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Newsletter

Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)

Sarajevo, October 1998, Vol. 1, Issue 8

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)	May-98	June-98	July-98	Aug-98
Average net wage (KM)	318	319	329	n/a
Retail price growth	5.6%	4.3%	3.3%	3.7%
Cost-of-living growth	6.1%	3.7%	2.9%	3.1%
Real wage growth	14.9%	19.2%	19.6	n/a
Industrial Production growth	35.8%	23.7%	40.5%	32.6%

(Source: Federation Statistical Institute & OHR Estimates)

* Growth of indicator from month in 1997 to month in 1998.

Republika Srpska (RS)

Annualized growth rates (excl. net wage)	Mar-98	Apr-98	May-98	June-98
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Average net wage (kM)	147	129	123	128
Retail price growth	12.2%	28.6%	30.4%	35.0%
Cost-of-living growth	14.4%	37.2%	36.7%	36.6%
Real wage growth	150.6%	118.1%	94.1%	106.2%
Industrial Production growth	34.0%	25.5%	29.7%	31.8%

(Source: RS Statistical Institute & OHR Estimates)

Federation economic performance continued to be quite strong through July/August. Price inflation stayed at below 4%, real wage growth remained high, and industrial production continued its strong recovery. No new data is available for the RS.

(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

Liquidation of NBBH Experiencing Continuing Difficulties

The key reform task of liquidating the old National Bank of BiH (NBBH) is proceeding slowly and with great difficulty. The liquidator of the NBBH, whose liquidation plan was approved by BiH's Presidency, ordered a freeze of NBBH assets on 16 July. The Federation Government and Payments Authority (ZPP) were illegally continuing to refuse to freeze the assets of the NBBH through early October. As noted in the August issue, an asset freeze is necessary for the liquidation to be carried out. Liquidation of the NBBH is essential in order to safeguard the functioning of BiH's currency board.

Some progress has been made. Non-governmental depositors whose money had been placed in the NBBH have been paid off at full face value. The OHR and other international organizations will continue to exert all possible pressure on the Federation Government and Payments Authority until the asset freeze ordered by the liquidator of the NBBH is properly effected..

The determination of the Federation Government and Payments Authority to illegally refuse to honor this freeze does not reflect well on their commitment to the development of healthy institutions essential for economic development.

Privatization in the Federation: Government Obeyed OHR Deadline Concerning Reduction of Inflated Military Pay Claims
The Federation Government, on 6 October 1998, reduced to KM 7 billion the total amount of claims for unpaid soldiers of the Army of BiH, the Croat Defense Council and the police. While the OHR is satisfied that a timely solution has been found, the OHR considers that this amount, although lowered by some KM 2 billion, is still somewhat exaggerated, includes unjustified beneficiaries and is a disadvantage to other categories of beneficiaries.

However, OHR respects the decision of the Government of the Federation and trusts that this decision will allow the process of privatization to proceed.

KM Coins Expected in 1998
The High Representative, on 28 September, imposed the design for the coins of the BiH currency, the Konvertibilna Marka (KM). The coins will have values of 10, 20, and 50 Feninga and will be put into circulation before the end of the year. The release of the coins is the second step in the introduction of the KM as the new currency for BiH. Coins of one and two KM will be minted in 1999 and, following their introduction, the corresponding notes will be withdrawn. Overall, the introduction can be considered as a success, but in some areas the use of the currency remains limited. The OHR continues to monitor the acceptance of the KM as the legal tender of BiH and supports the initiatives of the Central Bank in promoting its country-wide use.

Continued Progress in Implementing State Budget

The administrative part of the State budget continues to be correctly implemented as far as transfers from the Entities are concerned. Since June 1998, both Entities have transferred monthly their contribution to the State Budget to a bank account in the Central Bank. Then the Ministry of Civil Affairs and Communications distributes the funds to the beneficiaries included in the Common Institutions of Bosnia

and Herzegovina (Presidency, Parliament, Council of Ministers, Ministries, etc.). Only the Ministry for Foreign Affairs has not implemented the budget, as political difficulties have prevented a final agreement within the Ministry on its internal staff and organisation.

Organization of Public Services

Telecommunications Law In Force On 11 September, the High Representative put the State Telecommunications Law into force on an interim basis, until the BiH Parliamentary Assembly adopts it in due form. The Law was adopted by the Council of Ministers, but the Parliamentary Assembly adjourned consideration of the Law until after the elections. The decision by the High Representative also recognizes the existence of the three operators currently providing services through the fixed public switched network.

The law establishes the Telecommunications Regulatory Agency (TRA), regulates international- and inter-entity communications and the so-called common facilities and lays down basic requirements and procedures for license applications for international and inter-entity telecommunications. Within the next six months the TRA will develop the terms and conditions with which operators must comply in order to obtain an operating license and thereby achieve full legal status.

It is now possible to revise, where necessary, the entity laws on telecommunications to bring them into line with the State law. The OHR intends to have a consistent package of legislation ready by the beginning of next year.

Preparations can now also be made for the establishment of the TRA. The EBRD will continue to provide assistance in this area by drafting an organizational structure for the parties.

Developments in Postal Sector Work is also ongoing in the postal sector. The Universal Postal Union has agreed to host and finance a number of meetings at their headquarters in Bern

to discuss the draft of the State Postal Law. A first draft should be available by the end of October, which would allow parties to meet in Bern in mid November.

Discussions are also ongoing concerning the funding of further work to be carried out in this sector. The main task to be carried out in the near future is a comprehensive assessment study of the postal sector on the basis of which a Master plan for the future development can be drafted.

*(More information on these subjects can be obtained from:
the OHR Economics Department, Mr. E. MacKinlay, Tel:447 275)*

Reconstruction Update

Funding Status in the Housing Sector According to the 4 year Priority Reconstruction Program the external financing requirements for the Housing sector amount to a total of KM 1.2 billion, coming in second only after the Energy sector. As from the end of 1995 until now, app. KM 693 million has been spent on repair and reconstruction of war-damaged residential buildings, excluding private investments (see table). Although no country-wide statistics are kept on the number of houses being repaired, it is estimated that this figure would amount to app. 60 to 65 thousand. This equals to roughly 15% of the total housing stock in BiH being damaged or destroyed.

As shown in the table, the number of dwellings being damaged/destroyed is estimated at 412000 (32% of the 1991 housing stock), out of which 146000 in the RS, 228,000 in the Federation and 38,000 in the ZOS. Multiplied by KM 15,000, the average cost for the repair of one housing unit, total costs for complete rehabilitation would equal KM 6.1 billion.

Hence, it can be concluded that the international community has so far financed app. 11% of the total funding requirements for bringing the housing stock back to its pre-war level, leaving a funding gap of KM 5.4 billion*. Although it was never anticipated that the IC would provide the financial means for a complete rehabilitation of the housing stock in BiH (which is neither the case in any other sector), this

figure gives a clear indication what remains to be done.

[* The actual funding gap is somewhat inflated since data on donor funding prior to 1995 as well as private investments are not available and therefore not taken into account].

(Source of information: IMG Housing Unit)

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[Donor aid as per 1 October 1998](#) (59kB) | [War Damaged Residential Buildings in BiH](#) (30kB)

Office of the High Representative