

CENTRALNA BANKA
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ

October – December 2009



С В В Н

info



Dear colleagues,

Past 2009 year ended with a series of important activities, among which mostly seminars, conferences, forums, whose participants and organizers were the representatives of the Central Bank of Bosnia and Herzegovina (CBBH). One of the most significant took place in Sarajevo, and it was on the responsible finance as a key response to the financial crisis. Responsible finance has been an increasingly important topic in the financial services industry, especially in light of the recent turmoil that has hit financial markets around the world, and was caused mainly by irresponsible banking practices.

The CBBH representatives participated in the seminar on the corporate governance in banks of the South East Europe held in Belgrade. The aim of this seminar was to develop the recommendations for the improvement of the corporate governance for banks of South Eastern Europe, and the individual action plans for each country through the review of painful lessons learned during the latest financial crisis, including the analysis of many mistakes in the field of corporate governance which were registered even in the largest banks in the world.

Related to the information on funds from the Special Drawing Rights allocation by the International Monetary Fund, in this issue we are publishing the article on Special Drawing Rights and its effects on BH.

At the start of another business year, we hope that the CBBH with its employees, continue to achieve good business results.

By Public Relations Section

Publisher:

Central Bank of Bosnia and Herzegovina;

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Maršala Tita 25, 71000 Sarajevo

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DTP and Printing:

Printing Company CPU Sarajevo

The CBBH Newsletter is issued on a quarterly basis



The Central Bank of Bosnia and Herzegovina is certified as per ISO 27001:2005 standard, which confirms the accurate implementation of the ISMS for the scope defined in the Official Certificate Registration, No. 44 121 091933, which is issued to the Central Bank of Bosnia and Herzegovina by the certification body of TÜV NORD CERT GmbH.

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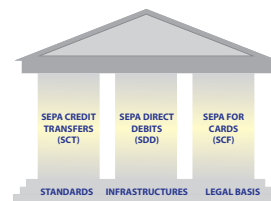
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THE SEMINAR ON CORPORATE GOVERNANCE IN BANKS – BH APPLIES MOST OF INTERNATIONAL STANDARDS

The delegation of Bosnia and Herzegovina, which consisted of members from the Central Bank of BH (CBBH), Banking Agencies of the Federation BH and the Republic of Srpska, Banking Association of BH, and the IFC and the EBRD resident offices for Bosnia and Herzegovina, took part in two days seminar on corporate governance in banks of South Eastern Europe, held in Belgrade from December 9 to December 11, 2009, which was organized by the European Bank for Reconstruction and Development (EBRD). The aim of the organizer of this seminar was, to develop, through the observing of the painful lessons learned during the latest financial crisis, including the analysis of many mistakes in the field of cor-

porate governance which were registered even in the largest banks in the world, the recommendations for the improvement of the corporate governance for banks of South Eastern Europe, and the individual action plans for each country.

The participants of seminar all agreed in the assessment that a lot of time and efforts would be needed to restore the trust in the governing boards of banks, many of whom showed weaknesses during the current global economic crisis, both in the decision-making process, and structurally. Namely, it was obvious that there were many of them without clearly defined limit of responsibility, which was ultimately





reflected in slow and insufficient reactions during the crisis and large losses. The best example for that are the stumbled banking giants such as Bear Sterns and Lehman Brothers, which even had no separate supervision committees. Poor corporate governance that was present in many financial institutions, including insufficient internal controls, resulted in the loss of the balance between stability and taking risk, the lack of transparency, and generally, bad perception about corporate responsibility in the banking sector. Unlike the real sector, it was obvious that in the banking there is a predominant tendency of strengthening the emphasis on the corporate governance during the financial crisis and problems, while in stable conditions and in periods of high returns on investments, the emphasis on corporate governance erodes faster than in other fields and activities. For this very reason, the Belgrade conference was a good opportunity for every participant country to individually check the status of the corporate governance in its own banking sector.

Within the preparation for the part of the conference in which BH delegation had an indi-

vidual session with the EBRD moderator, the working document was made with coordination of the CBBH Vice Governer, Radomir Božić, Ph.D. The aim of preparing the document was to analyze some fields which should indicate the status of the corporate governance in banks in BH. Among the analyzed fields, the manner of appointment of the boards and specialized committees or commissions, the manner of setting the strategic aims of the banks and the corporate behaviour standards, the clarity of set responsibilities, the role of the internal/external audit and supervision, compensations for the board members, transparency and information disclosure on corporate governance, and whether the banks monitor their clients' level of corporate governance, should be mentioned.

The conclusion of the group session with the EBRD moderator is that the corporate governance in BH banking sector is at high level, and that many quality international practices are already applied. Nevertheless, it was noticed that a big part of such practices is not a part of a separate, written document, but only the part of good will in business practice.

Kemal Kozarić: The crisis returned the focus on the quality of the „decision making“ process

The Governor of the CBBH Kemal Kozarić, Ph.D., also participated in the seminar in Belgrade, and, together with the Governors of the National Bank of Serbia and the Central Bank of Montenegro, gave a presentation on good practices in bank supervision. In addition to presenting the impact of the global financial crisis on BH financial and real sector, the Governor stressed that the focus of future actions would be on the prudential control of the financial sector activity, with a special focus on the necessity of full implementation of Basel II. «We managed to overcome the financial sector crisis, but the necessary steps must be taken in order to prevent the repeating of the crisis. Introducing better practices in the decision making processes is needed, and the conference as this one is, allows us to see where we are and what should we do. The main guideline should be Basel II, because Basel I did not provide answers to some risk related matters, as well as to all matters related to conducting of banking operations and capital management“, Kozarić stressed.

Therefore, the main conclusion of the group session was that it is necessary to establish a working group, consisting of business people, bankers, regulators and legislators, that would form these practices in the document on corporate governance in commercial banks in BH, which would be obligatory, which is a part of the practice that is implemented successfully in other countries in the region.

One of the key issues noted during the group session, which is not present in BH practice, is that the boards of the banks, especially those with majority foreign ownership, include no local experts, or a small number of them. Therefore, one of the recommendations, which would be included in the final conclusions of the Conference on corporate governance in banks in South Eastern Europe, is that the bank supervisory boards should include at least two local independent members, to insure that the banks respect the interest of the local community in their work.



The organizers of this conference stressed that the group presentations will be analyzed by the EBRD experts, who should suggest the measures for the improvement of corporate governance for each country. The proposed measures will be presented and adopted at the final meeting.

By Almir Salihović, M.Sc.,
Special Assistant to the Governor

VIENNA ECONOMIC FORUM

The Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Kemal Kozarić, Ph.D. participated in the Economic Forum, which was held from 9 to 10 November 2009, in Vienna, where he spoke about the impact of the global economic crisis on the region and particularly, Bosnia and Herzegovina. The Governor pointed out that the main goal of the CBBH, during the crisis, was to maintain monetary stability. The CBBH used required reserve instrument three times; all of these efforts have been aimed at long-term stability, which can be seen from the continuation of the Currency Board Arrangement as the model of monetary policy for Bosnia and Herzegovina. Additional stability should be also provided by the signing of Vienna Initiative between BH and mother banks of nine large commercial banks operating in Bosnia and Herzegovina, which control over 90% of

the market. In accordance to the agreement, commercial banks have made the commitment to maintain the level of their exposure, capital, lending activity and to conduct stress tests.

The banking sector, according to Governor Kozarić, has shown the satisfactory level of soundness and responsibility, which could be best seen in the beginning of the crisis, when citizens and companies started to withdraw their deposits. The banks have fulfilled all demands of clients, which shows that this situation was completely opposite to the situation in the 90's of the last century, when clients could not get their deposits from banks. The banks have kept high level of liquidity, but they also changed their model of business behavior: they became more conservative, more restrictive, including also the risk assessments.





Credit growth rate has declined, because of reduction of credit lines at the international money markets, which has turned banks towards local sources and markets, which are very limited. This has clearly shown a high level of dependency of local banks on their mother-banks and that all the risks arise from the fact that all strategic decisions are made outside of the country, outside of influence of central monetary authorities. Change of focus to local markets led to increase of payable interest rates, which as a consequence influenced increase of receivable interest rates. Such changes have brought banks under the pressure from the public and were somewhat harmful for their good reputation, which they enjoyed in the past. The well-known statement that “trust is tough to earn and easy to lose” is the most accurate in banking sector, Governor said. The first results of stress tests show that commercial banks in Bosnia and Herzegovina have satisfactory capitalization level of 16%, meaning that they are liquid.

“The second issue is how to be safe in lending. It is obvious that negative impacts which the financial crisis had on real sector are reflected in several areas, which in return will have large influence on future lending”, said the Governor at the Forum. Citizens, according to him, are increasingly reluctant to borrow and with their average debt per capita amounting to KM 1,700, which is still far

below the EU and regional levels, BH citizens have already reached their capacity for borrowing. The increase in the number of lost jobs and problems which many companies faced in 2009 have had a direct impact on the level of nonperforming loans (NPL), which have increased significantly and now take 2.8% in the total assets. Decline in lending activity of commercial banks has caused 42% reduction in the overall profitability of the BH banking sector. “As a conclusion I can say that the lending function of the commercial banking sector of Bosnia and Herzegovina is available – banks have never had liquidity issues, foreign owned banks have not withdrawn from the market and they all have committed to maintaining lending and exposure at the level which was recorded before the crisis”, said the Governor. He added that this region still has large potentials for growth, including Bosnia and Herzegovina, with many capacities - in agriculture, telecommunications, tourism, electricity production and this should be supported by the commercial banking sector. One thing is certain, economic growth rates, as well as banking profits will be much lower in the future than they were before, the Governor concluded.

By Zijada Kovač,
Coordinator of Public Relations Section

DEVELOPMENT AND INTEGRATION OF THE PAYMENT SYSTEMS MARKET INFRASTRUCTURE OF SOUTHEASTERN EUROPE COUNTRIES

What kind of help do the central banks of Southeastern Europe expect from the European Central Bank (ECB)? In which way can the ECB help the central banks of Southeastern Europe? And when do the central banks of Southeastern Europe expect to be helped by the ECB?

These were the introduction questions for discussion nominated by Tom Kokkola, Counselor of the ECB payment systems general director, on the last day of the conference entitled « Development and Integration of the Payment Systems Market Infrastructure of Southeastern Europe Countries», held in Bucharest from September 30 to October 2. The organizers were the ECB and the National Bank of Romania, and representatives of Albania, B&H, Bulgaria, Montenegro, Croatia, Greece, Slovenia, Serbia and Turkey participated.

Issues, discussions and conclusions were dedicated, mostly, to the countries which are in the process of accession to the European Union (EU) or to countries that are candidates for the EU membership. It can be said that the issues raised by chairman Kokkola, at the end of the conference, were a good introduction for speeches of the representatives of participant countries. More or less, the common component of all the speeches was awareness of the large job awaiting for central banks, and the payment systems in those banks. Only one fact stated by Simon Anko, Assistant of the Head of Payment Systems Division in the Bank of Slovenia, speaking on the subject «Experience of Slovenia in Accession to Euro», was sufficient

for such kind of conclusion of the attendants. That fact says that the Bank of Slovenia faced the need to consider more than a thousand documents sent by the ECB and other EU institutions. Translation of these documents was the easier part of the job. The other part was related to the harmonization of domestic regulations and laws, preparation of methodologies, procedures and everything else and, of course, implementation of all of this in practice. As much as the job seemed to be enormous, Slovenia, as a small country with two million citizens, and its «small» central bank showed that all can be achieved, respecting the timing at the same time.

Attendants noted the cooperation with the central banks from the European Central Banks System as a possible assistance. That is a well-known practice used by central banking institutions from the latest round of countries admitted in membership, two years ago. Existence of such arrangements also for the countries that are on their way to accession to the EU, is confirmed by the experience of the Central Bank of Montenegro, which plentifully uses the assistance of their colleagues from the Bank of the Netherlands.

Although the last day was the most interesting, due to interaction of the participants during the discussions, two previous days were very useful. Based on the presented lectures, it could be concluded what the focus of work in the ECB and the members of Eurosystem is. There are three key activities related to oversight, SEPA and Target2-Securities.

Comparison	
Supervision	Oversight
Individual observation of institutions +macro level	Regulation observation (infrastructure, systems, relations, instruments...)
Appropriate management/risk control/ protection of depositaries	Undisturbed system functioning
General regulatory framework	Encouraging, standards and recommendations
The detailed control of individual institutions requested	Design and operations observation
Regulated by the central bank or certain authority (or both)	Regulated by the central bank

Oversight

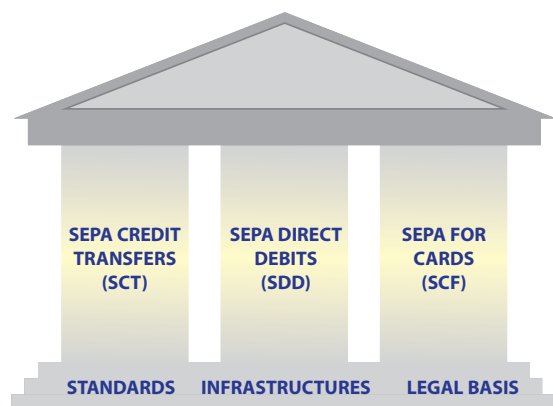
Klaus Löber, the Head of Oversight Division in the ECB, had an interesting speech on the oversight issue. «From the mid of seventies of the last century, the payment systems in developed countries have entered the focus of interest. That happened, among other things, because of exponential increase of circulated monetary value, caused by the phenomenon of financial transactions increase enabled by the development of electronic data processing and telecommunication technologies», says Löber.

The development of the payment systems was very dynamic in previous decades, where the central banks role in oversight increasingly imposed itself and «Lamfalussy report» from 1990 established the responsibility of central banks for oversight.

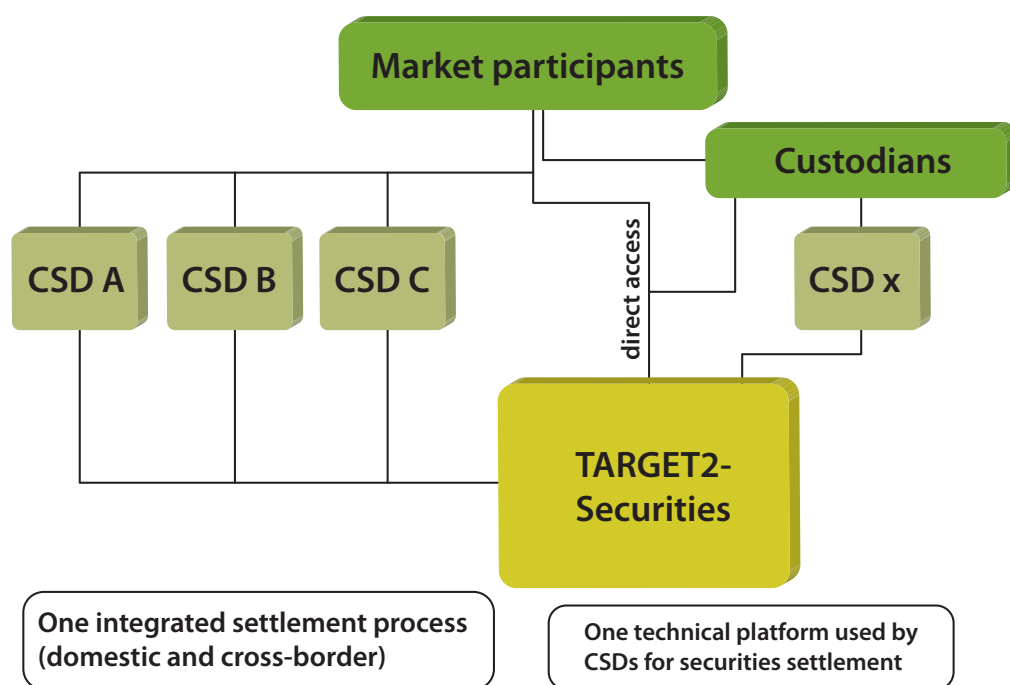
The conclusion of the group is that the central banks are always very interested in oversight – due to the need for reliable and efficient payment systems. One of the basic principles in banks functioning is the need to be «the guard» of public trust in money, and this trust mostly depends on the capability of financial subjects to make the transfer of money and financial instruments through payment systems and settlement systems in a fast and secure way.

SEPA

Despite the fact that the Euro currency is the matter of habit for many EU citizens, retail market has not integrated yet. The processing models differ from country to country, let's say also that almost every country has its own processing center. Also, the payment instruments are different, as well as the standards that regulate them. There are large differences between resident and cross border payments, in quality, service and in the end, in price. This was the alarm to the central banks and the financial institutions for the ambitious project of integration of the European market of retail payment. The project named SEPA should change all of this: all payments in euro currency in the eurozone countries will be treated as resident, with the increase of efficiency, better service and lower prices.



SEPA project



The future scheme of the securities market and the clearing in the ECB

Target2-Securities

Given that the EU investors in securities are dissatisfied with the fragmentation and inefficiency of the market of securities, a project for creating a single pool of securities was launched. Jean-Michel Godeffroy, the Chairman of the Target2-Securities (T2S) Program board, spoke at the conference, mentioning the need for harmonization and increasing of competitiveness as the first reason for launching the comprehensive market enterprise for securities. Shortly, the T2S proj-

ect should be the same thing for securities as the Target2 is for payments. Comparison with organization and harmonization of the US market is a strong reason why the EU should make a dramatic cut. Finally, this will attract investors to the stock markets in the EU. The ECB will be in the centre of all activities related to securities, as the institution that will do the clearing.

By Sead Bijedić,
Gyro Clearing Section Coordinator

Explanation of terms:

Oversight – The public policy activity, mostly intended to improve the security and efficiency of payment and settlement systems, and securities too, and especially to decrease the system risk.

SEPA - The Single Euro Payments Area initiative of the European financial institutions to create the eurozone in which all payments will have the resident status and, in which there will be no borders between national and inter-European payments.

Retail payments – The term denotes all payments not covered by the definition «large-value payments». Retail payments are, mostly, the consumer small-value payments and do not require immediate execution.

Large-value payments – Mostly payments in very large amounts. Usually exchanged between banks or participants in financial markets, and they are carried out immediately.

SPECIAL DRAWING RIGHTS AND EFFECTS OF ALLOCATION ON BH

The Board of Governors of the International Monetary Fund (IMF), which consists of elected representatives of all 186 member countries, adopted on August 7, 2009, the Decision on Approval of the Allocation of Special Drawing Rights - SDR (international mark that derives from the Special Drawing Rights). Minister of Finance and Treasury of BH Dragan Vrankić is currently performing the function of the elected representative of Bosnia and Herzegovina in the IMF Board of Governors.

As a term, the allocation of the SDR represents distribution or allocation of the approved total amount in SDR, according to a certain proportion, or criteria, to all member countries of the IMF. The basic criteria for performing the SDR allocation, as well as for all other relations of a member country with the IMF, such as the approval of Stand

By Arrangement for example, is a quota. Quota or the total capital of Bosnia and Herzegovina in the IMF amounts to SDR 169.1 million, out of which 25% is the paid-up capital, while 75% is the callable capital in the form of securities (promissory note) which are deposited in the Central Bank of BH. BH, as one of the successors of the former Yugoslavia, inherited all the rights and obligations arising from the membership in the IMF, so it inherited the most of its quota (about SDR 121 million), and the remaining part to the current amount took place after an increase of quotas to all the members in 1998.

Based on the abovementioned criteria, in August 2009, SDR 125.4 million was approved to Bosnia and Herzegovina as a general allocation of the SDR, which represents the abovementioned part of almost 75% of quota. In September 2009, Bosnia and Herzegovina received SDR 15 million as a special allocation of the SDR. The aim of the special allocation of the SDR is correction of position of the countries that became the IMF

members after the period of the approved regular SDR allocations during the

70's and the 80's. Cumulative SDR allocation to Bosnia and Herzegovina represents the sum of the approved allocations from the 70's, the 80's (inherited from the former SFRY) and 2009, which currently amounts to SDR 160.8 million.

The financial effect of the SDR allocation received in 2009, was the

increase of foreign reserves of Bosnia and Herzegovina, which the Central Bank of Bosnia and Herzegovina (CBBH) is in charge of, and at the same time the increase of money supply (monetary liabilities) of the CBBH, by approving of deposits in the local currency - KM owned by the Ministry of Finance and Treasury of BH, the Federal Ministry of Finance and the Ministry of Finance of the Republic of Srpska. Expressed in amounts, the CBBH has increased its reserves by SDR 140.4 million and increased monetary liabilities, by crediting KM 299 million of deposits to the account of the abovementioned ministries of finance in Bosnia and Herzegovina.





The very allocation of SDR by the IMF is one side of the transaction; on the other hand, all members incurred at the same time an obligation to the IMF in the same amount. In this way, Bosnia and Herzegovina obtained reserves, but at the same time it incurred the long-term foreign currency obligation to the IMF in the amount of cumulative allocation of SDR 160.8 million. Hypothetically, if the Board of Governors of the IMF decided to annul the SDR allocation, then all the members would have to reduce their foreign currency reserves and return equivalent in local currency to the IMF. Actually, it would mean that the above mentioned Ministries of Finance in BH would pay the equivalent in KM to the IMF account with the CBBH which would reduce by the same amount the foreign currency reserves. Since it is difficult to presume that annulling of the approved SDR or termination of work the Department for the SDR in the IMF will happen, the SDR allocation is very close to the category

of the quota or capital, but it is more precise to treat it as the long-term foreign currency obligation of all members to the IMF (with unforeseeable term, until the above hypothetical situations occur).

The specific feature of the SDR is that the SDR is not the currency or banknote, nor a direct claim on the IMF. When the state has the SDR approved, from any credit arrangement or the allocation of SDR, than it has the possibility either to hold the approved SDR amount in its “current” account with the IMF and or to withdraw the equivalent amount in all currencies that are in free use among the IMF members. Quite cumbersome name of reserves, as «special drawing rights» is, implies just such meaning. To have SDR in the account with the IMF actually means to have the possibility to withdraw through the IMF, a certain equivalent of one of the four currencies that make the basket of currencies, which determines

the value of SDR: US dollar, British pound, Japanese yen and euro. E.g. if such a transaction were agreed with the IMF on 15 September 2009, the 1 SDR would amount to USD 1.58 or GBP 0.96 or JPY 143.98, or EUR 1.08 (or a combination of all these currencies and the SDR).

For holding the SDR in its account with the IMF, the member receives interest at the interest rate on SDR; the same interest rate is applied on all obligations of a member country that arise from the arrangement with the IMF and from the total allocation of SDR. The interest rate on SDR is determined weekly, on Friday, and is published on the IMF website; it represents the weighted average of interest rates on short-term debt instruments (Treasury bills or T-bills) of countries whose currencies determine the currency basket of SDR. The interest rate is calculated monthly, paid quarterly, upon the end of the fiscal year quarter of the IMF, which is on April 30, (payments, therefore, are carried out at the beginning of May, August, November and February).

On the basis of the presented specific features of SDR as the reserves for the IMF members, it is said that the allocation of SDR is gaining of foreign currency reserves, without any expenses. For the received SDR allocation, the IMF members pay expenses by interest rate on SDR, and if at the same time they keep the amount of SDR, which is equal to the total amount of SDR allocation in its account with the IMF, then the net cost of these reserves are almost close to zero (there is a small amount of fee to cover the costs of the IMF). In the case of Bosnia and Herzegovina, there is no direct compensation of income generated through interest rate and costs related to SDR allocation. The CBBH achieves interest on SDR funds and the costs of SDR allocation are paid by the competent Ministries of Finance in Bosnia and Herzegovina. These two items are indirectly compensated in a way that every year after determination of net profit, the

CBBH transfers 60% of its realized net profit to the account of the institutions of Bosnia and Herzegovina. In other words, regardless of the fact that the CBBH is a non-profit institution, it operates in the best interests of Bosnia and Herzegovina and every year it transfers a significant part of its profit to the BH institutions. In order to achieve the best possible income on the foreign reserves of Bosnia and Herzegovina, respecting the Currency Board principles defined by the CBBH Law and taking into consideration the results of financial analysis, the CBBH conducted the conversion of almost total approved amount of SDR allocation into the Euro Currency.

The specific feature of the SDR allocation in relation to the Stand-by Arrangement which was also approved to BH in 2009, is the fact that for SDR allocation, Bosnia and Herzegovina does not need to meet certain conditions to use the funds. However, the rule of membership in the IMF is that the member who is subject to the conditions of credit arrangement with the IMF in any case cannot use the funds of the approved SDR allocation contrary to the objectives and policies agreed within the credit arrangement. The BH Fiscal Council, as the body which, among other things, is in charge of signing and implementation of the arrangements with the IMF, decides about the way of use of funds approved by the SDR allocations, in consultation with the IMF. Funds of the approved SDR allocations could significantly contribute to the implementation of measures and targets defined by the current Stand-by Arrangement, as well as for the basic purpose - mitigating of consequences of the global economic crisis, which was defined at the G20 Group Summit, in April 2009 in London.

By Verica Božić,
Head of Division for
Public Debt Servicing

RESPONSIBLE FINANCE: A KEY RESPONSE TO THE FINANCIAL CRISIS

The global financial crisis has shown that the principle of responsible finance was not sufficiently developed with banks and with clients. It has now become evident that the liquidity risk of banks in Bosnia and Herzegovina is rather low, and that the main problem is the quality of loans.

This, among other things, was said at the Conference on Responsible Finance whose organizer, in cooperation with the KfW (German Development Bank) and EFSE (European Fund for Southeast Europe), was the Central Bank of Bosnia and Herzegovina (CBBH). Responsible finance has been an increasingly important topic in the financial services industry, especially in light of the recent turmoil that has hit financial markets around the world, and was

caused mainly by irresponsible banking practices. Therefore, promoting responsible finance principles is considered to be one of the primary responses to the financial crisis. This is of particular importance for the region of Southeast Europe, including Bosnia and Herzegovina, where financial sectors have recorded enormous growth rates, over the past years.

The Governor of the Central Bank of Bosnia and Herzegovina, Kemal Kozarić, Ph.D. pointed out that the deterioration of business conditions and the general decline in standards of the population, as a result of the economic crisis, led to a significant increase in non-performing assets to 2.8% of the total assets. This has not significantly threatened the health of financial institutions, but it appears as a threat to banks, especially the



microfinance sector. He warned that, in responsible finance, the focus should be on clients who are often left to themselves and that clients have responsibilities as well. Namely, different behavior of clients is evident before and during the crisis. Before the outbreak of crisis, there was a great expansion of using of commercial banks' services, the lack of knowledge on all aspects of services and misperceptions from the past in relation to obligations, and often thoughtless entry in debtor-creditor relationships, where one person was a guarantor for several times simultaneously. During the crisis, it comes to "facing the reality," unjustified and justified anger at the bank and accepting the media as the best advisor. It was a similar case with banks in which, before the crisis, there were a large expansion, high competition, a limited number of quality clients and projects, an aggressive marketing approach, a large number of instant products without adequate education of clients and a significant credit growth. During the crisis, insufficient partnership with the client, meaning insufficient flexibility towards the client, the unwillingness of PR and marketing departments to stop the negative perception and change in business behavior – shifting the focus from lending on deposits, conservative and restrictive approach in business and comprehensive risk evaluation for new investments appeared. All the elements of the financial sector have to work on the promotion of responsible finance, said Governor Kozarić. He added that banks need to work on the education of the public and customers, and



that they need to adopt the concept of individual approach to the client. Financial crisis has resulted also in positive effects - risk management is improving, safety of return is a priority; and the most important approach in the future is an active approach to each client.

The CBBH Vice Governor Radomir Božić, Ph.D. pointed out the details related to the responsible managing of foreign exchange reserves, saying that the foreign exchange reserves, at the beginning of the crisis, were withdrawn from commercial banks and deposited in central banks of the European Union member countries.

Companies and the entire population now have significantly better access to financial services. This has contributed to economic growth and greater prosperity, including also the poorer groups of the population. »Yet, despite these positive impacts, the upward trend has also shown its downside – non-transparent and ambiguous lending practices have put many customers at the risk of excessive indebtedness, particularly through uncontrolled consumer lending», said Doris Köhn, Senior Vice President at KfW Entwicklungsbank.

The KfW Chief Economist Mathias Adler said that the clients of financial institutions need to be protected from making wrong decisions, which is the basis for sound lending practice. Banks, according to him, should have clear communi-



cation with clients so that they can make decisions on borrowing on the basis of good information, but also realize their own responsibility in the assessment of client credit ability.

»Responsible lending principles must be adhered to during the entire lending cycle, starting with a prudent assessment of the creditworthiness of individual clients and continuing with a fair and transparent lending relationship», said Sylvia Wisniowski, Chief Operating Officer of the EFSE, the world's largest micro finance investment fund.

Speaking of the interest rate policy of financial institutions, the Specialist of Consultative Group for assistance to the poor people Jasmina Glišović - Mezieres said that the interest rates of microcredit organizations in Bosnia and Herzegovina are lower than in other countries and on the average, they are 25%. The average loan amount with microfinance institutions is KM 2,300, they have a five percent share at the financial market and have approximately 400,000 clients.

Addressing the participants of the conference, Minister of BH Finance and Treasury Dragan Vrankić said that responsible finance also means establishing a financial structure that will strengthen economic effectiveness. «State institutions will insist on this, and will be involved in forming this structure. We are aware that monetary and financial stability are important preconditions for successful conducting of economic policy. Only under such conditions it is possible to improve the total rating of the country and facilitate the implementation of country plans in realizing large-scale development projects», Vrankić said. The High Representative to BH Valentin Inzko said that the financial system of Bosnia and Herzegovina has proved to be resistant in the light of the world economic crisis, saying that confidence in domestic banking system has been maintained through timely and pragmatic measures.

By Zijada Kovač,
Public Relations Section Coordinator

ON THE WAY TO THE EUROPEAN UNION

Upon entry into force of the Treaty of Lisbon on December 1, 2009, concerns related to impossibility of enlargement of the European Union (EU) due to institutional constraints, have been completely rejected. The Treaty of Lisbon confirms full commitment to the EU enlargement policy. Where is BH in the enlargement process?

The BH Progress Report by the European Commission in 2009, is negative, and the grade of the Economic-Fiscal Program (EFP) is not high either. How have we we deserved an extremely low grade from the European Commission, significantly lower than the one received last year? It is true that there has been a delay noted in the reform processes in BH for several years, so last year also there was no major reform progress noted, but at the same time there were no big stresses either. Status quo. This very status quo is one of the main reasons of sharp criticism by the European Commission. In the EU accession process, BH is not observed isolated but in the context of global development and general progress of the countries that are potential candidates and candidates for the EU membership, which make urgent steps to try to meet the criteria for the EU membership. In light of the Republic of Serbia application for the candidate status, in the Western Balkans package, BH could stay at the very end of the queue waiting to join the EU, staying in the non-candidate country status or, packed in a diplomatic dictionary, in the status of the potential candidate country for the EU membership.

The Commission, as the main reason for the absence of the necessary reforms in BH, quotes the absence of common vision and coordination, the national tensions, inadequate resources. The key of success of the CBBH can be defined with very simple prin-

ciples of the team sport: common goal and strategy, trust, quality players and permanent training, including the independence which means responsibility. Therefore, it is clear why the European Commission mentions the Central Bank of Bosnia and Herzegovina, in few «bright» pages in the Progress Report, giving it credit for maintaining monetary and financial stability even during the crisis.

However, we must not stop, satisfied with the fact that in the Progress Report, as well as in the EFP assessment for 2009, the Commission praises and gives very positive assessment for the monetary policy of the CBBH, emphasizing the efficiency and the adequacy of the Currency Board. The CBBH, for years, has carried the title of the most respectable state institution in BH. But there are new challenges awaiting for the CBBH. The benchmark for the CBBH must be higher. The benchmark for the CBBH are the European central banking standards. We can do more and better. In the EFP assessment for 2009, the European Commission states: «Even the CBBH reacted well, it seems there is a room for improvement of it readiness for the crisis.» The stable and efficient central bank contributes to better readiness of the whole country for the EU membership. Therefore, according to the objective of the BH joining the European integrations, the CBBH continuously works on the improvement of its institutional capacities, with the special emphasis on the investment in human resources. Within the timely preparations for the ESCB membership, in order to achieve gradual convergence with the best European and international standards, we particularly mention the continuous cooperation with the European Central Bank (ECB), which is important because of expert aspects, but above all because of reputation-strategic aspects. According to the CBBH coordinating role in the field

of banking supervision and the «European» commitments concerning the common economic space and harmonization of the banking sector with the key Basel principles and the EU acquis on banking, the CBBH will, in the 2010-2011 period, together with the Banking Agencies of the Republic of Srpska and the Federation of BH, take part in the ECB/Eurosystem regional program aimed to improve the macro and micro prudential supervision and harmonization with the EU banking regulations.

Also, on March 1, 2010, the CBBH begins the realization of the project of direct cooperation with the ECB and the Eurosystem partner banks, financed by the EU pre-accession assistance instruments. The program will include the following business functions of the CBBH: the economic analysis and research, statistics, financial stability, legal operations, information technology, European integrations, and through the interrelation and synergy with other business functions and fields, it will contribute

to the improvement of the overall operations of the CBBH, aiming at gradual harmonization with the EU standards. With the intensive training of staff, application of new knowledges, methodologies and practices during the project, the planned results include creation of medium-terms action plans and programs of the CBBH integration in the ESCB. These development documents will be made by the CBBH experts, with the support and consultation of the Eurosystem experts. Although BH is still in the centralised system of the EU funds management, the direct cooperation of the CBBH with the ECB confirms the high level of ownership, independence and responsibility of the CBBH. Upon completion of the project, in mid 2011, all the final documents will be submitted to the CBBH Governing Board, for consideration.

By Renata Barić,
Manager of the Department for International
Cooperation and European Integrations

Treaty of Lisbon:

After several years long negotiations and institutional reforms, on December 1, 2009, the Treaty of Lisbon came into force. Since the procedures of the EU institutional activity are made for the EU composed of 15 members states, according to the enlargement policy it was necessary to reform the EU decision making and acting mechanisms. In light of the failed attempt of adoption of the EU Constitution and the need for the institutional strengthening of the EU aimed at the efficient functioning, the Treaty of Lisbon represents a compromise solution which precisely defines the EU as a community of more countries, and the concept of creation of the transnational state EU is entirely abandoned. The Treaty of Lisbon does not substitute the previous treaties, the Treaty on European Union (Maastricht, 1992) and the Treaty establishing the European Community (Rome, 1957), but represents their supplement. The Treaty establishing the European Community changes its name to the Treaty on the Functioning of European Union, which puts emphasis on the effectiveness of actions of the EU.

Each country, after entering the EU, will keep the right to have its own representative in the European Commission. Also, for the first time there is a possibility for any member country to leave the EU.

The Treaty of Lisbon is not bringing any changes in the monetary policy regulation. The Treaty on the Functioning of the European Union still quotes, as the main goal of the EMU, the price stability and single currency – EURO. Aiming at the improvement of coordination of the economic policy in the eurozone, the role of the Euro Group, consisting of the ministries of the eurozone member countries, the European Commission and the ECB, is strengthened by the contractual inclusion of the special Protocol on the Euro Group. The ECB officially becomes an EU institution, but the Treaty of Lisbon confirms and recognizes all the key principles of the ECB functioning, especially the independence.

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