Article by Donald Hays, Principal Deputy High Representative on Internal Debt

This week the parliaments of the Federation will be faced with a very serious choice. One that no politician ever wants to deal with. They will have to decide between what is popular and what is right for the country. Many of them have said the deal is unconstitutional, it isn't fair for everyone, there are better solutions, and so on.

The facts are simple: the total amount of money owed by the BiH authorities is more than 200 percent of GDP. If this debt isn't dealt with aggressively, it is projected to climb to 250 percent of GDP by the end of this year. Debt on this scale traditionally leads to the total collapse of domestic economies, bank insolvency, and currency collapse. This has happened in the recent past in both Mexico and Argentina . Both countries failed to take aggressive measures and they suffered the economic consequences.

So one thing is clear – the parliamentarians must vote for a bill that solves the debt problem and puts in place strict discipline on borrowing.

But isn't there a better way to deal with war debts or frozen foreign currency accounts? Couldn't the government provide more money for these claimants to give them a fairer deal? The facts are that the government has looked at a range of options with the IMF and U.S. Treasury over the past nine months and, given the limited amount of funding available, it is simply not possible to find any more cash for this purpose. Furthermore the priority must be to provide those in

greatest need with funds that they deserve.

Why can’t we give these individuals stock in profitable companies such as the electroprivredas, or the telephone companies? The simple answer is that this would be repeating the mistakes of voucher privatization.

So a mixture of cash and bonds is all that is available. This is similar to what Croatia and Serbia have already done. Yes, it is true they were able to have better terms for the bonds, but on the other hand they were in a better economic situation. They used bonds nonetheless. The argument that this is unconstitutional is not valid. The government stands behind the bonds just as it stands behind paper money.

The bill now before parliament pays pensioners, the disabled and the vast majority of those holding frozen foreign currency accounts. Some in the public and a few in Parliament would have you think that this isn’t right, they want to get more money for those with frozen foreign currency accounts that hold more than 10,000 KM (approximately 22,000 people).

So they are willing to risk the economy of the entire country, just as it is beginning to recover, in the interest of less than one percent of the population.

Here are the plain facts – If the law doesn’t pass, your debt could well climb to 250 percent of GDP right away. This in turn will drive away investors and undermine your country’s fiscal integrity just as you are seeking to begin negotiations with the EU for an accession agreement. Oh, and no one will get their debts paid.

If the bill passes – 82 percent of frozen foreign currency account holders will get all their money, another 12 percent will get 20 percent or more of their accounts paid over a period of four years, along with bonds that can be redeemed by the government early if the economy improves. Pensioners and the disabled on pension will get 157 million in arrears owed

to them, those with salary arrears will get 31 million km in cash, and suppliers who are owed debts by the government will get 51 million km in cash.

Bonds have a bad reputation in the countries of the former Yugoslavia but the bonds issued under this law will be developed by the US Treasury and monitored by the IC. Your neighbors have used the same approach to deal successfully with their frozen foreign currency accounts and countries in Western Europe and the U.S. are all using this method to deal with domestic debt.

One final word for those who say they represent the frozen foreign currency savers – the money you put in the bank was moved to Belgrade to the Central Bank and it was in part replaced by Dinars. Remember, starting in January 1992, Yugoslavia endured the second-highest and second-longest hyperinflation in world history. It peaked in January 1994, when the official monthly inflation rate was 313 million percent. In the period covered, the Dinar was officially devalued 18 times, and 22 zeros were removed from that unit of account. The money in the commercial banks became useless. The hard currency was in the Central Bank and was simply spent or stolen. So there is no money in any of the commercial banks to go after.

Why am I telling you this? I don’t want you to be fooled by those who are now playing political games with your economic future. The RS and Brcko District have passed these laws, not because they got a better deal, but because they understood it was the only deal on the table. Those in parliament in the Federation now have to act in this country’s future interests and show courage. This is not about mistakes of the past; it’s about the future of your children.