



January – March 2009



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## Dear Colleagues,

*We entered 2009 with the problems which had been first felt in BH in the end of the year, so it is not strange that all the activities in the beginning of this year were marked by the warning of such problems – crisis, recession, decline of Gross Domestic Product, growth of unemployment, lack of funds for financing, less lending, higher interest rates... Therefore, there was a number of visits of diplomatic representatives to our institution who wanted to obtain additional information on the situation in the country.*

*For the first time, there was an official visit of Governor of the Central Bank of Bosnia and Herzegovina to the Governor of the Croatian National Bank. Both Governors stressed that the economies of Bosnia and Herzegovina and Croatia were facing similar challenges, and that the institutions of the two countries could act in a similar way in order to mitigate the consequences of the global economic crisis. In the conversation with a group of BH journalists, they openly spoke why this year was difficult for both countries and why Croatia did not need and BH did need a new Stand-by Arrangement with the International Monetary Fund.*

*In the first issue of our publication this year, we also bring you a text from Euromoney conference, and the questions how we can survive 2009, how we can return the confidence of investors, how we can persuade banks to lend, which the most effective way of cutting costs is, if large bank groups will withdraw from the markets of Middle and Southeastern Europe are only some of the questions which have shown that the world economy is still in big crisis.*

*As in the earlier years, we have organized annual press conference of the representatives of banking sector in BH. In this issue, you can read something about the results of operations of the banking sector, although they are more or less well-known.*

*You will also find here a text of the operations of another our branch, the Branch of the Main Bank of Republika Srpska of the CBBH in Pale and finally, a nice story of our colleague from Mostar on the visit to Budapest... Enjoy it, and those who went to Budapest can refresh their memories...*

*Public Relations Section*

**Publisher:** Central Bank of Bosnia and Herzegovina;

**Address:** Maršala Tita 25, 71 000 Sarajevo

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**Translation in English:** Public Relations Section and Translation and Proof Reading Section

**Proofreader (languages of BH nations and English version):** Translation and Proof Reading Section

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**DTP and Printing:**



The CBBH Newsletter is issued on a quarterly basis



## THE GOVERNORS OF THE CENTRAL BANKS of BH AND CROATIA MET

**D**elegation of the Central Bank of Bosnia and Herzegovina (CBBH) visited Croatian National (CNB), and representatives of the two monetary institutions discussed about cooperation related to defining the measures for combating the global economic crisis effects and cooperation in the field of supervision over the banking groups that operate in both countries. Kemal Kozarić, Ph.D., and Željko Rohatinski, Ph.D., Governors of the CBBH and Croatian National Bank respectively, emphasized that economies of Bosnia and Herzegovina and Croatia are facing similar challenges, and the institutions of the two countries may act in the similar manner with the aim of mitigating global economic crisis effects.

### Difficult year for both countries

With the emphasis of both Governors that, according to the economic forecasts, this year will be difficult for

both countries, Croatian Governor pointed out problems that Croatian economy will face with. According to him, economic crisis will be manifested through decline of export, decrease of foreign investments and foreign debt. In 2009, Croatia will face around EUR 10.5 billion of principal due for payment on the basis of taken loans. Governor Rohatinski emphasized that there is also a risk in all sectors in terms of refinancing of due liabilities. That risk shall, by its nature, be the least significant with the commercial banks, as their links are most firm with their parent banks abroad and for which their economic logic forces them to continue to finance their daughter banks in Croatia. However, despite more difficult circumstances, there is a realistic possibility for the state to get indebted abroad, and for the time being, the amount planned is between EUR 750 million and one billion. Sector of enterprises is the sector, which faces most uncertainties, especially those who do not have long-term business links with the corresponding enterprises in the



European Union. Governor of the Croatian National Bank believes that it is difficult at this stage to say, and to assume, how this refinancing will take place, at the level of the entire economy. Data on foreign debt trends for January 2009, when the debt of enterprises and banks was increased, may be one of the indicators that after all there will be no substantial suspensions relating to the foreign capital inflow. In that case, the main danger for the Croatian economy is, above all related to the problems that real sector is facing with, and already at the beginning of 2009, significant slowdown of export and demand by foreign markets was recorded, warned Rohatinski. If such trends continue in the forthcoming months, it is estimated that in 2009, Croatia could face decline in real GDP by around 2%. Governor Rohatinski emphasized that it is important to bear those elements in mind and to embody them into all the aspects of overall economic policy, above all fiscal, in the direction of substantial decrease, even deficit elimination of the state budget and other state institutions in the circumstances of decline of their current revenues.

Economy of Bosnia and Herzegovina could face similar problems, as a result of crisis effects, which, also expects decline of production and export, decline in foreign investments, reduction of foreign remittances, increase of unemployment. Governor Kozarić emphasized that the only advantage of Bosnia and Herzegovina compared to Croatia is maybe public debt which amounts to around four billion KM and its servicing is not in danger.

## Arrangement with IMF

In terms of a new arrangement with the International Monetary Fund, there is a consensus in Croatia, both within the state institutions and at the professional level, with regards as to what kind of economic policy may be a response to the existing crisis. "It cannot be an expansive fiscal policy as it is being announced

within the European Union, simply for the reason that in Croatia there is a significant balance of payment restriction, there is also a need for decrease of import, need for decrease of domestic consumption", stated the Governor Rohatinski. IMF would, in any possible Stand-By arrangement with them, require such type of economic policy. "In another words, in the sphere of the policy selection, arrangement with the IMF would not bring anything new that we already don't know ourselves. On the other side, direct financial benefits from Stand-by arrangement, and in terms of funds that Croatia would receive from IMF for maintaining the external liquidity, are not of such kind, not to be able to be substituted with adequate reduction of the own foreign exchange reserves", stated the Croatian Governor. The Governor of the CBBH believes that for Bosnia and Herzegovina arrangement with IMF would be good, not so much because of the funds, but more because of the financial discipline, and credibility of the state, in which, it would be recognized that Bosnia and Herzegovina is ready to fulfill its liabilities. "However, at the same time, it is a public recognition that the state is facing problems, from which it should not run away", stated the Governor Kozarić.

Since the same banking groups operate on the territories of both countries, Governors also discussed more intensive cooperation in the field of banking supervision and a need for monetary institutions to exchange information almost on daily basis in the banking sector. Signing of agreement on technical cooperation has also been agreed, and given the stoppage in the succession process of the property of former Yugoslavia, it has been agreed that the two Banks together, should initiate its continuation.

Vice governors Ankica Kolobarić, M.Sc., and Ljubiša Vladušić, M.Sc., were also in the CBBH delegation together with the Governor Kozarić, who visited the National Croatian Bank.

Zijada Kovač,  
Coordinator of the Public Relations Section

# EUROMONEY CONFERENCE: CROSS BORDER SUPERVISION MUST BE IMPROVED



Although the investments conferences should be places for presentation of business possibilities and opportunities for investments with basic aim to organize meeting of potential investors and countries which try to attract foreign investments, this year's 14th Euromoney Conference, held in Vienna from 19 to 21 January 2009, offered different and darker colors. Optimistic prognosis from previous years, where representatives of countries of Middle and Southeast Europe presented high growth rates of GDP of their national economies and potentials for investments and where the biggest concern of

central bankers was to suppress credit growth, was replaced by certain new questions.

## Number of issues, prognosis impossible

How to survive 2009, how to return confidence of investors, how to persuade banks to lend money, which is the most efficient way to cut expenditures, then whether the huge banking groups will leave the market of Middle and Southeast Europe, how deep will



the European recession be were some of the questions which clearly showed that the world economy is still in big crises and effects of aid of the world governments for saving financial and real sector are still invisible. "During the last year conference we had different opinions about aftermaths of the upcoming crises. Unfortunately, the biggest pessimists won", said the Director of the Euromoney Institutional Investor Richard Ensor, and emphasized that it is hard to make any prognosis since it is impossible to review crisis size. One of the most interesting sessions during the conference was the session of the governors of the countries which are not members of the EU and where the Governor of the CBBH Kemal Kozarić with governors of the NBS, Bank of Albania and Central Bank of Montenegro participated. Kozarić emphasized that the CBBH, because of the limits defined by the Currency Board arrangement, has limited number of instruments which can be used, but it has used existing possibilities at the right time in the right way, which kept the confidence into the banking sector and the nervousness among BH citizens was overcome. "First, we provided euro cash for needs of commercial banks since the banks were under the pressure because of withdrawal of deposits by citizens. Almost 60% of citizens' deposits are deposits in Euro, so it is very important to provide sufficient amount of cash in Euro in order to meet their needs. After that we adopted the decision to decrease reserve requirements rate from 18% to 14% which released KM 727 million of liquid funds. Immediately after that we made a decision according to which all new credits that commercial banks withdraw from abroad are excluded from the base for the calculation of the reserve requirement, in order to stimulate inflow of capital to the local banking sector and to support credit activities of the banks. And finally, in the beginning of this year we introduced a differentiated reserve requirement rate according to which we decreased reserve requirement to 10% for term-deposits with maturities longer than one year and released additional KM 370 million", said Kozarić and stressed that measures reached the aim and that is that BH citizens kept the confidence into the banking sector and that no commercial bank had a liquidity problem. The similar scenario was seen in other regional countries which will, as Bosnia and Herzegovina, face the huge challenges in the real sector in 2009.

## The importance of cross border supervision

All governors agreed that the crisis opened some issues which were not important until now. "Very important issue is cross border supervision, but it is one of the issues which is not the topic of discussion during the crisis, but should have been solved before the crises expanded" emphasized the Governor of the Bank of Albania Adrian Fullani in his speech. Governor Kozarić emphasized that the structure of the foreign ownership in BH banking sector is extremely high, 78% which represents potential danger for the system. "We have the situation that decisions about banking system in BH are being adopted in centers which are not in the area of our supervision authorities. In the whole situation, the biggest paradox, maybe, is that the same international institutions which suggested us to sell banks to the foreign investors 10 years ago, now say it is the biggest danger for our system", said the CBBH Governor. "Just because of that the home-host supervision should be strengthened. Some agreements have been signed so far, but they have not been useful since the process of information exchange, especially with the countries where the seats of those banks are, has been very slow, so we got information about the economy and eventual problems in banking sector from daily newspapers then from delivered information", said the Governor of the National Bank of Serbia Radovan Jelašić and added that there are some attempts to establish a weekly basis delivery of information. One of the most interesting questions was regarding what could be done if some big banking groups withdraw from the region and whether they plan to invest the capital if some of banks has a bigger problem. All governors agreed that in such cases options are limited and that the possibility for something like that is very small. "Big West European commercial banks are extremely aware of the fact that in our region the profit they gain on invested money is much bigger than in their home countries and currently their branches in South and East Europe are the most stabile and most profitable parts of their groups. Because of that there is small possibility that they will be withdrawn from here", said the Governor of the Central Bank of Montenegro Ljubiša Krgović.

Governor Kozarić added that measures implemented until now by the central banks from the region were sufficient for restraining the crisis and he excluded possibility for eventual entrance of the state capital in those banks which get in troubles. "Any nationalization is completely excluded. For us, the process of privatization is completed, these are private banks. In such cases, the task of the system is to protect clients" said Kozarić.

## Positive sides of the crisis

At the end of session, it was concluded that such a crisis has also a positive side, and that is that many lessons have been learned, many weaknesses have

been discovered, beginning from the way how some banks obtain credit ratings to the financial supervision which should be revised in details in order to adjust itself to the high level of globalization of financial markets and diversification of financial products. At the end, it should be mentioned that more than 1000 participants were present at two days conference where ten panel sessions and a certain number of round tables were held and where the participants discussed about economies of some countries and the most interesting ones were about economies of Russia and Ukraine.

M. Sc. Almir Salihović,  
Special Assistant of the Governor



# THE WHITE PAPER – ASSISTANCE IN REMOVING OBSTACLES FOR FOREIGN INVESTMENTS



The Foreign Investor Council presented a very significant document entitled “The White Paper” which can be appreciated and viewed as positive, as it points out to the institutions and other authorities in BH what should be done with purpose of removing obstacles for foreign investments. The country, naturally, it refers to transition countries also, which recognizes earlier such messages and applies them, will be, to a higher extent, the target of foreign investors. This is more than important today, in the situation of the global crisis when foreign investments decline in the countries where sufficient activities are not taken aimed at the implementation of reforms and measures which will annul obstacles and mitigate negative implications and high risks for investments.

The fact that BH had some improvements, those however being insufficient compared to the neighboring countries, points out that we need to commit ourselves more seriously to reforms and their implementation.

The measures of BH Fiscal Council adopted on March 6, represent the base for the contingency plan of BH, as the system on the whole can be rather vulnerable with regard to risk concentration even if individual institutions are diversified.

The basic task of the CBBH is preserving monetary stability. The Currency Board today is important for BH the same as at the time of its establishing. To be

safe against foreign exchange risk, to keep the stability of the currency today is a dream of many central banks and their countries. BH has monetary stability and that is one of the positive factors which, among other, has affected the upgrade of sovereign rating of BH by Standard & Poor’s.

The relation between monetary and financial stability, arises from the increasing complexity of the financial system, so the financial stability for the CBBH means the situation when financial system can absorb shocks without significant disturbances in its current and future functioning, and the functioning of which has no negative impacts on the economy.

Therefore, today, the crucial question is how much the current financial crisis on the world market influences the financial system in BH and how a small and open economy can cope with external influences.

Indirect effects of the global crisis on the financial system and on BH economy are already present through the three main transfer mechanisms:

1. Credit restriction, caused by more difficult access to international money markets and growth of interest rates and liquidity problem in longer term;
2. Decrease of export prices and spending;
3. Decrease of remittances from foreign countries.

It is important to stress that the banking sector in BH, beside being sound and liquid, has a good capitalization, better than that in the region, amounting to 16% compared to 11% or 12% in Western Europe and shows no signs of deterioration in business performances. So, in addition to a number of negative effects focused on the downward trend of economic activities, there are also positive effects such as decrease of the current account deficit and decrease of inflation. However, all these trends between financial systems and real economy in long term will worsen unless adequate measures and activities are undertaken. The possible measures for mitigating the consequences of crisis could be preserving the stability of banking sector, mitigating the effects of crisis on real sector and strengthening the social care network and better distribution of social help.



Considering that the CBBH has the reserve requirement available for mitigating the liquidity pressures, it will work on that to the extent and time as required by the situation according to the early warning plan and stress test analyses which are related to the soundness and liquidity of the banking sector.

The degree of diversification or risk concentration, not in individual institutions but in the whole system, is crucial.

M. Sc. Ljubiša Vladušić,  
Vice Governor

## RESULTS OF BANKING SECTOR OPERATIONS IN 2008

In many ways the last year was significant for BH and different from previous years, especially because of appearance of the financial crises on the global level and its indirect influences on BH, said the Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Kemal Kozarić, Ph.D. at the annual press conference held on March 25, 2009, where he presented macroeconomic indicators for 2008.

### Macroeconomic indicators

According to these indicators, BH concluded the last year with the GDP amounting to KM 25.1 billion, the GDP real growth amounted to 5.5% and the GDP per capita was KM 6, 531. The average inflation rate was 7.4% and in December it was 3.8%. "We all remember that the inflation rate was 10% by the middle of the last year", reminded the Governor Kozarić. Unemployment of BH in the last year was 23.4%, average salary on the BH level amounted to KM 725 and the real growth of salaries was 11.1%. Foreign debt of BH amounted to KM 4.12 billion or 16.7% of the GDP which, according to the

Governor, clearly says that BH is moderately indebted country. Current account deficit was KM 3.67 billion or 14.6% of the GDP and coverage of import by export was 41.2%. Direct foreign investments in 2008 amounted to KM 1.3 billion. As for the CBBH operations, Governor emphasized that the CBBH foreign reserves amounted to KM 6.29 billion, while the profit, amounting to KM 199.4 million, is a record amount realized since the CBBH establishment. He reminded that the CBBH had to intervene several times regarding the reserve requirements rate which contributed to the maintenance of the banking sector liquidity. The Currency Board Arrangement, which understands local currency pegging to euro, will further be implemented in 2009. "We believe that the CBBH, entities Banking Agencies, BH Banking Association and BH Deposits Insurance Agency will carry out their tasks in 2009, too, which would be difficult to do since we operate in complex circumstances. Crises of the financial sector moved to the real sector and now there are problems with loans allocation to the citizens and enterprises, their credit capacity, their capacity to service the liabilities, while the role of the state is inevitable in the whole story. We will see what will be the effects of measures made by entities and those adopted on the BH level and whether we will keep the production at the level it used to have", said Governor Kozarić. He added that the first data illustrate that there is decrease of industry production by 11.1% in Federation of BH and 5.6% in Republika Srpska, as well as, the decrease of crediting.

### RS: Crisis effect the banks

The world finance crises influenced the banking sector of Republika Srpska, but did not stop its growth. For nine months of 2008, the growth of 20% was re-







corded, but at the end of the year the growth was 7%. According to the RS Banking Agency Director Slavica Injac, the banking sector of this BH entity is stable, well capitalized and liquid and in terms of that, there is no danger for the sector, but in any case it depends on the real sector. Regardless the crisis, banks strengthened their capital and none bank, whose major owner is the foreign bank, announced the decrease in employees number, branches or withdrawal of funds. Deposits for the last year increased by 3% and in the funds resources they made for 82%. As for the loans, they increased last year per the 33% rate compared to the end of 2007, but data for the first two months of this year show that the level of credits is the same as it was at the end of the last year. "The current crediting is not stopped, but we do not have the increase of credits, either, and the same amount returned to the banks is reallocated to the clients," states Slavica Injac. There are ten banks operating in RS, out of which nine operated with positive balance, having the total profit of KM 32.7 million. Only a newly established bank had loss, which was planned. There are 3,063 employees in the banks in RS, this is 8% more than in 2007, 57 branches of the banks from BH Federation operate in RS and they participate with 23% in total amount of loans of this entity and with 10% of deposits. Total loans allocation to households amounted to KM 2.5 billion or KM 1,800 per capita.

## FBH: Profitability of the banking sector reduced

Total profitability of the BH Federation banking sector in the last year significantly decreased compared to the previous year, which is the consequence of the slow increase of the interest incomes caused by stagnation or decline of the credit activities in the last quarter of the last year, as well as, by the increase of interest expenditures, meaning costs of resources for the long term funding. Net assets of sector amounted to KM 15.1 billion and compared to the end of 2007, increased by KM 1 billion or 6.2%. Domination of the five biggest banks is obvious whose market share is about 80% said the Director of the Federation Banking Agency Zlatko Barš. Credit placement compared to the previous year had moderate growth rate of 17.6%, having in mind that this growth was mostly performed for the first nine months. Net credits reached somehow above KM 10 billion, out of which

KM 5.06 billion were allocated to enterprises and KM 5.15 billion to households.

The biggest share in total credits allocated to households, of around 71% is of those allocated to consumables funding, 24% relate to housing credits and the rest 5% is to crafts, small sized business and small scale agricultural production. Deposits amounted to around KM 10.5 billion, they increased by approximately 3% and still represent the most significant source for financing of the banks in the BH Federation. Savings of citizens in 2008 decreased by 2% and by the year end they amounted to KM 4.03 billion. Profit realized at the banking sector level amounted to KM 52 million, which is by 52.8% less than in 2007. The number of employees in the BH Federation banks is 7.991 and it increased by 7% compared to the previous year.

## Amendments to the Law on Deposits Insurance

The BH Deposits Insurance Agency announced certain novelties in the area of deposits insurance. According to the Director of this Agency Josip Nevjestić, the Management Board of the Agency initiated the supplements and amendments to the Law on Deposits Insurance. One of the important amendments relates to the criteria of ownership and it means that future supplements and amendments to the Law on Deposits Insurance will provide participation in this scheme of the banks having the majority state ownership which was not the case so far.







“Thanks to the professional standards, sometimes very rigid ones, but also to the firm legal solutions, banking industry entered the crisis in good condi-

tion, in terms of the stable assets and solid liquidity. With interventions of the Central Bank of BH by the end of the last year, which i.e. decrease of the reserve requirements rate, necessary liquidity was achieved, which was of crucial importance for the system functioning. Unfortunately, a part of savings is gone” said the Chairman of the BH Banking Association Dino Osmanbegović. He emphasized that it is necessary to have more positive expectations although it is hard to achieve that during the crisis period, as well as, to start fight for savings against over spending, while collecting new deposits from citizens and taking care on more proper consumption of resources.

Zijada Kovač,  
Coordinator of the Public Relations Section

## AMCHAM: GOVERNOR ON THE GLOBAL CRISIS EFFECTS

On 24 February 2009, in response to the invitation of the American Trade Chamber, the Governor of the Central Bank of Bosnia and Herzegovina Kemal Kozarić, Ph. D., held a presentation about the global crisis effects and its impact on BH, with a special reference to the situation in the banking sector in BH and potential risks for the real sector.

Credit activities of commercial banks, running after profit, insufficient guarantees, inadequate supervision as well as bad estimates of credit agencies caused the banking crisis at the American market in 2007, which had a big impact onto the European banks and European market. Governments are coming up with the bailout package in the amount exceeding USD 1,000 billion, but the question arises as to whether these funds will be sufficient enough for the recovery of national economies, stated the Governor, paraphrasing Joseph Stiglitz who claims that mistakes from the past are being repeated, because the purpose of these funds is not to maintain economy in the state of full employment, but to pay the creditors. “The presence of banking crisis in incomparably stronger economies than ours, is a warning by itself that the crisis is possible and that the banks require permanent supervision”, stated the Governor to the members of the American Trade Chamber in BH. Indirect effects of the world financial crisis on the financial sector of BH are already

present, and they are reflected through more difficult access to the international money market, possible growth of interest rates and potential liquidity problem in longer term.

### Crisis Effects

Short-term crisis effects in the world will be manifested through a slowdown of standard of living growth and presence of concern in regard to the social welfare of each individual. The crisis will lead to the bigger impact of the government in the sphere of economy, corporative governance reform, financial supervision reform, it will strengthen risk management in the banking sector and rating agencies will be provided with a new role. The Governor emphasized that causes of financial crisis will be analyzed, some lessons will be driven and financial system will be changed. However, crisis will not be remembered for long time, because historical memory is not so long and it's easier to remember nice things. A new big break down will occur in long-term. Talking about short-term crisis effects, in his presentation, Governor mentioned that the stock exchange value of BH companies decreased by about 65 % in 2008 and recovery will be slow. Foreign direct investments will be, probably, reduced as well as the growth of GDP. The inflation will,

also, be lower as well as the current account deficit, so the problems with financing of the deficit are possible. Crisis effects will be mirrored in the stagnation of public revenues, dismissal of workers in companies and possible problems with credit repayments. Governor Kozarić believes that well-coordinated measures for the entire BH are necessary in order to safeguard banking sector stability and mitigate crisis effects on the real sector, while in the part of social security, better redistribution of social security benefits is needed. For maintaining the banking sector stability, it is necessary to continue with the measures related to the improvement of the liquidity of banks, to consider deposit insurance system adequacy, to work on the improvement of the banking supervision, improve the system of management, control and transparency of development banks and continue with consistent monetary policy of the CBBH. Regarding the measures for mitigating the crises effects on the real sector, the coordination and additional external financing sources are needed, as well as the improvement of the structure of public expenditure, with systemic efforts which ensure additional funds for financing of the key infrastructure project and credit lines for private sector and faster privatization of approved development

credits. At the end of his presentation, the Governor provided a number of recommendations, including the incentive for the infrastructure development in the field of standards, certification and quality, in accordance with the EU rules, then focusing on the development and local capacity building, especially subvention of food production and development of electric capacities. It is necessary to pay a special attention to the export capacities of the state, especially to the raw-materials component of export which should not be exploited, but focused to the development and export of final products, as well as to the bringing fiscal policy under discipline, meaning to maintain the budget balance. It is also necessary to analyze deficit and subsidize sectors whose production can substitute the export, to stop the policy of salary growth in public sector, which is present, to introduce adequate relieves and subventions to the agricultural producers, to establish the strategy of development and maintenance of local agriculture and create adequate social policies in order to protect the poorest categories.

Zijada Kovač,  
Coordinator of the Public Relations Section

## 4581 PIECES OF COUNTERFEITED BANKNOTES AND COINS WERE REGISTERED LAST YEAR

According to the data of the Central Bank of Bosnia and Herzegovina (CBBH) which performs expert analysis i.e. check of authenticity of counterfeited banknotes and coins, 4581 pieces of counterfeited banknotes and coins of Convertible Mark were registered in 2008. There were 2835 requests submitted to the CBBH in 2008 for the expert analysis of suspicious banknotes and coins. Requests for the expert analysis were submitted by various legal entities, mostly commercial banks and main units and branches of the CBBH. Also, the BH Prosecutor Office and Ministries of Interior submitted requests for expert analysis. Compared to previous years, there is a noticeable increase of counterfeited banknotes and coins of the Convertible Mark. During 2008, KM banknote in denomination of 20 was counterfeited most (823 pieces), followed by KM banknote in



denomination of 50 (442 pieces) and KM banknote in denomination of 10 (241 pieces). Also counterfeited coins in denominations of 1, 2 and 5 were registered, out of which KM 1 coins were counterfeited most. Comparing with the amount of currency in circulation, the number of counterfeited banknotes of KM is considered as relatively low. Each banknote has a few elements as protection against counterfeiting and within its operations, the CBBH, during additional printing of banknotes, introduces new security features. Counterfeited banknotes of KM are very poor quality and mainly they are simple copies made by color printers. As for the other currencies, in 2008 there were 1012 pieces of the counterfeited euro banknotes and 215 pieces of the counterfeited US dollar banknotes registered.

Zijada Kovač,  
Coordinator of the Public Relations Section





## AMBASSADORS OF GREAT BRITAIN AND THE NETHERLANDS AND GOVERNOR OF THE CB OF LUXEMBOURG VISITED THE CBBH

The British and Dutch Ambassadors, as well as the Governor of the Central Bank of Luxembourg visited the Central Bank of Bosnia and Herzegovina (CBBH). In his conversation with the CBBH Governor Kemal Kozarić, the Ambassador of Great Britain in BH, Michael Tatham emphasized that Great Britain would continue to support reforms implemented by BH on its path to the Euro-Atlantic integrations. The Ambassador was especially interested in finding out about the impact of the world financial crisis on BH, especially with the reference as to how strong the banking sector in BH is to stand pressures caused by the crisis. Governor Kozarić mentioned the fact that the banking sector successfully responded to the first effects of the crisis, but that the real sector of economy will face difficulties. Such difficulties will be reflected in more difficult access to the funds for financing production projects. Governor also mentioned the measures undertaken by the CBBH with purpose of overcoming the consequences of the crisis. Speaking about the CBBH activities in this year, Governor emphasized that one of the most important projects is

the Information Security Management System, whose realization should result in the CBBH obtaining the ISO 27 001 certificate this year. The experts from Great Britain provide the important advisory role in this project. Governor expressed his satisfaction with cooperation that the CBBH had in the previous years with companies from Great Britain.

The Ambassador of the Kingdom of the Netherlands to Bosnia and Herzegovina Karel E. Vosskühler expressed his country's support to the CBBH and its work and during the conversation with the CBBH Governor and his associates, the Ambassador pointed out the activities of the Netherlands within the World Bank/IMF Constituency chaired by the Netherlands, which Bosnia and Herzegovina belongs to, pointing out that within the Constituency the cooperation should be strengthened. Associates of the Dutch Ambassador also presented the proposals for the technical assistance of the Netherlands to Bosnia and Herzegovina, and also announced the visits of Dutch experts to our country, in order to discuss the support to the state-level financial institutions of BH.





On March 23, 2009, the Governor of the Central Bank of Luxembourg, Yves Mersch visited the CBBH where he talked to Governor Kozarić about possibilities of cooperation between the two monetary institutions. The Governor of the Central Bank of Luxembourg assessed that cooperation already exists, as well as the need for understanding what is going on in the countries of this region, and he considers his visit to the CBBH from the view of perceiving the situation in Bosnia and Herzegovina. The Central Bank of Luxembourg is one the most important partners of the CBBH, considering the existing cooperation related to the CBBH foreign currency reserves management. Also there was discussion on the possibility of cooperation between the two monetary institutions in the area of education and they agreed about the training of the CBBH employees, first of all in the field of risk management and preparation of financial stability reports.

This very distinguished guest held a presentation for the CBBH employees on global financial crises and the role of central banks.





## THROUGH THE MAIN UNITS AND BRANCHES

# BRANCH OF THE MBRS CBBH PALE

The Branch of the Main Bank of RS Pale commenced its operations on 1 August 2000, as the Branch of the Main Bank of RS of the CBBH (MBRSCBBH). However, the Branch commenced its operations as the Main Bank of RS on 21 August 1997 and operated until January 28, 1999. The status of the Branch was changed by the Decision of the Governing Board of the CBBH. The CBBH Branch in Banja Luka transformed into the Main Bank of the RS of the CBBH Banja Luka and the Main Bank of RS of the CBBH transformed into the Branch Pale. Following the status changes, employees of the Branch, together with the employees of the Main Bank of RS of the CBBH, were actively involved in transfer of operations from the MBRS Pale to Banja Luka. Banking, Statistics and Market Assessments were the first operations that were transferred, while the Bookkeeping operations were transferred at the end of 2000. The Branch was initially situated in the hotel "Koran" Pale and the current premises of the Branch are in rented business premises in Pale.

### Organizational Unit with seven employees

There are eight employees, according to the systematization, in the Branch, but currently there are only seven employees. The Branch is organized as a single organizational unit, which performs banking, monitoring and international clearing operations for the commercial banks, which are situated in the East Part of RS as well as accounting, common and administrative operations for the Branch.

Banking Operations are performed by one employee, who performs operations of buying-selling KM for EUR and other foreign exchange currencies, for cash and foreign currencies, as well as operations of buying-selling of foreign currency cash. Within banking operation, the Branch performs operations of electronic inter-banking money market operations. Besides the relatively small number of banks, last year, 816 subjects were processed and according







to the Decision on Tariffs of the CBBH for KM buying-selling, amount of paid fees was KM 325,000. Cumulative net balance between buying and selling of KM was KM 651, 022, 230 in favor of selling KM to the commercial banks. Comparing with the situation on December 31, 2007, net amount increased by 74% on December 31, 2008.

Two employees perform monitoring operations, monitor reserve accounts of commercial banks in the Branch Pale which go through monitoring of all transactions that banks perform on reserve accounts (KM buying-selling, treasury transactions) and providing payment system of banks by allocating of funds into the payment system (CAS). Within these operations, fulfilling of reserve requirement requests in a certain period of time are being monitored, fees and interests rates are being recorded and charged. Also, there are new operations as the accounts managing of commercial banks, which participate in the system of the international clearing between BH and Serbia and inter-banking transfer operations. Also, within the monitoring operations, there are accounts of special reserves of commercial banks that are opened on the basis of blocked funds on accounts and proceeding of these funds on accounts.

Accounting, Common and Administration Affairs are being performed by two employees. Branch's Accounting is a part of the MBRS Accounting. The Branch Accounting Department performs calculation of salaries, payment bills, operations of the



Branch Counter Office, making of the plan of the Branch costs within the CBBH Budget Plan, supplying plan, monitoring and performing of plans at the Branch level and reporting for the needs of the CBBH and other institutions. Within the common and administrative operations, administration, personnel, supplying and other operations are being performed for the Branch needs.

The Branch of the Main Bank does not have its own security organized, so it engages an agency to perform tasks, which the CBBH made a contract with.

## Aims of the future work

The main aims of the future work of the Branch will be improvements of the work process, cooperation and correspondence with the other parts of the CBBH and commercial banks. Employees in the Branch expect to, together with other units of the CBBH, continue successful operations and to expand their operations within the banking sector. Also, our wish is to get own premises in the future, according to business policy of the CBBH.

Marko Radović,  
Head of Branch Office



