

BOSNIA AND HERZEGOVINA ECONOMY REPORT

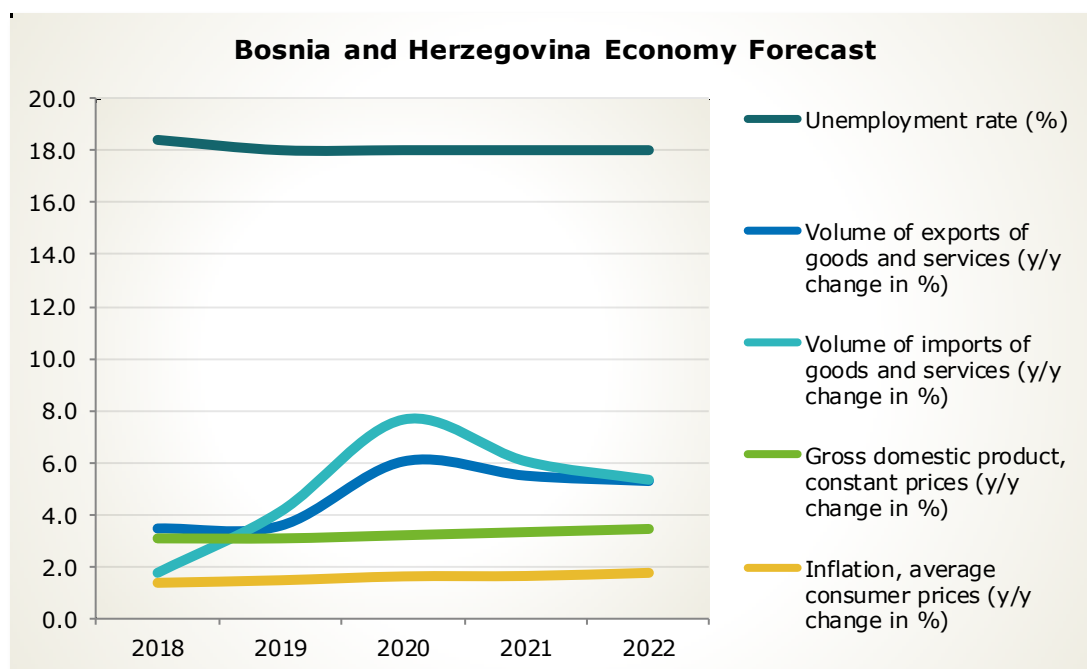
Q1 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN Q1 2019	
GDP Growth	2.3% y/y
Industrial output	-5.1% y/y
Wholesales	9.1% y/y
Retail sales	6.7% y/y
Average annual inflation	1.0%
Unemployment rate	34.3%
Number of building permits	9.8% y/y
Money supply growth	9.0% y/y
Household loans	7.5% y/y
BIRS blue-chip index	18.1% y/y
SASX-10 blue-chip index	9.0% y/y
Government external debt	BAM 8.280 bln
Current account deficit	BAM 477.1 mln
Net FDI inflow	BAM 246.9 mln ¹
Foreign trade deficit	BAM 1.840 bln
Number of foreign tourist overnights	13.3% y/y



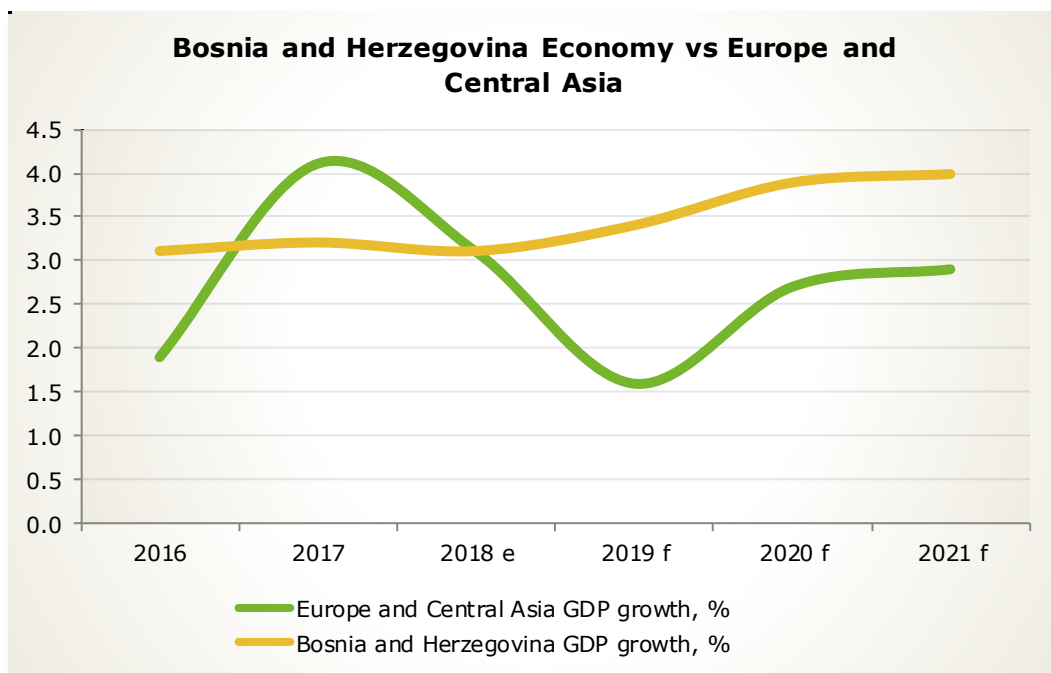
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

¹ For the period Jan – Sept 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.

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 to remain at 3.1% in 2019. Inflation is likely to accelerate to 1.5% in 2019, an increase from 1.4% in 2018. The fund forecasts unemployment rate to ease to 18.0% in 2019, down from 18.4% in 2018.



Source: World Bank, *Global Economic Prospects*, June 2019

According to the World Bank estimates from June 2019, GDP growth is likely to come in at 3.4% in 2019, up from 3.1% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.6% in 2019.

Bosnia and Herzegovina – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change	3.4	3.5	3.0	3.4	3.9	4.0
Private Consumption	2.2	1.2	3.4	3.3	3.3	3.2
Government Consumption	0.0	1.5	5.0	1.5	3.6	2.6
Gross Fixed Capital Investment	2.5	6.3	2.7	4.3	3.7	5.5
Exports, Goods and Services	9.3	10.1	4.5	4.6	3.5	3.5
Imports, Goods and Services	6.7	6.3	5.0	3.5	2.4	2.4
Real GDP growth, at constant factor prices (by sectors)	3.1	3.2	3.0	3.4	3.9	4.0
Agriculture	7.6	-4.4	0.5	2.9	2.9	2.9
Industry	4.7	3.0	1.5	1.9	2.5	2.5
Services	2.0	4.2	3.9	4.0	4.5	4.7
Inflation (Consumer Price Index)	-1.1	1.2	2.5	3.4	4.2	2.0
Current Account Balance (% of GDP)	-4.5	-4.6	-5.6	-5.8	-6.3	-6.4
Net Foreign Direct Investment (% of GDP)	-1.6	-2.0	2.3	2.7	2.9	2.7

Source: World Bank, Europe and Central Asia Economic Update, April 2019

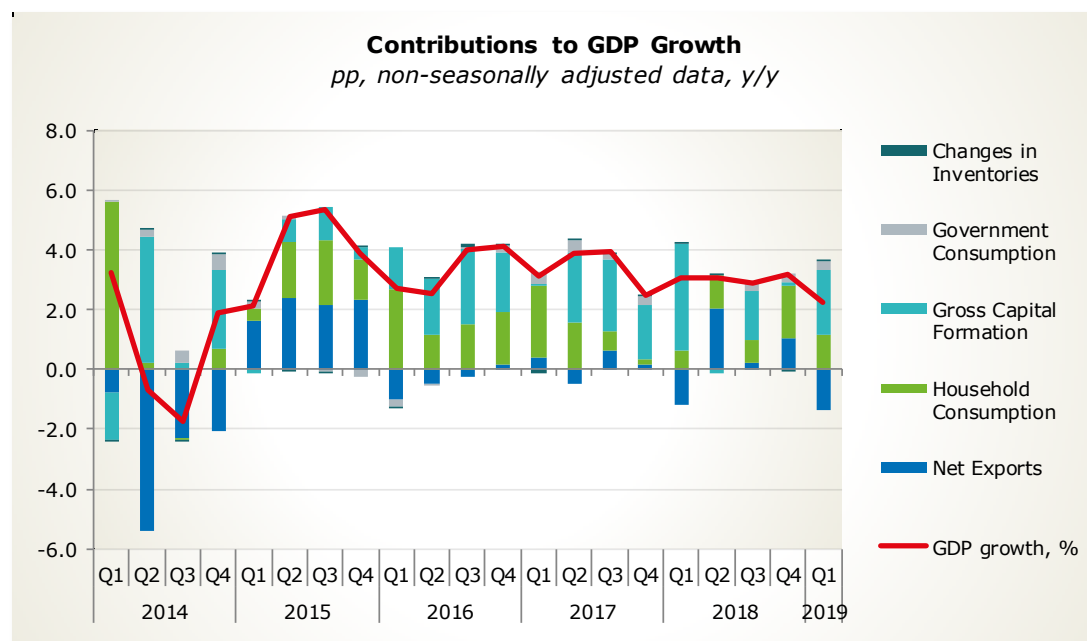
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 2.3% y/y in Q1 2019

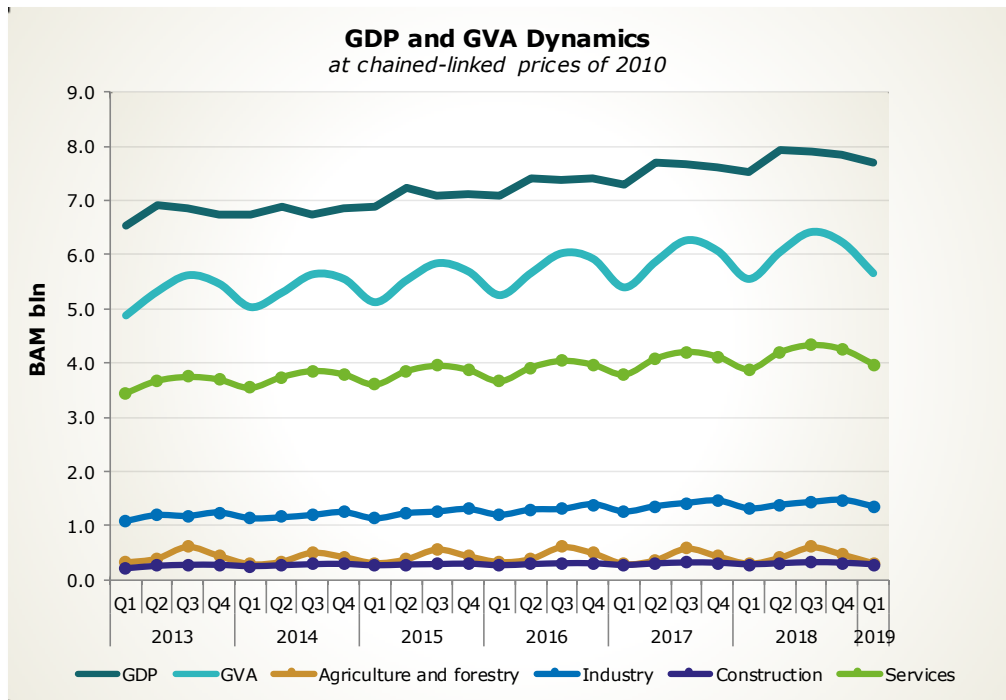
The country's real GDP annual growth was 2.3% to BAM 7.700 bln in Q1 2019, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS). This is a minor increase compared to Q1 2018, when the GDP was 7.528 bln.

Gross capital formation contributed the most to the overall GDP growth in Q1 2019, by 2.2 pp, followed by household consumption with 1.2 pp.



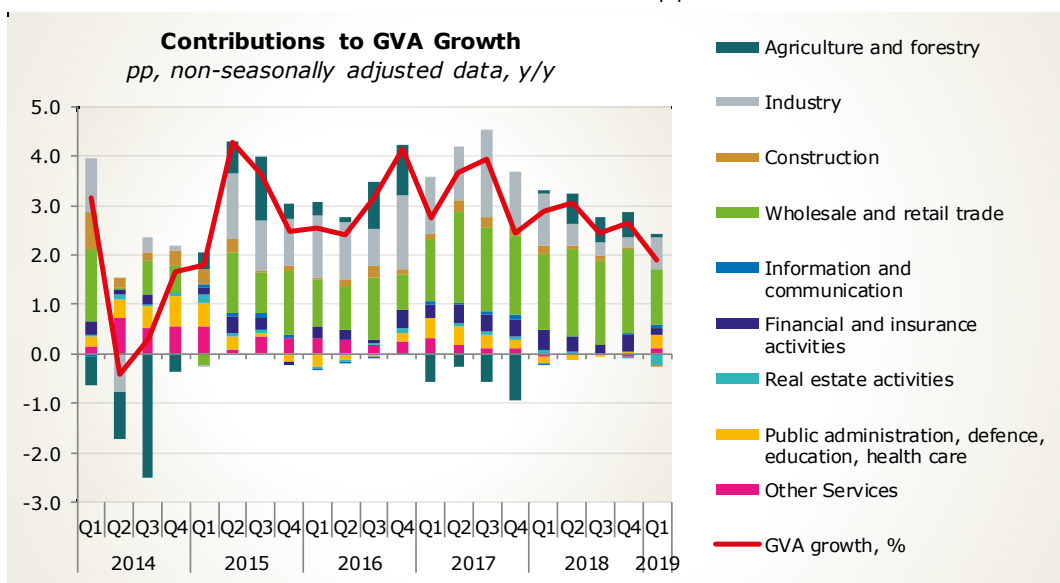
Source: BHAS, SeeNews Calculations

The gross value added (GVA) generated by the national economy increased in value terms by 1.9% y/y in Q1 2019 and totalled BAM 5.671 bln. The industrial sector grew by 2.6% and its share in the GVA structure came in at 23.8%. The services sector recorded a 2.2% increase, slicing a 70.1% share in the GVA. Agriculture and forestry went up by 1.3% and accounted for 5.3% in the GVA. Construction GVA went down by 0.2%.



Source: BHAS, SeeNews Calculations

In Q1 2019, in terms of industry breakdown, almost all of the sectors had a positive contribution to the economic growth (except real estate activities, which took away 0.2 pp). The wholesale and retail sector was the biggest contributor to GVA growth, adding 1.1 pp, while the contribution of all other sectors was below 1.0 pp.

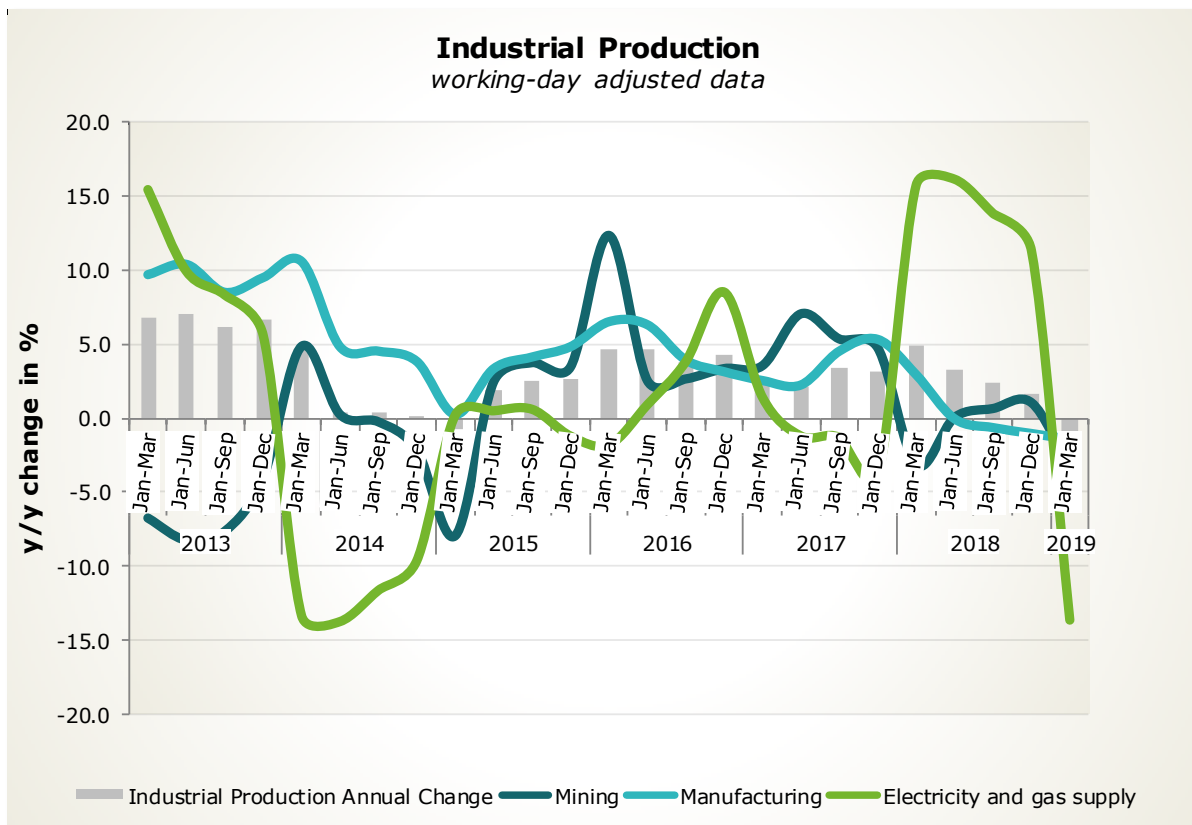


Source: BHAS

2.2. INDUSTRIAL OUTPUT

Industrial output down 5.1% y/y in Q1 2019

Industrial output went down by 5.1% in Q1 2019, according to BHAS data. This is a deceleration compared to Q4 2018, when the industrial production advanced by 1.6% in real terms. The output of the electricity and gas supply sector declined by 13.6% in Q1 2019, followed by the mining sector with 3.3%, and the manufacturing industry by 1.5%.

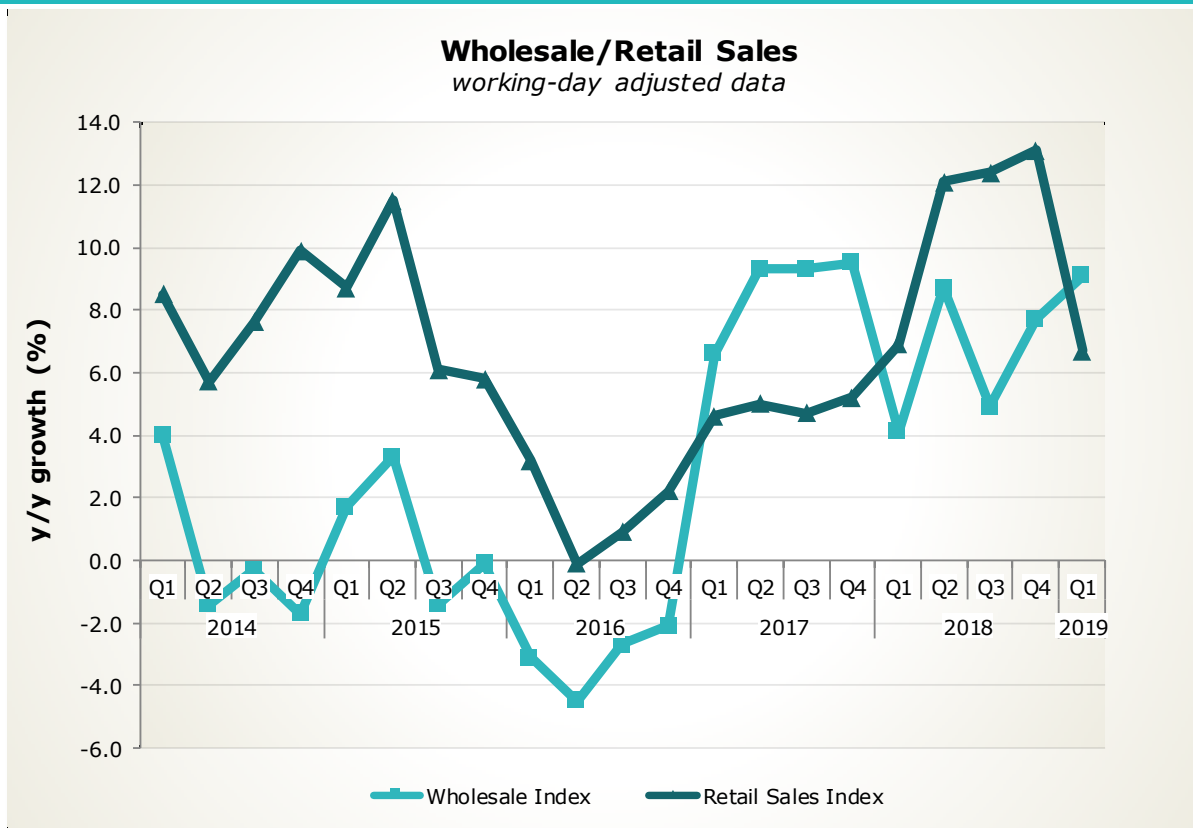


Source: BHAS

2.3. WHOLESALE/RETAIL

Retail sales grew 6.7% y/y, wholesale went up by 9.1% y/y in Q1 2019

Retail sales, except of motor vehicles and motorcycles, went up by 6.7% y/y in the first quarter of 2019, while wholesale trade increased by 9.1%, according to BHAS data. This is compared to growth for retail of 13.1% y/y and a rise of 7.7% y/y in the wholesale trade in Q4 2018.



Source: BHAS

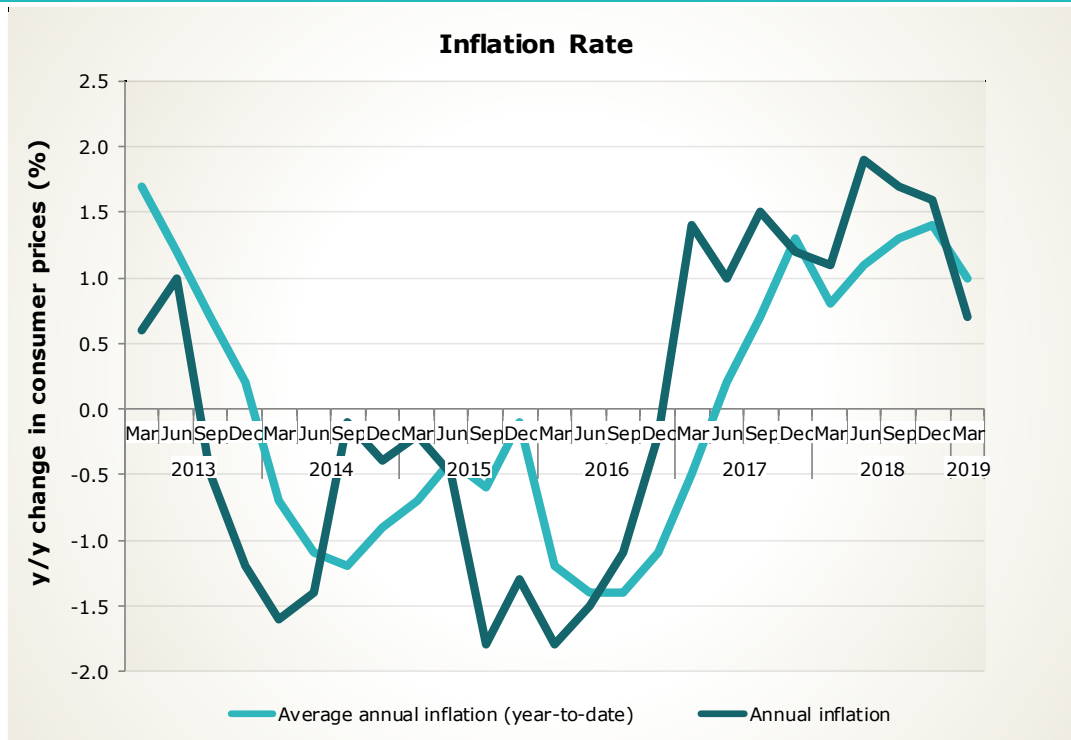
2.4. INFLATION

Inflation at 1.0% in Q1 2019

The average prices in Bosna and Herzegovina advanced by 1.0% y/y in Q1 2019, data from BHAS shows. This is down compared to Q4 2018, when the average annual inflation was 1.4%.

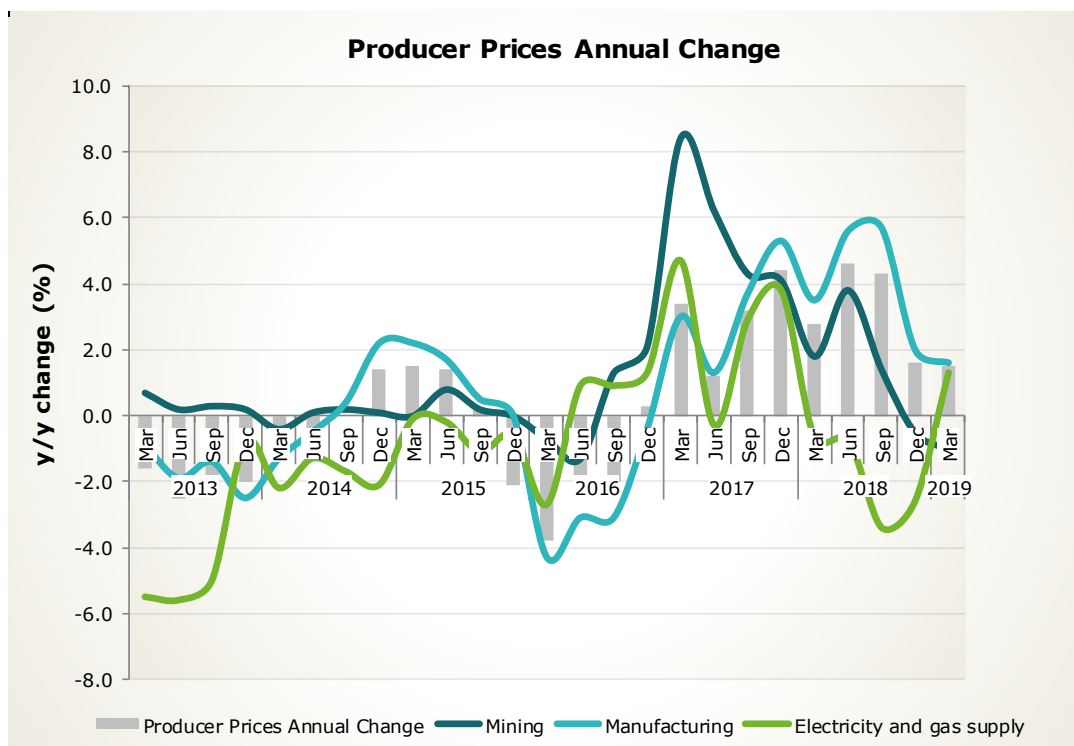
Consumer prices index for the group of alcoholic beverages and tobacco advanced by 4.6% y/y in Q1 2019, while the group of transport services saw 4.5% increase of prices on average in Q1 2019. CPI at the group of clothing and footwear down by 10.7% y/y during the quarter and the CPI of other goods and services decreased by 0.9% y/y.

Housing, water, electricity, gas and other fuels inflation was 2.8%, while healthcare inflation came in at 2.3% in Q1 2019.



Source: BHAS

Producer prices grew by 1.5% y/y in March 2019 due to the 1.6% rise of the average prices in the manufacturing and the growth of electricity and gas supply sector by 1.3%. The mining sector saw a decrease in producer prices by 1.0%.



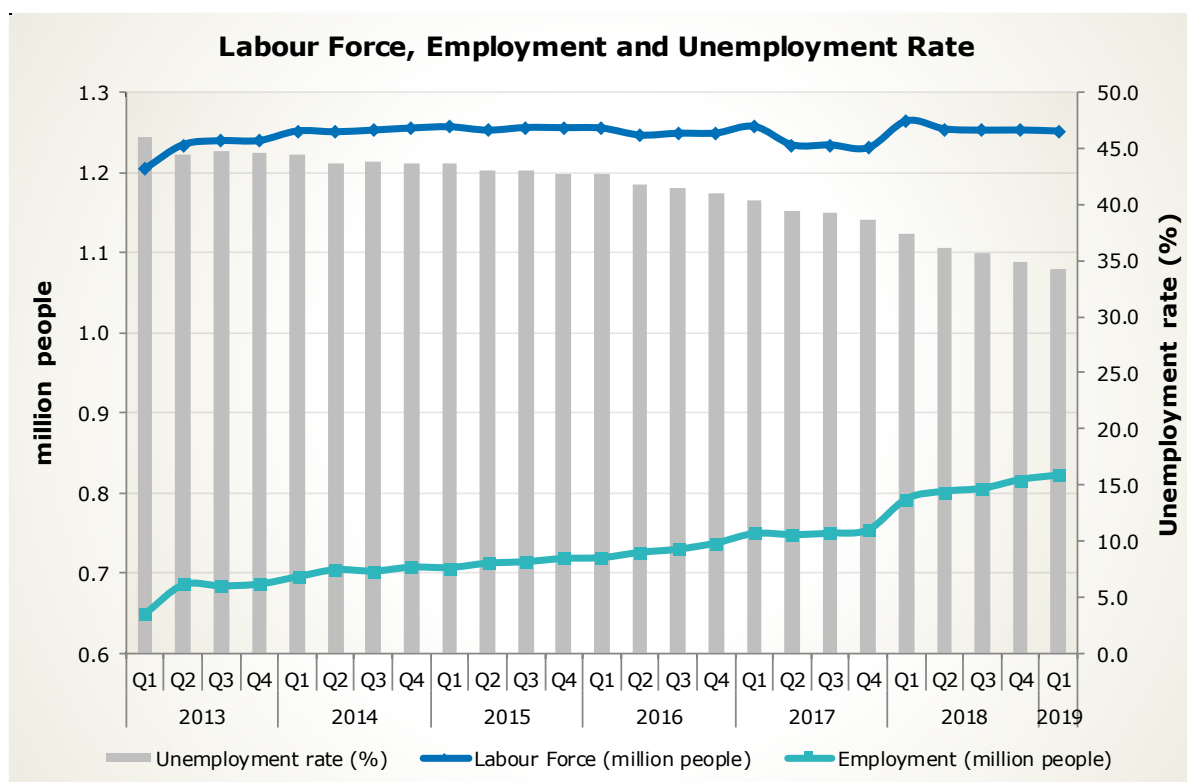
Source: BHAS

3. LABOUR MARKET

Unemployment rate went down but remained high, at 34.3%, as of March 2019

Unemployment in Bosnia and Herzegovina decreased to 34.3% of the total labour force in March 2019, down from 37.3% in March 2018, according to data of BHAS.

Employment in the country counted about 822,000 people, up 3.7% y/y, while the labour force inched down by 1.0% y/y to 1.251 million people in March 2019.



Source: BHAS

The average monthly net salary in Q1 2019 rose by 4.9% y/y to BAM 905.0 in comparison to BAM 862.7 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 9.8% y/y in the first quarter of 2019

The number of building permits, excluding civil engineering works, issued in Bosnia and Herzegovina in Q1 2019 grew by 9.8% y/y and totalled 872, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, went down to 120,461 sq m, up from 129,425 sq m in Q1 2018.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BAM EXCHANGE RATE

The average exchange rate of the BAM against the USD increased to BAM 1.72188 in Q1 2019 from BAM 1.71389 in Q4 2018, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q1 2019	Q4 2018	Q1 2018
EUR*	1.95583	1.95583	1.95583
USD	1.72188	1.71389	1.59182
GBP	2.24076	2.20552	2.21391
CHF	1.72737	1.72120	1.67874

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

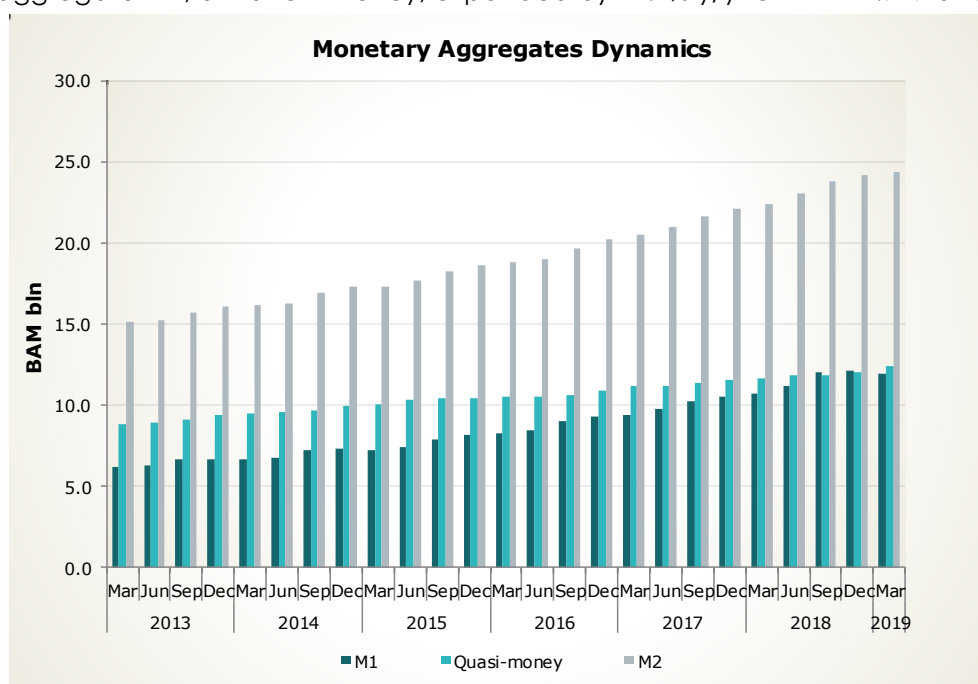
5.2. MONETARY AGGREGATES

Money supply growth up by 9.0% y/y as of March 2019

Broad money, or money aggregate M2, in Bosnia and Herzegovina increased by 9.0% y/y and reached BAM 24.389 bln in March 2019, 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 6.9% to BAM 12.461 bln.

Money aggregate M1, or narrow money, expanded by 11.2% y/y to BAM 11.929 bln.



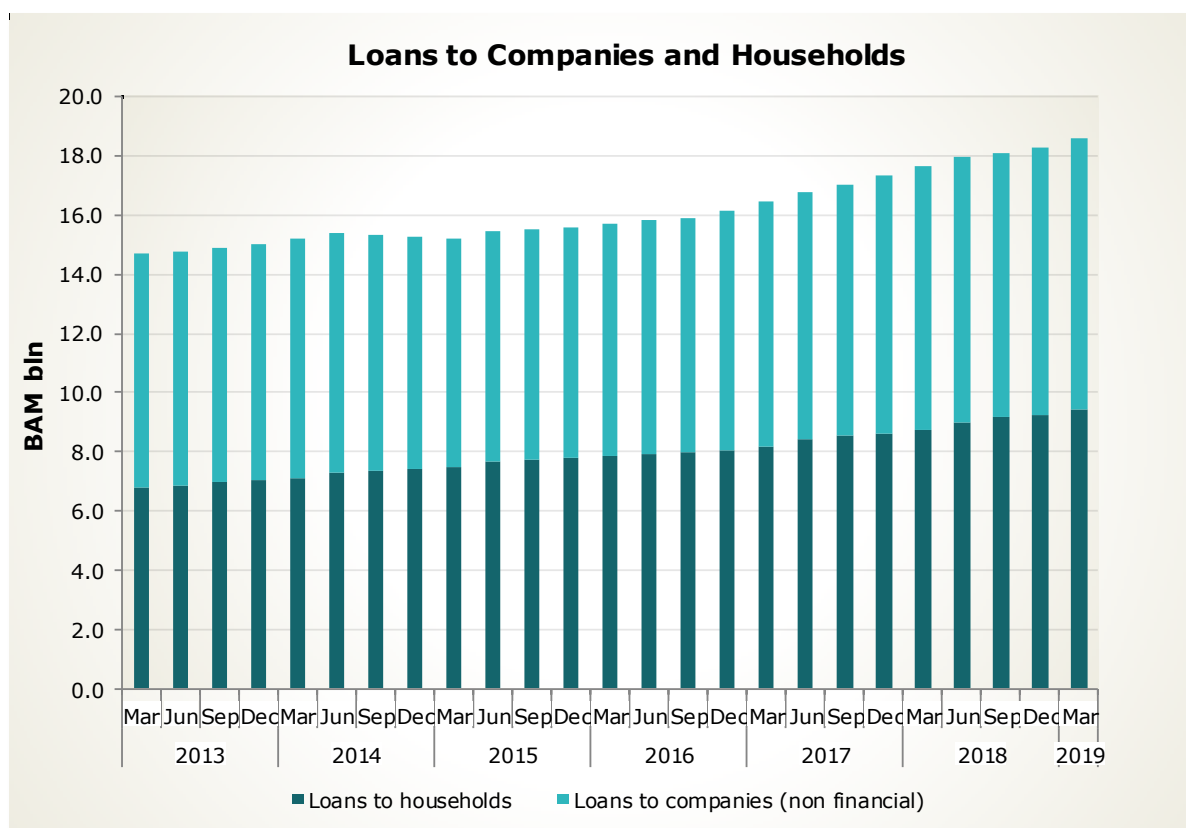
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans increased by 7.5% y/y as of March 2019

Loans to the non-government sector totalled BAM 18.182 bln as of March 2019, up by 5.2% y/y, according to CBBH.

Loans to non-financial corporations increased by 3.1% to BAM 9.171 bln, while household loans rose by 7.5% y/y to BAM 9.406 bln. House purchasing loans grew the most by 10.6% to BAM 1.725 bln. Consumer loans inched up, by 7.6% to BAM 7.117 bln.

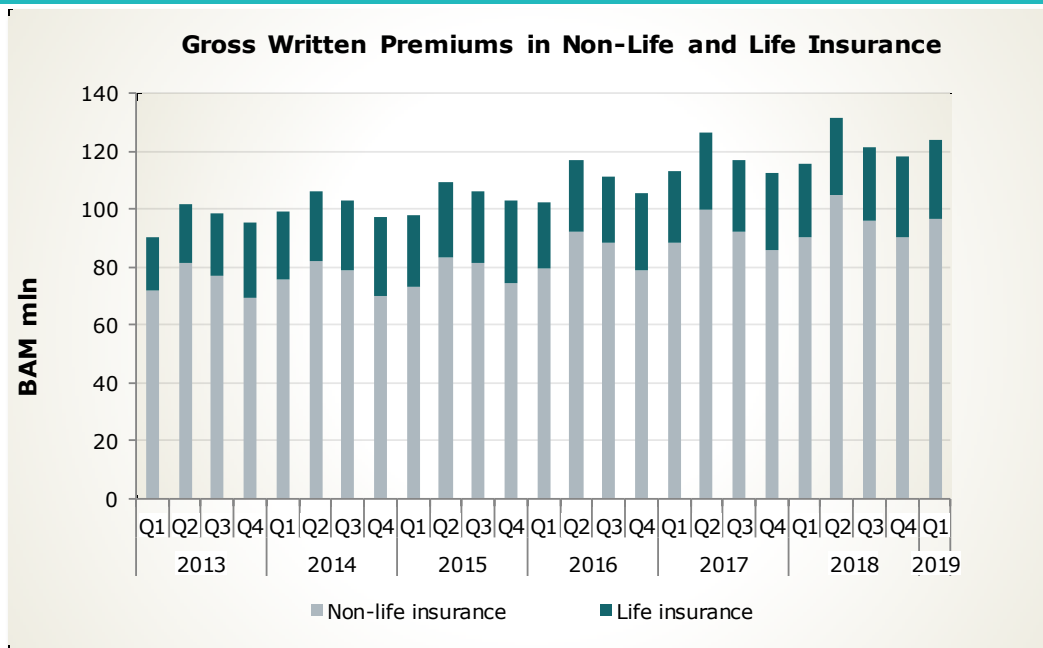


Source: CBBH

Insurance premium income up 7.3% y/y in Q1 2019

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 124.0 mln, up by 7.3% y/y in Q1 2019, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 7.1% rise, to BAM 96.7 mln, of the non-life insurance segment while life insurance premium income expanded by 7.7% y/y to BAM 27.4 mln.



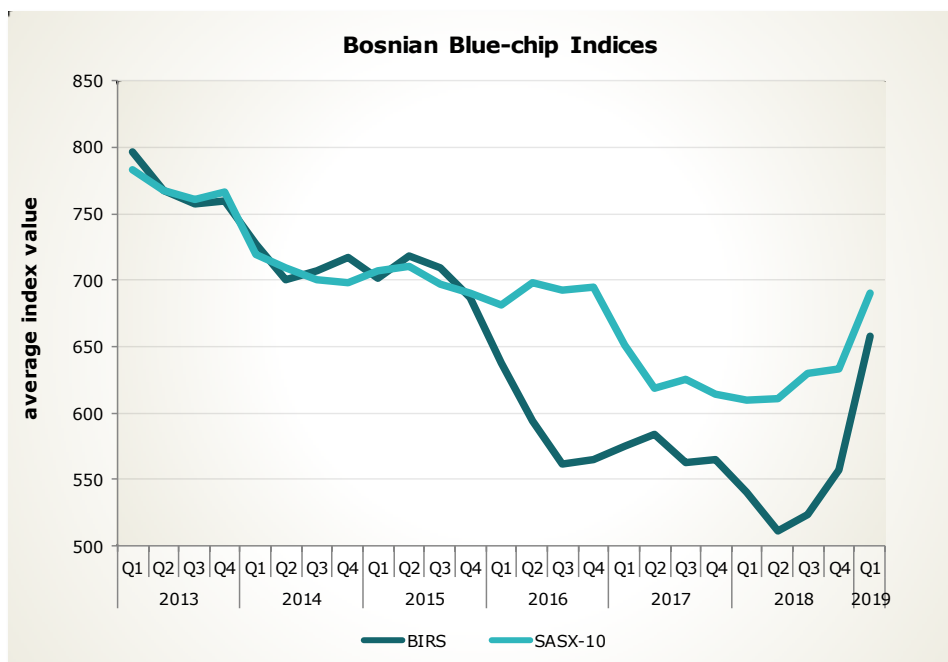
Source: NADOS

6. CAPITAL MARKETS

Blue-chip BIRS up 18.1% q/q, SASX10 increased 9.0% y/y in Q1 2019

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), increased q/q by 18.1% as of March 2019, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), grew by 9.0% compared to end-2018.



Source: BLSE, SASE

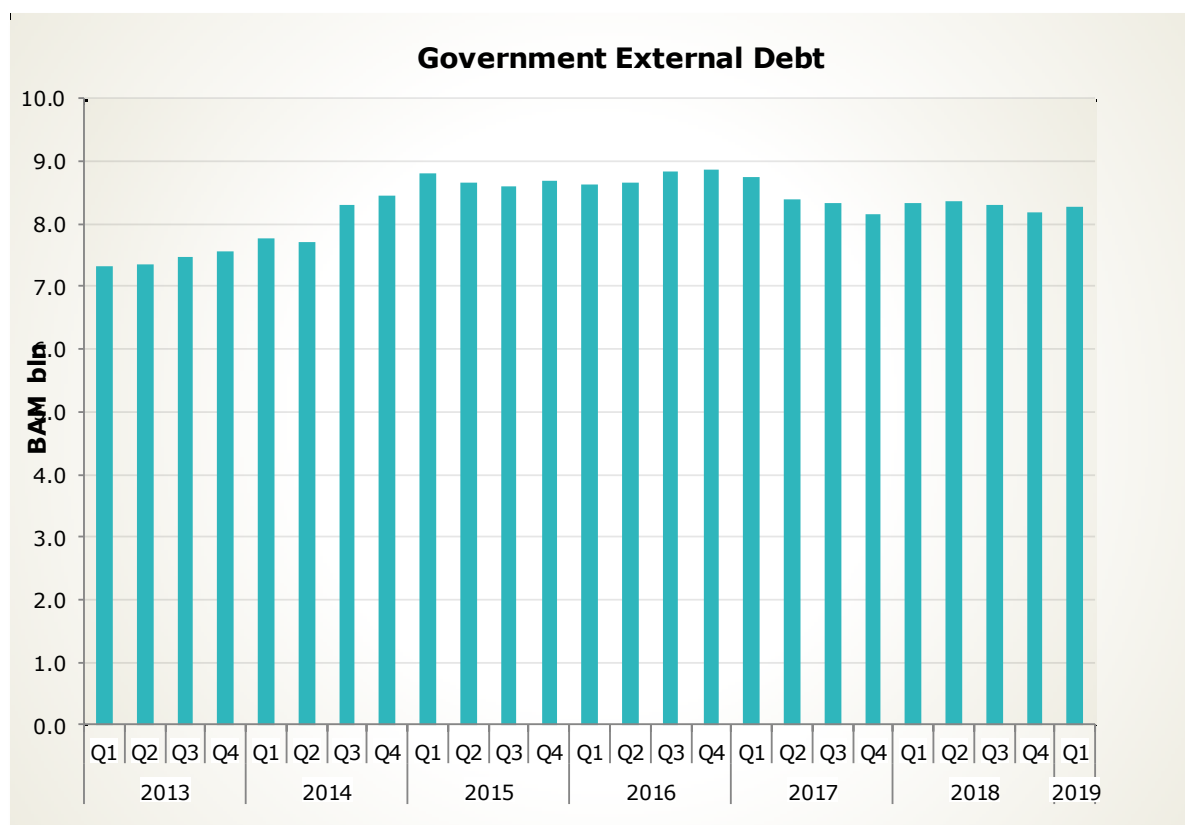
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt went down by 0.8% y/y to BAM 8.280 bln in March 2019

The total external government debt amounted to BAM 8.280 bln in March 2019, down by 0.8% on the year, according to CBBH data. In comparison to Q4 2018, the government external debt increased by BAM 101.0 mln.

Bosnia and Herzegovina's main foreign creditors as of Q1 2019 were World Bank's International Development Association (IDA), the European Investment Bank, and the European Bank for Reconstruction and Development (EBRD).

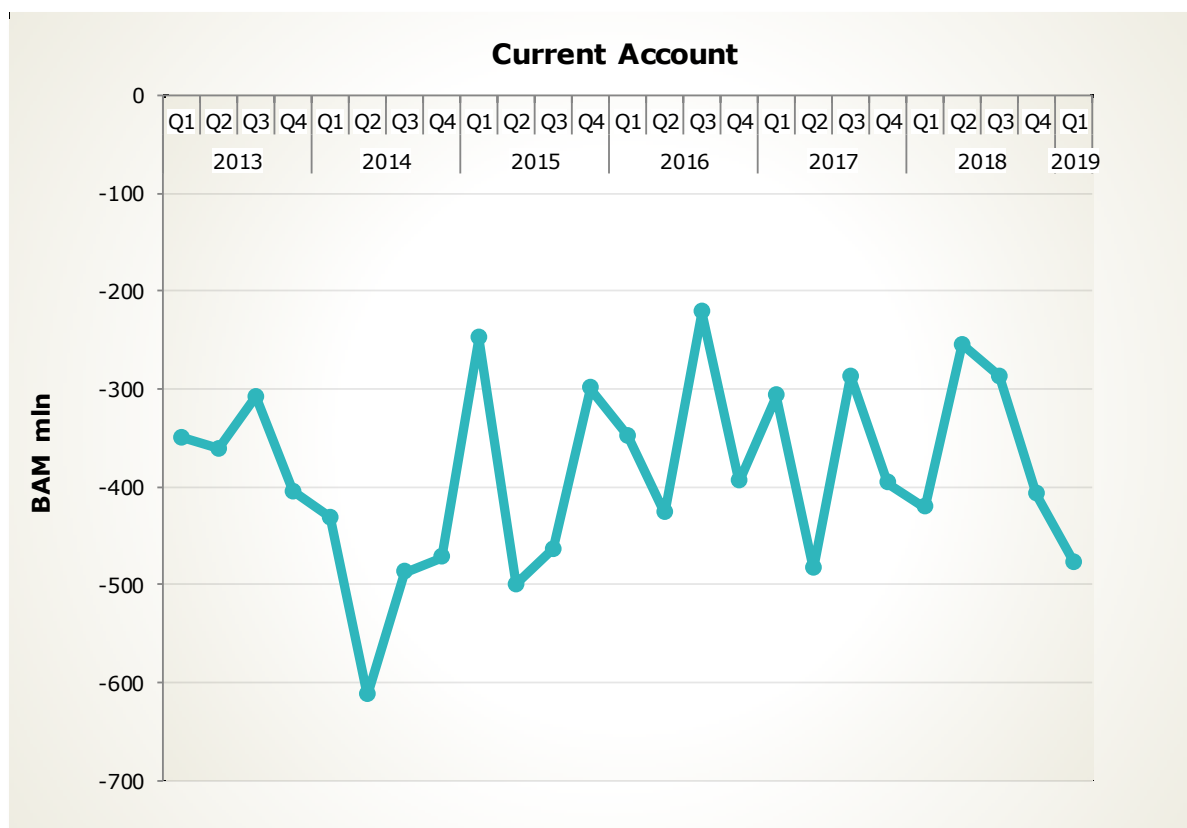


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account gap at BAM 477.1 mln in Q1 2019

The current account gap expanded to BAM 477.1 mln in Q1 2019, up 13.2% y/y, according to central bank statistics data. The net secondary income increased by 3.0% on the year to BAM 879.7 mln.



Source: CBBH

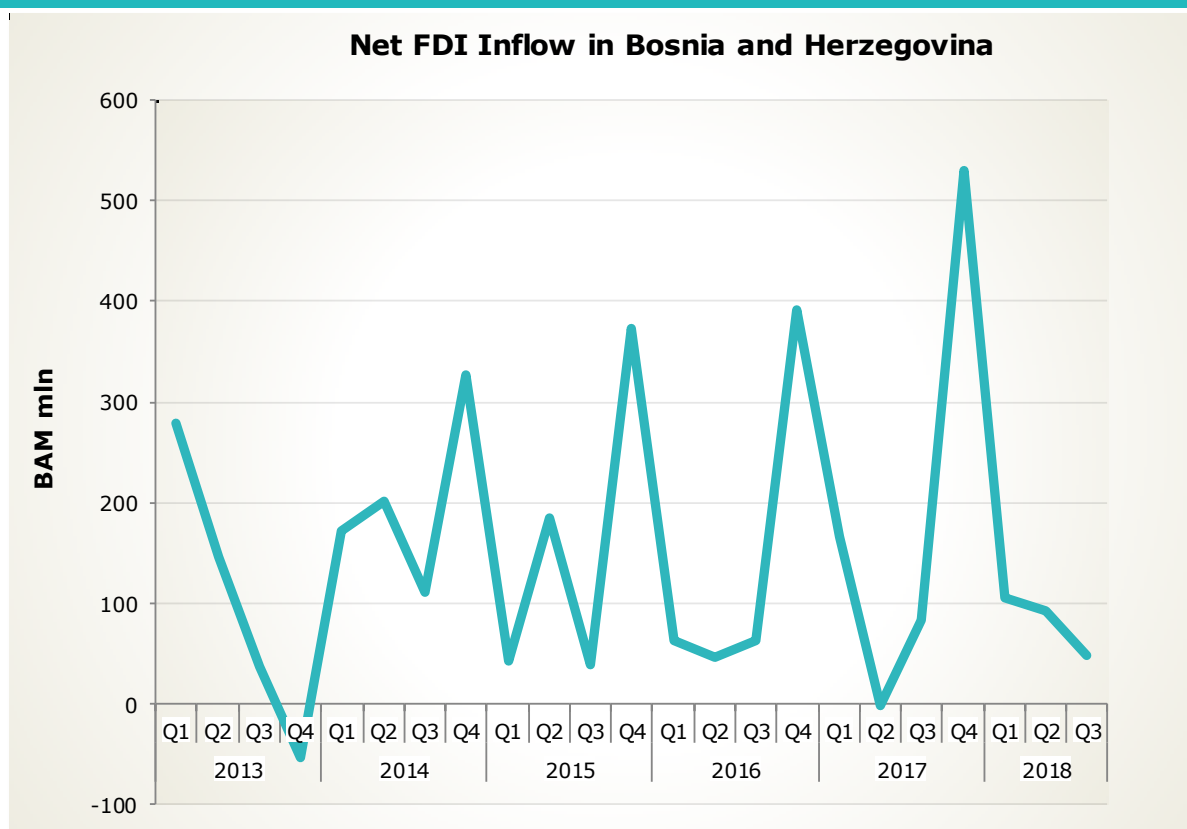
7.3. FDI

Net FDI inflow stayed positive in Jan-Sept 2018²

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina was positive in the first three quarters of 2018, totalling BAM 246.9 mln, according to CBBH data. The country's FDIs stayed almost unchanged from Jan-Sept 2017 when they stood at BAM 246.8 mln.

FDIs during the third quarter of 2018 took away nearly a quarter of the current account deficit.

² Annual data and data for Q1 2019 was not available at the time of preparation of the report.



Source: CBBH

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 1.840 bln in Q1 2019

The trade deficit gap widened to BAM 1.840 bln in Q1 2019 from BAM 1.614 bln in Q1 2018, according to BHAS.

Exports inched down by 0.6% y/y to BAM 2.771 bln, while imports jumped by 4.7% y/y to BAM 4.611 bln.

Export to EU countries amounted to BAM 2.115 bln in Q1 2019, which is 2.5% higher than Q1 2018, while import amounted to BAM 2.833 bln, up by 7.6% on the year.

Exports of sector agriculture, forestry and fishing reported an increase of 23.1%. Mining and quarrying sector fell by 24.7%, while the manufacturing sector went down by 1.0%.

There was an increase in imports in the manufacturing sector by 7.0%, while imports in agriculture, forestry and fishing sector fell down by 7.9% on the year. The mining and quarrying sector register the biggest decrease of 30.2%.



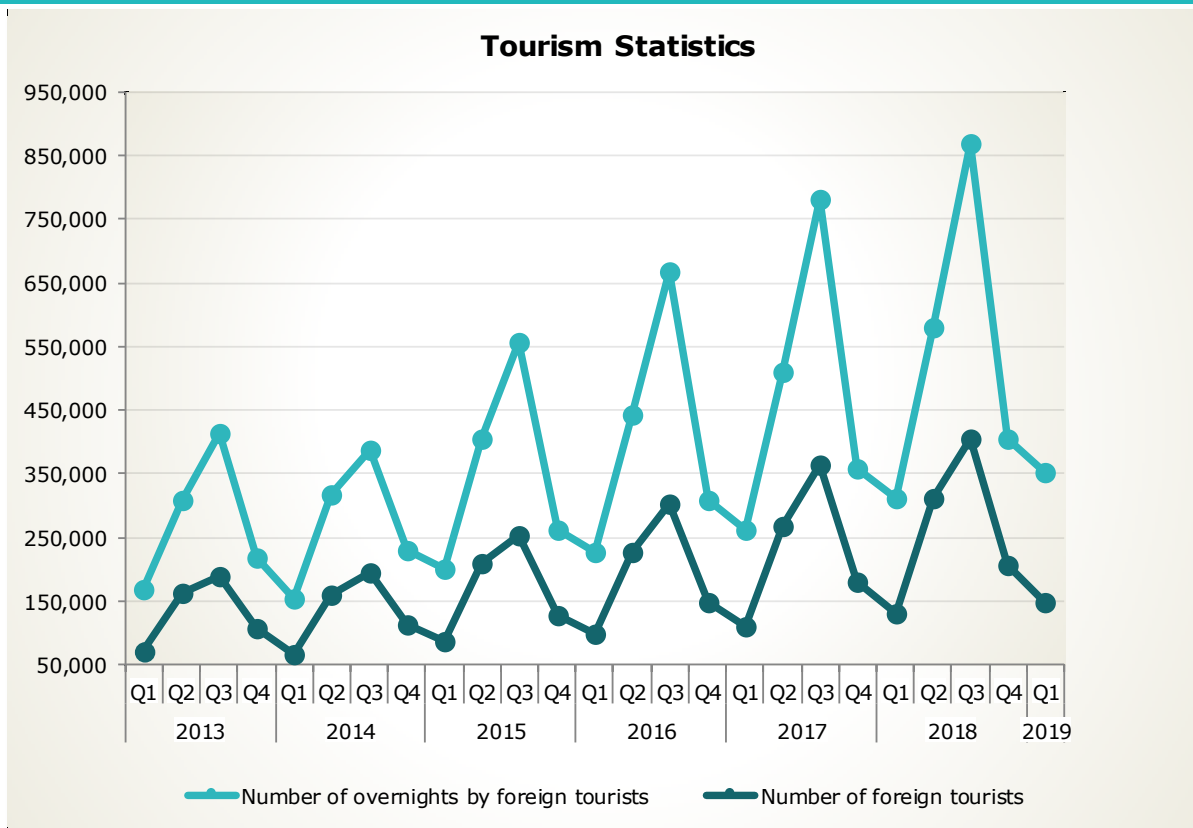
Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 13.3 in Q1 2019

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 13.3% to 352,797 in Q1 2019, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 66.4% in Q1 2019, versus 65.1% in Q1 2018.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 13.1% y/y to 147,898.



Source: BHAS

8. MAJOR DEVELOPMENTS

Energy Community open letter questions loan guarantee for Bosnian TPP project

Mar 27, 2019

The Energy Community Secretariat sent an opening letter to Bosnia expressing its concerns regarding the state aid compliance of a public guarantee granted to China's Ex-Im Bank on a loan for the Tuzla TPP project.

[Read the full story here](#)

World Bank to help SEE countries unlock Sava-Drina river corridors potential

Mar 19, 2019

The World Bank has brought together leaders and policy makers from five southeast European countries to discuss the importance of regional cooperation in water management along the Sava and Drina river corridors.

[Read the full story here](#)

EBRD targets EUR 300 mln investment in Bosnia in 2019

Mar 18, 2019

The European Bank for Reconstruction and Development (EBRD) aims to grow its investment in Bosnia to EUR 300 mln in 2019, as infrastructure will continue to absorb most of the funding, according to the EBRD Secretary General Enzo Quattrocioche.

[Read the full story here](#)

Bosnian presidency OKs signing of agreement to lower roaming fees in Western Balkans

Mar 14, 2019

Bosnia's collective presidency gave the green light to the signing of an agreement for lowering roaming fees in the Western Balkans region

[Read the full story here](#)

EBDR mulls lending Bosnia EUR 210 mln for Corridor Vc construction

Feb 19, 2019

The European Bank for Reconstruction and Development (EBRD) is considering providing two loans worth a combined EUR 210 mln to Bosnia for the construction of a section of Corridor Vc motorway.

[Read the full story here](#)

Bosnia's Sarajevo Canton joins EBRD Green Cities framework

Feb 14, 2019

Bosnia's Sarajevo Canton has joined the Green Cities programme of the European Bank for Reconstruction and Development (EBRD) with the launch of an action plan.

[Read the full story here](#)

European Parliament concerned over slow pace of reforms in Bosnia

Feb 13, 2019

Bosnia's authorities should step up constitutional, political and electoral reforms in order to advance the country's EU integration process which has slowed down, according to the European Parliament (EP).

[Read the full story here](#)

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