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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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Statement by the Hon. **MIRSAD KURTOVIC**,
Governor of the Bank for **BOSNIA AND HERZEGOVINA**,
at the Joint Annual Discussion
(Delivered by the Hon. Jadranko Prlic, Alternate Governor of the Fund)

**Statement by the Hon. Mirsad Kurtovic,
Governor of the Bank for Bosnia and Herzegovina,
at the Joint Annual Discussion
(Delivered by the Hon. Jadranko Prlic, Alternate Governor of the Fund)**

Mr. Chairman,
Fellow Governors,
Ladies and Gentlemen, Dear Friends,

Less than four years, since the war in Bosnia and Herzegovina ended, remarkable progress can be seen throughout the country.

- people are living peacefully and normally;
- improvements in infrastructure are visible everywhere;
- stable macroeconomic framework and a convertible national currency have been instituted– (KM); IMF stand-by arrangement is in the process of stable implementation and will be converted into ESAF in coming months;
- privatization process has started;
- relations with the majority of international financial institutions are being normalized;
- total foreign debt has been consolidated and has been serviced on a regular basis;
- a number of basic laws adopted will lead Bosnia and Herzegovina towards democratization and a market-oriented economy, and
- a process of mobilizing of the international assistance through Donors' conferences has been successfully done, and now we expect faster disbursement of these pledges.

We have achieved this progress with the generous support of the WB, IMF, OHR, EU, USA, Japan as well as many other donors. I would like to take this opportunity to express our sincere appreciation and gratitude. Thanks to donors generous assistance the first post-war phase of reconstruction and development, primarily focused on rehabilitation of infrastructure, has come to the final stage. Unfortunately, there has been no significant progress in economic recovery and increase in a level of employment.

We expect, however, that in the next phase of international assistance, the focus will be on these needs, with the aim of building a self-sustainable economy.

Our recent tragic history and today's rapidly changing world, urge for creation of a new strategy, not only for reconstruction, but also for the comprehensive development of Bosnia and Herzegovina.

It should include security, the economy, health care, the environment, ethics, the judiciary, philosophy and religion, since all of these areas are interconnected. In particular, Bosnia and Herzegovina may serve as an example for the application of the Comprehensive Development Framework.

With the assistance of the World Bank, the IMF, and the EU, we plan to develop a new strategy for midterm development and to present it to our donors at the next Donor Conference.

Our unemployment with a rate of 40 per cent is just one of the many consequences of the war that should be eliminated through accelerated economic growth. That is why we hope that our donors will support the implementation of ongoing economic reforms, especially those pertaining to property rights transformation, i.e. privatization process. The goal is to transfer the biggest part of state-owned properties into private ownership. Further development of the financial and banking sector and, above all, to recover trust in domestic commercial banks, as well as the greater presence of the foreign-based bank branches in the country, are necessary preconditions.

Another important structural change that is being implemented is the introduction of market-oriented criteria in economic judgment and decision-making. We seek to develop economic environment primarily based on the market as main regulator of economic activities with very limited state interventionism. Finally, we are also facing the very important task of building a sustainable system of social services.

Our comparative advantages are basis for optimistic forecast of our economic growth. One of them is – the highly skilled labor force. Due to our well-developed pre-war educational system, our workers' skill level is still very high and evenly spread throughout the country.

Second is a land, a primary asset in rural areas, which is in private ownership and its distribution is generally even throughout the country. This shows that Bosnia and Herzegovina's society rests on a sufficiently stable socio-economic basis. Therefore, the privatization process of the remaining state property must be lawful, non-discriminatory, transparent, and must not reflect war conquests.

Geopolitically, strategically, and economically, Bosnia and Herzegovina belongs to Europe and should become part of European integration processes. We welcome establishing of the Stability Pact for South Eastern Europe as a first step toward this goal, as demonstrated during the Sarajevo Summit this July.

Membership in the WTO is also one of our highest priorities and we do expect that accession process will be successfully finished in the short period. Our small economy urgently needs enhancement of trade relations with other markets and stable cash inflow.

Mr. Chairman:

Our commitment to conduct all necessary economic reforms is very resolute and indisputable. As we seek to realize this goal, we have encountered many obstacles that are the aftermath of recent war, including huge number of refugees and displaced persons, outdated technology, physical destruction of plants, war victims and disabled

persons, lack of adequate government structures, uncontrolled and unregulated borders, increasing of elderly population.

Therefore, we need continued the international assistance in the coming months. We hope that the international community and the WB will continue to support the reconstruction of Bosnia and Herzegovina, at least for the support of those activities that would lead to accelerated economic growth and increased employment.

Future additional IDA funds are of extreme importance, especially for the support of continuing implementation of economic reforms and budget support, including payment of foreign sovereign debt. We should use the new cycle of Donors' conferences primarily to obtain favorable credits to stimulate economic growth in Bosnia and Herzegovina, rather than for reconstruction of infrastructure. This will enable us to build a self-sustainable economy and integrate with the EU and the rest of Europe.

Without these reforms, we will be faced with the growing social and economic problems, our citizens will continue to seek refuge and a better future in other countries. (Therefore, the problem of Bosnian refugees may multiply.)

We will continue to implement economic reforms and other facets relating to the democratic transition of our society.

We are fully aware that our future development depends on our ability to attract foreign investment.

But, main precondition for these reforms, is stability in Bosnia and Herzegovina and the whole region. To this end further strong and strict implementation of Dayton Agreement is a must. With the assistance of donor community, we must do everything in our power to provide return of all refugees. This is no longer just a humanitarian issue, but also stability issue. Unfortunately, the stability of the entire region, due to the ongoing political crisis in the Federal Republic of Yugoslavia, has not yet been provided. Since lately there has been increasing concern among donors caused by some alarming reports of corruption in Bosnia and Herzegovina.

On this occasion we want to reiterate and assure donor community that, for the most part, donor assistance and financial contributions of the World Bank, IMF, EU and USAID and all other donors have been effectively utilized without corruption or misuse. Independent audit institutions and control agencies have already confirmed this. This is not to suggest that corruption and other forms of criminal behavior do not exist. Corruption is mostly present in the area of public funds due to malfunctioning and absence of the institutions envisioned under the Dayton and Washington agreements.

We are eager to fight corruption and to establish a system to prevent corruption through regulatory and educational measures. This is not simple task and we need foreign assistance.

An independent analysis of the origins and causes of corruption, is a first step in our fight against this social and moral disease.

Bosnia and Herzegovina therefore asks assistance from the World Bank in order to establish anti-corruption mechanisms. Indeed, we would ask that the World Bank lead in this undertaking.

We are also very grateful for the help that the EU and the United States are providing to Bosnia and Herzegovina in its fight against corruption.

We appeal them to continue in this important endeavor.

Mr. Chairman:

The international community, WB, and other donors have made an enormous and valuable contribution toward improving political, economic and social situation in Bosnia and Herzegovina. Hundred of thousands citizens have been saved, and a better standard of living has been provided through internationally funded projects in housing, schools, medical centers, electricity, road network, water supply, social services and other sectors.

The basic prerequisites for the improvement of life standard have been achieved. Yet, an additional effort has to be done, in order to create conditions so that the citizen of Bosnia and Herzegovina can become self-supporting.

We do hope international donor community will continue to be our partner as it used to be in the past years.

Thank you