

# **OHR: Economic Newsletter, Vol. 1, No. 4, June 1998**

Newsletter

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

Sarajevo, June 1998, Vol. 1, Issue 4

**Economic Task Force Secretariat**

**OHR in co-operation with IMG International Management  
Group**

### **Economic Indicators BiH**

#### **Federation of BiH (Federation)**

| <b>Annualized growth rates*<br/>(excl. net wage)</b> | <b>Jan-98</b> | <b>Feb-98</b> | <b>Mar-98</b> | <b>Apr-98</b> |
|--|---------------|---------------|---------------|---------------|
| <b>Average net wage (DM)</b>                         | 300           | 314           | 307           | n/a           |
| <b>Retail price growth</b>                           | 9.8%          | 9.5%          | 10.7%         | 7.7%          |
| <b>Cost-of-living growth</b>                         | 8.0%          | 8.4%          | 9.5%          | 8.5%          |
| <b>Real wage growth</b>                              | 16.5%         | 18.4%         | 11.6%         | n/a           |
| <b>Industrial Production growth</b>                  | 7.6%          | 24.6%         | 12.4%         | 26.5%         |
| <b>Real effective exchange rate</b>                  |               | -7.2%         |               |               |

*(Source: Federation Statistical Institute & OHR Estimates)*

\* Growth rate over 12 preceding months. Negative growth in real effective exchange rate indicates a real appreciation.

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

| <b>Annualized growth rates<br/>(excl. net wage)</b> | <b>Dec-97</b> | <b>Jan-98</b> | <b>Feb-98</b> | <b>Mar-98</b> |
|---|---------------|---------------|---------------|---------------|
| <b>Average net wage (DM)</b>                        | 112           | n/a           | n/a           | n/a           |

|                                     |       |       |       |     |
|-------------------------------------|-------|-------|-------|-----|
| <b>Retail price growth</b>          | 12.8% | 9.5%  | 13.4% | n/a |
| <b>Cost-of-living growth</b>        | 18.7% | 16.0% | 18.5% | n/a |
| <b>Real wage growth</b>             | 84.6% | n/a   | n/a   | n/a |
| <b>Industrial Production growth</b> | 23.7% | n/a   | n/a   | n/a |

*(Source: RS Statistical Institute & OHR Estimates)*

Retail price inflation fell significantly in April in the Federation. However, cost-of-living inflation did not. Real wage growth was significantly lower than in recent months due to a fall in nominal wage growth. Industrial production continues its strong recovery.

Data for the RS are published only at a quarterly interval. First-quarter data for 1998 will be published in the next newsletter. We have corrected our estimate of real wage growth in the RS by using the market exchange rate of the Yugoslav Dinar versus the DM.

*(More information on this subject can be obtained by: the OHR Economic Department, Mr. B. Roberts, Tel: 447275 or at the IMG Economic Section, Mr. P. Hulshoff, Tel: 666273)*

## **Economic Policy and Reform**

Public Introduction of KM on 15 June Mr. Nicholl, Governor of the Central Bank of BiH has announced that the convertible marka (KM) will be put in circulation on 15 June. On that day, KMs will be made available in all major cities of BiH.

Conversion of Bosnian Dinars and DM into KM will be carried out by the offices of the payments bureaus and of banks. Other currencies will need to be converted into DM that can be exchanged for KM. The KM will be pegged to the DM in a ratio of 1:1. More details on the currency conversion process can be found in the April issue of this newsletter.

Liquidation of Narodna Banka Approved On 28 May , the Presidency of BiH approved the liquidation plan of the Narodna Banka (NBBH) presented by the Governor, upon the proposal of

the liquidator. The liquidator, Mr. Dudley, has returned to BiH to carry out the accepted liquidation program. The liquidation of the NBBH is a major step forward in establishing a properly-functioning monetary mechanism in BiH. State Level Privatization Law Passed by Council of Ministers (CoM) With the adoption of the OHR draft Law on Privatization of Enterprises and Banks by the Council of Ministers (CoM) on 28 May, significant progress has been made to create a legal environment for privatization to be implemented by the Entities. The Law recognizes the right of the Entities to privatize enterprises and banks and to dispose of the privatization proceeds. Since privatization in BiH also aims at the satisfaction of citizens' claims against public authorities, the Law also establishes principles to be observed by entity legislation to be in full accordance with the General Framework Agreement for Peace. Those principles are non-discrimination amongst beneficiaries of claims (full participation of displaced persons and refugees) and transparency and public accountability in the process. The Law will be submitted to the next BiH Parliamentary Assembly session for final adoption.

As a parallel measure, the OHR will establish, within the next three weeks, a Commission for Privatization that will observe adherence to those principles in the privatization process.

A new privatization law package, drafted with the assistance of the International Community, has been accepted by the RS Government and has been submitted to the National Assembly to be held on 15 June.

IMF Stand-by Loan Approved On 29 May , the International Monetary Fund (IMF) executive board approved the stand-by arrangement with BiH. Under the arrangement, approximately DM 150 million will be provided to BiH to support the Central Bank and accumulation of official reserves. Funds may also be on-lent by the State to the Entities for budgetary purposes in the proportion 2/3 to the Federation and 1/3 to the RS. An initial credit of DM 58 million will be made available. DM 25 million of this will be used to establish initial reserve capital of the Central Bank, KM 10 million will be on-lent to

the budget of the Federation, and KM 5 million to the budget of the RS. Federation Abolishes Special Import Duty The Federation government announced the repeal of the decree on special import duties. The decision is effective as of 16 May. This illegal import tax of 10% was levied on top of the duties as described in the Customs Tariff Law. This is a first, but significant, step towards full implementation of that law. However, both the Federation and the RS continue to collect illegal import duties and give preferential treatment to goods coming from Croatia and Yugoslavia respectively. Foreign Investment Law Adopted In its 9th session held on 18 May, the BiH Parliamentary Assembly adopted the Law on the Policy of Foreign Direct Investment in BiH. The adoption follows the decision taken on 6 March by the High Representative to put the Law into force on an interim basis.

As noted in our March issue, the implementation of this state level policy law necessitates the alignment of the foreign investment laws of the Entities.

RS Budgetary Support Update The program initiated by the High Representative to provide extraordinary budgetary support to the RS government is near completion. The last tranche from the European Union amounting to DM 3 million took place on 25 May. Simultaneously, the second payment of the United Kingdom (DM 1.2 million) and the United States (DM 2.6 million) was disbursed. Total payments have now reached DM 22 million. An amount of DM 6 million remains to be spent.

## **Organization of Public Services**

Mail Delivery Between Entities Resumed On 4 June, a ceremony attended by RS Minister for Transport and Telecommunications, Mr. Pavic and a representative from the Universal Postal Unit (UPU), marked the official resumption of mail delivery between the Entities. As of this date there will be three weekly deliveries between Sarajevo and Banja Luka.

After the signing of the Memorandum of Understanding (MoU) on 22 April, the main obstacle for the resumption of delivery was the absence of an X-ray machine in the RS. This problem was solved by the UPU lending the equipment to the RS authorities. A training program was also held for the technicians operating

the machine.

Telecommunications Task Force Re-activated The core group of the Telecommunications Task Force (TTF) met again on 28 May to report on progress since the last meeting, which was held in June of 1997. At this meeting the chairmanship of the TTF was transferred from the European Bank for Reconstruction and Development (EBRD) to the OHR. A full group meeting, including the local authorities, will be held on 8 July. Mostar Airport Will Open Soon In order to have Mostar airport open for civil air traffic by the end of June, a short term advance of DM 50,000 has been provided by the Spanish government through IMG. The beneficiary is the Interim Mostar Airport Authority, established by a decision of the High Representative on 16 March. The advance will be reimbursed through the income resulting from the landing fees generated by the civilian flights to Mostar. Bus Lines Between Entities Still Not Operational The decree on the regulation of inter-entity bus lines, signed by Minister of Civil Affairs and Communications Albijanic on 15 April, has not yet been published in the Official Gazette of BiH and has therefore not been implemented. Now that the Ministry of Civil Affairs and Communications has been established and functional departments identified, progress on the review and approval of lines is expected within two weeks.

## **Agriculture**

Total funds committed or spent for agricultural projects starting in the spring planting season were estimated at DM 110 million. Of this amount, 40% will go to the RS and 60% to the Federation.

Agriculture was heavily damaged during the war and is slowly moving from emergency to rehabilitation status. It is a sector of high importance to BiH, a country with ample arable land and where rural people constitute around half of the population. If well directed, it can become a major economic sector and income generating on the national level through seed export.

Overall coordination of assistance in the agricultural sector

is provided by the Food and Agriculture Organization of the United Nations (FAO). Its emergency coordination office facilitates the recovery of the sector through technical assistance to the Government and donors and coordination of the aid of the international community. This function is supported by chairing the regular Task Force meetings on agriculture.

A major obstacle for the sector is mined agricultural land, which seriously hinders development. Thousands of hectares of arable land remain unused due to mine hazards. FAO will be assessing the extent of mined agricultural land during June. In the following months, the emergency coordination office of FAO plans, in collaboration with other agencies, to focus its activities on assisting rural displaced persons and returnees (especially minority returns) by distributing agricultural inputs to promote sustainable return, a crucial activity in view of the phasing out of food distribution by other agencies.

However, due to severe lack of funds, all activities and coordination carried out by the FAO emergency coordination office in BiH may soon cease.

## **Reconstruction Update**

At the end of May, ongoing reconstruction projects in BiH amounted to DM 845 million, with a further DM 336 million projects funded and ready to start. Besides reconstruction, contracts currently under implementation in the industry and industrial finance sectors now amount to DM 252 million. Other sectors, including agricultural assistance and external debt service, represent an estimated DM 198 million. Taking into account that a large part of the reconstruction projects has to be carried out and completed during the summer and the fall, it is important to initiate now as many projects as possible. As the map on the last page clearly shows, there are still many projects waiting for funding.

The High Representative, in full support of the recent changes

in the RS Government, recommended during the Brussels donors' conference to increase the share of the RS, especially in its eastern part. Out of the total funds for current ongoing and financed reconstruction projects, about L is allocated to the RS, of which about 20 % is for the eastern part of the RS, mainly in the energy, water and transport sectors. Although investment clearly increased in the western part of RS, the eastern part is still falling behind.

Currently, the largest part still goes to the energy sector (about 1/3 of total ongoing projects, DM 320 million), much of which is for electrical production and distribution throughout the country. The major program on the rehabilitation of water supply systems that was launched immediately after the end of the war is well underway. DM 155 million is under implementation in the Federation and DM 37 million in the RS, including DM 8 million in the eastern part. Urban water systems receive the largest part of these funds. However, numerous smaller water systems in villages or rural areas now benefit from increased assistance, for instance in the frame of integrated reconstruction programs (involving different sectors like health, energy, water and housing).

With about DM 143 million currently in implementation and an additional DM 73 million to start soon, transport is the third major reconstruction sector, concentrating mainly on road repairs and Sarajevo airport.

On 3 June, 3 new agreements under the Telecommunications Emergency Reconstruction Project have been signed between the EBRD and BiH, the Federation, and RS respectively. The total project value amounts to DM 91 million, of which DM 35.4 million will be provided in loans, DM 37.7 million in grants, and the remaining DM 18 million by local financing. The present amount of ongoing and funded projects total approximately DM 47.5 million, with another DM 49 million worth of projects in the assessment and planning phase.

While many returns are expected for 1998, much remains to be done in the housing sector. The minority return process is usually linked with return plans or with the open city concept, under the umbrella of the OHR – RRTF or through UNHCR programs. In this sector, there is a need for increased flexibility and rapidity of donors to address quickly evolving situations. Acceptance of new return plans creates expectations in terms of housing reconstruction projects.

A large number of houses are currently under repair in the Brcko and Bihac areas, in central Bosnia, and in or near the Zone of Separation. The number of people returning is increasing and is expected to grow during the summer months. The number of requests for house repairs already exceeds financial possibilities. Again, there is an increasing need for quick response from the donors, through both integrated and nonintegrated projects.

For further information concerning this publication please contact:

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***Reconstruction summary report by Canton/Region***

as per June 1998 [figures in DM]

[Source of information: IMG-PIMS Database]

| <b>RS Regions</b> |                    |                    |
|-------------------|--------------------|--------------------|
|                   | <b>O + F</b>       | <b>A + I + P</b>   |
| <b>Banja Luka</b> | 86,177,475         | 52,855,647         |
| <b>Bijeljina</b>  | 69,814,830         | 34,482,029         |
| <b>Doboj</b>      | 34,322,760         | 11,298,710         |
| <b>Sokolac</b>    | 7,451,368          | 126,728,102        |
| <b>Srbinje</b>    | 19,748,733         | 14,917,626         |
| <b>Trebinje</b>   | 13,030,445         | 51,593,544         |
| <b>Vlasenica</b>  | 12,769,880         | 10,946,760         |
| <b>TOTAL RS:</b>  | <b>243,315,491</b> | <b>302,822,418</b> |



| Federation Cantons                |                    |                    |
|-----------------------------------|--------------------|--------------------|
|                                   | <b>O + F</b>       | <b>A + I + P</b>   |
| <b>Bosansko-Podrinjski</b>        | 12,967,000         | 13,870,516         |
| <b>Hercegovacko-Neretvljanski</b> | 86,816,897         | 120,984,535        |
| <b>Posavski</b>                   | 27,637,560         | 13,855,760         |
| <b>Sarajevo</b>                   | 177,750,830        | 37,235,160         |
| <b>Srednjobosanski</b>            | 61,339,930         | 77,239,030         |
| <b>Tuzlansko-Podrinjski</b>       | 89,097,030         | 56,437,030         |
| <b>Unsko-Sanski</b>               | 97,196,365         | 78,419,453         |
| <b>Zapadnobosanski</b>            | 10,004,220         | 25,599,170         |
| <b>Zapadnohercegovacki</b>        | 8,488,000          | 5,114,010          |
| <b>Zenicko-Dobojski</b>           | 105,659,750        | 48,467,870         |
| <b>TOTAL FEDERATION:</b>          | <b>676,957,582</b> | <b>477,222,534</b> |
| <b>GRAND TOTAL:</b>               | <b>920,273,073</b> | <b>780,044,952</b> |

**O + F:** Ongoing + Funded projects

**A + I + P:** Project- Assessment + Identification + Preparation / Submission

### ***Reconstruction in BiH 1998***

Ongoing and funded, 1998 projects waiting for funding

Office of the High Representative