

B. Banking

In the current system, banks are not allowed to conduct payment transactions. Neither are they permitted to mediate consumer cash deposits. Rather, this role is reserved to the PBs. At the end of the day, all banks are required to deposit their day's receipts at the PBs. This robs banks of their primary source of cash deposits, reducing the amount of working capital available to the economy. It also dramatically lowers banking income, causing many banks to hover on the brink of illiquidity.

Under the proposed reform scenario, banks will take over the role of payment transfers from the PBs. Unfortunately, the recent history of banks in BiH and SFRY demonstrates how the government(s) plundered the private hard currency savings of private depositors. In addition, many banks in BiH are technically insolvent, while many are unable technically to handle payment transactions.

In order to prevent the establishment of insolvent or shaky banks in the municipality, and to prevent the wholesale plundering that has occurred to date, a review panel must be created from the USAID-supervised Bank Supervision Agencies (*Agencija za Bankarstvo*) of both entities. This panel will create a set of regulations and criteria which must be met by all banks which wish to operate in the Brcko municipality. The hope is that the relaxed banking environment will attract fiscally sound banks from both entities, such as *Kristal Banka* and *Banja Lucka Banka* from the RS, and *Market Banka*, *Central Profit Banka*, *Gospodarska Banka*, and *Ziraat Banka* from the Federation. No doubt each of these banks will at first attract business only from members of the ethnic group associated with the bank, but at least conditions will have been established for a genuine competitive market to develop.

Banks from throughout BiH will attempt to move into Brcko due to the absence of the PBs. So too will foreign banks. The lack of PBs will open up profitable financial service sectors, which the banks will want to take advantage of. So too, the ability of private businesses to use commercial banks to carry out their financial transactions will create an incentive.

Because 80 to 90% of all economic activity in Brcko takes place in the "black" economy, any disruption to commerce during the transition from a PB system to a banking system will be minimal.

Recommendations:

The international supervisor should take the following steps to create a viable commercial banking sector in Brcko according to the following 60 day schedule. These reforms must be carried out simultaneously with the PB reforms.

D - 30

- Banks notified of changes and new criteria;
- Banks allowed to register in Brcko;
- Banking criteria supplied by review panel of USAID-supervised RS and Federation Banking Agencies;