

CENTRALNA BANKA  
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА  
БОСНЕ И ХЕРЦЕГОВИНЕ

# INFO CBBH



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## THE CBBH MARKED 19 YEARS OF ITS OPERATIONS



On August 11, 2016, the Central Bank of Bosnia and Herzegovina (CBBH) marked 19 years of its operations. The CBBH was established on this date on 1997, as the sole monetary authority in BH. Constitution of Bosnia and Herzegovina has specified the independent role of the CBBH that runs the monetary policy.

Over the years, in running the monetary policy, the CBBH has faced the big challenges: putting into circulation the only legal tender - convertible mark, gaining confidence and preserving the stability of the domestic currency, being the main task of monetary policy of the CBBH, then a complex reform of the payment system that was run by the CBBH, resulting in creation of a unified, modern payment system in the country, the reform of the banking sector, the growth of foreign exchange reserves etc. Over the time, the CBBH has initiated new projects, improved the statistics and its operations in accordance with European standards.

The CBBH has welcome this anniversary too providing the full convertibility of the local currency, and the Currency Board arrangement has ensured monetary stability which is extremely important in the current situation in the country. Although under complex and , according to investors, extraordinary unfavourable conditions at the international markets, the CBBH has implemented the policy of management of foreign exchange reserves in a safe way, while maintaining adequate capitalization. There has been achieved the highest level of foreign exchange reserves since its establishment and according to preliminary data, they amount to KM 8.94 billion on 31 July 2016. However, unfavourable market conditions dictate the foreign reserves investment policy, so the weighted average interest rate on the CBBH foreign exchange reserves is much lower than recorded in 2008, while the average yield on one-year and two-year bonds denominated in EUR with AAA rating have become negative. At the same time, remaining within the limits of the acceptable investment risk, the CBBH has managed to achieve positive business results, guided, first of all, by the principle of safety, then profitability, and by improving operational efficiency and reducing costs.

Strategic Plan for the period from 2016 to 2021, which was adopted by the CBBH Governing Board, determines basic tasks and activities that are defined by the Law on the CBBH. There is number of measures and decisions adopted related to it, referring to the operational functioning of the CBBH. The most important task of the CBBH, in the future, will be further preservation of the monetary stability, then the strengthening of the banking coordination and the role of the Standing Committee for Financial Stability of BH, the introduction of oversight functions within the payments system, expansion of the Single Register of Accounts and further improvement and assurance of timely and comprehensive statistics. In addition, in the context of European integrations of Bosnia and Herzegovina, the CBBH has an active role and will adjust its activities in order to accomplish the tasks within the project.

On behalf of the Governing Board and Management, Governor Senad Softić, Ph.D., congratulated 19th anniversary of the CBBH to all employees.

On that occasion, he emphasized the fact that the CBBH is currently operating in very difficult conditions on the financial markets and because of that, the income is significantly lower than in the previous year. "Thanks to the dedicated commitment of the Central Bank employees, reduction of costs and rational business operations, we manage to keep the positive result, but also further development. For the continuity of successful work, it is essential that all employees make their full contribution in order to improve the efficiency of operations and the realization of strategic objectives and tasks defined by the Governing Board. In this regard, we will especially appreciate and follow the engagement, dedication and individual results of each staff member in order to ensure satisfactory results and maintain the reputation of successful institution in Bosnia and Herzegovina, in the future", said the Governor in his congratulation message to the employees on the occasion of the 19th Anniversary of the CBBH.

## IMPLEMENTATION OF THE DECISION ON SETTING AND MAINTAINING OF REQUIRED RESERVES STARTED AS OF JULY 1



The implementation of the Decision on setting and maintaining of required reserves and the determination of the remuneration on the reserve amount, which was adopted in April 2016 has started from July 1, 2016. By this decision, the funds excluded earlier were returned in the base for calculation of required reserves; a single reserve requirement rate of 10% was introduced regardless of maturity and currency of the base; a negative remuneration rate on excess reserves was introduced in the amount of 50% of the rate applied by the European Central Bank (ECB) on commercial bank deposits, which is currently -0.20% (the ECB rate is -0.40%), while the required reserve remuneration rate remains 0%.

Changing of the required reserve policy had several goals - creating of additional safety stocks in liquid assets in the system, stimulating the restructuring of assets of commercial banks, and reducing the costs of the CBBH.

When adopting this decision, the current macroeconomic framework that is significantly different from the last significant change of the reserve requirement policy in 2011, and especially in relation to the period in 2008, was taken into account.

The introduction of negative remuneration rate on the amount of excess reserves, as it was mentioned, was aimed at stimulating restructuring of banks' assets, to the extent allowed by the regulations on bank risk management. Funds exceeding the required reserves of commercial banks in the reserve accounts with the CBBH have amounted approximately to KM 2.5 billion for a long time. Also, this change is a result of developments in international financial markets, especially in the euro area, where negative rates prevail. Still taking the current macroeconomic context and the stability of the financial system into account, the CBBH decided to introduce the remuneration rate (-0.20%) on the excess reserves that is less negative (-0.40%) than the benchmark deposit rate of the ECB.

## EXIT OF THE UNITED KINGDOM FROM THE EU HAS NO DIRECT NEGATIVE EFFECTS ON BH



Despite large turbulence on the global financial markets caused by the decision of the citizens of the United Kingdom to leave the European Union, direct negative effects on the financial stability of Bosnia and Herzegovina, especially the stability of the banking sector, are not expected. It is the attitude of the CBBH that the stability of the Currency Board as the monetary strategy of the Central Bank of Bosnia and Herzegovina (CBBH) has never been questioned and the CBBH continues with its implementation.

The announcement of the results of the referendum in the United Kingdom, where, contrary to the prevailing

expectations, the citizens of that country voted for leaving the European Union, was a shock for the financial markets. There was a sharp decline in market value of share indices on financial markets around the world, a decline in yields on bonds (increase in bond prices), a rise of prices of gold and a depreciation of the British pound against major world currencies, i.e. strengthening of the dollar, Swiss franc and yen as safe currencies which were currently in increasing demand. In fact, as it is usually the case in a period of high uncertainty and turbulence, there was a flight to quality, which means that investors manifested aversion to higher risk and demand for safe assets, such as the highest quality government bonds, gold and secure world currencies, increased. The vote for the exit of the United Kingdom from the European Union has brought about a strong political uncertainty in Europe which, potentially, could have further negative effects on the countries' financial markets and economies.

From the macroeconomic point of view, Bosnia and Herzegovina could experience some negative effects on the basis of Brexit, to the extent in which all the turbulence might cause the slow-down of the economic growth in the euro area. Considering the fact that the United Kingdom is not one of major foreign trade partners of Bosnia and Herzegovina, significant direct negative impacts on the basis of the fall of economic activity in that country are not expected.



## PRESENTATION ON „QUALITY MANAGEMENT“ HELD IN THE CBBH



The presentation on “Quality Management” was held on July 14, 2016, in the premises of the Central Bank of Bosnia and Herzegovina (CBBH). The audience was addressed by senior Management of the CBBH, which was followed by a presentation on the Quality Management System in accordance with ISO 9001. The presentation was held by Consulting Firm TÜVAdria Ltd. with which cooperation was established within the Program of Strengthening Public Institutions implemented by the German Society for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit – GIZ) GmbH.

according to ISO 9001: 2015, is a strategic decision of the organization that should ensure continuity, sustainable development and improvement of the overall performance. This international standard uses the process approach and risk based consideration, providing of adequate resources and the commitment of management to hire, direct and support employees to contribute to the effectiveness of the quality management system. Understanding and managing of interrelated processes as a system, contributes to the effectiveness and efficiency of the organization in achieving its strategic goals and results.

The program of cooperation with GIZ, which refers to the introduction of quality management systems in the CBBH

