

CENTRALNA BANKA
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ

INFO

СВБН

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ANNIVERSARY

Twenty-two years of existence and operations of the CBBH

On 11 August 2019, the Central Bank of Bosnia and Herzegovina (CBBH) marked 22 years of its operations. On this occasion, the CBBH Governor Senad Softić, Ph.D., congratulated to the employees, pointing out that the CBBH has achieved significant results and improvement of business operations and infrastructure. From the multitude of obligations, in addition to their regular tasks, the CBBH employees, within their organizational units also fulfilled the following obligations:

- reporting to the European Commission (EC) and the Directorate for European Integration according to the default EU format and presenting the CBBH at official meetings and in working bodies and groups in BH and abroad;
- marking 20 years since KM was put into circulation;
- active contribution to Bosnia and Herzegovina's European integration process - monitoring and reporting on recommendations and CBBH obligations, defined by EU and Bosnia and Herzegovina's strategic documents;
- upgrading, testing and putting in operations the Single Registry of Accounts of Business Entities in Bosnia and Herzegovina; upgrading, testing and putting in operations the upgraded gyro clearing; harmonization of supporting legislation in coordination with the Ministries of Finance, upgrading the SWIFT and Real Time Gross Settlement system to a new platform; upgrading, testing and putting in operations the Central Registry of Credits of Legal and Physical Entities in Bosnia and Herzegovina;
- all payments related to servicing the external debt were done in accordance with the set of laws and the Agreement with the Ministry of Finance and Treasury of BiH
- successfully implemented two IPA projects related to harmonization of statistics with EU requirements;
- compilation of quarterly statistics of Other Financial Institutions sector, start of transmission of our statistics to Eurostat and official listing of our data into the EU statistical system;
- successfully invested CBBH foreign exchange reserves, with fully respecting all applicable rules and restrictions, while improving this process at the operational level;
- developed a new methodology and created a new stress testing tool within the FINRA Financial Stability Project;
- work on improving the differential return attribution analysis model that represents the difference between the portfolio return and benchmark;
- completed procurement procedures for KM 2019 banknotes, KM 2 coins and souvenir coins;
- preparation of materials related to the proposals for the amendment of the Decision on Investment Guidelines in order to open a wider space for diversification of the foreign exchange reserves portfolio and to enable better management of foreign exchange reserves;
- upgrading of information technology infrastructure, new IMS applications began operations;
- implementation of the Rulebook on performance appraisal of employees; HRM strategy adopted;



- *drafting legal regulations within the jurisdiction of the CBBH;*
- *improvement of instructions and procedures for business processes in the field and jurisdiction of accounting organizational unit;*
- *prepared framework for standardization of business processes and tasks in the field of security and a three-year plan for infrastructure improvement with upgrade of configuration with technical solutions in order to raise the level of information security within the tasks of units in charge of security;*
- *completed the acceptance of the organizational units archives and the storing;*
- *conducting public procurement procedures with the application of legal solutions and in compliance with the CBBH Public Procurement Rulebook, which establishes a clear line of responsibility of all participants in public procurement processes;*
- *CBBH Main Units and Branches performed regular tasks on treasury and banking operations with successful cooperation with commercial banks, and provided necessary administrative and technical support in their operations.*

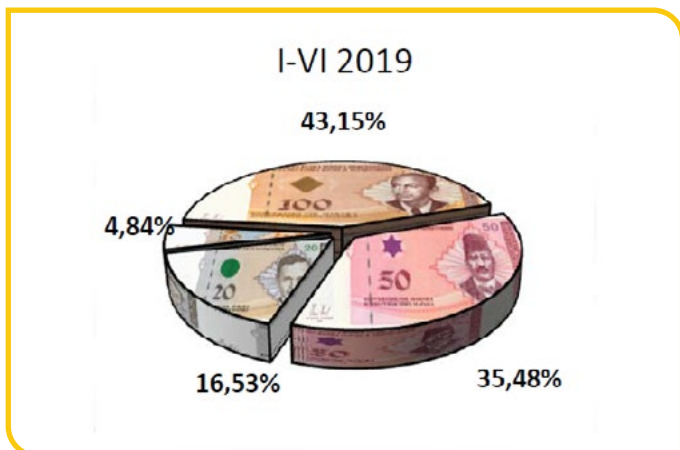
Following their daily work routine, employees are often unable to see and follow what is happening in other organizational units. This is the way, as stated by the Governor in his congratulations, for paying tribute to all CBBH employees, especially to those who, through their concrete and responsible work and personal example, contributed to the positive results, and thus the reputation and recognition of our institution in the Bosnia and Herzegovina public. "As you are aware, the CBBH has a very important and specific role in our country's financial system and we strive to contribute best to monetary and financial stability and to provide support to economic activities. All this is a result of our work and knowledge, which is recognized outside the CBBH, and we were also rewarded for contributing to the development of the financial sector in Bosnia and Herzegovina", Governor Softić said, adding that the financial year was successfully completed and results are also positive for the first six months of current year. All that is accomplished deserves praise, and at the same time represents an obligation and an impetus for everyone to continue equally working in the future, despite the very uncertain and complex conditions in the financial markets. "Success will continue to depend, in the long run, on every employee who, I am sure, will contribute with responsible and conscientious work to make this institution effective and successful," said the Governor in his congratulations to the employees, on the occasion of 22 years of existence and operations of the CBBH.

DATA

Counterfeits in the first half of 2019

In the first half of 2019, there were in total 1,268 counterfeited banknotes and coins of all currencies and denominations recorded in the Central Bank of Bosnia and Herzegovina (CBBH), being 2.42 % more compared to the same period last year and 10.94 % more compared to the second half of 2018. In the first six months this year, there were 248 KM banknotes counterfeits registered, being 25.97 % less compared to the same period last year, and 24 % more compared to the second half of 2018. As for the denomination structure, the most counterfeited KM banknotes were in denomination of KM 100 (107 pieces or 43.15 %), KM 50 (88 pieces or 35.48 %) and KM 20 (41 pieces or 16.53 %). In the same period, there were 611 pieces KM coins counterfeits recorded, being

21.47 % less compared to the same period last year, and 19.61 % less compared to the second half of 2018. The most counterfeited KM coin was in denomination of KM 1 (576 pieces or 94.27 %), followed by KM 5 (30 pieces or 4.91 %), and the least counterfeited was the denomination of KM 2 (5 pieces or 0.82 %). Given the EUR counterfeits, in the first half of 2019 there were in total 393 EUR banknotes, with EUR 20 being the most counterfeited denomination with 138 pieces, followed by the EUR 10 denomination with 109 pieces. Except the KM and EUR, there were 16 counterfeits of other currencies recorded, with 14 of them being counterfeits of USD (1 piece of USD 50 and 13 pieces of USD 100) and two of them being counterfeits of GBP (GBP 20).



OPERATIONAL RISKS

Operational risks in banking

In financial services, the operational risk is not negligible factor, as a whole, at most banks it is much higher than the market risk and is, therefore, the second highest risk category after the credit risk. In its definition, the Basel Committee focuses on the causes of (potential) loss events in order to differentiate operational losses from events that are in another risk category: "Operational risk is defined as the risk of loss resulting from inadequate or unsuccessful internal processes, people and systems or the result of external events. This definition includes legal risk, but excludes strategic and reputational risk." Operational risk management can be described as a cycle consisting of the following stages: risk identification, risk assessment, risk measurement and risk control. Risk identification is the first step in a proactive risk management process. It represents the recognition of events that are or may be a potential source of operational risk. It provides capabilities, indicators and information that enable an organization to address major risks before they negatively affect operations and thus the entire operations. This step involves risk classification - the formal identification of incidents, problems and known mistakes by origin and source. There are four possible approaches in identifying operational risks. Risk mapping is a process that is conducted through all organizational units of a bank in order to obtain information about the risk exposure of those units, the type of risk and its level. The result of quantitative risk mapping is the so-called probability-impact diagram, a typical diagram of the frequency of expected loss in relation to impact for each type of risk event or line of business. Risk indicators are statistic and/or metric data (often financial) that indicate the risk profile of each organizational unit and the bank as a whole. Such indicators are: number of unauthorized credit card transactions, number of customer complaints, turnover rate per employee, frequency and impact of mistakes and omissions in transaction processing, insurance premiums, number of failed trade transactions, etc. Indicators should be simple measures as they are often determined on a daily basis and should be risk sensitive. Measurement - some banks measure their exposure to operational risks by using, for example, data on historical loss or combined that data with external loss data, scenario analyses and risk evaluation factors. An effective way to make good use of this data is to establish a system for monitoring and recording the frequency and impact of individual operational loss cases and other relevant information about them. Self-assessment, given the range of potential exposures to operational risks - the most commonly used approach to identifying operational risks is taxonomy-based identification performed by the bank itself. The starting

point is the division of the bank into units. The identification of operational risk can be made by line of business, events where there is exposure to operational risk (granular mapping) and by type of cause. The result of identifying operational risks is a matrix that details the presence of operational risks in various operations, processes or organizational units of the bank. Risk assessment is the process of qualitative assessment of exposure to operational risk, the effectiveness of its control and monitoring. As the risk assessment is based on a qualitative assessment, this stage of the operational risk management process is different from measurement, which is a quantitative assessment of exposure. Risk measurement is the third step in the operational risk management process. In order to measure operational risk, it is primarily necessary to collect information on operational events at the bank. Continuous recording of data over a period of time will allow the creation of a database that is suitable for quantifying (measuring) the bank's exposure to operational risk. The most commonly used measure of operational risk is Value at Risk (VaR). VaR is a standard statistical measure of risk used to quantify the level of risk within an organization over a period of time. VaR is used by risk managers to measure and control the level of risk that an organization takes. It is the job of the risk manager to ensure that risks beyond the level at which an organization can absorb losses in the worst case scenario, are not taken. Basel II defines three operational risk measurement approaches: basic indicator approach, standardized approach and advanced measurement approach. The first two approaches define the level of a bank's operational risk capital requirement as part of its gross income, while the advanced operational risk measurement approach allows banks to develop an internal model for evaluating an operational risk capital requirement. Over the past years, banks have developed and defined various internal models that belong to the advanced approach to measuring operational risk, guided by the suggestions and advices of the Basel Committee on Banking Supervision. Analysing these models, it became clear that they could be classified into two categories: Loss Distribution Approach (LDA) and Scenario Based Approach (SBA). The LDA approach is primarily based on historical data on internal loss. It is based on the concept used in actuarial models. It is based on determining the distribution frequency of loss events and determining the distribution of loss rates, separately for each combination of event type/line of business. It is then based on the determination of the aggregate losses allocation in order to obtain the total capital requirement for operational risk. The capital requirement for operational risk under this approach is calculated as the sum of VaR aggregate losses distributions for one year for each event type/business line combination (usually at the 99.9% confidence level). The SBA approach is based on a scenario analysis and consists of identifying all operational risks in the bank and quantifying their frequency and



severity. The frequency model is branched out into several frequency criteria, and financial impact is decomposed into several types of impact. Experts are required to evaluate each component of the scenario to provide an estimate of the average frequency as well as the average of the extreme impact. Unlike other risks, it is almost impossible to accurately quantify exposure and the level of operational risk. However, the following can be used to assess the potential operational risk: the number of business transactions in relation to the existing system and its capacity; complexity of transaction processing in relation to system development and capacity; the number and types of control mechanisms in the system in relation to the current volume of business activities; diversification of financial losses with respect to errors, frauds, operational interruptions, etc. This will not give a quantitative value of potential operational risk, but this data will serve to approximate it (e.g. high, medium, low). Risk control throughout the risk cycle contributes significantly to its effectiveness. On the one hand, ongoing controls should be embedded as much as possible in the business processes that should be performed by all employees

within the scope of their tasks. On the other hand, there should be separate inspections by internal and external entities. Internal audit has several operational risk management tasks that are explicitly emphasized in EU Directive [2006/48/EC]. For banks using a standardized approach, for example, internal audit must examine the allocation of operating income by individual business lines. In AMA institutions, internal and/or external auditors need to review the operational risk management procedures and methods, as well as the quality of the entire risk management process. Employees should not delegate continuous monitoring of the quality of the process to internal audit or superiors. If possible, this task should be integrated into the processes and performed as part of their responsibilities. Here, processes and risk owners play a particularly important role as well as establishing stimulus schemes that motivate employees to continuously fulfil their obligations and, where necessary, provide sanctions for failures.

FINANCIAL EDUCATION

Remittances and foreign currency exchange

The basic rules for the conversion of foreign currency into convertible mark (KM), as the only legal tender in Bosnia and Herzegovina, are important for remittance recipients. As a rule, citizens receive remittances from abroad in foreign currencies, usually in euros, and often in other convertible currencies such as the USD, CHF, GBP, etc. According to the applicable regulations in Bosnia and Herzegovina, citizens, i.e. recipients of remittances in convertible foreign currency, can use received money for savings or international payment transactions, but they cannot use it for local payment transactions, such as paying for goods and services, such as utility services, groceries, craft services and other, which implies the need for conversion of foreign currency into local currency. In simple terms, conversion means the exchange of one currency with another, at the exchange rate, that is, by the defined countervalue. In accordance with the rules of the currency board, under which the Central Bank of Bosnia and Herzegovina (CBBH) operates, the convertible mark is pegged to the “anchor” currency EUR and KM is purchased at the fixed exchange rate of KM which is 1.95583 for 1 EUR. When KM is exchanged for some other convertible currency, then transactions are carried out according to the market exchange

rate, depending on market movements. It should be pointed out that on its own website www.cbbh.ba, the CBBH regularly publishes the exchange rates list in line with the European Central Bank operative practice, so citizens can check trends easily. However, when carrying out exchange operations or transactions, which involve the conversion of a foreign convertible currency into KM, the authorized institutions apply different exchange rates (except for EUR due to the previously mentioned fixed exchange rate), so the importance of information on the effective exchange rate should be emphasized. In simple terms, the exchange rate list published on the CBBH web site is not obligatory for institutions authorized for exchange operations, but in their operations they can deviate from it (except for EUR). It is also important to note that when doing conversion, the remittance recipients should also pay attention to the amount of commission, and it is useful to know that it cannot exceed 1 % of the transaction amount. In order to avoid paying higher conversion fees or in possible cases of possession of counterfeited money, citizens are advised to take care in which institutions they carry out these operations, i.e. how they do it (through the use of financial products and services, cash exchanges, etc.). This brief overview of the terms and the basic process of foreign currency exchange is an attempt to highlight the importance of informing on the possibilities and costs of converting foreign currency into a convertible mark.

The CBBH published a brochure for high school students „Saznaj sve o novcu“

The Central Bank of Bosnia and Herzegovina (CBBH), in cooperation and with the support of the European Fund for Southeast Europe – Development Facility (EFSE DF), has prepared and published the brochure for high school students named „Saznaj sve o novcu“. By this publication, as well as by means of other financial education activities, the CBBH aims to create awareness of the importance of smart money management and the importance of saving from the earliest age, and to provide information on financial products and services. The brochure consists of several chapters including the information on money - its history, and the currency of Bosnia and Herzegovina, personal resource management, cashless payments in BH, bank accounts and the useful pieces of information for children to learn, payment cards, online shopping and how to protect yourself, electronic and mobile banking, loans and how to use products and services responsibly. Earlier, the CBBH, in cooperation with EFSE - DF, had published a brochure for children entitled „Novko and Novčica u svijetu novca“, a leaflet for high school students „Šta je štednja?“, and a brochure for diplomats called „Central Bank of Bosnia and Herzegovina – Role and Significance“.



STATISTICS

Improvement of statistics on Other Financial Institutions sector

Adhering to the requirements of international statistical reporting standards, the Central Bank of Bosnia and Herzegovina (CBBH) has taken a step forward in improving the statistics of the Other Financial Institutions (OFI) sector in BH by introducing statistics on a quarterly basis, rather than on a semi-annual basis. This progress was made thanks to the support of all institutions covered by OFI statistics (26 insurance companies with reinsurance companies, 35 investment funds, 7 leasing companies, 24 micro-credit organizations, 8 brokerages and 2 stock exchanges). At the end of the first quarter of 2019, OFI sector assets amount to KM 4.20 billion, which is a slight increase compared to the end of 2018, being KM 47 million or 1.1%. The largest assets within the OFI sector belong to insurance companies, being KM 1.97 billion, with 46.8% share in total OFI sector assets, micro credit organizations of KM 975 million or 23.2%, followed by investment funds with KM 883 million or 21.1%, leasing companies with KM 354 million or 8.4%, stock exchanges with KM 10.7 million or 0.3%, and brokerage houses with remaining KM 9.1 million or 0.2%. At the end of the first quarter of 2019, the largest share in the OFI assets structure have loans

with KM 1.08 billion or 25.8%, deposits with KM 954 million or 22.7%, securities investments KM 604 million or 14.4%, investment in stocks of KM 593 million or 14.1%, non-financial assets 573 million KM or 13.7%, technical insurance reserves KM 146 million or 3.5%, while the remaining KM 241 million or 5.8% relates to other claims. The liability structure is as follows: equity participates with KM 1.75 billion or 41.7%, technical insurance reserves with KM 1.31 billion or 31.3%, loans with KM 722 million or 17.2% and other payables with KM 405 million or 9.8%. Data for the OFI sector for the first quarter of 2019 are available on the CBBH website ([Statistical Panorama Portal](#)), and quarterly data will be available four months upon the expiration of the reporting quarter. BH's OFI sector data are also published as part of the IMF's publication International Financial Statistics.

CBBH announces foreign direct investment statistics for 2018

The Central Bank of Bosnia and Herzegovina (CBBH) has published foreign direct investment statistics for 2018, which shows that FDI inflows in 2018 amounted to KM 783.4 million, or 2.3% of GDP. The FDI inflow in 2018 is in nominal terms approximately equal to that recorded in 2017. In terms of geographical distribution, the highest inflows of investments in 2018 were from Russia (KM 140.2 million),



Croatia (KM 106.1 million), the Netherlands (94), Austria (87.1) and Germany (83.7). Regarding activities, most investments were recorded in the field of financial services (banking sector) in the amount of KM 145.6 million, production of coke and refined oil products (135.8), retail trade (87.7) and in production of base metals (52). In the end of 2018, the FDI amounted to KM 14.29 billion. The highest amount of FDI remained related to Austria (KM 2.7 billion), Croatia (KM 2.3 billion) and Serbia (KM 2.0 billion). The FDI positions have been revised for a period of five years, based on the latest information on actual economic activities and the state of companies with foreign investments. Observing the FDI outflows from Bosnia and Herzegovina abroad, negative trends were recorded in 2018, i.e., investments abroad decreased by KM 54.2 million. The total domestic investments abroad amounted to KM

873.7 million, of which the highest BH investments were in Croatia (229.7) and Germany (163.8). In accordance with the revision policy and on the basis of additional data, revisions were made for the previous two years with the release of data for 2018. The revised figures for previous periods largely result from further adjusting of the retained earnings calculation with the concept of monitoring the company's operating results for the observed period. The concept itself, as prescribed by the OECD definition of FDI, implies the calculation of retained earnings for flows based on the operating result of the company for the observed period.

CONFERENCES AND MEETING

Governor participated in the 140th anniversary of the Bulgarian National Bank

At the invitation of the Bulgarian National Bank, Governor of the Central Bank of Bosnia and Herzegovina, Senad Softić, Ph.D., attended the conference marking 140th anniversary of the Bulgarian National Bank, jointly organized by the Bulgarian National Bank and the Bank for International Settlements (BIS), which was held on July 8, 2019 in Sofia. The guests, participants of the conference, were greeted by the Governor of the Bulgarian National Bank, Dimitar Radev, and the General Manager of the BIS, Agustin Carstens. The conference was entitled „The Current Global and European Financial Cycle: Where Do We Stand and How Do We Move Forward?“. In his introductory speech, Governor Radev stressed that the Bulgarian National Bank is among the oldest ones in the world, 13th by order of establishment. The conference, therefore, marks a long history of central banking in Bulgaria. The central bank is historically associated with the goal of keeping the national currency and prices stable. Following the Great Depression of the 1930s, the supervision became a function entrusted to or taken away from the central banks, depending on the crisis experience. With respect to supervision as a central bank function, the 2007/2008 global crisis had two effects. Firstly, it led to bank supervision becoming the responsibility of increasing number of central banks. Secondly, the focus on systemic stability led to the emergence of macroprudential supervision as an explicit concept and task which central banks have naturally become responsible for. In Bulgaria, the monetary regime can be viewed as a rather traditional one, the primary objective of the BNB being to maintain price stability through ensuring the stability of the national currency. „For more than 20 years now, our regime has been based on the operation of the currency board. The BNB also conducts micro- and macroprudential policies. As a matter



of fact, well before the recent global crisis we designed and applied countercyclical macroprudential measures, even though the term „macroprudential“ was still not being used. Many other countries in the region, subject to massive capital inflows at the time, did the same“, said Radev. Therefore, the Bulgarian National Bank's tasks and responsibilities, as we see them today, have been an outcome of decades of evolution. This also reflects, and is consistent with, the long-term developments of central banks' mandates globally. It can be argued from a historical perspective that changes in these mandates follow common evolutionary paths which are often shaped by crises, such as the global one in 2007/2008. That led to reconsidering the importance of financial stability as a policy objective of central banks. Before the 2007/2008 global crisis, according to the Governor of the Bulgarian National Bank, central banks focused on price stability as their primary objective. This crisis triggered a change in the broad environment in which central banks operate and thereby also necessitated a continued evolution of the role in governance of these institutions. Concerns were raised regarding the ability of central banks to preserve financial stability. Ultimately, the need was recognized to either reconsider or adjust the central banks' responsibilities related to financial stability. A major policy response after the global crisis was the



enhancement of macroprudential policy framework and the assignment of additional responsibilities to central banks in the fields of financial stability. In this way, central banks developed tools for the practical implementation of the macroprudential framework. „Achieving the financial stability objective through macroprudential measures cannot be sustainable without understanding the financial cycle. That is why we have considered this to be a topical issue to devote our anniversary conference to“, pointed out Governor Radev. He added that there is no single generally accepted theoretical basis or a dominant method, for measuring the financial cycle. Thus the role of research becomes significant for policymaking. That is why the conference is conceived to bring together academic research and central bank practice. The conference structure reflects an understanding that the global financial cycle affects the euro area and its monetary policy, which in turn affects the financial cycle in Europe beyond the euro area. Therefore, the first session of the conference is on the current phase of the global financial cycle which is to large extent driven by the US monetary policy. „We recall from the 2007/2008 crisis how the financial disruptions originated and triggered a full-scale global crisis“, said Radev. The second session is focused on the euro area financial cycle, as influenced by the global financial cycle, and its implications for financial stability. Since the ECB policies also shape the financial cycle in Europe outside the euro area through economic and financial channels, our third session is devoted to the financial cycle in the non-euro area EU member states. Taking Bulgaria as an example, Governor Radev stressed that recent research made by the Bulgarian National Bank as well as relevant estimates for the local financial cycle indeed show current upward phase of cyclical risk accumulation. With regard to actual policy responses in dealing with financial cycles, the conference ended with a panel where Governors shared their views. The General Manager of BIS, Agustin Carstens, emphasized the close cooperation between the Bulgarian National Bank and the BIS. The Bulgarian National Bank was one of the first 12 central banks invited to subscribe for BIS shares after the founding members did so in 1930. „Your institution has ably navigated its way through some extremely challenging circumstances in Bulgarian economy and Bulgarian society since 1879: periods of war an political instability, systemic transformation and institutional change, hyperinflation and remonetisation, financial booms and collapses“, pointed out

Carstens and added that rich history is nicely related with the main theme of the conference – the current global and European financial cycle. Carstens announced the speakers at the conference who presented the assessment of the current state of financial cycles at the global and euro area level, as well as in European countries such as Bulgaria, which are not part of the euro area. „What I would like to highlight in my opening remarks is the central bank’s role in safeguarding macroeconomic and financial stability. My own experience from Mexico as well as lessons from Bulgaria’s recent economic history, suggest that maintaining that role is essential in dealing with the financial cycle“, said Carstens in its speech.

Governer Softić at the conference in Dubrovnik

The Governor of the Central Bank of Bosnia and Herzegovina (CBBH), Senad Softić, Ph.D. participated in conference entitled “Demographics, Jobs and Growth: Navigating the Future in Central, Eastern and Southeastern Europe”, organized by the Croatian National Bank (HNB) in cooperation with the International Monetary Fund (IMF), from 14 to 15 July 2019, in Dubrovnik, Croatia. The focus of the conference, opened by Prime Minister of the Republic of Croatia Andrej Plenković, is to establish how the Central, Eastern and Southeastern European countries handle the changes in labour markets, brought by the economic expansion, new technological requirements, migration and demographic changes which the mentioned regions are exposed to. These topics are discussed within the sessions “The economic expansion and labor market bottlenecks”, “Demographics, long-term prospects and creating a workforce for the future” and “Policy round table: labour, demographics and the way ahead”. Governor Softić also took part in the Round table with the Deputy General Director of the IMF, Mr. Tao Zhang, where he talked with Central Bank Governors and finance ministers from 14 Central, Eastern and Southeast Europe countries on potential IMF role in responding to challenges, brought by the changes in labour markets and demographics. They also talked about what the IMF can do to help authorities to successfully deal the economic challenges and raise the income of population. During his presentation, Governor Softić addressed the challenges the economy of Bosnia and Herzegovina is facing, and marked the demographic trends as the biggest challenge. “According to available data, over the last 20 years, Bosnia and Herzegovina lost 20% of its population. Partly, this is a consequence of the war, but the process continued due to the very strong economic migration. In order to solve this problem, serious measures must be taken at all levels, “said the Governor, pointing out that the biggest problem of labour market is an inflexible education system, resulting in a large imbalance between the requirements of the market and the skills of the work force. Also, the Governor stressed the insufficiently used self-employment possibilities, i.e. the potential of creating one’s own job.

PROBLEMS OF LABOUR MARKET IN BOSNIA AND HERZEGOVINA

Governor Softić: To harmonize the education system with the needs of the labour market

At the conference “Demographics, Jobs and Growth: Navigating the Future in Central, Eastern and South Eastern Europe”, held in Dubrovnik, the Governor of the Central Bank of Bosnia and Herzegovina Senad Softić, Ph.D., stated that “the biggest problem of labour market in Bosnia and Herzegovina is an inflexible education system, resulting in a large imbalance between the requirements of the market and the skills of the work force”. Explaining this thesis, Governor Softić stressed the necessity of a series of structural reforms that will enable the education system to be aligned with the needs of business, i.e. labour market. These reforms are not spontaneous, they must be preceded by a comprehensive analysis with focus on structural unemployment, as well as upcoming trends. It will be necessary to answer the questions in which branches and sectors people have been looking for jobs for years, and which profiles are in demand in the labour market? Which professions will be needed in the future, and which professions will be in lower demand or may disappear altogether due to the development of technology? “These are the questions that must not be answered incorrectly, because it is quite clear that in next ten years around one third of the current working age population will be over 65. The expected long-term consequences are more than obvious: slowdown in potential output growth and the pressure on the sustainability of pension and health funds”, the Governor said. According to the Governor, the economy of Bosnia and Herzegovina is faced with the absurd situation that, globally, it has a high unemployment rate, low activity rate, but at the same time problems in providing sufficient labour force in some industries and regions. The reason is a mismatch between demands and unemployed labour force available in the market. Long-term unemployment, over 80 % of unemployed are those that are unemployed for more than 12 months, is actually a structural problem with a large number of workers with out of dated knowledge and skills from period when the economy was organized quite differently. Another important deficiency showed up in the post-war period, when real-sector needs were not cared about, which resulted in labour force without the necessary experience and skills demanded in the market. In addition, when talking about inflexibility, we have to admit that our approach to education and work has not changed significantly since the period when, after graduation, a person worked on one job and, in many cases, at the same company until retirement. This approach is the reason of insufficient efforts invested in developing awareness and educational capacities that will provide greater flexibility through the process of additional education. How can we overcome such gap? The Governor pointed out that the improvement of business climate through a series of structural reforms, along with a policy of additional education or requalification for the existing labour force, could be a significant incentive for the inflow of production-orientated investment. According to the latest labour force survey, over 50 % of working age population has only a high school education. A significant number of inactive people among them, or long-term unemployed people, confirm the lack of adjustment between the education system and the labour market. „These are measures that can deliver in mid-term, provided that the training centres are not only formal, but are managed in cooperation with potential employers. At the moment, in the labour market there is a strong need (shortage) for staff in certain trades, such as construction, catering etc. In order not to be trapped in low and mid-growth, which is especially important in terms of convergence with the EU, we need to encourage university education, but also to promote the areas that can be integrated easily into capital-intensive industries. According to the latest labour force survey, we have only reached the level of 10 % of the working age population with more than a high school education level. Finally, it is also necessary to consider wage increase as a measure that will contribute to greater motivation to attract new and retain the existing skilled labour force, as well as to increase productivity”, said Governor Softić.



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CBBH INFO

July - August