



BANKING SUPERVISION

Why banking supervision within the Central bank

The supervision of banking operations in the modern world is in the focus of attention of international and local public. Changes in the environment call for the new approach in the way the modern supervision is carried out and organized. Globalization of the economy and with liberalization of financial transactions, technological innovations and new financial products and players (electronic banking, large financial conglomerates, etc), new risks emerge in operations of



By:
**CBBH Vice Governor
Kemal Kozarić**

banks and therefore there is a need for efficient control of the way banks manage those risks. In this context, the Basel Committee for the Banking Supervision drafted new Basel Act on capital adequacy (Basel II), which has a new proactive approach in banking supervision where supervisors would be involved not only in control of operations, but also in risk management by banks, which will, among other things, require additional skills and education of supervisors.

Banking supervision in the world has the same global goals, i.e. maintaining stability, reliability and efficiency of the entire monetary and financial system, or in short, maintaining macroeconomic and microeconomic stability. In the practice, however, ways on how supervision will be carried out and modality of arrangements differ depending on the scale of development of the economy, banking and entire financial sector, including macroeconomic environment and political arrangements.

Modern banking supervision therefore needs to respond to all challenges and changes in banking industry, which, without exception, affects BH as well. Specific political context of the country which is going through the difficult period of transition from centrally planned to market orientated economy and with the complex arrangement of banking supervision, creates a need to seek for a specific solution for the modern system of banking supervision in our country. Current system divided on the entity level with two banking agencies and weak coordination with the Central bank of Bosnia and Herzegovina (CBBH), three laws on banks in one state is not an appropriate basis for establishing modern and efficient banking supervision. Over the last two years discussions in our country on the way how to integrate banking super-

vision intensified, so the idea was made to place the banking supervision under "the umbrella" of the CBBH. There are many arguments in favor of such arrangement. Namely, although there is an evident trend toward integration of supervision for the entire financial sector in developing countries (banking, insurance, securities), considering that traditional borders within financial sector are disappearing, at the same time developing countries are suggested

to retain banking supervision within their respective central banks.

Therefore, majority of countries of the Central and Eastern Europe, as well as all countries established after disintegration of ex Yugoslavia have put the banking supervision under exclusive authority of their central banks, considering that the safe and stable banking operations are very important for development of the safe and stable economy and that the central banks are the most reliable in implementing this task. At the same time, data gathered during the supervision process are also important for other functions of the central bank such as the maintenance of payment systems and crisis management. There is a concern that that the central bank would have a very difficult time to monitor development within the financial sector and implement one of its major tasks in maintaining stability of the entire financial sector in case when it would not be involved in any way in the supervision.

In the case of Bosnia and Herzegovina this task becomes even more complex and there is a growing need for the CBBH to have direct insight in condition and operation of the banking sector in the country, especially when we have in mind that the CBBH is operating under the Currency Board Arrangement and cannot function as a lender of last resort to the banking sector. At the recently held conference at the beginning of this year on Currency Board Arrangement there was the opinion that this arrangement is no obstacle for CBBH to be responsible for supervision of banks, in contrary, in case of Currency Board Arrangement there is less possibility for conflict of interest to occur between monetary policies and supervision process.

There are many advantages of the integrated supervision: decrease of costs since the size of banking sector that is a subject of supervision and consolidation and decrease of number of banks, possibility to establish single regulatory framework and therefore uniform and, at the same time, timely application of laws and other regulations and establishment of efficient supervision on consolidated basis, which becomes more important since new participants on financial markets in BH develop while banks are widening their operations and introducing new products.

In the near future, as financial market in BH develops, a need will occur to have integrated supervision of entire financial sector. The CBBH is the only institution that has the authority and respect that gain since its establishment starting from setting and maintaining monetary stability in the country and successful implementation of large reforms such as introduction of Convertible Mark, reform of the payment system etc.

The CBBH is an independent institution which has the great importance for implementing of the efficient banking supervision which is one of requests in the first core principle for efficient banking supervision of the Basel Committee. CBBH also has appropriate organization that reflects regional coverage of BH. That would enable to have control on the ground (off site supervision) provided fully and in continuity through presence of supervisors within organizational units of the CBBH, while issuance of licenses, regulations etc., would be under the authority of separate body for banking supervision within the CBBH. Thanks to its autonomy, resources and data gathered, the CBBH is in better position to implement unified supervision including non-banking financial institutions.

Therefore, there is no alternative for Bosnia and Herzegovina at this specific political and economic moment than to establish banking supervision within the CBBH. Which concrete form supervision of banks will be arranged within CBBH depends on many factors, but the fact is that is necessary to establish formal institutional coordination of banking supervision on the level of BH as soon as possible, since further discussions with no real action only deepen uncertainty and feeling of mistrust in the banking sector which neither helps the banking industry nor, in final case, to its customers, i.e. citizens of BH.

L. Fernelius: The payment system in BH is healthy, safe, expendable and reliable

The payment system of BH is healthy, safe, expendable and reliable. Now, it needs to be improved gradually over time, as banks introduce new products, **Leonard Fernelius**, the adviser for payment systems, engaged by the Financial Services Volunteer Corps (FSVC) stated. FSVC was founded in 1990 by **John Whitehead** and **Cyrus Vance** at the request of the former President **George H. W. Bush** in order to answer the requests for technical assistance in development of financial systems of the countries in Central and Eastern Europe. Over past years, FSVC has expanded its activities to the South Eastern Asia and from 2002 it has been providing the assistance for the recovery and development of the financial system in Afghanistan. The activities of the organization are focused on the development of central banks, the commercial banking sector, capital market and other sectors that are the core of financial systems of the transition countries. Over the past thirteen years, FSVC has implemented 1.100 projects in 30 developing and transition countries, through the donated services of nearly 2.100 volunteer experts, which have been resulted with the assistance worth 155 million of US dollars. Since July 2002, FSVC have been operating in BH under a cooperative agreement with USAID and has mainly worked in the area of deposit insurance and banking supervision. In the interview, Fernelius, among other things, talked about the activities within the project and estimated the payment system of BH. Namely, there are ten basic principles that are being applied for the payment systems throughout the world. These are key characteristics that each payment system has to meet, and the purpose of these principles is to be used as universal instructions to achieve more effective and safe payment system all over the world.

What was the purpose of your visit to the Central Bank of BH (CBBH)?

I have come here before. In fact, this is my twelfth trip to BH and although I am engaged now by the FSVC, not by the International Monetary Fund (IMF) as it has been so far, I think the visit is the continuing of the program that started in 1998 and 1999 with the reform of the payments system. As you know, previous to that, the Payments Bureaus handled all transactions between the clients. They had strict rules such as only one account. That's not market economy and, by going forward, the Government felt that the emphasis should be on creating market economy conditions. So, one thing in the chain was the banking system and related to that was the payments system. So, it's been a long process. As you all know, as of January 1, 2001, the Payment Bureau was successfully removed from the process. We are now looking at making the change, not only permanent, but refining it to the point where it is consistent with the European standards. I was this time asked to compare the BiH payments system with Bank

for International Settlements (BIS) Core Principles for Systemically Important Payments Systems. Those are very specific things that should be a part of the payments system here, both, in terms to its legal foundation and the way it operates. I've spent now almost two weeks going through the existing processes that the Bank conducts working with the commercial banks and the



Leonard Fernelius

banking agencies to be able for me to complete the compliance preview. I will submit a final report of findings and recommendations to FSVC which will then submit it to the CBBH.

As it was known, there were ten main principles for the payments systems worldwide. Can you tell us more about those principles and how Bosnian payments system is far or close to these principles?

Probably half of the principles are applied to the environment within which the payments system operates. That is the environment, the people foundation, the availability of "intraday" and "overnight" credit to the system that allows it to function during the day and overnight and also relates to kinds of instruments that handle the payments system. So, all those have an implementation in Bosnia that is comparable to what was done in other countries. And when the bank here enabled it and when it got hardware and software from the USAID, that suite of hardware and software was consistent with other places in Europe.

So, that infrastructure is consistent, but here you have the Currency Board Arrangement, which precludes the Central Bank from providing lubrication to the system, with lubrication being "intraday" or "overnight" credit. So, the system has to operate with the high degree of reliability and it has to have very few possibilities. This creates constraints in the system.

In regards to the kinds of instruments that are handled here, popular form is the payment order. Payment order is a relatively safe kind of instrument, because if you don't have the money on your account, you can't spend, therefore you can't issue the payment order. In other countries, as you probably know, there are plastic cards, you can create credit, you can do thing by an impulse and pay for it six months later. Impulse buying through unlimited access to credit could be very damaging in an emerging economy such as in Bosnia, because some people might abuse the privilege by going deeply in debt without

having the ability to repay.

And so, those kinds of things are different for Bosnia - the Payment Bureau, the instrument

that was here, the legal foundation as the offshoot of the UN and OHR is different in BH comparing with the other European countries.

The main problems of the system are the differences between the entities.

Ideally, there would be a state-level application of the laws pertinent to banking. Those things are different, but the system itself, the way it operates, is consistent. I pointed out to the Governor that there needs to be some changes, or ideally, there needs to be some changes in the legal foundation. The way the laws are currently applied needs to be taken into consideration. And also, when it comes to the comments of the banks and products that are available, I would recommend to the Central Bank to accommodate those products as they come through those commercial banks. That may require some changes in hardware and software. Basically, the system is compliant, so I can give very high marks to the Bank.

You have been working this job for a long time and you have visited this region before. Could you tell us more about your activities?

In addition to my career in central banking operations and payments systems at the District Federal Reserve Bank in Minneapolis, USA, I have served for ten years as an IMF expert in payments systems. This enabled me to work on payments system reform in 23 transition economies, including Slovenia, Croatia, Serbia, Kosovo and Bosnia. I would like to note that the implementation of the payments system reform in these countries has been essentially the same as in BH. But, Slovenia, Croatia and Macedonia did not follow the same reform process because the payment bureaus, although transformed to suit market economy needs, continued to operate parallel with the payment system operators, i.e. Central Banks. This means that the Payment Bureau may have still straddled the process between the clients and banks. Since this is not the ideal environment I would not be able to give them the same conclusion that has happened here.

So what will be the main conclusion in your report?

The Bosnian payment system is healthy, it is safe, it is expendable and it is reliable. Now, it needs to be improved gradually over time, as banks introduce new products.

Third meeting held in Banja Luka

Bosnia and Herzegovina could get its Development Strategy until November 2003. The document entitled "Development Strategy" (PRSP) also contains elements which are connected to the capital market. Therefore, the Capital Market Council of BH will also probably discuss the implementation of this Strategy, said Governor of the Central Bank of BH (CBBH) **Peter Nicholl** during the third session of the Capital Market Council of BH which was held on October 30 in Banja Luka. Governor informed participants of the Council about the recent developments in the domain of capital market and mentioned that after the recommendation of the Capital Market Council, the provision, which foresees establishment of the third stock exchange in BH, was removed from the Draft of the Securities Law of Brčko District. As Governor pointed out, that example shows that the Council is influential. Over the period from the second session of the Council, BH has started the process of obtaining of its credit rating and another positive aspect is the increase of the volume of transactions at the BH stock exchanges. "Although those are relatively small numbers, the positive thing is that the market exists", Governor Nicholl said. As one of the significant issues he mentioned solving of the internal debt where several options are being mentioned, but all of them include issuing of securities. Expert of the US Treasury (Finance Ministry of USA) **Ann Schwarz** presented results of activities on the creation of the Draft of the Law on internal debt. The

state-level Working Group suggested including the existing Law on foreign debt into the above mentioned draft of the Law on internal debt in order for BH to have the general Law on Debt. This Law should be sent into the Parliamentary procedure at the beginning of the next year. One thing that was stated du-

making of the decision on adoption and implementation of the international and European standards for the entire financial sector, which would be applied to the entire financial sector instead only to the capital markets, with clearly defined timeframe. The Document also suggested that, together with connecting of stock exchanges, the issue of the free capital flow should be also actualized. After the meeting, Banja Luka and Sarajevo stock exchanges organized the presentation of the information connection of stock exchanges from the region of the former Yugoslavia: Sarajevo, Banja Luka, Macedonia, Belgrade, Varaždin, Podgorica and Ljubljana. This is the information portal which contains all relevant data regarding the stock exchanges, their members, trading, securities which are being traded, as well as all other relevant information regarding the capital market. During his introductory speech, Governor Nicholl supported this project. In that sense, he stated that the presentation of this portal is very important, since it shows that BH has started the process of the establishment of the efficient capital market and that those people who work in this domain realize that BH, as the small country, will not be in condition to develop independently wide and efficient capital markets. "I always supported regional approach to the issue of stock exchanges and other issues of the capital market. This presentation shows that stock exchanges listened to me and undertook necessary measures", Governor said.



ring the discussion was that the existing infrastructure should be used in the establishment of the state securities market. During the meeting, Economic Analyst in the Department for Economic Research of the CBBH **Damir Čosić** presented the document entitled "Condition and the development of the capital market in BH". The goal of this document was to set up the general strategy for the development of the capital market in BH by focusing on the necessary preconditions, such as development of offer and demand on the capital market and establishment of the appropriate infrastructure for the mediating between these two sides. The Document suggests

OFFICE OF THE US TREASURY IN SARAJEVO

Seminar on state securities market

The system of state securities, their trading, clearing and settlement, as well as other activities on this market were topics of the seminar entitled "State Securities Market", which was organized for the employees of the Central Bank of BH (CBBH) by the Office of the US Treasury (Ministry of Finances) in Sarajevo. Considering that, until now, securities were not issued in BH, this seminar, during which experts of the US

money is intended for financing of the deficit and/or for capital projects. "There is no need to print the money or to incur debts at the central bank. This is the most important trait, since in the situation when the government cannot get the money it needs, it takes the direct credit from the central bank or simply incurs debt abroad. Many examples worldwide, such as Argentina, show that can have de-

vastating effects", Krchak stressed and added that issuing of state securities can also be used as one of the means in the process of managing of monetary policy. The Central Bank has a significant role in the entire process, since, in most cases, it is the organizer of securities auctions, in other words, it is the agent of the Finance Ministry in the trading process. Also, the Central Bank provides information about

the market condition and acts as the advisor for the Ministry of Finances, while at the same time the Ministry has the assignment to make a proper distribution of maturity dates for issued securities. Ellyn Greenwald, who held the presentation on the technical part of the settlement process, as well as on depositing operations of state securities, said that well established infrastructure and support departments represent solid basis for the work of the state securities market. "The work of the Back Office is the foundation for the well organized and efficient securities market", Greenwald said. Representative of the US Treasury stressed that during the planning of the system and market procedures emphasis has to be placed on minimizing of operational risks, where the most important part would be the existence of the disaster recovery system. The seminar ended with the presentation of necessary steps in clearing and settlement system.

Presentation of the US Treasury experts was attended by the staff of the Payments System Department and the Banking Service Department.



Ellyn Greenwald

Keith Krchak

Treasury **Keith Krchak** and **Ellyn Greenwald** held their presentations, helped CBBH employees to learn about this very important segment of the financial system of one country. During his presentation on significance of the securities market, Keith Krchak stressed that the issuing of securities is the most important non-inflationary way to finance the government of one country, regardless of whether the

Information on business of the BH banking sector for the first six months of 2003

By **Ljiljana Marijanović**

According to the Information on the business of the banking system of BH for the first six months of 2003, banking agencies from both entities revoked four banking licenses because of status changes which came through mergers with other banks. The license was revoked from the Gospodarska Bank d.d. Sarajevo and the LT Commercial Bank, since these two banks merged and the name of the new bank is LT Gospodarska Bank d.d. The license was revoked from the Raiffeisen Bank HPB d.d. Mostar, since this bank was acquired by the Raiffeisen Bank d.d. BH, while Privredna Bank Doboj lost its license since it was acquired by the Pavlović International Bank from Bijeljina.

Because of status change which came as the consequence of the merger, one banking license was issued to the LT Gospodarska Bank d.d. Sarajevo. During the first six months of 2003, four banks were placed under the provisional administration, out of which, one bank merged with one existing bank (Privredna Bank Doboj was acquired by the Pavlović International Bank from Bijeljina). Six banks were under the provisional administration: Gospodarska Bank d.d. Mostar, Hercegovačka Bank d.d. Mostar, Una Bank d.d. Bihać, Ljubljanska Bank d.d. Sarajevo, Post Bank d.d. Sarajevo and Privredna Bank d.d. Srpsko Sarajevo. As of June 30, 2003, 37 banks operated in BH.

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

	December 31, 2001	December 31, 2002	March 31, 2003	June 30, 2003
Total number of banks	48	40	38	37
Of which:				
- Private banks	36	34	32	30
- State banks	12	6	6	7

Compared to the previous period, the number of banks with predominantly state capital increased, since the Government of BH Federation recapitalized BOR Bank from Sarajevo

Capital of commercial banks

Total capital of commercial banks in BH as of June 30, 2003, was KM 1, 08 billion and compared to the end of 2002, it is higher KM 89 million or by nine percent. In the structure of the total capital, the share of the core capital is 83 percent, while the share of the supplemental capital is 17 percent. Share capital was KM 765 million, which is KM 20 million or by three percent higher compared to the end of 2002. The capital structure hasn't changed compared to the capital structure at the end of 2002. Share of the private capital in total capital as of June 30 was 90 percent, out of which, share of the local private capital in the total capital was 23 percent, while the share of the foreign private capital was 67 percent.

Banks assets

At the end of June 2003, balance assets were KM 5, 99 billion which in comparison to the end of 2002 is KM 472 million higher or by nine percent. In assets structure, the most important share is taken by credits with 58 percent. Money funds participate with 32 percent, fixed assets with seven percent, while other assets participate three percent. In the structure of money funds the most important share is taken by deposits at accounts with depository institutions abroad - 68 percent. At accounts abroad banks hold KM 1, 3 billion, which is by eight percent higher in respect to the end of 2002.

Banks liabilities

In total bank liabilities commitments are 86 percent, capital 14 percent. In liabilities structure, deposits share take 75 percent, capital is 14 percent, while share of other liabilities is 11 percent. If we look into nominal amounts, we can see that deposits increased nine percent compared to the end of 2002, while capital increased by KM three million. Total deposits as of June 30 were KM 4, 52 billion, which is higher by nine percent compared to the deposits at the end of 2002. If we consider deposit structure by sectors, the most important share have citizens' deposits with 39 percent, then private companies and enterprises 16 percent, followed by government institutions 12 percent, public companies with 12 percent and other deposits 21 percent.

Looking at deposit structure in terms of currency it can be seen that KM deposits raised by three percent, but foreign currency deposits increased by one percent. However, foreign currency deposits are still significantly higher participating in total deposits with 57 percent.

If we look at the structure of time deposits, short-termed deposits take 76 percent of the share, while 24 percent is taken by the long-termed deposits. Citizens' savings as at the end of June 2003 was KM 1, 66 billion and are by seven percent higher in respect to the end of 2002. 89 percent of savings is concentrated in eight banks. Looking at the savings structure in terms of currency, total foreign currency savings were KM 1, 26 billion, which is 76 percent of total savings, while KM savings were KM 403 million, which is 24 percent of total savings. By June 30, 2003, the Deposit Insurance Agency admitted eleven banks.

Credits

Total amount of extended loans in the first half of 2003 is KM 3, 65 billion, which is 14 percent higher compared to the end of 2002. If we look at the structure of loans by sectors, loans extended citizens take 47 percent of the share; loans to private companies take 41 percent of the share, followed by public enterprises with eight percent, while the other sector got four percent of all loans. Loans extended to citizens increased 22 percent compared to the end of 2002.

Only three banks in BH have assets above 500 million KM.

in millions of KM

Bank size according to assets:	
- above 500 million KM	three banks
- from 300 – 500 million KM	two banks
- from 100 – 300 million KM	nine banks
- below 100 million KM	23 banks

Moody's producing the first sovereign credit rating of BH

Bosnia and Herzegovina will get its first credit rating in the first quarter of 2004 and the producing of the first BH credit rating is entrusted to the US Company Moody's. At the beginning of this year the Council of Ministers of BH has made a Decision that

BH should get its first credit rating and the project management was assigned to the Central Bank of BH (CBBH), which will also cover all expenses of producing of the credit rating. Getting credit rating is

important for many reasons. Basically, it shows capability of the issuer (in this case - the state) to repay its debt. Therefore, each country which wants to incur debt at the international capital market has to have its credit rating. The better the rating, the better the credit conditions offered to the state. It is also very important for the potential foreign investors which, through the credit rating, are getting the evaluation of the economy in which they intend to invest, which is also very important information for the government of the country in order to properly evaluate the economic condition and prescribe the measures for improvement of the current condition. In the end, in BH case, having the credit rating is a necessity. More precisely, there are currently several financial magazines in the world that publish informal credit ratings and all of them rate BH very low. As the Governor of the CBBH **Peter Nicholl** stressed, getting the sovereign credit rating will prevent publishing of unconfirmed information which are damaging for BH. "Rating is the very significant mean of the financial marketing. Even the relatively low rating will

be better than the one we have now. The large share of such informal ratings was given to BH on the basis of the insufficient and incorrect information and I think that they are really bad", Nicholl said.

There are around 70 agencies worldwide which are producing credit ratings, but three of them are seen as the most competent: Standard & Poors, Moody's and Fitch. Considering that BH, until now, didn't had its credit rating and since this is the

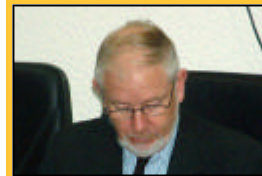


new process for the CBBH as well, the "Triple A" Company from Vienna was hired as the advisor in the process of obtaining of credit rating. The Moody's Agency was selected after it offered best financial conditions at the tender.

After the selection of the agency which will produce the credit rating of BH, a meeting of representatives of the state and entity institutions, agencies and groups which will be involved in the process of obtaining of credit rating was held in the CBBH. "Representatives of the BH Presidency,

Council of Ministers of BH, governments of both entities, as well as from the state and

BH Rating



When he announced the beginning of the credit rating obtaining process, Governor Nicholl said that he expects the "B" rating for BH. "These is simply no way for BH to get an "A" rating, but I don't expect at all and I would be very disappointed if we get the "C" rating", Governor said and added that getting the first credit rating is not the end of the process. "When you get the first credit rating, it is not the end, there is always the possibility to improve it, but that rating indicates all those things that need to be improved in order for the rating to be improved", Nicholl said.

entities statistics agencies were at the meeting. We formed the Working Group that will prepare extensive quantitative and qualitative data, which will be sent to the Moody's Company before their mission comes to BH", Governor Nicholl stressed.

In the end we have to say that, besides BH, there are only few European countries which still don't have their credit rating and those countries are: Albania, Belarus, Serbia and Montenegro and Macedonia. The only country which still hasn't started any activities on obtaining of its credit rating is Albania.

Grading of credit rating

Rating is graded with letter grades: A, B or C, but each grade has its different sub-levels, such as: "AAA", "AA", or just "A". Subjects with grades which start with "A" or "B" are considered as suitable subjects for investing. In Europe, Austria, France and Germany have the strongest credit rating - "AAA". This grade shows the smallest level of probability that the debt will not be repaid. Grade which contains only one letter "A" shows a very small level of probability that the debt will not be repaid, but the sensibility of such country to the changes in the environ-

ment is larger than of the country graded with "AAA". Slovenia is among those countries with "A" rating. The grade "BBB" marks good debtor, small probability that the problem may occur, but also shows that changes in the environment could endanger repayment of debt. Grades "BB" and lower mark so-called speculative credit rating for a country. Some countries which have this rating are Bulgaria, Turkey and Romania. There is also a grade for that subject which are not repaying their debt at all and that is the "SD" grade (*selective default*), which is the rating of Argentina.

AS OF NEXT YEAR

Single Registry of Bank Accounts

Single Registry of Bank Accounts should be established by the beginning of next year, as it already exists in majority of countries. The Single Registry of Bank Accounts will mostly help the commercial banks, Tax Administration and police in discovering of financial structures and transactions which companies and individuals can abuse, for example, tax

evasion and money laundering. It will function in a manner that a bank, during the opening of accounts, can use the identification tax number to check whether the client has blocked account in some other bank for which the authorized institutions have no information. It will make possible for tax authorities, financial police and courts to find all accounts belonging to

such clients and to undertake certain measures against them. The Central Bank of BH (CBBH) has already established Project Team which already works with commercial banks on that. Committee for prevention of the money laundering, which already works, will decide who will have the access to the Single Registry, but it is already known that it will not be public.

CBBH's profit over the first nine months of this year higher than projected

According to the Financial Reports for the first nine months of this year, the Central Bank of BH (CBBH) has made the profit in the amount of KM 28.239.721, which is KM 4, 4 million or 18, 56 percent higher than the projected profit. This influenced the increase of the capital and reserves of the CBBH, which were KM 206.572.202. Conclusively with September 30, 2003, foreign reserves were KM

2.530.276.152 and their increase comes as the consequence of implementation of the new Decision on Required Reserves, which became effective as of June 1, 2003. Monetary liabilities were KM 2.383.109.006, while liabilities to non-residents were KM 1.088.883. Free foreign reserves significantly increased compared to the end of the last year and were KM 146.078.263 on September 30, 2003. Total assets and lia-

bilities were KM 2.600.007.707, while securities and third-party foreign deposits held in foreign banks, which have not been included in the balance sheet, were KM 252.113.181. The Financial Reports for the first nine months of this year were adopted by the CBBH's Management at the session which was held on October 23, and by the Governing Board of the CBBH during the session which was held on October 29.

PRESS RELEASES

1.590.884 TRANSACTIONS IN RTGS AND GIRO CLEARING OVER THE MONTH OF SEPTEMBER

During the month of September, a total of 1.590.884 transactions were carried out in the RTGS (urgent transactions and transactions larger than KM 20.000) and giro clearing (transactions with smaller amounts). The total value of transactions was KM 2, 18 billion. Out of the total number and value of transactions, 28.676 transactions in the amount of KM 1, 27 billion were carried out in the RTGS, while remaining 1.562.208 transactions in the amount of KM 915 million were settled in giro clearing. The number and value of transactions in the RTGS and giro clearing increased in September compared to August 2003, when total of 1.459.208 transactions in the amount of KM 2, 05 billion were carried out in the RTGS and giro clearing. The reason for the smaller number of transactions in August 2003 compared with September 2003 is the fact that it was the vacation season, which means that those are the annual fluctuations. Over the period from January 1, 2003, until September 30, 2003, a total of 12.950.954 transactions in the amount of KM 17, 5 billion were carried out in the RTGS and giro clearing. Compared to September 2001, the number of transactions increased by 55, 6 percent, while the value of transactions increased by 46, 8 percent. Compared to September 2002, the number of transactions increased by 14, 6 percent, while the value of transactions increased by nine percent. Over September 2003, ten banks accounted for 69 percent of all transactions in RTGS and giro clearing, which is 63 percent of the total value of all transactions. At the same time, 12 banks participated with less than one percent. At the beginning of its functioning, in 2001, 40 commercial banks were members of the payments system. In the meantime, seven new banks became the members of the payments system, while 12 banks were excluded from the payments system, so now there are 35 banks in the payments system.

REPORTS ON GOVERNMENT FINANCES BEGINNING AS OF NEXT YEAR

As a part of the effort to improve the macro-economic statistics, the Central Bank of BH

(CBBH) will start publishing reports on government finance for all levels of the government in BH beginning as of next year. This will make possible a higher-quality macroeconomic analysis and the estimate of sustainability of the governmental fiscal policies. At the same time, the public will also be able to follow up with the development of the situation in the fiscal area. Therefore, the Mission of the International Monetary Fund (IMF) has visited BH and worked on the establishment of the latest international standards for compiling and processing fiscal statistics. During their visit, the Mission had the meetings with the representatives of the Ministry of Finance of BH, ministries of finance of both entities and statistical institutions, who all supported the establishment of the statistics of government finance. Discussions covered the problems of data compiling and introduction of the modern classification and agreements were reached related to the ways in which the ministries would be sending data to the CBBH. The United States Agency for International Development (USAID) will also provide significant assistance in this project, which will enable electronic connection and transfer of data from the Treasury system. The CBBH also organized a two-day specialist seminar on compiling of government finance statistics during which the representatives of ministries of finance of BH and both entities, statistical institutions and the CBBH learned about the international standards for compiling and distributing the fiscal statistics, as revised by the IMF in 2001.

SURVEY ON FOREIGN INVESTMENTS

The Central Bank of BH (CBBH) has started conducting an extensive survey on foreign investments in BH, which is carried out by its Economic Research and Statistics Department. The existing data are not adequate, since they neither include all foreign investments, nor follow international standards, which means that they are not comparable with other countries. Also, there are no data about our investments abroad, or on loans which our companies take from abroad. The exact data on foreign investments have a vital significance for recognizing the general condition of the BH economy and formulating of economic policies. More precise measure-

ment of foreign investments is especially important for the country's Balance of Payments from the aspect of financing of the current account deficit, as well as for attracting new investments. This is the first time that such research, which is regularly conducted in most of other countries, is implemented in BH in accordance with the international standards. The CBBH has received support from the responsible state and entity ministers for conducting of this survey. This survey will include almost 1,000 companies and commercial banks in BH, which could have direct foreign investments. Governor of the CBBH **Peter Nicholl** has invited all companies to fill in the survey forms which will be sent to them soon and he assured them that the data which they will provide will be treated as confidential and used exclusively for statistic purposes. The aggregate results of this survey will be available at the end of this year.

CBBH DATA ON CITIZENS' SAVINGS

Citizens' savings in BH commercial banks on September 30, 2003, were KM 1, 8 billion, which is 11, 1 percent increase compared to the end of 2002. Increasing level of citizens' savings in commercial banks shows that the trust of citizens in the banking sector of BH is increasing, and the important reason for this was the establishment of the Agency for Deposit Insurance of BH, which is obliged to insure and to repay the deposits up to KM 5.000, if the member bank is closed.

The data of the Central Bank of BH (CBBH), which were gathered in accordance with the methodology of the International Monetary Fund (IMF), show that, out of the total citizens' deposits, foreign currency deposits take 73, 5 percent of the total share, which is KM 1, 3 billion, while KM deposits take 26, 5 percent, which is close to KM 500 million. Looking into the maturity structure, time and savings deposits take 52, 8 percent, or KM 950 million, while "a vista" deposits take 47, 2 percent, or KM 850 million. Eighty percent of KM 1, 8 billion of citizens' deposits is concentrated in eight commercial banks in BH.

EDUCATION

CBBH continues with education of its employees

Economist II in Monetary and Financial Sector Statistics Section **Dragana Burić** is in Washington, where she currently attends the seminar entitled "*Monetary and financial statistics*" which started on October 6 and will end on November 7. The organizer of this seminar is the International Monetary Fund (IMF). Economic analyst in Economic Research and Statistics Department **Sandra Hlivnjak** attended a seminar entitled "*Financial programming and politics*". The seminar was held from October 13 until October 17 in Vienna. Economist I in the "Front Office" Section in Banking Department M.A. **Emina Brodlija** attended a seminar on strategic decisions in reserves management. The seminar was organized by the Bank of England. The Bank of France organized a seminar on internal audit in the Central Bank. This seminar was held from October 20 until October 24 in Marne la Valle, and attended by the CBBH General Comptroller **Jasmina Halilbegović**. Manager of the Monitoring and Analyzes Division **Vasilija Arapović** attended a three-day seminar on "*Risk management of the foreign reserves*", which was held in Amsterdam and organized by the Bank of Netherlands. Technician for Computer Network in the Information Technology Department M.A. **Kemal Hajdarević** and Hardware Technician of the same Department **Jasmir Čeman** attended a seminar on computer network maintenance in Sarajevo. A seminar entitled "*Globalization and political economy of development in transition economies: from transition to*

development" was held in Sarajevo from October 10 until October 11. Manager of the Statistics Division **Amir Hadžiomera-gić** and Economic analysts in Economic Research Division **Nebojša Nastić** and **Sandra Hlivnjak** participated in work of this seminar. Organizer of this Seminar was the Center for International Cooperation of the Economic University in Sarajevo. Coordinator for the banking supervision in the Governor's Office **Ljiljana Marjanović** and translator in Governor's Office **Renata Barić** attended a seminar on banking and supervision in Slovenia, which was held from October 27 until October 30 in Ljubljana. **Ljiljana Marjanović** also attended a seminar on banking supervision, which was organized by the US Agency for the international development (USAID) in Banja Luka from October 20 until October 23. Administrative assistants **Azra Ajanović**, **Danijela Golijanin**, **Marijana Kovačević** and **Sanja Markotić** attended a seminar on communication skills which was organized by the Andragoški Centre from Zagreb from October 13 until October 18 in Bol on Brač Island.

The CBBH's Statistic Division organized a seminar on statistics of the government finances for employees of CBBH who work in the appropriate departments, representatives of finance ministries of BH, both entities and Brčko District, which provide information for the government finances statistics and for representatives of the statistical institutions at the state and entity level. This seminar was held on October 6 and October 7 in Sarajevo.

EMPLOYMENT

Employees invited to use their annual leave

As this calendar year is nearing its end, Personnel Section of the Central Bank of BH (CBBH) reminds all the employees who haven't used their annual leave for 2003 to do so until December 31, 2003. If those employees do not start using the entire or the part of their annual leave for 2003 until December 31, they will lose their right to use annual leave for this year. Employee-trainee in the Monitoring and Analysis Division **Maša Čengić**, started working as of October 1, after she returned from the unpaid leave of absence. In accordance with the earlier approved program for education of trainees, she will pass the training in the other organizational units of the CBBH. After the end of her training and the end of her internship period, she will take the Trainee Exam before the Examining Board. During October 2003, there were no new hirings and no one has left the CBBH. Also, no employees were shifted to other posts. The CBBH currently has 264 employees, out of which, 260 are employed for the indefinite period of time, while four employees were employed for the definite period of time. Out of 260 permanently employed persons, one employee has a status of trainee.

Best wishes for the forthcoming religious holiday to the CBBH employees

NEWS FROM THE MAIN UNITS AND BRANCHES

MAIN UNIT SARAJEVO

Calculation of the Required Reserve for the 29th period from October 11 until October 20 2003 was conducted with the 1, 99 percent rate and total remuneration paid to the banks was KM 226.189, 00. Basis for the calculation of the Required Reserve increased ten percent compared to the previous calculation period, so currently the basis is KM 3.081.452.068. The average balance at the reserve accounts also increased by ten percent and is now at KM 409.186.172, so the banks currently hold KM 255.113.569 more than they are obliged. The reason for this increase is in remuneration which the Central Bank of BH (CBBH) pays to banks. Increasing trend of KM sale to BH commercial banks continued in October. Until October 28, KM 71.498.141, 87 were sold, while KM 12.679.150, 00 were purchased, which means that the positive effect of the net sale was KM 58.818.991, 87. Buying and selling of KM fluctuated over 2003. The largest positive effect of the KM net sale was recorded in March and it was KM 86.198.180, 85, while the largest negative effect was recorded in January when it was KM 189.413.154, 41.

Reasons for these fluctuations can be explained by the fact that the banks are buying the larger volume of KM in last month of a quarter, while they increase their selling of KM in the first month of the quarter in order to adjust themselves to the regulations of the Banking Agency which are related to the assets risk. Since the beginning of this year, total effect of the net sale was positive and it was KM 153.467.241, 00.

MAIN UNIT MOSTAR

A total of 135.384 transactions were processed at the level of the Mostar Main Unit, out of which 132.920 transactions were processed in giro-clearing, while 2.464 transactions were processed in the RTGS.

MBRS BANJA LUKA

During October, Treasury Operations Section carried out 290 cash transactions. More than 2.100.000 pieces of banknotes and 300.000 pieces of coins were received. Expert analysis was carried out in 40 cases related to banknotes which were suspected to be counterfeits. All tasks and

jobs in liquidation and treasury were successfully completed.

PALE BRANCH

The average balance at the reserve accounts of the commercial banks increased by 2, 2 percent compared to the previous month. The average number of KM net sales in October fell by 2, 7 percent compared to the previous month, while the average number KM net purchases rose by 23, 6 percent. The average balance of buying and selling of KM at the level of Pale Branch increased by 1, 6 percent compared to the previous month.

BRCKO BRANCH

Value of KM and euro inflow increased in October compared to the previous month. KM value increased by 12, 86 percent, while euro value increased by 21, 76 percent. Manager of the Brčko Branch **Mirzeta Arnautović** attended the seminar entitled "*Implementation of the Money Laundering Law in Brčko District BH*", which was organized by the Tax Administration of Brčko District BH.



CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Monthly Balance Sheet (temporary) as of 30th September, 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 September are as follows:

On 30th September, 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 146,078,263. 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 1,686,090,427) and resident banks, reserve deposits (KM 665,000,501).

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 237,012,277 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 252,113,181.

Any inquiry referred to the Monthly Balance Sheet can be addressed to the Accounting and Finance 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 September, 2003
(amounts in KM equivalents)

ASSETS		Total Amount	EUR	Other Currencies
1	Foreign Exchange Assets	2.530.276.152	2.519.424.447	10.851.705
1.1	Cash	30.661.821	30.632.940	28.881
1.2	Short term deposits	2.490.409.974	2.488.791.507	1.618.467
1.3	SDR in the IMF	9.204.357	0	9.204.357
2	Other Assets	69.731.555		
TOTAL ASSETS (1 + 2)		2.600.007.707		

LIABILITIES		Total Amount
3	Monetary Liabilities	2.383.109.006
3.1	Currency in Circulation	1.686.090.427
3.2	Credit Balances of Resident Banks	665.000.501
3.3	Credit Balances of Other Residents	32.018.078
4	Liabilities to Non Residents	1.088.883
5	Other Liabilities	9.237.616
6	Capital And Reserves	206.572.202
TOTAL LIABILITIES (3+4+5+6)		2.600.007.707

Net Foreign Assets minus Monetary Liabilities (1 - 3 - 4)	146.078.263
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Jasmina Halibegović
Comptroller General


P.W. Nichol
Governor
Sarajevo (date) 22.10.2003.