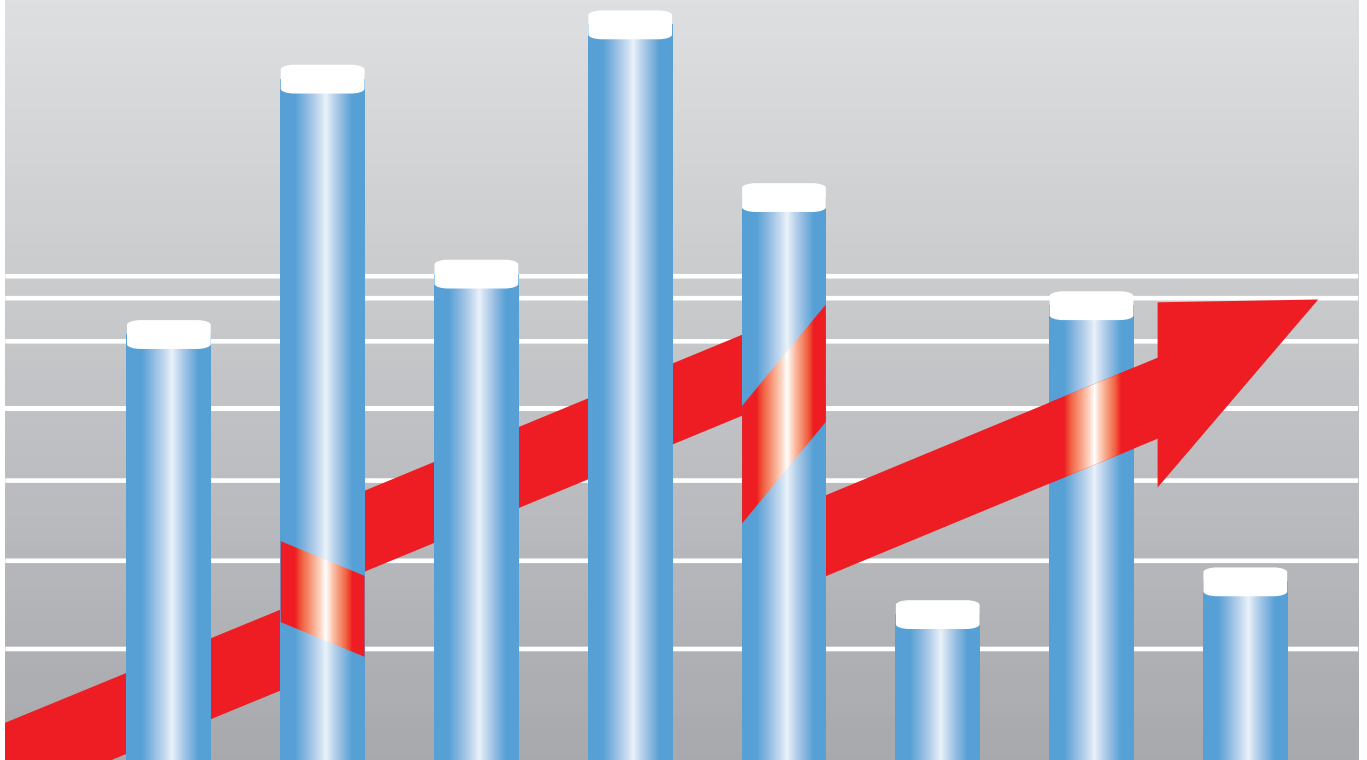




Republic of Srpska
Investment-Development Bank



ECONOMIC MONITOR

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ACRONYMS

RS	Republic of Srpska
BiH	Bosnia and Herzegovina
LFS	Labour Force Survey
IRBRS	Republic of Srpska Investment-Development Bank
GDP	Gross Domestic Product
y/y	Year on year (same period last year)
BAM	Convertible Mark
FBiH	Federation of Bosnia and Herzegovina
CPI	Consumer Price Index
CBBH	Central Bank of Bosnia and Herzegovina
EU	European Union
IMF	International Monetary Fund
RSIS	Republic of Srpska Institute of Statistics
RSEI	Republic of Srpska Employment Institute
FEI	Federation Employment Institute
BHAS	Agency for Statistics of Bosnia and Herzegovina
RSPDIF	Republic of Srpska Pension and Disability Insurance Fund
BARS	Banking Agency of the Republic of Srpska
EURIBOR	Euro Interbank Offered Rate
CL	Credit Line
BIRS	The Stock Exchange Index of the Republic of Srpska
SASX-10	Sarajevo Stock Exchange Index 10
BELEXline	Belgrade Stock Exchange General Share Index
CROBEX	Zagreb Stock Exchange Official Share Index
CEFTA	Central European Free Trade Agreement
SITC	Standard International Trade Classification
GVA	Gross Value Added
H	Half Year
Q	Quarter
RSVO	Republic of Srpska Veterans Organization

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I SUMMARY

Macroeconomic results achieved in the first half of 2010 indicate presence of a trend of moderate recovery in the RS economy. Namely, measures taken by the local authorities directed towards mitigation and overcoming of negative impacts of the global economic crisis, coupled with intensification of the upturn in the EU¹ economy and the main RS foreign trade partners² have resulted in gradual improvement of domestic economic trends.

The first half of 2010 was marked by **continued expansion of the RS industrial production which grew at the rate of 7% (y/y).** **The number of unemployed persons in RS** had a positive reaction on the increase of industrial production, thus the number of the unemployed, from the record level of 150,036 in February, **dropped to 143,073 persons in June 2010.** A gradual economic recovery in countries which are the main foreign trade partners resulted in **intensification of the RS foreign trade activity.** Namely, in H1 2010, **the RS volume of foreign trade was increased by 17% (y/y),** while **the export achieved a notable inter-annual growth of 35.3%** which is one the highest rates of growth in the region³. In such circumstances, **a foreign trade deficit was reduced by 14.6%.** During the first six months of 2010, interest rates of the RS banking sector on long term loans did not record significant fluctuations, while **the total loans in H1 achieved a growth of 3.8% (y/y).**

On the other side, **the value of performed construction works in RS achieved an inter-annual contraction of 30.6%** in the first half of 2010. The beginning of gradual upturn of domestic economy combined with moderate recovery of consumer optimism resulted in **acceleration of inflation trends in RS,** thus the general level of prices during H1 achieved an inter-annual growth of 2.7%. **The contraction of salaries in public sector** interrupted a multi year trend of growth in **value of the average salary in RS,** which **recorded a moderate inter-annual drop by 1%** in the period January-June 2010. During the first six months of 2010, the value of gross FDI in RS decreased by 22.4% as compared to the same period in 2009.

By its concept of countercyclical action with an inter-annual increase of loan investments of 16.6%, the **IRBRS secured a significant contribution to the achieved economic results of the RS in the period January-June 2010** and it was recognized as the key financier of the domestic economy. **Credit arrangements with the European Investment Bank and the World Bank will provide further diversification and expansion of the IRBRS loan offer,** as the credit line established with the EIB will be available for financing trade activity as well. Also, newly established **IRBRS loans for unemployed demobilized soldiers of the RS Army** will enable self-employment of a specific social group with limited attractiveness from the aspect of actual needs of domestic labour market, as well as further increase in the level of domestic economic activity.

A mild economic recovery in RS during H1 2010 was led by high growth of domestic export which corresponded to the consumption growth in the EU and the most significant foreign trade partners. Owing to openness of the domestic economy, the dynamics of economic recovery in RS in the forthcoming period will be primarily determined by the pace of wider, regional but also global upturn.

1. In Q2 2010, GDP in EU 27 marked an increase of 1.9% (y/y), i.e. 1.9% in eurozone. In the same period of 2009 (Q2), GDP in EU 27 achieved an inter-annual drop by 5%, i.e. in the eurozone it was 4.8%. Source: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home>

2. In Q2, Serbia's GDP achieved an inter-annual growth by 1.6%. Source: <http://webrzs.stat.gov.rs/and/index.php>

3. In the same period, the export of Serbia grew at the rate of 19.4% (y/y), Croatia at the rate of 10.1% (y/y) and FYR Macedonia at the rate of 20.5% (y/y).

II REAL SECTOR

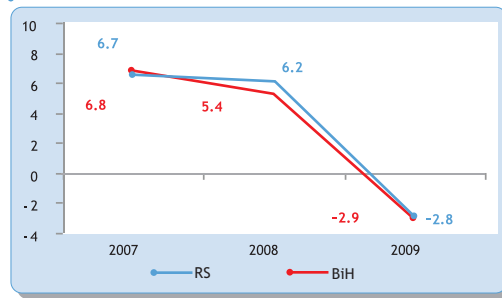
2.1 Gross Domestic Product in 2009

During 2009, a multi year trend of growth of the global economy was interrupted due to negative impacts of the economic crisis, which, according to the IMF's data, achieved a smaller volume of economic activity in the observed year amounting to 0.6% (y/y).⁴ Given that domestic economy has not been isolated from global economic developments, **RS GDP recorded a real fall of 2.8% (y/y) in the same period, while the same indicator achieved a contraction of 2.9% at the BiH level (y/y) (See Chart 1).** Concurrently, looking at the economic results of the neighbouring countries achieved in 2009, it is evident that **domestic economy had the smallest reduction of the total economic activity (See Chart 2).** A successful privatization and launching of the production in the Brod Oil Refinery (at the end of 2008), implementation of the package of **Measures to Mitigate Negative Impacts of the Global Economic Crisis on the Republic of Srpska** by the Government (January 2009) as well as investments provided from the RS Development Programme coupled with countercyclical action by the IRBRS can be seen as key reasons which enabled a more successful amortization of negative impacts of the economic crisis for the RS economy when compared to the neighbouring countries.

The main reasons for a drop in domestic economic activities in 2009 originate from the spillover of negative effects of the global economic crisis into domestic financial and real sectors. Decrease in the exports (RS -13%, BiH -17.6% y/y)⁵, a fall in the value of performed construction works (RS -8% y/y)⁶, stricter lending conditions as well as slowing down and contraction of the lending activities of the RS banks⁷ (a slow down in credit growth by 29.5 percentage points⁸), i.e. BiH (-3.1% y/y⁹), a decline in current transfers from abroad¹⁰ (BiH-12.6%), decrease in net foreign direct investments (RS¹¹ -37.05% y/y), disposable income and personal and investment consumption¹² were the main factors which led to contraction of the total domestic economic activity.

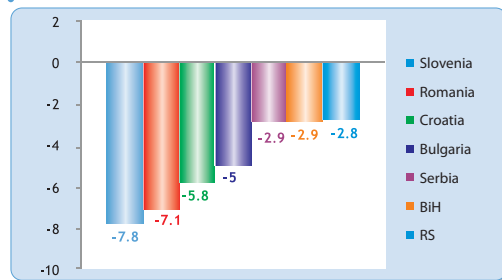
Decrease in the total economic activity resulted in a mild decline in GDP value per capita. **In 2009, GDP**

Chart 1: Real GDP Growth Rate in %, y/y



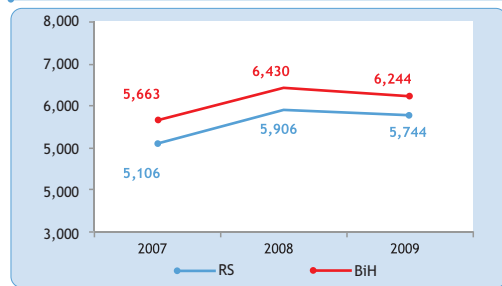
Source: RSIS and BHAS

Chart 2: Real GDP Growth - RS and Neighbouring Countries in 2009, in %, y/y



Source: RSIS and State Institutes of Statistics

Chart 3: GDP per capita, in BAM



Source: RSIS and BHAS

Table 1: Sectors with highest share in GDP, in %

Sector	RS		BiH	
	2008	2009	2008	2009
G Retail and wholesale trade, repair of motor vehicles, motorcycles and products for personal use	13.5	12.0	13.4	13.0
A Agriculture, hunting and forestry	11.5	11.4	7.5	7.5
L Civil service, defense and obligatory social security	9.1	10.3	8.9	9.8
D Processing industry	8.7	9.5	11.4	10.7
K Activities related to real estate	8.3	8.9	8.3	9.0
Production sector	32.9	33.4	30.6	30.0
Service activities	51.4	52.5	53.5	55.7

Source: RSIS and BHAS

4. Source: <http://www.imf.org/external/pubs/ft/weo/2010/update/02/index.htm>

5. Source of data: RSIS and BHAS

6. Source: RSIS

7. Refers to the banks which are registered in the territory of RS

8. According to the data of the RS Banking Agency, the RS banks displayed a growth in loans amounting to 32.5% (y/y) in 2008, while in 2009 this growth stood at 3% as compared to 2008

9. Source: CBBH – Central Bank of Bosnia and Herzegovina

10. According to data of the Central Bank of Bosnia and Herzegovina, current transfers at the level of BiH were lower by 12.6% in 2009, as compared to 2008, while according to estimates, 1/3 of the total transfers at the level of BiH refers to RS

11. Source: BiH Ministry of Foreign Trade and Economic Relations

12. Value of achieved investments in the RS in 2009 as compared to 2008 was lower by 15%. Source RSIS

per capita in RS amounted to BAM 5,744 (-2.7% y/y), and at the BiH level it was BAM 6,244 (-2.9%) (See Chart 3).

The greatest participation in the RS GDP in 2009 was achieved by activities of retail and wholesale trade (12%) and agriculture, hunting and forestry (11.4%), i.e. at the level of BiH it was by retail and wholesale trade (13%) and processing industry (10.7%). Decrease in the share of trade in RS GDP in 2009 by 1.5 percentage points indicates a contraction of domestic aggregate consumption¹³ which represents a significant generator of the economic growth (see Table 1).

On the basis of the data referring to real growth rates of individual activities (see Table 2), it is noticeable that negative impacts of the global economic crisis manifested mostly in ore and stone extraction activities, trade and construction industry. Also, it is evident that the sector of production and supply of electricity, even in the year of economic crisis, continued its positive contribution to GDP growth. Namely, according to data of the State Electricity Regulatory Commission, production of electricity in BiH was higher by 5.7%¹⁴ in 2009 as compared to 2008.

Considering aggregate participation of individual sectors¹⁵ in gross value added (GVA) in 2009 (see Chart 4), it is evident that domestic economy is based on services (tertiary) sector, and its share in GVA is followed by public and production sector.

2.2 Industrial Production

Despite negative effects of the global economic crisis, the industrial production in RS continued to expand. Cumulative volume of the industrial production in the period January-June 2010 is higher by 7% in RS as compared to the same period of 2009, i.e. by 1.3 % at the level of BiH. Chart 5 shows that the achieved growth rate of the industrial production in RS in H1 2010 was at the same level as the rate from the pre-crisis period (2008), while its significant deviation in the same period of 2009 can be attributed, to a great extent, to the starting of the operation of the Brod Oil Refinery¹⁶.

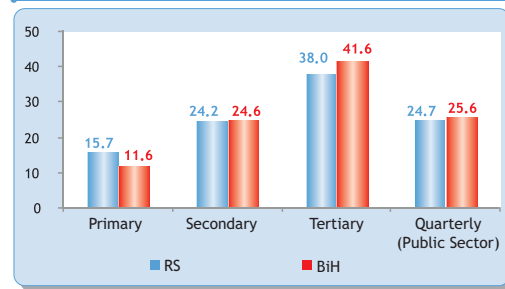
The main foreign trade partners of the Republic of Srpska achieved mixed results in terms of growth rate of industrial production volume in H1 2010: Serbia had a growth rate of 4.6% (y/y) while Croatia had a drop rate of 2.3% (y/y). Based on those data, it can be noticed that, in the observed period, the RS achieved a higher growth rate of industrial production, as compared to its main foreign trade partners. Also, it should be stressed that the results achieved in the industrial production of RS and BiH depended, to a great extent,

Table 2: Real Growth Rates in Selected Sectors, in %, y/y

Sector	RS		BiH	
	2008	2009	2008	2009
A Agriculture, hunting and forestry	6.1	-1.9	4.2	-0.8
C Ore and stone extraction	20.7	-10.4	12.4	-8.1
D Processing industry	1.9	2.3	6.6	-6.9
E Production and supply of electricity, gas and water	10.5	3.6	9.7	0.7
F Construction industry	18.8	-6	10.6	-7.3
G Retail and wholesale trade, repair of motor vehicles, motorcycles and products for personal use	9.6	-11.7	6.4	-6.4

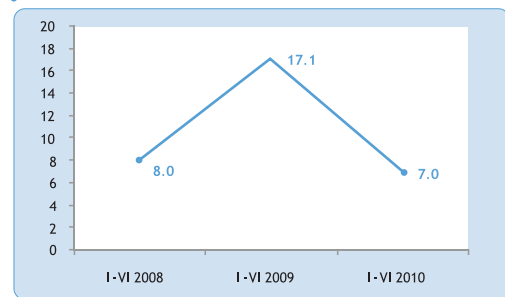
Source: RSIS and BHAS

Chart 4: Sectoral Structure of Economy in 2009, % GVA



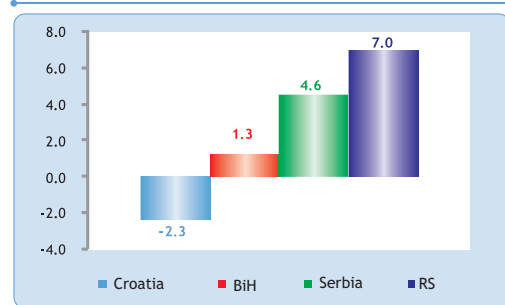
Source: RSIS, BHAS and IRBRS calculations

Chart 5: Growth Rates in RS Industrial Production, in %, y/y



Source: RSIS

Chart 6: Growth Rates in Industrial Production, period January-June 2010, in %, y/y



Source: RSIS, BHAS and Statistics Institutes of Serbia and Croatia

13. Household final consumption expenditures for the final consumption of households made 75.3% of RS GDP in 2008

14. Source: State Electricity Regulatory Commission, www.der.k.ba

15. Contents of sectors by activity: primary A, B and C, secondary D, E and F, tertiary G, H, I, J, and K, quarterly L, M, N and O.

16. The operation of the Brod Oil Refinery was officially launched on 27 November 2008

on the degree and dynamics of recovery of foreign demand for RS products, primarily in the countries which are the main trade partners.¹⁷

In the period January-June 2010, all three sectors of the industrial production in RS achieved an increase in the level of production volume as compared to the same period of 2009. Although sectors of *processing industry and production of electricity* recorded a slow down in production growth in comparison to the same period of 2009, it can be stated that respectable economic results were achieved given that, the RS economy is in the period of post-crisis recovery. In the observed period (H1 2010), a growth in the processing industry was led, among other things, by increase in production in the following areas: *production of basic metals 72.6%, production of leather and leather goods 34.2%, production of food products and beverages 5.7% as well as the field of production of coke and oil derivatives 2.6%*. Increase in production in the sector of *ore and stone extraction* was primarily based on recovery of production in the field of extraction of metal ore, the production of which was higher by 135.7% (y/y) in H1 2010 which corresponds to the increase in prices of fuels and global demand. Owing to a favourable hydrological situation and smooth operation of electric power facilities in BiH, there was an increase in production in the sector of *production and supply of electricity, gas and water* in 2009 as well. Faced with reduced demand in the domestic market (decrease in the volume of activities due to economic crisis) this sector achieved a record export of electricity amounting to 3,900GWh in 2009 (at BiH level).¹⁸

If industrial production at BiH level is observed¹⁹ it can be seen that sectors of *processing industry* (1.5%) and *production and supply of electricity, gas and water* achieved an inter-annual growth (4.9%) in H1 2010, while sector of *ore and stone extraction* achieved an inter-annual drop in production (-6.5%). An increase in cumulative volume of production in the BiH processing industry, in the period January-June 2010 was based on the increase of production in the fields of *production of textiles and textile products* (15.5% y/y), *production of rubber and plastic products* (19% y/y), *production of transport equipment* (4.8% y/y) and *production of pulp, paper and paper products* (3.8% y/y).

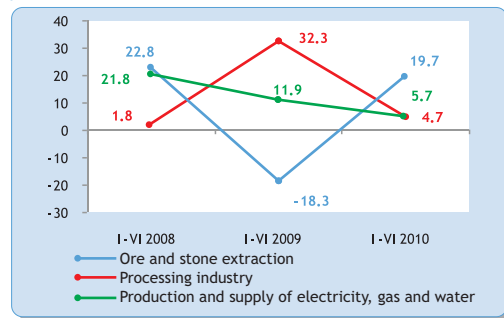
When it comes to primarily export-oriented branches of the RS processing industry (see Chart 8), it can be observed that their situation is different. Production of furniture and production in the sector of wood industry in H1 2010 achieved a drop in production by 8.2% (y/y) and 3.9% (y/y) respectively, while the best situation was displayed in the sector of production of basic metals (growth of 72.6%) and it is connected with a gradual recovery of the global iron and steel market.

2.3 RS Construction Activity

The value of performed construction works in RS in the first half of 2010 was lower by 30.6% as compared to the same period of the previous year, while performed effective hours on construction works are lower by 13.7%. Achieved results in this sector of economy show that the concerned sector is mostly affected by negative impacts of the global economic crisis.

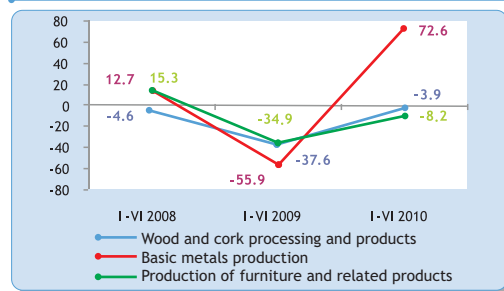
The main reasons for a drop in construction activity and lower level of investments in construction buildings

Chart 7: Rates of change in RS Production by Industry Sector, in %, y/y



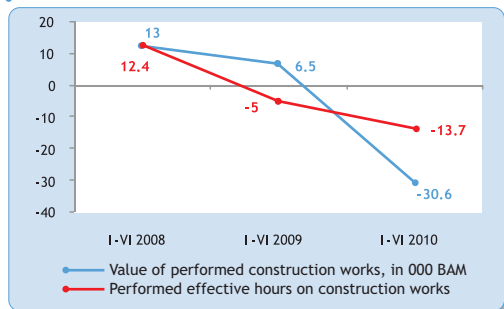
Source: RSIS

Chart 8: Production Growth Rates in Selected Sectors of RS Processing Industry, in %, y/y



Source: RSIS

Chart 9: Rates of change in RS Construction Activity, in %, y/y



Source: RSIS

17. According to data of RSIS, 29.2% of the total RS export was made to Serbia and Croatia in the first half of 2010.

18. Source: www.derk.ba

19. Data on industrial production in BiH are provided in the Statistical Appendix, table 5

are decrease in disposable population income²⁰, more stringent lending conditions and impeded access to capital (more systematic monitoring of credit risk exposure by the banking sector).

The monthly dynamics of construction activity in RS in H1 2010 (see Chart 10) demonstrate that the negative impacts of the economic crisis are still present in this field. However, a gradual recovery of the total economic activity, primarily export activity as well as expansion of industrial production, should have positive effects on the level of domestic construction activity.

2.4 Labour Market
2.4.1 Unemployment

In the first half of 2010, according to data from the RS Employment Institute, the average number of unemployed persons amounted to 147,341²¹ which represents an increase of 7.3% as compared to the same period in 2009. A similar trend was present in the FBiH where this indicator achieved a growth of 4.2% (y/y) in the period January-June 2010.²²

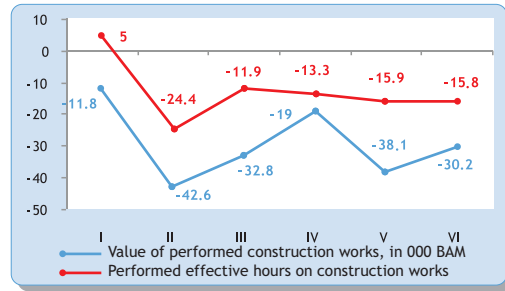
According to data of the internationally comparable Labour Force Survey²³ for 2010, the unemployment rate in RS was higher by 2.2 percentage points as compared to 2009.

Namely, the impacts of global financial crisis that generated a contraction of the economic activity left a strong mark on the RS labour market, which is indicated by the stated unemployment data. However, if data on the number of unemployed persons are observed on a monthly level, it is evident that there was a deceleration of growth and gradual fall of this indicator from February to June 2010 (See Chart 12), which represents a positive signal when unemployment is concerned and shows the first signs of upturn in the RS economy in the post-crisis period.

A drop trend in employment rate continued in 2010. In March 2010, the number of employed persons was lower by 7.3% as compared to March 2009 and reached the level of 241,517 persons²⁴. Table 4 shows activities which achieved the highest and lowest rates of employment.

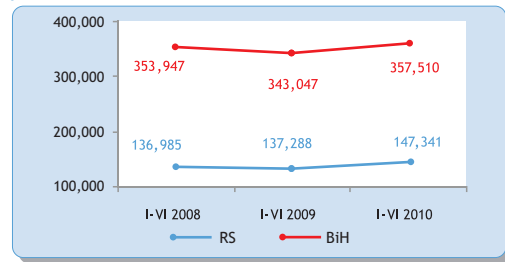
The highest rate of growth in the number of employed persons was achieved by the sector of transport, warehousing and communications (29.6%), while on

Chart 10: Rates of change in RS Construction Activity in 2010 by month, in %, y/y



Source: RSIS

Chart 11: RS and FBiH Unemployment Trends



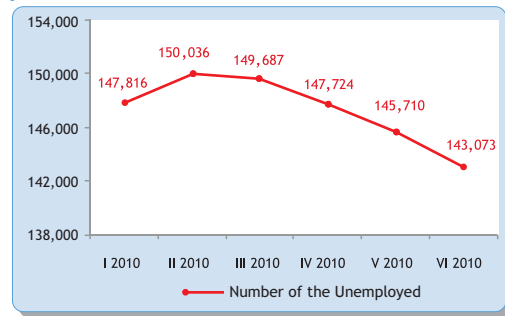
Source: RSIS, FEI and IRBRS calculations

Table 3: RS and BiH Unemployment Rates according to LFS, in %

Description	2009	2010
RS	21.4	23.6
BiH	24.1	27.2

Source: RSIS and BHAS

Chart 12: Monthly Overview of RS Unemployment



Source: RSEI

Table 4: Employment Growth by Activity in RS

Sector	III 2010/III 2009 (%)
Transport	29.6
Ore and stone extraction	4.1
Education	3.5
Trade	-14.7
Hotels and Restaurants	-17.5
Activities Related to Real Estate	-17.6

Source: RSIS and IRBRS calculations

20. According to RSIS data, the nominal average salary in RS in the period I-VI 2010 was lower by 1% as compared to the same period of 2009, while according to the same source, the unemployment rate in RS for 2010 was 23.6% and it is higher by 2.2 percentage points as compared to the 2009 unemployment rate.

21. IRBRS calculation based on monthly data by RSEI

22. According to the IRBRS calculation, based on monthly data by the Federation Employment Institute, the average number of unemployed persons in the first six months of 2010 amounted to 357,510.

23. The survey is conducted annually, in line with the methodology of the International Labour Organization (ILO).

24. RSIS publishes data on the number of employees twice a year, in March and September. Data on employment which refer to March 2010 are not optimally comparable with the data from the previous period due to change in coverage of employees in legal entities and change in the source of data of RSIS on entrepreneurs and their employees.

the other side, **the sector of activities related to real estate (-17.6%) had the greatest influence on relative decline in the number of the employed.**

The Republic of Srpska Employment Institute, in cooperation with the RS Government, launched a **Project “Prvi posao” (First Job)** which will **secure posts for 1,500 trainees** with university degree in 2010, which, in conditions of difficult access to employment should contribute to increase in the number of workers as well as improvement of the total structure of employees in the RS. For the purpose of increasing the number of employees in RS, the IRBRS introduced a new credit line in May 2010. It concerns loans to unemployed demobilized soldiers of the RS Army²⁵ who will be provided with funds for self-employment through these loans.

2.4.2 Salaries and pensions

After expansion in the previous years, **a reduction in the average RS net salary was recorded at the beginning of 2010.** The value of average net salary in H1 2010 was **lower by 1.0%** at the inter-annual level and it amounts BAM 779.

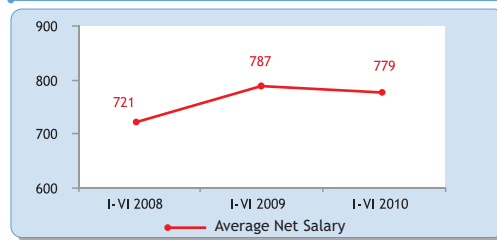
The beginning of 2010 brings acceleration of inflationary trends in the RS. Given that inflation, measured by consumer price index, amounted to 2.7% in the first six months of 2010, **the average RS net salary showed a real decrease by 3.7%.**

Despite the fall in the average RS net salary, there was an obvious rise in salaries in specific sectors, while **the highest growth was recorded in the following economic activities: ore and stone extraction, trade and hotels and restaurants.** (see Chart 14).

The contraction of the average RS net salary largely derives from cut of salaries in public sector following a decision to decrease the salaries of employees in administrative bodies by 10-20% which came into force on 1 January 2010²⁶.

The developments concerning average RS net pensions were harmonized with the developments in the average net salary. In the period January-June 2010, the average pension in the RS amounted to BAM 319 with decrease of 0.6% (y/y).

Chart 13: Average RS Net Salary Trend (in BAM)



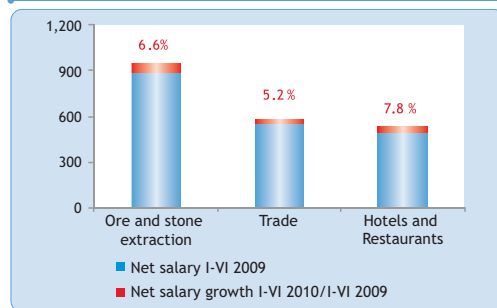
Source: RSIS

Table 5: Nominal and Real Growth of the Average RS Net Salary

Description	I-VI 2010/I-VI 2009 (%)
Nominal growth	-1.0
CPI	2.7
Real growth	-3.7

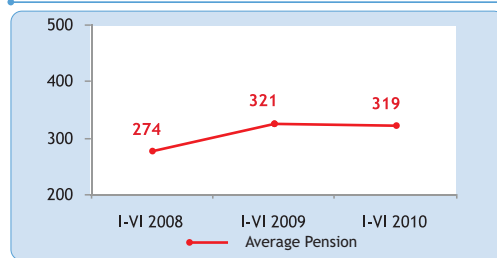
Source: RSIS and IRBRS calculations

Chart 14: Average Net Salary Growth by Sector in RS



Source: RSIS

Chart 15: Average RS Pension (in BAM)



Source: RSPDIF and IRBRS calculations

25. The RS Veterans' Organization issued a public call for use of loans from 22 June – 6 July 2010. Also, the RS Veterans' Organization has been tasked to make a rank list of beneficiaries and deliver complete documentation related to potential beneficiaries to the IRBRS.

26. Law on Amendments to the Law on Salaries of Civil Servants and Public Employees of Republic of Srpska, www.narodnaskupstinars.net

III PRICES AND FINANCIAL SECTOR

3.1 Prices

Contrary to 2009 which was marked by significant deflationary trends, **the general price level in RS achieved an inter-annual growth** in the first six months of 2010, i.e. **inflation amounting to 2.7%**. **Concurrently, inflation at the BiH level amounted to 2.1% (y/y).**

An intensified inflation trend in RS and BiH has become evident since the start of the year (see Chart 16). It is obvious that **acceleration of the global economic recovery** as well as its moderate transmission into domestic financial and real sectors has resulted in the rise of the general level of prices²⁷. Also, **the effect of “the base period”** (see Chart 17) cannot be neglected, since the prices in the same period of 2009 achieved a notable inter-annual contraction in circumstances of the escalation of global economic crisis and its spillover into domestic reality (*decline in purchasing power of citizens, propensity to consume, etc.*).

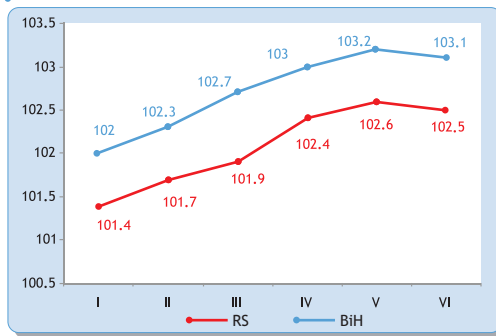
In H1 2010, the trading volume in retail shops in RS was higher by 4% as compared to the same period of 2009, while the trading volume in Q2 2010, when compared to its value in Q1 grew by 28.2%. The growth of inflationary pressure combined with increase in the trading volume in retail shops exhibits presence of the trend of weakening consumer pessimism and rise in domestic consumption.

The highest individual influence on the inflation growth in RS originates from the category of alcoholic drinks and tobacco²⁸. Namely, in the period January-June 2010, prices in this category achieved an average inter-annual growth by 30.9% (*prices of tobacco rose by 50.7% and alcohol drinks by 2.8%*). On the other side, **the most important contribution to relaxation of inflationary pressures in RS derives from the fall in prices in category of clothes and footwear by 3.7% (y/y) and food and non-alcoholic beverages by 2.5% (y/y)**²⁹.

In the wider region, inverse trends were present in terms of inflationary developments (see Chart 18). Namely, an intensified inflation was evident in RS and BiH, FYR Macedonia, Slovenia, the eurozone and the EU³⁰, while Serbia, Croatia and Montenegro were faced with its slowdown.

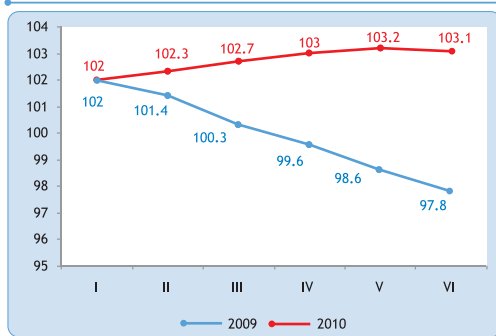
Due to high level of sensitivity of domestic economy to global economic trends, the inflation in RS and BiH will be determined by wider economic context, especially by food and fuel price trends.

Chart 16: Inter-Annual Consumer Price Index (CPI) in RS and BiH, Period: January - June 2010, by month



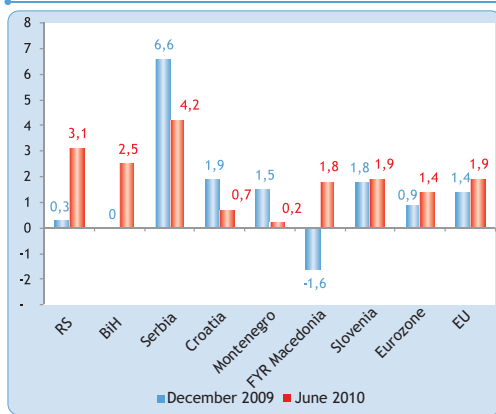
Source: RSIS and BHAS

Chart 17: Comparative Ratio of General Price Level in RS, first half 2009 and 2010, by month



Source: RSIS

Chart 18: Inflation in the Region - Inflation Rate in December 2009 and June 2010, measured by Consumer Price Index (y/y)



Source: RSIS and the State Statistics Institutions

27. A gradual recovery of demand is generated by pressure on the increase in prices of material and non-material goods.

28. With the aim to harmonize local regulations with minimum EU standards, a new Law on Excise Taxes has been in force since 1 July 2009, by which, among other things, additional excise taxes on tobacco and tobacco products have been introduced, which consequently intensified a rise in prices in this category of products.

29. Concurrently, the prices of food products in RS were lower by 3% as compared to the same period last year.

30. In the EU and the eurozone, with the average June inflation rates at 1.9% and 1.4% respectively (y/y), the price stability has not been jeopardized yet. Namely, in accordance with definition of the European Central Bank, the price stability tolerates inflation up to 2%.

3.2 Financial Markets

3.2.1 Banking Sector

In the first six months of 2010, interest rates on long term loans did not show significant variations as compared to the end of 2009, while the interest rate on short term loans witnessed a visible moderate decline and fell below the level of interest rates on long term loans in Q2 2010.

The interest rates in the eurozone were stabilized following a period of continuous decline since October 2008 and they were maintained at a very low level. Active interest rates in RS did not follow this trend and thus they are still notably above the Euro Interbank Offered Rate – EURIBOR which amounted to 1.041%³¹ at the end of June 2010. **High interest rates in RS can be explained by existence of high credit risk of the country, as well as restricted access to funds at the international capital market.**

A similar trend was observed at the level of BiH, where interest rates on short term loans recorded a mild downward correction from January to June 2010, while interest rates on long term loans to enterprises achieved a moderate increase in the observed period.

A slow loan expansion from 2009 was continued at the beginning of 2010. Namely, total loans in the RS achieved a **modest growth by 3.8%** (y/y) in the first half of 2010 and reached the amount of BAM 3,762.1 million.

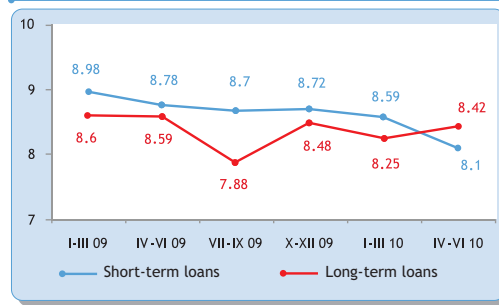
Causes of reduced lending activity in RS lie as much on the supply as on the demand side. Domestic banks apply a more cautious lending policy due to a hindered access to new sources of funding. On the other side, households and enterprises are more reluctant to make decisions about new borrowings in conditions of uncertainty. In the forthcoming period, the lending activity of the banks will depend, to a great extent, on domestic consumption and investments as well as trends in the international financial markets.

The RS Investment-Development Bank approved BAM 540.7 million from the start of lending activities until the end of August 2010 through six credit lines (see Table 6).

In the period of stagnation of economic trends, the IRBRS made a significant contribution to the maintenance of the overall social and economic stability through its concept of countercyclical action. Namely, IRBRS achieved an **increase in lending activity by 16.6%**³² in H1 2010 as compared to the same period in 2009. This fact is especially important bearing in mind the information provided by the RS Banking Agency according to which

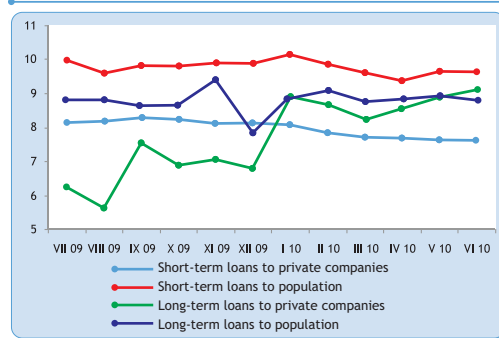
a mild increase in the gross loans in RS amounting to 2% as of 30 June 2010, as compared to 31 December 2009, **was mainly financed by the IRBRS loan proceeds**³³. Thus the IRBRS's role as the key financier of the local economic development was confirmed. By tailoring its activities to the needs of the market, the IRBRS will continuously strive

Chart 19: RS Active Interest Rates (in %)



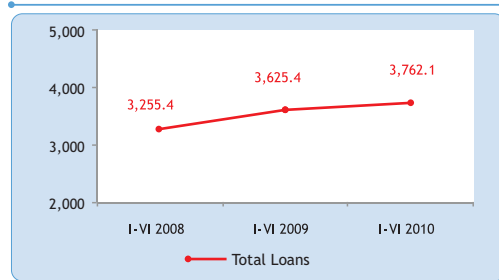
Source: BARS

Chart 20: BiH Active Interest Rates (in %)



Source: CBBH

Chart 21: Total RS Loans (in million BAM)



Source: BARS

Table 6: Overview of IRBRS Investments by Credit Lines, period 1/4/2008 to 26/8/2010

Credit Lines	Amount in BAM
CL for start-up activities	2,039,887.19
CL for micro-business in agriculture	13,381,600.24
CL for agriculture	51,151,360.50
CL for entrepreneurs and enterprises	304,492,002.27
Housing Loans	133,845,483.91
CL for municipalities	35,825,000.00
TOTAL	540,735,334.11

Source: IRBRS

31. Six month EURIBOR, state as of 30 June 2010, www.euribor.org

32. IRBRS loans in the period 1 January 2010 to 12 July 2010 amounted to BAM 91,929,120.84

33. Source: Report on the Republic of Srpska Banking System for a period 1 January 2010 to 30 June 2010

to provide financial support to development projects and influence additional liquidity of the RS financial sector.

The consequences of the financial crisis left a mark on the situation of deposits in the RS. In the period January-June 2010, **total deposits in the RS** amounted to BAM 4,055.2 million which represents a **contraction by 3.2%** at the inter-annual level.

On the other side, **the growth of citizens' deposits³⁴ during H1 2010 represents an encouraging fact.** The citizens' deposits achieved a **growth of 6.3%³⁵** as at 30 June 2010 when compared to 31 December 2009, which demonstrates that the citizens' confidence in the domestic banking sector was significantly restored. Aiming at mitigating the negative effects of the global financial crisis, **the RS Banking Agency issued a Decision on Temporary Measures for Reprogramming of Credit Liabilities of Natural and Legal Persons in Banks**, which greatly facilitated repayment conditions for one part of loans.

Since 1 April 2010, the Deposit Insurance Agency of Bosnia and Herzegovina **has increased the maximum amount of insured deposits for natural persons from BAM 20,000 to BAM 35,000.** By providing additional security to deponents, the deposit base of the local banks will be significantly strengthened, which will contribute to enhancement of the BiH banking sector.

3.2.2 Stock Exchanges

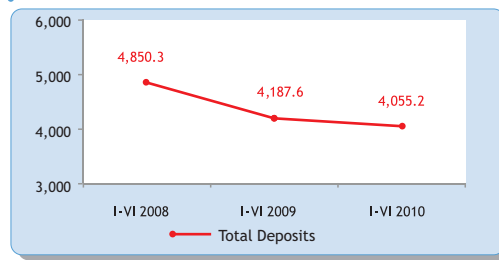
In the first six months of 2010, BIRS lost 16.9% of its value at the end of 2009 (991.84 points) and it dropped to 824.18 points. Observed by month, its value was continuously decreasing (see Chart 23) and similar trend was noted for other capital markets in the region.

The total trading volume at the Banja Luka Stock Exchange illustrates, in a most objective manner, the investment sentiment situation in the domestic capital market. **In the period January-June 2010, a turnover of BAM 66.9 million was achieved, which is by 24.8% less than the value of the turnover from the same period of 2009 (about BAM 89 million).** After a sharp growth in March, monthly turnover at the Banja Luka Stock Exchange was marked by a continuously declining trend (see Chart 24)³⁶.

During the first half of 2010, **8,150 transactions were carried out in total at the Banja Luka Stock Exchange, which is by 28.7% higher than the same period last year (6,332 transactions).** Besides the growth of the nominal number, the average value of transaction was reduced by 41.6% as compared to its value from the same period last year (BAM 14,048).³⁷

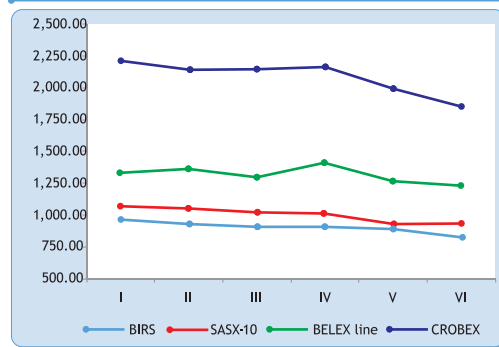
Almost 1/2 of the total turnover at the Banja Luka Stock Exchange in the period January-June 2010 refers to block trades³⁸ (see Chart 25). Growth of the relative participation of this business category in the structure of the total

Chart 22: Total RS Deposits (in million BAM)



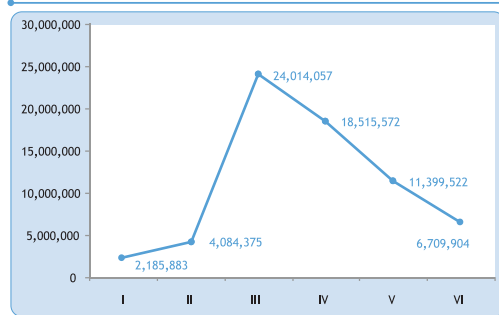
Source: BARS

Chart 23: Value of Stock Exchange Indices in the Region, period January-June 2010, by month



Source: Banjaluka Stock Exchange and Regional Stock Exchanges

Chart 24: Total Turnover at Banja Luka Stock Exchange, period January-June 2010, by month, in BAM



Source: Banjaluka Stock Exchange

34. Deposits of citizens make the largest share in the structure of the RS banking sector deposits. According to the data of BARS, the citizen deposit contribution amounted to 33% as of 30 June 2010.

35. Source of data: RS Banking Agency.

36. The largest portion of the achieved turnover in March and April refers to block trades with shares of the issuer Balkan investment bank.d. Banjaluka, namely on 25 March, in the amount of BAM 14,936,210 and on 12 April in the amount of BAM 13,483,271. The largest portion of the May turnover was generated through public offers of bonds of the following issuers: Municipality of Brod – BAM 2,993,000. Municipality of Istočni Stari Grad – BAM 515,000 and Municipality of Kotor Varoš – BAM 4,500,000. Source: the Banja Luka Stock Exchange.

37. The average value of executed transaction at the Banja Luka Stock Exchange in the first half year of 2010 amounted to BAM 8,210. Source: Banja Luka Stock Exchange

38. In the same period of 2009, block trades participated with 1.3% in the structure of total turnover. Source: Banjaluka Luka Stock Exchange

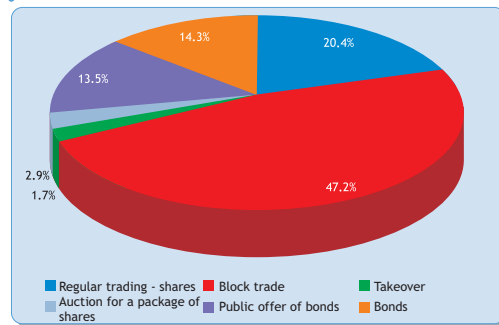
turnover³⁹ does not indicate occurrence of an upturn trend in investment sentiment given that approximately 90% of the achieved turnover refers to block trades of the issuer *Balkan Investment bank a.d. Banjaluka*.

In the period January-June 2010, **the bond trade** (primary and secondary) at the Banja Luka Stock Exchange **reached the value of BAM 18.6 million which represents a relative growth by 60.3% (y/y)**. Concurrently, about 34% of the total bond trade refers to the trade of bonds issued by the RS⁴⁰, which, to a great extent, slowed down a drop in liquidity in the domestic capital market. In this way, the already existing trend of **permanent growth of the debt segment of domestic market capital is continued**.

As of 30 June 2010, the value of market capitalization at the Banja Luka Stock Exchange amounted to BAM 3.8 billion, which is by 6.7% less than its value at the end of 2009⁴¹. In conditions of reduced liquidity in the domestic capital market, the average value of market capitalization was constantly decreasing, except in April 2010 (see Chart 26).

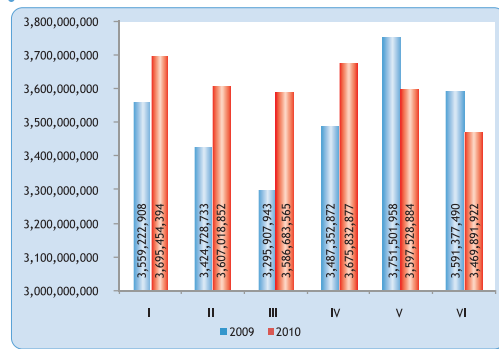
About 1/5 of total turnover at the Banja Luka Stock Exchange in the period January-June 2010 consists of the IRBRS investments (purchase and sale of securities)⁴². In the same period, the IRBRS supported public offers of municipal bonds issued by: *Municipality of Brod*, with BAM 2,639,869, *Municipality of Istočni Stari Grad* with BAM 313,426 and *Municipality of Kotor Varoš*, with BAM 4,205,494. By its investment activities, IRBRS provided a strong contribution to development of domestic capital market, acquiring recognition as one of the most important institutional investors.

Chart 25: Structure of Total Turnover at Banja Luka Stock Exchange, period January- June 2010



Source: Banjaluka Stock Exchange

Chart 26: Average Value of Market Capitalization at Banja Luka Stock Exchange, first half 2009 and 2010, by month, in BAM



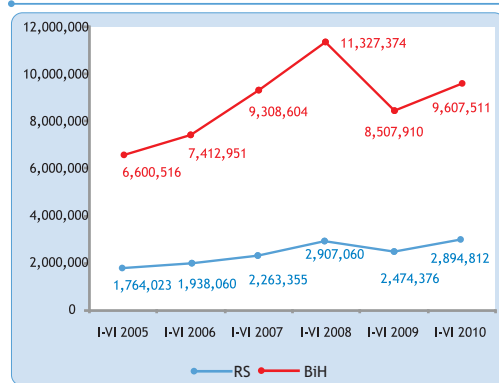
Source: Banjaluka Stock Exchange

IV FOREIGN TRADE

Almost simultaneously with the occurrence of the first signs of global upturn at the end 2009, there was a gradual intensification of domestic foreign trade activity. **The RS foreign merchandise trade volume in the period January-June 2010, achieved an inter-annual growth of 17%⁴³, i.e. at BiH level 12.9% (y/y)**. In this way, following a temporary contraction in 2009, domestic foreign sector continued a multi year trend of continuous growth (see Chart 27).

The consumption increase in countries which are the most important RS and BiH foreign trade partners, initiated by their gradual economic recovery, resulted in the increase in demand for domestic export offer.

Chart 27: Total RS and BiH Foreign Trade Volume, in 000 BAM



Source: RSIS and BHAS

39. A decline in the share of block trades in the structure of total turnover, which was evident in the previous period, is a consequence of stagnation and slowdown in the overall economic activities as well as postponement of investments.

40. In H1 2010, the following bonds were traded: RS – old foreign currency savings 1, RS – old foreign currency savings 2, RS – liabilities to suppliers 2, RS – war reparations settlement 1, RS – war reparations settlement 2, RS – war reparations settlement 3 and RS – war reparations settlement 4. Source: Banja Luka Stock Exchange.

41. As at 31 December 2009, the value of market capitalization amounted to BAM 4,059,844,924, i.e. as at 30 June 2010, it amounted to BAM 3,785,743,675. Source: Banja Luka Stock Exchange.

42. Total IRBRS investments in securities amount to BAM 10,219,934, of which BAM 7,158,789 refer to purchase of securities, while BAM 3,061,145 refers to sale.

43. In the first half of 2010, the RS foreign trade activity volume almost reached the level from the same period in 2008, i.e. the year which did not witness spillover of negative effects of the global economic crisis into domestic financial and real sectors.

Namely, during the first half of 2010, the RS export achieved a significant inter-annual growth of 35.3%. Concurrently, RS import exhibited a modest rise in the amount of 8.5% (y/y). The export/import ratio stood at 57.8%⁴⁴. A more dynamic growth of exports in relation to the growth of imports resulted in the decrease of foreign trade deficits by additional 14.6%⁴⁵ (see Chart 28).

In the first six months of 2010, BiH export grew at the rate of 32.5% (y/y). In the same period, import to BiH achieved an inter-annual growth of 4.5%. The value of BiH deficits in foreign merchandise trade was lower by 16.4% while the export/import ratio increased from 42.8% in H1 2009 to 54.3% in the same period of 2010 (see Chart 29).

There was an evident trend of improvement in export competitiveness in the region, measured by an average value of the achieved export per capita in the first six months of 2010. However, the RS export competitiveness is significantly lagging behind the export competitiveness of the observed countries (see Chart 30).

In H1 2010, the most important RS export partners were: Serbia (18.0%), Italy (15.5%) and Croatia (11.2%), i.e. the most significant import partners were: Russia (23.3%)⁴⁶, Serbia (21.2%) and Italy (9.4%)⁴⁷. About 1/2 of the RS export was made to the EU⁴⁸, i.e. 38.1% to the countries members of the Central European Free Trade Agreement (CEFTA)⁴⁹. Simultaneously, 35.9% of imports to RS originate from the EU, i.e. 30.0% from the CEFTA countries. A common denominator for the RS export and import is a high level of geographical concentration resulting in a high level of external sensibility of the domestic economy.

Also, EU member countries dominate with 55.6% in the structure of total BiH export in the first six months of 2010 i.e. countries members of CEFTA take 32.6%. Concurrently, 46.3% of the BiH import relates to import from the EU, i.e. 26.3% to the CEFTA countries.

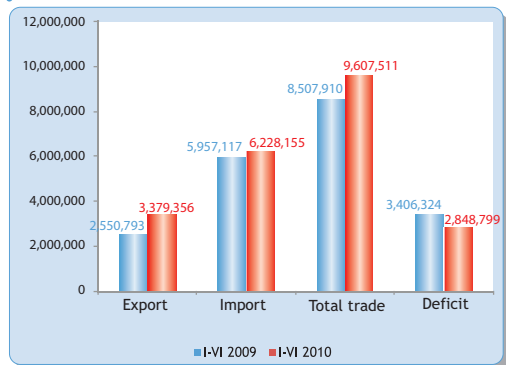
In the period January-June 2010, an inter-annual growth of export was recorded in almost all sections of the Standard International Trade Classification (SITC)⁵⁰, which is led by sections of mineral fuels and lubricants (78.4%) and crude materials, inedible except fuels (53.4%)⁵¹. Simultaneously, the highest growth of import was achieved in sections of crude materials, inedible except fuels (57.3%)⁵² and mineral fuels and lubricants (38.9%). Only one SITC section achieved a surplus in foreign trade activity, namely crude materials, inedible except fuels amounting to BAM 117.8 million.

Chart 28: Comparative RS Foreign Trade Activity Ratio, period January-June 2009 and January-June 2010, in 000 BAM



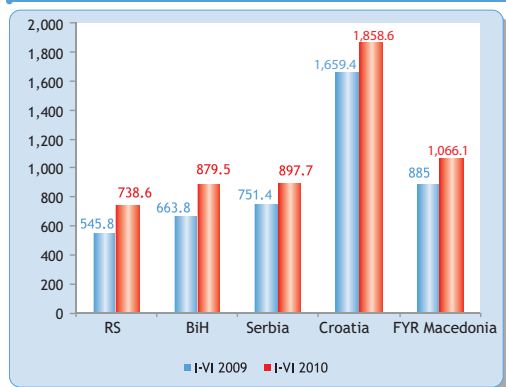
Source: RSIS

Chart 29: Comparative BiH Foreign Trade Activity Ratio, period January-June 2009 and January-June 2010, in 000 BAM



Source: BHAS

Chart 30: Value of Export per capita, in BAM



Source: RSIS and the State Statistics Institutions

44. In the same period of 2009, export/import ratio amounted to 46.3%. Source: RSIS

45. During first half of 2009, the RS foreign trade deficit already lost 11.4% of its value as compared to the same period of 2008.

46. Continued increase in the import of crude oil, initiated by increase in the utilization of processing capacities of the Bosanski Brod Oil Refinery, confirmed Russia as the most important RS import partner. In the first half of 2009, the import from Russia participated with 18.1% in the structure of total imports to RS.

47. The stated percentages refer to relative participation of export to these countries in the structure of total RS exports.

48. 48.5% of the total export was made to the EU member countries. Source: RSIS

49. Members of the CEFTA are: Albania, BiH, Croatia, FYR Macedonia, Moldavia, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo, on behalf of Kosovo.

50. An inter-annual growth of export was not achieved in the following sections: animal and vegetable oils, fats and waxes and other finished products.

51. The highest relative growth in exports was achieved in the sector of commodities and transactions, not classified elsewhere, and it stood at 149.8%. However, in the absolute expression this increase is negligible (BAM 213,000). Source: RSIS.

52. A sharp increase in the import of raw materials shows a recovery trend in the domestic processing industry. In the same period, an import for internal processing achieved an inter-annual growth of 30.8%. Source: RSIS

In the first six months of 2010, mineral fuels and lubricants were dominant in the structure of the total RS foreign trade activity. Namely, 27.9% of export, i.e. 27.2% of import was related exactly to this category of products. A continuous increase in the utilization of domestic capacities for processing oil and oil derivatives resulted in the rise of crude oil import. Concurrently, in circumstances of production volume growth, significant export surpluses were generated which contributed to **recognition of mineral fuels and lubricants as the most significant RS export brand.**

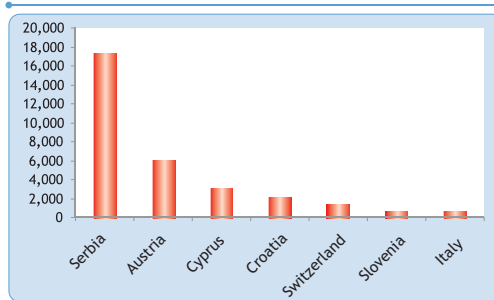
The results achieved in the domestic foreign trade sector during the first half of 2010 demonstrate presence of an intensive recovery trend after the contraction in 2009⁵³. A far more dynamic growth of exports as compared to the growth of imports is especially encouraging, which creates a positive pressure on the decrease of the foreign trade deficit⁵⁴.

V FOREIGN DIRECT INVESTMENT

In the first six months of 2010, the overall gross Foreign Direct Investment (FDI) to the Republic of Srpska amounted to BAM 33.6 million⁵⁵. In the same period of last year, RS attracted a total of BAM 43.3 million, which means that in the first six months of 2010, there was a **decrease of gross FDI by 22.4% (y/y)**. The total net foreign direct investment⁵⁶ in the first six months of 2010 amounted to BAM 31.6 million.

A decreasing FDI trend was also noted in majority of the countries in the region, as much in the first quarter as in the first six months of 2010⁵⁷ (see Table 7). It is evident that a slow recovery from the global economic crisis has not yet encouraged potential investors to intensify this type of extension of cross-border activities which produces negative effects in attracting FDI as much globally as in the region.

Chart 31: FDI Inflows to RS by Investing Country, first six months of 2010, in 000 BAM



Source: Source: BiH Ministry of Foreign Trade and Economic Relations

Table 7: Comparative Overview of FDI Inflow in the Region, January-June 2010/January-June 2009

	BiH	Serbia	Croatia	FYR Macedonia	Montenegro	Bulgaria	Romania
2010/2009	-47,41% **	-41,56% **	-0,69% *	-18,08% *	-24% ***	-77,83% **	-28,98% **

*in the first three months

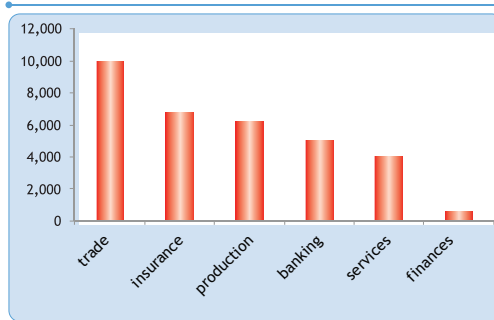
** in the first six months

*** January-May

Considering FDI in RS exceeding BAM 100,000 in the first six months of 2010, **the most important investments referred to Serbia (BAM 17.4 million), Austria (BAM 6.05 million) and Cyprus (BAM 3.14 million) (see Chart 31).** The highest number of investment projects was from Serbia (13), Slovenia (4) and Austria (3).

For the same observed period in 2010, the majority of FDI to RS were made in sectors of trade (BAM 9.97), insurance (BAM 6.79 million) and production (BAM 6.21 million). The highest number of investment projects was also noted in the sectors of trade (12), production (11) and services (6) (see Chart 32). The largest individual investment was the investment in the field of insurance, in the value of BAM 6.79 million.⁵⁸

Chart 32: FDI Inflows to RS by Activity - Sector, first six months of 2010, in 000 BAM



Source: BiH Ministry of Foreign Trade and Economic Relations

53. In 2009, the overall foreign trade activity in the RS achieved an inter-annual contraction of 13.6%, i.e. at the level of BiH by 22.3%.

54. Chronic deficit of the current balance of payments represents one of the most acute problems of the domestic economy.

55. Source: BiH Ministry of Foreign Trade and Economic Relations

56. FDI net value entails deduction of the depreciated capital value from the total gross FDI value, i.e. takes into account outflow of foreign capital from companies which transferred capital to a BiH business entity in the first six months of 2010, shared capital with another investor, reduced capital to cover the loss and similar. It concerns foreign companies which were registered in the Republic of Srpska before 2010.

57. As of the date of writing the report, semi-annual data for some of the countries were not available. Sources of data: BiH Ministry of Foreign Trade and Economic Relations; the National Bank of Serbia, <http://www.nbs.rs>; the Croatian National Bank, <http://www.hnb.hr/>; the National Bank of the Republic of Macedonia, <http://www.nbrm.giv.mk/>; the Central Bank of Montenegro, <http://www.cb-mn.org/>; the Bulgarian National Bank <http://bnb.bg/>, the National Bank of Romania, <http://www.Bnro.ro/>

58. AD "Kosig Dunav Osiguranje" Banja Luka

VI STATISTICAL APPENDIX

Table 1: RS Gross Domestic Product and Gross Value Added in current prices, production approach

Sectors	Gross value added (000 BAM)			Structure, %			Real growth,%		
	2007	2008	2009	2007	2008	2009	07/06	08/07	09/08
A Agriculture, hunting and forestry	917,799	977,617	941,328	12.5	11.5	11.4	7.9	6.1	-1.9
B Fishery	5,286	5,458	6,468	0.1	0.1	0.1	28.1	24.3	1.9
C Ore and stone extraction	125,897	169,204	137,757	1.7	2.0	1.7	2.2	20.7	-10.4
D Processing industry	674,703	736,521	780,722	9.2	8.7	9.5	4.1	1.9	2.3
E Production and supply of electricity, gas and water	310,861	394,352	406,620	4.2	4.6	4.9	-5.4	10.5	3.6
F Construction industry	398,131	507,483	483,496	5.4	6.0	5.9	16.7	18.8	-6.0
G Retail and wholesale trade, repair of motor vehicles, motorcycles and products for personal use	870,388	1,147,209	991,725	11.8	13.5	12.0	6.3	9.6	-11.7
H Hotels and restaurants	116,669	117,846	119,046	1.6	1.4	1.4	-5.2	-3.8	-5.3
I Transport, warehousing and communications	458,121	547,778	540,687	6.2	6.5	6.6	8.9	12.4	-4.9
J Financial intermediation	197,385	220,849	237,705	2.7	2.6	2.9	23.1	8.4	17.5
K Activities related to real estate, rental and business activities	686,144	704,360	732,109	9.3	8.3	8.9	9.2	-0.3	-6.1
out of which imputed rent	368,144	372,695	379,407	5.0	4.4	4.6	-0.2	-0.1	-0.1
L Civil service, defence and compulsory social security	634,362	773,288	850,066	8.6	9.1	10.3	6.6	4.0	3.0
M Education	232,610	323,795	356,573	3.2	3.8	4.3	4.6	5.2	4.0
N Healthcare and social work	247,462	391,344	352,715	3.4	4.6	4.3	4.4	1.5	3.1
O Other utilities, social and personal service activities	107,649	135,819	143,718	1.5	1.6	1.7	12.0	6.5	9.7
FISIM (minus)	146,377	182,251	185,147	2.0	2.1	2.2	13.9	25.6	29.3
Gross value added	5,837,090	6,970,671	6,895,588	79.4	82.1	83.7	6.7	6.2	-2.8
Taxes on products, services and import minus subsidies	1,513,895	1,518,616	1,347,677	20.6	17.9	16.3	6.7	6.2	-2.8
GROSS DOMESTIC PRODUCT IN MARKET PRICES	7,350,985	8,489,287	8,243,265	100.0	100.0	100.0	6.7	6.2	-2.8
Population - mid-year assessment	1,439,673	1,437,477	1,435,179						
Gross domestic product per capita, in BAM	5,106	5,906	5,744						

Source: RSIS

Table 2: BiH Gross Domestic Product and Gross Value Added in current prices, production approach

Sectors	Gross value added (000 BAM)			Structure, %			Real growth,%			
	2007	2008	2009	2007	2008	2009	07/06	08/07	09/08	
A	Agriculture, hunting and forestry	1,731,000	1,842,644	1,792,797	8.0	7.5	7.5	0.6	4.2	-0.8
B	Fishery	7,273	8,036	9,941	0.0	0.0	0.0	22.7	23.0	9.1
C	Ore and stone extraction	432,342	512,707	500,672	2.0	2.1	2.1	5.3	12.4	-8.1
D	Processing industry	2,452,128	2,827,418	2,556,377	11.3	11.4	10.7	14.3	6.6	-6.9
E	Production and supply of electricity, gas and water	761,698	1,022,046	1,060,469	3.5	4.1	4.4	0.2	9.7	0.7
F	Construction industry	1,055,947	1,340,151	1,268,803	4.9	5.4	5.3	19.4	10.6	-7.3
G	Retail and wholesale trade, repair of motor vehicles, motorcycles and products for personal use	2,691,804	3,299,982	3,127,046	12.4	13.4	13.0	9.9	6.4	-6.4
H	Hotels and restaurants	468,649	496,686	483,999	2.2	2.0	2.0	2.5	0.3	-7.8
I	Transport, warehousing and communications	1,493,527	1,661,487	1,642,951	6.9	6.7	6.8	6.4	6.9	-4.5
J	Financial intermediation	796,851	852,233	873,800	3.7	3.4	3.6	19.6	5.5	6.6
K	Activities related to real estate, rental and business activities	1,925,226	2,044,023	2,151,443	8.8	8.3	9.0	7.8	3.0	-0.4
	out of which imputed rent	1,112,129	1,128,851	1,164,415	5.1	4.6	4.9	0.0	0.0	-0.2
L	Civil service, defence and compulsory social security	1,866,652	2,191,304	2,361,376	8.6	8.9	9.8	0.3	3.4	1.8
M	Education	900,642	1,114,566	1,161,781	4.1	4.5	4.8	0.8	3.6	1.9
N	Healthcare and social work	832,401	1,091,845	1,094,905	3.8	4.4	4.6	1.9	2.0	2.8
O	Other utilities, social and personal service activities	424,993	473,797	478,213	2.0	1.9	2.0	10.5	5.6	-0.4
	FISIM (minus)	626,870	682,945	675,832	2.9	2.8	2.8	19.5	10.7	11.4
	Gross value added	17,214,263	20,095,980	19,888,741	79.1	81.4	82.9	6.8	5.4	-3.0
	Taxes on products, services and import minus subsidies	4,544,569	4,606,518	4,105,382	20.9	18.6	17.1	7.1	5.7	-2.4
	GROSS DOMESTIC PRODUCT IN MARKET PRICES	21,758,832	24,702,498	23,994,123	100.0	100.0	100.0	6.8	5.4	-2.9
	Population - mid-year assessment	3,842	3,842	3,843						
	Gross domestic product per capita, in BAM	5,663	6,430	6,244						

Source: BHAS

Table 3: Sector Contribution to Nominal GDP Growth, in percentage points

Sectors	Sector Contribution to Nominal GDP Growth, in percentage points						
	Republic of Srpska			Bosnia and Herzegovina			
	2007	2008	2009	2007	2008	2009	
A	Agriculture, hunting and forestry	0.9	0.8	-0.4	0.6	0.5	-0.2
B	Fishery	0.0	0.0	0.0	0.0	0.0	0.0
C	Ore and stone extraction	0.2	0.6	-0.4	0.4	0.4	-0.0
D	Processing industry	1.2	0.8	0.5	3.2	1.7	-1.1
E	Production and supply of electricity, gas and water	-0.0	1.1	0.1	-0.4	1.2	0.2
F	Construction industry	1.7	1.5	-0.3	1.3	1.3	-0.3
G	Retail and wholesale trade, repair of motor vehicles, motorcycles and products for personal use	1.3	3.8	-1.8	0.9	2.8	-0.7
H	Hotels and restaurants	0.1	0.0	0.0	-0.6	0.1	-0.1
I	Transport, warehousing and communications	0.7	1.2	-0.1	0.5	0.8	-0.1
J	Financial intermediation	0.9	0.3	0.2	0.8	0.3	0.1
K	Activities related to real estate, rental and business activities	0.6	0.2	0.3	1.1	0.5	0.4
	out of which imputed rent	-0.1	0.1	0.1	-0.0	0.1	0.1
L	Civil service, defence and compulsory social security	1.1	1.9	0.9	1.4	1.5	0.7
M	Education	0.4	1.2	0.4	0.6	1.0	0.2
N	Healthcare and social work	0.5	2.0	-0.5	0.6	1.2	0.0
O	Other utilities, social and personal service activities	0.3	0.4	0.1	-0.2	0.2	0.0
	FISIM (minus)	0.9	0.5	0.0	0.8	0.3	-0.0
	Gross value added	9.0	15.4	-0.9	9.4	13.2	-0.8
	Taxes on products, services and import minus subsidies	3.3	0.1	-2.0	4.4	0.3	-2.0
	GROSS DOMESTIC PRODUCT IN MARKET PRICES	12.3	15.5	-2.9	13.8	13.5	-2.9

Source: IRBRS calculations based on data from Statistics Institutes

Table 4: RS Industrial Production, indices

Index period	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Baseline period	Same period last year								
Industry	119.0	106.1	107.0	111.0	101.8	105.8	111.0	112.1	101.5
C) Ore and stone extraction	92.5	143.0	119.7	133.9	151.3	143.4	126.4	101.0	96.9
D) Processing industry	135.1	101.9	104.7	105.1	101.5	100.0	104.9	112.4	103.9
E) Production and supply of electricity, gas and water	107.9	102.1	105.7	111.7	92.8	102.2	114.6	117.8	100.1

Source: RSIS

Table 5: BiH Industrial Production, indices

Index period	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Baseline period	Same period last year								
Industry	96.7	101.3	101.3	99.5	99.5	104.3	102.7	105.2	95.7
C) Ore and stone extraction	97.2	98.6	93.5	91.6	100.5	102.8	97.8	85.2	85.5
D) Processing industry	95.4	100.1	101.5	97.5	97.5	104.4	101.6	106.3	98.6
E) Production and supply of electricity, gas and water	100.1	105.1	104.9	106.6	103.8	104.9	110.0	113.8	91.6

Source: BHAS

Table 6: RS Construction Activity, indices

Index period	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Baseline period	Same period last year								
Value of performed works, in 000 BAM	92.0	68.8	69.4	88.2	57.4	67.2	81.0	61.9	69.8
Number of workers on construction works	95.4	85.1	86.7	90.5	78.7	86.9	89.8	87.2	87.0
Performed effective hours on construction works	93.5	88.0	86.3	105.0	75.6	88.1	86.7	84.1	84.2

Source: RSIS

Table 7: Unemployment in the RS

Category	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Number of unemployed	139,536	149,180	147,341	147,816	150,036	149,687	147,724	145,710	143,073
Newly entered into the records	5,378	5,539	4,944	5,171	5,805	5,641	4,442	3,773	4,832
Total deleted from the records	4,620	4,272	5,544	3,164	3,578	6,073	6,333	5,856	8,258
Deleted from the records due to employment	1,828	1,418	1,888	967	1,335	1,952	2,056	2,085	2,933

Source: RSEI

Table 8: Average Net Salaries in the RS, by sectors, in BAM

Sectors	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Total	788	774	779	778	722	771	786	774	789
A Agriculture, hunting and forestry	605	569	574	563	568	574	569	582	583
B Fishery	646	619	625	607	632	618	606	649	640
C Ore and stone extraction	893	938	948	897	1,005	906	904	950	1,018
D Processing industry	524	536	543	532	544	532	555	553	542
E Production and supply of electricity, gas and water	927	923	917	921	943	905	893	912	930
F Construction industry	551	533	536	548	534	520	532	544	541
G Retail and wholesale trade, repair of motor vehicles, motorcycles and products for personal use	547	574	577	577	579	568	588	576	573
H Hotels and restaurants	487	529	530	522	532	533	531	519	539
I Transport, warehousing and communications	792	741	765	616	791	785	778	793	787
J Financial intermediation	1,260	1,219	1,223	1,236	1,216	1,212	1,241	1,233	1,207
K Activities related to real estate, rental and business activities	629	624	619	598	642	629	612	602	625
L Civil service, defense and obligatory social security	1,082	1,057	1,047	1,082	1,050	1,040	1,038	1,020	1,054
M Education	901	877	883	911	825	881	906	883	877
N Health care and social work	1,037	1,018	1,021	1,041	1,025	994	1,025	1,023	1,022
O Other utilities, social and personal service activities	644	609	612	608	617	602	617	620	609

Source: RSIS

Table 9: Average Net Salaries in BiH, by sectors, in BAM

Sectors	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Total	790	790	794	789	782	798	799	795	798
A Agriculture, hunting and forestry	647	631	641	632	617	646	645	652	654
B Fishery	610	592	595	580	591	604	581	614	603
C Ore and stone extraction	804	821	822	810	834	817	817	821	831
D Processing industry	548	555	560	555	551	560	567	565	564
E Production and supply of electricity, gas and water	1,109	1,106	1,108	1,114	1,082	1,122	1,108	1,103	1,123
F Construction industry	515	516	518	518	515	516	517	521	521
G Retail and wholesale trade, repair of motor vehicles, motorcycles and products for personal use	537	556	559	554	555	560	563	562	561
H Hotels and restaurants	521	531	530	531	532	530	526	525	538
I Transport, warehousing and communications	912	891	899	864	892	914	903	910	907
J Financial intermediation	1,263	1,247	1,267	1,244	1,236	1,260	1,287	1,302	1,270
K Activities related to real estate, rental and business activities	735	733	729	725	740	733	730	720	725
L Civil service, defense and obligatory social security	1,113	1,098	1,096	1,101	1,095	1,097	1,093	1,092	1,100
M Education	854	853	856	858	843	857	866	858	853
N Health care and social work	998	988	993	994	960	1,010	1,001	994	998
O Other utilities, social and personal service activities	731	729	729	729	729	729	726	732	726

Source: BHAS

Table 10: Average Pensions in the RS, in BAM

Period	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Amount	320	320	319	321	319	319	319	319	320

Source: RSPDIF and IRBRS calculations

Table 11: Overview of the RS Inflation Trends, measured by CPI (Consumer Price Index)

Index period	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Baseline period	same period last year								
TOTAL	99.6	102.3	102.7	102.0	102.3	102.7	103.0	103.2	103.1
Food and non-alcoholic beverages	98.3	96.8	97.5	96.4	96.8	97.1	97.7	98.0	98.7
Alcohol drinks and tobacco	111.0	131.3	130.9	131.7	131.3	130.8	130.6	130.6	130.4
Clothes and footwear	96.9	96.4	96.3	96.3	96.5	96.3	96.0	96.4	96.1
Housing, water, electricity, gas and other energy sources	104.4	105.4	105.3	105.4	105.5	105.2	105.4	105.1	105.1
Furniture, domestic appliances and regular home maintenance	100.8	99.5	99.5	99.3	99.5	99.6	99.5	99.6	99.6
Healthcare	101.1	102.9	103.2	102.8	103.0	103.0	103.1	103.6	103.4
Transport	90.0	107.2	108.9	105.4	106.6	109.7	111.5	111.6	108.5
Communications	102.1	108.2	108.3	108.2	108.2	108.2	108.3	108.3	108.3
Recreation and culture	102.2	100.4	100.2	100.6	100.5	100.0	99.9	100.0	100.1
Education	100.8	106.0	105.9	106.2	105.8	105.8	105.8	105.8	105.8
Restaurants and hotels	103.5	100.5	100.3	100.7	100.6	100.4	100.1	100.1	100.1
Other goods and services	102.9	100.9	100.8	101.1	101.1	100.4	100.5	100.9	101.1

Source: RSIS

Table 12: RS Active Interest Rates, in %

Category	I-XII 2009	I-III 2010	IV-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Interest rates on short-term loans	8.78	8.59	8.1	8.23	8.72	8.76	8.32	7.87	8.16
Interest rates on long-term loans	8.35	8.25	8.42	8.06	8.33	8.32	8.58	8.36	8.16
Total loans	8.58	8.48	8.2	8.18	8.6	8.61	8.4	8.01	8.23

Source: BARS

Table 13: BiH Active Interest Rates, in %

Category	XII 2009	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Interest rates on short-term loans to private companies	8.28	8.06	7.87	7.71	7.68	7.63	7.57
Interest rates on short-term loans to population	9.82	10.12	9.86	9.63	9.37	9.62	9.63
Interest rates on long-term loans to private companies	7.53	8.88	8.70	8.23	8.53	8.89	9.11
Interest rates on long-term loans to population	8.66	8.89	9.10	8.75	8.84	8.89	8.82

Source: CBBH

Table 14: RS and BiH Foreign Trade, in 000 BAM

Republic of Srpska	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Export	1,672,915	492,681	1,059,976	124,947	168,462	199,214	181,466	182,182	203,199
Import	3,567,104	809,614	1,834,836	213,691	298,690	297,530	320,238	367,745	336,963
Trade volume	5,240,019	1,302,295	2,894,812	338,638	467,152	496,744	501,704	549,927	540,162
Trade balance	-1,894,189	-316,933	-774,860	-88,744	-130,228	-98,316	-138,772	-185,563	-133,764
Export import ratio in %	46.9	60.9	57.8	58.5	56.4	67.0	56.7	49.5	60.3
Bosnia and Herzegovina	I-XII 2009	I-III 2010	I-VI 2010	I 2010	II 2010	III 2010	IV 2010	V 2010	VI 2010
Export	5,530,377	1,538,938	3,379,356	419,359	515,554	604,026	593,530	604,426	642,462
Import	12,348,466	2,750,466	6,228,155	719,309	944,800	1,086,357	1,128,933	1,175,398	1,173,358
Trade volume	17,878,843	4,289,404	9,607,511	1,138,668	1,460,354	1,690,383	1,722,463	1,779,824	1,815,820
Trade balance	-6,818,089	-1,211,528	-2,848,799	-299,950	-429,246	-482,331	-535,403	-570,972	-530,896
Export import ratio in %	44.8	56.0	54.3	58.3	54.6	55.6	52.6	51.4	54.8

Source: RSIS and BHAS

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