

**UNITED  
NATIONS**

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International Tribunal for the  
Prosecution of Persons  
Responsible for Serious Violations of  
International Humanitarian Law  
Committed in the Territory of  
Former Yugoslavia since 1991

Case  
No. IT-04-81-T  
Date: 14 October 2008

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**IN THE TRIAL CHAMBER**

**Before:** Judge Bakone Justice Moloto, Presiding  
Judge Pedro David  
Judge Michèle Picard

**Registrar:** Mr. Hans Holthuis

**THE PROSECUTOR**

v.

**MOMČILO PERIŠIĆ**

**PARTLY CONFIDENTIAL**

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**SUBMISSION OF EXPERT REPORT  
BY MORTEN TORKILDSEN**

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**The Office of the Prosecutor:**

Mr. Mark B. Harmon

**Counsel for the Accused:**

Mr. Novak Lukić  
Mr. Gregor Guy-Smith

**THE INTERNATIONAL CRIMINAL TRIBUNAL  
FOR THE FORMER YUGOSLAVIA**

**Case No. IT-04-81-T**

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**SUBMISSION OF EXPERT REPORT  
BY MORTEN TORKILDSEN**

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1. The Prosecution hereby files a report by expert witness Morten Torkildsen, upon which it intends to rely, namely: Report entitled "Second Expert Report of Morten Torkildsen" dated 10 October 2008,<sup>1</sup> attached at Annex A.<sup>2</sup>

Respectfully submitted,

Word Count: 122



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Dan Saxon  
Senior Trial Attorney

Dated this 14<sup>th</sup> day of October 2008  
At The Hague  
The Netherlands

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<sup>1</sup> The original report, dated 18 November 2002, was produced in the *Milošević* case (IT-02-54-T) with citations made to the exhibit numbers in that case. Each of these exhibits is on the Prosecution's 65<sup>ter</sup> exhibit list. To bring Mr. Torkildsen's report in line with these proceedings, the Prosecution has produced a new copy of Mr. Torkildsen's report referring to the "Perišić" 65<sup>ter</sup> numbers.

<sup>2</sup> On 3 January 2007, the Defence filed its "Notice Pursuant to Rule 94 bis Concerning Prosecution Expert Morton Torkildsen and Motion to Exclude."

## SECOND EXPERT REPORT OF MORTEN TORKILDSEN

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## I Outline of Task

1. The Office of the Prosecutor (hereinafter "OTP") asked me to identify, review, analyse and write a report on a large number of documents obtained by the OTP. The scope of my report, as designated by the OTP, was to determine what, if any, financial support was provided, during the period 1991-1995, by organizations under the alleged *de jure* or *de facto* control of Slobodan Milošević to areas including those regions that were referred to by Serb authorities as the "Serbian Autonomous District */Sprska autonomna oblast/* ("SAO") Krajina", the "SAO Western Slavonia" and the "SAO Slavonia, Baranja and Western Srem" (collectively referred to by Serb authorities after 19 December 1991 as the "Republic of Serbian Krajina */Republika Srpska krajina/*" ("RSK")) and to the areas which, from 12 August 1992, were known as the "Republika Srpska */Republika Srpska.*" These areas are referred to hereinafter as "the Serb controlled districts in Croatia and Bosnia Herzegovina."

2. The majority of documents reviewed for this report were financial. There were, of course, some military documents. As far as possible, I confined my analysis to the financial aspects of military documents, to avoid reporting to the OTP on any areas where I cannot claim to be an expert.

3. The OTP further asked me to divide the documents and my analysis into two broad categories:

- a) documents concerning financial support and the financial aspects of material and personnel support from the (Socialist) Federal Republic of Yugoslavia (hereinafter the "(S)FRY") and/or the Republic of Serbia to the Serb controlled districts in Croatia between 1991 and 1995; and
- b) documents concerning financial support and the financial aspects of material and personnel support from the (S)FRY and/or the Republic of Serbia to the Serb controlled districts in Bosnia and Herzegovina (hereinafter "BiH") between 1991 and 1995.

4. When I reviewed these documents, however, it became clear to me that, within some documents, no distinction was made between support for the Serb controlled districts in Croatia and the Serb controlled districts in BiH. The methods and patterns of financial, personnel and logistical support and the provision of military equipment described in these documents are to a large degree the same. This similarity will become clear from the documents described later in this report.

## **II Summary of Conclusions**

My general conclusions are as follows:

5. The documentary evidence demonstrates that the (S)FRY and/or the Republic of Serbia provided financial and material support to the Serb controlled districts in Croatia between 1991-1995 and in BiH between 1992 and 1995;

6. The support provided was directed towards both the Serb military units that were established in the Serb controlled districts in Croatia and BiH and towards the Serb civilian government organs that were established in these areas;

7. The support took the form of financial assistance, the provision of military equipment, food, personnel and expert assistance;

8. This support was provided from 1991 until 1995, although the nature and degree of this support varied during that period;

9. The documents strongly indicate that funding for the Army of the Republika Srpska (hereinafter the "VRS") and Army of the Republika Srpska Krajina (hereinafter the "SVK") emerged from a single financing plan for all three Serb armies: the Yugoslav Peoples' Army (hereinafter the "JNA"; later, under the FRY, renamed the "VJ"), the VRS and the SVK;

10. The (S)FRY provided financial and material assistance to the VRS and the SVK directly by providing military material and by paying the salaries for the officers in these armies. In addition, a large part of the financial and material support for these armies was provided indirectly through contributions made to cover the budget

deficits of the Republika Srpska (hereinafter the "RS") and the Republika Srpska Krajina (hereinafter the "RSK");

11. In order to facilitate this support from the (S)FRY, the economies of the (S)FRY, the RS and the RSK were organized into a structure that can best be described as an economic and monetary federation. The (S)FRY government institutions controlled, implemented and organized the major parts of this federation;

12. Until the disintegration of the SFRY, the six republics and the two autonomous regions financed the SFRY budget. In turn, the budget of the SFRY financed the federal army, the JNA. Any deficits in this budget (including funds for the JNA) were financed by the National Bank of Yugoslavia (hereinafter the "NBY"). The NBY often financed these contributions to the SFRY budget by printing money, a "primary issue." A major part of the SFRY budget for 1991 was financed in this way and, in 1992, until the SFRY ceased to exist, this deficit financing by the NBY constituted an even higher proportion of the SFRY budget. This method of financing the JNA was subsequently used partly to finance the VJ, the VRS and the SVK;

13. In 1991 and 1992, the Serbian Ministry of Defence (hereinafter the "Serbian MOD") played a major role in financing and providing military equipment to the Serb controlled districts in Croatia. Such a task was not conducted by the Serbian MOD alone because it possessed no stocks of military supplies. Rather, the aid occurred with the executive assistance and co-operation of the JNA/VJ;

14. A large number of the documents show that decisions regarding this support to the Serb controlled districts in Croatia and BiH were made by the highest ranking military and political leaders of the (S)FRY and the Republic of Serbia; and

15. When the JNA pulled out of BiH in the second half of May 1992, it left the Serbs in BiH with a nearly complete army supplied with the remains of the JNA's second military district. The commander of this new army, Ratko Mladić, stated in a report in December 1992, that: *"Our Army is one of the rare ones in history to have started a liberation war with a very solid material base especially as concerns combat hardware, ammunition, and food reserves."* (Prosecution Exhibit 65ter No. 380)<sup>1</sup>.

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<sup>1</sup> ERN translation 0110-3320; ERN BCS 0104-2299

Mladić's remark is supported by a written statement made by Milošević concerning the assistance provided to the armies of the RS and RSK (Prosecution Exhibit 65ter No. 6523).

### **III Financing of the JNA during 1991 and 1992**

16. The JNA was financed through the SFRY budget. The SFRY budget was generated by customs and import tax, contributions by the six socialist republics and the two autonomous provinces and by loans from the NBY. The increasing disintegration of the SFRY in 1991 adversely affected the budget, especially in the area of income. The JNA accounted for more than 60% of the federal budget in 1991. The increase in the percentage of the budget to be used to fund the JNA in 1992, and the fact that it would be generated by printing new money, was a cause of the resignation of Ante Marković, the last Croatian President of the SFRY. Ante Marković's resignation is described within Prosecution exhibit 65ter No. 6542, where he is quoted:

The budget for 1992 was proposed to be 81 percent for the JNA (Yugoslav Peoples' army) and all of this is completely out of control of the central government because the funds for this were foreseen to come from the printing of money.

17. Given the reduced income of the SFRY budget, the most realistic way to finance the JNA was to borrow the funds. Ordinarily, in contrast, Western European countries who wished or required to make up for a budget deficit or to raise external financing would either issue government bonds (debt that can be traded on international markets) or undertake privatisation of state-owned companies. For the (S)FRY, however, the only available source of borrowing was the NBY. The NBY would again finance their loans to the federal budget (actually the JNA) through "primary issues". The creation of primary issue is either the printing of money or the provision of credit by the national bank. In this case, the NBY created money by providing credit to the SFRY budget for the use of the JNA. The documents referred to in this section of the report, for instance Prosecution exhibit 65ter No. 6532, permit me to state that the NBY was printing money that was then loaned to the SFRY for the primary purpose of financing the JNA.

18. The financing of the JNA was discussed during several meetings of the Presidency of the SFRY in the second half of 1991 and within Prosecution exhibit 65<sup>ter</sup> No. 6531, a proposal, dated 21 July 1991, from the Federal Executive Council (hereinafter the "SIV"), regarding the minimum funds needed in the budget of the SFRY for the period July - September 1991. The proposal notes that the JNA needed 17.8 billion dinars (equivalent to 1.4 billion Deutsche Marks (hereinafter "DEM")) out of the total SFRY budget of 26.8 billion dinars for this period (66% of the total budget). The proposal goes on to estimate that the NBY would have to provide 52% of the total budget. Moreover, the document further explains that the amount to be provided by the NBY would have to come from printing new money.

19. In addition, Prosecution exhibit 65<sup>ter</sup> No. 6532, the transcript of the SFRY Presidency meeting held on 21 August 1991, contains a discussion about the lack of revenue in the SFRY budget and the financing of the JNA. The President of the SIV, Ante Marković, was opposed to the use of primary issues for financing the federal budget. Slobodan Milošević, in contrast, raises no objections to making money available through primary issues. Milošević said that the NBY should continue to carry out the decisions of the SFRY Assembly rather than the decisions of the SIV. He explained, *inter alia*:

Furthermore, I think that the idea of the SIV taking the central bank under its tutelage is not acceptable, this is not the case anywhere, in any market economy, that the government controls the central bank.

The central bank answers to the Assembly, it carries out decisions on monetary policy taken by the Assembly, it must have its autonomous position and it would be, so to say, a completely unnatural position if the Federal Executive Council were to be given the right to block the implementation of documents adopted by the Board of Governors of the National Bank of Yugoslavia...

...in my opinion, it would be quite wrong, and according to what is written, it seems that what little work is now in more or less competent hands in the National Bank would be transferred to the hands of the SIV, which is certainly not equipped to decide and take measures on such matters.<sup>2</sup>

The attendees further discussed the lack of revenue and the only option for obtaining additional revenue for the budget. They also focused on funding the JNA. The Presidency soon recognised that the only realistic method of obtaining financing

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<sup>2</sup> (p. 235 of ERN 0052-6127, ERN translation L008-0285/86)

for the JNA was through primary issues. Reference was then made to "Topčider", the money printing facility of the NBY:

Ante MARKOVIĆ:

There is another problem here - what Franjo was talking about – regarding the budget. He agrees under the condition that the army is not included. But, most of the Budget is the Army.

I wanted to say something regarding that as well. The way in which it is financed now is a catastrophe. We had revenue in July, into the Federal Budget, of only three billion 170 million dinars. [equivalent to 243.8 million DEM] During the first 14 days of August – just a billion dinars.

Slobodan PELIVAN:

That means Topčider /money mint/ doesn't it?

Ante MARKOVIĆ:

The Army has asked for 40 billion [equivalent to 3.1 billion DEM] to the end of the year. Actually it should all come from Topčider, which, on the other hand, is unacceptable. Because then the monetary system and monetary policy are finished.

Jure PELIVAN:

And the economy.

Ante MARKOVIĆ:

And the economy, that's right – everything.<sup>3</sup>

This exchange also highlights the extent to which the continued funding of the JNA materially contributed to the economic problems facing the federation.

20. Also demonstrative of the use of primary issues is Prosecution exhibit 65ter No. 6560, a draft law, dated September 1991, issued by the SIV. This law, enacted on 21 November 1991, governs revenue sources for financing certain national defence requirements in 1991:

Article 1

This law shall establish revenue sources for financing the Yugoslav People's Army/JNA/ until the end of 1991 if funds are not provided from the revenue of the Federation Budget for these purposes to the sum established by the Law on

<sup>3</sup> *Ibid*, p.289-290 ERN 0052-6182-6183, ERN translation L008-0280/81.

the Provisional Financing of Requirements of the Federation in 1991, for which funds are provided in the Federation Budget.....

## Article 2

In order to secure the funds under Article 1 of this Law, the Yugoslav National Bank shall approve a loan to the Federation to the sum of the difference between the funds established by law under Article 1 of this law and the revenue from the Federation Budget that has been paid – the sub-balance of revenue and expenditure for financing the Yugoslav People's Army.

Attached to this draft law is a document labelled "Statement of Reasons" which explains why this law is necessary. The "Statement of Reasons" indicates that the proposed amount of financing for the JNA from September to December 1991 (40.5 billion dinars or 3.1 billion DEM) represented an absolute minimum. In addition, allocation of this amount would mean a total expenditure for the JNA of up to 70.8 billion dinars (equivalent to 5.4 billion DEM) for the whole of 1991. However, by 26 August 1991, according to exhibit 65ter No. 6560, only 19.1 billion dinars (equivalent to 1.5 billion DEM), or 27% of the planned total for 1991, had been obtained from revenue sources and contributions from the Socialist Republics and the Socialist Autonomous Provinces. So, the shortfall had to be made up by the NBY. The "Statement of Reasons" explains that the NBY previously financed the JNA.

21. In Prosecution exhibit 65ter No. 6562, the SIV proposes that the members of the SFRY Presidency, recommend that the SFRY Assembly adopt the "Law on Revenue Sources for the Financing of Certain National Defence Requirements in 1991", dated 9 September 1991. In its proposal, the SIV explains that:

....the Federation has been unable to transfer the planned funds to the JNA /Yugoslav People's Army/.

For these reasons, the Federal Executive Council has recently been using short-term loans from the Yugoslav National Bank for the ongoing financing of the Federation Budget to the amount of 22.5 billion dinars [equivalent to 1.7 billion DEM] which, pursuant to Article 30 of the Law on the Financing of the Federation, indicates that all possibilities of further use of Yugoslav National Bank funds have been exhausted.

This document highlights my observation that the need for primary issues arose from a failure to fund the JNA through normal federal sources of income. Consistent with this observation is Prosecution exhibit 65ter No. 6561, a note from the SFRY Presidency Legal Affairs Service to the General Secretary of the SFRY

Presidency, dated 12 September 1991. The note concerns the proposal from the SIV on the provisional financing of the JNA and discusses the legal implications of the draft law. It refers to a session held on 11 September 1991, where the SIV recommended that the Council of Governors of the NBY immediately approve a short-term loan to the federal budget, mainly for the financing of the JNA.

22. Prosecution exhibit 65<sup>ter</sup> No. 6558 is the draft minutes of the 143<sup>rd</sup> session of the SFRY Presidency held on 1 October 1991. The “Law on the Provisional Financing of Requirements of the Federation in 1991” was on the agenda. The Presidency endorsed the law and added that, until funds were approved, the NBY could make advance payments to the Federation for the financing of the JNA. The draft minutes state, *inter alia*:

Until funds are approved in the manner described in paragraph 2 of this Article, the National Bank of Yugoslavia may make advance payments to the Federation for the financing of the Yugoslav National Army....

the SFRY Presidency resolved to recommend to the National Bank of Yugoslavia that, until conditions were met for adopting the law, it should make advance payments for financing the JNA...<sup>4</sup>

23. Control over the NBY is described in Prosecution exhibit 65<sup>ter</sup> No. 6543, a book by Mladan Dinkić entitled "The Economics of Destruction", published in 1995. Mr. Dinkić is currently the Governor of the NBY. I have reviewed an English version of this book, which explains, on p. 81 of the translation (p.84 BCS), *inter alia*:

In the autumn of 1991, the Serbian leadership took complete control over Yugoslavia's monetary policy. The NBJ [i.e. the NBY] remained the central monetary institution only on paper. Naturally, no one made this public because the main aim was to enable republican authorities to conduct monetary policy in complete secrecy....

In addition, the author observes:

It is quite clear that the state, or rather the ruling party, had a complete monopoly over the issue of money. The NBJ formally created primary money by approving credits from the primary issue to banks and direct clients (primarily the federation and the republics).<sup>5</sup>

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<sup>4</sup> Exhibit 65<sup>ter</sup> No. 6558; ERN 0050-1747. ERN translation L006-4205/06

<sup>5</sup> *Ibid*, p. 84. BCS p.87

As explained above, when Mr. Dinkić refers to the financing of public deficits (credits to direct clients), he is also referring to the financing of the JNA. Before the disintegration of the SFRY began, the Board/Council of Governors of the NBY consisted of a representative from each of the six republics and the two provinces in addition to the NBY Governor himself. By the end of 1991, the Republics of Croatia and Slovenia had proclaimed independence. We may conclude from this that these two Republics were not involved in the decision making regarding granting loans to finance the JNA. This further supports Dinkić's allegation that the "Serbian leadership took complete control over Yugoslavia's monetary policy" in the autumn of 1991. The consequence of this allegation was that the Serbian leadership could then decide on the monetary issues necessary to finance the JNA.

#### **IV The Creation of a Monetary Federation and its Impact on Financing of the Serb Controlled Districts in Croatia and BiH**

##### **A) Background and the Need for Monetary Integration between the (S)FRY, the RS and the RSK**

24. The documents that I have reviewed indicate that, during 1992, a single, unified monetary system was initiated by the (S)FRY with the co-operation of the RS and the RSK. A central purpose of this integrated monetary system was to facilitate the transfer of funds between the territories of the FRY, the RS and the RSK. It eventually created a single economy operating across the three Serb controlled regions.

25. It is clear from the documents I have reviewed that primary issues were a major financial vehicle used by the decision makers in the (S)FRY and the Republic of Serbia to implement their programme to provide financial support to the Serb controlled districts in Croatia and BiH. A decision was made in 1992 by then President Milošević and members of the government of the Republic of Serbia to provide financial assistance to the Serb controlled districts in Croatia. We see this in Prosecution exhibit 65ter No. 6521, minutes of a 1992 meeting between Milošević and the political leadership of the RSK, where the formation of, and the provision of finance for, the defence system of the RSK is discussed. Moreover, the financing of the Serb controlled districts in Croatia was already on the agenda of the Government

of the Republic of Serbia in the autumn of 1991, see Prosecution exhibit 65ter No. 6546, discussed on pp. 32-3, *infra*. Likewise, several documents, including Prosecution exhibits Nos. 6530, 6526 and 6539, directly or indirectly speak of support from the NBY to the RS and to its predecessor, the Serb Republic of BiH.

26. A crucial mechanism for the transfer of funds and for the efficient operation of the monetary federation was the Public Accounting Service ((also translated into English as "the Social Payments Service"/"the Public Auditing Service"/"the Social Accounting Service"/ "State Accounting Service") hereinafter the "SDK"). The SDK (discussed in detail on p. 19f, *infra*) was used to transfer funds between the (S)FRY and the Serb controlled areas in Croatia and BiH (later to become the RSK and the RS).

27. The system of national banks of the former SFRY was gradually re-structured in the period 1992-1994. The National Bank of Republika Srpska ("NBRS") and the National Bank of Republika Srpska Krajina ("NBRSK") were established in 1992 with the assistance and supervision of the NBY, and were later controlled by and subordinated to the NBY.

28. Decisions to provide financial assistance to the Serb controlled districts in Croatia and BiH were in part implemented through the primary issues granted by the NBY to the NBRS and the NBRSK. In 1992 primary issues from the National Bank of Yugoslavia were put at the disposal of the RS and the RSK.

29. The purpose of the payments made to the governments of the RS and RSK was to compensate for their lack of proprietary financing and income. The result of the payments was the financing of the Serb institutions, both military and civil, present in these areas during 1992-1995. This section of the report aims to show how the restructuring of the financial environment occurred; how the restructured financial landscape functioned; how these payments were made; how the primary issues were created and how these funds were applied.

30. It is my conclusion that, by restructuring the banking industry, the governments of the (S)FRY and the Republic of Serbia facilitated the transfer of funds between the (S)FRY and the RS and the RSK. Moreover, I conclude that the

restructuring, by facilitating transfers, improved the functioning of the civil and military institutions in the RS and the RSK.

31. The restructured banking industry also enabled the regular circumvention of the UN sanctions placed on the FRY in May 1992, pursuant to the UN Security Council Resolution Number 757. This circumvention was achieved by transferring funds between the federated NBRS and NBR SK and their "parent" bank, the NBY.

32. The creation of a new federated system of national banks was required because neither the RS nor the RSK had any significant source of financing. Their needs for external financial assistance were persistent and acute. It would have been difficult and imprudent for the (S)FRY, subject to the UN sanctions, simply to transfer funds directly to the RS and the RSK. Therefore, a systematic, structured and formalised approach was required both to ease transfer and to circumvent sanctions. This requirement was intensified given the large sums involved.

33. The general financial dependence of the RSK on the Republic of Serbia is demonstrated by documents from 1991-1992, especially by Prosecution exhibits Nos. 6564 and 6546 (discussed on pp. 32-3, *infra*) and 6521 (discussed on pp. 35-6, *infra*) and, most succinctly, by a letter, dated 28<sup>th</sup> April 1993, from Milan Martić, the RSK MUP Minister, to Slobodan Milošević, and others, stating:

.....the RSK has no real sources from which to fill its budget, as you certainly know. (65<sup>ter</sup> No. 6524)

34. The financial dependence of the RS on the (S)FRY is shown by an address made by Major General Gvero, VRS Main Staff, during the 34<sup>th</sup> People's Assembly of the RS. He informed the Assembly, in a meeting held on 29<sup>th</sup> September 1993, that:

We had not budget or material supplies for the war to rely on. We have not purchased a single plane, helicopter, tank, artillery piece, etc. (65<sup>ter</sup> No. 2000, translation, page 2)<sup>6</sup>

35. A detailed explanation of the relationship between the NBRS and the NBY is found in the Annual Report of the NBRS for 1992<sup>7</sup>. Here we read that:

<sup>6</sup> ERN 0048-0968, ERN translation 0091-6773

<sup>7</sup> ERN 0211-4196-4209

In the beginning the National Bank of Republika Srpska was given special support by the National Bank of Yugoslavia. (65ter No. 6526: translation page 3<sup>8</sup>, 0211-4198)

“Special support” took the form of “work methodology, printing of money” (65ter No. 6526: translation page 3). Moreover, the annual report states that:

The exchange rate for [RS] dinar was tied to FRY dinar, since the ratio was 1:1 (65ter No. 6526 translation page 10)<sup>9</sup>

This statement is consistent with the summarising remark in the same document that, after the separation of BiH from Yugoslavia:

...the territory of Republika Srpska remained within the same economic system as the FRY. This practically meant that the National Bank pursued the same monetary policy as the NBY. (65ter No. 6526: translation page 4)<sup>10</sup>

36. In Prosecution exhibit 65ter No. 6526<sup>11</sup>, a report by the NBRS on the meeting with the Bankers’ Association of the RS, held in May 1994, confirms this structure: the monetary policy of the RS and the FRY were the same, the economic system was the same. The RS and the FRY belonged to a unified payment system, monetary system and unified foreign exchange market. It is clear from this document that the FRY was never a foreign country for the RS. This document provides further evidence of the complete integration of the economic and monetary systems of the RS and the FRY.

37. So, in my opinion, the primary benefit and primary purpose of the federated re-ordering of important aspects of the banking industry and of the creation of the federated banking system was to ensure the closest of financial links between the FRY and its satellite entities, the RS and the RSK. A subsidiary benefit was the partial avoidance of the sanctions imposed pursuant to the UN Security Council Resolution 757.

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<sup>8</sup> Exhibit 65ter No. 6526 consists of several documents, including the NBRS Annual Report for 1992, an overview of the content of this exhibit is attached to the exhibit.

<sup>9</sup> ERN 0211-4206

<sup>10</sup> ERN 0211-4199

38. Thus, in 1992, the period covered by the NBRB Annual Report, discussed above, the financial links between the FRY and the RS and the RSK were so close that the RS and the RSK were themselves hampered by the embargo placed on the FRY. The FRY was, in practice, the only trade and commercial partner of both the RS and the RSK. However, the modifications in the control of the national banks enabled a more formalised and, at the same time, more subordinated relationship between the RS, the RSK and the FRY.

39. I have reviewed a report, part of Prosecution exhibit 65<sup>ter</sup> No. 6526, written by Milivoje Miletić, then a Director of the NBY<sup>12</sup>. Miletić was stationed at the NBRB between 4 and 8 April, 1994. Miletić analyses the re-structuring of the National Banking systems; details the three discrete stages of the re-structuring; and explains the workings of the re-structured banks.

40. Phase One: The period when the RS formed the National Bank of RS which performed the function of the central bank in its territory. This period began in the second half of 1992.

41. Phase Two: The period when the “Elements for the implementation of the programme” began to be applied.

42. Phase Three: The period when the “Programme for the Reconstruction of the Monetary System and the Strategy for the Economic Recovery of Yugoslavia” was applied.

### **Phase One**

43. Miletić’s report characterises the genesis of Phase One:

This was a time when certain institutions of Republika Srpska were formed, including the National Bank [the NBRB]. In such circumstances, it was normal to issue primary money on the basis of previous experience, coming primarily from the National Bank of Yugoslavia.

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<sup>11</sup> ERN 0211-4146-4154

<sup>12</sup> ERN 0211-4114-0211-4219

During that period, the monetary and credit policy in Republika Srpska was carried out primarily through expert co-operation between the National Bank of Yugoslavia and the National Bank of Republika Srpska (65ter No, 6526: translation page 2)<sup>13</sup>

Miletić's report, in addition to confirming that the NBY provided "expert assistance", as we read in the 1992 NBRS Annual Report, quoted above, also states that the NBY directly provided Yugoslav dinars as well:

From the second half of 1992 onwards, primary money was issued through banks and the budget so that on 31 December 1992, the balance of primary issue credits was 77.8 billion dinars. [equivalent to 166.4 million DEM]<sup>14</sup> (65ter No. 6526: translation page 2; BCS 0211-4115)

## Phase Two

44. The second phase saw the implementation of the "Programme to Regulate a Single Monetary Policy in the FRY, the RS and the RSK." This programme came into force on 1 March 1993, starting with the establishment of "full co-operation" between the NBY, the NBRS and the NBRSK. However, it readily becomes clear from the report that "co-operation" is inappropriate as a description of the relationship between the three national banks. The NBY had the primary role and the NBRS and the NBRSK decidedly secondary roles.

Miletić's report goes on to state that the NBRS and NBRSK:

would bring all monetary and credit regulation instruments in line with relevant monetary and credit regulation decisions of the National Bank of Yugoslavia. (65ter No. 6526: translation page 3)<sup>15</sup>

Moreover,

It was especially stressed that the interest rate policy and thus the discount rate, the compulsory reserves policy...would be completely co-ordinated with relevant instruments of the National Bank of Yugoslavia. (65ter No. 6526: translation page 3)

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<sup>13</sup> ERN 0211-4115

<sup>14</sup> For exchange rate data, I have relied either upon data provided directly by the Governor of the NBY or upon the figures published daily in the Belgrade-based newspaper, *Politika*. For this calculation, I rely upon the data published in *Politika* on 2 December 1992.

<sup>15</sup> ERN 0211-4116

The National Bank of Yugoslavia would issue orders for the use of the foreign currency reserves from the National Bank of Republika Srpska and the National Bank of Republika Srpska Krajina. (65ter No. 6526: translation page 4)<sup>16</sup>

So, the assets of these National Banks fell under the direct control of the Belgrade-based NBY. Miletić concludes that, in the implementation of Phase Two of the policy, “the National Bank of Republika Srpska fully co-operated with the NBY.”

**Phase Three: “Programme for the Reconstruction of the Monetary System and the Strategy for the Economic Recovery of Yugoslavia”**

45. The programme created a single monetary region to include the FRY, the RS and the RSK. This programme came into effect on 1 March 1994. Here, the NBRS is commended by Miletić because:

As legal tender, the new dinar functions fully in the territory of the Republika Srpska (65ter No. 6526: translation page 7)<sup>17</sup>

Additionally,

The bank’s interest rate policy is being guided by the National Bank of Republika Srpska in accordance with the intentions of the Programme. (65ter No. 6526: translation page 7)<sup>18</sup>

46. The successful monetary integration between the RS and the FRY is also confirmed by Prosecution exhibit 65ter No. 6547, a letter, dated 2 June 1995, from the Governor of the NBRS to the NBY. The letter concerns the withdrawal and replacement of banknotes by the NBY:

During the period of banknote replacement National Bank of Republika Srpska collected 12,506,000 dinars [12,506,000 DEM] (banknotes which were withdrawn from circulation). The said banknotes are hereby delivered to the treasury of the National Bank of Yugoslavia in order to be replaced by the appropriate amount of valid banknotes. (65ter No. 6547)

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<sup>16</sup> ERN 0211-4117

<sup>17</sup> ERN 0211-4120

<sup>18</sup> ERN 0211-4120

In order to facilitate and legitimate the third phase of the programme, the NBRS would have needed to pass domestic legislation in the form of "National Bank Laws" and "Laws on Banks." Miletić's report notes, however, that, due to "delay" and the fact that "by-laws have not been passed by competent organs" the NBRS took the step of:

...applying existing regulations of the National Bank of Yugoslavia and regulations passed by the competent organs of the Federal Republic of Yugoslavia. (65ter No. 6526: translation page 7)<sup>19</sup>

47. Just as the interest and discount rates of the RS and the RSK were to be governed by those of the NBY, so too with the banking regulations. In this context, it is significant that the title given to Phase Three of the process described above was "Programme for the Reconstruction of the Monetary System and the Strategy for the Economic Recovery of Yugoslavia." There is no mention here of the economic recovery of the RS or the RSK as independent entities. Their recovery is at issue only as part of the wider, re-structured federation's recovery.

48. The operation of the new dinar, the aim of Phase Three, is governed by "Instructions for work with the NBRS and NBRSK" (exhibit 65ter No. 6559) which detail the terms and operating conditions of the single monetary policy. The yearly activities of the three entities operate in a structure which, under widely accepted accounting rules, would govern the relationship between a parent company and its subsidiaries: the balance sheets of the NBRS and NBRSK will comprise part of the "consolidated balance sheet" of the NBY. To achieve this, the "Instructions for work with the NBRS and NBRSK" order the National Banks to:

...submit their balance sheets and balance sheets of the banks from those areas ...by 10<sup>th</sup> March this year. (65ter No. 65594, translation page 3)<sup>20</sup>

The order is dated "Belgrade 28 February 1994."

49. Prosecution exhibit 65ter No. 6711 is a "Request for a unified credit and monetary system." The document is dated "Knin, 12<sup>th</sup> May 1992" and was written by the Prime Minister of the RSK, Zdravko Zečević, to the Prime Ministers of Serbia and

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<sup>19</sup> BCS 0211-4120

<sup>20</sup> BCS 0207-6895

Montenegro and the Governor of the NBY, marked “personally.” This document also provides us with detailed information about the legislative framework of the (S)FRY:

With the creation of the Republic of Serbian Krajina, the legal regulation of the Republic of Croatia ceased to be valid, and the law and regulations of the Socialist Federal Republic of Yugoslavia continued to be applicable, but only after the unilateral withdrawal of the Republic of Croatia from the legal and economic system of Yugoslavia.

Additionally, the document sheds clear light on the financial connections between the RSK and the FRY:

Since the first day of the state of war in the Republic of Serbian Krajina, bank transactions and the transfers of payments are conducted through commercial banks and branches of the Public Auditing Service from the Republic of Serbia.

We have seen how the NBRS regarded its relationship with Belgrade and we have seen that the Instructions from Belgrade to the NBRS tell us about its conception of the relationship. We have also seen that the NBY Director Miletić regarded the subsidiary banks as complying well with the regulations and governing protocols emanating from Belgrade.

50. Also instructive are the minutes from the May 1994 meeting of the Governors of the NBY, NBRS and NBR SK. (65<sup>ter</sup> No. 6557, same document also appears under 65<sup>ter</sup> No. 6526) In language which clearly highlights the secondary importance of the NBRS and the NBR SK in their relationship to the NBY, these minutes from May 1994 go on to mention that:

...The National Bank of Republika Srpska and the National Bank of the Republic of Serbian Krajina operate as the main branches of the Yugoslav National Bank and under its authority alone.

...The National Bank of Republika Srpska and the National Bank of the Republic of Serbian Krajina shall implement the decisions of the Yugoslav National Bank in a disciplined manner.

....The Governor of the National Bank of Republika Srpska and the Governor of the National Bank of Republika Srpska Krajina are required to attend the sessions of the Council of the Yugoslav National Bank without a voting right. (Minutes of meeting of Governors of the NBY, NBRS and NBR SK, 12 May 1994)(65<sup>ter</sup> No. 6557~~4779~~)

## **B) The Public Accounting Service (SDK)**

51. As mentioned in the introductory conclusions to this report, I have concluded from reviewing documents that a central role was played by the SDK in the operation of the monetary federation between Serb controlled districts.

52. The SDK was a payment service system used within the (S)FRY for the transfer of funds within and between the federal republics and the two autonomous regions. In the early 1990s, the SDK both facilitated payments and supervised financial transactions. The SDK system operated long before the disintegration of the (S)FRY.

53. When the disintegration of the (S)FRY began, the Serb controlled districts in Croatia and BiH carefully maintained connections between their part of the SDK system and the SDK system of the Republic of Serbia. This continued connection was important for facilitating ongoing payments. Unless a functioning payment system existed, cash would have been the only alternative way of making payments available.

54. Thus, the SDK system was of paramount importance for the Serb controlled districts in Croatia and BiH and their ability to receive their financial funding from the (S)FRY and/or the Republic of Serbia. The primary issues made available from the NBY to the Serb controlled districts in Croatia and BiH were credited to their respective accounts in the SDK system, whenever the system was functioning.

55. In addition, "grey issues"- new money printed without the direct and reported involvement of the NBY- were credited to the accounts of the users in the Serb controlled districts in Croatia and BiH (*cf.* p. 27, *infra*).

56. At an early stage of the disintegration of the SFRY, the leadership in the Serb controlled districts in Croatia and BiH realised the importance of taking control of the SDK in the areas they aimed to control. A speech by Radovan Karadžić (exhibit 65*ter*

No. 6519, translation page 2)<sup>21</sup> at the Plebiscite of the Serb People on 1 November 1991, highlights the importance of the SDK:

Be prepared soon to take over the SDK decisively. I mean, to appoint your own man in the SDK. Prepare/the ground/, first talk to them, ask them whether they're ready to work in a moment that is not legal, in accordance with laws and regulations which you, as the municipality authority, will give them.

57. Even earlier, the Serb controlled districts in Croatia took this decision to collaborate with the SDK of the Republic of Serbia. Prosecution exhibit 65ter No. 6555 contains the decision of the Executive Council of the Glina Municipal Assembly, dated 13 August 1991, to separate the Glina branch office of the Sisak SDK from the SDK system of the Republic of Croatia. Moreover, the Executive Council decided to incorporate this branch office into the SDK system of the Republic of Serbia.

58. The Serb controlled regions in Croatia, which became the RSK, had already, by February 1992, been integrated with the SDK of the Republic of Serbia for some time. This integrated relationship is illustrated in Prosecution exhibit 65ter No. 6550. Here, the RSK MUP Minister, Milan Martić, offers an example of one use to which the SDK transfers were put. He discusses the fact that, until recently, the Serb controlled Krajina TO was paid via SDK transfers. Martić asks the MUP Minister of the Republic of Serbia:

Could you please exert your influence on Minister ZEBIĆ [at that time the Minister of Finance in the Republic of Serbia] in order for the practice of making payments to the Krajina TO /Territorial Defence/ via the SDK /Public Auditing Service/ to be discontinued, since the Krajina MUP /Ministry of the Interior/ is not financed from these funds. ...

...I would like to inform you that the amount of 38,000,000 dinars [415,306 DEM] is located in the Glina SDK. .... these funds have been lying unspent for quite some time now.

59. The importance of being tied to the Serbian SDK is further illustrated in a letter, Prosecution exhibit 65ter No. 6536, from SAO SBWS Ministry of Finance to the SDK in Vojvodina. This letter discusses opening an account with the SDK Vojvodina Sombor branch office. The letter is dated 26 September 1991:

We need the requested account so that we can perform our regular duties.

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<sup>21</sup> ERN BCS 0027-0632

It is clear from this letter that being a part of the Serbian SDK was a necessary condition for the efficient performance of the SAO SBWS's duties.

60. Moreover, Prosecution exhibit 65<sup>ter</sup> No. 6535, dated 21 September 1991, and signed by Goran Hadžić, President of the SAO SBWS, is a decision regarding the opening of a transfer account for SAO SBWS. The decision mandates that the budget revenues of the SAO SBWS be developed in accordance with the laws of the FRY, the Republic of Serbia and the SAO SBWS:

#### DECISION

To open a giro account for the Serbian Region of Slavonija, Baranja and Western Srem

#### I

For the purpose of financing the Serbian Region of Slavonija, Baranja and Western Srem and territories not included in municipalities an account should be open under the name: "Budget of Serbian Region of Slavonija, Baranja, and Western Srem"

#### II

Budgetary revenues of Serbian Region of Slavonija, Baranja and Western Srem will be formed in accordance with current legal regulations of the FRY, Republic of Serbia and Serbian Region of Slavonija, Baranja and Western Srem, whereas disbursements will be made via Municipality of Beli Manastir Administration.

It is indicative of the relationship which appears in the financial re-structuring that the 'current legal regulations of the FRY' are regarded as being effective in the SAO SBWS. Moreover, it is a striking example of the subordinated nature of the financial relationship of the SAO SBWS to the (S)FRY that the latter's laws on 'budgetary revenues' are deemed applicable.

### C) **Primary Issues and Payments**

61. As I indicated in paragraph 17, p. 5, *supra*, Western European governments would tend not to fund their budget deficits or armies by printing money (that is, by "primary issue") but by, for instance, commercial borrowing, most usually by issuing government bonds, or by increasing taxation. In contrast to this model of commercial borrowing, the (S)FRY, both before and after the bank re-structuring programme

began, simply printed new money, technically called either “primary issue” or “primary emission”, and distributed it to the National Banks of the RS and the RSK, often via their respective SDK centres in Banja Luka and Knin. To print money is a dangerous method of financing a budget. It can readily lead to severe inflation. These two conclusions are made by Ante Marković and Mladin Dinkić, in Prosecution exhibits 65ter Nos. 6532, discussed on p. 6 and 7, *supra*, and 6543, translation p. 41, discussed on p. 28, *infra*, respectively.

62. A decision was taken by the Government of the Serbian Republic of BH, on 14th May 1992, regarding the use of the funds available from the primary issue:

Primary issue of the National Bank of Yugoslavia/NBY/ will be used in accordance with the NBY Decision on goals and tasks of the common monetary policy... (65ter No. 6530)

In short, the Belgrade-based NBY was printing money for Bosnian Serb use. From the decision (also discussed on p. 26, *infra*), we read that the purpose of these funds was:

In order to avoid the adverse effects of war on the economy of the Serbian Republic of BH up to 80 per cent of primary issue will be used for special purposes. (65ter No. 6530)

I have also discovered that various regions of the RS are designated to receive predetermined amounts from the NBY. These amounts were paid to commercial banks within the region. These amounts are described, in document B3501, as “planned quotas for commercial banks”:

Banja Luka	up to 2, 000 million dinars
Bijeljina	up to 2, 000 million dinars
Zvornik	up to 1, 000 million dinars
Trebinje	up to 1, 000 million dinars
Foča	up to 500 million dinars
Sokolac	up to 500 million dinars

2,000 million dinars was equivalent to 10 million DEM. This evidence of direct financing of the Serbian Republic of BH by Belgrade-based NBY corroborates evidence to the same effect found in Miletić’s report of 1994, on page 2 of the

translation of exhibit 65ter No. 6526.<sup>22</sup> There, describing what happened two years earlier, he states:

...from the second half of 1992 onwards, primary money was issued through banks and the budget so that, on 31 December 1992, the balance of primary issue credits was 77.8 billion dinars [166.4 million DEM]. About 14.3 per cent of these credits, or 11.1 billion dinars [23.7 million DEM], were given through the banks, while the remaining 85.7 per cent or 66.7 billion dinars [142.6 million DEM] were given for the budget of Republika Srpska.

63. In addition, during 1992, the Governments of both the Serbian Republic of BH and the RSK Government and regional council of municipalities of Slavonia, Baranja and Zapadni Srem made direct petitions to the NBY in Belgrade for the immediate transfer of funds.

64. **For this paragraph, see Confidential Annex A**

65. Likewise, the RSK Government, meeting in Vukovar, on 18 November 1992, concluded that:

An issue of money should urgently be transferred from the SRJ [FRY] to RSK. (65ter No. 6534, translation page 3)

66. These urgent requests to the NBY are concordant with the observation of Martić, at that time the RSK MUP Minister, to Milošević, contained within exhibit 65ter No. 6550, quoted earlier in this report, that “The RSK has no real sources from which to fill its budget, as you certainly know.”

67. Almost a year later, according to a document dated 30 September 1993, the FRY MOD approved aid within its budget for allocation to the RSK. The FRY ministry informs the RSK that:

According to the reprogramming of the Federal budget, by official decision of the Federal Ministry of Defence..., the amount of 480.259 billion dinars [5.6 million DEM] has been approved, according to task 649 for the aid for the Republika Srpska Krajina. (65ter No. 6114)

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<sup>22</sup> ERN 0211-4115

68. The *minutiae* of the transfer of funds is evidenced by a letter dated 5 November 1993, arranging for the details of a hand-to-hand, armed, cross border transfer of cash from Belgrade to Knin. The letter comes from the RSK MUP to the Republic of Serbia MUP. It states:

At Raša border crossing on 8 November 1993, two RSK/Republic of Serbian Krajina/MUP employees will cross from RSK to the Republic of Serbia in order to escort the transport of money from Belgrade to Knin. The transport will be escorted by the following employees, carrying long- and short-barrelled weapons:... (65ter No. 6551)

69. This system of direct payment, in response to direct requests made by both the RSK and the RS straight to Belgrade, is still identifiable later. A request from the RSK Ministry of Finance to the NBY, dated 4 January 1994, states:

Pursuant to our earlier request for financial aid in the amount of 10,000,000 dinars [2,500 DEM] to cover the RSK budget deficit, 5,000,000 dinars [1,250 DEM] were allocated and remitted....the balance from our first request was also requested.<sup>23</sup>(65ter No. 6554)

70. Other documents illustrate the dependence of the economies of the RSK and the RS on the policies of the NBY. Prosecution exhibit 65ter No. 6549, for instance, is a request by the RSK Minister of Finance, Vojin Peruča, dated 25 June 1992, to the Beogradska Bank in Belgrade. This document requests the return of the sum of 2,000,000,000 dinars [10,000,000 DEM] plus interest to the Budget account of the RSK in Knin. The sum had been paid on 29 May 1992.<sup>24</sup>

71. A petition for funds is also contained in Prosecution exhibit 65ter No. 6553, a letter, dated 19 June 1992, from the RSK Minister of Finance to the Governor and Deputy Governor of the NBY, marked “personally”, requesting:

...the sum of 12,900,000,000 dinars, [64,500,000 DEM] the funds required for July, to the Budget of the Republic of Srpska Krajina...

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<sup>23</sup> At this time the exchange rate was 1 Deutsche Mark to 4,000 Yugoslav Dinars. (Source: *Politika*)

<sup>24</sup> At this date the official exchange rate was 1 Deutsche Mark to 200 Yugoslav Dinars. (Source: *Politika*)

As in exhibit 65ter No. 6549, above, the request is that the funds be paid rapidly "no later than 29<sup>th</sup> June 1992" into the giro account called "the Budget of the Republic of Srpska Krajina."

72. Similarly, Prosecution exhibit 65ter No. 6556 is a request for cash from the NBR SK to the NBY on 24 July 1995:

Please authorise a new grant of cash, totalling 10,000,000.00 dinars [equivalent to 10,000,000 DEM] for the requirements of the National Bank of the Republic of Serbian Krajina.

The document then specifies the proposed uses of the funds urgently requested:

Since we are nearing the end of July, and the deadline for paying the army, police, pensions etc. is approaching, our needs are great. In order for the National Bank of the Republic of Serbian Krajina to provide the funds necessary to cover the requirements cited, it needs a further 10,000,000.00 dinars in addition to the cash in its own treasury. (65ter No. 6556)

73. The question then arises, how did the NBRS and the NBR SK use the primary issues they received? In short, these payments were used to finance the budget deficits in the RS and the RSK. A large proportion of the expenditure of the budgets of the RS and the RSK were comprised, as exhibit 65ter No. 6556, above, suggests, of expenses for the military forces and the police.

Specifically, in the RS budget of 1993 (Exhibit 65ter No. 6528), published in the "Official Gazette of the Republika Srpska" on 30 March 1994, we read that financing the VRS accounts for 95.6% of the total budget. In addition, we read that 99.6% of the budget was financed through "credits." This conclusion, that almost the entire RS budget was funded by credits, is supported by a remark made by Miletić in his report of his visit to the NBRS between 4 and 8 April 1994 (65ter No. 6526, translation page 2; BCS 0211-4115). Importantly, Miletić clarifies that the credits were created through primary issue of the NBY itself. These types of expenditure were often described as "special" purpose expenditure. For instance, in exhibit 65ter

No. 6530, a decision made by the Government of the Serbian Republic of BiH in May 1992, we read that:

... up to 80 percent of primary issue will be used for special purposes.

74. The funds allocated to the armies of the RS and the RSK through their budgets were used to pay conscripts and other personnel, to acquire quartermaster supplies, including food, and to replenish ammunition supplies, see exhibits 65ter Nos. 380 and 532, discussed below. However, the officers who remained with the SVK and the VRS after the JNA pulled out of Croatia and BiH were not paid from these funds. These officers remained on the payroll of the JNA/VJ even after the JNA pulled out.

75. Section VI of this report will explain how funds were allocated to the VRS through the RS budget. Prosecution exhibit 65ter No.379, "Analysis of Combat Readiness and Activities of the Army of the RS", provides a good overview of the distribution of resources to the various categories of expenditure.

76. Primary issues were also a source of loans made within the national banks. For instance, exhibit 65ter No. 6539, dated 8 August 1992, is a decision by the RS Government to take up a loan from the RS National Bank. The loan originated from a primary issue and is to be repaid over a period of ten years. Given the rate of inflation during this period, the loan amounted to a gift, because, by the time the money was due to be repaid, it could be done so at a real value far beneath that at which the money had been borrowed.<sup>25</sup> It is stated in the decision, *inter alia*:

Due to inadequate incoming assets that make up the original revenues of the Serbian Republic of Bosnia and Herzegovina (from now on The Republic) that cannot cover agreed expenditures for the period from July 1992 to December 1992, the Republic is debited with the National Bank through the loan from the primary issue in the amount of 56,298,844,850 Dinars [415,336,369 DEM].

The above sum shall be returned in ten equal annual instalments due on 15/12 each year, effective as of 15/12/1998.

77. The primary issues received from the NBY were also to some extent re-distributed back to companies in the FRY through the procurement made by the VRS from these companies. Examples of this are apparent in Prosecution exhibit 65ter No.

6563, a letter from the RS MOD to the National Bank of the RS, dated 18 November 1992. The letter, and an attachment to it, concerns funds to be made available from the primary issues to two companies from which the procurement will be made. Both companies are situated in the Republic of Serbia. It is stated in the letter to the National Bank of the RS:

We are asking you to make payments in YU Dinars from the quota of the credit extended from primary emission for the need of the Republika Srpska Army to the following suppliers.....

We see from the use of the word “quota” in this letter that the provision of primary issues from the NBY to the RS was part of a regulated financial plan. Further evidence of the use of primary issues is contained in Prosecution exhibit 65*ter* No. 6538, a letter from the General Staff of the VRS to the RS MOD, dated 24 November 1992. The General Staff of the VRS gives its approval for the company MP DD to receive a credit from the primary issue in Yugoslav dinars in order to procure material from a company in Vranje. Vranje is in the Republic of Serbia. Attached to this letter is a request for credit from the primary issue in Yugoslav dinars from the company MP DD BLIK in Banja Luka to the RS MOD. The company asks for approval of credit in order to make procurements from a company in the Republic of Serbia:

It is known to us that the FRY /Federal Republic of Yugoslavia/ has approved certain means from the primary emission for the needs of the Republika Srpska and that the realisation is handled by the Komercijalna Banka from Belgrade.

...With this letter we ask you to approve us a credit of 100,000,000 million dinars [213,858 DEM] for procurement of the basic fabric Drvar, manufactured by the Cotton Factory JUMKO from Vranje.

78. Although primary issues were used to cover the budget deficits of the FRY, the RSK and the RS, it is clear, however, that the hyperinflation during 1992 - early 1994 was not caused exclusively by primary issues carried out and properly recorded by the NBY. Hyperinflation was also the result of so called “grey issues” which took place during the same period.

#### **D) Grey Issues**

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<sup>25</sup> Source 65*ter* No. 6543 p41 of the English version, BCS p.43.

79. Grey issues are another form of printing money. These “grey issues” were not properly recorded or entirely under the control of the NBY. Dinkić states, on page 47 of the translation of (and on p49 of the BCS version), “The Economics of Destruction”, Prosecution exhibit 65*ter* No. 6543, that:

The grey issue represents an unauthorised issue of primary money that is not controlled or recorded by the central bank.

He goes on to explain why these grey issues occurred:

Although, the republican leadership had de facto control over the NBJ, it was not happy with the fact that credits from the primary issue were properly recorded....For this reason, it was mostly suitable for financing the public deficit... (exhibit 65*ter* No. 6543 p82 translation; BCS p85)

This remark suggests that the leadership of the Republic of Serbia allowed money to be made available for purposes of which they wanted no records kept. Dinkić remarks that the Republic of Serbia was not the only Republic responsible for making money available through grey issues of money. Still, he states that it was by far the largest provider of grey money. This practice, he contends, continued after the disintegration of the SFRY:

If we take stock of the grey money issued by the national banks of the republics in the period from October 1990 to February 1991, we get the following picture:

Slovenia 1 billion dinars  
Croatia 1,7 billion dinars  
Serbia, including Vojvodina and Kosovo - 22,7 billion (DEM 3,1 billion)  
Montenegro 2,6 billion  
Macedonia and Bosnia - insignificant (page 66 translation; BCS p68)

80. Another purpose of these grey issues was for the leadership in the Republics (mainly of the Republic of Serbia) to buy foreign currency which was in the possession of the citizens. Dinkić provides an estimate on how much money this amounted to:

According to some estimates, which are naturally very approximate, in mid-1991 people had about DEM 8 billion in hoarded savings. Readers will ask themselves how people in such a poor state had managed to accumulate such

wealth (one should add here the DEM 8,7 billion of savings frozen in state banks) (page 73 translation; BCS p75)

From this statement, we can conclude that the Republic of Serbia potentially could obtain DEM 8 billion from its citizens by means of a buy-back programme of foreign currency.

81. Dinkić alleges on p. 71 (BCS p.73) of "*Economics of Destruction*" (exhibit 65ter No. 6543) that the state did indeed obtain its citizens' foreign currency reserves. He goes on to explain what they did with this money:

This money was at first deposited on the accounts of Belgrade Bank's Cyprus branch, the Cyprus Off-shore Banking Unit, whose director was Borka Vucic. Most was later transferred to accounts in other banks. Some of the foreign currency was transferred to the accounts of private companies registered abroad by members of Yugoslavia's political establishment, while another part was frozen, mainly in accounts in US and German banks (page 141 translation; BCS p144).

Generally speaking, whenever the state wanted to complete important banking transactions, it usually chose Belgrade Bank. The state's sentimental attachment to this bank can perhaps be explained by the fact that President Milosevic had been its director at the start of the 1980's....In the end, Borka Vucić, a convinced and dedicated communist, won his (Milosevic) complete trust. She performed all tasks and worked for her regular pay without seeking any additional material reward. When he saw that Borka had the rare ability to place the good of the state above her personal interests, Milosevic appointed her head of the bank's Cyprus branch (page 143 translation; BCS p146).

82. I have described in detail in my Amended Expert Report dated 7 June 2002 the method of transferring cash to Cyprus. Dinkić here strongly supports the conclusions of my Amended Expert Report regarding the transfer of money to Cyprus through the Beogradska Bank.

83. This section of Dinkić's book also provides a clear explanation of the origin of the money transferred to Cyprus before Mihalj Kertes became the Director of the FRY Customs Department (SUC). Kertes became the director of the SUC in 1994. At that time, the FRY authorities realised that they must address the problem of hyperinflation. Consequently, they had to stop obtaining foreign currency through grey issues. This decision coincides with the time that Mihalj Kertes was appointed director of the SUC. Another provider of foreign currency to the bank accounts in

Cyprus was then found. The SUC was to become the FRY's major provider of foreign currency. The result of this appointment was that the funds provided by the SUC were not recorded in the accounting records of the FRY. Instead, at least some of these funds were transferred to Cyprus to the same accounts which, prior to Kertes' appointment, had received the foreign currency obtained through grey issues. An additional benefit of using grey issues mentioned by Dinkić was secrecy. No records of these issues were kept by the NBY. The money could be spent by whomever controlled these issues and for whatever purpose they determined.

84. In the 1992 Annual Report of the NBRS, Prosecution exhibit 65ter No. 6526, we read on page 4 that during 1992, when the official channels of the NBRS issued 7.45 billion dinars (primary issue) [15.9 million DEM], 17.5 billion dinars (grey issue) [37.4 million DEM] were issued by the SDK's Sokolac branch office. It is also clear from this Annual Report that the NBRS received some information about this grey issue and, moreover, that the NBRS never rejected the explanation they received regarding what the money was spent on. It is stated on page 5:

After collecting necessary information some degree of co-ordination was introduced. However, the National Bank never rejected the information on the spending purpose of these funds nor did it receive information, regardless of warnings and requests, on the action taken by the Payment Transaction Service and the Government regarding this matter.

This further illustrates the importance of the SDK and its close relationship to the RS Government with regard to the grey issues.

#### **E) Inflation and the value of the Yugoslav Dinar**

85. It is sometimes thought problematic to translate amounts set out in Yugoslav dinars, during the period of hyperinflation between late 1991-early 1994, into readily understandable amounts. Useful general data points, just outside this period, are that, in January 1991, the dinar exchange rate to the Deutsche Mark was 9:1.<sup>26</sup> Moreover, in late January 1994, the Yugoslav dinar was pegged at a ratio of 1:1 to the DEM. This exchange rate remained the same until December 1995.

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<sup>26</sup> Exhibit 65ter No. 6543 p31 of English version, BCS p33

86. The amounts mentioned in the various documents referred to in this report are usually quoted in Yugoslav dinars. The value of the Yugoslav dinar relative to foreign currency varied tremendously for certain parts of the period 1991 - 1995. I have reviewed a large number of issues of the Belgrade based daily newspaper *POLITIKA* which publishes the daily exchange rate between Yugoslav dinar and foreign currency. I have also relied on data received directly from the current Governor of the National Bank of Yugoslavia (exhibit 65*ter* No. 6545).

87. Since the most commonly used foreign currency in the (S)FRY was DEM, I have used the DEM as the foreign currency reference. The Belgrade *POLITIKA* published two sets of exchange rates for certain parts of the period 1991 - 1995:

- A) the official exchange rate based on the values given by the NBY
- B) the unofficial exchange rate or a so-called "black market" rate.

88. For the periods where an unofficial rate existed (as listed in *POLITIKA*) I have also included this in the table in Appendix A to this report. The unofficial exchange rate was always higher than the official rate, with the result that, if dinars were exchanged for DEMs on the unofficial market, less DEMs would be received. During some of the periods discussed, especially in late 1993, the exchange rate changed frequently. The table, contained within Appendix A to this Report, should, in consequence, be interpreted with caution. Appendix B gives an overview of the different calculations I have conducted with specific reference to the exhibits referred to in this report. In my conversions of these dinar amounts into DEM I have used the official exchange rates applicable at the various points in time (as given by the dates referred to in the exhibits). These conversions into DEM are often very conservative estimates. For example, within exhibit 65*ter* No. 6526, the report by Miletić, where it is stated that a total of 77.8 billion dinars was received up until 31 December 1992, I have made conversions into DEM using the exchange rate at 28 November 1992 rather than an average exchange rate for this period. It may be the case, therefore, that more money was in fact provided than I have stated.

## **V Assistance to the Serb Controlled Districts in Croatia made by the Republic of Serbia**

89. Slobodan Milošević was the President of the Republic of Serbia from 1990 - 1997. According to the documents obtained by the OTP, the government institutions of the Republic of Serbia provided and/or facilitated the provision of the materials and funding needed by the Serb controlled districts in Croatia during 1991 and 1992, the time period relevant to the indictment.

90. The documents that I have reviewed demonstrate that the Republic of Serbia's MOD played a vital role in co-ordinating assistance made to the Serb controlled districts in Croatia. This is illustrated widely in the documents.

91. For instance, Prosecution exhibit 65ter No. 6168, dated 18 September 1991, is a request for a large quantity of ammunition, equipment and supplies, submitted by the Territorial Defence Main Staff of the SAO Krajina to Lieutenant General Tomislav Simović, Minister of Defence for the Republic of Serbia. It was signed by Interior Minister Milan Martić and Savo Radulović, TO Commander. Attached to the request is a list of necessary medical supplies signed by Dr. Marko Mažibrada, Assistant Chief of the Medical Corps of the SAO Krajina Armed Forces. This request contains a very lengthy list of military equipment, mostly ammunition and weapons, needed for several TOs at various locations in the Serbian Autonomous District of Krajina. The request states, *inter alia*:

In reference to your telegram confidential no. 5-259 of 12 September 1991, we hereby forward you the list of items needed by SAOK. The list of ammunition was compiled on the basis of weapons we have at the moment, calculating four b/k /combat sets/ of ammunition per weapon. In addition, many staffs have submitted requests for necessary weapons, which we enclose. Also enclosed please find a request for other necessary military equipment we need.

92. Prosecution exhibits 65ter Nos. 6564 and 6546 are letters from the MOD of the Republic of Serbia to the Government of the Republic of Serbia, dated 1 November 1991, concerning the provision of resources and funds to the Serbian Districts in Croatia. Exhibit 65ter No. 6564 is a cover letter from the MOD (signed by Assistant Minister Branislav Kuzmanović) addressed to the Secretary of the Government of the Republic of Serbia (Budimir Joković) regarding the inclusion of the subject of assistance to the Serb controlled districts in Croatia on the agenda for that day's session of the Government.

Exhibit 65ter No. 6546, an attachment to Exhibit 65ter No. 6564, is a letter from the Minister of Defence of the Republic of Serbia, Lt. Gen. Tomislav Simović, to the Government of Serbia regarding the funds to be provided by the MOD of the Republic of Serbia to the “Serbian People” in Croatia. The letter mentions that the total necessary material and financial assistance to Serbs in Croatia from Republic of Serbia MOD resources until the end of 1991 would amount to 1,285,456,700.00 dinars. Six documents are attached to this letter and provide details concerning the amounts described in the letter:

Assistance has already been provided to the Serbs in Croatia but there is still an urgent need, as well as numerous requests and demands, for assistance in material supplies and equipment falling under the jurisdiction of the MOD of the Republic of Serbia and for financial resources from the Republican Budget and the national defence funds of municipalities, the former MRZ /intermunicipal regional communities/, the City of Belgrade, AP /Autonomous Provinces/, and other sources.

Having considered top priorities several times and having reduced them to the most essential needs of the Serbs in Croatia, we believe that by the end of 1991 the Republic of Serbia should provide them with material assistance to the amount of 80,256,700.00 dinars, of which 21,500,000.00 dinars’ worth of communications equipment, 25,891,700.00 dinars’ worth of civilian protection equipment and the NVO /weapons and military equipment/ and 32,865,000.00 dinars’ worth of assistance to meet other needs, as indicated in the specification of needs provided in Attachments 1, 2 and 3 of this Report.

The financial assistance that should be provided for November and December 1991 amounts to 1,205,200,000.00 dinars. This has been calculated for the approximate numerical strength – about 50,000 men – of the TO /Territorial Defence/ of the Krajina SAO /Serbian Autonomous District/, Western Slavonia and the SO /Serbian District/ of Slavonia, Baranja and Western Srem. It is based on the salaries, daily allowances and other emoluments, as well as the contributions for the pension and disability fund, medical insurance and children’s allowance of all categories of conscripts, as indicated in Attachments 4, 5 and 6 of this Report.

It is further stated:

We believe that very good results would be achieved towards joint aims if the Republic of Serbia ensured the assistance to meet the said needs, with the help of all social institutions and this Ministry, which could allocate assistance from the supplies it still has in its depots. (C4348)

The amount suggested to be received from the Republic of Serbia to Serb controlled districts in Croatia was 1,205,200,000 dinars. This amount, according to

official exchange rates, was equivalent to 92.7 million DEM. These documents demonstrate that during the time period relevant to the indictments, the highest political and military leaders of the Republic of Serbia were closely involved in decisions to provide financing and materials to the Serb controlled districts in Croatia.

93. Prosecution exhibit 65ter No. 6107, dated 11 December 1991, is a letter from Branislav Kuzmanović, Assistant Minister of Defence of the Republic of Serbia, to the SAO Krajina TO Headquarters. The letter refers to a request for materials from the TO headquarters in Lika, within the SAO Krajina. The response from the Republic of Serbia MOD is that such requests should come through the SAO Krajina Headquarters. Thus, the Republic of Serbia MOD insists upon a clear system and procedure for requests for assistance from the TOs of the Serb controlled districts in Croatia.

94. Similarly, exhibit 65ter No. 6275 contains a request, dated 16 December 1991, from the Headquarters of the SAO Krajina Territorial Defence to the MOD of the Republic of Serbia regarding the need for military equipment. Exhibit C4391 also contains a letter, dated 25 December 1991, from the SAO Krajina Territorial Defence Staff to the Ministry of National Defence of the Republic of Serbia regarding problems in TO units and staffs in the Srsпка Krajina:

...It is necessary to definitely regulate the financing of TO, the same as for the other components of OS armed forces because the activities of the units are not known and cannot be planned.

The Government of Krajina has decided to deduct fees from the means received as compensation during combat actions from the Ministry of Defence of Serbia...

This document supports my observation earlier in the report that the financing of the armies of the (S)FRY and the Serb controlled districts in Croatia formed part of a single financing plan. In addition, this document indicates that the SAO Krajina received funding during the period prior to the date of this document.

95. Prosecution exhibit 65ter No. 6115 is a letter, received on 8 February 1992, from the Republic of Serbia MOD to the Headquarters of the TO of the SAO Krajina for the territories of Knin and Lika concerning the transfer of funds for the purchase of building materials.

96. In Prosecution exhibit 65ter No. 6550, a letter dated 10 February 1992, from Milan Martić, RSK Minister of Interior, to the Republic of Serbia Minister of Interior Zoran Sokolović, we see a request for assistance coming from the RSK to the highest levels of the Republic of Serbia Government. Milan Martić observes that the Krajina TO received part of its finances from the Republic of Serbia, but that the largest part of the TO funds came from the army budget (i.e from the SFRY budget). The letter further indicates that the funds previously transferred from the Republic of Serbia to the Krajina TO would subsequently be transferred to the RSK MUP. Thus, it is clear that such financial assistance has already occurred for some time:

I would like to inform you that the amount of 38,000,000 dinars [451,306 DEM] is located in the Glina SDK. These funds were paid earlier for the benefit of the TO, but since the largest part of the defence, i.e. the defenders, was financed from the army budget, these funds have been lying unspent for quite some time now.<sup>27</sup>

97. Prosecution exhibit 65ter No. 6552 is a letter, dated 14 October 1992, from the RSK Minister of Defence Stojan Spanović to the Republic of Serbia Minister of Defence Marko Negovanović. The RSK MOD seeks funds from the Serbian MOD which were normally provided pursuant to a pre-established plan:

Therefore, we ask you to transfer to us the planned funds of approximately 200 million per month [1.4 million DEM], otherwise it will be impossible to maintain the whole system for paying the army we have created. We know the financial difficulties you are facing, but we believe that you will find a way to provide these funds, especially as they are not outside the total planned quota.

This document confirms the existence of a structured financial plan comprising rigorously arranged quotas for the provision of financial assistance to the RSK.

98. The President of the Republic of Serbia, Slobodan Milošević, was personally involved in decisions to provide support to the Serb controlled districts in Croatia. We can conclude this from exhibit 65ter No. 6521, an official record of a meeting on 12 November 1992 between representatives of the Government of the RSK (including Goran Hadžić and Milan Martić) and members of the government of the Republic of Serbia (including President Slobodan Milošević and the Governor of the National

Bank). The venue of the meeting was the office of Slobodan Milošević. During this meeting, the parties agreed on the outline of a defence system for the RSK. It was also agreed that the Republic of Serbia would ensure the necessary funding for this defence system for the RSK and, further, that Slobodan Milošević would direct the VJ to finance the military officers and civilian personnel that remained in the RSK:

The way of financial help to the Krajina till the end of this year was established at the meeting. From the domain of the defence, the question of outlining the organisation of the Army of the Republic of the Serbian Krajina and the question of financing were set in motion.

The president, Mr. Milošević, accepted the concept of forming the defence system of Krajina and the basis of this system should consist of 23,000 people....

The resolution to immediately start the planning of the means for the needs of the Army and the police, the way it was in 1992, was accepted. This will be accomplished through the MOD of the Republic of the Serbian Krajina and the MOD of the Republic of Serbia.

The president Milošević stated his attitude that the means for the maintenance of the technical devices should be planned via the Yugoslav Army and he said that he will help in realising it and that he will initiate the Yugoslav Army to finance the active officers and the civil personnel that stayed in Krajina. All other needs for financing the defence should be planned through the MOD. It was agreed that they would immediately start to plan the means in order to finish this process in time.

In this meeting, which implicitly addresses planning for the remaining part of 1992 and for 1993, Slobodan Milošević accepts the size and structure of a defence plan for the RSK. He further agrees that this plan should be financed in the same manner as similar assistance that occurred in 1992.

99. Moreover, Slobodan Milošević, in a statement made on 2 April 2001, protesting against his detention in custody, remarks, *inter alia*:

As regards the resources spent for weapons, ammunition and other needs of the Army of Republika Srpska and the Republic of Serbian Krajina, these expenditures constituted a state secret.... As to the exceptional amount of material gain quoted as a reason for custody, the question arises: for whom? For the Army of Republika Srpska, the security organs, the Army of the Republic of Serbian Krajina, to help the people across the Drina river, the textile and metal workers and others financed through Beogradska Banka in the most difficult social situation and during a total external blockade. (Exhibit 65ter No. 6523)

100. Also in Prosecution exhibit 65ter No. 6011, Slobodan Milošević takes responsibility for financing the VRS. For instance, in a statement, reported by the Yugoslav News Agency, Tanjug, on 11 May 1993, as printed in a special supplement on the former Yugoslavia, dated 13 May 1993, Milošević remarks:

...In the past two years, the Republic of Serbia - by assisting Serbs outside Serbia - has forced its economy to make massive efforts and its citizens to make substantial sacrifices. These efforts and these sacrifices are now reaching the limits of endurance. Most of the assistance was sent to people and fighters in Bosnia-Herzegovina... (65ter No. 6011)

Later in the same statement, Slobodan Milošević observes:

Serbia has lent a great, great deal of assistance to the Serbs in Bosnia. Owing to that assistance they have achieved most of what they wanted.

101. Prosecution exhibit 65ter No. 6524 is a letter, dated 28 April 1993, from Milan Martić, the RSK Minister of the Interior, to the offices of: the President of the Republic of Serbia, Slobodan Milošević, the Prime Minister of the Republic of Serbia, Nikola Šainović and the Minister of Interior, Zoran Sokolović. Martić seeks money to increase the salaries of his policemen since there are no funds in the RSK budget for this. He goes on to remark that the RSK has no real sources from which to fill its budget. Martić also pointedly notes that the leadership of the Republic of Serbia, including Slobodan Milošević, one of the co-addressees of the letter, is aware of the RSK government's lack of resources:

The highly unfavourable material and financial situation of this Ministry and the Republic of the Serbian Krajina have compelled us to ask you for assistance as far as you can.

The salaries of our employees – policemen – are very low, amounting to about 900,000 (nine hundred thousand) dinars last month. Of course, an amount this low cannot cover even the basic living costs.

There are no funds in the budget of the RS Krajina for any significant increase as the RS Krajina has no real sources from which to fill its budget, as you certainly know.

...we believe you will find ways to secure certain funds and send them to this Ministry as assistance.

102. In addition to the requirements of the RSK police, Slobodan Milošević was kept informed of the material and personnel needs of the SVK. Prosecution exhibit 65ter No. 6116 is a letter from the President of the RSK, Goran Hadžić, dated 4 June 1993, to the President of the Republic of Serbia, Slobodan Milošević:

Dear Mr. Milošević,

.....We need all help in technical maintenance of weapons and acquisition of ammunition, grease and petrol. All weapons and ammunition we get from the Yugoslav Army, although we are trying very hard to be economical, are not sufficient for normal rear fire supports. Spare parts for damaged material are scarce. We are not financially in a position to make up for medium and general service which may be done by the institutions of the Yugoslav Army...

We ask you to try to exercise your authority and influence the realization of our requests presented to the General Staff of the Yugoslav Army as soon as possible.

Thus, not only was Slobodan Milošević kept informed of the needs of the SVK, he was also aware that the VJ, the army of the FRY, was providing support to the SVK.

### **Training centre at Erdut**

103. I have reviewed documents relating to expenses of the SAO SBWS. In particular, I have reviewed documents which demonstrate that at the same time as the SAO SBWS Government (the Serb controlled district in Slavonia, Baranja and Western Srem) received funding from Belgrade, as we have seen in exhibits 65ter Nos. 6564 and 6546, it paid for part of the expenses of the Special Training Centre for the Serb paramilitary group known as "Arkan's Tigers," located in Erdut. In November 1999, OTP investigators seized a considerable number of records of the Dalj socially-owned Enterprise (hereinafter the "Dalj Company") located close to Erdut.

104. For instance, Prosecution exhibit 65ter No. 6525 is a letter from the Special Training Centre of the TO of the SAO SBWS in Erdut to the Dalj Company. The letter is signed by Ž. Ražnatović ("Arkan") and concerns levels of expenses incurred by his Training Centre.

105. I have reviewed a large number of invoices and delivery notes (part of the company records of the Dalj Company) that were issued to the "Arkan" Special Training Centre. Most of the invoices concern the provision of food supplies to the Special Training Centre, but there are also invoices regarding the supply of uniforms, police equipment and other materials. The Dalj Company paid for invoices issued to the Special Training Centre in 1991, 1992 and 1993. These invoices and other records indicate that the Dalj Company was reimbursed by the SAO SBWS Government for part of the expenses it incurred for the Special Training Centre. For example, exhibit Prosecution 65 ter exhibit No. 6522 is an undated letter from the MOD of the SAO SBWS regarding the approval of the reimbursement of expenses:

We hereby agree that the expenses of the Territorial Defence Centre for the Training of Volunteers in Erdut will be reimbursed to the socially-owned enterprise Dalj, which will make the payment in the currency time limit /as printed/ and cover the current costs of the Centre.

106. The documents examined indicate that the reimbursements were carried out according to the agreement entered into by the SAO SBWS MOD. For example, exhibit 65ter No. 6540 is an invoice, dated 22 January 1992, from the Dalj Company addressed to the SAO SBWS MOD in Erdut for the expenses of the Arkan Training Centre for the amount of 1,001,550.70 dinars [15,408 DEM]. Exhibit 65ter No. 6541 is a document addressed to the MOD in Erdut from the Dalj Company containing a list of invoices for 1991 which were paid on 9 April 1992 for a total amount of 2,000,000.00 dinars [23,529 DEM] and a further list of invoices that were not paid.

107. The documents also demonstrate a working financial relationship between the Dalj Company and the SAO SBWS. They go on to indicate the dependent financial relationship between the Serb controlled districts in Croatia (which included the SAO SBWS) and the Republic of Serbia.

## **VI Assistance to the Serb controlled Districts in Croatia and Bosnia and Herzegovina made by the (Socialist) Federal Republic of Yugoslavia**

108. I have reviewed documents that show that the orders of the Federal Secretariat of National Defence (hereinafter the "SSNO"), executed and implemented by the JNA and afterwards by the VJ, enabled a level of logistical support to the Serb controlled

districts in Croatia and BiH. This support continued well after the JNA withdrew from Croatia and BiH. In this report I only address those orders that make reference to financial matters. More specifically military orders, which make no reference to finance, will be analysed in the forthcoming Expert Military Report. Examples of such documents are to be found under exhibits *65ter* Nos. 6195 and 2000.

109. Prosecution exhibit *65ter* No. 6537 is an order dated 7 April 1992 from the SSNO regarding the establishment of TO logistics bases in the RSK. A one-year financing plan would ensure that the needs of the TO units on the territory of the RSK were met. Material supplies were to come from the JNA reserves. The order directs that:

...All the expenses of unit preparations and relocation are to be included into one-year plan for financing of the units. In accordance with the schematics for the logistic bases and reliance of the Territorial Defense units on logistic bases of the military zone, development planing and finance management will ensure that the financial needs of the TO units on the territory of RS Krajina are covered.

110. Colonel General Ratko Mladić provides an analysis of the importance to the VRS of this support to the Serb controlled districts in BiH in an early report to the VRS Main Staff, dated September 1992. Regarding the establishment of the VRS and the transformation of parts of the former JNA into the VRS, Mladić states:

The decisions of the Assembly of Republika Srpska /RS/ of 12 May 1992 enabled the armed people, the Serbs in the former JNA and the available material and equipment /to be used/ to transform the units and form the Army of Republika Srpska,... (*65ter* No. 380, ERN 0104-2296, ERN translation 0110-3317)

On the transformation of the JNA into the VRS, Mladić continues:

Our Army is one of the rare ones in history to have started a liberation war with a very solid material base especially as concerns combat hardware, ammunition, and food reserves. Apart from the Army, the civilian population and institutions are also using a large quantity of this, especially food and fuel. According to some rough estimates, the Army is supporting about 20% of the population with its material reserves.<sup>28</sup>

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<sup>28</sup> ERN 0104-2299, ERN translation 0110-3320

111. Prosecution exhibit 65ter No. 379, the "Analysis of Combat Readiness and Activities of the Army of Republika Srpska in 1992" dated April 1993, and issued by the Main Staff of the Army of the RS, reinforces Mladić's analysis. This report demonstrates the extent to which the VRS was supported by the FRY and the JNA/ VJ in 1992 and 1993.

112. For instance, wages and quartermaster supplies in 1992 were paid exclusively through a letter of credit opened with the SDK in Banja Luka. A report, Prosecution exhibit 65ter No. 2008, concerning the 1st Krajina Corps, entitled "Analysis of Activity concerning elements of Combat Readiness in 1992" dated February 1993, goes on to say:

In 1992, a total of 18,417,846,000 dinars [39,388,037 DEM] was paid out against the Corps' letter of credit for the following purposes:

- quartermaster support	7,715,000,000 dinars
- technical support	760,000,000 dinars
- construction support	175,000,000 dinars
- medical support	60,000,000 dinars
- transportation support	10,000,000 dinars
- soldiers' wages	9,182,846,000 dinars <sup>29</sup>

The report outlines the sources of supply for the 1st Krajina Corps, as follows:

- our own reserves;
- federal and republican reserves on the territory of RS at the discretion of the Main Staff of the VRS and with corresponding orders;
- from the reserves and warehouses (market) of the FRY upon permission being granted and directly;
- gifts and donations from within the country and from abroad;
- the use of war booty.<sup>30</sup>

113. Supply problems are identified in a logistics request made internally within the Krajina Corps of the VRS:

...I am asking you to settle this matter with the GS (General Staff) of the Army of SRJ, who should, and in our opinion has a duty to, help us financially for the purpose of successful combat actions. (65ter No. 6533)

<sup>29</sup> ERN 0060-7518, ERN translation 0190-5602

<sup>30</sup> ERN 0060-7512, ERN translation 0190-5598

114. I have already referred to exhibit 65ter No. 379. It is a document issued by the Main Staff of the Army of the RS in April 1993 in which the VRS analyses its combat readiness and activities since its formation on 20 May 1992. There was no war production to meet the needs of the VRS, and no imports, except from the FRY:<sup>31</sup>

...it was only thanks to the maximum efforts and commitment on the part of all factors in the Republic and the Army, and the assistance of FRY and donors that the basic necessities for life and combat activities could be assured. This situation remained basically unchanged until the end of the year.<sup>32</sup>

115. So, the financing by the FRY of the SVK and VRS continued well after spring 1993. Prosecution exhibit 65ter No. 6114, for instance, is a document, dated 30 September 1993, from the FRY MOD stating that aid has been approved in the FRY budget for allocation to the RSK in the sum of 480.259 billion dinars [5.6 million DEM].

116. Likewise, a memorandum, Prosecution exhibit 65ter No. 645, dated December 1993, by the Chief of the Office of the SVK Commander Čedo Radanković, for a meeting at the VJ General Staff on the co-ordination of tasks (on 17 December 1993) demonstrates that even at the end of 1993, the FRY was still financing the armies of the RS and the RSK. Moreover, it was expected to continue to do so into 1994:

We have learned unofficially that of the above total balance of requirements for 1994, the Federal Government will only be able to provide USD 850 million [1.5 Billion DEM] for all three armed forces instead of USD 3.29 billion, i.e. 25.82% of the stated requirements. For the SVK this would amount to USD 79.43 million instead of USD 307.30 million.

Aware of the situation that we are all in together and the continuing unfavourable trends in all areas of life, we ask that at least these minimal finances not be reduced any further.<sup>33</sup>

I would highlight in this document the reference to the "three armed forces", namely the armies of the RS, the RSK and the FRY. It is clear that all three armies are being financed under one plan.

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<sup>31</sup> Combat Readiness Report, ERN BCS 0060-7424, ERN translation 0110-3114.

<sup>32</sup> Combat Readiness Report, ERN BCS 0060-7428, ERN translation 0110-3120.

<sup>33</sup> ERN 0207-8161, ERN translation L004-6455/56

117. Prosecution exhibit 65ter No. 6109 is a letter dated 22 November 1994 from the RSK Minister of Defence to the FRY Minister of Defence concerning a request for financial and material resources for the army of the RSK (SVK) for 1995. It is stated, *inter alia*:

We ask the Minister to assent to the financial and material resources in amount of 100,000,000 dinars for the needs of material security of the SAK in 1995.<sup>34</sup>

With the mentioned amount the needs of 22,500 persons will be secured (20,000 soldiers, 2000 policemen and 500 civilians) in food, clothes and salaries according to the criteria of the VJ decreased for 25%.

The mentioned amount could be partly realized with material resources with which the Yugoslav Army regularly regenerates material war reserves.

118. Prosecution exhibit 65ter No. 523 contains the minutes of the 50th session of the National Assembly of Republika Srpska held in Sanski Most on 15 - 16 April 1995. The Commander of the Main Staff of the VRS, Colonel General Ratko Mladić, presented a report regarding the current situation in the VRS. It is stated in the report that the VRS received a large part of their ammunition from the supplies inherited from the JNA and from supplies later provided by the JNA/VJ. A detailed breakdown of these supplies appears in the report.<sup>35</sup> Mladić also makes remarks concerning the payments of officers and civilians:

From the beginning of the war, RS did not participate in financing of professional army members.<sup>36</sup>

From 20 May 1992 to 31 August 1994, 1700 civilians received salaries from the SRY budget. From August 1994, these people have only been receiving allowance, and no money has been paid to the pension fund. This is a task of the governments of SRJ and RS.<sup>37</sup>

119. Prosecution exhibit 65ter No. 6548 is a document, dated 5 May 1994, containing information from the Sarajevo-Romanija Corps Command (a corps of the VRS) regarding conscript salaries for February 1994. The VRS General Staff was having problems securing cash for conscript salaries from the NBY:

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<sup>34</sup> According to the official exchange rate published in *Politika* in Belgrade on 20 December 1994, this amount was equivalent to 100,000,000 DEM.

<sup>35</sup> ERN 0084-5822; ERN translation L000-4909

<sup>36</sup> ERN 0084-5813; ERN translation L000-4907

<sup>37</sup> ERN 0084-5817-0084-5818; ERN translation L000-4908

...In our daily contacts with the National Bank of Yugoslavia, due to substantial problems we have so far been unable to secure that cash, they have promised us that they would secure the cash by 6 May 1994, so that the payment would commence on 9 May 1994 at the latest...

120. This supply of salary payments was made, according to section IV of my report, pursuant to an agreement with the NBY in Belgrade for the NBY to cover the deficit of the RS budget.

121. VRS officers and non-commissioned officers continued to be financed by the FRY right up until 2002. Regarding the payment of salaries to VRS members financed by the FRY, it is stated, *inter alia*:

VRS Officers and non-commission (sic) officers received pay as members of the 30th Personnel Center of the Yugoslav Army, until 28 February 2002.<sup>38</sup>

## VII Final Conclusions

122. This report has analysed the variety of ways in which the (S)FRY, the Republic of Serbia, the National Bank of Yugoslavia and the JNA/VJ provided financial assistance, military and logistical support to the Serb controlled districts in Croatia, BiH, the RS and the RSK and to the VRS and the SVK.

123. In short, the documents demonstrate that the RS and the RSK existed and were able to fund their armed forces and civilian institutions in the indictment period only with financial assistance from the (S)FRY. They show the mechanisms by which this financial assistance was provided. Finally, they demonstrate that, in this financial relationship, the RS, the RSK and (S)FRY were treated as one entity, with the RS and RSK always subordinate to the (S)FRY.

124. Moreover, this report has also analysed the extent to which the decisions to provide this support were taken by the leaders of the highest military and political bodies within the Republic of Serbia and the (S)FRY, including Slobodan Milošević himself.

The Hague, 18<sup>th</sup> November 2002 (Revised 12 September 2008)

<sup>38</sup> FI04-4444, exhibit 65ter No. 6544

## VIII GLOSSARY OF TERMS

- ARSK:** Army of the Republic of Serb Krajina (see SVK)
- BiH:** *Bosna i Hercegovina* Bosnia-Herzegovina
- FRY:** Federal Republic of Yugoslavia (successor to the SFRY; see SRJ)
- GŠ:** *Glavni Štab* Main Staff (predecessor to the General Staff)
- GŠ:** *Generalštab* General Staff (successor to the Main Staff)
- JA:** *Jugoslovenska armija* Yugoslav armed forces; successor to the JNA (see VJ)
- JNA:** *Jugoslovenska narodna armija* The Yugoslav People's Army
- KK:** *Krajinski korpus* Krajina Corps (1 –2) (VRS)
- MD:** Military District (JNA) (see VO)
- MO:** *Ministarstvo odbrane* MOD (MOD)
- MOD:** MOD
- MUP:** *Ministarstvo unutrašnjih poslova* Ministry of Interior.
- NBJ:** *Narodna banka Jugoslavije* National Bank of Yugoslavia (NBY)
- NBRB:** *Narodna banka Republika Srpska* National Bank of Republika Srpska
- NBRBK:** *Narodna banka Republika Srpska Krajine* National Bank of Republika Srpska Krajina
- NVO:** *Naoružanje i vojna oprema* Armament and Military Equipment
- RS:** *Republika Srpska* Serb Republic (Successor to the SRBH)
- RSK:** *Republika Srpska Krajina* The Republic of Serb Krajina (Self-declared state of the Serbs in Croatia)
- SAO:** *Srpska Autonomna Oblast*: Serbian Autonomous Region. Self-declared Serb-held areas of Croatia and Bosnia-Herzegovina
- SBWS:** Slavonia, Baranja and Western Sirmium (Srem)
- SDK:** *Služba društvenog knjigovodstva* State Accounting Service
- SDS:** *Srpska demokratska stranka* Serbian Democratic Party
- SFRJ:** *Socijalistička Federativna Republika Jugoslavija* The Socialist Federal Republic of Yugoslavia (SFRY)
- SPO:** *Srpski pokret obnove* The Serbian Renewal Movement
- SPS:** *Socijalistička partija Srbije* The Socialist Party of Serbia
- SRBiH:** *Socijalistička Republika Bosna i Hercegovina* Socialist Republic of Bosnia-Herzegovina (predecessor to BiH)
- SRBH:** *Srpske Republike Bosne i Hercegovine* Serb Republic Of Bosnia-Herzegovina (self-declared state of the Bosnian Serbs in BiH)
- SRJ:** *Savezna Republika Jugoslavija* Federal Republic of Yugoslavia (successor to the SFRY; see FRY)
- SRK:** *Sarajevsko-Romanijski korpus* (VRS)
- SSNO:** *Savezni sekretarijat za narodnu odbranu* Federal Secretariat for People's (or National) Defence (SSNO)
- SSUP:** *Savezni sekretarijat unutrašnjih poslova* Federal Secretariat of Internal Affairs
- SVK:** *Srpska Vojska Krajine* Serbian Army of Krajina (See ARSK)
- TANJUG:** *Telegrafaska agencija nove Jugoslavije* Yugoslav (state) press agency
- TO:** *Teritorijalna odbrana* Territorial Defence
- VJ:** *Vojska Jugoslavije* The Army of Yugoslavia (successor to the JNA) (See JA)
- VO:** *Vojna oblast* Military District (JNA)

## IX APPENDIX A- EXCHANGE RATES

**Table of Exchange Rates between German Deutsche Mark and Yugoslav Dinar**

Exchange Rate Date	YU Dinar (Official)	YU Dinar (Black Market)	Deutsche Mark	Source	Politika Date
<b><u>1991</u></b>					
01-Jan-91	9.0	n/a	1	<i>Politika</i>	30-Dec-90
01-Feb-91	9.0	n/a	1	<i>NBY</i>	n/a
01-Mar-91	9.0	n/a	1	<i>NBY</i>	n/a
30-Mar-91	9.0	n/a	1	<i>Politika</i>	01-Apr-91
30-Apr-91	13.0	n/a	1	<i>Politika</i>	30-Apr-91
01-May-91	13.0	n/a	1	<i>NBY</i>	n/a
01-Jun-91	13.0	n/a	1	<i>Politika</i>	01-Jun-91
29-Jun-91	13.0	n/a	1	<i>Politika</i>	01-Jul-91
01-Jul-91	13.0	n/a	1	<i>NBY</i>	n/a
01-Aug-91	13.0	n/a	1	<i>Politika</i>	01-Aug-91
02-Sep-91	13.0	n/a	1	<i>Politika</i>	02-Sep-91
03-Sep-91	13.0	n/a	1	<i>NBY</i>	n/a
01-Oct-91	13.0	22.1	1	<i>Politika</i>	01-Oct-91
01-Nov-91	13.0	39.0	1	<i>Politika</i>	01-Nov-91
01-Nov-91	13.0	39.0	1	<i>Politika</i>	01-Nov-91
29-Nov-91	13.0	45.0	1	<i>Politika</i>	01-Dec-91
03-Dec-91	13.0	n/a	1	<i>NBY</i>	n/a
<b><u>1992</u></b>					
01-Jan-92	13.0	n/a	1	<i>NBY</i>	n/a
03-Jan-92	13.0	85.0	1	<i>Politika</i>	03-Jan-92
01-Feb-92	65.0	110.0	1	<i>Politika</i>	01-Feb-92
10-Feb-92	84.2	115.0	1	<i>Politika</i>	10-Feb-92
01-Mar-92	84.2	142.0	1	<i>Politika</i>	01-Mar-92
03-Mar-92	84.2	n/a	1	<i>NBY</i>	n/a
01-Apr-92	85.0	335.0	1	<i>Politika</i>	01-Apr-92
29-Apr-92	200.0	550.0	1	<i>Politika</i>	29-Apr-92
01-May-92	200.0	n/a	1	<i>Politika</i>	03-May-92
01-Jun-92	200.0	830.0	1	<i>Politika</i>	01-Jun-92
19-Jun-92	200.0	1,170.0	1	<i>Politika</i>	19-Jun-92
25-Jun-92	200.0	1,300.0	1	<i>Politika</i>	25-Jun-92
01-Jul-92	130.9	1,500.0	1	<i>Politika</i>	01-Jul-92
30-Jul-92	135.6	230.0	1	<i>Politika</i>	02-Aug-92
01-Aug-92	135.3	n/a	1	<i>NBY</i>	n/a
01-Sep-92	141.8	300.0	1	<i>Politika</i>	01-Sep-92
01-Oct-92	141.9	295.0	1	<i>Politika</i>	01-Oct-92
30-Oct-92	129.4	410.0	1	<i>Politika</i>	01-Nov-92
03-Nov-92	129.5	n/a	1	<i>NBY</i>	n/a
28-Nov-92	467.6	820.0	1	<i>Politika</i>	02-Dec-92
03-Dec-92	477.0	n/a	1	<i>NBY</i>	n/a

**1993**

04-Jan-93	465.2	n/a	1	NBY	n/a
16-Jan-93	448.8	2,800.0	1	Politika	17-Jan-93
02-Feb-93	461.7	n/a	1	NBY	n/a
02-Mar-93	454.3	n/a	1	NBY	n/a
09-Mar-93	437.2	19,000.0	1	Politika	09-Mar-93
01-Apr-93	463.2	n/a	1	NBY	n/a
01-Apr-93	450.3	28,000.0	1	Politika	01-Apr-93
04-May-93	39,386.0	n/a	1	NBY	n/a
04-May-93	38,286.0	90,000.0	1	Politika	04-May-93
01-Jun-93	57,471.0	n/a	1	NBY	n/a
01-Jun-93	56,129.0	400,000.0	1	Politika	01-Jun-93
01-Jul-93	1,172,064.0	n/a	1	NBY	n/a
01-Jul-93	1,151,128.0	n/a	1	Politika	01-Jul-93
31-Jul-93	10,794,434.0	n/a	1	Politika	01-Aug-93
03-Aug-93	12,118.5	n/a	1	NBY	n/a
01-Sep-93	88,959,812.0	n/a	1	NBY	n/a
01-Sep-93	86,475,609.0	n/a	1	Politika	01-Sep-93
01-Oct-93	302.4	n/a	1	NBY	n/a
01-Oct-93	294.0	n/a	1	Politika	01-Oct-93
01-Nov-93	2,418.9	n/a	1	NBY	n/a
30-Oct-93	2,351.4	n/a	1	Politika	01-Nov-93
27-Nov-93	12,500,000.0	n/a	1	Politika	01-Dec-93
02-Dec-93	46,292,724.0	n/a	1	NBY	n/a

**1994**

04-Jan-94	4,000.0	n/a	1	Politika	04-Jan-94
04-Jan-94	7,201.0	n/a	1	NBY	n/a
01-Feb-94	1.0	n/a	1	Politika	01-Feb-94
01-Mar-94	1.0	n/a	1	Politika	01-Mar-94
01-Apr-94	1.0	n/a	1	Politika	01-Apr-94
30-Apr-94	1.0	n/a	1	Politika	04-May-94
06-May-94	1.0	n/a	1	NBY	n/a
01-Jun-94	1.0	n/a	1	Politika	01-Jun-94
01-Jul-94	1.0	n/a	1	Politika	01-Jul-94
02-Aug-94	1.0	n/a	1	NBY	n/a
01-Sep-94	1.0	n/a	1	Politika	01-Sep-94
30-Sep-94	1.0	n/a	1	Politika	01-Oct-94
01-Oct-94	1.0	n/a	1	NBY	n/a
01-Nov-94	1.0	n/a	1	Politika	01-Nov-94
02-Dec-94	1.0	n/a	1	NBY	n/a
20-Dec-94	1.0	n/a	1	Politika	20-Dec-94
31-Dec-94	1.0	n/a	1	Politika	04-Jan-95

**1995**

04-Jan-95	1.0	n/a	1	NBY	n/a
01-Feb-95	1.0	n/a	1	NBY	n/a
02-Feb-95	1.0	n/a	1	Politika	02-Feb-95
01-Mar-95	1.0	n/a	1	Politika	01-Mar-95
01-Apr-95	1.0	n/a	1	Politika	01-Apr-95
29-Apr-95	1.0	n/a	1	Politika	03-May-95
01-May-95	1.0	n/a	1	NBY	n/a
01-Jun-95	1.0	n/a	1	Politika	01-Jun-95
01-Jul-95	1.0	n/a	1	Politika	01-Jul-95
22-Jul-95	1.0	n/a	1	Politika	24-Jul-95
01-Aug-95	1.0	n/a	1	Politika	01-Aug-95
01-Sep-95	1.0	n/a	1	Politika	01-Sep-95
30-Sep-95	1.0	n/a	1	Politika	01-Oct-95
02-Oct-95	1.0	n/a	1	NBY	n/a
01-Nov-95	1.0	n/a	1	Politika	01-Nov-95
29-Nov-95	3.3	n/a	1	Politika	01-Dec-95
01-Nov-95	3.3	n/a	1	NBY	n/a
30-Dec-95	3.3	N/a	1	Politika	01-Jan-96

**Sources:** *POLITIKA, the Belgrade-based newspaper and data received by fax from the Governor of the NBY (Exhibit 65ter No. 6545),*

For the black market the source is exclusively POLITIKA and I have used the selling rate

## APPENDIX B-EXCHANGE CALCULATIONS

**Table Showing Exchange Rate Calculations Between Yugoslav Dinar and Deutsche Mark**

<b>Exhibit</b>	<b>Date</b>	<b>Dinar Amount</b>	<b>Ratio</b>	<b>DEM Amount</b>	<b>Source</b>	<b>Date of Rate</b>
6531	21-06-1991	17,800,000,000	13	1,369,230,769	<i>Politika</i>	29-06-1991
6532	21-08-1991	3,170,000,000	13	243,846,154	<i>Politika</i>	02-09-1991
6532	21-08-1991	40,000,000,000	13	3,076,923,077	<i>Politika</i>	02-09-1991
6560	01-09-1991	40,500,000,000	13	3,115,384,615	<i>Politika</i>	02-09-1991
6560	01-09-1991	70,800,000,000	13	5,446,153,846	<i>Politika</i>	02-09-1991
6560	01-09-1991	19,100,000,000	13	1,469,230,769	<i>Politika</i>	02-09-1991
6562	09-09-1991	22,500,000,000	13	1,730,769,231	<i>Politika</i>	02-09-1991
6526	1994	77,800,000,000	468	166,381,523	<i>Politika</i>	28-11-1992
6547	02-06-1995	12,506,000	1	12,506,000	<i>Politika</i>	01-06-1995
6550	10-02-1992	38,000,000	84	451,306	<i>Politika</i>	01-02-1992
6530	Jun-92	2,000,000,000	200	10,000,000	<i>Politika</i>	01-06-1992
6526	1994	77,800,000,000	468	166,381,523	<i>Politika</i>	28-11-1992
6526	1994	11,100,000,000	468	23,738,238	<i>Politika</i>	28-11-1992
6526	1994	66,700,000,000	468	142,643,285	<i>Politika</i>	28-11-1992
6529	15-04-1992	5,000,000,000	200	25,000,000	<i>Politika</i>	29-04-1992
6114	30-09-1993	480,259,000,000,000	86,475,609	5,553,693	<i>Politika</i>	01-09-1993
6554	04-01-1994	10,000,000	4,000	2,500	<i>Politika</i>	04-01-1994
6554	04-01-1994	5,000,000	4,000	1,250	<i>Politika</i>	04-01-1994
6549	25-06-1992	2,000,000,000	200	10,000,000	<i>Politika</i>	25-06-1992
6553	19-06-1992	12,900,000,000	200	64,500,000	<i>Politika</i>	19-06-1992
6556	24-07-1995	10,000,000	1	10,000,000	<i>Politika</i>	22-07-1995
6539	08-08-1992	56,298,844,850	136	413,962,094	<i>Politika</i>	30-06-1992
6538	24-11-1992	100,000,000	468	213,675	<i>Politika</i>	28-11-1992
6526	1992	7,450,000,000	468	15,932,421	<i>Politika</i>	28-11-1992
6526	1992	17,500,000,000	468	37,425,150	<i>Politika</i>	28-11-1992
6546	01-11-1991	1,205,200,000	13	92,707,692	<i>Politika</i>	29-11-1991
6540	22-01-1992	1,001,550	65	15,408	<i>Politika</i>	01-02-1992
6541	09-04-1992	2,000,000	85	23,529	<i>Politika</i>	01-04-1992
2008	Feb-93	18,417,846,000	468	39,388,037	<i>Politika</i>	28-11-1992
6552	14-10-1992	200,000,000	142	1,408,451	<i>Politika</i>	01-10-1992