

Remarks by Principal Deputy High Representative Larry Butler at the Press Conference on Economic Issues

Ladies and Gentlemen,

Good morning. Thank you for coming. This is the first time we have had a chance to meet. I hope we can establish a productive working relationship.

I am here to talk about Economic issues – the publication of the OHR quarterly Newsletter seemed to us an appropriate time to do this. Although my portfolio as PDHR also includes Rule of Law, I believe we have more than enough to discuss on the economy for one press conference.

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We are at a transition point in Bosnia and Herzegovina – the primacy of economics over politics is beginning to be recognized by the political parties.

This isn't rocket science – sound economic management puts food on people's tables; incompetent economic management makes a country poor.

The EU pre-accession process and the BiH Development Strategy have combined to form a blueprint for economic policy that has broad cross-party support – if certain steps are taken, then certain positive outcomes can be expected.

What are the positive outcomes?

- less corruption

- more jobs,
- less poverty
- better public services.

I don't think there is anyone in this room who would argue that these outcomes are not desirable.

I spoke about a productive working relationship with the media not just out of courtesy. Our task – that means you as well as me (and of course it means the BiH authorities) – is to explain, clearly and credibly, what the objectives of economic reform are.

We have to

- identify areas where reform is already working,
- identify areas where it will soon be working, and
- identify areas where it is *not* working, and find ways of fixing that.

We have to be clear about the object of reform – which is to raise living standards.

Simple as that.

The reason that this object is not clear to many people is that after years of fitful reform and endless public debate, it hasn't yet been met. The desired results – poverty eradication, massive investment and job creation – have not been achieved.

This is because years were wasted on political in-fighting, while the mass of citizens continued to struggle with day-to-day hardship; and because transition takes time – BiH is not the only country in Southeast Europe where things have got worse before getting better.

But we must be very, very clear:

- things *can* get better, quickly and significantly;

- we *can* move forward;
- reform *can* deliver.

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Before I am accused of wishful thinking, let's look at some promising facts:

The last time the High Representative had to make a major intervention in economic legislation was in October 2002, when 12 economic laws were imposed. We are seeing a domestic political momentum build up behind a broad economic legislative agenda

- The customs services have been merged and the indirect taxation system has been established.
- The final stage of Indirect Tax reform will take place when VAT is introduced, which remains on target for 1 January 2006.
- In the autumn of last year a settlement of BiH's internal debt was secured, resolving claims that could have exceeded KM 26 billion, a figure that threatened the country's economic viability and had a deadening impact on inward investment and job creation. The Constitutional Court, and the Human Rights Commission within it, has ruled that the timeframe within which bonds issued under this settlement mature should be reduced. It is of the utmost importance that the State, Entity and Brcko District experts reassemble to prepare legislation to amend and supplement the internal debt settlement law in line with the Decision of the Constitutional Court. It is also important that the BiH Law on Debts and Guarantees be adopted as soon as possible in order to create a viable secondary market where bonds can be traded immediately.
- A new legal and regulatory framework has been established in the utilities sector, and the restructuring of the electricity sector on the basis of

efficiency is well under way. The fact that the Transmission Company and the Independent System Operator have not become operational yet, only highlights the need to continue with this effort. The same is the case in the telecom sector, where the Regulatory Agency has taken its first steps towards introducing greater competition and modern price regulation

- With the regulatory framework in place, public audits of the utilities companies have begun a long-term process of making them transparent and competitive. Average telecom tariffs dropped by 20 percent over the last two years as a result of this effort, though prices remain much too high.
- The State Statistical Agency has begun to operate and publish some essential data, for example they are currently conducting BiH's first ever Labour Force Survey. Though, a lot remains to be done in order to produce reliable national statistics.
- 16 commercial chambers attached to courts throughout the country are up and running and helping to reduce the time it takes to resolve a commercial dispute in BiH, from years to months.
- Further significant improvements to the BiH business environment can be expected from the implementation of recently enacted legislation on public procurement, auditing and accounting, bankruptcy, corporate governance and business registration. Sustainable job creation is most likely in the small and medium enterprise sector. It is therefore hugely important that all these laws are fully implemented. I will work with the Ministers to ensure that these things do not fall off the political and administrative radar screen.

So, we are entering new territory, where instead of simply calling on the people of BiH to support reform with sacrifices, we can begin to point to practical benefits that reform can bring – if those reforms are properly implemented.

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The reports in this quarter's Newsletter make it clear, however, that political shortcomings, institutional limitations and the burden of excessive bureaucracy continue to lie between the people of BiH and a better life.

Key issues now have to be tackled if we are not to squander the modest advantages that have been won:

- The BiH Government must establish efficient institutions that can manage closer relations with the European Union. To do this, the complex and expensive multi-tier government system must be rationalized. BiH cannot afford duplication of functions – it costs too much and it reduces efficiency. The three Finance Ministers have appointed a Working Group to recommend ways of reducing the cost and increasing the efficiency of government. The vast majority of citizens will cheer on this initiative.
- Privatisation has until now been the biggest disappointment of the economic reform process. After a total standstill from late 2002 until the beginning of 2004, a small number of strategic companies, including the Holiday Inn in Sarajevo and BiH Steel in Zenica, have been privatised in the Federation. Many other public companies, particularly in the RS, have failed to attract solvent investors. Reasons for this include
 - inefficient, and politically weak privatization agencies
 - unrealistically overvalued company assets
 - refusal of the authorities to deal with corporate liabilities (such as unpaid salaries, welfare payments and debts)
 - ineffective presentation of BiH investment

opportunities to prospective international investors; and

- a lack of awareness – among local officials and the general public – that privatization is a key to job creation and increased prosperity

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Let's say we tackle these two strategic issues successfully – in particular creating financial space within the bureaucracy to provide better services to citizens – things are not going to improve overnight. In 2001, the World Bank analysed a best-case scenario, in which the economy grows at an annual rate of 6 percent between 2001 and 2010. Even in this best case, the Bank noted, there would need to be huge cuts in public spending on salaries, transfers and services in the near future – and growth estimates were well below 6 percent in each of the last four years.

So, it isn't going to be easy.

But it IS going to be worthwhile.

The economy IS moving in the right direction, and it is doing so in the context of a coherent and realistic reform agenda.

It is moving much too slowly for the 50 percent of BiH citizens who are living on or below the poverty line: I know that, and that's why I will work, with the BiH authorities and with the EU and other international partners, to make reforms deliver practical benefits sooner rather than later.

Now, I am happy to take your questions.