

BOSNIA AND HERZEGOVINA ECONOMY REPORT

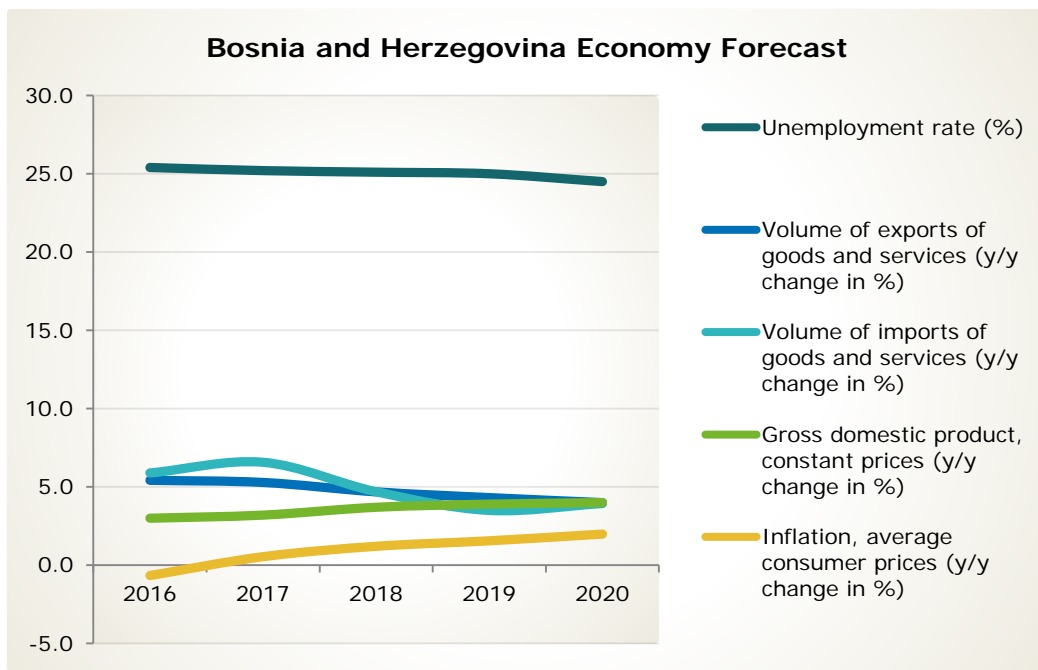
Q2 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT AS OF Q2 2016	
GDP Growth	1.4% y/y
Industrial output	4.6% y/y
Wholesales	-4.7% y/y
Retail sales	0.2% y/y
Average annual inflation	-1.4%
Unemployment rate	41.8%
Number of building permits	28.5% y/y
Money supply growth	7.3% y/y
Household loans	2.9% y/y
BIRS blue-chip index	-17.3% y/y
SASX-10 blue-chip index	-1.6% y/y
Government external debt	BAM 8.645 bln
Current account gap	BAM 495.7 mln
Net FDI inflow	BAM 31.1 mln
Foreign trade deficit	BAM 1.791 bln
Number of foreign tourist overnights	9.7% y/y



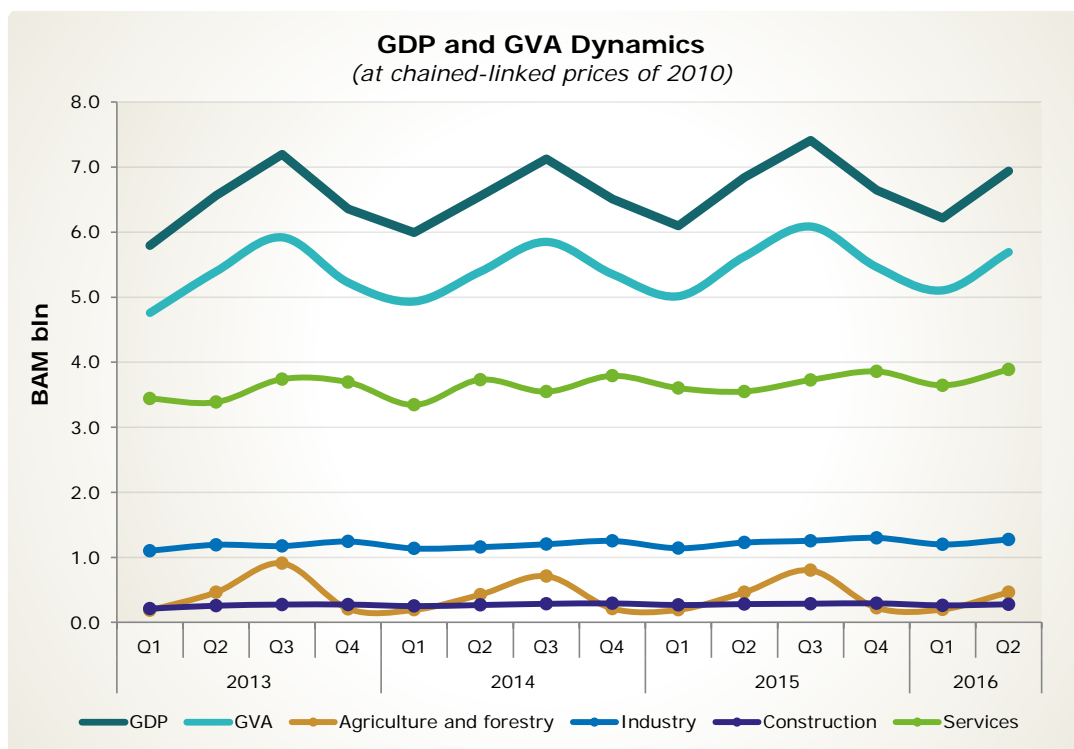
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2016

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 1.4% y/y in Q2 2016, compared to a 4.4% y/y growth in Q2 2015

The country's real GDP grew by 1.4%, totalling BAM 6.939 bln in Q2 2016, 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 1.2% y/y in Q2 2016 and totalled BAM 5.694 bln. The industrial sector grew by 3.9% and its share in the GVA structure expanded to 22.4% from 21.8% in the same quarter of the previous year. The services sector recorded a 9.5% increase, slicing a 68.3% share in the GVA, compared to 63.1% in Q2 2015. The agricultural sector inched up by 0.1%, but decreased its share in the GVA to 8.1%, from 8.2%. The construction sector went down by 1.1% and its GVA share inched down to 4.9% from 5.0%.

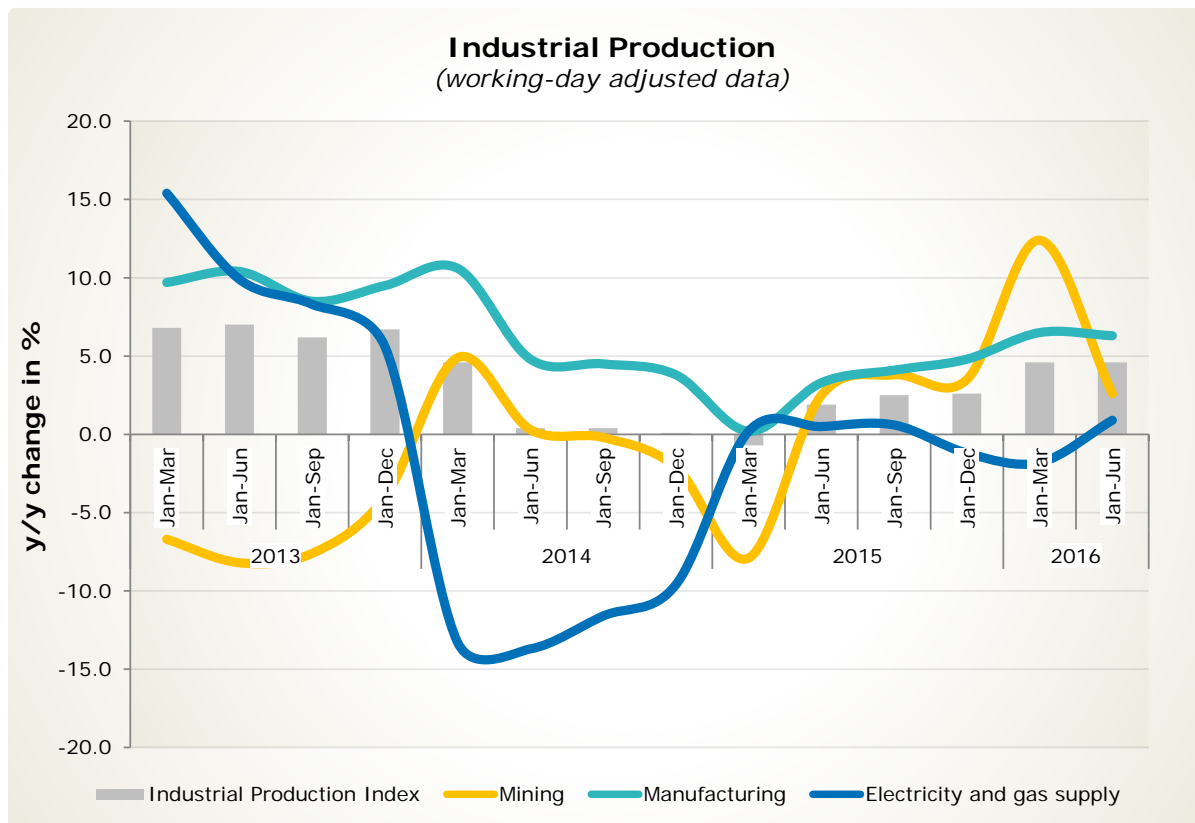
2.2. INDUSTRIAL OUTPUT

Industrial output up 4.6% y/y in January-June 2016

Industrial output went up by 4.6% in January-June 2016, according to BHAS data. The output of manufacturing rose by 6.3%, followed by the mining industry with 2.6%, while the output of the electricity and gas supply inched up by 0.9%.

Manufacture of furniture was the segment to report the highest annual production growth, of 36.0%, followed by other manufacturing with 28.8%, and manufacture of fabricated metal products, except machinery and equipment, with a production growth of 14.7%.

The segments with the sharpest drop in the first six months of 2016 were manufacture of other transport equipment, down 37.0% on the year, mining of metal ores with a 17.9% drop, and manufacture of coke and refined petroleum products with a 15.8% fall.



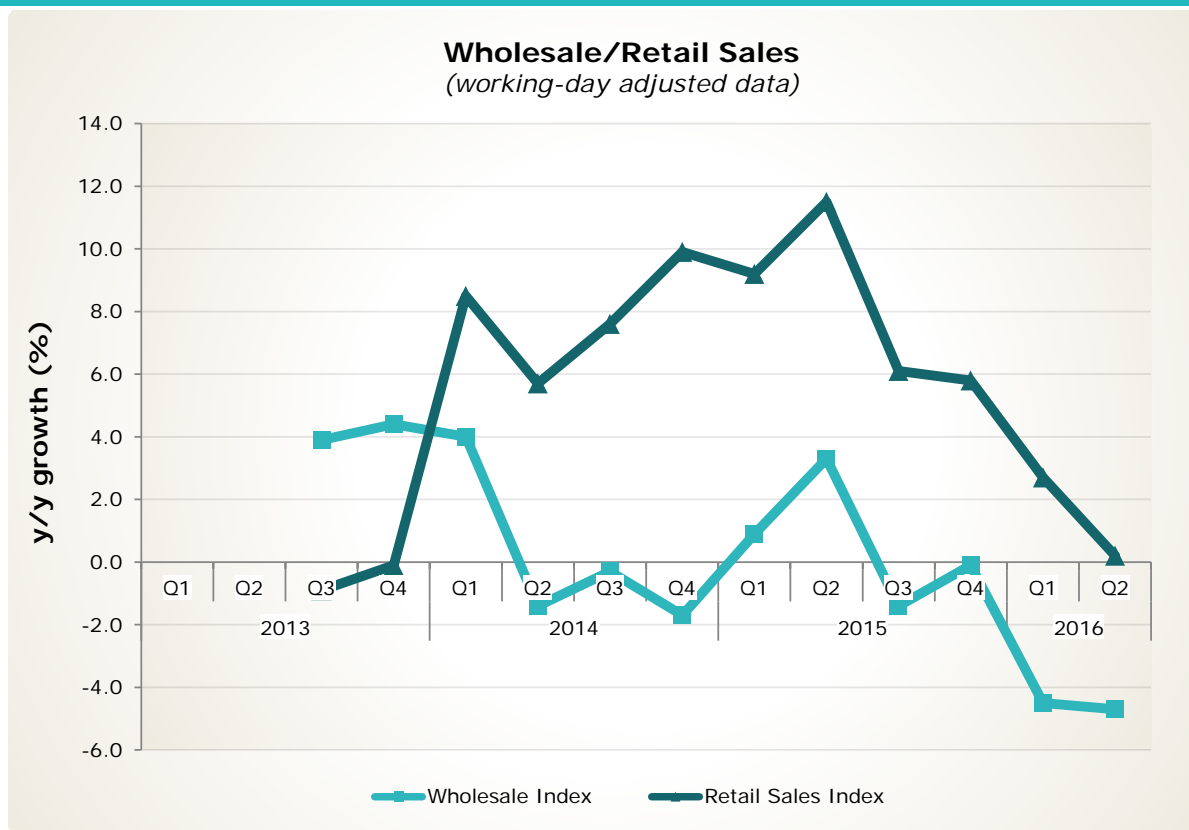
Source: BHAS

2.3. WHOLESALE/RETAIL

Retail grew y/y in Q2 2016, while wholesale recorded a decrease

Retail sales, except motor vehicles and motorcycles, inched up by 0.2% y/y in the second quarter of 2016, while wholesale trade fell by 4.7%, according to BHAS data.

Wholesale on a fee or contract basis marked the highest increase, of 21.2% y/y, while Other specialized wholesale trade experienced the sharpest annual drop, of 10.7%.



Source: BHAS

Data for Q1 and Q2 2013 is not available

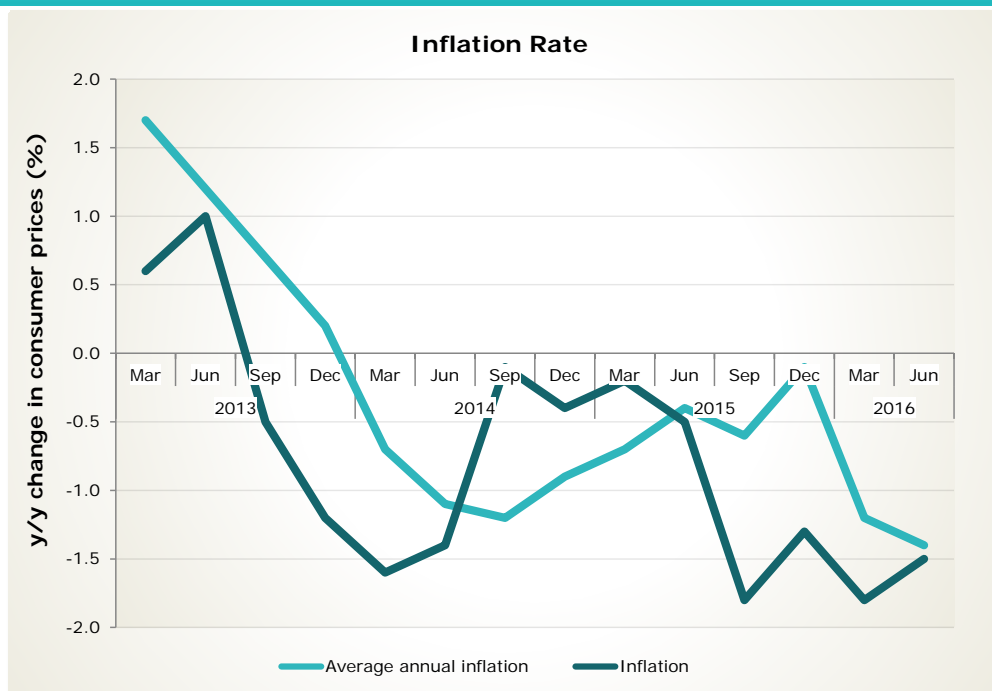
2.4. INFLATION

Average annual deflation of 1.4% as of June 2016

Bosnia and Herzegovina registered average annual deflation of 1.4% as of June 2016, according to BHAS.

The largest decrease in consumer prices was registered in operation of personal transport equipment, of 9.8%, followed by clothing and footwear, which got cheaper by 9.0% and 7.9%, respectively.

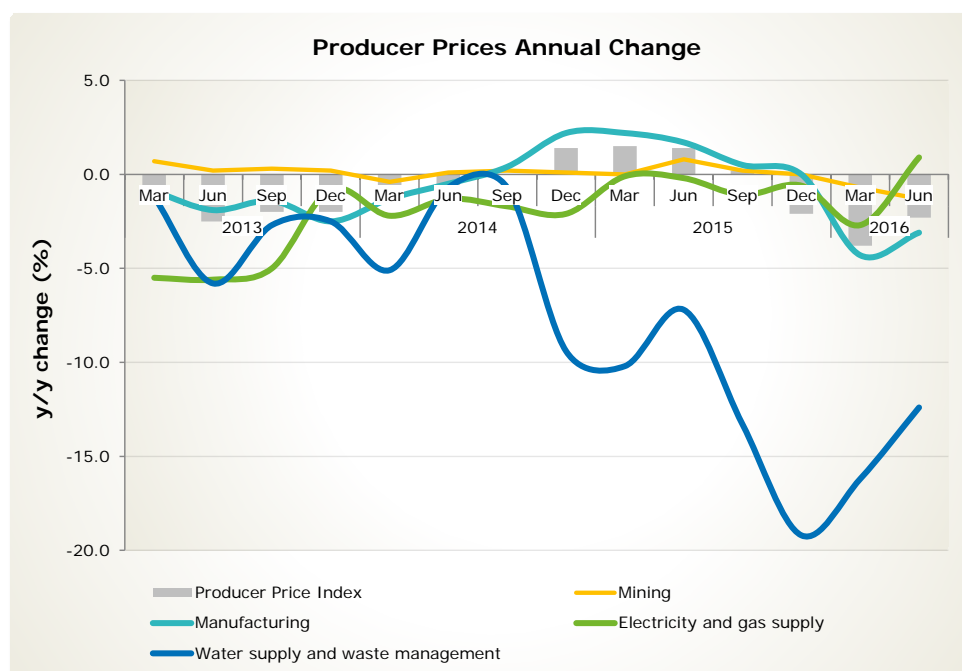
The consumer groups that recorded inflation were led by tobacco and package holidays with 9.9% each, and education not definable by level with 6.2%.



Source: BHAS

Producer prices went down by 2.3% y/y in June 2016 due to the 12.4% fall of water supply prices. Manufacturing and mining prices decreased by 3.1% and 1.3%, while electricity and gas supply was the only sector to report an increase – by 0.9% y/y.

Segment wise, producer prices dropped the sharpest, by 22.1%, in the manufacture of coke and refined petroleum products, while the biggest increase, of 4.4%, was registered by manufacture of motor vehicles, trailers and semi-trailers.



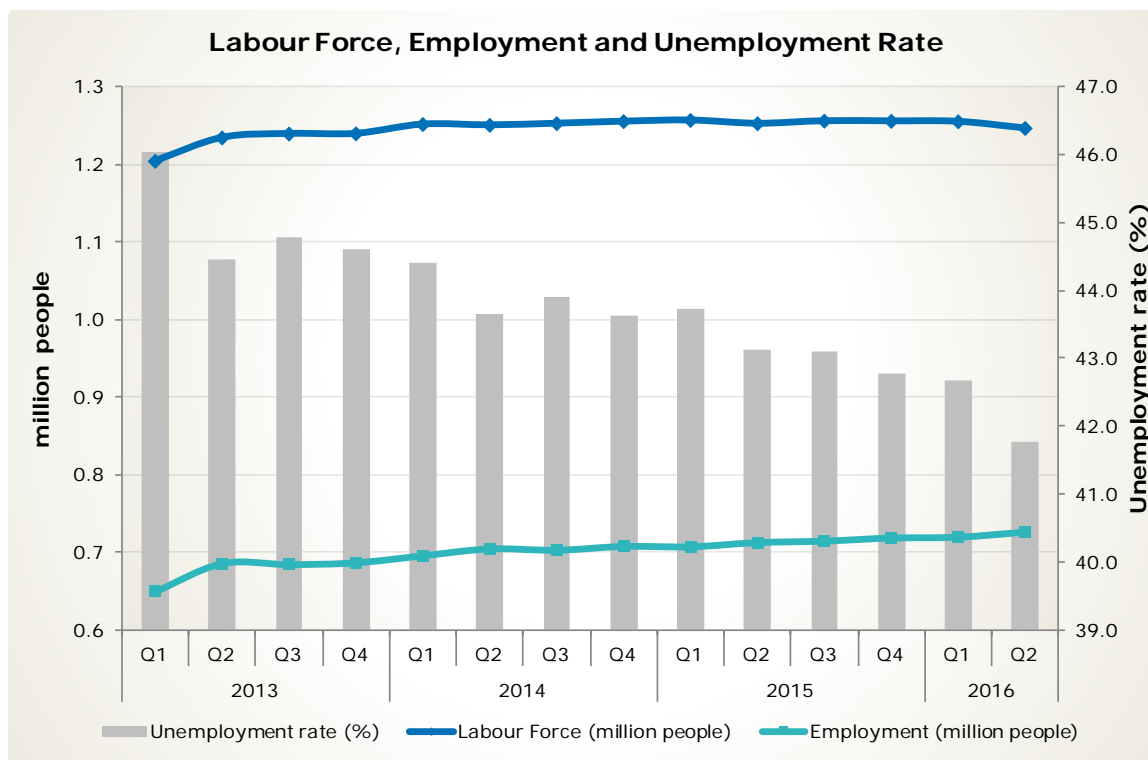
Source: BHAS

3. LABOUR MARKET

Unemployment rate went down to 41.8%, wages inch up y/y in Q2 2016

Unemployment in Bosnia and Herzegovina decreased to 41.8% of the total labour force in Q2 2016 from 43.1% in the same quarter of the previous year, according to data of BHAS.

The employed population aged 15 years and older was 725,721 in Q2 2016, up by 1.9% y/y.



Source: BHAS

The average monthly net salary for the second quarter of 2016 inched up to BAM 835 in comparison to the BAM 832 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 28.5% y/y in Q2 2016

The number of building permits, excluding such for civil engineering works, issued in Bosnia and Herzegovina in Q2 2016 increased by 28.5% y/y, totalling 834, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, expanded to 123,064 sq m from 80,123 sq m in Q2 2015.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BAM EXCHANGE RATE

The average annual exchange rate of the BAM against the USD decreased to BAM 1.73226 in Q2 2016 from BAM 1.77093 in Q2 2015, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q2 2016	Q1 2016	Q2 2015
USD	1.73226	1.77509	1.76930
GBP	2.48785	2.54372	2.71250
CHF	1.78432	1.78556	1.87870
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.

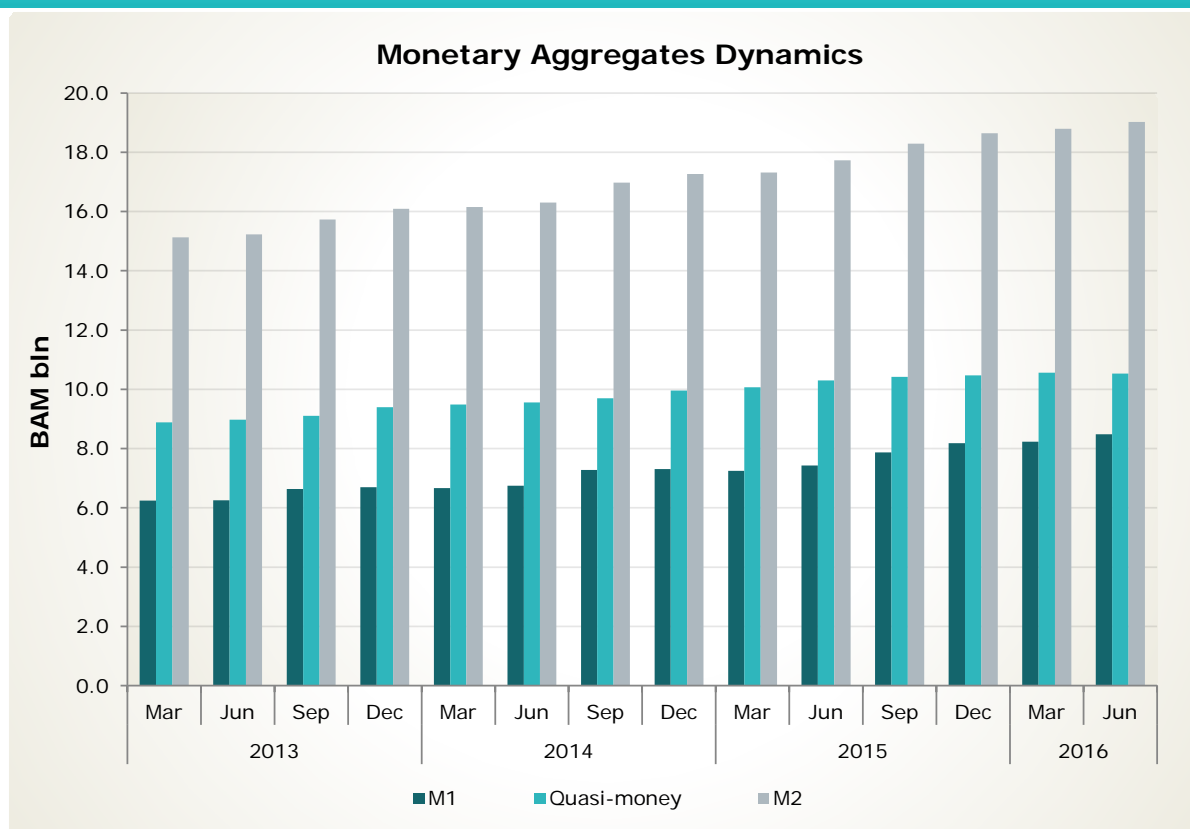
5.2. MONETARY AGGREGATES

Money supply growth was 7.3% y/y as of June 2016

Broad money, money aggregate M2, in Bosnia and Herzegovina increased by 7.3% y/y and reached BAM 19.022 bln in June 2016, 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 2.3% to BAM 10.536 bln.

Money aggregate M1, or narrow money, jumped by 14.2% to BAM 8.487 bln.



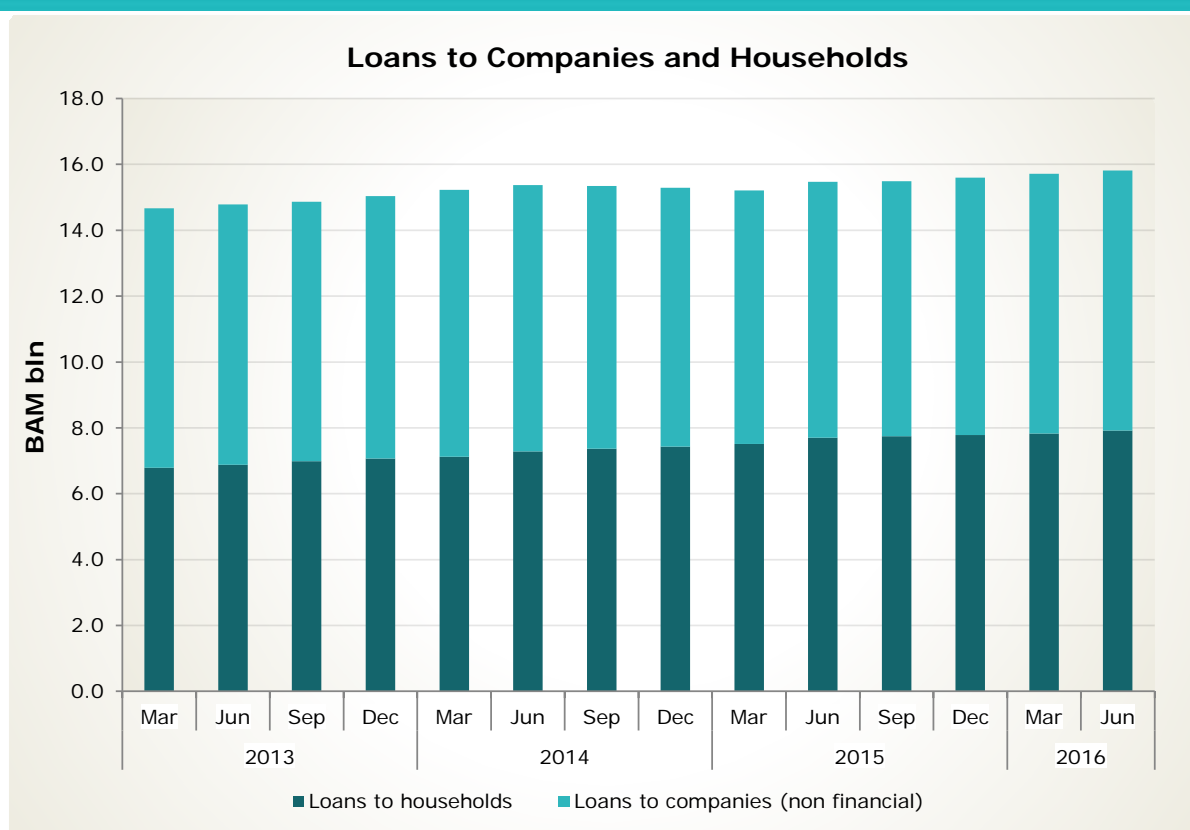
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans increased by 2.9% y/y in June 2016

Loans to the non-government sector totalled BAM 15.813 bln as of June 2016, up by 2.2% y/y, according to CBBH.

Loans to non-financial corporations increased by 1.5% to BAM 7.896 bln, while household loans rose by 2.9% y/y to BAM 7.917 bln. House purchasing loans inched up by 0.9% to BAM 1.489 bln. Consumer loans grew by 4.9% to BAM 5.834 bln.



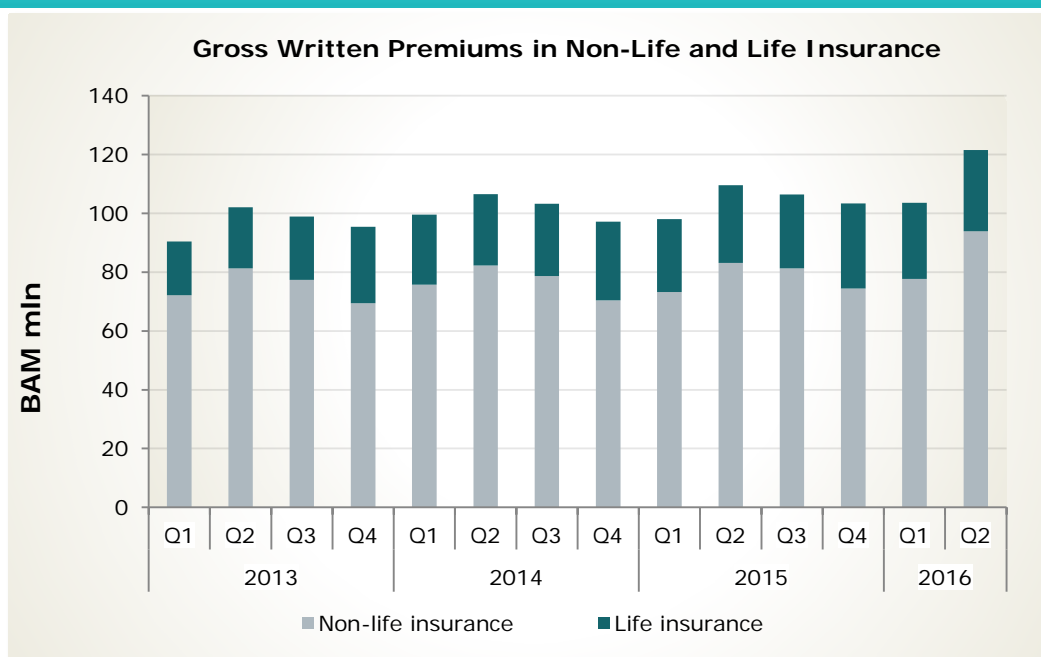
Source: CBBH

Insurance premium income up 10.9% y/y in Q2 2016

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 121.5 mln, up by 10.9% y/y in Q2 2016, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 4.7% rise, to BAM 27.647 mln, of the life insurance segment and the 12.9% rise, to BAM 93.854 mln, of non-life insurance.

In the non-life insurance sector the highest share of gross written premiums was registered by motor third party liability insurance with 57.4% of the total, followed by insurance of land vehicles with 14.3% and accident insurance with a 7.6% share.



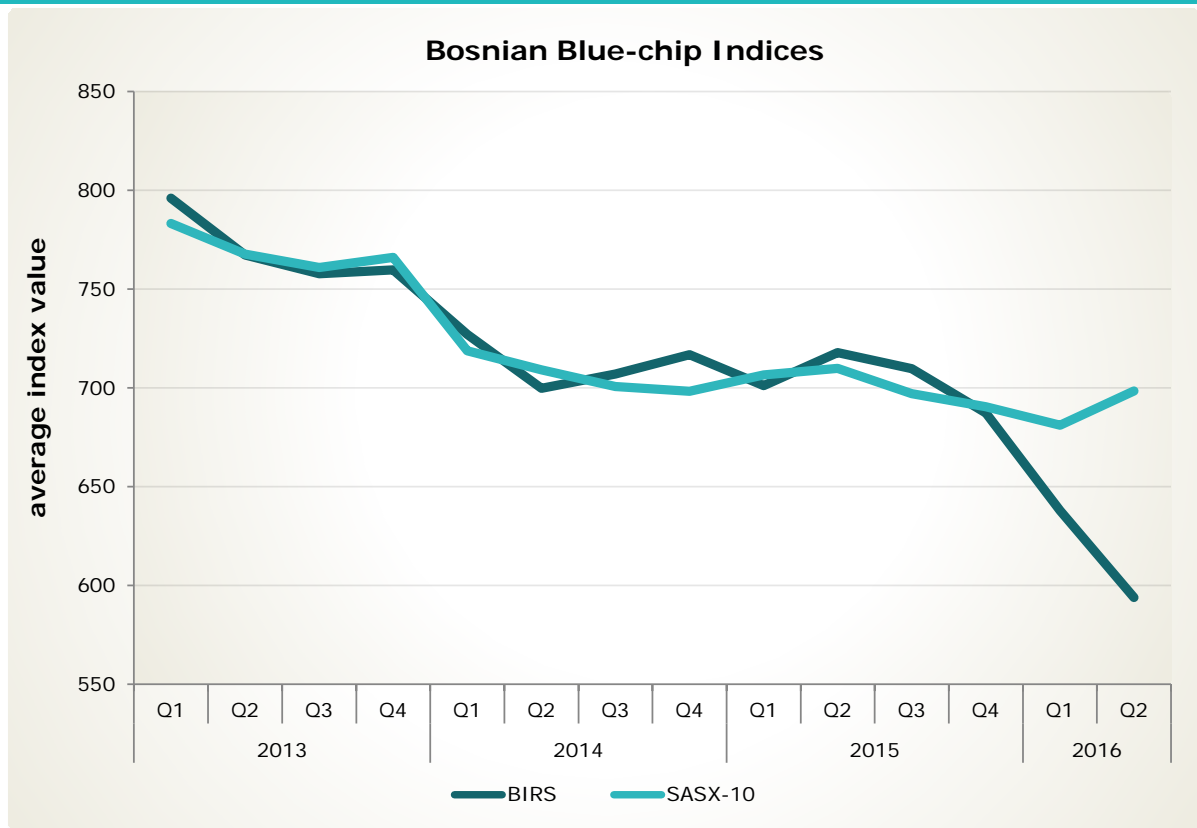
Source: NADOS

6. CAPITAL MARKETS

Blue-chip BIRS down 17.3%, SASX10 down 1.6% y/y in Q2 2016

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLBerza), decreased by 17.3% in Q2 2016 compared to the same quarter of the previous year, according to BLBerza data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), also registered a decline, of 1.6%.



Source: BLBerza, SASE

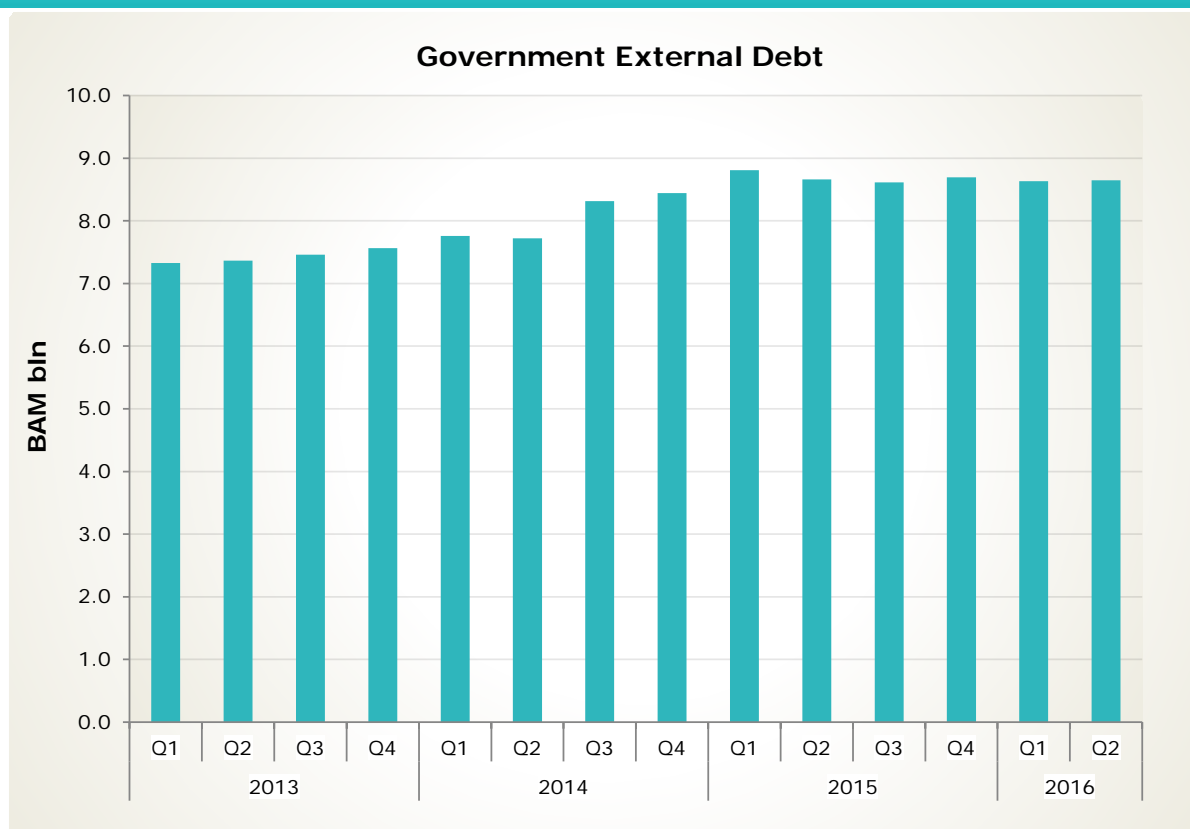
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt went down y/y to BAM 8.645 bln in Q2 2016

The total external government debt amounted to BAM 8.645 bln in Q2 2016, down by 0.2% on the year, according to CBBH data. In comparison to Q1 2015, the government external debt increased by BAM 11.1 mln.

Bosnia and Herzegovina's main foreign creditors as of Q2 2016 were World Bank's International Development Association (IDA), the European Investment Bank, and IMF.

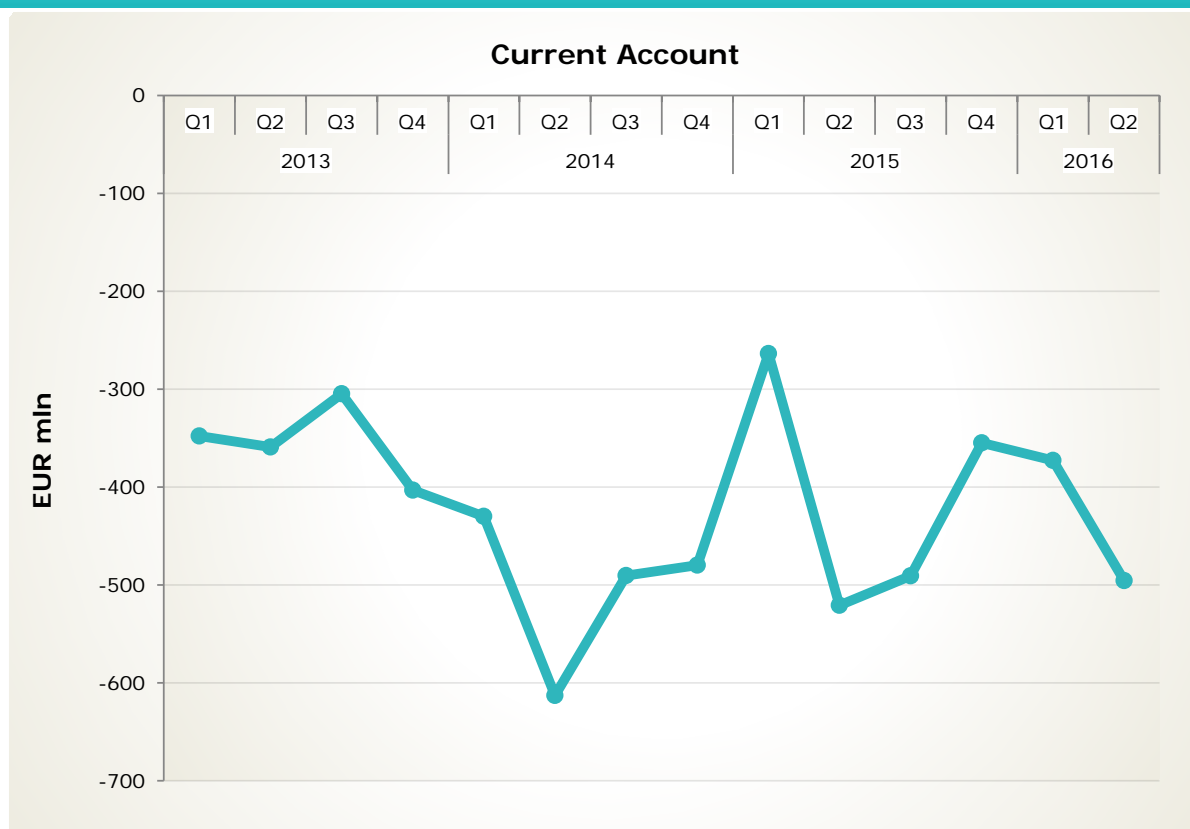


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account gap at BAM 495.7 mln in Q2 2016

The current account gap narrowed to BAM 495.7 mln in Q2 2016 from BAM 520.9 mln in Q2 2015, according to central bank statistics data. The net secondary income increased by 1.1% on the year to BAM 912.3 mln.



Source: CBBH

7.3. FDI

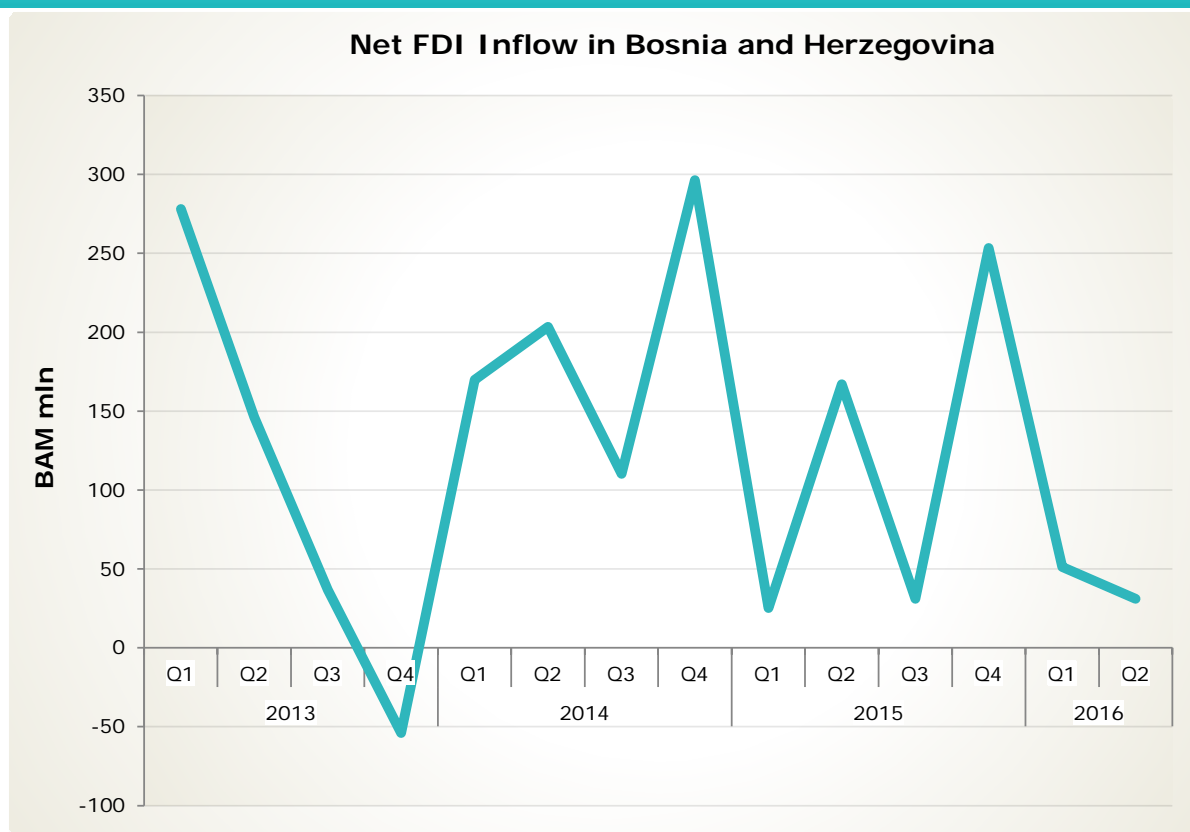
Net FDI inflow at BAM 31.1 mln in Q2 2016

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina totalled BAM 31.1 mln in the second quarter of 2016, according to CBBH data.

The FDI slumped by 81.4% compared to the corresponding period of the previous year and their share in the country's GDP fell to 0.4% from 2.4%.

In Q2 2016, Netherlands was the biggest foreign investor in the country with direct investments of BAM 17.6 mln, Slovenia came second with BAM 7.8 mln and Saudi Arabia came third with BAM 6.0 mln.

Wholesale trade, except of motor vehicles and motorcycles, was the most attractive sector for foreign investors with FDI inflow of BAM 20.5 mln, ahead of manufacture of chemicals and chemical products with BAM 13.1 mln and retail trade, except of motor vehicles and motorcycles with BAM 11.2 mln.



Source: CBBH

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 1.791 bln in Q2 2016

The trade deficit gap narrowed to BAM 1.791 bln in Q2 2016 from BAM 1.817 bln in Q2 2015, according to BHAS.

In Q2 2016, the leading sector in terms of export value was manufacture of base metals and articles thereof, accounting for 17.3% of the total, followed by miscellaneous manufactured articles with a 12.4% share, and manufacture of machinery and electrical equipment with an 11.4% share.

In terms of imports, the main goods were machinery and electrical equipment, which made up 13.7% of the total, followed by mineral products, slicing a 12.5% share, and manufacture of base metals and articles thereof and chemical products with a 10.1% share each.



Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 9.7% y/y in Q2 2016

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 9.7% to 442,700 in Q2 2016, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 68.1% in Q2 2016, versus 66.5% in Q2 2015.

Following the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 9.2% y/y to 227,671.



Source: BHAS

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