BOSNA I HERCEGOVINA
VIJEĆE MINISTARA
DIREKCIJA ZA EKONOMSKO PLANIRANJE

БОСНА И ХЕРЦЕГОВИНА
САВЈЕТ МИНИСТАРА
ДИРЕКЦИЈА ЗА ЕКОНОМСКО ПЛАНИРАЊЕ

BOSNIA AND HERZEGOVINA
COUNCIL OF MINISTERS
DIRECTORATE FOR ECONOMIC PLANNING

Bosnia and Herzegovina Economic Trends

Annual Report 2011

April 2012

Contents:

LIST OF GRAPHS:

LIST OF TABLES:

ABBREVIATIONS LIST:

LFS – Labour Force Survey
BATX – Bosnian Traded Index
BD – Brčko Distrikt
GDP – Gross Domestic Product
GVA – Gross Value Added
BHAS – Agency for Statistics of Bosnia and Herzegovina
BIFX – Indeks of Bosnian Investment Funds
BiH – Bosnia and Herzegovina
BLSE – Banja Luka Stock Exchange
CBBiH – Central Bank of Bosnia and Herzegovina
CEFTA – Central European Free Trade Agreement
CPI – Consumer Price Index
BFP – Budget Framework Paper
FDI – Foreign Direct Investment
EBRD – European Bank for Reconstruction and Development
EC – European Commission
EIR – Effective Interest Rate
ERS-10 – Index of Power Utility Companies of Republika Srpska
EU – European Union
FBiH – Federation of Bosnia and Herzegovina
FIRS – Investment Funds Index of Republika Srpska
FISIM – Financial Intermediation Services indirectly Mesured
ITA SA – Indirect Taxation Authority Single Account
KM – Convertible Mark (International Standard ISO 4217)
IMF – International Monetary Fund
MoFTER – Ministry of Foreign Trade and Economic Relations
MAU – Macroeconomic Analysis Unit of the Indirect Taxation Authority Governing Board
MR – Mandatory Reserves
BoP – Balance of Payments
VAT – Value Added tax
PIF – Privatisation Investment Funds
PIP – Public Investment Programme
RS – Republika Srpska
SASE – Sarajevo Stock Exchange
SASX-10 – Index designed to represent the performance of 10 top companies listed on the Sarajevo Stock Exchange
WB – World Bank
SEE – South East Europe
SIPA – State Investigation and protection Agency
SITC – Standard International Trade Classification
MTEF – Medium-term Expenditure Framework
MTDS – Medium Term Development Strategy
SAA – Stabilisation and Association Agreement
FTA – Free Trade Agreement
GFS – Government Finance Statistics
ITA – BiH Indirect Taxation Authority
USAID – United States Agency for International Development
H1 2010 – First Half of 2010
H2 2010 – Second Half of 2010
Q1 2010 – First quarter of 2010
Q2 2010 – Second Quarter of 2010
Q3 2010 – Third Quarter of 2010
Q4 2010 – Fourth Quarter of 2010
M0 – Reserve Money
M1 – Transaction Money
M2 – Broad Money
QM – Quasi Money
mKM – KM Million
y /y – Growth rate that indicates changes in comparison with the same period of the previous year
m/m – Growth rate that indicates changes in comparison with the previous month of the current year

MAIN ECONOMIC INDICATORS IN BiH – Annual Indicators

	2006.	2007.	2008.	2009.	2010.	2011 (p).
Nominal GDP in BiH (in m KM)	21,152	24,424	28,116	27,895	27,955	29,238 (p)
Nominal growth rate (in %)	16.0%	15.5%	15.1%	-0.8%	0.2%	4.6%(p)
Real growth rate (in %)	9.5%	10.4%	7.0%	-1.8%	1.0%	2.4%(p)
Population (thousands)	3,843	3,842	3,842	3,843	3,843	3,840
GDP per capita (in KM)	5,504	6,357	7,318	7,259	7,274	7,614 (p)
Number of unemployed in BiH (in thousands)	516	527	493	498	517	530
Average wages in BiH (in KM)	586	645	752	790	798	816
CPI (Consumer Price Index)	6.1%	1.5%	7.4%	-0.4%	2.1%	3.7%
BiH Consolidated Budget **	*(in GDP %)*					
Revenue	40.6%	40.3%	38.8%	37.1%	38.0%	24,8%***
Expenditure	38.0%	39.1%	37.5%	38.2%	40.7%	24,2%***
Balance	2.6%	1.1%	1.2%	-1.1%	-2.7%	0,6%***
Public external debt	18.8%	15.6%	14.3%	18.2%	22.0%	22.2%
Money and credit **	*(in GDP %)*					
Broad money (M2)	46.8%	48.9%	44.2%	45.6%	48.8%	49.3%
Credit to the private sector (1)	20.9%	23.8%	24.3%	22.9%	22.9%	23.2%
Balance of Payme**						
Current acount balance (in m KM)	-1,532.2	-2,328.5	-3,464.4	-1,502.8	-1,498.2	-2,233.3
(in % of GDP)	-7.2%	-9.5%	-12.3%	-5.4%	-5.4%	-7.6%
Balance of trade**						
Exports of goods and services (in m KM)	7,025	8,123	9,102	7,734	9,196	10,306
Growth rate (in %)	25.7%	15.6%	12.1%	-15.0%	18.9%	12.1%
Imports of goods and services (in m KM)	12,640	14,974	17,236	13,284	14,521	16,350
Growth rate (in %)	1.4%	18.5%	15.1%	-22.9%	9.3%	12.6%
Goods and services balance (in % of GDP)	-26.5%	-28.0%	-28.9%	-19.9%	-19.0%	-20.7%
Gross currency reserves **						
In m KM	5,451.7	6,698.5	6,295.7	6,212.1	6,457.7	6,423.6
In months of imports of goods and services	5.4	5.5	4.4	5.6	5.4	4.7
Foreign public debt servicing ***						
In m KM	270.0	239.0	230.0	245.9	300.9	340.0
In % of exports of goods and services	3.8%	5.8%	4.9%	6.2%	5.2%	6.5%

** Source: DEP estimate*

*** Source: The Central Bank of BiH for revenues, expenditures, net crediting and balance of payments ; Ministry of Finance and treasury BiH for foreign debt and debt servicing; ITA BiH – Macroeconomic Analysis Unit.*

**** Administrative data collected from the ministries of finance and social insurance funds at all government levels.The data neither includethe local level of governments (municipalities and cities), nor the entity level public companies of the Road Directorate The data relate to Q3 2011.*

(p) DEP Projections

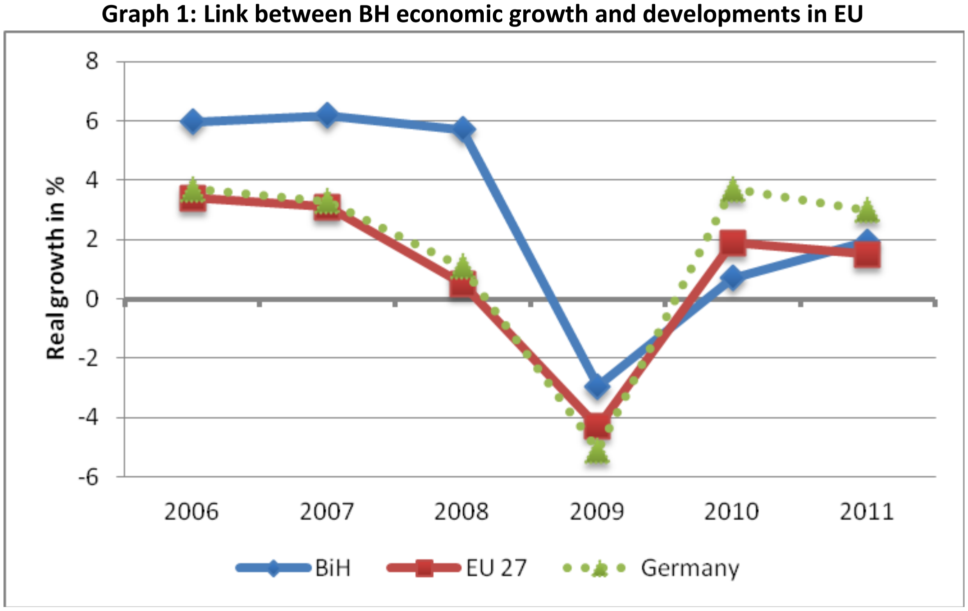
(1) According to the Central Bank of BiH, private sector includes population, non-banking financial institutions, etc.

I REAL SECTOR

Economic Growth in 2011

After two years of crisis, BiH economy did not record any significant economic growth in 2011 either. Apparently, the achieved real growth in the previous year was only 1.9%,[1] recording a slight progress in comparison with the modest 1% from 2010. This is far bellow the pre-crisis rates of above 5% which are necessary not only to reach the standard of living of the developed, but also of most transition and neighbouring countries. Growth in 2011 was mainly achieved by increase in domestic demand, primarily due to partial recovery of investments, which was followed by growth in foreign trade deficit. This, to some extent, normalised the structure of economic growth in comparison with the previous two years when both demand and deficit recorded a decline. What concerns is the dynamics of growth achieved in the course of the year. Namely, after an encouraging first quarter, the indicators of growth were mainly constantly weakening from one quarter to the next, mainly due to strengthening of the debt crisis in the EU and immediate neighbourhood. This led to a gradual weakening of growth in foreign trade, industrial production, and employment, as well as money inflows from BiH citizens living abroad. At the same time, the influence of fiscal policy on the overall economic growth was minimal, considering the modest real growth of public revenues which, to a large extent, limited expenditures as well.

Graph 1: Link between BH economic growth and developments in EU



Izvori: BHAS i EUROSTAT

Strengthening of debt crisis in EU in the course of 2011 primarily manifested through lower economic growth and increased unemployment, where EU27 even reached a negative growth in the fourth quarter. This directly weakened the BiH export demand at the territories of its main trade partners (Germany, Italy, Slovenia, etc.) but also threatened a domestic demand in BiH, mainly in part which is financed from abroad. In other words, growth in unemployment in EU was one of the main causes of (a nine months) real 0.7%[2] (y/y) fall in money inflows from BiH citizens living abroad, which make an important share of their disposable income. Nevertheless, disposable income in 2011 was mainly

[1] DEP Estimate
[2] This is about foreign inflows from citizens living abroad based on current transfers and incomes.

threatened by the 0.6% fall in number of employed persons in BiH, and the real decline in average wages by 1.4%, mainly caused by a weakened growth in export-oriented industrial production. This all resulted in a very modest real increase in private consumption of only 0.7%[3]. However, the main factor of growth in domestic demand in 2011 was a partial recovery of investments which, after a strong two year fall, finally recorded a real growth of 8.7%[4]. Real export growth in 2011 remained at the level of the previous year, of only 3.8%, in spite of modest real increase in domestic demand (after its two-year drop). On the other hand, the reduction in the export growth rate was much more pronounced. Namely, exports of goods in 2011 recorded a real growth of only 6.6%, being significantly bellow the rate of 27% from 2010. This, togehther with the unchanged imports rate, lead to a real increase in the foreign trade deficit of 2.3%[5].

In the context of expectations in 2012, it is particularly important to mention a weakening of the economic growth dynamics in BiH, primarily during the second half of 2011. After the encouraging indicators in the first quarter, circumstances in the environment gradually started to weaken towards the end of 2011, and consequently, BiH economic growth too. The worst situation was recorded in the fourth quarter, when EU27 achieved a negative growth of 0.3% as compared to the third quarter. This led to gradual deceleration in growth of foreign trade, industry and foreign money inflow in BiH. Real growth in exports of goods, after a rate of 18.9% (y/y) in the first quarter, kept constantly declining during the year in order to reach only 1% in the fourth quarter. This weakened the BiH industry whose annual production growth (similar to exports), after a high 10.4% rate in the first quarter dropped to only 2.1% in the fourth quarter. What followed was a general decline in demand for labour, as well as fall in number of employed persons which started as of the second quarter, what significantly threatened the disposable household of the citizens. The situation was additionall aggravated by an annual real decline in current money inflows from abroad which started in the second (-1.7%) and intensified in the third quarter (-2%).

The official EU27 projections indicate to further aggravation of this trend in the first quarter of 2012, after which there should follow a gradual modest improvement towards the end of the year. This should finally result with the economic stagnation of EU27 (0% growth) in 2012. Similar trends were projected for BiH too, where, as opposed to EU, there should be a modest economic growth of 0.86%[6]. Such projection is based on decelerated imports growth, but also on halting the last year's real growth of investments, which, along with the unchanged modest growth of final consumption, should considerably decrease growth in BiH domestic demand and imports as compared with 2011.

Construction industry

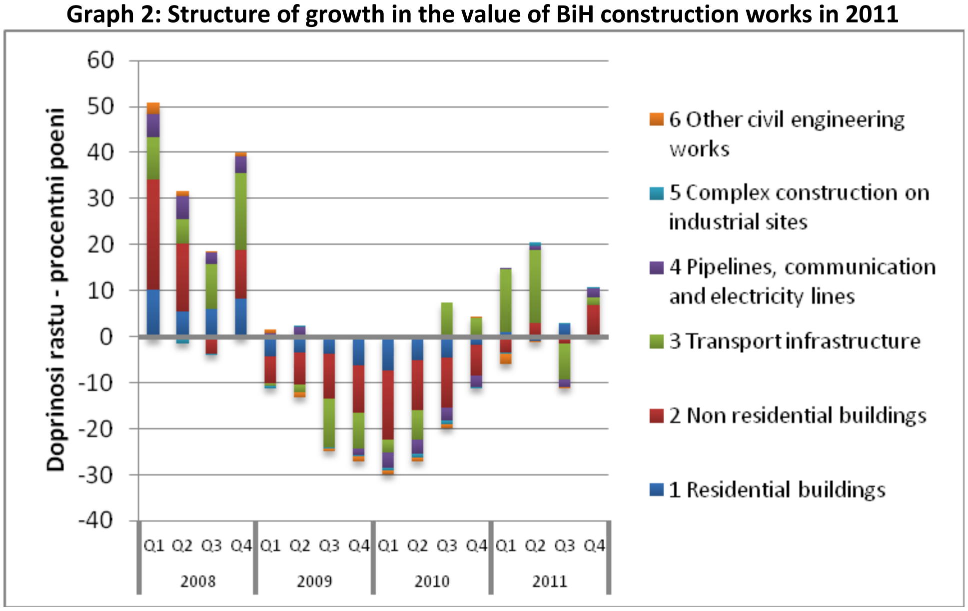
After a 34% cumulative decline during the two previous years, the value of executed construction works in BiH in 2011 finally increased by modest 6.4%[7]. Traffic infrastructure and non-residential buildings were the main factors of this increase, with most of the increase achieved in the first half (semi-annual construction works growth of 15% y/y). This was followed by an abrupt fall of 8.6% in the peak of construction season in the third quarter, for situation to be somewhat improved again in the fourth

[3] DEP assessment based on production, imports and exports of consumer goods.
[4] DEP assessment based on trends in construction works and imports, production and exports of capital goods.
[5] DEP assessment based on the estimate of foreign trade services for the fourth quarter and official data on trade of goods for the whole year.
[6] DEP Projections.
[7] DEP assessment based on the entity data.

quarter by an increase in works of 10.3%. Such growth trends during the year were the result of unequal growth through the entities, where of particular concern is a decrease in construction works in RS in the second half of the year.

Partial revival of public works through road infrastructure was the main factor of growth of construction industry in the first half of the year, particularly in RS. In fact, road infrastructure made up almost all BiH construction growth in this period. But, this was followed by increased problems in public finances which led to the abrupt drop in investments to this category (in both entities). This, in the third quarter, led to a sudden reduction in construction of road infrastructure of 16% (y/y) at the level of BiH. The reduction was particularly pronounced in RS, where a 20% drop (y/y) in this category, along with non-residential buildings, was the main cause of 21% fall in all RS constructrion works in the third quarter. This was somewhat eased with the start of recovery of non-residential and, in particular, residential buildings in FBiH which (after almost two years of decline), by the third quarter of 2010, in this entity record positive, even mostly a double-digit growth[8]. On the other hand, construction of residential buildings in RS during the last twelve quarters records a double-digit annual fall, with the exception of the second half of 2011, when this fall was only 3.8%. Situation is similar with non-residential buildings in RS too as being in continuous (mostly double-digit) decline (y/y) since the beginning of 2010. Indeed this was at least temporarily stopped in the fourth quarter of 2011, when a 3.2% (y/y) increase in non-residential buildings was recorded. It should be pointed out that such long negative trend in non-residential buildings in RS, with hardly visible signs of improvement during the last two quarters of 2011, seems quite discouraging, since this category mostly includes private investments of companies in new and restoration of the existing capacities.

Graph 2: Structure of growth in the value of BiH construction works in 2011



Source: DEP estimate based on the entity indices

More complex situation in the environment in 2011, and quite discouraging forecasts for 2012 do not provide much space for optimism when in comes to developments in the coming period. Namely, all this indicates that financing, but also cost-efficiency of the investments (including construction works) could

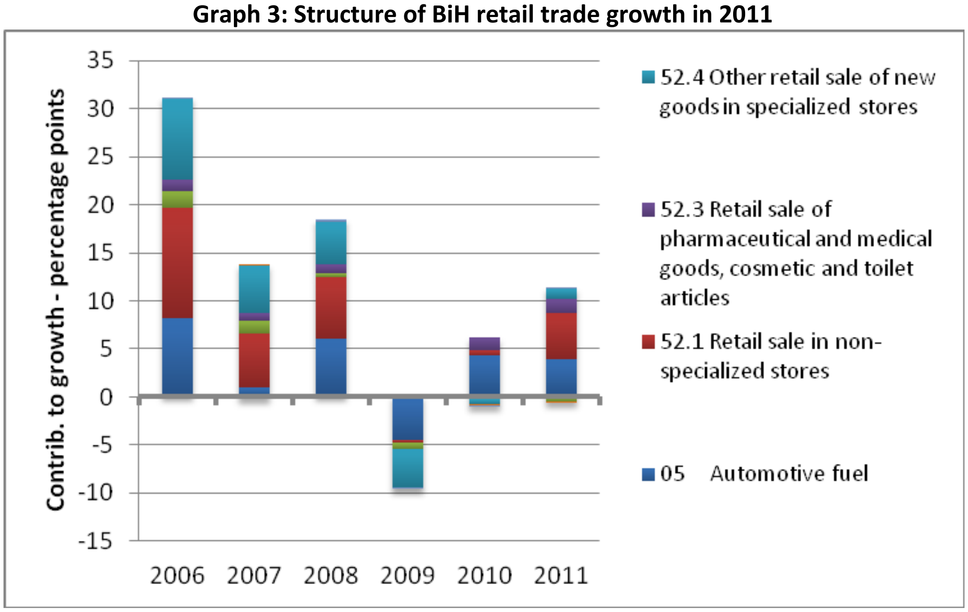
[8] The exception from this is the first quarter of 2011 when a 12% decline was reported in non-residential buildings construction.

be jeopardised in the near future. Aggravated collection of public revenues could impede public works, whereas financial crisis in the environment with modest expected growth of BiH exports could make financing of BiH private investments more difficult.

Retail trade

Observed in a nominal sense, the BiH retail trade turnover, according to DEP estimate, recorded a 10.9% growth in 2011. After being deflated by the Consumer Price Index (CPI) of 3.7%, real turnover growth amounted to 7.2%. Approximately 70% of nominal growth consisted of fuels and lubricants trade and foodstuffs trade with almost equal contribution to growth. However, a 14% increase in retail prices of fuels (in CPI) with nominal growth in fuels trade of 16% indicate to a very modest real growth in this category of only 2% in 2011. Since fuels and lubricants made up over one third of overall retail trade growth (4 percent points) it is clear that its real growth would have been considerably lower from the above rate obtained by deflation by CPI. In fact, if we take this into account and make a new deflation, real retail trade growth in 2011 could move to aproximately 3-4% being considerably more in line with movements of disposable household income. Slight increase in fuels and lubricants trade is a consequence of a modest real growth in foreign trade, whereas a weakening of disposable household income resulted in 6.3% decline in furniture trade and probably other durable consumer goods as well. On the other hand, an increase was noted primarily in the domain of the foodstuffs, textile, footwear, and pharmaceutical products, mostly in accordance with the data on production and imports of these categories.

Graph 3: Structure of BiH retail trade growth in 2011



Source: DEP estimate based on the entity indices

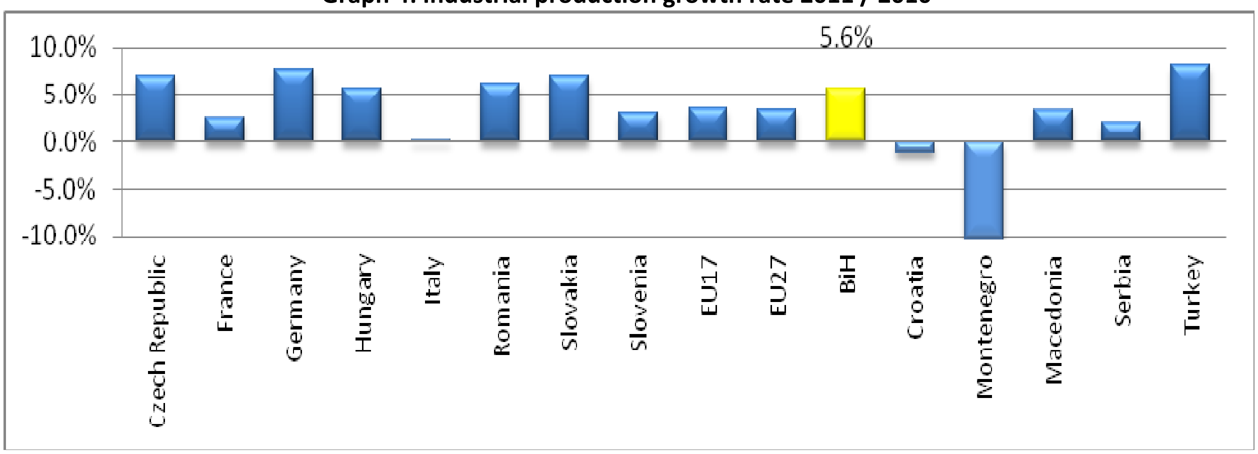
Industrial production in BiH

According to data provided by the BHAS for 2011, BiH recorded a 5.6% growth in physical volume of industrial production as compared with the previous year.[9] However, when carefully observing the industrial production in BiH in the course of the previous year, it is not difficult to notice that, in the

[9] Agency for Statistics BiH, "Index of the Scope of Industrial Production in Bosnia and Herzegovina in December 2011".

second half of the year, the production volume declined as quarterly growth rates indicate (Q1:10.4%, Q2:5.3%, Q3:5.2% and Q4:2.1%). This decline results from changes in the immediate international economic environment (EU and CEFTA region) where there was a drastic aggravation of economic situation in the second half of 2011. However, in spite of this, the export demand (although much more expressed during the first half), i.e. placement of the main BiH export products (base metals, petroleum products, furniture, automobile parts and some chemical products) to foreign markets, was the main standfast of industrial production growth in BiH. In spite of problems they are faced with (debt crisis, euro stability, public finances), in the period January – December 2011, EU27 countries recorded an increase in industrial production of ca 3.5%[10], which, followed by a moderate recovery noted in the countries of the region (except for Croatia and Montenegro) reflected positively on the processing industry in BiH.[11]Having in mind weak results in the sector of electric energy generation due to unfavourable hydrological situation resulting in annual fall in production of over 10%, it can be stated with certainty that the processing industry which recorded a 5% production increase and contributed to growth by 3.5%, and increased production in the mining sector of over 15% take most of the credit for the achieved growth in overall BiH industrial production in 2011..

Graph 4: Industrial production growth rate 2011 / 2010



Source: Eurostat and national statistic institutes

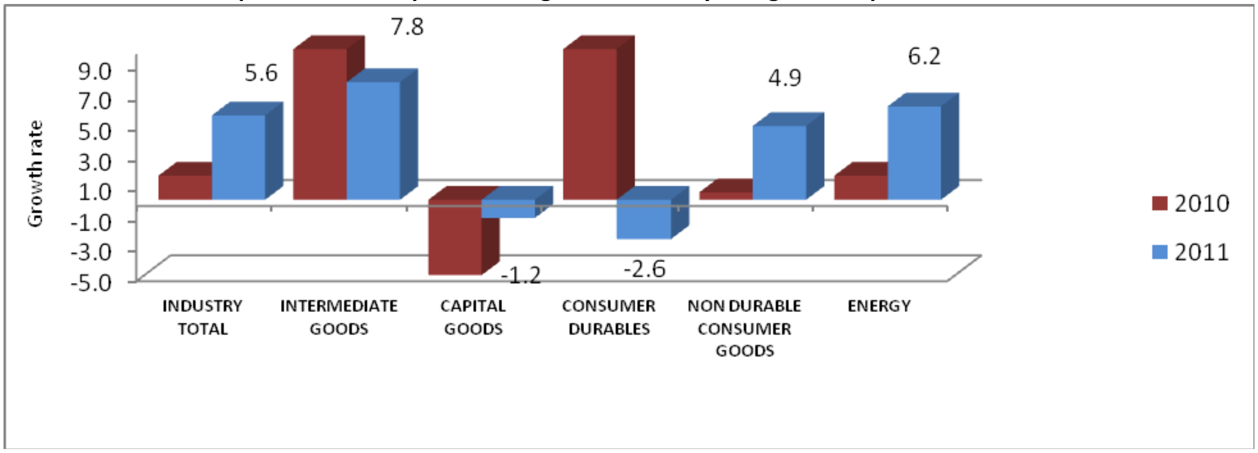
Observing by classification of products by purpose, in 2011 the most significant BiH production growth of almost 8% was noted in the category of intermediate products[12] which are also the main BiH export goods. This product category's contribution to the overall increase in industrial production amounted to over 3 %. In addition to these products, the increased production was also recorded in the category of consumer non-durables of 5% and energy of 6.2%, whereas individual contributions in the overall industrial production growth amounted to 1, i.e. 2 percentage points. On the other hand, in comparison with last year, a 1% production fall was noted in the category of capital goods and a fall in the category of consumer durable goods of 2.5%. Thereby these two categories negatively contributed to the BiH overall growth in production of almost 0.5 percentage points.

[10] European Commission DG Enterprise and Industry, „The Economic Recovery in Industry“, 14. January 2012.

[11] Eurostat and National Institutes for Statistics, " industrial production growth rates for the period January - December 2011“.

[12] **Intermediate products**-(iron, steel, aluminum, metal and mineral ores, wood, lumber, cement), **consumer non-durables**-(food and drink, tobacco, clothes, footwear, medicines), **energy**-(coal, coke, petroleum products and electricity), **capital goods**-(metal constructions, machines and instruments, pumps, compressors, motor vehicles and automobile parts), **consumer durables**-(furniture, machines, electrical appliances and automobile parts).

Graph 5: Industrial production growth rates by categories of products in 2011



Source: BiH Agency for Statistics

Mining in BiH

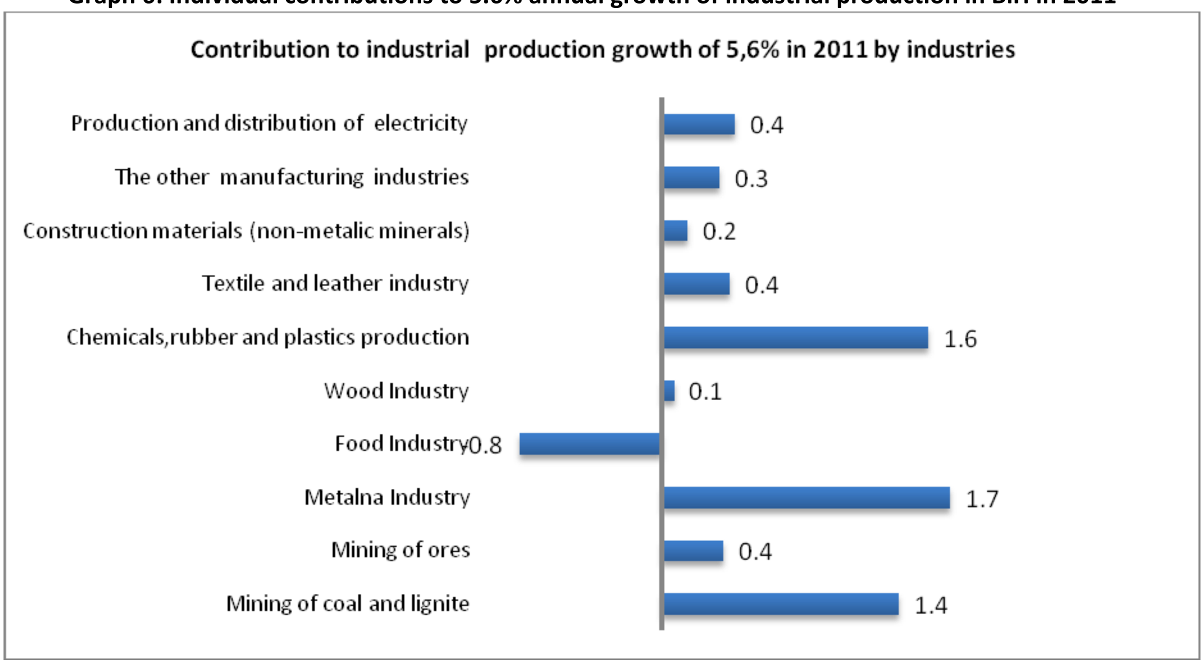
Compared to the previous year, the BiH mining sector in the period January-December 2011 noted an increase in production of over 15%, whereas its contribution to growth reached 2 percentage points, making up 1/3 of overall industrial production growth in BiH during 2011. The most significant contribution to increased mining production was brought in by brown coal and lignite mines, which increased their production by 15% and thus exceeded the planned level of production from the previous year. Such high level of mining production accompanied by adequate operational readiness of their thermal energy facilities undoubtedly preserved the stability of the energy-generating sector which was jeopardised by infavourable hydrological situation in the course of the year. Stone, limestone and mines with other raw materials for construction purposes have also noted a significant production growth of ca. 20% in the above period. On the other hand, the recovery of metals and metal industry market in BiH positively reflected on work of metal ore mines, particularly iron ore, which, during 2011, recorded an increase in production of over 40% compared to the same period in 2010.

Processing industry in BiH

Since processing industry in BiH is mainly export-oriented, it almost fully depends on developments at the foreign markets. Recovery of industries in the EU countries (which was partly threatened in the first half of 2011), accordingly had a positive reflection on almost all branches of processing industry except for food-processing industry, furniture and vehicle manufacturing. Thus, during 2011, the BiH processing industry noted a production growth of ca. 5% compared to the same period previous year, whereas its contribution to the overall industrial production growth in BiH amounted to almost 3.5 percentage points. Observing through industries, the most significant contribution to growth of 1.7% was brought in by the metal industry, while the largest negative contribution to growth of 1 percentage point was brought in by food-processing industry.

Metal industry has integrated into the world production chains to the highest level and it is considered to be a bearer of the processing industry in BiH. Recovery of the metal markets in the world and increase in the world metal prices reflected positively on production of base metals in BiH, whereas in other branches of the BiH metal industry (automobile, machine-building and metal products) there was no significant progress noted as compared to the previous year. According to EUROFER data for 2011, consumption of pig iron and steel in EU stabilised at the annual growth rate of ca. 5% relative to the previous year, whereas imports increased by ca. 30% compared to the same period of 2010.[13] On the other hand, according to the IMF data, metal prices in the world market continued with the growth trend during 2011. Hence the overall metal prices index in the period January – December 2011 increased by 14% as compared to the same period of the previous year, while the average aluminum price per ton rose to $ 2,400 from $ 2,173 in 2010.[14] Such situation in the export markets directly reflected on the metal industry in BiH as noticed in increased production and exports in 2011. The base metals industry was particularly outstanding with noted annual growth in production and exports of over 10%, i.e. 20% compared to the same period of the previous year. Considering a high share of base metals in the structure of the overall BiH industrial production, their contribution to the overall growth was really significant amounting to over 1.7 percentage points. However, metal production has still not reached its pre-crisis period from 2008, and recorded a production growth of ca. 2% in the period January – December 2011, so there was no significant contribution to growth by this industrial branch. A reason for such a development is the fact that base metal industry is more export-oriented, and the biggest aluminum and iron producers in BiH (Aluminijum Mostar and Arcelormittal Zenica) belong to this category too, whereas products made of metal are more used for domestic consumption and in construction sector which has just started to stabilise.

Graph 6: Individual contributions to 5.6% annual growth of industrial production in BiH in 2011[15]



Source: BiHAgency for Statistics

On the other hand, aggravation of the situation in the Eu markets during the second half of 2011, negatively affected the machine-building industry and production of spare automobile parts in BiH, so

[13] EUROFER – (European Confederation of Iron and Steel Industries) - ¸¨ *Economic and Steel Market Outlook 2010-2011* ¨,21. December 2011.
[14] IMF- „Indices of Primary Commodity Prices 1999-2011“, December 2011.
[15] Graph 3 shows contributions to industrial production growth per industries which are grouped in a way that metal industry includes (base metals production, metal products, machine-building and instruments, and automobile parts), wood-processing industry (wood processing, wood products, furniture production, cellulose and paper production), chemical industry (chemical products, rubber and plastic), food industry (foodstuffs, beverages and tobacco).

that these two industry branches noted a stagnation, i.e. production fall of 10% compared to the same period of the previous year, wheres overall contribution to growth by these two industries was negative.

After a fall in production during the previous year, in 2011 there was a significant improvement in chemical industry production and exports at a growth rate of 20% compared to 2010, while contribution of this branch to the overall growth in industrial production amounted to almost 1.5%.

Situation is similar in textile production and leather industry which participate in overall BiH industrial production with ca. 7%. In the period January – December 2011, these industrial branches reached a production increase of ca. 5%, i.e. 15% compared to the same period of the previous year. During 2011, joint contribution of these two branches of industry to growth in overall industrial production amounted to almost 0.5 percentage points.

Wood processing industry, having an important share in the structure of the BiH industrial production (15%) and including a wide selection of products, starting with lumber all the way to final products such as furniture, records an increase in production. During 2011, growth in production of wood and wood products, except for furniture, amounted to 9%, while its contribution to the overall production growth amounted to almost 0.5%. On the other hand, production of furniture, which was one of the main bearers of growth of industrial production and exports during the previous years, recorded a fall in production of 3% during 2011, so its contribution to the overall growth in industrial production was negative and amounted to 0.2 p.p. But, in spite of production fall, the BiH exports of furniture in 2011 increased by ca. 15% as compared to the previous year.

During 2011, additional contribution to industrial production growth was achieved in the category of petroleum products, coke and construction materials production. Some investments in the sector of oil and petroleum products in the previous period enabled for positive trend in this industry to continue throughout 2011 too. Thus, in the aforementioned period, sector of oil and coke production records an increase in production of ca. 10% compared to the previous year, but, considering its law participation in the structure of the BiH industry, there was no significant contribution to the overall growth in industrial production. It is necessary to emphasise that improvements in quality of oil and petroleum products are getting more important in the structure of BiH exports, thereby in the period January – December 2011, exports of oil and petroleum products increased by ca. 50% compared to the same period of the previous year.

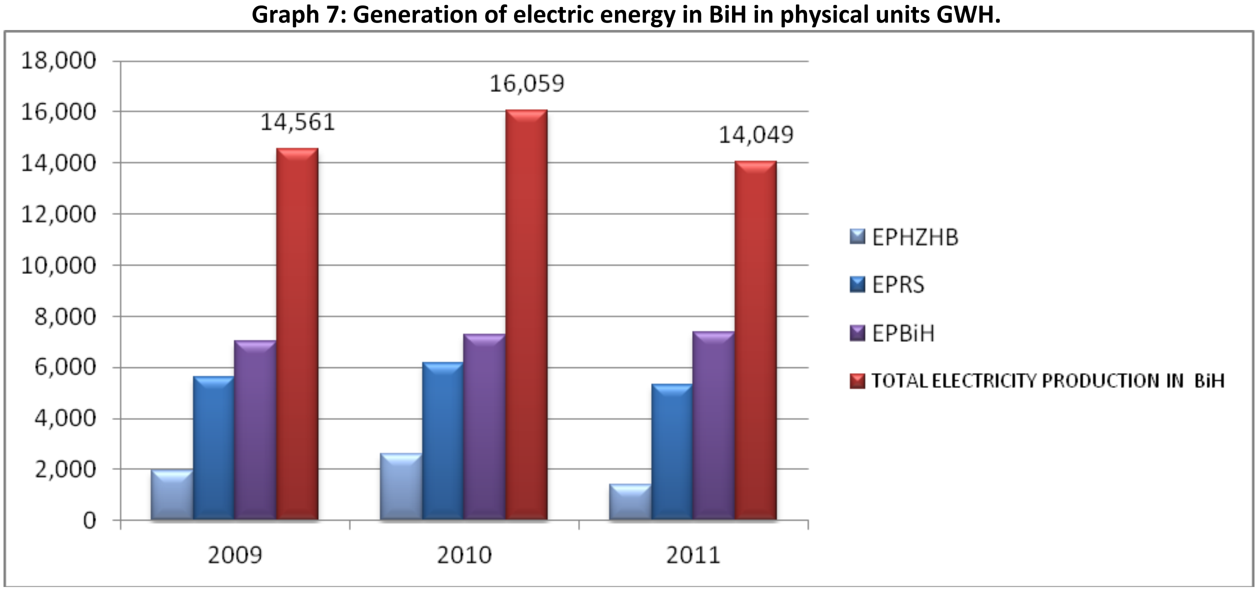
Construction sector in BiH during 2011 recorded slight signs of recovery (6.4% growth y/y) resulting in feeble growth in production of other non-metallic minerals of ca. 4% compared to the same period of the previous year, while contribution of this branch of industry to the overall growth of industrial production amounted to only 0.15 p.p.

On the other hand, food processing industry in BiH, which, after metal industry contributes most significantly to the overall structure of BiH industry with participation of 17%, achieved quite weak results during 2011. According to data for 2011, food industry noted a decline in production of over 6% compared to the same period of the previous year, so its contribution to the overall growth in industrial production was negative, amounting to almost 1%. Observed by products, the most significant decrease was registered in the categories of flour-mill products, pastry and tobacco.

Energy sector in BiH

Enegy sector in Bosnia and Herzegovina that includes mines and electric energy production provided positive contribution to growth in industrial production and represented one of the main bearers of its stability in the previous period. However, according to the latest available data from DERK for the period January – December 2011, sector for production of electric energy in BiH recorded somewhat poorer results compared to the same period of the previous year. Overall production of electric energy in BiH in 2011 amounted to GWH 14049, presenting a decline of around 13% compared to the same period of the previous year. The main cause of this decline was an extremely bad hydrological situation in comparison to the previous year, which resulted in reduced generation of electric energy in hydro-power plants of ca. 45% in comparison to the same period of the previous year. On the other hand, operational readiness of thermal-power facilities was at satisfactory level, resulting in increased production in thermal power plants by ca. 20% in comparison to the same period of the previous year. Overall consumption of electric energy in BiH during 2011 continued the trend of growth and amounted to 3% as compared to the previous year. A drop in overall production of electric energy in BiH in 2011 resulted in reduction of surplus quantities and thereby in ca. 20% reduced exports of electric energy in comparison to the previous year. [16]

Graph 7: Generation of electric energy in BiH in physical units GWH.



Source: BiH State Electricity Regulatory Commission

Labour market

Since recovery of BiH economy was going on very slowly in 2011, there were no positive developments in the labour market. Number of unemployed persons in BiH was constantly increasing without any signs of stabilisation or standstill in the number of unemployed persons. BiH companies continued with lay-offs, which resulted in reduction in the number of employed persons in BiH. Budget savings in public sector, but also modest volume of business activities in private sector contributed to moderate nominal growth of wages. However, inflation in BiH influenced for real growth of net wages to be negative. Number of retired persons in BiH is increasing in parallel to reduction of number of employed persons, what creates

[16] DERK- State Electricity Regulatory Commission BiH

concerns in terms of collected contributions for payment of pensions. The average pension was increased in comparison to 2010 due to increased pensions in FBIH, but in real terms it was reduced.

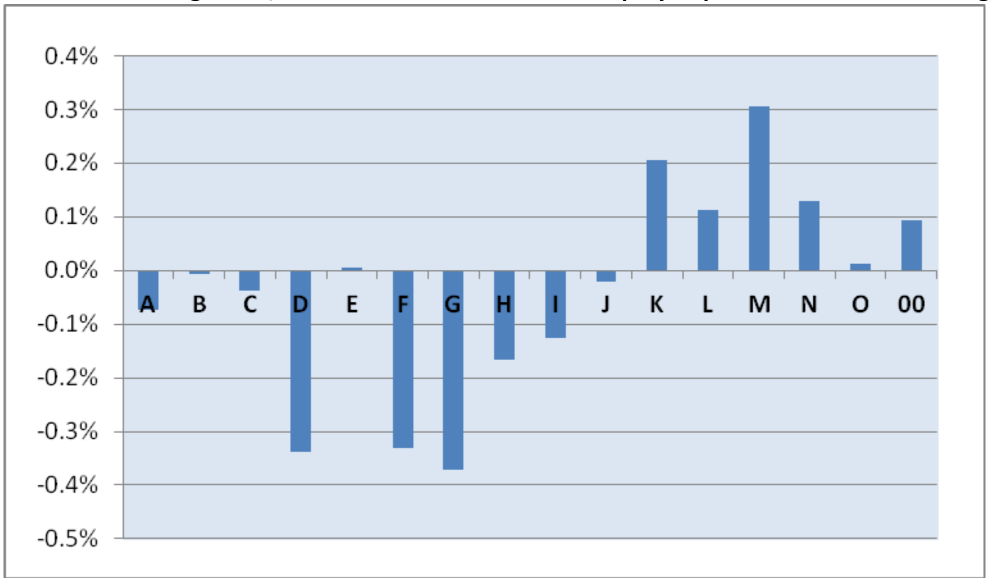
Employment

The average number of employed persons in BiH in 2011 was 691.5 thousand persons, which is by 0.6% less than in 2010. The biggest reduction in the number of employed persons was, the same as in 2010, i private[17] sector (-1.8% y/y). Modest volume of business activities, financial problems of companies and less than favourable business environment were the main reasons of layoffs. The biggest reduction in the number of employed persons was primarily recorded in *wholesale and retail trade sector, construction, and processing industry.* Although volume of retail trade in BiH increased, the number of employed persons in this sector decreased by 2% y/y. Since this is an industry that employs 18.7% of overall employed in BiH, its contribution to reduction in number of employed persons in BiH was highest in 2011 (graph bellow). More stringent business conditions and competition of large shopping malls could be some of the reasons for downsizing in trade sector. By analogy, there was a reduction in the number of employed persons in transport, storage and communication by 1.7% y/y. Despite the fact that a modest growth in volume of construction works was recorded in BiH, the number of employed persons in construction decreased by 5.8% y/y. Construction workers layoffs were evident in both entities. Decelerated growth of production volume in processing industry in 2011 negatively affected the number of employed in these branches. Reduced number of persons employed in the processing industry primarily affected RS, while there was a slight real growth in the number of employed persons in FBiH. Thereby the number of persons employed in the BiH processing industry dropped by 1.7% y/y. However, it is noticeable that the aforementioned reduction rate was considerably slower than in 2010 (1.2 p.p.). The number of employed persons in hotels and restaurants also reduced by 3.9% y/y. Reduced purchasing power in BiH, as well as constant inspection, could be reasons for downsizing of employees in catering services. Contrary to private sector, public sector[18] in 2011 recorded a 1.9% y/y growth in number of employed persons. The number of employed persons in education increased by 3.7% y/y, in health 1.9%, and in public administration and defence 1.1%.

While in RS there was a reduction in the number of employed persons, in FBiH there was a slight increase. The average number of employed persons in FBiH in 2011 amounted to 440.7 thousand, which is 0.4% more than in 2010. Positive growth in number of employed persons in FBiH was recorded primarily due to the increase in number of employees in public sector (1.9% y/y) as well as real estate business (5.3%) and processing industry (0.8%). On the other hand, decrease in number of employed persons in FBiH was registered in construction (-4%), transport, storage and communication (-1.2%) financial mediation (-1.5%) and mining (-2.4%). Unlike RS, the number of employed persons in wholesale and retail trade and catering sector was not reduced (stagnation of 0.2% and 0.3% respectively). The average number of employed persons in RS was reduced by 2.2% y/y and amounts 239[19] thousand persons. In the RS private sector in 2011 there was a 3.8% y/y decline in number of employed persons. The number of employed persons in processing industry was reduced by 6.6%, wholesale and retail trade -3%, construction -8.1%, hotels and restaurants -8%, transport, storage and communication -2,1%. The number of employed persons in the RS public sector was increased by 1.7% y/y.

[17] Private sector in the analysis includes activities A-K according to SCA.
[18] Public sector in the analysis includes activities L-O.
[19] The average number of employed persons in RS was calculated as the average value of the number of employed persons in March and September 2011.

Graph 8: Contributions to growth/reduction in the number of employed persons in 2011 according to SCA[20]



Source: BiH Agency for Statistics, DEP calculations

Unemployment

The number of unemployed persons in BiH was continuously increasing throughout 2011. Influx of new labour, but also layoffs of the employed persons additionally affected the increase in the number of the unemployed. In 2011 the average number of unemployed persons in BiH was 529.6[21] thousand, which is 2.5% (or 12.7 thousand persons) more than in 2010. Although the unemployment growth rate is slower than in 2010, the number of unemployed persons is among the highest after 2007.

Increase in number of unemployed persons was registered in both BiH entities. Observed by quarters, annual growth rates in the number of unemployed persons in FBiH were highest in Q1 and Q2, while in RS they were highest in Q3 and Q4 2011. In FBiH the average registered number of unemployed persons in 2011 was 367.5 thousand, which is 1.9% more than in 2010. It is similar in RS, where the average number of unemployed persons in the observed year was 150. 3 thousand, with the growth rate of 3.4% y/y.

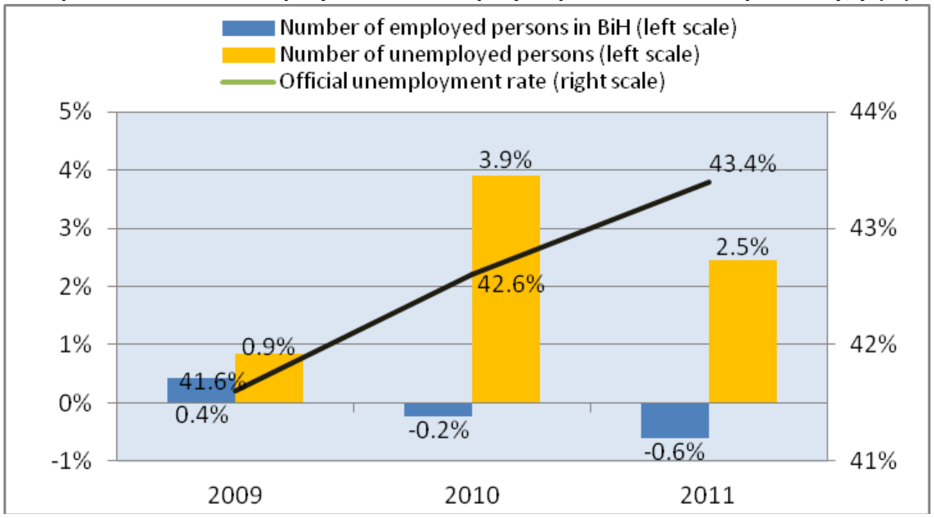
In 2011, most of the persons were registered at the employment bureau in BiH after termination of employment. Out of the total number of newly registered persons at the employment bureau in FBiH, 52% was registered on the basis of termination of employment. The most frequent reasons for this are end of temporary employment, termination of employment by consent, breach of duty, etc. (60.6%). This is followed by categories of redundant labour force (36.7%) and bankruptcy, liquidation, restructuring and privatisation of companies (2.7%). In RS 63% of newly registered persons applied at the employment bureau in 2011 due to termination of employment. The most frequent reason for this is

[20] SCA – Standard Classification of Activities: A- Agriculture, hunting and forestry, B- Fishing, C- Mining, D- Processing Industry, E- Supply of electricity, gas and water, F- Construction, G- Wholesale and retail trade, H- Hotels and restaurants, I- Transport, storage and communication, J- Financial mediation, K- Real estate related activities, L- Public administration, M- Education, N- Health and social protection, O- Other utility, social and personal services, 00- Unclassified according to SCA.

[21] Source: Employment Bureaus in FBiH, RS and BD.

redundancy 27.5%, end of temporary employment 24.9%, and termination of employment by consent 23.7%.

Graph 9: Number of employed and unemployed persons in – comparison y/y (%)



Source: Agency for Statistics BiH, Institute for Employment FBiH, RS and BD, DEP calculations

The average administrative unemployment rate in BiH increased to 43.4% in 2011[22]. Unemployment rates in BiH vary from one region to another. The lowest unemployment rates, the same as during previous years, were recorded in Banja Luka region (30.2%), Sarajevo canton (35.4%) and West Herzegovina canton (35.9%), which was expected considering the largest concentration of jobs in these regions. The highest unemployments rates[23] in FBiH were registered in Una-Sana canton (56%), Tuzla canton (53%) and Livno canton (51%). The highest unemployment rates[24] in RS were in the regions of Prijedor (48%), Trebinje (44%) and Bijeljina (43%).

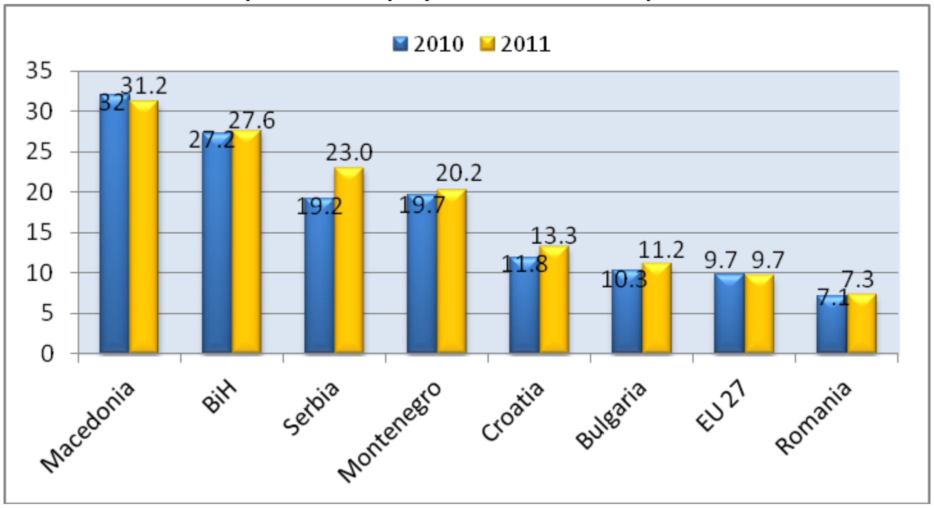
When comparing unemployment rates according to Labour Force Survey in BiH with the countries in the region, the same as in previous years, it is evident that BiH is among the countries with the highest unemployment rate. During 2011, most countries recorded increase in unemployment rate. All the aforementioned indicates that the observed countries had problems with keeping the existing number of employed persons and employment of new labour force.

[22] DEP calculations.

[23] When calculating the unemployment rates in FBiH the number of employed persons through cantons does not include those employed in defence.

[24] DEP calculated the unemployment rates in RS, which relate to the average for March and September for which the number of employed persons in RS is published.

Graph 10: Unemployment rates[25] – comparison



Source: Agencies for statistics of the observed countries, Eurostat for EU 27

Wages

Modest volume of business activities in BiH during 2011 affected the level of wages in BiH. The average net salary in BiH in 2011 amounted to KM 816, and was by 2.2% higher than in 2010. Despite faster nominal net wages growth than in 2010, in real terms net wages recorded a negative growth. Higher inflation rate influenced for real net wages growth in BiH to become negative (-1.4% y/y).

Table 1: Nominal and real net wages growth in BiH y/y

	BiH	FBiH	RS
Nominal growth (%)			
2009.	5,1	5,4	4,4
2010.	1,0	1,6	-0,5
2011.	2,2	1,9	3,2
Real growth (%)			
2009.	5,5	5,7	4,8
2010.	-1,1	-0,2	-2,9
2011.	-1,4	-1,6	-0,7

Source: BH Agency for Statistics, Entity Institutes for Statistics, DEP calculations

In the analysis of wages in private and public sector, traditionally higher wages were recorded in public sector, but wages in private sector were growing faster due to budget restrictions in the public sector. The highest nominal net wages in private sector were recorded in financial mediation, supply of electricity, gas and water, and in mining. Due to somewhat better volume of business activities in mining industry there was a faster growth of net wages in 2011 as compared to 2010 (9.6%). In construction industry net wages were growing at a faster rate of 4.8% y/y. It should be emphasised, however, that wages in this industry are among the lowest in BiH, despite these developments. Unlike mining and construction industry, net wages in processing industry were growing slower as compared to 2010

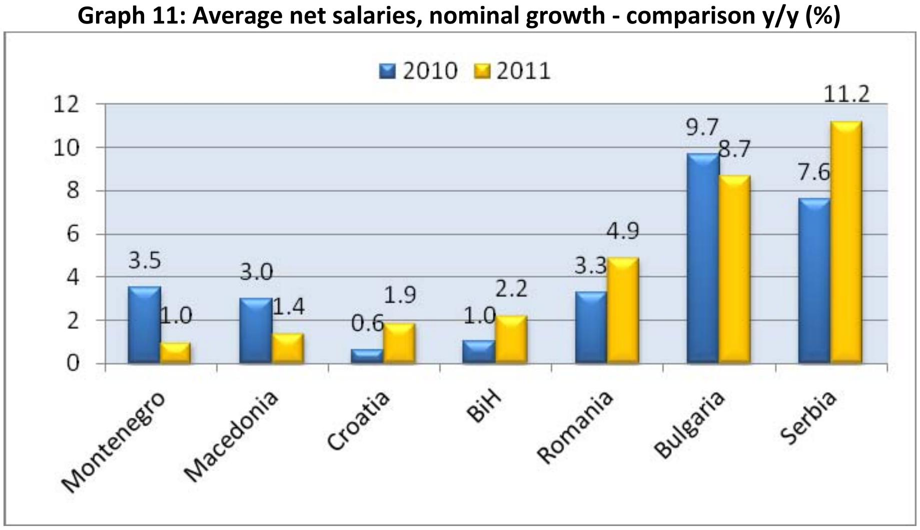
[25] Unemployment rates according to LFS. Average period values are taken for countries where this survey is carried out several times during the year. Data for FYR Macedonia, Montenegro, Croatia, Bulgaria and Romania relate to the first three quarters of 2011.

(2.1%). Sector with highest wages in BiH, financial mediation, recorded net wages growth of 3.2% y/y. In catering, wholesale and retail trade there was a modest net wages growth (1.1% and 1.2 respectively) but their real growth was extremely negative due to the inflation in BiH.

On the other hand, net wages within public sector in 2011 were highest in public administration and defence with a nominal growth rate of 3.4% y/y, whereas wages in education and health sector stagnated (-0.1% and 0.2% respectively).

The difference between net wages in the entities remained unchanged as compared to 2010. The average net salary in FBiH in 2011 was still higher than the average net salary in RS. However, the average gross wages in RS in 2011 were higher than in FBiH due to implementation of the Law[26] on Amendments to the Law on Income Tax and Law on Contributions in RS. The average net salary in FBiH in the observed year amounted to KM 819 with nominal growth of 1.9% y/y, whereas the average net salary in RS amounted to KM 809, growing at a rate of 3.2% y/y. In public sector, net wages in RS were growing faster than net wages in FBiH. Comparison between the entities indicates that net wages in processing industry were growing faster in RS (3.8% vs. 1.9% in FBiH) but they were still lower in nominal amount. Contrary to this, the average net wages in mining industry were growing faster in FBiH (11.2%) than in RS (4.7%). In construction industry, net wages in FBiH were growing slower (3.3% y/y) than in RS (6.2%). In public sector, the fastest wages growth in FBiH was recorded in public administration[27] (4.4% y/y), whereas wages in health and education were not changing in comparison to 2010. In RS, net wages in public administration increased by 1.6% y/y, in health by 1.3%, while in education they were slightly reduced (-0.2%).

Graph 11: Average net salaries, nominal growth - comparison y/y (%)



Source: Agencies for statistics of the observed countries, DEP calculations

[26] As of 1 February 2011, by implementation of the Law on Amendments to the Law on Income Tax in RS, the non-taxable share of income was abolished (annual personal deduction of KM 3,000), while the tax rate was increased from 8% to 10%. Based on the Law on Amendments to the Law on Contributions in RS, the aggregate rate of contributions was increased from 30.6% to 33%. This could have effects on growth in the number of unemployed persons, expansion of grey economy, i.e. strengthening "moonlighting", particularly for employees with lower wages (tax avoidance). These changes in laws may also be discouraging for foreign investors.

[27] Faster net wages growth in public administration and defence in FBiH was a consequence of increase in net wages in this sector at the end of 2010, which reflected in higher growth rates throughout 2011.

Pensions

The number of pensioners in BiH continued to grow during 2011. The average number of pensioners in BiH during the observed year amounted to 602.6 thousand, which was 2.7% more than in 2010. On the other hand, the number of employed persons in BiH was reduced, therefore ratio between pensioners and employed persons aggravated during 2011, reaching 1:1.1.

The average pension in BiH during 2011 amounted KM 338[28], which is 1.7% higher than in 2010. Increase in average pensions during 2011 was limited due to continuous influx of newly retired persons, but also due to variations in collected contributions, from which pensions in BiH are mainly paid. Pension growth in BiH is determined by increased pensions in FBiH. As of April 2011, the average pension in FBiH was increased by 4.4% m/m, whereas there were no significant changes in pensions in RS, thereby difference between the entity pensions increased. The average pension in FBiH in 2011 amounted to KM 349 with the increase of 2.6% y/y, while the average pension in RS amounted to KM 321, with an increase of 0.3% compared to 2010. If we take the inflation into account, the real pension growth in BiH was extremely negative (table bellow).

Despite a reduction in the number of employed persons in BiH, the level of collected contributions to PIO funds in both entities did not drop. Revenues collected from contributions in FBiH increased by 1.4% y/y in 2011, whereas in RS they increased by ca. 13%[29]. For payment of pensions in RS during 2011, the average montly allocation from the RS budget was ca. KM 15.7 million, which was 6% less than in 2010.
In the analysis of minimum pensions in BiH there is still a significant difference between the entities. The minimum pension in FBiH during 2011 increased by 4.8% m/m as of April 2011 and amounts KM 310.7 and was received by ca. 47% of pensioners from the total number of pensioners in the Pension Fund MIO/PIO FBiH. On the other hand, the minimum pension in RS remained unchanged as compared to 2010 and amounts to KM 160, and was received by ca. 10% of the RS pensioners. Almost half of pensioners in both entities receives old-age pensions (46% in FBiH, 49% in RS), then survivor(family) pensions and disability pensions.

Table 2: Pension growth rates in BiH - y/y

	BiH	FBiH	RS
Nominal growth (%)			
2009.	3,7	1,5	7,7
2010.	-1,0	-1,5	-0,1
2011.	1,7	2,6	0,3
Real growth (%)			
2009.	4,1	1,8	8,1
2010.	-3,1	-3,2	-2,5
2011.	-1,9	-1,0	-3,5

Source: Pension funds in BiH, DEP calculations

[28] The average pension in BiH is calculated based on the monthly average pensions weighted by the ratio of the total number of pensioners in each of the BiH entities in the total number of pensioners.
[29]Faster growth in these revenues is a result of implementation of the Law on Amendments to the Law on Income Tax and Law on Contributions in RS as of February 2011. Contribution rates for pension and disability insurance increased from 17% to 18%.

II PUBLIC FINANCE

Indirect Taxes

The overall revenues from taxes (direct and indirect) collected in BiH throughout 2011 amounted to ca. KM 5.8 billion, which is 5.2% more than the previous year. The overall revenues from contributions in the same period amounted to KM 4 billion, which is by 6% more than the previous year. Out of this, ca. 83% relates to revenues collected from indirect taxes.

According to data of the Indirect Taxation Authority in BiH, during 2011 the amount of over KM 4.9 billion was collected from indirect taxes, which as compared to the previous year represents an increase of KM 186.4 million or 5.4%. The VAT revenues make up the biggest share (62.5%) in the overall revenues from indirect taxes. They are followed by the excise revenues making 25.8%, toll and customs making 6% and 5.8% respectively. During the first quarter, revenues from indirect taxes recorded a decrease of over 17%, but during the second quarter they recorded a significant growth of 20.5%. This growth recorded during the second quarter contributed to positive growth rate in revenues from indirect taxes at the annual level.

Table 3: Collected indirect tax revenues in the period 2008-2011 in million KM

In mKM	2008.	2009.	2010.	2011.
VAT	3.137,8	2.848,4	2.944,5	3.064,1
Duties	651,0	346,8	302,0	281,0
Excise	936,7	997,4	1.172,2	1.267,6
Tolls	189,4	250,2	307,0	292,1
Total indirect tax revenues	**4.914,9**	**4.442,8**	**4.725,8**	**4.904,9**

Source: Indirect Taxation Authority BiH

The import VAT revenues with the share of ca. 80% take an important place in the structure of VAT revenues. Along with customs duty revenues, the import VAT generates 55.5% of the overall indirect tax revenues. The growth in VAT revenues was primarily caused and determined by the structure of this tax. The import VAT at the end of the observed year recorded a 12.4% growth. At the same time, revenues from domestic VAT recorded a 19.4% fall. The collected revenues based on VAT[30] at the end of the observed year amounted to ca. KM 3.1 billion, which, as compared to the previous year represent a 5.7% growth.

Customs duty revenues continued to fall throughout 2011 as well, due to duty-free imports and reduction in customs duty rates, resulting from Stabilisation and Association Agreement[31]. In 2011, the customs duty revenues of ca. KM 281 million were collected, which is by 7% less than in the previous year.[32]

---

[30] Data on VAT were taken over from the ITA National Application showing net VAT revenues based on accrual accounting method.

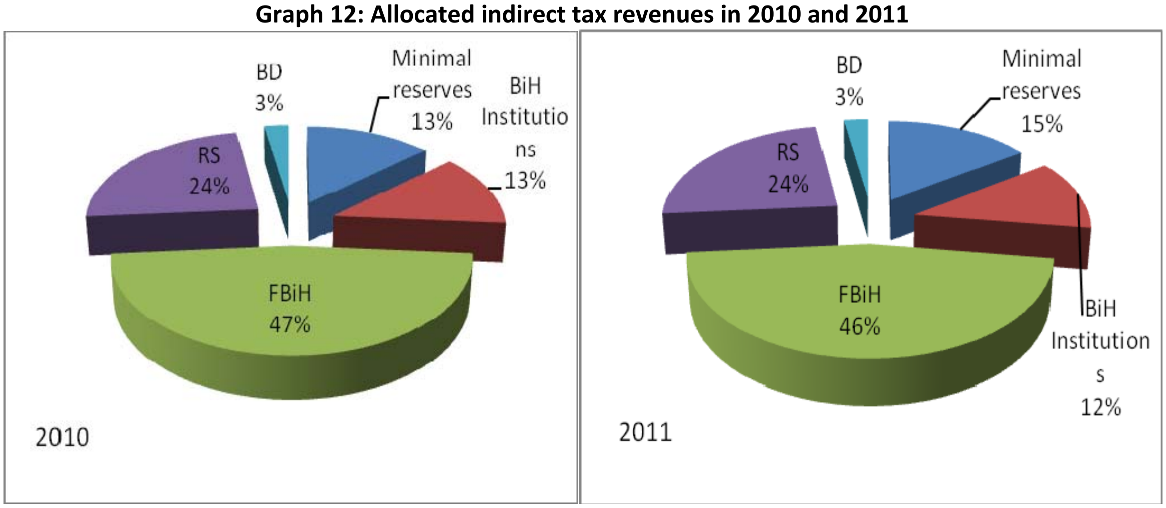
[31] Chapter IV, Free Movement of Goods, Article 18 paragraph 1

[32] Official Gazette BiH no.: 76/11 of 26 September 2011, published the Law on Amendments to the Law on Customs Policy of Bosnia and Herzegovina (Official Gazette BiH, no: 57/04, 51/06 and 93/08) in which paragraph 2 was deleted from Article 12, abolishing the customs registration fee as of October, thereby no revenues based on this were collected after that month (except those paid for the previous period).

Since as from the beginning of the year the excise rate on tobacco and tobacco products was increased[33], the excise revenues are expected to grow too. As of this year the special excise duty on cigarettes was increased from KM 0.30 to KM 0.45 per pack. During 2011, over KM 1.2 billion was collected based on excise duty, which is by 8.1% more than the year before. More significant impact on growth in excise duty revenues was made by revenues collected from excise duties on imported goods (11.7% y/y) than on domestic ones (1.6% y/y). Within domestic products, growth is recorded only regarding excise duties on domestic tobacco and tobacco products (11.02% y/y). During 2011, revenues from road tolls generated ca. KM 292 million, which is by 4.8% less than in 2010. This reduction is primarily a result of exemptions of mines, thermal power plants and railroads from road tolls, which can be noticed in reduction of special duty (toll) on petroleum products.

During 2011, a total of KM 5.8 billion was allocated to beneficiaries of the Indirect Taxation Authority Single Account. Compared to 2010, this represents a growth of 6.6%. The graph bellow outlines the allocation of funds from ITA SA at the annual level in 2010 and 2011. Funds allocated to the Institutions of BiH in 2011 remained at the level of the previous year, due to temporary financing. Funds for minimum reserves allocated in 2011 were 21.1% higher than those allocated in 2010. In the same period, Federation BiH was allocated 4.1% more, Republika Srpska 7% more, and Brčko District 5% more than in the previous year.

Graph 12: Allocated indirect tax revenues in 2010 and 2011



Source: Indirect Taxation Authority BiH

Direct taxes and contributions

Revenues from direct taxes take the share of 17% in the overall tax revenues. The table bellow outlines revenues from direct taxes and contributions by types and entities. Collected revenues in both entities recorded growth. During 2011, Tax Administration of FBiH collected ca. KM 3.5 billion, which is by modest KM 76.6 million or 2.2% more than revenues collected during the previous year, whereas Tax Administration of RS collected ca. KM 2 billion, which is by KM 277.9 million or 15.7% more than in 2010.

[33] Pursuant to Article 21 of the Law on Excise Duties in BiH (Official Gazette 49/09), ITA Governing Board issued a Decision on the rate of specific excise duty and minimum excise duty on cigarettes effective as of 1 January 2011.

Table 4: Revenues from direct taxes and contributions by types and entities in million KM

Revenue name	FBiH			RS		
	2010.	2011.	%	2010.	2011.	%
Direct taxes	**523,7**	**510,9**	**-2,4%**	**342,5**	**466,8**	**36,3%**
Personal Income tax	266,2	290,3	**9,1%**	143,3	251,3	**75,4%**
Profit tax	186,1	138,7	**-25,5%**	119,2	136,3	**14,3%**
Citizen taxes	68,2	80,9	**18,6%**	31,6	31,2	**-1,3%**
Other taxes	3,2	1,0	**-68,8%**	48,4	48,0	**-0,8%**
Other taxes, penalties and fees	**342,8**	**350,6**	**2,3%**	**255,9**	**255,4**	**-0,2%**
Contributions	**2.570,6**	**2.652,2**	**3,2%**	**1.174,5**	**1.328,6**	**13,1%**
PDF	1.447,4	1.467,5	**1,4%**	627,3	708,8	**13,0%**
Healthcare	1.008,5	1.065,3	**5,6%**	473,2	525,0	**10,9%**
Unemployed	114,7	119,4	**4,1%**	24,1	36,1	**49,8%**
Child care	0,0	0,0	-	47,3	54,7	**15,6%**
Employment of disabled persons	0,0	0,0	-	2,6	4,0	**53,8%**
Total (direct taxes + other taxes, penalties and fees + contributions)	**3.437,1**	**3.513,7**	**2,2%**	**1.772,9**	**2.050,8**	**15,7%**

Compared to the previous year, direct tax revenues in FBiH recorded a fall of 2.4% while in RS they recorded a 36.3% growth. This growth recorded in RS is a result of change in income tax rate at the beginning of the year, when a single tax rate of 10% instead of previous 8% was introduced and all tax benefits eliminated. At the beginning of the second half of the year, there was also a change in grouping of public revenues, with introduction of the personal income tax category (considerably broader category) instead of payroll tax, which contributed to much higher growth rates both in this category and in overall direct tax revenues. Movements in revenues from direct taxes can be seen in the above table.

As to the revenues from contributions, they record growth in both entities. As compared to the previous year, this growth in Federation BiH is 3.2%, whereas the growth recorded in RS amounts 13.1%. This growth recorded in RS is a result of change in contribution rate at the beginning of the year. Amendments to the Law on contributions, increased the rates for pension and disability insurance from 17% to 18%, for health insurance from 11.5% to 12.5%, for child protection from 1.4% to 1.5%, for insurance against unemployment from 0.7% to 1%. The aggregate contribution rate was thereby increased from 30.6% to 33%.

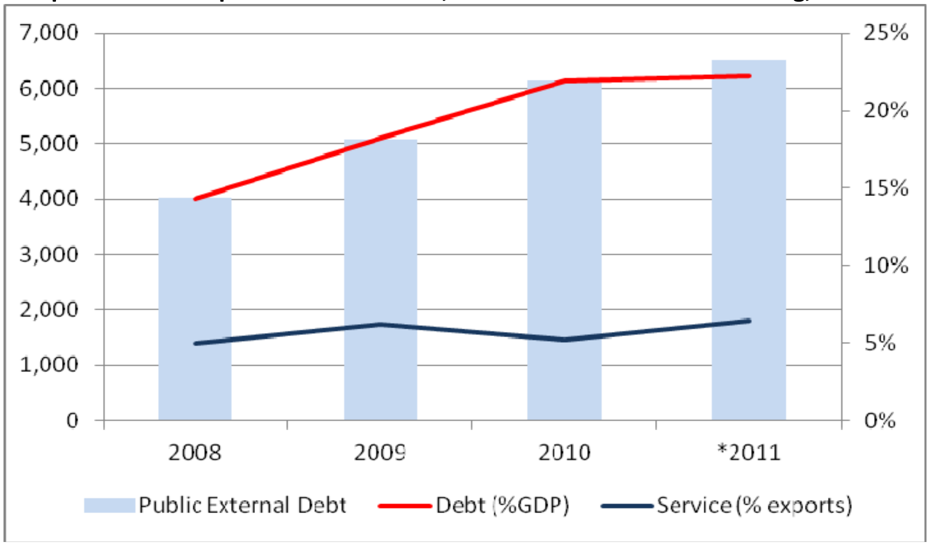
PUBLIC EXTERNAL DEBT

According to data of the Ministry of Finance and Treasury of Bosnia and Herzegovina, the overall public external debt at the end of 2011 amounted to ca. KM 6.5 billion. If this overall public external debt is compared with the status in 2010, it can be seen that there was a 6% increase, or ca. KM 367 million. The graph bellow represents movements in public external debt, its share in GDP, and its servicing in the period 2008-2011. The share of the current amount of public external debt in the estimated GDP[34] for 2011 is 23%, which places us in the rank of medium indebted countries.[35]

[34] Shares are based on GDP measured by expenditure approach. The latest DEP projection prepared in March 2012 was used for 2011.

[35] http://siteresources.worldbank.org/INTRGEP2004/Resources/classification.pdf

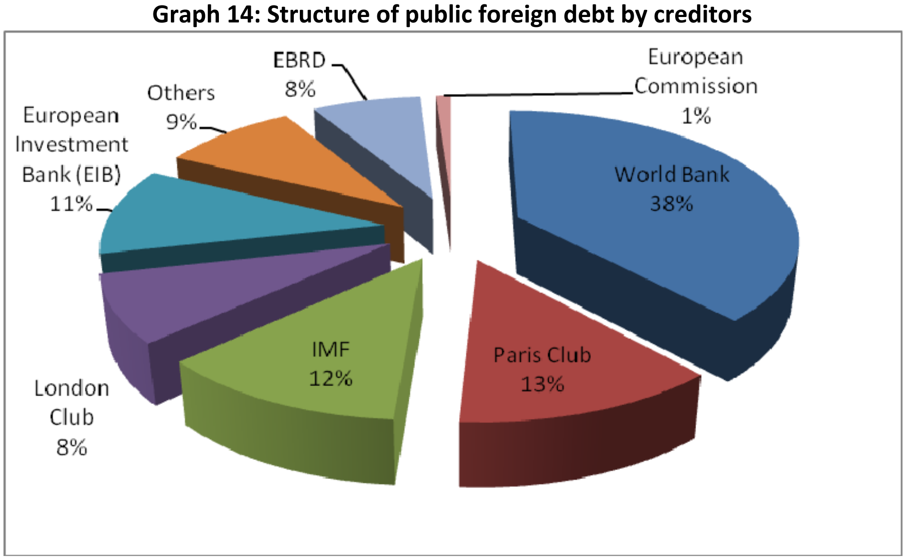
Graph 13: State of public external debt, share in GDP and debt servicing, 2008-2011[36]



Source: MFT BiH, BHAS, DEP projections for 2011

The graph bellow outlines the shares in public external debt expressed in percent of the overall debt. The largest share in public external debt is taken by obligations to the World Bank, which account for 38.4% of the overall debt. The other leading creditors are the Paris Club of Creditors with the share of 12.7%, IMF with the share of 12.1%, EIB with 10.8%, the London Club of Creditors with 8.3%, and EBRD with 7.4%.

Graph 14: Structure of public foreign debt by creditors



Source: Ministry of finance BiH

---

[36] GDP by expenditure approach was used for this estimate.

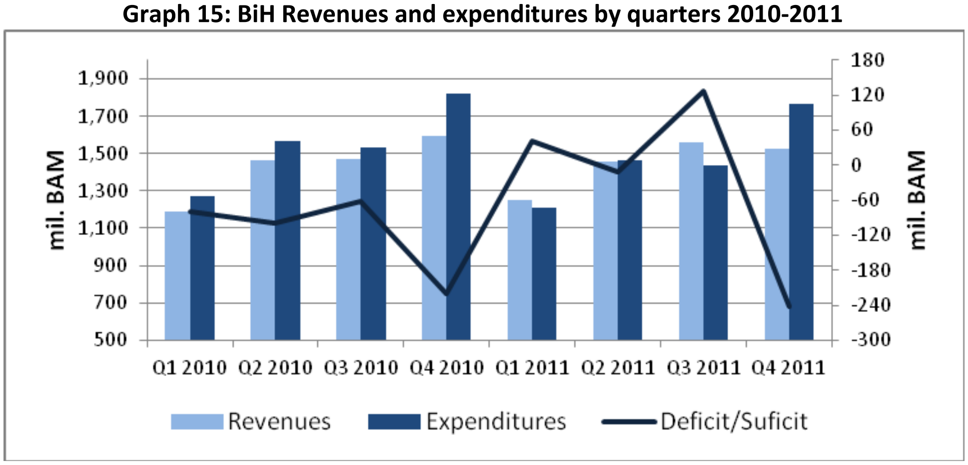
The overall settled liabilities based on foreign debt in 2011 amounted to KM 340.02 million. Out of this amount, KM 235.53 million accounts for repayment of the principal, whereas KM 104.49 accounts for repayment of interest rates, bank commissions and other expenses.

Regarding the bearer of liability, the amount of KM 212.68 million accounts for the settled liabilities of FBiH; KM 123.95 million of RS; KM 0.12 million of BD; and KM 3.27 million of the state institutions (direct liabilities of BiH).

CONSOLIDATED CENTRAL GOVERNMENT BUDGET[37]

According to preliminary data of the Macroeconomic Analysis Unit of the Indirect Taxation Authority BiH, the consolidated BiH budget in 2011 recorded a deficit of ca. KM 85.3 million. The graph bellow provides an overview of revenues and expenditures of the consolidated central BiH government, as well as suficit, i.e. deficit during the two previous years.

Graph 15: BiH Revenues and expenditures by quarters 2010-2011



Source: ITA BiH-Macroeconomic Analysis Unit

The biggest share in the structure of consolidated government BiH in 2011 accounts for the tax revenues (87%). The leading category is the indirect tax revenues with the share of 75% in the overall revenues. On the other hand, direct tax revenues account for 12% of the overall revenues. Gross salaries and compensations on expenditures side represent the biggest item, which accounts for 47% of the overall expenditures. Subsidies and transfers account for 34% of the overall expenditures. Overall expenditures recorded a 4.9% reduction as compared to the previous year, while the overall revenues recorded a modest growth of 1.3%. The deficit was highest during the last quarter of 2011 amounting to KM 242.6 million.

---

[37] Considering the delay in adoption of the budget of the Institutions of BiH, as well as budget execution in 2011, the consolidated central government budget was analysed in this report, which includes revenues and expenditures of the budget of the institutions of BiH, FBiH and cantons, RS and BD. The difference between a consolidated report of the central and general government is in the fact that general government also includes municipalities and funds in the entities, as well as funds in BD.

III PRICES, MONETARY AND FINANCIAL SECTOR

Prices

During 2011, prices in BiH were growing faster. The external determinants, primarily prices of fuel and food in the world market were the main accelerators of growth in prices. Rise in prices of these products resulted in increased prices in the categories of food, transport, housing and energy generation products (utilities), as well as other products and services that are directly or indirectly related to movements in prices of oil and food. On the other hand, increased excise duties on tobacco and tobacco products, and rise in prices of communication services represent the main domestic components of growth of BiH prices. Thereby, in the period from January to December 2011, the noted inflation in BiH was 3.7% y/y.

World prices of food in 2011 increased by 19.7%[38] y/y. The most intensive rise in prices was recorded in Q1 of 2011, while in Q4 of 2011 there was a reduction in food prices in the world market of 2.6% y/y. This could be an indication of stabilisation of foodstuffs prices. The BiH prices in the category of *food and non-alcoholic beverages* increased by 6% y/y. Observing by quarters, rise in prices in BiH was particularly intensive in Q2 of 2011 (7.5% y/y), while in Q4 prices of food were growing somewhat slower (4.6% y/y). In the analysis of sub-categories, it can be noted that the biggest rise in prices in 2011, as expected, was recorded in the categories of bread and cereals (12.3% y/y), fat and oil (18.1% y/y) and milk, cheese and eggs (5.3% y/y).

Important contribution to movements in general level of prices in BiH was given by category of *housing, water supply, electricity, gas and other energy generating products* with a rise in prices of 3.1% y/y. Utility prices recorded the most significant changes. There was an increase in prices of electricity, gas and water supply during 2011. Electricity prices in 2011 increased by 3.8% y/y due to fold increase in prices of this energy product in July[39]. There were no changes in prices of electricity towards the end of the year, except for seasonal increase in October. Since the price of natural gas in the world market rose by ca. 29%[40] y/y, the price of natural gas in BiH changed two times in 2011. The first increase in gas prices in BiH was recorded in May, and the second in November 2011. Thus, the price of natural gas in BiH during 2011 rose by ca. 14.7% y/y. Having a modest contribution, the price of water in BiH was increased by 6.6% y/y.

Negative developments in the Middle East, as well as fluctuation of demand for energy generating products resulted in very high prices of oil[41] in the world market in 2011. The highest price for a barrel of oil was recorded in April ($123 /bbl), reaching $108/bbl at the end of the year. Consequently, the average price of this energy generating product in the world market in 2011 increased by 39% y/y. Rise in prices of oil directly reflected in 7.5% y/y rise in prices in the category of *transport*. Namely, the price of fuel – diesel in BiH particularly increased from Q2 of 2011, having the average annual growth of 17% y/y. Unlike the prices of oil, the prices of cars within the transport category remained unchanged as compared to 2010.

The most significant domestic component that determined the inflation in BiH was the category of *alcohol and tobacco*. The prices in this category in 2011 increased by 8.2% y/y due to 10.8% rise in prices

---

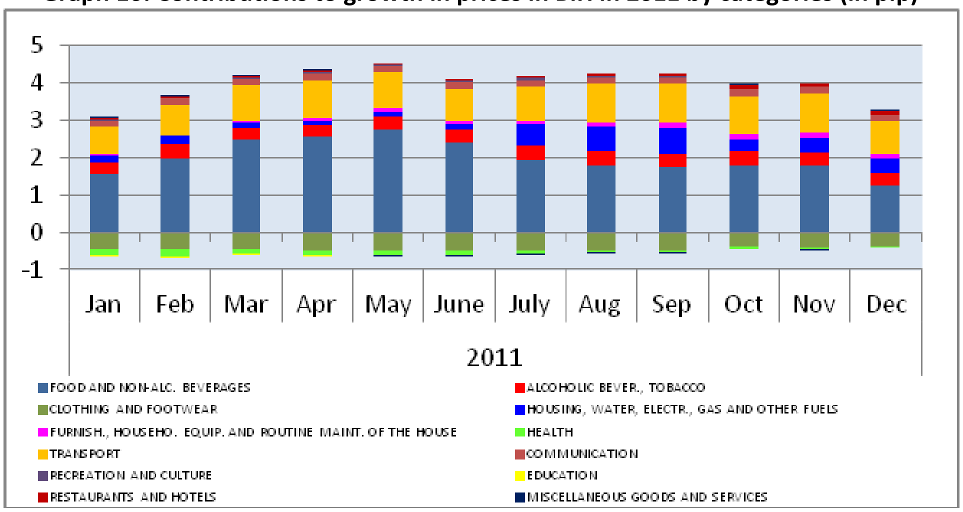
[38] Source: IMF data base.
[39] Prices of electricity rose as of 1 July 2011 in FBiH, Statement www.fzs.ba.
[40] Russian natural gas in Germany, source: IMF data base.
[41] UK Brent, source: IMF data base.

of tobacco and tobacco products as a result of increased excise duties[42] on cigarettes. Excise duties are gradually increasing in order to be harmonised with the EU excise duty applied to tobacco products.

Similar to the category of tobacco, in the *communication* category there was a one-time rise in prices of fixed telephone services at the beginning of 2011. Additional price corrections in this category were not recorded. Therefore, prices in the area of communication in 2011 were increased by 5.4% y/y on average.

The only reduction in prices in 2011 was recorded in the categories of clothing and footware (-7.3%) and healthcare (-19%).

Graph 16: Contributions to growth in prices in BiH in 2011 by categories (in p.p)

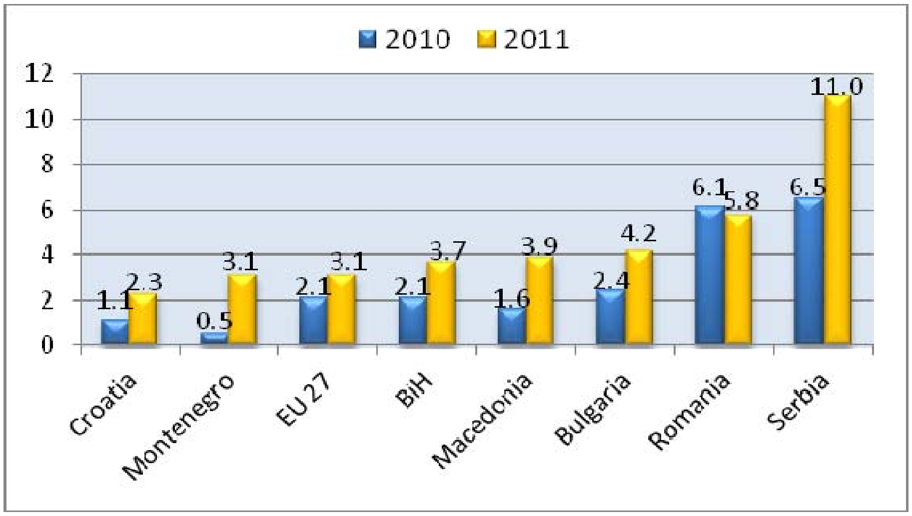


Source: BH Agency for Statistics, DEP calculations

General growth in prices during 2011 was not recorded only in BiH. Global rise in prices of foodstuffs and energy generating products determined the movement of inflation in all countries in the region. It is evident, based on comparison, that inflation in BiH was slightly above the average of EU27, while the lowest inflation among the compared countries was recorded in Croatia. The biggest growth in prices, the same as in 2010, was registered in Serbia.

[42] Special excise duty on cigarettes increased as of 1 January 2011, from KM 0.30 per pack to KM 0.45 per pack, with minimum excise duty of KM 1.08 per pack of cigarettes. Source: Decision on the rate of specific and minimum excise duty, Official Gazette BiH 88/10.

Graph 17: Consumer Price Index – comparison y/y



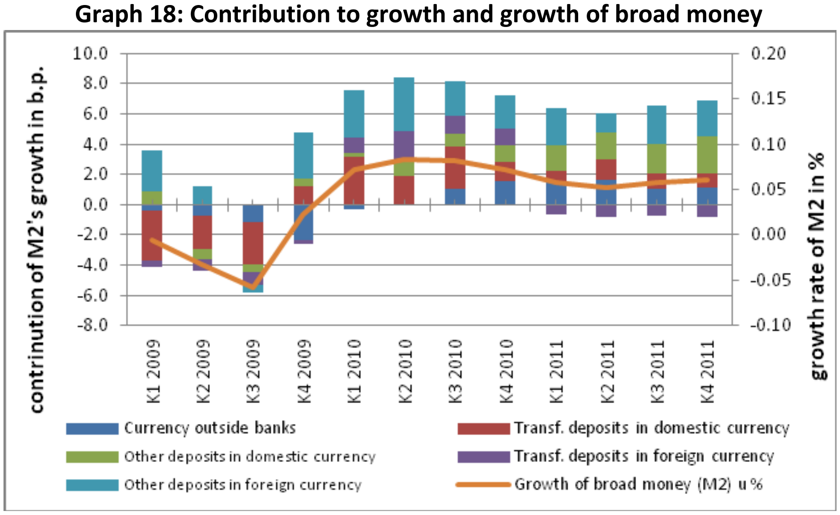
Source: Agencies for statistics of the observed countries, Eurostat for EU 27

Development of the Monetary Sector in BiH

As of 2012, The Central Bank of BiH has started implementing new methodology based on the basic rules of the IMFs Monetary and Financial Statistics Manual (MFSM 2000) and Guide for Compilation of Monetary and Financial Statistics (2007). The monetary statistics published by the CBBiH from August 1997 to September 2011 included data from the Central Bank BiH and the banks from BiH. Starting with data for October 2011, the monetary statistics was broadened with the statistics of Other financial institutions (OFI) in BiH, thereby making available data for the overall financial sector in BiH, which were produced in accordance with the IMF methodology. The monetary sector data have been revised in accordance with the new methodology, retroactively on a monthly basis, from January 2006. Differences pertaining to monetary aggregates reflect in a difference in division of deposits that are included in broad money or excluded from broad money. Deposits included in broad money (monetary aggregates) are: transferable and other deposits in local and foreign currency of local government (cantons and municipalities, without deposits of social insurance funds) and all domestic sectors except deposits of banks. Deposits excluded from broad money (monetary aggregates) are transferable and other deposits in local and foreign currency of the central government with the funds of social insurance at the entity level, bans and non-residents. Due to differences in the above division of deposits, monetary aggregates M1, QM and M2 have lower values as compared to the previously published series of data.

At the end of 2011, the overall broad money M2[43] reached the level of ca. KM 14.5 billion, which is an increase of 6% as compared to the end of the previous year. If broad money is observed through its components, it can be noted that both contributed to its growth (M1[44]: 4.8% y/y, QM[45]: 6.9% y/y). Monetary aggregate M1 recorded an increase by KM 285.6 million, by which it achieved the level of ca. KM 6.2 billion at the end of the observed year. Transaction money growth is a result of transferable deposits growth[46] in local currency (3.5% y/y), as well as growth of cash outside the banks (7% y/y). As to the other category of broad money, quasi money, at the end of the observed period it reached the level of ca. KM 8.3 billion, which was by KM 536.7 million more than at the end of 2010. The rise in quasi money was influenced by growth in other deposits, both in local (16.2% y/y), and in foreign currency (7.1% y/y), as well as reduction of transferable deposits in foreign currency by 9.1% - through deceleration of quasi money growth rate.

Graph 18: Contribution to growth and growth of broad money



Source: Central Bank BiH

Money supply is influenced by monetary base (reserve money - M0[47]) and money (monetary) multiplier (coefficient –"mm")[48]. Reserve money at the end of the observed period reached the level of ca. KM 5.8 billion, which is a 0.9% decline as compared to the same period of the previous year. The fall in reserve money was primarily caused by reduction of bank deposits with the monetary authorities, i.e. reduction in bank reserves (by 5.9% y/y) as well as change in RR rate on deposits and borrowed funds with the agreed maturity up to one year from 14% to 10% (more in the part on required reserves). On the other hand, cash outside monetary authorities, i.e. cash in the households, records a growth by 5.9% y/y in the

[43] M2- (broad money) comprises transaction money (M1) and quasi money (QM).

[44] M1- (transaction money) consists of cash outside banks and transferable deposits in domastic currency.

[45] QM- (quasi money) consists of transferable deposits in foreign currency and other deposits in local and foreign currency.

[46] Deposits are divided into: transferable and other deposits. Transferable deposits are available at request without remunerations and limitations; they can be used directly for payments to third persons; special saving accounts from which transfer of funds is allowed to transferable deposits. Other deposits allow automatic withdrawal of funds, but not payments to third persons, saving and time deposits, other deposits - other.

[47] M0 - (reserve money, primary money or monetary base) comprises cash outside monetary authorities, bank deposits with monetary authorities and transferable deposits of other domestic sectors with monetary authorities.

[48] Money (monetary multiplier-m) represents a coefficient showing the extent to which broad money is changing relative to specific change in the monetary base.

observed period. Movement of money multiplier was caused by two coefficients: "rr" and "cr". Coefficient "rr" has constantly been declining since the beginning of the year, which is, along with the stated change of required reserve rate followed by reduction in the bank funds in the reserve account with the CB. On the other hand, the "cr" coefficient, with oscillations throughout the year, records growth at the end of the observed period. Coefficient "cr" clearly indicates to growth in share of cash in the overall household deposits. The accelerated process of money multiplication was recorded during the observed year. It can be clearly seen from the above stated that the money supply was mostly influenced by behaviour of households through increase in cash keeping in the overall deposits.On the other hand, if the reductions in bank reserves did not happen, along with corresponding reduction in RR rate, which reflected in shrinkage of monetary base, money supply would be higher than the recorded one. The stated reduction in the required reserve rate did not produce any significant effect on the money multiplier, which preserved its historical value. This is manly due to commercial banks, which kept a significant share of excess reserves in their accounts with the Central Bank.

For information on the flows of money supply in the period, the CB assets and assets of comercial banks were analysed. The increase in money supply at the end of the observed year amounted to KM 822.2 million (6% y/y) and resulted from the increase in net foreign assets of KM 477.6 million (10.6% y/y) and increase in net domestic assets of KM 344.6 million (3.8% y/y). The stated increase in net foreign assets was a result of a 3.4% reduction in commercial banks foreign assets, as well as a 12.7% reduction in their borrowing abroad (foreign liabilities), and reduction in foreign assets of CBBiH by 0.5%. The growth in domestic assets was mostly influenced by a 9% y/y growth in domestic loans[49].

Velocity of money supply was analysed too, as a link between the overall economic activity and the overall money in the economy.[50] It can be observed that movements in money supply growth rates were not fully followed by the economic activity growth rates. This was contributed by movements in coefficients of money supply velocity, which, throughout the observed years, kept its historical value. The movements in this coefficient can be seen in the table bellow. During the years when this coefficient had lower value, it clearly indicated to bigger demand for money in order for economic activity to take place freely. Modest fall in coefficient of money supply velocity, both in 2010 and in 2011, indicates that more money was needed for financing the undisturbed economic activity during the previous year.

Table 5: Coefficient of money supply velocity (V)

Year	2006.	2007.	2008.	2009.	2010.	2011.[51]
V	2.13605	2.04321	2.26009	2.19478	2.05127	2.02338

Source: BHAS, CB BiH, DEP projections

The overall foreign assets at the end of the observed year recorded a 1.4% decline as compared to the same period of the previous year. Within this, short-term foreign assets (gross foreign reserves) in the same period record a decline of 0.5% y/y. Fall in overall gross foreign reserves relative to the same period of the previous year amounted to KM 34.1 million (according to financial sector statistics of CBBiH), thereby reaching the level of ca. KM 6.4 billion. 68,3% of the total gross foreign reserves relate to transferable foreign currency deposits with the non-resident banks. These deposits recorded a 46% growth and thereby reached the level of ca. KM 4.4 billion. Such high growth rate did not reflect on

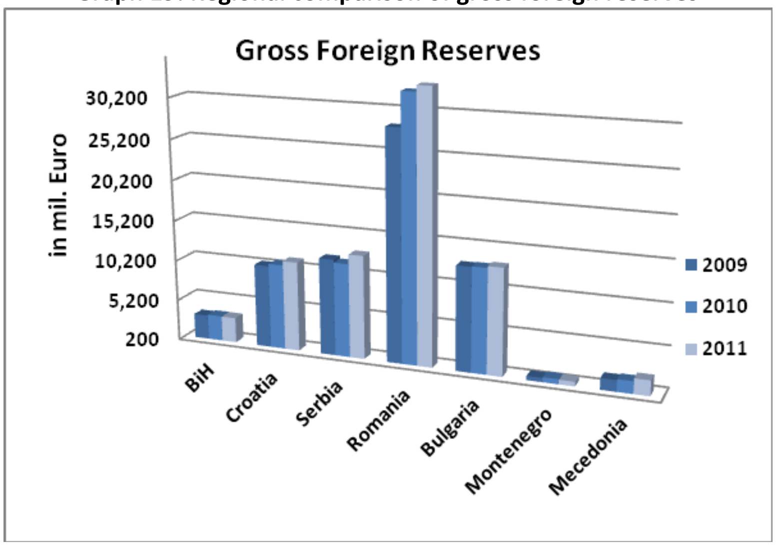
[49] Domestic loans represent claims placed through commercial banks on all domestic institutional sectors. They are shown in the table Monetary Sector, published by CBBiH.

[50] Used GDP by expenditure approach. Source of data: BHAS and DEP projections for 2011 based on historical data.

[51] Coefficient based on DEP projections for GDP.

foreign currecy reserves to record growth too, since, on the other hand, foreign investments in securities, as the second important gross foreign reserves category, recorded a 45.5% fall.[52] Although movements in foreign trade from the perspective of gross foreign reserves (export growth rate higher relative to import growth rate) were favourable, this also did not reflect positively on movements in gross foreign reserves. Their reduction was directly affected by the negative difference between sale and purchase of domestic currency between the CB and commercial banks.

Graph 19: Regional comparison of gross foreign reserves



Source: Central banks of countries in the region

The CBBiH gross foreign reserves serve as an indicator of stability and sustainability of the Currency Board, being observed through coverage of reserve money by the gross foreign reserves and coverage of money supply. According to this, coverage of money supply by gross foreign reserves at the end of the observed year amounted to 44.5%, and by the reserve money 109.8%, which meets the stability criteria of the Currency Board[53].

The level of gross foreign reserves at the end of the observed period was sufficient to finance 4.7 months of average imports of BiH goods and services (according to the CBBiH data), which represents a satisfactory coefficient from the aspect of financial stability [54].

Deposit base for required reserve calculation at the end of the observed year was decreased by 0.3% as compared to the same period of the previous year, reaching the level of KM 15.4 billion. A larger share of the basis (55.8%) was in foreign currency and recorded a decline of 4.2% at the end of the period. The share of the basis in domestic currency (44.2%) recorded a 5.2% increase in the same period. Regarding

---

[52] Other categories of foreign currency reserves and their participation: gold with the share of 2.4% and growth of even 126.2% y/y; holdings of SDR with the share of 0.02% without any change; foreign exchange in CBBiH vault with the share of 1.5% and reduction of 8.5% y/y.

[53] In the conditions of the fixed exchange rate the minimum of money supply coverage with foreign currency reserves amounts 20%, while for variable exchange rate this ratio moves from 5% to 10%. Minimum coverage of reserve money (M0) with foreign currency reserves according to the Currency Board arrangement is 100%.

[54] Coefficient shows that 4.7 months of imports can be financed by the foreign currency reserves of CBBiH, in case of financing the current account deficit. According to the international trade theory, the overall foreign currency reserves should cover at least 3 months of average imports. Information on imports of goods at annual level is accurate, while information on imports of services is official for 9 months, and assumed for the last 3 months.

the structure of the basis, in terms of maturity, ca. 52% of the basis is short-term, while the remaining share is a long-term basis. According to the basis reduction, there was a reduction in the overall funds[55] that commercial banks keep in the reserve account with the CB. The overall funds above the RR at the end of the year reached the level of ca. KM 2.9 billion, which is 13.7% less than at the end of 2010. Of this, funds held to meet the prescribed legal minimum of the required reserves decreased by 19.4% y/y, while the excess funds decreased by 8.1% y/y. Funds held to meet the legal required reserves started declining much faster after February, when the rate of RR was changed.

1. February 2011 – the required reserve rate on deposits and borrowed funds with contracted maturity up to one year was reduced from 14% to 10%, while the required reserve rate on deposits and borrowed funds with contracted maturity over one year remained unchanged, 7%.

1. August 2011 – the method of calculating remuneration to banks on the amount of funds held by the banks with the CBBiH, on the amount of required reserve – 70%, and on the amount of excess funds - 90% of the rate established based on weighted average of the interest rates, which CBBiH realised in the market in the same period on deposits invested up to one month.

After the above RR rate change, the average RR rate was reduced from 10.6% to 8.5%. Compared to the same period of the previous year, the implicit RR rate[56] recorded a 2.9% decline, and reached 18.5% at the end of 2011. The implicit rate reduction was a result of changed RR rate, and accordingly, reduction in overall funds in the reserve accounts.

The total remuneration that CBBiH paid to commercial banks in 2011 based on required reserves was KM 18.2 million (this includes bot remuneration for prescribed required reserves and the excess funds above the RR). The average remuneration based on holding the required reserve at the end of the observed year was paid at a rate of 0.19%.

Banking sector in BiH

In 2011, the BiH banking sector, unlike 2010, operated positively. The overall financial result, according to the preliminary data, amounted KM 174.7 million[57]. Although overall revenues reduced by 0.3% compared to the previous year, the overall expenditures recorded a far more significant fall (-17.6% y/y).

According to the consolidated balance sheet of commercial banks[58], balance at the end of 2011 was KM 21.9 billion, which makes a 3.4% y/y growth. The biggest contribution to growth in the overall assets was made by claims on domestic sectors (4.8%), while negative contribution to growth was made by CB reserves (-1.0%) and foreign assets (-0.4%). On the other hand, negative contribution to growth of the

[55] The total amount of funds held on reserve account comprises funds held based on RR (legally prescribed rate) and excess funds (above legal minimum).
[56] The implicit RR rate represents a ratio between total average amount of funds in commercial banks reserve accounts and the overall basis for calculation of RR.
[57] Interim data for 2011. Non-consolidated profit and loss statements at BiH level were received by summing up the entity level reports. Source: the entity Banking agencies.
[58] Source: CB BiH

overall liabilities was made by central government deposits, transferable deposits of other sectors in foreign currency and foreign liabilities, while the other items of liabilities made positive contribution to the overall liabilities growth.

Negative growth in foreign assets was primarily caused by fall in other deposits and securities (except shares) in the non-resident foreign currency. BH banks held less funds in foreign banks and invested less in foreign securities, or the value of the already owned securities dropped as compared to the previous year. Negative annual growth in foreign liabilities was affected by the fall in transferable and other non-resident deposits in foreign currency from the category of deposits excluded from the broad money, as well as fall in non-resident credits in foreign currency, or, to put it simply, non-residents held less funds in BiH banks, and borrowing of domestic banks with the non-residents was reduced.

In 2011, there were 28 banks operating in BiH[59]. Most of these banks were foreign-owned.
Total value of loans approved to domestic sectors at the end of 2011 was KM 15.3 billion, which is 5.3% higher than in the same period 2010[60]. The biggest share in the overall loans make loans placed to non-financial companies (51.5%), which amounted KM 7.9 billion in the observed period. These loans recorded an annual growth between 6.0% - 9.0% y/y throughout almost all 2011, to slow down in December to only 2.8% y/y[61]. Although BiH economy recorded a growth in foreign trade exchange in 2011, growth in turnover of distributive trade and growth in industry, such movements were not sufficient to encourage stronger crediting of non-financial companies. Probably most of the companies were facing with poor cash flows and risk of insolvency, which, along with poor crediting of this sector, reflected on reduction of funds of this sector in BiH banks by 1.2% y/y.

Household loans make 43.8% of the overall loans. Despite negative growth trend at the beginning of the year, loans to household sector improved during the year, so the growth rate for 2011 amounts to 6.0% y/y. However, it should be taken into account that loans to households maintained a negative growth trend throughout one part of 2009 and almost all 2010, so the growth rate in 2011 was realised on the reduced basis.

Other sectors (sector of government, other financial institutions, non-profit organisations, etc.) take modest participation in the overall loans, so their movements cannot influence the overall loan movement.

Although the banking sector business results improved and credit activity increased as compared to the previous year, BiH banks still face with increased amounts of mature claims based on credits and leasing activities (35.7% y/y), pointing to a conclusion that there is still high risk of collection of loans. Share of category A loans (good assets) is somewhat bigger as compared to the previous year, but still under 80% of the overall credit volume to naturall and legal persons. The following table provides an overview of share of individual loan categories in the overall credits.

---

[59] Source: CB BiH, http://cbbh.ba/index.php?id=7&lang=hr; ABRS, http://abrs.ba/banke/banke.htm, there are 10 banks operating in RS; FBA, http://fba.ba/index.php?page=27, according to FBA, along with 18 banks that operate regularly and have a valid work permit, two banks are still in receivership, one as of 2001, and the other as of 2010.
[60] At the end of 2011, there was a change in accounting and financial reporting of banks in FBiH, i.e. they started implementing International Accounting Standards. Due to this change, there was a KM 155 million reduction in loans. The same change in RS occurred at the end of 2010.
[61] Since the amounts of loans and deposits represent balance at the end of the period, values for December represent values for the whole year.

Table 6: Classification of loans to physical and legal entities by the risk category

Period	A	B	C	D	E
31.12.2008.	85,8%	11,3%	1,6%	1,3%	0,0%
31.12.2009.	78,3%	15,8%	3,8%	2,1%	0,0%
31.12.2010.	75,1%	13,5%	5,7%	4,6%	1,1%
31.12.2011.[62]	77,0%	11,2%	3,2%	3,4%	5,2%

Source: Entity banking agencies

The overall deposits at the end of 2011 amounted to KM 13.0 billion, recording a 3.8% y/y increase. Following the trend from previous periods, the highest contribution to growth was made by the households deposits (4.5%). Although deposits in this sector recorded a positive growth rate of 8.7% y/y, this growth is much slower than in 2010, when the rate was recorded of 14.5% y/y. Although household deposits growth was stable and continuous in the previous periods, primarily uncertain future, persistent unemployment growth, fall in employment, and poor net wages growth led to deceleration of growth in household deposits. At the end of 2011 they were KM 7.1 billion, i.e. 54.2% of the overall deposits.

Similar trend of household deposits was also recorded in neighbouring countries, whereas in Bulgaria, Romania, and the Eurozone in general, a sligtly faster growth was recorded relative to 2010.

Table 7: Movements in household deposits in the region (y/y)

Period	BH	Croatia	Montenegro	FYRM	Serbia	Bulgaria	Romaina	Euro zone
2008.	0,8%	23,5%	-16,0%	14,2%	-0,5%	16,4%	23,1%	7,6%
2009.	8,8%	-1,0%	-1,4%	15,8%	24,2%	10,9%	17,4%	4,1%
2010.	14,5%	6,7%	12,8%	16,8%	14,8%	12,3%	7,0%	2,5%
2011.	8,7%	4,4%	8,6%	12,0%	8,7%	13,0%	8,3%	2,7%

Source: Central banks of the countries

Deposits of sector of non-financial companies make 26.6% of total deposits in BiH banks. Unlike the household sector as a surplus sector in terms of realising positive net savings[63] in the amount of KM 347,6 million and thereby credits the economy, non-financial companies sector is traditionally a deficient sector. Realised savings of non-financial companies in 2011 amounted to KM -4.4 billion. At the end of 2011, this sector's deposits amounted to KM 3.5 billion and recorded the already mentioned 1.2% y/y decline.

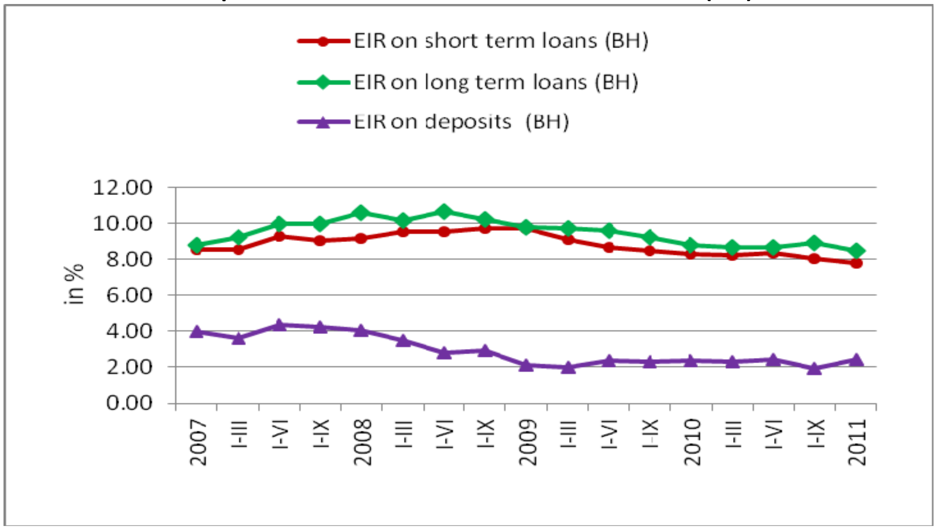
General government deposits in 2011 amounted to KM 1.5 billion, which is 12.2% less than in 2010, primarily due to reduced deposits of the entity governments. Mismatch between inflow and outflow of funds, as well as lack of revenues over expenditures, led to dropping of the amount of general government deposits year after year, and to increase in crediting of this sector (40.7% y/y). Nevertheless, the amount of loans approved to general government is still very modest in comparison with the sector of non-financial companies.

[62] Interim data for 2011. Increased share of E category occurred due to changes in IAS in financial reporting of banks in FBiH, thereby the new method was applied of recording claims classified in E category.
[63] Net saving calculated as difference between the deposit of a specific sector and loans to this same sector.

The average weighted effective interest rates on loans recorded a fall as compared to the previous year. Total weighted average EIR on loans[64] in 2011 amounted to 8.16% and decreased by 0.42% as compared to 2010. Similarly, a short-term weighted average EIR recorded a 0.49% fall, while the long-term weighted average EIR recorded a 0.34% fall. In 2011, they amounted to 7.80% and 8.48% respectively.

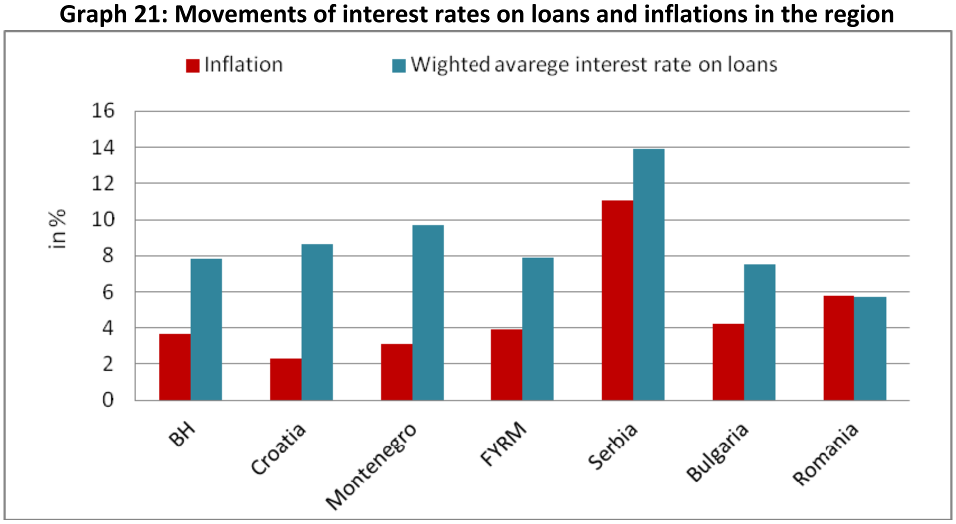
Weighted average effective interest rate on deposits[65] in 2011 amounted to 2.44%, being higher than the previous year by 0.08%.

Graph 20: Interest rates movements in BiH BiH (u%)



Source: Entity banking agencies

Graph 21: Movements of interest rates on loans and inflations in the region



Source: State statistical agencies and central banks of the countries

[64] Total weighted EIR on loans placed for the whole BiH (as well as short-term and long-term EIR for BiH) was received by weighting total effective interest rate on loans for RS and total EIR on loans in FBiH. Shares of total placements in FBiH and total placements in RS in total placements in BiH were used as weights. Data on the value of credits and interest rates by entities were provided by the entity banking agencies.

[65] Total weighted EIR on deposits in BiH was received by weighting total EIR on deposits in RS and total EIR on deposits in FBiH. Shares of deposits in RS and FBiH in total deposits in BiH were used as weights. Data on amount of deposits and IR per entities were received from the entity banking agencies. Average IR on loans and deposits published by the CBBiH are provided in the Appendix.

Microcredit sector in BiH

Although in comparison with the amount of credits and the banking sector balance the microfinancial sector represents more than modest part of financial sector in BiH, it is important from the aspect of natural and legal persons crediting.

In 2011, there were 25 Microcredit organisations operating in BiH: 21 microcredit foundations and 4 microcredit companies[66].

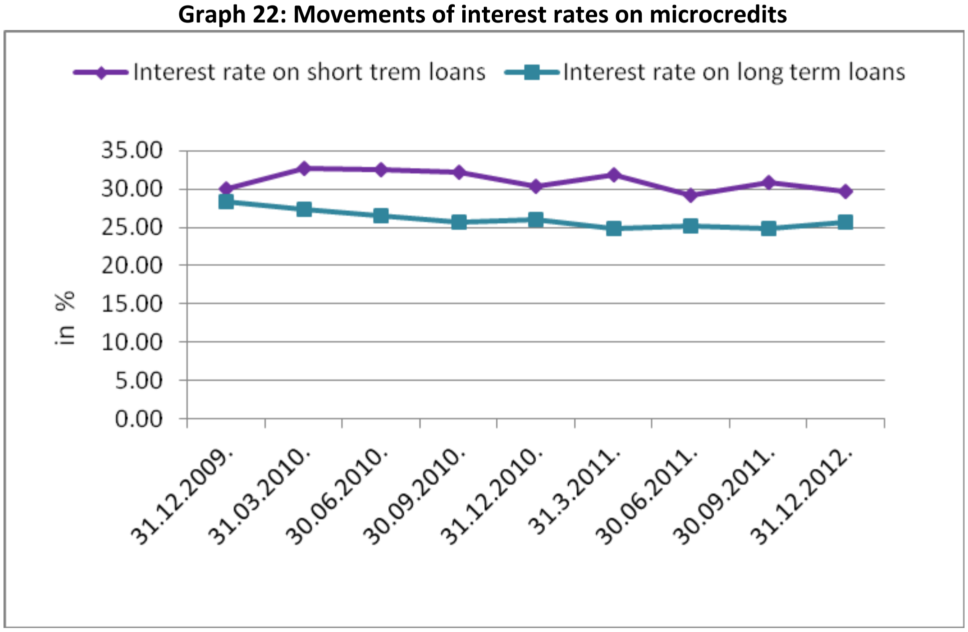
Unlike 2010, when negative financial result was recorded, in 2011 there was a positive financial result in the amount of KM 26.5 million, due to faster growth in total income (48.4% y/y) relative to expenditures (27.2% y/y)[67].

The balance of KM 740.4 million was 12.3% less than the year before. The reduction on the assets side was caused primarily by fall in volume of loans, and on the liabilities side due to reduced obligations on taken loans, as well as other obligations.

Total placed loans at the end of 2011 amounted to KM 601.5 million and recorded a growth rate of 12.7% y/y. A possible reason for reduction were still very unfavourable interest rates on MCO credits. One should bear in mind that MCO sector is primarily focused on crediting small enterprises and private trade, as well as poor population groups. It is this segmet of the market which has mostly been affected by unfavourable economic developments during the last couple of years (unemployment growth, fall in employment, poor wages growth). This was the cause for microfinancial sector to achieve negative financial result in 2010 too.

The weighted average short-term interest rate, as well as long-term interest rate, recorded a decline as compared with the previous year. Short-term EIR amounted to 29.60%, being 0.72% less, while long-term EIR amounted to 25.62%, being by 0.36% less. Despite the decline, the interest rates on microcredits are three times higher relative to the bank loans.

Graph 22: Movements of interest rates on microcredits



Source: Entity banking agencies

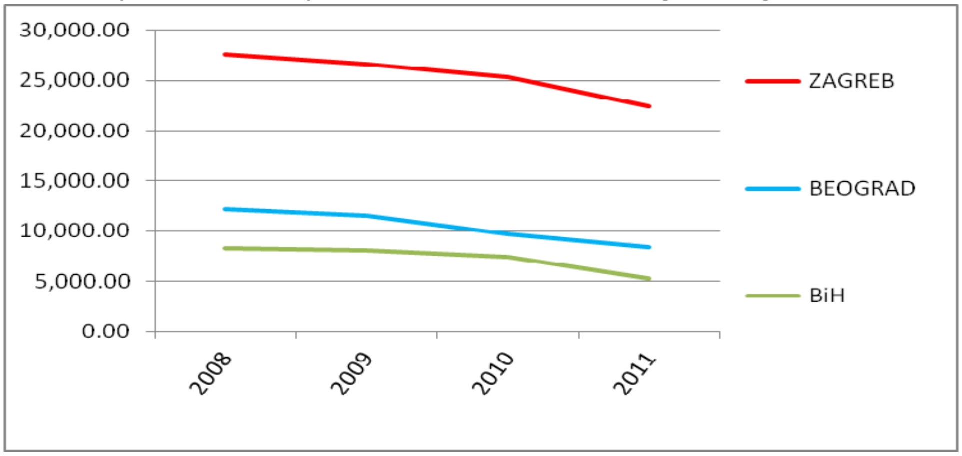
66 Source: ABRS, http://abrs.ba/mko/mko.htm; FBA, http://fba.ba/index.php?page=28. Microcredit foundations operate as non-profit organisations, while microcredit companies operate as profit organisations.

67 Interim data for 2011. Source: Entity banking agencies.

Capital market

Uneven movement of stock exchange indices in the world and the region as a result of global economic trends in 2010 continued throughout 2011 too. Decelerated fall during the first half of the year was stopped in August when indices started to record a more significant fall. Situation was similar in both Sarajevo and Banja Luka stock exchanges, which both even recorded a modest growth in trade and total capitalisation during the first half of the year, in order for market capitalisation to start decreasing at the end of the third quarter of 2011.

Graph 23: Market capitalisation in million USD in neighbouring countries



Source: FEAS (Federation of Euro-Asian Stock Exchanges)

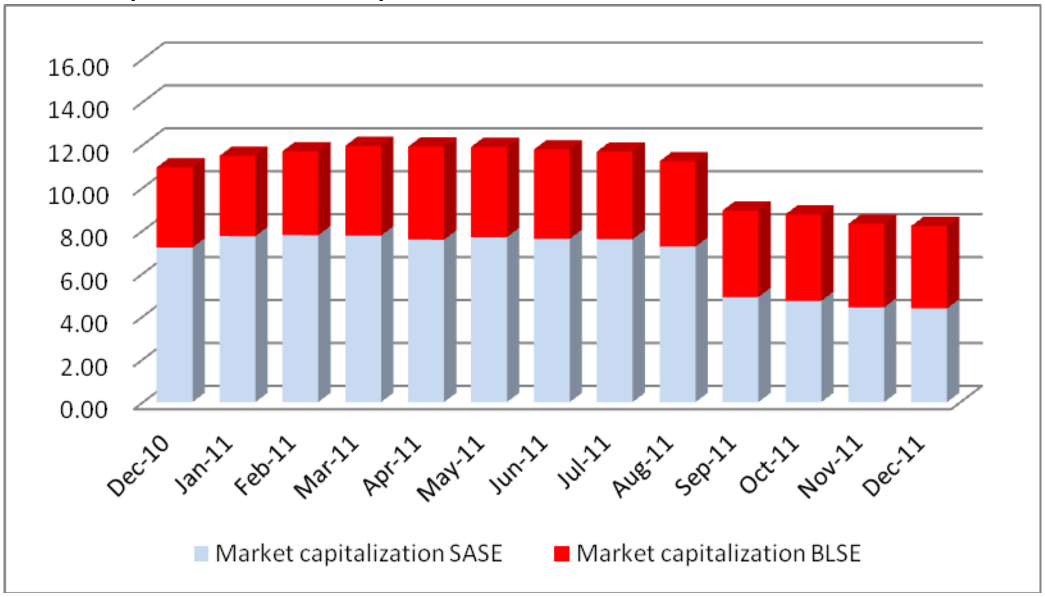
Market capitalisation

Total market capitalisation[68] of Sarajevo and Banja Luka Stock Exchanges (SASE i BLSE) in 2011 was KM 8,21 billion, recording a fall by 25% in comparison to the amount of capitalisation at the end of 2010. Comparing the values of capitalisation in the Sarajevo Stock Exchange (SASE) in December 2011 with the achieved values in December 2010, there was a decline of 39.4%. Observing the movements in capitalisation in SASE one month after another in 2011, slight changes in capitalisation were evident by September, when a significant 32.4% fall started, relative to value recorded in the previous month.

Capitalisation in Banja Luka Stock Exchange (BLSE) in December 2011 recorded a minimal growth of 2.7% y/y. Capitalisation in BLSE started to fall in the last quarter too.

[68] Capitalisation – the sum of products of the share prices and the total amount of shares traded at stock markets

Graph 24: Total market capitalisation in BiH at the end of the first half of 2011



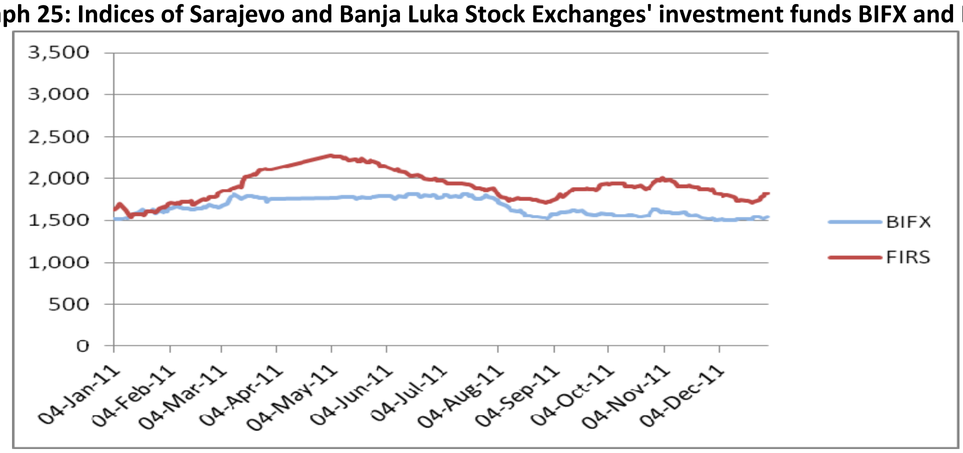
Source: SASE and BLSE

Indices

Moderate growth of the Indices of Sarajevo and Banja Luka Stock Exchanges Investment Funds (BIFX and FIRS)[69], which started at the end of 2010, continued during the first two quarters of 2011, and then started to decrease moderately during the third and fourth quarter. On 30 December 2011, BIFX recorded a value of 1,541 points, and relative to value on 31 December 2010, recorded a minimum growth of 1%, while the absolute change was 21 index points.

On 30 December 2011, FIRS recorded a value of 1,822 points. The absolute change was 190 index points, representing a growth by 12% relative to value on 31 December 2010. At the beginning of 2011, the value of BIFX index started to grow and again reached higher value than FIRS index, and managed to maintain it by the end of 2011.

Graph 25: Indices of Sarajevo and Banja Luka Stock Exchanges' investment funds BIFX and FIRS

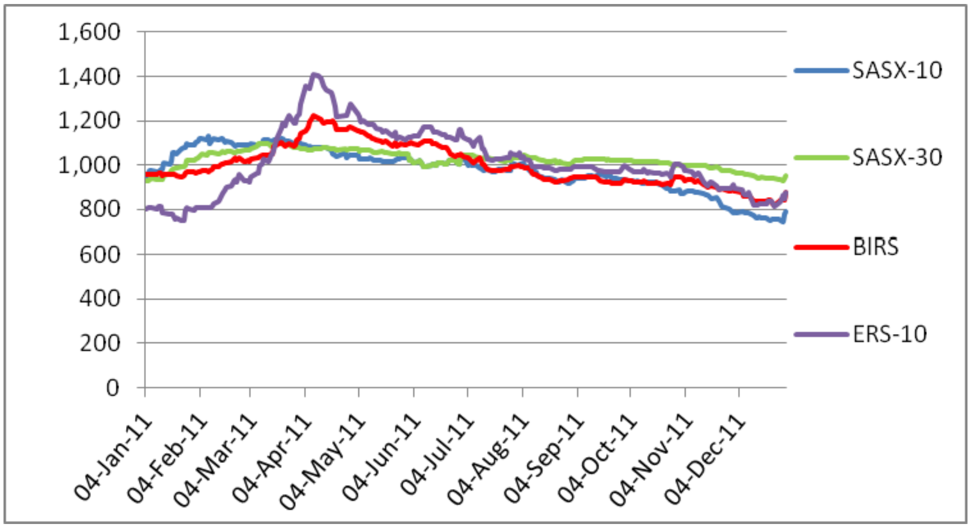


Source: SASE and BLSE

[69] Indices in both stock exchanges were calculated based on the average share price of 11 most successful investment funds in case of Sarajevo stock exchange (BIFX) and 13 Ifs of Banja Luka stock exchange (FIRS).

Identical movements in BiH stock exchanges can be seen through the representative indices of Sarajevo (SASX-10 and SASX-30) and Banja Luka stock exchange (BIRS and ERS-10) which represent the share price movements of the most successful companies listed at the two stock exchanges.
In the period from 31 December 2010 to 30 December 2011, the value of SASX-10 fell by 153 index points, which represents a decrease of 16%, while the representative index of Sarajevo stock exchange SASX-30 recorded a mimimum growth by 25 index points, which is a growth by only 3%.
In the same period, from 31 December 2010 to 30 December 2011, BIRS recorded a fall by 80 index points, or 8% decline, while only ERS-10 recorded a growth by 73 index points, or a 9% growth.

Graph 26: Indices of the most successful companies at Sarajevo and Banja Luka stock exchanges (SASX-10, SASX-30 and BIRS) and index of power utility companies from the system of Elektroprivreda RS (ERS-10)



Source: SASE and BLSE

BATX (Bosnian Traded Index)

Bosnian Traded Index (BATX) is a capitalised weighted price index[70], consisting of the most solvent and the most capitalised shares traded at Sarajevo and Banja Luka stock exchange. Index is calculated in the real time with values expressed in EUR, USD and KM. BATX is a price index weighted by market capitalisation of the participants in the index. The latest, changed composition includes: BH Telecom (26.68 %), Bosnalijek (14.15 %), Fabrika Duhana Sarajevo (11.62 %), JP Elektroprivreda BIH (17.13%), Nova Banka AD Banja Luka(7.5%), Telekom Srpske(22.92 %). The BATX listing on the Vienna Stock exchange has commenced on 1 December 2009. The BATX listing on the Vienna Stock exchange was preceded by one-year monitoring by the Committee[71] of fulfilling the set of criteria such as: availability of real-time data, market liquidity and market capitalization**,** existence of investment restrictions for foreign investments in the host country , real and clear price discovery, efficient market infrastructure with the clear system of defining prices, trading and reporting. If BATX value on 30 December 2011 is compared to the value on 31 December 2010, there was a 17% fall. If BATX value is compared to the

[70] Index in which price is determined by the price of individual shares, weighted by the total market value. If the share price (index components) changes, its effect on the index as a whole is proportional to the share price multiplied by the number of the company shares. This means that changes in price will affect the index more if (component) company has a higher value**.**
[71] Index Management Team of the Exchange was monitoring whether BATX fulfils the set criteria

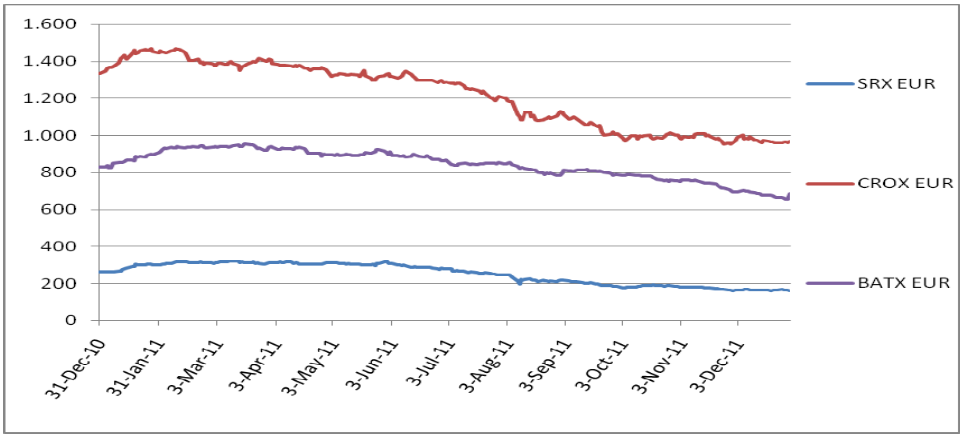
indices of the countries in the region it can be noted that the Croatian Traded Index – CROAX fell by 27%, while the Serbian Traded Index –SRX recorded even more significant decline of 39%.

Table 8: Comparative review of the index value in the region (30 Dec. 2010-31 Dec. 2011)

	SRX EUR	CROX EUR	BATX EUR
31-Dec-10	265	1,337	827
30-Dec-11	162	972	684

Source: Vienna Stock Exchange (Wienner Boerze)

Graph 27: Comparative review of the index value of BiH neighbouring regional countries listed on the Vienna Stock Exchange in EUR (SRX-Serbia, CROX-Croatia, BATX-BiH)

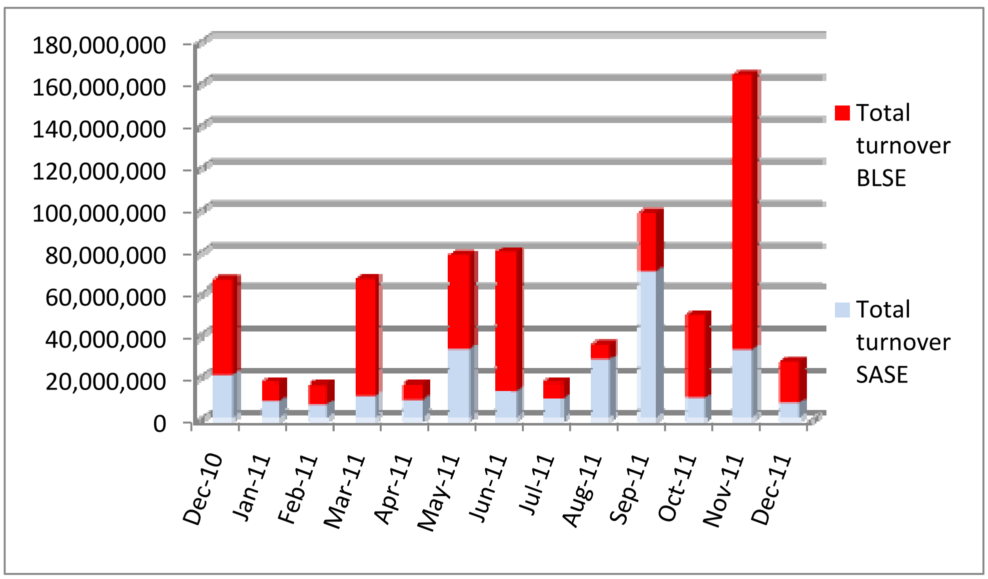


Source: Vienna Stock Exchange (Wiener Boerze)

Total turnover

In 2011 the total turnover recorded on BiH stock exchanges was KM 662.3 million, which increased by 132.6% as compared to turnover in 2010.

Graph 28: Turnover in BiH securities market by 30 September 2011



Source: SASE and BLSE

The total turnover at SASE in 2011 was KM 244.78 million, recording an increase by 125.5% as compared to turnover in 2010. The largest turnover was achieved with the shares of Opresa d.d. Sarajevo in the amount of KM 8.66 milion, Fabrika duhana Sarajevo KM 5.6 million, BH Telekom d.d. Sarajevo KM 4.99 million and Bosnalijek d.d. Sarajevo KM 4.6 million. The main obstacle to issuing treasury notes and municipal bonds in Federation BiH was the Law on debt, indebtedness and guarantees FBiH (Official Gazette FBiH 86/07, Article 3, par. 5), based on which debt of extrabudgetry funds, cantons, cities, municipalities and public companies can only be in the form of loans, but cannot be in the form of issuance of securities (bonds).

After adoption of the "Law on amendments to the Law on debt, indebtedness and guarantees FBiH" (Official Gazette FBiH 44/10), conditions were created for issuance of municipal bonds in Federation BiH, so, in 2011, registration of bonds of the municipality Tešanj was successfully completed[72]. This increase in turnover on the SASE was mostly affected by the auction of treasury notes of Federation BiH, held on 27 September 2011. The total of 6,500 treasury notes were listed by weighted price of 98.85% of their nominal value, which amounted KM 10,000, making KM 64.25 million collected in total for the issuer. The second auction of treasury notes was held on 8 November 2011, with registered 2,500 shares on average price of 98.86% and collected KM 24.7 million. Thereby, the total of KM 90.9 million was collected by sale of treasury notes FBiH, which makes 37% of the overall achieved turnover on SASE in 2011.

In September 2011, the Sarajevo Stock Exchange introduced several changes on the market with the goal to modernise the market and make it more attractive, both for companies and the investors. Thus, as of 1 September 2011, within mass delisting, 410 securities were delisted whose regular turnover during the previous 12 months was less than KM 10,000; and the new sub-segment of Free market was introduced too, the Tertiary Free Market (TFM), reserved for joint stock companies which, according to the Law on securities market, have to trade on the market (open joint stock companies), but which do not fulfil the main principles of transparency and reporting on their operations.

In 2011, the total turnover on Banja Luka Stock Exchange recorded a 141.4% growth as compared to the turnover in the same period of the previous year.

Such significant turnover growth was mostly caused by public offering of treasury notes of Republika Srpska within the four auctions, in the total amount of KM 88.31 million, which makes 20.7% of total turnover on BLSE; and public offering of bonds in the amount of KM 178.67 million, which makes 42% of the overall turnover. The most important offers of bonds were Telecom Republike Srpske in the amount of KM 108.56 million, Jahorina OC AD PALE in the amount of KM 15 million, Unis Fabrika Cijevi A.D. Derventa KM 20 million, Boska RK AD Banja Luka KM 15 million. Public offer of municipal bonds was continued, including Municipality Novi Grad with KM 2 million, Municipality Laktaši KM 4.5 million, and Municipality Zvornik KM 3 million. The most significant regularly traded in shares were issued by Tržnica A.D. Banja Luka in the amount of KM 22.8 million.

[72] Public offer on 11 April 2011 on the Sarajevo Stock Exchange in the total amount of KM 500,000.00

IV EXTERNAL SECTOR

BALANCE OF PAYMENTS IN BIH 2011

Relatively modest economic growth in 2011, followed by decline in current influx of remittences from abroad by 2%[73] resulted in only 2% increased gross national disposable income in BiH[74]. This is very modest, particularly when compared with much stronger nominal increase in final consumption by over 3%[75] which lead to fall in gross national saving by ca. 8%[76].
Decrease in savings, in combination with nominal growth of gross investments by 11.6%[77] led to the BiH current account deficit of ca. 8%[78] GDP, which is much above the 5% level recorded during the two previous years. On the other hand, BiH did not manage to attract sufficient additional financial and capital flows necessary to finance a growing deficit, so the rest (value of KM 33 million) was funded by the gross foreign reserves of the Central Bank BiH.

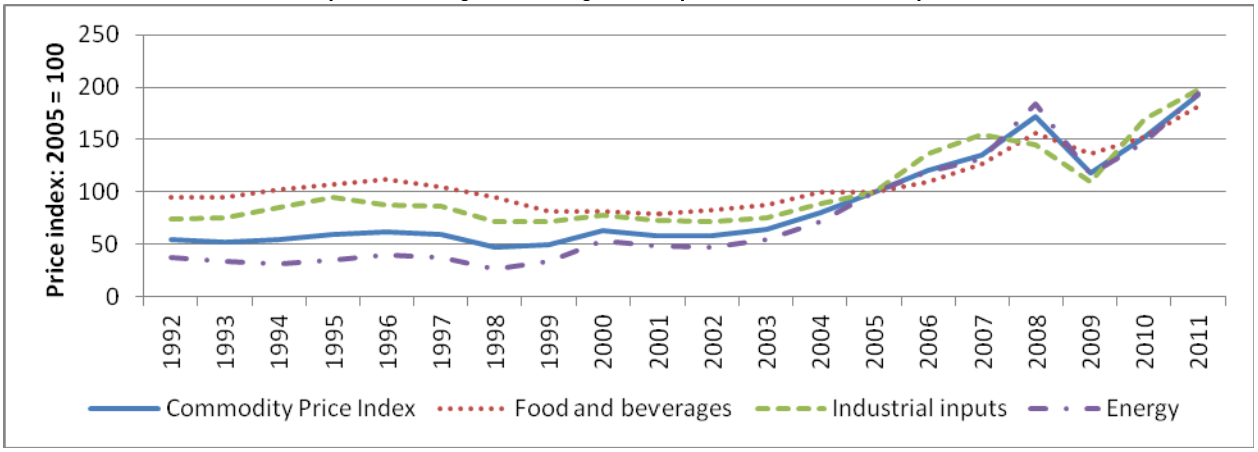
Foreign direct investments, despite still being at the modest level (2% GDP[79]), not only ensured over one fourth of deficit financing, but were also the most significant source of growth of the overall financial inflows to BiH during 2011. Financial inflow growth was additionally strengthened by more intensive growth in other net liabilities, as well as reduction of portfolio investments relative to the previous year. On the other hand, inflows based on capital transfers, commercial credits and loans, which funded over 40% of deficit in 2011, were lower relative to the previous year.

The most important developments – Current account

With the exception of the current transfers, which recorded a modest increase by only 2.5% in 2011, all other current account items had negative effects on disposable income, and thereby on national savings as well.
During 2011, we could witness an abrupt nominal and real weakening of exports growth, while a 15.6% nominal growth in commodity exports was much bellow the rate of 29% in 2010. Similar to exports, rise in prices was one of the main factors of more intensive nominal growth in commodity imports from 10% in 2010 to 14% in 2011 (despite the fall in real rate), which finally resulted in trade deficit increase by 12%. A 4.1% reduction of influx based on services additionally worsened the situation, despite the half less exports fall than the fall in imports.

[73] DEP estimate based on nine-month data.
[74] DEP estimate based on nine-month data.
[75] DEP estimate.
[76] DEP estimate.
[77] DEP estimate.
[78] DEP estimate.
[79] DEP estimate.

Graph 29: Changes in foreign trade prices of individual inputs



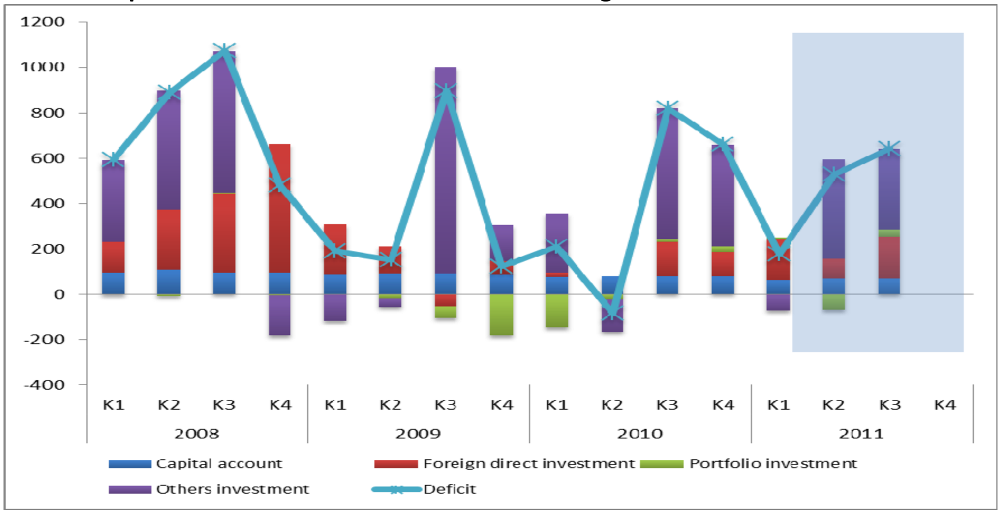
Source: IMF data base

Negative effects on national savings reflected in increased current consumption due to more intensive inflation, which reached the level of 3.7% in 2011 – this, despite a low real growth of private consumption led to its (relative to the previous few years) not so low nominal growth of 3.6%. During 2011, there was a nominal investment growth of 11.6%, after a cumulative nominal decrease by 31% during the previous two years.

Deficit financing

What contributed to stronger financial influx was a revival of FDIs as the second largest source of deficit financing (27% of deficit during the first nine months). Although they are still on a low level of ca. 2% GDP[80], FDIs in 2011 recorded a value of KM 584.4 million, which is more than double above the 2010 level. One of the causes of this growth is the new reinvestment of the foreign-owned domestic companies' profit.

Graph 30: Share of individual items in financing the current account deficit



Source: Central Bank BiH data base

[80] DEP estimate

Weakening of financial outflows was contributed by full standstill of outflows based on portfolio investments, which commenced during the 2009 crisis, when the banks, due to decreased domestic demand for loans, decided to intensify their investments abroad. During five out of six previous quarters there was a reinvestment of the share of funds that commercial banks from BiH previously invested in debt securities abroad within the portfolio investments.
Financial inflows dropped down due to growing decline in influx of general government capital transfers, which recorded a 9% downfall followed by slighly increased other sectors transfers by only 0.2%. Trade credits record an inflow decline of 35% caused by:

- Decrease in liabilities of BiH importers to foreign suppliers by 9%
- Increase in position of foreign claims of BiH exporters after reduction of claims abroad in the previous year.

The 41% growth in inflows based on loans resulted from decline in the new loans of 1.8%, followed by significantly bigger fall in repayment of the existing loans of ca. 23%.
Gradual weakening of trade (real rate of commodity exports growth in 2011 amounts 6.6%, of imports 3.8%) and other economic flows (mild current transfers growth by 2.5%) lead to aggravated current account deficit financing, and subsequently to decrease in gross foreign reserves by 33 million in 2011.
The leading Eurozone countries and China show clear signs of a slowdown, which will particularly be visible in 2012. Huge amounts that governments spent to save banks, in combination with the indirect costs of the economic slowdown have manifested in unsustainable levels of the USA and Eurozone public debts. Debt crisis expanded from the Eurozone outskirts to its key economies, which makes negative effects on economies of the countries outside Europe too. Governments throughout the world struggle with the problem of soaring unemployment, high public debts and budget deficits (long ago exceeding the permissible limits). The latest global trade data indicate to the forthcoming slowdown in the months to follow. The world economy growth projections are changing on a daily basis (mainly downward), according to new information as to tackling the crisis in the Eurozone, but also regarding information coming from the real sector (unemployment, doing business, GDP growth, industrial production, etc.).

In 2012, much lower growth rate of EU economy is expected relative to the expected rate in 2011 (0.6% vs. 1.6%). Such lower growth forecast is a consequence of expansion of the debt crisis in the Eurozone, which (along with Greece, Ireland, Portugal and Spain) also spread to Italy, the third strongest European economy.

BIH FOREIGN TRADE AND REGIONAL TRENDS

In 2011, Bosnia and Herzegovina imported goods in the amount of KM 15.5 billion, which resulted in 14% imports growth, while the exports increased by 15.9% and reached the amount of KM 8.2 billion during 2011. Table 9 provides an overview of the main indicators with an end view to the previous reporting periods:

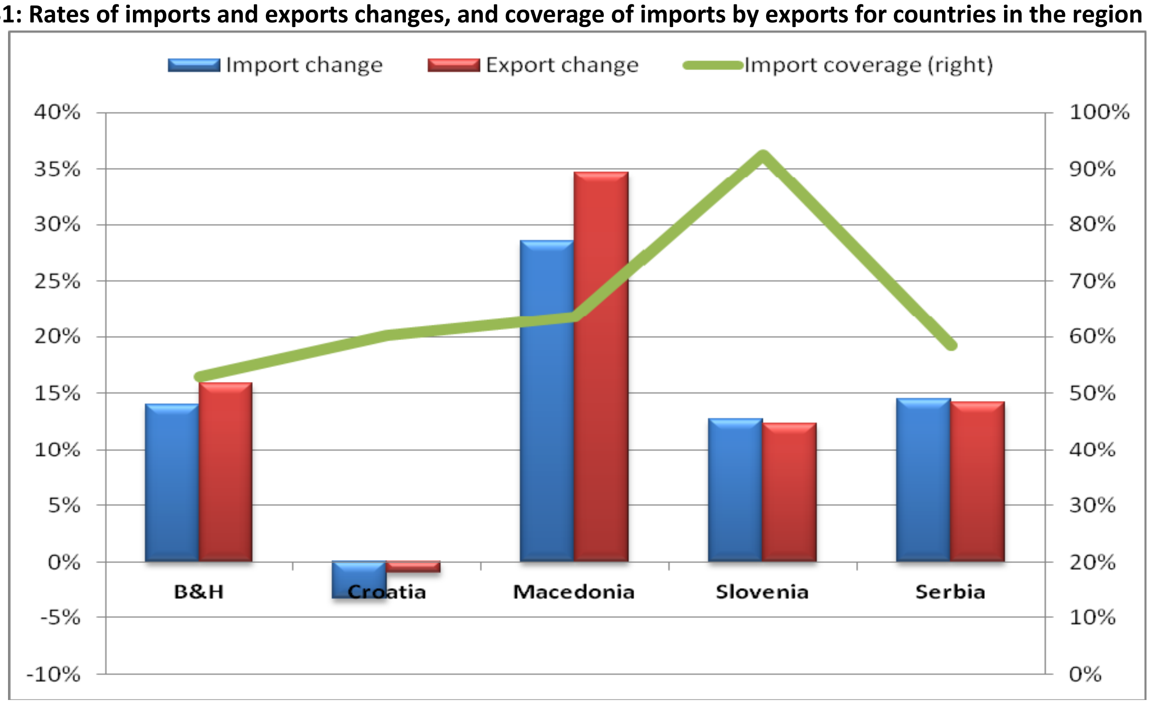
Table 9: Foreign trade indicators for 2011 and previous reporting periods

Export of goods	2008	2009	2010	2011
Export change	6.711.690	5.530.377	7.095.505	8.222.112
Import of goods	13,05%	-17,60%	28,30%	15,88%
Import change	16.286.056	12.348.466	13.616.204	15.525.428
Trade balance (Export – Import)	17,18%	-24,18%	10,27%	14,02%
Trade balance change	-9.574.366	-6.818.089	-6.520.699	-7.303.316
Total trade (Import+Export)	20,25%	-28,79%	-4,36%	12,00%
Total trade change	22.997.746	17.878.843	20.711.709	23.747.540
Import coverage	15,94%	-22,26%	15,84%	14,66%
Export of goods	41,21%	44,79%	52,11%	52,96%

Source: BH Agency for Statistics

Positive imports value growth rates were recorded in all countries in the region except Croatia. Exports were also increasing in all countries in the region during 2011, with the highest growth rate recorded in FYR Macedonia, than in Bosnia and Herzegovina. FYR Macedonia is a country with the higest imports growth observed relative to 2010. The coverage of imports by exports rose in all countries, being highest in Slovenia where this coverage exceeds 90%. Bosnia and Herzegovina, unfortunately, is the country which, as compared to other countries in the region, recorded the lowest coverage of imports by exports of only 53%. A significantly greater share of foreign trade in GDP can be observed in the countries with lower income per capita. Rates of imports and exports changes and coverage of imports by exports in 2011 in the region are outlined in the following graph.

Graph 31: Rates of imports and exports changes, and coverage of imports by exports for countries in the region



Source: Agencies for statistics of the selected countries

STRUCTURE OF BIH TRADE WITH OTHER COUNTRIES BY PRODUCT

If the structure of trade by product is observed, 33% of BiH foreign trade includes semi-manufactured goods and products with low added value (so called intermediate goods), non-durable consumer goods account for 23%, while capital goods account for 13%, energy 19% of the total trade in 2011.

The most significant import items are oil and petroleum products, machines and appliances, base metals (predominantly aluminum, iron and steel) and products of base metals, and foodstuffs. The most significant export items are also base metals and their products, machines and appliances, spare parts for automobile industry, and finished products such as furniture, clothing and footwear.

If we observe the difference between imported and exported products, one may assume that there are very few products in which BiH has a surplus with its trading partners. Major categories which make a surplus are wood and wood products, clothing and footwear, as well as various products including furniture. BiH also has a surplus in electricity trade, but, since large quantities of oil and petroleum products are imported, and since these products fall into the category of mineral products, the overall result is still a deficit for the above mentioned product category.

Structure of imports by product

There were no significant changes in the imports structure. The five most represented categories of products in the structure of total imports account for 62%, while all other products cover 38%.

The most imported products were of mineral origin, where **oil and petroleum products** dominated in the amount of KM 2.3 billion. As compared to the previous year, the import of these products increased by 26% due to significant growth in prices in the world market of 39%[81]. This category of products contributed to the overall increase in BiH imports by 5.2% in 2011. Its share in the total imports is 22.3%.

Machines, equipment and mechanical appliances take the second position in imports. Their imports in 2011 amounted to KM 1.8 billion, or 12% of the total imports. Relative to the previous year, the value of imported machines increased by 4%. This category of products was mostly imported from Germany and Italy.

Relative to 2010, the value of imported **processed foods** in 2011 increased by 7.1%. Throughout 2011, BiH imported processed foods in the amount of KM 1.5 billion. Processed foods account for 9.8% of the total BiH imports in 2011. This category of products was mainly imported from the neighbouring countries, Croatia and Serbia, which are, at the same time, the most important BiH trade partners. Rise in imports of processed foods was a result of a 19.7% increase in food prices in the world market[82].

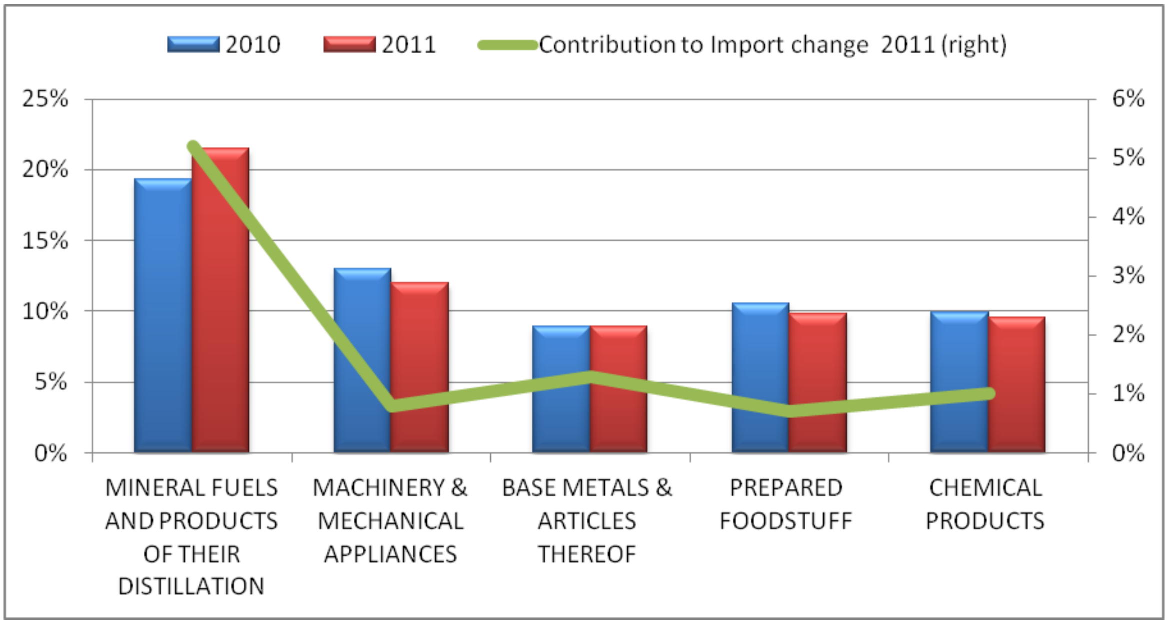
The value of imports of **chemical industry products** was KM 1.4 billion (accounting for 9.5% of total BiH imports). Relative to the previous year, the chemical industry products imports increased by 9.6%. In the category of chemical industry products, BiH mostly imported pharmaceutical and cosmetic products. Germany, Slovenia and Serbia are the countries from which BiH imported most of these products.

---

[81] Source: IMF
[82] Source: IMF

The next significant imports item is **base metals** with the share of 8.9% in the total imports. Base metals imports achieved a growth rate of 14.5% relative to the previous year. In the category of base metals, BiH mostly imported iron and steel, their products, as well as aluminum and aluminum products. The share of this group of products in the total import was positive and amounted to 1.3%.

Graph 32: Share of specific product categories in overall imports in 2011 and contributions to imports change



Source: BH Agency for Statistics

Structure of exports by product

BiH mostly exported **base metals and their products, spare parts for automobile industry, furniture, electricity and chemical products.**

The value of exported **base metals** slightly exceeded the amount of KM 1.9 billion, which makes almost one fourth of the overall BiH exports and accounts for 23.5%. As compared to the same period of the previous year, there was a significant 20.5% growth in the exports of base metals. In the category of base metals, **aluminum and aluminum products, iron and steel and their products** were most exported. The result of rise in exports is the world market recovery from the economic crisis and increase in their demand. One additional cause of the base metal exports growth is the increase in metal prices in the world market relative to prices in 2009 and 2010. This category of products contributes to total exports increase by 4.6%. Taking into account the significance of this category of products in the total exports, it deserves special attention in order to identify the ways to expand the placement of these products in the world and European markets.

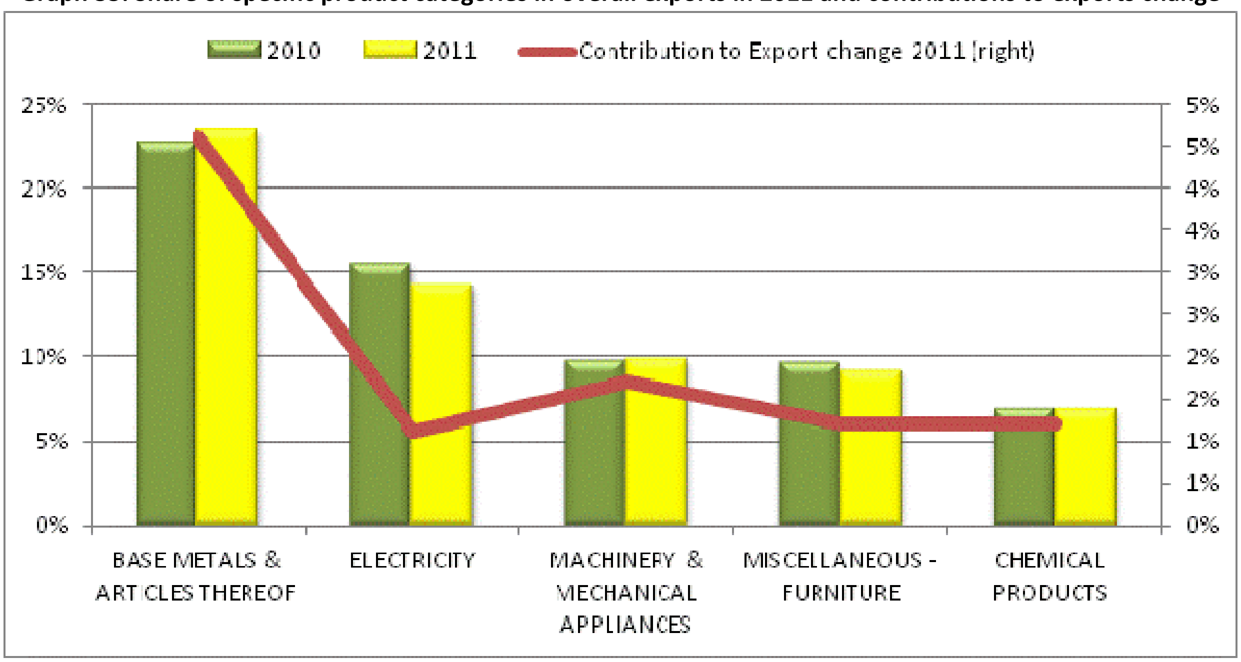
Electricity, as part of the category of mineral products, is an important export component. During 2011, the export value of the category of mineral products amounted to KM 1.3 billion; of which oil accounted for KM 494 million, and electricity accounted for KM 370 million of exports. Relative to the previous year the value of electricity exports fell by 23%. Most BiH electricity is exported to the markets of Croatia and Serbia. It is important to note that BiH achieves a surplus in the electricity foreign trade, despite a decline in its exports.

In 2011, BiH exported **machines and appliances** in the amount of KM 815 million, or 9.9% of the total exports. There was a 17.1% rise in exports of machines and appliances in 2011. One of the reasons why this category of products achieved growth in exports is that BiH exports a great number of spare parts (which fall into this category of products) for automobile industries in European countries, which are stabilizing after the economic crisis and gradually returning orders to the state of affairs prior to crisis.

What is encouraging is the accelerated growth in exports of furniture (category of miscellaneous products), which can indicate to shift in focus of the wood-processing industry to production and exports of higher value added products. Relative to the previous year, rise in value of furniture exports amounted to 12.1%, achieving the value of KM 760 million. Export of furniture in 2011 accounted for 9.2% in the total exports. Furniture was mostly exported to the markets of Germany and Italy.

The value of **chemical products**, the next important export category, exported in 2011 was KM 570 million (share of 6.9%). Relative to 2010, this category of products recorded a 16.8% growth and contributed to the rise in exports by 1.2%.

Graph 33: Share of specific product categories in overall exports in 2011 and contributions to exports change



Source: BH Agency for Statistics

Table 10: Share of specific product categories in 2010 and 2011 BiH trade deficit[83]

Products	2010		2011	
	Deficit /surplus	**Share**	**Deficit /surplus**	**Share**
MINERAL PRODUCTS	-1.528.236	23,4%	-2.140.701	29,3%
MACHINERY & MECHANICAL APPLIANCES	-1.068.019	16,4%	-1.055.096	14,4%
BASE METALS & ARTICLES THEREOF	399.833	-6,1%	550.579	-7,5%
PREPARED FOODSTUFF	-1.164.291	17,9%	-1.203.762	16,5%
CHEMICAL PRODUCTS	-857.050	13,1%	-904.928	12,4%
TRANSPORTATION EQUIPMENT	-601.530	9,2%	-864.774	11,8%
MISCELLANEOUS - Furniture	412.010	-6,3%	508.874	-7,0%
WOOD & WOOD PRODUCTS	269.869	-4,1%	336.173	-4,6%
* Electricity	288.363	4,4%	251.381	-3,4%
TOTAL DEFICIT	**-6.520.699**	**100%**	**-7.303.315**	**100%**

Source: BiH Agency for Statistics

STRUCTURE OF TRADE BETWEEN BIH AND OTHER COUNTRIES OBSERVED BY IMPORT ORIGIN AND EXPORT DESTINATION OF GOODS

During 2011, BiH economy mostly exported to the markets of Germany, Croatia, Serbia, Italy, and Slovenia. It is important to point out that these five countries are, at the same time, among the greatest exporters to BiH, and that BiH achieves trade deficit with all these countries. During 2011, trade deficit with the above countries increased by 31.5%. The value of total imports from these five countries is KM 7.5 billion, which is 50% of value of the entire imports to BiH. At the same time, the remaining 50% of the BiH import comes from other countries. By the commodity structure, the prevailing products of BiH exports are metals and their products, low rate processing products, spare parts for automobile industry where our country has a well developed cluster, as well as electricity, i.e. low level processing products.

During 2011, Bosna and Herzegovina exported goods in the amount of KM 1.2 billion to the **German** market, which resulted in export increase by 12%. Various finished products in the amount of KM 637 million were mostly exported to Germany, including furniture. Germany exported goods and products in the amount of KM 1.6 billion to BiH, mainly mashines and transport equipment in the value of KM 703 million.

In the course of 2011, BiH exported goods and products in the amount of KM 1.2 billion to **Croatia**, which resulted in export increase by 12.5% relative to the previous year. Among the products mostly exported to Croatia were products classified by material in the amount of KM 503 million; and electricity which falls into category of mineral fuels and lubricants and related products, in the amount of KM 236 million. Croatia exported goods in the value of KM 2.2 billion to BiH, of which mostly mineral fuels, in

[83] - (sign minus) in the column *Share* means that there is a surplus

the amount of KM 843 million, and food in the amount of KM 433 million. During 2011, there was a trade deficit with Croatia in the amount of KM 1 billion.

The value of goods exported to **Serbia** was KM 1 billion, recording a 12% increase relative to 2010. Among the products mostly exported to Serbia were products in the category mineral fuels and lubricants and related products, in the amount of KM 483 million, such as electricity and oil. BiH imported goods from Serbia in the amount of KM 1.4 billion, with predominant foodstuffs in the value of KM 425 million, and products classified by material in the value of KM 300 million. Relative to 2010, exports from Serbia recorded a mild growth by 2.5%.

The value of goods exported **to Italy** amounted to KM 963 million, with largest share of furniture in the value of KM 334 million. Italy exported products in the value of KM 1.3 billion to BiH. Most imported goods from Italy were products classified by material in the amount of KM 539 million.

BiH exported its products in the value of KM 706 million to the market of **Slovenia**, with prevailing machines and transport equipment in the amount of KM 288 million. Goods which were most imported from Slovenia were products classified by material and chemical products worth KM 400 million. The total value of imports from Slovenia in 2011 amounted to KM 828 million, rising by 2.4% relative to the previous year.

It is important to mention **Russia** in 2011, from which our country imported goods worh KM 1.6 billion, of which oil and petroleum products made almost all imports from Russia in the amount of KM 1.5 billion. Bosnia and Herzegovina does not make any significant export to the market of Russia.

Table 11: Imports, exports and trade deficit with key trade partners in 2011

Country	Import	Participation in total import	Export	Participation in total export	Trade deficit	Participation in trade deficit	Change in trade deficit 2011/2010
Croatia	2.226.507	14,3%	1.204.440	14,6%	-1.022.067	14,0%	3,4%
Germany	1.648.403	10,6%	1.215.957	14,8%	-432.446	5,9%	27,5%
Serbia	1.465.645	9,4%	1.001.879	12,2%	-463.766	6,4%	-13,3%
Italy	1.381.687	8,9%	963.546	11,7%	-418.141	5,7%	20,0%
Slovenia	828.564	5,3%	706.818	8,6%	-121.746	1,7%	-38,2%

Source: BiH Agency for Statistics

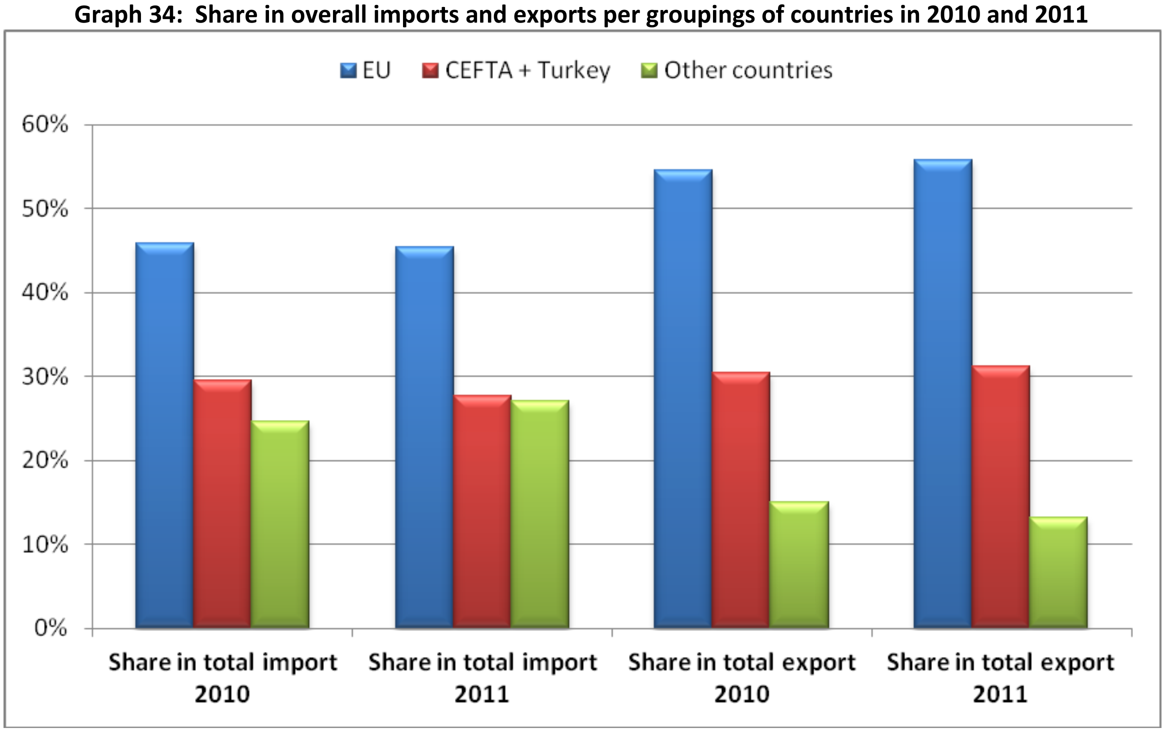
Structure of export, import and deficit by groupings/associations of countries

Considering the overall trade between BiH and regional groupings in 2011, BiH achieved the highest volume of trade with the EU countries, or 49% of its total foreign trade volume. Relative to the previous year, BiH imports from EU in 2011 increased by 12.7% and reached KM 7 billion. Imports from EU members accounts for 45.3% of the total achieved exports in 2011.
Exports from BiH to EU countries increased by significant 18.5%. Share of BiH exports to the EU market accounts for 55.7% of its total exports in 2011. If we observe nominal value of exports, BiH exported goods and products to the EU market in the value of KM 4.5 billion. BiH recorded a higher growth rate of exports to EU market in 2011, due to the recovery of the EU market from the economic crisis, which

affected it in the previous years. What is expected in the coming years is for BiH to achieve a higher trade volume with the EU countries due to gradual reduction of taxes by 2013 and their final abolishment toward the end of 2013. During 2011, BiH achieved a trade deficit with the EU members in the amount of KM 2.4 billion, with slight increase by 3.3% relative to 2010.

With Turkey and CEFTA members BiH achieved the trade volume covering 28.8% of the total foreign trade volume, in the value of KM 6.8 billion. In 2011, the import from Turkey and CEFTA members increased by 6.9% relative to the previous year. Nominal imports value amounted to KM 4.2 billion, with 27.6% share in imports. BiH exports in 2011 recorded higher growth than imports and increased by 18.3% as compared to the previous year. Share of exports to these markets makes 31.1% of the total achieved exports in 2011. The deficit in trading with Turkey and CEFTA members reached KM 1.7 billion and makes 23.7% of the total deficit in 2011. The deficit in trading with Turkey and CEFTA members in 2011 decreased by 6.5% relative to 2010. The influence of SAA was significant as by 2008, and even more obvious in 2009 and 2010, because until 2008 the major contributor to changes in both imports and exports were Turkey and CEFTA members, but as of 2009 the greatest contribution to changes in trade comes from the EU members. This trend is expected to continue in the future too, since SAA makes the EU market more accessible to BiH and it is possible that the structure of the origin of imported and exported product categories alike will gradually change.

Graph 34: Share in overall imports and exports per groupings of countries in 2010 and 2011



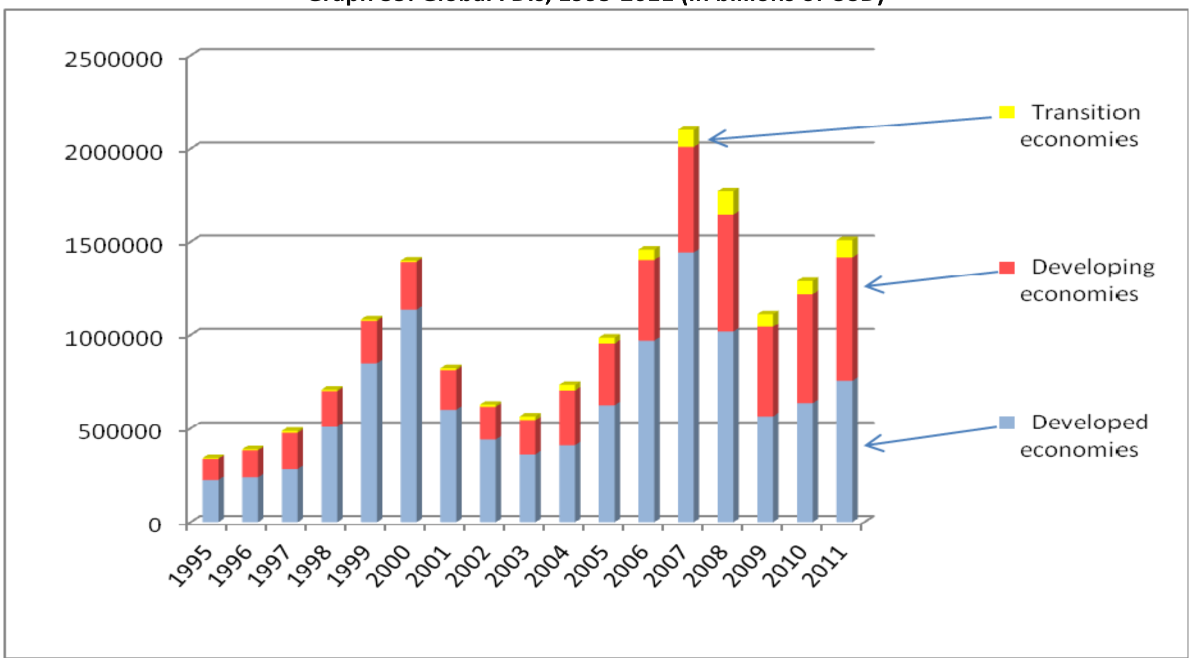
Source: BiH Agency for Statistics

V FOREIGN DIRECT INVESTMENTS

Investments in the world and in the region

According to UNCTAD data, foreign direct investments in the world amounted to USD 1,508.6 billion, recording a 17% increase as compared to USD 1,289.7 billion in 2010. Investments in South East Europe and CIS[84] recorded a 30.6% growth relative to the previous year, while investments in developing countries recorded a somewhat decreased growth of 13.7%.

Graph 35: Global FDIs, 1995-2011 (in billions of USD)



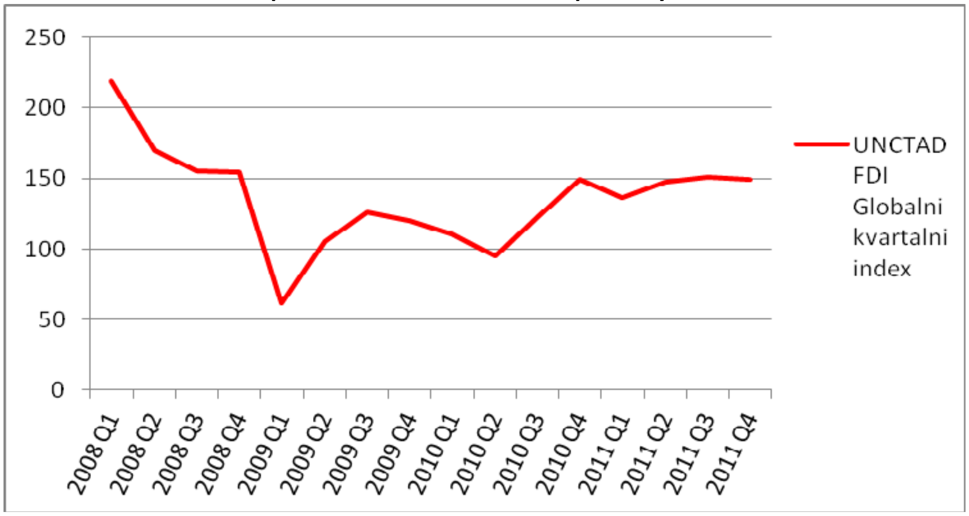
Source: UNCTAD

Hence FDIs into developed countries increased by 18.5% as compared to the previous year, although USA recorded a fall in inflow by 7.7%, while EU countries, despite the crisis in the Eurozone (Greece) recorded an increase by 31.9% relative to 2010. FDIs into developing and countries in transition exceeded the 50% value of global FDIs for the second consecutive year (USD 755.4 billion). Out of this amount, the biggest share went to East and South East Asia (USD 343.7 billion), which recorded a 11.4% growth in 2011.

It is interesting that in the FDI structure new investments[85] in other countries recorded a fall by 3.3%, whereas investments into the already existing companies in the form of acquisitions and merger by big corporations (TNC) recorded an increase by 49.7%. The evident quarterly fluctuations in FDIs in the world throughout 2011, where, after noted growth during the first two quarters there was a slight decline in the last two quarters, indicate to continuation of still unresolved debt crisis in the EU countries.

[84] Commonwealth of Independent states (Russia, Belarus, Ukraine and Kazakhstan)
[85] Greenfield investment

Graph 36: UNCTAD FDI Global quarterly index

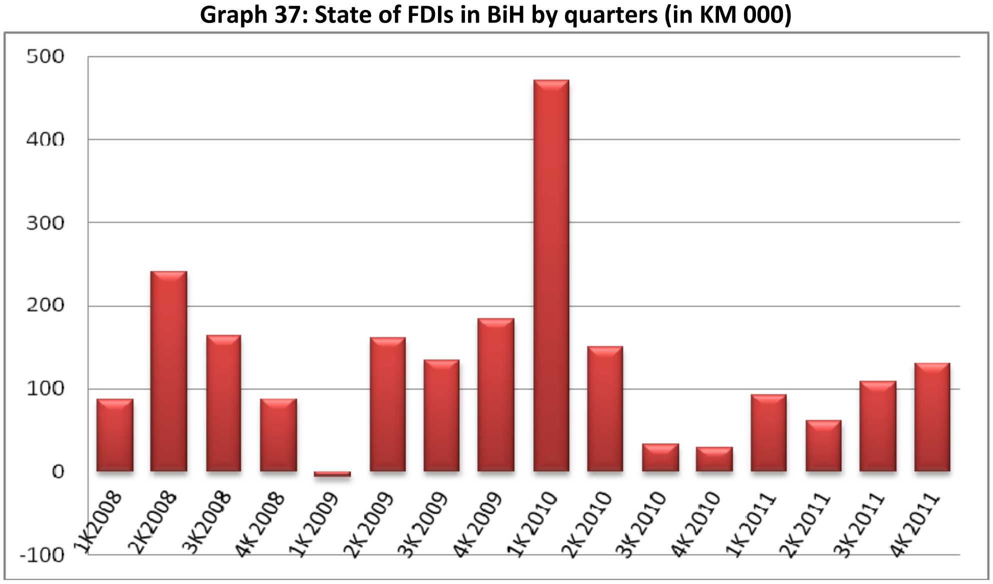


Source: UNCTAD

Investments in Bosnia and Herzegovina

In 2011, foreign direct investments in Bosnia and Herzegovina recorded a fall as compared to the same period of the previous year. According to data of the Ministry of Foreign Trade and Economic Relations of BiH, FDIs in 2011 amounted to KM 391.9 million[86] (according to CBBiH KM 612.1 million), which is a reduction of 42.5% relative to the same period in 2010. One should take into account that this amount of investments is by 57% lower than average investments within the last five years (KM 912.7 million[87]).

Graph 37: State of FDIs in BiH by quarters (in KM 000)



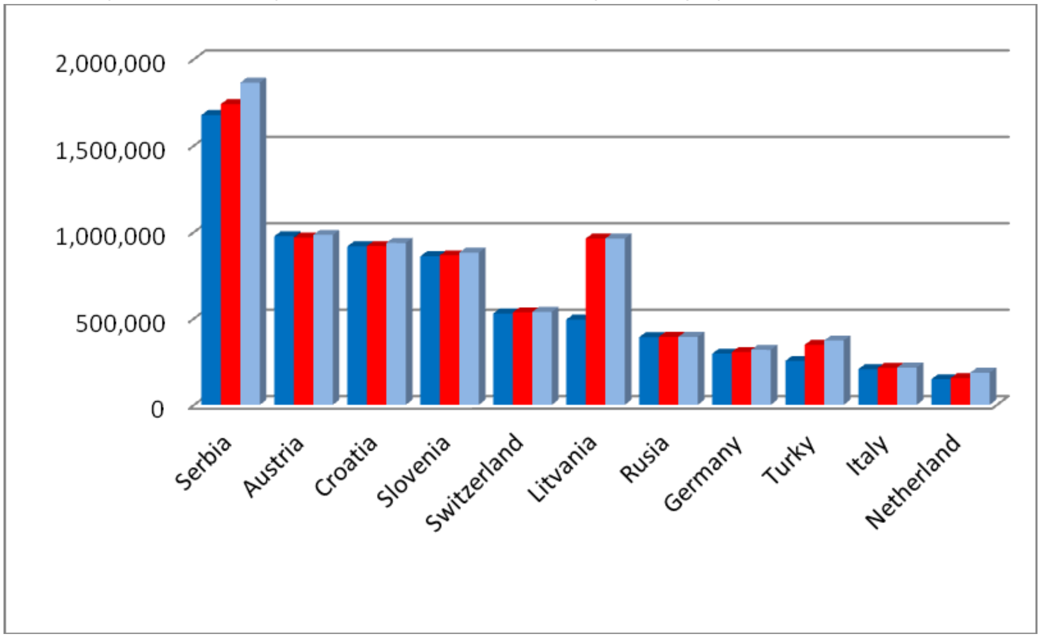
Source: MoFTER

[86] Data obtained based on the new system of registration of foreign business entities with the competent courts, whereas during the previous years they were registered by the Ministry of Foreign Trade and Economic Relations.

[87] It should be considered that investments during 2007 were record-breaking (privatisation of Telekom RS) and totalled KM 2,440 million.

The amount of KM 184.41 million was invested in Federation BiH, the amount of KM 207.31 million in RS, and KM 0.18 million in Brčko District. The largest investements relate to companies: Delta Maxi with KM 36.1 million (increased capital, trade chain, Serbia);Hypo Alpe Adria Bank in Banja Luka KM 48.75 million (increased capital, Austria); Jajce Alloy Whells Jajce KM 35.4 million (metal products, Luxembourg), Restruct Sarajevo (motor fuels trade, Russia). In parallel, the most significant decrease in capital pertains to: OMV BiH doo KM 38.7 million (Austria); M-BL Društvo za trgovinu na veliko i malo d.d. Banja Luka KM 27.7 million (Slovenia); Organika BH d.o.o. KM 16 million (Poland); Opeka d.d. Sarajevo KM 13.95 million (Croatia).

Graph 38: Most important investments in BiH by country up to 31 December 2011



Source: MoFTER

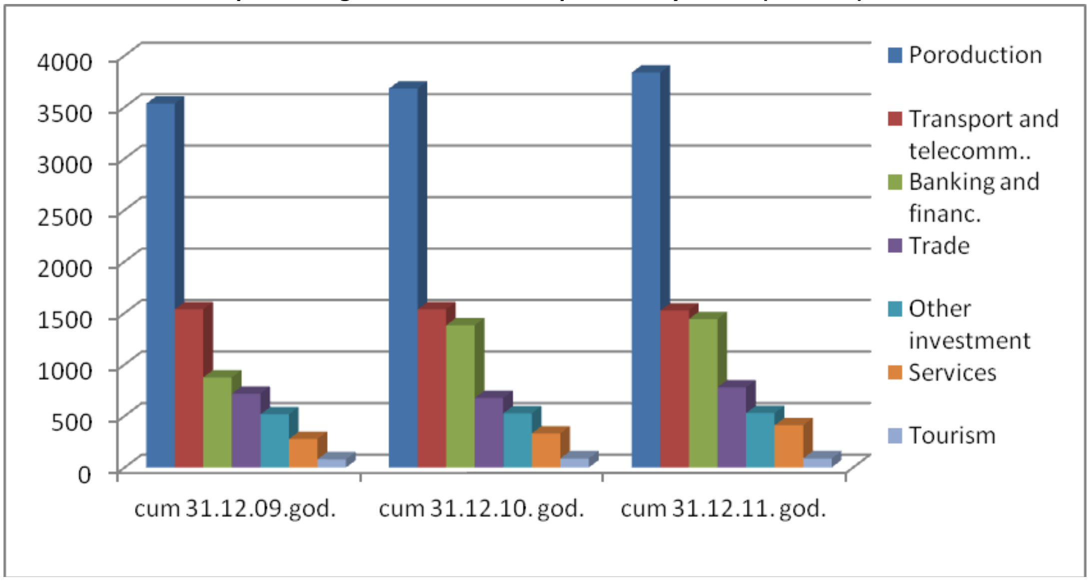
The most importants investments in 2011 by country pertain to:

- Serbia KM 124.2 million (31.69%)
- Luxembourg KM 71.63 million (18.28%)
- Netherlands KM 31.63 million (8.1%)
- Saudi Arabia KM 26.43 million (6.75%)
- Turkey KM 24.59 million (6.27%)
- Croatia KM 18.47 million (4.7%)
- Austria KM 16.1 million (4.1%)
- Slovenia KM 15.59 million (3.98%)
- Qatar KM 14.67 million (3.74%)
- Cayman Islands KM 12.9 million (2.5%)
- Germany KM 12.89 million (3.29%)

Which comprises 94.2% of total investments in 2011.

Out of total registered foreign capital 39.9% pertains to investments in production. Banking and financial sector account for 15.5% and services for 23.9%.

Graph 39: Registered FDIs in BiH per activity in KM (000.000)



Source: MoFTER

Feeble economic recovery, high budget deficit, and the crisis of Euro, along with reduction of the credit rating of several countries in Eurozone, had a significant impact on weak recovery and oscillations in investments into BiH during 2011 (downfall in investments during the second quarter followed by rise in the last two quarters). Among developments that affected (and will affect in the future) the FDIs influx, it should be noted that on 16 May 2011, the International Credit Rating Agency Moody's Investor Service downgraded sovereign credit rating on BiH from "stable" to "B2 negative", while on 30 November 2011 Standard & Poors downgraded BiH's credit rating from "B+" to "B on review for downgrade". The test phase of a new system of single registration and reporting of FDIs in the Ministry of Foreign Trade and Economic Relations was initiated. This project improved the system of registration of all foreign investors and their investments in BiH, thus leading to more comprehensive and accurate registration of the total invested funds.

Proces of privatisation of the government owned share in some strategic companies had not yet started in 2011.[88] Privatisation of the most profitable companies engaged in telecommunications and energy generation was postponed till further notice. What was also evident was a delay in great investments into energy generation sector on the principle of joint investments with the foreign partners. Participation of foreign partners in these projects would considerably increase FDIs in BiH in the coming period, and, along with large infrastructural works (Corridor 5C), would become one of the major drivers for future economic growth in the country. Increase in foreign direct investments in the world, particularly into developing and countries in transition (investments into developed countries exceeded them for the first time), in parallel to recovery from the crisis in the most developed countries (USA), provides realistic grounds to expect an increase in FDIs into Bosnia and Herzegovina in the coming period.

[88] Government of Federation BiH adopted a Privatisation Plan for 2011, which has still not commenced to be implemented.

VI BUSINESS ENVIRONMENT

Introduction

Business environment improvement is one of the declared priorities of BiH economic policy taken over from the Road Map to European Partnership and Stabilisation and Association Agreement.
What is important for all business entities is that their business environment is regulated. The main preconditions for favourable business climate are: the fewest possible administrative obstacles followed by the appropriate legal framework, available and adequate work force, and favourable sources of funding. Since neither BiH remained immune to global financial and economic crisis, the need to improve business climate is becoming more evident.

International reports on business environment and competitiveness of BiH in the world

According to the results published by the World Bank (Doing Business 2012), Bosnia and Herzegovina rose two positions up climbing from 127 to 125 position in the world. The quality of business environment in BiH is still lagging behind compared to other countries in the region[89]. Progress was achieved in property registry and cadaster in Sarajevo (project of digitalization of the land registry) and simplified procedures during reporting and paying contributions for the employed workers (single system of registration, control and collection of contribution).

Table 12: BiH ranking according to Doing Business 2012

Topic Rankings	DB 2012 Rank	DB 2011 Rank	Change in Rank
Starting a Business	162	161	up-1
Dealing with Construction Permits	163	173	up10
Getting Electricity	157	157	No change
Registering Property	100	101	up1
Getting Credit	67	64	up-3
Protecting Investors	97	93	up-4
Paying Taxes	110	108	up-2
Trading Across Borders	108	109	up1
Enforcing Contracts	125	125	No change
Resolving Insolvency	80	78	up-2
Oweral	125	127	up-2

Source: Doing Business 2012, World Bank

[89] For comparison, Bosnia and Herzegovina was ranked 125, while closest to it in the region was Albania, which was ranked 82

.

> World economies based on ease of doing business are ranked 1-183. Better rank means that regulatory and business environment is more favourable for business of local firms. Furthermore, this index represents average of nine individual areas and several different indicators in specific areas with equally important impact. These are: starting a business (where BiH is ranked as 162 in the world); property registration; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts; closing a business. Among all these, Bosnia and Herzegovina is worst ranked (163) according to obtaining all licences for a business start-up. Calculations include the number of procedures, the number of days required to complete each procedure, costs required to complete registration, i.e. costs per capita as well as paid-in minum capital deposited in a bank before registration.

GEM study (Global Enterpreneurship Monitor) GEM[90]

In 2011, there was improvement in BiH recorded in the category "Early stage entrepreneurial activities" (indicator TEA) with 5.2% increase relative to entrepreneurial activities in 2010. Still, this survey shows that Bosnia and Herzegovina recorded a significant fall in all other indicators of entrepreneurial activities, with biggest 24.9% fall in the rate of business start-up. Despite some improvements relative to the previous years, it is concluded that BiH remained in the group of countries with low level of entrepreneurial activities.

Legal regulations, reduction and simplification of registration procedures

A positive example of reducing and simplifying registration procedures in FBiH is that registration of tax payers, payment of contributions and insured persons would be carried out by the Tax Administration of FBiH and its competent Tax administration offices as of 1 January 2011. This would be carried out by Tax Administration due to the completed project of introduction of e-filing of tax returns, based on implementation of the Law on Single System of Registration, Control and Collection of Contributions (Official Gazette of FBiH 43/09) and Rulebook on filing registry applications and registry changes in the single sistem of registration, control and collection of contributions. Beneficiaries of the Single System are: Federal Institute for Pension and Disability Insurance, Institute for Health Insurance and Re-insurance of Federation BiH, Federal Employment Institute, Tax Administration, and Federal Institute of Statistics.

In terms of easing registration of companies and simplifiying procedures of registering the employed workers there were also improvements in Republika Srpska (as of 1 January 2010, based on the Law on Companies – Official Gazette of RS 127/08 - and the Law on Amendments to the Law on Tax Administration in RS– Official Gazette RS 34/09))[91]. Employees are now filed only with the Tax Administration of RS, (so far they had to be filed with PIO and Institute for Health Insurance). Pursuant to the new law, Tax Administration's duty is to issue annual certificates from a single system to every

[90] http://www.gemconsortium.org/docs/download/2201
[91] http://poreskaupravars.org/SiteCir/PravnaAkta.aspx

contribution payer, which contain data on years of insurance, amount of paid, or unpaid contributions, and the amount of salary for every fiscal year, while as of beginning of implementation of this law, there will be no registration of payers in extrabudgetary funds. Implementation of these laws was aiming at simplified registration of new companies as comprising provisions for companies in line with the EU standards.

The adopted Law on Amendments to the Law on Foreign Investments in RS (NARS, 28 April 2011) is in line with the adopted changes in the law at the level of BiH (Amendments to the Law on Policy of Foreign Direct Investments in BiH, Official Gazette BiH 48/10). There was a liberalisation in the field of special-purpose industry in terms of ownership on the condition that Government of RS makes prior approval. The law provided for establishment of the Council for Foreign Investors as an advisory body of the RS government, whose duty is to analyse business environment for foreign investments and propose undertaking of measures and procedures in order to remove the present constraints for foreign investors as well as to initiate changes in laws and other regulations in order to stimulate and facilitate foreign investments.

The Law on Amendments to the Law on Privatisation of State-owned Capital in Companies in RS (28 April 2011, NARS) was also adopted, with the goal to enable the privatized companies to faster register their ownership right in public registry books, and which also provides for the RS Administration for Geodetic and Legal-Property Issues to take over competence from the courts regarding requests to turn rights on real estates in social ownership into the ownership right.

Amont the laws aiming to encourage economic activity, the one interesting to mention is the Law on Amedments to the Law on Trade, which provides for establishment of the Council for trade development in RS as an advisory body for the needs of improving trade development.

Public-private partnership

Public-private partnership (PPP) is one of the promising forms of cooperation between public and private sector. Cooperation is based on identification of benefits that public and private sector may gain by joining finansial resources, knowledge and expertise in improving the basic services for all citizens. Cooperation between public and private sector in BiH appears in the form of concession and various institutional forms of PPP (enterprises that are fully owned or in majority public ownership that perform public function, etc.). The Law on public-private partnership in FBiH has not been passed yet, although the segment pertaining to public procurement and concessions has to some extent already been provided for by the existing legislation.

In order to remove administrative barriers, revive business climate and stimulate attracting foreign and domestic investors, changes of the existing law were adopted and the Law on Amendments to the Law on Public-Private Partnerships in Republika Srpska was passed (Official Gazette RS,63/11). The goal of the amended law is to reduce procedures during implementation of projects in the model of public-private partnership. Issues pertaining to public-private partnership such as the subject, principles, methods, forms and conditions under which public-private partnership can be achieved as a form of joining resources, capital and professional knowledge for the purpose of building, reconstruction and maintenance of infrastructure have been regulated by the existing Law on Public-Private Partnerships in RS (Official Gazette RS, 59/09), whereas the procedure of implementation of public-private partnership projects is provided for by the Decree on the Procedure of Implementation of Public-Private Partnership Projects in Republika Srpska (Official Gazette RS, 104/09).

The main types of PPP may be:

- The first of the contract forms of PPP is a concession model for performing public works;
- The second form of PPP regards the so calle private financial initiative (PFI). This form of PPP is enabling construction of new buildings/facilities and is very important;
- The third form of PPP is a lease, when private partner does not invest into the project, but instead manages it during a specific period, charging a fee from the user;
- The fourth form of PPP are projects of construction, operation and transfer of ownesrship to the government (BOT: build-operate-transfer) and projects of construction, taking over the ownership and operation (BOO: build – own-operate).

During contracted period, project is owned by a private partner, and after its expiration the ownership is transfered to the state. In addition to BOT arrangements, under possible BOO arrangements after expiry date of a concession there is no transfer of ownership, but it remains investor's property.

Tax policy

The issue of contributions in BiH is regulated by the laws and regulations at the level of the entities. Besides the fact that the laws on single system of registration, control and collection of contributions came into effect, as of 1 February 2011 the Amendments to the Law on Income Tax and the Amendments to the Law on Contributions came into effect in Republika Srpska (Official Gazette of RS, 2 January 2011[92]). Explained in more detail in the chapter on Public Finance.

Privatization

Due to slow recovery from the economic crisis in the world and in BiH, and justified doubts whether the set criteria would be fulfilled, privatization of both Telecom operators was abandoned, "BH Telekom" and "HT Mostar", as well as "Aluminij Mostar" and a new Privatization plan adopted.
On the basis of "Privatization Plan for 2011" by the Agency for Privatization FBiH, privatization of the state-owned capital is foreseen in the amount of KM 95 million according to the book value of the companies[93]. It has been decided in the Privatization Plan to access privatization of four companies in 2011 :

- “Hidrogradnja” d.d. Sarajevo in the amount of KM 47.41 million, through direct negotiations.
- "Šipad export-import“ d.d. Sarajevo , KM 8.46 million, public tender.
- “Unis-udružena metalna industrija”d.d. Sarajevo, KM 32.41 million, public tender.
- "Energopetrol" d.d. Sarajevo, KM 15.19 million, offer of shares through stock exchange.

No conditions were created for commencement of privatization by the end of 2011, so continuation of this process is expected in 2012.

[92] http://slglasnik.org/slgl/documents/2011/001/?lang=s
[93] According to book value of the state-owned companies of KM 95 million, reduced by 25% to 35% according to estimates of Agency for Privatization FBIH, on the assumption that buyers are foreign companies.

Small and Medium Enterprises (SME) Development

European Union has set small and medium entrepreneurship and innovation as a priority within the Lisbon Declaration in 2000. These goals resulted in policies that encourage establishing small and medium entrepreneurs, among them the European Charter for Small and Medum-size Enterprises, which was signed by the Western Balkans countries, including Bosnia and Herzegovina. Thereby Bosnia and Herzegovina committed itself to achieving progress in ten lines for action of the Charter[94].
In order to fulfil conditions for inclusion in the process of European integration, Bosnia and Herzegovina took the obligation to strengthen its entrepreneurial capacities. Since Bosnia and Herzegovina has a very complex administrative structure, it is necessary to develop a system and mechanisms for good quality monitoring of development in this area at all levels, which have to be harmonised and which have to enable development of aligned policies in this field. The issue of small and medium enterprises in BiH is still regulated at the entity level, i.e. by laws and institutions at the level of each entity.

Support to small and medium entrepreneurship in Federation BiH

Policy of incentives in FBiH is mainly carried out by the Ministry of Development, Entrepreneurship and Crafts (FMDEC), pursuant to the Law on Incentives to Development of Small-sized Business, Programme of Development of Small-sized Business, and Action Plan for implementation of the project "Development of Small and Medium Entrepreneurship in FBiH" for the period 2009-2012.
Based on the Decision on adoption of the Programme of Spending of Part of Funds with Criteria for Allocation of Funds from the Current Transfer, Federal Ministry of Development, Entrepreneurship and Crafts approved a grant for SME development in FBiH (29 December 2011). These funds are earmarked for per eight projects from the Programme Current Transfers – grant for 2011, in the amount of over KM 3 million.
The interest rates will be subsidized with the commercial banks on entrepreneurs' credits which are implemented from the Government of FBiH Programme (funding through ODRAZ foundation, within the EAF project, which was created in cooperation with the Council of Ministers BiH, the entity governments, and the World Bank). Loans placed through commercial banks in 2011 will subsidize the interest rate up to 3% for the current year, which will be specified by a special agreement between Federal Ministry of Development, Entrepreneurship and Crafts and the ODRAZ foundation.
The project focused on the introduction of information system on SME is in its final phase[95]of implementation. The goal of the project is to introduce the information system, which will enable the Government of FBiH to fully integrate all key data for monitoring of the SME sector. Information System of the Register of SMEs (ISR SME) should enable download of data in a real time, full records and fast data processing, and forwarding the information to the point of analysis and decision making.

Support to small and medium entrepreneurship in RS

Institutional support to development of SME sector is based on the Law on SME incentives where the bearers of implementation of this law were defined, and the Strategy for Development of SMEs. At the

[94] Education and training for entrepreneurship, more out of a single market, cheaper and faster start-up, taxation and financial matters, better legislation and regulation, strengthen the technological capacity of small enterprises, availability of skills, successful e-business models and top-class small business support, improving online access, develop stronger and more effective representation of small enterprises' interest.
[95] On 14 June 2011, on 10th Session of Government of Federation BiH report on implementation was adopted.

level of RS, the most important institutions are the Ministry of Industry, Energy and Mining and the RS Agency for SME Development.
In September 2011, the RS Assembly adopted a new Strategy of Development of SMEs and Entrepreneurship in Republika Srpska 2011-2013. The most important goals of the Strategy of Development of SMEs and Entrepreneurship in Republika Srpska 2011-2013 are improvement of competitiveness, innovativeness and networking of SMEs in a functional development infrastructure, and creation of stimulating business environment.
The Investment-Development Bank of RS plays a significant role in stimulating the entrepreneurship and provides financial and advisory support to SMEs by a number of credit lines (five direct and two indirect credit lines).
The Investment-Development Bank of RS defined seven credit lines and one line of loans for placement of funds from the RS Development Programme.

Development Projects financed by International Organisation

The EU funded Project "Support to Institutional Capacity Development for Regional and Local Economic Development and SMEs Development in BiH – EURELSMED, in cooperation with five regional development agencies in BiH and the RS Agency for SME Development started the SME voucher scheme to upgrade business support services to SMEs.
Project EURELSMED provided vouchers in the amount of EUR 120,000. This programme covers the whole country and foresees subsidizing costs of business support services for SMEs by enabling easy access to consultancy and services, as well as training for SMEs to improve their competitiveness and create successful development and growth.
The SMEs voucher system in BiH will be implemented by the regional development agencies ("RDA NW", "REZ", "REDAH", "SERDA" and "NERDA") and the RS Agency for SME Development, and the implementation is planned from June 2011 to May 2012.

Business incubators, business zones and clusters

According to NBIA[96]business incubators are defined as "Factories of new enterprises" and their role is to establish, develop, stimulate and provide support to new enterprises in the early stages of development. Business zones, incubators and technological parks as ancillary entrepreneurial infrastructure represent an important instrument for encouraging development of SMEs both in the world and in BiH, but also stimulate general economic growth in specific regions.
There are eight business incubators in the Federation of Bosnia and Herzegovina. There are 118 enterprises with over 770 employees in these incubators. The total amount of KM 9 million was invested in the reconstruction of the existing incubators[97].
In RS, there are currently 5 business incubators[98]. What is stated as the main shortcomings of the existing business zones is the lack of vertical coordination, and development and implementation of the Action Plan for Development of Business Incubators and Programmes for co-funding of their development.
Clusters are usually defined as a geographical concentration of related companies, specialised suppliers, maintenance services, and institutions (such as universities, institutes, development agencies,

[96] National Business Incubation Association – NBIA, http://www.nbia.org/
[97] Project for Development of SMEs in Federation BiH
[98] Strategy of Development of SMEs and Entrepreneurship in Republika Srpska 2011-2013

chambers).[99] The main role of clusters is for groups of enterprises and organisations, through networking and contacts, to improve their performance in the markets and upgrade their competitiveness, reduce transport costs and other expenses due to vicinity of suppliers, get easier access to new markets and facilitate easier connection with scientific and research institutions. Clusters in Bosnia and Herzegovina are still in the initial development stage, with international organisations playing in important role in this development.

The following clusters exist in Bosnia and Herzegovina[100]: "Automotive cluster", "Cluster of plastic and tool manufacturing in Gračanica", "Wood Cluster -Drvo PD from Prijedor", "Leather Cluster- Koža from Banja Luka", "Association of furniture manufacturers - Drvo cluster", "Association - Drvo G from Gradiška", "Cluster Solar group" from Banja Luka, "Cluster Doboj" and "Wood Cluster Drina drvo Srebrenica".[101]

Technological park is a place where experts and entrepreneurs interact who want to achieve their economic goals based on new technologies. Tecnological parks are, as a rule, systematically organized, equipped with infrastructure, and house different services and facilities in an ecologically arranged space. They are usually established close to higher education institutions and research centres, and attract top experts, but also young and talented researchers who get the opportunity to learn and develop further. The goal of technological parks is concentration of knowledge, high technology and education and their application in production.

In Bosnia and Herzegovina there is a Technological Park in Banja Luka, while Technological Park in Mostar started working in 2008. Technological Park in Zenica is also going to start functioning soon.

[99] Michael Porter
[100] Project for Development of SMEs in Federation BiH
[101] Strategy of Development of SMEs and Entrepreneurship in Republika Srpska 2011-2013

APPENDIX

Annual Report 2011.

Table 1: Industrial production in BiH

Growth rate % y/y

	2007	2008	2009	2010	2011												
					Jan.	**Feb.**	**March**	**April**	**May**	**June**	**Juli**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Jan-Dec**
INDUSTRY TOTAL	**6,6**	**7,3**	**-3,3**	**1,6**	**17,5**	**6,6**	**8,0**	**3,2**	**2,3**	**10,4**	**10,1**	**4,5**	**1,8**	**0,6**	**5,4**	**0,4**	**5,6**
C) MINING AND QUARRYING	-1,2	12,7	-2,8	-3,8	31,7	12,9	6,4	19,4	20,8	31,1	42,4	18,9	9,3	3,1	3,3	4,9	15,6
D) MANUFACTURING	9,3	5,6	-4,6	1,9	22,5	9,9	9,9	3,3	2,0	7,3	2,2	-2,2	1,5	-0,9	6,6	6,5	5,0
E) ELECTRICITY, GAS AND WATER SUPPLY	3,1	9,6	0,1	3,7	3,3	-3,6	3,6	-5,3	-5,2	10,0	23,7	22,6	-2,2	4,1	3,1	-16,3	2,0
C MINING AND QUARRYING																	
CA Coal lignite and peat	-1,6	14,0	2,2	-4,4	38,3	10,6	3,3	11,1	21,9	28,2	40,8	21,3	6,7	9,4	6,8	0,8	15,2
CB Ores and stone	0,0	8,3	-21,2	-0,8	-8,6	28,9	23,5	64,0	15,4	44,6	48,1	11,3	18,0	-16,7	-10,2	37,4	17,4
D MANUFACTURING																	
DA Food products, beverages and tobacco	5,8	3,5	6,3	-1,5	-1,7	-0,8	-1,6	-12,1	-8,8	-7,6	-12,1	-8,0	-1,7	-3,4	-7,6	-5,6	-6,4
DB Textiles and textile products	1,7	9,0	-3,0	10,5	15,0	23,5	15,7	26,9	11,8	8,9	4,4	6,7	1,4	-0,9	-14,9	-27,7	4,9
DC Leather and leather products	-5,3	-3,9	-1,8	4,0	5,1	33,7	25,2	25,2	29,2	29,7	25,1	-0,4	20,5	10,2	-3,0	8,1	17,3
DD Wood and wood products except furniture	14,7	-11,3	-16,0	2,4	16,4	32,3	23,4	22,8	10,9	1,9	7,5	0,1	5,8	2,5	-8,7	8,3	8,9
DE Pulp, paper and paper products, publishing..	12,9	6,8	-3,0	-2,1	10,8	16,1	-2,7	0,9	-3,1	3,4	2,8	-1,3	13,0	6,9	14,0	9,0	5,6
DF Coke and refined petroleum products	13,3	220,8	498,6	14,9	15,8	37,7	26,3	-54,5	16,3	-0,9	7,5	-10,4	2,5	12,4	161,3	43,5	13,6
DG Chemicals, chemical products	20,0	29,2	34,9	-1,9	54,1	14,5	31,2	38,4	0,3	35,9	-3,4	-11,5	25,3	3,0	28,2	58,6	20,4
DH Rubber and plastic products	16,6	-0,4	-16,7	18,7	16,3	10,0	16,9	9,2	9,1	-0,7	8,2	14,2	9,5	23,9	1,8	-1,0	9,0
DI Other non-metallic mineral products	6,2	10,9	-20,7	-3,8	46,4	53,0	3,3	-1,6	1,0	34,8	-6,1	-6,3	-3,7	-1,3	-0,4	-6,9	3,8
DJ Basic metals and metal products	7,8	1,6	-17,2	0,2	27,8	7,3	5,7	-4,3	7,4	18,0	24,3	-0,3	1,7	-3,1	24,2	8,9	8,9
DK Machinery and equipment	25,9	11,0	-22,3	5,6	36,4	56,0	185,3	52,6	-21,6	-19,9	-2,5	-15,2	-41,9	-31,8	-20,6	-29,2	3,0
DL Electrical and optical equipment	21,2	-6,7	-25,5	-9,0	-2,4	23,8	28,2	18,3	15,0	-2,6	6,0	-17,2	23,2	0,0	-16,2	-27,6	0,8
DM Transport equipment	-20,3	-7,2	2,9	20,8	281,7	-15,5	-29,6	10,3	-18,1	-22,4	-44,0	-38,2	0,0	2,4	-9,8	-31,5	-11,1
DN Other manufacturing n.e.c	26,5	23,4	-8,7	16,6	16,4	-10,8	-12,3	-1,5	0,1	-25,5	-13,2	26,3	-8,5	0,2	-13,4	13,7	-3,2
E ELECTRICITY, GAS AND WATER SUPPLY																	
E Electricity, gas and water supply	3,1	9,6	0,1	3,7	3,3	-3,6	3,6	-5,3	-5,2	10,0	23,7	22,6	-2,2	4,1	3,1	-16,3	2,0

Source: BiH Agency for Statistics

Table 2: Industrial production in FBiH: disaggregated indices of major industries — Growth rate in % y/y

	2007	2008	2009	2010	2011												
					Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Dec
INDUSTRY TOTAL	**8,6**	**7,9**	**-11,6**	**4,2**	**8,8**	**4,9**	**8,4**	**1,9**	**1,5**	**5,6**	**4,1**	**3,2**	**5,5**	**-1,4**	**-2,7**	**-6,4**	**2,5**
C) MINING AND QUARRYING	5,6	5,1	-3,6	-4,3	12,4	6,0	6,3	28,1	32,6	17,3	28,9	12,7	16,6	-1,4	-6,3	6,6	12,3
D) MANUFACTURING INDUSTRY (PROCESSING INDUSTRY)	11,7	8,2	-16,1	6,9	9,5	8,7	7,3	-1,1	-1,6	-0,5	-5,7	-2,4	4,3	-1,5	-6,8	-3,2	0,0
E) ELECTRICITY, GAS AND WATER SUPPLY	1,7	9,1	-4,3	2,4	6,4	-2,8	12,9	-5,4	-6,3	19,9	23,2	15,4	0,8	-0,6	14,0	-20,2	3,3
MINING AND QUARRYING																	
10) Mining of coal and lignite, extraction of peat	4,2	9,4	-2,2	-3,6	6,1	3,5	4,5	15,8	26,3	22,1	18,5	8,6	18,9	2,5	-1,0	5,5	10,4
13) Mining of metal ores	15,3	-9,0	-20,0	-1,7	75,8	9,4	-19,3	36,1	2,7	-11,5	36,6	-5,7	9,5	6,4	-37,5	-34,7	2,5
14) Other mining and quarrying	10,7	-11,2	-11,1	-9,8	91,3	36,1	35,6	183,0	117,3	-0,7	112,1	38,0	5,6	-19,2	-25,8	19,3	27,2
MANUFACTURING INDUSTRY (PROCESSING INDUSTRY)																	
15) Manufacture of food products and baverages	7,9	3,4	-6,9	-2,3	-7,1	6,7	-2,5	-6,4	-5,9	-9,7	-5,8	1,8	10,2	1,6	-4,6	-7,6	-2,9
16) Manufacture of tobacco products	-4,2	5,9	12,8	-17,8	-12,3	-43,1	44,8	-29,7	-19,1	-3,7	-16,5	-2,4	-9,3	-7,7	-20,9	-3,2	-11,2
17) Manufacture of textiles	-22,1	13,2	-9,6	28,9	26,3	27,3	15,8	14,9	28,3	-5,8	-15,5	-11,1	-5,8	2,8	-15,1	-4,2	3,2
18) Manufacture of wearing apparel; dressing and dyeing of fur	-0,5	15,7	-15,6	11,5	-7,9	18,3	-6,1	63,0	-7,8	-9,4	-14,1	23,7	2,7	2,7	-3,7	-22,9	1,9
19) Leather tanning and dressing: luggage, seddlery handbags, shoes etc manufacture	4,3	4,7	-10,9	11,1	12,8	12,7	-1,0	9,1	14,9	13,5	0,9	-11,4	13,5	-1,5	-11,0	0,4	4,4
20) Mfr. of wood and products of wood and cork, straw and plaiting mat. products	3,0	-3,4	-23,7	8,8	21,7	22,8	22,2	15,3	7,7	-15,5	3,8	-11,4	-4,2	-3,3	-18,9	3,7	1,5
21) Manufacture of pulp,paper and paper products	-5,6	9,6	2,4	-6,2	24,1	25,6	-1,0	6,5	-8,2	3,3	-6,3	8,5	-8,2	9,7	-6,6	-6,2	1,7
22) Publishing,printing and reproduction of recorded media	32,0	14,6	0,5	-6,7	-16,6	2,3	4,2	-4,3	3,0	9,4	12,0	-4,2	18,2	-5,6	38,3	18,0	6,6
23) Mfr. of coke, refined petroleum products&nuclear fuel	32,4	-2,5	3,6	50,1	8,8	18,5	21,0	-0,5	-1,6	-4,9	-3,2	5,4	-10,1	-24,9	-32,2	-22,3	-4,3
24) Manufacture of chemicals and chemical products	21,7	51,4	3,0	5,3	65,0	27,1	39,8	13,8	-4,0	20,2	-11,0	-13,5	21,7	9,1	43,5	35,0	18,4
25) Manufacture of rubber and plastic products	16,1	-0,8	-22,4	30,5	26,4	5,7	25,1	18,7	1,3	-4,3	2,8	25,4	13,4	-3,3	15,4	3,3	14,1
26) Manufacture of other non-metalic mineral products	5,4	8,8	-25,8	1,8	44,7	46,2	-4,0	-6,2	-1,3	27,5	-13,0	-17,0	-4,4	-10,7	-8,6	6,9	-1,7
27) Manufacture of basic metals	6,6	4,3	-17,6	18,1	23,1	5,2	30,7	13,1	20,5	8,1	15,0	9,0	10,8	-0,1	3,5	5,2	11,4
28) Manufacture of fabricated metal products, except machinery and equipment	38,0	1,8	-34,4	3,8	1,9	-15,0	3,4	-8,6	3,3	22,9	4,4	21,9	2,0	-12,4	-12,2	-1,2	0,1
29) Manufacture of machinery and equipment n.e.c	40,3	0,5	-29,5	24,5	29,9	36,9	45,0	-21,0	3,4	6,9	24,0	-12,5	53,8	22,6	-2,5	1,8	12,7
30) Manufacture of office machinery and computers	47,0	-12,2	-60,4	-25,5	6,8	14,1	-47,3	-71,9	-69,3	-31,2	-39,2	17,3	-12,0	14,8	-45,8	-68,7	-37,2
31) Manufacture of electrical machinery and apparatus n.e.c	-20,0	-3,1	-31,3	19,2	14,4	48,2	46,8	85,9	8,9	-5,6	-7,5	29,6	50,4	5,7	-23,2	-10,3	15,3
33) Manufacture od medical, precision and optical instruments, watches and clocks	3,1	19,9	-12,5	-4,5	-5,6	5,8	27,4	0,1	-10,5	-44,9	-40,9	-37,1	-29,8	-0,2	16,3	15,7	-12,6
34) Manufacture of motor vehicles,trailers and semi-trailers	56,8	-2,4	-70,8	-44,3	-64,2	-46,1	-51,5	-49,4	-50,5	-61,4	-59,2	-58,2	-58,9	-50,3	-60,4	-52,0	-55,4
35) Manufacture of other transport equipment	-23,0	80,1	-45,2	-24,4	64,6	201,0	-34,9	-21,8	-48,8	16,5	-54,9	-61,2	-52,7	-50,2	-67,2	-28,2	-33,4
36) Manufacture of furniture; manufacturing n.e.c	16,3	-11,7	-24,8	43,7	-1,0	-4,7	-9,9	-8,5	-3,6	-18,1	-18,9	-12,2	-6,7	-15,0	-34,1	-19,5	-13,3
37) Recycling	8,8	4,2	-33,8	51,5	-4,9	41,7	-6,6	-21,8	-24,3	-6,6	-6,6	10,1	-26,3	-3,2	-2,9	19,1	-6,1
ELECTRICITY, GAS AND WATER SUPPLY																	
40) Electricity,gas,steam and hot water supply	1,7	9,1	-4,3	2,4	6,4	-2,8	12,9	-5,4	-6,3	19,9	23,2	15,4	0,8	-0,6	14,0	-20,2	3,3

Source: FBiH- Agency for Statistics of FBiH

Table 3: Industrial production in RS: disaggregated indices of major industries

Growth rate % y/y

	2007	2008	2009	2010	2011												
					Jan	Feb	Mar	Apr	Maj	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Dec
INDUSTRY TOTAL	**1,4**	**16,8**	**19,0**	**5,0**	**8,8**	**1,7**	**3,6**	**2,8**	**-2,7**	**7,9**	**21,1**	**15,9**	**3,6**	**5,9**	**-0,4**	**-6,7**	**4,7**
C) MINING AND QUARRYING	2,7	14,1	-7,5	9,1	57,3	26,4	13,7	14,7	7,0	33,8	65,7	17,8	6,2	0,8	13,6	0,4	18,2
D) MANUFACTURING INDUSTRY (PROCESSING INDUSTRY)	4,1	19,4	35,1	5,1	9,8	5,2	8,5	6,1	-1,6	8,0	3,7	1,9	4,6	2,7	0,7	0,6	3,9
E) ELECTRICITY, GAS AND WATER SUPPLY	-5,4	10,5	7,9	3,0	-2,0	-9,2	-5,4	-7,8	-8,2	-3,1	35,4	44,3	-0,4	14,7	-8,7	-18,0	0,0
MINING AND QUARRYING																	
10) Mining of coal and lignite, extraction of peat	-13,3	34,3	8,3	-5,9	96,7	19,8	2,2	4,2	17,2	40,1	88,8	43,9	-9,4	17,8	14,4	-5,1	21,6
13) Mining of metal ores	-3,4	1,4	-33,1	55,8	-27,3	17,1	17,4	21,9	-25,3	-1,7	35,5	-22,3	25,1	-16,3	18,8	43,8	4,2
14) Other mining and quarrying	27,2	39,9	-30,6	-25,1	133,5	362,0	114,6	57,5	66,8	103,6	52,6	23,1	31,2	-24,9	-2,3	-26,7	34,4
MANUFACTURING INDUSTRY (PROCESSING INDUSTRY)																	
15) Manufacture of food products and baverages	-0,6	4,6	0,3	3,9	1,3	-8,6	-13,0	-6,8	-11,7	-4,8	-8,6	-4,4	5,0	-1,4	1,3	-5,0	-4,7
16) Manufacture of tobacco products	-24,4	9,5	38,7	-22,9	-19,4	1,9	-20,8	-52,2	-22,6	-36,6	-40,7	-41,3	-11,9	-60,4	-52,8	33,3	-25,7
17) Manufacture of textiles	79,4	2,8	-11,6	-42,1	36,2	-2,6	-45,9	119,9	-27,6	76,8	-7,4	87,5	30,2	84,1	23,7	-27,8	22,2
18) Manufacture of wearing apparel; dressing and dyeing of fur	27,8	-7,3	-19,3	-28,7	9,9	-30,3	13,4	22,2	9,6	-21,2	-0,7	7,8	21,7	26,5	-0,9	-1,9	2,2
19) Leather tanning and dressing: luggage, seddlery handbags, shoes etc manufacture	-16,1	-10,1	-4,6	24,0	6,1	66,9	69,8	29,5	22,5	28,3	15,6	7,9	27,9	-0,2	-23,0	-0,3	17,9
20) Mfr. of wood and products of wood and cork, straw and plaiting mat. products	-8,7	-8,2	-30,3	1,1	12,2	29,1	21,1	24,7	11,7	19,5	11,2	7,4	11,4	10,0	4,4	15,2	14,0
21) Manufacture of pulp,paper and paper products	17,0	6,5	1,3	-4,7	-9,8	3,3	-9,8	-4,9	-8,7	-8,7	-10,5	13,3	12,8	-3,9	-0,2	-7,8	-3,5
22) Publishing,printing and reproduction of recorded media	-3,2	3,1	-16,4	14,7	-1,4	12,6	11,9	6,5	-14,4	-8,1	-4,4	-5,3	-19,4	23,0	2,2	-15,6	-2,9
23) Mfr. of coke, refined petroleum products&nuclear fuel	8,6	574,8	1234,5	12,5	22,7	32,6	26,0	-57,9	17,5	7,4	16,3	-14,2	5,5	12,1	189,6	37,8	15,5
24) Manufacture of chemicals and chemical products	-2,8	2,4	150,1	-2,6	52,5	-10,9	16,0	71,9	13,8	-27,7	4,2	40,6	21,9	8,2	1,5	16,8	12,7
25) Manufacture of rubber and plastic products	-3,9	-3,0	-21,7	-6,1	5,0	14,8	-7,3	-11,7	-4,2	-3,0	4,6	4,1	16,3	-15,7	6,5	-8,5	-0,6
26) Manufacture of other non-metalic mineral products	7,3	19,0	-12,3	5,7	-42,8	11,5	-1,1	-1,3	5,0	32,0	-1,0	3,0	-13,0	8,3	14,0	-12,2	3,2
27) Manufacture of basic metals	-15,1	5,2	-39,6	31,8	-4,9	-8,7	1,3	-5,1	-16,2	7,7	1,3	11,2	-0,7	9,6	11,3	6,7	0,7
28) Manufacture of fabricated metal products, except machinery and equipment	5,7	-14,0	-35,1	3,3	30,6	12,5	1,3	9,0	-22,1	3,4	15,1	-9,9	15,4	-6,7	-6,2	12,8	2,8
29) Manufacture of machinery and equipment n.e.c	30,9	13,1	-28,8	35,3	37,9	-22,5	13,4	-44,6	-17,4	88,9	17,9	-81,9	-74,3	-39,7	29,7	31,4	-28,4
30) Manufacture of office machinery and computers	37,8	-14,0	-4,3	15,7	2,1	47,1	56,6	30,9	35,5	5,7	36,5	16,2	33,2	26,6	44,6	66,3	32,9
31) Manufacture of electrical machinery and apparatus n.e.c	-10,0	116,1	-41,5	31,8	16,0	48,1	10,8	11,8	19,6	55,6	15,5	9,5	8,4	-26,8	-12,4	-39,8	5,1
33) Manufacture od medical, precision and optical instruments, watches and clocks	-66,7	-84,2	12,1	70,9	125,8	32,2	290,7	167,2	906,5	410,3	-28,9	-89,8	233,1	-27,3	-37,0	-21,7	19,5
34) Manufacture of motor vehicles,trailers and semi-trailers	-7,6	-12,3	0,7	-11,1	50,3	-1,6	-6,9	18,0	-2,0	-18,9	6,6	-20,6	40,8	10,2	-16,2	28,9	5,3
35) Manufacture of other transport equipment	14,9	38,0	1241,2	-24,1	-20,9	-12,5	64,4	-36,5	-7,5	134,8	47,1	-32,4	-54,8	-43,3	-43,7	-48,6	-20,1
36) Manufacture of furniture; manufacturing n.e.c	13,7	17,7	-30,6	-5,1	23,7	13,3	56,0	36,3	42,1	15,9	25,1	66,7	14,2	29,9	-1,5	-1,5	24,8
37) Recycling	74,0	31,2	-21,0	59,6	177,7	-5,0	8,8	-39,8	-17,7	-38,0	17,0	13,8	-49,0	-43,8	-40,8	6,0	-10,4
ELECTRICITY, GAS AND WATER SUPPLY																	
40) Electricity,gas,steam and hot water supply	-5,4	10,5	7,9	3,0	-2,0	-9,2	-5,4	-7,8	-8,2	-3,1	35,4	44,3	-0,4	14,7	-8,7	-18,0	0,0

Source: RS Institute of Statistics

Table 4: Real sector in BH - industry and services Growth y/y in %

		2007	2008	2009	2010	2011										
						jan-dec	Q1	Q2	Q3	Q4	jul	aug	sep	okt	nov	dec
Industrial output - volume	Industrial production - volume	6,6	7,3	1,5	3,7	5,6	10,4	5,2	5,2	2,1	10,4	4,5	1,0	0,6	5,4	0,4
	Intermediate goods	6,4	1,2	-9,5	12,0	7,8	14,2	8,1	5,8	4,4	15,9	-0,1	2,6	-1,4	9,2	6,1
	Capital goods	10,1	0,6	49,7	-26,7	-1,2	42,4	0,8	-16,8	-16,6	-13,4	-14,5	-21,5	-14,6	-11,3	-22,6
	Consumer goods	12,9	13,6	4,3	5,3	3,3	7,0	2,5	-1,3	5,5	-7,6	-1,0	4,9	0,2	2,2	13,9
	Consumer durables	24,1	26,3	-5,1	20,6	-2,6	-6,1	-8,1	2,8	0,6	-11,6	27,8	-5,2	2,0	-11,5	13,2
	Consumer non-durables	10,6	10,6	6,8	1,8	4,9	11,4	5,1	-2,3	6,9	-6,7	-7,8	8,1	-0,3	6,5	14,0
	Energy	1,6	11,3	3,5	1,6	6,2	5,6	4,9	15,9	0,3	27,8	20,5	0,9	6,0	6,8	-9,8
Construction	Total construction	25,5*	24,6*	-19,9*	-17,6*	6,4*	9,0*	19,2*	-8,6*	10,3*	-8,4*	2,6*	-18,1*	9,0*	12,1*	9,9*
	Residential buildings	NA	26,9*	-24,5*	-24,2*	5,7*	6,7*	-4,3*	17,5*	3,2*	10,0*	30,4*	13,4*	30,0*	-8,6*	-7,9*
	Non-residential buildings	NA	18,5*	-25,1*	-32,1*	7,4*	-10,3*	11,2*	-5,8*	27,7*	-7,2*	-5,0*	-5,4*	18,8*	65,9*	3,1*
	Transport infrastructure	NA	31,5*	-18,1*	3,5*	8,3*	41,5*	40,5*	-16,5*	3,7*	-13,2*	-2,3*	-30,5*	4,8*	-9,7*	18,7*
	Pipelines, communication and eletricity lines	NA	44,2*	3,7*	-25,1*	3,3*	2,3*	9,2*	-16,3*	16,2*	-10,8*	5,3*	-35,2*	-3,4*	28,8*	21,6*
Transport	Road transport (goods)	49,7	15,6	-11,3	-5,1	0,5^	4,5	-1,3	-2,4	-	-	-	-	-	-	-
	Road transport (passengers)	3,9	-4,0	-5,3	3,7	3,4^	1,1	2,4	4,6	-	-	-	-	-	-	-
	Urban – suburban transport (passengers)	-20,7	-0,5	-0,5	2,3	-3,5^	-1,2	-2,5	-7,7	-	-	-	-	-	-	-
	Rail transport (goods)	2,8	7,9	-15,8	-5,8	13,3^	15,5	11,5	13,0	-	-	-	-	-	-	-
	Rail transport (passengers)	-3,3	11,2	-27,5	-0,4	-0,6^	1,0	-3,0	0,4	-	-	-	-	-	-	-
Retail trade	Trade in current prices	14,9*	19,5*	-10,0*	6,6*	10,9*	10,4*	12,8*	9,3*	11,3*	8,3*	10,7*	8,9*	11,9*	9,7*	12,1*
	Trade in constant prices - deflated by CPI	13,4*	12,0*	-9,6*	4,5*	7,2*	7,1*	8,8*	5,4*	7,8*	4,4*	6,8*	4,9*	8,2*	5,9*	9,0*
Tourism	Total arrivals	20,0*	4,6	-6,3	14,6	4,5	5,0	-	-	-	9,1	2,9	9,1	4,6	-0,2	5,0
	Domestic tourists	17,4*	4,3	-9,5	11,2	1,1	4,2	-	-	-	-2,4	0,1	3,5	2,9	3,0	0,5
	Foreign tourists	22,5*	4,9	-3,3	17,5	7,2	5,8	-	-	-	16,4	4,2	13,1	5,8	-3,3	10,9

Sources: BHAS and entity statistical agencies

* Weighted average of entity indices published by the entity statistical offices

^ Period january-september

Table 5: Real sector by entities - industry and services

Growth y/y in %

			2007	2008	2009	2010	2011										
							jan-dec	K1	K2	K3	K4	jul	avg	sep	okt	nov	dec
Industry and Construction	Industrial output - volume	FBiH	8,6	7,9	-11,6	4,2	2,5	7,4	3,0'	4,3'	-3,5'	4,1	3,2	5,5	-1,4	-2,7	-6,4
		RS	1,4	16,8	19,0	5,0	4,7	4,6	2,7'	13,5'	-0,4'	21,0	15,9	3,6	5,9	-0,4	-6,7
	Construction (value of completed works)	FBiH	22,6	34,1	-28,2	-13,6	14,0	3,5	24,8	4,4	19,7	12,8	4,9	-2,8	11,7	34,7	14,3
		RS	29,6	11,8	-8,0	-21,9	-2,0	17,0	12,5	-21,3	0,0	-26,8	-0,1	-32,5	5,5	-9,8	5,2
Transport	Road transport (goods)	FBiH	55,1	6,1	-7,7	3,6	0,9^	-12,7	-	0,2	-	-	-	-	-	-	-
		RS	20,6	3,1	-9,9	1,6	4,5	24,8	8,0	-3,7	0,3	-	-	-	-	-	-
	Road transport (passengers)	FBiH	2,3	-2,4	-1,4	-0,1	0,2^	-2,1	-	-0,4	-	-	-	-	-	-	-
		RS	8,3	-4,6	-16,9	17,8	12,1	16,2	17,3	10,3	13,1	-	-	-	-	-	-
	Urban – suburban transport (passengers)	FBiH	-23,7	-1,3	-2,1	2,4	-3,8^	-0,6	-	-9,4	-	-	-	-	-	-	-
		RS	7,6	4,9	10,5	3,3	-2,8	-2,7	-1,8	6,1	0,9	-	-	-	-	-	-
	Rail transport (goods)	FBiH	5,4	20,9	-13,8	11,0	15,9	16,6	22,5	17,5	7,3	-	-	-	-	-	-
		RS	-0,4	-4,6	-19,2	24,0	2,0	13,8	-4,1	6,5	-6,9	-	-	-	-	-	-
	Rail transport (passengers)	FBiH	4,5	26,0	-12,5	7,4	1,6	24,7	10,8	-7,6	-14,0	-	-	-	-	-	-
		RS	-7,4	2,4	38,5	-10,3	-21,1	-20,0	-20,0	13,5	-53,4	-	-	-	-	-	-
Retail trade	Trade in current prices	FBiH	14,0	18,3	-9,9	7,4	12,4	11,3	13,4	10,8	13,9	10,0	11,9	10,5	14,2	12,4	14,9
	Trade in constant prices - deflated by CPI		12,1	10,6	-9,6	5,6	12,4	11,3	13,4	10,8	13,9	10,0	11,9	10,5	14,2	12,4	14,9
	Trade in current prices	RS	16,2	21,5	-10,2	6,1	7,6	6,5	11,3	6,8	5,8	4,7	9,1	6,7	6,8	4,4	6,0
	Trade in constant prices - deflated by CPI		15,1	14,3	-9,8	3,6	7,6	3,8	11,3	6,8	5,8	4,7	9,1	6,7	6,8	4,4	6,0
Tourism - arrivals	Domestic tourists	FBiH	18,0	2,7	-14,2	16,7	2,9	-1,8	-	-	-	-5,7	9,5	11,7	8,4	7,7	-1,5
		RS	11,0	6,0	-4,9	6,1	-0,6	5,4	-2,2	-2,8	-0,9	2,3	-7,3	-3,9	-1,8	-2,6	1,8
	Foreign tourists	FBiH	17,9	1,8	-0,6	25,3	9,2	7,8	-	-	-	20,5	3,7	17,8	6,3	-7,6	4,0
		RS	24,3	11,6	-7,2	1,3	2,4	1,3	-3,8	3,1	10,3	4,9	5,7	-1,7	4,9	4,7	23,5
Catering	Catering in current prices	FBiH	24,7	14,2	-2,9	6,9	-5,5^	-10,6	-2,0	5,2	-	-	-	-	-	-	-
	Catering in constant prices - deflated by CPI		22,9	5,5	-2,6	5,1	-5,5^	-13,6	-2,0	5,2	-	-	-	-	-	-	-
	Catering in current prices	RS	17,6	31,4	-0,1	1,2	-2,3^	-1,0	-3,4	-2,7	-	-1,7	-6,3	0,2	-	-	-
	Catering in constant prices - deflated by CPI		16,5	24,2	0,3	-1,3	-2,3^	-1,0	-3,4	-2,7	-	-1,7	-6,3	0,2	-	-	-

Sources: Entity statistical agencies

(') - average of monthly indices

^ Period january-september

Table 6: Labour market

Period	number of employed*				numer of unemployed				unemployment rate				average net wages				average pensions*			
	BiH	FBiH	RS	BD	BiH	FBiH	RS	BD	BiH	FBiH	RS	BD	BiH	FBiH	RS	BD	BiH	FBiH	RS	BD
	persons								%				KM							
ø 2008	694.416	430.745	259.205	15.903	493.344	345.381	135.102	12.862	41,5	44,5	34,3	44,7	752	751	755	730	324	340	297	311
ø 2009	697.441	437.501	258.634	16.120	497.562	347.146	139.536	10.880	41,6	44,2	35,0	40,3	790	792	788	769	336	346	320	326
ø 2010	695.780	438.949	244.453	16.849	516.964	360.513	145.343	11.109	42,6	45,1	37,3	39,7	798	804	784	796	333	340	320	316
ø 2011	691.548	440.747	238.956	16.425	529.644	367.515	150.344	11.785	43,4	45,5	38,6	41,8	816	819	809	807	338	349	321	319
I 2011	693.885	440.461			526.701	367.180	147.912	11.609	43,2	45,5			807	811	798	790	332	339	320	315
II 2011	693.366	440.767			527.749	366.481	149.459	11.809	43,2	45,4			799	797	804	784	332	339	320	315
III 2011	691.803	439.994	239.988	16.489	530.055	367.255	151.076	11.724	43,4	45,5	38,6	41,6	818	823	807	801	332	339	320	315
IV 2011	691.511	440.419			529.423	366.658	150.911	11.854	43,4	45,4			811	815	803	801	341	354	320	321
V 2011	691.759	440.429			526.616	365.322	149.573	11.721	43,2	45,3			821	823	816	814	341	353	320	321
VI 2011	692.834	441.184		16.336	525.877	365.029	149.110	11.738	43,2	45,3		41,8	820	822	817	814	341	353	320	320
VII 2011	693.282	442.226			528.429	367.113	149.573	11.743	43,3	45,4			813	814	811	807	341	353	321	320
VIII 2011	690.054	440.201			530.976	369.644	149.765	11.567	43,5	45,6			822	827	813	805	340	353	321	320
IX 2011	690.942	441.115	237.923	16.535	529.789	367.512	150.669	11.608	43,4	45,4	38,8	41,2	814	820	807	807	340	352	321	320
X 2011	691.548	442.021			530.893	367.975	150.971	11.947	43,4	45,4			813	818	802	818	340	352	321	319
XI 2011	689.671	440.677			532.442	368.922	151.576	11.944	43,6	45,6			824	829	813	819	340	352	321	319
XII 2011	687.917	439.473		16.338	536.781	371.090	153.535	12.156	43,8	45,8		42,7	828	834	815	827	340	352	321	319

Source: Agency for statistics of BiH, Institutes for statistics of FBiH and RS, entity Unemployment bureaus, Pension Insurance Institute of FBiH and RS
* Number of employed in BiH, source: Agency for Statistics of BiH; number of employed in FBiH and RS, source: entity Agency for Statistics.
* Average pensions for BiH are calculated by the DEP staff based on entity levels, weighted by the ratio of total number of pensioners in each BiH entity.

Table 7: Structure of Monetary Aggregates (end of period)

Period	Reserve money (M0)				Transaction money (M1)			Quasi money (QM)				M2- total
	Currency outside monetary authorities	Deposits with monetary authorities	Transf. dep. other resident sectors with monetary authorities	Total	Currency outside banks	Transf. deposits in domestic currency	Total	Other deposits in domestic currency	Transf. deposits in foreign currency	Other deposits in foreign currency	Total	
1	2	3	4	5=2+3+4	6	7	8=6+7	9	10	11	12=9+10+11	13=8+12
in millions KM												
Q1 2009	2.318,5	2.994,2	6,5	5.319,1	2.016,1	3.176,2	5.192,3	1.807,6	1.097,5	3.960,8	6.865,9	12.058,2
Q2 2009	2.304,7	2.810,1	8,4	5.123,2	1.988,0	3.280,7	5.268,6	1.747,9	1.057,4	4.015,8	6.821,1	12.089,7
Q3 2009	2.270,9	3.244,7	4,5	5.520,2	1.979,9	3.342,4	5.322,4	1.788,6	1.077,2	4.159,2	7.025,0	12.347,4
Q4 2009	2.267,7	3.375,1	6,0	5.648,8	2.009,5	3.536,3	5.545,8	1.844,3	1.078,7	4.241,0	7.164,0	12.709,8
Q1 2010	2.255,0	3.319,1	3,8	5.577,8	1.974,8	3.554,3	5.529,1	1.836,8	1.219,3	4.340,2	7.396,3	12.925,3
Q2 2010	2.286,5	3.082,3	7,1	5.375,9	1.989,8	3.509,8	5.499,6	1.854,3	1.307,2	4.440,1	7.601,6	13.101,1
Q3 2010	2.407,4	3.273,3	7,6	5.688,3	2.109,3	3.688,9	5.798,3	1.892,0	1.217,5	4.448,7	7.558,2	13.356,5
Q4 2010	2.497,5	3.393,5	8,7	5.899,7	2.210,8	3.689,2	5.900,0	1.991,0	1.210,6	4.526,4	7.727,9	13.627,9
Q1 2011	2.468,6	3.099,9	8,8	5.577,3	2.164,3	3.656,2	5.820,6	2.047,8	1.138,5	4.665,0	7.851,2	13.671,8
Q2 2011	2.507,8	3.034,8	10,3	5.552,9	2.205,7	3.684,7	5.890,4	2.088,3	1.194,2	4.610,2	7.892,6	13.783,0
Q3 2011	2.561,3	3.053,3	9,7	5.624,3	2.252,7	3.816,8	6.069,4	2.156,2	1.121,3	4.786,0	8.063,5	14.132,9
Q4 2011	2.645,1	3.192,8	11,1	5.848,9	2.366,4	3.819,0	6.185,4	2.289,4	1.100,2	4.849,9	8.239,5	14.424,9
percentage change y/y (%)												
Q1 2009	0,3%	-18,3%	-1,5%	-11,1%	-2,2%	-11,3%	-8,0%	6,1%	-4,3%	9,1%	5,9%	-0,6%
Q2 2009	-1,3%	-24,0%	50,0%	-15,1%	-4,2%	-7,9%	-6,6%	-4,4%	-8,8%	3,8%	-0,5%	-3,2%
Q3 2009	-5,7%	-15,7%	-46,4%	-11,9%	-7,0%	-10,0%	-8,9%	-3,4%	-9,9%	-1,4%	-3,3%	-5,8%
Q4 2009	-11,2%	7,3%	-18,9%	-1,0%	-12,7%	4,4%	-2,6%	3,8%	-2,6%	9,7%	6,2%	2,2%
Q1 2010	-2,7%	10,9%	-41,5%	4,9%	-2,0%	11,9%	6,5%	1,6%	11,1%	9,6%	7,7%	7,2%
Q2 2010	-0,8%	9,7%	-15,5%	4,9%	0,1%	7,0%	4,4%	6,1%	23,6%	10,6%	11,4%	8,4%
Q3 2010	6,0%	0,9%	68,9%	3,0%	6,5%	10,4%	8,9%	5,8%	13,0%	7,0%	7,6%	8,2%
Q4 2010	10,1%	0,5%	45,0%	4,4%	10,0%	4,3%	6,4%	8,0%	12,2%	6,7%	7,9%	7,2%
Q1 2011	9,5%	-6,6%	131,6%	0,0%	9,6%	2,9%	5,3%	11,5%	-6,6%	7,5%	6,2%	5,8%
Q2 2011	9,7%	-1,5%	45,1%	3,3%	10,9%	5,0%	7,1%	12,6%	-8,6%	3,8%	3,8%	5,2%
Q3 2011	6,4%	-6,7%	27,6%	-1,1%	6,8%	3,5%	4,7%	14,0%	-7,9%	7,6%	6,7%	5,8%
Q4 2011	5,9%	-5,9%	27,6%	-0,9%	7,0%	3,5%	4,8%	15,0%	-9,1%	7,1%	6,6%	5,8%

Source: Central bank of BiH

Table 8: Consumer Price Index (CPI)

Code	00		01		02		03		04		05	
Code description	**General index**		**Food and non-alcoholic beverages**		**Alcoholic beverages, tobacco**		**Clothing and footwear**		**Housing, water, electricity, gas and other fuels**		**Furnishings, household equipment and routine maintenance of the house**	
Index type	**2010=100**	**y/y**	**2010=100**	**y/y**	**2010=100**	**y/y**	**2010=100**	**y/y**	**2010=100**	**y/y**	**2010=100**	**y/y**
ø 2008		107,4		112,1		101,1		97,9		108,5		102,2
ø 2009		99,6		99,1		109,8		96,1		103,9		100,8
ø 2010		102,1		99,3		120,2		95,4		103,1		100,1
ø 2011		103,7		106,0		108,2		92,7		103,1		101,1
I 2011	102,7	102,7	104,1	104,6	107,4	107,4	96,1	92,9	104,9	101,7	100,3	100,5
II 2011	103,5	103,3	105,7	106,0	108,5	108,4	95,9	92,8	105,5	102,1	100,3	100,3
III 2011	104,2	103,9	107,4	107,5	107,5	107,5	95,9	93,0	105,1	101,4	100,3	100,4
IV 2011	103,6	104,0	107,8	107,6	107,7	107,6	93,4	92,1	97,5	101,2	100,6	100,8
V 2011	103,9	104,2	107,9	108,3	108,2	108,1	93,0	92,1	97,6	101,3	100,8	100,9
VI 2011	103,3	103,8	106,7	107,2	108,3	108,4	92,4	92,1	97,8	101,6	100,9	100,9
VII 2011	103,3	103,9	105,4	105,9	108,4	108,5	91,8	92,0	101,8	105,8	100,9	100,9
VIII 2011	103,2	103,9	104,5	105,4	108,5	108,5	91,7	92,4	102,1	106,6	101,6	101,5
IX 2011	103,5	104,0	105,2	105,3	108,4	108,2	91,3	92,4	102,3	106,4	101,8	101,8
X 2011	104,0	103,7	105,3	105,4	108,6	108,4	90,5	93,6	107,0	103,0	101,9	101,9
XI 2011	104,4	103,8	105,9	105,3	108,5	108,6	90,0	93,3	108,0	103,5	101,9	101,9
XII 2011	104,4	103,1	106,1	103,6	108,5	108,9	89,9	93,4	108,0	103,3	102,0	101,5

* Since January 2011, the compilation of the CPI has been based on the weights derived from household expenditures from the Household Budget Survey 2007.
Reference base year for index calculation is 2010.

Source: Agency for Statistics of BiH

Table 8a: Consumer Price Index (CPI) - cont.

Code	06		07		08		09		10		11		12	
Code description	Health		Transport		Communications		Recreation and culture		Education		Restaurants and hotels		Miscellaneous goods and services	
Index type	2010=100	y/y	2010=100	y/y	2010=100	y/y	2010=100	y/y	2010=100	y/y	2010=100	y/y	2010=100	y/y
ø 2008		100,4		111,2		104,4		104,0		102,5		107,1		102,8
ø 2009		100,8		90,1		101,5		103,2		99,8		104,9		102,3
ø 2010		101,8		107,1		106,9		100,7		102,6		101,1		100,7
ø 2011		98,1		107,5		105,4		100,6		100,0		101,8		100,0
I 2011	98,5	96,9	103,5	106,0	105,2	105,3	100,2	100,6	100,0	100,0	100,7	100,8	100,0	100,1
II 2011	98,3	96,6	104,2	106,7	105,2	105,3	100,1	100,4	100,0	100,0	101,0	101,2	100,1	100,1
III 2011	98,2	97,2	106,1	107,9	105,2	105,3	100,4	100,4	100,0	100,0	100,9	101,0	100,1	100,3
IV 2011	98,0	97,5	107,6	108,3	105,5	105,4	100,6	100,8	100,0	100,0	101,0	101,1	99,9	100,1
V 2011	98,2	97,6	108,6	107,8	105,5	105,4	100,6	100,7	100,0	100,0	101,3	101,4	99,9	100,0
VI 2011	98,1	98,1	107,7	106,8	105,4	105,4	100,8	100,8	100,0	100,0	101,4	101,6	99,9	99,8
VII 2011	98,1	98,7	108,1	107,2	105,4	105,4	101,1	101,1	100,0	100,0	101,5	101,7	99,7	99,6
VIII 2011	98,1	98,8	108,8	108,0	105,4	105,4	101,1	100,9	100,0	100,0	101,7	101,9	99,9	99,7
IX 2011	98,1	99,0	108,8	108,4	105,4	105,4	100,7	100,4	100,1	100,3	102,7	103,0	100,1	99,8
X 2011	98,0	99,0	108,6	108,1	105,4	105,4	100,7	100,6	100,1	100,2	103,0	102,5	100,1	100,0
XI 2011	98,0	99,2	109,3	108,4	105,4	105,4	100,6	100,4	100,1	100,2	103,0	102,5	100,0	100,0
XII 2011	97,9	99,3	109,1	106,9	105,4	105,3	100,6	100,4	100,1	100,2	103,4	102,9	100,1	100,3

Table 9: Growth rate and sectoral structure of loans (outstanding amount at the end of preiod; in millions of KM)

Period	Loans to general government	Loand to nonfinancial public enterprises	Loans to nonfinancial private enterprises	Loans to households	Other loans*	Total loans
	1	2	3	4	5	6=1+...+5
I - XII 2007	127,9	624,2	5.258,2	5.668,9	172,4	11.851,4
I - III 2008	135,2	603,0	5.726,0	5.993,1	218,3	12.675,5
I - VI 2008	232,4	590,0	6.222,4	6.405,9	222,2	13.672,9
I - IX 2008	244,5	617,6	6.523,3	6.689,7	226,4	14.301,5
I - XII 2008	263,6	626,5	6.722,0	6.696,7	200,7	14.509,5
I - III 2009	282,6	650,9	6.727,3	6.633,5	161,9	14.456,2
I - VI 2009	447,7	648,3	6.704,1	6.523,8	135,6	14.459,5
I -IX 2009	313,5	636,6	6.609,4	6.431,6	117,8	14.108,8
I - XII 2009	344,6	633,8	6.646,7	6.307,2	117,8	14.050,1
I - III 2010	342,8	651,0	6.750,0	6.206,1	119,7	14.069,4
I - VI 2010	364,8	676,1	6.735,8	6.295,4	109,8	14.181,9
I - IX 2010	415,7	645,5	6.738,5	6.292,1	106,4	14.198,1
I - XII 2010	445,7	737,7	6.933,5	6.324,3	102,3	14.543,4
I - III 2011	461,0	711,2	7.215,8	6.273,2	106,9	14.768,1
I - VI 2011	485,7	724,1	7.272,1	6.417,3	95,2	14.994,4
I - IX 2011	511,0	754,1	7.292,7	6.479,3	86,5	15.123,7
I - XII 2011	627,0	764,0	7.125,5	6.703,3	93,1	15.312,8
Growth rate y/y						
I - XII 2007	85,1%	-1,1%	30,0%	30,0%	85,4%	28,8%
I - III 2008	60,0%	-6,5%	33,4%	29,5%	109,9%	30,0%
I - VI 2008	121,3%	-7,9%	36,3%	27,2%	52,7%	30,3%
I - IX 2008	113,2%	-2,3%	34,6%	24,4%	48,2%	28,6%
I - XII 2008	106,1%	0,4%	27,8%	18,1%	16,4%	22,4%
I - III 2009	109,0%	7,9%	17,5%	10,7%	-25,8%	14,0%
I - VI 2009	92,6%	9,9%	7,7%	1,8%	-39,0%	5,8%
I -IX 2009	28,2%	3,1%	1,3%	-3,9%	-48,0%	-1,3%
I - XII 2009	30,7%	1,2%	-1,1%	-5,8%	-41,3%	-3,2%
I - III 2010	21,3%	0,0%	0,3%	-6,4%	-26,1%	-2,7%
I - VI 2010	-18,5%	4,3%	0,5%	-3,5%	-19,0%	-1,9%
I - IX 2010	32,6%	1,4%	2,0%	-2,2%	-9,7%	0,6%
I - XII 2010	29,3%	16,4%	4,3%	0,3%	-13,2%	3,5%
I - III 2011	34,5%	9,2%	6,9%	1,1%	-10,7%	5,0%
I - VI 2011	33,1%	7,1%	8,0%	1,9%	-13,3%	5,7%
I - IX 2011	22,9%	16,8%	8,2%	3,0%	-18,7%	6,5%
I - XII 2011	40,7%	3,6%	2,8%	6,0%	-9,0%	5,3%

Source: Central Bank of Bosnia and Herzegovina
*In other loans are loans to other nonfinancial institutions, nonprofit organizations and other loans.

Table 10: Growth rate and sectoral structure of deposits (outstanding amount at the end of period; in millions of KM**)**

Period	General government deposits	Deposits of nonfinancial public enterprises	Deposits of nonfinancial private enterprises	Households deposits	Other deposits*	Total deposits
	1	**2**	**3**	**4**	**5**	**6=1+...+5**
I - XII 2007	3.057,6	1.278,8	1.916,5	5.166,0	668,4	12.087,2
I - III 2008	2.872,3	1.452,4	1.789,9	5.329,8	686,6	12.130,9
I - VI 2008	2.813,2	1.501,3	1.815,3	5.562,0	754,4	12.446,2
I - IX 2008	2.678,8	1.658,3	1.994,6	5.818,2	744,2	12.894,0
I - XII 2008	2.291,9	1.541,1	2.072,5	5.205,8	763,8	11.875,1
I - III 2009	2.264,3	1.632,0	1.844,0	5.140,5	801,4	11.682,1
I - VI 2009	2.093,8	1.651,4	1.790,2	5.255,2	828,5	11.619,0
I -IX 2009	2.090,4	1.593,1	1.931,5	5.417,0	861,1	11.893,1
I - XII 2009	2.008,0	1.606,4	1.886,0	5.663,4	928,2	12.092,1
I - III 2010	1.915,6	1.734,9	1.843,5	5.893,3	908,6	12.295,9
I - VI 2010	1.822,5	1.732,7	1.823,2	6.055,4	960,6	12.394,4
I - IX 2010	1.696,2	1.641,3	1.912,4	6.157,0	938,7	12.345,5
I - XII 2010	1.665,3	1.549,5	1.948,8	6.484,4	882,1	12.530,0
I - III 2011	1.624,8	1.631,5	1.773,9	6.611,9	908,2	12.550,3
I - VI 2011	1.523,1	1.683,9	1.708,5	6.693,3	952,7	12.561,5
I - IX 2011	1.557,3	1.563,9	1.811,7	6.879,6	1.002,1	12.814,5
I - XII 2011	1.462,5	1.532,0	1.924,1	7.050,9	1.030,7	13.000,1
Growth rate (y/y)						
I - XII 2007	112,4%	15,9%	21,1%	26,0%	24,5%	37,9%
I - III 2008	83,1%	18,2%	15,2%	22,8%	15,6%	30,6%
I - VI 2008	-2,8%	18,0%	3,0%	20,7%	28,1%	11,9%
I - IX 2008	-11,8%	30,8%	8,8%	21,0%	21,7%	11,6%
I - XII 2008	-25,0%	20,5%	8,1%	0,8%	14,3%	-1,8%
I - III 2009	-21,2%	12,4%	3,0%	-3,6%	16,7%	-3,7%
I - VI 2009	-25,6%	10,0%	-1,4%	-5,5%	9,8%	-6,6%
I -IX 2009	-22,0%	-3,9%	-3,2%	-6,9%	15,7%	-7,8%
I - XII 2009	-12,4%	4,2%	-9,0%	8,8%	21,5%	1,8%
I - III 2010	-15,4%	6,3%	0,0%	14,6%	13,4%	5,3%
I - VI 2010	-13,0%	4,9%	1,8%	15,2%	15,9%	6,7%
I - IX 2010	-18,9%	3,0%	-1,0%	13,7%	9,0%	3,8%
I - XII 2010	-17,1%	-3,5%	3,3%	14,5%	-5,0%	3,6%
I - III 2011	-15,2%	-6,0%	-3,8%	12,2%	0,0%	2,1%
I - VI 2011	-16,4%	-2,8%	-6,3%	10,5%	-0,8%	1,3%
I - IX 2011	-8,2%	-4,7%	-5,3%	11,7%	6,8%	3,8%
I - XII 2011	-12,2%	-1,1%	-1,3%	8,7%	16,8%	3,8%

Source: Central Bank of Bosnia and Herzegovina
*In other deposits are deposits of other financial institutions, nonprofit organisations and other deposits.

Table 11: Interest rates in BiH in % (average of the period)

Period	Short-term Rates on loans in KM		Long-term Rates on loans in KM		Short-term rates on KM loans indexed to foreign currency (€)		Long-term rates on KM loans indexed to foreign currency (€)		Demand Deposits Rates		Time and Savings Deposits Rates	
	Private enterprises and cooperatives	Households	Private enterprises and cooperatives	Households	Private enterprises and cooperatives	Households	Private enterprises and cooperatives	Households	Private enterprises and cooperatives	Households	Private enterprises and cooperatives	Households
I - XII 2007	7,17	9,62	7,41	10,51	7,82	9,37	8,02	8,91	0,35	0,38	3,55	3,56
I - III 2008	6,91	9,54	7,60	9,43	7,95	10,51	8,08	8,94	0,31	0,38	3,22	3,38
I - VI 2008	6,87	9,52	7,14	9,49	7,90	10,61	8,03	8,98	0,31	0,36	3,23	3,44
I - IX 2008	6,88	9,61	6,82	9,24	8,01	10,73	8,16	9,10	0,32	0,36	3,35	3,48
I - XII 2008	6,98	9,53	6,90	9,77	8,21	10,75	8,27	9,28	0,33	0,35	3,25	3,49
I - III 2009	7,48	9,59	6,22	9,49	9,07	10,09	8,27	10,48	0,36	0,32	3,92	3,51
I - VI 2009	7,69	9,54	6,75	9,56	8,85	10,32	8,25	10,47	0,33	0,30	3,96	3,60
I -IX 2009	7,86	9,62	6,65	9,29	8,78	10,25	8,17	10,35	0,32	0,29	4,00	3,60
I - XII 2009	7,93	9,68	6,72	9,13	8,75	10,20	8,08	10,22	0,32	0,28	3,96	3,60
I - III 2010	7,88	9,87	8,60	8,91	8,79	10,20	7,70	9,65	0,26	0,22	3,25	3,41
I - VI 2010	7,75	9,71	8,72	8,88	8,47	10,31	7,66	9,42	0,23	0,21	2,87	3,36
I - IX 2010	7,89	9,77	8,44	8,86	8,35	10,32	7,73	9,27	0,22	0,20	2,49	3,25
I -XII 2010	7,89	9,75	8,44	8,92	8,28	10,13	7,77	9,11	0,21	0,19	2,59	3,16
I - III 2011	7,67	10,04	7,72	9,13	8,35	10,16	7,58	8,60	0,18	0,15	2,97	2,91
I - VI 2011	7,59	9,84	7,73	8,61	8,20	10,08	7,45	8,58	0,17	0,14	2,71	2,82
I - IX 2011	7,51	9,75	7,60	8,60	8,12	9,89	7,50	8,55	0,16	0,13	2,38	2,80
I -XII 2011	7,44	9,73	7,60	8,58	7,99	9,82	7,52	8,53	0,16	0,12	2,25	2,80

Source: Central Bank of Bosnia and Herzegovina

Table 12: IMPORTS AND EXPORTS OF GOODS CLASSIFIED BY HARMONIZED SYSTEM CHAPTERS

IMPORTS AND EXPORTS OF GOODS CLASSIFIED BY HARMONIZED SYSTEM CHAPTERS		Import							Export						
		2009		2010		2011			2009		2010		2011		
		in 000 BAM	%of total	in 000 BAM	%of total	in 000 BAM	%of total	2011/2010 % change	in 000 BAM	%of total	in 000 BAM	%of total	in 000 BAM	%of total	2011/2010 % change
TOTAL		**12.348.466**	**100,0%**	**13.616.204**	**100,0%**	**15.525.428**	**100,0%**	**14,0%**	**5.530.377**	**100,0%**	**7.095.505**	**100,0%**	**8.222.112**	**100,0%**	**15,9%**
01	ANIMALS & ANIMAL PRODUCTS	375.371	3,0%	371.698	2,7%	414.636	2,7%	11,6%	90.850	1,6%	117.766	1,7%	129.030	1,6%	9,6%
02	VEGETABLE PRODUCTS	525.980	4,3%	602.151	4,4%	681.812	4,4%	13,2%	83.689	1,5%	119.275	1,7%	101.654	1,2%	-14,8%
03	ANIMAL OR VEGETABLE FATS	111.275	0,9%	103.328	0,8%	146.437	0,9%	41,7%	44.335	0,8%	55.109	0,8%	58.221	0,7%	5,6%
04	PREPARED FOODSTUFF	1.376.394	11,1%	1.425.223	10,5%	1.527.060	9,8%	7,1%	233.896	4,2%	260.932	3,7%	323.298	3,9%	23,9%
05	MINERAL PRODUCTS	1.997.221	16,2%	2.743.897	20,2%	3.456.700	22,3%	26,0%	861.725	15,6%	1.215.661	17,1%	1.315.999	16,0%	8,3%
06	CHEMICAL PRODUCTS	1.260.651	10,2%	1.345.707	9,9%	1.475.479	9,5%	9,6%	333.493	6,0%	488.657	6,9%	570.551	6,9%	16,8%
07	PLASTIC AND RUBBER	648.117	5,2%	725.141	5,3%	800.423	5,2%	10,4%	116.346	2,1%	132.505	1,9%	166.025	2,0%	25,3%
08	HIDES & SKINS	199.685	1,6%	297.960	2,2%	382.071	2,5%	28,2%	66.222	1,2%	107.809	1,5%	178.945	2,2%	66,0%
09	WOOD & WOOD PRODUCTS	150.441	1,2%	154.313	1,1%	168.226	1,1%	9,0%	393.631	7,1%	424.182	6,0%	504.399	6,1%	18,9%
10	WOOD & PULP PRODUCTS	355.890	2,9%	372.134	2,7%	398.437	2,6%	7,1%	156.806	2,8%	205.910	2,9%	234.914	2,9%	14,1%
11	TEXTILE & TEXTILE ARTICLES	664.619	5,4%	708.098	5,2%	754.905	4,9%	6,6%	323.477	5,8%	316.002	4,5%	353.110	4,3%	11,7%
12	FOOTWEAR, HEADWEAR	212.723	1,7%	226.373	1,7%	252.119	1,6%	11,4%	345.862	6,3%	412.399	5,8%	461.353	5,6%	11,9%
13	ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS	285.136	2,3%	283.649	2,1%	296.859	1,9%	4,7%	72.991	1,3%	51.839	0,7%	49.309	0,6%	-4,9%
14	PEARLS, PRECIOUS METALS AND ARTICLES THEREOF, PREC. OR SEMI-PREC. STONES	11.123	0,1%	12.154	0,1%	14.214	0,1%	16,9%	1.796	0,0%	3.751	0,1%	12.089	0,1%	222,3%
15	BASE METALS & ARTICLES THEREOF	1.074.824	8,7%	1.209.186	8,9%	1.384.043	8,9%	14,5%	1.047.236	18,9%	1.609.019	22,7%	1.934.621	23,5%	20,2%
16	MACHINERY & MECHANICAL APPLIANCES	1.838.314	14,9%	1.764.349	13,0%	1.870.228	12,0%	6,0%	618.809	11,2%	696.330	9,8%	815.133	9,9%	17,1%
17	TRANSPORTATION EQUIPMENT	804.426	6,5%	755.564	5,5%	1.053.746	6,8%	39,5%	139.917	2,5%	154.034	2,2%	188.973	2,3%	22,7%
18	INSTRUMENTS MEASURING, MUSICAL	182.326	1,5%	242.098	1,8%	191.676	1,2%	-20,8%	21.870	0,4%	16.281	0,2%	19.049	0,2%	17,0%
19	ARMS AND AMMUNITION; PARTS AND ACCESSORIES THEREOF	5.312	0,0%	6.230	0,0%	3.673	0,0%	-41,1%	40.459	0,7%	29.492	0,4%	44.484	0,5%	50,8%
20	MISCELLANEOUS	268.054	2,2%	266.230	2,0%	251.270	1,6%	-5,6%	536.787	9,7%	678.240	9,6%	760.144	9,2%	12,1%
21	WORKS OF ART, COLLECTORS' PIECES AND ANTIQUES	362	0,0%	669	0,0%	1.342	0,0%	100,6%	174	0,0%	313	0,0%	810	0,0%	159,1%
98	UNCLASSIFIED	222	0,0%	51	0,0%	72	0,0%	39,8%	6	0,0%	1	0,0%	0	0,0%	-55,9%

Source: Central Bank B&H

Table 13: Main trade partners

Countries	EXPORT						Change 2011/2010	IMPORT						Change 2011/2010
	2009		2010		2011			2009		2010		2011		
	total	in %	total	in %	total	in %		total	in %	total	in %	total	in %	
Croatia	944.137	17,1%	1.070.626	15,1%	1.204.440	14,6%	12,5%	1.853.561	15,0%	2.058.946	15,1%	2.226.507	14,3%	8,1%
Germany	813.392	14,7%	1.085.936	15,3%	1.215.957	14,8%	12,0%	1.395.300	11,3%	1.425.001	10,5%	1.648.403	10,6%	15,7%
Serbia	741.435	13,4%	894.775	12,6%	1.001.879	12,2%	12,0%	1.282.378	10,4%	1.429.477	10,5%	1.465.645	9,4%	2,5%
Italy	702.353	12,7%	862.022	12,1%	963.546	11,7%	11,8%	1.241.970	10,1%	1.210.391	8,9%	1.381.687	8,9%	14,2%
Slovenia	463.123	8,4%	611.744	8,6%	706.818	8,6%	15,5%	758.845	6,1%	808.852	5,9%	828.564	5,3%	2,4%
Russia	25.649	0,5%	37.899	0,5%	53.184	0,6%	40,3%	864.860	7,0%	1.189.098	8,7%	1.635.091	10,5%	37,5%
Other countires	1.840.288	33,3%	2.488.740	35,1%	3.076.288	37,4%	23,6%	4.951.552	40,1%	6.304.532	46,3%	6.339.531	40,8%	0,6%
TOTAL	**5.530.377**	**100,0%**	**7.095.505**	**100,0%**	**8.222.112**	**100,0%**	**15,9%**	**12.348.466**	**100,0%**	**13.616.204**	**100,0%**	**15.525.428**	**100,0%**	**14,0%**

Source: Agency for statistic B&H

Table 14: Balance of payments

Reported in million of KM Period	2010	2011	Change 2011/2010
I - CURRENT ACCOUNT (1+2+3+4)	**-1.406,8**	**-2.233,3**	**58,7%**
1. GOODS	**-6.321,6**	**-7.097,4**	**12,3%**
Export, fob	7.357,7	8.502,4	15,6%
Import, fob	-13.679,3	-15.599,8	14,0%
2. SERVICES	**1.109,2**	**1.063,5**	**-4,1%**
Credit	1.906,1	1.804,0	-5,4%
Debit	-797,0	-740,5	-7,1%
3. INCOME	**411,0**	**320,4**	**-22,0%**
Credit	803,5	874,5	8,8%
Debit	-392,5	-554,1	41,2%
Compensation of employees	707,4	744,4	5,2%
Investment income	-373,9	-535,8	43,3%
4. CURRENT TRANSFERS	**3.394,6**	**3.480,1**	**2,5%**
General government	328,7	298,6	-9,2%
Other sectors	3.398,4	3.534,7	4,0%
Workers` remittances	1.984,8	2.008,3	1,2%
Other current transfers	1.413,6	1.526,5	8,0%
II - CAPITAL AND FINANCIAL ACCOUNT (1+2)	**1.307,4**	**2.098,6**	**60,5%**
1.CAPITAL ACCOUNT	**379,7**	**358,2**	**-5,7%**
Capital transfers, credit	379,7	358,2	-5,7%
General government	238,0	216,2	-9,2%
Other sectors	141,7	142,0	0,2%
Other transfers	138,9	140,6	1,2%
2.FINANCIAL ACCOUNT	**927,6**	**1.740,4**	**87,6%**
2.1. Direct investment	277,6	584,4	110,5%
Abroad	-62,0	-27,7	-55,3%
In Bosnia and Herzegovina	339,7	612,1	80,2%
2.2. Portfolio investment	-122,4	26,3	-121,5%
2.3. Other investment	1.030,8	1.096,7	6,4%
Commercial banks	498,5	68,7	-86,2%
Other sectors	-92,9	79,3	-185,3%
Trade credits	474,9	428,6	-9,7%
Loans	2.010,4	1.974,0	-1,8%
Principal repayments	-1.332,5	-1.028,1	-22,8%
Currency and deposits	-608,2	-484,8	-20,3%
Other liabilities	80,7	59,0	-26,9%
2.4. Reserve assets	-258,4	33,1	-112,8%
III - NET ERRORS AND OMISSIONS	**99,5**	**134,7**	**35,5%**

Source: Central Bank B&H