

**Speech of the CBBH Governor Senad Softić, Ph.D. at the first Europe-wide International Monetary Fund Regional Economic Outlook entitled „Regional Economic Perspectives for Europe“.
Sarajevo, November, 13, 2017**

Honorable guests

Dear Mr. Decressin,

Panelists, Colleagues,

Ladies and gentlemen.

It is my pleasure to welcome you to premises of the Central Bank of Bosnia and Herzegovina today for presentation of the First Europe-wide IMF Regional Economic Outlook. Thank the IMF for choosing Bosnia and Herzegovina for such event.

We are meeting today at a good time for Europe and Bosnia and Herzegovina. Economic growth is gaining strength. In the Euro area, growth is expected to remain about 2 percent in 2018. Inflation, big concern for us central bankers, is expected to remain stable in 2018.

In Bosnia and Herzegovina, growth was 3.1 percent in 2016. We expect the recovery to continue.

The Central Bank of Bosnia and Herzegovina continues to maintain monetary stability through strict implementation of the currency board arrangement, as defined in the law.

Inflation remains firmly anchored to price developments in the Euro area.

We expect prices not to increase by more than 1.5 percent in 2018.

It is very important for us in Bosnia and Herzegovina that growth in the European Union is sustained over the medium term.

The EU is our largest trading partner and foreign investor. A large Bosnian diaspora sends remittances close to 12 percent of GDP per year.

These are very strong economic links that should be considered together with our diaspora as important resource for economic development of the country.

However, policy makers in Europe, and also here in Bosnia and Herzegovina, should take advantage of the recovery to implement ambitious economic measures and structural reforms.

For Bosnia and Herzegovina, we should focus on three broad areas:

1. First, we need to improve the composition of the budgets at all levels of government. The general governments of Bosnia and Herzegovina are on track to achieve a combined overall fiscal surplus for the second year in a row. However, there needs to be a re-orientation of spending towards infrastructure, to help catch up with European standards, and to **improve connectivity and competitiveness of our economy**.
2. Second, we need to continue to strengthen the single financial system of Bosnia and Herzegovina. The banking system in Bosnia and Herzegovina is strong and stable. There is enough liquidity and sufficient capital. Progress was made since 2015 in putting in place new banking legislation that brings Bosnia and Herzegovina banking system closer to European standards.

Still, there is a lot of work to be done to resolve issues from the past financial crisis. At more than 11 percent of total loans, NPLs continue to burden the balance sheets of banks. In this respect, adoption of new bankruptcy legislation at the entity level and clarification of tax-treatment of NPL sales will help address this issue in the period ahead.

3. Third, we should redouble our efforts to improve our institutions and address governance shortcomings. Foreign Direct Investment is stuck at around two percent of GDP per year. **This is too low** to support higher growth rates that will reduce unemployment and emigration.

Improvements in regulatory quality, fair and transparent ‘rules of the game’, and transparent and accountable institutions will help attract higher levels of foreign investment.

Therefore, we have to send clear message about positive outcomes of our reforms, increase reputation of Bosnia and Herzegovina, improve our competitiveness to increase investments and growth, and at the same time strengthen the single economic space to finally pave the way to our European future.

Thank you very much for your time, and I hope that you have a wonderful event.