

# Remarks by High Representative and EU Special Representative Valentin Inzko At a Panel Discussion on Responsible Finance Organised by the BiH Central Bank



## Politicians Need to Learn from the Central Bank

Ladies and Gentlemen,

First of all, let me express my thanks to Governor Kozaric for kindly asking me to participate at this roundtable.

Perhaps I should begin by alluding to the title of today's discussion, which in the light of the Global Financial Crisis may appear to be something of an oxymoron.

Responsible Finance – the two words sit uneasily together.

The mortgage meltdown, credit crunch and world recession do not really suggest a great store of responsibility in the vaults of the world's banks and financial institutions.

Still, I think there are two positive aspects of the recent

crisis that should be kept in mind.

The first is that Bosnia and Herzegovina, a small economy with low sovereign and private debt and a stable currency, has been able to offset many of the worst aspects of the global meltdown (with the exception of the impact on employment, and I will return to that).

The second is that the coordinated and coherent response by governments at the height of the crisis mitigated its impact. The global financial system may in fact be stronger today than it was two or three years ago – because crisis management produced solutions that will rein in some of the worst excesses of the old financial system.

What are the positive lessons to be learned from this, particularly as they apply to Bosnia and Herzegovina?

Well, for one thing, the BiH financial system demonstrated resilience and good order in a difficult operating environment. It is impossible to overstate the key role that was played by Governor Kozaric and his team at the Central Bank as well as Ministry of Finance and Minister Vrankic. The message from the Bank during the height of the turmoil was sober, measured, and consistent. Confidence in the domestic banking system was maintained through timely and pragmatic steps executed with a high degree of common sense and a minimum of fuss.

It hardly needs saying, but I'll say it anyway – Bosnia and Herzegovina desperately needs this approach well beyond the financial sector.

The BiH Central Bank is able to do its job because it has the necessary operational independence and institutional credibility.

It is imperative that this is maintained.

The Bank also has the staff and the resources it requires, and a functional organizational structure. This needs to be expanded throughout the financial sector. The sooner the system of banking supervision is streamlined and modernized the better it will be for BiH depositors and small businesses.

For a number of years, plans have been in place to consolidate the country's Banking Agencies, reducing bureaucracy and increasing efficiency. This will strengthen safeguards for depositors and give a boost to the banking sector as a whole, which can help bring down interest rates.

There is no reason why this can't be done in the coming months. It would help stimulate the economy – and that means creating jobs. This is not something that ought to be dismissed lightly – the one area where the global recession has caused real hardship in Bosnia and Herzegovina is in the employment sector, with tens of thousands of families being hit by job losses since the end of last year.

I would urge this conference to take up the issue of banking supervision. Like a vast array of practical steps that would bring real benefits to the people of Bosnia and Herzegovina, it has been put on hold for no other reason than the political crisis that has now dragged on for three years.

I mentioned that the global economy may be stronger today than it was two or three years ago – because the financial crisis made it impossible to keep putting off difficult reforms. Well, perhaps we can try to encourage a similar sequence of events in Bosnia and Herzegovina. For three years, the country's postwar recovery and Euro-Atlantic integration has been at a standstill and all because of confusion over the proper role of the entities and the state.

Three years of doing nothing is too long.

Tens of thousands of lost jobs is too high a price.

Deadlock on the road to Europe is too damaging.

Now is the time to break out of the crisis and get on with long-delayed reforms.

The financial sector is coming out of its own crisis strengthened by pragmatic – sometimes difficult – changes.

The political sector must do the same.

I suggested at the beginning that “Responsible Finance” might be something of an oxymoron. In Bosnia and Herzegovina at least, that has not been the case. The financial authorities have demonstrated enormous responsibility – and the citizens of this country have been protected because of this.

But then we come to the phrase “Responsible Politics.”

That still is an oxymoron.

And that must change.

Political leaders in this country need to learn from the Central Bank. It's time we had Responsible Politics as well as Responsible Finance.

Thank you