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Statement by the Hon. **ANTO DOMAZET**,
Governor of the Fund for **BOSNIA AND HERZEGOVINA**,
at the Joint Annual Discussion

Address by
H.E. dr Anto Domazet
Governor of the IMF for Bosnia and Herzegovina
Annual Meeting of the IMF and the World Bank,
Washington, DC, September 29, 2002

Mr Chairman,
Ladies and Gentlemen,
Dear Fellow Governors,

I would like to add my warm congratulations to those extended by other Governors for your election as Chairperson for this Annual Meeting.. I would like also to congratulate the Managing Director of the IMF and President of the World Bank for their very constructive contributions in reviving global economic prospects and dedicated leadership during the past period.

Just one year ago, when we supposed to have our 2001 Meeting in Washington DC, global economic situation was much more promising and stable. Outrageous terrorist attacks on the USA shocked all peaceful people around the world and since then many things has happened, which affected almost every country in the world. Collective determination to fight terrorism has been clearly demonstrated and it gives us a hope that democracy and rule of law will finally prevail all over the world. We fully support the battle against money laundering and the financing of terrorism and think that The World Bank and the IMF should continue to provide clear guidelines and advices in that respect. Discussions at two global meetings in 2002 (Monterrey and the World Summit in Johannesburg) showed there was a common understanding that radicalism and poverty are very strongly related. We welcome commitments given by developed countries for future assistance to developing and transitions countries in order to reduce gaps between the poor and the rich. A recent findings proved that international development agencies and donors have learned how to make development assistance effective and efficient. Lessons-learned from the past decades helped both donor community and recipient countries to develop successful strategies for poverty alleviation and economic development.

Bosnia and Herzegovina (BiH) is the example how beneficial and important is donor assistance for post-conflict countries. Our post-war economic recovery was designed in very close collaboration between donor community and our government. I wish to underline that role of the Bretton-Woods institution was of crucial importance in designing proper economic policies and mobilization of donor assistance. Achievements in reconstructions are significant what it help to bring utility and infrastructure at similar level as before the war. An important progress has been achieved also in return of refugees, although that process has only recently gained momentum.

Bosnia and Herzegovina continues steady non-inflationary growth, but with considerably lower growth rate than 3 years ago. Self-sustained growth has yet to take root and economy is still dependant on foreign assistance. Current account deficit is still significant and projected to be reduced for 4% GDP over two years. Foreign

borrowing is only under concessional terms, and authorities are trying to increase national creditworthiness. Monetary stability is based on strict implementation of the currency board arrangements and international reserves have risen strongly in 2001. However, high unemployment rate and domestic production well below pre-war level present serious challenges in economic sphere and have a direct impact on poverty.

Our efforts are aimed to further fiscal consolidation, which should support the currency board. A large stock of outstanding claims (including frozen foreign currency deposits and war claims) on the public sector need to be settled. We are determined to make serious revisions in public expenditures and institutions in order to make public financing sustainable in medium-term. Demobilization of 10.000 soldiers was very challenging task to implement but it helped us to reduce current expenditures for over 1.3% GDP. Some important improvements in public finances took place in last two years. Establishment of public auditors as well introduction of the treasuries helped to improve transparency and management of public finances. Many improvements were introduced also in the process of budget planning and execution.

We have started a design of the Poverty Reduction Strategy Paper (PRSP) a year ago, with the main objective to formulate cohesive strategy for medium-term economic development and poverty reduction. We are very pleased that the World Bank and the IMF reviewed the Interim Poverty Reduction Strategy Paper (I-PRSP) and provided us helpful guidelines for successful completion of process. We attach a great importance to the PRSP process and have launched extensive consultations with civil society and general public. Living Standard Measurement Survey was conducted as a part of the PRSP process and it showed that poverty rate is around 21% with significant regional differences. The development of pro-poor policies is proving to be a major challenge, but we expect that broad-based discussion will help to achieve full ownership of the program.

We continue to implement a broad range of structural reforms including privatization of all large enterprises, labor market reforms, reforms of social protection system, reforms of public expenditures. A special attention is focused on improvement of business environment and private sector development. Private sector is supposed to be main engine of our future development, and we started to implement deep changes for establishing more business-friendly legal and institutional framework. We already have a very positive developments in banking sector, which is much stronger than 2 years ago and with significant presence of foreign banks. On the path of trade liberalization we actively participated in removing all trade obstacle in the South East Europe by the end of 2002 and we are keen to complete negotiations for the WTO membership in 2003.

Collaboration with the Bretton-Woods Institution

Over the past two years there was continuation of fruitful cooperation with the IMF and the World Bank. Recently approved Stand-by arrangement is very important to sustain positive trends in macroeconomic stabilization. When our PRSP process is completed it will be good basis to discuss the Poverty Reduction and Growth Facility (PRGF) as a next step. Ongoing technical assistance helped in increasing local

capacities in many areas. Introduction of the VAT system will be another task where we will need extensive technical assistance of the IMF and the World Bank.

Bosnia and Herzegovina has come a long way since the end of war. We have chosen to build our economic development on balance between growth and equity, modernization and environmental consciousness, peace and democratization and where growth is private sector led. In partnership with international community we have achieved significant results, but our reform and development agenda is still very long. We expect the Bretton-Woods institutions and donor community will continue to provide us assistance us in our efforts to promote growth and poverty alleviation.