

## **Peter Nicholl: Recent banking sector developments in Bosnia and Herzegovina**

Speech by Mr Peter Nicholl, Governor of the Central Bank of Bosnia and Herzegovina, at the ceremony of the taking over of Hrvatska Poštanska Bank by Raiffeisen Bank, Mostar, 5 May 2001.

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I want to congratulate the two banks, Raiffeisen and Hrvatska Poštanska, on the step they are taking today. They are taking part in a process the Central Bank of BH has been promoting for some time now – the consolidation and strengthening of the commercial banking sector in BH.

This process is very important. An efficient banking system is a crucial part of market economy. It encourages savings and it promotes investment and employment by lending those savings for business development, housing and other purposes.

The year 2000 will be seen as the year in which the banking sector in BH finally began to change for the better. I will mention just a few of the highlights.

First, the payments system underwent fundamental reform. BH now has a modern European-type payments system.

Second, minimum capital requirements for banks were increased and will increase further.

Third, it became possible for a bank registered in one entity to operate branches in the other entity. Five banks are already doing so, and more will follow.

Fourth, a limited deposit insurance scheme has started which should help return citizens confidence to the banks that qualify. So far, only four banks have been admitted to the scheme and it is only operating in the Federation.

Last, but not least, more foreign banks commenced operations in BH in 2000, either by applying for licenses directly or by purchasing an existing BH bank. Increased foreign competition will be very good for the BH economy. It will give depositors more choice and will force the local banks to improve the range and quality of the services they provide if they want to survive. One can already see these effects occurring.

There is still a long way to go before BH has a banking sector that can play the major role the banking sector plays in most other countries in Europe. But 2000 will be seen as the year in which the BH banking sector finally began to move in the right direction. It is certain that the speed of change in the banking sector will accelerate even more in 2001. The overall winners from the improvement in the banking sector will be the customers of banks and the economy of BH.

Today's event is part of the acceleration of the transformation of the BH banking sector that I have referred to. Raiffeisen opened in Sarajevo just last July, only nine months ago. They have since opened a branch in Banja Luka and are in the process of opening more branches in the RS, in Brčko and in many other towns in the Federation. Today, they are taking a big step into Herzegovina by buying Hrvatska Poštanska Bank. They have very quickly become a bank that is operating over the whole territory of BH as well as in most of the neighboring countries. I congratulate them on the major role they are playing in transforming and strengthening the banking sector in BH and wish them every success with their new partner.