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Newsletter

Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)

Sarajevo, July 1998, Vol. 1, Issue 5

Economic Task Force Secretariat

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

Economic Indicators BiH

Federation of BiH (Federation)

Annualized growth rates* (excl. net wage)	Feb-98	Mar-98	Apr-98	May-98
Average net wage (DM)	314	307	324	n/a
Retail price growth	9.5%	10.7%	7.7%	5.6%
Cost-of-living growth	8.4%	9.5%	8.5%	6.1%
Real wage growth	18.4%	11.6%	15.7%	n/a
Industrial Production growth	24.6%	12.4%	26.5%	35.8%
Real effective exchange rate	-7.2%			

(Source: Federation Statistical Institute & OHR Estimates)

* Growth rate over 12 preceding months.

Republika Srpska (RS)

Annualized growth rates (excl. net wage)	Dec-97	Jan-98	Feb-98	Mar-98
Average net wage (DM)	112	84	126	147
Retail price growth	12.8%	9.5%	13.4%	12.2%
Cost-of-living growth	18.7%	16.0%	18.5%	14.4%
Real wage growth	84.6%	64.2%	111.1%	150.6%
Industrial Production growth	21.9%	26.0%	45.8%	34.0%

Retail price inflation continues to fall in the Federation, reaching roughly half of the March rate in May. Cost-of-living inflation also continues to fall. Growth in the real wage and industrial production remains strong. Economic performance has been quite good in the RS during the first quarter of 1998. The real wage grew at an extraordinary rate, although one has to consider that payments of salaries in the RS have been irregularly and that in many areas they have been in arrears for months. The Feb. and March wage indexes have also been effected by the late IC's budget support.

Industrial production growth is accelerating whilst price inflation remains substantially higher than in the Federation.

(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

KM Introduced on 22 June The convertible marka (KM) has been in circulation since 22 June. Due to delays in shipping, the original date of 15 June was postponed for one week. Introduction is so far limited to certain bank notes; in the Federation: 0.5, 1, 5, and 10 KM; in the RS 0.5, 5, and 10 KM. The 1 KM bank note for the RS has not been circulated because of a misspelling on the note.

More than KM 50 million has been distributed in the Bosniak area. KM has also started to be used in the RS and in some Croat areas. KM 4.8 million has been paid as salaries in the RS by the OHR as part of budgetary support to the RS. The introduction of the 20, 50 , and 100 KM notes is expected to take place at the end of July.

Actions are currently being taken to improve the opportunity of the public to convert KM into DM at commercial banks. Difficulties in such conversion are of a short-run nature and should be resolved soon.

Cantonal Economic Data Tables 1 and 2 of the insert to this newsletter summarize a variety of economic data for cantons of the Federation. Table 1 shows the sectoral composition of industrial production in 1997 across the 10 cantons. Many cantons are heavily dependent on one or two sectors, which is not particularly unusual at the regional level in an economy as small as that of BiH. Table 2 gives the average net nominal wage and inflation in retail prices and the cost of living. The lowest average wage (Zenicko-Doboj) is 51% of the highest average wage (Posavski), a quite substantial difference. Inflation does not seem to vary much across cantons, but data on inflation is available for only 3 cantons, so nothing can be said with any confidence.

Indeed, the cantonal statistical bulletins are noteworthy for the fact that various data are available for some cantons but not others. The lack of data on production of electricity, gas and water for 5 cantons, and inflation data for 7 cantons, raises an important question as to the quality of the base from which Federation-level statistics are derived.

Source of information: *Statistical bulletins of the Federation Institute of Statistics.*

Unemployment in the Federation The insert also presents data on unemployment at the cantonal level for the Federation that have been developed by the World Bank (see insert, reverse side). These data were collected in a survey of approximately

2,000 households in the spring of 1997 conducted by the World Bank. The survey data suggest several things. First, there is substantial variation in unemployment rates across cantons. The lowest rate is 19% (Zapadno-Hercegovacki), and the highest 64% (Posavski). Second, the estimated participation rate of 60% of working-age population suggests that many more people are working (580,000) than is officially recorded (347,000). Third, the actual unemployment rate may be significantly less than official estimates: the survey's unemployment rate is 33%, while official numbers suggest a rate of 39%. 33% is nonetheless, of course, a very high rate of unemployment. Finally, there is no clear relation between the unemployment rate and the average net nominal wage across cantons. The figure on the insert graphs these two variables against each other. Although the canton with the highest unemployment rate also has the highest wage rate (Posavski), once this canton is dropped, there is no statistically-significant relationship between the two variables. Unemployment Rate in the Federation: Spring 1997

Canton	Unemployment Rate
Sarajevo	34%
Unsko-Sanski	47%
Zenicko-Dobojski	24%
Tuzlansko-Podrinjski	28%
Srednjobosanski	33%
Gornjedrinski	39%
Posavski	64%
Zapadno-Hercegovacki	19%
Neretvanski	34%
Hercegbosanski	35%
FEDERATION	33%

Source of information: World Bank Survey, Spring 1997 (as cited in "Economic Brief for Bosnia and Herzegovina", April 1 1998).

RS Adopts Privatization Laws

The RS Parliament passed the whole package of privatization and capital market laws ahead of schedule on 26 June 1998, together with the bank privatization laws.

There are a number of differences between the RS and the Federation privatization programs. In order to receive general claims for instance, beneficiaries in the Federation have to be older than 18 years old, the RS does not have such a requirement. The dates recognizing the eligibility (citizen of BiH and permanent residence in the privatizing entity) also differ. The reconciliation of the eligibility criteria is of importance in order to avoid discrimination of a large number of people (DP's and refugees) who have changed their residence in recent years. Contrary to the Federation privatization legislation the RS-program includes the transfer of funds to the Pension-Disabled Fund (10%) and the Restitution Fund (5%) and the exclusion of apartments and municipal business premises from being sold by general claims. The final adoption of the so-called Framework Law will set the basis for bringing the legislation of both Entities in line.

Negotiations with Paris Club to Begin BiH is preparing to begin negotiations with the Paris Club to achieve reduction in the stock of outstanding debt to official creditors (the non-commercial sector). The London Club agreement reached in 1997 substantially reduced the value of historical debt to commercial banks inherited by BiH from the former Yugoslavia by app. 85%. It is essential to achieve another successful negotiation with the Paris Club to ensure renewed access of BiH to international credit markets.

Organization of Public Services

Commission on Public Corporations Re-activated After a period of non-activity, the Commission on Public Corporations (CPC) has been re-activated again by the appointment of two successors for the previous CPC members Mr. Kozulj and Mr. Skoko. The CPC in its current setting consists of the following members: Mr. A. Behemen (Fed), Mr. Z. Perkovic

(Fed), Mr. O. Kremenovic (RS), Mr. R. O'Sullivan (WB) and the Chairman Mr. P. Monnory (EBRD).

The CPC will meet on 6 July to discuss the draft agreement on the creation of a BiH Power Transmission Public Corporation (EPK-BH), the first Joint Corporation to be established in the Electricity sector.

Reconstruction Update

Credit Lines in BiH At present, six main credit lines are operational in BiH, two of which are providing loans in both Entities (see page 4). Total outstanding funds currently amount to DM 273 million, including revolving funds.

In addition, five new credit lines are about to start operating in the next few months: KfW Housing Credit Line of ECU 15 million (DM 30), KfW Small and Medium Enterprise Credit Line of DM 1 million, WB Revolving Credit Line RS of \$10.5 million, including \$2.7 million technical assistance (DM 19 and DM 4.9 respectively), IFC Forestry Companies Credit Line of DM 25 million, Saudi Fund Revolving Credit Line (amount unknown), and the Kuwait Revolving Fund Credit Line (amount unknown).

The actual distribution of loans will be executed as has been done so far, i.e. through the local banking system or through selected NGO's operating as intermediaries. International organizations and countries funding the various credit schemes (both existing and new) include: the WB, IFC, IDA, EBRD, UNHCR, USAID, Austria, Germany, Italy, Japan, Kuwait, Malaysia, the Netherlands, Saudi Arabia, Sweden, Switzerland, Turkey and the United Kingdom.

For further information concerning this publication please contact:

Paul Hulshoff, IMG – tel.: 666273 / 666020

Clement van de Coevering OHR – tel: 447275

Overview of all non-reconstruction sectors as per June 1998 [figures in DM]		
Sector	Completed	In Implementation*
Agriculture	0	60,103,384
External Debt Service	0	0
Finance & Trade	869,058	19,170,073
Government Institution Building	44,000,000	57,198,067
Industry & Industrial Finance	0	252,378,898
Landmine Clearing	0	10,545,103
Peace Implementation Activities	0	710,499
Social Support	12,574	46,853,212
Total	44,881,633	455,959,239
Completed 97 and before	400,000,312	
Grand Total		900,841,185

*Includes contracts of which the status [in implementation or completed] could not be determined.

Source of information: RCM Database

Reconstruction Update per sector as per June 1998 [figures in DM]		
Sector	In Implementation	Completed 98
Education	46,255,075	11,540,130
Energy	275,157,333	114,615,500

Health	40,004,452	13,327,774
Housing	163,786,178	69,095,800
Mixed	24,509,680	1,000,425
Other	750,214	340,897
Telecommunications	52,543,960	2,465,000
Transport	318,282,531	7,287,511
Water	217,457,660	16,706,614
Total	1,138,747,082	236,379,651
Completed 97 and before		1,106,760,348
Grand Total		2,481,887,082

Source of information: IMG PIMS Database

Reconstruction Update per geographical area as per June 1998 [figures in DM]		
Canton	In Implementation	Completed 98
Unsko-Sanski	118,109,230	17,714,310
Posavski	30,612,560	2,825,000
Tuzlansko-Podrinjski	74,874,520	24,972,770
Zenicko-Dobojski	53,587,500	23,636,510
Bosansko-Podrinjski	12,386,795	4,487,500
Srednjobosanski	57,238,330	7,832,220
Hercegovacko-Neretvljanski	86,437,570	21,392,440
Zapadnohercegovacki	8,036,490	1,111,400
Sarajevo	216,890,180	35,990,590
Zapadnobosanski	8,363,720	998,600
Multi-Canton	52,817,260	3,538,000
Federation	48,403,740	5,100,000
TOTAL FEDERATION	767,757,895	149,599,340

BanjaLuka	111,043,168	6,275,788
Doboj	39,023,620	1,136,379
Bijeljina	75,846,230	1,914,464
Vlasenica	6,280,280	2,672,000
Sokolac	5,532,124	2,768,180
Srbinje	19,689,616	0
Trebinje	8,762,839	10,710,000
Multi-Region	20,787,580	0
Serb Republic	10,423,600	14,437,500
TOTAL RS	297,389,058	39,914,311
Multi-Canton/Region	34,896,130	3,240,000
B&H	32,604,000	43,626,000
Unknown	6,100,000	0
Total	1,138,747,083	236,379,651
Completed 97 and before		1,106,760,348
Grand Total		2,481,887,082

Source of information: IMG PIMS Database

Geographical Overview of Credit Lines in BiH as per June 1998

<i>Canton Name</i>	<i>Implementing Agency</i>	<i>Loans</i>	<i>Amount (DM)</i>
1. Unsko-Sanski		64	14 922 969
	BOR BiH	16	5 256 269
	Federal Ministry of Finance	25	4 310 000

	Investment Bank of the F BiH	22	4 448 000
	PIU Local Initiatives Project	1	908 700
10. Zapadnobosanski		13	3 669 429
	BOR BiH	1	207 429
	Federal Ministry of Finance	5	2 120 000
	Investment Bank of the F BiH	7	1 342 000
2. Posavina		8	4 012 979
	BOR BiH	1	1 643 979
	Federal Ministry of Finance	2	1 000 000
	Investment Bank of the F BiH	3	570 000
	PIU Local Initiatives Project	1	449 000
	USAID	1	350 000
3. Tuzlansko-Podrinjski		165	65 577 903

	BOR BiH	18	4 591 015
	Federal Ministry of Finance	20	7 150 000
	Investment Bank of the F BiH	70	12 911 000
	PIU Local Initiatives Project	2	1 794 488
	USAID	55	39 131 400
4. Zenicko-Dobojski		133	41 385 285
	BOR BiH	43	9 445 244
	Federal Ministry of Finance	19	6 785 000
	Investment Bank of the F BiH	39	7 053 692
	PIU Local Initiatives Project	2	947 237
	USAID	30	17 154 112
5. Bosansko-Podrinjski		10	2 330 268
	BOR BiH	5	190 268

	Federal Ministry of Finance	3	1 440 000
	Investment Bank of the F BiH	1	180 000
	PIU Local Initiatives Project	1	520 000
6. Srednjobosanski		102	30 684 922
	BOR BiH	18	2 571 712
	Federal Ministry of Finance	28	7 295 000
	Investment Bank of the F BiH	42	8 268 500
	PIU Local Initiatives Project	1	1 401 000
	USAID	13	11 148 710
7. Hercegovacko- Neretvljanski		82	22 516 195
	BOR BiH	13	2 869 680
	Federal Ministry of Finance	19	7 984 000

	Investment Bank of the F BiH	45	8 074 000
	PIU Local Initiatives Project	2	988 515
	USAID	3	2 600 000
8. Zapadnohercegovački		32	9 687 000
	Federal Ministry of Finance	10	5 200 000
	Investment Bank of the F BiH	22	4 487 000
9. Sarajevo		151	63 782 804
	BOR BiH	44	6 835 942
	Federal Ministry of Finance	20	7 624 000
	IFC	1	8 800 000
	Investment Bank of the F BiH	51	9 662 010
	PIU Local Initiatives Project	3	3 107 733
	USAID	32	27 753 119

<i>All Federation Cantons*</i>		3	1 318 115
	BOR BiH	2	179 729
	PIU Local Initiatives Project	1	1 138 386
<i>Republika Srpska (East)</i>		3	2 515 296
	PIU Local Initiative Project – RS	1	715 296
	USAID	2	1 800 000
<i>Republika Srpska (West)</i>		9	7 578 956
	PIU Local Initiative Project – RS	4	2 978 956
	USAID	5	4 600 000
<i>Grand Total:</i>		775	269 982 121

* Loans in the Federation of which the exact locations are unknown

Source of information: RCM Database Office of the High Representative