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IN THIS ISSUE:

PROFESSOR GALLO:
ECONOMETRICS –
DISCIPLINE BETWEEN
ECONOMIC THEORY AND
STATISTICS



OPERATIONAL RISK
MANAGEMENT IN
THE CBBH



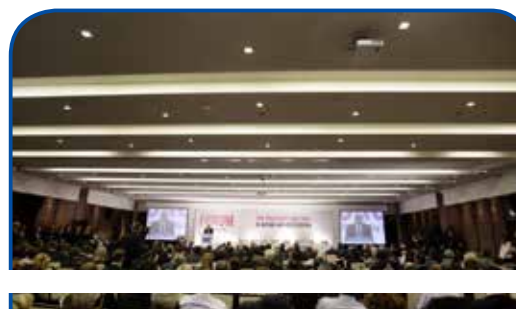
THE CBBH AND ST
ANTONY'S COLLEGE
ORGANIZED THE
INTERNATIONAL
CONFERENCE



MEETING OF THE BH
STANDING COMMITTEE ON
FINANCIAL STABILITY



FORUM FOR PROSPERITY
AND JOBS HELD IN
SARAJEVO



PROFESSOR GALLO: ECONOMETRICS – DISCIPLINE BETWEEN ECONOMIC THEORY AND STATISTICS



Within the framework of the bilateral assistance and capacity building of central banks (BCC), in cooperation with the Institute of International Studies, Geneva (Graduate Institute of International Studies – GIIS), an introductory course on econometrics for employees of the Central Bank of Bosnia and Herzegovina (CBBH) was organized. The lecturer was Giampiero Gallo, a Professor of econometrics at the Faculty of Economics, University of Florence, who is also the elected Chairman of the Italian Association for Econometricians for a period 2014-2015. A man with reach life and professional experience, says that a chance related him to engage in econometrics, a relatively young discipline that, in his clarification, represents the sort of border line discipline between economic theory and statistics.

“Statistics is in charge of measuring phenomenon, collecting data, making sure that collected variables and data represent faithfully a certain situation. The economic theory tells us how various phenomena interact with assuming another certain behavior. So, econometrics is a link between the two, it manages the data and brings them into

the theory and vice versa, in the sense that it is capable of measuring the effects that certain changes in economic policy would have on other variables, for example how to fight unemployment, how to evaluate the effectiveness of a training

program, whether the persons who are unemployed and are directed to the training program by the government are more likely to find a job later, etc. We use statistical methods and economic theory to bring the two together and it is our goal to describe the effectiveness of economic policy, or even to formulate the forecasts. For the forecasts we do not have a crystal ball, we do not know the future, but we can see how certain behavior in the past tends to reproduce itself in the future,” says Professor Gallo in an interview, explaining that it provides warning signs for central bankers, ministers of finance, ministers of economic affairs in order to know that they need to take some corrective measures.

This, in fact, reflects the importance of econometrics for central banks. While stating how effective these measures are for monetary policy, Professor Gallo explains what can be expected if the interest rates dropped or increase by 1%, in terms of the transmission mechanism for the rest of the economy and the timing - how quickly one can reach the final and desired destination. „The idea is to be able to have set of instruments that allow policy makers

to monitor their work,” says Professor Gallo.

When asked what motivated him to deal with the econometrics, among other things, Professor answered: “A chance.” As a student at the University of Florence he was interested in marketing and management and own improvement on these subjects. “I was passionately interested in statistics, I had teachers who inspired me and my Master thesis was about statistical methods to be applied on marketing models,” says Professor. At a time when there was a research center near Florence, the IBM was interested in his work, offering him a scholarship, but they were not interested in marketing and management. It was necessary to apply these methods in different fields that they were interested in. “So I betrayed the marketing and went into econometrics,” says Professor Gallo, adding that this was the beginning of his new life since he made contact with university professors of Pennsylvania, Philadelphia, who invited him there, providing a scholarship and allowing his doctoral dissertation. He left thinking he would stay six months, but he stayed six years, and he built up his capacities as econometrician.

“I believe people should have open options. I’ve learned in life that if you have the opportunity to choose, you should choose immediately - to look back is not a good choice. We can make mistake in choosing our new way, but to stop is the worst possible option”, says Professor Gallo.

*By Zijada Kovač,
Public Relations Office Head*

OPERATIONAL RISK MANAGEMENT IN THE CBBH

In December 2013, the consulting firm CIF (Centre for Investment and Finance, www.cif.co.rs) from Belgrade, through the GIZ Office in Sarajevo (Deutsche Gesellschaft für Internationale Zusammenarbeit, <http://www.giz.de>), was engaged on the project titled "Development of a Framework for Operational Risk Management in the CBBH." This three-day visit resulted in a model for calculating VaR for operational risks. This completes the process of creation of this important instrument for operational risk management in CBBH.

During the visit the following activities were conducted:

- The server platform and the application for calculation of operational risk were installed, in cooperation with the CBBH's IT Department. The CIF experts from Belgrade, in cooperation with the IT Department completed the installation of test and administrator databases for storage and validation of data on the CBBH server;
- Training was organized for CBBH employees involved in data entry into the database from remote locations. CIF experts from Belgrade presented and clarified to all delegated employees (from all organizational units of the CBBH) the reporting form "OpRiskAMA" (created in Excel)

which will be used to make entries for events that represent operational risks;

- The required software applications were installed on computers in the Risk Management Department of the CBBH, which provided access to the application for validation of operational risk and VaR calculation for operational risks. The VaR calculation method for operational risk was presented as well. Two trainings for the employees of the Risk Management Department were organized: training in the use of modules for validation of input data for users with administrative privileges in CBBH, and training in the use of tools for calculating VaR for operational risk.

Upon construction of the instrument for operational risk management in CBBH, the Risk Management Department prepared the document titled "Methodology of operational risk management in the Central Bank of Bosnia and Herzegovina", accompanying instructions for use of Vivaldi (application for registration of operational events) for the end users and for validators, as well as the instructions for use of the application for calculation of operational VaR (Operational Risk Tool). The methodology came into effect on 30 April 2014.

In the period from 1 May to 18 June 2014, the model for operational risk management in the Central Bank of Bosnia and Herzegovina was conducted, i.e. the system for reporting and transfer of operational risk event registration and system validation (roadworthiness certificate) of submitted reports. All faults in the application and the received reports were removed and thus it was confirmed that all responsible employees are adequately trained in reporting and transfer of operational risk event registrations. The test consisted of authorised employees (at least one authorised employee from each organizational unit/form) who, upon request of the Department of Risk Management, successfully and in time completed the required trial operational risk registration, using the OpRiskAMA form in the VIVALDI application.

The Methodology for Operational Risk Management in the Central Bank of Bosnia and Herzegovina came into effect on 1 July 2014. The next step is to fill the database of operational events, in order to start the calculation and reporting on operational VaR and the creation of statistical reports for losses within the Central Bank of Bosnia and Herzegovina.

*By Vidosav Pantić,
Head of Risk Management
Department*

DATA ON RTGS AND GYRO CLEARING TRANSACTIONS FOR SIX MONTHS OF 2014

According to the Report of the Payments Systems Department of the Central Bank of Bosnia and Herzegovina (CBBH) in the period from 1 January to 30 June 2014, there was performed a total of 380,252 RTGS transactions in value of BAM 32,881,718,521.10, while the Gyro Clearing system carried out 17,725.140 transactions in value of BAM 6,551,862,181.93, being 18,105,392 transactions in total, with the value of BAM 39,433,580,703.03.

There are 28 banks in the system. Ten banks participated with 66.23% in the

total number of RTGS and Gyro Clearing transactions, with 58.48% of the total value of those.

Three banks, having individual participation of 1% in the total number of the RTGS and Gyro Clearing transactions, participate with 0.58% in the number of transactions and with 9.36% in the value of those transactions.

In the period from January to June 2014, the number of the RTGS transactions increased by 4.4%, while the value of transactions increased by 6.9% compared

to the same period in 2013. In the same period, the number of Gyro Clearing transactions increased by 6.1% and the value by 3.9%.

The total increase in the number of transactions in the first six months of this year compared to the same period last year was 6.0%, while the value increase was 6.4%.

*By Danijela Golijanin,
Public Relations Assistant*

THE CBBH AND ST ANTONY'S COLLEGE ORGANIZED THE INTERNATIONAL CONFERENCE



The Central Bank of Bosnia and Herzegovina (CBBH), in cooperation with St Antony's College, University of Oxford, organized the international conference entitled "South East Europe in an Environment of Volatile Capital Flows" on June 6, 2014,

During the Conference, which was opened by the Chairman of the BH Presidency Bakir Izetbegović, there were discussed actual topics related to the volatile capital flows in Southeast Europe, their development and impact the real economy of Southeast Europe, as well as, the trade and finance within the region. This topic was also considered from the central bankers' point of view, as part of a panel in which the Vice Governors of the Central Banks of Bosnia and Herzegovina, Macedonia, Croatian, Montenegro, and representatives of the Central Banks of Slovenia and Albania participated.

The Governor of the Central Bank of Bosnia and Herzegovina Kemal Kozarić, Ph.D. explained that the Conference was divided into three sessions - at the first

one, professionals and practitioners participated, the second session was featured by professors, and the third one by central bankers. "All of them, from their point of view, will give an opinion on how to do it, i.e. to assist BH", said Governor Kozarić.

He stressed the wish to send a message that Bosnia and Herzegovina should not stay on the periphery in terms of Euro-Atlantic integration, i.e. that that Bosnia and Herzegovina has been willing to become and has been ready to become a part of this family.

While opening the conference, the Chairman of the BH Presidency Bakir Izetbegović said that capital and investments have not entered BH in the way we all would like them to and that in past 40 months there had been 40.000 jobs lost. In conditions of volatile capital flows, according to Izetbegović, economy should be organized in a satisfactory manner and one should be more accountable than the actual authorities in BH have been at the moment.

He stated that it should be created

a favorable business and investments environment, firstly guaranteeing their stability and safety, in other words, removing of investments barriers, that BH created to itself, should be priority. The Chairman of BH Presidency stressed that this conference should provide answers to the most important question in BH at this moment, being the stability of the economy and jobs creation, while the participants should try to assist BH economy to start functioning in appropriate way and to operate better and in a more modern way.

This is the third conference held within the framework of technical cooperation between the CBBH and St Anthony's College, University of Oxford. During the conference, it was organized the visit of the participants to the School of Economics and Business, at Sarajevo University, where international experts exchanged experience with domestic experts, primarily with the professors - lecturers at the this faculty.

*By Danijela Golijanin,
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MEETING OF THE BH STANDING COMMITTEE ON FINANCIAL STABILITY



On 5 June 2014, in Sarajevo, the meeting of the Standing Committee on Financial Stability of Bosnia and Herzegovina was held, where, among other things, the proposal about potential measures within the financial sector was discussed in order to help clients who have been affected by natural disaster in May.

“The fact is that banks have more than BAM two billion liquid funds in excess over the required reserves and, at this point, they should show empathy with their customers and support them to rebuild their houses or production capacities,” said the Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Kemal Kozarić, Ph.D., at the press conference held after the meeting. According to the estimates, the affected area holds about 20% of the loan portfolio, which is about BAM three billion.

At the meeting of BH Standing Committee on Financial Stability, the Report on the results of stress tests for the first quarter of this year was also considered. Governor said that this test had been done before the disaster and now there would be made new one with the extreme scenario, when the shocks in the financial sector had already happened. In the baseline scenario, as he added, projections of the GDP growth had been on a level of two percent, and the first preliminary figures, which the IMF presented, illustrated that

that GDP would be around 0.5 percent, but only if the reply to the current crisis is adequate.

According to him, the new stress tests will be made as soon as the data for six months from the banks are completed, mentioning that he expects the financial sector to hold its capacities and to be in a position to assist and aid in the situation of natural disaster that struck BH and its citizens.

The CBBH Governor added that the non-performing loans, which are at a level of about 15 percent, could have even an increase up to 20 percent. It was spoken about measures suggested by the entities' Banking Agencies to make the moratorium, rescheduling or restructuring of loans for physical and legal entities, which would last until 30 June 2015. Governor, inter alia, stated: “During the a.m. moratorium, or while negotiating a moratorium or reprogramming, i.e. restructuring of the loans, a bank cannot charge fees for these services or negotiate the interest rate higher than the already defined one in the existing contract.”

Deputy Chairman of the BH Council of Ministers and Minister of Finance and Treasury, Nikola Špirić, Ph. D. said that the reply to a huge natural disaster that struck Bosnia and Herzegovina depends on the symbiosis and coordination of activities on all levels of the government. “Since, here in Bosnia, we have banks that have their parent banks outside BH, they must prove the solidarity in this moment. For years, they have been taking out the profit from BH and the time has come for them to get engaged in this activity,” said Špirić.

“Banks cannot claim to help, while making enormous profits in BH. This is not a policy against banks. We do agree with the decrease of interest rates, with funding of banks' costs and with generating of the profit, but, under no conditions, such profit should be as the one performed in case of non existence of natural disasters”, said Špirić.

Economic and financial stability of BH, as he added, will depend on how

we shall stand towards the recovery of flood-affected areas, appealing to local companies to participate in the reconstruction and recovery.

The Director of the FBH Banking Agency, Zlatko Barš said that the Banking Agencies cannot order to the banks to start a moratorium, but that these measures would be useful for both, banks and customers, because, a client who does not repay the loan is a problem and the burden for the bank, itself.

The Secretary to BH Banking Association, Mijo Mišić said that he was surprised, in a good way, by the degree of unity in terms of these measures and the need for coordination. “We have here two kinds of issues, the first one is supplemental regulations or two regulators' decision, related to moratorium and restructuring of loans. Within the existing regulations, we already do business as in emergency situation, with those clients, mostly affected by disasters, in order to solve the problems, as much as possible. These decisions are very important and what encourages me is that they are mainly at the same track of those already discussed with regulators and agreed”, said Mišić. He also stressed that the interest of the banks has been to recover the financial condition of own clients.

Mišić said: “In this moment, to invest in clients from the flooded areas, for the banks and banking community, means to invest in own future.”

He noted that in question was an individual relationship between a bank and its client, adding that it was good that there has not been linear measures, and that definitely there would be understanding and certain issues should be categorized, such as, for example, which client may enter within the moratorium coverage.

He added to expect the other institutions to perform, in the same time, their part of job.

*By Danijela Golijanin,
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FORUM FOR PROSPERITY AND JOBS HELD IN SARAJEVO

Bosnia and Herzegovina can count on European Union assistance in the reconstruction and rehabilitation of consequences of the recent catastrophic floods, however in these hard times economic recovery is more important than ever, said Peter Sorensen, EU Special Representative and Head of the EU Delegation in BH in his introductory speech at the opening of the two-day Forum for Prosperity and Jobs in BH, held in Sarajevo on 26 and 27 May 2014. The Forum was organized by the EU Delegation in BH in cooperation with the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development and the Embassy of the United States of America.

The objective of the Forum was to identify measures that will attract investments, encourage job creation and result in better social welfare. The Forum was attended by the Turkish Deputy Prime Minister Ali Babacan, German Minister for Foreign Affairs Frank-Walter Steinmeier, Chairman of the BH Presidency Bakir Izetbegović, Chairman of the BH Council of Ministers Vjekoslav Bevanda, Governor of the Central Bank of BH Kemal Kozarić, Ph.D. as well as numerous distinguished guests from BH and abroad.

According to Sorensen, all those present at the Forum are with the victims and families of victims of the floods and landslides in BH. "We will also stand by your side in the reconstruction phase that will follow. One of the key values of the EU is solidarity. BH can count on us. But in these times of hardship BH needs economic recovery more than ever", said Sorensen.

The German Minister for Foreign Affairs, Frank-Walter Steinmeier, reminded that ten years ago Germany had a high unemployment rate, expenses that exceeded income and its future depended on changes. He stated

that the change must happen in BH as well, and that it needs the willingness of all to make the decisions, perhaps even hard ones.

Bosnia and Herzegovina can certainly use many lessons and experiences from the extremely successful development models used in Germany and Turkey, said Bakir Izetbegović, Chairman of the BH Presidency in his speech. He said that the Forum is a great opportunity for the gathered representatives of government, economic, political, civic, academic, business and media communities to jointly define the perspectives and strategies for socio-economic development of BH.

The focus of BH development, Izetbegović said, must include strengthening of macroeconomic stability, increased competitiveness of the economy, employment, attracting direct foreign investments, rural development and faster development of agriculture, development of energy resources, improvement of transport infrastructure and communications, improved environmental management and environmental protection, strengthening of social protection and greater social inclusion, and it must accelerate the process of integration into the European Union.

Although all available and accessible domestic financial and material resources will be engaged in the reconstruction, he said that we are all aware that the needs far exceed our capacities. "So we have decided that, as soon as the necessary preconditions are met, we will organize an international donor conference to raise the funds that we are not able to find from domestic sources", said Izetbegović.

"We will need assistance from the EU funds, as well as from friendly countries. Regardless of the fact that BH is currently not a candidate country

and is not in the process of accession negotiations, we expect that the EU member states will show humanity, solidarity and good will and allow our country access to, among other things, the EU Solidarity Fund, having in mind especially the broader regional implications of this natural disaster", said the Chairman of the Presidency of Bosnia and Herzegovina and expressed his gratitude to the EU member countries and other countries for their assistance in the recent days.

Mentioning that even the oldest residents of BH cannot recall floods as severe as those that hit BH in the recent days, the Chairman of the Council of Ministers Vjekoslav Bevanda said that this natural disaster costs a lot and will cost too much. "But the old people also say that real friends are recognised in the times of trouble. And our first neighbours, Croatia and Serbia, were the first who helped. Forgive me if I don't mention all of them, but the assistance from Germany, Turkey, Bulgaria, Slovenia, Austria, Montenegro, Macedonia, the whole of the European Union and many others continues to flow in and reminds us that we are not alone", said Bevanda. He added that BH needs support in the fields of improving the business environment and attracting foreign investments, labour market reforms, fight against corruption and social reform.

On the second day of the Forum, the Governor of the Central Bank of Bosnia and Herzegovina (CBBH) Kemal Kozarić, Ph.D. gave a presentation titled "Unemployment in Bosnia and Herzegovina and the necessary reforms", presenting the basic macroeconomic indicators, unemployment, types of unemployment according to cause, effects of the global financial crisis, major natural disasters and problems of uncoordinated development. The Governor pointed out that the first quarter of this year

started to show a slight recovery in BH, but then the floods happened and the projections for 2014 will have to be corrected. According to him, the natural disaster caused a decline in economic activity. At the beginning of the year BH recorded industrial production growth of 6.4 percent but this is likely to decrease; the unemployment rate was 27.5 percent but tens of thousands of jobs are now in jeopardy in the flooded areas, the Governor said. The current account deficit was at 5.5 percent of the GDP, FDI is declining for the first quarter, while foreign currency reserves are stable. But the essence is that we will have to wait until 2015 to see growth exceeding two percent.

The Governor also said that loans in the fourth quarter increased by 3.4 percent, so we have a slight credit growth. NPL's (non-performing loans) at the beginning of the year were 15.1 percent and are estimated to increase up to 20 percent. "Because of the problems caused by floods, individuals and legal entities will

probably not be able to repay their loans", the Governor said.

In macroeconomic terms, unemployment is the biggest problem for BH and, at 27.5 percent, is the highest in the region. A particular problem, as the Governor said, is youth unemployment, because 60 percent of youths do not have jobs, i.e. only one in three has a job.

According to him, this problem requires a long-term approach, strategy, certain projections, and primarily requires political stability, which would also attract investors. The first and foremost requirement is the political/institutional stability of the country. It is necessary to affirm the positive examples that remain unknown to the general public and, together with the implementation of the reform process, to accelerate the process of Euro-Atlantic integration and accelerate application activity towards the EU.

Employment and economic issues must be at the top of the agenda for all levels of government. In terms of measures for elimination of structural unemployment, the Governor proposed the following: definition of a long-term umbrella strategy for economic development, accompanied by harmonisation of all other strategies, including the education strategy; proactive approach by employment bureaus; creation of strategies for higher education and adult education and the relevant frameworks/regulations; and strategies for incorporation of the diaspora, its potential and knowledge into the BH economy, since the potential exists.

"The reform laws, that are painful, must be adopted. It will not be easy, it is necessary to negotiate with all interested parties", said the Governor at the end of presentation.

*By Danijela Golijanin,
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