



## CREDIT RATING

### Process of obtaining of the credit rating for BH began



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

One of the worldwide recognized agencies should create the credit rating of BH, after which BH will join the long list which consists of over 90 countries that have the rating of some of the worldwide respected companies. CBBH will have the significant role in this process. Since this is something quite new for BH, it is necessary to explain what the credit rating of one country is, how to interpret it, what it is for - in other words, what the benefits from the credit are, what it depends from, and what is the process of its obtaining.

#### What is the credit rating of one country?

In short, the credit rating of one country is the estimate of possibility and willingness of one country's government to service its debt on time and completely. First it needs to be said that the rating measures possibility for the repayment of debt of one country. Second, it is important to notice that two phrases are being men-

tioned in the definition: **possibility** and **willingness** to pay the debt. They are usually connected, but they are not identical. Third, it is obvious in the definition that the debt has to be paid completely and on time.

#### How to interpret rating?

The expert public is familiar with the common system of grading of one country's credit rating with the letter symbols. Ranking is better if the letters it contains are closer to the beginning of the alphabet. However, what needs to be said is that there is no only one grade for credit ranking for one country. Therefore, some companies, for example, actually give two grades. Grade for the government to return the debt, which is presented in the local currency, differs from the debt, which is presented in the foreign currency. Letter grades in each category (foreign and local currency) range from AAA, which is considered the highest possible rating, to SD, which means that the debt is not being paid (in English it means *Selective Default*). In other words, AAA means the smallest possibility that the debt will not be paid, that is, it is the grade for the best debtor. Grade which contains only one A letter means that

there is a very small possibility that the debt will not be paid, but the sensitivity of such country to changes in conditions is higher than the sensitivity of the country that has AAA grade. Grade BBB means that the country is a good debtor, that there are small possibilities the problem will occur, but that changes in circumstances could endanger payment of the debt. This grade is also considered as the so-called lowest investment rating. This means that country that has this rating can appear independently at the international capital market as the issuer of bonds, in other words, it can encumber a loan in foreign banks under the "normal" instead of speculative circumstances. We should say that we have recent examples that countries with the lower grade successfully issued bonds, such as Bulgaria. Grades starting from BB and lower (B, CCC, etc.) are for so-called speculative credit ratings for one country. For example, grade C means that there is a high probability of problems appearing in the payment of the debt. SD, as it was said before, means that the debt is not being paid, and the Argentine has it.

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In order to provide more precise ranking of states, suffixes "+" or "-" are being added to letter symbols. Of course, A+ is the higher rating than the ordinary A, just as BBB- grade is just a little bit lower grade than the BBB.

Letter grade usually goes with the estimate on what will happen to that grade in the future. Therefore, we have stable estimates (changes are not expected), positive estimates (changes to better are expected) and negative estimates (worse credit rating in the near future is expected). How, for example, we can interpret indicator "Local currency AA stable" that Slovenia has? This means that the state of Slovenia will have very few problems with the return of the debt in the local currency. Therefore, it is the excellent debtor (only one step below the best ones in the world - those with AAA rating) and in addition to that, change of

than the country with the BBB credit rating, while the country with the B credit rating cannot encumber a loan at the international market independently. In other words, it can do this under the speculative conditions, with very high interest rates. Of course, lower interest rates on the borrowed assets mean lower amounts for payment of the debt, which is better for each country. A reasonable encumbering of the debt means that the country can develop not only from its own assets, but also from assets of others, which under the assumption of reasonable investing of borrowed assets means faster economic growth and consequently the larger prosperity of one country on the whole.

- By publishing its credit rating, one country increases level of information about itself. Therefore, every country that aims to attract direct foreign investment with the obtained credit rating increases its transparency. All potential

al economic policies of the country. A wise man will always gladly listen to the evaluation of his work. Therefore, not even the sovereign countries should underestimate opinion of others about their general policies. With this, one country gets the criteria for the comparison with other countries. This comparison is based on facts instead of prejudices that exist very often.

- Process of obtaining the credit rating is complex and requires much knowledge, which cannot be read in the books. Those who are involved obtain their knowledge as their countries go into the process of obtaining the credit rating. Agencies that produce that rating are setting high demands regarding economic data of the country, regarding estimates and predictions for the future. With this, one country is forced to approach the analysis of its capabilities for debt repayment with much more seriousness, which is not always the case. Therefore, it is better to

### Examples of credit rating of some countries

	Rating	Countries
1.	AAA	Austria, Ireland, Switzerland, USA
2.	AA	Italia, Japan, Portugal, Spain (+), Australia (+)
3.	A	Cyprus, Estonia (-), Malta, Slovenia, Czech Republic (-), Greece (-), Hungary (-)
4.	BBB	Croatia (-), Lithuania, Latvia (+), Slovakia (-), Poland (+)
5.	BB	Bulgaria (-), Kazakhstan, Russia (-), Vietnam (-)
6.	B	Turkey (-), Ukraine, Romania (+), Brazil (+)
7.	CCC	Ecuador (+), Indonesia (+)
8.	SD	Argentina

**Source:** Rating that one of the agencies published on September 23, 2002

**Note:** These grades show the long-term rating in the foreign currency. Symbol in parenthesis behind the country is the addition to the letter grade.

that rating is not expected in the near future (stable estimates). This is a high compliment to the financial health of Slovenia.

### What are the benefits that one country has from the rating?

Benefits that one country gains from the credit rating are multiple. Here are some of them:

- Each country that wants to encumber a loan independently on the world market, in other words, to issue bonds, or to encumber a loan as the state at the commercial bank in the world, has to have a credit rating. Like in the other finance domains, country is the better debtor if it has a better rating. This also means that this country will be able to get credits under the better market circumstances, in other words, it will have the lower interest rate and it will be able to get the larger credit with the longer repayment period. Therefore, a country with the AAA credit rating can get much better credits

investors and creditors always like to have as much as possible information about some country available. Of course, each one of them has to do its "homework" and to analyze a certain country, but internationally comparable rating in the worldwide recognized agency certainly speeds up the decision making process.

- One of the main trends of the contemporary economy is the growth of transparency. At present, all countries publish more data about themselves than it was the case 20 years ago. By publishing its rating, one country clearly says that it has nothing to hide and that all the data are public. Even when the rating is unfavorable, it needs to be published. Such behavior is always being awarded by investors. In other words, dispute whether to have the credit rating does not exist anymore, but it is the problem if one country does not have rating, since a question immediately occurs about what it is trying to conceive from the public.

- The rating itself is the test of the gener-

start this process as early as possible.

- What needs to be said is that, besides the rating of countries, it is a common thing for the companies to have their rating. We are not far away from the day when some successful companies in BH will like to have credit rating. Credit rating of each company depends, in large part, from the credit rating of the country. Usually, rating of companies cannot be higher than the state rating, but in some exceptions, even that is possible. What needs to be reminded is that in four years, European banks will only extend loans to companies that have rating, which is based on the rules of banking supervision called Basel II.

**Note:** In the next issue of the CBBH newsletter, we will publish continuation of the article about the credit rating, in other words, what a certain rating depends on, what is the process for obtaining the credit rating and which are the main agencies that produce credit rating in the world.



## Euro's first anniversary



**By Ljubiša Vladušić,  
Vice Governor of the  
CBBH**

The first anniversary of the implementation of the euro banknotes and coins in the European Monetary Union (EMU), as well as in Bosnia and Herzegovina, was celebrated on January 1, 2003. Euro has existed for a longer period, i.e. since it was introduced on January 1, 1999. Its introduction caused significant economic impacts, which suited economic operators within the European Union (EU). From the moment it was first introduced until the moment when first banknotes and coins were released into circulation, euro lost 25% of its value against dollar. This negative trend continued until November 2002, when the value of one euro crossed the magical border of one dollar. The current exchange rate of euro against dollar is 1,07 with the continuing upward tendency. Reason for the rise of the euro is not only strength of Europe, but also the changed policy of the United States, which currently does not need the strong dollar policy. Out of the 15 EU countries, 12 fulfilled conditions, or accepted to enter the European Monetary Union (EMU) where euro became the single currency and replaced their respective national currencies. Benefits from the euro introduction are the easier trade within the European Community and the elimination of the need to cover the risk that comes from the usage of the 12 national currencies. Internal market, which covers those 12

countries, used these advantages completely. That was significant for the surrounding of these countries, including BH. Our country is the inseparable part of that, considering that the CBBH Law includes the provision that the local currency, the Convertible Mark, which was tied to DEM, is now tied to euro. The Law provided, and Parliamentary Assembly verified euro as the anchor currency, which tied KM to euro at the fixed exchange rate of 1 euro = 1,95583 KM. This link, which replaced one anchor currency with another, should be stronger, since it



does not represent only Germany, but also the economies of the 12 strongest countries in Europe that fulfilled conditions for the admission to the EMU. Therefore, it is estimated that KM is now tied to the stronger currency, although the BH citizens were psychologically tied to the DEM, which was used in this region and it was also the currency in which BH citizens kept their savings. The main challenge, from the aspect of the monetary policy of the

European Central Bank (ECB) is, which is also important for BH, the price stability which is present in the monetary flows and which represents one of the strategic goals in 2003. Economic growth, which is very important in order to provide the monetary stability, should be supported through the price stability. Currently, the inflation rate within the EMU is changeable and it is hovering around 2%, which is the guaranteed maximum. Inflation from the EMU hasn't been transferred directly in the same ratio to the KM in the BH, even though euro is the peg currency. That is obvious from the fact that the inflation in 2002 was lower in BH than it was in the EMU. This shows that additional measures of our monetary policy which is based on the Currency Board Arrangement and the control of the required reserve accounts and accounts of commercial banks at the CBBH resulted in monetary stability and the stability of the currency, as well as lower inflation, which is one of the most significant preconditions for the foreign investments. Therefore, the official approach of the CBBH is that the Currency Board Arrangement should be kept, having in mind that this is the best implemented monetary policy, which, as such, has produced results. Position of the CBBH is that the monetary policy should not be changed, but it also needs to be upgraded and the upgrade needs to be viewed in respect of providing further support through the monetary stability and the stability of the currency, through the maintaining of the inflationary trends at the allowed level and providing of the preconditions for the economic development.

### MEETING OF P. NICHOLL AND A. TERZIC

## Support to the Currency Board Arrangement



The Currency Board Arrangement will stay in the following period as the solution which will provide stability of the currency as well as the BH micro-economy, said newly appointed President of the Council of Ministers (CoE) **Adnan Terzić** after his first official meeting with the Governor of the Central Bank of Bosnia and Herzegovina (CBBH) **Peter Nicholl**. The meeting was held on January 27, 2003. According to the Governor, the Currency Board Arrangement is a very successful principle of the monetary policy which resulted in a low inflation and the stable currency in the BH, which are very important for the economic growth and investment. "People that invest have to face the investment risk, but if they would have to take care about the exchange rate and inflation risk,

than it would be almost impossible or too risky to invest", the Governor said. Nicholl stressed the confusion which is present in the public regarding what will happen to the Currency Board Arrangement after this year and stated that, according to the CBBH Law, there is no expiration date for this arrangement. There is a clause in the Dayton Peace Accord which reads that the Currency Board Arrangement will be applied for six years, after which it can be revised. So, if no other decision is made, the Currency Board Arrangement remains in place. Nicholl explained that, in a legal sense, there is no need to deliver the decision to continue with the Currency Board Arrangement, but the decision has to be made in order to remove it. Terzić stressed his support to the Currency Board Arrangement and added that he and Nicholl agreed about the help that the CBBH will provide to the governmental institutions, regarding the control of the banking sector in the future single banking system, as well as in the building of the trust of the local banks into the development of BH and their engagement in stimulation of development process. Both, Terzić and Nicholl, rejected claims according to which institutions and the state are facing bankruptcy. Terzić stated that those announcements are totally baseless and warned that everyone stating that endanger

reforms process potentials and influence foreign investors. The Governor also said that these statements are exaggerated, but he added that this certainly doesn't mean that BH has no economic problems. Therefore, the CoE, in cooperation with the CBBH, wants to create the environment in which the reforms elements could be implemented fully and it also wants to stimulate foreign and local investors to invest into development of BH. Nicholl announced that the CBBH will cooperate with the CoE whenever possible providing that it is in accordance with the CBBH Law. "We already provide many services for the CoE: we provide them the banking services, we work on servicing of the foreign debt and we just became the fiscal agent for the IMF in their name. Currently, on behalf of the CoE, we are negotiating with one credit agency in order to provide the sovereign credit rating for BH", Nicholl said. Another thing that was mentioned during the meeting was the banking supervision and the Governor stated that banking agencies from both entities have done a good job, which is the reason of his progress that was made in the banking sector in the last two years. It was stated that since the BH is getting close to having the single banking system, it is also logical for it to have the single banking supervision.

## CBBH - The fiscal agent of BH towards the IMF

Based on the Letter of Intent and the attached Memo on the Economic and Financial policy of BH, which resulted in the Decision and Amendments to the Decision of the Council of Ministers of BH and the Memo on the performing of the role of the fiscal agent of BH towards the International Monetary Fund (IMF), the CBBH was appointed the fiscal agent of BH towards the IMF. Implementation of these documents has caused changes in the CBBH accounts that required reclassification of the CBBH's balance sheet from December 31, 2001. IMF accounts were closed and the new accounts were opened on December 27, 2002. On the same day, the second trench of the new Stand By Arrangement worth 12 millions in Special Drawing Rights (SDR) was received. CBBH acts as the fiscal agent of BH for the relations that originate from the membership of BH in the IMF. While doing so, the CBBH has no obligations regarding assets or liabilities regarding this membership. Account of the SDR assets and interest rates on the SDR assets are included in the CBBH balance sheet. This institution, acting as the custodian, for the BH membership in the IMF runs in its balance sheet the IMF cash account, Account 1 and Account 2, and provides custody of the securities, i.e., promissory notes that were issued by the Ministry of Treasury of BH Institutions for the coverage of the membership in the IMF and for the repurchase of liabilities. All other accounts that are necessary for the records in the membership of BH in the IMF are being run in off-balance sheet on the so-called trust accounts. The new IMF transaction deposit account, which is kept by the sub-accounts of the entity finance ministries, is being used for all KM payments under the liabilities towards the IMF and payments of the withdrawn trenches in KM.

## New software operational

Implementation of the banking-accounting software, which became operational on January 1, 2003, one of the goals that were outlined in the Strategic Plan of the CBBH was accomplished. The last year was the year when the new informatics system was developed, the year when this software was used simultaneously with the old one for the financial bookkeeping - of the general ledger, as well as the year of testing of all application solutions that are integrated in the new software. In accordance with the Contract on the development and implementation of the new accounting-banking software, CBBH is entitled to 10-month warranty period, which provides the possibility for eventual corrections of certain solutions, as well as upgrades or changes in the software, which aims to provide better and more

efficient functioning of the system in general. New informatics system efficiently combines and integrates business functions of the CBBH, provides higher quality and more efficiency in the communication with the environment, faster processing of the business transactions, information flow, which is in function of the achievement of the business goals of the CBBH. Document on the transfer of the new banking-accounting software was signed between the representatives of the CBBH and "Aster" Company from Ljubljana at the end of November 2002, when the Governor **Peter Nicholl** signed the Annex III of the Contract on delivery and implementation of the accounting-banking software on behalf of the CBBH, while CBBH Vice Governor **Kemal Kozaric** signed the Minutes on the transfer.

## MEETINGS

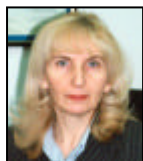
### Association of Banks of the BH Federation established



Representatives of banks that are operating in the BH Federation established the Association of Banks of the BH Federation on January 30, 2003. Director of the LTK Gospodarska Bank **Mijo Mišić** was elected as the President of the Association. Director of UPI Bank **Mirsad Letic** and Director of Turkish Ziraat Bank **Onzur Onezis** were elected vice presidents of the Association during the inaugural assembly, which was held in the building of the Central Bank of BH (CBBH). During the assembly, a discussion took place, caused by the reaction from the Bosnia Bank International to the fact that the President and vice presidents of the Association should be Bosnian citizens, which was judged as the form of discrimination. The decision was made to put the Article in the Statute of the Association, according to which a foreign citizen, representative of the bank, can be one of the vice presidents of the Association. Establishing of this Association was regarded as the step forward, which should help further affirmation of banks, protection of the individual interests as well as to the larger help to the government, economy and citizens. The Governor of the CBBH **Peter Nicholl** welcomed participants of the assembly and told them that this gathering is important for two

reasons. Firstly, because establishing of the Association of Banks in the Federation is the important step, and secondly, because it will ensure further consolidation of the banking sector. Nicholl said he would prefer if a single association of banks in BiH was formed today, but the existence of associations in both entities is a step forward in the right direction. This Association will perform several important functions for bankers, first of all, it will help protect the interests of bank members at the institutional and governmental bodies, it will promote the banking sector, it can help draft banking code, as well as to promote public understanding of banking services and overall financial literacy. Since the human resources development in banks is crucial, the Governor said that one of the important activities of the banking association should also be staff training. The Governor also reminded on main changes that caused significant consolidation of the banking sector and stressed that the reform in the banking sector has gone further and faster than reform in any other sector. Six years ago, when the CBBH commenced its operations, there were 76 banks, but none of them operated over the whole country and most of them were very small. "Frankly, it was a rather strange banking system. Today, we still have some distance to go to have a European-type banking system, but every day we are getting closer and closer to it", Governor said. At the end, the Governor said that the banking supervision, which is currently carried out by the entity agencies will need to be unified at the state level, probably under the "umbrella" of the CBBH and suggested to the bankers that they should set up a single register of bank accounts.

# Information on Bosnia and Herzegovina banking system in the period January - September 2002



*By Ljiljana Marijanovic,  
Coordinator for the Banking  
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Main features of banking system in Bosnia and Herzegovina in the period January- September 2002 are accelerated bank privatization and providing of required core bank capital. In the nine month period last year eight banking licenses were revoked. Three licenses were revoked due to merger with other bank - **Depozitna bank Sarajevo** joined **Vakufska bank**, **Šeh-in bank Zenica** joined **ABS bank Sarajevo** and **Mostarska gospodarska banka Mostar** joined **Gospodarska bank Mostar**. Three licenses - **International Commercial Bank Sarajevo**, **Privredna bank Gradiška** and **Prijedorska bank Prijedor** - were revoked due to liquidation procedure, while two licenses - **Gold bank Banja Luka** and **Ekvator bank Banja Luka** - were revoked due to bankruptcy process. In the same period one new banking license was issued to the **HVB bank**.

As of September 30, provisional administration was in three banks - **Gospodarska bank d.d. Mostar**, **Hercegovacka bank d.d. Mostar** and **Una bank d.d. Bihac**.

As of September 30 2002, 43 banks operated in BH, which is five banks less in respect to number of banks at the end of 2001. Total capital of commercial banks in BiH as of September 30 2002 is 942,4 million KM and in respect to the end of 2001 is higher by 86,3 million KM or by 10 %.

Structure of capital can be seen from the following review:

in 000 KM

	December 31 2001		September 30 2002	
	Amount	Share	Amount	Share
<b>TOTAL</b>	<b>856.096</b>	<b>100 %</b>	<b>942.410</b>	<b>100 %</b>
<b>CORE CAPITAL</b>	762.486	89 %	793.263	84 %
<b>SUPPLEMENTARY CAPITAL</b>	93.610	11 %	149.147	16 %

If we look at the capital structure it is evident growth of private capital.

Foreign capital in total share capital participates with 63 %, while in total private capital participates with 72 %.

Structure of share capital can be seen from the following:

in 000 KM

	December 31 2001		September 30 2002	
	Amount	Share	Amount	Share
<b>TOTAL CAPITAL</b>	<b>626.979</b>	<b>100 %</b>	<b>652.628</b>	<b>100 %</b>
<b>STATE CAPITAL</b>	127.549	20 %	80.986	12 %
<b>PRIVATE CAPITAL</b>	499.430	80 %	571.642	88 %
Of which:				
- foreign capital			413.167	
- domestic capital			158.475	

Balance assets as of 30 September is 5.301,4 million KM which in comparison to the end of 2001 is higher by 17 % or 760 million KM.

In assets structure the most important share take credits with 51 %. Money funds participate with 37%, fixed assets with 8 %, other assets 3 % and securities with 2 %.

Balance structure of assets can be seen as follows:

in 000 KM

	December 31 2001		September 30 2002	
	Amount	Share	Amount	Share
<b>TOTAL ASSETS</b>	<b>4,541.327</b>	<b>100 %</b>	<b>5,301.399</b>	<b>100 %</b>
Of which:				
-Money funds	1,994.589	44 %	1.893.025	36 %
-Placements with other banks	30.689	1 %	16.959	
-Credits	1,949.799	43 %	2,731.298	51 %
-Fixed assets and business premises	397.360	9 %	419.533	8 %
-Ostalo	117.450	2 %	147.729	3 %
-Vrijednosni papiri	51.440	1 %	92.855	2 %

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## BANKING SUPERVISION

### Continuation from page 5

In the structure of money funds the most important share have deposits at accounts with depository institutions abroad - 64 %. At accounts abroad banks hold 1,2 billion KM which is by 43 % higher in respect to the end of 2001.

In total bank liabilities commitments are 86 %, capital 14 %.

Total deposits as of September 30 2002 were 4.009 million KM which is by 21 % higher when compared to the deposits at the end of the year.

If we consider deposit structure by sectors the most important share have citizens' deposits with 39%, then private companies and enterprises 19 %, followed by government institutions 13%, public companies 10%, banking institutions 10% and other deposits 9 %.

Looking at deposit structure in terms of currency it can be seen that KM deposits are rising but foreign currency deposits are still significantly higher participating in total deposits with 58%.

Citizens' savings as of September 30 2002 are 1.494 million KM and are by 5 % higher in respect to previous year. 82 % of savings is concentrated in eight banks.

By September 30 2002, the Deposit Insurance Agency admitted eight banks.

Banks in BH achieved net profit of 25,7 million KM.

Only five banks in BH have assets above 300 million KM.

#### Bank size according to assets:

- above 500 million KM	two banks
- from 300 to 500 million KM	three banks
- from 100 to 300 million KM	eight banks
- below 100 million KM	30 banks

## PRESS RELEASES

### Visit of the representative of the Statistics Department of the IMF to the CBBH

The CBBH today hosted a visit by **Adrien Bloem** of the Statistics Department of the International Monetary Fund, Washington DC. Mr. Bloem met with the CBBH Governor **Peter Nicholl**, Vice Governor **Dragan Kovacevic** and Acting Head of the CBBH Statistics Division **Snežana Janjic**. The purpose of Mr. Bloem's visit was to assess the effectiveness of the past technical assistance to the improvement of statistics in BH and to discuss the priority areas for future assistance. In addition to providing long term technical assistance through a residence statistical advisor, the CBBH asked the IMF to give priority to the training of its statistical staff and technical assistance in establishing government finance statistics.

### Financial plan and strategic plan of the CBBH for 2003 adopted

The Governing Board of the CBBH held its first meeting for 2003 in Sarajevo yesterday, during which it adopted the CBBH's Strategic Plan and Financial Plan for 2003. The Strategic plan sets out

the key principles that will determine the work of the CBBH. The main one is 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. The Board was also given the preliminary financial results for the CBBH's operations in 2002. The financial accounts are still undergoing external audit and will be published once that audit is completed, which will be in March. The Board approved an updated set of investment guidelines for the management of the CBBH's foreign reserves. Most of the income of the CBBH comes from the interest the CBBH earns on these foreign reserves. The guidelines set strict criteria for limiting the amount of risk the CBBH can take in investing in foreign assets. The aim of the Investment Committee of the CBBH is to generate as much income as possible from the foreign reserves. But they must operate within the risk guidelines set by the Governing Board at all times. The Board also approved the request of the Council of Ministers for the CBBH to implement and fund their decision to obtain an international credit rating for BiH. All four Board members, **Peter Nicholl**, **Manojlo Coric**, **Kasim Omicevic** and **Jure Pelivan** attended.

## CELEBRATIONS

### CBBH celebrates Drivers' Day

Like in almost all other companies, January 15, which is the Drivers' Day, was celebrated in the CBBH. It was one of opportunities for the drivers who are working in the CBBH to gather and celebrate "their" day. However, even beside the celebration, the day went by in the working atmosphere, since the drivers performed their everyday duties.



## NEWS FROM THE MAIN UNITS AND BRANCHES

### MAIN UNIT SARAJEVO



Based on the Decision of the Governing Board of the CBBH about the purchase of the office space for the Main Unit Sarajevo from the GP "Bosna" d.d. Sarajevo, the Contract, which sets all elements that are necessary for the realization of this deal, such as size, price, methods and deadlines for the payment and moving, was signed with this Company. The office space is located in Mehmeda Spahe 3 Street, which is very close to the building of the Central Office of the CBBH. The facility consists of basement, ground floor, and two floors, which is a total of 1.235,92 square meters. It represents a compact facility with the possibility for the free access for vehicles, construction of the vault and carrying out of all treasury operations. The facility will have the live communications link with the Central Office building, which provides the possibility for the protection and backup of the computer data for the Accounting and other departments. Renovation of the facility, repair of offices, installations, including the installation of the vault and the security systems will be done before the Main Unit actually moves in. The end of construction works is expected until the end of June this year. Moving into the new facility will provide secure working conditions for the Main Unit Sarajevo, which will influence future everyday business operations of the Unit. At the same time, moving of the Main Unit Sarajevo will free some office space in the Central Office, where everyday operations, with the higher degree of utilization of the office space, should be carried out more efficiently.

### MAIN UNIT MOSTAR

Several banks located in the region which is covered by the Main Unit Mostar went through the status changes. Raiffeisen Bank HPB d.d. Mostar joined Raiffeisen Bank d.d. Sarajevo, while the process of the joining of the LTK Bank Livno to the Gospodarska Bank d.d. Sarajevo is in progress. New banking-accounting software is in use in the Treasury and Accounting Section where it now shows satisfying results after the trial period and bugs that were noticed at the beginning of the work. Operations regarding

management of reserve accounts and buying and selling of the KM will be performed through both software solutions until the end of January this year. Main Unit Mostar submitted its Business Operations Report for 2002 timely to the Economics Research and Statistics Department. The Commission for the small inventory made the inventory list on January 14, while Commission for the fixed assets made the inventory list on January 16 in the Main unit Mostar.

### BRCKO BRANCH

A small inflow of 50 fening banknotes was recorded in Brcko Branch vault in January, since the banks deposited 11.600 pieces of banknotes worth KM 5.800. 93 inflow transactions and 24 outflow transactions of banknotes were carried out in the vault from January 1 until January 24. Transfer of assets from the account of the Privredna Bank AD Brcko to the account of the Pavlovic International Bank was carried out on January 22 after the finalization of the purchase of the Privredna Bank AD Brcko. Construction works on the new garage of the Branch Office continued this month. Central Office Commission made the inventory list of fixed and small assets. Operations regarding the monetary statistics, as well as other standard activities, were performed continuously.

### MBRS BANJA LUKA

The main characteristics of January were preparation of the Annual Report for 2002, as well as the monitoring of the performance of the banking-accounting software, considering that its application has begun. Joining of the Agroprom Bank AD Banja Luka to the Nova Bank AD Bijeljina and privatization of the Privredna Bank AD Brcko and its joining to the Pavlovic International Bank AD Bijeljina caused reduction in the number of banks that operate in the Republika Srpska to 11.

### PALE BRANCH

Deposits of commercial banks that are operating in the region under the jurisdiction of the GBRS Branch Pale increased 10% this month compared to December 2002. Also, the volume of cash in vaults of the commercial banks increased 15%.

## EMPLOYMENT

### New employee in the CBBH

The CBBH has a new employee, **Sandra Hlivnjak**, who was employed on January 6, 2003 for the indefinite time period as the Economic Analyst in the Economic Research and Statistic Department by means of vacancy announcement, which had been published on September 20, 2002. We wish her a warm welcome to our institution. The CBBH currently 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 status of trainee.

## EDUCATION

### Participation at the Forum in Vienna



Vice Governor of the CBBH M.A. **Dragan Kovacevic** attended the Eight Annual Forum of Publishers and Investors of the Central and South East Europe, which was held on January 15 and January 16, 2003 in Vienna, Austria.



**CENTRAL BANK OF BOSNIA AND HERZEGOVA**  
**Monthly Balance Sheet (provisional ) as of 31<sup>st</sup> December, 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 offer particular information ruled by the Law on the Central Bank of Bosnia and Herzegovina. Some of specific features of the balance sheet as of 31st December are as follows:

As on 31st December, the Bank met all requirements under the Currency Board rule as mentioned in Article 31 of the Law. Status of Net Foreign Assets exceeds its Monetary Liability in Konvertibilna Marka (KM) by 118,072,705 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.

The balance sheet also shows Composition of the currencies maintained, 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 (1,868,650,806 KM) and resident banks, reserve deposits (446,880,350 KM).

**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.

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 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 resources maintained on these accounts was 188,149,701 KM.

Any inquiries referring 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, contact 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 organization relations with any commercial bank.**

**CENTRAL BANK OF BOSNIA AND HERZEGOVA**  
**Monthly Balance Sheet (provisional ) as of 31<sup>st</sup> December, 2002**  
**(amounts in KM equivalents)**

ASSETS		Total Amount	EUR	Other Currencies
1	Foreign Exchange Assets	2.464.401.040	2.451.569.966	6.936.809
1.1	Cash	58.866.058	58.693.898	172.160
1.2	Short term deposits	2.399.640.717	2.392.876.068	6.764.649
1.3	Other	5.894.265	0	5.894.265
2	Other Assets	70.875.163		
TOTAL ASSETS ( 1 + 2 )		2.535.276.203		

LIABILITIES		Total Amount
3	Monetary Liabilities	2.345.152.806
3.1	Currency in Circulation	1.868.650.806
3.2	Credit Balances of Resident Banks	446.880.350
3.3	Credit Balances of Other Residents	29.621.650
4	Liabilities to Non Residents	1.175.529
5	Other Liabilities	11.415.445
6	Capital And Reserves	177.532.423
TOTAL LIABILITIES (3+4+5+6)		2.535.276.203

Net Foreign Assets minus Monetary Liabilities ( 1 - 3 - 4 )	118.072.705
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P.W. Nicholl  
Governor

Sarajevo ( date ) 28.01.2003.

Jasmina Halilbegović  
Comptroller General