

**INTERNATIONAL MONETARY FUND
WORLD BANK GROUP**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 61

October 6 - 8, 1998

Statement by the Hon. MIRSAD KURTOVIC ,
Governor of the Bank for BOSNIA AND HERZEGOVINA ,
at the Joint Annual Discussion

ADDRESS
OF H. E. MIRSAĐ KURTOVIĆ
MINISTER OF FOREIGN TRADE AND ECONOMIC RELATIONS
OF BOSNIA AND HERZEGOVINA
AT
THE ANNUAL MEETING OF THE WORLD BANK GROUP
Washington, D. C., October 6 – 8, 1998

Mr. Chairman,
Ladies and Gentlemen,
Dear friends,

Allow me to greet you on behalf of the delegation of Bosnia and Herzegovina and to express our gratitude for the assistance which has so far been extended to our country for its reconstruction, recovery and speedier overcoming of the harsh results of the past war. The aid you have extended has not been wasted, instead it has served as one of the major pillars for the stabilization of the conditions in the country.

The role of the World Bank and the International Monetary Fund, headed by President Wolfensohn and Director Camdessus in the reconstruction and in the stabilization of the economic situation were of decisive importance in reestablishment of macroeconomic stability in BiH. We are very pleased that the planned reforms of the World Bank are proceeding successfully, and in our view the decentralization of the Bank is key to their success. We welcome the new initiatives such as the Cultural Heritage Project and we are very pleased that the World Bank will take part in the reconstruction of the Old Bridge in Mostar.

The magnitude of changes occurring in the world over the past ten years might be compared only to the changes that took place after the Second World War. It was expected that the last years of this century would go by in peace, but, sadly, it is instead ending in bloody local conflicts causing widespread human suffering and major political and economic restructuring, not only on the level of states, but also of entire regions. A new balance of power and interests is developing.

In this increasingly interconnected world, the global economy faces two overwhelming problems:

- the financial markets' crisis in East Asia and economic distress of Russia;
- re-establishment of economic systems in post-conflict countries and countries in transition.

Both sets of issues are derived from former or current political problems and global political divisions. Resolving these problems requires additional efforts and determined involvement of a large number of countries and financial institutions. Long years of the

cold war and divisions left deep marks and sowed the seed of adverse consequences not only for our generation, but also for those who will come after us.

The people of my country had suffered the very worst of those consequences: the war and its killings, maimings and devastation. But the horrors that befell Bosnia and Herzegovina can not, and must not be seen as an isolated, exceptional case, but as a phenomenon that will reoccur elsewhere in this troubled age.

Therefore the present political and economic situation must be viewed integrally and as a dynamically evolving model, prone to varying degrees of radical distortion. A new economic globalization is emerging, with new, unforeseen consequences.

The international community needs to be prepared for facing the changes, some of them benign, but others radically adverse, which must be realistically assessed, with their effects rendered limited and countered effectively. Crisis spots are valves where political and economic failures are vented. The end of this and the start of the next century will be marked by the struggle to anticipate and transcend crisis situations. Economically powerful countries, the World Bank and IMF can act in coordination to prevent crises from deepening and open perspectives of a more prosperous future, with the goal of reducing poverty worldwide. In this regard we strongly support the new initiative on creation of a Post-Conflict Fund, which will provide a crucial facility to violence-torn countries in their hard transition to peace.

Bosnia and Herzegovina is one of the countries that continues to need such assistance from the international community. That assistance has been forthcoming and it has given very significant results. After four donor conferences, with credits from the World Bank and numerous other financial institutions and with the considerable support of friendly countries, BiH has come a long way on the path of its post-war recovery. Our major joint achievements include:

- restoration of a minimum of economic infrastructure;
- repairs of the large number of the housing stock;
- establishment of key institutions of the state and entities;
- adoption of basic elements of the legal framework;
- determination of macroeconomic guidelines for development until the Year 2000;
- introduction of the new common currency;
- fulfillment of conditions and conclusion of the IMF 'Stand-by' Arrangement;
- re-scheduling of the debt to the London Club;
- reduction of unemployment from post-war 90% to present 40-50%.

These significant positive results have been achieved with the assistance and support of the World Bank, IMF, EU, Office of the High Representative, SFOR, UN, U. S. Treasury and numerous other friends of Bosnia and Herzegovina, which has earned them our gratitude and profound respect.

However, alongside these positive results, we continue to face a series of difficulties. Our greatest problem is that the economic growth has been significantly below the planned

level. The actual GDP per capita in BiH in 1997 was somewhat over US\$ 600, while the current trends reveal that no major improvements can be expected in 1998.

The number of the unemployed this year not only has stopped falling, but instead in some areas it has risen due to major refugee returns. The bulk of the international aid is directed to infrastructural and non-producing investments, which do not lead to creation of new jobs, production of new commodities and addition of new value. Our state borders lack most of features of those in other countries, they are unregulated and porous to illegal transit of goods. Regardless of the laws on customs and tax policy that were passed, the forecast budget revenues can not be collected. In order to cover budget expenditures and secure funds for debt servicing, we are still forced to borrow. This results in the increase, instead of reduction of net obligations of the country.

These issues and dilemmas have led us to temporarily halt our talks with the Paris Club of creditors this summer. In our view, previously developed bureaucratically formalized models of debtor relations are not automatically applicable to all cases. If such a slow economic recovery in BiH persists, the country will become unable to repay its rescheduled obligations and to take new credits, which may lead to new talks on a new round of rescheduling. We want to resume Paris Club talks as soon as possible, but we are hoping for greater understanding on the part of our creditors. Our conditions and our case are atypical and require an appropriately tailored approach. The future steps must be carefully conceived, as all positive results achieved so far may be at risk. The implementation of our crucial economic reforms and repayment of foreign debt have not enjoyed sufficient support this year, while our own capacities are nearly exhausted. A more significant allocation of IDA 12 funds is a vital precondition for implementation of our structural adjustment process and achievement of sustainable growth.

Despite these problems, we remain determined to take all necessary measures in line with the spirit of the Dayton Agreement and to insist on its speedy and integral implementation. In the economic domain we shall focus on the following tasks:

- privatization of enterprises and banks;
- increasing foreign investment in production and creation of industrial jobs;
- preservation of stability of the domestic currency through strict adherence to the Currency Board arrangement of the Central Bank of BiH;
- settlement of all outstanding pre-war obligations of BiH within the economic capacities of the country;
- regulation of border controls and collection of essential budget revenues;
- preparation for joining the European integrative processes;
- planning for the next donor conference, with the onus on channeling the funds into productive job-creation, and also speedier implementation of earlier pledges;
- speedy implementation of economic reforms, with the assistance of the World Bank and IMF, securing additional funding and with the view of opening ESAF talks as soon as possible, as the implementation of the Stand-by Arrangement has proceeded with great success.

In our work we seek to ensure full transparency and create mechanisms for prevention of corruption in Bosnia and Herzegovina. Technical assistance provided in this area by the World Bank and IMF through their resident offices in BiH, as well as by the Office of the High Representative and other institutions and donors is for us of utmost importance.

Bosnia and Herzegovina is located in the region where political and economic stability has not yet been established. Events in Kosovo have two negative consequences for our country:

- a large number of refugees (estimated 20,000) found a temporary shelter in BiH, which creates additional problems for the country, which lacks the resources to support them,
- vicinity of the conflict area averts foreign investors from investing in BiH, as they fear for safety of their investments.

The presence of the multinational force in BiH is important for us not only as a factor of implementation of the military part of the Dayton Agreement, but also as a factor of risk-reduction for foreign investors.

I wish to conclude by stressing one more time that the Council of Ministers and all citizens of BiH base our long-term economic development on our own efforts and with ever decreasing reliance on international aid. We will continue to demonstrate the firmness of our determination in this regard, but the volume of damage inflicted by the war still requires significant foreign aid and considerable reduction of all debts.