

# **OHR: Economic Newsletter, Vol. 2, No. 4, May 1999**

Newsletter

## **Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)**

Sarajevo, May 1999, Vol. 2, Issue 4

### **Economic Task Force Secretariat OHR in co-operation with IMG International Management Group**

#### **Economic Indicators BiH**

##### **Bosnia and Herzegovina**

	Sep-98	Oct-98	Nov-98	Dec-98
Unemployment (pers)	389254	391243	394496	398639
Net wage (KM)	303	316	319	330

##### **Federation of BiH**

	Dec-98	Jan-99	Feb-99	Mar-99
Unemployment (pers)	256487	259020	261019	
Employment (pers)	407047	407051	407057	
Unemployment ratio (1)	39%	39%	39%	
Net wage (KM)	356.6	361.5	371.9	
Retail price growth	0.5%	-0.1%	0.2%	-0.1%
- annual growth (2)	1.7%	1.4%	1.2%	0.5%
Cost-of-living growth	1.0%	0.3%	0.5%	-0.1%
- annual growth (2)	2.2%	2.0%	1.7%	0.8%
Industrial prod growth	7.1%	-19.9%	-1.6%	11.9%
- annual growth (3)	15.4%	17.2%	3.6%	14.4%

##### **Republika Srpska (RS)**

	Dec-98	Jan-99	Feb-99	Mar-99
Unemployment (pers)	142152			
Employment (pers)	250000	(rough estimate)		
Unemployment ratio (1)	36%			
Net wage (KM)	236	203	195	
Retail price growth (4)	6.0%	0.2%	0.0%	2.5%
- annual growth (2,4)	66.1%	3.6%	8.3%	16.1%

<b>Cost-of-living gr. (4)</b>	9.0%	0.5%	1.3%	3.2%
<b>- annual growth (2,4)</b>	72.6%	8.2%	12.6%	20.3%
<b>Industrial prod growth</b>	6.3%	-45.8%	23.5%	
<b>- annual growth (3)</b>	15.5%	5.6%	6.3%	

*Sources: BH Agency of Statistics, Federation Statistical Institute, RS Statistical Institute. Growth figures are over one month, unless indicated otherwise.*

**(1)** Number of unemployed over employed plus unemployed, excludes waiting list and gray economy.

**(2)** Annual figure, last 3 months over 3 months last year.

**(3)** Annual figure, month this year over month last year.

**(4)** Inflation till Dec 98 in dinar prices, from Jan 99 in KM.

Starting in this issue, a wider range of figures on major trends in the BiH economy will be published. The method for calculating yearly inflation has also changed. For reasons of comparability, a graph of both the old and new figures is given over the last two years. The new method (last 3 months over the same 3 months last year) better reflects the long-term trend in inflation.

Beginning in January, the RS Statistical Institute published inflation figures in KM (before this, data were in Yugoslav dinars). From a comparison of inflation in KM and dinars over the last two years, it is clear that the high inflation in the RS that was apparent at the end of 1998 was caused mainly by the steep depreciation of the dinar. Now that acceptance of KM in the RS has increased substantially, it is appropriate to publish figures in KM. It is also expected that inflation in the RS will be close to zero as the currency board pegs the KM to the German Mark. The same trend was observed earlier in the Federation.

## Economic Policy and Reform

### Preferential Customs Treatment Ends

Effective May 15, Bosnia and Herzegovina (BiH) will have one customs policy throughout the country as both Entities will cease applying preferential treatment to imports from Croatia and Yugoslavia (FRY) and start levying both customs and additional import duties on all imports. This represents a major step forward in the normalization of the BiH economy. For the first time and after much effort, BiH can be considered a unified customs territory.

Although the Customs Tariff Law of BiH, which introduced uniform customs tariffs at all BiH borders, entered into force in March 1998, the law was not fully implemented. Both Entities continued to apply prelevmani, entity level customs duties based on unit prices. After extended negotiations, prelevmani were replaced by a common list of additional import duties which were adopted by the Council of Ministers in February (see March News-letter). The Entities also gave preferential treatment to imports from Yugoslavia and Croatia (these imports were only charged a one percent administrative fee).

The Entities based the preferential treatment on all existing trade agreements between the RS and the FRY, and the Federation and Croatia. Although these agreements were clearly unconstitutional (customs policy is the responsibility of the common institutions of BiH), they continued to be applied. Under strong pressure from the international community, the RS government passed a decree to cease the Decree on Trade with the FRY on February 5. On April 20, the Presidency decided to stop the application of the agreement between the Federation and Croatia (the so called Split agreement).

Two days after the Presidency decision, the Council of Ministers decided to cease preferential customs treatment by May 15. More than a year after the legislation came into force, BiH became a unified customs territory. A major disincentive for internal trade has been removed, and the door closed for large-scale customs evasion. Because Croatia and the FRY are major BiH trading partners, the loss of revenues caused by preferential treatment was huge (between 80-140 million KM per year for the Federation, and 48-60 million for the RS). Entity budgets will now benefit tremendously from the cessation of preferential customs treatment.

### State Budget, State Treasury

The 1999 BiH budget was approved by the Council of Ministers (CoM) on March 5 and by the Presidency on April

20. It must now be approved by the House of Representatives and the House of Peoples. In the meantime, the common institution is operating on a 1998 budget extension. It should be noted, however, that although the Entities paid their January and February contributions, the transfers for March and April have not yet taken place, creating delays in implementation of the 1999 budget.

At its May 4 session, the CoM agreed to nominate a working group to draft the Rule Book of the State Treasury of Bosnia and Herzegovina. The names of members for the working group are to be provided at the next session. This represents an important step forward as it will pave the way for the creation of a real treasury function responsible to the CoM as a whole. The proposal to create such an institution was explicitly requested in the Madrid Declaration. To implement the project, however, a substantial amount of funds must be provided by donors, mainly for hardware, software and training.

### Payment Bureau Reform Update

The team of experts working on a detailed functional analysis of the Payment Bureaus is completing its report. The focus has been on the interrelationship between functions that are currently performed by the Payment Bureaus in order to identify the appropriate sequencing for transfer of the different components of these functions to government institutions (Ministry of Finance, Central Bank, Tax Administration) and commercial banks. Preliminary key findings are that the Payment Bureaus provide very little accounting services; that most statistics collection is not dependent on the payment process; and that from a control point of view, the Payment Bureaus contribute little to the tax collection process. The strategic plan developed by the team will be discussed with all Payment Bureaus' management prior to publication.

The Central Bank of BiH, in cooperation with both Banking Agencies, has developed standards for banks to provide payment services. Some of the larger banks are ready for these tasks that were hitherto performed exclusively by the Payment Bureaus. In the meantime, the adoption of the amendments to the Law on External Payments in the Federation that would abolish the Payment Bureaus' monopoly over domestic payment transactions and the appointment of a government board in both Entities have been delayed. The International Advisory Group is pressuring the authorities to proceed. As soon as this is done, a Payment Transaction Law will be forwarded to the Entity governments for adoption and the actual dismantling of the Payment Bureaus can begin.

### Impact on RS Economy of FRY crisis

The RS has strong economic ties with Yugoslavia. In 1998, 74% of exports (320 out of 420 million KM) went to the FRY, and 43% of all imports (600 million out of 1.4 billion KM) came from the FRY. It is difficult to precisely assess the impact of the crisis in FRY on the RS's economy as the official April statistical data will not be available until later this month. The first very rough estimates from the customs houses, however, indicate a 30% decrease in imports and exports with the FRY. The decline in exports is equivalent to 5% of GDP in 1998. Companies may be forced to put part of their workforce on waiting lists. Taking into consideration a 5% decrease in GDP and a total number of employees of 250,000, 12,500 people could become unemployed. Of course, the longer the current situation continues, the more jobs are at risk.

The RS electrical system is closely connected to the FRY electrical grid. The shortage of electricity caused by bombing of FRY power plants effected some border towns in the RS. Electrical black-outs were experienced in some BiH/FRY border towns such as Bijeljina and Zvornik. Elektroprivreda RS is anticipating difficulties with exports of surplus power and its revenues may be drastically reduced soon.

The value of the Yugoslav dinar (YUD) has also been affected and the RS economy will probably suffer inflation following shortages caused by the crisis in the FRY. Although the FRY government is trying to control prices, inflation has reached high levels, causing the YUD to depreciate sharply. The street rate is currently about 12 YUD to 1 KM. As of April 15, the official exchange rate of the YUD in the RS went from 8.5 to 10.5 YUD to 1 KM. As official payments to budget beneficiaries are still made 50% in YUD and 50% in KM, total available income (in KM) has dropped by 10%. To a large extent, the RS budget will not be hurt by the current situation. Imports from the FRY are still only charged a 1% administrative fee. When preferential treatment stops on May 15, customs revenues are expected to go up by 8%. Only if imports from the FRY drop below 12% of their pre-April level will customs revenues decline. To offset any anticipated revenue loss, the RS could increase trade with the Federation and/or open new export markets. This would enable the RS economy to become more independent from the FRY. It should be noted, however, that the poor condition of the RS economy today is not only related to the NATO air strikes in FRY but is, to a large extent, caused by pre-existing problems.

## Privatization: Military Pay Claims Resolved

Unpaid soldier claims are one of four categories of citizen claims in the privatization process (the others are general claims, frozen exchange accounts, and claims for unpaid pensions). The failure of the Federation Government to agree on the ratio for claims from soldiers between the two Federation Armies was reported in the December 1998 Newsletter, as well as the arbitration of the High Representative setting the ratio at 76:24 for the BiH Army and HVO respectively. This ratio was based on a nominal amount of KM 7 billion available for soldier claims as decided by the Federation Government.

Since the issue was highly politicized by both parties, the OHR arbitration was not implemented. Both sides, however, agreed on April 6, under pressure of the OHR, to increase the nominal amount for this category of claims by another KM 700 million, thereby removing one of the major obstacles for beginning the privatization process.

## Canton 3 Interior Minister Removed

On April 28, the High Representative removed Ferid Hodzic, the Interior Minister of the Tuzla-Podrinje Canton (TPK, Canton 3) from office for failure to support the rule of law and fulfill the duties of his office. Mr. Hodzic was removed as he directly interfered with several ongoing investigations into allegations of fraud, corruption, racketeering and abuse of official office made against TPK Prime Minister Hazim Viskovic and others. The High Representative stressed that the international community was committed to working with local officials in fighting fraud, corruption and economic crime, and to ensuring that funds donated by the international community and taxes paid by local citizens benefit the citizens, not racketeers. The High Representative also called on all officials in BiH to bring transparency to their work.

## New Statistical Bulletin

Although faced with a 50% budget reduction and a delay in disbursement of funds pledged by different donors, the BiH Statistics Agency has published its second Bulletin containing data on population, employment and wages. The second Statistical Bulletin is available from: BiHAS, Fra Andela Zvizdovica 1, UNIS Building, Sarajevo, Tel: 483-221 or 483-220. The cost is 30 KM

# Organization of Public Services

## Telecommunications and Post Update

Discussions were held in Bern on April 16-17 on the draft of the new State Post Law. The draft was prepared with the help of an expert provided by the Government of the Netherlands. Although all parties agreed on a large part of the draft document, a number of issues could not be resolved and another meeting will be held at the end of May/beginning of June to discuss a revised text.

OHR is organizing a workshop to discuss the concept of postal banking, i.e., cooperation between the post sectors and the (post) bank. The workshop should take place at the end of May. More information: Erik MacKinlay, (OHR)

At their May 4 session, the Council of Ministers adopted the Telecommunications Regulations which have been established under the new Telecommunications Law.

Inter-Entity telecommunications links have increased markedly in recent months (see insert).

# Reconstruction Update

## Road Maintenance Seminar

On April 23, a seminar on road maintenance, organized by IMG and an SFOR-CIMIC Functional Team, with the participation of the French Ministry of Equipment, Transport and Housing and the General Council of Nord-Pas de Calais-France, was held in Sarajevo. The seminar represents the first in a series of initiatives promoted by IMG and the French Government aimed at sharing the best practices in road maintenance management policies and planning. Attendees included representatives from local authorities (State/Entity Roads Directorates and Project Implementation Directorates), international organizations, bilateral cooperation agencies, and SFOR.

## Land and Property Registration

The improvement of land and property registration is critical for the economic revival of BiH. Land and property registrations are recorded in two documents: the Register Book and the Cadastre. Before the war, there was an attempt to combine both documents into a single real property cadastre (Law on Real Property Cadastre, 1984), but only five municipalities achieved it

The two major issues that need to be addressed now are: the consequences of the war on land and property registration (displaced and missing persons; destruction or deterioration of cadastres, register books and other proofs of ownership; problem of information exchange between the parties); and the transition to a market-driven economy—lack of an adequate framework for a real estate market.

Some studies looking at land and property registration issues are now in process; other projects are in the planning stage. OHR would like to schedule a meeting with all organizations working in this area to share information. More information: Jerome Bossuet (OHR).

Further information concerning this publication, please contact:

Tiziana Pagano, IMG, +387 71 666 020, [ptiziana@img.ba](mailto:ptiziana@img.ba)

Sandra Stevens, OHR, +387 71 447 275, [sandra.stevens@ohr.int](mailto:sandra.stevens@ohr.int)

This Newsletter is published under the authority of Carlos Westendorp, High Representative.

Editor-in Chief: Didier Fau, Deputy High Representative for Economic Matters. Managing Editors: Sandra Stevens, Antoine Dubas, Tiziana Pagano (IMG). Contributing Editor: Paul Banerjee.

Other economic reports are available on the USAID web site : <http://www.usaid.ba/>

- Donor Aid to BiH as of May 1, 1999
- Bosnia And Herzegovina Telecommunications: Interentity Connections
- Inflation in the RS over the last two years

Office of the High Representative