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Statement by the Hon. **ADNAN TERZIC**,
Governor of the Bank for **BOSNIA AND HERZEGOVINA**,
at the Joint Annual Discussion

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In the period after the war, with the support of international community, Bosnia and Herzegovina has gone the long way towards reaching economic self-sustainability. The government of Bosnia and Herzegovina is very grateful to donors for the support given to our country in the last seven years, and especially to the World Bank and European Commission on their very successful coordination in mobilizing and implementation of the international assistance.

In the last seven years significant results have been accomplished:

- Peace was stabilized;
- A significant level of political agreement was accomplished regarding the most important questions on implementation of the Dayton Peace Agreement, including the process of strengthening the state level;
- The return of greater number of refugees and displaced persons was ensured;
- Stronger collaboration with countries in the region;
- Membership in the Council of Europe was achieved;
- The process of integration into the EU started as well as process of getting full membership into the World Trade Organization;

In the same time period, on the economy plan, good results have also been noted in the following:

- GDP was tripled in comparison to the period just after the war;
- The infrastructure that was destroyed during the war was reconstructed;
- Macroeconomic stability is sustained: current inflation in the country is about 1%;
- The convertibility of the currency has been maintained, this convertibility is based on the monetary policy based on the currency board, national reserves have increased fifteen times;
- Consolidated budget deficit has been decreased to 3% compared to GDP;
- Foreign debt was regularly serviced;
- The process of tax reform has began with a goal of introducing VAT until year 2005;
- The reform of judiciary and public sector administration is under way with a goal to increase efficiency and decrease corruption;
- The IMF Stand-by program has been kept, and next year we are beginning with negotiations on a new midterm program ;
- The privatization of banking sector has been finalized and the result of that was the return of trust in domestic banking sector: the level of deposits in the last year increased for 25%;
- In great number of companies the privatization process has been finalized;

- The process of liberalization in the sectors of telecommunications and energy has begun;
- The level of foreign investment in comparison to last year has doubled: the following investors are already in Bosnia & Herzegovina: VW, Coca Cola, Austria Bank, Volksbank, SIEMENS, Heidelberg Cement Group and many others.

However, we are still faced with numerous challenges:

- The unemployment level in the country is at around 40%;
- The level of poverty is 20%;
- Trade deficit is still high. Therefore the current account deficit is also high and is 17% of GDP.

In this year, we are planning to complete preparations of the Development Strategy of Bosnia and Herzegovina (PRSP), so that we can start with its implementation in the period 2004-2007.

Significant objectives of the PRSP are:

- To regain the creditworthiness of the country by 2007;
- To Decrease level of poverty for one third;
- To Decrease the current account deficit to around 10% of GDP.

In order to accomplish these objectives we are determined to:

- To ensure higher level of real economic growth from current 3.5% to about 6% by 2007;
- To maintain macroeconomic stability and monetary policy based on the currency board;
- To decrease the level of public expenditures from current 56% in relation to GDP to about 46%;
- To reorganize the tax system (introduce VAT) and establish joint customs administration at the state level;
- To ensure faster private sector growth and increase the level of FDIs by :
 - a) Creating better business environment for domestic and foreign investments;
 - b) Speeding up the process of privatization;
 - c) Decreasing of tax burden on the economy;
 - d) Reforming the judiciary system and public administration;
- To implement welfare reforms;
- To implement reforms in education and health system;
- To implement labor market reform.

The aforementioned reforms should lead towards increasing export and decreasing current account deficit, which in this moment represents a threat to the macroeconomic stability. The second big threat to the macroeconomic stability represents the high level of domestic debt, which is about 90% in relation to GDP. The Governments will adopt a plan for decreasing the domestic debt by the end of this year.

Parallel to the process of speeding up the reforms, the governments are working actively on the integration of Bosnia and Herzegovina in EU and this represents the highest priority of our country in the coming period.

We appreciate the fact that we have made considerable results for a country which has not so long ago came out of the war. We are aware of the fact that big credit for our success belongs to the international community, which has in many ways, and especially through the Office of High Representative, been present in Bosnia and Herzegovina. However, our wish is that in the following period we decrease the influence of the international community and to fully take over the decision-making process concerning all matters with regard to the future of our country. Just to illustrate this, I would like to mention the fact that last year, for the first time, we organized the elections on our own. Moreover, this summer without influence of the international community we agreed and adopted the Action plan for realization of urgent reforms in the next six months. The implementation of this plan so far is going very well.

Our wish is to return the creditworthiness of the country in the next midterm and to make a significant improvement towards European integration. We regard the further development of private sector and attracting more foreign investments as the main motors of the economic development in the next period. We are very encouraged with the fact that for the first time, one large international investment bank such as Bear Stearns made a very positive report on the numerous possibilities to invest in our country. However, the reality is that Bosnia and Herzegovina is still not creditworthy. On the other hand, current investment crisis in the world, and the big drought we suffered this year, will slow economic growth for this, and the best part, of next year. Therefore, in the next midterm period we will continue to need international assistance. It is an important to secure gradual, not sharp decline in the international assistance.

Bosnia and Herzegovina is an unique success story for a post conflict country, and the unique case where donor assistance managed to make great impact in rebuilding the society. We are very close to the creditworthiness and self-sustainability. Thus, it is reason more to prevent sharp decline in donor assistance to our country. On its side governments in Bosnia and Herzegovina will remain to be committed to the reform program, which is formulated in the PRSP that we plan to approve by the end of this year.