

CENTRALNA BANKA
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ

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Publisher: The Central Bank of Bosnia and Herzegovina;
Address: Maršal Tito Street 25, 71000 Sarajevo

Prepared by: Public Relations Section

Translation in English: Public Relations Section

Proofreader (languages of BH nations and English version): Library and
Publications Section and Protocol and Translation Section

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GOVERNOR SOFTIĆ AND THE CBBH AWARDED



The 37th Ceremony on the selection of the most successful managers and companies in Bosnia and Herzegovina was held on 7 December 2017, during which the Governor of the Central Bank of Bosnia and Herzegovina (CBBH), Senad Softić, Ph.D. received the award for the best European Manager in Bosnia and Herzegovina in finance, and the CBBH was awarded with the acknowledgment for outstanding contribution to the macroeconomic stability of the country.

During the ceremony, held at the Banski Dvori in Banja Luka and organized by the Independent Agency of the European Association of Managers and Magazine Euromanager, there were 21 awards presented to the most successful managers from Bosnia and Herzegovina in several categories.

On the occasion of awarding this prestigious award, the Governor Softić, Ph.D. expressed his appreciation to the Directorate on his nomination, as well as, to all those who have proposed the CBBH and him for prestigious awards, exactly in the year when the CBBH marks 20 years of its operations.

"This jubilee is a good reason for joy and pride for everything we have done and we do to fulfill our tasks," said the Governor, emphasizing the monetary stability in the country and a high level of confidence in the local currency as the successes, thanks to which the CBBH work has been recognized. "This acknowledgment is a confirmation that the CBBH is recognized and respected as a professional institution and that mine and all my associates' accountable work attitudes, meaning, work attitude of the CBBH employees, has been recognized," said Governor Softić at a ceremony, attended by over 400 officials from the economy sector and public life.

ŠERIF ISOVIĆ, M.Sc. TOOK OVER THE DUTY OF THE CBBH GOVERNING BOARD MEMBER

On 11 November 2017, Šerif Isović, M.Sc. took over the duty of a member of the Central Bank of Bosnia and Herzegovina (CBBH) Governing Board. By decision of the Presidency of Bosnia and Herzegovina dated 1 October 2017, Mr. Šerif Isović was appointed as a member of the CBBH Governing Board, thus replacing Kemal Kozarić, Ph.D.

Šerif Isović was born on April 5, 1962. After completing the Secondary School of Economics and the Faculty of Economics, he acquired a degree of M.Sc. in Economics at the Department of Accounting and Auditing of the Faculty of Economics, University of Sarajevo.

From 14 October, 2015, he has been working as acting Director of Tax Administration of the Federation of Bosnia and Herzegovina. In his professional career, he worked since 1987 to 1990, in the Tax Administration as a Municipal Inspector, from 1990 to 1993, he worked in Sarajevo City Incomes Administration as a City Inspector, from 1993 to 1994, he worked in the Financial Police as a Financial Inspector, since 1994 until 1998, he worked as Director of the Tax Administration of Sarajevo District/Canton and a Member of the Executive Board of Sarajevo District until the constitution of Sarajevo Canton. Since 1998 to 2002, he worked in public company "BH PTT" as Finance Advisor, from 2002 to 2005, he worked in "BH Pošta" Public Company as Chief Inspector (Internal Auditor), from 2005 to 2007, he worked in "BH Pošta" Public Company as Executive Director for Economic and Financial Operations, from 2007 to 2009, in "BH Telecom" as Executive Director for Economic and Financial Affairs, and from 2009 to 2010 in "Fabrika Duhana Sarajevo" as Executive Finance Director.

In the period from 22 March 2011 to 13 October 2015, he was a Board Member of the Agency for Post Office Traffic of Bosnia and Herzegovina, and in the period from 9 March 2014 to 9 March 2015, he was the Chairman of the Board.

In addition, he also performed a number of other duties, such as: Member of the Audit Committee in company "JKP Tržnice Sarajevo", Member of the Commission for Economic Issues of Sarajevo Canton, Director of Internal Audit in "Energoinvest d.d. Sarajevo", Member of the Supervisory Board at "BH Telecom d.d.", Member of the Supervisory



Board at "Centrotrans bus Sarajevo", Member of the Budget and Finance Commission of Sarajevo Canton.

He also attended numerous trainings (in the area of financial-fiscal policy, work of supervisory board members, corporate governance, crisis management, analysis of financial reports, successful collection of claims, direct sales, network marketing, internal audit on quality, accounting control, financial management and human resources management) and he acquired the certificates in various professional fields (certified accountant, certified auditor, court expert in economics, specialized in finance, market relations and financial reporting, and a certificate for work in the state administration bodies).

He has been Court Expert in Finance since 1997, and is the author of numerous financial expertise documents in commercial law suits, labor law suits, economic crimes, money laundering and tax evasion.

He has been also the participant and a lecturer at several international symposiums, conferences and faculties, and he is a lecturer at the Education and Consulting Firm "FINconsult", being the school for candidates requiring the various titles in the financial-accounting profession and for education on business books keeping.

He is the author of numerous papers in scientific-professional magazines, as well as, in paper collections from the international conferences.

STATEMENT ON AUDITING OF THE FOREIGN DEBT SERVICING ACCOUNTS

The auditing team of the Audit Office of the Bosnia and Herzegovina Institutions performed auditing of the accounts for foreign debt servicing in 2015 and 2016. The auditors' finding, as auditors read it in their profession's jargon, is „unqualified“, i.e. it is positive – considering all materially important aspects, the Central Bank of Bosnia and Herzegovina (CBBH) has proceeded in accordance with the Agreement with the Ministry of Finance and Treasury of BiH and there were no objections on the internal controls system and procedures established in the CBBH's Department for External Debt Servicing and Foreign Institutions Relations.

The management of the CBBH is responsible for compliance with the Agreement on the Foreign Debt Servicing in the part pertaining to: a) opening/closing of accounts for foreign debt servicing and their sub-accounts; b) receiving and processing of payments for foreign debt servicing; c) receiving, processing and execution of orders/instructions for foreign debt servicing; d) accounting records and reporting; e) other operations that may occur in order to perform timely foreign debt servicing, and with the prior consent of contracting parties. The CBBH provides reports on changes made and the balance of accounts for foreign debt servicing, and the accounting and financial reporting systems for foreign debt servicing continue to be compliant with the international accounting standards.

The CBBH is also responsible for establishment of the internal controls system and creation of internal procedures for foreign debt servicing in order to ensure operations in line with the purpose of the accounts for foreign debt servicing and prevention of the misuse and unauthorized use of funds from those accounts.

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

GOVERNOR PARTICIPATED IN THE INTERNATIONAL CONFERENCE ON BANKING DEVELOPMENTS AND FINANCIAL MARKETS INFRASTRUCTURE



Governor of the Central Bank of Bosnia and Herzegovina, Senad Softić, Ph.D. participated in the International Conference on Banking Developments and Financial Markets Infrastructure, held in Tirana, Albania, on November 9, 2017. Speaking on financial markets, financial inclusion and the significance of their roles in further development of the macroeconomic and financial stability, at the beginning of his presentation, the Governor pointed out the structure of the financial system in BH, consisting of:

1. Currency;
2. Payment systems;
3. Financial intermediaries and their regulators / supervisors: banks (23 commercial banks + 2 development banks), insurance companies (27 insurance companies + 1 reinsurance company), investment funds (38), leasing companies (6), MCO (24), brokerage houses (15). Regulators are organized at the entity level and coordinated at the state level, except for intermediaries at capital markets. The question is: do we need additional intermediaries, such as investment bank and savings and credit cooperatives?
4. Financial markets and their regulators / supervisors: 2 Stock exchanges, 2 Securities Committees, 2 Securities Registers. The questions is: what about the money market (high solvency and short maturity), cash (spot) market (goods sold

for cash with immediate transfer of ownership), derivatives market, foreign exchange markets?

While indicating the risk assessment in financial system, the Governor stressed potentially underestimated risk in the banking system such as government bonds, which are mostly quoted at pre-administered prices, instead at market prices and the main buyers are banks, then follows the potentially overestimated value of real estate, which in a shallow and rather limited market could bear significant implications to banks' clients, as well as to banks themselves, and reduced possibilities to mitigate other risks. Having in mind the bank centric system and the lack of large local investors, there is no realistic assessment of credit risk for local companies.

As for the financial literacy, the CBBH Governor noted that macroeconomic shock in 2008 (but also the capital market collapse in 2007) pointed out a very low level of financial literacy. Current activities mostly emphasize necessity of greater attention on the budgeting, better managing expenses or better understanding of financial contracts and basic banking concepts. The data referring to financial inclusion show that citizens who were, or who are currently employed, have banking accounts, which is the case also with a significant number of retired persons and that there is also a significant number of traditional banking products' users.

MARICA BULIĆ REPLACED ANGELA MEDIĆ AS A DEPUTY TO THE CBBH CHIEF AUDIT EXECUTIVE

On November 30, 2017, the Deputy to the Chief Audit Executive in the Office of the Chief Audit Executive of the Central Bank of Bosnia and Herzegovina (CBBH), Angela Medić, became acquitted of the duty as her employment in the CBBH ceased, because she accomplished 40 years of mandatory insured working experience and became entitled to age retirement.

Marica Bulić was appointed as Deputy to the Chief Audit Executive instead of Angela Medić, at four - years term, starting from December 8, 2017 until December 7, 2021.

THE PRESENTATION OF CONCLUSIONS FROM THE IMF REPORT „REGIONAL ECONOMIC OUTLOOK FALL 2017 – EUROPE“

Deputy Director of the International Monetary Fund (IMF) Jorg Decressin said in Sarajevo that the economic growth in Europe is very strong and that this year it was recorded in all countries of the Old Continent. On November 13, 2017, at the premises of the Central Bank of Bosnia and Herzegovina (CBBH), the IMF presented the conclusions from the IMF report „Regional Economic Outlook Fall 2017 – Europe“.

This was the first year in which all European countries recorded growth after the global economic crisis.

„We are expecting that this strong growth in Europe will continue in mid-term. However, there are also certain risks. In short-term there may be some surprises that are seemingly positive. Growth may be stronger than expected. In mid-term we are expecting some negative surprises that are quite possible, such as certain geopolitical risks and certain developments in financial markets“, said Decressin. He also added that the challenge in this „good times“ is how to build enough space from maneuvering and reducing fiscal deficits.

When it comes to BH and its European path, the IMF's Deputy Director said that the challenges to improve the governance and the institutions operations, in particular, the judiciary system still remain.

As for the BH program with the IMF, Decressin briefly commented why the IMF insists on increasing fuel excise in BH:

„Stronger growth is what we want to see in the program with BH. What would become possible with new excises is to release large amount of financing needed to build the infrastructure. With building the infrastructure, this would mean more growth,

more jobs, more income for people, which would in turn stimulate better overall growth in BH“, said Decressin.

The Governor of the CBBH, Senad Softić, Ph.D. welcomed all attendees to the IMF report presentation, pointing out that the presentation very important for BH, as it provides the possibility of comparing the economic development, growth and the environment in BH against the countries of the region. For BH, as he said, it has been very important that growth in the European Union (EU) is continued in the mid-term period.

„The EU is our largest trading partner and foreign investor. A large Bosnian diaspora sends remittances close to 12 percent of GDP per year. These are very strong economic links that should be considered together with our diaspora as important resource for economic development of the country. However, policy makers in Europe, and also here in Bosnia and Herzegovina, should take advantage of the recovery to implement ambitious economic measures and structural reforms“, said Governor Softić.

According to Governor, for Bosnia and Herzegovina, it is necessary to focus on three broad areas: first, to improve the budget structure at all levels of government. The general governments of Bosnia and Herzegovina are on track to achieve a combined overall fiscal surplus for the second year in a row. However, there needs to be a re-orientation of spending towards infrastructure, to help catch up with European standards, and to improve connectivity and competitiveness of our economy. Second, the Governor said, it is necessary to continue the strengthening of the single financial system of Bosnia and Herzegovina. The banking system in Bosnia and Herzegovina





is strong and stable. There is enough liquidity and sufficient capital. Progress was made since 2015 in putting in place new banking legislation that brings Bosnia and Herzegovina banking system closer to European standards.

Still, there is a lot of work to be done to resolve issues from the past financial crisis. At more than 11 percent of total loans, NPLs continue to burden the balance sheets of banks. In this respect, adoption of new bankruptcy legislation at the entity level and clarification of tax-treatment of NPL sales will help address this issue in the period ahead.

„And third, said the Governor,„ we should redouble the efforts to improve institutions and address governance shortcomings.

Foreign direct investment stopped at around two percent of GDP per year. This is too low to support higher growth rates that will reduce unemployment and emigration.

„Improvements in regulatory quality, fair and transparent ‘rules of the game’, and transparent and accountable institutions will help attract higher levels of foreign investment. Therefore, we have to send clear message about positive outcomes of our reforms, increase reputation of Bosnia and Herzegovina, improve our competitiveness in order to increase investments and growth, and at the same time, to strengthen the single economic space and finally pave the way to our European future“, Governor Softić concluded.

THE GRADUATE INSTITUTE OF INTERNATIONAL AND DEVELOPMENT STUDIES PUBLISHED SCIENTIFIC RESEARCH PAPERS OF THE CBBH EMPLOYEES

Within the Bilateral Assistance and Capacity Building Program of the Central Banks, funded by the Government of Switzerland and implemented by the Graduate Institute of International and Development Studies, Geneva, several scientific research papers of our CBBH colleagues have been published under mentorship of the professors from the Institute.

Following papers have been published:

The Determinants of Excess Liquidity in the Banking Sector of Bosnia and Herzegovina, co-authors Elma Hasanović and

Tanja Latić, 2017; Exogenous Macroeconomic Shocks and their Propagation in Bosnia and Herzegovina, Bojan Baškot, 2016; Empirical Evidence for the Bank Lending Channel in Bosnia and Herzegovina: Does Lending Differ between Large and Small Banks?, Dejan Kovačević, 2015.

The papers are published on the website of the Graduate Institute of International and Development Studies, Geneva, but also on the CBBH website, bearing in mind the importance of these papers for the reputation of the CBBH. Sincere congratulations to our colleagues Hasanović, Latić, Baškot and Kovačević.

THE CBBH CONTRIBUTED TO DRAFTING OF 2018 ACTION PLAN FOR IMPLEMENTATION OF THE COMMUNICATION STRATEGY FOR INFORMING THE PUBLIC ON THE PROCESS OF BH ACCESSION TO THE EUROPEAN UNION

As in previous year, the CBBH Public Relations Section contributed to drafting of 2018 Action plan for implementation of the communication strategy for informing the public on the process of BH accession to the European Union.

More concretely, on its session held in January 2017, the Council of Ministers of Bosnia and Herzegovina adopted the Information on drafting the Action plan for implementation of the Communication strategy. The 2017 Action plan was adopted, and its creation was contributed also by the Central Bank of Bosnia and Herzegovina (CBBH) suggesting three activities in the context of European integrations, that were implemented: holding the conference, issuing of the publication and education of pupils and students about the CBBH activities in process of the accession to the EU.

The Directorate for European Integration is responsible to prepare, in cooperation with competent institutions including the CBBH,

the Draft of the 2018 Action plan and submit it to the Council of Ministers of Bosnia and Herzegovina for consideration and adoption.

Related to this, the CBBH suggested the following activities:

- Improvement of the Single Registry of Transaction Accounts in accordance with the EU standards,
- Upgrading of the Central Registry of Credits in line with the EU standards,
- SEPA implementation project – improvement of Gyro Clearing in accordance with the EU standards,
- Activities to promote awareness about the EU integration process – Organization of presentations, transfer of knowledge on the institutional structure and functions of the EU/ESCB committees, EU recommendations and criteria, the status of the Questionnaire, etc.

IN COOPERATION WITH THE EFSE, THE CBBH ISSUED PUBLICATION „NOVKO I NOVČICA U SVIJETU NOVCA“ AND A LEAFLET ON SAVING



to be financially literate and therefore responsible for managing money. Through these activities, the CBBH has been trying to achieve a higher level of financial literacy and financial inclusion of children and youth. Visits of primary and secondary school students and students from all over Bosnia and Herzegovina are integral parts of the financial education that the CBBH has been conducting in recent years.

„We carry out various activities of financial education through interactive workshops, quizzes, where students are informed about the operations and role of the CBBH, we teach them how to handle the cash, the saving and we acquaint them with the basic features of financial products. We believe that financial education of children should begin as soon as possible, in order to teach them how to differentiate wishes from needs, to understand the concept and priority of savings“, said Senad Softić, Ph.D., the Governor of the CBBH.



Within the activities related to the financial literacy of children and youth, conducted by the Central Bank of Bosnia and Herzegovina (CBBH) in cooperation with the European Fund for Southeast Europe – Development Facility (EFSE), the CBBH has created and published a publication for children called “Novko i Novčica u svijetu novca”. This is the first publication of this type for children of elementary school age in Bosnia and Herzegovina, which gives them the opportunity to learn about money and its purpose, about currency and basic facts on BH currency – convertible mark and its security features. For high school students, the CBBH and the EFSE have issued the leaflet called „Šta je štednja?“, specifying the reasons for saving, explaining how to determine the amount of money to save, the types of savings, whether saving in banks is safe and whether saving in KM is safe.

Financial literacy of children and young people is very important and useful, because it represents a good basis for acquiring the knowledge of money management, as well as, the skills necessary for making every day financial decisions. In interviews with pedagogues and teachers of primary and secondary schools who visited CBBH, it has been often pointed out that the introduction of a course related to financial education would be very useful, because financial education creates the possibility for a person

DEADLINE FOR REPLACEMENT OF F 50, KM 1 AND KM 5 DENOMINATED BANKNOTES EXPIRED



The deadline for replacing the convertible mark banknotes of 50 Fening, 1 and 5 denominations expired on 31 December 2017.

The mentioned banknotes had already been withdrawn from the circulation and thus stopped to be the legal tender.

Banknotes denominated in F 50 were withdrawn from circulation on 31 March 2003, banknotes denominated in KM 1 were withdrawn on 31 March 2009, and KM 5 denominated banknotes were withdrawn as of 31 March 2010.

Pursuant to the Decision of the CBBH Governing Board as of October 2012, the deadline for replacing of these banknotes in commercial banks was extended until 31 December 2017, after which the commercial banks shall no longer receive them.

The CBBH takes over the withdrawn banknotes from commercial banks successively, through Branch Office vaults, and it continues to take them over until 31 March 2018, at the latest.

NEW YEAR'S COCTAIL FOR JOURNALISTS ORGANIZED IN THE CBBH

As in all previous years, this year too, at the eve of New Year 2018, the CBBH organized the New Year's gathering of the Governor and journalists. Welcoming the journalists, the Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Ph.D. Senad Softić thanked to the media representatives for regular and correct coverage of CBBH activities, expressing the special content on their engagement during the celebration of the CBBH 20th Anniversary. The Governor also referred to CBBH's business results in 2017, and emphasized the most important macroeconomic indicators for BH. He especially pointed out that foreign currency reserves exceeded KM 10 billion, and that this has been the largest amount of foreign currency reserves since the founding of the CBBH. He wished to all the media and journalists happy and successful 2018 year, in their professional and personal life.



