OHR: Economic Newsletter, Vol. 1, No. 6, August 1998

Newsletter

Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)

Sarajevo, August 1998, Vol. 1, Issue 6

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)	Mar-98	Apr-98	May-98	Jun-98
Average net wage (DM)	307	324	318	n/a
Retail price growth	10.7%	7.7%	5.6%	4.3%
Cost-of-living growth	9.5%	8.5%	6.1%	3.7%
Real wage growth	11.6%	15.7%	14.9%	n/a
Industrial Production growth	12.4%	26.5%	35.8%	23.7%

(Source: Federation Statistical Institute & OHR Estimates)

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%

(Source: RS Statistical Institute & OHR Estimates)

Price inflation continued to decline in the Federation in June, and growth in the real wage and industrial production remain strong. No new data has been made available for the RS because the RS statistical bulletin is issued only on a quarterly basis. Please refer to the previous newsletter issue for comments on RS economic developments.

(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

Higher Denominations KM in Circulation on 28 July On 28 July, the Central Bank of BiH (CBBH) put the 20, 50, and 100 convertible marka (KM) notes in circulation. The lower denominations of 0.5, 1. 5, and 10 KM were already introduced on 22 June. All notes, except for the 1 KM note in the RS, are now in circulation. The old Bosnian Dinar is no longer a valid means of payment.
In order to solve problems with the convertibility of the KM at commercial banks, the CBBH has issued a clarifying statement that commercial banks are allowed to charge a fee of up to 1% for immediate exchange of KM into DM. Banks are not allowed to charge any fee for conversions that are announced at least 48 hours in advance.

The final step in the introduction of the KM as the new currency for BiH will be to issue coins with a small denomination. The CBBH is currently working on this topic. A release date is not known yet.

Paris Club Debt Negotiations Stalled Negotiations, between a BiH delegation and the Paris Club of sovereign creditors, on 23 and 24 July have not led to an agreement. BiH requested a write-off on its pre-war debt of approximately 85%, whereas the Paris Club was ready to grant a debt reduction of 67%.
After the previous agreement with the commercial creditors in 1997 (London Club), an agreement with the sovereign creditors is essential for future access to international capital markets for BiH.

A date for the next round of negotiations has not been determined yet.

RS and Federation Revenue Performance in 1998 Table 1 below shows the own source revenues projected in the 1998 RS budget and the actual collection for January-June. The last column gives the collected revenues as a percentage of planned revenues over the same period. Table 2 shows the same data for the Federation with the difference that these data cover the period of January-May. The figures show that for the RS, overall revenue collection is on track with what was expected: own-source revenues collected through June equaled 98% of planned budgetary revenues for the period. There is considerable deviance from the planned budget for some revenue components, however. Tax revenues on income, profits, excises, and other sources have substantially underperformed, compared to planned targets, whereas revenues from fees have grown much more rapidly than expected.
For the Federation, revenue performance has fallen significantly short of expectations, primarily due to shortfalls in customs and excise collections. There is an urgent need to improve Federation revenue collection.

Table 1: RS Revenues (million Yugoslav Dinars)			
	1998 Budget (own source)	1-6 1998 Actual Revenues	1-6 Actual as % of 1-6 Planned
TOTAL	1644	807	98%

Sales tax	371	146	79%
Army tax	193	81	84%
Wage tax	150	77	103%
Income tax	47	12	51%
Profit tax	13	4	62%
Excises	84	14	33%
Customs	402	225	112%
Fees	73	116	318%
Fines	9	5	111%
Railway tax	63	35	111%
Other	237	91	77%

Table 2: Federation Revenues (million KM)

	1998 Budget (own source)	1-5 1998 Actual Revenues	1-5 Actual as % of 1-5 Planned
TOTAL	822	254	74%
Customs	390	130	80%
Excises	376	116	74%
Fees	25	4	36%
Fines	6	1	28%
Other	25	14	136%

Problems With Liquidation of National Bank As reported in our issue number 4, the Presidency demanded the liquidation of the Bank, appointed Mr. Dudley as liquidator (7 April) and later (May) agreed on his proposed liquidation plan. An essential part of the liquidation plan is the list of preferences to be followed to pay creditors.

The accepted plan gives priority to non governmental creditors (around 19,800 accounts) and gives last priority to governmental accounts (some 9,000 accounts).

On 16 July, the liquidator gave instruction to the Payment Bureau (ZPP) of the Federation to freeze all deposits placed by the ZPP with the National Bank. Unless the bank ceases to operate, the liquidator cannot initiate the liquidation and start payments according to the list of preference. It is therefore absolutely necessary for the bank to stop all transactions as the first step towards liquidation.

Despite several meetings at the highest level of the Federation including the Prime Minister and his Deputy, the Director of the ZPP disregarded the order of the liquidator and continues to process deposits and withdrawals. After three weeks of unsuccessful negotiations, the OHR has warned the director of the ZPP publicly, that should he continue to disregard the order of the liquidator, the High Representative will use his powers to get the decision of the liquidator implemented.

The OHR emphasizes that the liquidation of the Bank is a prerequisite for the full operation of the newly established CBBH, a precondition for the IMF stand-by agreement and a necessary step towards a proper banking system in the country.

Progress in Implementation of State Budget Both Entities have transferred funds to the bank account of the Common Institutions in the CBBH. Transfers are based on monthly payments of 1,666,666 KM for the Federation and 833,333 KM for the RS. Beneficiaries of the budgets of the Common Institutions have received their first payments last week.
OHR, together with the technical assistance of the US Treasury and other organizations, will continue to make sure that the state budget is implemented according to the Law.

Organization of Public Services

Mostar Airport Operational On 7 July, High Representative Carlos Westendorp, Mostar Mayor Safet Orucevic and his deputy Ivan Prskalo officially opened Mostar airport for civilian traffic. After Sarajevo and Banja Luka, Mostar is the third

airport in BiH to open for regular international air services. The opening was made possible by after the Spanish Government and the European Union made necessary funds available. In 1998 and 1999, the International Community will finance projects that will result in a complete re-equipment of the airport.

As of 14 July, Croatia Airlines has started a regular flight between Mostar and Zagreb. More regular services are expected in a few weeks.

Problems With Bus Lines Between Entities Solved The Minister of Civil Affairs and Communications and his two deputies signed the instruction on the implementation of the decree on inter-entity bus lines. With publication of this document in the Official Gazette of 27 July, guidance for implementation of the decree has been identified, thus removing an obstacle to restarting inter-entity bus traffic. Bus line companies can now start applying for licenses to conduct traffic between the Federation and the RS. Instructions regarding international bus traffic are expected to be developed soon. Regular Train Service in Federation Improves With the new service between Sarajevo and Capljina, rail service in the Federation has been improved, providing increased transport options for the public. Such service also indicates improved cooperation among Federation railways officials. Further expansion of service to Ploce is expected shortly.

Agriculture Update

Sustainable Agriculture Development Strategy The FAO (United Nations Food and Agriculture Organization), at the request of both the RS and the Federation Ministries of Agriculture, Water Management and Forestry, is preparing a medium-term (5 year) strategy for sustainable agricultural development. Preparation of such a strategy began in May 1998 with the formation of two teams of national experts (one for each entity) who prepared a series of background papers.
In July, international experts provided by FAO conducted in-depth reviews and site tours. Seven components of the agriculture sector were addressed – crops, livestock,

agriculture institutions (extension and education), credit and privatization, land use, markets, and agriculture policy. During separate workshops held in each entity, the papers prepared by the national teams were reviewed resulting in a framework for both Entities' strategies. The FAO team will now draft strategy documents for review by the entity governments. The draft strategy will be completed by October 1998.

While separate strategies will be prepared, efforts will seek complementary plans that promote inter-entity trade, joint use of public institutions and consistency of sector level policies. A viable strategy will assist each entity in pursuing funding opportunities that can move agriculture from an aid recipient sector to a sector of economic sustainability.

When the strategy is completed, FAO representatives hope to return to the country to present the strategy to both entities in a joint workshop. International Organizations and Non-Governmental Organizations who are major players in the agriculture sector will be interested in attending.

De-mining of Agriculture Land A FAO directed mission to assist the Government of BiH to prioritize agriculture land for de-mining to humanitarian standards was conducted during June and July 1998. FAO addressed problems that made previous attempts to prioritize de-mining agriculture land problematic.
Over a six-week period, a process was developed and used to evaluate several thousand hectares of high quality land. Fourteen locations of 5-30 hectare plots, for a total of approximately 320 hectares are identified for priority de-mining. Most areas selected lie within the "Zone of Separation."

De-mining of such land will need to begin soon to allow for plowing and planting in the spring of 1999. To de-mine the most urgent priority lands, donor support of approximately US$ 13 million is needed by the BiH Mine Action Center. It is recommended that the prioritization process be continued to

secure future funding for agricultural de-mining, and that donors encourage the Government of BiH to adopt and use standardized criteria for prioritization of all de-mining activity.

BiH FAO Office Funding Funding has been obtained from the Swiss and Netherlands Embassies to keep the FAO project coordination office open until the end of 1998.
(More information on this subject can be obtained from: the OHR Economic Department, Ms. L. Eilks, Tel: 447275)

Office of the High Representative