Remarks by Principal Deputy High Representative Donald Hays On the occasion of the Second Anniversary Celebration Of the Sarajevo Stock Exchange

Ladies and Gentlemen,

It is accepted wisdom that when waiters and taxi-drivers begin giving you stock tips it's time to get out of the market.

There's probably some truth in that.

When share trading assumes the kind of characteristics we more normally associate with a lottery, the market is erring on the side of "unnatural exuberance".

But we are far from that point here in in BiH and, in an odd way, when we *do* reach that stage, the problem – of unnatural exuberance – will be a rather desirable one for this country to have reached.

Because a vibrant stock market generally reflects several positive things in its host economy.

The first is confidence.

Confidence has to come from somewhere. In a sustained bull market (notice I said "sustained") confidence comes from the underlying strength of the companies being traded and the robustness of their trading environment.

The second is liquidity. And funds invested in equity

represent a productive use of liquidity, which is indispensable in a growing economy.

And the third is creativity. As a general rule large companies bring performance to market and small companies bring ideas. The future of the BiH economy is going to be built on the success of small and medium-sized enterprises. SMEs live and die by the quality of their creative market applications, the quality of their ideas.

Now, confidence, the productive use of liquidity and the creative market application of good ideas all have a direct bearing on efforts that are now underway to institute a culture of good corporate governance in BiH.

Last October the three Prime Ministers committed themselves to a package of laws that will put in place the tools to ensure a more open and better managed public sector and at the same time end the sort of mismanagement that was uncovered during 2003 by the Special Auditor's reports into public companies. The BiH Laws on Auditing and Accounting, on Public Procurement, and on Registration of Businesses, and the Entity Laws on Public Enterprises and Investment of Public Funds seek to foster a management culture that puts a premium on responsibility, on vision, on professionalism, honesty and resolve.

These are qualities that everyone in this room is familiar with – because they are qualities that investors look for in the management of traded companies. The market is a rigorous and effective judge of management–a sophisticated and experienced investor can tell quickly when management of a firm is troubled or when the company'sbusiness plan is suspect or when its cash flow falls suspiciously short of its income.

What we and the citizens of this country want to see in BiH public companies is the same kind of discipline and high standards that the market requires of traded companies. And

the citizens of this country want to see those standards applied throughout the economy.

Turnover since the launch of the Sarajevo Stock Exchange has been a respectable 180 million KM; the number of listed securities on the Official Market is modest, but the associated Free Market has 322 counters, which can reasonably be viewed as a working base on which to build real strategic momentum.

These figures are important because this fledgling stock market has a key role to play in developing what is also a fledgling market economy – you have to reflect and you have to exert positive pressure.

You have to reflect confidence, liquidity and creativity – and we are seeing growing reserves of all three, and you have to exert positive pressure on the overall BiH business environment. Shoddy management, opaque finances and poor marketing strategies are the kiss of death for companies traded on the stock market – they should be viewed as the kiss of death for *all* companies.

I congratulate you on your first two years of successful operations; your success bodes well for the BiH economy as a whole. I trust that your next year of operation will be more profitable than the last and that this upward spiral will be sustained so that all of us can look forward to a real, long-term bull market in BiH. We all want and need that because this country needs to view the same bullishness across the entire economic spectrum, the same confidence and creativity.

That way BiH will expand the economy, create new jobs and raise living standards – which in the end is what all our efforts are about.

Thank you