

CENTRALNA BANKA  
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА  
БОСНЕ И ХЕРЦЕГОВИНЕ

# Info

# СВВiН

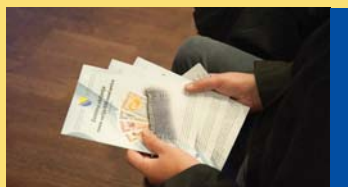
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# WORKSHOP AT THE OXFORD UNIVERSITY

## Impact of Euro Crisis and Possibilities of Investing in Bosnia and Herzegovina



At St. Antony's College, Oxford University, on 11 May 2012, the workshop „Impact of Euro Crisis and Possibilities of Investing in Bosnia and Herzegovina“ was held. The purpose of this workshop, which was organized by the Central Bank of Bosnia and Herzegovina (CBBH) and St. Antony's College, i.e. Department for Southeastern Europe Studies at Oxford (SEESOX), was a discussion on the effects of global financial and economic trends on the economy of Bosnia and Herzegovina, its perspectives and the necessary structural reforms for transforming Bosnia and Herzegovina into a desirable investment destination.

In addition to the representatives of the Central Bank of Bosnia and Herzegovina (CBBH), current and former Governors and representatives of regional central banks, many other participants from academic circles of Bosnia and Herzegovina, the region and Great Britain attended this workshop and gave a special contribution to this workshop by raising many questions and discussions.

The workshop was held in the atmosphere of significant market uncertainty related to the perspectives of growth and financial stability in the euro zone, the main trading partner of Bosnia and Herzegovina, and the implications of those trends on BH economy. The workshop itself, for easier coverage of a very complex subject, was divided into four basic thematic parts: „Position of BH in the process of accessing EU and regional cooperation“, „Impact of euro crisis on financial stability in BH and the region“, „BH and regional cooperation: potentials for a new development programme“ and „Regional cooperation of monetary authorities“.

Discussions, which connected all the above mentioned topics, showed all the complexity of events that took place world-wide in economic-political area during the several recent years, and also how small and open economies such as the one of BH can cope with new challenges. Participants agreed that all the issues which apply to Bosnia and Herzegovina also apply to other countries from the region, so in this context, future regional cooperation is becoming very important.

During the introductory statements, the significance of this and similar events was stressed, because they offer a different, much more positive picture of BH than the one which is predominant in the media. It was concluded that, unfortunately, BH, in many reports, is often perceived only as a crisis case. Although a part of these reports is true, a very important part of the story is often forgotten – the part that speaks of large potentials, favourable geostrategic position, good quality labour.

The first subject covered a very significant regional issue on European Union (EU) accession, and a new reality which the countries – applicants face, that is the weakening of confidence in the assumption that the EU and the euro zone, through the accession mechanisms, can provide the strengthening of state institutions and the rule of law. Participants asked how it was possible in such circumstances to motivate and start further reforms, and whether the focus on other cohesion elements, such as regional connections and integrations, could have a good role.

Beside the pan-European political context, a large part of discussion was devoted to the impact of crisis on the economic growth and financial stability. During this part, the role of monetary authorities during the crisis was analysed. It was stressed that the CBBH, despite the restricted mechanisms available according to the currency board arrangement, managed to keep monetary stability and help preserve financial stability. Beside the reduction of required reserve rate, which was used three times, the CBBH was also engaged in additional activities with purpose of keeping and improving the general stability of the system, such as initiatives for setting up the Standing Committee for Financial Stability, participation in the process of signing the Vienna Initiative, and improving the BH deposit insurance scheme.

Despite the challenges, banking system of Bosnia and Herzegovina has remained stable and well capitalized. Yet, the effects of crisis are felt, such as minimal credit growth

Memorandum of Understanding was signed between the CBBH and the SEESOX.

now amounting to 6%, which is not sufficient to support the appropriate economic growth rate, and the growth of NPLs now amounting to around 12. In the end of the analysis of the role of monetary authorities, it was concluded that, for a good quality crisis management, it was necessary to provide a good quality communication in crisis. Without it, almost no measure would have been effective, and consequences on the financial sector stability would have been much worse. Further course of discussion was related to the subject of regional cooperation among monetary authorities, which is considered to have been very good for many years, and additionally improved during the crisis. Although the countries in the region have different monetary policy models, approaches to the models of supervision and control of their financial sectors, there are common elements for which monetary authorities need to work on further strengthening of cooperation, those being the presence of the same banking groups in all the countries in the region, and general dependence of economies of these countries on the credit growth as economic generator. Recent experiences led the participants in the panel to conclusion that it would be desirable for countries in the region to have a common voice in the dialogue on the changes of legal framework in the countries where mother banks come from. Such collective approach would give the Western Balkans countries a stronger position in negotiations with European regulatory bodies.

The field of regulatory arbitration has also been recognized by panel participants, as a sector in which cooperation and coordination need to be enhanced significantly. As an example for such need, a possibility that banks transfer their NPLs from one daughter bank to the other, as well as deposits, was mentioned. This could bring about the withdrawal of capital and lead regulators to serious problems. It is also necessary to work on harmonizing the methodology for collateral evaluation, which will facilitate the assessment at the regional level, and increase the level of data exchange among the central banks. Taking into account a high level of euroization in the region, panel participants agreed that special attention needs to be paid to the destiny of the euro zone and the single currency, and other alternatives such as developing local money markets, need to be considered.

The final item was devoted to the need for a new development agenda for BH and the region, which will take into account all the global changes affecting the local markets. Although the monetary authorities in the countries in the region have managed to preserve stability, there is a question now which sources economic growth will come from, taking into account the decline of the level of lending as the basic generator of growth. BH, besides external challenges, faces also internal challenges, such as the uncompleted reform process and insufficiently developed coordination role of the state in the development programme. One of the proposals stated during the discussion was that countries of the region, in joint approach to big markets, would have much more chances for success. Yet, potential connection of the region brings many challenges, from legal/formal ones to poor infrastructural connections, which have a negative impact on economic cooperation.

*Almir Salihović, Special Assistant to the Governor*

The additional value of the organization of the workshop and visit to St. Antony's College was the signing of the Memorandum of Understanding between the CBBH and the SEESOX. The purpose of this Memorandum is to stimulate better understanding of economic development in BH and Southeastern Europe and analysis of macroeconomic and financial challenges which countries of the region face. Signing of the Memorandum will make possible for the CBBH to access a higher level of knowledge and cooperate with the best experts in the field of economics, which will certainly result in the further improving of the CBBH operations and raising them to a higher level.

On behalf of the CBBH, Memorandum of Understanding was signed by the CBBH Governor Kemal Kozaric, Ph.D., and on behalf of St. Antony's College, it was signed by acting Dean, Rosemary Foot.

The Memorandum covers the following activities:

- Organization of annual workshop by the SEESOX at Oxford, according to previously suggested and agreed subjects with the production of a written report;
- The SEESOX will organize, twice a year as maximum, the lectures in Sarajevo by experts from Oxford and the SEESOX on the previously suggested and agreed subjects.
- If there are funds available, the SEESOX will provide opportunity for a short study visit of the CBBH experts as suggested by the bank and approved by the SEESOX, so that they can have an opportunity to do research on subjects from central banking area.
- Research works of the SEESOX on the subject of interest for the CBBH will be available to the bank and vice versa.

The Memorandum has been signed for a three year period.



## PRESENTATION OF THE NEW ISSUE OF KM BANKNOTES ORGANIZED



On May 21, 2012, the Central Bank of Bosnia and Herzegovina (CBBH) organized a presentation of the new issue of KM banknotes for commercial banks, in denominations of KM10, KM20, KM50 and KM100. The new issue of banknotes is put in circulation on June 1, 2012.

The governor of the CBBH Kemal Kozarić, Ph.D, opened a presentation with his introductory speech. Besides the Governor, Vice Governor Radomir Božić, Ph.D., the Head of Cash Management Department Edis Kovačević, and the directors of the main units and branches also attended the presentation, and the expert explanation of the specific characteristics of the new issue of banknotes and the changes made over previous versions, was given by the Coordinator of Banknotes and Coins Analyses Section Moamer Halvadžija.

The promotional material for the staff of commercial banks who works with cash was distributed during the presentation. The promotional material for commercial banks was also distributed through the main units and branches.

The new banknotes of the above mentioned denominations, of the 2012 issue, were printed in accordance with the regular activities of the CBBH, intending to provide a sufficient number of banknotes of the adequate denomination structure for cash payments system in BH. The new banknotes will replace the banknotes in circulation from the previous issues, which have been withdrawn from circulation over the past years, due to their worn out condition. Banknotes from the previous issues, whose quality is satisfactory in accordance with the CBBH standards, will remain in circulation as the legal tender.

The main characteristic of the new KM banknotes is improved paper quality and the security features providing the quality and durability, and protection against counterfeiting at the same level of quality as the European banknotes have.

Production of new issue of the Convertible Mark have no inflationary effect, because none KM banknote shall be put in circulation if not adhering to the Currency Board principles, meaning that each issued Convertible Mark shall be covered in foreign currency at the fixed rate.

*Igor Soldo, Public Relations Senior Specialist*



## AMBASSADOR OF THE KINGDOM OF SPAIN VISITED CBBH



H.E. Ambassador of the Kingdom of Spain **Maria Aurora Mejija Errasquin** has visited on 3rd May 2012, the Central Bank of Bosnia and Herzegovina (CBBH), where she has talked with the Governor **Kemal Kozarić, Ph. D.**

The collocutors have expressed their satisfaction for traditionally good bilateral relations between the Kingdom of Spain and Bosnia and Herzegovina. The Ambassador has expressed her hope that she will continue the tradition of good relations between Spain and BH thus contributing successful cooperation in future. Ambassador Mejia has announced a visit of a group of Spanish businessmen which will take place in May this year as a part of the cooperation between the chambers of commerce of the two countries.

Governor Kozarić has stressed that the cooperation between Spain and Bosnia and Herzegovina is not at the desired level, and hopes that it will be stronger in the future. As an example, he has mentioned tourism and other sectors of the economy where it would be possible to achieve significantly better results.

Governor has used this opportunity to introduce the guest with the role and tasks of the CBBH, as well as with BiH macroeconomic indicators. According to preliminary data in 2011, the GDP growth was 1,8%, foreign debt amounted to 25,7% of the GDP what makes BH moderately indebted country. Foreign exchange reserves amounted to around EUR 3,2 billion and are stable, while inflation was at a relatively low level of 3,1%.

Ambassador Mejia has also informed the Governor about the latest developments in the Kingdom of Spain and major reforms in the economic sectors undertaken with the aim of strengthening the country and starting the further economic growth. Also, there is a hope that some of the actions undertaken by Spain will bring benefits to BH as well.

*Igor Soldo, Public Relations Senior Specialist*

## THE AMBASSADOR OF ROMANIA VISITED THE CBBH



On 23 May 2012, Ambassador of Romania H.E. **Filip Teodorescu** visited the Central Bank of Bosnia and Herzegovina (the CBBH), where he spoke with the Governor **Kemal Kozarić, Ph.D.**

The collocutors expressed their satisfaction with the traditionally good bilateral relations of Romania and Bosnia

and Herzegovina, and the Ambassador expressed the own expectations that he would contribute to further cooperation and continuation of good relations between the two countries. The Governor stressed that the CBBH has been always open and willing to cooperate in terms of providing relevant information on BH. The Ambassador thanked on the CBBH data, and said that it has been evident that the CBBH is stable institution and well managing all the challenges being faced with.

Also, during discussions it was emphasized that the economic cooperation between Romania and Bosnia and Herzegovina has been at low level, and obviously there has been considerable space for its improvement and upgrading. It is necessary to undertake additional actions in order to define areas in which Bosnia and Romania have similarities when in question are the development capacities and similarities on the way to European integrations.

*Igor Soldo, Public Relations Senior Specialist*

# BOSNIA AND HERZEGOVINA HOST OF EFSE ANNUAL MEETING IN 2013



Governor of Central Bank of Bosnia and Herzegovina (CBBH) Kemal Kozarić, Ph. D. was in visit to Tbilisi, Georgia, in period from May 29 till June 2 2012, where the Annual Meeting of the European Fund for Southeast Europe (EFSE) was held, one of the main sources of micro financing for Bosnia and Herzegovina.

Governor participated in the panel discussion addressing the up-to-date topics like the future of micro financing in the new market conditions, reduction of credit growth, ways to prevent indebtedness, citizens' savings in the financial sector, profitability during the crisis and the problems of financing in foreign currencies.

During his speech, Governor Kozarić stressed that Bosnia and Herzegovina had great benefit from micro-crediting, but that the crisis showed all systemic weaknesses. "After start of the Central Credit Registry daily updating, and entry of the microcredit organizations data in the Central Credit Registry, all prerequisites were created for the better risk management and consolidation of the sector", said the CBBH Governor. At the panel, which was also attended by the Governors of Central Banks of Albania and Georgia, it was found that all the countries

of Southeast Europe have nearly identical problems when it comes to responses to the global financial crisis, and having in mind the constant changes, it is difficult to give a prediction when the global recovery will be achieved.

The discussion also showed that Bosnia and Herzegovina has been in a slightly more favourable position than the other countries, when the foreign currencies loans are in question, since only 2.33% of all loans in BH are in the foreign currencies. During the panel discussions there were presented the researching results of EFSE's, showing that currently the biggest threat to the financial sector has been indebtedness of clients, the negative effects of the global financial crisis and lack of access to financing.

This year's EFSE meeting was attended by a large number of delegates from the microcredit organizations from BH and the whole region. Only to add here that Bosnia and Herzegovina is the second largest user of the EFSE portfolio with 16% of total investments of the fund. The biggest beneficiary is Republic of Serbia with 25% of the total portfolio.

During the annual meeting, two microcredit organizations and one bank from BH signed loan agreements with EFSE and GGF Fund (Green for Growth Fund - fund for energy efficiency and renewable energy resources).

The MCO "EKI" (EUR 4 million) and MF Bank B. Luka (EUR 5 million) signed the loan agreements with EFSE, while the MCO "Partner" is the first MCO that signed an agreement on the financing with the GGF Fund, amounting to EUR 1,5 million.

At the end it is necessary to emphasize that the next Annual General Meeting of EFSE will be held in Sarajevo.

*Almir Salihović, Special Assistant to the Governor  
Igor Soldo, Public Relations Senior Specialist*



## AMBASSADOR OF JAPAN VISITED THE CBBH



On 15 June 2012, Ambassador of Japan **H.E. Hideo Yamazaki** visited with his associates the Central Bank of BH (CBBH), and talked with the Governor **Kemal Kozarić Ph.D.** They discussed the new economic trends in Bosnia and Herzegovina, its near environment, and the bilateral relations between BH and Japan.

Since 1995, Japan implemented a number of projects of a humanitarian character in BH, as well as technical assistance projects. The current relationship between two countries is rated as very good. Ambassador Yamazaki added that it was time for the raising the economic relations to a higher level, and announced several projects of foreign direct investment of Japanese enterprises in production plants of BH.

While presenting the macroeconomic situation in the country, Governor Kozarić emphasized that all investments are welcome and that the CBBH, in accordance with its institutional capacities, works continuously on providing monetary and financial stability as a basic prerequisite for attracting foreign investors. “With an unemployment rate of 27.6%, we all have to do extra efforts to create a positive atmosphere for investments and job creation,” said the Governor.

The Governor also informed the Japanese Ambassador on the CBBH measures undertaken during the economic crisis, adding that all analyses have shown that the present model of monetary policy being the Currency Board arrangement have proven to be the best option for our country. Along with the regular activities, the Governor stressed that the CBBH also actively works on planning and preparations for BH future accession to the European Union. “The CBBH, through active cooperation with the Eurosystem countries, makes efforts to adjust as much as possible own methodologies and practices and to prepare them for the future process of the EU integration. “It is encouraging that the analysis showed that the majority of current CBBH practices is already well aligned with the EU standards”, said Kozarić.

At the end, the Ambassador Yamazaki expressed the support to the work of CBBH and pointed its significance in maintaining the financial and monetary stability of BH.

*Igor Soldo, Public Relations Senior Specialist*

## GOVERNOR KOZARIĆ AT THE FORUM “SEENOVATE: SUPPORT INTELIGENT GROWTH”

The Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Kemal Kozarić, Ph.D., participated in the work of the regional access to the finance forum titled “SEEnovate: Support Intelligent Growth”, which was held on June 19, 2012, in Sarajevo, and organized by the Secretariat of the Regional Cooperation Council (RCC), United States Agency for International Development (USAID), and the Swedish International Development Cooperation Agency (SIDA).

In his speech, Governor Kozarić pointed out that there are opportunities for investing in BH, primarily in the energy sector, production of healthy food, continuation of construction of the Corridor Vc and touristic capacities, and that BH also has a large human potential. He also said that the political stability is the basic precondition for investing, and that he sincerely hopes that politicians at all levels of government will recognize the importance of economy and that the economy need to be in the first place.

Instruments for financing innovative SMEs were presented at the forum, such as the Enterprise Development and Innovation Facility (EDIF), new, 145 million EURO worth, instrument to support innovative SMEs in the Western Balkans, and the 100 million EURO Venture capital Investment Programme for early and growth stage companies operating in technology sectors. The EDIF is supported by the European Commission, European Investment Fund (EIF), European Bank for Reconstruction and Development (EBRD), and the countries from the region.

*Igor Soldo, Public Relations Senior Specialist*

## GOVERNOR OPENED THE OFFICE OF THE ASSOCIATION “IN THE PLUS”

Office of the Association for the responsible management of personal finance “In the plus” was opened on 29 June 2012 in Sarajevo. The Office was opened by Governor of Central Bank of Bosnia and Herzegovina Kemal Kozaric Ph.D. and Swiss Ambassador to BiH H.E. Mr. André Schaller.

Governor in his speech, among other things, said: “Financial education is extremely important for all citizens adequately informed, because only the user can make the right decision regarding the selection of financial products, which will eventually be reflected in the financial sector stability in BH. Activities of “In the plus” will contribute a lot in this regard. “

The Association for responsible managing of personal finances, “In the Plus” (a former Center for financial and credit counseling), is the first organization in BH that provides free consulting services to citizens with too much debt and implement financial education programs. The Association was founded in December 2009, in the last period of the financial services consulting and mediation provided by more than 900 citizens and more than 2,600 people attended the workshop. Within the

financial services education, “In the plus” there are free offers for four workshops: managing household budgets, financial products, the credit contract and consumer protection, which are adjusted to the needs of adults and high school students.

The aim of the Association is to encourage citizens to effectively manage their finances in order to achieve true financial security, avoid insolvency and achieve their rights.

The Association provides counseling services on such indebtedness and responsible lending mediation between citizens and financial institutions. Citizens can contact the Association via the free Info Line 080 02 02 56 or at the office in Tuzla and Sarajevo.

*Igor Soldo, Public Relations Senior Specialist*



