

- CHECK AGAINST DELIVERY -

Your Excellencies, Ladies and Gentlemen,

- It is a great pleasure for me to be here today at this important conference, marking 20 successful years of the Central Bank of Bosnia and Herzegovina.
- It makes me especially happy to see that one of the first country-wide institutions, rooted in Dayton and the Constitution as the sole institution for issuing currency and conducting monetary policy, is continuing to develop and thrive. I think there is no doubt that the Central Bank of this country is one of the success stories.
- Introduction of a *single* banknote for the whole BiH contributed to the evolution of the unified monetary system. The single 200 KM banknote went into circulation on 15 May 2002. The banknote also featured a distinct visual link with the Euro – there is a bridge on the reverse side, like on all euro banknotes.
- That link to the Euro is not just a symbolic, visual one. Another important feature of the current BiH monetary policy is a strict adherence to a currency board arrangement, whereby the convertible mark is pegged to the Euro at a fixed exchange rate.
- The arrangement in place in BiH ensured (and still does) the fixed exchange rate, the full foreign exchange backing and full currency convertibility. This in turn provided for confidence in the currency (extremely important during the 2008 – 2012 global financial crisis) and made the financial system resilient to external shocks. It provided for monetary stability, as limitations established in the system, along with the independence of the Central Bank, prevented any politically-motivated monetary actions, such as excessive printing of money that could have resulted in accelerating inflation. This in turn prevented major problems in the economy as a whole. As a result, inflation was kept at bay.
- The Currency Board arrangement has served Bosnia and Herzegovina very well to date. The economy grew within its limitations, mainly defined by other economic policies and external environment developments. But, price stability and confidence in currency were never in doubt.
- We are deeply convinced that current monetary policy needs to continue. As mentioned in many reports, and on many occasions, it was this very policy

that proved to be the anchor of stability and resilience to shocks, including the recent global financial crisis.

- We are aware of various initiatives regarding potential use of excess reserves - those above the monetary liabilities – and hints about possible relaxation of the present currency board arrangements. I must say, we disagree with these initiatives, for at least two reasons. First, the excess reserves represent a 'buffer' for the central bank, to be used to preserve the full coverage of KM with a peg currency, Euro, in case of any economic disturbances. It is this buffer that would kick in to prevent any change in monetary sphere to be transmitted further into the economy.
- Second, the very moment that the requirement for 100% coverage of KM is relaxed, confidence in the currency is undermined. People would then start exchanging KM for the currency they trust more, withdrawing or transforming their savings into other currencies etc.... resulting in a financial sector instability and unpredictability.
- Foreign currency reserves should be seen as a fire alarm. If a fire alarm is on the wall, and does not go off, it does not mean it is not doing its job. It is just the opposite. The reserves, just by being there, provide much needed confidence in the domestic currency, and represent an important anchor of economic stability overall.
- Even with a currency board, public spending pressures increase as a part of the political/election cycle. Think of what would happen if the strict monetary policy requirements are relaxed? In my view, the strict currency board, coupled by political independence of the Central Bank, has no alternative for the time being. It has allowed the financial system to develop and evolve, practically from scratch. And the process is far from over.
- As a country striving to become a full member of the European Union, Bosnia and Herzegovina will have to respect our rules and fulfil our criteria, many of which relate to the financial sector. The Central Bank will have to take part in all these processes, either as the main player, or as part of a team that will, within its competencies, work towards the achievement of the set goals.
- In order for a country to become an EU member, the country needs to fulfil economic requirements of being a functioning market economy and also be able to cope with competitive pressures and market forces within the European Union. These are the so-called Copenhagen Criteria. The Copenhagen Criteria remain at the core of the EU enlargement policy, and

continue to form the basis for assessing progress in individual countries. Sound macroeconomic policies and management, including in the monetary sphere, therefore remain a key part of the accession process.

- In terms of the financial sector, the Basel III framework represents a reference point to move towards creating a stronger and safer financial system. Implementation of the framework substantially contributes to better prevention, and the reduction of costs of any potential financial crisis, through better addressing risks associated with operations of the financial market.
- Finally, while the currency peg to Euro should facilitate eventual integration into the Euro area, it is not enough. There are several benchmarks (Maastricht Criteria) that a country needs to reach to qualify to become a part of the Eurozone, and to be able to adopt the Euro as legal tender. Three out of five groups of relevant criteria concern the operations of the Central Bank and the overall financial system: Long-term interest rates, Exchange rate stability, and lastly, but not the least important, benchmark inflation levels. The latter two firmly point back to the need to preserve the currency board regime, in order not to jeopardise achievements to date, and set the path for further progress in meeting both Copenhagen and Maastricht criteria for membership, down the road.
- Once more, it is my pleasure to be here with you today, and I wish you successful and fruitful discussions during the rest of the day. Thank you for your attention.