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**CENTRALNA BANKA
BOSNE I HERCEGOVINE**



**ЦЕНТРАЛНА БАНКА
БОСНЕ И ХЕРЦЕГОВИНЕ**

Dear colleagues,

Another issue of e-internal newsletter of the Central Bank of Bosnia and Herzegovina is prepared, the first of six that will be issued in this year. We would like to invite you again and to encourage you in publishing your articles on the actualities within your divisions and sections and to contribute in that way to in house informing, as well as the informing the external public as we continue the practice of newsletter publishing on the CBBH web site.

In this issue, we point to your attention to the article on the CBBHs authorities visiting the National Bank of Serbia. During this visit, they agreed

on the improvement of common activities anticipated by signed Protocol on Business Cooperation between two Central Banks. The specific activities of this cooperation are up coming.

We believe that colleagues with "longer working experience" in the CBBH shall remember beginning of payments system operations in BH. In January this year, ten years of payments system were marked. For those who want to remember this, we are publishing the article on ten years anniversary of the payments system, illustrating how it started and how it operates today. Given the same area activities, we prepared another article

addressing the upgrade of the Central Registry of Physical and Legal Entities' Accounts and the information on credit card operations in 2010, too.

We provide data on counterfeits which were twice less in number during the last year compared to the preceding year. The main reason of this decrease is police detection of a counterfeiters group in March last year.

Cyprus was the venue of the Southeast Europe Governors meeting, assessing that there are evident signs of economic recovery in the Region.

Public Relations Section

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THE CBBH AUTHORITIES VISITED THE NBS

The authorities of the Central Bank of Bosnia and Herzegovina (CBBH), featuring Governor Ph. D. Kemal Kozarić, Vice Governors M.Sc. Anika Kolobarić and Ph.D. Radomir Božić, members of the CBBH Governing Board Ph.D. Milenko Krajišnik and Ph.D. Vasilj Žarković and Secretary to the Governing Board and Management Ms.Sc. Lejla Simon visited the National Bank of Serbia (NBS) on 28 January 2011, where they discussed current cooperation and improvement of the common activities of two Central Banks.

During the discussion with the NBS Governor Ph.D. Dejan Šoškić and his associates, it was estimated that the cooperation between two banks has been successful so far. In order to continue realization and improvement of the common activities anticipated by signed Protocol on Business Cooperation between the NBS and CBBH, the authorities of two banks discussed the results of the previous cooperation and the plans for the upcoming period.

At the beginning of the plenary meeting, Governors Kozarić and Šoškić presented actual macroeconomic trends and expectations of the Central Banks in 2011. The mutual conclusion is that the main economic data of the national economies are currently positive with the stable banking system, but the global economic trends and internal economic difficulties cause the new challenges for the central banks.

Also, it was pointed out the necessity of achieving the closer cooperation in the area of the financial stability and data exchange regarding the main microeconomic indicators in both countries. The organizing of regular meetings on the interbank's level will represent special forum for exchanging experiences, knowledge and information for the national authorities in charge of reports on financial stability drafting.

Expert - technical cooperation between two Banks and announced cooperation in this year should include studies and expertise visits, as well as, qualitative new elements of the expertise exchange, it was said during the meeting. One of potential areas of knowledge exchange is related to the experiences and results after implementation of project that the CBBH realizes with the European Central Bank (ECB).



Participants of meeting agreed on exchange of vital information and economic data regarding financial stability and within the expert - technical cooperation, the defined needs of the Central Banks for this year are already subject of discussion and coordination of the relevant organizational units.

It was proposed to include other central banks from the Region in the above mentioned cooperation, especially from Monte Negro, Macedonia, Albania and Croatia. The idea will be discussed with representatives of these institutions in the upcoming period.

The CBBH Governing Board members expressed their interest in the model by which the NBS Governor's Council functions, and in terms of this, it was proposed to have mutual exchange of experience and knowledge. The first such meeting will be organized by the CBBH. After the plenary session, meeting was continued on technical level, where some initiatives mentioned on previous meetings of the Central Banks were discussed in details. The CBBH representatives were informed on organization of the upcoming exhibition in the NBS regarding history of the securities and markets in Serbia and they were invited to attend the opening ceremony in May this year.

The joint conclusion is that the cooperation was delivering positive results and that plans for this year include improvement of the experts technical exchange and the quality progress in various aspects of business cooperation.

Zijada Kovač, Public Relations Section Coordinator

THE CENTRAL REGISTRY OF CREDITS UPGRADING

Based on the Decision of the Central Bank of Bosnia and Herzegovina (CBBH) Governing Board, the upgrading project on Central Registry of Credits of Legal and Physical Entities in BH is underway.

The essence of the project is that data on credit indebtedness of physical and legal entities in the Central Registry of Credits are updated on a daily basis, rather than on a monthly basis, which has been the practice so far. This will avoid potential abuses and possibility that a physical or legal entity, with none or no big debts, benefits a period of a month, necessary for data updating, to get indebted in several institutions and thus becomes heavily indebted.

It is therefore necessary to improve the technical resources in order to avoid disturbances in commercial banks daily operations. Thus, the data on changes of credit debts will be processed after working hours in order to be available to users on the next working day.

In discussions with the commercial banks, microcredit organizations and leasing companies, it was found out as necessary to improve the Registry in a part related to the data scope and this also will be done during the upgrading of the Registry.

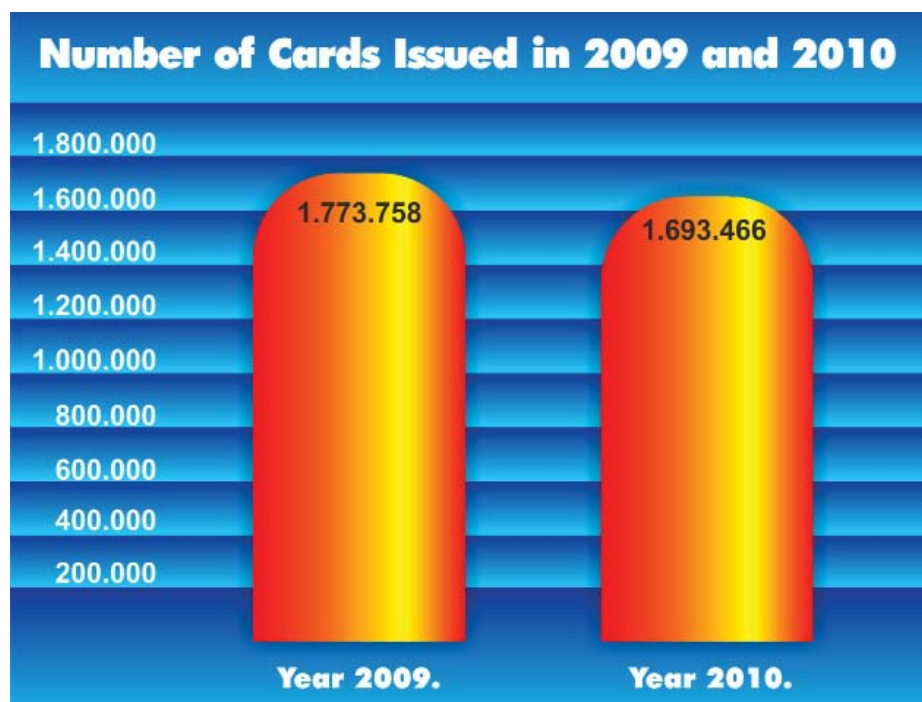
The third segment which will be upgraded is related to the reports, which includes changes in type and way of reporting.

Central Registry of Credits upgrading should be completed by the end of the year at latest. Banks and other financial institutions will have transitory deadline of one year to transfer completely from the old to the new data volume.

During that period, the new and old way will be operational and this is very important from the system security point of view. Thus, the beginning of the system operations will not be postponed, in case someone is not able to transfer onto the new operational system.

Đorđe Racković, Head of the Payments System Department

DATA ON CARD-BASED OPERATIONS IN 2010



Out of total 29 commercial banks taking part in payments system operations in BH in 2010, 25 provided cards services of global brands to their clients: MasterCard, Visa, American Express and Diners. Five banks have issued their clients the only domestic card – Bamcard. The total number of issued cards, by the end of December 2010, was 1,693,466, being less by 80,292 cards compared to 2009 when there were 1,773,758 cards. The debit cards are prevailing, there are 1,404,491 issued of these, followed by credit cards with 176,839 issued and cards with deferred payment, there are 111,121 of these.

The total value of cards based transactions, in the country and abroad, amounted to KM 5.47 billion, which is KM 594 million app. more than in 2009. Out of total value of transactions, in the country and abroad, KM 3.9 billion of cash or 71% was withdrawn from the ATMs, while KM 1.57 billion or 29% was realized at the POSTs. Citizens, therefore, still do not use cards enough for direct purchase, as it is the case in developed countries, instead they withdraw cash from the ATMs.

The average value of a transaction was KM 138 and it decreased by KM 3 compared to 2009. The average turnover per a card annually amounted to KM 3,229 (KM 269 per month), and compared to 2009 when the average turnover amounted to KM 2,779, this is increase of KM 450.

The amount to KM 271 million was performed via the ATMs and POSTs abroad by BH citizens, with the cards issued in our country. Out of that amount, the cash amounting to KM 109 was withdrawn from the ATMs, the cash amounting to KM 2.4 million was withdrawn at the POSTs and the goods, paid via POSTs, amounted of KM 160 million.

Turnover with the value of KM 759 million by foreign banks' cards was performed through the ATMs and POSTs of the BH banks. Out of that amount, KM 530 million of cash was withdrawn from the ATMs. Additional KM 74 million was withdrawn at the POSTs and the value of goods and services paid by foreign banks cards was about KM 156 million.

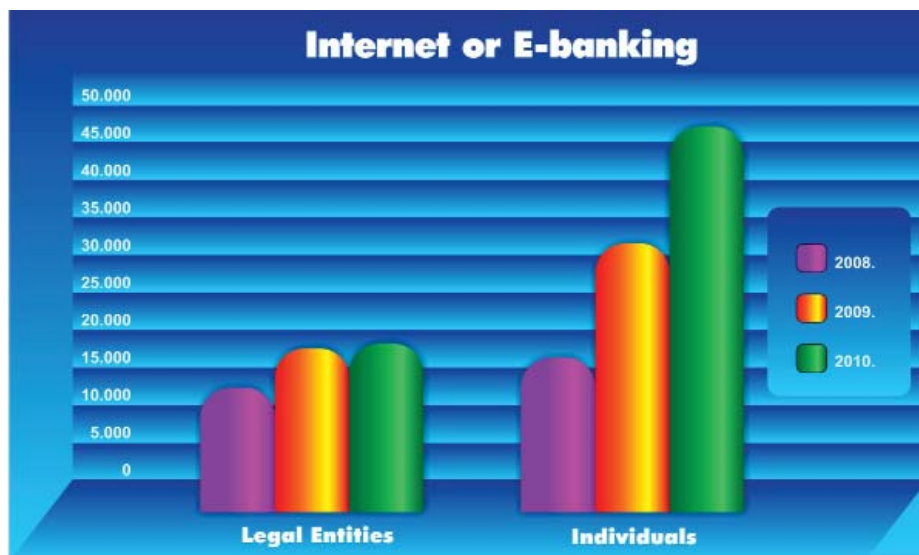
The conclusion is that more and more traders sell goods via the cards, but this is still far from the practice of developed countries. In BH banks, foreign citizens withdrew the cash amounting to KM 604 millions, and they „left“ additional KM 156 millions in shops.

To change the situation, domestic banks should convince more retailers to sell the goods via cards and POSTs, in addition to the ATMs, and that retailers find their own interest in it. In 2010 there were in total 1,098 of ATMs installed in banks and 17,834 POSTs in shops.

Out of total 29 banks in 2010, all of them, with the exception of one, provided the electronic or Internet banking services to companies and citizens. The total of 67,802 entities, being 19,257 legal entities and 48,545 physical ones were included in this type of service. In 2009, the number of legal entities included in this service had been almost identical (19,000), but there has been a significant increase of citizens using the Internet for banking operations, for payment orders, to check their accounts balances, to handle a variety of bills...

In previous year, banks in BH operated through the extended system of branches and offices. The banks have the total of 378 branches, which is less than in 2009, when they had 394 of them and 421 lower level organization units, as offices, agencies and counters (410 in the year before). The impact of the crisis is evident, and that is why banks were trying to rationalize the operational costs with the decrease of number of bank counters and employees.

Đorđe Racković, Head of the Payments System Department



TEN YEARS OF PAYMENTS SYSTEM OPERATIONS IN BH

January 5, 2011 marked the ten years anniversary of the payments system reform in BH, which is considered to be the most successful reform in the banking sector and one of the most successful in BH.

Reform of the payments system was carried out in record time and BH is the first country in the region that fully transferred to the new system, although some other countries had started the reform quite earlier. The payments system operations were moved from the Payment Bureaus into the commercial banks on 5 January 2001 and the Payments Bureaus stopped to perform that function. The Central Bank of Bosnia and Herzegovina (CBBH) provided the most sophisticated systems for performance of the inter-banking payment transactions and the RTGS, i.e. the Real Time Gross Settlement System, through which a payment order is settled down at once after being sent from one bank to another and a client has own funds immediately available, and the Gyro Clearing System, through which the multilateral settlement is performed, in three daily cycles. Any payment order can be settled via the RTGS, depending on a client needs, but those over KM 10,000 are obligatory settled via it. On the other hand, Gyro Clearing provides settlement for payment orders up to KM 10, 000.

During the past ten years, the system operated in full capacity, without problems and during that period around 233 million of the interbank transactions (5.4 million RTGS and gyro clearing 227.6 million) worth KM 438.8 billion (KM 334.5 billion via the RTGS and KM 104.3 billion via the Gyro Clearing) were processed.

How did it start ten years ago?

On January 5, 2001 at 8.00 a.m. sharp and according to the plan, the new payments system started to operate in the CBBH. At that very moment there were answered the uncertainties (if there had been some of those) that the Payments

Bureaus should continue to operate for sometimes. The first official transaction was excitedly expected and it was carried out by the ABS Bank Sarajevo through the RTGS. The first day went smoothly, with understandably small number of transactions. The next few days, the number of transactions and their value increased rapidly. Certain problems in a client - payments bureau - commercial bank link occurred, but generally, they were quickly resolved. Transaction accounts opening in commercial banks partially slowed down the payments system operations, too, but banks minimized this problem by the additional efforts.

34 banks in Bosnia and Herzegovina had access to the system at the beginning, which were licensed by the referential Banking Agencies to perform the medium risk payment transactions, but those banks also had met certain requirements set to them by the CBBH. By January 20, 2001, the above number increased to 40.

Working hours for receiving payment orders in the RTGS were from 8:00 a.m. to 4:00 p.m., and there were two settlements cycles in Gyro Clearing. In this way the time necessary for receipt of orders was significantly increased in comparison the prior practice. We should emphasise that all CBBH Main Units and Branches provided an adequate duty shifts which enabled the smooth operations of the commercial banks and transfer of funds among the banks.

What has changed?

Since then, the payments system encountered changes what resulted in operations improvement. One of the biggest changes was introduction of dislocated back up payments system in Banja Luka. Dislocated reserve system has great significance for the CBBH, first of all, because of the better quality management of the system risks. In case of any unforeseen events including total destruction of equipment on the present location in Sarajevo, the system shall be operational from Banja Luka

The total number of the RTGS and Gyro Clearing transactions in 2010 increased by 9.4% and their value increased by 5.2 compared to 2009. Since January 1 to December 31, 2010, a total of 31, 774, 66 transactions of the RTGS and Gyro Clearing was recorded in value of KM 67 billion.

As for the above amounts, via RTGS, the CBBH performed 7,560 transactions, with the value of KM 6.1 billion and 9,541 GC transactions with the value of KM 10 million.

During 2010, ten banks participated with 67.40% in the total RTGS and GC transactions and with 70.64% in the total value of all transactions.

site the very same day or the next day at latest.

The main change was actually introduction of the third settlement cycle in Gyro Clearing, thus the settlements have been carried out at 10:00 a.m. 1:00 p.m. and 3:00 p.m. This enabled that that the afternoon arriving payment orders are processed in the morning next day. Change of tariffs for the RTGS and Gyro Clearing orders caused that the commercial banks perform the most of the settlements during morning, but also to avoid the attack on the system liquidity when the major number of orders was arriving. In this way the number of RTGS and gyro clearing transaction get equal in number of orders. With the decrease of settlement order limit from KM 20,000 to KM 10,000, the number of RTGS orders was increased by 1%.

Domestic Payment Card Institution Bamcard was directly included in the settlement system and the rules were set for it. According to those rules, for any change on Bamcard which happens during a day, the settlement is carried out the next day.

Payment System operational rules were amended and all the equipment for gyro clearing and RTGS was also changed because it was worn out. Afterwards the IT network was replaced, too.

The payments system established in 2001 have worked without stops and problems during past ten years.

Đorđe Racković, Head of the Payments System Department

IN 2010, THE NUMBER OF COUNTERFEITED MONEY REDUCED BY 47.3%

In 2010, the Central Bank of Bosnia and Herzegovina (the CBBH) recorded a total of 4,678 counterfeited banknotes and coins of all currencies and denominations, which is by 47.3% less compared to 2009 when the number was 8,876. The number of counterfeited is approximately equal as in 2008, when there were 4,581 counterfeited banknotes and coins.

There were 1,736 counterfeited KM banknotes recorded last year, which is decrease by 47.25% compared to 2009, and a slightly more compared to 2008. The detection of a counterfeiters group in March last year, significantly affected the decreasing of counterfeited banknotes. Namely, almost 70% of KM counterfeits recorded in the first quarter

of 2010, originated from the a.m. group, and the KM 20, 50 and 100 denominations were in question. In terms of the counterfeited KM banknotes denomination structure, the majority were of KM 50 denomination (846 pieces or 48.73%), unlike the previous three years when the most common counterfeited banknotes were the KM 20 denominations, and there were 655 of them, or 37.73% in 2010.

In 2010, there were 2,092 counterfeited KM coins recorded in the CBBH, which is by 39.75% less compared to 2009 and by 26.94% more compared to 2008. Unlike the 2009, when the counterfeited KM 5 coins were dominant, the KM 1 coins were the most frequently counterfeited in 2010 (1,200 pieces or 57.36%).



There were 699 pieces of KM 5 coins, or 33.41% and 193 pieces of KM 2 coins, or 9.23%. Reduction of counterfeited coins is primarily related to KM 5 coins, and related to other two coins denominations counterfeits, in question is a slight decrease.

If we take into account the total number of counterfeited KM banknotes and coins in 2010 (3,828 pieces), there were 43.4% less compared to 2009.

In 2010, there were 657 pieces of counterfeited EURO banknotes, which is by 66.55% less compared to 2009. There was also one counterfeited coin recorded in denomination of EUR 2. As in previous years, given the denomination structure, the most frequently counterfeited denomination is EUR 100 with 223 pieces, or 33.94%. It is followed by the counterfeited banknotes in denomination of EUR 200 (167 pieces or 25.42%), and in denomination of EUR 500 (139 pieces or 21.16%).

Among other currencies, there were recorded 184 pieces of counterfeited USD banknote, being 183 pieces of USD 100 denomination, which is by 46.03% more compared to 2009 and there were also eight counterfeited banknotes of other currencies (HRK, GBP and CAD).

Moamer Halvadžija, Banknotes and Coins Analyses Section Coordinator

2010.



SASE: GOVERNOR HANDED AWARDS TO MOST SUCCESSFUL BROKERAGE HOUSES

Governor of the Central Bank of Bosnia and Herzegovina Kemal Kozarić Ph.D. attended the ceremony of awarding of the most successful broker houses, organized by the Sarajevo Stock Exchange (SASE), and handed the award to the most successful brokers in the category of total turnover in 2010.

The SASE awarded the Golden Plaque for total turnover in 2010 to the brokerage Palisaen d.o.o. Sarajevo, whose turnover amounted to KM 31.023 million, while VGT broker d.d. Visoko with KM 29.018 and Raiffeisen brokers d.o.o. Sarajevo with KM 27.9 millions get the Silver and Bronze Plaque.

The awards to the broker houses were handed in the area of turnover in shares trading, bonds trading and for the most successful broker house by number of transactions in 2010.

At the ceremony of handing of awards, Zlatan Dedić, General Manager of the SASE, said that the SASE left behind the most difficult business year, and that the capital market in the Federation of BH has touched its bottom. He is slightly optimistic when it comes to 2011, with the expectations that the projects in the energy sector and road infrastructure, local infrastructure construction and sale of state capital in the stock market and capi-

tal market will recognize their opportunity and potential.

An increase of all SASE indexes from the beginning of the year, particularly the main index SASX, increasing by 17%, and first issue of municipality bonds in the Federation of BH, decision of Tešanj Municipality, show that the trends are positive.

Governor Kozarić expressed the hope that the capital market this year will be more successful than in the previous one, but only if a stable political ambient is created in BH.

Zijada Kovač, Public Relations Section Coordinator



CYPRUS: HELD MEETING OF THE GOVERNORS OF CENTRAL BANKS IN SOUTHEAST EUROPE



The Governors of Southeast Europe Central Banks assessed that there are evident signs of economic recovery

in this region, in spite of challenging international environment.

At the meeting of the Governors and representatives of Central Banks of Albania, Bosnia and Herzegovina, Bulgaria, Montenegro, Cyprus, Macedonia, Greece, Romania and Serbia held on February 25, 2011 in Cyprus, it was agreed to have regular exchange of information on operations of «cross-border banking groups» in Southeast Europe. This will enable a better

understanding of the risks faced by banks operating on cross-border level.

Vice Governors Ankica Kolobarić, M.Sc. and Feriha Imamović represented the Central Bank of Bosnia and Herzegovina at this meeting. Next meeting of the Governors of Central Banks in Southeast Europe, as it is agreed, should be organized in Albania on 2012.

Zijada Kovač, Public Relations Section Coordinator

THE AMBASADOR OF THE PEOPLE'S REPUBLIC OF CHINA VISITED THE CBBH

The Ambassador of the People's Republic of China to BH, H.E. Wang Fuguo, visited the Central Bank of Bosnia and Herzegovina (CBBH) on

February 2, 2011 and talked with the Governor Kemal Kozarić, Ph.D. about the effects of the global financial and economic crisis on BH, the economic trends in BH and wider and the possibilities of enhanced Chinese investment in our country.

Governor Kozarić pointed out that the crisis had a significant impact on BH, its banking and real sectors and that the crisis caused the fall in investments, raising unemployment and deteriorating living standards of the population. The banking sector in BH has remained liquid, however, it has recorded the loss for the first time. The Governor pointed out the fact that one of the biggest problems of the banking sector is the increase of the non-performing loans.

According to the H.E. Chinese Ambassador, large Chinese companies are interested in investing in BH, especially in road infrastructure and energy sector. Foreign direct investments and job creation, as it has been pointed out, are extremely important for BH and its exit from the crisis and further development. This is why they expressed joint expectations on bigger presence of Chinese investments in BH. The need for improving the political and economic cooperation between BH and the Peoples Republic of China, as a country being a significant factor in European and global economic trends, was also emphasized.

Zijada Kovač, Public Relations Section Coordinator



