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Newsletter

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

Sarajevo, March, Vol. 3, Issue 2

**Economic Task Force Secretariat**
**OHR in co-operation with IMG International Management Group**

## Economic Indicators

**Bosnia and Herzegovina (BiH)**

| | Dec-98 | Jan-99 | Feb-99 | Mar-99 |
|---|---|---|---|---|
| Unemployment (persons) | 398639 | 401775 | 404940 | 407859 |
| Net wage (KM) | 330 | 335 | 337 | 329 |

**Federation of BiH**

| | Oct-99 | Nov-99 | Dec-99 | Jan-00 |
|---|---|---|---|---|
| Unemployment (persons) | 264934 | 265453 | 261793 | |
| Employment (persons) | 408167 | 408711 | 410104 | |
| Unemployment ratio (1) | 43.5% | 43.5% | 42.4% | |
| Net wage (KM) | 375 | 382 | 386 | |
| Retail price growth | -0.5% | 0.2% | 0.5% | 0.4% |

| | | | | |
|---|---|---|---|---|
| – annual growth (2) | -0.9% | -0.9% | -1.0% | -1.1% |
| Industrial prod growth | 8.3% | -1.0% | 0.3% | -8.2% |
| – annual growth (2) | 15.3% | 16.3% | 9.1% | 21.9% |
| Sales to RS (KM million) | 7.9 | 11.5 | 4.9 | 3.3 |

**Republika Srpska (RS)**

| | Sep-99 | Oct-99 | Nov-99 | Dec-99 |
|---|---|---|---|---|
| Unemployment (persons) | To be revised | | | |
| Employment (persons) | To be revised | | | |
| Unemployment ratio (1) | To be revised | | | |
| Net wage (KM) | 221 | 211 | 230 | 272 |
| Retail price growth | 0.6% | 3.3% | 0.9% | 0.4% |
| – annual growth (2) | 11.2% | 15.7% | 15.0% | 14.0% |
| Industrial prod growth | 20.6% | -3.6% | -17.3% | 19.9% |
| – annual growth (2) | 11.1% | 0.6% | -17.6% | -7.3% |
| Sales to FBiH (KM million) | 3.8 | 4.9 | 6.6 | 3.3 |

Sources: BiH Agency of Statistics, Federation Statistical Institute and RS Statistical Institute. Growth figures are over one month, unless indicated otherwise. Inflation in KM prices.

(1) Number of unemployed over employed plus unemployed,

excludes waiting list (53 912 persons in December 1999) and gray economy; (2) Annual figure, month this year over month previous year.

## Economic Policy and Reform

IMF Declines Review of BiH□□s Stand-By Arrangement
On March 8, the Executive Board of the IMF considered Bos-nia and Herzegovina's annual Article IV consultation but IMF Management had withdrawn its recommendation to complete the second review under the Stand-By Arrangement due mainly to the Federation's failure to implement prior actions. These include bringing the 2000 budget in line with the agreement reached with the IMF, particularly transfers to the State for administrative expenses and external debt charges in a manner that is consistent with the State Budget. In addition, the Federation should pass the law on excise taxes on ciga-rettes and remove various exemptions on sales taxes. The Re-publika Srpska needs to adopt permanent legislation on excise tax harmonization with the Federation. Both Entities should also become current on their transfers to the State for adminis-trative expenses.

If the Entities take the steps to implement these measures by March 17, the IMF would consider the review of the Agreement and the program would be on-track within a few weeks, allowing BiH to draw about US$15 million. Failure to complete the review would have grave consequences for donor support and foreign direct investment.

The International Community shares the IMF's concern over the delays by the Entities in implementing agreed meas-ures, particularly the Federation. In June 1999, to alleviate the impact of the Kosovo crisis, the IMF provided an augmenta-tion of US$23 million to BiH's Stand-By Arrangement, originally approved for nearly US$81 million in May 1998. The IMF has already disbursed US$72 million..

## Possible Revisions to 1999 GDP Growth

In its BiH Economic Update, released on February 25, USAID estimated that real GDP growth in 1999 would be revised down between 5 percent and 8 percent. In 1998, for an increase of 1 percent in industrial production index coincided with approximately 0.8 percent growth in GDP. This has data led to this revision of previous estimates. In the Federation and in the Republika Srpska, industrial production in 1999 registered at 10.6 percent and 1.6 percent respectively. While the Kosovo conflict had repercussions on the BiH economy, the of delays in the restructuring of the socially owned enter-prises was more significant. According to USAID□□s data, a small group of such companies (approximately 50) is respon-sible for the major share of losses.

In 1999, the Federation witnessed increases in industrial production in tobacco, pulp and paper, chemicals, rubber and basic materials. Sectors where the Federation is believed to have comparative advantage experienced negative performance. These included construction, transport, coal mining, textiles, apparel and machinery. There were similar patterns in the Re-publika Srpska with decreases in food processing, textiles, apparel, finished wood products and machinery. Significant increases were registered in construction, electric power and forestry production. Forecast of real GDP growth for BiH in 2000 varies between 7 percent and 14 percent.

## KM in Czech Republic and Slovakia

On March 1, the Konvertible Marka marked another important step in its trading in Europe, as it became available in the Czech Republic and Slovakia through Ceskoslovenka Ob-chodni Banka, Bank Austria Czech Republic and Volksbank Brno. This is expected to help foster further growth in eco-nomic partnership with the two countries.

The KM could be traded in eight European countries: Aus-tria, Croatia, Czech Republic, Germany, Hungary, Slovakia, Slovenia and Switzerland. The Central Bank of Bosnia and Herzegovina is

negotiating with Turkey for trading of the KM there. The KM is a pillar of the single economic space and an important part of macroeconomic stability.

Update on Anti-Corruption Activities *BiH Conference on Anti Corruption and Transparency*
More than 200 participants from all levels of government, media, civil society, international agencies and NGOs attended the conference on Anti-Corruption and Transparency Confer-ence held on 14 February. Attendees unanimously endorsed the strengthening of the rule of law in Bosnia and Herzegovina and guiding those involved in the fight against fraud and cor-ruption. The conclusions from this conference called for a de-tailed action plan:

- Take concrete steps to demonstrate political will to fight fraud and corruption, and support transparency and ac-countability;
- BiH should adopt and implement the Council of Europe□□s Conventions on Corruption;
- Harmonize laws at each level of government to advance fight against corruption and transparency;
- Non-governmental institutions and individuals in civil society should become active partners to promote trans-parency and anti-corruption efforts;
- Implement and abide by certain fundamental principles including selflessness, integrity, objectivity, accountabil-ity, openness, honesty and leadership.

*OHR Welcomes the Signing of Conventions on Corruption*

On March 1, BiH Foreign Minister, Jadranko Prlic, signed two Conventions of the Council of Europe – Criminal Law Convention on Corruption and Civil Law Convention on Corruption. These conventions oblige the countries that have signed them, to introduce legal measures in civil and criminal law that sanction the offense of corruption. This action dem-onstrates a positive step in establishing the political will to take

concrete steps to fight fraud and corruption and to support transparency and accountability.

*OHR Launches Anti-Corruption Public Awareness Campaign*

Drawing on real-life experiences, the Office of the High Repre-sentative, in conjunction with the Center for Contemporary Art in Sarajevo, designed and launched the first phase of the Anti-Corruption Public Awareness Campaign. The campaign is targeted to educate the public about the types of corruption that are dominant in Bosnia and Herzegovina and their detri-mental cost to society.

The first phase of the campaign includes a series of elec-tronic and print media announcements that cover a wide array of issues: abuse of public office and public contracts, tax eva-sion, and the lack of government transparency. The second phase of the campaign will educate citizens on exerting their rights.

*Second Visit from Transparency International*

To proceed with the establishment of a BiH Chapter, represen-tatives from Transparency International visited Bosnia and Herzegovina for the second time and met with key individuals to strengthen the contacts gained during the first visit. Trans-parency International is a non-governmental organization dedi-cated to increasing governmental accountability and curbing corruption.

Canton Seven Privatization Agency Unified
Following the resolve of two long-pending issues  a joint account and seal of the Herzegovina-Neretva Cantonal Privati-zation Agency  the privatization process started in the Herze-govina-Neretva Canton. The first auctions of enterprises were held in early March.

The Agency is expected to relocate to the newly con-structed Federation Government building.

Agreement Reached on Central Zone of Mostar
On March 3, representatives of the Herzegovina-Neretva Can-ton and City authorities signed an Agreement on two key is-sues related to the Central Zone – the Court for the Central Zone and Collection of revenues by the City Administration.

The Central Zone was established by the former EU Ad-ministrator, Hans Koschnick in February 1996 and endorsed by the High Representative and the Federation Constitutional Court. The Central Zone has been a significant test of rela-tions between Bosniacs and Croats as it forced the parties in Mostar to administer the City in a joint and unified way.

By this Agreement, the two parties undertook the obliga-tion to find practical solutions to the temporary financing of the City Administration until the adoption of the Law on Lo-cal Self-government and the Law on Allocation of Public Revenues. The Central Zone is under the exclusive compe-tence of the City Administration. For financing of the City Administration, revenues belonging to the City of Mostar would flow to a single account. The parties agreed that the City Council of the City of Mostar would adopt a decision on the collection of non-tax revenues from the territory of the Central Zone. They also agreed that the Cantonal Government would pass a temporary decision to regulate the proportion of the public revenues for an automatic allocation to the City Administration.

## Organization of Public Services

Commission on Public Corporations
At its second meeting on February 14, Ambassador Ralph R. Johnson, Chairman of the CPC, emphasized the importance of infrastructure and utility throughout BiH and noted that es-tablishing joint public corporations cannot be an isolated ac-tivity. It is critical to create an enabling environment and a level playing field to promote efficient use of assets, competi-tion, and investment. The Commission reviewed progress

of the working groups in transportation, posts, and natural gas.

The Management Board of the Railway Public Corpora-tion (BHZJK) presented a brief on current activities and man-agement issues. Commission members agreed to assist BHZJK in resolving various issues including legal, financial and administrative matters as well as links with neighboring railway systems

Transportation and Telecommunications
*Road Infrastructure Public Corporation Established*

On March 3, the Entity authorities signed the agreement on BiH Road Infrastructure Public Corporation (BRIC). The BRIC would enable institutionalized cooperation, advance joint planning and expedite the implementation of urgent road improvement projects between the two Entities in an attempt to develop a quality road network across Bosnia and Herzego-vina.

A particular focus will be the major European corridors traversing BiH and an immediate priority will be the re-moval of major traffic bottlenecks and safety hazards. Other activities would include harmonization and upgrading of technical standards, implementation of road maintenance and coordination of public tenders. BRIC will work closely with the existing Entity Directorates of Roads.

BRIC□□s management structure will be similar to the Rail-way Public Corporation with a tripartite Management Board and a 12-member Board of Directors for corporate control and strategic direction. Six of the Directors will represent road user groups. The seat of BRIC will be in Banja Luka. The agree-ment also envisages the formation of regional Consultative Committees for road infrastructure initiatives to ensure input from BiH authorities at all levels. A high quality, economi-cally sustainable highway network would facilitate the single economic space and BiH□□s connection

with the rest of Europe.

In addition to the Railway Public Corporation, BRIC is the second public corporation under Annex 9 of the Dayton Peace Agreement.

*Transportation Master Plan*

Pacific Consultants International of Tokyo is developing an integrated, multi-modal Transportation Master Plan for BiH. In a series of seminars, they have outlined their initial research findings, including relevant socio-economic and demographic factors. The next step will involve establishing realistic growth scenarios for BiH.

*Railways*

The two railway operators, ZBH and ZRS, are in the process of implementing Agreements and Protocols signed in 1999 with the assistance of the UIC (Union Internationale des Chemins de Fer) and OHR, regarding international railway debt obligations and the partition of rolling stock. Settling these outstanding issues are preconditions of joining the European railway system.

*Telecommunications*

On February 24, the Telecommunications Regulatory Agency (TRA) received its first mobile monitoring station, donated by the International Telecommunications Union (ITU). This sophisticated equipment will greatly enhance the ability of the Agency to carry out its task of controlling the frequency spectrum of Bosnia and Herzegovina. The TRA also signed a normalization agreement with the SFOR Theater Frequency Management Group, which al-lows for the return under civilian authority of certain fre-quencies.

*Posts*

The Working Group on a Postal Public Corporation agreed to

engage an independent international consultant to carry out a feasibility study of options for a BiH-wide postal corporation to incorporate all postal services. In addition, a Postal Master Plan would focus on the challenges of the evolving competitive environment. The separation of postal services from telecommunications in the Federation PTT, targeted for mid-2000, is a significant next step of reform. Separate accounts with the PTT were established in January 2000.

*Ports*

With support from the US-Trade Development Agency, Par-sons-Brinkerhoff is completing an economic feasibility study of the Port of Brcko. The Sava River ports have remained vir-tually non-functional with limited navigation capacity. The CPC Working Group on Transportation would review the po-tential for creating an inter-entity Port Development Corpora-tion. Such an institution would promote the use of a low-cost water transportation mode, represent BiH interests in port ca-pacity, deal with port/hinterland network issues and provide guidance to port investment planning. Its mandate would in-clude monitoring the water transportation system in the region and, where beneficial, establish links.

Energy
*Electricity*

Agra and Monenco-Teshmont of Canada have completed a feasibility study to evaluate priorities and the sequence of re-construction implementation for high-voltage transmission components to be funded by the World Bank Power III Re-construction Project. Before receiving funding, Elektroprivre-das will be required to meet several conditions set forth by the World Bank. Meanwhile, Electrotek Concepts, under the guidance of the Joint Power Co-ordination Centre (JPCC) is developing the technical specifications and cost estimate for the required SCADA system. The study is financed by the US Trade Development Agency.

*Natural Gas*

With increased industrial activity, consumption of gas is expected to increase. To meet growing demand, transportation, storage and distribution systems must be upgraded and expanded. The new CPC Gas Sector Working Group has re-viewed the findings of NERA Consultants and concurs that an efficient gas sector in BiH requires privatization and the estab-lishment of a legal and regulatory framework that encourages a competitive market. Industry□□s firms need to be divided into three groups: supply, transmission (including storage) and distribution. Property rights must be clearly established. The study recommends a regulatory framework that encompasses gas and electricity sectors. There is also a need for inter-Entity coordination.

## Reconstruction Update

Please see separate table.
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Information on economic data and trends in BiH are also available on the USAID web site: http://www.usaid.ba/

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