



ECONOMIC UPDATE

A robust growth of the BH economy from 2007 (6.8%) continued into 2008, yet macroeconomic stability has been negatively affected by the international food and fuel price hikes, as well as the now-almost-global financial crisis. As the below table shows, the growth of industrial production continues. The export growth is above expectations (17% year-to-date), with service exports performing even better (20% growth Jan-Jun). Growth has been the strongest in the construction industry (about 40 and 12% in the FBiH and RS respectively). On the other hand, growing international fuel and food prices have adversely affected the economy. First, fuel and food price inflation was the main culprit for the 10% year-to-date growth in consumer prices. Second, since BiH imports most of its fuel and much of its food, nominal imports grew faster than exports (21%), resulting in an increase of the trade imbalance; moreover, as remittances have not kept up with the growth of the trade imbalance (probably affected by the global financial crisis), the current account deficit has widened significantly (from January to June).

DOING BUSINESS 2009: BOSNIA AND HERZEGOVINA RANKED 119TH AMONG 181 COUNTRIES – WHAT DOES IT REALLY MEAN?

In the new Doing Business report published on September 10, Bosnia and Herzegovina (BH) was ranked 119 on the list that shows the ease of doing business in 181 economies in the world. The ranking of BH remained essentially unchanged compared to last year's Doing Business report when BH was ranked 117th of 178 countries, but the inclusion of three new well-performing countries and a methodological adjustment resulted in lower placement this year. However, this year's rankings of the countries in Southeastern Europe (Hungary-41, Romania-47, Bulgaria-49, FYR Macedonia-71, Albania-86, Montenegro-90, Serbia-91, Croatia-106) reconfirm that other countries are doing more to improve their business environment and that BH should intensify its efforts in this area in order to render itself more attractive for investment and to facilitate job creation.

The Doing Business report identifies those reforms that are the most called for and suggests how their impact on businesses can be measured. Some Doing Business indicators include complex indices on the effectiveness of laws. They also reveal the duration and cost of many typical procedures businesses are required to complete. The report recognized the efforts undertaken over the last 12 months to improve the business environment in BH in four out of ten indicators: closing a business, dealing with construction licenses, enforcing contracts and registering property. The time required to register property was reduced by 203 days (from 331 to 128 days) and dealing with licenses now requires 171 days less than last year (296 vs. 467 in 2007). However, some findings show a turn in the opposite direction. While "paying taxes" indicator showed improvement in the previous years on the number of payments annually, this year the average number of hours it took a firm to actually process the paperwork increased, which indicates the need for better coordination of legal and regulatory changes with institutional reform and implementation efforts. Similarly, the business registration in the courts became faster over the past year, but the recent introduction of notaries-public in the overall process of business registration caused the total duration of the registration for a new business to actually increase.

These cases help us understand that a significantly improved coordination of executive, legislative and judicial authorities is needed for complex reforms to be completed successfully and to yield results beneficial to the business community and the society as a whole. This year, the state, entity governments and even some local governments are intensifying their efforts pertaining to business environment initiatives such as the regulatory guillotine in the Federation BH and in a number of municipalities across the country. The continuation and intensification of these and other similar efforts will help strengthen confidence of businesses large and small; these steps represent an important part of policy actions the authorities may consider to strengthen BH position at time of international financial turmoil. The World Bank Group will continue to work with the BH authorities on the creation of better environment for private sector development and job creation.

The 2009 Doing Business Report can be downloaded at <http://www.doingbusiness.org/>

	Annual		Quarterly				Monthly				
	2006	2007	2007		2008		2008				
			Q3	Q4	Q1	Q2	IV	V	VI	VII	VIII
Industrial Production											
FBH (% change y-y)	7.5	9.1	9.2	2.9	-1.5	5.1	2.5	5.1	6.7	8.3	5.2
RS (% change y-y)	19.1	1.4	-8.5	-5.7	9.0	10.7	14.2	6.2	10.6	12.5	6.2
Gross Monthly Wage											
FBH (% change y-y)	8.2	9.7	9.6	11.0	12.2	13.1	13.0	13.4	12.8	15.7	n/a
RS (% change y-y)	12.0	10.3	8.2	11.0	22.3	31.4	30.4	31.8	32.1	33.5	31.8
Cost of Living /CPI*											
FBH (% change y-y)	6.0	1.5	0.7	3.8	6.8	8.5	7.6	8.3	9.8	10.2	9.6
RS (% change y-y)	9.4	1.8	1.5	5.9	6.1	8.2	7.4	8.0	9.3	9.7	9.4
Current Account Balance (Millions of €)	-764	-1,396	-339	-479	-409	-515	n/a	n/a	n/a	n/a	n/a
Trade Balance (Millions of €)	-3,134	-4,072	-1074	-1166	-1077	-1290	-452	-423	-415	-443	-427
Exports of Goods (Millions of €)	2,640	3,035	791	780	801	911	290	307	314	324	280
% change y-y	36.5	15.0	12.5	11.3	14.8	19.0	20.3	17.2	19.6	19.2	12.0
Imports of Goods (Millions of €)	5,823	7,106	1865	1947	1878	2201	742	730	729	768	707
% change y-y	1.9	22.0	16.6	16.9	27.4	20.9	29.5	17.0	17.0	20.1	13.0
Foreign Exchange Reserves (Mil. of €)	2,787	3,425	3,311	3,425	3,376	3,339	3,354	3,313	3,339	3,425	3,479
Broad Money (Millions of €)	5,151	6,263	5,979	6,263	6,341	6,541	6,446	6,507	6,541	6,687	6,787
% change y-y	24.8	21.6	22.8	21.6	18.1	14.3	17.4	15.8	14.3	14.9	14.8
Credit to Non-govt Borrowers (Mil. of €)	4,724	6,052	5,687	6,052	6,450	6,911	6,629	6,752	6,911	7,034	7,115
% change y-y	23.3	28.1	29.4	28.1	28.7	28.7	29.1	28.5	28.7	28.1	27.4

Sources: BH statistics agencies, Central Bank and World Bank calculations. / * As of January 2008 both entities report CPI

ACTIVE WORLD BANK PROJECTS IN BOSNIA AND HERZEGOVINA

Project	Status	Commitment (US\$ million)	Available for disbursement (US\$ million)
Community Development	effective	20.00	3.75
Employment Support	effective	12.00	0.44
Education Restructuring	effective	10.00	9.62
Health Sector Enhancement	effective	17.00	9.17
ECSEE APL 3 (Power IV)	effective	36.00	38.55
Solid Waste Management	effective	26.00	13.58
Urban Infrastructure and Service Delivery	effective	25.00	16.37
GEF – Water Quality Protection	effective	8.90	8.46
Forest Development and Conservation	effective	7.10	3.53
Land Registration	effective	15.00	14.37
Small Scale Commercial Agriculture	effective	12.00	1.59
Agriculture and Rural Development	effective	21.00	21.40
Avian Influenza Preparedness	effective	5.00	4.98
Road Infrastructure and Safety	effective	25.00	25.4
GEF - Neretva and Trebisnjica Management	signed	6.00	6.00
GEF - Forest and Mountain Protected Areas	approved	3.40	3.40
	TOTAL	249.40	180.61

BOSNIA AND HERZEGOVINA AND CROATIA PARTNER UP TO PROTECT NERETVA AND TREBISNJICA BASIN

Governments of Bosnia and Herzegovina and the Republic of Croatia signed in September Grant Agreements with the World Bank for the **Neretva and Trebisnjica Management Project** totaling US\$8 million. The two Global Environment Facility (GEF) grants amount to US\$6 million for BH and US\$2 million for the Republic of Croatia.

Over the course of the project the two countries will cooperate to develop capacity for effective water resource management including the information of river basin management plans, address saline water intrusion in Neretva Delta in Croatia, reduce water pollution, and introduce civil society participation in the decision-making process for water resource management.

The World Bank hopes this project will be a catalyst for inter-state cooperation in water resource management and the application of international water management principles and best practices. It is a promising sign for the future of water resources management to see such commitment by these two countries to strengthen cross-border cooperation.



FIRST IBRD LOAN NEGOTIATED – SOLID WASTE MANAGEMENT PROJECT II

On September 22-23, 2008, delegations of BH and the World Bank completed negotiations for a new IDA credit in the amount of US\$ 15 million and an IBRD loan in the amount of US\$ 25 million for the **second phase of the Solid Waste Management Project**. The objective of this project is to further improve availability, quality, environmental soundness and financial stability of solid waste management services in participating regions.

This is the first project that will include a portion of IBRD (International Bank for Reconstruction and Development) financing, which carries an interest close to LIBOR rate and has a repayment term of 20 years including 8 years grace period. Transition to IBRD financing is an important signal about the maturity of the country's economy. Since 1996, the World Bank has supported 61 projects in BH with interest free IDA credits and grants in the total amount of US\$ 1.27 billion.

NEW TRANSPORT SECTOR PROJECT READY FOR IMPLEMENTATION

The **Road Infrastructure and Safety Project** was declared effective in September 2008. Interest free IDA credit in the amount of US\$ 25 million is provided to accelerate the recovery of the main road network and improve institutional capacity in relation to road safety. The project will finance the rehabilitation of about 240 kilometers of regional roads in both BH entities. Additionally, the project will also help develop a strategy for improving road safety in the country through: (a) support to the creation of an adequate institutional framework; (b) support to the legal/legislative framework; (c) assistance to the development of Entity Level Strategies and their coordination/transposition at the State level; (d) design and monitoring of road safety indicators; (e) preparation of a road safety action plan to manage and finance short-, medium- and long-terms road safety activities and (f) implementation of pilot operations to test the effectiveness of the action plan. The implementation of these activities will start in March 2009.

The US\$ 25 million project by the World Bank is a part of a broader road rehabilitation program financed by the two entity governments, the European Investment Bank, and the European Bank for Reconstruction and Development.

PROJECT PIPELINE

Projects that are currently under preparation include: **Municipal Development Project**; and **Sava Waterway Rehabilitation Project**. The World Bank is also discussing with the Governments about possible partnership in the areas of private sector development and social sector reform.

Information about The World Bank in Bosnia and Herzegovina is available on our website: www.worldbank.ba

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