

## **Chapter IV**

# **MONETARY FUNCTIONS AND OPERATIONS OF THE CENTRAL BANK**

### **Article 31 . Rule for issuing currency (Currency board arrangement)**

1. The Central Bank shall be obligated to ensure that the aggregate amount of its monetary liabilities shall at no time exceed the equivalent (in terms of the currency of Bosnia and Herzegovina) of its net foreign exchange reserves.

2. For the purposes of this Law:

a. The aggregate amount of the monetary liabilities of the Central Bank shall be at any time the sum of:

(A) all outstanding banknotes, coins put in circulation by the head office, main units, and other branches of the Central Bank; and

(B) the credit balances of all accounts maintained on the books of the Central Bank and its organizational units by resident account holders; and

b. the net foreign exchange reserves of the Central Bank shall be at any time the difference between the fair market value of the following assets and liabilities of the Central Bank:

Assets:

(A) any gold, other precious metals and precious stones held by or for the account of the Central Bank;

(B) any banknotes and coins in freely convertible foreign currency held by or for the account of the Central Bank;

(C) any credit balances that are payable in freely convertible foreign currency and are held in accounts of the Central Bank on the books of foreign central banks or other foreign financial institutions;

(D) Special Drawing Rights of the International Monetary Fund held by the Central Bank;

(E) any bills of exchange, promissory notes, certificates of deposit, bonds and other debt securities issued by residents of countries other than Bosnia and Herzegovina that are payable in freely convertible foreign currency and are held by or for the account of the Central Bank; and

(F) any forward purchase or repurchase agreements of the Central Bank concluded with or guaranteed by foreign central banks or international financial organizations, and any futures and option contracts of the Central Bank, providing for payment by residents of countries other than Bosnia and Herzegovina in freely convertible foreign currency.

Liabilities:

(A) any credit balances that are payable in freely convertible foreign exchange currency or Convertible Marka, and are held on the books of the Central Bank in the accounts of foreign central banks or other foreign financial institutions;

(B) any Convertible Marka held by the International Monetary Fund;

(C) any credits due to foreign central banks and governments, international organizations, and foreign financial institutions;

(D) any forward sale or resale agreements of the Central Bank concluded with or guaranteed by foreign central banks or international financial organizations, and any futures and option contracts of the Central Bank, providing for sale to residents of countries other than Bosnia and Herzegovina in freely convertible foreign currency; and

(E) any other liabilities to non-residents.

**Article 32 . Official exchange rate for the currency of Bosnia and Herzegovina**

The official exchange rate for the currency of Bosnia and Herzegovina shall be one Convertible Marka per Deutsche mark.

**Article 33 . Guaranteed convertibility of the currency of Bosnia and Herzegovina**

1. The Central Bank shall without restriction purchase and sell Convertible Marka on demand for Deutsche marks within the territories of Bosnia and Herzegovina at the exchange rate indicated in Article 32 of this Law.
2. Commercial banks and other financial institutions in Bosnia and Herzegovina shall purchase and sell without restriction, fees, commissions or other charges Convertible Marka for Deutsche marks on demand, at the exchange rate indicated in Article 32 of this Law.

**Article 34 . Other financial transactions of the Central Bank**

1. Subject to the provisions of Sections 2 and 3 of this Article, the Governing Board of the Central Bank shall have authority to take all actions necessary to acquire, hold, and dispose of the foreign exchange reserve assets described in Article 31, Section 2, in a safe and profitable way .
2. The total amount of the gross foreign exchange reserves of the Central Bank denominated in currency other than the Deutsche mark shall not be increased at any time if as a result of such increase the total would exceed the equivalent of 50 percent of the aggregate amount of the unimpaired capital and reserves of the Central Bank.
3. The total amount of the liabilities of the Central Bank that are denominated or payable in foreign currency shall not be increased at any time if as a result of such increase the total would exceed the equivalent of 50 percent of the aggregate amount of the unimpaired capital and reserves of the Central Bank. All the decisions on such liabilities have to be taken unanimously by the Governing Board.

**Article 35. Information**

Every month the Central Bank shall publish monthly information concerning the total amount of Convertible Marka in circulation and the official foreign exchange reserves of the Central Bank, with a breakdown of the holdings of Deutsche marks and other currencies.

**Article 36 . Required reserves of banks**

1. The Governing Board of the Central Bank will require by regulation that banks shall maintain deposits with the Central Bank, through its head office or main units, at prescribed minimum levels of between ten and fifteen percent of their deposits and borrowed funds denominated in Convertible Marka. Reserve requirements shall be applied uniformly to all banks.
2. Required reserves shall be maintained by way of cash holdings or by way of deposits with the Central Bank, through its head office and main units, and shall be calculated as average daily reserves over ten day periods.
3. The banks shall be paid interest at market related rates by the Central Bank on the amounts by which their required reserves exceed the equivalent of five percent of the aggregate amounts of their respective liabilities.
4. Regulations by which required reserves are modified shall specify the date by which banks shall comply with the new reserves.
5. If a bank fails to fulfill its required reserves for two consecutive periods, the Central Bank will cease to process withdrawal transactions for the bank, and will inform the appropriate banking authorities so that the appropriate measures are taken to correct the shortfall within the same week. If the failure to fulfill the reserve requirement continues for another week, the

Central Bank will inform the appropriate banking authorities so they can initiate procedures to close the bank. The Central Bank will impose on and collect from any bank that fails to maintain the required reserves prescribed by the Central Bank a penalty up to five per mil (5/1000) per day on the shortfall in such bank's required reserves, until the shortfall is corrected.

**Article 37 Money Market Operations**

The Central Bank shall not engage in money market operations involving securities of any type.