

CENTRALNA BANKA
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ

INFO

СВВН

Info • Central Bank of Bosnia and Herzegovina

November-December

2019.

Central Bank of Bosnia and Herzegovina

CBBH Info January – February 2019 prepared by:
Public Relations Section, Library and Publications
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GATHERINGS

CBBH and USAID Organized Conference “Macroeconomic Imbalances and Convergence with the EU”

On November 7, 2019, in Sarajevo, an international research conference entitled “Macroeconomic Imbalances and Convergence with the EU” was organized by the Central Bank of Bosnia and Herzegovina (CBBH) and the United States Agency for International Development (USAID).

The analysis of macroeconomic imbalances is crucial in the context of the optimization of combined policies. Economic upheavals are rarely caused by individual factors. An effective policy mix requires addressing all weaknesses simultaneously. Identified macroeconomic imbalances may, but do not have to, end up as an economic or financial crisis. However, failure to address them is detrimental to the process of long-term harmonization with others.

The CBBH wants to encourage scientifically based discussions on the current situation in the macroeconomic environment of Bosnia and Herzegovina, current directions of development and identify some of the areas where changes are desirable and should be planned. Therefore, the CBBH invited the authors of interesting research papers in the field of macroeconomic imbalances and convergence processes to the Conference. Among the panellists were representatives of relevant international institutions focused on the analysis of macroeconomic imbalances.

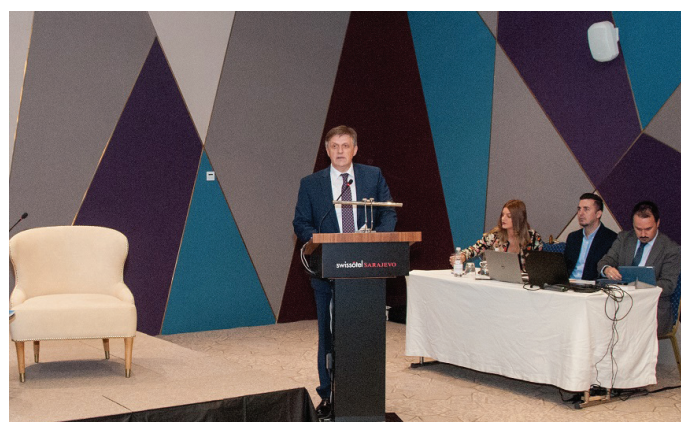
Empirical research, which was the basis for the discussion, highlighted significant trends in the imbalances of European Union (EU) members from Central and Eastern Europe and the Western Balkans. The main findings from the sessions indicated the types of challenges that could be faced by candidate and potential candidate countries for EU membership, with reference to the speed of real economic convergence. The CBBH research on key macroeconomic imbalances in the country was also presented.

During the sessions, two topics of special interest to central banks were discussed: the harmonization between the business and financial cycle and the real exchange rate. None of these issues depends exclusively on the actions of central banks, but harmonization between cycles and the real exchange rate have an impact on the way monetary policy is conducted.

The participants of the Conference were greeted by the Governor of the CBBH Senad Softić, Ph.D. wishing that the Conference contribute to improvements in the processes of planning macroeconomic policies in Bosnia and Herzegovina and conducting productive and professional dialogues with EU institutions. In his speech, the Governor stated that many experts agree that large imbalances at the macro level were the main cause of the crisis in the euro zone. The EU responded by introducing a number of institutional and organizational changes. He mentioned some of the most important macroeconomic imbalances: excessive government deficits and indebtedness, excessive credit expansion of banks, stock and real estate market bubbles, and large surpluses or external account deficits. All of them, if not addressed, could result in serious economic problems.

The Governor pointed out that the path to EU accession brings with it structural changes in the economies of the candidate countries and that the convergence process itself will generate imbalances that must be adequately treated in order to avoid macroeconomic instability.

“The path to EU accession brings structural changes to the candidate country’s economy. The convergence process itself will cause imbalances that, without an adequate approach, can be dangerous for macroeconomic stability. If imbalances are ignored, the country can, at best, remain in the accession



process for a long time. During the accession period, the legislation and the institutional framework of the EU continue to develop, thus, this can initiate additional challenges in the process of economic convergence”, said Governor Softić.

Expert analyst in the Office of the Chief Economist of the CBBH Antonio Musa, within his presentation on key

macroeconomic imbalances in the case of Bosnia and Herzegovina, commented on several key items. In Bosnia and Herzegovina, economic growth has continued at moderate rate of around 3% yearly, which is not enough for faster development convergence, given that Bosnia and Herzegovina reaches only 31% of the average level of EU development. The growth is realized with macroeconomic imbalances that are expressed in relations with the foreign countries, in the labour market and with a long-term unfavourable investment structure. High structural unemployment rates, negative demographic trends, and low labour force participation rates limit the potential growth of the economy in the long

run, and the effect of labour on potential growth will be reduced due to population aging and emigration. The current account deficit of Bosnia and Herzegovina and the net balance of international investments go beyond the limits set by the indicators of macroeconomic imbalances in the EU as sustainable. This in itself does not represent a serious imbalance, as it is characteristic of developing countries, and it is necessary to take into account the way of deficit funding. It was emphasized that Bosnia and Herzegovina's private sector has not been over-indebted and that there were no indicators of internal imbalances that would indicate excessive domestic demand.

STATISTICS

The CBBH expands the sets and raises the quality of statistical information

Reliable statistics are a necessary precondition for quality decision-making and market analysis and they are equally necessary for the business community and government institutions, but also for researchers in various fields. Only on the basis of comprehensive and timely statistics, it is possible to understand what happens in economic trends and what corrections need to be made to enable stronger economic activity and prevent crises and imbalances. An important lesson from the Great Recession of 2007 indicated that there were simply no indicators of many important economic phenomena, nor was there a sufficient check of the quality and coherence of statistics. All of this together has led to a situation of unnoticed threats that escalated at the end and produced enormous damage and shook the global economy.

The domestic statistical system and data production are underdeveloped compared to standards in developed countries and the European Union. It is estimated that Bosnia and Herzegovina produces about 30% of the required EU statistical sets. Many sets of statistics and surveys have not yet been established or do not have sufficient frequency, so domestic statistics face a major task to raise the scope and quality of statistics. The Central Bank of Bosnia and Herzegovina (CBBH) is making significant efforts to expand the sets of economic statistical information, on the one hand, to be able to more accurately analyze and observe economic trends and conduct discussions with other institutions, and on the other, to provide additional objective indicators to the public.

At the beginning of 2019, quarterly data on the non-banking financial sector in Bosnia and Herzegovina were established, which includes more than 100 financial institutions for which balance sheet data are collected and processed. Although the original data differ in structure, the single scheme of the International Monetary Fund (IMF) is used and in the end, aggregated balance sheet data with the same structure for all subsectors are obtained through processing. Based on that, it is possible to analyze individual subsectors - insurance, investment funds, microcredit organizations, leasing, but also to directly compare with the banking sector. The trend in more developed financial systems is that an increasing part of financial intermediation takes place outside the banking sector, so it is important to have reliable statistics on the

non-banking sector and monitor how it develops and how it finances the real sector.

Inflation expectations survey is a standard tool used to gather valuable information on public perception of inflation. Monetary institutions usually pay close attention to inflation trends, and it is very important to know how other market participants assess inflation trends. The European Central Bank (ECB) and the European Commission (EC) suggested that this type of research should be established, and the CBBH launched it in 2019 and published the results. Based on the responses of financial sector professionals, it has been shown that there is no fear of an uncontrolled acceleration of inflation in 2019 and 2020, that inflation expectations are well anchored and that there is confidence around this macroeconomic phenomenon. However, these results point to some other problems in official statistics that have been discussed for some time. The survey view of inflation, above 1%, quite deviates from the official reported inflation measured by the consumer price index, below 0.5%, which indicates some potential shortcomings in official statistics and the need to control the quality of CPI index compilation.

An objective view on the fiscal position is one of the key macroeconomic analyzes, and based on it, one can assess fiscal policy and the impact on the economy, but also have an insight into the funding of government deficit and debt. Fiscal statistics are inherently complicated, but in Bosnia and Herzegovina are further complicated by high fiscal decentralization and a large number of budgets, which need to be consolidated. The CBBH has been developing these statistics for several years, according to EU standards, and finally this year it sent a full set of data to Eurostat. These data reflect total government revenues and expenditures compiled for Bosnia and Herzegovina, including municipalities, cities, cantons, Entities, Bosnia and Herzegovina's institutions, and given the same methodology, it is possible to compare directly with member states and candidates. Related to this, the public debt, as defined in the Maastricht criteria, is available on a quarterly basis. The very definition of public debt is a very controversial topic, and we were obliged to apply a standard definition in the EU, which can be used to assess convergence and MIP indicators on imbalances.

The country's external position is measured by several sets of macroeconomic data, and one of them is the international investment position (IIP), which looks at the amount of receivables and debts to other economies. As a transition country, Bosnia and Herzegovina is in a position to receive pronounced financial inflows from abroad in various forms,

and to have the position of a net debtor, so it has higher debts than claims on the rest of the world. In order to have a more precise and up-to-date insight, the CBBH has developed a quarterly international position instead of the previous annual one, so now changes in the state of investments can be measured more precisely. This type of statistic is already common in many economies, so Bosnia and Herzegovina will be able to present its external position, including total external debt, every three months, which will help analysts and policy makers understand the dynamics of cross-border financial flows, combined with balance of payments flows.

A new survey on banks' lending activity will be launched soon. This research examines the demand and supply of loans with commercial banks and then, based on the collected information, market conditions can be assessed. This standard survey is widely used by central banks to assess monetary conditions and necessary adjustments. Aggregated results will be publicly available, so everyone will have an insight into whether credit conditions are tightening or loosening and what the demand on loans is. It is planned

to expand the indicators related to interest rates according to the ECB methodology. Average interest rates for the entire loan portfolio, on aggregate states, will complement the set of average interest rates and allow for even more detailed analysis for analysts and banks.

The statistical activities of central banks are sometimes overlooked and remain in the shadow of other functions in the financial segment. However, all European central banks pay close attention to the compilation of statistics and central banks within the euro area have a reduction in many functions, due to the conduct of a single monetary policy, but statistics is one of the functions that requires further expansion and new resources. The CBBH, within the statistical system in Bosnia and Herzegovina, will continue to work on expanding statistics in its domain and raising its quality. The existing Stabilization and Enlargement Agreement with the EU, and hopefully the recent candidate status, will require economic statistics to develop very rapidly, as this is one of the essential preconditions for a quality dialogue on economic policies and reforms, as is usual in Brussels.

COMMUNICATION WITH THE PUBLIC

Extremely dynamic in 2019

During 2019, the Central Bank of Bosnia and Herzegovina (CBBH) continuously informed the public about its regular activities, but also on other events in which the media were interested. In this regard, through the media, which represent the primary communication channel of the CBBH with the public, an extremely large number of inquiries were answered, most of which referred to foreign exchange reserves, credit indebtedness, interest rates, investments, remittances, blocked accounts and counterfeits.

In its public appearances, the CBBH systematically worked on raising awareness of the CBBH's success in fulfilling its mandate in accordance with the CBBH Law (Currency Board maintenance, currency stability) and other obligations (contribution to financial stability, stability of payment systems, international cooperation and European integration, transparency in work). During 2019, special emphasis was bestowed to the presentation of upgrades in the work of the CBBH, which refers to the modernization of payment systems.

A large number of inquiries was received on the official e-mail address, and in this way, the CBBH tried to help citizens and provide answers when they were within the competence of the institution. Citizens also addressed through requests based on Bosnia and Herzegovina Law on Freedom of Access to Information, and during 2019, an extremely large number of requests was processed and decisions were issued on the one.

Having in mind the popularity of social networks for an institution like the CBBH, it is necessary for the CBBH to be present on digital platforms, as well as, on social networks. Therefore, there was proposal for regulating the online communication of the CBBH, which provided an analysis of social networks of interest to the CBBH and we presented a proposal for the introduction of new channels. The implementation of the recommendations from this analysis is planned for 2020.

Based on the activities carried out with consultants within the FINRA project with which the CBBH has signed a cooperation agreement and the identified needs to improve visual identity and overall communication, the CBBH Governing Board adopted the initiative to start the CBBH logo designing process. The process of creating the solution of the new CBBH logo was stimulated by the need to improve and modernize the visual identity of the institution. The purpose of a clear visual identity that is sought to be achieved by this process is to create a harmonious image of the organization, using a unique approach to various forms of visual presentations, with the ultimate goal of achieving clear recognition and positive perception of our institution in public.

Since the CBBH website is also used to inform the public, at the end of 2019, a survey on the content of the CBBH website users was launched. In the forthcoming period, an analysis of comments will be made and the obtained results will be used to improve the online presence of the CBBH.

On 2019, within the framework of education and financial inclusion, the World Money Week and the World Savings Day were marked in the CBBH with appropriate activities for primary and secondary school students. These and similar events are an integral part of the financial education that the CBBH has been conducting in recent years with the aim of strengthening financial inclusion in the manner of responsible financial management for the benefit of economic development and growth of Bosnia and Herzegovina. In cooperation with the partner organization, appropriate publications on the topic of financial education and inclusion were printed.

Also, within the financial education and inclusion, the website: fined.cbbh.ba was launched, whose main goal is to improve knowledge about finance and financial services and to spread knowledge about this segment of life in general. On this website, materials will be processed, created and published, i.e. basic information about money in general, about the local currency, about the role of the CBBH, about savings, etc. in a professional and educational way. The materials will be created for all age groups and processed,

in order to provide sufficient information to those who are not experts in these fields, and are looking for basic theoretical knowledge and information. In launching this website, the CBBH was guided by the fact that the functioning of financial services, as well as their transparency, largely depends on the understanding of this area by stakeholders. Good information on this matter is a precondition for encouraging efficient and wide, and most of all correct use of available financial services, for encouraging savings and more efficient money management, for encouraging responsible investment and similar.

In the middle of 2019, the Central Bank of Bosnia and Herzegovina was awarded the “Business Move of the Year 2018” award in the financial sector, for upgrading the

Single Register of Accounts of Business Entities in Bosnia and Herzegovina. This move was recognized as the most successful in the financial sector by the portal Indikator.ba and the Chamber of Commerce of the Federation of Bosnia and Herzegovina, and it is largely the result of proactive work with media houses.

During 2019, in addition to activities in the field of financial education and inclusion, the CBBH also continued to promote socially responsible business. Bank employees participated in actions of voluntary blood donation and actions of collecting and recycling old paper. In addition to raising awareness and developing a proactive attitude towards environmental protection, these actions also generated certain funds that were used for humanitarian purposes.

FINANCIAL RISKS

Liquidity risk management in the CBBH

Financial risks that accompany the foreign exchange reserves management process and that are identified and quantified by appropriate parameters and limits that reflect the risk tolerance of the Central Bank of Bosnia and Herzegovina (CBBH) are: credit risk, market risks (foreign exchange risk and interest rate risk) and liquidity risk.

Liquidity risk refers to possible difficulties in the rapid liquidation of a part of an asset when necessary, which is usually in situations when market conditions are unfavourable or when there is no possibility of achieving an appropriate price for that asset in the financial market. The term liquid assets defines assets whose conversion into cash implies minimal transaction costs and whose value is closest to the market value, while the liquidity risk management process refers to the provision of cash on the basis of foreign exchange reserves in a short period of time and at eligible costs.

Due to the application of the Currency Board arrangement, i.e. the need for full convertibility of the domestic currency to the foreign country and vice versa, the foreign exchange reserves of the CBBH are particularly exposed to liquidity risk. Most central banks divide the total portfolio of foreign exchange reserves into: liquid and investment portfolios. In the liquid portfolio, foreign exchange reserves are invested in the most liquid financial instruments in accordance with the demand for liquid assets, while in the investment portfolio, in addition to liquidity and security requirements, there is an emphasis on achieving returns on foreign exchange reserves.

In the process of managing foreign exchange reserves, it is necessary to ensure that liquidity risk, as well as other risks that accompany this process, are in line with the objectives within the limits set by the CBBH Law, as well as to generate investments in the medium term optimal returns for the selected level of risk. Given the obligation to guarantee the convertibility of KM, daily liquidity should be provided by maturity adjustment of foreign exchange

reserves with constant monitoring of actual and projected future cash flows.

The liquidity framework should align the projected potential liquidity needs with the relevant liquidity instruments, and the liquidity of each individual eligible financial instrument should be considered appropriately before investing in that financial instrument.

The requirement for total liquidity of foreign exchange reserves is secured by holding a sufficient amount of highly liquid financial instruments in the portfolio in accordance with the defined limits. The CBBH assesses potential liquidity needs and identifies liquid financial instruments, minimizing liquidity risk by limiting the portion of assets that can be reinvested at any time and high quality liquid securities.

In order to manage liquidity risk, all available risk indicators are monitored, such as:

- Concentration risk,
- Issue size of an individual security,
- The amount of investment in individual securities,
- Volume of securities trading on a daily basis,
- Spread between the quoted sale price and the purchase price, i.e. the quoted ranges between the offered sale and purchase prices (bid / ask spread),
- Average size of lots traded.

Liquidity risk is managed by:

- Prescribing the amount of funds that meet daily liquidity needs and financial instruments that meet the criterion of daily liquidity,
- Prescribing the amount of cash in foreign convertible currency held in vaults,
- Prescribing the minimum share of the liquid portfolio in the total portfolio of foreign exchange reserves and financial instruments that make up the liquid portfolio,
- Prescribing maximum exposure limits to individual contracting parties (entities / issuers),

- Prescribing the minimum issue size of an individual security in which investment is allowed,
- Prescribing the maximum amount of investment in individual securities,
- By monitoring the daily turnover on the market of individual securities, the quoted ranges between the offered sale and purchase prices and the average size of lots traded.

The scope of liquidity needs is continuously monitored and analysed in order to adequately manage liquidity risk and determine whether the level of liquidity needs is well assessed during the observation period.

The Risk Management Department of the CBBH manages the risks of investing foreign exchange reserves by implementing risk identification and risk assessment activities, develops and suggests appropriate risk management strategies.

STATISTICS

CBBH produced quarterly report on international investment position for Bosnia and Herzegovina

The Central Bank of Bosnia and Herzegovina (CBBH) has produced and published a report on the quarterly international investment position for Bosnia and Herzegovina. The published data cover the period from 2007 to the third quarter of this year.

The International Investment Position (IIP) is a part of macroeconomic statistics that, at a given date, shows the value of the total financial assets claimed by residents of Bosnia and Herzegovina from non-residents and liabilities of residents of Bosnia and Herzegovina relative to the rest of the world. The difference between the assets and the liabilities represents the net position. The main components of financial assets and liabilities in the statement of international investment position are direct investment, portfolio investment, financial derivatives and other investments (currency and deposits, loans, trade credits, etc.), with the assets including reserve assets.

According to the published data, the net financial position for Bosnia and Herzegovina at the end of the third quarter

of 2019 was negative and amounted to KM -14.29 billion, which is by 2.25% less than at the end of the previous year. The negative position is characteristic of transition countries, when the domestic economy relies on capital inflows from abroad for its growth. The decrease in the net financial deficit is a result of higher growth of assets abroad than growth of liabilities of Bosnia and Herzegovina's economy.

This statistics have been developed through the implementation of the IPA 2015 EU Twinning project, in which CBBH statisticians cooperated and received expert assistance of experts from Denmark and Finland. The implementation of this IPA EU project aims at harmonizing the standards applied in the CBBH for the compilation and dissemination of statistics with the standards applied in the EU, all with the aim of meeting the requirements of BH convergence in the EU.

By introducing a quarterly report on the international investment position, instead of the annual one, Bosnia and Herzegovina has fulfilled the EU condition regarding the frequency of reporting on the country's international investment position, as well as, the standards applied in compiling it, thus, the conditions have been met for its regular submission to Eurostat. The details on quarterly movements of financial assets and liabilities for Bosnia and Herzegovina, their components and net positions can be found on the CBBH statistical portal.

RESEARCH

Inflationary projections in Bosnia and Herzegovina stable

The Central Bank of Bosnia and Herzegovina (CBBH) launched a survey on inflationary projections in order to better analyse price movements and contribution to implementation of economic policies in the country. This standard survey of perception on the inflation is conducted by most central banks, and the European Central Bank (ECB) and the European Commission (EC), through conclusions of the Economic Dialogue, suggested that it should be established in Bosnia and Herzegovina, too.

In this initial phase, the survey covers the financial sector and is conducted twice a year, where the surveyed are asked to forecast the projections for the current and the coming year. Although this survey is on a voluntary basis, the CBBH received a very good response from financial institutions (banks and insurance companies), with a high response rate.

So far, the survey has been conducted twice during the year (in March and October 2019) and the results show a stable anchoring of inflationary expectations with a slight decrease in projections.

The inflationary expectations for October of the current year were 1.3 %, and they are lower than in March when they had been 1.5 %. As for the inflationary expectations for 2020, they were also lowered in October to 1.4 %, while in March 2019 these expectations were 1.7 %. The results indicate that the existing monetary arrangement and movements make it possible to maintain low, stable and predictable inflation, which is one of necessary preconditions for sustainable economic growth.

In line with international best practice, for the sake of transparent communication with public and preserving the credibility of monetary policy, the CBBH will continue to conduct this survey on a regular basis while publishing the results. The survey is conducted on the sample of a group of banks and insurance companies, and within these institutions, we requested their competent staff to respond to the survey. We expect that the institutions will keep a positive feedback, as the survey expands.

BANKNOTES

Additional quantities of banknotes printed in 2019 in circulation

On November 4, 2019, the Central Bank of Bosnia and Herzegovina (CBBH) will put into circulation the convertible mark banknotes in the denominations of KM 10, 20, 50 and 100, additionally printed in 2019. The banknotes of these denominations, 2019 issue, have been printed in accordance with the regular activities of the CBBH, with the aim to provide sufficient banknotes of the appropriate denomination structure for the needs of cash transactions in Bosnia and Herzegovina.

The banknotes of the new issue will replace the worn out banknotes of the previous issues, which will be withdrawn from circulation. The basic features of the banknotes printed in 2019 remain the same as of those from the prior issue, with the difference that the new issue includes the numerical designation

“2019” as the year of printing the denomination, and facsimile signature of the CBBH Governor “Senad Softić”. This signature is, as on other denominations, also on the banknote of KM 20 denomination, which has been printed for the first time after 2012. Also, the location’s name of the fragment of the “stećak” (medieval tomb-stone) on the reverse side of the 10 KM banknote, version of the Federation of BH, is harmonized with the Decision on the Amendments to the Decision on the Basic Features and Design of KM Banknotes in the Denominations of KM 10, 20, 50 and 100, “Official Gazette of BH”, 49 / 18. The banknotes of previous issues of all denominations, the quality of which is satisfactory in accordance with the CBBH standards, will remain in circulation as legal tender.

Printing new quantities of convertible mark banknotes has no inflationary effect, since no KM will be put into circulation without the adherence to the Currency Board principle, which means that every convertible mark issued has foreign currency coverage at a fixed rate. The banknotes will be put into circulation in succession, or, as appropriate, through the CBBH Main Units and Branches.



EXTERNAL DEBT SERVICING

Positive audit opinion for the CBBH

The Central Bank of Bosnia and Herzegovina (CBBH) has acted in all material aspects in accordance with the provisions of the Agreement on Servicing the External Debt of Bosnia and Herzegovina for 2018, according to the Report of the Audit Office of the Institutions of Bosnia and Herzegovina, which carried out the audit of the accounts for external debt servicing for 2018.

The audit was undertaken on the basis of the External Debt Servicing Agreement concluded between the Ministry of Finance and Treasury of Bosnia and Herzegovina (MFT BH) and the CBBH, based on which the Ministry authorizes the CBBH to

perform the operations of the agent for servicing the external debt of Bosnia and Herzegovina in the name and on behalf of the Ministry, according to the applicable regulations. The audit was performed in accordance with the International Standards of Supreme Audit Institutions (ISSAI). These standards require that the audit be planned and performed in a manner that enables the audit to obtain a reasonable assurance that the CBBH has complied with the relevant provisions of the External Debt Servicing Agreement which defines the account opening procedures, external debt service (payment) procedures, account management, providing foreign exchange coverage for repayments of due annuities in foreign currency, reporting to the Ministry on daily changes and account balances and all transactions related to the account, as well as the functioning of internal control systems that ensure the functioning of the account in accordance with its purpose and prevent misuse and unauthorized use.

CASH MANAGEMENT ACTIVITIES

Replacement of vault machines

Following the public procurement procedure, the Central Bank of Bosnia and Herzegovina (CBBH), with the supplier Giesecke + Devrient Currency Technology GmbH, Germany, concluded the Agreement on the procurement of vault machines for the needs of the CBBH, which entered into force on October 30, 2019. According to the mentioned contract, the total of ten new vault machines will be delivered to the CBBH in the three-year period.

Through this process, the existing vault banknote processing machines that have been in use for many years in all the CBBH vaults and for which the manufacturer service support has ceased or will cease in the near future, will be gradually replaced.

The new procurement includes machine with the following basic functions:

- Eight desktop machines with the possibility of authenticating, counting and sorting banknotes by quality, as well as with the possibility of connection with the software reporting system (machines for the needs of the main units and the Brčko Branch),

- One desktop machine with options for authenticating, counting and sorting banknotes by quality with an additional module and the option of automatic destruction of banknotes unfit for circulation (machine for the needs of the Cash Management Department),
- One large stand-alone machine with options for authenticating, counting and sorting banknotes by quality, automatic module for packing bundles in foil, automatic banknote destruction option and software that collects data from machines that are in the system of banknote processing in all vaults (machine for needs of the Cash Management Department).

CBBH vaults perform the machine processing of large quantities of banknotes on a daily basis and it is extremely important that machine processing of banknotes provides adequate verification of banknote authenticity, accuracy and reliability of checking the quantity of counted or destroyed banknotes, as well as sorting banknotes by quality into suitable and unsuitable banknotes for circulation. Adequate checking of banknotes protects the integrity and quality of the domestic currency in circulation, as well as the reputation of the CBBH.

By procuring new cash management machines, the CBBH will ensure that the machine banknote processing would continue to be performed on highly sophisticated and high-quality banknote processing equipment that meets the high technical characteristics and requirements of the CBBH.



VISITS

The CBBH Governor met with the management of UniCredit Bank

On 19 December 2019, the Governor of the Central Bank of Bosnia and Herzegovina (CBBH), Senad Softić, Ph.D., met with the delegation of UniCredit Bank d. d. Mostar, led by newly appointed CEO Amina Mahmutović, who has replaced Dalibor Ćubela, on that position.

On this occasion, Governor Softić thanked Mr. Ćubela for the successful cooperation and successful running of one



of systemically important banks in Bosnia and Herzegovina, and he wished good luck to the new CEO, who will officially take over a new position as of 1 January 2020.

This meeting was also used as an opportunity to exchange information on the latest developments in the financial sector of Bosnia and Herzegovina, and the challenges faced by all participants in the financial intermediation process. On this occasion, Governor Softić stressed that the CBBH, within its mandate, continuously works on the improvement of the financial sector, and informed those present on the activities the CBBH implemented during the last year.

“Improvements in the payment systems of Bosnia and Herzegovina and the Registries, managed by the CBBH, as well as, an increase in the volume and coverage of statistics compiled by the CBBH, provide significant assistance to policy makers and the commercial banking sector in making

better business decisions”, the Governor said, adding that the CBBH had put in circulation new series of KM banknotes in the beginning of November, which significantly improved the quality and safety of cash in circulation.



CBBH AND EUROPEAN INTEGRATION

The fourth meeting of the Steering Committee of the ESCB regional project was held

On December 12, 2019, in the National Bank of Slovakia the fourth meeting of the Steering Committee of the European System of Central Banks (ESCB), a regional project, was held, which summarized project activities during 2019. All seminars were evaluated as being of exceptional quality, and the selection of candidates for seminars was especially praised. The importance and quality of the monetary policy seminar held at the Bank of Italy, which provided knowledge relevant to both analysts and staff working in the field of foreign exchange reserve investment, was emphasized.

Regarding bilateral measures for the CBBH, it was emphasized that the CBBH is the first central bank beneficiary of the project that has started the implementation of bilateral measures. Action plans for both measures were signed at the meeting. The first bilateral measure includes an internship at the Central Bank of the Netherlands in the field of foreign exchange reserve management. The efficiency, speed of implementation and cooperation between the CBBH and the Central Bank of the Netherlands, as well as the quality and commitment of the CBBH employees, were praised. The other bilateral measure refers to the establishment of surveys on credit activities of banks as one of the direct obligations of the CBBH in the process of European integration, based on the conclusions of the meeting of the Council for Economic and Financial Affairs (Ecofin) from May 2019. The bilateral measure is implemented by the Monetary and Financial Sector Statistics Section of the Statistics and Publications Department, with the support of the National Bank of Austria (OeNB).

FINANCIAL EDUCATION AND INCLUSION

CBBH Activity Plan for 2020 has been prepared

In accordance with the Work Plan of the Expert Team for Financial Education and Inclusion of the Central Bank of Bosnia and Herzegovina (CBBH), and in order to plan and implement activities, the Action Plan of this team for providing financial education and inclusion services for 2020 was made. This document specifies the activities and the manner of their realization in 2020. The members of the Expert Team defined the activities, target groups, implementation models, deadlines, necessary resources and the expected results of the financial education activities. In order to take into account the proposals of the members of the Expert Team, and respecting the stated purpose, on October 2, 2019 a workshop for drafting the CBBH activity plan for providing financial education services was held and through an interactive discussion of coordinators and team members, with the support of external associates engaged by the European Fund for Southeast Europe (EFSE DF), several

activities were specified to be the focus of work in 2020. With the support of EFSE DF, but also in cooperation with other partners (the World Bank), the intention is to make the financial education service more meaningful, regular and accessible to the citizens of Bosnia and Herzegovina.

The CBBH is determined to carry out the activities of financial education and inclusion in the following period, contributing to better financial literacy of the population in Bosnia and Herzegovina, but also indirectly to financial stability in the country. The approach to financial education is based on three principles: Visibility (the CBBH reputation), Valorization (satisfaction and recognition by society), Planning (planning and efficient service delivery).

As an integral part of financial education and inclusion activities, the CBBH will develop a special online web platform which will made available the information on activities, created educational materials and an interactive approach to information on the service - submitting proposals or requests for use of the service. The activities listed in this plan will, depending on the specific features, be publicly promoted, especially by using the official channels of the CBBH on social networks, as well as through the official website for financial education.

WORKSHOP

Performance assessment in the CBBH

In accordance with the obligation established by the By-law on the Assessment of the Performance of Employees in the Central Bank of Bosnia and Herzegovina (CBBH), which is to be met by assessors in the period from January 1 to 31, the CBBH, within the Bilateral Capacity Building Assistance Program (BCC), organized the workshop on the topic "Performance assessment in the CBBH". The

workshop was held on November 12, 2019 in the premises of the CBBH, and the lecturers were Zijada Rahimić, Ph.D., professor of Human Resources Management at the Faculty of Economics in Sarajevo and Željka Majher, Director of the Human Resources Management Directorate at the Croatian National Bank.

The focus of the workshop was on identifying problems and mistakes in the assessment and ways to reduce them, and the guest gave a presentation on performance management at the Croatian National Bank, experiences and challenges in this area.

FINANCIAL EDUCATION

Visit of students of the Faculty of Economics Zenica to the CBBH

As part of the financial education project, which has been implemented by the Central Bank of Bosnia and Herzegovina (CBBH) for some time, this institution was visited on November 20, 2019 by a group of about 40 students from the Faculty of Economics in Zenica, with professors.

Students were informed about the competencies and basic functions of the CBBH by an economic researcher - expert in the Office of the Chief Economist of the CBBH Enver Backović Ph.D., who, in his presentation, spoke about the organization, competencies and goals of the CBBH, its functions, pointing out the continuing development as the key to success.

The students of the Faculty of Economics in Zenica expressed their gratitude by handing a letter of thanks to the Expert Team for Financial Education and Inclusion of the

CBBH for their contribution to the organization of lectures for students of this faculty.

The Expert Team for Financial Education and Inclusion expressed great satisfaction due to the fact that the activities it carries out in the field of education and inclusion meet with positive reactions, especially from young people who show interest in the world of finance, money management, monetary policy...



WORKS ON THE CBBH BUILDING

Rehabilitation of sculptures at the entrance to the CBBH building

At the end of the year, the Central Bank of Bosnia and Herzegovina (CBBH) started repairing the sculptures at the entrance to the CBBH building. Conservation work in the first phase involved removing paint from the sculptures on site. The works were also performed on two bronze lanterns that were dismantled from the facade (workshop spaces).

During the procedure of removing paint from the sculptures, in this phase of the works, the physical-mechanical procedure was mostly applied. The paint was removed with various tools, in a way that would not endanger the surface of the bronze and the authentic patina on its surface. Thus, slightly thicker layers of paint are removed from rustic surfaces by crowning and peeling the paint, while thin layers from the smooth surfaces of the sculpture are removed with warm air with the help of scalpels and wooden tools. These procedures are directly related to the complexity and difficulty of removing paint, because it is quite easy to remove from some positions and difficult from others.

The second phase of the works involved a chemical process and referred to the removal and salt passivation. The third phase was the retouching of minor damage and the protection of the figures.



The author of the external and internal sculptural performances that adorn the CBBH building is Vladimir Pavlovich Zagorodnjik, a Russian artist. In his rich working experience, he also decorated the facades of public buildings and making monuments in Belgrade, Valjevo, Sarajevo and Banja Luka. He is also responsible for the decoration of the building of the branch of the State Mortgage Bank in Banja Luka, later the State Accounting Service, and now the Palace

of the Republic. For the new building of the branch of the State Mortgage Bank in Sarajevo, built in 1930, and since 1997 the CBBH, he has been entrusted with the final production of external and internal sculpture. He painted two portal bronze figures with lanterns, which allegorically depict decorative art and architecture, and with facade reliefs he presented trade, wealth, navigation, industry, agriculture. The CBBH building was declared a National Monument in 2009.

ACT OF HUMANITY

Action of voluntary blood donation in the CBBH

This year, like in the previous years, the Central Bank of Bosnia and Herzegovina (CBBH) responded to the invitation of the Institute for Transfusion Medicine of the Federation of Bosnia and Herzegovina - Sarajevo for voluntary blood donation. The action of voluntary blood donation was organized on December 11, 2019. CBBH employees have been responding to this action for years with the desire and hope that their blood will save someone's life.

