sitting with the relevant Ministries or are before the Governments. In the meantime, most of the public companies continue to underperform. In order to promote the passage of this legislation, a public campaign will be undertaken in the next few weeks.

Energy

Energy sector reform is one of the key areas addressed in the European Commission's Feasibility Study. It is of critical importance for BiH to demonstrate progress in this reform.

During the first quarter of 2004, the focus of energy sector reform was on the two crucial laws for the sector: the Law on Transmission Company and the Law on Independent System Operator.

These two laws are among the most critical steps in the reform of the BiH electricity sector. They have been drafted with the active participation of financial, legal

and technical experts from all three electric power companies as well as technical experts provided by the International Community.

Transco and ISO laws are now being considered by the BiH Parliamentary Assembly. Committees in the House of Representatives and the House of Peoples have, while unanimously accepting the principles of the laws, adopted amendments that reduce their technical value.

The responsible ministry, the Ministry of Foreign Trade and Economic Relations, industry participants and experts from the International Community are currently working with representatives of all involved parties in order to facilitate passage of these laws with appropriate and agreed technical provisions.

PUBLIC SECTOR AND ECONOMIC TRANSITION

Social sector

Social sector problems identified in 2003 have persisted in 2004. Besides the fact that the level of pensions remains low, and insufficient to cover the basic needs of beneficiaries, the pension system also faces complications in regard to the Inter-Entity Pension Agreement of 2000. The RS asserts that it has withdrawn from the agreement, while the representatives of the Federation insist that they have not formally been informed of this withdrawal.

Although the RS insists that pensions should be paid from the Entity on whose territory they were earned, pensions continue to be paid from the Entity in which the claims were registered during the war or prior to the Inter-Entity Agreement.

The health sector remains burdened by financial difficulties, and inequity in the provision of services and in access across the Cantons in the Federation and, in the RS, in the municipalities. In the Federation the quality of health services is weakened by the high operating expenditures of a heavily decentralized health financing system, organized in 11 health insurance funds. This has eroded the quality of health care for the population.

With regard to war veterans and the legislation dealing with their benefits, the RS government has adopted a draft of the new law regulating the rights of war veterans, war invalids, and the families of killed soldiers, and forwarded this to the RS National Assembly.

In the Federation, the Ministry of War Veterans and Disabled Soldiers' Affairs is coordinating with the World Bank to develop a law that will guarantee the rights of individuals in this category. The adoption of an acceptable veterans' benefits law by the Federation Government is a condition for negotiating the World Bank's Second Social Sector Adjustment Credit (SOSACII), worth around \$50 million. The deadline to adopt the new law is April 2004.

Privatization

During the first quarter, some progress in the privatization process was achieved. In the Federation, a number of tenders launched during the last several months have concluded with the sales contracts, the Holiday Inn Hotel being the most prominent case. Results of tenders in the RS have been modest, as five out of nine launched tenders have failed. Interest is focused on the tender of Banjaluka Brewery.

Transfer of responsibility for privatising strategic enterprises from cantons to the Federation Privatization Agency has been completed for five out of six relevant cantons. Agreement on transfer of competencies has been signed by five cantonal Prime Ministers and privatization agency directors. With this, privatization of "strategic" companies will be managed centrally and the Federation Agency for Privatization will take administrative control of the process.

One of the biggest obstacles to privatization, the large indebtedness of enterprises offered for sale, still remains to be solved. Experience so far demonstrates that such enterprises do not attract buyers unless there is a mechanism to relieve enterprises of this debt. Resolution of this problem is one of the most critical priorities of the governments.

Business Environment

FBiH Law on Bankruptcy

In early April the Federation Parliament adopted amendments to the Bankruptcy Law. These amendments make the existing Bankruptcy Law work as it was supposed to work, giving companies that get into difficulties a way out of their problems that doesn't involve closing down completely and laying off all their workers.

Bankruptcy can facilitate restructuring, resulting in competitive companies organized along modern lines. Only companies such as this can generate profits and guarantee jobs for their employees. The law allows a

company to go into bankruptcy and settle a portion of its outstanding loans and liabilities (with workers' unpaid salaries included in that settlement, but with a cap on the number of months to be paid). This allows it to survive as a going concern. It can then restructure – lay off excess workers, strengthen its viable components, develop new products and markets – and pay its remaining liabilities when it has moved back into profit. When it recovers it can start to rehire. In the long term, restructuring companies means more jobs not fewer jobs.

In addition, an efficient bankruptcy law represents a central element in attracting more investment to BiH, to upgrade plant and products, and boost marketing and training and research and development. BiH is competing for investment funds with other countries in the region. It is only now beginning to compete effectively, and adoption of the amendments will contribute significantly to putting BiH firmly in the forefront of the international investment market.

Framework Law on Accounting and Auditing

On 22 March the CoM adopted a Framework Law on Accounting and Auditing and has forwarded the law to the BiH Parliament under urgent procedure.

The accounting and auditing profession plays a critical role in BiH. Investors, the Government, employers, employees, donors, and the public generally, depend upon this profession to deliver accurate, truthful and fair conclusions with respect to the result of all economic activities. It is in the public interest that accounting and auditing activity is carried out by persons of integrity who have, through study and work experience, gained the expertise needed for such important tasks. It is equally important that the standards that apply in the training, development and actual work of accounting and auditing professionals are standards that have been accepted and adopted by the majority of European states and most countries in the world.

The Framework Law on Accounting and Auditing Standards aims to achieve the following objectives:

- Provide for the regulation of accounting and auditing in accordance with EU standards and practice
- Create an environment in which the accounting and auditing profession will grow and excel.
- The proposed Law will put in place a uniform set of accounting and reporting standards that will help generate confidence and which will be consistent with other national practices. The framework law is designed to be fully compliant with EU directives and practice. One of the key goals of this legislation is to foster the

development of a competent, credible private-sector accounting and auditing profession, fully empowered to practise countrywide, promoting investment and fostering economic growth in BiH.

We view the passage and implementation of the Accounting and Auditing Law (now before the BiH Parliament) as a critical component in building a thriving business environment in BiH. New investment is imperative if businesses in this country are to grow and compete, regionally and in the EU market. While much of this investment will have to come from outside of the country, foreign and domestic investors will have to have confidence in the accuracy of the financial information on which they are basing their investment decisions.

Bulldozer



On 10 March, at a major event in Jajce, the Bulldozer Initiative launched its new brochure. The brochure deals with the implementation details of the first 50 reforms that were produced by Phase I. At the same time, Prime Ministers Hadzipasic and Mikerevic and the Mayor of Brcko were briefed by the members of the respective Emergency Reform Units on the implementation of Phase II reforms.

As far as Phase II reforms are concerned, Brcko District has achieved 100 percent compliance while other BiH jurisdictions are still to implement the majority of their reforms, some of which have found their way into parliamentary procedure and some of which are being re-drafted to fit compromises reached between the government and the private sector. It is envisaged that the next few months will see a greater number of Phase II reforms adopted thus paving the way to the commencement of Bulldozer's Phase III.

Phase III is soon to start. It will channel the energy and consolidate the mechanisms developed in Phases I and II. In Phase III, the Bulldozer Committee will be sustained and run completely by BiH participants. The international organizations, and the OHR in particular, will assist when necessary or asked to do so by private-sector participants.

Previously, the International Community (EC, USAID, OHR, WB, IMF) maintained a filtering role, vetting reforms to ensure that they were consistent with the structural reform agenda. The Emergency Reform Units, which were launched in November, will help in the assessment of future Bulldozer reforms.

The Emergency Reform Units have become an important part of the Bulldozer structure. They provide a crucial link between public and private sector interlocutors. If BiH is to move ahead and become a prosperous country then this dialogue must be fostered and allowed to develop into a normal course of action as it is in most successful economies. In this respect, we are trying to build upon the successes of Phase I. The successful implementation of some key reform proposals shows that public-private sector dialogue is possible and, indeed, productive.

Principal goals of Bulldozer Phase III:

1. Promote institutionalization of public – private partnership and dialogue.
2. Maintain success of Bulldozer process
3. Increase domestic ownership of all aspects of Bulldozer Initiative
4. Define mechanisms for maintaining legitimacy of lobbying for urgent reforms.

REGIONAL OFFICES

OHR Mostar

International investment conference

Although overshadowed by the tragic crash of the airplane carrying the Macedonian delegation, including President Boris Trajkovski, the International Investment Conference, held in Mostar on 26 and 27 February 2004 was marked by significant business contacts and investment opportunities.

The main purpose of the conference was to promote the economy of Bosnia and Herzegovina, to attract foreign and domestic investment and to link the country's market with the markets of its neighbors. While some guests at the Conference emphasized the importance of regional and bilateral cooperation between BiH and their respective states, representatives of the local authorities and the International Community present in BiH stressed the importance of ongoing economic reforms and their implementation.

The director of FIPA, which helped organize the event, made a presentation on why anyone should invest in BiH, emphasizing that this country has the fastest business-climate improvement rate in Southeast Europe, financial stability, the lowest inflation (around one percent per annum), a stable currency, an

excellent geographical location, availability of skilled educated and competitively priced labor and an abundance of investment sites. The FIPA director further identified key BiH economic sectors (tourism, wood industry, agriculture & food, power, construction and construction material, the textile industry and meat processing) and presented 12 projects. Other projects were presented during the roundtables held on the second day in specific sectors, on Banking, Industry and Energy, Infrastructure, Agriculture and Tourism.

The Vc Corridor proposal, one of the largest civil engineering projects in BiH, worth 2.5 billion euros, was also presented. Interest was shown in reconstruction of the facilities on Igman and Bjelasnica mountains, and in investments in telecommunication networks, environmental projects, etc. More information on the presented projects can be obtained from FIPA.

At the end of the Conference, the Prime Ministers of BiH, Croatia, Slovenia, Albania, Serbia & Montenegro, Bulgaria and Macedonia issued a joint statement

- welcoming progress achieved in BiH
- recognizing the need to work on stabilization of political relations and promotion and attraction of foreign direct investment,
- renewing their commitment to further advance economic relations and free trade
- stressing the importance of sustained economic progress; and
- stressing their continued support for BiH's efforts to meet criteria for integration in the EU.

Results of the Investment Conference will not be seen for some time, but it can reasonably be expected that a number of new investments and signed business contracts will emerge from this event.

Municipal Compensation for Power Production

The new RS Law on compensation for use of natural resources aimed at producing electricity, which was adopted in October 2003, will provide significant increment to the Municipality budgets of Trebinje (approximately 2.3 Mil KM), Bileca (approximately 2.1 Mil KM) and Gacko (approximately 3.4 Mil KM). The Law stipulates that 70 percent of those funds should be used for economic development through the extension of loans to potential beneficiaries, while 30 percent should be directed towards improvement of infrastructure.

OSCE and OHR representatives have met on several occasions with the Municipal authorities in order to offer

their assistance with implementation of this Law, and to discuss ways in which the aforementioned 70 percent of funds will be directed to prospective recipients. Representatives of the RS authorities, including the Ministries of Finance, Agriculture and Local Self-Government, will also participate in future meetings with the Municipalities in order to offer their suggestions as to where and how the money should be spent.

While Trebinje Municipality has already adopted a Plan and Program of the Development of the Municipality and has appointed a Commission for establishing criteria for loans, Gacko and Bileca Municipalities are still in the process of preparing their respective programs. Following the adoption of Programs and Criteria, all three Municipalities are planning to establish Boards for the selection of project proposals.

Given that the abovementioned funds will represent entirely new income for these Municipalities and the Eastern Herzegovina region in general, they will have a significant positive impact on the pace of economic development, which has been markedly slow in these districts in the recent past. During the implementation of these programs, the Municipalities' fundamental principles should be transparency, legality and public accessibility. The International Community will monitor the process closely in order to make sure that these principles are respected and that internal controls are established.

Mostar airport

During the past several months, local and international authorities have devoted large amounts of time to finalizing the Transitional Business Plan of Mostar Airport and preparing for the transfer of the airport services (air and ground) from SFOR French Air Detachment to local authorities. Several meetings of the Mostar Airport Steering Committee were held for this purpose.

Consequently, International Community representatives, together with the State, Federation, Cantonal and City authorities, have prepared and committed themselves to a three-part priority Transitional Plan designed to ensure the safe and secure handover and future functioning of the airport. Although local authorities provided funding for Priority List One, which was signed in the form of an agreement on 19 February 2004, funding for Priorities Two and Three is still uncertain.

Fulfillment of the Priority List One requirements was essential for the safe and successful withdrawal of SFOR French Air Detachment from the Airport. Since

this was implemented, the transfer handover ceremony of the Airport was held on 22 March 2004. During the ceremony, a Memorandum of Understanding was signed between SFOR and the civil authorities, stipulating that BiH and FBiH Civil Aviation Directorates would assume control over the Airport as of 1 April 2004.

Notwithstanding the importance of this event for BiH and the City of Mostar, considerable effort still needs to be invested in securing the safe and proper functioning of Mostar Airport. This will be ensured by fulfillment of Transitional Plan Priority Lists Two and Three for which funding still needs to be provided. All levels of authority need to be involved in this process, considering the tremendous importance of Mostar Airport for the economic growth and development of the City of Mostar and the entire Herzegovina region, particularly bearing in mind the upcoming opening of the Old Bridge.

OHR Brcko

Tax Reform

Brcko District was among the first BiH jurisdictions to start reforming its system of direct taxation in line with EU standards and modern market economy. The Law on Income Tax, adopted in June 2003, regulates direct taxation of natural and legal persons. The first part of the Law, regulating taxation of salaries, was implemented in Brcko, starting on 1 July 2003. Beginning 1 January 2004 the remaining part of the Law, taxation of company profit, has been implemented. Since direct taxation will gain importance throughout BiH in the future, the lead which Brcko has taken on this issue is significant. GTZ was the primary drafter of the Law with input from OHR-Brcko.

Bulldozer

Brcko District has so far fulfilled all its legislative obligations arising from Phase II Bulldozer Proposals, with one exception, still pending (publication in official gazette). This proposal is currently waiting for a second Assembly reading before passage. Compared to the State and Entities, Brcko is far ahead in Phase II implementation. In some cases, the Entities and the District should form inter-Entity working groups that will then work on details of the proposed changes and their implementation. The Brcko District Mayor has appointed Brcko representatives to these working groups. However, work has not started due to the failure of the Entities to do the same.

Sava River Initiative

At the 4th Session of the Interim Sava River Commission, in December 2003, OHR Brcko/ECON presented the District's intention to support the Sava River Initiative financially. This reflects the importance of navigation on the Sava to the rehabilitation and development of the Port of Brcko. The goal is year-round navigation on the Sava. This would dramatically help the revitalization of the Port of Brcko, which would help the economic development of the region as a whole. As agreed among the experts, the following were the biggest obstacles to year-round navigation on the Sava:

1. no bathymetric survey on 0 - 168 km of the river
2. no bathymetric survey on 202 - 222 km of the river
3. already identified critical points on the river: Kamicak and Mrdjanovci (both in Serbia) and Brezovo Polje (in the District)

OHR Brcko/Econ thoroughly analyzed this and additionally consulted several experts in the field. We concluded that a bathymetric survey is indeed the most important measure to be undertaken. All other measures for improving the river depend on this. It would provide a comprehensive basis for dredging and marking the river. The importance of this must be appreciated by all parties involved, including the IC. Therefore, we recommended that the District fund this. At the same time, we have insisted on a commitment from the riparian countries that all other necessary measures on their parts of the river will follow, once the bathymetric survey is done.

Following our recommendations, the Navigation Strategic Group (of the Interim Sava River Commission) held its meeting in Gradiska, on 4 February. All participants, representatives of the riparian countries, agreed that the bathymetric survey would be of crucial importance for the full reopening of the river.

Following OHR's guidelines, the Brcko District officially informed the riparian countries of their intention to support the Sava River Initiative financially.

The Brcko District has decided to fund this bathymetric survey, as defined by and agreed to with representatives of the riparian countries. The survey will cover the 0 - 168 km and 202 - 222 km of the river. The remaining part has already been surveyed in a project funded by OHR Brcko in 2002. The funds have already been allocated, and the District is ready to start with implementation. A letter was sent to the BiH CoM,

asking that the CoM formally inform the Croatian and Serbian governments. The project will partially be implemented on their territories, and their adequate logistical support is necessary. All riparian countries have already promised their full support, and have emphasized that once the project is implemented, they will immediately play their part in achieving year-round navigation.

The IC could and should also react with significant financial support for the Initiative, and a commitment by the IC to fulfill promises given at the beginning of the Initiative. The letter from BH CoM/Ministry of Traffic and Communication to the Croatian and Serbian governments was sent on 8 March. The funds provided by the Brcko District have been recognized as the BH contribution.

Recognizing the fact that these are preconditions that enable further improvement of the cooperation among the countries in the region connected through the Danube Corridor, it is clear that meeting these preconditions is one of the guidelines for admittance to the European Union, which is the ultimate goal of all countries in the region.

Port of Brcko

As per the Implementation Plan for restructuring the Port of Brcko, OHR ECON/LEGAL has finalized a new Law on the Port of Brcko. The law was a precondition for restructuring the port into a District public corporation to serve as a viable commercial company. The final version of the law was drafted by a working group consisting of representatives of OHR, the BD Government, and the Port of Brcko. Considering the importance of the Port for the whole of BH, both Entity governments and the BH CoM were consulted. As a result, one member of the port's supervisory board will represent the BH CoM.

Demand for use of the port is growing among shippers. Companies such as Bimal, KHK, BH Steel, Birac Zvornik, Agrogrouop, Cementara Lukavac, Rudnici uglja Tuzla, and Ljubija would use the Port to transport their goods. Potential Italian investors in the District have also expressed interest in using the Port. This highlights the need for a plan to assure a longer shipping season when the water level recovers. In addition, a Japanese Government delegation visited the Port in January and expressed interest in a major project aimed at rerouting the rail line leading to the port and industrial area, to avoid the centre of town. They indicated their intention to recommend grant financing worth eight million KM to Tokyo. Once approved, implementation could be completed in two years, through the District Government and the BiH Ministry of Communications and Transport.

OHR Tuzla

The recent privatization of the Koksara coke factory attracted the attention of both local and Entity authorities. A request was made by BH Railways to establish regular freight-train routes between Tuzla to the Port in Ploce, Croatia.

The commercial Airport in Tuzla conducted three test flights on what should become a regular route between Tuzla and Tunis. The charter-flight tests were conducted on 5, 12, and 19 March for the Golden Tours Tourist Agency.

During the first three flights, the total number of passengers reached 380, fulfilling the expectations required for the establishment of a regular route during the period from 10 June to 30 September, justifying one flight every week during the summer of 2004. If traffic intensifies, Tuzla Airport is looking at expansion of routes, to Switzerland and Hungary, and Belgrade and Ljubljana airports. The TK Government proved to be very supportive in the development of the Tuzla Commercial Airport.

The Tuzla Municipality has announced a public vacancy for the "Lipnica" Business Incubator inviting local SMEs and already developed local and international companies to apply for the least expensive business premises available in the whole of BiH (0.00 KM) demanding only job creation as a form of payment. Sixteen Italian companies have already expressed interest with letters of intent to establish businesses in these premises (which comprise a business centre intended for developed companies which already have a market, and a business incubator intended for SME startups).

The opening of the business incubator in the premises of the old "Lipnica" coal mine, was a response/initiative of the Tuzla Municipality driven by the existence of a decision by the FBiH Government that allows foreign companies to do business in BiH with no tax on turnover in the first five years. In order to have these premises ready for business as soon as possible, Tuzla Municipality in partnership with the Tuzla Regional Development Agency, applied for EU RED funds, which are to be invested in the final infrastructure improvements of the "Lipnica" Business Incubator.

OHR Banja Luka

Regional Development Agency for Northwest BiH Established

The Regional Development Agency for northwest BiH (Akreditirana Regionalna Razvojna Agencija Severozapadne BiH, Banja Luka i Bihac- ARDA NW) was formed on 25 March 2004 in Banja Luka. ARDA NW's core task is the preparation of a development strategy for the region.

The establishment of the Regional Development Agency for northwest BiH was the last step in establishing development agencies in all five economic regions. The next step will be to set up an umbrella agency through which all regional cooperation projects can be coordinated.

The EU has approved 2.4 million KM for the first phase of the regional development program. Apart from boosting the economy and cooperation among the regions, the EU opted for this project in order to curb political tensions and population migration.

ARDA NW is an association of 35 members. ARDA NW's Steering Board was formed on 7 April and has seven members.

During the first meeting of the Steering Board discussion focused on hiring workers, drawing up a business plan and arranging a registration system for the Development Agency. ARDA NW will have offices in Banja Luka and Bihac; it will be financed by its member municipalities and by the EC.

Physical volume of industrial production growth continues

During the first two months of 2004, the physical volume of industrial production in Republika Srpska increased by 11.6 percent, compared to the same period last year. This positive trend continues, thus the physical volume of industrial production in 2003 compared to 2002 (period on period index) was 5.7 percent higher.

This growth was mostly due to a 13.4 percent increase in the manufacturing sector, which accounts for just over 50 percent of the industrial production index.

The strongest growth, of 54.2 percent, was in mining and quarrying, which accounts for 7.9 percent of the industrial production index.

The RS Government adopted a plan for the privatization of strategic enterprises on 25 March 2004. This document contains a list of activities aimed at reviving production.

The RS Government will seek to increase the competitiveness of enterprises and the economy as a whole, and foster better privatization and investment conditions. It will

- Initiate formation of a development fund or development bank (as in the BiH Federation), to support viable programs by companies through soft loans
- Review price policy for energy, telecommunications, transport and other services and fees
- Ensure preconditions for acceleration of the procedure of "working bankruptcy" once the proposal for initiation of bankruptcy procedure has been submitted, with an accent on reorganisation
- Provide funds necessary for implementation of the Law on Stimulation of Development of Small and Medium Enterprises.

BiH Economic Update

BiH Economic Data January 2001 – February 2004

Source: FBiH and RS Statistical Offices

Indicator	Federation of BiH	Republika Srpska	BiH (OHR estimate)
GDP nominal 2002	7,943 million KM	3,418 million KM	
Nominal increase 2001-2002	+ 9,19%	+ 14,2%	
Real increase 2001-2002	+ 9,39%	+ 11,8%	
Index of Industrial Production			
02/04 compared to 2003	98,4	95,6	N/A
02/04 compared to 02/03	116,6	117,6	N/A
Retail Price Index			
02/04 compared to 2003	100,1	102,6	N/A
02/04 compared to 12/03	100,4	100,6	N/A
02/04 compared to 02/03	99,9	101,5	
Average Net Salary 02/04	524,53 KM	406 KM	484,9 KM
Index of Nominal Net Wage 02/04 compared to 2003 averages	100	107,8	N/A
Number of Employed 09/03	387.542 persons	238.190 persons	625.732 persons
Number of Registered Unemployed 02/04	308.017 persons	139.806 persons	447.823 persons
Number of pensioners in 02/04	287.673 persons	184.467 persons	N/A
Average pension in 02/04	198,84 KM	164,40 KM	N/A
Imports 01/04 – 02/04	784.3 million KM	290.4 million KM	N/A
Exports 01/04 – 02/04	289.6 million KM	79.3 million I KM	N/A
Trade deficit 01/04 – 02/04	494 million I KM	211.1 million KM	N/A
Import/Export coverage	36.9%	27.3%	N/A