



BH PRESIDENCY

Members of the CBBH's new Governing Board appointed, appointment of C. Nikić will be withdrawn

The BH Presidency has appointed **Peter Nicholl**, **Kemal Kozarić**, **Manojlo Ćorić** and **Mila Gadžić** as members of the new Governing Board of the Central Bank of BH (CBBH). The BH Presidency has made the Decision on appointment during its session which was held on May 20, 2003, taking into account that the mandate of the current Governing Board of the CBBH ends in August this year. According to the Chairman



Peter Nicholl



Kemal Kozarić



Manojlo Ćorić

of the Presidency **Borislav Paravac**, the BH Presidency has decided, in order to preserve continuity, to appoint Governor Nicholl into the new Governing Board of the CBBH. Nicholl will remain the Governor of the CBBH until December 31, 2004 and after that he should be succeeded by Kozarić, who is currently the Vice Governor of the CBBH. As Paravac stated, after the departure of Nicholl, who was

proposed into the new Governing Board by the BH Presidency member **Sulejman**

Tihić, another Bosniac member of the Governing Board should be appointed. In order to preserve continuity, another member who will remain in the Governing Board is Ćorić. Minister of the Foreign Trade and Economic Relations of BH Mila Gadžić was appointed into the Governing Board of the CBBH based on the proposal of the Croat member of the BH Presidency **Dragan Čović**. The BH

Presidency also gave recommendations that as of January 1, 2005, the new Comptroller General should be Croat, while a Serb should assume the post of the President of the Governing Board of the Agency for Deposit Insurance of BH. Governor Nicholl welcomed the Decision of the BH Presidency and thanked for their trust it expressed by appointing him a member of the new CBBH's Governing Board. He stated

that he is sure that the Governing Board that will commence in August 2003, will continue the successful and stable policies that the current Board has implemented during their six year mandate. "I am very pleased to be able to continue my work in the CBBH", Governor Nicholl said. "But it is my desire to finish my term on 31 December, 2004. I am pleased that the Presidency has indicated their support for Kemal Kozarić to become the Governor after that time. I have worked closely with Mr. Kozarić over the last four years and I am confident that we will be able to continue working very closely together over the next 18 months to ensure a smooth transfer of responsibility from 1 January, 2005", Governor Nicholl concluded.

Cvijetin Nikić was also appointed as the new member of the Governing Board. However, his appointment, according to some announcements, will be withdrawn by the Chairman of the BH Presidency **Borislav Paravac**. In the statement that came from the Office of the Chairman of the BH Presidency Paravac, the withdrawal came as after the

consultation with the Office of the High Representative in BH and comments regarding Nikić's appointment that were made by the First Deputy to the HR **Donald Hays**. Withdrawal of Nikić's appointment and appointing of the new member of the Governing Board of the CBBH will be done at one of the next sessions of the BH Presidency.

FINANCIAL REPORTS FOR THE FIRST QUARTER OF 2003

CBBH continued its successful operations

The Central Bank of BH (CBBH) has continued its operations with the success in the first quarter of 2003. High level of foreign reserves was maintained and as of March 31, 2003, those reserves were KM 2.228.491,847. Liabilities towards non-residents were KM 1.104.936, while monetary liabilities, which consist of KM currency in circulation and domestic deposits, were KM 2.089.979.763, so the surplus of the foreign reserves over the monetary liabilities

and liabilities towards non-residents was 137.407.148 KM, which is increase worth KM 19.340.637, which is 16,38 percent higher compared to the end of 2002. Capital and reserves were KM 192.103.335. Total assets and liabilities as of March 31, 2003 were at KM 2.292.931.214. Third party securities and invested foreign exchange deposits held with foreign banks were stated in the off-balance sheet items and amounted to KM

177,788,574.

In the first quarter of this year, the CBBH achieved net-profit worth KM 12.154.748, which is KM 2.575.597 or 26,89 percent higher compared to the projected profit for the first quarter of 2003 which was stated in the CBBH's Financial Plan. CBBH's Financial Reports for the first quarter of this year were accepted by the BH Presidency during the session which was held on May 14, 2003.

Capital Market Council of BH established

The Capital Market Council with the role of establishing of the general strategy for the development of the capital market was established on May 15 under the auspices of the CBBH. The Capital Market Council has 19 members, and the President of the Council is the Governor of the CBBH **Peter Nicholl**. The Capital Market Council will act as the advisory body at the BH level and will not have the authority to make decisions, but it will give recommendations and

when the Payment Council of BH was established, could be also implemented

opment of a more efficient system of the capital market in this region and a pre-

condition of the further connecting, since the region of the RS and BH, as well as the entire region of the South East Europe, is too small for the general trading of securities", said Bodiroža. The President of the Securities Commission of the BH Federation **Edib Bašić** said that the establishment of the Capital Market Council of BH is considered as one of the most significant moments for



advice to the responsible bodies in all domains which are relevant for the capital market, including development and harmonization of legislation

in this domain. Participants of the first meeting of the Capital Market Council pointed out its significance, while, according to the Governor Nicholl, establishment of this Council is the logical step in the development of the capital market in BH. Describing the capital market as the upturned pyramid, the Governor stated that its foundation is the CBBH, which is healthy and solid. Its upgrade is the commercial banking sector, which provides good banking services, while the capital market takes the rest of the financial sector. "The capital

market can function only when the first two parts are functional and solid enough. We think that there are preconditions for the development of the capital market in BH", said Governor Nicholl during the press conference after the end of the first meeting of the Capital Market Council of BH. The Minister of Treasury and Finance of BH **Ljerka Marić** believes that positive experiences, which were implemented earlier

in the Capital Market Council of BH. "I think that we agreed that the time has finally come for all participants that

"BH isn't big enough to have its own stock exchange. It is not only related to BH, but to all countries in the region. The only solution is regional approach and negotiations in that sense have already started. The advantage of the modern technology is that dealers, sellers and buyers can be located anywhere", said Governor Nicholl.

to which the Commission is regulator of all activities for the establishment and development of capital market. The President of the Commission for the securities of the RS **Branka Bodiroža** stated that the basic institutional infrastructure of the market, which is based

"I think that the name 'stock-exchange' that we use for the stock exchange that we have here is pretentious. Actually, it is regulated and organized market, where trading is being carried out in accordance with the rules that were determined beforehand and under the scrutiny of regulators, which is necessary for any country that went through the mass privatization. Therefore, organized market in the conditions of the post privatization, which was created through the massive and voucher privatization should be reality", Bašić stated.

on the privatization project, has been established, but that alone, certainly, is not enough. "We should move further, into the development of the new financial instruments and increase competitiveness, first of all, of the banking sector that has to take significant part in the whole system of the functioning of institutions of the capital market. In that sense, I think that the forming of this Council is, really, further upgrade and devel-

the development of the single market in BH and for the further development of the capital market. The establishment of the state Capital Market Council, according to Bašić, should be a strong stimulus for harmonizing of regulations in two entities, introduction of the new financial instruments and creation of precondition for issuing of state securities. Members of the Council expect that they will agree on all issues and that decisions will be made by consensus. "We all agree, we all know what our final goal is and where we want to go. We want to establish the capital market in BH which would be similar to the one in the rest of the Western Europe and which would be also similar to the capital market that exists in the countries of the Eastern Europe. The strategic issue is not about where we want to go, it is about how we will get there in the most efficient and fastest way", said Governor Nicholl.

"The existence of the single financial market does not mean existence of the one or more stock exchanges. There are several hundreds of stock exchanges worldwide, but 80% of transactions at the financial markets are taking place at several large stock exchanges - New York, Tokyo and France and, actually, this whole system is working as single stock exchange. Development of the financial market, instruments and institutions, as well as existence of one or more stock exchanges will be a barometer of the entire economic conditions in this region", President of the Commission for the securities of the RS stated.

New RR rate five percent

The Governing Board of the Central Bank of BH (CBBH) has made a decision during its meeting that was held in May 2003 that the new Required Reserve (RR) rate will be five percent. Previously, the RR rate was 10 percent, which means that this change presents the large cut of the RR rate. Basic characteristics of changes that are related to the RR were presented to journalists by the Governor of the CBBH **Peter Nicholl** and the Vice Governor of the CBBH **Ljubiša Vladušić** during the press conference. The first change means broadening of the RR base to include foreign deposits, instead of only KM deposits. The second one means that cash held in bank vaults will no longer be an eligible asset for meeting a bank's reserve requirement. This requirement can only be fulfilled with assets that banks hold at the CBBH. The third change is related to the range of reserve ratios that would be defined as "up to 20 percent". Decision of the Governing Board has set that rate at five percent. The fourth change is giving the authority to the CBBH Governing Board to determine the amount of compensation the CBBH will pay banks on their reserve deposits at the CBBH. Governor Nicholl said to the journalists that this last change will provide many benefits to the banks. CBBH is making these changes because of two crucial reasons. The first one is to improve righteousness and effectiveness of the RR, while the second reason is that it was necessary to pay attention to increase of lending in BH and all implications of this growth on the

Balance of Payments. During the last year, Governor reminded, growth of crediting was



extremely strong, which is common and very positive for the transition countries. "In future we have to be prepared to use RR more actively if credits continue to grow uncontrollably. It is the only instrument of policy we have in the CBBH Law. The CBBH will regularly analyze growth of loan approvals, its influence on the economy and on the Balance of Payments. If necessary, the RR rate will be increased", said Governor Nicholl. He added that most of neighbouring countries did just that and that five percent rate, which was set by the CBBH, is much lower than in the countries of the region. Therefore, the RR rate in Croatia is 19 percent, while in Serbia it is 22 percent. The RR rates in Slovenia and Macedonia are not that high, but they are still higher than the five percent rate which will be used in BH. Bankers reacted to the first two changes - broadening of the RR

base and removal of cash held in bank vaults as an eligible asset for meeting a bank's reserve requirement, which indeed effects the commercial banks, but the other two changes - reduce of the rate from 10 to five percent and payment on their total deposits neutralize effect of the first two changes. "If you look at these four changes as one package, than commercial banks have no justification to use these changes as an excuse to rise their interest rates", said Governor who also added that these changes should actually lead to reduction of commercial banks' interest rates. The Governor of the CBBH also stated that these changes, which represent the first measure of the monetary policy in almost six years of CBBH's existence, are another important step forward in development of the banking system of BH. Vice Governor Vladušić also stated that this is one of the strategic changes, fourth in line, after the introduction of the Currency Board Arrangement, Introduction of the KM and payment systems. He explained that the CBBH will calculate the interest rate for all assets on the RR accounts to the commercial banks by the "overnight" principle, which CBBH makes in the foreign banks based on the investment of the foreign deposits. It was stated that it is hard to speak about the effects of implementation of these measures, but, according to the decision of the CBBH's Governing Board, comprehensive analysis will be done within the three months in order to look into the effects of these measures.

PROJECTS

USAID sells its credit portfolio

US agency for international development (USAID) and the Central Bank of BH (CBBH) on May 20 officially announced the beginning of sale of the USAID's credit portfolio, which has nominal value of KM 90 million, to BH commercial banks. It is the Business Development Program, which was started by the USAID in 1996 in order to support the recovery of the local economy through extending loans to the local companies. Almost 600 credits were extended to the small and medium-sized companies within the Business Development Program and the total value of these credits is more than KM 275,5 million. These credits made possible creating of 9.000 new jobs and preserving of 24.000 existing jobs. After providing significant help to development of the banking sector, USAID has started the transition process of this program to the licensed banks. This practically means that banks were offered to buy USAID's credit portfolio. They will continue to collect

claims, that is, users of credits will have to repay their credits as they did so far. Director of USAID **Howard Sumka** said



that BH banks have liquidity and that the Business Development Program of the USAID provided a long-term liquidity to the BH economy and made long-term credits with lower interest rates available. Money that will be obtained through the sale of the USAID's credit portfolio will be used for the financing of economic devel-

opment activities, that is, for new credit lines and technical assistance to the wood processing industry, agriculture, as well as to the food production and tourism in BH. "This means that by purchasing of credit, you also help the financing of economic development of BH", Sumka said. The Governor of the CBBH **Peter Nicholl** pointed to the fact that the Business Development Program was started at the time when BH banking sector was small, fragmented and had very limited credit capabilities. According to the Governor, this Program has improved the bank credit market of BH and helped banks to improve lending policies. "I think that thanks to this program, the role of the BH banks has gotten progressively larger", said Governor Nicholl and added that the banks have reached the stage when they can take over the portfolio which was formed by the USAID. He labeled this move as "the very significant signal about how much the banking system in BH has progressed".

Information about the business of the BH banking sector in 2002

Main features of banking system in Bosnia and Herzegovina in 2002 are accelerated bank privatization and providing minimum capital requirement in the amount of KM 15 million, which influenced joining processes and mergers of banks. The BH banking sector is stabilizing, which is shown through the growth of the balance aggregates of banks. The banking agencies undertook necessary measures against those banks that haven't respected conditions that were set out by the law and other bylaws. During 2002, eight banking licenses were revoked. Five licenses in the BH Federation were revoked, out of which four licenses were revoked due to merger with other bank - **Depozitna Bank Sarajevo joined Vakufska Bank, Šeh in Bank Zenica joined ABS Bank Sarajevo, Mostarska gospodarska banka Mostar joined Gospodarska Bank Mostar and Travnička Bank joined Central Profit Bank Sarajevo**, while one license was revoked due to liquidation procedure - **International Commercial Bank Sarajevo**. In RS, two licenses were revoked due to bankruptcy procedure - **Prijedorska Bank and Ekvator bank**, while one license was revoked due to liquidation procedure - **Privredna Bank Gradiška**. One new banking license was issued to the **HVB bank**. As of December 31, provisional administration was in three banks - **Gospodarska bank d.d. Mostar, Hercegovačka bank d.d. Mostar and Una Bank d.d. Bihać**. As of December 31 2002, 40 banks operated in BH.

Number of banks by structure of ownership can be seen as follows::

	December 31, 2000	December 31, 2001	December 31, 2001
Total number of banks	55	48	40
Of which:			
- Private banks	36	36	34
- State banks	19	12	6

Capital of commercial banks

Total capital of commercial banks in BiH as of December 31 2002 was 993 million KM and compared to the end of 2001 it is higher by 138 million KM or by 16%. In the structure of the total capital, the share of the core capital is 88%, while the share of the supplemental capital is 12%. Share capital at the end of 2002 was KM 745 million, which is 19% higher compared to 2001. If we look at the capital structure, growth of private capital is evident. Compared to the end of 2001, share of the state capital reduced nine percent in favour of private capital. Share of the private capital in total capital at the end of 2001 was 81%, while at the end of 2002 its share was 90%. Foreign capital in total share capital participates with 66%, while in total private capital participates with 74 %.

Structure of share capital can be seen from the following:

In millions of KM

	December 31 2000		December 31 2001		December 31 2002	
	Amount	Share	Amount	Share	Amount	Share
TOTAL SHARE CAPITAL	658	100 %	627	100 %	745	100 %
STATE CAPITAL	307	47%	119	19%	72	10%
PRIVATE CAPITAL	351	53%	505	81%	671	90%

Banks assets

Balance assets as of December 31, 2002, were 5.535 million KM which in comparison to the end of 2001 is higher by 22% or 995 million KM. In assets structure, the most important share is taken by credits with 55%. Money funds participate with 33%, fixed assets with seven percent, other assets three percent and securities with one percent. In the structure of money funds the most important share is taken by deposits at accounts with depository institutions abroad - 64 %. At accounts abroad banks hold 1,1 billion KM which is by 35% higher in respect to the end of 2001.

Banks liabilities

In total bank liabilities commitments are 86%, capital 14%. In liabilities structure, deposits share take 75%, while share of capital is 15%. If we look into nominal amounts, we can see that deposits increased 25%, while capital increased 17%.

Deposits

Total deposits as of December 31, 2002 were 4.158 million KM which is by 25% 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 20%, followed by government institutions 13%, public companies 10% and other deposits 18%. Looking at deposit structure in terms of currency it can be seen that KM deposits are raising but foreign currency deposits are still significantly higher participating in total deposits with 58%.

Structure of deposits by currency:

In millions of KM

	December 31 2000		December 31 2001		December 31 2002	
	Amount	Share	Amount	Share	Amount	Share
TOTAL DEPOSITS	2.094	100 %	3.324	100 %	4.158	100 %
KM DEPOSITS	895	43%	1.214	36%	1.749	42%
FOREIGN DEPOSITS	1.199	57%	2.110	63%	2.409	58%

If we look at the structure of time deposits, short-termed deposits take 76% of the share, while 24% is taken by the long-termed deposits. Citizens' savings as at the end of 2002 are 1.556 million KM and are by 10% higher in respect to previous year. 86% of savings is concentrated in eight banks. In 2002, the Deposit Insurance Agency admitted ten banks.

Credits

Total amount of extended loans in 2002 is KM 3.213 million, which is 53% higher compared to the end of 2001. If we look at the structure of loans by sectors, loans extended to private companies take 41% of the share; loans to citizens take 44% of the share, followed by public enterprises with 11%, while the other sector got four percent of all loans. Loans extended to citizens increased 118%, to private owned companies 32% and three percent to the public enterprises.

Number of employees

Banking sector in BH employed 7.519 workers as of December 31, 2003. The number of employees increased by 204, or three percent, compared to 2001.

Only two banks in BH have assets above 500 million KM, three banks have from 300 to 500 million KM, ten banks have from 100 to 300 million KM and 24 banks have below 100 million KM.

Stable financial system precondition for joining the EU

"Stability and full confidence in KM, price and exchange rate stability, low inflation, growth of foreign exchange reserves to euro 1,1 billion, improvement of the country's payment foreign exchange position and stability of public sector are results achieved by the



Central Bank of BH (CBBH) through the consistent implementation of the monetary policy which is based on the Currency Board Arrangement principle", said Vice Governor of the CBBH **Ljubiša Vladušić**. Vladušić spoke about the main developments in the CBBH at the Governor's Club Meeting that was held in Bucharest, Romania, on May 23 and 24 2003, which he attended on behalf of the CBBH Governor **Peter Nicholl**. During the presentation, which was also given by other representatives of central banks, Vladušić stated that the achieved results are result of the persistent implementation of the Currency Board Arrangement, which is based on the clear principles. "Those are stability of the local currency, fixed exchange rate with full coverage in free convertible foreign exchange funds, management of foreign exchange reserves in a safe and profitable way, setting up and maintaining payment and settlement systems, coordination of activities of banking supervision agencies and required reserve maintenance", Vladušić said and added that even in spite of achieved results, there has been a discussion in BH during the previous months whether we should keep such strict form of monetary policy. "The International Conference that was organized in April on the Role of the Currency Board in Monetary Policy offered some answers. The prevailing opinion expressed at this conference was that the Currency Board should be kept with the aim to provide global financial stability, searching additional possibilities to make the Currency Board serve development and to enable the Central Bank to participate more actively in the financial sector and to issue

short-term securities", said Vladušić. The required reserve policy, according to Vladušić, is the only instrument of monetary policy available to the CBBH within the Currency Board Arrangement. On that occasion, Vladušić stated that adoption of amendments to the Article 36 of

the CBBH Law provided efficiency and stability of monetary policy, the regulations on the required reserve were adjusted to the European standards and it also provided strengthening of the financial stability. The results in the implementation of the monetary policy are most visible through the consolidation of the global banking sector, where privatization of banks has almost been completed, new products and services have been introduced, while increasing of the minimum capital requirement to KM 15 million and introduction of the state-level deposit insurance scheme provided further conditions for enlargement of banks and general strengthening of the banking sector. "Financial sector in BiH is estimated to have accomplished satisfactory results and that the situation in this sector is much healthier than in the previous period", said Vice Governor Vladušić. He added that further initiatives are directed towards the establishment of the capital market, which is one of the key basis of the financial system of one state. This led to the creation of the Capital Market Council of BH, which will, guided by the international standards and principles, have the advisory role in the further development of the capital market. He concluded his speech with the remark that adherence to the international standards, principles of the Basle Committee and the norms of the European Union are necessary for further progress and strengthening of financial stability. "The independent monetary policy in BiH, legislation and supervision of the banking sector represent a good base for further improvements in this field and the base for preparations for joining the European Union", Vladušić said.

A room for the payments systems provided in the new premises of the Sarajevo Main Unit

The new premises of the Central Bank of BH (CBBH), which are provided for the Sarajevo Main Unit, will also have a room for the Payments System Department. After reviewing several options for moving of some organizational units, it was decided that these premises are the most suitable for housing of the Payments System - RTGS and giro-clearing. There are many reasons for this. With the available number of square meters and with its arrangement of offices, unoccupied part of this new facility would be most suitable for needs of this department. This office space should host employees from four different sections: RTGS Section, Giro-clearing Section, Payments System Development Section and the IT Support Section. According to the current arrangement, giro-clearing servers are located at the highest floor of the CBBH building, which, from the security standpoint, is not a good solution, since in case of fire, evacuation and the protection of the equipment would be difficult. The idea of moving those servers to the lower floors of the building is not a new idea. In the new facility, which is located in Mehmeda Spahić Street, where the Main Unit Sarajevo will be located as well, payment transactions servers will be on the first floor in the special room which will be specially adjusted for such needs. The nature of business in the Main Unit and in the Payments System Department demands a high level of physical protection against presence of the unauthorized persons. It will be much easier to provide that without burdening other organizational units of the CBBH with this kind of arrangement in one building. These two business entities, however, will have separate security treatment inside the new premises. Due to the specific technical demands and the usage of the most modern informatics technologies, preparations of rooms for housing of the Payments System Department will demand certain changes in the project of the new building. These changes will relate to the telecommunication (computer and telephone network) and power supply infrastructure. The process of moving of the computer equipment will take a great deal of effort, considering that the moving of equipment includes large-size servers which require a certain regime of transport. New switchboard will be also installed in the new premises. Considering that activities of the payments systems require network connections and that network connections are being used between main units and the Main Office, possibility and justifiability of purchase of the new switchboard, so-called VoIP computer switchboard, is being considered. Namely, network connections between servers of the payments systems in Sarajevo and main units in Mostar, Banja Luka and Sarajevo are being made through the leased lines of the BH Telecom. New VoIP telephone switchboards use the existing resources of leased lines, which reduces expenses for the value of telephone calls.

NEWS FROM THE MAIN UNITS AND BRANCHES

MAIN UNIT MOSTAR

Hypo Alpe Adria Bank d.d. Mostar has sent the memo to the Main Unit Mostar in which it stated that several foreign banks, with their offices located in Croatia, Slovenia and Austria, have shown interest to become the agent-bank for the management of the KM cash, which would be sold to the foreign banks in order to cover the needs of their exchange offices. The Branch Office of the HVB Bank has opened in Mostar, and the official opening ceremony was attended by the Director of Mostar Main Unit **Anka Musa**. A total of 117.631 transactions were processed at the level of the Mostar Main Unit, out of which, 115.543 transactions were carried out in the giro-clearing, while remaining 2.088 transactions were settled in the RTGS. The CBBH has announced a bid for the purchase of the building in Mostar, in order to provide office space for the Mostar Main Unit. The commission for the selection of the best offer visited all business premises that were offered.

MAIN UNIT SARAJEVO

Activities of the Main Unit Sarajevo during May were focused on the Decision on establishing and maintaining of the Required Reserve, on the discussions with commercial banks on this issue, as well as on the monitoring of possibilities of fulfillment of the Reserve Requirement. The initiative was started in order to alter the existing software in part which is related to the calculation of the Required Reserve and until that gets done, the old system will be used. Representatives of the Main Unit Sarajevo participated in preparation of the new Instruction on activities related to the

reserve account of banks in case of changes of the banks' status. Implementation of this instruction should start soon. Adaptation of the new business premises for the Main Unit Sarajevo should start as of June 1 after the signing of the contract with the main contractors and after obtaining of all required technical documentation.

MBRS BANJA LUKA

The Zepter Komerc Bank AD Banja Luka became the member of the Deposit Insurance System in May. After the VB Bank, the Zepter Komerc Bank is the second bank from the RS which secured deposits at the Agency for Deposit Insurance of BH. The Office of the Main Comptroller has carried out the audit of work of the Treasury Operations Section, during which all problems this Section faces while carrying out its regular tasks were recorded. The large inflow of cash from the commercial banks into the vault continued (daily inflow of banknotes is 155.000 pieces), so in order to keep up with such large inflow, all workers were engaged up to the maximum. At the same time, creation of the new internal procedures, which will cover all aspects of work of the Treasury Operations Section, has begun.

BRCKO BRANCH

The Governor of the Central Bank of BH (CBBH) **Peter Nicholl** visited Brčko District BH on May 20, where he met with the Supervisor of Brčko Henry Clarke, his deputy **Gerhard Sontheim** and the Mayor of Brčko District **Siniša Kisić**. One day later, May 21, The Governor had

meeting with the representatives of banks from Brčko District BH, while the meeting of the Governing Board of the CBBH was held in premises of the Brčko Branch. On May 8, the Manager of Brčko Branch **Mirzeta Arnautović** attended a meeting of the CBBH Governor with all managers of the main units and branches of the CBBH. She also attended meetings of the CBBH's Commission for the housing loans. Regular activities of the Branch continued in May. From May 1 until May 27, the inflow of KM was 14,13 percent lower compared to the same period in April 2003. The number of euro transactions was 5,66 percent lower compared to the previous month.

PALE BRANCH

During May, Pale Branch recorded an increase in average number of daily sales of KM compared to two previous months. The increase was 14 percent compared to April, during which 10 percent increase was recorded compared to March. The average number of daily KM net-sale transactions reduced 12 percent this month compared to April. Positive balance between buying and selling of KM increased 1,4 percent. Activities of banks managed by the Pale Branch in the domain of vault operations reduced this month compared to the previous months. So, the number of daily deposits into CBBH vaults reduced 23 percent, while the average number of daily withdrawals from the vaults reduced 16 percent. Deposits of banks remained at the level which was recorded during the previous month. Balances on accounts increased 17 percent, while the level of cash in vaults remained at the level which was recorded during the previous month.

MEMO OF COOPERATION AND EXCHANGE OF INFORMATION SIGNED

The Governor of the Central Bank of BH (CBBH) **Peter Nicholl**, Director of the



Banking Agency of BH Federation **Zlatko Barš** and Acting Director of the Banking Agency of RS **Dužanka Novaković** signed on May 22, 2003, a Memo of Cooperation and Exchange of Information. Co-operation from above paragraph includes procedures and authorities of the Central Bank and Banking Agencies related to situation in banking sector, maintenance of reserve requirements and measures to be taken in case of failure in fulfillment of reserve requirements as well as obligations in case of certain banks withholding payment orders. According to the Memo that was signed, Banking Agencies shall submit to the Central Bank the information on status changes of banks, immediately upon the change, on introduction of measures of provisional administration, on bodies of a bank, management and changes occurred, on

submitted applications for banking licence, immediately upon submission of application, quarterly and annual information on banking sector operations. Banking Agencies shall submit certain data on operations of an individual bank, if the data are needed to the Central Bank for purpose of removing negative consequences in entire financial system, under condition that those data are not business secret of an individual bank. The Central Bank of BiH shall submit to Banking Agencies the data on maintenance of reserve requirements of individual banks - for each calculation period, immediately after the ending of the period, banks' monthly balance sheet according to IMF methodology, monthly reports on the volume of payment transactions in banks each and total, the CBBH publications, other data as requested by Banking Agencies, under condition that such data are not business secret. The Central Bank shall inform banking agencies on steps and measures taken due to failure in fulfillment of reserve requirements. In respect to payment system operations, the Central Bank and Banking Agencies are required to exchange information about banks which are withholding payment orders and they will also co-operate on the issues arising from the Law on Banks of Brčko District of Bosnia and Herzegovina.

NEW CBBH INITIATIVES IN DISSEMINATION OF STATISTICS

The Governor of the Central Bank of BH (CBBH) **Peter Nicholl** announced on 19 May, 2003 that from Tuesday, 20 May 2003 CBBH will

disseminate three new features on its web site (www.cbbh.ba). First, an "advance release calendar" will be available that indicates the expected release dates of monthly monetary and other financial sector statistics, and quarterly balance of payments statistics for some periods ahead. This will assist users of statistics in being aware of future release times of data that may be of interest to them. Governor Nicholl noted that the dissemination of an advance release calendar is in accordance with recommendations of the International Monetary Fund. This will be the first time that an advance release calendar has been disseminated for some official statistics for BH. The second initiative announced by the CBBH Governor is that from 20 May 2003 the CBBH will disseminate on its web site a long time series of detailed monetary and other available financial statistics, dating back to August 1997. This will make it easier for users to obtain such detailed data for past periods. Monthly monetary and related financial data will in future be disseminated on the CBBH web site immediately they become available, rather than as in the past waiting for the next Bulletin to be published. This will result in much earlier release of monthly monetary statistics and so will benefit users. According to the words of the Governor Nicholl, these several initiatives in dissemination of CBBH's statistics to be introduced tomorrow are in accordance with the practices of the world's leading central banks and reflect CBBH's continued efforts to improve and extend its statistical services to users.

EMPLOYMENT

Two new employees

The Central Bank of BH (CBBH) hired two new staff members in May 2003. **Alma Poplata** was employed for the indefinite time period as of May 12 at the post Economist I in the Section for Domestic Payments Transactions of the Banking Service Department of the Central Bank. The other new staff member is **Rusmir Burek**, who has a one year contract - from May 12, 2003, until May 11, 2004. He is working at the post Security Guard in the Security

Department. We wish them a warm welcome into our organization. As of May 1, 2003, **Novo Cicović** was shifted to the post Coordinator of Monitoring and Analysis Division of the Banking Service Department of the Central Office. The CBBH has 253 employees, out of which, 251 are employed permanently, while two employees are employed for the definite period of time. Out of 251 permanently employed persons, one employee - trainee is on unpaid leave of absence.

EDUCATION

Seminars for IT experts, administrative assistants, accountants...

During May, like in the previous months, employees of the Central Bank of BH (CBBH) continuously attended seminars in order to gain more knowledge and experience. Economic Analyst in the Economic Research and Statistics Department **Damir Čosić** attended a seminar entitled "Structure of the Financial Market". This seminar, which was organized by the Bank of England, was held from May 6 until May 9 in London. Data Base Technician II in the Programming and Applications Section in the Information Technology Department **Nermana Fejzić** and Programmer in the Programming and Applications Section in the Information Technology Department **Sanida Selimbegović** attended a seminar, which was organized by "Oracle" from May 5 until May 9 in Sarajevo. The name of the seminar was "09 IPLS Oracle 9 and Development of applications in PL/SQL". Administrative Officer in the Office of the Governor **Enisa Serdarević**, Administrative Assistant to the Vice Governor in the Office of the Vice Governor **Sanela Mahmutović**, Administrative Assistant in the Accounting, General and Administrative Affairs Section of the Main Bank of Republika Srpska (MBRS) CBBH **Milena Jokić** and General Affairs Officer of the Accounting, General and Administrative Affairs Section of the CBBH Main Unit Mostar **Biljana Knezović** attended a seminar for business secretaries. This seminar was held from May 13 until May 17 in Supetar at Brač Island and the organizer of the seminar was Andragoški Center from Zagreb. The Vice Governor in charge for the Economic Research and Statistics Department M.A. **Dragan**

Kovačević was in Riga (Latvia) from May 18 until May 19, where he attended a meeting of the international club of the clearing institutions. The third Meeting of the Supervisory Board for the Quality of Work in Institutions was held on May 21 in Zagreb. This meeting was attended by the Vice Governor in charge of administration and finances **Kemal Kozarić** and the organizer of this meeting was CEF Ljubljana. The Manager of the Information Technology Department M.A. **Nazif Husović** attended a seminar entitled "BH ICT for Development Conference the Next Step - the Challenges of Embracing Information Technology". This seminar was held on May 26 and 27 and the organizer of this seminar was UNDP. Coordinator of the Financial Bookkeeping Section of the Administration and Finance Department **Meho Kaltak**, Coordinator of the Central Bank Account Section of the Administration and Finance Department **Sadeta Haliilbašić**, Assistant for Supplies and Tangible Assets of the Common Affairs Division of the Administration and Finance Department **Mirjana Babić**, Coordinator of the Accounting, General and Administrative Affairs Section of the Mostar Main Unit **Mirna Kadić** and Coordinator of the Market Evaluation Section **Lidija Žuljević** attended a seminar which was held from May 22 until May 24 in Neum. This seminar was entitled "Tax and Accounting Reform in the Function of the Improvement of Competitiveness" and the organizer was the Agency for research-development services and business consulting "Revicon".

SPORTS GAMES IN NEUM

Meeting of BH bankers

From June 13 until June 15 the Central Bank of BH (CBBH) will organize the event entitled "Meeting of BH bankers", which will take place in



Neum. 18 commercial banks, banking agencies from both entities and the Agency for Deposit Insurance of BH applied for participation at this event, which will consist of the official part and sporting events. General outline provides competition in four different sporting disciplines - volleyball, chess, table tennis and indoor soccer. Women will compete in two of these sporting disciplines - volleyball and table tennis. People in charge of preparation of CBBH teams are: **Suad Hadžiahmetović** (chess), **Zaim Džoko** (men's volleyball), **Sanja Markotić** (women's volleyball), **Senad Mešić** (men's table tennis), **Danica Lučić** (women's table tennis) and **Senad Hadžiomerović** (indoor soccer). A round table will also be held as a part of "Meeting of BH bankers", and that will be the official part of this event. The round table is planned for Saturday, June 14 in the "Sunce" Hotel and the topic of the round table is "Implementation of the Decision on establishing and maintenance of the Required Reserves". Moderator of this part of the program is the Vice Governor of the CBBH **Dragan Kovačević**. During the last year's sports games of bankers, which were also held in Neum, CBBH's employees were first-placed in chess and archery, while women and men volleyball teams, as well as the soccer team, were second-placed.



CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly Balance Sheet (temporary) as of 30th April, 2003
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 release some particular information as defined by the Law on the Central Bank of Bosnia and Herzegovina.

Some of specific features of the Balance Sheet as of 30th April are as follows :

On 30th April, the Bank met all requirements of the Currency Board rule as mentioned in the Article 31 of the Law. Status of Net Foreign Assets exceeds its Monetary Liabilities in Konvertibilna Marka (KM) by KM 138,383,391. This has been shown in the item Net Foreign Exchange Assets minus Monetary Liabilities.

Foreign Assets mainly consist of deposits held with the foreign banks.

The Balance Sheet also shows structure of the currencies holdings, 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 (KM 1,747,453,360) and resident banks, reserve deposits (KM 257,133,052).

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.

As depositary for membership of Bosnia and Herzegovina in the IMF, the Bank presents IMF accounts No.1 and No.2 as foreign liabilities in its Balance Sheet and holds securities of the Government of Bosnia and Herzegovina related to the membership. Acting in the same time also as fiscal agent on behalf of the Government in its relationship with the IMF, the Bank records the funds and liabilities of the Government related to the membership in the trust accounts separated from Balance Sheet. By consolidation of all accounts related to the membership of Bosnia and Herzegovina in the IMF, liability as net member position in the amount of KM 222,792,597 is calculated.

The Bank also maintains certain accounts in foreign currencies in terms of agreements concluded between the Government of Bosnia and Herzegovina and foreign governments and financial organisations, 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 funds held in on these accounts was KM 226,543,451.

Any inquiry referred 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, 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 organisation relations with any commercial bank.


CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly Balance Sheet (temporary) as of 30th April, 2003
(amounts in KM equivalents)

ASSETS		Total Amount	EUR	Other Currencies
1	Foreign Exchange Assets	2.165.329.193	2.161.098.305	4.230.888
1.1	Cash	34.594.925	34.559.657	35.268
1.2	Short term deposits	2.127.653.559	2.126.538.648	1.114.911
1.3	SDR in the IMF	3.080.709	0	3.080.709
2	Other Assets	65.038.749		
TOTAL ASSETS (1 + 2)		2.230.367.942		

LIABILITIES		Total Amount
3	Monetary Liabilities	2.025.861.284
3.1	Currency in Circulation	1.747.453.360
3.2	Credit Balances of Resident Banks	257.133.052
3.3	Credit Balances of Other Residents	21.274.872
4	Liabilities to Non Residents	1.084.518
5	Other Liabilities	9.347.904
6	Capital And Reserves	194.074.236
TOTAL LIABILITIES (3+4+5+6)		2.230.367.942

Net Foreign Assets minus Monetary Liabilities (1 - 3 - 4)	138.383.391
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P.W. Nicholl
Governor


Jasmina Halibegović
Comptroller General

Sarajevo (date) 23.05.2003.