

# Bosnia and Herzegovina

## Increased regulatory uncertainty

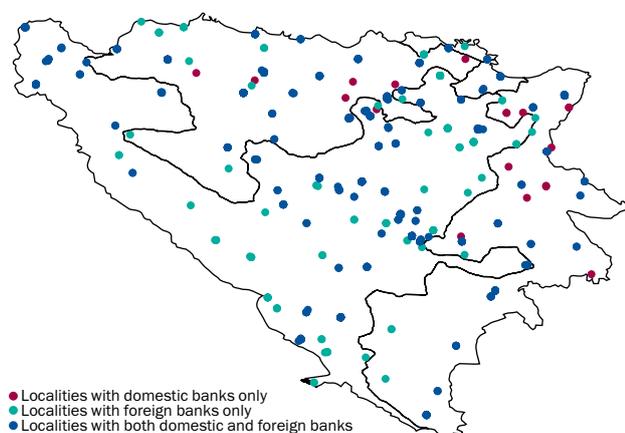
Bosnia and Herzegovina (BiH) is served by domestic and foreign-owned banks, mostly Austrian and Italian, with foreign-owned banks controlling the vast majority of the banking sector (Chart 1). Several localities are served only by foreign-owned banks, a presence that is reflected in the consensus among surveyed banks that foreign-owned banks are strong competitors for small and medium-sized enterprise (SME), large enterprise and retail lending. However, from 2007 to 2011, a small but increasing proportion of banks have also cited private domestic banks as strong competitors in these lending areas.

The majority of foreign-owned banks report the influence of their parent bank as important with regards to credit risk assessment, portfolio management, strategic choice of clients and corporate governance. However, these proportions are on par with the rest of the region.

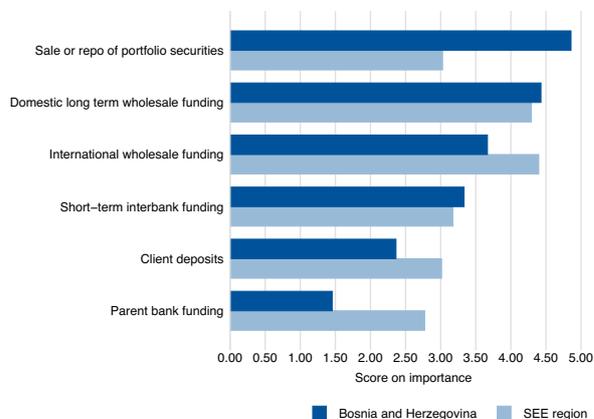
Where foreign-owned banks in BiH differ is in terms of importance of funding sources during a potential funding shortfall (Chart 2). Parent funding is ranked as the least important funding source, while sale or repurchase agreements (repos) of portfolio securities is seen as far more important in BiH than in the rest of the region. Only 27 percent of BiH banks report their parent bank operating a centralised treasury department that raises funding for subsidiaries, compared to 63 percent in the rest of the region (Chart 3). Bosnian foreign bank subsidiaries are thus managed much more independently compared to such subsidiaries in neighboring countries.

The perception of the banking regulator has shifted sharply in the period from 2007 to 2011. When asked whether banking laws and regulations are consistent and predictable, over 60 per cent agreed in 2007 while less than 20 per cent of banks agreed in 2011 (Chart 4). Additionally, the proportion of banks that now agree that regulations over published laws present their bank with a significant burden has doubled in this period.

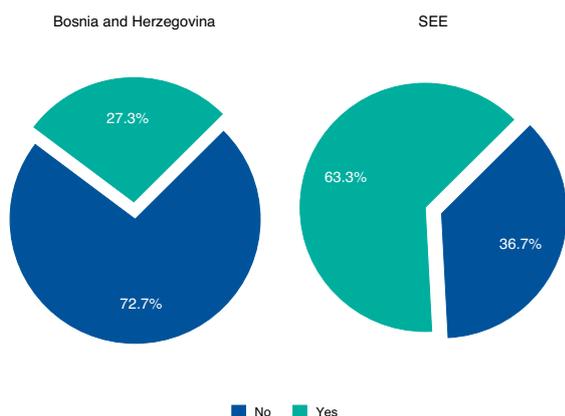
**Chart 1** Bank localities by ownership



**Chart 2** Importance of funding sources in a shortfall



**Chart 3** Parent operates centralised treasury desk



**Chart 4** Banking laws and regulations are consistent and predictable

