

# Newsletter

Vol. 5 Issue 3  
October 2002

## Economic Reform and Reconstruction Bosnia and Herzegovina

### Contents

1. Reform Agenda
2. Tax and Budget
3. Recent RS Developments
4. Tourism Development
5. Agricultural Commercialization
6. Veterinary
7. Health
8. Transport
9. Electricity Sector
10. Telecommunication
11. Privatization
12. Banking
13. Law on Land Registry
14. BiH Economic Data

### Jobs and Justice –

New compact between Government and the People of BiH

On July 30<sup>th</sup> the State and Entity Governments of BiH unveiled their Economic Reform Agenda that for the first time clearly articulates the specific reforms and initiatives necessary to put the country on the path to prosperity and integration into Europe. In detailing specific actions, it derives from and is consistent with the BiH Government's agreements with the international community and with the General Framework Agreement on Peace (Dayton). The Peace Implementation Council strongly endorsed this Reform Agenda on the 31<sup>st</sup> of July.

The Agenda itself is a product of close cooperation between the authorities of BiH and the International Community. It sets out the main targets for economic reform in line with similar targets set for other major efforts such as the Rule of Law and Refugee Return. It was written in layman's terms, listing the different economic constraints that BiH currently faces and which the authorities recognize need to be overcome.

Job creation is the overriding objective of the future economic policy agenda. Hence, it is envisaged that by creating the optimal conditions for private entrepreneurship and investment some 60,000 new, private sector jobs will be created by the end of 2004. The concrete means of achieving this target were set out in two main sections of the paper: the economic

This Newsletter is published under the authority of Lord Paddy Ashdown, High Representative.  
Editor in Chief: Patrice Dreiski, Deputy High Representative and Head of the Economic Department, OHR;  
Managing Editor: Almira Kulagic, Economic Department, OHR;  
Design: Samir Mujkovic, Resources Department, ICT section, OHR.

For any further questions and explanations, please contact:  
[economic.newsletter@ohr.int](mailto:economic.newsletter@ohr.int)

pledges to the people and a specific legislative guide for the realization of these pledges. The legislative guide details the laws and reform initiatives that are required for the achievement of each pledge, which include such objectives as improving the business environment, making government more efficient, creating a single economic space, modernizing public services, ensuring a better social safety net to include accessible health care and assistance to the unemployed.

Thus far it is difficult to gauge precisely how much progress the BiH authorities have made in fulfilling their pledges, particularly due to the traditional late summer parliamentary hiatus and the focus on the election campaign. However, some positive moves in the right direction have taken, especially in terms of legislation passed, including the State Veterinary Law, amendments to the Civil Aviation Law, and the Electricity Laws. Similarly, progress was made in the issues affecting the creation of the single economic space: an excise tax allocation mechanism was established and efforts are under way to make it work smoothly so as to avoid the scourge of double taxation that hampers any chances of sustained investment drive and, ultimately, economic growth itself.

Nevertheless, obstacles still exist and the outlook is not assured. For example, reform of the land ownership registry and laws that were meant to restore confidence in ownership and investment failed to gain final legislative approval, and the satisfactory performance of the Federation Pension Fund has been undermined by the Federation Government's decision to impose onerous financial obligations on that fund. Failure of the entity and state level governments to exercise strong leadership could threaten the future efforts to complete the remaining parts of the Agenda, and the results of the upcoming election could well be decisive in taking the necessary steps to move the reform and restructuring process forward and make the country an economic model for the region.

## Tax Policy and Budgets

### VAT Position of the Economic Task Force (ETF) and IMF Mission of September 2002

**A**t the end of July, the ETF endorsed the International Advisory Group Taxation (IAG-T) VAT position paper previously adopted by a majority position of the IAG-T. This position states that:

The level of operation of VAT should be at the State level (one fiscal jurisdiction);

The issue of revenue allocation, especially with regard to allocating the State government VAT revenue is a separate issue from the operational level of the tax;

One Statewide administration should administer the VAT.

In September, the IAG-T convened an extraordinary meeting to discuss the VAT position paper with the IMF Mission to BiH. The conclusion was that the unified IC position supports the introduction of a State Level VAT, assuming all political and implementational obstacles are overcome.

### Contribution by Brcko to the State Institutions' Budget

Over the summer months, a significant amount of concern was expressed by the IC about the apparent funding gap in the State Institutions / State Level Budget for the State Border Service (SBS). This arose due to the State Budget erroneously reflecting KM 11.5 million in revenues for the SBS from the European Union.

As a result of this concern, OHR Fiscal Affairs and Policy experts explored with the Council of Ministers options and possibilities for closing this revenue gap. In addition to reallocation of revenues inside the State Budget and looking for additional cost savings, it was agreed that a contribution from the Brcko District should be seriously explored. Although the absolute amount for 2002 has yet to be determined and the ongoing formula / methodology for 2003 and beyond has not been concluded, the Brcko District is soon to have a formal relationship (including fiscal matters) with the State Institutions.

### Excise Allocation Mechanism

On 9 August, the High Representative opened a special meeting convened to address start up/"teething" problems of the excise allocation mechanism which officially became effective in mid July. The meeting was attended by Ministers of Finance, Heads of Tax and Customs Administrations from the Entities and Brcko.

The mechanism appears to be partially working but a number of issues remain to be resolved, including appropriate issuance of licenses to conduct inter entity trade and other solutions that have been adopted to avoid double excise taxation.

### Road Fee

The media and politicians have recently focused considerable attention on the issue of the road fee (called the Special Republican Fee in the RS). This fee (which is in effect a type of indirect tax) until recently

amounted to KM 0.15 per liter of motor fuel in the entities and has not ever been levied in the Brcko District. As a result of political pressure in the RS, the RS government announced it would abolish this "fee" as it was damaging its oil distribution industry.

The steps announced by the RS government, if enacted, would violate the recently agreed IMF Standby Arrangement for BiH. It should also be noted that the petrol / gas price differential between the Federation and the RS would appear to be considerably greater than KM 0.15 (road fee amount) and currently, both entities apply the same types and levels of taxes to such products. Thus, factors other than taxation would also appear to impact price levels in BiH.

### Improved Tax Collections

In the third quarter of this year, tax collections (particularly sales tax on tobacco) have seen marked increases. In the case of tobacco, this change has occurred as tobacco importers and manufactures have been required to pay both excise tax and sales tax upon import or manufacture. Previously, only excise was paid at this point with sales tax being paid only at the final point of consumer purchase (which is subject to major evasion).

Interestingly, with regard to the Federation where sales tax revenues belong to the Cantons, initial political opposition to this change sprung from the fact that some Cantons would lose out as the allocation of sales tax would not be based on actual place of final sale but instead is based on an allocation formula or key. The actual result however has been that **all** Cantons have benefited from this change.

Similar arguments will be made with regard to necessary customs restructuring and why VAT should operate at the State level. More revenues collected means more money for all relevant governments and institutions.

## Recent RS Developments

**T**he *September's RS National Assembly* (RSNA) adopted the following major economic topics:

The RSNA passed modern *Laws on Bankruptcy and on Liquidation* based on a drafts that a BiH wide Working Group suggested within a project of the German leading implementation agency "Gesellschaft fuer Technische Zusammenarbeit" (GTZ). The Law on Bankruptcy aims at restructuring companies with a view to keep viable parts alive whilst residual parts need to be liquidated. We expect that these laws contribute to

the process of adopting the existing company structures to market requirements.

The *RS Law on Elektroprivreda (Electric Power Industry of Republika Srpska)* enables restructuring and privatization of the state-owned capital; however, an adopted RSNA conclusion limits the stake to be privatized to 49%. The passage of the law is a World Bank conditionality for the so-called Power III project that channels up to 230 mln of favorable loans from different institutions (leading agency the World Bank) to BiH.

The *Law on Budgetary Systems* enables implementation of the treasury system on the municipal level and it defines revenue sharing mechanisms between the RS and municipalities. A compromise between the municipal and the RS level has been reached within a transparent parliamentary procedure that the municipal own-source revenues will be collected on the municipal accounts and the revenues, which are shared between the RS and municipalities will be directed through the single treasury account. The International Monetary Fund required the passage of this law that is an important first step in the direction of more transparency in public spending.

The International Community has generally agreed on the need to strengthen new (production-oriented) businesses within BiH. The RS has passed a *Law in favor of Small- and Medium-sized Enterprises* (number of employees up to 250, implementation of a supporting fund, etc.), according to the adopted Economic Strategy from March 2001.

The RSNA adopted *amendments to the proposed Law on Privatization of Enterprises* and the draft *Law on Shareholder Funds* that raised criticism by the International Advisory Group on Privatization. The implementation of the amendments to the Law on Privatization of Companies needs close monitoring; particularly, it cannot be excluded that the privatization of companies in certain prime sectors such as energy and telecom will become more difficult. The Law on Shareholder Funds needs to be changed on crucial points such as the issue on the need to maintain the voting rights for shares that the RS owns in state-owned companies in order to improve corporate governance. However, the RS has managed to privatize fully more than 350 companies or roughly one third of all state-owned companies; most of them are small- and medium-sized companies privatized since January 2002. Speed of cash sales has gained a significant momentum after the passage of the RS Law to Write Off Claims that gave certain RS companies a real chance to be privatized.

The RSNA discussed the *report of the Supreme Auditor on the budget execution 2001* and concluded that the report informs about important progress in comparison to the budget execution in the year 2000, but the Supreme Auditor also addresses major areas to be improved. One of the important steps forward is the fact that the RS Government stopped financing loss-making companies via subsidies or via loans of (formerly state-owned) banks. The completion of bank privatization in the RS<sup>1</sup> contributed significantly to more efficient public spending. The treasury system has been functioning since early 2002 and has been major step forward to more transparent budget procedures; USAID has helped implement this important tool. However, the RS Government has been tasked to implement the Supreme Auditor's recommendations that are mentioned in his report. Furthermore, it should also be noted that the domestic revenues have been raised by roughly 50% when comparing January to June 2002 to the same period of the last year figures (and by more than 70% when comparing with the first half of the year 2000), mainly as a result of a stricter tax enforcement policy following the implementation of the new Tax Administration Law (with major input from the US Treasury and CAFAO) and of several other tax reform efforts such as a harmonization of the excise and sales tax with the FBiH Federation.

The *RS National Assembly* adopted a set of 6 *environmental laws in July*:

Law on Environmental Protection  
Law on Air Protection  
Law on Water Protection  
Law on Water Protection  
Law on Nature Protection and  
Law on Waste Management

The adoption of the environmental laws provides the RS with an important legal framework for environmental protection and it preserves natural resources that are important for agriculture. That set of laws has received major input from the European Commission, follows the RS Economic Strategy of March 2001, and concurs with several IC support initiatives such as the European CARDS program allocating major funding to support the implementation of stronger ecological approach within BiH.

---

<sup>1</sup> Only one minor bank remains to be privatized (Privredna banka in Doboj).

## Tourism Development

The Dayton Agreement assigns the responsibility for tourism development to the Entities and Cantons. However, tourism *promotion* should ideally take place at the level of the state as, for foreigners, a positive national image is essential.

In May 2001, OHR approached both entities and the Sarajevo Economic Region Development Agency (SERDA), with a suggestion to jointly develop such a positive country image, to which all parties agreed. In the material that was subsequently produced, the logo became the ethnically-neutral, unique and ancient tombstone. In 2001 and 2002, promotional material was distributed at a number of international tourism fairs in Western Europe and North America. Funding was provided by the Swiss Quick Reaction Fund and the two Entities.

OHR is interested in the development of BiH promotion material for two primary reasons:

1. Tourism is the number one industry in the world. It is labor intensive, environmentally friendly, and one of the industries in which BiH has genuine potential.
2. The importance of a positive country image goes well beyond tourism. It facilitates BiH's transformation from a war-devastated, aid dependent country to a country that is attractive to visit and invest in. It is valuable as a positive 'face' of BiH.

The promotion programme continues to expand. OHR's role is now diminishing, as the implementation responsibilities have been transferred to the Entity authorities earlier this year. In order to achieve maximum results, the Entity authorities are considering the formal establishment of the BiH Tourism Development Office, a positive development that OHR supports. For more information, please contact [willem.vaneekelen@ohr.int](mailto:willem.vaneekelen@ohr.int)

## Agricultural Commercialization

Pre-war and post-war agriculture are two vastly different sectors. For many people, agriculture was not the main source of income before the war, and they grew crops for their own consumption and the local markets only. In the post-war period, there are fewer jobs, and many farmers are entirely dependent on their land. Another important change is that farmers cannot simply sell their produce to State buyers but have to

find their own markets. In addition, the domestic competition is more intense than it was, the imports from abroad are cheaper than they were, and the consumers in Bosnia and Herzegovina have less money to spend than pre-war. In short, it is not easy to earn a profit in agriculture, and new attitudes and market-oriented techniques must be brought to the sector.

OHR is developing a programme that helps farmers by placing available knowledge (about ranges of activities, product quality and farm finances, for example) in the light of Bosnia and Herzegovina's newly developing market economy. A series of television programmes will be broadcast in the first part of 2003. Together with a background booklet that will be made available to current and prospective farmers, this television series aims to enhance farmers' ability to transform subsistence activities into commercial farming.

## Veterinary

**A**t the end of the legislative session the State Veterinary Law passed the parliamentary procedure. Now the State Veterinary Office must become fully functional; a major task will be to coordinate activities with the two entities and Brcko district and to represent the country with one state level institution in matters involving the European Union and in international organisations such as the International Office of Epizootics (OIE) in Paris. Contingency plans related to such serious diseases as bluetongue disease – of which there is a recent outbreak in BiH – must also be developed and agreed.

One prerequisite for food safety is an animal identification and movement control scheme in BiH, an important project financed by the EC and now underway. Following extensive negotiations the national Operating Agency for animal identification will be located in Banja Luka with additional Data Entry Offices in both entities. One of the results should be a database including all animals and farms in the country.

In addition, OHR and others in the IC are assisting the Ministry of Agriculture and the Federation veterinarians to establish a Federal Veterinary Chamber. Without such a chamber veterinarians cannot establish their own veterinary ambulance service and therefore the Federal Veterinary Stations will not find interested buyers. It is important to form the Chamber soon to create new jobs for young veterinarians and to improve the veterinary service through more competition.

## Health

**D**espite the reforms that several international organizations have embarked upon together with the local authorities, the health systems in both entities remain weak. The bulk of the problems of the health system pertain to health financing. These problems are prevalent in both entities.

Although the situation in the Federation health system is better than that in its RS counterpart, the system is still rather weak. Notably, the implementation of the FBiH Law on Health Insurance from 1998 has still not been completed. Specifically, Cantons 7 and 8 until now have not completed the work on eliminating parallel health systems and creating operational Health Insurance Funds. Consequently, an already complicated and inefficient system of 10 Health Insurance Funds in the Federation is made even less efficient by the lack of political will in Canton 7 to comply with the Law and render functional a single Health Insurance Fund in that Canton. Furthermore, the health system is characterized by low salaries of health workers and inadequate funding for equipment and supplies in medical facilities.

The situation in the RS is even more difficult than in the Federation. Although the RS health system does not suffer from excessive decentralization and related inefficiencies, it is characterized by severe financial crisis. For instance, the average net salary of a medical doctor in the RS is about KM 480 and most doctors receive only 8 to 10 salaries per year. The RS Trade Union of Medical Workers complains that the RS Health Insurance Fund is not fulfilling its obligations toward medical facilities and the Union sees this as a part of their financial problems. The RS Health Minister complained that the IMF has imposed an unrealistic cap on health expenditures from the RS budget, thus striking a significant blow to an already weak system.

What needs to be done in order to improve the health systems in both entities? By and large the financial situation of the health sector reflects the weakness of the official economy as its primary source of revenue through collected health contributions. Therefore, the strengthening of the official economy and improving contribution collections are the primary instruments for strengthening the health financing system. Cantons 7 and 8 in the Federation must at last stop their breach of the Federation Law on Health Insurance by eliminating their parallel health systems. In addition, the Federation should look for ways of creating a less costly and more efficient health insurance system. Both entities have to improve the efficiency of health financing through

improving the operations of the Health Insurance Funds and rationalizing health expenditures.

## Transport

**G**reek Deputy Foreign Minister Andreas Loverdos and his BiH counterpart Ivica Misić signed an agreement for a 19.5 million Euro grant aimed at supporting modernization of BiH's energy and transport infrastructures and to assist the development of the country's state institutions in the 2002-2006 period.

### Petroleum Refining

The BiH Council of Ministers adopted a decision on the quality of liquid fuel derivatives in Bosnia-Herzegovina, stipulating that European standards will be applied for importing petrol derivatives. For petrol produced in domestic refineries, a transitional period will be in place until EU standards have been achieved. This decision will stimulate domestic production, producer protection and foreign investment.

### Aviation

Amendment of the Aviation Law, revising the management of the BHDCA under one Director General instead of the current three, received approval of the House of Peoples in its 25<sup>th</sup> Session on 30 September. This will now go forward for publication in the official gazette.

### Rail Transport

A new railway station was opened in Banja Luka. The station is designed to receive about 30,000 passengers daily and cost 3.6 million KM. The RS government allocated one million KM, the City of Banja Luka 200,000 KM, and the remaining funds were provided by the RS Railways. The RS Railways had an operating loss of over 12 million KM in 2001 and this was after inclusion of more than 25 million in subsidy provided directly to the RS Railways from the 2% sales tax. Therefore the total cost to RS taxpayers was roughly 37 million KM.

### Water Transport

An International Framework Agreement on the Sava River Basin was finalized at a two day session of the Stability Pact Working Groups on 5 - 6 September in Brcko. The agreement will regulate all aspects of sustainable water management including: equitable utilization of the waters, navigation, provision of water in sufficient quantity and of appropriate quality, protection of aquatic eco-systems, protection against detrimental effects of water, and effective control of the water regime. According to the agreement, for implementation the parties shall establish an

international commission for the Sava River Basin - The International Sava River Basin Commission. The seat of the Commission has not yet been decided.

## Electricity Sector

**D**uring the third quarter, both Entities adopted their electricity laws: the FBiH Law was adopted in July and the RS Law in September. With regard to the RS Law, one of the issues – the seat of the regulatory agency – has been left open to be resolved at a later stage.

Implementation of the institutional arrangements is under way. The BiH Council of Ministers proposed the appointment of members of the State Regulatory Commission (SERC) to the Parliament of BiH: Mr. Vinko Bošnjak and Mr. Alija Muharemović from the Federation of Bosnia and Herzegovina and Mr. Vladimir Dokic from the Republika Srpska. The next step in the appointment process is the approval by the Parliamentary Assembly of BiH. Appointment of the SERC members will mark an important milestone in the reform process.

Intensive efforts of IC technical assistance are aimed at the implementation of the State Electricity Law, specifically the establishment of the State Transmission Company, State Regulator and Independent System Operator.

## Telecommunications

**I**n the telecommunications sector, the tasks as outlined in the BiH Telecommunications Sector Policy are being implemented at a satisfactory pace. The Communications Regulatory Agency (CRA) organised two international seminars, one on new trends in mobile technologies in June, and the other on universal service obligations in September, with participation of key domestic and international players. The seminar on the introduction of a universal service regime in Bosnia and Herzegovina demonstrated again the need for faster economic reform. It was concluded that the low penetration rate in the fixed (below 30% of population) and mobile telephony sector (about 9% of population) makes it almost impossible to establish a universal service regime similar to other European countries.

The CRA has also been monitoring the pace of implementation of the mobile licence conditions, including the obligation of each of the two countrywide mobile operators to cover 80% of the population by April 2004. It has been noted with satisfaction that the

start of limited competition among the operators has led to lower tariffs and introduction of new services (pre-paid services) in the mobile telephony market.

## Privatization – Progress at a Slow Pace

### General

In both Entities, privatization is about to enter a consolidation phase while, overall, more than one third of all companies have been successfully and completely transferred to private interests. It is in the categories of SMEs and large companies of non-strategic importance that the progress has been particularly notable. The sale of small-scale enterprises has been by far the most dynamic segment of privatization because of the less complicated system in place for this category (no voucher/certificate sale, and auctions and direct negotiations are mostly the norm) and because of the sheer size of the investment required from buyers making it easier for them to gain the controlling majority of the capital. The financial proceeds for the Entities and the Cantons deriving from privatization have been lower than expected and, whenever possible, the buyers have tried to use vouchers/certificates or Frozen Foreign Currency Savings (FFCS) to acquire the remaining portion of capital after completion of Public Offering of Shares (POS). Thus, the cash proceeds for the State is often insignificant.

Apart from a few isolated cases the level of social unrest created by closing down non-viable enterprises has been very low. Most of the employees concerned have first-hand experience and can witness for themselves that their companies are not able to compete in a totally new market economy set of rules. OHR is attentive to the employment aspect of economic transition by ensuring, through the IAGP, that one of the main criteria (safeguard of working places) is taken into account by the Privatization Agencies in examining competing offers.

### FBiH

The third and last phase of POS for certificate holders is in process at the moment and the collection of claims is ongoing in all Cantons. It is clearly evident that this final phase has not generated great enthusiasm among the population due to the persistent gloomy investment climate in the country (as well as abroad) and because the majority of the most attractive companies (except for the utility sector) have already been offered. By the end of the year about 70% of the Small- and 40% of the Large-Scale companies should have been sold.

Progress with Strategic companies remains slow. The foreign experts commissioned by the main IC donors - GTZ, USAID, EU, WB - have had disparate results and the WB has only recently begun its program. Thirteen companies have been privatized in this category and another three could be sold by the end of the year.

### RS

The Directorate for Privatization (DfP) is still facing important problems of capacity, personnel, premises and financing. The Government has promised radical measures to upgrade the services and make the DfP more capable of dealing with the complexity of selling enterprises and to be more attractive to potential foreign buyers. Amongst other measures, the cooperation with the Foreign Investment Promotion Agency (FIPA) that is active at State level should be developed. This institution is not only seeking investments in "green-field" sectors but also in companies under privatization having promising development perspectives.

Approximately 50% of Small- and 40% of Large- Scale companies have been sold at the end of this quarter. All voucher privatization having been completed in 2001, the DfP can now concentrate on selling the remaining State-owned portion (30%) of capital for cash or FFCS. This task, as can be imagined, is especially challenging since the prospect of selling a minority shareholding to a strategic buyer is not appealing under the existing privatization framework.

Most regrettably, the sale of Strategic companies in the RS has been stagnant for the past six months. Only four enterprises of this category have been privatized thus far despite the active participation of experts from GTZ, USAID and EU in the evaluation, preparation, offering, investor-scanning and deal making. The main reasons are to be found in the weak state of the RS economy, the lack of real interest on the part of the political class to privatize what they considers as the "crown jewels" of the Entity, the poor business conditions (outdated products and technology, lost clientele, large liabilities, redundant personnel) of the companies offered and the frequent inflexibility of the Privatization Authorities in refusing to lower the prices based on overstated book values of the past. Further dampening the prospects are the current depressed world financial markets that are not conducive for global investment risk-taking.

## Banking

The third quarter saw major progress in the process of upgrading the banking sector in both entities to bring the regulatory and service structure in line with European and North American standards. Following more than a year's drafting efforts, a working group comprised of international banking experts and entity banking agency officials completed a major revision of the Law on Banks to enhance the agency's abilities to properly regulate the sector and respond effectively to situations in which a bank's financial condition threatens the security of its depositors. Among other improvements, the revisions will increase transparency, specify greater disclosure requirements, sharpen accountability by bank management and enhance the agency's efforts to combat money laundering.

Following the drafting process in the Federation, the package was submitted to the RS Finance Ministry for consideration and adoption. The enabling legislation was passed and gazetted in the Federation, and received strong support in its first reading in the RS National Assembly before the body adjourned in advance of the October elections.

One specific provision of the law requires that, as of December 31, 2002 all banks will be required to meet membership requirements of the Deposit Insurance Agency. Legislation adopted in July merges the entity deposit insurance agencies and situates the new body at the state level, with headquarters in Banja Luka. The merger provides clear benefits to depositors, particularly in the RS, by the access to the over 30 million KM deposit reserve fund contributed by international donors. Previously, no such reserves were available to banks headquartered in the RS.

Adoption and implementation of these legislative initiatives completes the intensive process undertaken to ensure the evolving BiH banking system is positioned to provide secure and modern services in economic reconstruction efforts. Further related work is progressing to improve the general business legal environment, in such areas as contract law, bankruptcy and liquidation laws and business registration, among others.

## Law on Land Registry

One of the pre-conditions for investment – domestic or foreign, corporate or private – is a reliable and

transparent Land Registry system. The Law on Land Registry promises to clarify issues relating to the ownership of property in BiH, encourages the registration of property, formalizes the keeping of land registry books at the Courts, and introduces registry in computerized databases. Once adopted by both Entity Governments, GTZ with financial support from SIDA, will provide the necessary hardware and software, and will work on installing the new registry systems and training clerks in both entities during 2003. The Law is expected to be fully harmonized between the two Entities.

The draft Law was adopted by the Federation House Peoples in September 2002 but was not raised in the House of Representatives as the session was cancelled for lack of a quorum. The Law passed a first reading at the RSNA in July 2002 but was removed from the agenda for the second reading when a Vital National Interest clause claim (subsequently rejected) was launched.

## BiH Economic Update

### BiH Economic Data January 2001 – August 2002

Source: FBiH and RS Statistical Offices

Indicator	Federation of BiH	Republika Srpska	BiH (OHR estimate)
GDP nominal 2001 estimate	6,698 billion KM	2,420 billion KM	9,118 billion KM
GDP nominal 1999	6,141 billion KM	2,180 billion KM	8,321 billion KM
Nominal increase 1999-2001	+ 9,0%	+ 13,0%	+10,0%
Real increase 1999-2000 (minus inflation)	+7,8%	-0,6%	+5,5%
Index of Industrial Production			N/A
08/02 compared to 2001	+15,3%	-1,1 %	
08/02 compared to 08/01	+8,2%	1,1%	N/A
Retail Price Index			
08/02 compared to 2001	-0,8%	0,9%	N/A
08/02 compared to 08/01	+0,3%	0,4%	N/A
Average Net Salary 08/02	491,41 KM	348 KM	419,55 KM
03/02 compared to 2001 (averages)			
RS 08/02 compared to 2001 (averages)	+7,4%	+11,2%	+ 9,3%
Number of Employed 07/02 (RS 03/02)	390.708 persons	232.722 persons	622.430
Number of Registered Unemployed 07/02	287.302 persons	143.504 persons	430.806
Number of pensioners in 08/02	287.840 persons	182.456 persons	470.296 persons
Average pension in 08/02	189,80 KM	120,02 KM	154,91 KM
Imports Jan-July 02	3,134 billion KM	1,192 billion KM	4,326 billion KM
Exports Jan-July 02	0,843 billion KM	0,315 billion KM	1,158 billion KM
Trade deficit Jan-July 02	2,291 billion KM	1,158 billion KM	3,168 billion KM
Import/Export coverage	26,9%	26%	26,8%