

CENTRALNA BANKA  
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА  
БОСНЕ И ХЕРЦЕГОВИНЕ

# INFO CBBH



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## CONGRATULATIONS BY THE CBBH GOVERNOR FOR THE 21st ANNIVERSARY OF THE CBBH ESTABLISHMENT

On the occasion of the 21st anniversary of the establishment of the Central Bank of Bosnia and Herzegovina (CBBH), the Governor Senad Softić, Ph.D., in his introductory speech, presented the information on the most important achievements, made in the period since the last one, 20th anniversary.

The Governor noted that the past period was marked by the CBBH operating in very complex conditions on the financial markets, which was the case with many other central banks, too. Nevertheless, under such conditions, the institution successfully fulfilled all the tasks within its competence, which was also enabled by the maximum engagement of the staff, members of the Management and the Governing Board.

In his speech, Governor Softić said that in September 2017, the CBBH successfully organized the international conference entitled "20 Years of Stability", marking the 20th anniversary of successful operations, attended by highly ranked officials from BH, but especially from international and European institutions (ECB, WB, IMF, EU ...). Also, an international acknowledgement of the CBBH successful work has been received, as the award of the Capital Finance International magazine for best management of the central bank in Central and Eastern Europe.

As part of international cooperation and cooperation with domestic institutions, the Governor emphasized that the European Commission Questionnaire was one of the most important and most demanding task for the CBBH. As the competent institution, the CBBH participated in preparing the answers to the questions in the field of Economic Criteria and 8 chapters of the Questionnaire. In addition, through the work of the Economic Reform Program (ERP), the CBBH also provided a continuous contribution to the EU integration process of BH through the reporting to the EU. In addition, the CBBH has implemented or started several international cooperation programs during the year with the aim of strengthening capacities and alignment with EU central banking standards. Activities were focused on strengthening analytical and research function and econometric capacities, improvement of knowledge and functions of payment systems, statistics, human resource management, and implementation of integrated quality system. In addition to the EU and the ECB, cooperation has been established with the Swiss program SECO, the German GIZ, the World Bank, the IMF, and with the USAID through the FINRA program. The first examinations on the condition and analyzes of the system of comprehensive risk management, financial stability, strategic communication with the public, business processes and organizations were carried out aiming to establish the functions and improvement of business processes in accordance with the best standards and practices in the world. The project continues in the upcoming years.

In his speech, the CBBH Governor emphasized that during this period, cooperation with the Banking Agencies through banking coordination was intensified, with a focus on the financial stability.

He also stated that in the past year, a number of activities has been initiated to improve the basic functions of the CBBH. Thus, in the payment systems, activities were undertaken which included upgrading of the existing infrastructure, adding the new functionalities and harmonizing standards with the recommendations of the SWIFT. In the area of statistics, the

CBBH has actively worked on the implementation of several technical assistance projects in order to harmonize statistics with EU requirements and to introduce a new application for GFS statistics. Since this year, BH has joined the statistical reporting system e-GDDS to the IMF, where the CBBH was the carrier of the activity. An upgrade of the statistical web portal was also made, which improved the data dissemination process. In the area of the foreign exchange management, improvements were made in monitoring and reporting on the foreign exchange reserves management process, with a special emphasis on forecasting future market trends. Significant improvements were also made in the banking operations with the guidelines and action plan for foreign reserves management, being adopted in cooperation with the IMF. In the area of risk management, software applications with appropriate methodologies have been developed, and the existing model has been upgraded with additional functionalities for calculating credit and market risks measures. In the process of the cash management, a comprehensive proposal was prepared for measures aimed at improving cash management in accordance with the CBBH strategic plan and regulations of the European Central Bank, as well as preparatory actions for improving the quality of cash in circulation by withdrawing older series of banknotes from circulation. The anniversary of 20 years of release into circulation of KM was also marked appropriately.

Beside this, Governor Softić also mentioned a number of implemented activities aimed at improving the internal processes and infrastructure in the CBBH, which can also highlight the application of mandatory new accounting standard - IFRS 9 from the beginning of 2018. The Governor noted that it is very important that all these activities were performed during the regular work, which confirmed the commitment of the CBBH employees to continuous improvement of the process in the institution.

After specifying of the data for the past period, the CBBH Governor pointed out that the next year brings the significant challenges and projects that the CBBH plans to ensure for the sake of stability and further development. He also stated that the cooperation with international and domestic partners has already been agreed upon through technical assistance projects, as well as a number of activities related to EU integration. Strengthening the visibility of the CBBH will be one of the primary tasks, and one of the key activities in this area is the CBBH organization of an international research conference in November 2018, with a series of planned seminars and research works and activities in the financial education of citizens. The activities are planned for further defining and improving of the CBBH relations with other key stakeholders in BH financial sector, in order to preserve financial stability in the country.

During the year, within the framework of the payment systems upgrading, the completion of activities on upgrading registers and putting into operation of the new ACH SEPA system is expected, in line with the recommendations of SWIFT. In the field of statistics, the permanent improvement of data quality will continue, and in that period, the start of regular transmission of data to Eurostat is also planned. In the area of foreign exchange reserves management, further improvement of the monitoring methodology for the CBBH investment portfolio, with the improvement of IT support to this process will be

undertaken, and we will begin to work on defining a mid-term foreign exchange reserves strategy. In the forthcoming period, it is planned to conduct the stress tests on the CBBH's total portfolio of foreign exchange reserves to determine the potential effects of macroeconomic and financial shocks, including extreme scenario. In the process of the managing cash, the next year will mark the procurement of a new series of the KM banknotes with the withdrawal of older series from the circulation. In addition, it is also planned to replace existing cash processing machines and to prepare new rules on cash distribution in accordance with the CBBH Strategic Plan and the current ECB regulations. At the end of his speech, Governor Softić emphasized that the success will depend largely on the contribution of each CBBH employee, who through responsible and conscientious work, will certainly support this institution in being efficient and successful, and in the future, it will align with the highest standards of developed central banks.

## THE CBBH ORGANIZED A BRIEFING FOR JOURNALISTS ON THE ROLE AND CHALLENGES FOR CENTRAL BANKS DURING ACCESSING THE EU AND EURO



On July 9, 2018, within the FINRA project, realized by the Central Bank of Bosnia and Herzegovina (CBBH) in cooperation with the United States Agency for International Development (USAID), there was the briefing organized for journalists on the role and challenges for the central banks during accessing the European Union and the euro.

The visiting lecturers were Marko Škreb and Velimir Šonje, the consultants of the USAID. Marko Škreb talked about the development of central banking in general, changes in the role and goals of central banks after the global crisis in 2008 and future challenges for central bankers, especially in the region.

In his presentation, Škreb stressed that there are around 200 central banks in the world, including those that are part of supranational banks such as the European Central Bank (ECB), the West African Economic and Monetary Union, Eastern Caribbeans etc. Some countries have central banks and are not independent, such as Northern Cyprus, South Ossetia, Somaliland, and some other, although independent, do not have banks, as Monaco, Kiribati or Palau. There is a variety of central banks, by their functions (monetary policy, banking regulation and supervision, financial stability, fiscal agent for the state, consumer protection), size, reputation and importance in the economy etc. The oldest central bank, established 350 years ago, is Sveriges Riksbank (The Central Bank of Sweden).

Referring to the different periods in the history of central banks, Škreb mentioned that British economist Charles Goodhart differentiates periods of consensus and uncertainty. There are three periods of consensus, outside of which there are periods of uncertainty: „gold standard“ (1873-1914), „fiscal dominance“ (1934-1970) and „inflation targeting“ (1990-2007). After 2008, there has been a period of uncertainty, seeking for consensus and changes. In doing so, every country and its central bank is looking for the own path and optimum to operate in its environment on the basis of existing laws, regulations and social consensus. The „gold standard“ needed to maintain fixed price of gold – 35 USD/oz. After the crisis 1929-1935, there was the system's breakdown and the standard was abandoned. After that, there was a period of political control, when the central banks were subject to governments influence, which then set interest rates and monetary policy.

The consequence was a high inflation rate in 1960's and 1970's, because the decisions were made according to the political cycle. That started changes in the direction of central banks independence and inflation targeting. The Bank of England was founded in 1997 and the ECB in 1998.

The situation in the world of central banking changes in 2009, when a major global crisis occurred, and its beginning was marked by the collapse of Lehman Brothers, the fourth largest investment bank in the US with 25,000 employees. Since then, among other things, the central banks mandate is expanding to financial stability, discussions on target, fighting unemployment, as an additional goal, consumer protection, financial education etc.



At the end of the presentation, Škreb also pointed to the challenges for central banks, especially the independence of the central bank, because new mandates require higher level of independence from politics, but also increase of transparency and accountability. Financial independence is also a challenge, which is not easy in modern conditions (low interest rates, reduced cash in circulation, less loans to the state and banks). It is also important to adapt to new trends, but also to keep in mind the main goals, concluded Škreb.

Velimir Šonje devoted his time to the exchange rates policies, showed connections between the openness of the economies and exchange rates, and the possibilities and constraints of monetary policy, depending on choice of the exchange rates policy with an emphasis on currency boards. He paid special attention to global trends of interest rates and how they affect the management of monetary policy and the results of central banks, depending on the choice of the exchange rate regime.

At the beginning of the presentation, by asking questions Šonje gives answers, in the same time. The answer to question what are the differences between „the big stories“ (the US FED, the ECB) and us, „the small ones“, is that not all economies and financial systems work in the same way. The Currency Board in Bosnia and Herzegovina is no special case, as the vast majority of small and open economies restrict the exchange rate changes. Besides, the EU perspective confirms this. Asked what the Currency Board can and cannot afford, and what is the perspective, the explanation is that it cannot freely create money in the long run and this carries more benefits than harm, and paradoxically by entering the monetary union the spectrum of instruments is expanding.

Šonje pointed to the spectrum of policies (regimes) of the exchange rates, thus, the Federal Reserves (the FED) have floating exchange rate, the ECB, Poland, Czech Republic, Romania, Serbia have inflation targeting, Croatia has the dirty float exchange rate, Denmark, Lithuania, Latvia (before the euro adoption) have had the fixed exchange rate, while Bosnia and Herzegovina, Estonia (before the euro adoption), Bulgaria and Hong Kong have the Currency Board arrangement. Having noted the positive and negative side of the currency board (including Bosnia and Herzegovina), Šonje concluded the presentation focusing the need to maintain the Currency Board in Bosnia and Herzegovina, pointing out that the path back is a path to instability (Argentina abandoned the currency board back in 2002), that the European perspective is also possible with the currency board, and that Bosnia and Herzegovina is importing European interest rates that do not deviate essentially from the rates in other countries of „New Europe“.

Answering on how to response to future crisis, Šonje says: „The populists are offering magical solutions, but when they assume the posts bringing brings responsibility, they change the tune“. He added that it is needed to build the own experiences - the depreciation of currency is a highly risky response to the crisis in the small and open economy (If it's not broken, don't fix it), Bosnia and Herzegovina passed one big crisis with no costs for taxpayers (The student who passed the exam, goes on). The answer is in used up term, „reform“, and that is out of the domain of monetary policy – competitiveness, good policies, responsible fiscal policy, progress of institutions, integration and cooperation with the international financial institutions.

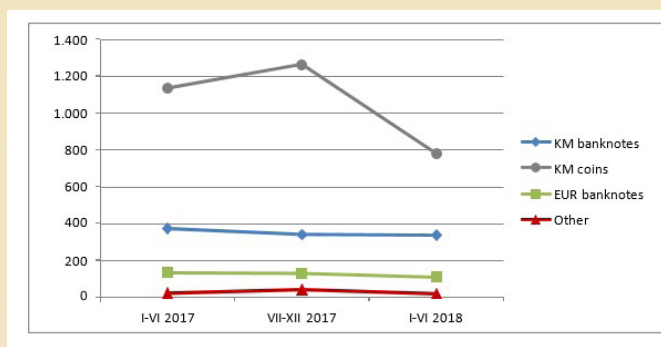
Judging by the discussion, the topic of the briefing was extremely interesting to the media representatives who attended it, since it was written and talked a lot about the currency board in the context of European integrations.

Colleagues journalists praised the CBBH for organizing the briefing, highlighting their preference for this kind of gatherings, which contains the exchange of opinion between the journalists and banking experts. At the same time, they suggested the topics for next similar gathering – minimum reserve requirements, the capabilities of the central banks in the crisis, bank stress tests etc.

## A LOWER NUMBER OF COUNTERFEITS RECORDED IN THE FIRST SIX MONTHS OF 2018

According to the data of the Section for banknotes expertise, plan, analyzing and reporting in Cash Management Department of the Central Bank of Bosnia and Herzegovina (CBBH), the total of 1,238 pieces of the counterfeited banknotes and coins of all currencies and denominations was registered in the first six months of 2018.

This was lower by 25.2% compared to the same period of the last year, and lower by 29.94% compared to the second half of the last year.



With regard to counterfeited banknotes of convertible mark, 335 counterfeits were registered in the observed period, which was lower by 9.7% compared to the same period of the last year and lower by 1.18% compared to the second half of the last year.

Regarding the denomination structure, most counterfeits were in the denominations of KM 100 (114 or 34.03%), KM 20 (103 or 30.75%), and in denomination of KM 50 (93 or 27.76%).

In the previous six months, 778 pieces of counterfeited convertible mark coins were registered, which is lower by 31.27% compared to the same period of the last year and lower by 38.3% compared to the second half of the last year.

The highest number of counterfeited coins were in the denomination of KM 1 (724 pieces or 93.06%), KM 5 (46 pieces or 5.91%), and the lowest number of counterfeits was recorded in the denomination of KM 2 (8 pieces or 1.03%).

Regarding euro banknotes, 107 pieces of counterfeited euro banknotes were registered in the reporting period. This is lower by 18.32% compared to the same period last year, and lower by 16.41% compared to the second half of last year.

In registered counterfeited euro banknotes, the largest share was taken by the denomination of EUR 50 with 45 pieces or 42.06%, followed by the denomination of EUR 200 (23 pieces or 21.5%).

In the case of banknotes of other currencies, 18 counterfeits in other currencies were registered in the first six months of 2018. Out of that number, there were nine counterfeits of US dollars (one in the denomination of USD 20, two in the denomination of USD 50 and six in the denomination of USD 100), seven in the denomination of GBP 20 and two in the denomination of TRY 200.

## THE NSDP FOR IMPROVED DISSEMINATION OF BH STATISTICAL DATA ESTABLISHED ON THE CBBH'S WEB SITE

### National Summary Data Page (NSDP)-Bosnia and Herzegovina

Data linked from this page correspond to data described in the International Monetary Fund's DSBB. For a fuller explanation of the DSBB and the enhanced General Data Dissemination System in which Bosnia and Herzegovina participates, please visit the [DSBB home page](#). Advance Release Calendar for NSDP related data can be found [here](#).

#### Macroeconomic and Financial Data



National Accounts (GDP)	<a href="#">Browse Data</a>	<a href="#">Download in SDMX</a>	<a href="#">DSBB Metadata</a>
Consumer Price Index	<a href="#">Browse Data</a>	<a href="#">Download in SDMX</a>	<a href="#">DSBB Metadata</a>
General Government Operations	<a href="#">Browse Data</a>	<a href="#">Download in SDMX</a>	<a href="#">DSBB Metadata</a>
Central Government Operations	<a href="#">Browse Data</a>	<a href="#">Download in SDMX</a>	<a href="#">DSBB Metadata</a>
Central Government Gross Debt	<a href="#">Browse Data</a>	<a href="#">Download in SDMX</a>	
Depository Corporations Survey	<a href="#">Browse Data</a>	<a href="#">Download in SDMX</a>	<a href="#">DSBB Metadata</a>

The Central Bank of Bosnia and Herzegovina (CBBH) established the NSDP (National Summary Data Page) for upgraded dissemination of BH statistical data on its official web site.

During the previous two months, the CBBH, the Agency for Statistics of Bosnia and Herzegovina and other institutions worked together on preparing this page, which will be used

for regular publication of data in the future. The publication through the standardized NSDP will enable easier and improved access to macroeconomic data for domestic and foreign users, including investors and rating agencies. At the same time, adhering to the Advanced Release Calendar, timely access and increased transparency will be provided to users.

The NSDP is a standardized page for data publication within the international initiative for the Enhanced General Data Dissemination System, which has been implemented since 2015, and Bosnia and Herzegovina was among few countries in Europe that did not have this page. Other countries have a similar page, and the aim is to provide links to all key macroeconomic and social statistics in one place. The added value is a possibility to download data in a special SDMX format, which enables direct loading of data into computer systems, and the access to the appropriate metadata (data explanation) is also provided.

The Technical Mission of the International Monetary Fund (IMF) stayed in BH by the end of April 2018, providing the needed technical assistance to domestic institutions and supporting necessary technical preparations and data conversion.

## THE AUDIT REPORT ON THE EXTERNAL DEBT SERVICING ACCOUNTS

The audit team of the Audit Office of the Institutions of BH carried out an audit of Bosnia and Herzegovina external debt servicing accounts for 2017.

According to the submitted report, the Central Bank of Bosnia and Herzegovina (CBBH) operated in all material respects in accordance with the provisions of the Agreement on servicing the external debt of Bosnia and Herzegovina with the Ministry of Finance and Treasury of BH.

The audit was performed in accordance with the International Standards of Supreme Audit Institutions (ISSAI).

There were no objections to the established system of internal controls and procedures in the CBBH External Debt Servicing Department.

The management of the CBBH is responsible for compliance with the External Debt Service Agreement in the part related

to: a) opening / closing accounts for external debt servicing and their sub-accounts; b) receiving and processing payments for external debt servicing; c) receiving, processing and executing orders / instructions for external debt servicing; d) bookkeeping and reporting; e) other activities that may arise in order to timely service the external debt, with the prior consent of the contracting parties. The CBBH provides reports on the changes made and the balances of the external debt servicing accounts, while the accounting and financial reporting systems for the external debt servicing accounts will be in compliance with the international accounting standards.

The CBBH is also responsible for the establishment of an internal control system and the creation of internal procedures for external debt servicing in order to ensure compliance with the purpose of the external debt servicing account and prevent misuse and unauthorized use of funds from those accounts.



## THE CBBH GOVERNOR MET WITH THE HIGHEST LEVEL MANAGEMENT OF THE UNICREDIT GROUP FROM MILAN



On 27 July 2018, Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Senad Softić, Ph.D. met the highest level representatives of the international banking group UniCredit Group from Milan.

The delegation was led by UniCredit Executive Director Jean Pierre Mustiera and Director of the Central and Eastern European Department Carlo Vivaldi.

The UniCredit Group Delegation included also the President of the Management Board of UniCredit Bank dd Mostar Dalibor Ćubela, President of the Management Board of UniCredit Bank ad Banja Luka Gordan Pehar, and Director of Marketing

and Communications of UniCredit Bank dd Mostar Selma Riđanović Kenović.

This was the first visit of the Executive Director of UniCredit Group to Bosnia and Herzegovina. The discussions addressed the macroeconomic indicators, monetary and financial stability, and compliance of financial and banking regulations with regulatory models and practices. During the meeting, the Governor of the CBBH emphasized that the Laws on Banks in both BH Entities were adopted over a year ago and they are, to the highest possible extent, harmonized with the EU directives and Basel principles. The current activities are focused on developing a strategy for the implementation of Basel III.

Governor Softić emphasized the fact that the Currency Board model remains the most appropriate solution for BH which provides the basis for integrating the economic space in monetary area and achieving macroeconomic stability. Since the introduction of the Currency Board to date, continuous positive developments of all relevant macroeconomic indicators and indicators related to the banking sector in BH have been recorded.

“The CBBH has completely fulfilled one of its basic functions - it has achieved and maintained the stability of the domestic currency, while the external stability has been ensured by the successful maintenance of the fixed exchange rate and regular servicing of the external debt of BH, performed by the CBBH, as a fiscal agent of the state,” said Governor Softić.

## THE CBBH PUBLISHED THE FOREIGN DIRECT INVESTMENT STATISTICS FOR 2017

The Central Bank of Bosnia and Herzegovina (CBBH) published the foreign direct investment (FDI) statistics for 2017, showing that the FDI inflow in 2017 amounted to KM 777.7 million, or 2.5% of GDP, which was an increase by KM 213.6 million compared to 2016.

In terms of geographical distribution in 2017, the highest investment inflows were from Austria (KM 186.8 million), Croatia (KM 102.0 million), Slovenia (KM 101.7 million), Switzerland (KM 58.7 million) and Serbia (KM 53.9 million).

As per activities, most investments were realized in financial intermediation (banking sector), amounting to KM 261.2 million, in retail trade, in the amount of KM 110.2 million, in production and supply of electricity in amount of KM 64.2 million, in production of base metals, in the amount of KM 50.7 million and in production of motor vehicles in the amount of KM 46.5 million. The total amount includes also the investment outflows, the highest outflow having been recorded in manufacture of beverages, in the amount of KM 35.6 million.

In the end of 2017, the balance of FDI amounted to KM 13.45 billion, with the biggest portion of 66.1% related to equity. The highest amount of FDI still refers to Austria (KM 2.6 billion), Croatia (KM 2.3 billion) and Serbia (KM 2.0 billion)

Related to the FDIs going out from Bosnia and Herzegovina abroad, in 2017, the flows of investments abroad in 2017



amounted to KM 132.0 million. The amount was higher by KM 70.3 million compared to 2016, when the outgoing investments amounted to KM 61.7 million. As a consequence of investments in the previous years, the total balance of domestic investments abroad amounted to KM 872.8 million.

According to the revision policy and on the basis of additional data, upon the publishing of the data for 2017, the data for the previous two years were revised.

