

Statement by IMF Mission Chief for Bosnia and Herzegovina

Over the past 20 years, CBBH has established itself as an anchor of macroeconomic stability in the country. The birth of CBBH took place in the aftermath of the war and during uncertain and volatile economic conditions. Monetary stability is a critical requirement for macroeconomic stability and sustained growth, and the rules-based approach to monetary policy under the currency board arrangement (CBA) has continued to ensure monetary stability. The CBA also makes CBBH operations transparent in an otherwise uncertain environment. Continued monetary stability has helped anchor steady economic growth and price stability. Over the 1998-2016 period, annual output growth has averaged 3.5 percent, with an average annual inflation a little over 2 percent. The stable common currency has also played its role in the economic and political integration of the country.

There has been a long history of constructive collaboration between CBBH and the IMF. BiH received a substantial amount of technical assistance and policy advice from the IMF on institution building before CBBH began its operations in August 1997. The IMF, together with other international partners, helped draft the CBBH law and assisted in transitioning operations from two monetary authorities into the CBBH. With the consent of the BiH government, the Managing Director of the IMF appointed the first governor of the CBBH in 1997. Following the establishment of CBBH, a true partnership took shape between CBBH and IMF. The IMF engaged closely through several channels including technical assistance missions, resident advisors, staff training, regular Article IV consultations, and interaction in the context of policies supported under IMF arrangements. These efforts were critical for maintenance of the single currency, reform and modernization of the payment system, and improvements in statistics, all of which have led to, inter alia, cementing the credibility of the institution and the CBA.

Independence of CBBH, particularly in the complex political environment of BiH, is key for the success of the institution, and needs to be guarded in the future.

Independence ensures that CBBH can pursue its statutory objectives and contribute to monetary, economic, and financial stability. In this respect, the excellence and professionalism of its staff is the most important asset of the CBBH. Policies under the current arrangement under the Extended Fund Facility (EFF), which came into effect about a year ago, focus explicitly on maintaining currency board arrangement and other elements that protect central bank autonomy.

The economic challenges the country faces today are significant and require serious and concerted efforts. There is an urgent need to modernize the economy by improving the business environment, labor markets, education, and the rule of law. These are important

preconditions for job creation, sustained income growth and convergence with living standards in the EU. The Reform Agenda, approved in 2015 is an important step in that direction, and the IMF arrangement also hopes to help the authorities achieve these objectives. Continued monetary stability is critical for enhancing the single economic space and provides the foundation for the structural transformation of the economy envisaged in the Reform Agenda. CBBH plays an integral part in this reform effort, and can continue to lead by example.

We, at the IMF, look forward to the continued collaboration with CBBH with the objective of further safeguarding and strengthening macroeconomic and financial stability in the country. Some progress has been made under the current arrangement under the EFF, including in the areas of reserve management framework, governance issues, coordination of banking supervision, as well as systemic risk oversight. Nevertheless, more effort in these areas is warranted, and we remain committed to assist the authorities in their efforts.