

CENTRALNA BANKA
BOSNE I HERCEGOVINE



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THE CBBH PROFIT IN 2014 AMOUNTED TO BAM 35.4 MILLION



"In 2014, the Central Bank of Bosnia and Herzegovina (CBBH) earned BAM 35.4 million of profit, out of which 60% or BAM 21.2 million was transferred to the state budget," said the CBBH Governor Kemal Kozarić, Ph.D. at the annual press conference held on 2 April, 2015 in Sarajevo.

The Governor presented the most important macroeconomic indicators for 2014, marked by the high floods in BH, due to which BH recorded the GDP growth of 0.7 percent, which is significantly less than the expected 1.6 percent. Projected growth for 2015 is 2.6 percent. Industrial production growth rate in 2014 was 0.1 percent, while in 2015 the growth is projected between 4.5 and 5 percent. In 2014, the average annual inflation rate amounted to -0.9 percent, and the first time the deflation was recorded, and the projection for 2015 is between 1 and 1.5 percent.

Stressing that the unemployment rate in BH has been among the highest in the region at 27.5 percent, including "the gray economy", the Governor said that the slight decline to 27 percent has been expected this year. He said that external debt amounted to BAM 8.12 billion, or 31 percent of GDP, and total liabilities in 2015 amounted to about BAM 580 million, while foreign exchange reserves have grown at BAM 7.8 billion, which is the historical maximum. During the tourist season, the foreign exchange reserves, as per Governor's estimation, would probably exceed BAM 8 billion.

Governor Kozarić also said that the current account deficit in 2014 amounted to 7.7 percent of GDP, the export - import coverage ratio was of 53.6 percent, foreign direct investments were BAM 819 million, net profit of banking sector was BAM 167 million, while the non-performing loans amounted to 14 percent.

CBBH Vice Governor Radomir Božić, Ph.D. talked about the extremely adverse and difficult conditions for investment for the CBBH, but in general, too.

Average weighted interest rate for the invested CBBH foreign exchange reserves in 2008 was 4.18% and it was ten times higher than in 2014, when it amounted to 0.43% (lower than in 2013 and 2012, when it amounted to 0.53% and 0.48%, respectively). The above mentioned downward trend of average weighted interest rate is the result of the drastic decrease of reference interest rates at money market. Those interest rates influence on the decrease of deposit interest rates (three-month Euribor in 2008 was 22 times higher than in 2014). It is also the result of significant decrease of bonds' yield rates, in which foreign exchange reserves are invested in accordance with legal and internal regulations (yield on one-year EUR bonds with AAA rating was 547 times higher, and the yield on two-year bonds of the same denomination and of the same rating was 94 times higher in 2008 than in 2014), as explained by Vice Governor Božić.

CBBH Vice Governor Ernadina Bajrović, M.A. said that in 2014, the jobs of the Sector for Administration and Finance were focused mostly on modernization of business processes and automatic functioning of the systems through information technology with the aim of more efficient execution of business processes, which were also the grounds for the additional cost savings. Development projects and new software solutions in the field of material accounting and wages, unified basis for human resources management (HRMIS) and a part of the office operations were done internally and with the assistance of the German Government's Institute GIZ. Also, the first phase of energy efficiency is implemented, in order to establish quality system management in accordance with the international standards.



According to the data presented by Vice Governor Bajrović, 2014 was concluded with significant savings of BAM 1.5 million in relation to the Financial Plan. In recent years, a rational strategy for human resources has been implemented and it was applied so-called natural fluctuation, i.e. the replacement of employees due to retirement or in case of new additional jobs, thus, since 2011, the total number of employees in the CBBH has been

almost unchanged. By the end of 2014, there was a total of 356 employees. In the structure of employees, over 70% staff has university degree, 56% are female, out of whom over 60% are assigned at the management positions.

During 2014, the CBBH continued to work on the promotion and implementation of corporate social responsibility as a regular practice. As one of the examples, Vice Governor Bajrović mentioned the assistance, i.e. a big action that the CBBH employees organized in order to collect cash and material stuff for population affected by the floods in May, 2014.

CBBH Vice Governor Ankica Kolobarić M.Sc. talked to the journalists about the payment systems operations and the

upgrading of the statistics field in the CBBH. In 2014, a new IT platform for statistics and statistics portal, Panorama Necto, were started, said Vice Governor.

In terms of cooperation with international financial and other institutions, Vice Governor pointed out that, in addition to cooperation with the International Monetary Fund and the World Bank, rating agencies visited the CBBH twice during the year in order to assess the credit rating of the country.

*By Danijela Golijanin,
Public Relations Section Assistant*

THIRD MEETING OF GOVERNORS OF CENTRAL BANKS OF THE REGION

The third meeting of governors of central banks of the region, organized by the business weekly Lider doo from Zagreb was held on 27 April 2015, in Rovinj. The Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Kemal Kozarić, Ph. D. participated in the round table discussion entitled "Monetary Policy", with the Governors of Macedonia, Montenegro, Slovenia and Croatia. Speaking about the problem of insufficient economic growth that all the countries in the region of Central and Eastern Europe are facing, the roundtable participants agreed that there is willingness and a sufficient amount of capital to support the real sector, but the problem is the lack of good quality and profitable projects.



Monetary and fiscal policies that are currently being implemented in the countries of the region are not sufficient to generate growth and to start the economy. It is necessary to make structural reforms in order to start

the economy and, of course, they should be initiated by the government. "There should be a clear distinction between monetary, executive and legislative authorities operations. Central bankers maintain the stability of the system, maintain the transmission mechanism of the economy passable, and policymakers of the real sector should decide on investments and the creation of economic growth and jobs", Governor Kozarić said, emphasizing that there are sufficient loan resources, but the structure and the number of high-quality investment projects that can generate economic growth is often very modest. "We have to continue improving the competitiveness and the investment climate. It is a combination of problems that go beyond the responsibilities of one social sector and all must work to improve it", Governor Kozarić said.

Beside starting the economy, the current problems that the banking sector in the region is facing was the second topic of the round table of commercial banks, which was also held within the meeting of the governors of the region in Rovinj. Beside the problem of growth, the participants of the round table discussion paid a special attention to the problem of loans in Swiss francs, and the modalities of solving it. The Governor of the National Bank of Croatia (HNB) Boris Vujčić said at the 3rd meeting of governors of central banks of the region in Rovinj that, ten years ago, he was a person who warned of the dangers of Swiss franc loans and that, consequently, there is no reason for his resignation.

He repeated that the National Bank of Croatia (HNB) is not a participant in such contracts (between banks and customers) and that the central bank will continue to maintain the financial stability of the country, which would be endangered by a possible conversion of loans from Swiss francs to kuna. Vujčić said the HNB will not take any further measures, even if the pressure increases. His job, he concluded, is to maintain the financial stability

of the country and he will continue to do so. According to Governor Vujčić, loans in CHF can be described by the statement “when you sit in the wrong train, each station is wrong”. “Unfortunately, economic problems in our region always become political in the end” Vujčić said, adding that Croatia is in an election year, and therefore “anything may be expected”.

“After the Swiss National Bank announced that it is leaving its fixed exchange rate to euro, we have issued a paper of eleven pages setting out the basic facts about loans in Swiss francs and possible solutions of this problem”, Vujčić said, adding that the HNB, in bilateral contacts with the Association ‘Frana and banks and Government, repeatedly explained the facts and effects of individual solutions.

“Our job is to maintain the financial stability in Croatia and we have clearly sent a message that the conversion according to the Hungarian model into the local currency, due to the impact on international reserves, would mean the introduction to the financial instability of the country”, Vujčić said.

His statements about the dangers of the conversion of the problem loans followed the previous lecture of the former Governor of the National Bank of Serbia (NBS) Radovan Jelašić, now General Manager of Erste Bank Hungary, in which he explained the conditions under which the state can afford such a conversion, using the example of Hungary. That country could carry out the conversion of

mortgage loans from Swiss francs to the Hungarian forint, because it had sufficiently high foreign exchange reserves, the surplus of the current balance of payments and low key interest rate. However, Jelašić stressed that the Hungarian model must be analysed carefully, because approximately EUR 9.5 billion was converted into HUF, and the losses of the banking sector were about EUR 3 billion.

According to him, responsibility was divided to all institutions, including commercial banks and the central bank, although he placed the main burden of guilt on politicians who should have been support to the bankers when they warned of the dangers and risks of lending in foreign currencies.

This year’s meeting of governors of central banks of the region, which brings together the governors and representatives of the banks and financial sector, confirmed the efficiency of the organization, which is the improvement of cooperation between financial institutions and exchange of experiences.

*By Almir Salihović, M. Sc.,
Head of the Governor’s Office*

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STATISTICS OF THE SECTOR OF OTHER FINANCIAL INSTITUTIONS IN BOSNIA AND HERZEGOVINA FOR 2014

Within the regular statistics, the Central Bank of Bosnia and Herzegovina published statistical data on the size and structure of financial institutions that belong to the sector of other non-banking financial institutions (OFI) for the end of 2014. At the end of 2014, Statistics of the OFI sector in Bosnia and Herzegovina included the data of 25 insurance companies with reinsurance companies, 33 investment funds, seven leasing companies, 19 microcredit organizations, 12 brokerage houses and two stock exchanges. The collection of these statistics is done on a semi-annual basis and it is in line with the international methodology prescribed in the IMF Manual on Monetary and Financial Statistics (2000). Using this methodology, it is possible to track changes in all segments of the financial sector of an economy in a systematic and harmonized way, since the unique way of valuation and classification is applied to all financial institutions.

With assets of BAM 3.65 billion, the sector of other financial institutions in Bosnia and Herzegovina represents 15% of the banking sector at the end of 2014, which is 1% less than at the end of 2013.

At the end of 2014, the balance of total assets/liabilities of OFI in Bosnia and Herzegovina, amounted to BAM 3.65 billion and it is an increase of BAM 24 million or 0.7% compared with the balance at the end of 2013, while compared to mid-2014, there was a decrease of BAM 16.2 million or 0.5%. The largest assets within the OFI sector have insurance companies, amounting to BAM 1.45 billion (which represents a share of 39.8% in the total assets of the OFI sector), followed by investment funds with assets of BAM 809.7 million (22.2% share), micro-credit organizations with BAM 733.8 million (20.1% share), leasing companies with BAM 635.7 million (17.4% share), the remaining BAM 21.2

million (0.5% share) is related to the assets of brokerage houses and stock exchanges in BH.

For the first time after six years of continuous decline since the beginning of the crisis, the OFI sector recorded a slight assets increase in 2014. Unfavourable economic trends caused by the economic crisis, natural disasters in 2014, indebtedness of borrowers and status changes of the OFI sector institutions, have reduced the assets of the sector by 35.1% compared to the record year of 2008, when the total assets of the OFI sector amounted BAM 5.54 billion.

The changes within some segments of the OFI sector, as in previous years, have been uneven and unequal. When insurance companies recorded the assets increase by BAM 121.9 million or 9.2% and with the investment funds by BAM 34.4 million or 4.4%. On the other hand, the leasing companies have recorded the assets decline by BAM 130.7 million or 17.1%, while the total balance sheet for microcredit organizations, brokerages and stock exchanges remained at almost the same level.

Insurance companies in BH recorded a continuous and steady annual assets increase since 2008 in the range of 4-9% and have almost 40% share in the total OFI sector, thereby alleviating decrease in other subgroups of the OFI sector. At the same time, leasing companies in Bosnia and Herzegovina recorded the continued annual decline in the range of 3% to 21%, while the micro-credit institutions recorded the stopping of downward trend and the last two years the level of assets remained at approximately the same level. Similar assets trends are recorded with the investment funds, which have decreased, with the exception of 2010 and 2014.



By Amir Hadžiomerađić, M.Sc.,
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USA DIPLOMATS VISITED THE CBBH



On 2 April 2015, a group of USA diplomats, the future officers of the USA Embassy in BH, visited the Central Bank of Bosnia and Herzegovina (CBBH) in order to become informed on the work of the CBBH and potential contacts in future.

The CBBH Governor Kemal Kozarić Ph.D. explained to diplomats the way how the CBBH operates and the monetary policy that the CBBH implements, emphasizing that the management of foreign exchange reserves and the issuance of domestic currency, according to the Currency Board, with the maintenance of monetary and financial

stability, are the main activities of the CBBH. The Governor also presented economic indicators according to which inflation could amount to about 1%, GDP growth to 2.5% and unemployment to 27.5%. According to the Governor's statement, unemployment is the biggest issue of Bosnia and Herzegovina, and its reduction is a problem to be solved by Bosnia and Herzegovina authorities.

Among other things, the American diplomats were interested in the relationship of the CBBH with the US Embassy in Bosnia and Herzegovina. Governor Kozarić said that the cooperation has been always good, especially with the Economic Department of the Embassy. He particularly emphasized the significant support of the US Agency for International Development (USAID), which, among other things, assisted the reform of payments system in Bosnia and Herzegovina.

He also stressed the need and importance of Bosnia and Herzegovina to become a part of the European family, especially in the economic terms, but the mere joining the European Union by itself is not a solution of problems, which each country should resolve within itself. "Economic issues are evident and we need the measures that will provide better life in Bosnia and Herzegovina", Governor Kozarić said.

*By Zijada Kovač,
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