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## **ECONOMIC ASPECTS OF RESTITUTION**

Bosnia and Herzegovina is the only of the former Yugoslav republics which has not solved the issue of restitution of property confiscated by the socialist regime in the period 1945-1990. Restitution has its economic, legal and political aspects. The issue of restitution should be solved along the lines developed by European democracies arising after the collapse of socialist systems. It should also take into consideration the values prevailing in the society of Bosnia and Herzegovina, as well as protection of private property and promotion of market economy, where the dominant role would be played by the rule of law.

The economic aspects of restitution are related to assessing the capacity of the state to settle its obligations relating to repossession of confiscated property, as well as to economic consequences of this process.

Total amount (see Annex 1) of the property claimed through restitution is estimated at 55.8 billion KM. Two-thirds of this amount could be formally defined as restitution claims, leading to the amount of around 37.2 billion KM. Even though there are no exact data on the status of property under restitution, the major part of these claims could be settled by direct natural restitution, and the rest by replacement and, exceptionally only, by financial restitution.

Total financial restitution (see Annex 2) provided that macroeconomic stability and budgetary sustainability be achieved, could be defined in the scope ranging between 1,620 and 1,920 million KM, or at the level between 4.3% and 5.3% of the actual restitution value. The costs of the restitution process encompassing 4.5 years (from January 2008 to June 2012) are estimated at 91.5 million KM and would annually amount to 0.39% of the BiH budgetary expenditure in 2006.

Restitution in BiH could be of developmental nature, but it could also lead to major destabilisation of its economy. Developmental nature could be achieved by using a considerable portion of agricultural and building land for productive purposes, as well as by lowering its price and attracting domestic and foreign investors. Encouraged by low-priced land, they can increase labour demand and demand for other elements of production in BiH. The property identified as not being claimed for restitution could represent a basis for strengthening public funds and a more active entrepreneurial role on the part of the state.

Destabilisation of economy could occur in case of greater supply of repossessed property, increased revenue inflow on the part of citizens and the use of such revenue for consumption, with a considerable impact on the country's balance of payments. On the one hand, financial restitution will represent a growth in general consumption while, on the other, a basis for generating demand for consumer goods, effecting a possible economic imbalance.

However, restitution cannot be viewed as a process leading, of its own accord, to positive or negative economic changes. It represents a measure of the national wealth redistribution, while the behaviour of original owners should be determined by economic measures in terms of incentives for productive use of production factors, or of their taxation in case of unproductive use. This particularly refers to passing adequate legislation governing exploitation of agricultural land, rehabilitation of illegally constructed facilities, and similar issues.

# Annex 1

## Estimated value of property subject to restitution

The restitution property value is calculated on the basis of the estimate and data taken over from the collective overview of claims filed with the Restitution Commission of the BiH Council of Ministers through a survey carried out in the period from June to August 2005. The calculation is given in the table below, and it involves the market prices in BiH in mid 2006.

### Estimated restitution value, errors of the first kind (risk) 10 %

Elements	Interval estimate limit (in KM per m <sup>2</sup> )		Quantity (m <sup>2</sup> )	Value reliance interval limit	
	Upper	Lower		Upper	Lower
Cultivable land	2.39	3.28	6,000,000,000.00	14,319,342,727.23	19,680,657,272.77
Uncultivable land	1.39	2.28	2,568,885,680.70	3,561,906,734.13	5,857,340,761.77
Woodland	0.68	1.29	7,635,807,291.80	5,183,192,682.17	9,833,894,991.70
Building land, undeveloped	14.61	24.06	521,567,955.14	7,620,338,349.19	12,546,955,916.22
Building land, developed, infrastructure	21.01	33.33	246,668,218.47	5,181,533,646.65	8,220,772,890.22
Building land, developed, facilities	26.18	42.49	642,201,825.40	16,812,079,766.12	27,285,778,911.35
Business premises (business premises and business structures, and other structures)	933.42	1733.24	984,152.4646+ 400,387.376+ 779,663.5549	2,020,118,835.96	3,751,090,218.71
Apartments (apartment buildings and apartments)	817.91	1198.76	1154,166.1697+ 221,617.936	1,125,264,862.06	1,649,233,084.44
Copyright			147	0.00	0.00
Licences			10	0.00	0.00
Objects of art			22	0.00	0.00
<b>ESTIMATED VALUE IN KM</b>				<b>55,823,777,603.52</b>	<b>88,825,724,047.17</b>

Source: Feasibility study for restitution in B&H, Economic Institute Sarajevo 2006, p. 73.

The structure of claims indicates that 55% of the restitution claims are related to agricultural land, woodland and undeveloped building land. This can have a positive effect on the possibility of natural restitution in its direct or replacement form. However, the rest 45% of claims can be solved only by replacement natural restitution and financial compensation, as this property mainly does not exist

## Annex 2

### **Financial restitution possibility assessment**

Applying the budgetary liquidity approach to the period 2013-2028, when liabilities arising from financial restitution would be settled, the scope of financial restitution can be defined as a residual value left over after the total budgetary expenditure for foreign debt servicing is reduced by the payments relating to foreign debt servicing, old foreign currency savings and unsettled war damage.

Foreign debt servicing for the period 2013-2028 can only be estimated, as this period will see new debts arising, which will have to be serviced within the same period. It should particularly be noted that – despite the growth in foreign direct investments, i.e. private investments, relating to construction of roads, power-supply and other facilities – capital development facilities, based on a partnership of private and public capital (PPP Public – Private – Partnership), will require further public debts for development needs. This will also imply that Bosnia and Herzegovina, as a country with growing income, will lose its opportunities for obtaining loans with a high percentage of grant components (IDA loans and other forms of concession financing) and will be increasingly forced to search for capital at capital markets under market conditions. This, as well as estimated increase in interest rates, capacities and the total debt amount due to GDP growth, in addition to shortened loan service period, should result in an increase in liabilities relating to foreign debt servicing. In the past five years, the annual foreign debt servicing ranged between 260 and 320 million KM, while for the period 2013-2028 it could rise to 550-600 million KM. In relation to the above period, this would imply the outflow of approximately 9.2 billion KM.

Since the liabilities arising from old foreign currency savings are tied to a 13-year period, the total liabilities in the said period, according to the repayment schedule, amount to 1,128 million KM. As liabilities relating to war damages have not been agreed on, they cannot yet be defined as public debt – having in mind that public debt must unequivocally be legally based. These calculations imply the assumption that, out of all the claims for war damages amounting to 2,805 million KM, only 50% of them (i.e. 1,402.5 million KM) will be legally admissible. This latter amount would be payable within 13 years starting from 2008. At the beginning of the period of restitution payments (2013 to 2028) approximately 35% of the mentioned 1,402,5 million KM will have been paid. 65% of the debt related to war damage will have to be paid in the period starting from 2013 (some 917 million KM including interest payments amounting to 7,93% of that amount).

Calculation of the public debt framework based on the foreseen GDP growth for the period 2013-2028 results in the total budgetary expenditure amounting to 13,046 million KM. Based on this assumption, calculation given in the table below indicates that the amount of 1,801 KM can be allocated for restitution.

Overview of public debt settlement coming from budgetary funds, 2013-2028

Public debt purpose	Amount in million KM
1. Foreign debt servicing (estimated amount)	9,200
2. Old foreign currency savings settlement	1,128
3. Payment of claims for war damages (estimate)	917
4. Payment relating to restitution	1,801
<b>T O T A L</b>	<b>13,046</b>

Source: Feasibility study for restitution in B&H, Economic Institute Sarajevo 2006, p. 68.

Having in mind the poor reliability of information relating to claims and the lack of definitive solutions relating to the current internal claims, the scope for financial restitution can be defined with  $\pm 10\%$  certainty, ranging from 1,620 million KM to 1,980 million KM. However, it should be noted that this amount also includes the interests relating to claims, as restitution claims will be settled by emitting bonds on the part of the state, the funds for which will be provided by the entities. As the interest accounts for approximately 23% of the capital amount in the 15-year repayment schedule with the interest rate of 2.5%, the principal debt arising from restitution would amount to 1,464 million KM, while the interest would amount to 337 million KM.

All these indicators suggest that restitution in BiH can only be implemented in the form of natural restitution, while financial restitution will be of marginal significance only. This is very significant in the light of the fact that the monetary aspects of restitution will be negligible in comparison with the natural ones, implying that the process itself will be carried out without major impacts on the macroeconomic stability. With the calculated scope of financial restitution, it is possible to ensure the macroeconomic stability and budgetary viability.

The public debt arising from restitution would be solved in a similar way, as well as the one relating to old foreign currency savings, with the suggested servicing period of 15 years.