



CBBH CONFERENCE "Banking sector in BH"

Currency board is the monetary policy of BH



The situation of the banking system, monetary policy, reform of the payment system in BH and introduction of euro cash in 12 countries of the European Monetary Union were the subjects of the Third International Banking Conference, which was held on November 15 of this year in Sarajevo. Representatives of commercial banks, representatives of banking agencies and privatisation units from both entities, representatives of international financial institutions as well as domestic and foreign experts participated in this conference.

The Governor of the Central Bank of Bosnia and Herzegovina, **Peter Nicholl**, addressed participants on behalf of the organizers of this conference. He reviewed happenings in the banking sector over the last year. "The banking sector in BH has been through many significant changes over the last year and it is in better shape today than it was when we held our last conference".

The Governor pointed out that a slow

and inefficient legal system presents a major obstacle for the development of the banking sector: "For a commercial sector, including the banking sector, to

be able to take business decisions and invest with confidence, it must have recourse to a legal and court system that resolves disputes quickly and fairly and upholds contracts. That is not the way people describe the BH legal system to me at present", said Nicholl. The Governor responded to recent comments by politicians and academics that suggest that the Currency Board is not the best monetary policy option for BH.

"A point I want to make is that Bosnia and Herzegovina does have a monetary policy. Some people are saying that to adopt a Currency Board is to give up monetary policy as an instrument of macro-economic policy. That view is wrong.

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The position of the Central Bank is clear

On the behalf of BH Presidency, Beriz Belkic addressed the participants of the Banking Conference. Belkic said that the Central Bank of BH is one of a few institutions about which BH Presidency has a clear image and standing. He stressed the importance of the finalisation of the privatisation process of state owned banks. The member of BH Presidency gave his support for the establishment of the joint Agency for Deposit Insurance on the state level. He also said that banking agencies should be brought under the "umbrella" of the Central Bank of BH, which is one of the

basic conditions that was suggested by the International Monetary Fund for the next stand-by arrangement.

The BH Presidency has a clear standing on the succession of the property of the former SFRY.

"I think that one of the messages of this conference should be that money should be used for development", said Belkic at the banking conference.



Deciding to adopt a Currency Board is as much a monetary policy choice as adopting any other type of monetary policy. Stability in inflation and the exchange rate are therefore critically important for investment. This is especially the case for a small country like BH that needs substantial private foreign investment. Foreign investors don't need to come to BH. They can supply the small BH market from a neighbouring country or even from their home country", Nicholl said.

Nicholl also emphasized the great social benefits and advantages of having a stable currency that comes as a direct product of the Currency Board arrangement.

"Stability is also an important social benefit because it is more frequently the poor who suffer from the adverse affects of devaluation or inflation. The rich or well-connected can often find ways around it or even ways to benefit from it", said Governor of CBBH.

The Governor stressed that the Currency Board arrangement that Bosnia and Herzegovina has is not unusual. During the 1990's a number of countries took the desire for currency stability further by fully adopting the currency of another country (so-called Dollarisation) or introducing a new common currency over a number of countries (the euro zone).

"Such areas have taken the Currency Board principle of the importance of currency stability to their furthest extent by adopting someone else's currency or a common currency. Once one adds to these countries all the countries that have during the 1990s adopted some form of inflation targeting, the overwhelming direction that monetary policy around the world has been taking over the last fifteen years is to make stability the objective of monetary policy", Nicholl said.

Nicholl said that maintaining the stability of the KM is not a guarantee that everything in the economy will be fine.

"As Karl Schiller, German Economics Minister between 1966 and 1972 put it 'stability might not be everything, but without stability, everything else is nothing'. Unless the regulatory, legal and tax systems are changed, and changed quickly and substantially, BH will have a very difficult future. These problems are interrelated and have a common core - a lack of understanding of the way in which a private sector economy works and what the investment environment needs to be like to attract the level of investment that BH needs", said Nicholl.

THIRD BANKING CONFERENCE

Savings are growing



"This year, the banking sector in BH Federation started to show the first effects of reforms that have been carried out in the last three years", said Mustafa Brkic, Deputy Director of the Banking

Agency of BH Federation. According to Brkic, for the first time after the war, financial results at the system level are positive, and provisory data from nine months of business show a 6,2 million KM gain, even though 12 banks suffered losses in the amount of 17 million KM.

"Another encouraging thing is a tendency of growth in citizens' savings. At the end of September, there was 600 million KM in savings deposits in banks, which is an 38% increase from the end of last year", said Deputy Director of the Banking Agency of BH Federation Mustafa Brkic.

Large number of banks for the small area

"It is obvious that there are too many banks for such a small space, and that citizens deposits, that are considered a very important resource, are very small", said Dusanka Novakovic, the Director of the Banking Agency of RS, during her presentation on the Third Banking Conference that was held in Sarajevo on November 15, this year.

The slow and incomplete reform of the judicial system, contributes to the additional risks in business, as well as the unfinished privatisation process of the state-owned banks, which reduces their profitability and competitiveness. Unfinished law regulations regarding the payment system and financial discipline are very significant for risk decrease in bank investments.

Ms. Novakovic pointed to some positive trends, like the reform of the payment system that was com-



pleted very quickly. However, according to Novakovic, establishment of the Central Registry remains a priority.

Nine banks in Republika Srpska have formed departments for investment banking and they are considered as the founders of the Banja Luka's stock exchange. The Deposit Insurance Agency was also established.

THIRD BANKING CONFERENCE

Weak interest in the purchase of the state owned banks in RS



Miodrag Beric, Director of the Bank Privatisation Unit of Republika Srpska, said that in the privatisation process so far, 100% of the state-owned capital was sold in only three

banks in RS. Those banks are: Agroprom bank ad Banja Luka, Semberska bank ad Bijeljina and Privredna Bank Sarajevo ad Srpsko Sarajevo. He stressed that there is a very small interest in state owned stocks from domestic and foreign strategic buyers. Beric estimates that the privatisation process of the banks will not be completed by the deadline, December 31st of this year, especially in the three largest banks in RS: Razvojna Bank Banja Luka, Banjalucka Bank ad Banja Luka and Kristal Bank ad Banja Luka. "If the privatisation process fails in any of these three banks, the Government of RS should conduct activities to reconstruct the bank, instead of just going through the liquidation procedure", said Beric.

Privatisation in the banks of the Federation has begun

Alden Bajgoric from the Unit for Bank Privatisation of the BH Federation said that three banks that are mostly state-owned (Union Bank dd, Šipad Bank dd, Post Bank dd) in the sales process. The privatisation process, in other words, the process of direct sale, is underway in the Investment Bank of BH Federation.

Banks that belong to the system of PBS are in the preparation stage for privatisation, according to the agreed strategy. The sale of state-owned shares is completed in nine banks that are in large part privately owned, while in three other banks the process has just started.

Modern and efficient payment system

THIRD BANKING CONFERENCE

"Reform of the payment system aims to create a modern and efficient payment system that is consistent with the development of the market economy in BH, a faster transaction between the participants in payment system and reduce expenses in the payment transaction system", said Dragan Kovacevic, Vice Governor of the Central Bank of Bosnia and Herzegovina, during his presentation at the Third International Banking Conference that was held on November 15, 2001 in Sarajevo.

Vice Governor Kovacevic stressed that from January 5th of this year (when this new payment system was introduced) until November 13th of this year, more than 10 million transactions have been carried out through RTGS and GIRO clearing systems, and the total value of these transactions was 14,3 billion KM.

At present, 42 banks, including the Central Bank, are participating in this new payment system, and ten banks are participating in 60 to 65 percent of the total value of all payment transactions. Vice Governor Kovacevic said that the Central Bank of BH will engage in the coordination of the entity laws on the internal payment transaction, laws on finances and on the establishment of the joint registry of accounts (opened, blocked and closed accounts), as well as on

the development of the electronic banking, card business and securities market and their integration into the payment system. One of the priorities is the installation of the backup system in Banja Luka and training in payment transactions for the commercial banks.



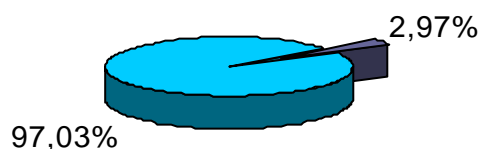
Small number of big value transactions in RTGS

Ratio of the total value of the RTGS and GC transactions



■ RTGS share in total amount
■ GIRO share in total amount

Ratio of the total number of the RTGS and GC transactions



■ RTGS share in total number of transactions
■ GC share in total number of transactions

From the beginning of the new payment system work, the ratio of total amount of the RTGS and GC transactions was 2,97% for the RTGS and 97,03 % for GC, and total value of those transactions are 57,76% for the RTGS and 42,24% for GC, what is visible in the attached graphics. During the first months of work, all banks that gained licenses were not involved in the GIRO clearing system, so all transactions had been performed through the RTGS system, what means that the RTGS had larger share in the amount and in the transactions number for that period. Today, the situation is somewhat different and daily share of the RTGS transactions represent 50-55% of total amount and 1-1,5% number of transactions.

VISIT TO MOSTAR

Central Bank proposes issuing of short-term securities

The Governor of the Central Bank of Bosnia and Herzegovina, Peter Nicholl, visited Mostar on November 6, 2001.

There, he had separate meetings with the employees of the Mostar Main Unit and with representatives of commercial banks. During the discussion about the changes and amendments of the Law on CBBH, Governor Nicholl emphasized that the exchange rate to euro is going to stay the same as it is now "through" the DEM, which means that 1 KM = 0,51129 euro.

The Central Bank of BH suggests a change in the obligatory reserves of commercial banks. "The law sets those reserves in the range from 10 to 15 percent. We are asking from 10 to 25 percent, and with this we do not want to change the amount, but to increase flexibility", said Governor Nicholl. The Central Bank of BH will also suggest the issu-

ing of the short-term securities. "We will provide cover for those securities in the same way as we provide cover for the KM", said Governor Nicholl. "That would help the inter-banking market, and in a situation where you need cash, you can always sell those securities to the Central Bank", said Governor Nicholl to bankers that were gathered on the meeting in Mostar.

If the Parliamentary Assembly adopts these proposals for changes and amendments of the law, the Central Bank will form a Working Group for Securities that will involve banks.

Representatives of commercial banks from the area of the Mostar Main Unit stressed that investment of capital still presents a major problem. They pointed to a necessity for the establishment of a joint registry of bank accounts that legal persons have in BH commercial banks, which would improve the internal payment system. Upon the request of the banks, the Governor of the CBBH, Peter Nicholl, said the Working Group would be established in order to analyse the issue of cash distribution.

SUPPORT FOR THE AMANDMENT OF THE LAW ON BANKS OF THE FEDERATION BH

The Governor of the Central Bank of Bosnia and Herzegovina Peter Nicholl welcomed the decision by the High Representative, Wolfgang Petritsch, made on 6th November, to amend the Law on Banks of the Federation BH. This Decision will permit Provisional Administrators of the banks to make a payment out to so-called small depositors before a completed report on the bank has been sent the Banking Agency.

"This change in the Law on Banks will give a Provisional Administrator more flexibility. This should improve the speed and efficiency of the bank administration and allow a Provisional Administrator to reduce expenses by making a pay out to small depositors much earlier in the administration process, provided that bank has sufficient funds to permit this", Nicholl said.

Until now, such payments were possible only after the formal liquidation of the bank. This Decision will, while the bank is under Provisional Administration, allow payment of funds up to 5000 KM to all deposit holders, except of those that were excluded from Decision brought by the High Representative of the International Community on 6th November.

FOREIGN EXCHANGE RESERVES OF CBBH REACHED KM 1,5 BILLION

On the 19th November 2001 foreign exchange reserves of the Central Bank of Bosnia and Herzegovina reached KM 1,5 billion for the first time. At the end of August, 2001 the foreign reserves were KM 1,157 billion, so the foreign reserves have grown for 30 percent or over KM 340 million in less than three months.

The reason for the strong growth in reserves is that large quantities of DEM banknotes are being converted by the citizens and enterprises of BH and a

good proportion of them are being converted into KM. When this happens, the CBBH gains the foreign exchange and adds it to country's reserves.

The foreign exchange reserves at KM 1,5 billion represent about 3,6 months coverage of BH's imports, based on the level of imports into BH in first six months of 2001. Rating agencies and other analysts consider three months coverage as a minimum reasonable level. "The fact that the foreign reserves of BH now exceed this minimum level should be another important factor that leads to an improvement in the international assessment of BH and its prospects", said Governor of CBBH Peter Nicholl.

THIRD DAILY SETTLEMENT IN GIRO

On the 3rd December this year, Central Bank of BH will introduce the third daily settlement in GIRO clearing. Decision to introduce the third daily settlement was brought on the basis of survey that was conducted with commercial banks which declared that introduction of the third daily settlement in GIRO clearing would improve the level of their services for the clients.

Currently, there are two daily settlements of the banks in GIRO clearing system - first one at 9:50 AM and the second one is at 2:50 PM. From the 3rd December, commercial banks will also be able to settle their payment transactions in GIRO clearing system at 12:50 PM every working day. Introduction of the third settlement will accelerate performance of payment orders and will provide a better insight into banks' funds balances. Since the beginning of the work of the new payment system (5th January 2001) until the 22nd of November 2001, more than 10,5 millions of transactions in total value of 14,8 billions of KM have been carried out through RTGS (Real Time Gross Settlement) and GIRO clearing systems.

More than 10,2 millions of transactions in total value of 6,2 billions of KM have been carried out through GIRO clearing system, and at the same time, there were 312 thousands of transactions in total value of 8,6 billions of KM through RTGS system.

SUCCESSION

Negotiations on implementation of Annex C



The Central Bank of Bosnia-Herzegovina hosted the second meeting of the successor countries of the former SFRY about the implementation of Annex C of the basic Agreement on Succession of Properties of the Former Yugoslavia. The main organizer of this meeting was the Council of Ministers of BH. The issues for discussion were the division of the monetary gold, the balance on the foreign currency accounts that are held in foreign commercial banks, and the clearing and balance of the foreign currency accounts in Yugoslav banks for joint ventures.

The Minister of Treasury Institutions of BH, **Ante Domazet**, led the Delegation of Bosnia and Herzegovina, while other members of the delegation were the Vice Governor of CBBH, **Kemal Kozaric**, and the representative of the Department for the Succession of the Ministry of Treasury of the BH Institutions, **Dzemal Fako**, and Professor at the Economic Faculty in Sarajevo, **Milos Trifkovic**.

A commission for the implementation of Annex C was formed at this meeting, and the Vice Governor of CBBH, Kemal Kozaric, is the BH representative in that commission. It is agreed that the next meeting will be held in Zagreb.



Inflation

The inflation in Bosnia and Herzegovina is measured by the retail price growth rate in the current month compared to the retail prices recorded in December of the previous year.

In the first quarter of 2001, the inflation in FBiH

recorded a slight increase, whereas in the second and third quarter it decreased compared to December 2000. In Republika Srpska, the inflation was negative in the period of five months. Since June, it recorded an upward trend to reach 0,5% in September.

in%

	XII `00	I` 01	II` 01	III` 01	IV`0 1	V`0 1	VI` 01	VII` 01	VIII` 01	IX`0 1
Federation of BH	4,0	0,5	0,5	0,4	-0,6	-0,2	-0,2	-0,9	-1,3	-1,0
Republika Srpska	16,1	-0,3	-1,3	-1,4	-1,1	-1,3	0,3	0,3	0,5	0,5

Gross Domestic Product

Federal Statistics Bureau of the Federation of BiH and the Republic Statistics Bureau of Republika Srpska published the previous data on gross domestic product for 2000 in market prices. Gross Domestic Product (GDP) in the Federation of BiH amounted to KM 6.699 million in 2000, which was higher by 9,1% than the one recorded in 1999. Gross Domestic Product per capita in 2000

amounted to KM 2.392 or USD 1.129.

Gross Domestic Product (GDP) in Republika Srpska amounted to KM 2.562 million in 2000, which was higher by 17,5% than in 1999, and GDP per capita amounted to KM 1.793, i.e. USD 846.

Gross Domestic Product in Bosnia and Herzegovina and by Entities is tabled below.

	Gross Domestic Product		GDP per capita		Number of citizens
	mil. KM	mil. USD	KM	USD	
<u>Federation of BH</u>					
1997.	4.943	2.840	1.774	1.019	2.790.000
1998.	5.602	3.183	2.000	1.136	2.801.000
1999.	6.142	3.356	2.187	1.195	2.808.000
2000.(previous data)	6.699	3.161	2.392	1.129	2.800.849
<u>Republika Srpska</u>					
1997					
1998.	1.619	932	1.148	661	1.409.835
1999.	1.837	1.062	1.285	743	1.428.798
2000.(previous data)	2.181	1.192	1.506	823	1.448.537
	2.562	1.209	1.793	846	1.428.899
<u>Total BiH</u>					
1997					
1998.					
1999.	6.562	3.773	1.562	898	4.199.835
2000.	7.439	4.245	1.759	1.003	4.229.798
	8.323	4.548	1.955	1.068	4.256.537
	9.261	4.370	2.189	1.033	4.229.748

NEWS FROM THE MAIN UNITS AND BRANCHES

Brcko Branch

Work that was done in order to bring vault facilities in working order has been completed in November, after which a technical admission was done. There were meetings with Raiffeisen Bank Orašje and Zagrebacka Bank Orašje because of the agreement on conducting of the vault services.

A meeting with the representative of the International Monetary Fund, Peter Noel Atcherly and the representatives of the Bureau for the Statistics of the Brcko District about the arrangement for the gathering of the statistics data from this area for the needs of the Central Bank was held on 2nd November this year.

Preparations for the start of the functioning of the operational account of the Branch Office are under way. Employee of the Brcko Branch Office Mira Tabakovic that will work on these tasks has gone through the training session in CBBH in Sarajevo.

Main Unit Sarajevo

There was a large increase in KM sales; in other words, there was a large increase in foreign currency reserves of in November.

After the end of the III International Banking Conference that was held on 15 November this year, in the organisation of the Central Bank, a representative of the European Central Bank Armin Greiff visited Main Unit Sarajevo, where he was introduced with a staff and with the activities of the Unit. He was especially interested in methods of handling of the cash.



MB RS Banja Luka

Intensive KM sales continued in November. Most of the KM is being sold for the DEM cash, and this is trend that is expected in the next month or two.

Net sale of KM in the MB RS Banja Luka is over 720 million for the period from June 16, 1998, which is a date when MB RS was founded, till November this year.

Pale Branch

During the last month, increased volume of the banking activities was registered in the branch office. Those activities increased 105% compared to previous year.

Number of transactions in the net sale of the KM increased nine percent compared to October, while number of deposits and withdrawals of cash in the field vaults of CBBH for the banks of the region this Branch covers, increased 22%. Increase of the number of transactions is evident month after

month, which indicates that DEM purchase and KM sales are on the rise.

Main Unit Mostar

As a direct result of the increased DEM conversion, there was evident increase of deposits in commercial banks in October.

A total of 141.585 transactions were carried out during the October, out of which, 3.359 transactions were done in RTGS and 138.226 in GIRO clearing. Those transactions present 11,91% of all CBBH transactions and 16,87% of the total value of transactions for the whole CBBH. In the period from January till October, a total of 1.238.595 transactions were carried out, out of which 85.137 were done in RTGS and 1.153.458 in GIRO clearing. Those transactions present 12,75% of all CBBH transactions and 17,12% of the total value of transactions for the whole CBBH.

Branch office of the Nova Banka AD Bijeljina started with its operations in Mostar's municipality Jugozapad.

SECURITY DEPARTMENT

Lectures and practical exercises

Based on the Educational Plan and Program for the Security Department, theory classes and shooting exercise with live ammunition for the employees of that department were carried out in November of this year.

During the course of this training, employees of the security service were reminded about the characteristics of the weapons that they sign for, as well as the methods of its usage in accordance to particular situations in which they can find themselves during the performance of their regular duties. There was special focus on practical procedures that were done during the shooting exercise with

live ammunition in order to produce better results.

The shooting exercise with live ammunition was completed in the training facility of the Federal Police Force "Suhodol" and was organized with the logistical support of the Police Academy of the Federation BH. The average grade of the participants of this exercise was 4.5. Professors from the Police Academy of the Federation BH organized theoretical and practical classes, demonstrations and supervision, which, to a large degree, influenced the quality of preparations, the course of the exercise and the final results.

EMPLOYMENT

Best wishes for the upcoming holidays!

There were no new employees in the Central Bank in November. Therefore, the Personnel Office of CBBH is conducting its ongoing business regarding the rights and obligations of the employees.

We will use this opportunity to congratulate to our colleagues Biljana Samardžić and Ernadina Bajrović on their newly born children.

We would also like to extend best wishes for the joyful upcoming holidays to all employees of the Central Bank of Bosnia-Herzegovina.

New experiences for statisticians and comptrollers

Zorica Vucicevic, Analysis Section Coordinator in the Division for the Analyses and Evaluation attended the seminar that was held in Neum on November 01 and 02, called "Counselling of the Economists and Managers of BH". This event was organized by the business forum and society "Promo International".



Vice Governor of the CBBH **Ljubiša Vladušić** attended the seminar called "Convergence and Divergence in Europe". The seminar was held on November 05 and 06 in Vienna.

Jasmina Halilbegovic, Comptroller General of the CBBH attended the seminar "Operations of a modern comptrollers department" that was held in Amsterdam from November 19 to November 23 in the organization of De Nederlandsche Bank. Comptroller General and her deputies **Amina Sofradžija**, **Milosija Drakulic** and **Ante Stalapić** went to a study visit to Bank of Slovenia in Ljubljana from November 05 to November 07.

Ljiljana Marjanovic, Manager of the Statistics and Publications Division of the CBBH and **Emina Brodlija**, Economist I in "Front Office" Section of the Banking Division, attended "Assets management in the central banks" seminar that was organized by the BIS and Bulgarian National Bank from November 27 to November 29, and on the November 30, they will conduct a study visit to the Bulgarian National Bank.

Snježana Janjic, Economist I in the Statistics and Publications Division, attended the seminar called "Foreign currency in the circulation in Central and Eastern Europe". The seminar was held in Croatian National Bank in the organization of IMF.

Sadik Kadric, Director of the Main Unit Sarajevo attended the seminar called "The 2001 Regional Central Bank Seminar", which was held from November 7 to November 10 in Geneva. Organizer of the seminar was Citigroup Asset Management.

Vice Governors of the CBBH **Dragan Kovacevic** and **Kemal Kozaric**, attended the seminar called "Meeting of coordinators for the technical assistance and training" that was held in Basel on November 8 and November 9 in the organization of BIS.

Vice Governor **Dragan Kovacevic** attended the seminar called "Banking Structures, Supervisory practices and the new Basel accord". Seminar was organized on November 29 and November 30 in Athens the organization of the Institute for the Financial Stability BIS and the Bank of Greece.

Djorđe Rackovic, Manager of the Payment System Division of the CBBH attended the seminar called "Seminar on payments systems and financial market: The Italian experience and the recent international trends". Seminar was held from November 28 to November 30 in the organization of the Banca D'Italia.

Saša Lemez, Section Coordinator for the Information Support of the Section of the Payments System Division attended the seminar called "SWIFT ALLIANCE ACCESS TECHNICAL" that was held in London from November 19 to November 21 in the organization of the SWIFT Belgium.

Sandra Merdžo-Imamovic, Operation Officer I in RTGS and SWIFT section, attended a seminar called "From MT 100 to MT 103" that was held on November 9 in Brussels. Organizer of the seminar was La Hulpe from Brussels.



EURO SECURITY FEATURES

Euro in safe hands



In order to introduce euro security features to the commercial banks, the Central Bank of Bosnia and Herzegovina organized presentations in Banja Luka, Mostar and Sarajevo from November 20-23 of this year.

Representatives of the Central Bank of Bosnia and Herzegovina who attended a one-day seminar about euro security features that was organized by European Central Bank in Frankfurt in October this year, gave a detailed presentation of those features to authorised representatives of commercial banks.

In addition to representatives of the Central Bank of BH, graphologist Esad Bilic, expert advisor of the Central Bank BH, provided participants with detailed explanations of euro banknotes. He said that the euro banknote is one of the safest banknotes in the world. "Everything that was ever used in the process of banknote production was combined in euro. The euro is a collection of security features from all over Europe", said Bilic.

As of the January 1, 2001, the date when the euro goes into circulation in 12 countries of the European Monetary Union, the Convertible Mark will be the only legal tender in Bosnia-Herzegovina. Instead of the German mark, the Convertible Mark will be legally tied to the euro at the existing exchange rate, which is 1 KM = 0,51129 euro.

There is no need to rush



Representative of the European Central Bank Armin Greiff participated the Third International Banking Conference organized by the Central Bank of BH on 15 November 2001 in Sarajevo. He introduced Conference participants with frontloading methods for euro banknotes and coins for the countries inside and outside of the European Monetary Union.

On behalf of the European Central Bank what is your message to Bosnia and Herzegovina, BH citizens as well as the BH banks regarding the Euro introduction?

"General message for people will be not to be afraid. There are good signs of confidence. On both sides we have established a very suitable framework for both, changeover inside the Euro area and also the outside Euro area. We have agreed on three pillars to get the Euro banknotes and coins distributed to foreign countries also to BiH, so the

banks are allowed to be distributed and to be sub-frontloaded with Euro cash. The central banks allowed being frontloaded and it is also allowed to sub-frontload the banks.

So, everything is well prepared and a part of that there is no need for BH citizens to rush, though what should calm down the people here. There is no need for citizens to immediately start on 1st January 2002 at the bank's counters in order to exchange their DEM holdings against the Euro or against any other currency units, so there is time enough. In Germany we have two months of circulation period and a part from that the Bundesbank will be exchanging DEM banknotes and coins for indefinite period of time.

You've participated the Third Banking Conference, so what is your opinion, do you have any suggestions or comments?

"I'm really positively surprised. The conference was very well organized. I was positively surprised with the huge number of participants especially for such small country. I think the messages are quite clear and in general terms I will say that preparations and proceedings are quite well on track and the only thing which I can tell you is that it will take a time. Because I, as a German made some recent experiences with reunification and it took some time and it will still take some time and in 1989 our Chancellor promised prosperous landscapes within 5 years and now we are already in 2001, and we are still missing to some extent or to large extent these prosperous landscape in East Germany, so I suppose the same will apply to your country".

The future of monetary policy in BH

THIRD BANKING CONFERENCE



"The Currency Board in BH is applied because of its anti-inflation strength, a strength that has a special meaning for newly formed states that are naturally prone to (escalating) inflation. Consistent implementation of the existing model of money issuing managed to minimise domestic inflation, and to stimulate production growth (in truth, growth comes along with a high unemployment

rate) in the country. Regardless of some certain shortcomings of the Currency Board, it has to be said that its general impact was positive, and that alternative monetary arrangements would not be as successful in stabilisation (and revitalisation) of the domestic economy. The future of the existing model of money issuing in BH needs to be judged through the current economic reforms that this country is going through, especially those that are linked to the real sector of the economy, banking-financial sector and fiscal sector. Although it makes those reforms somewhat easier, the Currency Board Arrangement does not have a dominant impact on their speed and outcome. If those reforms turn out to be slow or unsuccessful through the accumulation of the public and external debt of the country, that could jeopardize sustainability of the arrangement, while on the other hand,

reform processes that are done efficiently and timely can guarantee full functionality of the Currency Board. Even in that case, unnecessary economic disturbances can be imported, so this arrangement should be, in perspective, implemented in a more flexible form. In other words, it needs to be replaced with a system that is variable or with a system of regionally restricted exchange rates of foreign currencies with a relatively autonomous monetary policy. Within that frame, monetary policy would be used primarily for the achievement of the targeted values of proclaimed exchange rates of foreign currencies, and in that way it would fulfil its main purpose, which is anti-inflation function".

Professor Dr. Danir Zaklan,
Economic Faculty in Mostar
Member of the expert team of the CBBH
Sarajevo, November 15, 2001

THE CENTRAL BANK OF BH CREATES PRECONDITIONS FOR ECONOMIC DEVELOPMENT

THIRD BANKING CONFERENCE



Results of the survey that was conducted for "System of the Early Warning in Bosnia and Herzegovina" project which is published quarterly by the United Nations Development Program that I cooperate with, show that the Central Bank of BH enjoys a high level of trust of the citizens. This statement was made by the magistrate Fikret Caušević, Deputy Director of the Economic Institute in Sarajevo. In five quarterly reports that have been published, over 75% of the people polled think that the Central Bank of Bosnia- Herzegovina is doing its job quite successfully, and over 80% of the people polled believe in the stability of prices and the Convertible Mark. The survey that was made for the Second Quarterly Report for the "System of the Early Warning in Bosnia and Herzegovina" project was conducted among managers of companies and banks and it also shows that bank and company managers perceive the Central Bank of BH as an institution that creates preconditions for economic growth.

"This survey shows that more than 60% of company managers are satisfied with the reform of the internal payment system. These are the facts that every economist has to take into account, regardless of whether he or she belongs to the circle of business economists or to the circle of academic economists", said Caušević during the discussion on the Third International Banking Conference that was held in Sarajevo.

Caušević warns that on the other side, an average share of credits that are approved to the companies (to the business sector) is in constant decrease - from 65% at the beginning of 2000, to less than 60% in the middle and less than 55% at the end of 2001. This share dropped to below 46% at the end of August 2001. During this same period there was an increase in credits that were approved to citizens (this data is

valid only for BH Federation) and foreign exchange assets. "From this data, it is easy to determine that sources for financing of the working capital and investments in the business sector are getting smaller, while sources for consumption growth through credits that are approved to citizens are getting bigger", said Caušević. According to Caušević, this problem of the BH banking sector should be resolved through the establishment of institutions for development financing.

He also stressed that when we consider the question of the Currency Board and the Central Bank, we have to have in mind that BH has largest trade deficits with the Republic of Slovenia and Republic of Croatia, not with developed Western countries. "In this context, I think that the central monetary institutions of those countries should have the same system of organization that should provide the same market rules and monetary conditions for all three countries. A similar principle should also be applied to FR Yugoslavia and Republic of Macedonia", said Caušević.

At the end of his presentation, Caušević pointed to the successful transfer of the internal payment system from the payment bureaus to the commercial banks. Despite difficulties that occurred at the beginning, this success shows that there is a "critical mass" of people and so-called human capital in BH that is capable of performing the most demanding tasks. "In that context, improvement of the banking sector of BH can only serve as an example to other transition countries", said Fikret Caušević, Deputy Director of the Economic Institute in Sarajevo, at the end of his speech.



Currency board is the guarantee of monetary stability

Dr. Obrad Piljak, General Comptroller of the Central Bank of BH retired on September 30 at the age of 68. Mr. Piljak worked for 40 years at the highest positions in finances and politics of Bosnia and Herzegovina and left an indelible imprint.



Mr. Piljak, you have been in the Central Bank of BH since its very beginning. How do you grade its achievements in four years of its existence?

In my opinion, CBBH has done its job quite well, and I believe that many economists and ordinary citizens share that opinion. Above all, I understandably include stability of a domestic currency that is on a respectable level. I think it contributed to the withdrawal of the Yugoslav dinar and Croatian kuna from our internal payment transactions without the usage of restrictive measures, and that stability also helped on the return of citizens' trust to the banks. The stability of the KM also helped to increase bank deposits in foreign currencies and KM. This success cannot be credited only to the Governor and the management of the bank, but to the Law on CBBH as well, a law that was made on the principle of the Dayton Peace Accord and regulates the work of CBBH on the principle of the Currency Board. The most important thing regulated by this law is that CBBH is not allowed to issue credits to the state and state institutions. Still, the state is a "strange house", especially when it is in turmoil. When someone goes on strike, the state obtains a credit, and afterwards it does not want to pay off that credit. The joint payment system and single currency led to inter-entity functioning of companies and banks. CBBH also did many things for the synchronisation of the regulations, procedures and merits between banking agencies.

Can you tell us the differences between CBBH and the former National Bank of Bosnia and Herzegovina, in other words, the differences between central banking in BH before and after the war?

The difference is that national banks from that period controlled

the work of commercial banks. They issued licenses, and that is something that they don't do at the present. Similar solutions are used in the United States and Germany. The other difference is that the National Bank of Bosnia and Herzegovina was an integral part of the National Bank of Yugoslavia. Policy was conducted in National Bank of Yugoslavia. The autonomy of the National Bank of BH was not as great if we compare it to the autonomy of CBBH, or the National bank of BH during the war. Second, commercial banking of that period was dependent much more on the National Bank, than it is now from the CBBH. Third, I think that the National Bank of Yugoslavia actively cooperated with the Federal Government in terms of creation and implementation of monetary policy, unlike the Central Bank that is independent in that sense. Regarding the Payment System, the function of the Central Bank, which was a main carrier of the transfer of the Payment System to commercial banks, has increased.

What is your opinion on the initiative of the International Monetary Fund to place banking supervision under the "umbrella" of the Central Bank of Bosnia and Herzegovina?

I personally think that at the time when the Central Bank was formed, it was much more useful and more rational to put those tasks on the Central Bank instead of agencies. But now, three years later, with agencies that developed into rather successful and good institutions, there might be some losses till everything is reoriented under the Central Bank. If everything merges, although I personally think that the IMF initiative has never been fully explained - if that merger means that CBBH will have more influence in decisions as to whether to introduce provisional administration, liquidations..., that might be a good solution, but it can also be a problematic one. I don't think it is a misfortune if those agencies continue to work separately, but I don't think that there should be also a problem if those banking agencies join with CBBH. I am a little afraid that entities and individuals do not want that merger for political reasons, since they are aware that there are many things that go through the banking sector.

You have already come across the issue of the Currency Board. Do you think that the Currency Board fulfilled its role, and what is the future of the Currency Board?

In 1974, when I wrote my master's thesis, I developed a theory that proved that any kind of intervention in the monetary sense would have only illusory success. If we remove the principle of the Currency Board, we would go right into inflation. When this happens, money is being spent very irrationally. Although Stojanov and some other people claim that the Currency Board is the problem, I think that we should not abandon that principle. The real problem is an expensive state, especially the army, now the police, then various institutions in the cantons, entities...

What are your plans for the future?

My aspiration is to stay on the faculty as long as I can. I learn so much from my students' works. I was thinking about writing down something from my biography, about the two-year period when I was a President of the BH Presidency. I do have some offers, which include an offer for me to become director of one bank. As a member of the Canton Economy Delegation, I am also active in the banking field. I am certain that any of my future engagements will be tied to banking, credit and monetary policy, and all that from the aspect of concrete solutions.

I was a little afraid about how will I spend my time. However, I have a lot of friends, we meet, play chess, and go bowling. I watch television, and I cannot complain that I am bored.



CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly Balance Sheet (provisional) as at 31st October 2001
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 offer particular information ruled by the Law of the Central Bank of Bosnia and Herzegovina. Some of the specific features of the balance sheet as of 31st October are as follows:

As on 31st October, the Bank met all requirements under the Currency Board rule as mentioned in Article 31 of the Law. **Net Foreign Assets** exceeds its Monetary Liabilities in Konvertibilna Marka (KM) by 71, 957, 551 KM. This has been shown in the item Net Foreign Exchange Assets less Monetary Liabilities.

Foreign Assets mainly consists of deposits maintained with the foreign banks. As required by Article 35 of the Law, the balance sheet also shows Composition of the currencies maintained, differentiating them by DM and other currencies. The bank has met the obligations defined under Article 34. of the Law, in the way that the total amount of foreign assets in other currencies does not exceed the equivalent of 50 percent of the total amount of the unreduced capital and the reserves of the Bank. 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, (998, 579, 473 KM) and resident banks' reserve deposits (262,431,099 KM).

Position showing relations between the Government and IMF reflect claims and liabilities of Government of Bosnia and Herzegovina arising from the financial arrangement with IMF.

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

The Bank also maintains certain accounts in foreign currencies in terms of agreements entered into among the Government of Bosnia and Herzegovina and foreign governments and financial organisations. 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 resources maintained on these accounts was 336, 150, 600 KM.

Any inquiries referring to the monthly balance sheet can be addressed to the Administration and Finance Department, Accounting Section in Sarajevo, contact telephone # (033) 278 119, fax # (033) 278 294. Media representative can contact Public Relations Office, contact phone (033) 278 123, fax (033) 278 296.

The Central Bank of Bosnia and Herzegovina is independent monetary institution of BiH and has no organization relations with any commercial banks.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly balance sheet (temporary) as at 31st October 2001
(amounts in KM equivalents)

ASSETS		Total Amount	DĂ	Other Currencies
1	Foreign Exchange Assets	1.387.438.031	1.381.662.130	5.775.901
1.1	Cash	113.907.121	112.004.632	1.902.489
1.2	Investments	1.273.530.910	1.269.657.498	3.873.412
2	Position of Government in the IMF	779.490.244		
3	Other Assets	54.634.888		
	TOTAL ASSETS (1+2+3)	2.221.563.163		
LIABILITIES		Total Amount		
4	Monetary Liabilities	1.315.325.135		
4.1	Currency in Circulation	998.579.473		
4.2	Credit Balances of Resident Banks	262.431.099		
4.3	Credit Balances of Other Residents	54.314.563		
5	Liabilities to Non Residents	155.345		
6	Liabilities of Government to the IMF	779.490.244		
7	Other Liabilities	11.900.793		
8	Capital and Reserves	114.691.646		
	TOTAL LIABILITIES (4+5+6+7+8)	2.221.563.163		
Net Foreign Assets minus Monetary Liabilities (1 - 4 - 5)		71.957.551		
Position of Government in the IMF - Foreign Reserves - SDR Hold		24.454.108		
Liabilities of Government to the IMF-IMF Accounts No 1 and 2		1.214.333		
Net Foreign Reserves of Government in the IMF		23.239.775		

P.W. Nicholl
Governor
Sarajevo November 26, 2001

Jasmina Halilbegovic
Comptroller General