



CHANGES ON THE TOP OF THE CBBH

New Governing Board, Nicholl re-appointed for the Governor

The New Governing Board of the Central Bank of BH (CBBH), at the beginning of its mandate which commenced on August 11, 2003 held a first session and re-appointed Peter Nicholl the Governor, who has performed this function last six years. Governor Nicholl will stay on this function until December 31, 2004, when the current Vice Governor and the member of the new Governing Board Kemal Kozarić will replace him. On August 11, 2003, the date that marked the sixth anniversary of the CBBH existence, the mandate of the previous CBBH Governing Board members Peter Nicholl, Jure Pelivan, Kasim Omičević and Manojlo Ćorić ended.

Based on the Decision adopted by the BH Presidency on May 20, 2003, Peter Nicholl and Manojlo Ćorić were re-appointed the members of the CBBH Governing Board, while Kemal Kozarić and Mila Gadžić were appointed as the new members of the CBBH Governing Board. Ljubomir Kovačević was appointed later as the fifth member. Those two transitions, transfer between the previous and the new Governing Board and the appointment of Nicholl, as BH citizen, the Governor were both assessed as the historical for the CBBH. Namely, according to the

CBBH Law, over the first six years of the CBBH operations, the Governor could not be the BH citizen. From August 11, the Governing Board members have to be BH citizens and one of the preconditions for Nicholl to be re-appointed as the Governor was the BH citizenship, which he gained. According to the Governor, these two above men-

in preparation and adoption of the internal book of rules and in supervision of the budget and internal expenses. „I hope the new Governing Board will continue to work in accordance to the same principles on which the ex-CBBH Governing Board worked", the Governor said.

Beside with the Decision on the election of the CBBH Governor, the new Governing Board, during its session that was held on August 11, agreed that Kemal Kozarić, who was appointed into the Governing Board, can also perform the duty of the Vice Governor of the CBBH until December 31, 2004, after which he should assume the duty of the Governor. The same day, the last session of the former convocation of the CBBH Governing Board was held, during which the Financial reports for the first six months of this year were discussed. According to the Governor, this was, in financial sense, the hardest period the CBBH has confronted since the beginning of its work in 1997, because the level of foreign reserves fell as well as the European interest rates. This influenced the fall in the level of incomes, but this is something that was calculated in when the budget was planned. The real income, according to the Governor, was somewhat larger than the income which was planned in the budget and for the first six months, this income was KM 32,5 million. The budget also provided KM 15,1 million for expenditures, but the real expenditures were KM 12,2 million. The result was that the profit, which was planned in the budget to be KM 16 million, was KM 20 million at the end of the first six months.



The members of the new Governing Board of the CBBH

tioned changes, that happened at the same time, could have disturbed the CBBH, but thanks to the Decision which was adopted by the BH Presidency in May as well as the CBBH Governing Board's decision, the period of transition went by smoothly. Governor Nicholl thanked to the ex-members of the CBBH Governing Board and emphasized their role in the creation of the CBBH Law and development of the CBBH since 1996. Their work was characteristic in the establishment of the institution, in definition of the strategic decisions,

Currency Board, first of all

The priority of all new appointed members of the Governing Board of the Central bank of Bosnia and Herzegovina (CBBH) is to maintain Currency Board Arrangement. This arrangement has been very successful in the existing circumstances, because it resulted with the currency stability and low inflation. However, there is readiness in the CBBH to consider new initiatives, but only ones that wouldn't undermine Currency Board that has been in effect since 1997, when the CBBH commenced its operations. On August 11, 2003 this institution marked the sixth anniversary. Although these six years have been successful, in the very moment of the establishment, the CBBH met a lot of challenges.

Nicholl: It's very satisfying to see the achievements of the CBBH and banking system

It is very satisfying to see how far both, the Central Bank and also the banking system, has long come since 1997, the Governor of the CBBH Peter Nicholl stated.

"It's hard to remember back now the state that monetary and banking system was in 1997, when the CBBH started. It is worth remembering that there were four currencies being used in this country. There were 76 banks, but none of them operated over the whole country and most of them were incredibly small. Bosnia had old Yugoslavian monopolistic Payments Bureau, which was, actually, split into three parts, as well as there was no single payments system. Now, six years later, the KM is dominant currency in the country. The banking system has improved tremendously, most of the major banks operate over the whole country and we are running the normal payments system through commercial banks and the CBBH. So, it is very satisfying to look back and to see that the banking system is now a normal system", the Governor says. He looks into priorities in two packages. The critical thing for any central bank, particularly a central bank with the Currency Board Arrangement, is to keep doing things that it has always been doing. The role of the central bank in insuring the stability, as the Governor claims, never finishes. So, the future will be much the same as the past.

"The Currency Board Arrangement will be the key in keeping our own financial strengths. So, the first task of the future is to continue to do what we've done in the past. But the fact that the banking sector is stronger now and that our balance sheet is strong does allow us to look to other things we can do that do not conflict with our core function", Governor Nicholl thinks.

Answering the question if there are anything that can

be done, not as the alternative, but more like modifications which could offer us more flexibility, the Governor says that some of the terminology create confusion.

"In my view, the Currency Board Arrangements have to stay as they are. And if you want to call that a rigid Currency Board Arrangement, that will be fine. We cannot tinker with the main elements of the Currency Board Arrangement. But what the Law on CBBH also has is a number of restrictions on us carrying out other functions. Those were there at the beginning because we simply didn't have any experience or any financial strength. So, getting involved in other things could have indirectly undermined the Currency Board Arrangement. Today, we have more experience and we are financially stronger, so there are areas where, as other currency boards told us, you can get involved without conflicting with the Currency Board Arrangement", Nicholl said and added he is happy to look at them.

Among the things he should do before the end of his term is to have the established securities market in BH. It is still unknown whether the CBBH will participate as an issuer, but he would like to be in the position to do that, if that's what's necessary to set up the market. So, that would be one change and would require the change in the Law.

"The Bulgarians have some limited form of lender of last resort for their banks, which we can look at to see whether we can do that. It's based on the use of free reserves, so it does not conflict with the Currency Board Arrangement. That's the possibility. We'll look at what's happening with Bulgaria to see whether it would be useful here. I am prepared to look at the new initiatives, but I would not describe that as changing the rigidity of the Currency Board Arrangement. It stays, but we can also do other things", the Governor says.

He emphasizes that the payments system was one that has already been done, that the CBBH is getting a stronger role in the banking supervision and he thinks that the end of that process is that banking supervision will move under the "umbrella" of the CBBH in some way.

"I've set up the National Capital Markets Council to try to develop a strategy for the capital markets, which are the next part of the financial system. How much the direct role the CBBH will play, I don't know. That is one of the things we will discuss", he says.



Peter Nicholl

Peter Nicholl was born on March 4, 1944 in Hamilton, New Zealand. He gained a BCA degree in economics from Victoria University, Wellington in 1971. He obtained a BCA (Honour) degree with first class honours in economics from Victoria University in 1974. He joined the staff the Reserve Bank of New Zealand in 1972 and worked for the Bank for 22 years. From 1995 to 1997 he worked as an Executive Director on the Board of the World Bank in Washington D.C. He represented New Zealand, Australia, Korea, Cambodia, Mongolia and seven Pacific Island nations. In 1997 he was appointed the Governor of the Central Bank of Bosnia and Herzegovina by the Managing Director of the IMF with the approval of the Presidency of Bosnia and Herzegovina. After he obtained the BH citizenship, the BH Presidency re-appointed him on May 20, 2003 into the Governing Board of the CBBH, while the Governing Board reelected him as the Governor. He will remain the CBBH Governor until December 31 2004.

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He rejected the critics of those who think that the CBBH functions well only because the Governor is a foreigner.

"I disagree with the view that the CBBH operates well only because the Governor is the foreigner. I actually think the much more important reason is that the CBBH has a very good and very sensible legal framework. And I've been able to operate within that framework. It helped, obviously, being a foreigner, but I think that a local Governor, like Kemal Kozarić, will also be able to operate within that legal framework", he said.

He is sure that if the legal framework had not been as sound and as strong as it was, he would not have survived the first year in BH.

"It was difficult anyway and there were times when I threatened to leave. But the legal framework was always there, so it is actually more important than a foreigner, because I only survived the first year because of the legal framework, not because I was a foreigner", Governor Nicholl said at the end of the interview.

Kozarić: Imbalance in the Balance of Payments is the biggest danger for the Currency Board

The biggest danger for maintaining the Currency Board Arrangement and for the monetary policy is the imbalance in the Balance of Payments we have in BH, which is something that the CBBH cannot influence, stated the member of the Governing Board of the CBBH and Vice Governor Kemal Kozarić.

"If the economic situation improves, if the economic surrounding and economic indexes become better, it will be easier for us to maintain this situation in the CBBH", Kozarić said.

The continuation of the Currency Board Arrangement implementation and the protection of the local currency are the prior tasks of the CBBH. The second priority, according to Kozarić's opinion, is to keep the independence of the CBBH in the country from the political and other institutions.

"The Law on the CBBH provided the independence to this institution and I think that independence has to be preserved. I think the CBBH will continue with the development and achieve better results", he claimed.

Talking about previous period in the work of the CBBH, Kozarić stated that when he first came to the CBBH, it left on him the strong impression of one settled environment with all its legal codes, books of rules, procedures, where people know exactly what to do. Considering this, it was easy for him to get used to the job.

"Many things have happened over the four years since I came to the bank and the transfer of the payments system from the payment bureaus to the commercial banks and the CBBH being the most important one. I participated in this process as the member of the project team on behalf of the CBBH and the project itself was proclaimed the project of the year in BH. There have been no problems in that project, so that is one very positive experience for me", the new appointed member of the Governing Board emphasizes.

The other project where he participated was the new accounting system, through which all business activities in the CBBH connected. All systems are on-line so the data update is instantaneous, as well as very organized book keeping and, from that side,

there are no problems.

"However, we could have always done more. Still, there is the Currency Board Arrangement that has directed us in some things and gave us some specified frames as well as the results, like the stability of the currency and inflation. I personally expected that the banking agencies would come under the 'umbrella' of the CBBH. I would like that, since on that way, the CBBH would be able to issue and revoke banking licenses and it would have the influence over the entire banking system. With that, it would get the role that belongs to it, like to the all other central banks. That is one wish of mine that didn't come through, but I hope that it will happen soon, I hope next year", said Kozarić who will take over the position of the Governor from January 1, 2005.

He considers this position as the extraordinary honor and challenge and says he will perform this duty professionally and responsibly.

"I have to say that my colleagues, other Vice Governors, were also ready, that is, capable to assume such duty, but as they say, it was fated that I will be the one, so I hope I will have their support in the implementation of the monetary policy and all assignments that will be given to us by the Governing Board in the future", he said.

On the other hand, as he mentioned, he will have from the start something that the Governor didn't have.

"Although he worked here as the foreigner for the first six years after which he obtained the BH citizenship, he enjoyed the certain protection from the international community

on which he could rely on. Beside this, some people tried to criticize the work of the CBBH, which is certainly not right. Therefore, it is certain thing that I can also expect attacks from the local authorities, especially from those academic circles that don't think the Currency Board Arrangement is the best solution for BH",



Kemal Kozarić

Kemal Kozarić was born on October 13, 1956 in Sarajevo, BH. He graduated from the Faculty of Economics in Sarajevo in 1981. He was employed at Construction Company „Bosna“ as a post studies trainee. After that, in today's Central Profit Banka D.D. Sarajevo, once Privredna Banka Sarajevo, i.e. Kreditna banka, he performed several duties. From 1996 until beginning of 2000 he was the Minister of Finance in Sarajevo Canton Government and after that he was appointed the Vice Governor of the Central Bank of Bosnia and Herzegovina. Based on the Decision of the BH Presidency from May 20, 2003 he was appointed the member of the Governing Board of the CBBH, which agreed that he can continue to perform his duties of the CBBH Vice Governor. From the beginning of 2005, he should assume the duty of the Governor of the CBBH.

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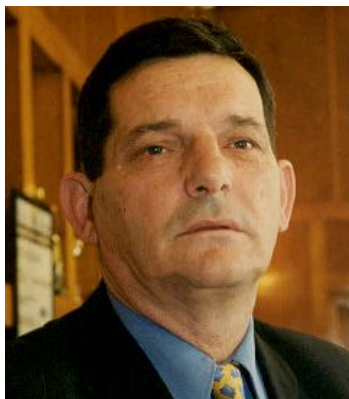
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Kozarić said and added he also doesn't think this is the permanent solution, but given the current situation, it is the best possible solution for us.

"We can think about the modeling and adapting of that Currency Board Arrangement, but we have to keep it as the basic concept in the immediate future. Of course, it is well documented who could change this and those are not the same people who have been criticizing", Kozarić concluded.

Ćorić: Well designed Law and elimination of politics are the reasons for the successful work of the CBBH

The member of the Governing Board of the CBBH Manojlo Ćorić, who has also been on this position in the previous six years mandate, thinks that reasons for the successful work of the CBBH was the Law which was well-designed and nonintervention of politics and politicians into the CBBH work. The Governing Board, as well as other people in the CBBH, strictly respected the Law. "I think that those were the things that helped the stability of the currency, convertible mark as well as to the successful work of the CBBH", Ćorić said in the interview and added that all international institutions as well



Manojlo Ćorić

as the BH Presidency and governments of both entities estimated the work of the CBBH as positive.

He estimates that the Governing Board did even more than what was provided by the Law. The basic function of the CBBH that operates in accordance with the Currency Board Arrangement, is to exchange and buy the local currency, with the hundred percent backing. All other functions

Manojlo Ćorić was born on March 12, 1939 in Čapljina, BH. He finished the Secondary School and graduated from the Faculty of Economics on 1963 in Sarajevo. From 1963 to 1994 he worked in "Energoinvest", performing several duties, including the position of the General Director of „Energoinvest“ in Republika Srpska. In 1994 he was appointed the Governor of the National Bank of Republika Srpska. The BH Presidency appointed him the member of the CBBH Governing Board in 1996. He was re-appointed in 2003.

are working in order to support this primary task. Having in mind general financial situation in BH and banking system, the Governing Board used to make decisions and perform functions that were in the service of BH, the financial situation and banking system. In any case, this produced positive results. As far as the future is concerned, he thinks that primary tasks of the CBBH should be preserving the stability of the local currency, continuation of the work in accordance to the CBBH Law, and maybe some of the provisions of the CBBH Law should be discussed, analyzed and replaced with new ones, where he was thinking on the separation of the governing and executive functions in the bank.

Ćorić is one of those that think that the Currency Board Arrangement should be kept the way it is, in its full function, without any additions or loosening, meaning without any "softer" form of Currency Board

Arrangement.

"I am deeply convinced that we would, if that happens, once again found ourselves in the situation where we would discuss inflation and currency stability", Ćorić says and adds that some central banks from our neighborhood actually operate in accordance with the Currency Board Arrangement, even though the Currency Board Arrangement was never implemented in those countries.

"Neither Croatian National Bank, nor National Bank of Serbia, nor Bank of Macedonia has proclaimed operating under the Currency Board Arrangement, but they all operate according to this principle. Therefore, I think that the Currency Board Arrangement should be kept the way it is, without any additions or in some "softer" form of the Currency Board Arrangement that some experts proclaim as something we should do", Ćorić says.

In the end, that is also the request of the IMF and the precondition for the entry to the European community and generally into European integrations.

When it comes to crediting, CBBH cannot and will not extend any loans, but, as Ćorić said, it will give the total freedom and will try to help commercial banks in order for them to do that job.

"I think that individuals who criticize the CBBH for holding of its money abroad, do not know enough about functioning of central banks. The entire volume of the foreign exchange we keep abroad represents the equivalent value to the amount of KM in circulation. If we start spending our foreign reserves now, this means that the large amount of money would be released in circulation without the backing and we all know where that would lead us. This is why I firmly stand for the solid Currency Board Arrangement", Ćorić said.

Gadžić: In the coming years, Currency board will not be changed significantly

I think that the Currency Board Arrangement will stay in the following years and it will not go through some important changes, the new appointed member of the Governing Board of the CBBH Mila Gadžić stated.

She thinks that the main thing in coming period, when the CBBH is about, is

to provide the monetary stability, which means the stability of the BH currency, and after that to consider the introduction of some new mechanisms.

"The fact is that the Currency Board Arrangement is something what is currently suitable to the relatively unstable political and economic situation in



Mila Gadžić

BH, since that is the system which made the local currency stable, and having the local currency stable is one of the basic preconditions for the macroeconomic stability", Gadžić said in the interview.

According to her opinion, it is not the unusual thing to have different opinions that, first of all, come from the certain scientific circles which, probably, think that with the more flexible approach in the managing of the monetary policy the economic growth which is necessary for this country, can be provided.

"However, dependin on the trends in the general economic situatio n

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in the given moment, it is probable that the Governing Board will also take its position about the eventually more flexible relation in terms of the managing of the monetary policy. This will depend on the general economic situation and trends in both, financial and real sector", Gadžić thinks.

Although she is coming in to the Governing Board from the area that is not related to the monetary policy, this is the field that she deals with in the scientific sense, considering that she is the professor of Macroeconomics and financial markets and institutions.

"Obviously, this is the opportunity for me to, in the specific circumstances BH currently is, apply in some way theoretic knowledge I have obtained until now. Besides, I am very close to the domain of finances and I participated in creating of the entire legislation for the capital market domain so this domain is something which is very close to me. Concurrence of events took me also to other domains of the economic system", Gadžić stated.

Mila Gadžić was born on December 20, 1960 in Stolac, BH. She completed her elementary and high-school education in Mostar, where she graduated from the Faculty of Economics in 1983. She completed her post-graduate studies on "Economic theory and policy" at the Faculty of Economics in Sarajevo in 1990. She obtained her Ph.D. degree in the domain of economic sciences in 1997 at the Faculty of Economics of the Split University, Croatia. Since 1985, she worked as the Assistant Lecturer on courses Political economy, Theory of Market and Prices, International Economy and Macroeconomics. She became the Senior Lecturer in 1997 and lectured at courses Macroeconomics and Financial markets and institutions. In 2002, she became the Associate professor. From 1999 to 2003, she was the Director of the Privatization Agency in the Hercegovina-Neretva Canton. She was appointed Minister of the Foreign Trade and Economic Relations of BH in January 2003. She performed this duty until August 11, 2003 when she transferred to the Governing Board of the Central Bank of BH.

Kovačević: The appointment in the CBBH overning Board as the crown achievement of my work

Ljubomir Kovačević, who was appointed the member of the Governing Board of the CBBH by the BH Presidency on August 26, 2003, considers this appointment as the crown achievement of his career in banking, finances and economy. He has spent more than 35 years of his life in financial, economic and banking institutions. Out of those 35 years, he spent more than 20 in the commercial banking, Government Auditing Office, state tax administration bodies. All the work has been followed with his new achievements in the domain of science. In 1975 he obtained his M.A. degree in the domain of business finances and banking at the Economics Faculty in Zagreb and after 2000, while he was representative in BH Parliament, he completed his Ph.D. thesis entitled "Trends in contemporary banking - condition and perspectives after the introduction of the Currency Board Arrangement".

"The reason why I focused the topic of my Ph.D. work on the Currency Board Arrangement was the fact that the CBBH works in accordance with the Currency Board

Arrangement principles. My research has shown that considering the conditions that BH was in, the only right solution was the introduction of the Currency Board Arrangement", Kovačević stated.

"In conditions of the general stagnation of the BH economy, which is the transition country, with the destruction of the production capacities, with the fall in the national income and with the increase in the number of unemployed people, the only bright spot was the Currency Board Arrangement, since it preserved the stability of the currency", Kovačević estimates.

According to his opinion, the CBBH has played the significant role in the post war period and held on to the principle of the Currency Board Arrangement, which influenced the KM stability. He thinks it is also important for the CBBH that the influence of the state or anyone else is totally excluded or reduced to a minimum, so the CBBH managed to preserve its independence.

Kovačević thinks that the Governor is very deserving, together with the support he had in staff and bodies of the bank, for the preservation of the Currency Board Arrangement. Besides all good things that the Currency Board Arrangement has, Kovačević thinks that there are some other things that would require modification in the future, but it is necessary to include it in the economic ambience.

"All the way until the economy is stabilized, until the privatization gets completed until the market economy is created and foreign investors attracted, it is tough to talk about whether the Currency Board Arrangement can be changed. The time will tell whether we will have the financial market established. Without the developed financial markets, it is hard to expect the entrance of the CBBH to those markets, emission of securities, trade. In conditions when we don't have the financial market, change of the Currency Board Arrangement would be very debatable and risky", Kovačević said at the end.



Ljubomir Kovačević

Ljubomir Kovačević was born on September 16, 1942 in Dobo, BH, where he also completed his high school education in the High School of Economics in 1961. He graduated from the Faculty of Economic Sciences in Belgrade in 1965. He obtained his M.A. degree on the Faculty of Economic Sciences in Zagreb in 1975, and in 2001 in Subotica, he defended his Ph.D. dissertation on the subject "Trends in contemporary banking - condition and perspectives in Republika Srpska after the introduction of the Currency Board Arrangement". After he graduated from the faculty, he worked as the Economic Analyst, while over 1968 and 1969, he worked the Tax Inspector in Dobo Municipality. He has spent more than 30 years of his life in financial, economic and banking institutions. From 1990 until July 2000, he performed various functions in Privredna Bank Dobo, the most distinguished being the function of General Manager of the Bank. After he left this post, he was appointed Special Advisor on economic issues to the Director of this bank. In November 2000, he was elected the representative in the House of Representatives of the Parliamentary Assembly of BH.

AFTER TWO MONTHS OF IMPLEMENTATION

The new reserve requirements regulations extremely successful

The new rules on the required reserves, after two months of implementations, proved to be extremely successful, it is stated in the Report on implementation of new rules on the required reserves during June and July 2003, prepared by the Division for Economic research. Changes of the required reserve system became effective as of June 1, 2003. During the two months of implementation, only one bank Privredna Bank AD Srpsko Sarajevo, did not fulfill reserve requirements, but over the last two clearing periods, that requirement has been fulfilled as well. There is the very clear connection between changes in reserve requirements and the increase of the foreign reserves of the Central Bank of BH (CBBH). Over the two months period which was observed, the foreign reserves were increased KM 190 mi-



llion. With the new reserve requirements regulations, the basis which serves for the calculation of reserves, was more than doubled and currently is at KM 4, 7 billion, out of which 58 percents is denominated in foreign

currency. The average amount of the reserve requirement was increased from KM 192 million, which was the amount in May, at KM 236 million, which was the average for

July. According to the Report, liquidity of the banks is extremely high and banks holds significantly more money on the accounts than they are obliged on the basis of the reserve requirements. With the implementation of the new rules, the average balance of the banks' accounts increased, so this

bring us to conclusion that the current level of the required reserve rate has not endangered the liquidity of banks and five percent rate required reserve rate does not limit the banks in their activities. Also, the compensa-

tion for the required reserve has been increased, what will significantly increase expenditures, while at the same time, it will reduce the CBBH's profit. Nevertheless, since the implementation of the new reserve requirements regulations increased the level of foreign reserves, incomes will be increased on the same

basis. Because of the lack of data, in other words, due to existence of only preliminary data for June 2003, it is still too early for conclusions about the influence of the new regulations on the microeconomic variables in BH, such as increases in credits, interest rates and on the Balance of Payments.

STATISTICS DEPARTMENT

Preparations for launching of the Statistics of Government's Finances began

In accordance with the earlier Decision of the Central Bank of BH (CBBH) Governing Board, Statistics Department began with intensive preparations for the launching of the Statistics of Government's Finances. This segment of the macroeconomics statistics has not existed so far in BH and the lack of the adequate statistical data from this domain creates the large problem for the creation of the estimates on macroeconomic situation in BH. The first expert Mission of the International Monetary Fund (IMF), which will stay in BH from August 24 until October 8 will work with the Statistics Department on the introduction and monitoring of the Statistics of

Government's Finances. The Mission will be headed by the Australian expert Brian T. Donaghue. Primary task of this Mission is to establish standards for the information exchange with the finance ministries and to set up the processing of Statistics of Government's Finances in accordance with the methodology of the IMF. Establishment of the Statistics of Government's Finances received support from the state-level and entity-level finance ministries, and is expected that the Mission will produce positive results as well as that the work in this domain under the leadership of the CBBH will continue.

PRESS RELEASES

MANDATE OF THE NEW MEMBERS OF THE CBBH'S GOVERNING BOARD COMMENCES ON AUGUST 11

The Central Bank of BH (CBBH) reminds that on August 11, 2003, which is the date that also marks sixth anniversary of CBBH's existence, a mandate of the newly elected members of the Governing Board will commence, while the mandate of the current Governing Board members will end. On that same day, the last session of the current Governing Board and the first session of the new Governing Board will be held. In accordance with the CBBH Law, the mandate of the newly elected members of the Governing Board of the CBBH will last six years.

PETER NICHOLL MET WITH THE KFI DELEGATION

The Governor of the Central Bank of Bosnia and Herzegovina Peter Nicholl met on August 12, 2003 with the delegation of the Swiss Investment Corporation KFI (Key Funds Investments) and informed Governor about current middle term and long term projects of this corporation. Governor Nicholl emphasized the significance of the monetary stability and he informed the Swiss Delegation that the implementation of the Currency Board Arrangement will be continued. Stability of the BH currency and low inflation, which are the results of the Currency Board implementation are favorable for the foreign investments, Governor emphasized. The delegation of the Swiss Investment Corporation is in visit to Bosnia and Herzegovina in order to inform the BH authorities about its projects. The Corporation is interested in revitalizing of the infrastructure as well as the industry, especially in textile and wood industry in BH.

APPROXIMATELY KM 700.000 EXCHANGED IN SERBIAN EXCHANGE OFFICES

Approximately KM 700.000 was exchanged in exchange offices across Serbia during the last month, which is the result of implementation of the Contract, signed between the Central Bank of BH (CBBH) and the National Bank of Serbia, on purchase of the KM through the currency exchange process. Based on the Contract signed between the CBBH and the National Bank of Serbia, KM is, as of last month, listed at the currency exchange lists of Serbian exchange offices. According to this Contract, the CBBH is obliged that it will purchase all KM that the National Bank of Serbia offers, which were earned through the exchange process, i.e., through buying and selling of KM in exchange offices that have signed the Contract with the National Bank of Serbia. The National Bank of Serbia and the authorized exchange offices are buying and selling KM for dinars by using the sales exchange rate from the foreign currency exchange list, which is being issued daily by the National Bank of Serbia, which obliged itself that it will use the exchange rate 1 EUR : 1,95583 KM.

SUPPORT TO THE INITIATIVE FOR THE ESTABLISHMENT OF THE SINGLE ACCOUNT HOLDER REGISTRY

Representatives of the Association of Banks of BH Federation, Association of Banks of RS and commercial banks that are members of the Working Subgroup for the Prevention of Money Laundering in the banking sector at the BH level have supported the initiative for the establishment of the Single Account Holder Registry which would be maintained

in the Central Bank of BH (CBBH). The support to this initiative was stated during the meeting organized by the Governor of the CBBH Peter Nicholl and his associates on August 21, 2003 and held in the CBBH premises in Sarajevo. This initiative will be presented next week to the Working Subgroup for the Prevention of Money Laundering in the banking sector at the BH level, which has been established on the basis of proposal of the Office of the High Representative in BH - Department for the Prevention of Money Laundering.

GOVERNOR NICHOLL WELCOMES THE APPOINTMENT OF THE FIFTH MEMBER OF THE CBBH GOVERNING BOARD

The Governor of the Central Bank of BH (CBBH) Peter Nicholl welcomed the appointment of Ljubomir Kovačević as the fifth member of the Governing Board of the CBBH. The decision on the appointment of Ljubomir Kovacevic was made during the meeting of the BH Presidency, which was held on August 26, 2003 in Sarajevo. Governor Nicholl was satisfied with the fact that the appointment process was finally complete and added that he is convinced that the new Governing Board will continue with the consistent and successful implementation of the BH monetary policy. The Governing Board of the CBBH consists of five members who have six-year mandates, with the exception of Governor Nicholl, whose mandate will end on December 31, 2004. Mandate of the new Governing Board members commenced on August 11, 2003. In addition to Peter Nicholl and Ljubomir Kovacevic, other members of the CBBH's Governing Board are Kemal Kozarić, Manojlo Čorić and Mila Gadžić.

NEWS FROM THE MAIN UNITS AND BRANCHES

MAIN UNIT MOSTAR

From August 18 until August 22, testing was carried out on all applications installed on the new server for the accounting and banking system and the final testing, before the server goes online on August 25, was carried out on August 23. Company "Kamir" d.o.o. from Široki Brijeg was selected as the best bidder on the tender for supplying and installation of the security equipment in the Main Unit Mostar vault. The deadline until which the company has to complete construction works is December 2003. Over the last two months, the Main Unit Mostar recorded the increase of the KM sale for euro, compared to the number of purchases. Process of KM exchange with Splitska Bank Split continued over the last month.

BRČKO BRANCH

New server for the accounting-banking system was tested in the Brčko Branch as well. In accordance with the Law on Banks of Brčko District, the Branch continued with the registration process of the Brčko District banks. A number of euro

transactions increased 33,33 percent in August compared to the previous month, while the level of KM transactions reduced compared to the previous month.

PALE BRANCH

The Branch of the Main Bank of Republika Srpska on Pale also carried out tests on the server for the new banking-accounting system. The increase of the positive balance of KM net-sale at the level of the Branch was recorded during each of eight months and specifically in August, the balance was 1,8 percent higher compared to July. The balance on the required reserve accounts that are being managed by the Pale Branch increased six percent compared to the previous month. The average number of daily KM net sale transactions increased during August, so the number of KM sales transactions increased 8,3 percent, while the number of KM purchase transactions increased 15 percent.

MBRS BANJA LUKA

From August 12 until August 22, 2003, all applications in the new banking accounting system were tes-

ted. All commercial banks that have their required reserve accounts managed in the Main Bank of Republika Srpska (MBRS) Banja Luka successfully fulfilled required reserve. Cash deposits of commercial banks caused increase in the level of activities, so during July 400 cash transactions worth KM 94.000.000 and euro 30.000.000 were carried out.

MAIN UNIT SARAJEVO

Testing of the new server for the banking-accounting system was carried out from August 23 until August 24, 2003, which caused the stoppage in the sending of notifications to the commercial banks as well as of the internal information on completed transactions. The number of giro-clearing transactions increased and during July 2003, a total of 775.958 transactions were settled. A slight increase of the KM sale to commercial banks compared to the KM purchase from the banks continued in August. During the eight-month period, ending with August 25, 2003, total balance of KM net-sale was KM 2.652.081.724,66, out of which, during August 2003, the amount was KM 31.721.971,91.

EDUCATION

Seminar on monetary and financial statistics

Assistant-Economist in the Monetary and Financial Sector Statistics Section Biljana Samardžić attended the seminar entitled "Monetary and Financial Statistics", which was organized by the International Monetary Fund. The seminar was held at the Joint Vienna Institute in Vienna, Austria, from August 11 until August 29. Ognjen Đukić from Banja Luka completed his internship in the Economics Research Department from July 7 until August 24. Another intern, Belma Čolaković from Zenica, will complete her internship from August 25 until October 7, 2003.

EMPLOYMENT

Shifting of posts in the CBBH's Account Section

Shifting of three posts in the Account Section of the Central Bank of BH (CBBH) was carried out on August 2, 2003. Sadeta Halilbašić left the Coordinator post of the CBBH's Account Section, but will remain in this organizational unit without the specified post. Until December 31, 2003, which is the day she will retire because of fulfillment of pension requirements, she will perform duties in accordance with orders of the Manager of the Accounting and Finances Department. Meliha Smajlagić was shifted from the post Accountant-Balance in the



Meliha Smajlagić



Alma Briga

CBBH's Account Section to the post Coordinator of the CBBH's Account Section, while her previous post was taken by Alma Briga, who was shifted from the post Accountant for Location of Recording. During August, there were no new hirings and no one has left the CBBH. The CBBH currently has 264 employees, out of which, 260 are employed for the indefinite period of time, while four employees are employed for the definite period of time. Out of total number of permanently employed persons, one employee-trainee is on unpaid leave.



CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly balance sheet (temporary) as of 31st July, 2003
Explanation

Monthly Balance Sheet is being issued to provide information on the Central Bank of Bosnia and Herzegovina operations pursuant to the Currency Board rule, and to release some particular information as defined by the Law on the Central Bank of Bosnia and Herzegovina.

Some of specific features of the Balance Sheet as of 31st July are as follows:

On 31st July, the Bank met all requirements of the Currency Board rule as mentioned in the Article 31 of the Law. Status of Net Foreign Assets exceeds its Monetary Liabilities in Konvertibilna Marka (KM) by KM 142,199,797. This has been shown in the item Net Foreign Exchange Assets minus Monetary Liabilities.

Foreign Assets mainly consist of deposits held with the foreign banks.

The Balance Sheet also shows structure of the currencies holdings, differentiating them by EUR and other currencies.

The Bank's foreign deposits incur income for the Bank from interest.

Monetary liabilities, represent to larger extent the liability of the Bank for KM currency in circulation (KM 1,751,292,097) and resident banks, reserve deposits (KM 422,567,080).

Capital and reserves reflect initial capital and reserves, shares, and accumulated profit of the Bank since the beginning of its operation on 11th August 1997.

As depositary for membership of Bosnia and Herzegovina in the IMF, the Bank presents IMF accounts No.1 and No.2 as foreign liabilities in its Balance Sheet and holds securities of the Government of Bosnia and Herzegovina related to the membership. Acting in the same time also as fiscal agent on behalf of the Government in its relationship with the IMF, the Bank records the funds and liabilities of the Government related to the membership in the trust accounts separated from Balance Sheet. By consolidation of all accounts related to the membership of Bosnia and Herzegovina in the IMF, liability as net member position in the amount of KM 249,616,457 is calculated.

The Bank also maintains certain accounts in foreign currencies in terms of agreements concluded between the Government of Bosnia and Herzegovina and foreign governments and financial organisations, as well as foreign currency accounts of the state institutions and agencies for which the Bank acts as an agent. As these accounts does not appear to be either assets or liabilities of CBBH, they have not been included in the above mentioned balance sheet. Total amount of funds held in on these accounts was KM 241,744,915.

Any inquiry referred to the Monthly Balance Sheet can be addressed to the Accounting and Finance Section in Sarajevo, contact phone # (033) 27 81 19, fax # (033) 27 82 94. Media representatives can contact Public Relations Office, phone # (033) 27 81 23, fax # (033) 27 82 96.

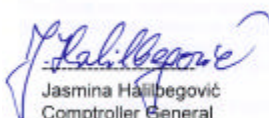
The Central Bank of Bosnia and Herzegovina is independent monetary institution of BH and has no organisation relations with any commercial bank.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly balance sheet (temporary) as of 31st July, 2003
(amounts in KM equivalents)

ASSETS		Total Amount	EUR	Other Currencies
1	Foreign Exchange Assets	2.337.006.528	2.332.428.418	4.578.110
1.1	Cash	33.047.787	33.018.181	29.606
1.2	Short term deposits	2.301.031.126	2.299.410.237	1.620.889
1.3	SDR in the IMF	2.927.615	0	2.927.615
2	Other Assets	68.590.415		
TOTAL ASSETS (1 + 2)		2.405.596.943		

LIABILITIES		Total Amount
3	Monetary Liabilities	2.193.755.060
3.1	Currency in Circulation	1.751.292.097
3.2	Credit Balances of Resident Banks	422.567.080
3.3	Credit Balances of Other Residents	19.895.883
4	Liabilities to Non Residents	1.051.671
5	Other Liabilities	9.237.807
6	Capital And Reserves	201.552.405
TOTAL LIABILITIES (3+4+5+6)		2.405.596.943

Net Foreign Assets minus Monetary Liabilities (1 - 3 - 4)	142.199.797
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Jasmina Halilbegović
Comptroller General


P.W. Nicholl
Governor
Sarajevo (date) 25.08.2003.