



CENTRAL BANK OF BH

Year 6, Issue 3

March 2003



BALANCE OF PAYMENTS

There are no signs that crisis will develop, but nevertheless, there is no room for complacency

BALANCE OF PAYMENTS, Reported in millions KM	1998	1999	2000	2001	2002
I - CURRENT ACCOUNT (1+2+3+4)	-2.053,8	-2.645,4	-2.532,4	-3.285,4	-4.337,2
1. GOODS	-5.482,4	-6.052,5	-5.566,6	-6.374,3	-7.022,7
General merchandise: export, fob	1.168,2	1.526,9	2.491,4	2.494,4	2.296,5
Exports of goods in trade statistics	1.043,0	1.375,6	2.264,9	2.267,9	2.099,2
Adjustments (coverage, valuation, etc.)	125,2	151,3	226,5	226,5	197,3
General merchandise: import, fob	-6.650,6	-7.579,4	-8.058,0	-8.868,7	-9.319,2
Imports of goods in trade statistics	-5.119,9	-6.047,9	-6.582,6	-7.331,4	-8.168,1
Adjustments (coverage, valuation, etc.)	-1.530,7	-1.531,5	-1.475,4	-1.537,3	-1.151,1
2. SERVICES	256,7	190,1	217,4	239,6	136,0
Credit	600,4	587,6	619,3	658,0	622,5
Debit	-343,7	-397,5	-401,9	-418,4	-486,5
3. INCOME	751,1	714,8	669,3	696,9	534,8
Credit	846,7	835,2	832,3	865,8	705,8
Debit	-95,6	-120,4	-163,0	-168,9	-171,0
4. CURRENT TRANSFERS	2.420,8	2.502,2	2.147,5	2.152,4	2.014,7
Credit	2.425,1	2.506,8	2.153,4	2.160,0	2.072,3
Debit	-4,3	-4,6	-5,9	-7,6	-57,6
II - CAPITAL AND FINANCIAL ACCOUNT (1+2)	2.086,7	2.623,6	2.520,8	2.752,4	4.130,2
1. CAPITAL ACCOUNT	765,8	976,5	862,4	846,4	789,8
1.1. Capital transfers, credit	765,8	976,5	862,4	846,4	789,8
1.2. Capital transfers, debit	0,0	0,0	0,0	0,0	0,0
2. FINANCIAL ACCOUNT	1.320,9	1.647,1	1.658,4	1.906,0	3.340,4
2.1. Direct investment	117,4	324,5	310,1	274,2	586,0
2.2. Portfolio investment	0,0	0,0	0,0	0,0	0,0
2.3. Other investment	1.351,5	1.910,2	1.513,2	3.297,2	2.509,3
Assets	-16,4	403,8	827,3	2.775,0	1.694,6
Liabilities	1.367,9	1.506,4	685,9	522,2	814,7
2.4. Reserve assets	-148,0	-587,6	-164,9	-1.665,4	245,1
III - NET ERRORS AND OMISSIONS	-32,9	21,8	11,6	533,0	207,0

There are no strong indications of either a foreign debt or a currency crisis in Bosnia and Herzegovina, but nevertheless, there is no room for complacency. Most transition economies face a large current account deficit, so BH is not alone in this regard.

In 2002, current account deficit increased to KM 4,3 billion or by 32%. In absolute numbers, this

means that the current account deficit went up by KM one billion in 2002. Out of the total increase in current account deficit, the largest change is due to the increase in trade deficit, which in 2002 was higher by KM 649 million than in 2001. So, the huge trade deficit of KM 7 billion can easily be identified as the main "culprit" for the current account imbalance. There is no

doubt that the BH current account deficit is large, but the question arises how large it is compared to other economies. The lack of data does not make it possible to make an exact comparison of the Central Bank of BH (CBBH) on current account deficit with other countries, but available data confirm that it is very high.

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BALANCE OF PAYMENTS

Continuation from page 1 

A current account deficit does not mean an economic "disaster" for a country by default. First of all, a deficit enables the country to have domestic consumption larger than domestic production (which is necessary in BH). The main question that should be asked in a country with a large current account deficit is how the deficit is financed. By definition, a deficit of one component of the payment balance has to be financed by a surplus of some other components of the payment balance. Data for 2002 indicate that the KM 4,3 billion was financed by a KM 4,1 billion surplus on the capital and financial account. Next important item in financing the current account deficit are direct foreign investments that more than doubled in 2002 as compared to 2001 and one can expect this trend to continue in the future. Considering that economists usually assume that direct foreign investments are a good thing, we should

encourage them in the future, which should reduce our worries about finding sources for financing of deficit. In addition to these two factors, 6% of the deficit was financed by decrease in international reserves (reserve assets). One thing that has to be kept in mind when evaluating the current account deficit in BH is the quality of the Balance of Payments data. Compiling data on Balance of Payments is a complex process, sources of data are not reliable and there is a lot of work to be done in the future. Thus one should consider the presented data with necessary caution and interpret them as indications of possible trends in the Balance of Payments developments. Negative effects of the war, transition from the socialist system and disintegration of the common market created negative shocks of both, supply and demand, in BH. The structure of the BH economy is changing rapidly, so there is no basis for comparisons

with the past. Reconstruction and development needs in BH are enormous and economic fundamentals are in constant change. Therefore it is not surprising that from 1998, BH has been experiencing a large current account deficit and it is also clear that the large and widening current account deficit will not be sustainable in the long run unless structural reforms are speeded up, exports of goods and services grow on a sustainable path and imports reduce.

In other words, based on available data, external solvency of the country is not an issue for the time being and the debt servicing ratio is at the satisfactory level. The monetary sector of the BH economy has a much "stronger" position towards non-residents than it had only two years ago, so, for the time being, there are no strong indicators of either a foreign debt or a currency crisis developing in BH.

CBBH'S FOURTH INTERNATIONAL CONFERENCE

The Monetary Policy Role of Currency Boards: History and Practice

International conference entitled "The Monetary Policy Role of Currency Boards: History and Practice", which will be held on April 11, 2003, in Sarajevo will mark the fifth anniversary of existence of the Central Bank of Bosnia and Herzegovina (CBBH) as well as five years since the BH currency, the Convertible Mark, was released into circulation.

According to the Governor of the CBBH **Peter Nicholl**, this conference could give answers to whether there are some things that could be done that could help BH on its road of development without undermining the Currency Board Arrangement, whose continuance was supported by the local and international offi-

cials.

According to the conference program, this conference will be divided into four sessions. The first session should cover establishment and the five years of work of the CBBH. The second session is called "Currency boards and flexibility: An Oxymoron or Reality?", while, during the third session, representatives of central banks of Estonia and Bulgaria, where Currency Board Arrangement is in place, should speak about their own experiences with Currency Board arrangements.

The large number of local and international officials confirmed their presence at this Fourth International Conference, which is organized by

the CBBH. The IMF representatives **Warren Coats** and **Scott Brown**, representative of the Bank for International Settlements **John Hawkins**, representatives of the European Central Bank **Aldabert Winkler** and **Arnaut Mehl**, representatives of the central banks of Estonia, Bulgaria and Romania, representatives of the Center for Central Banking Studies and the German Development Institute are among those who confirmed their participation.

As expected, this conference will also be attended by the representatives of the international institutions in BH, highest-level state and entity officials and distinguished economic experts.

Growing challenges of the capital market in BH

Experiences of the HVB Bank at the capital markets in the Central and Eastern Europe, investment banking, as well as trade at the stock exchanges were topics of the two-day seminar for the employees of the Central Bank of Bosnia and Herzegovina (CBBH), which was held in the premises of the CBBH in Sarajevo. The aim of the seminar was to inform bank employees about the basic features of the investment banking and the latest trends at the financial markets. Participants of the seminar were greeted by the CBBH Vice Governor **Ljubiša Vladušić** who emphasized that rich experiences of the HVB bank in the field of the investment banking are valuable for the CBBH employees, who, in the future, will face more often an increasing challenges of the capital markets in BH that have started to

develop. "This, as well as other seminars that will be attended by our employees, will help us prepare for the growing challenges of the financial markets", said Vice Governor Vladušić.

The main focus of the seminar was the assets management, which is one of the strongest segments of the HVB Group. The CBBH employees were acquainted with the various methods of the participation at the capital markets as well as with the experiences that HVB has in this domain. Speakers at this seminar stressed that the HVB Group owes the large success it has at the capital markets mostly to the careful portfolio analysis and adequate risk management, which reduces the possibility of involvement at the capital market as well as possibility of bad investing. Participants at the capital market, besides being engaged in analysis of potential invest-

ments, also analyze the market value of shares they already have in order to try to determine their position in the so-called "risk zone". At their disposal, they have several "benchmark" tests that serve for the analysis of the success of investors' work compared to the market averages. Representatives of the HVB Group stressed that the most important role in the decision making process is being done by analysts who have to determine to what extent market changes were influenced by the real market reasons, and how large was the influence of the market speculations. It was stated that only thorough analysis of processes that take place at the market can help to avoid investment failures, such as the recent falls of the large telecommunication and "dot-com" giants. The HVB Group has been engaged at the capital markets since 1987.

VISITS

Newly elected Executive Director of the IMF in visit to our country

Newly appointed Executive Director of the International Monetary Fund (IMF) **Joroen Kremers** and his advisor **Herman Litman** visited BH at the end of March in order to inform themselves about the current situation in BH, implementation of the economic reforms and implementation of the existing Stand-By Arrangement for BH. The IMF delegation discussed these issues with the highest-level state and entity officials, officials of the Central Bank of BH (CBBH), and representatives of several non-governmental organizations in BH. A special emphasis during these discussions was placed on the IMF role in the implementation of economic and other



reforms. During the discussion with the President of the BH Presidency **Mirko Šarović**, it was stated that the first Stand-By Arrangement was intended for the stabilization of relations, while the second one is more strategically oriented and therefore, even more significant. Election of the

new Governing Board of the CBBH and the election of the new Governor were also discussed during the meeting with Šarović. Members of the Council of Ministers of BH, Minister of Foreign Affairs **Mladen Ivanić**, Minister of Finance and Treasury **Ljerka Marić** and Minister of the Foreign Trade and Economic Relations **Mila Gadžić** all stressed that implementation of the Stand-By Arrangement is going well. During their visit to BH, members of the IMF Delegation had meetings with the officials of Republika Srpska and BH Federation, members of the Governing Board of the CBBH, Governor and Vice Governors of the CBBH.

New volume of 2 KM coins delivered to the CBBH



A new volume of 2 KM coins was delivered to the Central Bank of Bosnia and Herzegovina (CBBH). Minting of the new volume of these

coins was done in accordance to the Decision of the Governing Board of the CBBH and the quantity of five million pieces of 2 KM coins was minted in order to maintain the denomination structure in the monetary flows.

New coins have kept the existing

design, but the new coins have year 2003 engraved as the year of production. They will be released into circulation in accordance with needs and regular production. New coins were produced by the British Company Royal Mint, which also produced 1 KM and 2 KM coins in 2000.

INTEREST RATES

Trends in 2002 and at the beginning of 2003

The CBBH started collecting average interest rates from commercial banks in BiH for the first time at the beginning of 2002. These interest rates are weighted by

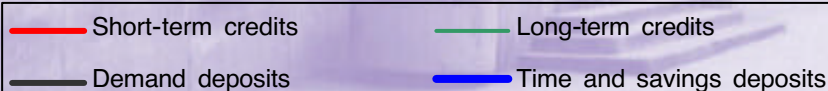
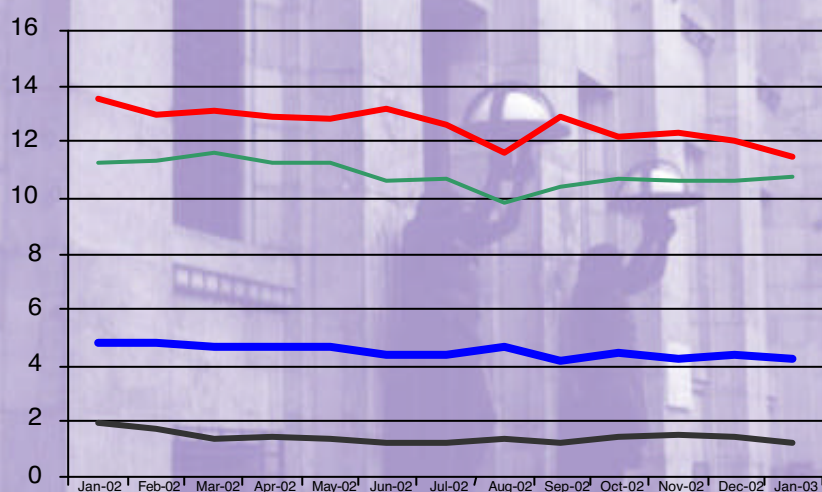
amounts of loans/deposits for new loans/deposits in each given month.

Chart shows relative movements of four key interest rates and their continuing downward trend in 2002

as well as in January of 2003.

Average interest rates on short-term loans are 11.42% while the price of long-term loans is 10.74% on average.

Interest rates of commercial banks in %



From April 1, banks will not accept 50 F banknotes

The Central Bank of BiH (CBBH) reminds citizens that the commercial banks in BiH will stop accepting 50 F banknotes from April 1, 2003.

Since January 1, 2003, 50 F banknotes have not been able to be used as legal tender for payments of transactions and obligations in BiH. But the commercial banks

have been able to continue to



accept these banknotes and the CBBH, in turn, has accepted them from the commercial banks. This will stop on March 31, 2003. After this date, these 50 F banknotes will not be able to be used in BH.

They have been replaced by 50 F coins and these coins will continue in circulation.

MEETINGS

Meeting of Dragan Čović and Peter Nicholl

Preparations for the creation of the annual financial



Dragan Čović

report of the Central Bank of BH (CBBH) for the year of 2002 was the topic of a meeting of BH Presidency's member **Dragan Čović** with Governor of the CBBH **Peter Nicholl**. They also discussed the possibility for implementation of the amend-

ments to the CBBH Law, particularly the amendments to Article



Peter Nicholl

36, because in that way the continuity of the stable business operations of the bank would be ensured. According to Nicholl, the report on the security of this bank created by the International Monetary Fund (IMF) suggests two changes of the law, which

will bring the strengthening of independence of the CBBH and modification of its internal managing. It was stated that the mandates of members of the Governing Board of the CBBH, including the Governor, will expire in August 2003. In this context, the BH Presidency will appoint new members of the Governing Board with six-year mandate in accordance with the BH Constitution. Čović once again confirmed determination of the BH Presidency about the need for providing of legal and timely proposals for these appointments and added that names of candidates will be announced sometimes in April 2003.

EXCURSIONS

Visit to Vienna as a part of visits to cultural and historical centers

The excursion to Vienna from March 20 until March 24 was



organized for the CBBH employees as a part of visits to the European cultural and historical centers. The three-day arrangement included transport to Vienna and back, lodging in a hotel, sightseeing tour of Vienna, old Vienna Schönbrunn Castle, Vienna Opera, Parliament and the visit to the national restaurant Heurigher-Grünzung. The remaining time was used for shopping and visits to the large shopping malls, as well as for partying and entertainment. Everyone concluded that this trip was very interesting and well organized, which brought about the idea of organization of another trip, which would be similar to this Vienna trip.



EMPLOYMENT

Reassignment of workers

During March 2003, the Central Bank of BH did not hire any new employees and, at the same time, no one left the bank. As of March 1 2003, **Senad Hadžiomerović** was shifted from the post Treasury Officer in the Treasury Division of the Main Office to the post Commercialist in the Common Affairs Division of the Main Office. As of March 1 2003, **Bogdan Zirojević** was shifted from the post Liquidator in the Treasury Operations Section of the Main Bank of Republika Srpska of the CBBH Banja Luka to the post Treasury Officer in the Treasury Division of the Main Office. As of March 1 2003, Graduate Economist, a trainee in the Main Unit Sarajevo, **Bojan Čajić** was temporary assigned to the Monitoring and Analysis Department where he will stay until he gets appointed after passing his trainee exam. Graduate Economist, a trainee in the Monitoring and Analysis Department **Maša Čengić**, took the unpaid leave as of March 18 2003. She'll return on September 30, 2003.

The CBBH has 277 job positions in its Systematization. Currently, the CBBH has 251 employees, out of which, 250 are employed permanently, while one employee is employed for the definite time period. One employee is currently on the unpaid leave. Out of the total number of employees that are employed perma-

nently, eight have a status of trainee, out of which, one is on the unpaid leave.

Training period for seven CBBH trainees was shortened and will end on April 20 2003, except for **Maša Čengić**. Eventual shortening of her training period will be decided after she returns from the unpaid leave.

According to the Training Program for the CBBH trainees that was adopted on September 12 2001, as well as in accordance with the Training Schedule for the trainees, trainees **Tanja Vukić** and **Almira Žilić** went through the training in the organizational units of the CBBH in addition to regular training they receive in their organizational unit. Training of other CBBH trainees: **Suzana Kozinović**, **Dejan Kovačević**, **Maja Tepavčević**, **Ines Đulabić** and **Bojan Čajić** is underway and should end in April 3 2003. **Maša Čengić** will receive her training in various organizational units of the CBBH in accordance with the separate schedule after she returns from the unpaid leave.

Personnel Department reminds that the entire annual leave for this year can be used in two parts, and the second part can be used next year, but only until June 30 next year.

Employees of the bank are also reminded that they can use the second part of their annual leave from the last year until June 30 2003.

EDUCATION

Seminars in Great Britain and Germany

Market Evaluation Economist I in the Market Evaluation Section in the Central Bank of BH - Main Unit Sarajevo **Mediha Olovčić** attended a seminar entitled "Monetary operations" which was organized by the Bank of England from March 3 until March 7. CBBH Vice Governor **Kemal Kozarić** attended an international fair about the safety system of payment and innovative ideas for efficient systems

of banknotes processing, which was held in Hanover, Germany. The fair took place on March 13 and 14. Economic Analyst in the Economic Research Division **Sandra Hlivnjak** is currently participating in the seminar entitled "Economic modeling and forecasts". This seminar is taking place from March 30 until April 12 and the organizer of this seminar is the Bank of England.

NEWS FROM THE MAIN UNITS AND BRANCHES

MBRS BANJA LUKA

Provisional administration was introduced in the Privredna Bank a.d. Doboj on March 3, 2003. **Miloš Stajić** was appointed provisional administrator of that bank. The Treasury Operations Section actively participated in the process of creation of instructions and procedures regarding the treasury operations. In spite of the large cash inflow, all cash transactions were completed in time.

MAIN UNIT MOSTAR

A total of 102.786 payment transactions was processed at the level of the Main Unit Mostar, out of which, 102.786 transactions were carried out in the giro-clearing system, while 1.647 were carried out in the RTGS. Coordinator of the Treasury Operations Section of the Main Unit Mostar and the member of the Commission for the creation of instructions and procedures regarding the treasury operations in the CBBH participated in the work of the Commission which held six meetings in March. Four employees of the Main Unit Mostar traveled to Vienna as a part of the organized group of the CBBH workers from March 20 until March 23.

BRCKO BRANCH

In the field of the vault operations, a significant increase in the number of transactions was recorded in

March 2003 compared to the previous month. A total of 176 transactions were recorded, which is 40,8 percent more compared to February 2003. A number of outflow transactions slightly increased compared to February - 5,7 percent. Operations regarding statistics and internal payment transactions in the Branch continued in March. CBBH Vice Governor **Kemal Kozarić** visited CBBH Branch Brčko on March 31. During his stay in Brčko, he had a meeting with the deputy Supervisor for Brčko District **Gerhard Sontheim** and the Mayor of Brčko District of BH **Siniša Kisić**. The Commission for the takeover of the construction works after the completion of the investment in the construction of the prefabricated garage for the need of Brčko Branch visited Brčko on March 31, 2003, on the occasion of takeover of the investment. Manager of the CBBH's Brčko Branch **Mirzeta Arnautović** attended the opening of the branch office of the UPI Bank in Brčko. Branch employee **Jasmina Burić** participated in the activities of the Working Group for changes and amendments in Procedures on treasury operations, while trainee **Almira Žilić** conducted a part of her training course in the Central Office of the CBBH. On the occasion of March 8 celebration, which is the Date of Brčko District of BH, the Manager of the

Branch **Mirzeta Arnautović** attended the reception which was organized by the Mayor of Brčko District.

PALE BRANCH

The Banking Agency of the Republika Srpska has appointed new provisional manager in the Privredna Bank a.d. Doboj. The new provisional manager was appointed for a 60 days period, starting from March 3, 2003. Since his appointment, there were no significant changes in deposits in the local currency, so the deposits that are being managed by the Pale Branch increased seven percent in March compared to February. The average balance of reserve accounts decreased by two percent, while the level of cash fell by 14 percent. The average number of daily transactions of the KM net sale fell compared to the previous month.

MAIN UNIT SARAJEVO

Activities that were planned for the first quarter of 2003 for the Main Unit Sarajevo continued in March. All preparation procedures regarding the Annual Report were completed and the data regarding this report were sent to the Accounting Division. Activities regarding changes of the internal procedures and bylaws with the special emphasis on treasury operations continued. A meeting was held with the representatives of the LT Gospodarska Bank Sarajevo, which is the new bank that was created by the merger of the Gospodarska Bank d.d. Sarajevo and the LT Komercijalna Bank Livno. During the meeting the status of the new bank was stressed, as well as the reserve account and the calculation of the required reserve. A bid for the adaptation of the office building that was purchased for the need of the Main Unit Sarajevo was announced in March. The decision about the winner of this bid as well as the start of the reconstruction works is expected in April.



New garage of the Brčko Branch



CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly Balance Sheet (temporary) as of 28th February, 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 28th February are as follows :

On 28th February, 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 122,159,006. 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 1,761,880,717) and resident banks, reserve deposits (KM 266,441,332).

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 240,723,990 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 179,626,842.

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 28th February, 2003
(amounts in KM equivalents)

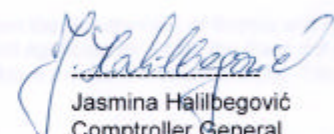
ASSETS		Total Amount	EUR	Other Currencies
1	Foreign Exchange Assets	2.175.772.329	2.165.568.731	10.203.598
1.1	Cash	21.451.339	21.407.141	44.198
1.2	Short term deposits	2.145.300.927	2.144.161.590	1.139.337
1.3	SDR in the IMF	9.020.063	0	9.020.063
2	Other Assets	75.888.072		
TOTAL ASSETS (1 + 2)		2.251.660.401		

LIABILITIES		Total Amount
3	Monetary Liabilities	2.052.504.176
3.1	Currency in Circulation	1.761.880.717
3.2	Credit Balances of Resident Banks	266.441.332
3.3	Credit Balances of Other Residents	24.182.127
4	Liabilities to Non Residents	1.109.147
5	Other Liabilities	9.783.931
6	Capital And Reserves	188.263.147
TOTAL LIABILITIES (3+4+5+6)		2.251.660.401

Net Foreign Assets minus Monetary Liabilities (1 - 3 - 4)	122.159.006
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P.W. Nicholl
Governor

Sarajevo (date) 25.03.2003.


Jasmina Halilbegović
Comptroller General