



CENTRAL BANK OF BH

Year 6, Issue 2

February 2003



STATEMENT OF THE PRESIDENCY OF BH

Continue with the Currency Board Arrangement under the existing circumstances



During the meeting of the BH Presidency, which was held on February 10, members of the Presidency confirmed their support to the continuation of Currency Board Arrangement under the existing conditions. With this statement, the BH Presidency gave its recognition to the Currency Board Arrangement for the very successful implementation and its contribution in the implementation of the monetary and foreign exchange policy in BH. Considering the fact that mandates of the Governing Board members, including the Governor, end in August 2003, the Presidency of BH, according to the BH Constitution, has the obligation to appoint new members of the Governing Board to a six-year term. According to the issued statement, the BH Presidency thinks that it is necessary to provide legal and timely arrangements for these appointments, so the names of candidates will be revealed in April this year. The statement further reveals that all proposed candidates will be the persons devoted to the continuation of the Currency Board Arrangement and will have the necessary professional qualifications as well as the impeccable reputa-

tion in public. The Governor of the Central Bank of Bosnia and Herzegovina (CBBH), **Peter Nicholl** greeted this decision of the BH Presidency and added that the continuation of the Currency Board Arrangement is in the best interest of the economy and citizens of BH. "The Currency Board Arrangement in BH resulted in stable currency and low inflation. Those are very important advantages that significantly reduce investment risks in BH, which is positive for the future development of the country. There are also very important social benefits, since it is usually poor people that suffer from the adverse effects of the inflation", Governor Nicholl stressed. Governor congratulated to the BH Presidency on the quick decision making regarding this important issue and added that it is very important to avoid uncertainty in the financial policy, since that uncertainty can soon influence behavior of the people. "Therefore, BH companies and citizens can make plans for the future with the confidence that the stability of the foreign exchange rate as well as the low inflation rate, which this country managed to achieve, will be preserved", Governor said.

GOVERNOR NICHOLL IN BANJA LUKA

RS officials support the Currency Board Arrangement

The President and the Prime Minister of the RS **Dragan Cavic** and **Dragan Mikerevic** gave their support to the decision of the BH Presidency which confirmed continuation of the Currency Board Arrangement. This position of the RS officials was presented during their meeting with the Governor of the Central Bank of BH (CBBH) **Peter Nicholl**. The meeting was organized during Nicholl's visit to Banja Luka. "The RS Government has always supported the Currency Board Arrangement and that has never been an issue. Cavic and Mikerevic expressed their unconditional support to the decision which was made by the BH Presidency", Governor Nicholl said. RS officials confirmed continuation of the good cooperation with the CBBH and some of the topics they discussed during their meeting with the Governor were the functioning of the disaster recovery system in Banja Luka and functioning of the banking system in general. According to the Governor, progress in the banking system of the RS was somewhat late compared to the BH Federation, but now both entities record positive trends. "The result of that is that citizens of RS again trust the commercial banks, deposits are increasing rather quickly and the banks began are increasing lending, considering the fact that now they have sufficient amount of funds available. I expect that these positive trends in the banking sector will continue and the CBBH will do everything to assure that it will", said Governor Nicholl.

Strategic Plan for 2003 adopted

Full compliance with the Currency Board Arrangement is the priority set in the Strategic Plan of the Central Bank of Bosnia and Herzegovina (CBBH) for 2003.

This plan, which was adopted by the Governing Board of the CBBH at its first meeting held in this year, sets that the compliance with all the legal requirements relating to the Currency Board that are set out in the CBBH Law must continue to be the top priority for the CBBH.

This year, the CBBH will continue to build up its financial strength, aim at the highest standards of efficiency and effectiveness and it will also seek to improve the financial and economic reporting, where it will continue to follow up with the reporting standards in order to achieve better quality of information and analysis.

The financial sector in BH needs to continue with its reform in order to promote economic development where the CBBH has to have an important role.

Among other key principles of the CBBH for 2003 there are good internal communication in the CBBH and good communication of the CBBH with other institutions, as well as equipping and motivation of CBBH staff in order to achieve its goals.

"Live" work performed from the back-up system location of the Payments System

"Live" work from the back-up system location of the payments system for the during the press conference, which was organized in Banja Luka after the end



internal payment transactions in the MBRS CBBH Banja Luka was performed from February 17 until February 21. "Live" work, which was carried out with the simulation of the failure of the existing system in Sarajevo, was carried out in order to preserve "warm" regime of work of the backup payments system as well as to provide continuity of training of the employees that operate backup system. Namely, the backup payments system was established in Banja Luka within the framework of risk management, which means that it is capable, in case of any contingency situations including the total destruction of the equipment at the existing location in Sarajevo, to bring back the system on-line on the very same, or the next day. This system receives daily transfers of data from the primary system and those data remain stored there in case of failure of the primary system. This system is operational since December 23, 2002. According to the Manager of the Payments System Department **Dorde Rackovic**, simulation of failure of the system in Sarajevo and work from the dislocated site in Banja Luka was successful, so now, there are no limitations.

"We are now ready to react to any problem that may occur", Rackovic said

of the five-day simulation of crash of the primary system and "live" work from the dislocated site, and announced that similar test would be also carried out in the future. "Live" work was preceded by the meeting with representatives of commercial banks which was organized in the CBBH premises in order to work out technical details. On that occasion, the Governor of the CBBH **Peter Nicholl** pointed out the fact that the reform of the payments system never stops, and that cooperation of the CBBH and commercial banks during this reform was extremely successful. During the visit to Banja Luka, the Governor made the set-up of the back-up system official and stressed that BH has an efficient payments system for two years and that after the test period, this system is now also secure. The Payments System Department of the CBBH will continue to improve this system by following-up with the world trends in this domain and it will also work on the including of other segments of the financial market, so that it wouldn't stay on the payments system only.

Establishment of the payments system in BH, including the disaster recovery site in Banja Luka, was financed by the United States Agency for International Development (USAID).

Process of obtaining of the credit rating for BH began



**By Marko Škreb,
Advisor to the CBBH
Governor**

(continuation of the article on the credit rating - part one of the article was published in the CBBH Newsletter issue for January 2003)

Companies that create the credit rating take into consideration various quantitative and qualitative indicators of a country. Therefore, the main groups of indicators are: political risk, revenue and economic structure, potentials for the economic growth, adjustment potentials of the fiscal system, debt of the whole consolidated state, other obligations, e.g., non-financial state companies, monetary stability, external liquidity, burden of the debt of both public and private sector. What needs to be said is that there is no common methodology, in other words, there are no standardized weights that would turn a set of different indicators into a single evaluation - the summary depends on the general impression of analysts, in other words, persons that make the final decision.

What is the process of the obtaining of the credit rating?

The process of assigning of credit rating can last for months. First, an agency asks for the series of economic and political indexes from one country. Very often, agencies ask for consistent series of good quality economic variables for, at least, five-year period and they also demand explanations of short and medium termed predictions. After the analysis of the gathered data, representatives of the agency visit the country where they hold extensive meetings with all relevant authorities in a country.

What needs to be said is that it is important to have full cooperation of all levels of government with the agency. Only when all relevant data are available and when there is a full cooperation of all participants, an adequate image of one country can be obtained and with it, the appropriate credit rating.

After the creation of the first rating, company representatives usually visit the country once a year. In the meantime, the country is obliged to send all the requested data to the agency regularly, while agencies also use all other available data to monitor the possible changes in the country.

Which are the main agencies that create credit rating in the world?

Today we have a large number of companies that are dealing with rating of both, countries and companies. However, out of three the largest companies by means of reputation and size, two are coming from the United States: Standard and Poor's (abbreviated: S&P) and Moody's, while the third one is European FitchIBCA. More developed countries usually obtain the credit rating from all the three companies.

In the end, we need to ask ourselves what credit rating BH could obtain. It is very difficult to answer this question. Our conclusion is that there is a more important trait of the credit rating than the rating itself and that is the fact that someone actually wants to obtain it (transparency), which is followed with efforts to improve this rating in the near future, in other words, to maintain it, which serves as the evidence that one country is determined to implement reforms. Therefore, future investors think that it is very important to have the rating that is being maintained at certain level, or improved in time.

Reporting on economic issues



The Governor of the Central Bank of BH **Peter Nicholl** held the presentation about the monetary policy in BH during the seminar entitled "*Reporting on economic issues*", which was organized by the Media Center. BH stands before numerous economic challenges this year, especially because of the reform processes and estimates are that journalistic reporting in general, as well as in various domains, will be crucially important for the BH public. Therefore, organizers from the Media Center think that it is very important to train BH journalists to report on all transition aspects in BH correctly, which was exactly the objective of this seminar. During his lecture, Governor Nicholl spoke about the time when the CBBH commenced its operations (1997), which was the time when four currencies were used - BH Dinar, Croatian Kuna, Yugoslavian Dinar and German

Mark, which was the only currency that was used in the entire country. There were three payment bureaus and 76 banks, and most of them were very small, so it is safe to say that the financial system in BH was fragmented. Today, the situation is entirely different. The CBBH, which is directly responsible to the BH Presidency and through the Presidency to the Parliamentary Assembly of BH, introduced the Convertible Mark and through the implementation of the Currency Board Arrangement it managed to provide stability of the local currency and low inflation. The Governor refused claims of some economists saying that BH has no monetary policy and stressed that it would be negative if BH would head into the opposite direction and introduced discretionary type of the monetary policy. "The safest approach is to maintain the Currency Board Arrangement and to promote the

economic development", said Governor Nicholl and added that this does not mean that the CBBH has not done anything regarding the economic development and that it could not do even more. "The CBBH has played the important role in the reform of the payments system, so BH is the first country which closed down the payment bureaus and introduced payment transactions. There is also a limited deposit insurance scheme, which currently covers ten banks. According to the Law, all banks have to be included in this scheme until the end of August this year. Privatization in the banking sector of BH was completed faster than in other countries, many foreign banks entered the BH market, while volume of loans in the last year extended by the commercial banks increased 50%, although banks rather lend to households than companies", Governor said. He also mentioned banking supervision, considering it as the logical step forward of the banking system which is getting closer to becoming a single banking system. The second part of the seminar lasted two days and in addition to the Governor of the CBBH, it featured speakers from the European Commission in BH, Faculty of Economics in Sarajevo, World Bank Mission in BH and Ministry of Foreign Trade and Economic Relations of BH. The first part of the seminar, attended by the representatives of the media and the media organizations from the entire BH was held in January.

Foreign currency deposits should also become subject to the reserve requirement

PRESS RELEASE

The Governing Board of the Central Bank of Bosnia and Herzegovina (CBBH), following consultations with the International Monetary Fund, decided at its meeting on 27 February commercial bank foreign currency deposits should also be subject to the reserve requirement the CBBH imposes on commercial bank deposits. At present, the reserve

requirement applies only to deposits denominated in KM. This disadvantages the KM compared to the euro and other foreign currencies. By applying the reserve requirement to all deposits, the CBBH will be treating all currencies equally. The change in the base for the reserve requirement will not be used to increase the overall requirement placed on the banks. The level of the ratio will be

reduced so that the overall obligation placed on the banking system will be approximately the same after the change is made. This change will require an amendment to the CBBH Law. The CBBH will draft the specific amendments once analysis of the deposit data has been completed and the proposed amendments will be submitted to the State Presidency for their approval.

SEMINAR

Informing of the CBBH employees about SWIFT

A seminar about the SWIFT technologies was held in the Central Bank of BH (CBBH) on February 25, 2003 in Sarajevo. During the seminar, which was organized in order to inform all CBBH employees about SWIFT technologies, some basic facts about the SWIFT messages were presented, while the special emphasis was placed on the SWIFT messages used in the CBBH and the SWIFT in

imately five million messages daily. The first clients of SWIFT were banks, which were later joined by the payments systems and clearing systems, followed by trust funds, depositors, brokers-dealers, stock exchanges and companies. It takes six months to become a member of SWIFT, which includes application procedure and implementation procedure. The SWIFT in the CBBH has worked



the internal payment transactions. SWIFT means Society for Worldwide Interbank Financial Telecommunication. It offers technologically based telecommunication services from financial markets to bank members aiming to provide profitable fulfillment of requests of banks and their clients. Basic tasks of the SWIFT are providing of competitive highest-quality low-cost services which should provide success of the bank through automation. Its strategy is reflected in providing of quality services to clients, through the constant development of the market infrastructure and through implementation of the latest technologies in its services.

The SWIFT was founded in 1973 and the first SWIFT message was sent in 1977. Two decades later, SWIFT is present in 190 countries, with approx-

more than four years and it has recorded a constant increase in number of system, client and financial messages. The SWIFT in the CBBH offers FIN, in other words, financial messages, which make it possible for financial institutions to exchange the data quickly, reliably and safely. Work of the SWIFT employees is characterized by the various kinds of obligations. Some of those obligations are managing of SWIFT according to the adopted operational procedures, establishing of relations with banks and other financial institutions through the BK management, as well as creating, verifying and authorizing of all SWIFT messages and their sending to the appropriate departments. Training of SWIFT employees has to be constant and it is necessary in order to follow up with the latest changes in SWIFT technologies.

VISITS

Kosovo delegation visited CBBH

Representatives of the Banking and Payments Authority of Kosovo visited Payments System Department of the Central Bank of BH (CBBH) in order to get informed on the CBBH experiences in the implementation of the Payment System. Preparations are underway in Kosovo for the introduction of the RTGS and the changeover to the new payments system which is in the first stage of consolidation with the reform process that should start soon. Seven commercial banks operate in Kosovo. They are members of the payments system and number of their daily transactions is small - 650 per day. The Central Banking and Payments Authority of Kosovo, which has 110 employees, currently only issues licenses to banks and supervises the payments system. The Kosovo Delegation met with the CBBH Vice Governor **Dragan Kovacevic**, after which they had discussions about the payments system reform in BH, giro-clearing, RTGS and other issues from the payment transactions domain with representatives of the Payments System Department. They also visited Public Relations Section, the Main Unit of the CBBH Sarajevo and the MEB Bank in Sarajevo. Considering positive experiences which they have in the reform of the payments system, the CBBH representatives made several suggestions to their Kosovo guests: to create a legal framework for the payment transactions reforms, to educate their staff as well as public, to promote maximum transparency and to organize seminars for the media representatives.



NEWS FROM THE MAIN UNITS AND BRANCHES

MAIN UNIT SARAJEVO

In addition to performing of its regular tasks during February, the Main Unit of the CBBH Sarajevo participated in preparation of changes in procedures and the internal bylaws regarding the treasury operations. Employees of this Main Unit also participated in activities regarding implementation of the Article 42a of the Banking Law of the BH Federation that is related to holding of the special reserves in the CBBH, activities regarding the risk evaluation in the business of the Sarajevo Main Unit, as well as in the revising of the existing internal procedures after the implementation of the new banking-accounting software. Activities regarding the purchase of the office building for the Main Unit Sarajevo continued with the selection of the company which is preparing the adaptation project for that office building.

MAIN UNIT MOSTAR

From January 1 until February 20 2003, commercial banks deposited 1.547.407 pieces of KM banknotes to the vault of the Main Unit Mostar, while, during the same period, they withdrew 737.624 pieces of KM banknotes. Looking into the

structure of the banknotes, 50 KM banknote (31 percent) took the biggest share in the structure of deposited banknotes, followed by the 20 KM banknote (20 percent) and 10 KM banknote (17 percent), while the 100 KM banknote (58 percent) took the biggest share in the structure of withdrawn banknotes, followed by the 50 KM banknote (21 percent) and 10 KM banknote (10 percent). Commercial banks withdrew 234.007 pieces of KM coins and the 1 KM coin took the biggest share in the structure of the withdrawn coins (32 percent), followed by the 50 fenig coins (23 percent) and 10 fenig coins (22 percent). 50 euro banknotes took the biggest share in the structure of the euro banknotes (30 percent) that were withdrawn by the commercial banks, followed by the 10 euro banknotes (25 percent) and 20 euro banknotes (20 percent). A total of 97.900 pieces of euro banknotes were withdrawn by the commercial banks. The Main Unit Mostar processed 99.386 payment transactions, out of which, 97.556 were carried out in giro-clearing system and 1.820 were carried out in the RTGS.

BRCKO BRANCH

Manager of Brcko Branch **Mirzeta Arnautovic** attended a presentation of the European Union project entitled "Regional Economic

Development", which was organized on February 20 by the Development Agency of Brcko District of BH. She also had a meeting with the Deputy Manager of the Law Reform Department of the OHR **Johann Hjalmarsson**, which was held on February 13. The topic of discussion was the Money Laundering Prevention Law in Brcko District. Employee **Jasminka Buric** attended a meeting of the Working Group for changes of procedures in treasury operations, which was held on February 18 and 19. There were no activities regarding buying and selling of KM in February because of the completion of the privatization of the Privredna Bank AD Brcko. A smaller inflow of euro and KM banknotes into the vault was recorded in February. If we look this by percentages, KM inflow from February 1 until February 24 decreased 58,70 percent, while percentage of the euro inflow decreased 74,11 percent. Index of KM outflow was 264,06. Data regarding number of banknotes and coins are identical: index of KM inflow was 54, outflow was 118, while index of euro outflow was 59. Inflow index for damaged banknotes was 71. The Branch continuously performed statistical and accounting activities, with the continuation of

EDUCATION

Challenges on the road to the EU

Coordinator for the Banking Supervision in the Office of the Governor **Ljiljana Marijanovic** attended a seminar entitled "*EMU - Basic Principles: Challenges on the Road to European Union*" which was held from February 26 to

February 28 at the Joint Vienna Institute in Vienna, Austria. Payments System Department organized a seminar entitled "*Introduction to SWIFT, Messages in SWIFT*", which was held on February 25. The goal of this seminar was to introduce all

CBBH employees with the SWIFT technologies with the emphasis on messages that are being used in the CBBH and SWIFT in the internal payments transactions. All interested employees could attend this seminar.

NEWS FROM THE MAIN UNITS AND BRANCHES

activities on the building of the garage for the Branch.

MBRS BANJA LUKA

The Governor of the CBBH **Peter Nicholl** visited Banja Luka on February 21, where he met with the President and the Prime Minister of the RS **Dragan Cavic** and **Dragan Mikerevic**. During the visit, Governor made the setup of the backup payments system in the MBRS CBBH in Banja Luka official, which means that another project of the CBBH was completed successfully. The Project was completed in the record-breaking time, which is less than two months. The reserve system

became operational on December 21 2002, when the test with commercial banks was carried out. Full functionality of the system was displayed from February 17 until February 21 with a simulation of failure of the system in Sarajevo, after which payment transactions were processed through the backup system in Banja Luka. It is provided that such "functional trainings" of the reserve payments system would be carried out at least once a year in order to check functionality of the system and readiness of employees to carry out complicated tasks and procedures that are required for this project. The action of counting of 3.000.000 pieces of

banknotes that were received from commercial banks, but remained uncounted due to the shortage of stuff in the Treasury Operations Section, is underway. Employees from all sections of the MBRS CBBH Banja Luka participate in this activity, so counting on day-to-day basis will be resumed as of March 1. Treasury Operations Section also participates in the work of the Commission for establishing of guidelines set for treasury operations.

PALE BRANCH

Deposits of banks that are covered by the MBRS CBBH increased seven percent compared to January, while the volume of cash in vaults decreased 19 percent. Average number of daily transactions of KM sale remained unchanged compared to January, while average number of daily transactions of KM purchase increased 20 percent. KM net-sale balance in February remained unchanged compared to January and its total is KM 195 million.



New premises of the MBRS CBBH Banja Luka

EMPLOYMENT

No new recruitments in the CBBH

During February, the Central Bank of BH hasn't hired any new employees; there were no any reassignments of existing employees and no one has left the CBBH. The Governing Board of the CBBH, during its meeting that was held on February 2, has adopted the Regulation regarding the Amendment to the Regulation on

Organization and Systematization of Job Positions in the CBBH. This amendment is related to the creating of additional jobs at the security worker post, which will require five new workers in the Accounting, General and Administrative Section of the MBRS CBBH. After the adoption of this change, the CBBH now has

277 job positions in its Systematization. Currently, the CBBH has 251 employees, out of which, 250 are employed permanently, while one employee is employed for the definite time period. Out of the total number of employees that are employed permanently, eight have a status of trainee.



THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly Balance Sheet (temporary) as of 31st January, 2002
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 January are as follows:

On 31st January, 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 119,329,641. 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 1,782,548,218) and resident banks, reserve deposits (KM 273,133,586).

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 250,959,935 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 organizations, 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 172,603,857.

Any inquiry referred to the Monthly Balance Sheet can be addressed to the Administration and Finance Department, Accounting 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.

THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly Balance Sheet (temporary) as of 31st January, 2002
(amounts in KM equivalents)

ASSETS		Total Amount	EUR	Other Currencies
1	Foreign Exchange Assets	2.194.151.787	2.191.733.884	2.417.903
1.1	Cash	21.176.880	21.132.493	44.387
1.2	Short term deposits	2.171.733.386	2.170.601.391	1.131.995
1.3	SDR in the IMF	1.241.521	0	1.241.521
2	Other Assets	71.054.058		
TOTAL ASSETS (1 + 2)		2.265.205.845		

LIABILITIES		Total Amount
3	Monetary Liabilities	2.073.434.141
3.1	Currency in Circulation	1.782.548.218
3.2	Credit Balances of Resident Banks	273.133.586
3.3	Credit Balances of Other Residents	17.752.337
4	Liabilities to Non Residents	1.388.005
5	Other Liabilities	9.494.653
6	Capital And Reserves	180.889.046
TOTAL LIABILITIES (3+4+5+6)		2.265.205.845

Net Foreign Assets minus Monetary Liabilities (1 - 3 - 4)	119.329.641
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Sarajevo (date) 25.02.2003.

J. Halilbegović
Jasmina Halilbegović
Comptroller General