

BOSNIA AND HERZEGOVINA ECONOMY REPORT Q1 2017

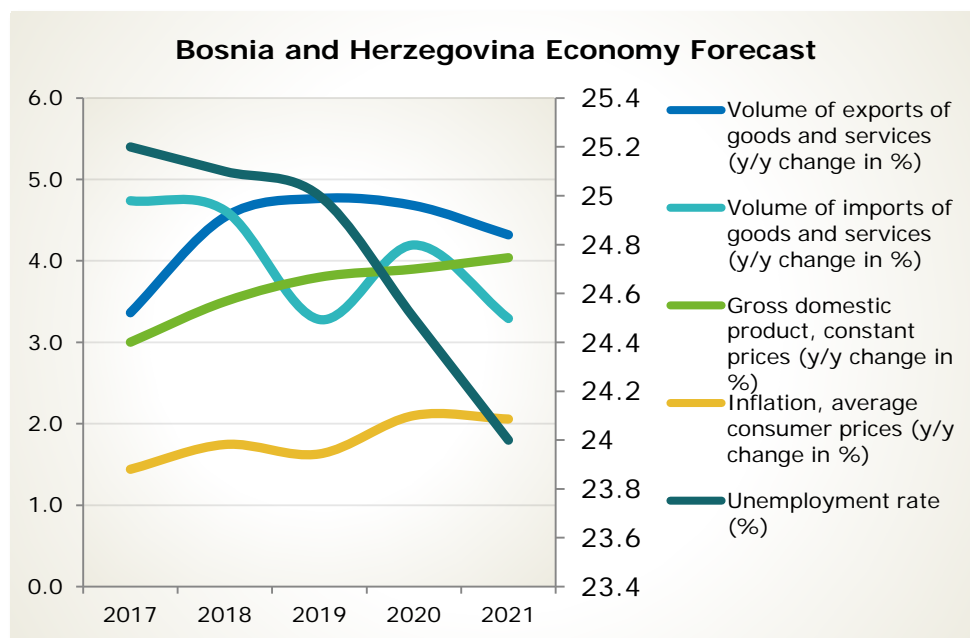
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1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN Q1 2017	
GDP Growth	2.7% y/y
Industrial output	2.5% y/y
Wholesales	8.5% y/y
Retail sales	5.7% y/y
Average annual deflation	0.5%
Unemployment rate	40.4%
Number of building permits	16.1% y/y
Money supply growth	9.3% y/y
Household loans	4.6% y/y
BIRS blue-chip index	1.8% q/q
SASX-10 blue-chip index	-6.2% q/q
Government external debt	BAM 8.746 bln
Current account gap	BAM 328 mln
Net FDI inflow	BAM 536.3 mln (2016*)
Foreign trade deficit	BAM 1.487 bln
Number of foreign tourist overnights	15.2% y/y

*No data available for Q1 2017



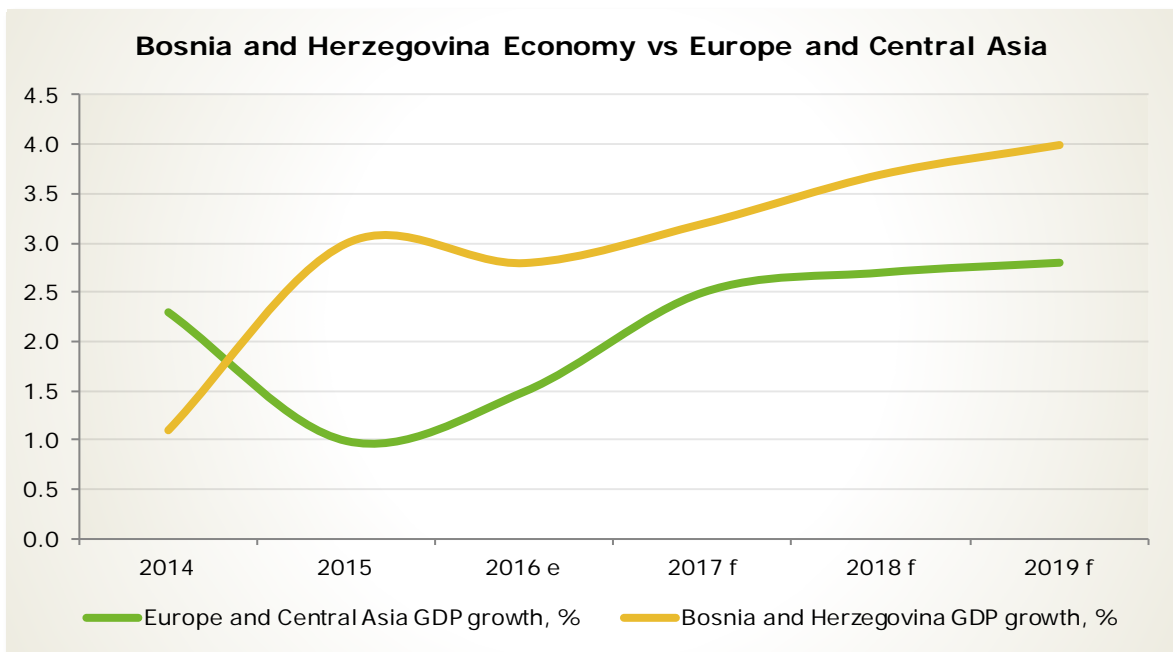
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2017

The economic growth of Bosnia and Herzegovina is expected to accelerate from 2.0% in 2016 to 3.2% in 2017 and 4.0% in 2019, supported primarily from domestic demand, according to a recent World Bank forecast. GDP growth will be underpinned by a pick-up in investment

resulting from expected improvements in the business environment, new energy, transport and tourism projects, and also supported by higher consumption due to steady flow of remittances, persistent deflation and low oil prices.

Inflation will come back in 2017 with general consumer prices projected to increase by 0.9% y/y and accelerate to 1.4% in 2018 and 2019.

In the short-run, the main risks to the World Bank estimates include deterioration of the fiscal deficit from a combination of high tax burden and inefficient patterns of spending. The World Bank sees political uncertainties that could hold back the reform agenda as the highest risk for the medium term outlook.



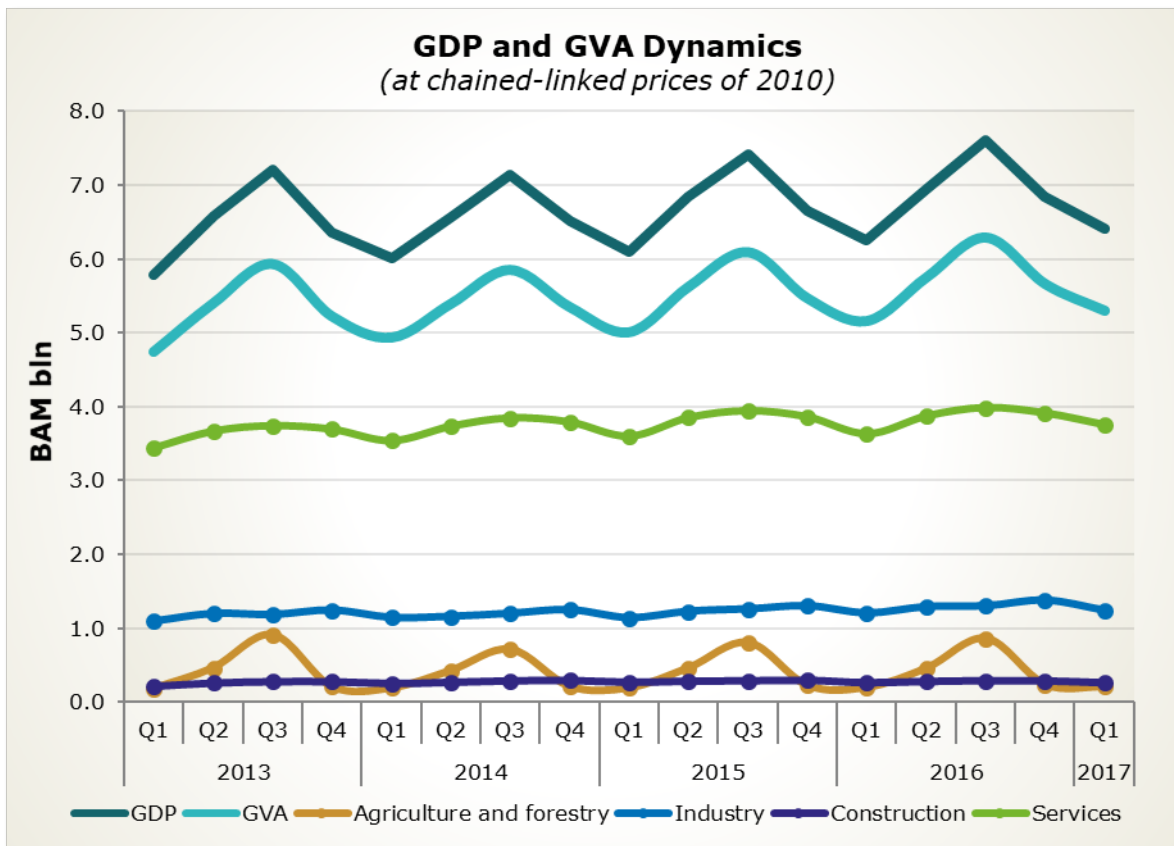
Source: World Bank

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 2.7% y/y in Q1 2017, compared to a 2.6% y/y growth in Q4 2016

The country's real GDP annual growth was 2.7%, totalling BAM 6.412 bln in Q1 2017, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS).



Source: BHAS

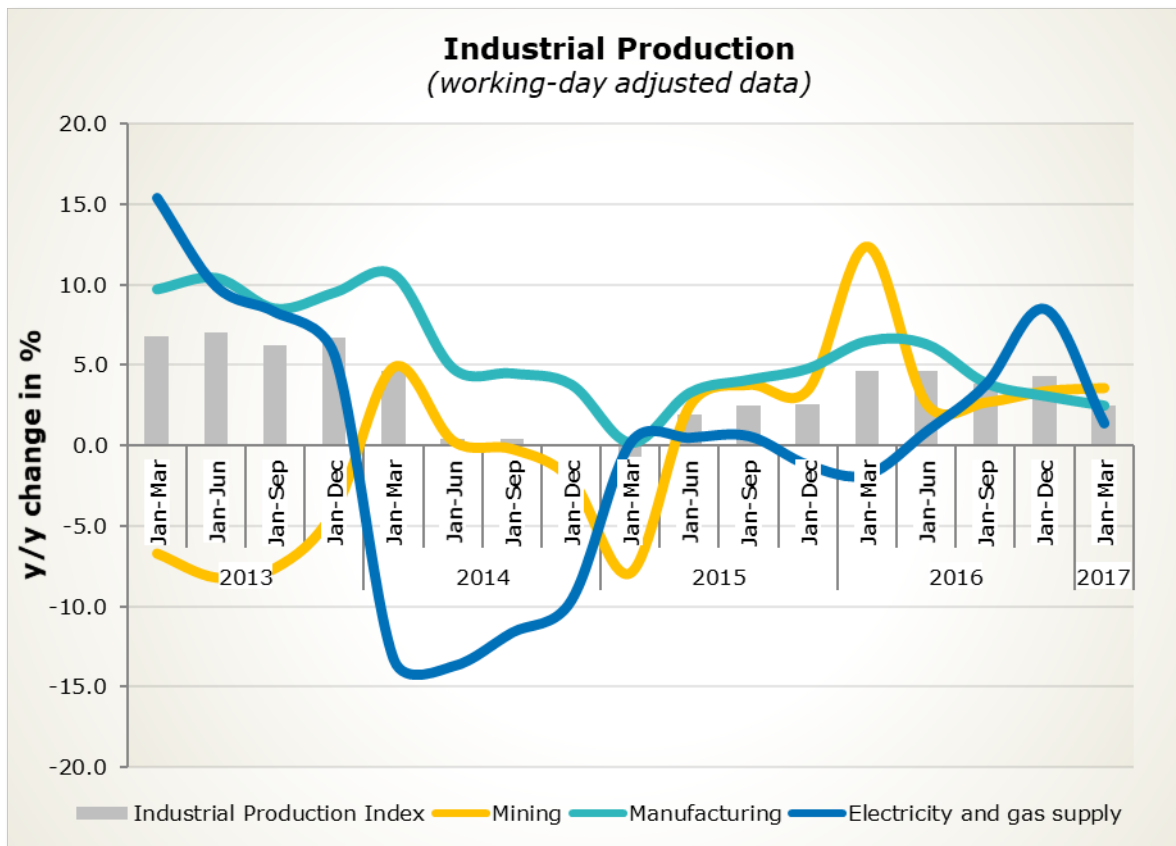
The gross value added (GVA) generated by the national economy increased in value terms by 2.7% y/y in Q1 2017 and totalled BAM 5.301 bln. The industrial sector grew by 2.9% and its share in the GVA structure was 23.4%. The services sector recorded a 3.4% increase, slicing a 70.8% share in the GVA in Q1 2017. Agriculture and forestry went up by 3.2% and accounted for 3.9% in the GVA. The construction sector went down by 0.5%, and its GVA share was 4.9%.

2.2. INDUSTRIAL OUTPUT

Industrial output up 2.5% y/y in Q1 2017

Industrial output went up by 2.5% in the first quarter of 2017, according to BHAS data. The output of electricity and gas supply rose by 1.4%, followed by the mining industry with 3.6%, while the output of the manufacturing sector grew by 2.5%.

Production of capital goods expanded the most, by 14.5% y/y, while production of non-durable goods went up on average by 3.5% in Q1 2017. Production of consumer durable goods plunged by 34.3% y/y.



Source: BHAS

2.3. WHOLESALE/RETAIL

Retail grew 5.7% y/y, wholesale went up by 8.5% y/y in Q1 2017

Retail sales, except of motor vehicles and motorcycles, went up by 5.7% y/y in the first quarter of 2017, while wholesale trade increased by 8.5%, according to BHAS data. This is compared to growth for retail of 3.1% y/y and a fall of 1.4% y/y in the wholesale trade in Q4 2016.

Retail trade of automotive fuel inched up by 13.9% y/y. Wholesale of food, beverage and tobacco decreased by 1.6% y/y, while wholesale of household goods went up by 11.7% y/y in Q1 2017.



Source: BHAS

Data for Q1 and Q2 2013 is not available

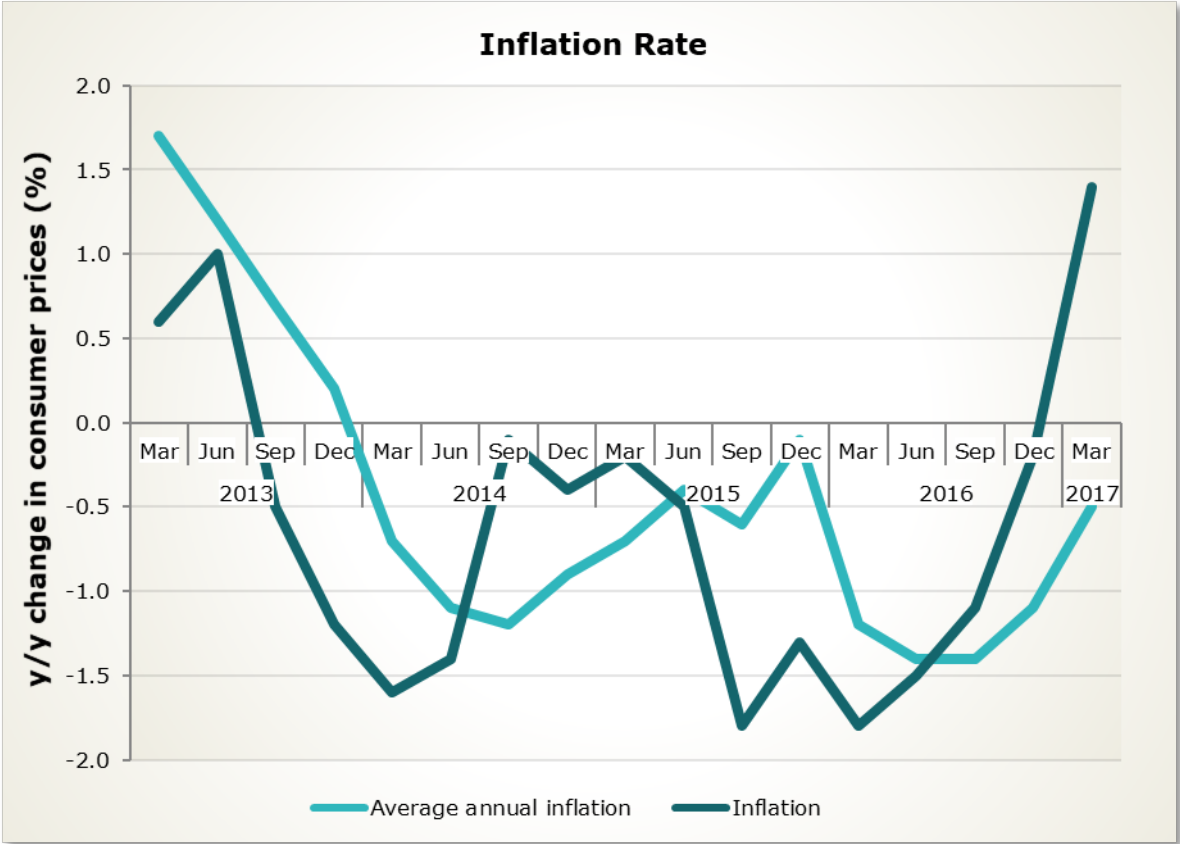
2.4. INFLATION

Inflation returned with consumer price increase of 1.4% y/y on average in March 2017

Inflation is returning in Bosnia and Herzegovina as consumer prices grew by 1.4% y/y in March 2017 after inching down by 0.2% in December 2016. Still, the country experienced average annual deflation of 0.5% in March 2017, according to BHAS.

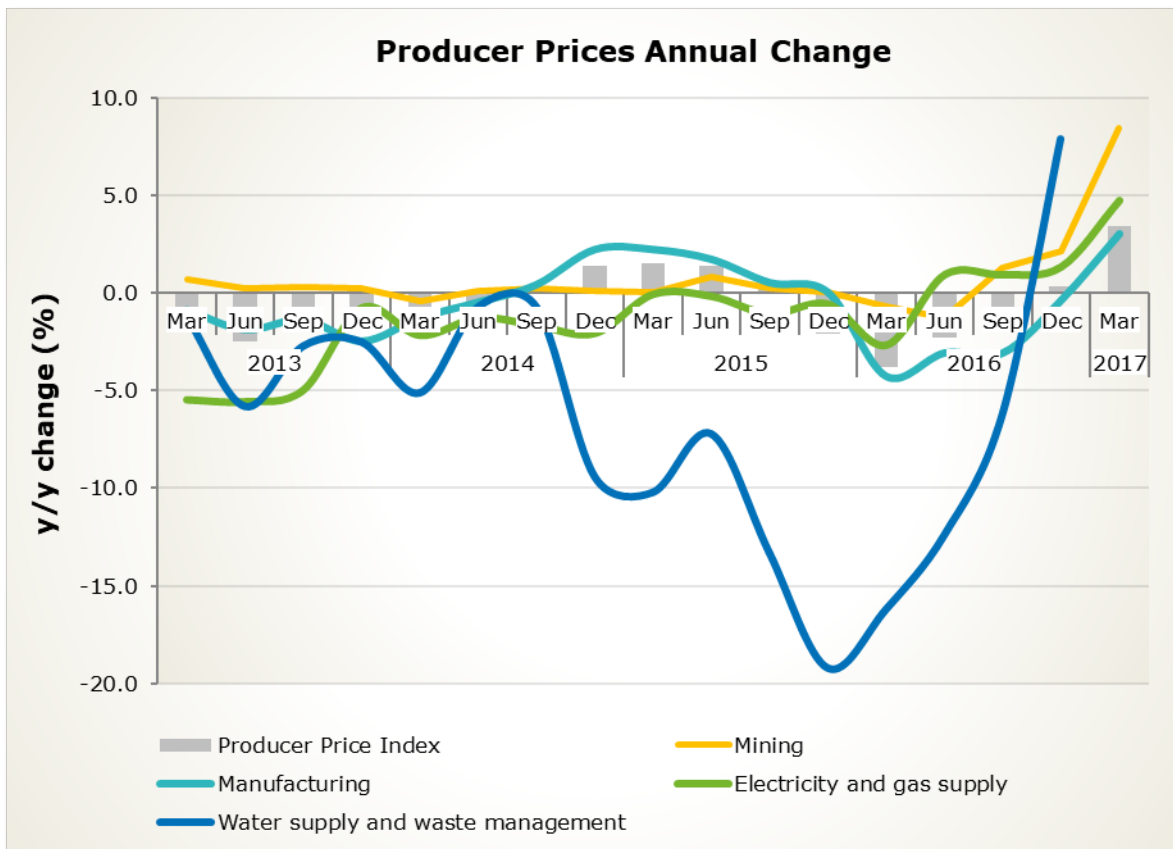
In March 2017, consumer prices in the transportation sector increased by 9.0% y/y after the oil prices recovered on international markets and supported fuel prices at local fuel stations. Electricity, gas and other fuel prices increased by 1.7% y/y while tobacco prices went up by 5.0% y/y.

The group of food and non-alcoholic beverages experienced price increase of 0.2% y/y on average in March 2017, while prices of clothing and footwear went down by 8.4% y/y.



Source: BHAS

Producer prices grew by 3.4% y/y in March 2017 due to the 4.7% rise of electricity and gas supply prices. Manufacturing prices increased by 3.0%, while mining producer prices recorded an annual increase of 8.4%.



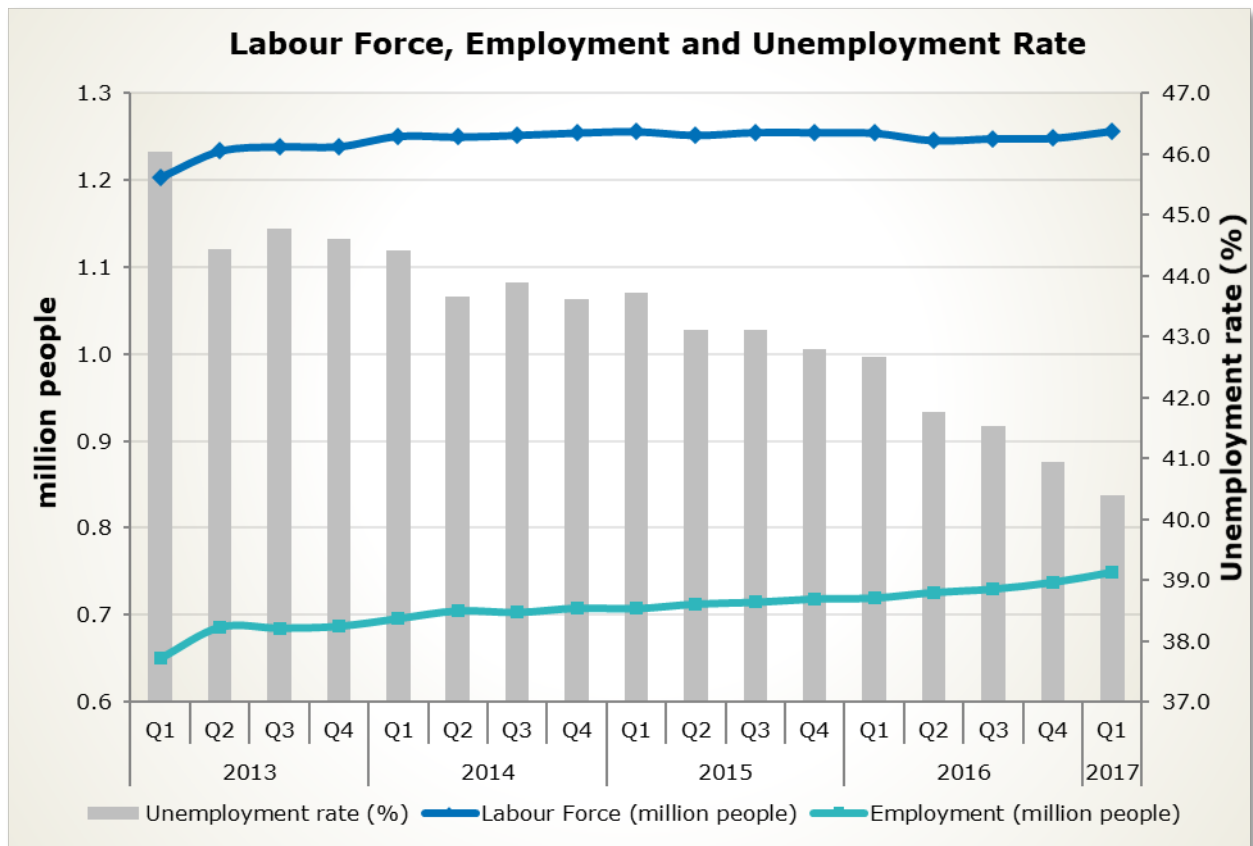
Source: BHAS

3. LABOUR MARKET

Unemployment rate went down but remain high at 40.4% as of March 2017

Unemployment in Bosnia and Herzegovina decreased to 40.4% of the total labour force in Q1 2017 from 42.7% in Q1 2016, according to data of BHAS.

Employment in the country was 749,000, up 4.2% y/y, while the labour force inched up by 0.2% y/y to 1.257 mln on average in Q1 2017.



Source: BHAS

The average monthly net salary in 2016 inched up by 1.4% y/y to BAM 846 in comparison to BAM 834 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 16.1% y/y in Q1 2017

The number of building permits, excluding such for civil engineering works, issued in Bosnia and Herzegovina in Q1 2017 jumped by 16.1% y/y, totalling 817, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, went up to 119,945 sq m from 75,718 sq m in Q1 2016.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BAM EXCHANGE RATE

The average exchange rate of the BAM against the USD increased to BAM 1.83693 in Q1 2017 from BAM 1.81335 in Q4 2016, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q1 2017	Q4 2016	Q1 2016
USD	1.83693	1.81335	1.77536
GBP	2.27392	2.25297	2.54326
CHF	1.82874	1.81175	1.78532
EUR*	1.95583	1.95583	1.95583

*The Bosnian convertible marka (BAM) is pegged at a fixed exchange rate of BAM 1.95583 per EUR under a currency board system.

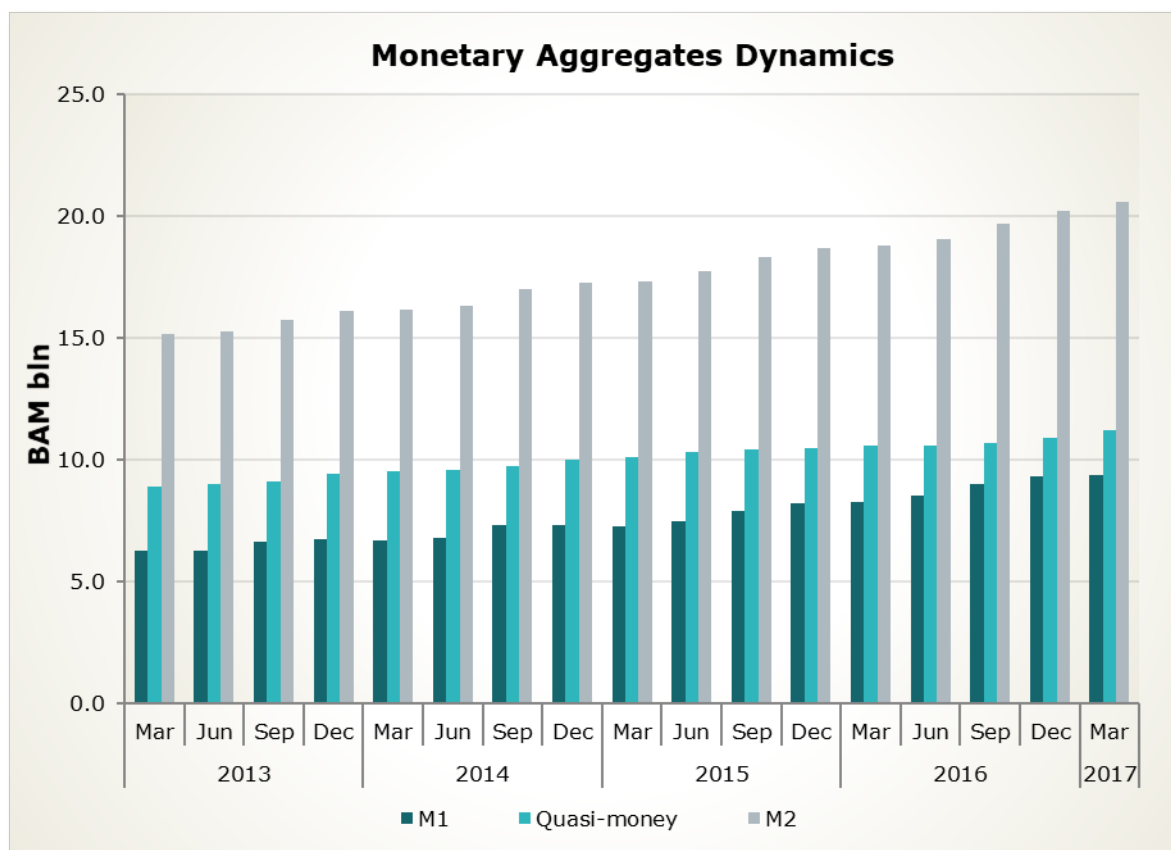
5.2. MONETARY AGGREGATES

Money supply growth was 9.3% y/y as of March 2017

Broad money, money aggregate M2, in Bosnia and Herzegovina increased by 9.3% y/y and reached BAM 20.544 bln in March 2017, according to data provided by CBBH.

Quasi-money, which includes other deposits in domestic and foreign currency, as well as transferrable deposits in foreign currency, increased by 5.8% to BAM 11.169 bln.

Money aggregate M1, or narrow money, jumped by 13.9% to BAM 9.375 bln.



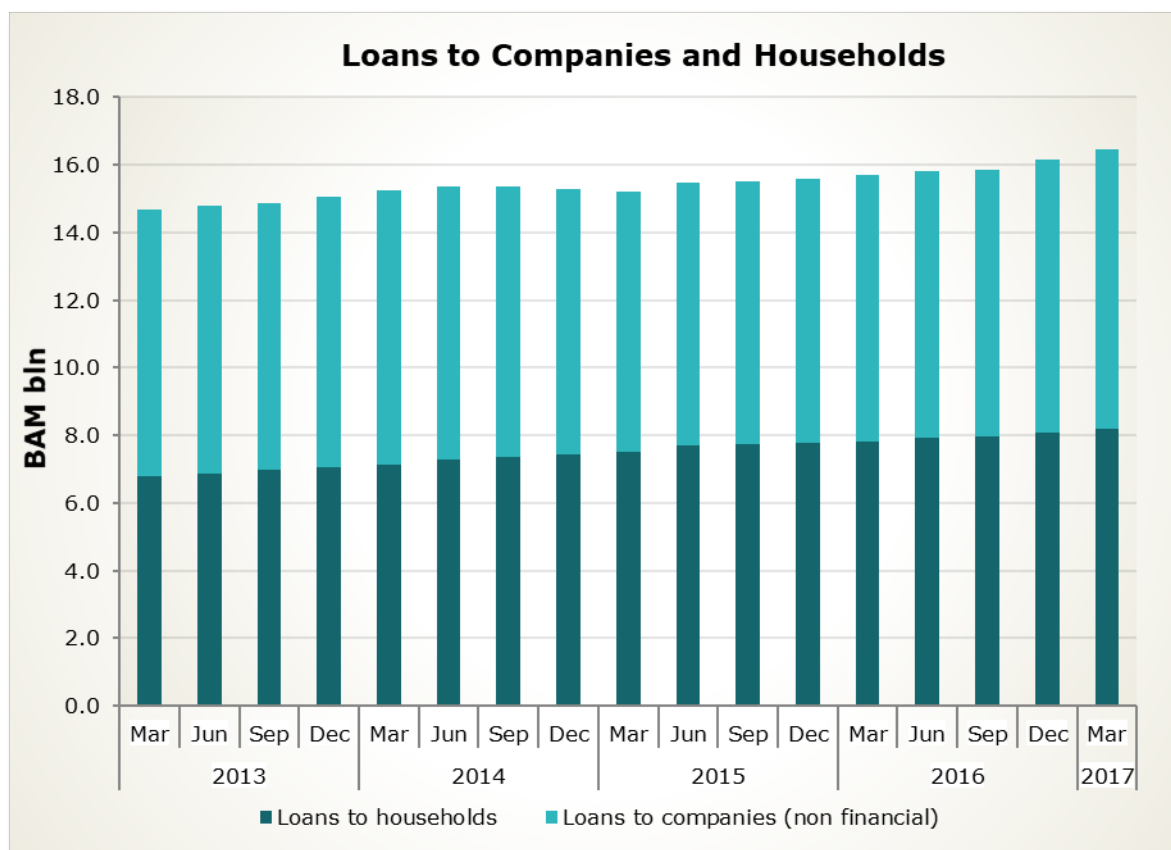
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans increased by 4.6% y/y in March 2017

Loans to the non-government sector totalled BAM 16.462 bln as of March 2017, up by 4.7% y/y, according to CBBH.

Loans to non-financial corporations increased by 4.9% to BAM 8.275 bln, while household loans rose by 4.6% y/y to BAM 8.187 bln. House purchasing loans went down by 2.6% to BAM 1.476 bln. Consumer loans grew by 7.1% to BAM 6.129 bln.

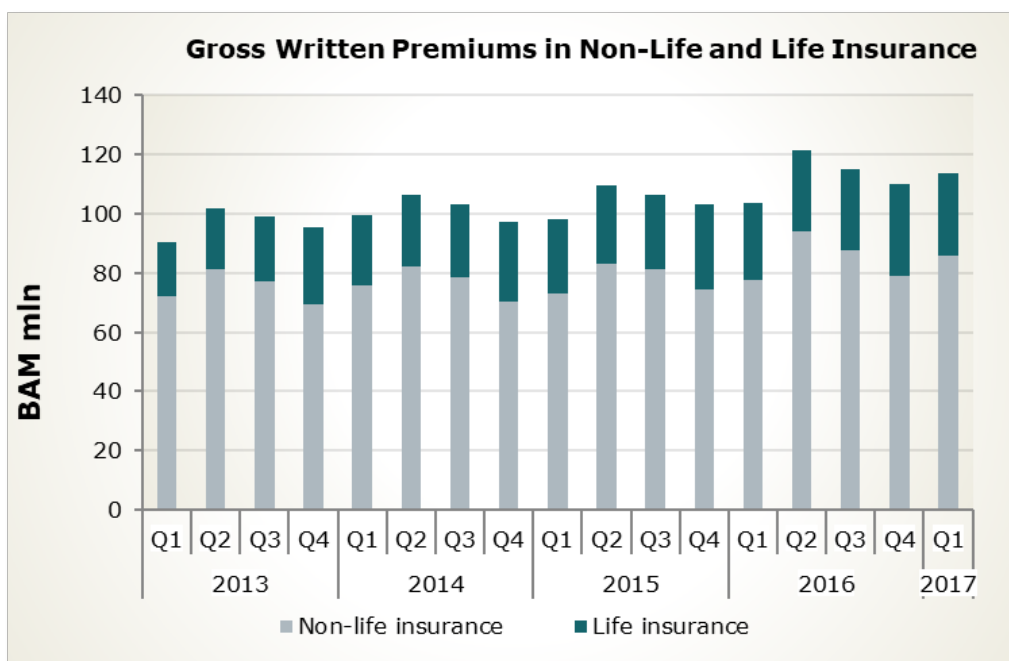


Source: CBBH

Insurance premium income up 9.7% y/y in Q1 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 113.55 mln, up by 9.7% y/y in Q1 2017, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 10.3% rise, to BAM 85.685 mln, of the non-life insurance segment and the 7.9% rise, to BAM 27.869 mln, of life insurance.



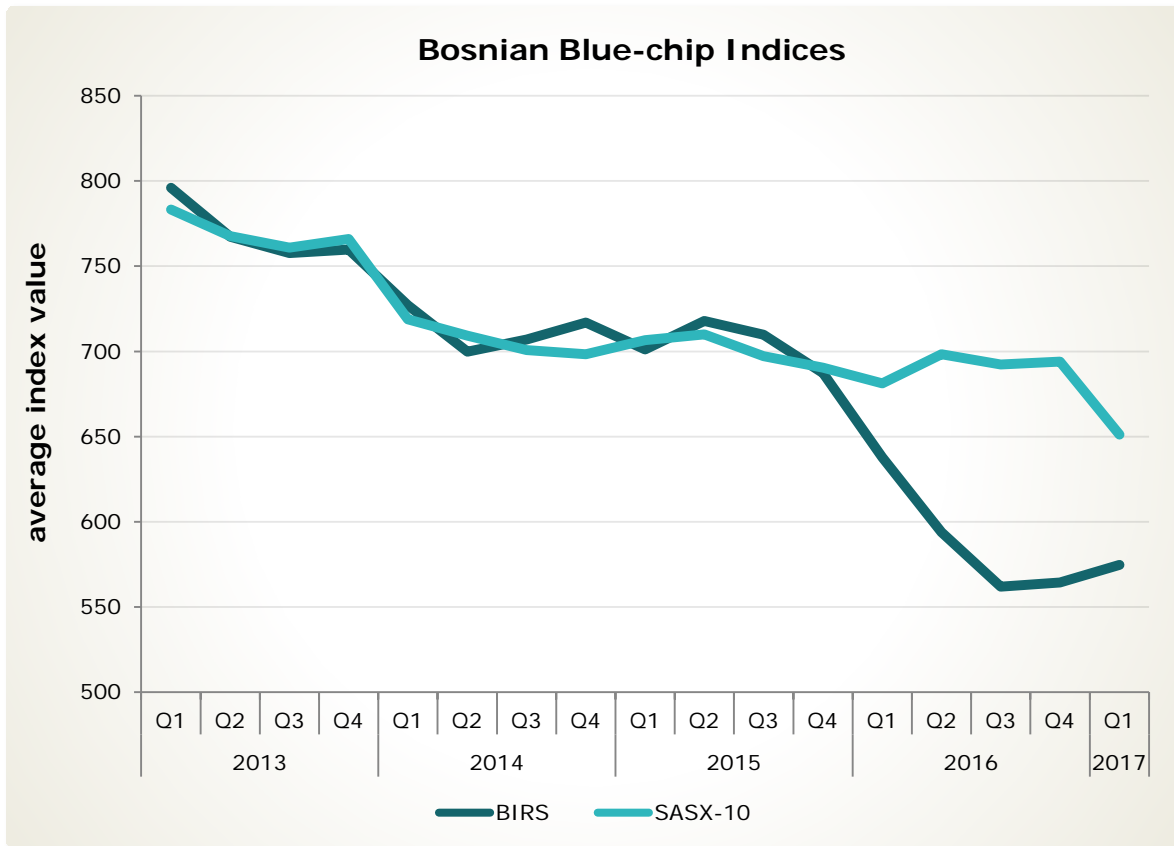
Source: NADOS

6. CAPITAL MARKETS

Blue-chip BIRS up 1.8% q/q, SASX10 down 6.2% q/q in Q1 2017

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), increased y/y by 1.8% in Q1 2017, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), registered a decline compared to Q1 2016, of 6.2%.



Source: BLSE, SASE

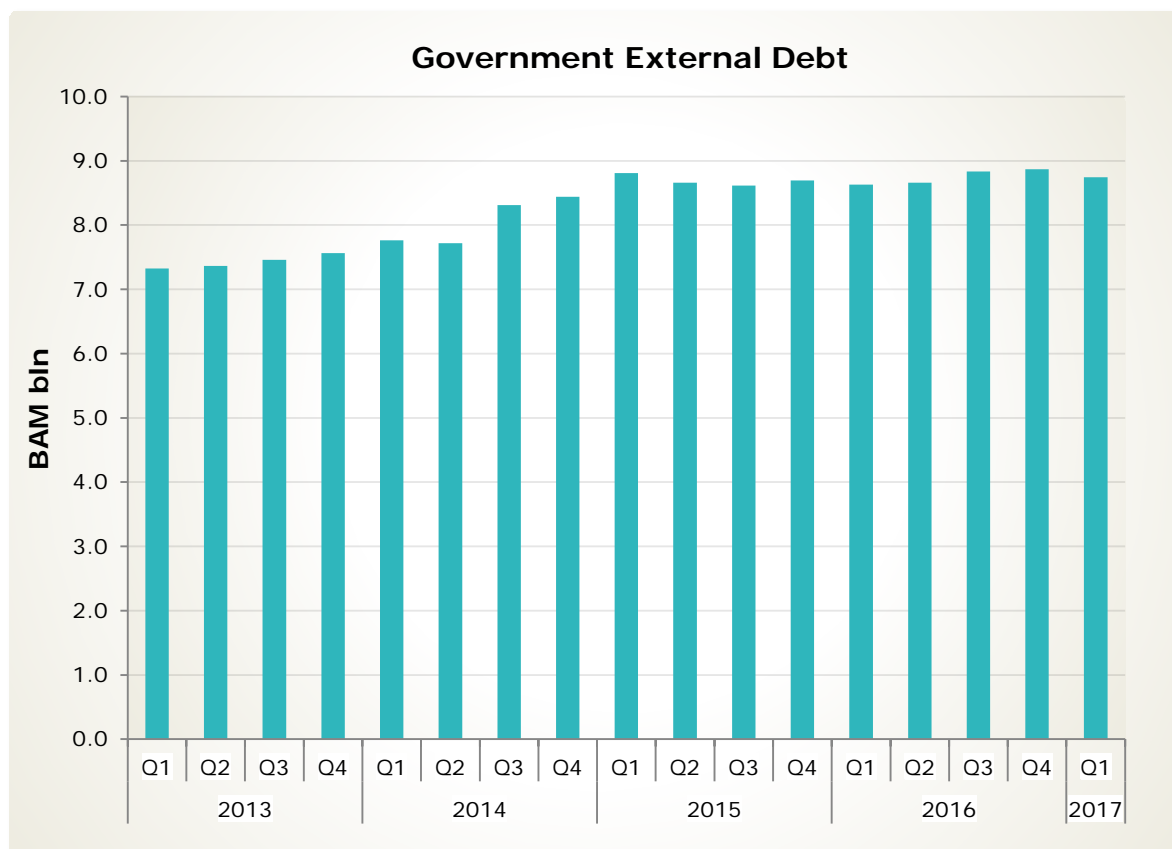
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt went up by 1.4% y/y to BAM 8.746 bln in Q1 2017

The total external government debt amounted to BAM 8.746 bln in Q1 2017, up by 1.4% on the year, according to CBBH data. In comparison to Q4 2016, the government external debt decreased by BAM 124.5 mln.

Bosnia and Herzegovina's main foreign creditors as of Q1 2017 were World Bank's International Development Association (IDA), the European Investment Bank, and IMF.

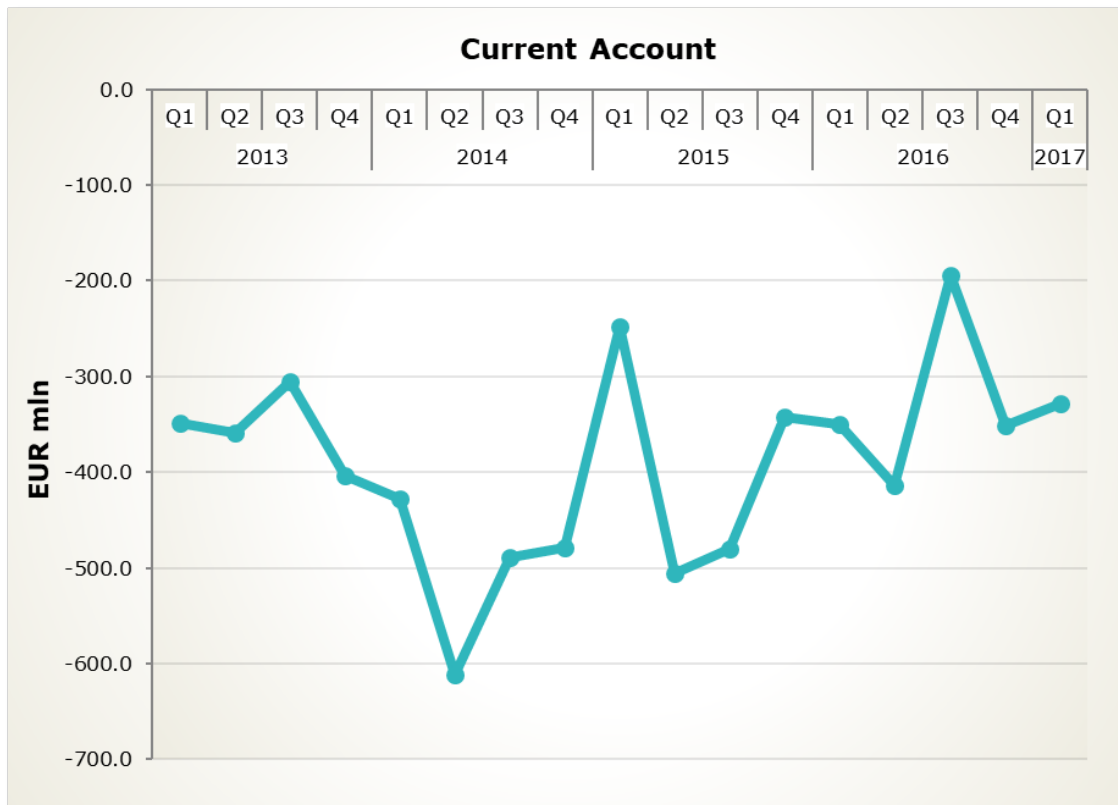


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account gap at BAM 328.1 mln in January-March 2017

The current account gap narrowed to BAM 328.1 mln in Q1 2017 from BAM 350.2 mln in Q1 2016, according to central bank statistics data. The net secondary income increased by 12% on the year to BAM 853.6 mln.



Source: CBBH

7.3. FDI

Net FDI inflow at BAM 536.3 mln in 2016*

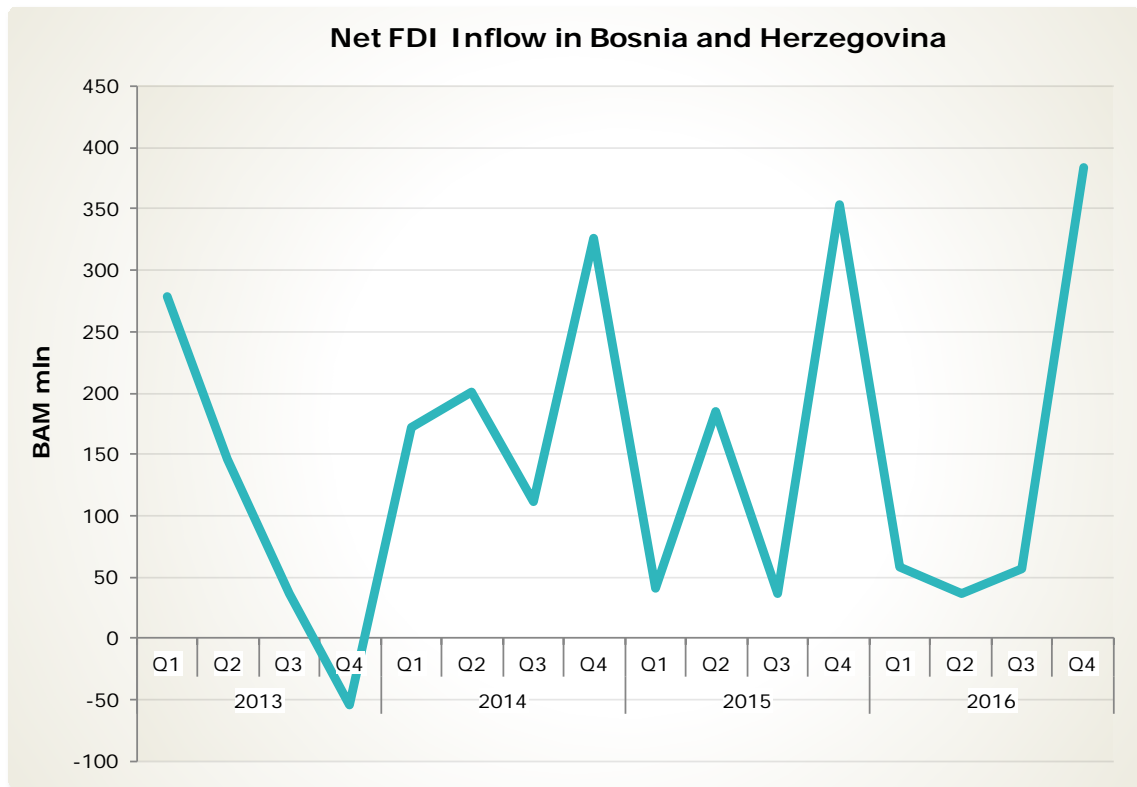
*Data for Q1 2017 was not available as of the date of preparation of this report.

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina totalled BAM 536.3 mln in 2016, according to CBBH data.

The FDI slumped by 12.8% compared to the corresponding period of the previous year and their share in the country's GDP fell to 1.9% from 2.1%.

In 2016, Croatia was the biggest foreign investor in the country with direct investments of BAM 119.0 mln, Austria came second with BAM 73.9 mln and United Arab Emirates came third with BAM 66.0 mln.

Wholesale trade, except of motor vehicles and motorcycles, was the most attractive sector for foreign investors with FDI inflow of BAM 148.8 mln, ahead of financial service activities, except insurance and pension funding with BAM 139.1 mln and manufacture of tobacco products with BAM 67.7 mln.



Source: CBBH

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 1.487 bln in Q1 2017

The trade deficit gap narrowed to BAM 1.487 bln in Q1 2017 from BAM 1.407 bln in Q1 2016, according to BHAS.

Exports surged by 17.4% y/y to BAM 2.489 bln, while imports jumped by 12.7% y/y to BAM 3.976 bln.

Export to EU countries amounted to BAM 1.817 bln in Q1 2017, which is 13.4% higher than in the same period of 2016, while import amounted to BAM 2.457 bln, which is 12,8% higher than in the same period of last year.

Exports of machinery and electrical equipment went up by 13.8% y/y in Q1 2017, exports of base metals increased by 23.1% y/y while exports of chemical products jumped by 32.7%.

Imports of vegetables went up by 13.3% y/y, while imports of mineral products surged by 46.3% y/y in Q1 2017. Imports of machinery and electrical equipment increased by 8.6% y/y.



Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 15.2% y/y in Q1 2017

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 15.2% to 261,706 in Q1 2017, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 65% in Q1 2017, versus 62% in Q1 2016.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 12.1% y/y to 110,133.



Source: BHAS

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