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Newsletter

Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)

Sarajevo, April, Vol. 3, Issue 3

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

	Nov-99	Dec-99	Jan-00	Feb-00
Unemployment (persons)	265453	261793	263082	
Employment (persons)	408711	410104	411020	
Unemployment ratio (1)	43.5%	42.4%	42.5%	
Net wage (KM)	382	386	381	
Retail price growth	0.2%	0.5%	0.4%	0.8%

– annual growth (2)	-0.9%	-1.0%	-1.1%	-0.3%
Industrial prod growth	-1.0%	0.3%	-8.2%	-0.6%
– annual growth (2)	16.3%	9.1%	21.9%	19.9%
Sales to RS (KM million)	11.5	9.4(3)	3.3	6.8

Republika Srpska (RS)

	Nov-99	Dec-99	Jan-00	Feb-00
Unemployment (persons)	To be revised			
Employment (persons)	To be revised			
Unemployment ratio (1)	To be revised			
Net wage (KM)	230	272	222	237
Retail price growth	0.9%	0.4%	1.0%	2.6%
– annual growth (2)	15.0%	14.0%	10.8%	14.1%
Industrial prod growth	-17.3%	19.9%		
– annual growth (2)	-17.6%	-7.3%		
Sales to FBiH (KM million)	6.6	4.1(3)	3.2	2.0

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.

(3) Figures revised by the Federation Agency of Statistics, compared to the previous issue.

Economic Policy and Reform

PIC Steering Board Endorses Economic Strategy

The PIC Steering Board met at the level of Political Directors with the High Representative in Sarajevo on April 4. Preceding the meeting, BiH Minister for Foreign Trade and Economic Relations, Mirsad Kurtovic, Federation Minister of Finance, Dragan Covic, and RS Minister of Finance, Novak Kondic briefed the Steering Board on the progress of economic reform. Members of the Steering Board expressed concern at the Bosnian authorities' failure to move decisively on corruption, deregulation and measures to attract foreign investment. They warned that Bosnia and Herzegovina faced a rapidly escalating economic crisis if urgent reforms were not taken in these and other areas. The Steering Board urged the citizens of Bosnia and Herzegovina to vote for a change in the Municipal Elections on April 8 and demand a leadership, which will take charge of the country's economic destiny.

The Steering Board endorsed the High Representative's strategy to proceed with economic revitalization, intensify the struggle against corruption, strengthen the single economic space to promote barrier-free internal trade, and foster an external trade regime so that Bosnia and Herzegovina can secure its place in the region. The Steering Board urged the ministers to follow through on their commitment to harmonize banking legislation and regulations between the Entities as this will further reinforce the single economic space and promote a free flow of capital.

The Steering Board made it unequivocally clear that each privatization initiative should hinge on two fundamental

considerations so that the citizens can benefit from the sale of assets of socially-owned companies: achieving the optimum value; and ensuring that the purchaser has the capacity to effectively manage the enterprise. The Steering Board called upon the High Representative to coordinate the international community's initiatives through the Economic Task Force and propose specific courses of action to improve future privatization transactions before the next Steering Board meeting. The Steering Board affirmed that the High Representative should use his full powers to remove obstacles that choke economic growth and deprive the citizens of jobs and a fruitful economic life.

IMF Completes Reviews of Stand-By Arrangement

On March 30, the IMF completed the second and third reviews of the Stand-By and made available nearly US\$15 million immediately, extended the Stand-By by to March 2001, and approved an augmentation of nearly US\$23 million. With augmentation, the original Stand-By of about US\$104 million will amount to nearly US\$127 million.

On March 8, the Executive Board of the IMF had considered BiH's annual Article IV consultation but IMF management had withdrawn its recommendation to complete the review under the Stand-By Arrangement, due mainly to the Federation's failure to satisfy prior actions. These included bringing the Federation budget for 2000 in line with the agreement reached with the IMF concerning transfers to the State for administrative expenses and payment for external debt charges. In addition, the Federation needed to harmonize the law on excise taxes and remove various exemptions on sales taxes. The Federation has completed these steps while it is expected that during the next National Assembly, Republika Srpska will adopt permanent legislation to harmonize excise taxes with the Federation (further details are available in the March Economic Newsletter).

State Auditors Appointed

The International Community welcomed the appointments of the auditors for the State of Bosnia and Herzegovina by the Parliamentary Assembly on April 13. Establishing audit institutions, as an independent system of auditing financial activities of all levels of government, is one of the principal elements of institutional reform of Bosnia and Herzegovina. However, there is continuing concern with the slow progress in appointing auditors in the Entities and the consequences for the management of finances of these governments.

Government at all levels in Bosnia and Herzegovina must be accountable to its citizens and taxpayers. Independent auditing promotes transparent budgets, public accountability and good governance, which is of the highest importance for the development of a market economy and democracy as well as the establishment of conditions conducive to investment and business.

Appointments of auditors at all levels of government are a precondition for the second installment of the World Bank's Public Finance Structural Adjustment Credit II. These appointments are also a prerequisite for long-term institutional support by the Swedish International Development Agency and the Swedish National Audit Office to the audit institutions in Bosnia and Herzegovina.

The Peace Implementation Council in its Madrid Declaration of December 1998, recommended the creation of a Supreme Audit Institution to strengthen the Common Institutions, enhance the management of public finances and ensure transparency.

Update on Elimination of Payment Bureaus Various Working Groups for the transformation functions of the Payment Bureaus to the institutions at the State and both Entities are being established. One of the aspects is the need for resources – both staff and equipment – of the receiving institutions.

The financial verification of the assets of the Payment Bureaus has been completed, and the final report on the audits

is expected to be completed in mid-April. One of the preliminary conclusions of the auditors is that neither the ZPP (Bosniak) nor the ZAP (Croat) reveal large anomalies, while in SPP (Serb) some items recorded in the balance sheets, will have to be written off. In early April, a tender announcement for the establishment of a clearing-house was published in various international newspapers. The purpose of the clearing system is to handle all transactions and reduce the risks for banks performing these tasks.

BiH External Trade

Recent data from the RS Customs Administration and the Federation Statistical Institute show that in 1999, Bosnia and Herzegovina imported more than four times than it exported (see Table 1).

Table 1
1999 BiH Trade (KM million)

	BiH	Federation	RS
Total exports	1,375	950	425
Total imports	6,047	4,458	1,589
Imports/Exports	23%	21%	27%

Exports from BiH in 1999 amounted to nearly KM 1.4 billion or, 23 percent of imports KM 6 billion and the trade deficit was over KM 4.6 billion. The main exports were to Italy, Federal Republic of Yugoslavia, Croatia and Germany.

Table 2
1999 Exports from BiH (KM million)

	Italy	FRY	Croatia	Germany	Other	Total
BiH	270	244	202	144	515	1,375
Fed.	199	60	195	124	372	950
RS	71	184	7	20	143	425

As shown in Table 3 below, Croatia, Italy, Slovenia and Germany were the principal sources of imports. Details of the

Other category were as follows: FRY – KM 384 million (Federation: 17, RS: 367); Hungary – KM 296 million (Federation: 175, RS: 121); Austria – KM 289 million (Federation: 198, RS: 91). Imports from Rest of the World amounted to KM 1,692 million and countries within Europe, USA and Japan were the main trading partners in this group.

Table 3
1999 Imports to BiH (KM million)

	Croatia	Italy	Slovenia	Germany	Other	Total
BiH	1,020	979	753	634	2,661	6,047
Fed.	964	827	577	556	1,534	4,458
RS	56	152	176	78	1,127	1,589

Compared to 1998, exports in 1999 from BiH and the Federation grew by 32 percent and 54 percent respectively, whereas RS exports remained at the 1998 level although there was a strong recovery in the second half of 1999, following the Kosovo crisis. Exports from the Federation mainly consisted of textiles, wood and base metals.

Additional Import Duties Extended

On March 31, the High Representative issued a decree extending the validity of the Additional Import Duties levied on certain items imported to Bosnia and Herzegovina. This extension was granted to June 30, 2000.

These Duties are applied to predominately agricultural items and fall outside of the normal tariffs for BiH. These Duties will have to be eventually regularized into the normal tariff structure, and it is the view of the Ministry of Foreign and Economic Relations of BiH that a plan to achieve this will be promulgated over the coming months. A key factor in the regularization will be the necessity to ensure that the proposed changes result in a revenue-neutral impact.

Between March 1, 1999 and February 29, 2000, revenues from the Additional Import Duties amounted to KM 79 million for the

Federation and KM 43.3 million for the RS or, KM 122.3 million for the entire territory of BiH. For the same period, import tariffs in the Federation and the RS amounted to KM 244 million and about KM 85 million respectively.

Update on Anti-Corruption Activities First verdicts in Tuzla Fraud and Corruption Cases

Vigorous efforts of the OHR Anti-Fraud and United Nations Judicial System Assistance Support Programme in the Tuzla canton has led to verdicts for the former Prime Minister, Hazim Vikalo (imprisonment of two years and two months) and other members of his administration, including the former Minister of Finance, Halid Kovac. The OHR Anti-Fraud Unit worked on this case for more than year. To advance the judicial process forward, it was compelled to remove four prosecutors and the cantonal Minister of Interior.

Public Awareness Campaign

The first phase the anti-corruption campaign publicized between February 14-17 has resonated well with the public frustration caused by a widespread corruption and the lack of progress in fighting fraud and corruption. It was evident that the public is tired of the current situation and ready for changes. The second segment of the campaign will build on the effects of the first phase.

Seminar in Romania

As a part of the OHR's Anti-Fraud Unit's ongoing anti-corruption efforts in implementing the Comprehensive Anti-Corruption Strategy, BiH delegation participated in the Council of Europe's seminar on Corporate Criminal Liability held in Romania, March 1-3.

The alarming increase in economic crimes committed by legal entities in transition countries has led to calls for urgent action. The seminar assessed the existing legislation and sanction tools, resulting in recommendations on further steps

to enhance and adhere to international instruments. BiH recommendations focused on strengthening the existing measures against legal entities and introducing legislation that regulates behavior of responsible individuals such as conflict of interest, code of ethics, and financial disclosure for public officials.

Anti-Corruption Strategy of the Federation of BiH

The Federation Government of Bosnia and Herzegovina created an Anti-Corruption Strategy outlining priorities and an action plan for 2000, encompassing reform requirements of the OHR's Comprehensive Anti-Corruption Strategy and the Stability Pact's anti-corruption initiative. In the document, the Federation government commits itself to collaborate with the OHR and other international agencies in drafting anti-corruption laws, as well as to work jointly on other anti-corruption projects.

The document also supports judicial and law enforcement reform, institutional capacity building, the establishment of a Parliamentary Anti-Corruption Commission, an Anti-Corruption team within the Federation Prosecutor Office, and a Transparency Office to review all proposed legislation and regulations to insure full transparency.

Stability Pact Representatives Visit Bosnia and Herzegovina

Members of the Stability Pact's Anti-Corruption Initiative Managing Committee visited Sarajevo on March 22-23. They met with representatives of the International Community and members of the local authorities, to discuss progress in the implementation of the Stability Pact anti-corruption initiative's initial goals set at the Sarajevo meeting on February 15-16, and to identify a BiH liaison officer to report to the Stability Pact on corruption issues.

BiH Minister of Foreign Affairs, Jadranko Prlic, confirmed the full commitment of Bosnia and Herzegovina to the Anti-

Corruption Initiative, and appointed Nedžad Hadžimusić as the BiH liaison officer. As an illustration of this commitment, BiH had acceded to the International Criminal Law Convention on Corruption in February.

Organization of Public Services

Telephone Numbering Plan Adopted

On March 14, the Management Board of the Telecommunications Regulatory Agency adopted a regulation concerning the Telephone Numbering Plan for Bosnia and Herzegovina. The plan is a major step forward in creating a modern and efficient telecommunications sector as it establishes uniform dialing in the whole territory of BiH.

Implementation will begin on May 14, when all areas will have a unique area code. The new numbering plan consists of a 2-digit area code with a 6-digit subscriber number, similar to the current practice. Current 5-digit numbers will be extended to 6-digit numbers. In addition, the rearrangement of the areas covered by the new area codes means that some subscribers would need to change their number.

On 1 July 2002, the Numbering Plan will become "closed". It will have no effect on the numbers already in use but require dialing both the area code and the subscriber's number, both for local as well as inter-area calls. This would allow for efficient use of the numbering space.

Callers will be informed of changes, and there will be a transitional period when the old numbers will still be in use in parallel to the new numbers to prevent inconvenience or loss in telephone traffic. The old numbers will be gradually phased out and an automatic announcement would remind callers of the changes.

Reconstruction Update

Please see attached [table](#) and also refer to the website of the [International management Group](#).

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Information on economic data and trends in BiH are also available on the USAID web site: <http://www.usaid.ba/>

Office of the High Representative