

CENTRALNA BANKA
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ

1997 - 2017



20 YEARS OF STABILITY
GODINA STABILNOSTI
ГОДИНА СТАБИЛНОСТИ

CENTRALNA BANKA BOSNE I HERCEGOVINE
ЦЕНТРАЛНА БАНКА БОСНЕ И ХЕРЦЕГОВИНЕ

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20 YEARS OF STABILITY
1997-2017

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ABBREVIATIONS

DIA	Deposit Insurance Agency
BARS	Banking Agency of RS
BHD	Bosnia and Herzegovina dinar
BH	Bosnia and Herzegovina
BIS	Bank for International Settlements
CBBH	Central Bank of Bosnia and Herzegovina
CBCG	Central Bank of Montenegro
CEFTA	Central European Free Trade Agreement
CRC	Central Registry of Credits
DEI	Directorate for European Integration
DEM	Deutsche Mark
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EMU	European Monetary Union
ESCB	European System of Central Banks
ESS	European Statistical System
EU	European Union
EUR	euro
F	fennig
FBA	Banking Agency of the Federation of Bosnia and Herzegovina
FBIH	Federation of Bosnia and Herzegovina
FSAP	Financial Sector Assessment Program
FHI	Financial Health Indicators
FSR	Financial Stability Report
GDDS	General Data Dissemination System
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HRK	Croatian kuna
IBAN	International Bank Account Number
SRTA	Single Registry of Transaction Accounts
KM	convertible mark
IMF	International Monetary Fund
NBBH	National Bank of Bosnia and Herzegovina
NBS	National Bank of Serbia
RR	Reserve Requirement
RS	Republic of Srpska
RTGS	Real Time Gross Settlement
SEPA	Single European Payment Area
SCFS	Standing Committee for Financial Stability
ITA	Indirect Taxation Authority
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
GB	Governing Board

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1 FOREWORD BY THE GOVERNOR



Chairman of the Governing Board
Governor of the CBBH - Senad Softić, Ph.D.

Dear friends, associates and employees of the Central Bank of Bosnia and Herzegovina,

This year we celebrate twenty years of the Central Bank operations, starting on August 11, 1997. I am proud to emphasize that the CBBH is an entirely independent, credible and transparent central bank that has served, throughout these years, as one of the cornerstones of the country's macroeconomic stability. In the complex BH reality during these years, one thing was certain: the value of the convertible mark, denominated in euro, has never been questioned.

The credibility of the CBBH was built day by day, and it was successfully tested during three important events: the introduction of euro, the CBBH management

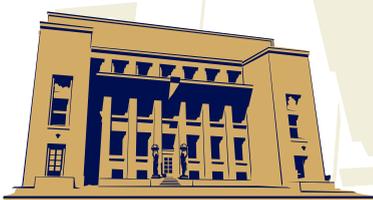
transfer to local professional capacities, and the panic of depositors in October 2008. At the beginning of 1999, the KM nominal anchor became the euro, replacing current DEM. Due to euro conversion, the private savings, which were registered in BH banking system in the upcoming months, stayed in it. The appointment of the Governor, as well as later, the entire Governing Board, featuring BH citizens, did not affect, at all, the CBBH operations nor the previously gained credibility of this institution. To the unusually high demand on foreign currency in autumn 2008, the CBBH responded in accordance with its mandate, clearly and with no hesitation, communicating relevant information to the public. As full convertibility of KM to the euro was not questionable, the biggest portion

of funds that was withdrawn by panicking citizens from the banks was returned in to the banking system within the same month.

I believe that the core of current credibility of the CBBH lies in its independence, responsibility and transparency. The independence of the institution was crucial point in accepting the bank and the new currency on the territory of the entire country in the post-war period. Over the years, the citizens have gained confidence that by an impartial implementation of its tasks, the CBBH stayed completely independent of any political influences and any public agencies and authorities instructions. We have carried out all the tasks entrusted to us, in a professional and dedicated manner, focusing on the quality of the information and services we provided. Beside the unquestionable fulfillment of the basic functions of monetary authorities within the Currency Board arrangement, we have always, as assigned by our mandate contributed to meet the international commitments assumed by the country.

Local and international circles, specially emphasise the CBBH reputation in terms of quality and credible source of data and information and analysis, that the CBBH exchange through cooperation with relevant institutions or make them available to the general public through the regular publication of data and publications. Finally, we have always understood this institution as a public good. Hence, the mandate of the CBBH, the implemented activities and the achieved goals of our work were always communicated to the public. The Annual Report on the work of the CBBH, approved by an independent external auditor, has been adopted by the Parliamentary Assembly of BH.

My wish for the 30th anniversary of the CBBH is to be recognized as today, strong and credible institution, domestically and internationally trusted as a core of the country's macroeconomic stability that successfully fulfills all obligations in the path of EU integration.



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2 THE FIRST 20 YEARS OF THE CBBH

Central Bank of Bosnia and Herzegovina (CBBH) is as stated in the Article VII of the Constitution of Bosnia and Herzegovina, the only authorized institution for printing money and monetary policy throughout Bosnia and Herzegovina (BH). Furthermore, the Constitution stipulates that the responsibilities of CBBH are determined by the Parliamentary Assembly of BH. However, during the initial period of six years from the enforcement of the Constitution, it is envisaged that the CBBH implements monetary policy on the principles of the Currency Board. The monetary policy strategy has not changed in the first twenty years of the CBBH existence. The conditions of the Currency Board have never been violated, with the exception of the first six months upon the establishment of the CBBH, and it happened due to the process of transferring monetary assets and liabilities from the National Bank of BH.

Initially, the reserve currency was the Deutch Mark (DEM), while the exchange rate between the convertible mark (KM) and the DEM was determined by the Law on the Central Bank of Bosnia and Herzegovina in the ratio 1: 1. With its introduction, the euro (EUR) became a reserve currency. The exchange rate between EUR and KM is set in the exact

ratio defined by the European authorities between DEM and EUR, i.e., 1 euro is equal to KM 1.95583.

Concrete activities of the CBBH establishment began in 1996, with the election of Mr. Serge Robert as the first CBBH Governor. His appointment allowed the beginning of the harmonization of opinions among representatives of the BH side in relation to the key issues under which the law on the Central Bank was to be drafted: the name and design of the new currency, as well as maintenance and management of the foreign currency reserves of the Central Bank. The BH Presidency accepted the Law on Central Bank of Bosnia and Herzegovina on May 28 1997, while on June 20th of the same year, the Parliamentary Assembly of Bosnia and Herzegovina adopted the same legislation. The CBBH started operating on August 11, 1997. By 2000, a full payment system reform was carried out, thus establishing the CBBH at full capacity, in the manner defined by the Law. Although the mandate of CBBH has not changed since the adoption of the original CBBH Law, the activities undertaken by the CBBH within its mandate have, over time, significantly developed to a level that features a modern central bank, of course bearing in mind the specificities and limitations of the Currency Board.



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ЦЕНТРАЛНА БАНКА БОСНЕ И ХЕРЦЕГОВИНЕ
CENTRALNA BANKA BOSNE I HERCEGOVINE

КОНВЕРТИБИЛНИХ МАРКА
KONVERTIBILNIH MARKA



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2.1 ESTABLISHING OF THE CBBH

After the signing of Dayton Peace Agreement, Bosnia and Herzegovina (BH) faced a difficult period of overcoming the current economic and social situation and opening the process of transition to a market economy, which, among other things, involved serious and profound reforms and the creation of favorable conditions for accelerated reconstruction and development of the country devastated by the war.

An integral part of this process was the reform of country's monetary system, namely the drafting and adoption of new Law on the CBBH. Its primary aim was to create a favorable monetary environment and institutional legal frameworks for overcoming the monetary situation in the country at the time, while achieving monetary stability, as one of the key elements of the stability in the banking system and macroeconomic stability, as a whole. Monetary stability had the crucial importance for the involvement of international financial institutions and foreign direct investors in providing assistance and support for the country's reconstruction and development.

The Constitution stipulates that the first convocation of the CBBH Governing Board shall consist of a Governor appointed by the International Monetary Fund, after consultation with the Presidency, and three members nominated by the Presidency, two of which are from the Federation of BH (one Bosniak and one Croat - both will share one vote) and one from the Republic of Srpska - everyone with a six-year mandate. Due to the specific context of the CBBH establishment, it was envisaged that the first Governor should not be a BH citizen, nor of any neighboring state, and that he should have a decisive vote in the event of an unresolved voting outcome among the members of the Governing Board, who are BH citizens. It was also envisaged that the next convocation of the CBBH Governing Board should consist of five persons appointed by the Presidency for a period of 6 years, with the Board choosing a Governor among its members.

Mr. Serge Robert, a former official of the Bank of France, was elected on October 26, 1996 as the first

Governor of the CBBH. He took office on August 11, 1997. The creation of the central bank is a complex process, and in the case of CBBH, according to the testimonies of the first Governor, it was complicated as well. Among other things, due to the fact that the National Bank of Bosnia and Herzegovina and the National Bank of the Republic of Srpska existed at the time, and the latter was connected with Payment Transactions Bureau of Federal Republic of Yugoslavia. In addition to this, it was necessary to consider the key issues related to the arrangement of the Currency Board, addressing the names, anchor currencies and ratios, currency designs, and the process of managing and preserving foreign currency reserves. However, the priority was the establishment of the CBBH structure.

The Dayton Agreement, i.e. the Dayton Constitution (Article 7), defines the existence of a central bank in charge of implementing the monetary policy, formulated by the GB. During the first six years of existence, the Bank shall be working within the framework of the Currency Board arrangement. However, the individual opinions of the members of the Governing Board regarding the implementation of the constitutional provisions differed significantly. Debates were focused on the issues of decentralization of some of the CBBH functions key. All members of the GB had different opinion regarding the number, name and autonomy of the units that the CBBH had to establish. In an effort to reconcile all ideas within the constitutional requirements, *de facto and de iure*, to have only one central bank, the first Governor proposed the following solution, defining today's territorial distribution of organizational units of the CBBH:

The CBBH will be an independent legal entity managed only by the GB. The CBBH can establish "main units" and "branches" that will be responsible to the "main units". The CBBH head office and its peripheral units (main units and branches) are integral parts of the integrated entity. The main units may have different regional names, but there was a rule with no exception that, after the name, they had to place a modifier with the words "CBBH Branch"

on it. The Governor of the CBBH must approve the Main units management members of the main integrated entity. All activities and responsibilities of the main units are to be supervised by the CBBH Governing Board.

Also, heated and from time to time awkward discussions were conducted around the name and design of the currency. Different positions of the GB members regarding the appearance of banknotes and coins are settled in a way to preserve the Dayton concept of an unique currency. Regardless of the location where the banknote will be released for the first time, the banknotes could have an identical face with a neutral design and could have regional differences on the reverse. Like the design, the name of the currency should be such that its general acceptance would not be compromised, but it should indicate a clear cut with the previous monetary regime. After lengthy negotiations regarding the design of the currency, the first convertible marks (KM) in denominations of KM 1, KM 5 and KM 10 were issued on June 22, 1998, and in denominations KM 20, KM 50 and KM 100 on July 27, 1998. The first KM coin was issued on December 9, 1998 in denominations of fennig (f) 10, f 20 and f 50.

Related to the managing of foreign currency reserves, members of the Governing Board agreed that the main strategy should be the one providing optimal return on the investment of the CBBH liquid assets with the minimal risk. However, there were differences in perception on how this could be achieved in the best way. The Republic of Srpska wanted to keep foreign exchange reserves accumulated in RS Main Unit of the CBBH, although under the GB control. The other members of the GB supported Governor's proposal that reflected the standard practices of central banking that existed even in highly decentralized systems. Commercial banks and other financial organization will be allowed to hold and manage their own foreign currency assets that would be transferred to the CBBH's foreign exchange reserves only if a bank wants to sell them on its own behalf or on the behalf of clients to the CBBH in exchange for a certain sum

of the new domestic currency. The CBBH reserves would be kept on the CBBH accounts with the correspondent banks abroad and would be managed by the GB.

Due to the pronounced political sensitivity of the issue, the GB, which represented three political sensibilities of the country, by the end of January 1997, was not able to achieve the full consensus on these fundamental issues regarding the establishment of the CBBH. This was the reason for the first Governor's address to the BH Presidency for guidance in order to urgently reach the necessary compromise. At the end of May 1997, the consultations at the highest political level, including the High Representative, opened the way to reach the general agreement among the members of the CBBH GB on the fundamental issues related to the establishment of the Central Bank. The CBBH Law was adopted on June 20, 1997 and the CBBH began its work on August 11, 1997.

Mr. Peter Nicholl, former Deputy Governor of the Reserve Bank of New Zealand, took over the duties of the Governor on October 31, 1997. In the first years of his first term in the office, the liquidation of the National Bank of Bosnia and Herzegovina (NBBH) was completed; KM became the only legal tender of payment in the internal non-cash payment operations, and by 2000, the payment system reform was carried out. Thus, all CBBH activities as defined by the Law have been established to its full capacity.

The postponement of NBBH liquidation was a serious threat to the preservation of the Currency Board and the solvency of the financial system. At the end of 1998, a strategy was adopted to preserve the Currency Board during the liquidation process of NBBH, which stipulated that no transactions would be carried out from the NBBH account, except those specified by the strategy. The cantons and selected government institutions committed to cover debts towards NBBH by the end of August 1999. Furthermore, commercial banks in the process of NBBH liquidation could not approve loans to cantons, nor they could collect uncovered deposits. The

2.1 ESTABLISHING OF THE CBBH

funds from the liquidation process were used by NBBH to pay out depositors. Following the concluded monetary arrangements with the NBBH, the CBBH took over a part of the NBBH monetary liabilities in the Bosnia and Herzegovina dinar (BHD), which equaled KM 132 million¹. In the same time, the CBBH also took over the NBBH's equivalent amount of foreign currency assets. In these transactions, the principles of the Currency Board arrangement were respected, based on then valid exchange rate (BHD 100 for DEM 1. Since the exchange rate for DEM 1 was KM 1, this was a solid basis for using the exchange rate of KM 1 BHD 100). On these principles, the initial monetary balance of the CBBH was established. With the completion of the liquidation process, the CBBH established monitoring of the entire monetary base at full

capacity, in line with the international practices of countries with a stable monetary system, especially those that apply the arrangement of the Currency Board.

On August 11, 1997, all prices and all payments started to be denominated in KM, and all participants of the payment transactions who had fund in BHD on their accounts with payment institutions received proportional funds in KM. In November 1998, the Federal Republic of Yugoslavia separated its operations from the payment system of the Republic of Srpska, and since the beginning of 1999, KM has been the only legal tender of payment in the internal non-cash payment operations. In accordance with the Law on the CBBH, the modern payment systems establishment in the CBBH was awaited until 2000.

¹Total amount of monetary liability, taken over, was DEM 273 millions.



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2.2 DEVELOPMENT AND FUNCTION OF THE CBBH

In accordance with the mandate of the CBBH, its functions began to develop intensively since 2000, not only in activities solely related to its core function - implementation of the monetary policy. The continuous objective of the

CBBH, within its competences, has been to contribute to the financial stability and support the economic development of the country, as well as to fulfill the undertaken international obligations of Bosnia and Herzegovina.

2.2.1 MONETARY POLICY IMPLEMENTATION

The Currency Board, as the monetary policy regime in BH, is grounded on the fixed exchange rate and legally determined rules. The main purpose of these rules is to establish the credibility of the Central Bank and to avoid possible losses due to the adoption of inconsistent decisions by the economic policy makers, which could harm the basic macroeconomic developments of the country. The basic rules of the Currency Board, abstracted below, are integrated in the Law on the Central Bank.

1) KM rate is fixed in relation to the euro in the ratio of EUR 1 = KM 1.95583. The exchange rate is a fixed nominal variable that is associated with the inflationary expectations of the public, which ensures price stability in the economy.

2) The CBBH shall issue and withdraw money exclusively through the purchase and sale of convertible marks in exchange for foreign currencies. The transactions of purchase and sale of the convertible mark, have been performed by the CBBH with commercial banks, as well as with the state institutions that have deposits with the CBBH, while other economic entities receive funds in the domestic currency through commercial banks.

3) The CBBH's net foreign exchange reserves must at all times fully cover its monetary liabilities in convertible marks, which consist of all banknotes and coins in circulation,

the balance of commercial banks reserves accounts with the CBBH and other demand deposits with the CBBH.

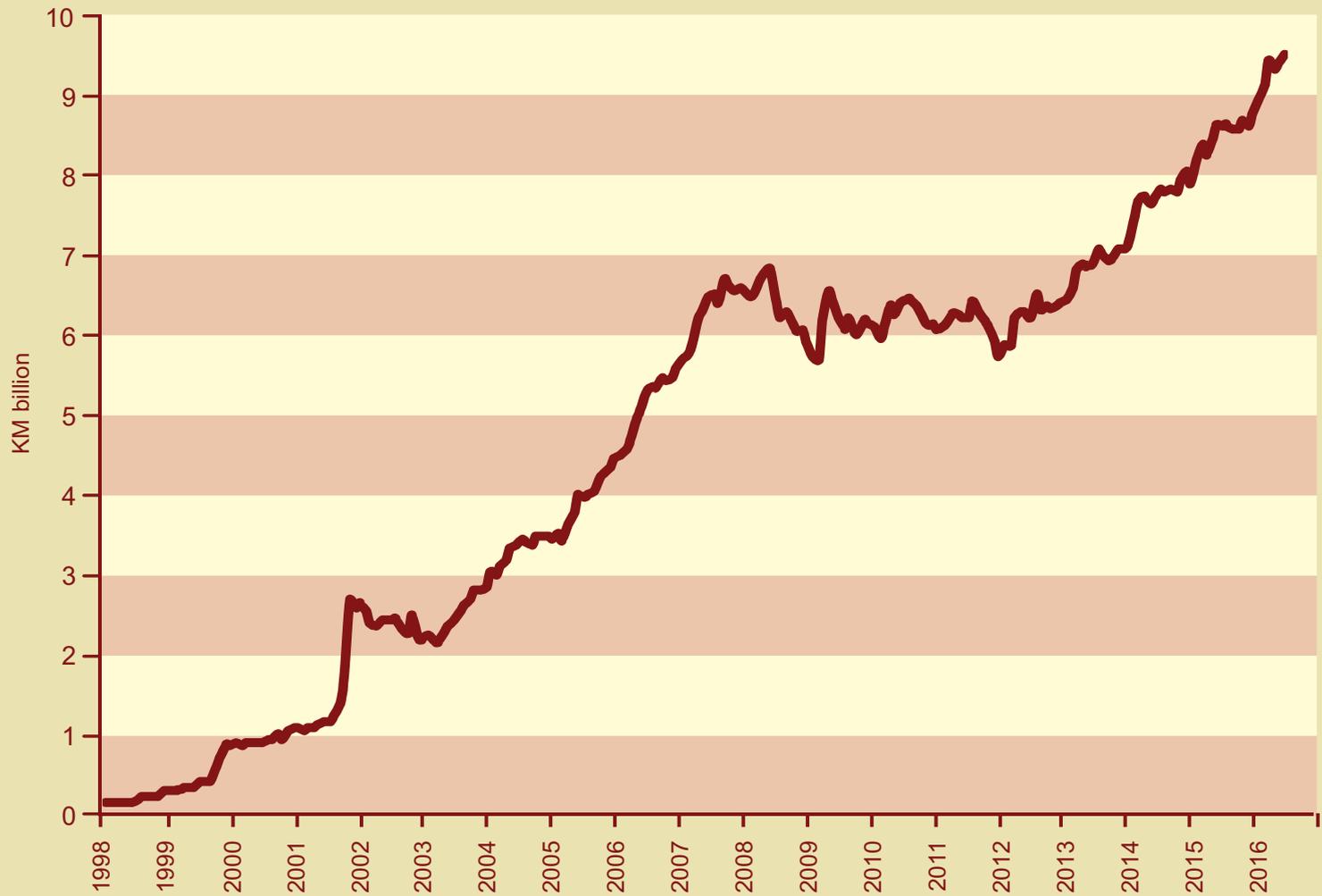
Since the establishment of the CBBH until today, three periods can be distinguished in the fluctuation of foreign exchange reserves, (Graph 1 below). The period until 2008 was marked by strong growth in the foreign currency reserves. The main growth factors that marked this period are: lending activities of the privatized banking sector, introduction of the euro and stand-by arrangements with the IMF. From 2009 to 2013, there was a significant increase in public external debt, due to which, despite the banks' deleverage abroad, the level of foreign exchange reserves did not change significantly. The Government's external debt was a consequence of an extensive borrowing during the period of the crisis. It continues later on for financing infrastructure projects. At the same time, on the private sector side, financial intermediaries (primarily banks) continuously reduce their gross indebtedness after 2009, while other private sector segments had a stable external debt level by 2012. After 2012, the level of debt of non-banking private enterprises increased. Since 2014, there has been a significant increase of deposits, primarily in the household sector, which resulted in intensified growth of foreign currency reserves.

It is important to point out that during the last 20 years, one of the primary principles of the Currency Board - coverage of monetary liabilities and domestic currency by the net foreign exchange reserves, has never been compro-

mised, except during the first few months upon the establishment of the CBBH until the closure of the liquidation process of NBBH.

2.2.1 MONETARY POLICY IMPLEMENTATION

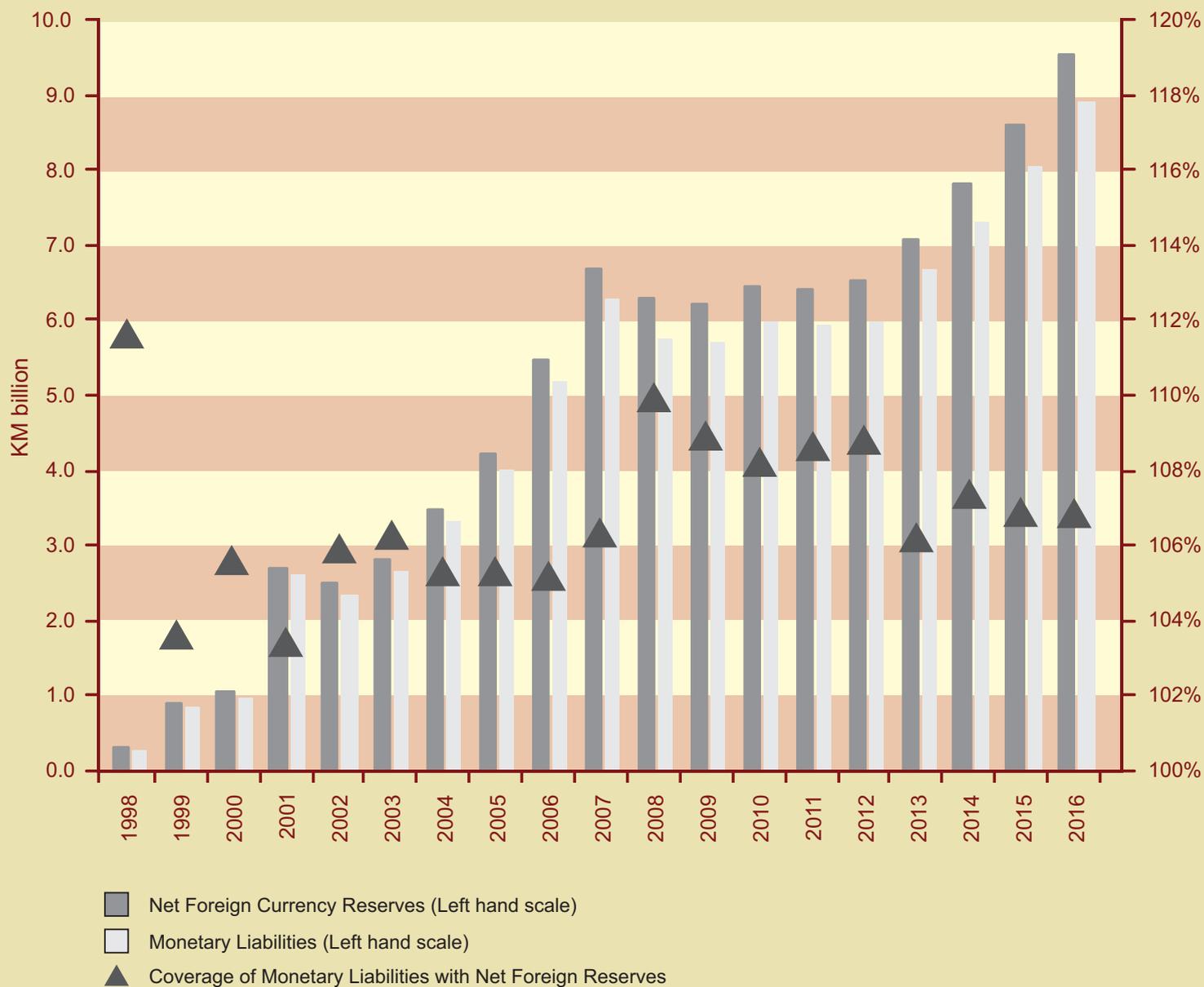
Graph 1: The CBBH Foreign Exchange Reserves



Source: CBBH

2.2.1 MONETARY POLICY IMPLEMENTATION

Graph 2: Coverage of Monetary Liabilities with Net Foreign Reserves



Source: CBBH

2.2.1 MONETARY POLICY IMPLEMENTATION

In accordance with the Currency Board agreement, the level of foreign currency reserves changes according to the changes in the country's balance of payments position, and also according to the effects of foreign currency reserves investments. In order to increase the money supply in the domestic economy, the CBBH has to acquire an additional reserve currency. The conversion of foreign currency inflows into the domestic currency through the foreign exchange window shows a proportional rise in the monetary liabilities in the balance sheet of the CBBH. Furthermore, increase of the monetary base, through the process of monetary-credit multiplication through the banking sector, leads to an increase in the broader money in the economy.

The gain from investing of foreign currency reserves is one of the essential sources of increase of the CBBH capital. The initial capital of KM 25 million and general reserve (retained earnings) represent the majority of the CBBH's capital and reserves. In the first twenty years of existence, the CBBH operated with the positive financial results for every financial year, while achieving a total net profit of KM 967.32 million, of which KM 429.42 million was transferred to the state budget, and the remaining portion of money was allocated to the CBBH general reserves.

The process of managing of foreign exchange reserves has been improved several times since the founding of CBBH. The CBBH foreign currency reserves are invested according to the rules of security, liquidity and profitability. Up to 2006, the only instrument in which foreign currency reserves were invested were deposits with the international commercial banks with a high credit rating. During 2006, the process of investing in securities portfolio began. Initially, foreign portfolio management services were used. The main purpose of the change in the investment policy was the diversification of foreign exchange reserves portfolios in order to reduce the overall risk. With the beginning of the 2007 financial crisis, the CBBH, guided by the principle of security, gradually shifted the deposits from the international commercial banks to the central banks of the European Monetary Union (EMU). Since 2009, after the employees of the CBBH acquired the necessary knowledge and skills, the CBBH independently invested foreign currency reserves in securities portfolio, government bonds with high credit ratings, as well as securities of central banks and international commercial banks, again with high credit rating. In addition, since 2009, part of the foreign exchange reserves is invested in monetary gold, with the aim of diversifying portfolio of foreign exchange reserves and the fact that monetary gold is considered a safe investment.

The CBBH, operating pursuant to the Currency Board arrangements, actively used the reserve requirement as the

only available monetary policy instrument. With the changes in the rate of the required reserve, and the structure of the base for calculation of the required reserve and the remuneration policy, the CBBH has sought to realize various macro-economic and macro-prudential goals, depending on the phase of the domestic economy position.

By establishing the CBBH, the first goal was to gain the confidence of citizens and the economy in the domestic currency and in CBBH itself as a monetary institution. The allocation requirement was originally applied only to deposits in domestic currency, and in order to fulfill their required reserves, banks were able to use funds from the vaults. By mid-2003 there were no significant changes in the regulations of the required reserve in BH. Changes in the required reserves system (RRS) that came into force on June 1, 2003 were very significant. These changes enabled higher efficiency of the CBBH monetary management, and, to a considerable extent, the regulation was harmonized with the one in the European Central Bank (ECB). The main changes to the regulations were as follows:

- The base for calculating the reserve requirement is extended for deposits and borrowed funds in foreign currencies
- Cash in the vaults of commercial banks could no longer be used to fulfill the required reserve (due to the inability of effective control by the CBBH, because of the practice in other banks).

2.2.1 MONETARY POLICY IMPLEMENTATION

Graph 1: Distribution of the CBBH Net Profit since its Establishment

<i>Millions KM</i>			
	Net profit	Kept in CBBH capital	Transferred to state budget
1997	0.45	0.45	0.00
1998	0.08	0.08	0.00
1999	3.99	3.99	0.00
2000	24.83	24.83	0.00
2001	36.57	36.57	0.00
2002	58.02	58.02	0.00
2003	33.93	33.93	0.00
2004	30.37	12.15	18.22
2005	38.15	18.48	19.67
2006	78.94	58.95	19.99
2007	142.60	82.68	59.92
2008	199.42	79.77	119.65
2009	95.79	38.31	57.47
2010	33.18	13.27	19.91
2011	45.93	18.37	27.56
2012	34.13	13.65	20.48
2013	30.09	12.03	18.05
2014	35.41	14.16	21.25
2015	31.38	12.55	18.83
2016	14.06	5.62	8.44
Total	967.32	537.89	429.42

Source: CBBH

- The range of the RR rate has been expanded from 0% to 20%, and the reserve requirement rate is set at a rate of 5% of the base.

- The dates for the beginning and the end of accounting periods, or the maintenance period, are precisely determined.

The period prior the macroeconomic shock in October 2008 was marked by strong credit growth in BH. In order to ensure the liquidity and stability of the financial sector, as well as the slowdown in credit expansion, the CBBH actively operated in the period from 2004 to the end of 2008 with a gradual increase in the reserve requirement rate. From a level of 5% in 2003, the reserve requirement rate increased at 18% in 2008.

During the crisis period, the CBBH operated very actively, using all available mechanisms to mitigate the negative effects of the financial crisis on the banking sector in BH. Thus, with the first crisis and a significant outflow of deposits, the CBBH in October 2008, reacted twice by changing the policy of the reserve requirement. First, on October 14, 2008, the reserve requirement rate was reduced from 18% to 14%, and only two weeks later, the CBBH excluded from the required reserve base all nearly borrowed funds (deposits and loans) of commercial banks from non residence. Since January 1, 2009, the CBBH has begun to apply a new, differentiated rate of reserve requirement; 14%, on the base of maturity up to 1 year and 10% on a liabilities whose maturity is over 1 year. As of May 1, 2009, the reserve requirement rate for deposits with a term longer than one year was reduced from 10% to 7%. In addition to this, all governments deposits allocated for development programs were excluded, as a second measure, from the base for calculating the reserve requirement. Since February 2011, the reserve requirement rate for deposits that are included in the reserve requirement calculation base, with the maturity up to one year, has been reduced from 14% to 10%. The reserve requirement rate for deposits with a term longer than one year remained 7%.

During this period, the CBBH also paid out to the banks the reimbursement fee the reserve account, funds in order to partially compensate the cost of allocating the required reserve. Although the payment of compensation to funds on the reserve account was not a common practice in the world, the CBBH decided on such a remuneration policy, inter alia, to reduce the pressure and profitability of the banking sector in these crisis periods.

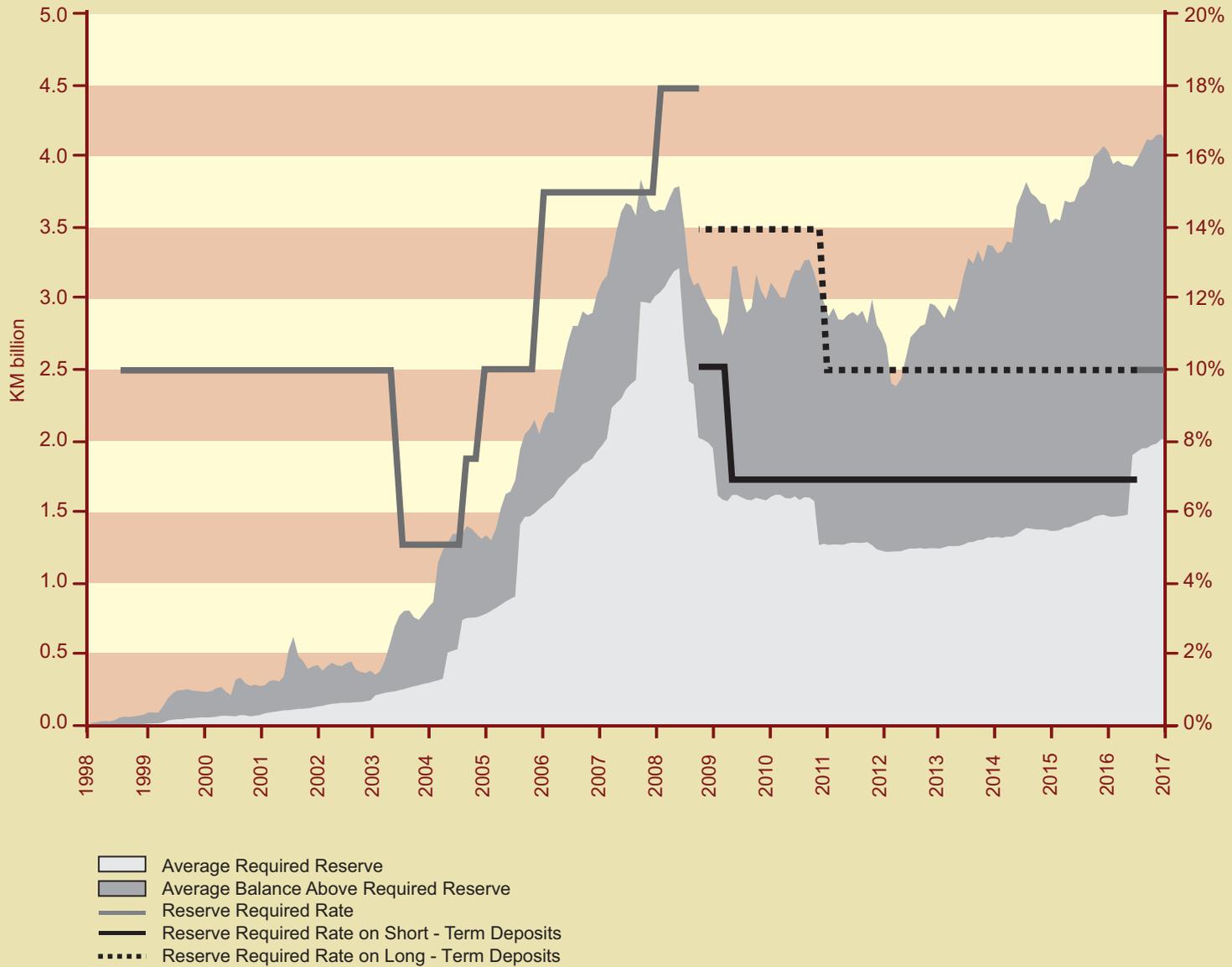
Although the surplus of funds on the reserve account represents a significant amount since the very beginning of the CBBH work, it should be noted that when managing assets and liabilities, banks have to meet other limitations especially those relating to foreign exchange exposure and liquidity risk. Thus, this amount is often the result of other restrictions that are in the domain of banking supervision and /or regulations of a mother bank.

Due to the ECB decision in June 2014 on the introduction of the negative deposit facility interest rate, in March 2015 the CBBH introduced a zero rate of compensation on the amount of assets above the required reserve, while it continued to pay banks positive rate on the amount of the reserve requirement. This gave banks a certain period of adjustment to the new circumstances on the European market.

Responding to the country's economic situation, with the ongoing monitoring and assessment of the liquidity and stability of the banking sector, the CBBH decided that as of July 2016, the base for calculating the reserve requirement would include all deposits and borrowed funds of banks. The decision also stipulates a unique rate of required reserve of 10% applied by CBBH to the calculation base for the reserve requirement. Also, from this period on, the CBBH does not charge a fee for the required reserve. On the amount of funds above the required reserve, the CBBH started to calculate a fee at a rate equal to 50% of the rate applied by the (ECB) to deposits of commercial banks. By applying the only monetary policy instrument available - the required reserve - the CBBH has, during its existence of 20 years, fully justified its monetary function, through this mechanism of operations.

2.2.1 MONETARY POLICY IMPLEMENTATION

Graph 3: Reserve Account Balance and Reserve Requirement Rate



Source: CBBH

2.2.2 MAINTAINING THE ADEQUATE PAYMENT SYSTEMS OF THE COUNTRY

The CBBH Law gives this institution the power to support or establish appropriate payment and accounting systems, which will give this institution, in the years after its establishment, leading role in the payment system reform, as well as in the operations of the banking sector.

At the time of the CBBH establishment, there were two payment transactions established by Entity Laws, with three separate networks linked to transit centers in Sarajevo, Banja Luka and Mostar.² From February 1, 1999, the transit centers exchanged data via telecommunications in order to pay in convertible marks, while the settlement was done in early morning hours the next day in the CBBH premises.³ Since 1999, the only legal tender in the domestic non-cash payment transactions is convertible mark.

The payment institutions, known as the Payment Bureau of the Federation of BH (FBH) and the Payment Service in Republic of Srpska (RS), although fairly secured, had a payment system that was very expensive⁴ and insufficiently efficient in relation to payment systems in Europe.

The modernization of the payment system in BH aimed at: better integration of payments in the country, improvement of the use of domestic currency KM in domestic transactions, increase of the speed and ease of transactions, reduction of payment costs, payments without using the CBBH loan, which operates on the principle of the Currency Board, improvement of the efficiency and stability of banks, and the last but not least, adoption of standards that will facilitate integration with the world, and especially with the European economy. Banks were to be enabled to perform pay services for their clients directly and made payments to the clients of other banks in bilateral way or through clearing houses (optional). Interbank payments were to be settled using the CBBH deposits with direct access to the real-time gross settlements system. Over time, and on the basis of experience, it was planned to introduce clients' clearing payment orders as well as to develop new payment instruments.

The Payment Transaction Plan, with an execution deadline by the end of 2000, was established by the Declaration of the Peace Implementation Council in Madrid on December 16, 1998. The Governments of both Entities have confirmed the strategy and timetables through a Memorandum of Understanding related to the Stand By Arrangement with IMF. Payment transactions were successfully transferred to commercial banks from the Payment Bureaus at the beginning of January 2001, and the CBBH became an active participant in the system by providing a modern interbank settlement systems through Real-Time Gross settlements (RTGS) and Gyro clearing system. The specific financial assistance of the international community for CBBH was given in form of donations from the United States Agency for International Development (USAID). The CBBH has redirected one part of the donation to commercial banks, for renting the necessary gyro clearing equipment, leasing telecommunication lines and securing the installation of the entire system. In this way, the compliance of equipment and banks' software applications were ensured, which has been optimal for the system operation and maintenance. In more than 16 years of the establishment of a modern payment system, the payment transactions have never been compromised. This has been achieved by placing two servers having identical software characteristics, one on the primary and the second one on the backup location.

Expressing the mutual interest and the will to establish a system that will enable more efficient, faster and cheaper payment transactions between private and legal entities of BIH and the Republic of Serbia, the CBBH and the National Bank of Serbia (NBS), have concluded the Agreement on clearing of international payments. The same Agreement was signed between the CBBH and the Central Bank of Montenegro (CBCG) as well, but until today no commercial bank from Montenegro has joined the process.

² Up until the end of 1995, three regions of the country functioned as three independent monetary systems with inherited regulations from former state, adopted to new circumstances.

³ From 1992 to 1995 on BH territory there were three parallel currency areas: one had BHD and DEM, second had HRK and DEM and third had Yugoslav dinars and DEM.

⁴ USAID Research showed that Payment Bureaus of BH cost 5% of BH GDP in 1997.

2.2.2 MAINTAINING THE ADEQUATE PAYMENT SYSTEMS OF THE COUNTRY

Clearing of international payments is carried out since 2010 for banks having headquarters in the territory of BH and having concluded a contract with the CBBH for clearing of international payments, and for banks from the Republic of Serbia, with whose National Bank signed an agreement with the CBBH on net settlement of international payments. The Central Bank, being clearing operator is performing a clearing process in the form of a multilateral net settlement. The net positions of commercial banks from clearing are settled on the banks' reserve accounts within the Central Bank. Payment of aggregate net positions between two central banks is done through the account with a first-class international bank.

The Gyro Clearing system served as a platform for the introduction of the Single Register of Transaction Accounts (SRTAs), as well as for the Central Registry of Credit (CRC) of legal and physical entities in BH. This gave a significant contribution for monitoring systems' risks in the financial system and for maintaining financial stability. At the beginning of 2007, an IBAN (International Bank Account Number) has been assigned to BH. By introducing the international standard system for account numbering, banks in BH have been enabled to formally join the system of automatic processing of foreign currency payment orders within the European Union (EU).



20 YEARS OF STABILITY
GODINA STABILNOSTI
ГОДИНА СТАБИЛНОСТИ

CENTRALNA BANKA BOSNE I HERCEGOVINE
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2.2.2 MAINTAINING THE ADEQUATE PAYMENT SYSTEMS OF THE COUNTRY



Singing of the Agreement on Establishment of Single Payment System

2.2.3 THE ROLE OF THE FISCAL AGENT

The Law defines the possibility for the CBBH to act as a fiscal agent regarding BH's membership and relations with international financial and other institutions. It is assumed that the CBBH acts as a commercial bank in this particular business area, as it provides banking services and executes transactions for the account and on behalf of the public BH institutions having signed contracts/memorandums (or other types of bilateral or multilateral agreements) with.

Immediately after the signing of the Dayton Peace Agreement, the Law on Acquiring the Membership of the Republic of Bosnia and Herzegovina in the IMF and other International Financial Organizations was adopted on the basis of succession⁵. Under this Law, during the liquidation process of NBBH, the CBBH took over the accounts with the World Bank. Thus, the CBBH began to function as depository for a group of World Bank institutions. This includes managing cash and securities accounts, as well as executing transactions in domestic payment operations for three (out of five) World Bank institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Agency (IDA) and the Multilateral International Guarantee Agency (MIGA).

The fiscal agent function of the country for the period of signing of Law on Acquiring Membership in the IMF until 2000, has been performed by the Ministry of Foreign Trade and Economic Relations. After that, the Ministry of the Treasury of the BH Institutions took over the role, having CBBH as a Trust for maintaining the account, bookkeeping and reporting on the financial position. According to the Decision of the Council of Ministers, the CBBH took over the role of the fiscal agent of BH from the Ministry of Finance and Treasury of BH, in terms of membership and relations with the IMF, based on policies defined in the Letter of Intention to join the Second Stand by Arrangement, signed with the IMF on 2002.

According to the Agent Agreement concluded between the CBBH and the Ministry of Finance and Treasury of BH, the

CBBH performs the tasks of the banking and fiscal agent of BH, which includes: payment transaction activities in the country and abroad; managing deposit accounts; conversion of funds; investing foreign currency into deposits, gained from contracted businesses between the Council of Ministers of BH and international financial institutions, and; foreign debt servicing. In addition, on the basis of the concluded contracts, the CBBH provides banking agent services to other important BH institutions, such as the Banking Agency of FBH (FBA), the Banking Agency of the RS (BARS), the Brčko District Government, the Entity Registries of Securities and the Indirect Taxation Authority (ITA). Moreover, according to the Agreement concluded with the Deposit Insurance Agency of Bosnia and Herzegovina (DIA), the CBBH also performed the activities of registering the securities portfolio of this Agency in the past period.

At the beginning of 1998, the CBBH has signed the Agency Agreement on the managing of external debt with then in charge Ministry of Foreign Trade and Economic Relations, and in 2001 with the Ministry of the Treasury of the BH⁶ Institutions. The agreement was created based on the Law on External Debt of BH from 1997, which was in force until 2005, when the Law on Borrowing, Debt and Guarantees of BH⁷ was adopted.

Since 2005, the efficiency of the external debt servicing and of the IMF liabilities servicing in BH has significantly improved with the adoption of the Law on the Indirect Taxation System in BH, the Law on Payments to the Single Account and the distribution of revenues as well as with the operational work of the Indirect Taxation Authority ensuring the flow of the local currency funds on daily basis. According to the Agreement, the role of the CBBH is to: provide the necessary amount in foreign currencies for payment of due liabilities; execute payments based on the orders/instructions of the Ministry of Finance and Treasury of BH; coordinate with foreign banks and creditors regarding the payment of

⁶ New contracts have been signed on 2003 while the last one, still in effect was signed in 2013. Ministry has changed the name to the BH Ministry of Finance and Treasury.

⁷ Within context of Laws and Contracts, external debt is understood as a financial arrangements that relevant BH authorities have made with Governments and Government agencies, private international creditors (The debt inherited from London Club of Creditors). Data on external debt are regularly provided in statistical tables of annual report, bulletins and monthly reports of Central Bank as well as on internet page of CBBH. Yearly „Information on state of public debt of BH as of 31.12.“ is available on the internet page of BH Ministry of Finance and Treasury.

⁵ (Official Gazette of RBH) No 1, 1995



Signing of Interbank Agreement on Payment of Clearing Debt, Moscow 2017

liabilities; maintain bookkeeping records on sub-accounts of the Entities, District and Institutions of BH, and; report to the Ministry of Finance and Treasury of BH on all transactions executed.

The mutual relations, competencies and acting according the financial arrangements with the IMF, among CBBH, the state and Entity Ministries of finance and ITA, are

defined in the Memorandum of Understanding.⁸ The CBBH is the depository for cash and securities accounts, held by the IMF, as since a fiscal agent (usually the central banks) for all members in accordance with the IMF's Articles of Agreement. The financial position of BH for membership in the IMF is reflected in the CBBH's monthly balance sheet, and the consolidated balance sheet in the quarterly and annual financial reports published on CBBH website.

⁸ First was concluded 2002, followed by one in 2012, and latest still in force at 2016

2.2.4 CASH MANAGEMENT

During the establishment of the CBBH, the Law specified a number of conditions related to the first issue of the KM banknotes and KM coins. The basic conditions were:

1) The first paper money will be issued in the form of a "coupon", not a banknote;

2) There may be two variants of each "coupon". Although this was not explicitly stated in the Law, the variants were made for the two Entities in BH;

3) Design elements of each variant cannot be "offensive" to other ethnic groups;

4) The CBBH is not allowed to issue coins until there is a unique design of banknotes;

5) Decisions on the denomination of the currency to be issued may be made by the CBBH GB, but the design decisions must be made by the Presidency of BH upon their recommendation.

Proposed use of coupons and prohibition of issuing coins were unusual elements in the CBBH Law, but both elements were aimed to encourage BH authorities to switch to a unique currency design as soon as possible. The GB of the CBBH has relatively quickly and easily decided that the first denomination of KM coupons would be fenings 50, KM 1, KM 5, KM 10, KM 20, KM 50 and KM 100. However, it has been shown that the discussions about the proposed design for the two variants are politically sensitive and complex. In January 1998, two variants were submitted to the Presidency, with the following basic characteristics:

1. Each has a picture of a writer. The writer at both KM 5 banknotes, was Meša Selimović, but the writers differed at the variants of other seven banknotes;

2. At the reverse of each banknote of BH Federation was a Bosnian Medieval Tombstone - *stećak*, and on the revers of each banknote of Republic of Srpska there was an image related to a writer on the face of the banknote;

3 All the words on both variants were written in Latin and Cyrillic, but the order of the text was reversed in two variants;

Except for these differences in design, other design elements such as general appearance, colors and security features were the same. Because of this, the two variants looked quite similar at first glance. This feature proved to be very important for the manner in which citizens treated banknotes after the issue. The banknotes were quickly mixed up through circulation and trade, the CBBH never resorted them when they returned to one of the Main Units of the CBBH from the banking system. As a result, in a relatively short time, both variants of banknotes were used throughout the territory of BH and in essence, citizens treated them as a single currency. Due to its convertibility, the design developed by the CBBH with the French printing company Francois-Charles Oberthur contained the most up-to-date security features available for banknotes.

The first KM banknotes in denominations fenings 50, KM 1, KM 5 and KM 10 were issued on June 22, 1998, while denominations KM 20, KM 50 and KM 100 on 27 July 1998, and denomination KM 200 on 15 May 2002. The first coins KM were issued in denominations fenings 10, fenings 20 and fenings 50 on December 9, 1998, KM 1 and KM 2 on July 31, 2000, and fenings 5 and KM 5 on January 5, 2006. The basic design of banknotes was not changed at that time, but some of the protective security were replaced with new ones, in order to better protect banknotes from counterfeiting, while applying modern technologies and new achievements in this field. For the purpose of more convenient use of coins in circulation, banknotes of fenings 50, KM 1 and KM 5 denominations were withdrawn. The indicated KM banknotes may be exchanged in commercial banks until 31 December 2017.

ЦЕНТРАЛНА БАНКА БОСНЕ И ХЕРЦЕГОВИНЕ
CENTRALNA BANKA BOSNE I HERCEGOVINE

20



20

YEARS OF STABILITY
GODINA STABILNOSTI
ГОДИНА СТАБИЛНОСТІ

CENTRALNA BANKA BOSNE I HERCEGOVINE
ЦЕНТРАЛНА БАНКА БОСНЕ И ХЕРЦЕГОВИНЕ

CBBH BANKNOTES

Ceased to be legal tender on March 3, 2003



Ceased to be legal tender on December 31, 2008



CBBH BANKNOTES

Ceased to be legal tender on December 31, 2009





CBBH BANKNOTES





CBBH BANKNOTES





CBBH COINS





JUBILEE NUMISMATIC COIN EDITION



After the first series of KM banknotes and coins, the CBBH, in order to regularly supply commercial banks, the economy sector and households, and to maintain the quality of cash in circulation, has produced new amounts of banknotes and KM coins on several occasions with authorized companies. In the period of 2007-2017 banknotes of KM 100 denomination (2007, 2008, 2012 and 2017), KM 50 banknotes five times, (2007, 2008, 2009, 2012 and 2017), and banknotes denominated KM 20 and KM 10, three times, (2008, 2012 and 2017).

From 1998 to 2000, a relatively slow but constant exchange of foreign currencies used in BH (DEM, Croatian kuna and Yugoslav dinar) took place with a convertible mark. Consequently, the foreign currency assets of the CBBH, which amounted to KM 132 millions in 1997, exceeded KM 1 billion in 2000 for the first time. With the intensification of the use of KM, the CBBH started delivering DEM surplus in Germany. In the period prior to the introduction of euro, the CBBH had already delivered about DEM 1 billion of banknotes, and additional DEM 5 billion during the euro introductory period. By the end of 2001, citizens had a high level of trust in KM, and also in most of the commercial banks





Banknotes in the Printing Factory

that had previously operated in BH. Consequently, the large ratio of DEM banknotes was either exchanged for KM or left as a deposit in one of the domestic banks. During 1999, the CBBH concluded the first agreements with commercial banks abroad on the KM exchange. A large use of KM has increased the income from the issuance profit realized by the CBBH.

According to the policy that the CBBH is continuously implementing in production of KM cash, the quality, durability and security features of KM banknotes, as well as the quality and lifetime of KM coins, are set to be at the level of technological standards in the EU countries. In this regard, the CBBH has established the detailed technical characteristics of the KM banknotes in terms of the quality of paper,

printing process, security features, as well as the technical characteristics of KM coins. The production of KM banknotes and coins is entrusted to authorized organizations having experience in producing banknotes or coins of euro.

Special attention is paid to protect the banknotes from the counterfeiting and all four levels of banknotes protection are applied for the KM: security features for the citizens (which can be checked without using any equipment); security features for professionals (which can be verified with appropriate equipment handled by persons working with cash); machine-readable features (they are recognized by devices for counting and sorting banknotes), and; machine-

readable feature for the Central Bank (designed exclusively of Central Bank machines). We have organized a large number of educational activities on protection of KM banknotes and the identification of counterfeited KM banknotes. All KM cash information including information on security features are available on the CBBH website or through brochures, posters and other educational materials. High level of quality of KM cash and counterfeiting prevention are ensured in the process of producing KM cash. This provides integrity and protection of money in circulation, and thus, the confidence in the BH monetary unit.

The obligation of the CBBH is to ensure regular supply of banknotes and KM coins meeting the needs of the economy, and to withdraw and replace banknotes and coins that have become unsuitable for circulation. In this respect, the CBBH provides regular supply of the cash to commercial banks through vault of the Head Office, Main Units and Branches. Supply of banknotes and coins of convertible mark through circulation and withdrawal is realized by commercial banks' request, submitted to the competent vaults of the CBBH and in accordance with the regulations on handing over and withdrawal of cash from the CBBH vaults.

Adequate territorial coverage in terms of vaults locations in BH, facilitates cash operations and optimizes transport and demand-related costs.

The competent vaults of the CBBH also control, process and count the cash taken over from the deposits of commercial banks on the cash processing machines, and

determine the accuracy of the entire amount of the cash handed over, as well as the correctness and authenticity of all banknotes and coins deposited. After this procedure, money classified as eligible for circulation is used for payments to commercial banks, in fact it is returned in to circulation, while money unsuitable for circulation is destroyed within the CBBH. As the quality of the banknotes decreases with the use, the CBBH through commercial banks withdraws worn or damaged banknotes and replaces them with new and suitable banknotes. A high level of quality of banknotes in circulation enables reliable checking of their authenticity, as well as their use on cash machines and devices. Information on cash management and cash flow with detailed data on the quantities of KM banknotes and coins in circulation, are available to the public through regular monthly and annual reports of the CBBH.

Заштитна обиљежја нове серије новчаница KM издање 2012



Centralna banka Bosne i Hercegovine u 2012. godini pušta u optičku novu seriju novčanica konvertibilne marke u apoenima od 10 KM, 20 KM, 50 KM i 100 KM. Ove novčanice imaju određene razlike u odnosu na prethodna izdanja. Godina izdavanja navedena je ispod potpisna i riječ "GUVERNER" na licu novčanica. Prethodna izdanja novčanica i dalje će ostati u optičkoj.

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Заштитна обиљежја нове серије KM новчаница

издање 2012



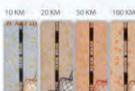
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- 1. Vodeni znak
- 2. Zastitna nit s tekstom
- 3. Prozirni registar
- 4. Zastitna nit "Motion"
- 5. Iridiscentna traka
- 6. Optički promjenjiva boja
- 7. Intaglio štampa
- 8. Mikroštampa
- 9. UV obilježja



1. Vodeni znak

Nova serija KM novčanica ima višetonski vodeni znak s motivom skulptura sa svjetiljkama na glavnom ulazu u zgradu Centralne banke Bosne i Hercegovine u Sarajevu. Ispod motiva skulpture svaki apoen KM ima poseban svjetli vodeni znak – oznaku nominalne vrijednosti. Vodeni znak se vidi pod propusnim svjetlom odnosno kada se novčanica drži prema svjetlu.



2. Zastitna nit s tekstom

Nova serija KM novčanica ima zaštitnu nit, koja je potpuno ugrađena u papir i unutar nje se vidi tekst različit za svaki apoen: 10 KM, 20 KM, 50 KM i 100 KM. Tekst ima "efekat ogledala", tj. pod propusnim svjetlom se može čitati i lica i ispljaka.



3. Prozirni registar

Kada se novčanica drži prema svjetlu, elementi štampani na licu i natliću novčanice uklapaju se i čine petougao.



4. Zastitna nit "Motion"

Sve novčanice KM iz nove serije imaju i mikropotpisnu zaštitnu nit, širine 4 mm, s prozirnom. Apoeni od 10 KM i 20 KM imaju tri prozora, a apoeni od 50 KM i 100 KM imaju četiri prozora u kojima nit izlazi na površinu papira. "Motion" nit ima različitu boju za svaki apoen: 10 KM – azurnoplava; 20 KM – zelena; 50 KM – crvena; 100 KM – ljubičasta. Motiv niti na svim apoenima je pero koje se pomjera zavisno od ugla posmatranja na način da kada se:

- Gornja ivica novčanice nagne naprijed prema posmatraču, pero se pomjera uljevo.
- Donja ivica novčanice nagne prema posmatraču, pero se pomjera nadesno.
- Desna ivica novčanice nagne prema posmatraču, pero se pomjera nagore.
- Lijeva ivica novčanice nagne prema posmatraču, pero se pomjera nadolje.



5. Iridiscentna traka

Na apoenima 10 KM i 20 KM, vertikalno preko cijelog natlića novčanice nalazi se iridicentna traka širine 10 mm. Kod oba apoenita prikazuje oznaku KM, te oznaku nominalne vrijednosti. Kada se novčanica posmatra pod različitim uglom, traka svjetluca i mijenja boju.

6. Optički promjenjiva boja

Na apoenima 50 KM i 100 KM, oznaka nominalne vrijednosti u donjem desnom uglu natlića novčanice štampa se posebnom optički promjenjivom bojom. Efekat promjene boje može se vidjeti kada se novčanica posmatra pod različitim uglom. Na 50 KM boja se mijenja od ljubičastocrvene u zelenkastosmeđu. Na 100 KM boja se mijenja od žltosmeđe do maslinastozele.

7. Intaglio štampa

Intaglio štampa se nalazi na licu novčanice u označenim područjima i može se osjetiti pod prstima.



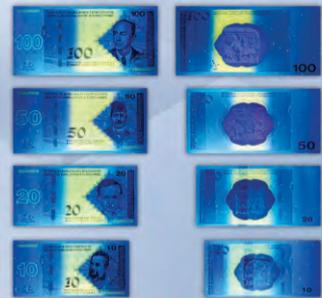
8. Mikroštampa

Novčanica ima mikrotipni tekst na oba platin "CBH LB&K" u dnu lica novčanice.



9. UV obilježja

Novčanice na licu i natliću imaju područja štampana fluorescentnom bojom, koja svijetle pod UV zracima. U području vodeno znaka, sve novčanice KM na licu imaju i fluorescentnu oznaku nominalne vrijednosti. Osim toga, vlakna, ugrađena u papir i nevidljiva na dnevnom svjetlu, pod UV svjetlom se vide u crvenoj, zelenoj i plavoj boji. Fluorescentne osobine imaju i serijski brojevi novčanica.



2.2.5 COMPLYING, ANALYZING AND PUBLISHING OF STATISTICAL DATA

Reliable and timely statistics represents an indispensable condition and the very start of any economic analysis, policy formulation and monitoring of implementation, as well as the development of projections and plans. Therefore, in order to follow how their decisions and actions affect the economy, the monetary authorities are very interested in having available data that objectively reflect macroeconomic and the financial system conditions.

Since the establishment, the CBBH has recognized the importance of macroeconomic statistics and has started to develop it, well ahead of other institutions in the country. Beside our own need for statistics, we also realize that statistics should be made available to the wider public. Thus, the field of data collection and statistical processing in accordance with the growing needs of domestic and international institutions have been gradually expanded. At the very beginning, statistical production commenced without any previous experience, and the volume of data produced was very modest (less than 300 time series in 1998). Over time, with a lot of staff commitment and management support, the statistics have expanded significantly and reached today's continuous and timely production and release of more than 4.100 time series (with additional sets of data of over 20.000 series).

Together with other statistical institutions in the country, the CBBH is in charge of producing the official statistics in BH in the areas of its responsibility. Compilation and publication of statistical data cover three large areas of macroeconomic statistics: monetary and financial sector statistics; balance of payments statistics, and statistics of the government finances and financial accounts.

Every statistical area consists of a series of separate statistical surveys aiming to collect original data of different

frequencies and from relevant institutions such as banks, non-financial corporations, government institutions and international and supranational institutions. In addition to regular statistics for publication, there are over 20 regular special reports prepared for domestic and international institutions. The CBBH continuously contributes to an integrated set of macroeconomic statistics in BH, thus enabling the wider domestic public and foreign institutions to have a reliable insight into domestic economic trends.

Four key issues related to the process of statistics production: methodological problems related to measurement; quality of data collected; the issue of inter temporal and international consistency; and the issue of available resources. Over the past 20 years, the CBBH's statistics activities have been focused on resolving these particular issues.

One of the basic work principles is to apply the appropriate international methodologies and standards of compilation, which require continuous staff training and communication with the international institutions. By doing so, the produced statistics provides the necessary international verification and the possibility for publishing.

The quality of the input data has direct impact on the quality of the output statistical aggregates, hence significant resources are continually invested in collecting and checking the input data. Different approaches in collecting and controlling input data are used: the available administrative data or the data collected directly from reporting units. Then, the official statistical data from the BH institutions and from abroad are adjusted. Although availability and quality of data have been significantly improved in the past period, the quality of input data remains one of the key challenges for CBBH statistics.

2.2.6 COOPERATION WITH RELEVANT DOMESTIC AND INTERNATIONAL INSTITUTIONS

The Law stipulates that the CBBH participates in the work of international organizations aiming to strengthen the financial and economic stability through the international monetary cooperation; represents BH in intergovernmental organizations regarding monetary policy issues, and coordinates the activities of Banking Agencies of Entities in charge of licencing banking and supervising banks.

The CBBH and Entity Banking Agencies have signed the memorandum of understanding and cooperation in banking supervision with the banking regulators of Slovenia, Croatia, Serbia, Montenegro and Turkey. In 2008, the CBBH and Entity Banking Agencies also signed the Memorandum of Understanding on the principles of high-level cooperation and coordination among the supervisors of Southeast European banks including the Bank of Albania, the Bank of Greece, the National Bank of the Republic of Macedonia, the National Bank of Romania, the National Bank of Bulgaria, the Bank of Serbia and the Central Bank of Cyprus. With this Memorandum, the signatories expressed the common interest and readiness to promote co-operation with a better structure in the field of banking supervision, in order to strengthen financial stability in Southeast Europe and improve the effectiveness and efficiency of supervisory measures.

The Standing Committee on Financial Stability (SCFS) in Bosnia and Herzegovina has been established as per Memorandum of Understanding, signed in December 2009. The members of this Committee are: the CBBH (acting as coordinator and chairperson), the Ministry of Finance and Treasury of BH, the Ministry of Finance of the FBH, the Ministry of Finance of RS, FBA, BARS and DIA. Cooperation among SCFS members understands: the preparation of a joint assessment of threats to financial stability, the preparation of common solutions and actions to manage the potentially devastating effects of the crisis, the exchange of information for the purpose of analyzing threats to financial stability and preparing management and resolving the financial crisis, coordinating common communication with the public and the establishment of a crisis plan. The Memorandum stipulates that SCFS represents the main forum for assessing threats to financial stability, while the

CBBH and Banking Agencies are responsible for assessing the systemic nature of the financial crisis.

Based on the IMF's recommendations in 2012, each member of the SCFS has developed an individual plan for action in periods of financial crisis, based on own legal mandate. Consolidation of these individual plans resulted in a Comprehensive Plan for Action in the Periods of the Financial Crisis that was prepared and adopted by all members of the SCFS in 2014. The Comprehensive Plan is a set of measures and procedures to be undertaken by the responsible institutions, members of the SCFS, independently or in cooperation with other members of the SCFS and other regulatory institutions, in order to prevent and combat crisis situations as well as to manage and act in crisis situations when they occur, with the aim of preventing or mitigating the negative effects on financial stability.

In the light of the new, significantly more complicated legal legislation regulating the operations of banks in our country, the SCFS member institutions recognized the need for further strengthening of mutual cooperation in order to preserve financial stability. In December 2016, they began to work on the improvement of the existing Memorandum of Cooperation and enhanced information exchange. A special focus is designated on strengthening cooperation in the exchange of information and implementation of joint activities between Entity Banking Agencies, Banking Agencies and CBBH, Banking Agencies and DIA, and among all members of SCFS in Agencies of identifying systems risks and recommendations for the implementation of macro prudential measures for their mitigation, as well as of a better willingness for joint action in the event of systemic crisis.

BH has signed the contracts for evaluation and monitoring of sovereign credit rating of BH with two rating agencies Moody's Investors Service and Standard & Poor's. On behalf of the state of BH, in 2003, the CBBH signed the first contract with Moody's Agency. BH obtained the first sovereign credit rating from this agency in 2004. In 2009, the Council of Ministers adopted the Decision for signing a Contract between Ministry of Finance and Treasury of BH and Moody's for the assessment of the credit rating, while the

2.2.6 COOPERATION WITH RELEVANT DOMESTIC AND INTERNATIONAL INSTITUTIONS

CBBH, as a fiscal agent, coordinated the development and monitoring of the sovereign credit rating of BH. The Contract with the Standard & Poors Agency was signed by the Ministry of Finance and Treasury of BH in 2008.

Cooperation of the CBBH with relevant domestic and international institutions is also perceived through preparation of materials and presentations for meetings with the international financial institutions, and the provision of relevant data and information. In addition to the regular publications as a way of communication with the public (the Annual Report, Financial Stability Report, Quarterly Bulletin, Monthly Economic Review and Monthly Balance Sheet of the CBBH), the CBBH participates in preparation of a number of professional and analytical publications such as the ECB's "Financial Stability Report for Countries Candidates and Potential Candidates for EU Membership," the regular Annual Report of the European Commission (EC) or World Bank's "Financial Sector Perspectives in the Western Balkans."

In addition, it is worth highlighting the contribution of CBBH in the process of European integration, according to its jurisdiction. The CBBH is also in charge of communication with the EC, facilitated by Directorate for European Integration (DEI), of the delivery of documents related to monetary policy, statistics, as well as for the stability of the financial sector. The CBBH contributes to the work of the Subcommittee on Economic, Financial Affairs and Statistics and participates in working groups for European Integration, in charge, of formulating responses to the EC Questionnaire, delivered to BH in December 2016. The CBBH, as a relevant institution or as an interested party, provided answers to questions from the field of Economic Criteria and from the seven chapters: Free Movement of Capital; Financial Services; Economic and Monetary Policy; Statistics; Entrepreneurial and Industrial Policy; Justice, Freedom and Security, and Financial Control. In the forthcoming period, the CBBH will participate in the inter-institutional harmonization of BH's responses, in line with the Decision on the System of Coordination of the European Integration Process in BH.

The CBBH has representatives in many other working bodies, groups and institutions at domestic and international levels, such as: DIA, ITA, Bank for International Settlements (BIS), Debt Advisory Committee, Working Group for

Development of Risk assessment on money laundering and terrorist financing in BH, Working group for informing the public on the process of BH accession in European Union, working group on cyber security issues, Working group for BH diaspora, the Statistics Council of BH, and The Central European Free Trade Agreement in working group of the Subcommittee on Trade in Services.

The CBBH statistical data users, in addition to the analytical departments of the CBBH, include numerous domestic government institutions, academic and business communities, international organizations, and the general public in order to monitor economic trends in the country and to plan economic policies. Statistics are considered as a public good and are made available to the general public free of charge through publications, web sites and international distribution of statistical data according to the standards of the IMF, World Bank, ECB, European Bank for Reconstruction and Development (EBRD), UNCTAD (United Nations Conference on Trade and Development), Eurostat, BIS, UN Statistics Division and others. The CBBH statistics have met international quality and frequency criteria for inclusion in the General Data Dissemination System (GDDS).

The two decades of CBBH work, and especially the period from 2007 to 2017, was marked by the intensive cooperation of the CBBH with the European financial institutions. The cooperation with the banks from the European System of Central Banks (ESCB) is considered particularly valuable for CBBH. This cooperation began in February 2007 through the Eurosystem Program on Assessments of the CBBH Needs. On that occasion it was estimated that the CBBH should achieve progress in implementation of new rules or policies, change practices and train the staff in the years ahead in order to speed up preparations for the accession to the ESCB, once BH is ready to enter the EU. As a continuation of this project, the technical cooperation program of the ECB and the CBBH started in 2010 and was conducted by the ECB in cooperation with the seven Central Banks of the Eurosystem: Germany, Greece, Spain, Italy, Netherlands, Austria and Slovenia. The experts of the Central Banks of Bulgaria and Romania also took part in this program. The program covered six different areas: statistics, economic analysis and research, financial stability,

2.2.6 COOPERATION WITH RELEVANT DOMESTIC AND INTERNATIONAL INSTITUTIONS

harmonization of legislation with the EU, coordination of the EU integration and improvement of information technology services of the CBBH. Institutional capacities of the CBBH have been strengthened through the harmonization of CBBH standards with the EU standards in the field of central banking, through the provision of support to the CBBH in the development of new strategies, projects and action plans, methodologies, rules, policies and practices, as well as through training of CBBH employees. Delegation of the European Union assessed the project, upon its completion, as the most ambitious and the most complex project of the European Union realized so far in BH. The key success

factors of the project were: precisely defined project goals and modalities of implementation - very high level of ownership of the CBBH over all phases of the project, thus enabling the project to fully correspond to the concrete and real needs of the CBBH. In addition to providing insight and acquiring knowledge about the best and the most current practices and standards of European Central Banking, the program was rated as an important step forward in strengthening economic and financial cooperation between the CBBH and central banks of the euro zone, as well as between BH and the EU.

Cooperation between CBBH and other central banks is also present in other international bodies, such as Governor's Club of the Central Banks of Central Asia; the

Region of Black Sea and Balkan countries established in 1999, as well as IMF and WB Netherlands-Belgium Constituency that BH belongs to. BH hosted the Constituency meeting in 2004.

2.2.6 COOPERATION WITH RELEVANT DOMESTIC AND INTERNATIONAL INSTITUTIONS



Meeting of the IMF and WB Netherlands-Belgium Constituency, Kiev, Ukraine, 2016

2.2.6 COOPERATION WITH RELEVANT DOMESTIC AND INTERNATIONAL INSTITUTIONS

Over the past years, the CBBH has had the exceptional support of the Swiss Government, especially within the Bilateral Assistance and Capacity Building Program (BCC), implemented in partnership with the Geneva Institute. The aim of the program was to enable the CBBH to access technical expertise and the best international practices in the following areas: monetary policy; improvement of the foreign exchange reserves management process; statistics; strengthening the analytical capacities of the CBBH through training in econometrics, developing financial models and improving the quality of statistical data analysis. Through training and specialization within the BCC program, staff capacities have been improved and progress was made in the implementation of new rules, practices, models and methodologies, and in the concept of management and leadership. The results are evident, particularly in strengthening analytical and research capacities in terms of acquiring technical expertise through econometric knowledge. In addition, the Swiss Government and the CBBH cooperate in the field of financial statistics of governments through projects implemented by the World Bank and the IMF.

We will also mention the exceptional support of the German Government as part of the Program for Strengthening Public Institutions, implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). This cooperation resulted in increase of the efficiency in internal processes of the CBBH and in development of software solutions that have significantly contributed to the modernization of IT organization and architecture. Within the GIZ project, a new statistical web platform was created, and functional statistical system of Business Intelligence has been in the development phase.

In recent years, special importance has been bestowed to the CBBH opening to the public. Increased interest in the work of the CBBH by pupils and students from various faculties from the country and abroad has given this institution a new role, the one of an educator. The CBBH also emphasizes the importance of financial education with the aim of improving the active role in promoting financial inclusion.

2.2.6 COOPERATION WITH RELEVANT DOMESTIC AND INTERNATIONAL INSTITUTIONS



Students Visiting the CBBH

2.2.7 FINANCIAL STABILITY

Due to the specific institutional arrangements in BH, supervision of the banking sector is divided between the two Entity Banking Agencies, each one having direct jurisdiction to regulate and supervise only one part of the banking sector in BH. According to the Law, one of the basic tasks of the CBBH is to coordinate the activities of the Agencies that are responsible for issuing banking licenses and performing supervision of banks in the Entities as per rules determined by the CBBH Governing Board, including monthly meetings of Agencies' managers with CBBH representatives and submission of monthly reports on their activities and developments in financial institutions under their jurisdiction. In accordance with the aforementioned powers, the CBBH, since its inception, has been performing a coordinating role in banking supervision process, which was formally defined in 2003 by signing of the Memorandum of Cooperation and Information Exchange between the CBBH, the FBA and the BARS. Memorandum on principles of coordination of banking supervision and cooperation and exchange of data and information signed in 2008 defines the areas of cooperation and information exchange between the three institutions.

At the meetings of the Banking Supervision Coordination, current issues in the banking sector are considered, including issues related to bank status changes, capital adequacy and additional capital recapitalization, measures taken by the Agencies in banks in order to preserve and protect depositors, monitor the risks and preserving the financial stability of the banking sector and overall financial system. Also, at the invitation of the CBBH, the meetings are also attended by the Director of the DIA BH, so the information in the field of deposit insurance in banks is regularly reviewed, including information on conditions of the secured deposits as well as information on the process flow of payments out of the secured deposits.

Banking regulation and supervision over the past two decades have been the subject of ongoing debates and discussions in international level, with the aim of establishing good and generally acceptable standards in this field. Consultancies at the international level have played a very important role in establishing an efficient regulatory

framework for banking operations and banking supervision in BH. However, the most important reform to be highlighted are the activities implemented over the past several years related to development of a new set of laws regulating banking sector operations that have not significantly changed since 2003. In 2017, new laws on banks in both BH Entities were adopted. This significantly modernized legal and regulatory framework for the operations of banks in BH and synchronized them with the best international practices, while empowering the supervisors' authority. Special attention has been given to harmonization of the Law on Banks in both Entities, in order to ensure equal conditions for the operation of banks in the territory of a single economic area. The new Laws are more in line with the international and regional standards and the best practices related to bank supervision and rehabilitation. As baseline for harmonization, the elements of the EU Banking Regulation CRP/IV (Capital Requirements Regulation and CRD/IV), the EU Directive On Bank Recovery and Rehabilitation (BRRD, EU Bank Recovery and Resolution Directive) and Basel II and Basel III have been used.

The first Financial Stability Assessment Program (FSAP) in BH in 2006, set priorities for the development of the financial sector and systemic risk monitoring. One of the key recommendations of the 2006 FSAP was to establish an organizational unit within the CBBH for financial stability, whose task would be to monitor and analyze the risks to financial stability in a single economic area. One of the essential tasks of this organizational unit was the preparation of the Financial Stability Report, which will, in a systematic way, present the basic risks of the stability of financial system. Also, it is recommended to perform a "top-down" stress tests.

Since the CBBH does not have direct competence to supervise and regulate the banking sector, the first step was to promote and strengthen cooperation with the Entities' Banking Agencies regarding the exchange of information. Among other things, the increased need for exchange of information and data of financial stability within the coordination for banking supervision resulted in the signing of a new Memorandum of Understanding between the CBBH

and the Banking Agencies on 2008. The first steps towards assessing systems risks at the level of the overall financial system were made by compilation of Financial Soundness Indicators (FSI).

Based on data from the Entity Banking Agencies, the CBBH started with the compilation of selected FSIs for banking sector in accordance with the IMF methodology, which made BH data internationally comparable. Data were initially consolidated into specific groups of banks according to majority ownership. Since 2012, due to the recovery of the banking sector, the data were aggregated and published for the entire BH banking sector. The FSI and the data used to calculate the FSI are published quarterly on the CBBH website from mid-2009 as well as on ICS database ICS (Integrated Correspondence System) since mid-2009.

In 2007, for the first time, the CBBH has published the Financial Stability Report (FSR). This is an annual publication that assesses the stability and resilience to shocks of the financial system in macroeconomic environment and in the financial system itself. By publishing the FSR, the CBBH contributes to the preservation of financial stability in BH in a way that improves understanding and stimulates the risk dialogue for financial intermediaries, points out to the financial institutions on the possible impact of their individual actions on the overall financial system, and creates a consensus on financial stability and improvement of financial infrastructure. Over time, the FSR evolved in terms of comprehensiveness, access to analysis and communication of findings to the general public; the sector approach analysis has been abandoned in favor of risk based analysis. There were aspirations to simplify and make more acceptable the way of communicating the findings to the public, based on the current trends in the international environment. The focus of the FSR is to assess the risk effects on stability of the banking sector, while the attention has also been paid to the financial infrastructure, by enabling payment systems and the regulatory framework for the operations of financial intermediaries. Finally, within the Report, there are regular and separate thematic units presented in the form of text boxes dealing more closely with specific issues relevant for financial stability.

The CBBH is the first institution to implement top-down stress tests in the BH financial system and the only institution that performs stress tests for the banking sector in BH. Stress tests in BH were first carried out as part of the FSAP mission in 2006. Scenarios and aggregated results of stress tests were published in FSR on 2007. Some improvements in methodology of tests were also implemented for the year 2008. The third, and also current generation of stress tests of the CBBH is basically structured upon regional stress tests conducted in autumn 2009, organized by the IMF and the World Bank. The process of stress testing was formalized in 2013 by signing the document "Guidelines for making stress tests and the use of prudential instruments in the CBBH, FBA and BARS." Since the second quarter of 2010, the CBBH has been continuously conducting stress tests on quarterly basis.

In addition to publishing results of stress tests in the FSR, the CBBH, through the SCFS and the Banking Supervision Coordination, initiates the discussion and prepares information on systemic risks and threats to financial stability, which, among other things, emerges from analyzes of the assessment of stress tests. Findings from stress tests are shared with the international financial institutions, IMF and EC. The results of stress tests carried out by the CBBH are used as an auxiliary tool to Entity Banking Agencies in assessing risk in individual institutions. Based on these results, decisions were made either on increase of supervisory control or on additional capitalization requirements.

Realizing that there is a great need from the business community and citizens for a single register of transaction accounts of business entities established in a single economic area, the CBBH founded the SRTA of business entities in 2004. Commercial banks are responsible for data accuracy of SRTA, while the CBBH is responsible for timely collection of changes, updating and distribution of data. SRTA mostly helps commercial banks, the Tax Authority and the police to discover financial structures and transactions that companies and individuals can use illegally, such as tax avoidance and money laundering, but it also provides information to all legal and individual entities who seek to

2.2.7 FINANCIAL STABILITY

collect the claims in compulsory manner, through authorized institutions. Based on data from the SRTA, in October, 2012, the CBBH web site started publishing, monthly, a list of blocked accounts in BH.

Furthermore, a CRC has been established, first in 2006 for the legal and then in 2007 for individual persons. This started enabling financial intermediaries - who fill the CRC forms with information on their clients, to have all the information about the clients' indebtedness in one place. This enables an incomparably better analysis of the credit ratings of the clients than before. The register of legal entities and the register of individuals are separated. As for the contents of the register, the financial institutions are responsible to provide accurate and complete data entered after approval, and updated in case of any change occurred before the repayment or the pay out, in accordance with the decision of the CBBH. The CBBH is responsible for: timely collecting data on loans from financial institutions, and; informing financial institutions on the results of data entry in the registry as well as on the condition of data for on their active debts in the registry.

Institutions that are obliged to provide information in to the CRC are: commercial banks, micro credit organizations, savings and loan organizations and leasing organizations. In addition to these institutions, the CRC may also include indebtedness information of other entities registered for placing financial assets, included in the CRC system on their own request, as well as indebtedness information of the organizations dealing with the purchase of debts. Searching is made by unique identification number for legal entities or unique registration number for individuals. Users may only use the CRC data exclusively with the written consent of business entities and individual persons, for their own needs, and in the manner determined by the CBBH Decision on CRC. The data must not be reproduced or distributed further. In addition to the needs of customer credit assessment, commercial banks may also use CRC data to provide information to business entities and individuals about their credit indebtedness, and only on the basis of a request submitted in writing. Except institutions providing data to the CRC, access to the CBBH (primarily from the aspect of financial stability) have also the Entity Banking Agencies (primarily from the supervisory aspect).



20 YEARS OF STABILITY
GODINA STABILNOSTI
ГОДИНА СТАБИЛНОСТИ

CENTRALNA BANKA BOSNE I HERCEGOVINE
ЦЕНТРАЛНА БАНКА БОСНЕ И ХЕРЦЕГОВИНЕ

ЦЕНТРАЛНА БАНКА БОСНЕ И ХЕРЦЕГОВИНЕ
CENTRALNA BANKA BOSNE I HERCEGOVINE



20

YEARS OF STABILITY
GODINA STABILNOSTI
ГОДИНА СТАБИЛНОСТИ

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ЦЕНТРАЛНА БАНКА БОСНЕ И ХЕРЦЕГОВИНЕ

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING

In line with the plans of business expansion and the territorial organization of business processes, the CBBH managed to provide adequate material and technical prerequisites. Today, besides the building of the Head Office, the CBBH owns a business property in Sarajevo (Main Unit Sarajevo and a new CBBH Head Office building), CBBH Banja Luka (Main Bank of Republika Srpska of the Central Bank of Bosnia and Herzegovina), CBBH Mostar and CBBH Brčko, and rents premises in CBBH Pale.

The Head Office of the CBBH was built between 1929 and 1932 as a main branch of the State Mortgage Bank. The construction was started according to the project of the architect Milan Zloković from Belgrade, who according to the stylistic characteristics fostered the features of Moderna - simple morphology reduced to geometric shapes. In 1930, the State Mortgage Bank issued a public tender for the external and internal sculptural facade decoration. Consciously or not, the choice of sculptural decoration on the side and front facades, disassembled the calmness and restraint of the bank's monumental blocks. The set designer of the National Theater in Belgrade, Vladimir Pavlović Zagorodnjuk, was tasked with developing eight facade reliefs on front and sides of the building. Original reliefs are made in sandstone.

Zagorodnjuk is also the author of two bronzed monumental statues of a man and a woman placed at the main entrance. The figures are placed on the floor and are made according to the pattern used in the relief design - an over expressed muscularity. Apart from having an aesthetic purpose, these figures also have a functional purpose as well, since in high-elevated hands they are holding the lighting lamps. Signature of the author with the year of its creation and the name of the foundry that made the statues can be found on both figures. The inscriptions, of different

degrees of preservation, are engraved in the same place, at the right side foot stand. Naked figure of a woman highlights the elegance of a woman's body, accentuated by a fabric that curves her thighs and legs in a mild contrasting attitude. This treatment of the human figure, although asymmetric, presents a natural, relaxed body posture. On the other hand, a coherent male figure, again in a counterpoint attitude, with thighs covered with an animal leather, reflects the power, restraint and masculinity.

Between the two world wars, the building served as a bank, but it also had a housing function, as it had apartments located on the north side inhabited by employers. After the Second World War, the Mortgage Bank becomes the National Bank, so the entire building got this name. Ten years after the war, the north-west and north-east parts of the building remained residential. Afterwards they become a functional unit of the National Bank. At the end of the 1950s, the construction of the north wing of the building was carried out towards Mehmeda Spahić Street, where the Social Accounting Service was located. Today this wing is inhabited by the Ministry of Finance of the Federation of BH. In the seventies, a new extension of the northern part of the building to the inner courtyard was completed, while during the 80's an entire floor was built.

During the last war period (1992-1995), the building preserved objects of great cultural and historical value, and served as an archive of the Republic Institute for the Protection of Cultural and Historical Monuments. Established in 1997, the CBBH is located in this building. During 2001, restoration works were done on the facade, and in 2005 the exterior and interior carpentry has been changed. The CBBH now operates and has the residence rights in this building, which was proclaimed the National Monument by the Commission for the Preservation of National Monuments in 2009.

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



The CBBH Head Office

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Main Entrance to the CBBH Head Office with Sculptures

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Facade Motif of the CBBH Head Office

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Facade Motif of the CBBH Head Office

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Facade Motif of the CBBH Head Office

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Building of Main Unit Sarajevo and New Building of the CBBH Head Office

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Building of the Main Unit Mostar

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Building of the RS Main Bank of the CBBH

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Building of the Brčko Branch

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



CBBH RS Main Bank Branch at Pale

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING

Over the past 20 years, the CBBH has continuously increased and developed its most valuable capital, its employees. At its inception, the CBBH had 46 employees, mostly existing employees of then NBBH. Over the course of twenty years, the number of employees has grown in line with the needs and expansion of the activities of the CBBH. Moderate employee growth in the period 2002-2011 enabled the development of the core functions of the CBBH through a strategic selection of personnel profiles that were needed for further improvement of business efficiency. In the period 2011-2016, the number of employees remained almost unchanged, partly due to the modernization and automation of business processes, resulting in more rational usage of the available resources.

The CBBH is proud to have a high level of gender equality among its employees - since the establishment, more than 50% of CBBH employees were women, and on the 20th birthday of the CBBH, women account for more than 50% of the management, including the top ranking managers.

Organizational changes and the increase of functions of the CBBH were followed by qualitative changes in the structure of its employees. During twenty years from the

founding, the educational profile of the employees has significantly changed, which is especially important taking into consideration the changes in the numbers of employees. At the end of 1997, just over half of the employees had a university degree, and only one with a Ph.D. At the end of 2016, we are proud to state that as many as three-quarters of our staff have a university degree education, with 8 Ph.D. and 56 Masters of Science.

It is important to point out that the CBBH degrees has never had a large fluctuation of employees. Since 1997, 281 employees have been hired, and so far only 27 contracts have been terminated by agreement. The CBBH continuously invests in the skills, capacities and knowledge development of its employees, which is certainly one of the motivating factor in their commitment to build long lasting career in our Bank. Our employees participate in local and international seminars on a regular basis as well as on specialized trainings on targeted education realized within the major CBBH projects and in cooperation with the international institutions. The CBBH employees have also a high degree of social responsibility. This was proven in numerous actions they have participated in, including the aid for endangered citizens during the big floods in 2014.

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Opening of the Money Exhibition in National Museum, August 2017

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Seminar Organised by the CBBH

2.3 CBBH CAPACITY BUILDING AND STRENGTHENING



Seminar Organised by the CBBH



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2.4 PHOTOS OF THE CBBH CURRENT AND FORMER GOVERNING BOARD MEMBERS



Serge Robert



Peter Nicholl



Kasim Omićević



Jure Pelivan



Manojlo Ćorić

Members of the First Governing Board

	Period	Period	
Governor	11.08.1997 - 30.10.1997 Serge Robert	31.10.1997 - 10.08.2003 Peter Nicholl	
Member	Kasim Omićević Jure Pelivan Manojlo Ćorić	Kasim Omićević Jure Pelivan Manojlo Ćorić	

2.4 PHOTOS OF THE CBBH CURRENT AND FORMER GOVERNINGBOARD MEMBERS



Peter Nicholl



Kemal Kozarić



Manojlo Ćorić



Mila Gadžić, Ph.D.

Members of the Second Governing Board

Period	
Governor	11.08.2003 - 25.08.2003 Peter Nicholl
Member	Kemal Kozarić Cvijetin Nikić Manojlo Ćorić Mila Gadžić, Ph.D.

2.4 PHOTOS OF THE CBBH CURRENT AND FORMER GOVERNING BOARD MEMBERS



Peter Nicholl



Kemal Kozarić



Ljubomir Kovačević



Manojlo Ćorić



Mila Gadžić, Ph.D.

Members of the Second Governing Board

Period

Governor	26.08.2003 - 31.12.2004 Peter Nicholl
Member	Kemal Kozarić Ljubomir Kovačević Manojlo Ćorić Mila Gadžić, Ph.D.

2.4 PHOTOS OF THE CBBH CURRENT AND FORMER GOVERNING BOARD MEMBERS



Kemal Kozarić



Peter Nicholl



Ljubomir Kovačević



Manojlo Ćorić



Mila Gadžić, Ph.D.

Members of the Second Governing Board

Period

Governor	01.01.2005 -31.12.2005 Kemal Kozarić
Member	Peter Nicholl Ljubomir Kovačević Manojlo Ćorić Mila Gadžić, Ph.D.

2.4 PHOTOS OF THE CBBH CURRENT AND FORMER GOVERNING BOARD MEMBERS



Kemal Kozarić, Ph.D.



Mehmed Jahić, Ph.D.



Ljubomir Kovačević



Manojlo Ćorić



Mila Gadžić, Ph.D.

Members of the Second Governing Board

Period

Governor	01.01.2006 - 10.08.2009 Kemal Kozarić, Ph.D.
Member	Mehmed Jahić, Ph.D. Ljubomir Kovačević Manojlo Ćorić Mila Gadžić, Ph.D.

2.4 PHOTOS OF THE CBBH CURRENT AND FORMER GOVERNING BOARD MEMBERS



Kemal Kozarić, Ph.D.



Fikret Čaušević, Ph.D.



Željko Šain, Ph.D.



Vasilj Žarković, Ph.D.



Milenko Krajišnik, Ph.D.

Members of the Third Governing Board

Period

Governor	11.08.2009 - 10.08.2015 Kemal Kozarić, Ph.D.
Member	Fikret Čaušević, Ph.D. Željko Šain, Ph.D. Vasilj Žarković, Ph.D. Milenko Krajišnik, Ph.D.

2.4 PHOTOS OF THE CBBH CURRENT AND FORMER GOVERNING BOARD MEMBERS



Members of the Fourth Governing Board

Period	
Governor	11.08.2015 - 10.08.2021 Senad Softić, Ph.D.
Member	Trivo Marinković, M.Sc. Ankica Kolobarić, M.Sc. Kemal Kozarić, Ph.D. Ljubiša Vladušić, M.Sc.

BOSNE I HERCEGOVINE
БОСНЕ И ХЕРЦЕГОВИНЕ



20 YEARS OF STABILITY
GODINA STABILNOSTI
ГОДИНА СТАБИЛНОСТИ

CENTRALNA BANKA BOSNE I HERCEGOVINE
ЦЕНТРАЛНА БАНКА БОСНЕ И ХЕРЦЕГОВИНЕ

3 ENVISAGED ACTIVITIES IN THE FUTURE

As a concept of integration, the EU represents framework and the strategic goal of BH, and therefore the Central Bank as well. In the EU integration process for BH, the role of the CBBH is very important, since it is a stable and reliable Central Bank that provides the key contribution to macroeconomic stability, improves the process of economic transition and convergence towards the market economy and contributes to the overall better preparedness of the country for the EU membership. As part of the strategy for harmonizing practices, standards and policies in line with the EU central banking standards, the CBBH is continuously working and will continue to work in the future on strengthening institutional capacity, improving business efficiency, introducing new rules, policies, changing practices, as well as on further development and training of staff in preparation to access to the ESCB, once Bosnia and Herzegovina enters the EU.

The CBBH applies a proactive approach with the institutional development focused on the challenges and requirements of the EU preaccession process. In addition to demanding and necessary professional, technical and legal requirements for harmonization, the CBBH continuously contributes in creating a climate so that the entire society will consider the independence of the Central Bank as a common good. In the process of preparation of the CBBH for harmonization with the EU standards and fulfillment of the future accession obligations, as an important step, the informal opinion of the ECB experts on the CBBH Law has already been obtained. In general terms, the Law reflects good practices regarding the functions of central banking and the independence of the Central Bank, although it will be necessary to make certain adjustments to the EU Treaty in the foreseeable future.

Among other things, the EU integration process will be a major task and challenge for the CBBH statistics. There is a need to start applying the European Statistical System (ESS)

methodology. These methodologies are in principle, aligned with other international methodologies, however, they are much more detailed and complex. In addition, the volume of data that will have to be submitted to the EU institutions (primarily Eurostat and the ECB), will be the subject of more detailed analysis and verification. The initial steps in this direction have begun. The CBBH has been receiving various forms of technical assistance (primarily through IPA funds) to upgrade the existing and to develop new statistics. However, this process will be much more demanding once BH gets a candidate status, with new obligation generating from it.

Furthermore, the CBBH prepares significant modernization of the payment systems. First of all, the new Giro Clearing System will be introduced and will use the SEPA (Single European Payment Area) payment message format used by most EU members and all Euro zone members. This will provide domestic banks with operating payment systems, similar to the EU one, thus we will be ready to integrate into European payment systems, as soon as the country becomes a member or a candidate for EU membership. This modernization should be implemented in 2018.

In the upcoming period, the SRTA will be modernized, which, besides the legal account, would include the accounts of individuals in commercial banks, and the register itself should work on the principle of real time. Also, as part of this modernization, it is envisaged to replace the entire computer equipment used by the payment systems and registers of the CBBH with the most modern equipment, both from the aspect of system performance and the security. In this way the CBBH proves that it always keeps up with time, follows the development of the most sophisticated world technologies, and enables its users to perform payment transactions in a fast, reliable and cost-effective manner, as it is the case in the EU countries.





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**CENTRALNA BANKA
BOSNE I HERCEGOVINE**



**ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ**

1997-2017



20

**YEARS OF STABILITY
GODINA STABILNOSTI
ГОДИНА СТАБИЛНОСТИ**

**CENTRALNA BANKA BOSNE I HERCEGOVINE
ЦЕНТРАЛНА БАНКА БОСНЕ И ХЕРЦЕГОВИНЕ**



ИЗДАВАЧ

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1997 - 2017

