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**CENTRALNA BANKA
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**ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ**

Dear colleagues,

This electronic edition of the internal newsletter of the Central Bank of Bosnia and Herzegovina brings a series of articles about the visit of a number of central banks representatives that visited the CBBH for various reasons.

We begin with the article about the seminar entitled «On the Road to the European Union - the Challenges Ahead», hosted by the CBBH and which was attended by representatives from the European Central Bank (ECB), central banks - members of the European System of Central Banks (ESCB) and the Euro system, Delegation of European Union to BH, Directorate for Economic and Financial Affairs of the European Commission in Brussels and the central banks of countries in the region. The aim of the seminar was the recognition of the

EU policies through the exchange of experiences and strengthening of the network of contacts between the central bankers.

One unusual event moved away our institution from its everyday activities. Namely, at the request of colleagues from Turkey, the CBBH assisted the organization of the paintings exhibition from the Republic of Turkey Central Bank, which was held at the Art Gallery of Bosnia and Herzegovina. It is a paintings collection of the Central Bank of the Republic of Turkey, whose representing abroad is a part of social responsibility.

The latest in a series of visits was the one of the National Bank of Serbia (NBS) and the Central Bank of Montenegro (CBM) Governors. It was

organized as an integral part of the regional central banks cooperation. Cooperation of three Central Banks is based on Business Cooperation Protocol that the CBBH signed with the NBS and the CBM. Business cooperation is realized in organization of the joint study visits, meetings, workshops, seminars, round tables, presentations of scientific papers, and the realization of joint research projects.

It was organized as usually the joint press conference of the banking sector representatives, addressing the indicators, but also the challenges to face.

Public Relations Section

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ON THE ROAD TO THE EU - CHALLENGES AHEAD



In the framework of the CBBH Technical Assistance Programme with the Euro system, seminar entitled «On the Road to the EU - Challenges Ahead» was held in the Central Bank of Bosnia and Herzegovina (CBBH) on 12 April 2011. Along with the CBBH representatives, also the following institutions featured the seminar: the European Central Bank (ECB), Central Banks of the European System of Central Banks (ESCB) and Euro system, the EU Delegation to BH, Directorate for Economic and Financial Affairs of the European Commission from Brussels, as well as the regional Central Banks.

Within the continued efforts of the CBBH in the process of adoption of the central banking European standards, the aim of the seminar was affirmation of the EU politics through the exchange of experience and strengthening the network of central bankers' contacts. Although BH is being in the phase of unstable stagnation and delay in necessary reforms, consensus on commitment towards the EU is a clear sign that the CBBH still needs to work intensively on the introduction of the EU standards and practices. In addition to the obligations and compliance tasks with the criteria of economic and legal convergence, it

was emphasized that the process of the European integration also brings many advantages and benefits. The conclusion was that it has been a must to provide an analytical and methodical approach to the necessary reforms on the demanding and difficult road of adjustment of the institutions, laws and legal regulations and economic policy instruments and measures.

Experiences of other countries in the EU enlargement process confirm that the role of central banks is crucial in the process of the European integration of a country, since well prepared and trained central bank improves the process of economic transition and convergence and contribute to overall better readiness for membership in the EU. The seminar, through a systematic approach, addressed the institutional and macroeconomic aspects of the European integration process and the EU accession implications for central banks. Three working sessions of the seminar were ranging from the general to the specific policy issues, and from the medium-term strategic framework to short-term current necessary responses and preparations for the EU.

During the first part of the seminar,





entitled «On the Road to the EU: Strategy of Enlargement and its Influence the Central Bank», through the exposures from Brussels to Belgrade, i.e. from the status of a potential candidate to the fully membership in the EU, the different institutional aspects of the EU enlargement were addressed, with the special emphasis to the role of central banks, and preparations and activities undertaken by central banks to convergence towards the EU. In the context of necessary institutional and functional changes in central banks, experience of central banks of countries advancing further in the process of European integration suggests that this process requires improved coordination through formal coordination structure.

The second session entitled «Economic and Financial Challenges for Central Banks of the Western Balkans Countries» addressed macroeconomic aspects of the process of EU accession. Impact and challenges of the recent financial crisis, proving that we represent a part of the integrated global economy, have required the appropriate policy response both of the EU authorities and central banks

in order to make stronger economic and financial coordination.

At the same time, it was stressed that the achievement of full and sustained implementation of economic Copenhagen criteria, which includes the existence of a functioning market economy and the ability to face successfully the competitive pressure and market forces within the EU are important not only because of the EU accession, but also because the Copenhagen criteria, being the basis and the guideline for securing long-term sustainable growth through whole region.

The ECB representative reminded that the goal of monetary policy should be clearly focused on the primary purpose of the single monetary policy of the Euro system i.e. the maintenance of the price stability. However, as it was stressed through the presentation of the National Bank of Bulgaria representatives, the adherence to the Currency Board arrangement until the full membership of the EMU and the Euro system represents the most appropriate strategy for the country that leads the monetary policy based on this very monetary principle.

The speakers stressed the interaction between the monetary and the fiscal policies. Interconnection between the single monetary policy and fiscal policies in the Euro area has a significant importance since the both policies have impact on key macroeconomic variables. Therefore, for the potential candidate countries in the monetary-fiscal area it is essential to ensure quality and coordinated development of economic and fiscal program of the country.

The third thematic session entitled «The Challenges Ahead for CBBH Coordination Process of Accession to the EU» presented the experiences from the program of technical cooperation with the ECB and the Euro system. The conclusion was the necessity of establishing a strong coordination mechanism and precise institutional arrangements that, together with the continued education of staff, shall enable a proactive attitude and timely response of central banks in the process of the European integration.

Renata Barić, Head of Division for International Cooperation and European Integrations



THE MEETING OF THE GOVERNORS OF THE CENTRAL BANK OF BOSNIA AND HERZEGOVINA, CENTRAL BANK OF MONTENEGRO AND NATIONAL BANK OF SERBIA

Within the cooperation of the regional Central Banks, delegations of the National Bank of Serbia (NBS) and the Central Bank of Montenegro (CBM) led by Governors Dejan Šoškić, Ph.D. and Radoje Žugić, M.Sc., visited the Central Bank of Bosnia and Herzegovina (CBBH) on April 28, 2011.

The cooperation of three Central Banks is done on the basis of business cooperation protocol that CBBH signed with NBS in June 2008 and with CBM in March 2010. Business cooperation is being realized through organization of mutual study visits for employees, meetings, workshops, seminars, round tables, presentations of scientific papers and realization of joint research projects. The meetings hosted by the CBBH are part of the business cooperation, which was the subject of the post meeting press conference held by the Governors.

The Governor of the CBBH, Kemal Kozarić, Ph.D., said that the meetings, among other things are used for exchange of macroeconomic indicators for each of three countries and although the economies are different, it was stated that the problems are almost identical. The biggest problem for BH is

unemployment rate, being the highest in the region and amounting to 27.2%. In Montenegro it amounts to 12,1%, and in Serbia it is around 20%. According to the Governor, in terms of public debt, BH is in better position than Montenegro and Serbia. When it comes to inflationary pressures, all three countries have different models of monetary policies, and they have determined instruments to fight these pressures. In foreign trade exchange, BH has deficit with Serbia, while with Montenegro it has a surplus caused mostly by the export of electricity in this country.

Governor of the NBS said that there have been certain results achieved through so far cooperation of the Central Banks in terms of knowledge sharing and through joint activities in domains that are the responsibility of the Banks. «Problems that Central Banks are facing today and financial systems of certain countries and region are actually cross bordering ones and therefore they may impact significantly the circumstances in neighboring countries. The problems are similar, and they have the causal relationship, which we must take into account», said the Governor of the NBS. He added that the interests of each institution dealing with the

central banking are very similar and they relates to the macroeconomic and financial systems stability and the stability of all financial institutions in order to enable the development of economic activities in those countries. Governor Šoškić also stressed that the Central Banks in region are different, but there are many features in common and a lot of similarities, starting from the fact that all of them are exposed to the international financial market and the actions that can be out of the direct jurisdiction and control of the Central Banks, but still can have significant impact to financial systems stability, to the fact that there are international banking groups present in the region with a similar property in similar countries. «Hence, the themes are very actual, important and require daily and dynamic communication between supervisors in these countries. I believe that the activity like this one can contribute, not only to stronger institutional cooperation in the future, but also to the stabilization of macro financial conditions in region of South Eastern Europe», concluded Governor Šoškić.

According to the Governor Žugić, Montenegro has exited the recession. «This is not the strong economic growth as it was global one, but it is important that

we stepped out of negative growth rates, that the projections for this and years to come have positive elements and positive growth rates, and that, within the overall real environment, the banking system has stepped out towards positive parameters», said Governor Žugić. In this very aspect, the regional cooperation will be beneficial for the CBM to check itself whether it takes adequate, timely and appropriate measures contributing to the primary objective of all central banks and that being the financial stability.

Within the cooperation agreement, BH, Serbia and Montenegro are engaged in international payments which amounted to EUR 142 million and 15.277 transactions were carried out. This cooperation involves five banks from BH and 19 from the region, recognizing it as a cheaper way to conduct payment transactions.

The banking sector in these countries had poor results. However, this year slight credit growth, especially in real sector in the entire region is encouraging. Characteristic of banking sectors in these countries is a significant percentage of non-performing loans, which at the end of the year amounted to 11.4% in BH, 22.6% in Montenegro and 16.9% in Serbia. The issue of NPLs, according

to the National Bank of Serbia Governor, is one of key issues of financial stability, especially in countries where the banking sector is dominant, and this is the case in all three countries. Serbia is the country where NPLs have reached a high level and the most recent data show that in corporate sector, a very significant segment, there is a slight decrease in share of these loans in total banks assets. Causes of occurrence and development of this category of non-performing loans are mostly related to the recession conditions. «As a rule, in every recession the number of these loans is increasing in overall financial system», said the Governor of the NBS and added that there has been an initiative started in Serbia on restructuring the debts of physical entities. With its regulations, the NBS also provided a more favorable classification in out of court settlement and restructuring of banks' claims on enterprises, in sense that it will be easier to get out of the category of troubled loans if legal entities demonstrate the ability of the regular settlement of their liabilities in at least three successive monthly installments.

The issue of NPL is a key issue for the functioning of any banking system, said the Governor of CBM. Around 90% of NPL in Montenegro are dating from

2007, and that is the year when this country had strong monetary and economic expansion, with extremely high growth rates and certain expansive growth rates, said the Governor, maybe have not been restrained in adequate and timely manner. Nowadays commercial banks in Montenegro are predominantly foreign property, they have more models to solve NPLs and loans with late repayment. One of the models is that the banks in Montenegro establish the factoring companies with their parent banks. These companies shall carry out the purchase of bad assets and this is how the fresh capital enters the banking system.

The special topic of the meeting, the presentation of the CBBH Financial Stability Department Head entitled «The Analysis of Financial Stability in the CBBH», is evaluated as extremely useful and interesting.

It was agreed that the meetings of the Central Banks should be held twice a year, that the host of next meeting is Montenegro and that all future meetings should be thematic ones.

Zijada Kovač, Public Relation Section Coordinator



AN EXHIBITION «CONTEMPORARY TURKISH PAINTING FROM THE COLLECTION OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY» HELD



In the Art Gallery of Bosnia and Herzegovina, in collaboration with the Central Bank of Bosnia and Herzegovina, an exhibition entitled «Contemporary Turkish Painting From the Collection of the Central Bank of the Republic of Turkey» was opened on April 14, 2011. Attended by a large number of guests, the exhibition was opened by Durmuş Yılmaz, Governor of the Central Bank of Republic of Turkey and Kemal Kozarić, Ph.D., Governor of the Central Bank of Bosnia and Herzegovina. Turkish Ambassador to Bosnia and Herzegovina, H.E. Vefahan Oçak, addressed to the attendees on this occasion, too.

After the opening of the exhibition, as a token of gratitude for the successful cooperation, the Governor of the Central Bank of Bosnia and Herzegovina gifted the Governor of the Central Bank of Republic of Turkey with the painting of the BH artist, Senad Begić.

The Central Bank of Republic of Turkey as an influential institution in the economic life of Turkey has closely followed developments in the art in the country since the 1930s. Since the Bank is the owner of one of Turkey's most comprehensive art collection, the Banks'

representatives emphasized that they have been aware that the presentation abroad of Turkey's cultural legacy is actually the Bank's social responsibility. Exhibiting in Bosnia and Herzegovina is an attempt to open the possibility to evaluate the development of art in the Republic period, with a parallel consideration of contemporary art developments.

On April 15, 2011, the Governor of the Central Bank of Bosnia and Herzegovina received an official delegation of the Central Bank of Republic of Turkey, headed by the Governor Durmuş Yılmaz. During the talks, the importance of political stability for achieving positive economic results and economic stability, was especially stressed. Also, mutual desire of Governors of the Central Banks to continue the cooperation and bilateral assistance in their work was highlighted.

University professor and art writer, Mümtaz Sağlam, the curator, has set the exhibition, intending primarily to reflect the creative forms originated from the Westernization, expressing the traces that this phenomenon left in the art. The exhibition purpose was to illustrate that Turkey has been placed at the crossroads of Eastern and Western

The Central Bank of Bosnia and Herzegovina organized one day trip to Mostar, Počitelj and Blagaj for the guests. During this trip the delegation from the Central Bank of Republic of Turkey visited the cultural and historical sites in these towns.

cultures and naturally has synthesized their arts expressions. Therefore it is designed to have the focus on two different ways of thinking and perceptions, however, both giving a single identity. The selection made from the collection offers a harmonious blend of Turkish art in its traditional aspect and allusions to the present and future prospects.

On one hand, this exhibition was summarizing the general development of Turkish painting and on the other, it has presented socially and historically significant authors in traditional and modern terms. It has presented 48 works by 34 artists and was open until May 7, 2011.

The Artists: Halil Paşa, Hikmet Onat, Ali Rıza Bayezit, Ahmet Doğuer, Hasan Vecih Bereketoğlu, Cevat Erkul, İbrahim Safi, Şeref Akdik, Refik Epikman, Fikret Mualla, Nimetullah Gerasim, Nurettin Ergüven, Zeki Faik İzer, Sabri F. Berkel, Bedri Rahmi Eyüboğlu, Eren Eyüboğlu, Hasan Hulusi Mercan, Selim Turan, Nuri İyem, Nejad Devrim, Mübin Orhon, Adnan Çoker, Turan Erol, Burhan Doğançay, Ömer Uluç, Özdemir Altan, Erol Akyavaş, Devrim Erbil, Mehmet Güleriyüz, Bekir Sami Çimen, Ergin İnan, Kemal Önsoy, Serhat Kiraz, Selma Gürbüz.

Igor Soldo, Public Relation Senior Specialist



PRESS CONFERENCE ON SITUATION IN THE BH BANKING SECTOR

Further economic growth requires the political stability and awareness that the economy should be the main interest of all relevant stakeholders in Bosnia and Herzegovina, said the Governor of the Central Bank of Bosnia and Herzegovina (CBBH), Ph.D. Kemal Kozarić, at the press conference on the banking sector, which was held on March 10, 2011.

The representatives of financial institutions and associations addressed the situation and challenges of the banking sector in Bosnia and Herzegovina. Governor Kozarić emphasized that the 2011 year has been difficult one, but it is going to be also the year of slight recovery in which the strengthening of economic activities is expected. Presenting the data for 2010, the Governor pointed out that the GDP growth was 0.9%, the foreign debt was KM 6.24 billion which is 25.2% of the GDP, and the savings amounted to KM 6.52 billion which is increase of 13.8%. He also said that there was the slight credit recovery recorded, i.e. an increase of 3% for legal entities and 1% for households in a year terms. By the end of February 2011, the foreign exchange reserves amounted to KM 6.28 billion, and are lower by KM 180 million app. compared to the end of 2010, when they amounted to KM 6.46 billion. This is a normal seasonal fluctuation due to KM purchase and settlements of liabilities for the current year, the Governor explained.

Speaking on the condition of the banking sector in Republika Srpska (RS), Slavica Injac, the Director of the Banking Agency of Republika Srpska, said that decline in assets is stopped in the RS banking sector and by the end of 2010 it was on the same level as at the beginning of the year. She also presented the data on the loss in the banking sector, where she drew the attention on the fact that nine banks reported profit amounting to KM 20 millions but one

bank reported a loss even amounting to KM 40 million. According to the data from the Banking Agency of RS, there was an increase of capital, i.e. six banks have the additional capitalization of around KM 120 million. It was pointed out that the banks operated responsibly, because, on one hand, they have provided the significant provisions for potential credit losses and, on the other, they carried out the additional capitalization.

Seen as a whole, the banking sector in the Federation of Bosnia and Herzegovina handled well the negative effects of the global financial crisis and it was able to maintain stability, liquidity, and solvency and to respond to all challenges of the crisis. Zlatko Barš, the Director of the Banking Agency of the Federation of Bosnia and Herzegovina, said that the assets decrease is recorded, primary in the credit portfolio, caused by the deterioration of repayment and the NPL's increase. The result was growth in provisions for credit losses and it affected the decline in banks profitability. Five banks recorded the losses amounting to KM 157.3 million and 14 banks recorded the profit amounting to KM 54.7 million. He pointed out that the biggest impact on this result had a bank that started to clean the own portfolio and meanwhile it started the additional capitalization, thus we can conclude that its stability and strength are supported in the proper way. Barš presented the data on the 2% growth of allocated loans and on the deposits increase of 10%, illustrating that the banks maintained their clients' confidence. He also bestowed the special significance to the information on the banks capital adequacy, which amounted to 15.8% at the banking sector level. This is significantly higher level than the 12% law stipulated level.

Total of 98.7% of deposits is concentrated in 25 banks operating in

the deposit insurance program, said Josip Nevjestić, the Director of the Deposit Insurance Agency of Bosnia and Herzegovina. He pointed out that the share of savings concentrated in these 25 banks is even more significant and on December 31, 2010, they maintained 98.8% of savings. A significant moment occurred at the beginning of 2010, when the Governing Board of the Deposit Insurance Agency has decided to increase the limit of insured deposit to KM 35 thousands.

During difficult times, the banks were able to protect the depositors, mostly thanks to the trained staff and implementation of procedures and policies being implemented in the EU, said Berislav Kutle, the President of the Banks Association of Bosnia and Herzegovina (BABH). According to him, the last year was marked mostly by lawsuits against the banks, which were mostly unnecessary, although there were cases of misuse, but the processes explained the role of warrantors and co-borrowers. Kutle said that there can be no significant interest rates fall in the nearest future without simultaneous improvement of life quality in Bosnia and Herzegovina, and without positive sovereign rating, which is sublimation of all developments in Bosnia and Herzegovina. With improvement of all factors and parameters affecting the state credit rating, the interest rates probably could be decreased, but as lending, so as the deposit ones. Answering the question related to the lack of interest in financing the investment conferences projects, the President of the BABH pointed out that each bank would be happy to handle good projects, but that the project offered so far are too general and should be separately further elaborated.

Igor Soldo, Public Relation Senior Specialist

IMPROVEMENT OF TRADE EXCHANGE BETWEEN BH AND SLOVENIA



On April 5, 2011, the Ambassador of the Republic of Slovenia to Bosnia and Herzegovina H.E. Mr. Andrej Grasselli visited the Central Bank of Bosnia and Herzegovina (CBBH) and with the CBBH Governor Ph.D. Kemal Kozarić talked about the economic situation in BH and economic relations between BH and Slovenia.

Slovenia is one of the major trading partners of BH in the past years. BH - Slovenia exports value amounted to KM 611.7 million in 2010, representing 8.6 % of total exports, while import from

Slovenia amounted to KM 808.8 million, or 5.9 % of total imports. The trade deficit in 2010 amounted to KM 197.1 million or 3.3% of the total deficit. Governor Kozarić emphasized that the data shows that trade exchange with Slovenia improved in 2010 compared to 2009, when the trade deficit amounted to KM 295.8 million or 4.3 % of the total deficit.

The Governor emphasized the macroeconomic indicators of BH, stressing that delayed establishment of authorities in BH has the impact on the

economic situation, particularly on the financial situation in the country.

He assessed as successful the cooperation between the Central Banks of Bosnia and Herzegovina and Slovenia. Bank of Slovenia is one of the Eurosystem Central Banks involved in Technical Assistance Program to the Central Bank of Bosnia and Herzegovina, funded from the Instrument for Pre-Accession Assistance (IPA).

Zijada Kovač, Public Relations Section Coordinator