

Senad Softić: Bosnia and Herzegovina pursuing sound monetary policy and a stable financial system to support economic growth

Speech by Mr Senad Softić, Governor of the Central Bank of Bosnia and Herzegovina, at the regular annual Economic and Financial Dialogue between the European Union and the countries of the Western Balkans and Turkey, Brussels, 17 May 2019.

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Thank you Mr. Chairman,

Distinguished participants, first of all, good morning to everyone,

It is nice to be again at the end of another round of Economic Dialogue between the EU and our countries. I can't avoid to repeat again how important and beneficial this process is for our economic governance and coordination with the EU counterparts. It is very visible we are making good progress each year and the whole process becomes better coordinated.

The process is ongoing, but we need to keep in mind that we have to deal with many initiatives and reforms at the same time, as well to harmonize with EU legislation and procedures.

The Central Bank of Bosnia and Herzegovina has undertaken several steps to implement recommendations from previous Joint Conclusions. Those steps include:

- ♦ new statistics and development of analytical tools.
- ♦ we have recently improved analytical framework for forecasting and impact of policy measures.

Results are generally in line with previous estimates, where we expect steady, but moderate growth with some acceleration of over 3% in the next three years. These growth rates are encouraging, but also our economic performance significantly depends on external developments. Private consumption remains the main growth driver, but we also have gradual increase in investment rate.

There is an obvious need for increasing of growth potential in order to create more jobs and faster real convergence with the EU. 2

Sound monetary policy and stable financial system should be supportive for better economic performance, and we are very committed to work in this direction.

Existing monetary arrangement works very well, and our financial system is getting stronger and well capitalized. However, sound monetary and fiscal policies, are not enough. For faster growth and better living standard, there is a great need to carry out structural measures. The dialogue with the EU helped to identify those measures and implementing them will require more time and external assistance.

The proposed topic about attractiveness of our region for FDIs is very well chosen and timely. From the central bank perspective, FDIs provide reliable funding for current account deficit and make us less sensitive to external shocks. Our banking sector clearly demonstrates positive effects of FDI inflow.

We worked very hard on several domains and progress is visible. Many international organizations provided technical assistance and funding.

Strengthening of private sector definitely would have positive signal to potential foreign investors, who will be able to start business by using local comparative advantages.

Numerous examples show that foreign investors are still facing complex bureaucratic procedure and inadequate legal framework. 3

However, after overcoming initial problems and period of adjustment to local conditions, foreign investors successfully run businesses for a long time and we are very proud that most of investors are staying and reinvesting in the country.

Potential of our country has been recognized during the recent EBRD Annual Meeting and Business Forum, which was held in Sarajevo and which produced large success regarding future investment in the country.

I would like to thank EU institutions, ECB and the ESCB for working with us on reforms. Experience of these institutions is of very important for us in process of building of our system, which should be aligned with EU regulations. Also, financial assistance from EU institutions and member-states make possible to carry out and complete these essential reforms.

Thank you