

CENTRALNA BANKA
BOSNE I HERCEGOVINE



ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ

July – September 2010



C B B H

info



Dear colleagues,

Reduced scope of activities is a characteristic of the summer period, but the contents of this issue of the CBBH Info shows that this was not the case in general. So, there were activities, and we bring you articles about events which we think were the most interesting in that period.

Global banking regulators have agreed to adopt the most recent package of measures for regulation of global financial business, known as Basel III, so we recommend you to read what new standards for banks bring. We are publishing the article written by Fikret Čaušević, Ph.D., about the type of fiscal policy needed to foster the economic development of the Balkans, as well as some information about confirmed economic recovery of the euro zone. Namely, it has been a common practice until recently to make conclusions on the global economic recovery on the Asia and the USA markets, leaving out Europe. Since the market of the European Union (EU) weakened and showed the signs of instability for months, arising as the result of the world economic crisis, the recent statistic data give a different picture.

The Management Forum of South Eastern Europe, where the Governor of the CBBH participated, was held in Bled, and we also had our representatives at the meeting of the Governors' Club of the Central Banks of Central Asia, Black Sea Region and Balkan Countries that was held in Tajikistan this year.

In the Main Unit Sarajevo, the planned reconstruction was performed in the vault premises, which enlarged the work space which would, as it is expected, provide the increase of productivity and efficiency of work of the Vault Operations Section of this Main Unit.

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BASEL III FOR REGULATION OF GLOBAL FINANCIAL BUSINESS

At the meeting held on 12th September 2010 in the Bank for International Settlement (BIS) Basel, global banking regulators from 27 countries have agreed to adopt the most recent package of measures for regulation of global financial business, in one of the most important reforms in attempt to strengthen the shaken financial system. Briefly, the new global standard for a capital indicator level is set on 7%. These rules should make banks worldwide more resistant to crisis, and prevent repeating of global financial crisis like the one in 2008.

Namely, after months of consideration, at the meeting of the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, the long awaited package of measures, known as Basel III, has been adopted. The new standards define that banks should have »Tier 1« capital ratio of 4.5%, which is more than double compared to the current 2%, and in addition they will need to form another capital buffer of 2.5%. In this way, the capital adequacy could not be lower than 7%, which is actually a three-fold increase, and on that basis the banks will be able to withstand all the potential stresses in the future. «Tier 1» reflects the ratio of the bank's equity to the overall, risk weighted assets, and it is considered as the measure of the bank's ability to withstand potential losses in the future.

The regulators have also set the six-year transition period from January 2013 till January 2019, and that should be enough time for banks to collect the necessary capital.

The rules are significantly stricter than the Basel II rules currently in place. This group

has stated that it is still working on setting additional requirements for the largest global banks, deemed systematically important. The Basel Committee had an ambition to set, for the first time, (quantitative) rules related to liquidity, so that banks could have enough cash and government bonds at any time which would enable them to »survive« a month-long crisis. But, under a strong pressure of the private sector, they gave up the introduction of these rules prior to 2015, and as an interim solution the stronger monitoring of liquidity was introduced.



plicated international discussions and lobbying by the private sector. Majority of countries, including Great Britain and the USA, advocated for standards which are even more rigorous than those adopted, but after the Germany's resistance they agreed to this proposal and the extended deadline for the implementation. It is a generally accepted view that stricter standards are needed related to the amount of capital, and that there is a need to create a crisis-resistant banking system, immune to the cycles of booms and busts which are the characteristic of developed economies. But, the bankers warned that severe rules with short implementation deadline may have an adverse effect, because they could limit lending and cause a slow-down of the economic growth.

and Europe can meet the imposed criteria easily, without the need to collect additional capital, but some public sector German banks could face difficulties. These banks, dominantly owned by the federal states, are not able to raise money from the financial market, and their main financiers (governments) have serious financial difficulties.

Also, the EU Commission will adopt the new guidelines in advance, in the first quarter of 2011, to enable the implementation of new rules in the European Union.

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ECONOMIC RECOVERY IN THE EURO ZONE CONFIRMED

It has been a common practice until recently to make conclusions on the global economic recovery on the Asia and the USA markets, leaving out Europe. Since the market of the European Union (EU) weakened and showed the signs of instability for months, arising as the result of the world economic crisis, the recent statistic data give a different picture. This is supported by the fact that the assumptions on a much faster and more dynamic recovery of Europe than the USA have caused the appreciation of the unique European currency against the US dollar.

The improvement is obvious also in the services sector where confidence is gradually restoring. Thanks to the increase of exports due to the weakening of European currency, that influenced the profit increase, the de-

crease of the unemployment rate was recorded in France, and especially in Germany. According to the data of company »Markit« which provides services and global financial information, the highest sale in Europe was recorded in July 2010 since the period from May 2008. Explanation is in the appreciation of the value of products bought by retailers, which caused a slight inflation growth.

Weakening of the unique European currency had a positive impact on export: investors converting only to the safe claims has enabled France and Germany to incur debts under more favourable conditions. Although it is the time for stabilization of situation and return of confidence into the economy of Europe, after the EU announcement of the stress tests results, the exaggerated optimism is still not allowed.



The unfavourable macroeconomic scenario and changes of the main micro-parameters represents a significant stress for the European banks, because of the following:

- The unfavourable macroeconomic scenario related to the problem of debt results in a significantly lower rate of the real GDP growth in the EU than stated in the current forecasts, i.e. on the average three percentage points, cumulatively from 2010 to 2011. However, the possibility for such scenario is minimal.
- According to the rigorous EU criteria regarding simulations of stress tests, there is the recommendation for reducing the government debt.
- The influence of the stress tests simulation is evaluated by the positions of capital and the reserves for each bank individually. Regarding that, the EU banks profited from the previous official support programs which improved the capital positions in some national banking systems. Since October 2008 to May 2010, the EU Governments injected EUR 236 billion into the EU banking system.

Therefore, if banks, after the stress test simulation, require additional capital, it is necessary to ask whether the criteria for the stress test simulation were too rigorous before making the assumptions on the banking system instability.

Regarding BH, in the first quarter of 2010, there were encouraging signals of positive economic trends. The first quarter is usually characterized by lower intensity of economic activities. The last year was under the influence of the economic crisis the consequences of which were felt both in the financial and the real sector. The task of the Central Bank of Bosnia and Herzegovina (CBBH) regarding maintaining of the monetary stability is fulfilled. By the reserve requirement rate policy, as a monetary policy instrument, confidence has been returned, stability and

liquidity of the banking sector in BH have been maintained. Preserving the financial sector stability remains to be a challenge this year.

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WHAT TYPE OF FISCAL POLICY IS NEEDED TO FOSTER THE ECONOMIC DEVELOPMENT OF THE BALKANS?

The starting points of this article on the fiscal policies in the region are the propositions of the Mundell-Fleming model and recommendations for economic policy making in 2009 suggested by Mr. Dominique Strauss-Khan.

The Mundell-Fleming model comprises three main points:

- In small open economies with liberalised financial markets, fiscal policy is practically the only active segment of economic policy;
- A small open economy with a fixed exchange rate can increase its national income (and GDP) by expansionary fiscal policy;
- A side effect of expansionary fiscal policy in a small open economy is the increase of the trade and current account deficits, as well as, of the foreign debt.

In a speech at the Banco de España on 15 December 2008, Mr. Strauss-Kahn advocated demand management through expansionary fiscal policy in the following words:

«Another priority is to support aggregate demand, in the face of what now looks to be a dramatic fall in consumer demand. As often for the Fund, the solution to global economic problems is mostly fiscal but with a twist - it is fiscal expansion, not fiscal contraction that we need. And this has been advocated by the Fund as soon as last January in Davos.»

He also made clear his thoughts on how best to support aggregate demand:

«On how fiscal stimulus should be done, a key criterion is to maximize the multiplier effect of different fiscal measures. Transfers to low-income households are important because they are most likely to face credit constraints and- relatedly - because they would be most likely to rise their spending. Some good examples would be greater provision of unemployment benefits, increased tax benefits for low-wage earners, and expansion of in-kind benefits covering basic needs such as food... Since the slowdown is expected to be long lasting, investment spending, which typically has a longer gestation period than many other measures, becomes a more appropriate policy tool in the current circumstances.»

It remains for us to consider whether fiscal policies that accord with these propositions can be implemented in the Western Balkans. The following questions are particularly relevant:

- Does the region need a fiscal stimulus?
- If it does, what type of fiscal stimulus does it need?
- How might such a fiscal stimulus be implemented?
- How should an effective fiscal policy be carried out and what might serve as the basis for a sustainable fiscal policy in the region?

Compatibility of fiscal policies with EU conditions

Taking as benchmark the Maastricht Treaty and the fiscal criteria it established (budget deficit – 3% of GDP; public debt – 60% of GDP), the Western Balkan Countries (WBC) have performed relatively well over the last seven years:

- Almost all of the WBC, except Albania, have run budget deficits below the 3% threshold.
- More precisely, their deficits were between 0.3% and 1.8% in 2003, 2004, and 2008. During the period of 2005-2007 the countries of the region had a budget surplus of 0.4%.
- In 2009, the budget deficit averaged 4.1%, less than the average for Central Europe and the Baltic (5.4%).
- Public debt of the countries has ranged from 24% in Macedonia, 37% Serbia, 38% in Montenegro, 43% in Bosnia and Herzegovina, 48% in Croatia, and 55% in Albania.

Comparing the WBC data with that for EU and euro zone countries, we may conclude that fiscal discipline during the period of 2003-2009 was generally fairly good in the Western Balkan region. Rising budget deficits and public debts, in combination with the credit crunch and relatively large current account deficits, are, however, an important factor in making decisions on further steps.

Social and wage needs and fiscal policies

The structure of fiscal expenditures in the region continues to be influenced by the circumstance that almost all the countries

(except Albania) were directly or indirectly involved in the wars in former Yugoslavia: from 1991 to 1995 in Croatia and Bosnia and Herzegovina, and later in Serbia, Kosovo, Macedonia (1999-2001). The country in the region most affected by war was Bosnia and Herzegovina.

- The structure of their budgets shows how much of general government spending goes to social security (ranging from 33% in Croatia and 42% in Serbia to 55% in Bosnia and Herzegovina).
- Public administration accounts for another large slice of public spending, ranging from 15% to 22%. It is certainly too high in some countries and could be significantly reduced (especially in Bosnia and Herzegovina, but in Serbia as well).

The need for coordination of fiscal and monetary policies

The monetary regimes in the region differ significantly. Albania has a floating regime, while Croatia and Serbia have managed floats, Bosnia and Herzegovina has adopted Currency Board Arrangement pegged to the Euro, Macedonia has a de facto peg to the Euro, and Montenegro and Kosovo have unilateral eurosation.

There are also different levels of exposure by the national currencies to external shocks. With a view to preparing for EU membership, it might be useful to coordinate exchange rate regimes in line with improving fiscal discipline, while also spurring growth through expansionary fiscal policy based on joint infrastructural projects supported by EU financial resources.

The role of the euro in the region

All the countries in the region have close links with euro zone and other EU countries, both in trade and regarding other balance of payments transactions.

- Trade with the EU accounts for 83% of Albania exports of goods and services and 60% of imports;
- Bosnia and Herzegovina conducts some 60% of its trade with the EU, compared to 31% with neighbouring countries (Croatia 18% and Serbia 13%),
- Trade with the EU accounts for 60% of Croatia's exports and 65% of the country's imports;
- For Macedonia 65% of export trade and 50% of import trade is with the EU;
- 72% of Serbia's trade is with the EU.

Thus, the Euro plays an extremely important role in the economies of the region. External shocks to the region caused by the euro's decline against the US dollar are a consequence of the structure of foreign trade. All the countries are directly or indirectly linked to the euro-zone in their exports and imports. This means that they cannot take the opportunity to increase exports based on price competitiveness due to their national currencies' falling exchange rates with the US dollar.

Foreign debt, GDP, and exports

The Western Balkan countries succeeded in significantly decreasing their external debt/exports of goods and services ratio (from 174% to 126%) between 2003 and 2008, which compares well to either the Central European or Baltic countries.

There are, however, significant differences in the Western Balkan region between the different countries' levels of foreign debts and their export performance compared to their external debt. At the end of 2008, Croatia had relatively the largest foreign debt (82% GDP), but it was Montenegro whose external debt was growing most fastly, up to 17.9% GDP in just two years (2006-2008). Of all the countries of the Western Balkans, it is Bosnia and Herzegovina that has made the greatest progress in reducing the ratio of its external debt to export capability, down from 183% to just 61%, which is twice as good as the regional average. It is worth noting that Slovenia's external debt significantly worsened compared to its export capability after it joined the EU and the euro zone (the debt to exports ratio rose from 95% to 156% between 2003 and 2008).

Recommendations for the region

The data presented above show the results of fiscal policy management in the countries of the Western Balkans with regard to public and external debt. Due to the spill over effects of the global financial and economic crisis (global recession), all the countries of the region saw their GDP decrease in 2009 except Albania. Average GDP per capita in the countries of the region reaches some 33% of the average EU GDP per capita. This data clearly shows that fiscal expansion based on an increase in investment in capital projects is a key factor capable of a countercyclical effect on the region's economies.

Fiscal expansion based on the issuance of government bonds is one instrument for getting out of recession. Given the declining household consumption caused by the credit crunch in almost all the countries of the region and the decline in business investment (including foreign investment), an active fis-



cal policy has an important role to play in changing expectations and any anti-recessionary course of action.

Any government bonds issued by Western Balkan countries to finance infrastructural projects would likely require high interest rates. Given that high interest rates on government bonds, when fiscal revenues from tax collection are down, increase the risks of fiscal non-sustainability, the ratings of these bonds would have to be increased. This would depress the required return rate. My proposal, therefore, includes the following:

Recommendation N°1 – Issuing Euro-Balkan Bonds

These new financial products for the Western Balkans would be issued by the governments (ministries of finance) of the region's countries. They would be used primarily to finance infrastructural projects (e.g. energy and road infrastructure).

These Euro-Balkan Bonds would be covered by

the guarantees of the EU Guarantee Fund for the Western Balkans. The amount of funds to be approved by the EU would depend on available resources. However, a total value of 15-20 billion EUR for the Fund over the following 7 to 10 years would provide an explicit basis for the primary goal of this Fund: a meaningful increase in the security level of investment in Euro-Balkan Bonds and, consequently, a reduction of the required interest rate.

Such Euro-Balkan Bonds would be issued by countries with common (cross-border) projects for the construction of energy facilities and road or railway infrastructure. Countries with such common projects would issue bonds denominated in their respective national currencies in quantities reflecting the extent of their participation in financing the common projects. Issuing such bonds and realizing such projects would help economically connect the region, gradually increase employment, broaden fiscal capacity, and decrease the relative cost of financing. It would also significantly enhance the supply of so-called financial instruments on the financial

markets of the Western Balkans. This would allow institutional and other investors in this part of Europe to manage and structure their portfolios more efficiently.

One argument against this recommendation is political in nature, namely the unwillingness of EU countries to support such a project or approve the funds which would be the basis for forming the EU Guarantee Fund for the Western Balkans. There might be opposition due to current problems following on the spread of the Greek crisis to the countries of the southern euro-zone and the increase in funds needed to support the value of the euro. Rejecting it could lead to political and economic losses that are much higher than the actual funds needed to allow such a Fund to begin operations, however. It is in the common interest of both the EU and the Western Balkans to increase economic cooperation and for the EU to pursue decisions that show that the Western Balkan countries are not «forgotten» - left alone to deal with the problems of recession.

Recommendation N°2 – Forming a Western Balkan Stock Exchange

The formation of a Western Balkans Stock Exchange is my second recommendation. National capital markets in the Western Balkan area are insufficiently developed and in some cases additionally divided by administrative barriers (Bosnia and Herzegovina). It is necessary to increase the range of financial properties in order to attract investment in the region's stock exchanges.

Electronic connection of the Western Balkan stock exchanges and the dismantling of administrative barriers to cross transactions between Zagreb, Belgrade, Sarajevo, Podgorica, Pristina, Skopje, and Tirana would increase the

prospects for cooperation within the region and the interest for joint projects. No spectacular results would be achieved in the short-term just by forming a joint financial market, but it would provide the basis for conducting transactions with lower costs and a significant increase in interest in investment in financial properties denominated in national currencies or euro-emissions.

The formation of a Western Balkans Stock Exchange (WBSE) is directly connected to the first recommendation - introducing Euro-Balkan Bonds. Issuing and trading in these bonds on a single stock exchange would promote realisation of the initial goal or Recommendation N°1. The reduced transaction costs and lower interest rates on such bonds would increase their price and liquidity, increasing the feasibility of the abovementioned goal – fiscal expansion with relatively low financial costs.

What type of fiscal policy is needed to foster the economic development of the Balkans				
1.	Recommendation 1: Issuance of Euro-Balkan Bonds (EBB)			
	Strengths	Weaknesses	Opportunities	Threats
	a. Reliable source of financing of infrastructural projects in the WB b. Lower interest rates of the WB bonds comparing to the «classical» local bonds c. Support of the EU through the Guaranty Fund	a. Current political context of the region could undermine the proposal b. Current political situation in the EU could cause unwillingness of the member states to support the proposal	a. Issuance of EBB could contribute to the creation of the regional single economic space b. Faster growth rates based on cooperation financed by cheaper financial sources c. Contribution to the development of domestic capital markets (broader and deeper capital markets) d. Fiscal sustainability based on cheaper resources	a. Corruption b. Political instability c. Elections and ethnically based way of thinking about economic reforms
2.	Recommendation 2: Balkan Stock Exchange (BSE)			
	Strengths	Weaknesses	Opportunities	Threats
	a. Increase in the number of financial assets available for sale and portfolio management b. BSE would lead to better cooperation of regulators and supervisors c. Increase of interest of foreign investors to invest money in the larger capital market	a. Current status of division of capital markets in the region b. Slow improvement of regulatory environment c. Spill-over effects of financial crisis from the EU and the USA to the region	a. Significant increase of market capitalisation in the region b. Decrease of transaction costs for financial investors in the region c. Faster approach to the EU and connectivity with the EU financial market	a. Political options in the WB countries against economic cooperation b. External shocks c. Current administrative barriers

By Fikret Čaušević, Ph.D., Member of the Governig Board of the Central Bank of Bosnia and Herzegovina

Note: the opinions expressed in this paper are the opinions of the author and do not necessarily represent the policy of the Central Bank of Bosnia and Herzegovina.

GOVERNOR KOZARIĆ ATTENDING THE SOUTHEASTERN EUROPE MANAGEMENT FORUM, BLED-KOPAONIK

On September 16 and 17, 2010, Governor of the Central Bank of Bosnia and Herzegovina, Kemal Kozarić, Ph.D., participated in the Southeastern Europe Management Forum Bled-Kopaonik. The forum was organized by the IECD – Bled Business School and the Serbian Association of Economists, under patronage of Mitja Gaspari, Minister for Development and European Affairs in the Government of Republic of Slovenia.

The forum was held with the title «Economic Future and Management Challenges», and about three hundred leading economy and politics representatives from 17 countries participated. The participants were looking for answers on question how to exit the crisis, answers on questions about the economic future and management challenges in order to achieve higher growth and prosperity in Southeastern Europe and contribute to more sound and more sustainable development.

Governor Kozarić held the presentation called «The Future of BH Economy and Business Challenges». The presentation discussed the future of small economies, potential risks for BH, BH reaction to the economic crisis, and the perspectives of the BH economy.



Kozarić, Ph.D., stated that the financial sector, despite all difficulties, showed a remarkable level of the crisis resistance. Signing of the Vienna Initiative made committed the parent banks to adequate capitalization (16% ave-



rage) and the adequate credit activities. The CBBH and supervisory authorities are now doing stress test on quarterly basis, and after the initial outflow, the savings increased on EUR 3.11 billion in July, 2010. Governor Kozarić stated that GDP in 2009 had a negative contraction of -3.2%, and due to the crisis 30.000 people lost their jobs. Also, the public debt increased in the previous period on EUR 2.6 billion, but BH still belong to the moderately indebted countries. As the Governor states, BH has not yet emerged from the crisis, but there are recognizable signs of slow recovery. In the first half of the year the export increased by 33%, and import only by 4%, and export-import ratio for first time reached 54%. The foreign exchange reserves increased to EUR 3.27 billion, and the inflation is low and stable on the level of about 2%. Also, what is encouraging is the recovery of large exporters as Aluminum, Prevent, Birač, Mital Steel, due to increased demands for their products at the global markets.

As main risks for real sector in BH, Governor Kozarić stressed high unemployment rate of 24.1%, the funding of foreign trade deficit, which amounted to EUR 1.76 billion for the first seven months, the current account deficit of 7.5%, high decrease of direct foreign investments by 50.1%, and a fall in remittances from abroad by 19.6%.

He stressed that the new government must engage itself more resolutely in the economic matters, rather than in politics. Kozarić, Ph.D., stressed that the public spending in BH may be the largest one in the region, and it is 47% of GDP, and no one can finance that. Also, he stressed the need for speeding up the further progress to the European integration, and the necessity of reforms in the social sphere, in the sphere of pension and disability

insurance, the necessity of reducing the share of public spending, the necessity of achieving political stability and placing the economy at the center of interest of all relevant stake holders in Bosnia and Herzegovina.



As the advantages of Bosnia and Herzegovina, he stressed significant potentials when it comes to energy sector – only 39% of water resources have been used, production of healthy food and higher subventions for agriculture, significant tourist resources, production of spare parts for the automotive industry, return of construction companies in their traditional markets, further privatization (the significant share of state ownership in the telecommunication sector, energy sector and public enterprises).

This forum has aroused great interest of media, and the participation of a number of other eminent experts undoubtedly contributed to that, as Erhard Busek, Ph.D., the President of the Institute for the Danube Region and Central Europe in Austria, Emil Tedeschi, the CEO of Atlantic Group from Croatia, Riccardo Illy, the President of the Illy Group from Italy, Halil Kulluk, the President of the Intekno Group from Turkey, Božo Jašovič, the CEO of Nova Ljubljanska Banka, Žiga Debeljak M.Sc., the CEO of the Mercator Group, prof. Hermann Simon, Ph.D. the Director of international consulting company, Simon-Kucher & Partners, and many others.

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ROUND TABLE ON BH FINANCIAL SECTOR AND AWARDING OF »CRISTAL PRISM»

Although stable and secure, the financial sector of Bosnia and Herzegovina is not without problems – it is stagnating, with a noticeable decrease of profitability, it was stated during the round table entitled »The causes and consequences of stagnation in the financial sector development in BH», which was organized by the consulting company »Revicon» and regional business magazine »Prizma» on 2 July 2010.

Participating in this round table, the Governor of the Central Bank of Bosnia and Herzegovina Kemal Kozarić, Ph.D. said that the banking sector has shown resistance to challenges, but he emphasized the increase of non-performing loans, with a tendency of further growth. During the period of rapid credit growth, clients did not have enough education and experience. As a consequence, clients are limited in opportunities regarding market research and making of decisions. Contracts were signed without requests for insight into all the provisions. The Governor also emphasized the problem with the guarantors, which is present. He stressed that there is a difficult task for the banks to rebuild their reputation which is undermined in the eyes of clients and the public, education of both clients and bankers being the most important in order to avoid possible misunderstandings.

The Governor also commented the challenges for economic policy within the global framework, and giving the answers how to initiate the process of changes in the financial sector, he said that the financial systems of some countries relied too much on government aid packages, and it is time to initiate »exit stra-

tegy». »Banks have to adopt behaviour models that will include better risk management. Although the situation with capitalization is satisfactory, banks did not make adjustments for future risks and possible losses», Governor said, and added it is necessary to introduce new practices in banking supervision, especially in cross-border supervision field.

The Secretary of the BH Banks Association Mijo Mišić spoke about the problems in the banking sector, emphasizing that it is nice to hear that banks are safe and stable, but the problem is that they are not profitable. According to him, lending is slightly increased, but profitability is still concerningly negative.

The Chairman of the BH Banks Association Radovan Bajić said that one of the biggest problems of banks is the lack of good quality projects.

During the round table, the microfinance sector was also discussed and the need to reform it, because there are still problems in this sector.

Consulting Company »Revicon» and Business Magazine »Prizma» also organized the ceremony at which »Crystal Prism» was awarded to those most successful in banking, insurance and micro crediting in BH. Based on the business results from the previous year, UniCredit Bank d.d. was awarded with the »Crystal Prism» as the most successful bank, the most successful insurance company is Sarajevo osiguranje d.d. and the most successful one in the field of micro crediting is micro-credit company Mikrofin d.o.o. Banja Luka.



The most successful manager in the banking sector is the General Manager of Raiffeisen Bank BH d.d. Michael Muller, in field of insurance the best is Director of Insurance Company Euroherc osiguranje d.d. Dinko Musulin and in the field of micro crediting, Director of Microcredit Foundation Prizma Kenan

Crnkić. From next year, as it was announced, prizes will be awarded to the leasing companies as well.

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THE CBBH REPRESENTATIVES PARTICIPATED IN WORK OF XXIV GOVERNORS' CLUB IN TAJIKISTAN

The CBBH Vice Governor Ankica Kolobarić M. Sc. and the CBBH Main Internal Auditor Dragan Kulina Ph.D. participated in work of XXIV Governors' Club of the Central Banks of Central Asia, Black Sea Region and Balkan Countries, which took place from 24 to 26 September, 2010 in Dushanbe, capital of Tajikistan. Representatives of 17 Central Banks from Central Asia, Black Sea Region and Balkan countries as well as representatives of the National Bank of Switzerland and International Monetary Fund (IMF) attended the meeting.

The first day, the IMF representative David Owen addressed to the participants with report on global and regional economic and financial developments, as well as, the Chairman of the National Bank of Tajiki-

stan Sharif Rahimzoda, who talked about strengthening of banking supervision in the post-crisis period. Then, the participants of the session discussed the above-mentioned reports and expressed their opinions on specific issues.

Some representatives of the banks, the Club's members provided short presentations on the activities of the Central Banks and economic situation in their countries. Also, during the meeting, there was exchange of opinions about implementation of monetary policy, banking supervision and maintenance of banking system stability, while promoting further improvement of mutually beneficial cooperation between Club members, the Central Banks of Central Asia, Black Sea Region and Balkan countries.





The Central Banks Governors' Club was established in 1998 and organizes meetings twice a year. The main objective of the Club is to give opportunity to Central Banks, members of the Governors' Club to discuss monetary policy, banking supervision and maintenance of stability of banking systems. The tasks of the Club also include compila-

tion and exchange of information on these issues between the member countries. The Club has opportunity to establish working groups in order to carry out research on the activities of the Central Banks and analysis of macroeconomic situation in the region for ensuring their economic and financial stability.

Since 2007 to 2008, the CBBH Governor Kemal Kozarić Ph.D. performed the duty of the Deputy Chairman of the Governors' Club of Central Banks of Central Asia, Black Sea Region and Balkan countries. The CBBH hosted the XX Governor's Club on 2008.

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PERSONAL DATA PROTECTION

Organizations and companies collect personal data in order to identify a person, create records which identify a person and/or to process these data. In commercial banks these data are collected in order to know exactly who the owner of the money on an account is. At the receptions of buildings (business buildings or hotels) personal data are required to know who stayed at a certain time interval in the building.

Personal information is collected for the purpose of keeping the access control to valuables (e.g. information) of an organization, accounting operations (payment of wages), managing personnel files of employees or in specific situations due to subsequent forensic analysis. Protection of personal data is regulated by the General Convention of the United Nations (UN) on Human Rights in Article 12 from 1948, which says the following: "No one shall be subjected by arbitrarily interference in his privacy, family, home and correspondence, nor his honour and reputation be under attacks". Since there are risks of misuse of personal data, it is necessary to implement special measures to protect data. Although the collection of personal data can increase the cost of ensuring data, collecting and storage are necessary for correct and efficient working processes performance.

Electronic data are cheaper and safer to store, because it takes less space, it is easier to supervise who and when has accessed the data, comparing with systems that use paper documents for the collection and processing. The European Parliament on 24 September 1995 defined the Council Regulation 95/46/EC on the Protection of Individuals related to the processing of personal data and the free

exchange of data. This regulation is related to the data processed by automatic means (e.g. a computer database of clients) and the information included (or will be included) in the part of non-automatized system for filling (traditional paper documents).

There are three documents that define personal data storage in the CBBH that were adopted in June 2010:

- Decision on Establishing and Maintaining of Personal Data Records in the CBBH
- Procedure on Personal Data Records in the CBBH
- Plan for Personal Data Security in the CBBH

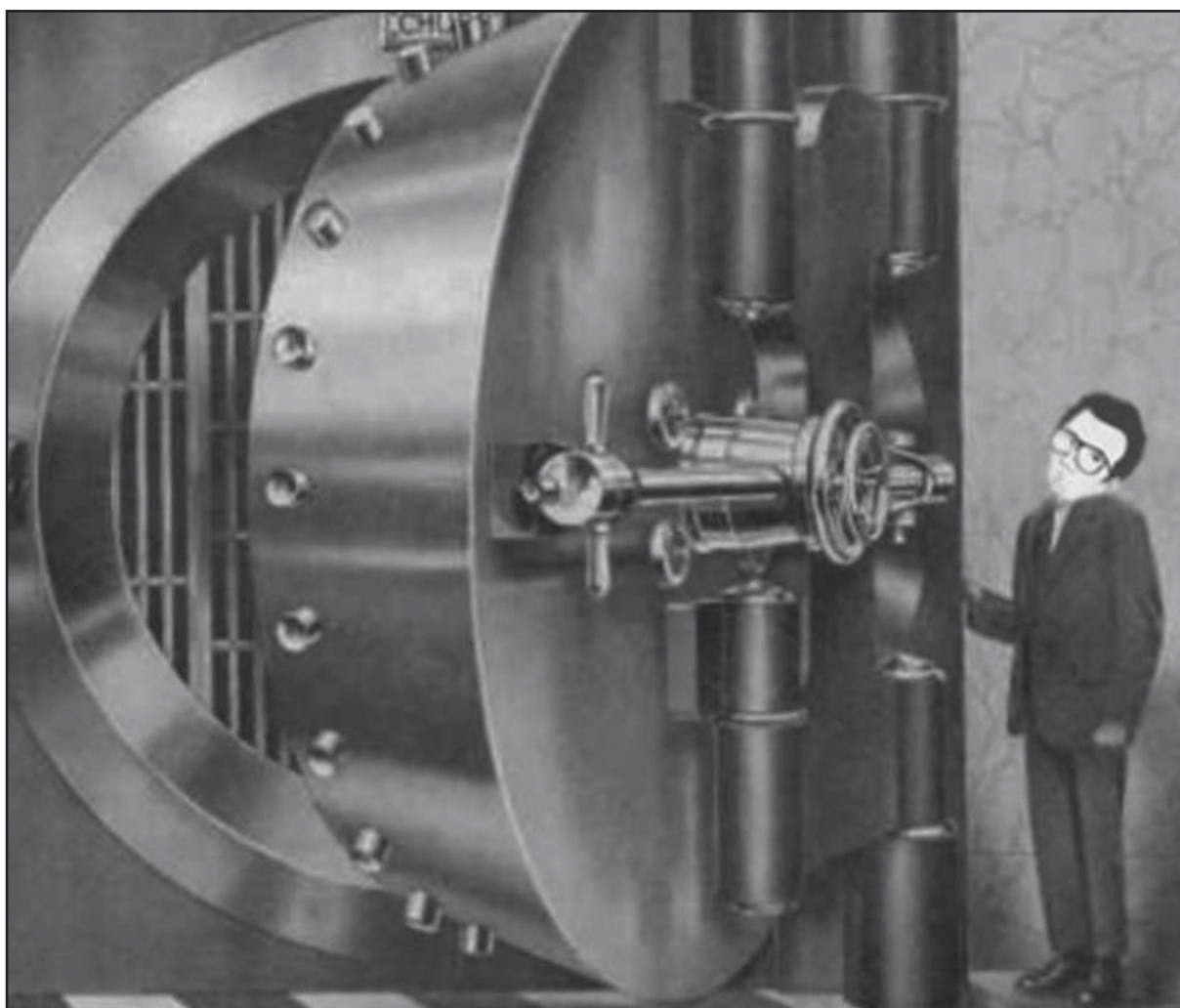
Employees who work with personal information or insure this information which is in electronic form or non-electronic form (electronic databases, paper documents) use the above-mentioned documents in order to handle personal data in a proper way. Documents or databases (document in electronic or paper form) with personal data are only available to the employees who are responsible for their collection and processing. Such information is not shared with colleagues »in confidence« in any form (CD, USB, paper document), except if approved by the authorized person in a separate document.

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THE MU SARAJEVO - RECONSTRUCTION OF THE VAULT PREMISES

In the Central Bank of Bosnia and Herzegovina - Main Unit Sarajevo, in the period June - August 2010, the planned reconstruction was performed in the vault premises: cash office, counting premises and the space for the entrance of transport vehicles as well. During the performance of works, the Vault Operations Section performed its activities on the reserve site in the CBBH Head Office. The work space has been enlarged by the reconstruction, which will, with the purchase

of a new currency counting machine, provide the increase of productivity and efficiency of work of the MU Sarajevo Vault Operations Section. Also, working conditions for employees have been improved and the level of security for the operations carried out in the reconstructed area has been improved. The premises are modern and functional and meet the standards and requirements for the currency processing activities in the future.



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