

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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Statement by the Hon. NOVAK KONDIC ,
Governor of the Fund for BOSNIA AND HERZEGOVINA ,
at the Joint Annual Discussion

BOSNIA AND HERZEGOVINA

THE SPEECH OF MINISTER KONDIC (Governor)

ON THE OCCASION OF THE ANNUAL MEETING

OF THE INTERNATIONAL MONETARY FUND

Washington D.C., 6-8 October 1998

Ladies and gentlemen,

Your Excellencies,

Allow me to greet you on behalf of the Bosnia and Herzegovina delegation as well as personally and thank you on the assistance in reconstruction and development up to date, and on your efforts to help us overcome immense difficulties the recent conflict has brought about.

The role of the World Bank and the International Monetary Fund in the reconstruction and development as well as stabilisation of the economic situation have been and still are in the forefront of establishment of a macroeconomic stability in Bosnia and Herzegovina. We are pleased to notice a steady progress of the WB-led and other reforms which to us represents a successful signal for the economic reconstruction.

Changes that have dominated the international scene in the past decade can only be compared to the changes following the World War II. It had been anticipated the end of this century to be rather peaceful, yet it brought numerous local conflicts, political and economic restructuring, not only at the state level but regional too. A new balance of power and interests is being established.

As an outcome of the aforementioned, the global economy currently faces two major issues:

- financial markets crisis in the Far East and the economic disaster in Russia
- formation of economic systems in post-conflict and the transition countries

Both issues have derived from the past of current political struggles and the global political divisions in the world. Solving them requires additional efforts and participation of more countries and financial institutions. Long years of cold war and global divisions left behind them numerous negative consequences not only on this generation but also on many yet to come. BiH and its nations felt the consequences in its worst shape, i.e. through war, destruction, killing and suffering. What happened in BiH should not be examined as an isolated case but as an occurrence that may repeat itself in other places and times.

The current political and in particular the economic position must therefore be examined globally and as a dynamic model which is also subject to changes and can go radical to a greater or lesser extent. On the horizon a new economic globalisation can be seen coupled with new consequences of such a change.

We expect the international community to face positive as well as radically negative changes which then must be realistically analysed, amortised and made less dominant. Crisis spots are the exhaust pipe through which political and economic misdeeds are being let out. The end of this century and the beginning of the new millennium will be symbolised by the struggle for an end to the crises and their bypassing. Economically sound states, WB and IMF can co-ordinate the action to prevent the spreading of the crises and allow for a more prosperous future with an aim to reduce poverty throughout the globe. BiH needs such assistance of the international community in order to diminish such threats. This kind of assistance has not failed us so far and because of that we managed major changes for better. With four

successful donor conferences behind us, the WB loans as well as loans of other financial institutions, including the assistance of friendly countries, BiH has walked a long way towards recovery and away from the war times. We managed to achieve the following:

- enable basic business infrastructure
- repair large number of homes
- establish basic joint and entity institutions
- adopt most of the legislation
- set macroeconomic policy until the year 2000
- introduce new currency
- fulfil conditions for and concluded the 'stand-by' arrangement with the IMF
- reprogram the London Club debt
- reduced the post-war unemployment rate from 90% to the current 40-50%

All these positive results came about through co-operation and assistance from the WB, IMF, EU, OHR, SFOR, UN, US Treasury Department and other friends of Bosnia and Herzegovina for which we are extremely grateful and we shall honour it.

Nevertheless, despite all the positive scores, there is a list of problems we are facing. The greatest one being the slow attainment of the planned economic growth. The current GDP levels in BiH in 1997 is just over US\$ 600 per capita and the 1998 trends hardly promise any significant positive impacts.

Unemployment figures have not been falling recently and in some areas their growth has been noticed due to the returns of refugees. New jobs are not opening or this process simply takes too long, since most of the international support is aimed at physical infrastructure and non-job creating investments.

This does not cater for vacancies, manufacturing sector and new values. Despite the new customs and tariffs and fiscal legislation being adopted, projected budgetary revenues are not up to the satisfactory levels. In order to cover the expenditure side we are still forced to take new loans. This brought us in a position of expanding rather than minimising the net debt of the country.

Our discussions with the Paris Club have borne a heavy burden of such problems and dilemmas. We are of the opinion that the formerly established bureaucratic models with the indebted countries cannot be applied in each and every case. Should such slower economic recovery trends continue in BiH, we will soon be in a position where we will be unable to service our reprogrammed external debts; not even with the WB. First years of the servicing of the principal as well as interests may become the years of the total collapse, as we will not be able to fulfil our obligations. Our negotiations with the Paris Club and our request for the extension of the IDA funds after the year 2000 must be viewed in the light of the aforementioned. Our preference is to continue the talks in Paris as soon as possible, but we request the IMF to revise their economic forecast coupled with more understanding of the creditors. Our situation is very atypical and requests such a treatment and all future steps must be well designed as they may jeopardise all the positive effects we attained up to date.

Our experience of this year in implementing key reforms and servicing external debts are unfortunately hardly encouraging and our resources for the purpose have almost been completely exhausted.

However, even despite the recent conflict, BiH, comprised of two entities: Republic of Srpska and the Federation of Bosnia and Herzegovina notices an ever-improving co-operation between its entities and implementation of the Dayton Peace Accord. We shall respect all measures prescribed by the Dayton

Accord and will insist on its complete and speedy implementation. In the economic sphere we shall be concentrating on the following:

- privatisation of enterprises and banks
- greater FDI presence in the manufacturing sector and hence higher employment rates
- stability of the domestic currency and strict observation of the Currency Board arrangements of the BiH Central Bank
- regulation of all pre-war debts of BiH in accordance with the economic wealth of the country
- better customs control as well as other budgetary revenues
- preparations for European integration processes
- preparations for the forthcoming donor conference so that its proceeds could be used for employment generation as well as a timely implementation of the previously pledged means
- speedy implementation of the economic reforms with the assistance of the WB and the IMF; securing fresh financing and a quick transition to ESAF as the fulfilment of the IMF 'stand-by' moves in a positive direction

Our lasting determination is to secure full transparency in our work together with the mechanisms that will prevent corruption in BiH. Technical assistance we are receiving from WB, IMF, Office of the High Representative and other institutions and donors is of pivotal importance to us.

Let me conclude by echoing the views of the BiH Council of Ministers as well as of all the citizens of Bosnia and Herzegovina – economic development and growth must come from within with as little external assistance as possible. Objectives presented here undoubtedly point that out, but the extent of the war damage still require a significant international assistance as well as reduction of all debts.