

BOSNIA AND HERZEGOVINA ECONOMY REPORT

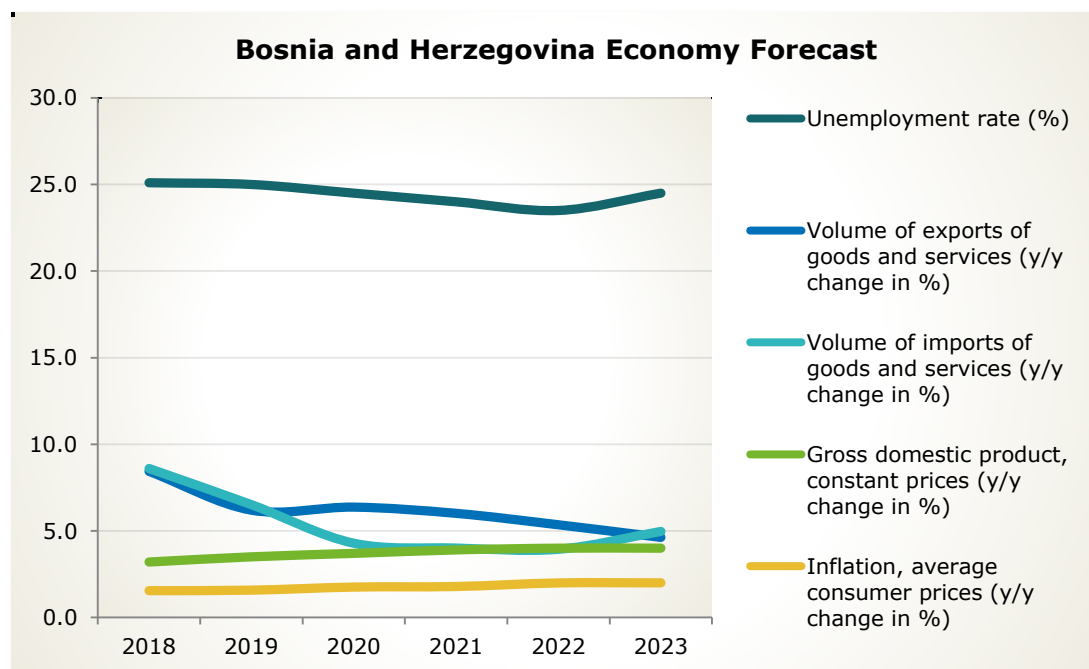
Q1 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN Q1 2018	
GDP Growth	2.0% y/y
Industrial output	4.9% y/y
Wholesales	9.3% y/y
Retail sales	4.7% y/y
Average annual inflation	0.8%
Unemployment rate	37.25%
Number of building permits	-2.8% y/y
Money supply growth	8.9% y/y
Household loans	6.9% y/y
BIRS blue-chip index	-4.5% q/q
SASX-10 blue-chip index	-0.7% q/q
Government external debt	BAM 8.344 bln
Current account deficit	BAM 377.3 mln
Net FDI inflow	BAM 70.1 mln
Foreign trade deficit	BAM 1.597 bln
Number of foreign tourist overnights	311,457



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

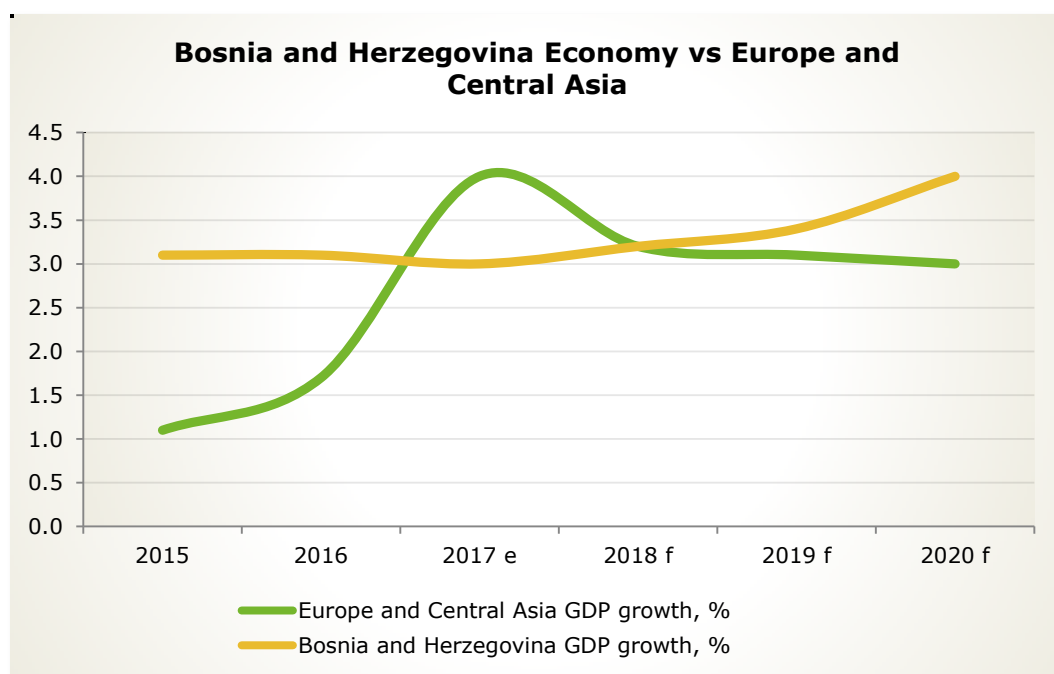
According to the International Monetary Fund (IMF), macroeconomic conditions in Bosnia and Herzegovina have remained stable. The country has made progress in reducing internal

and external imbalances in recent years, thanks to a prudent fiscal position, and a strong monetary anchor provided by the currency board. However, job creation has been limited, unemployment has remained high, particularly among the youth, and the income convergence with the EU has stalled.

Fiscal stability has been maintained, mainly through continued restraint on current government spending. Progress in improving budget composition has been limited and reforms of state enterprises have not progressed as envisaged. While current spending has declined as share of GDP, capital spending has not risen as expected, largely due to financing constraints. The authorities have also undertaken measures to strengthen and safeguard financial stability include modernization of banking sector legislations and addressing banking weakness indicated by asset quality reviews.

The authorities have made some progress in improving the business environment and enhancing the functioning of labor market. However, institutional weaknesses and weak coverage and quality of public infrastructure remain the key factors undermining private sector development and foreign investment. The recent increase in excise duties will facilitate the implementation of key infrastructure projects.

IMF expects GDP growth of 3.2% in 2018, up from 2.7% in 2017. Inflation is likely to accelerate to 1.5% in 2018, an increase from 1.3% in 2017. The fund forecasts unemployment rate to advance to 25%, up from 21% in 2017.



Source: World Bank, Europe and Central Asia Economic Update, January 2018

According to the World Bank estimates from June 2018, GDP growth is likely to come in at 3.2% in 2018, up from 3.0% in 2017. This will be in line with the projected growth for Europe and Central Asia, of 3.2% in 2018.

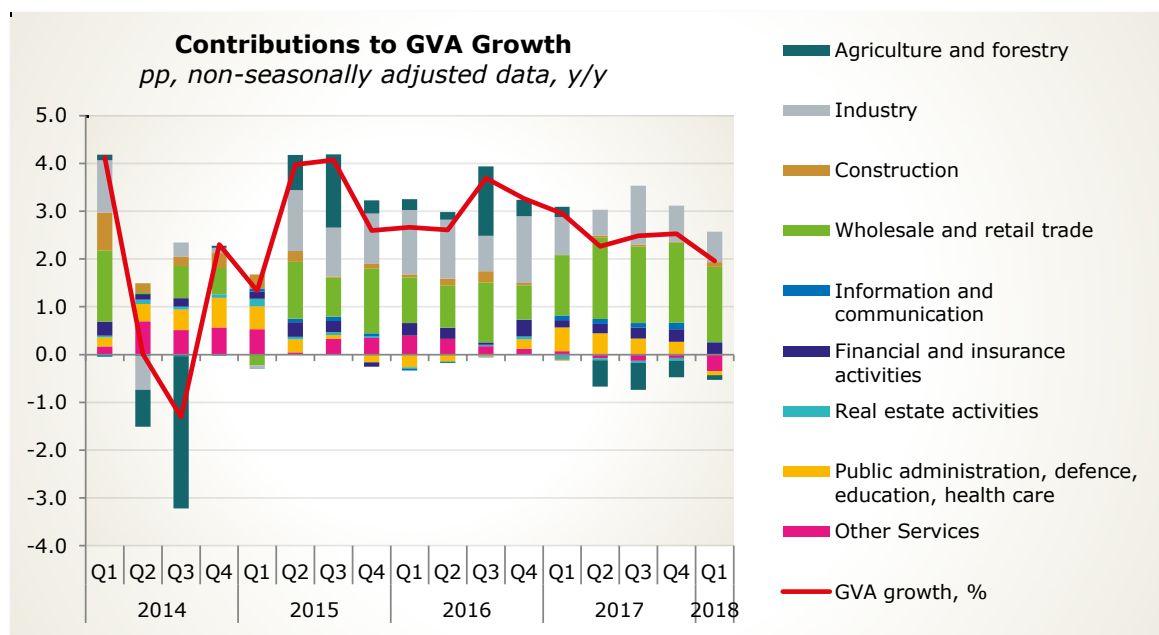
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 2.0% y/y in Q1 2018

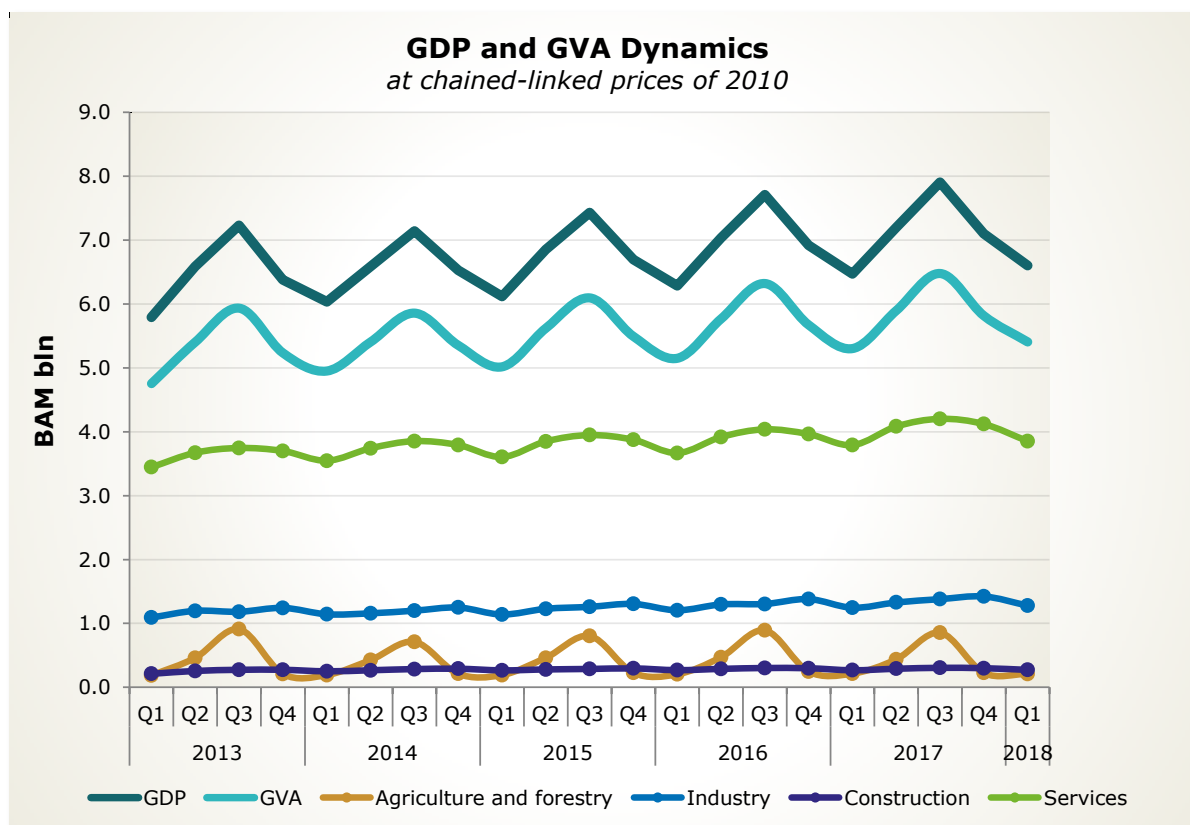
The country's real GDP annual growth was 2.0%, totalling BAM 6.603 bln in Q1 2018, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS). This is down compared to Q1 2017 when the GDP increased at 3.0% annual rate.

Wholesale and retail trade contributed the most to the overall GDP growth in 2017, by 1.6 pp, followed by industry with 0.6 pp. The agriculture and forestry sector took away 0.1 pp from the economic growth in 2017. The overall services sector added 1.5 pp to the GDP growth during the quarter.



Source: BHAS, SeeNews Calculations

The gross value added (GVA) generated by the national economy increased in value terms by 2.0% y/y in Q1 2018 and totalled BAM 5.407 bln. The industrial sector grew by 2.6% and its share in the GVA structure came in at 23.7%. The services sector recorded a 1.6% increase, slicing a 71.3% share in the GVA. Agriculture and forestry went down by 2.4% and accounted for 3.9% in the GVA. Construction GVA went up by 2.1% and its GVA share was 5.0%.

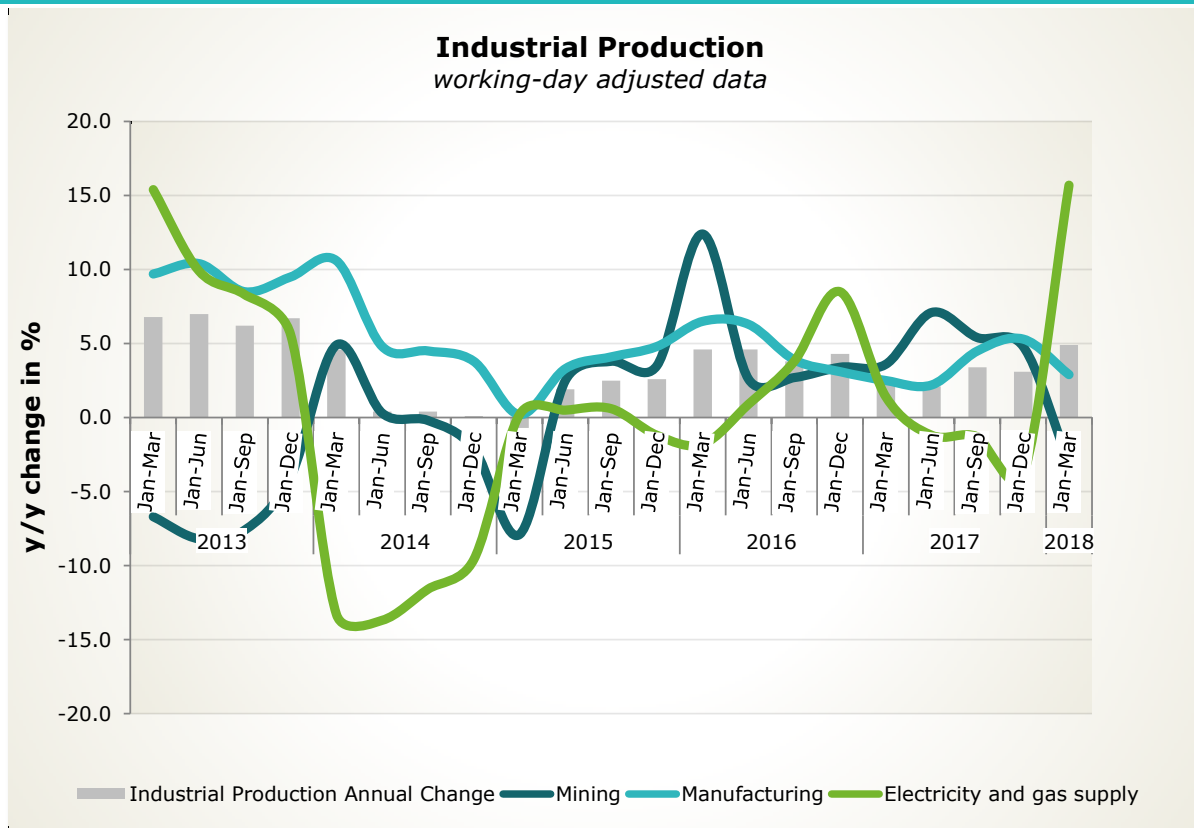


Source: BHAS, SeeNews Calculations

2.2. INDUSTRIAL OUTPUT

Industrial output up 4.9% y/y in Q1 2018

Industrial output went up by 4.9% in Q1 2018, according to BHAS data. This is an acceleration compared to Q4 2017, when the industrial production advanced by 3.1% in real terms. The output of the electricity and gas supply sector expanded by 15.7% in Q1 2018, followed by the manufacturing industry with 2.9%, while the output of the mining sector declined by 3.1%.



Source: BHAS

2.3. WHOLESALE/RETAIL

Retail sales grew 4.7% y/y, wholesale went up by 9.3% y/y in Q1 2018

Retail sales, except of motor vehicles and motorcycles, went up by 4.7% y/y in the first quarter of 2018, while wholesale trade increased by 9.3%, according to BHAS data. This is compared to growth for retail of 4.1% y/y and a rise of 10.8% y/y in the wholesale trade in Q4 2017.



Source: BHAS

2.4. INFLATION

Inflation at 0.8% in Q1 2018

The average prices in Bosna and Herzegovina advanced by 0.8% y/y in Q1 2018, data from BHAS shows. This is down compared to Q4 2017, when the average annual inflation was 1.3%.

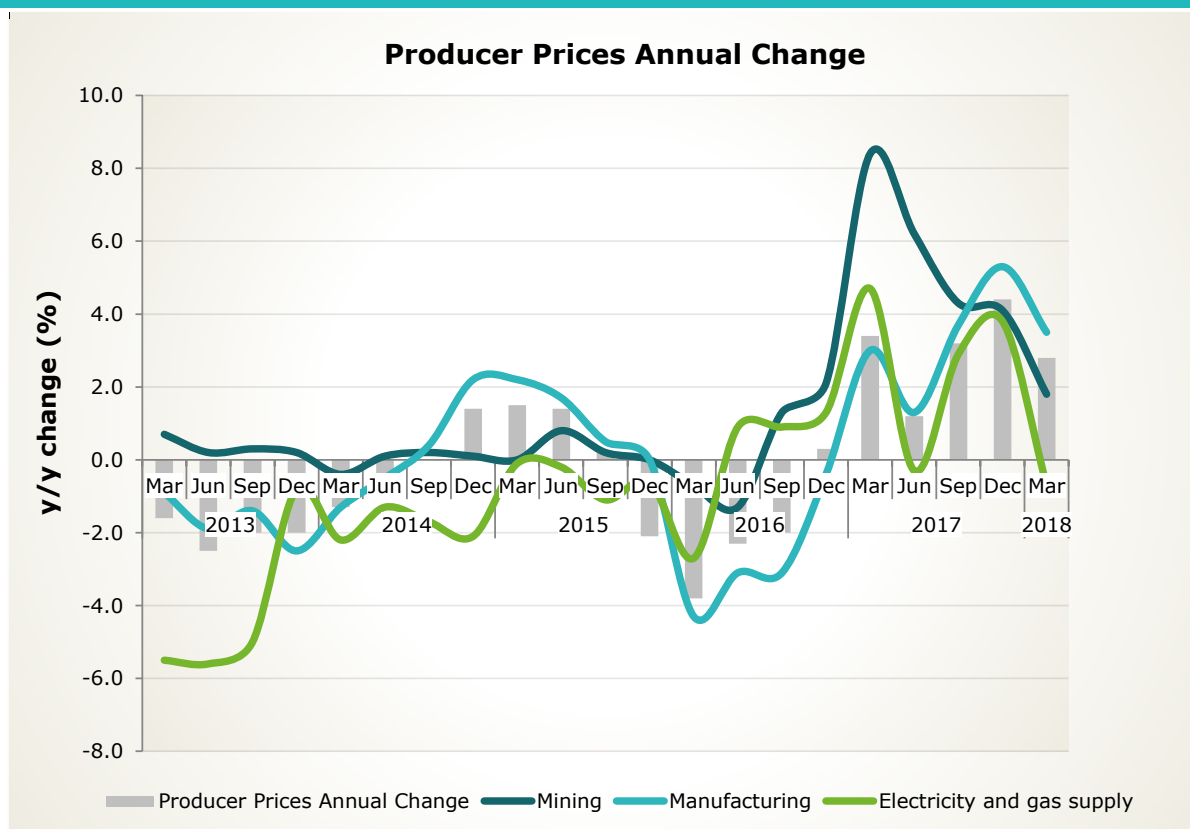
Consumer prices index for the group of food and non-alcoholic beverages advanced by 1.0% y/y in Q1 2018, while the group of alcoholic beverages and tobacco saw 6.9% increase of prices on average in Q1 2018. CPI at the group of clothing and footwear down up by 9.1% y/y during the quarter and the CPI of household furnishings and equipment decreased by 1.1% y/y.

Transport services inflation was 4.1%, while healthcare inflation came in at 1.2% in Q1 2018.



Source: BHAS

Producer prices grew by 2.8% y/y in March 2018 due to the 3.5% rise of the average prices in the manufacturing sector. Mining prices increased by 1.8%, while producer prices in the electricity and gas supply industry went down by 0.7%.



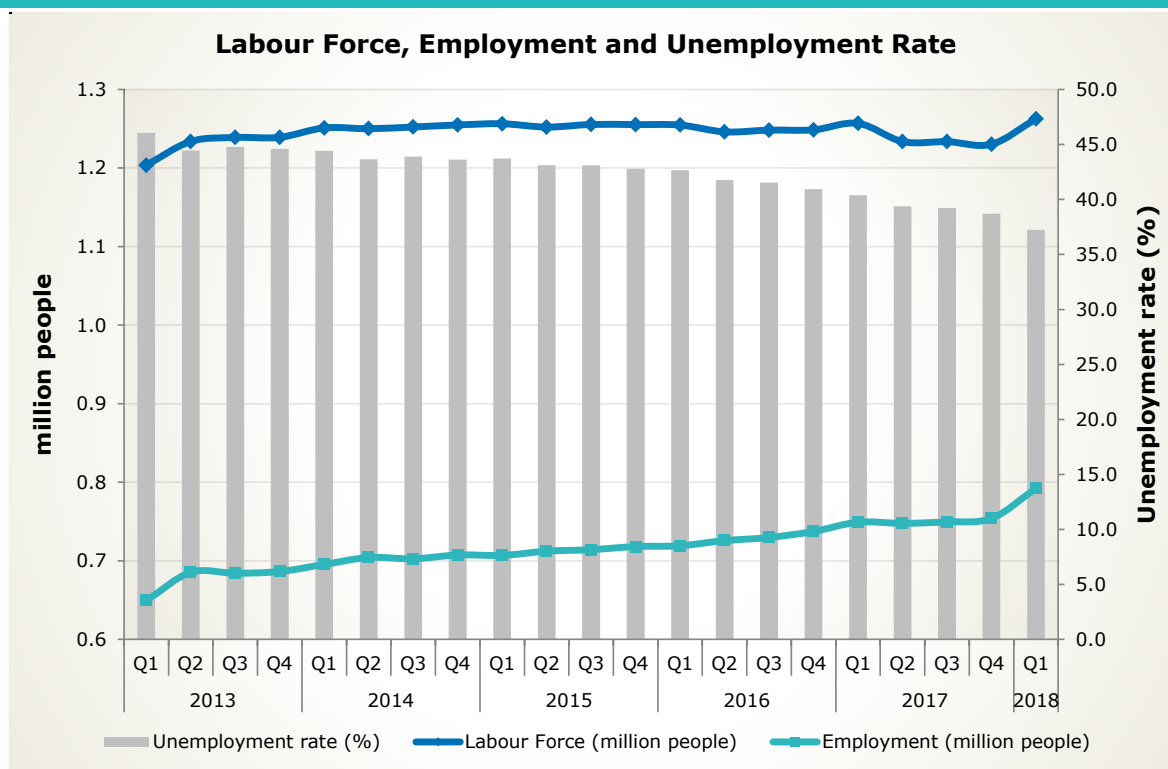
Source: BHAS

3. LABOUR MARKET

Unemployment rate went down but remained high, at 37.3%, as of March 2018

Unemployment in Bosnia and Herzegovina decreased to 37.3% of the total labour force in March 2018, down from 38.1% in December 2017, according to data of BHAS.

Employment in the country counted about 792,000 people, up 5.7% y/y, while the labour force inched up by 0.5% y/y to 1.263 million people in March 2018.



Source: BHAS

The average monthly net salary in Q1 2018 climbed by 2.0% y/y to BAM 862.7 in comparison to BAM 846.0 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 2.8% y/y in the first quarter of 2018

The number of building permits, excluding civil engineering works, issued in Bosnia and Herzegovina in Q1 2018 grew by 2.8% y/y and totalled 794, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, soared to 129,425 sq m, up from 119,945 sq m in Q1 2017.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BAM EXCHANGE RATE

The average exchange rate of the BAM against the USD decreased to BAM 1.59182 in Q1 2018 from BAM 1.66083 in Q4 2017, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q1 2018	Q4 2017	Q1 2017
EUR	1.95583	1.95583	1.95583
USD	1.59182	1.66083	1.83680
GBP	2.21391	2.20456	2.27331
CHF	1.67874	1.68256	1.82855

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

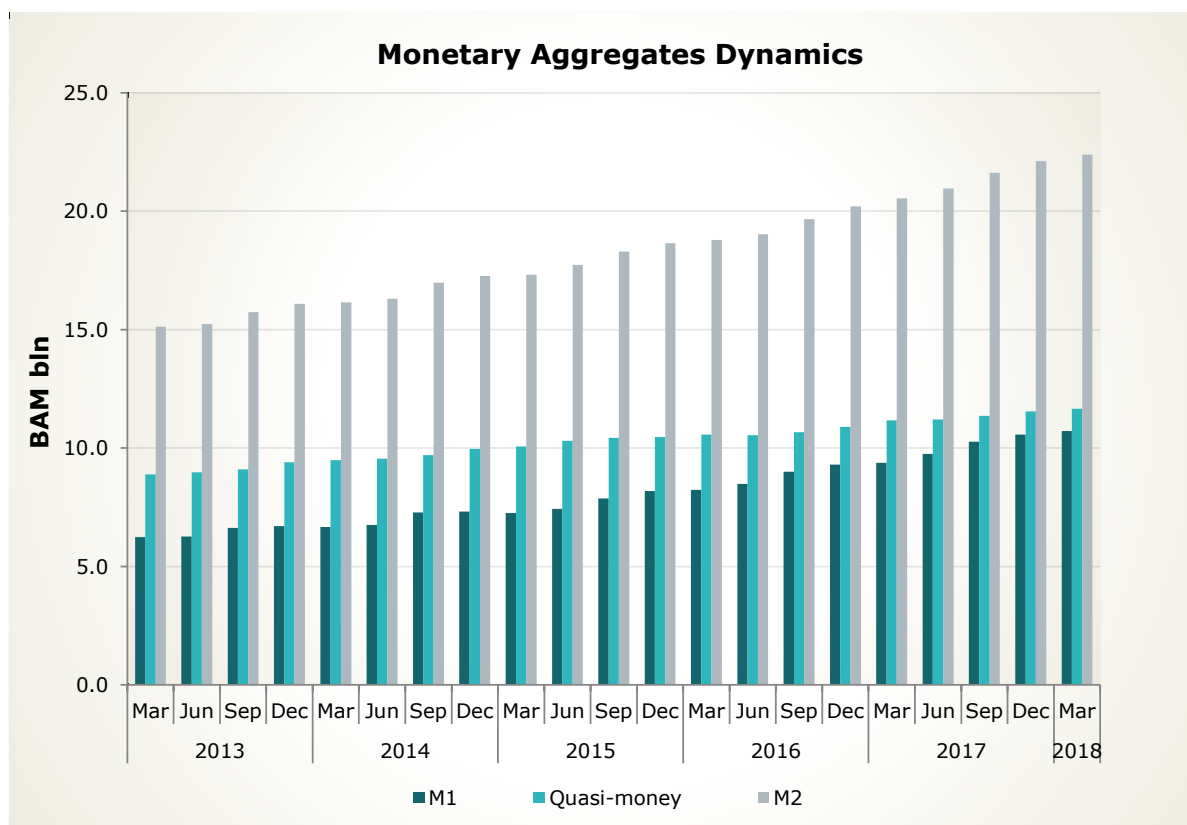
5.2. MONETARY AGGREGATES

Money supply growth was 8.9% y/y as of March 2018

Broad money, or money aggregate M2, in Bosnia and Herzegovina increased by 8.9% y/y and reached BAM 22.381 bln in March 2018, 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 4.4% to BAM 11.658 bln.

Money aggregate M1, or narrow money, expanded by 14.4% y/y to BAM 10.723 bln.



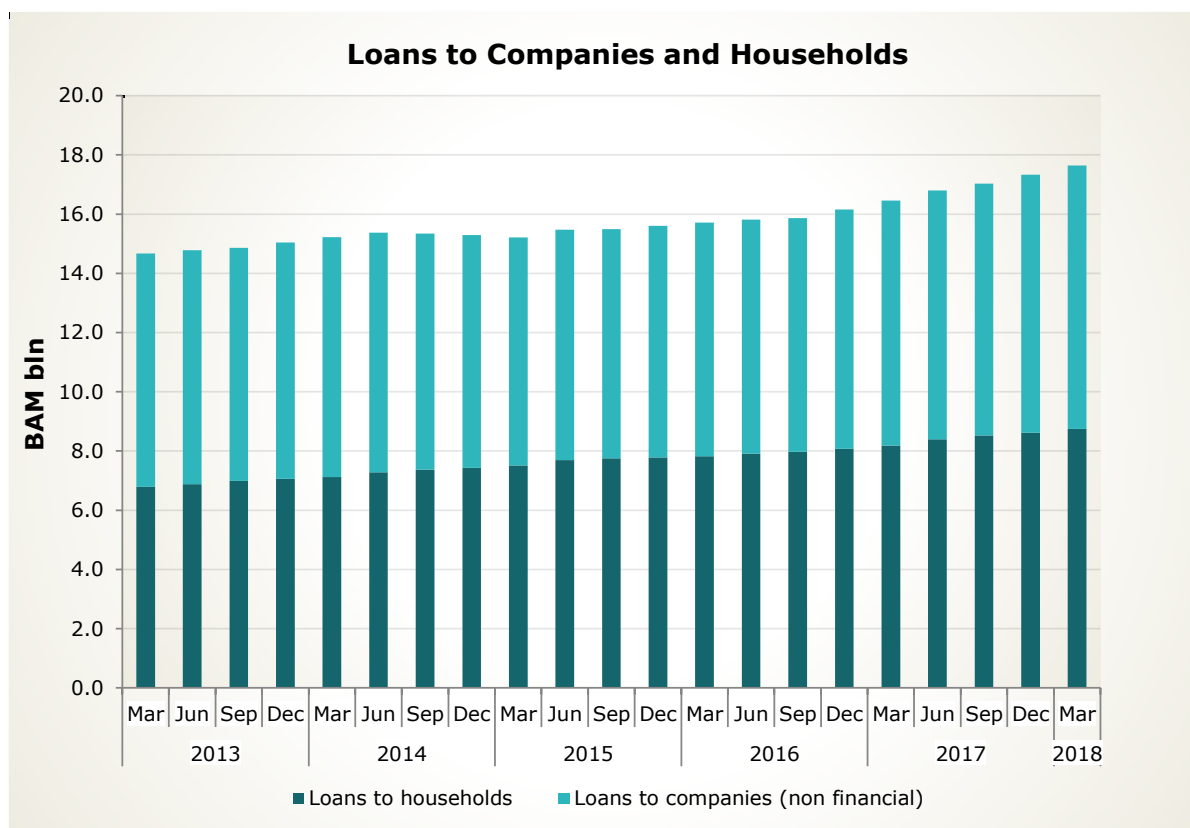
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans increased by 6.9% y/y as of March 2018

Loans to the non-government sector totalled BAM 17.284 bln as of March 2018, up by 7.3% y/y, according to CBBH.

Loans to non-financial corporations increased by 7.5% to BAM 8.896 bln, while household loans rose by 6.9% y/y to BAM 8.75 bln. House purchasing loans inched up by 6.3% to BAM 1.569 bln. Consumer loans grew the most, by 7.9% to BAM 6.611 bln.

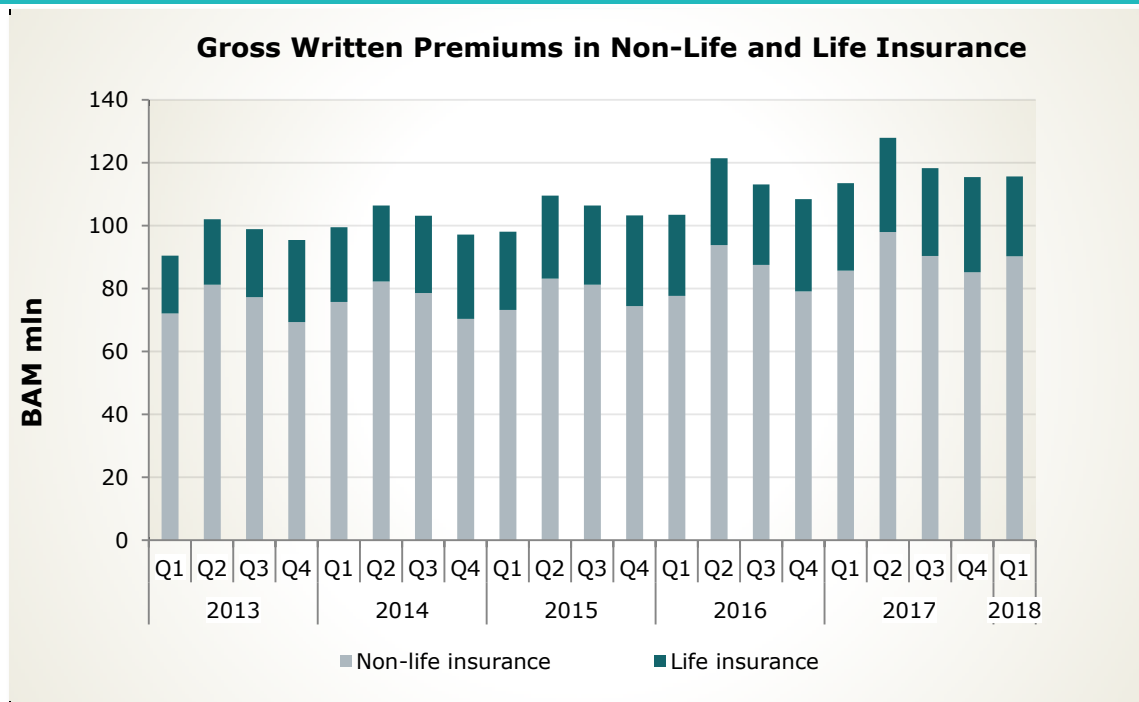


Source: CBBH

Insurance premium income up 1.8% y/y in Q1 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 115.6 mln, up by 1.8% y/y in Q1 2018, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 5.3% rise, to BAM 90.3 mln, of the non-life insurance segment while life insurance premium income shrank by 8.9% y/y to BAM 25.4 mln



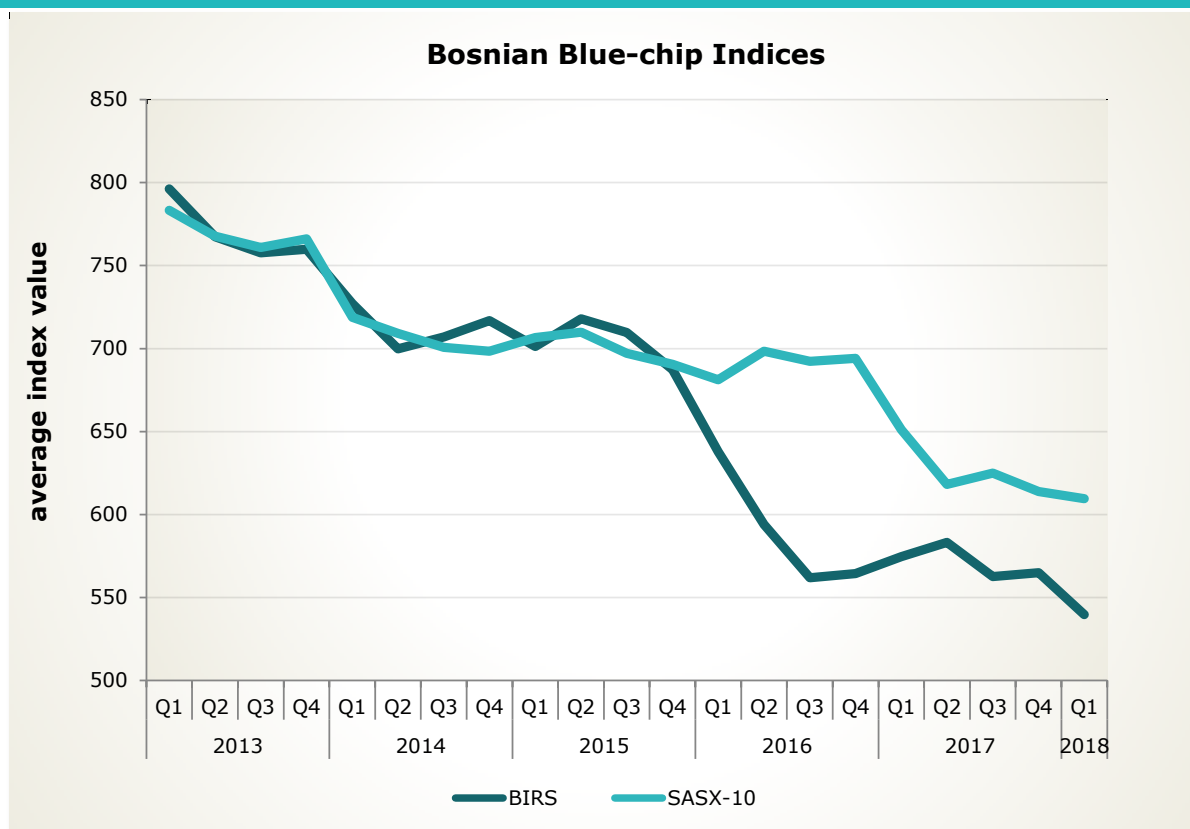
Source: NADOS

6. CAPITAL MARKETS

Blue-chip BIRS down 4.5% q/q, SASX10 down 0.7% y/y in Q1 2018

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), decreased q/q by 4.5% as of March 2018, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), fell by 0.7% compared to end-2017.



Source: BLSE, SASE

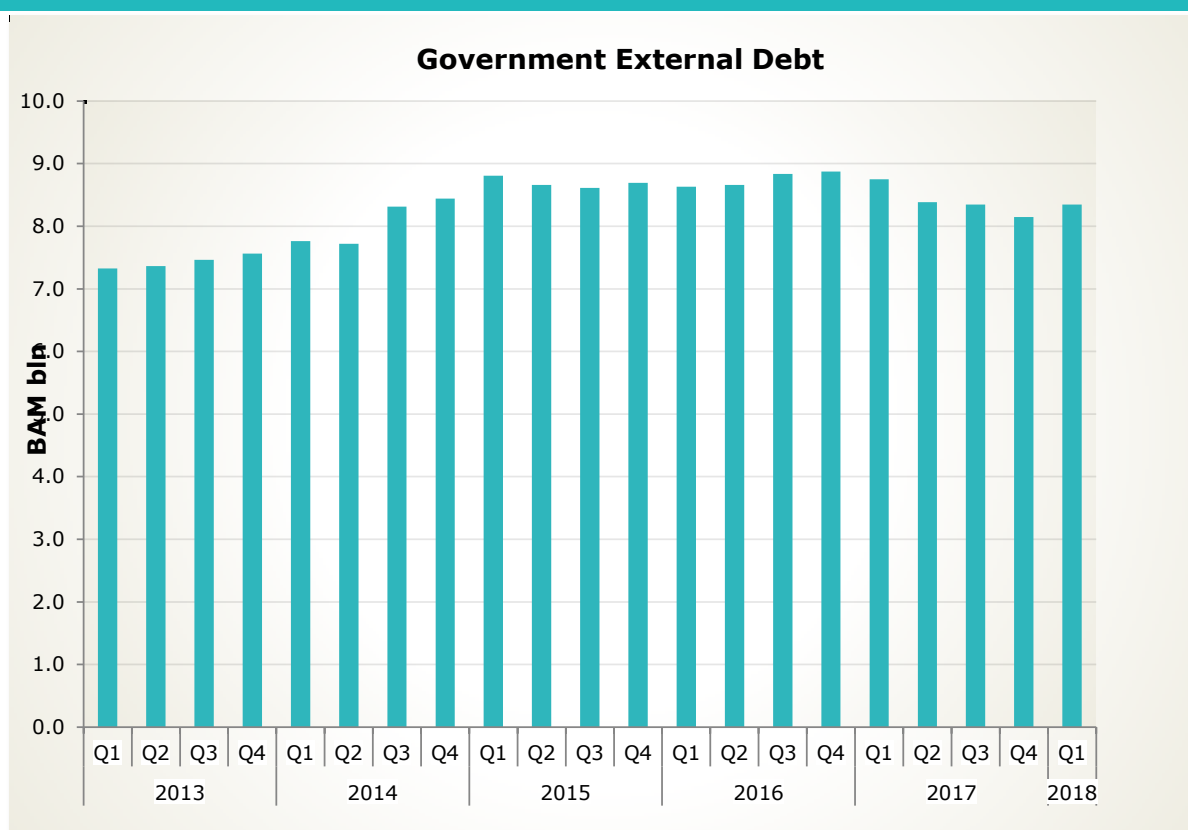
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt went down by 4.7% y/y to BAM 8.34 bln in March 2018

The total external government debt amounted to BAM 8.34 bln in March 2018, down by 4.7% on the year, according to CBBH data. In comparison to Q4 2017, the government external debt decreased by BAM 198.4 mln.

Bosnia and Herzegovina's main foreign creditors as of Q1 2018 were World Bank's International Development Association (IDA), the European Investment Bank, and the European Bank for Reconstruction and Development (EBRD).

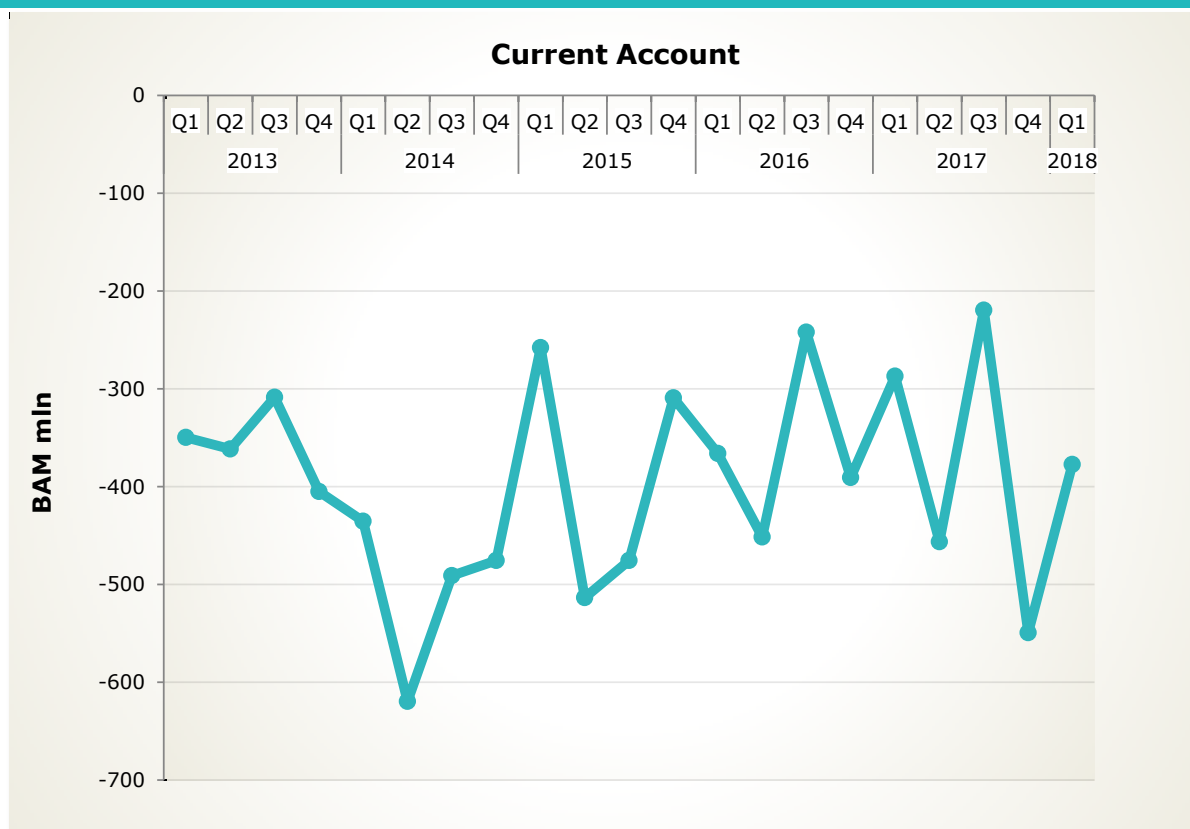


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account gap at BAM 377.3 mln in Q1 2018

The current account gap expanded to BAM 377.3 mln in Q1 2018, up 31% y/y, according to central bank statistics data. The net secondary income decreased by 9.1% on the year to BAM 844.7 mln.



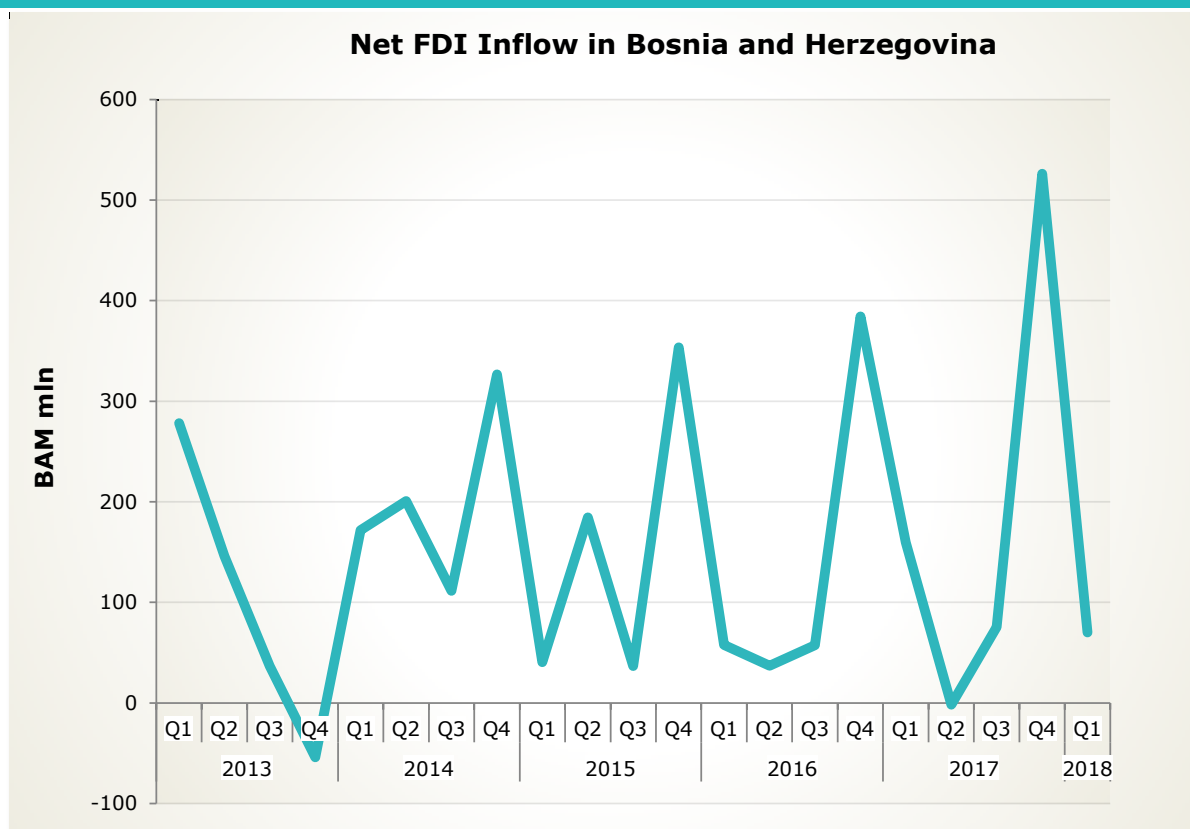
Source: CBBH

7.3. FDI

Net FDI inflow at BAM 70.1 mln in Q1 2018

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina was positive in the first quarter of 2018, totalling BAM 70.1 mln, according to CBBH data. Country's FDIs decreased by 56% compared to Q1 2017 when they came in at BAM 159.7 mln.

FDIs during the first quarter of 2018 covered near 20% of the current account deficit.



Source: CBBH

* Data for Q4 2017 and annual data for 2017 was not available at the time of preparation of this report.

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 1.597 bln in Q1 2018

The trade deficit gap widened to BAM 1.597 bln in Q1 2018 from BAM 1.489 bln in Q1 2017, according to BHAS.

Exports surged by 12.1% y/y to BAM 2.791 bln, while imports jumped by 10.3% y/y to BAM 4.389 bln.

Export to EU countries amounted to BAM 2.068 bln in Q1 2018, which is 13.8% higher than Q1 2017, while import amounted to BAM 2.633 bln, up by 7.1% on the year.

Exports of sector agriculture, forestry and fishing reported a fall of 34.8%, followed by mining and quarrying sector with a decrease of 8.9%, while the manufacturing sector went up by 13.4%.

There was an increase in imports in the mining and quarrying sector by 35.9% and in manufacturing sector by 10.9%, while imports in agriculture, forestry and fishing sector inched down 1.8% on the year.



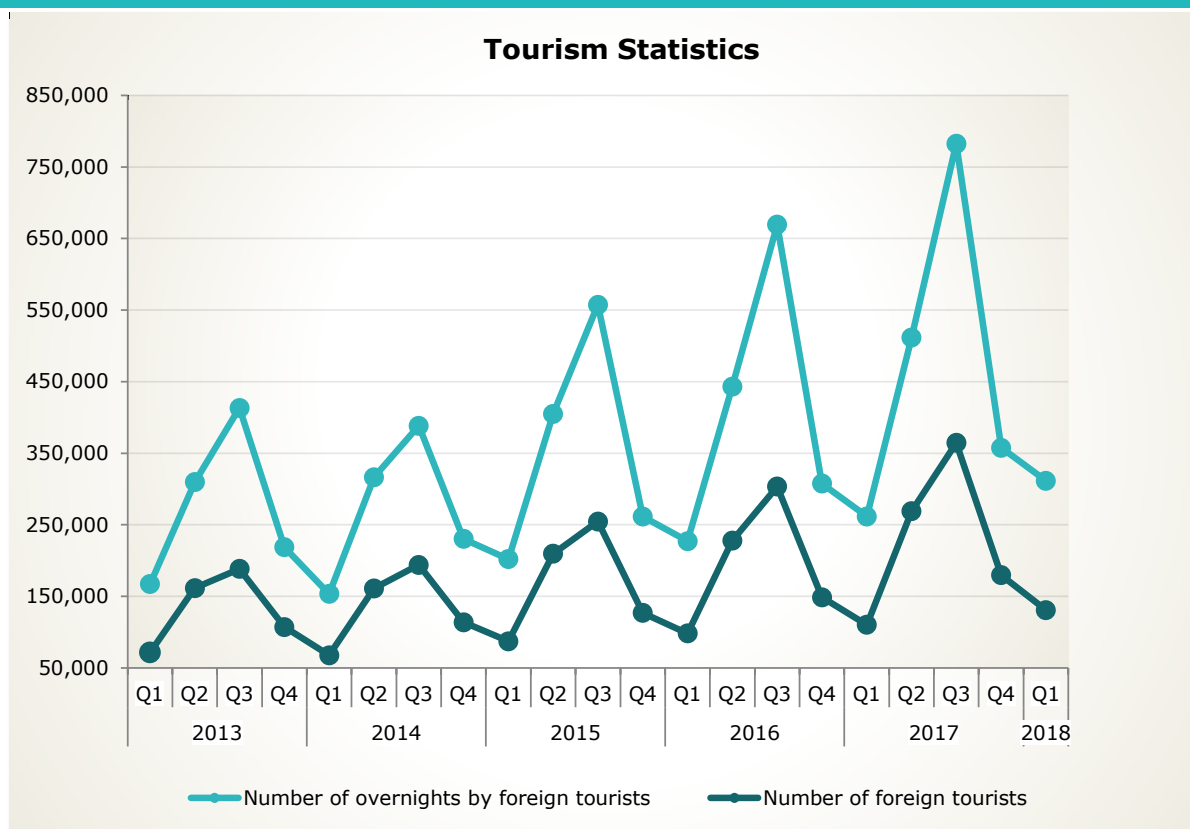
Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 18.8 in Q1 2018

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 18.8% to 478,311 in Q1 2018, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 65.1% in Q1 2018, versus 65.0% in Q1 2017.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 18.8% y/y to 130,812.



Source: BHAS

8. MAJOR DEVELOPMENTS

S&P affirms Bosnia and Herzegovina's 'B/B' ratings, outlook stable

Mar 12, 2018

Standard & Poor's (S&P) affirmed its 'B/B' long- and short-term foreign and local currency sovereign credit ratings on Bosnia and Herzegovina, with a stable outlook.

[Read the full story here](#)

EBRD signs MoU on EUR 700 mln investment in road modernisation in Bosnia and Herezegovina

Feb 26, 2018

The EBRD signed a memorandum of understanding with Bosnia and Herezegovina's two entities which outlines an investment programme of over EUR 700 mln for the development and modernisation of the country's road infrastructure.

[Read the full story here](#)

Oman's Al Badi group mulls investing EUR 600 mln in Bosnia - entity ministry

Feb 26, 2018

Oman-based Al Badi Investment Group is considering investing EUR 600 mln in projects in Bosnia and Herzegovina, according to the Serb Republic's energy ministry. The group is

interested in projects in the energy sector and food production as well as the potential for development of tourism

[Read the full story here](#)

Bosnia burdened by high unemployment, low wages - IMF

Feb 14, 2018

Despite Bosnia's progress in maintaining the stability of its macroeconomic conditions, job creation has been limited, unemployment has remained high and the income convergence with the EU has stalled, according to IMF.

[Read the full story here](#)

Bosnia's Federation approves planned sale of govt stakes in four big companies in 2018

Feb 9, 2018

The government of Bosnia's Federation approved the privatisation agency's business plan for 2018 which foresees the sale of government equity in four major companies - engineering company Energoinvest, fuel retailer Energopetrol, aluminium smelter Aluminij and insurer Sarajevo Osiguranje.

[Read the full story here](#)

Bosnia's Serb Republic plans to invest EUR 437 mln in 2018-2020

Jan 18, 2018

Bosnia's Serb Republic announced plans to carry out investment projects worth a total of EUR 437 mln in the period 2018-2020. The largest investments are planned in the sectors of energy, transport infrastructure, agriculture, forestry and water management, health care, and refugees and displaced persons

[Read the full story here](#)

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