

While closure may be the only option for many Balkan firms propped up by state subsidies, local leaders are keen to salvage something from businesses that are big employers in a region where just 44 percent of the working-age population have jobs. The closure of debt-laden Aluminij Mostar is symptomatic of the challenges facing countries across the Balkans as they try to keep loss-making state-owned businesses inherited from the communist era afloat in market economies.

The aluminium smelter in the Bosnian town of Mostar has fallen eerily silent since its electricity was cut in July. The only visitors to what was once a model factory in former Yugoslavia are staff filling in redundancy papers.

The demise of the aluminium exporter also shows how 25 years after the end of the Bosnian war, everything from ethnic rifts to weak corporate governance to corruption are hindering growth, just as the world economy is slowing and European Union membership looks ever more remote.

Besides its 900 staff, Aluminij provided work for some 10,000 people in its supply chain and was a mainstay for the local railway, power company and even the Croatian port of Ploce 60 km (40 miles) to the south.

“You can’t just shut down the largest plant in the country,” said Emil Coric, 34, a chief engineer at Aluminij, which also employed his father before he retired seven years ago. “Somebody must take responsibility.”

In Bosnia, the value of assets held by state-backed firms is worth a year’s gross domestic product (GDP). In Croatia and Serbia, it’s 90% and 70% percent respectively, according to the International Monetary Fund (IMF).

That’s in stark contrast to the EU where the value of big state-owned firms accounts for less than 30% of GDP in most states and is under 10% in Germany, the Netherlands and the United Kingdom, according to a 2016 EU study.

### **‘Not sustainable’**

The World Bank, IMF and potential investors see many of the state-owned firms in the Balkans as economic burdens, sucking up taxpayers’ money, putting start-ups at a competitive disadvantage and often acting as hotbeds of political cronyism.

“This situation is not sustainable and seriously impedes private sector and general economic development,” said Zsuzsanna Hargitai, Western Balkans director at the European Bank for Reconstruction and Development.

She estimated that propping up inefficient state companies costs Serbia, the biggest economy in the region, two percentage points of national output a year.

While Belgrade has sold a steel plant and a copper mine to Chinese companies, it is still subsidising nine businesses which together employ 15,000 people. The Resavica coalmine group alone gets about \$42 million a year.

In Croatia, loss-making metals producer Djuro Djakovic, in which the state holds a 38% stake, is seeking help with wage arrears. The government finally stumped up a guarantee of 300 million kuna (\$44 million) to help the company and avoid protests in its impoverished eastern Slavonia region.

In Bosnia and Herzegovina, which split after the war into a mainly Serb region and a federation of Bosniaks and Croats - itself largely divided geographically between the two groups - there are a host of struggling state-owned firms.

The IMF said last year that most were in poor financial shape and a fundamental reform of them could boost Bosnia's GDP by three percentage points a year.

### **Company vineyards**

Yet the story of Aluminij shows how difficult the process of making such companies viable can be.

Founded next to a bauxite mine in 1981 under Yugoslavia's planned economy, Aluminij's alumina plant and smelter established itself supplying the local auto and airline sector. It was destroyed during the 1992-95 war as Mostar was on the frontline, first as Bosniaks and Bosnian Croats defeated the Bosnian Serbs, and again when the victors turned on each other in struggle that left the city divided upon ethnic lines.

Like virtually all Bosnian entities, it was rebuilt after the war along ethnic lines. It was located in territory held by the Croats, so when it reopened in 1997 only Croat workers were allowed to return to their jobs, according to organisations deployed to Bosnia after the war, such as Amnesty International.

Source: [uk.finance.yahoo.com](http://uk.finance.yahoo.com)