

Monthly Economic Report – December 2004

Stockmarkets

	Turnover in KM	% change on previous month Turnover in KM
Sarajevo (SASE)	54,132,256 (Dec.)	+47.91
Banja Luka	16,936,034 (Dec.)	+40.10

Trade, exchange rates and budgets

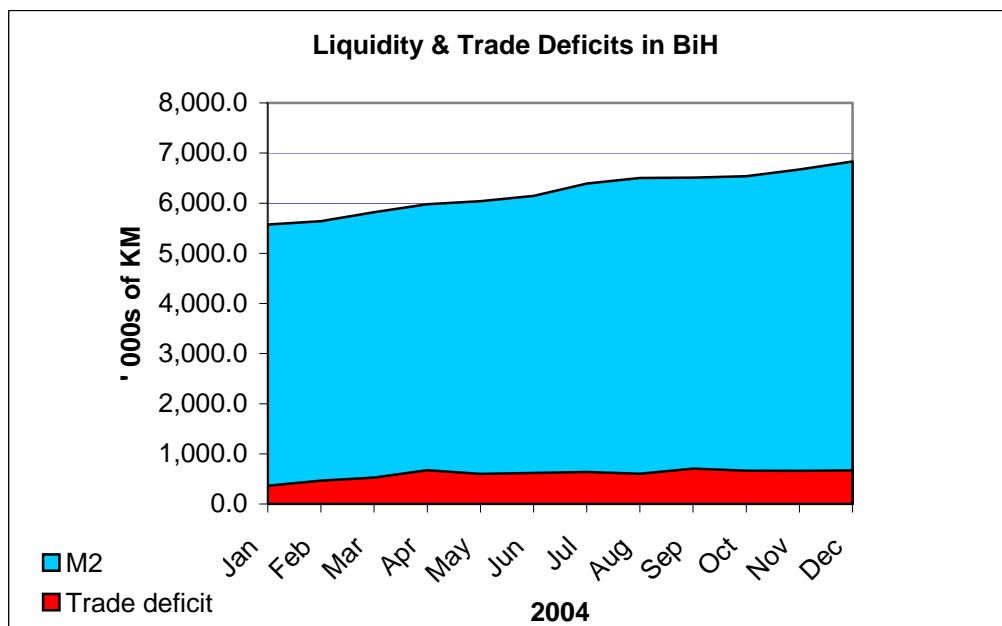
	Dec. 04 Import / Exports	% change on previous year Imports / Exports	Jan-Dec. 04 Imports / Exports
'000s of KM			
Trade performance	1,002,549 333,204	+ 17.87 +30.56	9,582,115 2,923,515

Prices and Earnings and Unemployment

Net Salaries:	FBiH	KM 534.91 (Nov.04)
	RS	KM 455 (Dec.04)
BiH Consumer price index	0.6%	(as of year end 2003)
Unemployment	Latest	Previous month
FBiH	323,984 (Nov.)	323,537 (Oct.)
RS	Figures not available	

Money and interest rates

Money supply (Oct. 04)	% change on year ago	Narrow (M ₁)	+13.52%
		Broad (M ₂)	+24.32%
Average Interest rates % p.a. (Dec. 04)	Bank Lending:	Short	9.92 Long 8.23
Rates Banks pay for deposits	Demand	0.77	Term 4.02



Million	Buying	Selling	Jan - Dec Balance
Demand for KM	165.5	279.3	+647.2

The BiH Money Supply expanded steadily in the course of 2004. As foreseen in preceding editions of this monthly report, the momentum of this expansion increased during the year, and can therefore be expected to continue. However, the most interesting fact is that the general liquidity (here represented by M2) of the whole country has not been affected by the persistent trade deficits of BiH that were recorded in every month of 2004.

The KM continued to enjoy investor confidence throughout 2004. From January to December 2004, the Central Bank sold a net total of KM 647.2 million. This means that the holders of Euro and other foreign currencies, on balance, exchanged more money into KM than the holders of KM exchanged into other currencies.

The Sarajevo Stock Exchange had a successful December – the value of turnover rose by more than 47 per cent over the figure for November.

The Banja Luka Stock Exchange had a very successful month too, with turnover rising by more than 40 per cent.

The dramatic increase in the value of share trading at both stock markets reflects continued confidence among investors. The domestic capital markets have witnessed a growing interest on the part of foreign institutional investors, attracted by BiH securities which are on the whole relatively undervalued. The recent introduction of Capital Gains Tax in Slovenia has also made BiH securities more attractive to Slovenian investors. While speculative buying may have played a part in recent increases in trading volumes, these increases also indicate a growing maturity on the part of the BiH investor base.

BiH's Trade Figures show a significant rise in exports in the month of December. This accentuates a positive trend that began at the start of 2004. While exports continued to increase, imports also rose in December. The overall trade balance for 2004 thus shows that BiH imported three times more than it exported in the course of the year.

Unemployment figures in the Federation **are high and apparently static.** The RS does not report monthly unemployment figures. Can we do aggregate annual figures, since this report essentially covers the whole year?

M₁: *Monetary aggregate M₁ comprises cash outside banks and demand deposits in domestic currency of all domestic institutional sectors (except for deposits of the central government).*

M₂: *Monetary aggregate M₂ consists of M₁ in addition to time and savings deposits in domestic currency, demand deposits in a foreign currency and time and savings deposits in a foreign currency of all domestic institutional sectors (except for deposits of the central government).*