

BOSNIA AND HERZEGOVINA ECONOMY REPORT

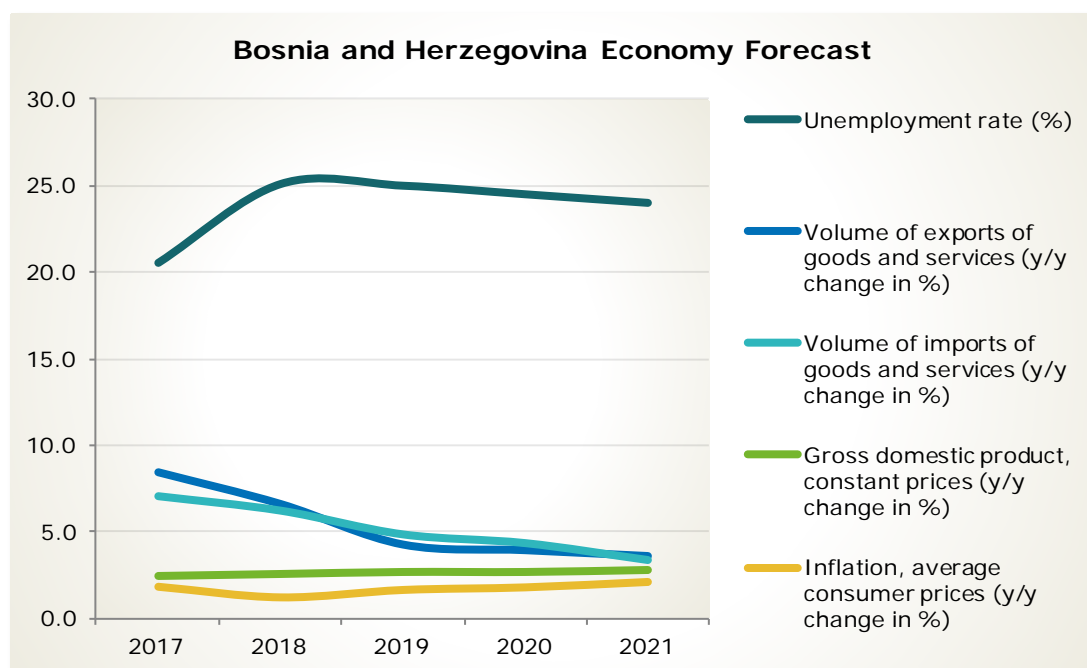
Q2 2017

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	5
2.1. GROSS DOMESTIC PRODUCT (GDP)	5
2.2. INDUSTRIAL OUTPUT	5
2.3. WHOLESALE/RETAIL	6
2.4. INFLATION.....	7
3. LABOUR MARKET.....	9
4. CONSTRUCTION AND REAL ESTATE	9
5. MONEY SUPPLY AND BANKING SYSTEM.....	10
5.1. BAM EXCHANGE RATE	10
5.2. MONETARY AGGREGATES	10
5.3. BANKING AND INSURANCE.....	11
6. CAPITAL MARKETS	12
7. EXTERNAL SECTOR.....	13
7.1. FOREIGN DEBT	13
7.2. BALANCE OF PAYMENTS	14
7.3. FDI.....	15
7.4. FOREIGN TRADE	15
7.5. TOURISM	16
8. MAJOR DEVELOPMENTS.....	17

1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN Q2 2017	
<i>GDP Growth</i>	1.7% y/y
<i>Industrial output</i>	2.1% y/y
<i>Wholesales</i>	7.9% y/y
<i>Retail sales</i>	5.7% y/y
<i>Average annual deflation</i>	0.2%
<i>Unemployment rate</i>	39.4%
<i>Number of building permits</i>	6.8% y/y
<i>Money supply growth</i>	10.2% y/y
<i>Household loans</i>	6.0% y/y
<i>BIRS blue-chip index</i>	1.5% q/q
<i>SASX-10 blue-chip index</i>	-5.1% q/q
<i>Government external debt</i>	BAM 8.387 bln
<i>Current account gap</i>	BAM 472.6 mln
<i>Net FDI inflow</i>	BAM -22.8 mln
<i>Foreign trade deficit</i>	BAM 1.916 bln
<i>Number of foreign tourist overnights</i>	15.5% y/y



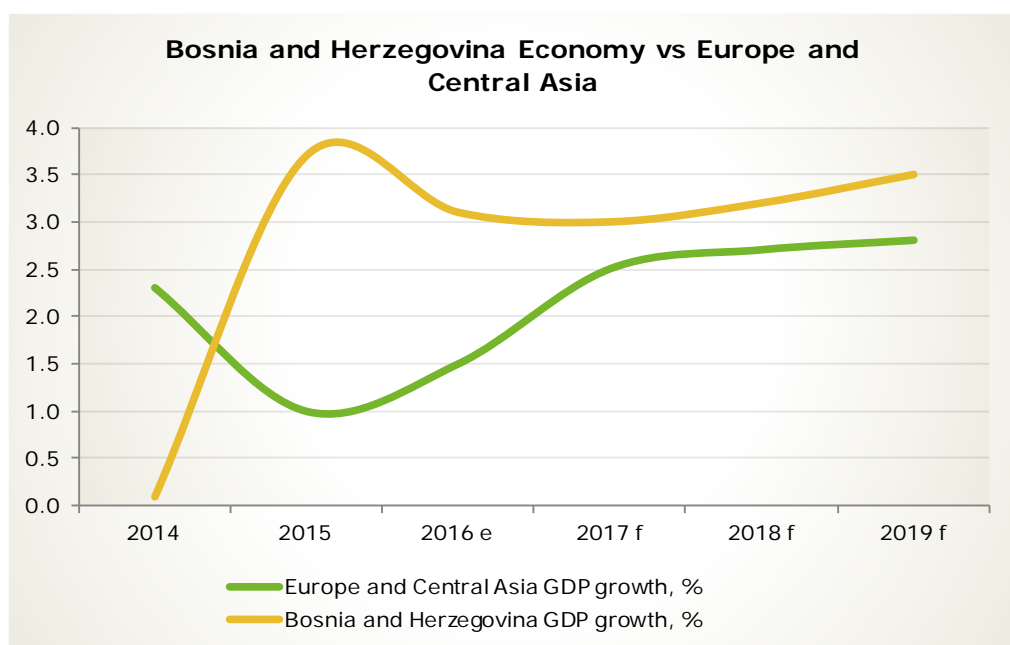
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

The economic growth of Bosnia and Herzegovina is expected to accelerate from 2.0% in 2016 to 2.5% in 2017 and 2.7% in 2019, supported primarily from domestic demand, according to a

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 1.8% y/y and then slow down to 1.2% in 2018 before rising to 1.6% in 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, Europe and Central Asia Economic Update, October 2017

Bosnia and Herzegovina – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y change	0.1	3.7	3.1	3.0	3.2	3.5
Private Consumption	0.0	0.4	1.8	2.9	3.4	3.6
Government Consumption	0.9	0.8	1.8	3.7	3.4	2.6
Gross Fixed Capital Investment	1.1	1.0	1.7	1.6	2.9	3.5
Exports, Goods and Services	4.4	6.3	4.1	2.5	3.1	3.4
Imports, Goods and Services	8.0	0.9	1.2	2.2	3.2	3.3
Real GDP growth, at constant factor prices (by sectors)	1.1	3.1	3.1	3.0	3.2	3.5
Agriculture	-12.7	9.2	5.0	2.8	3.0	3.0
Industry	1.8	3.4	3.0	2.7	3.0	3.0
Services	2.6	2.3	2.9	3.1	3.4	3.7
Inflation (Consumer Price Index)	0.9	1.0	-0.8	0.9	1.4	1.4
Current Account Balance (% of GDP)	-7.2	-5.7	-4.5	-4.6	-5.9	-6.8
Net Foreign Direct Investment (% of GDP)	-2.5	-1.4	-1.6	1.3	2.3	2.7

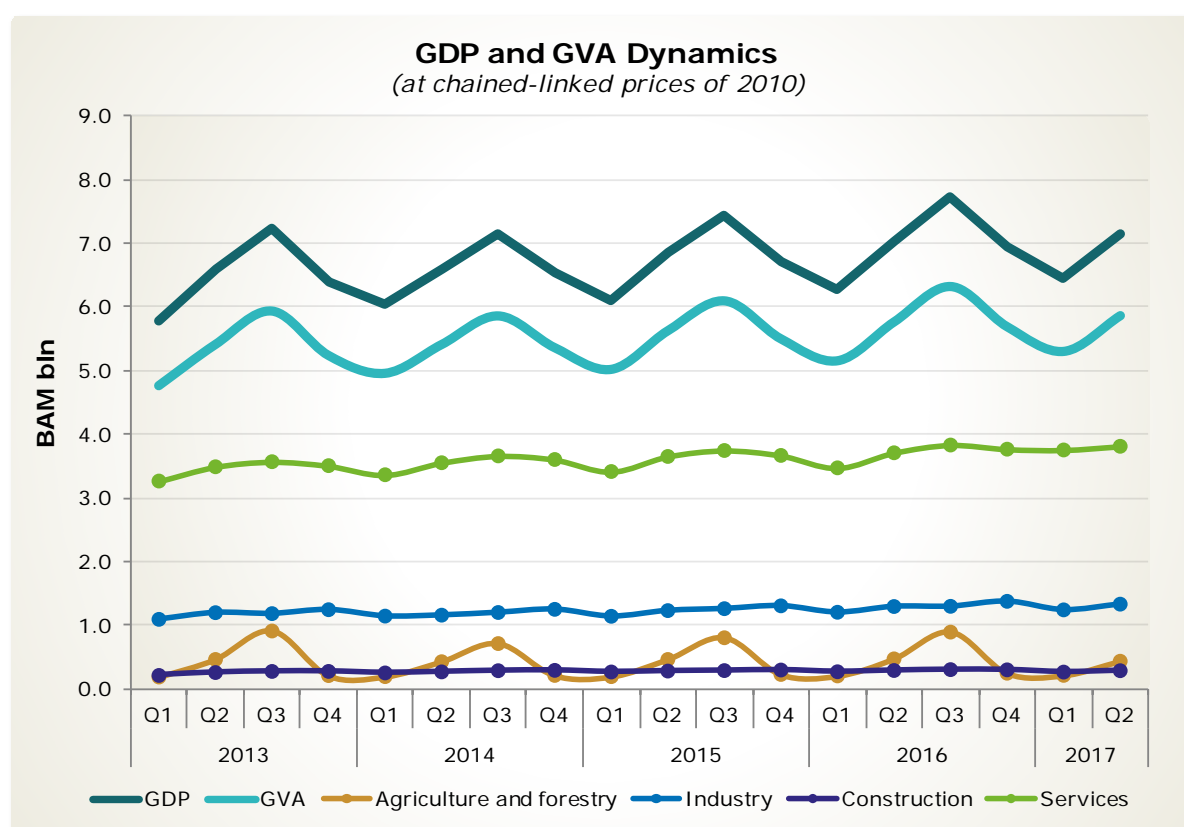
Source: World Bank, Europe and Central Asia Economic Update, October 2017

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 1.7% y/y in Q2 2017, compared to a 2.8% y/y growth in Q1 2017

The country's real GDP annual growth was 1.7%, totalling BAM 7.150 bln in Q2 2017, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS).



Source: BHAS

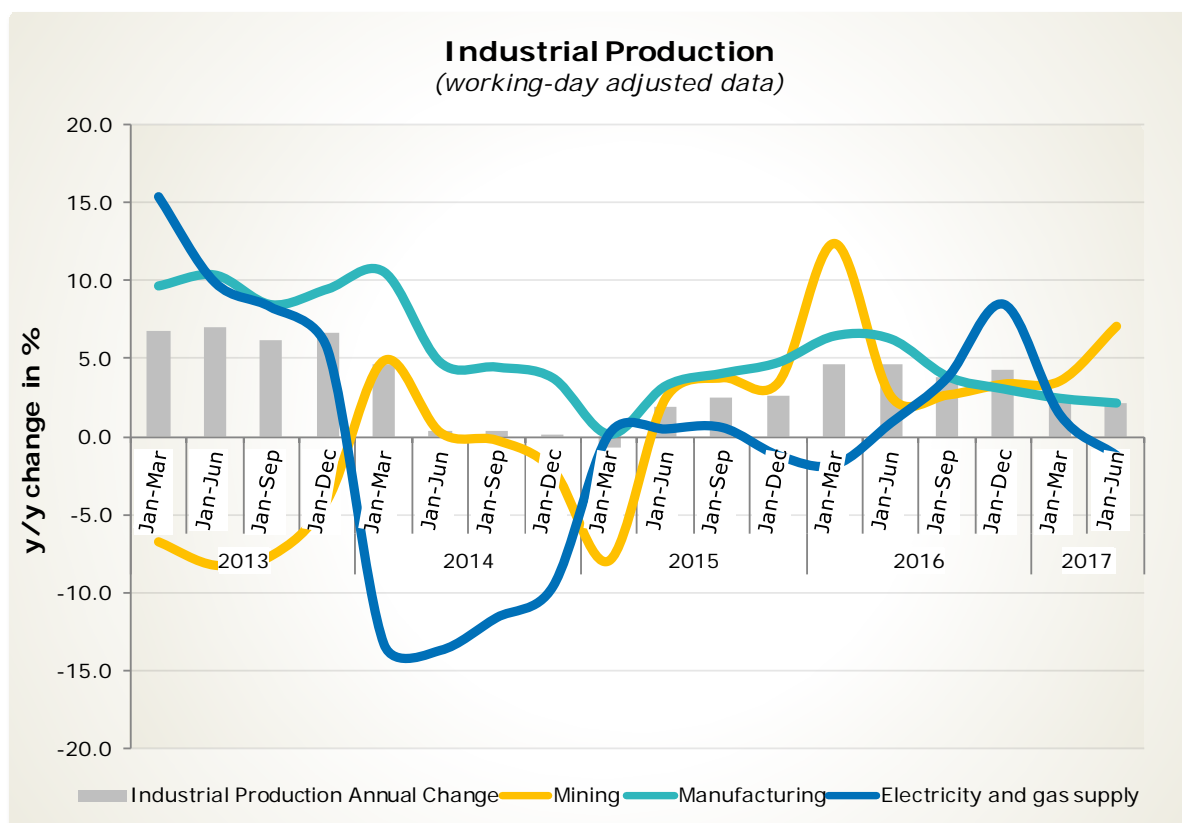
The gross value added (GVA) generated by the national economy increased in value terms by 1.7% y/y in Q2 2017 and totalled BAM 5.862 bln. The industrial sector grew by 2.9% and its share in the GVA structure was 22.7%. The services sector recorded a 2.7% increase, slicing a 65.0% share in the GVA. Agriculture and forestry went down by 7.8% and accounted for 7.4% in the GVA. The construction sector went down by 1.1%, and its GVA share was 4.9%.

2.2. INDUSTRIAL OUTPUT

Industrial output up 2.1% y/y in Jan-Jun 2017

Industrial output went up by 2.1% in the first half of 2017, according to BHAS data. The output of the mining sector rose by 7.1%, followed by the manufacturing industry with 2.2%, while the output of the electricity and gas supply sector narrowed by 1.2%.

Production of capital goods expanded the most, by 9.4% y/y, while production of non-durable goods went up on average by 2.6% in Q2 2017. Production of consumer durable goods plunged by 24.1% y/y.

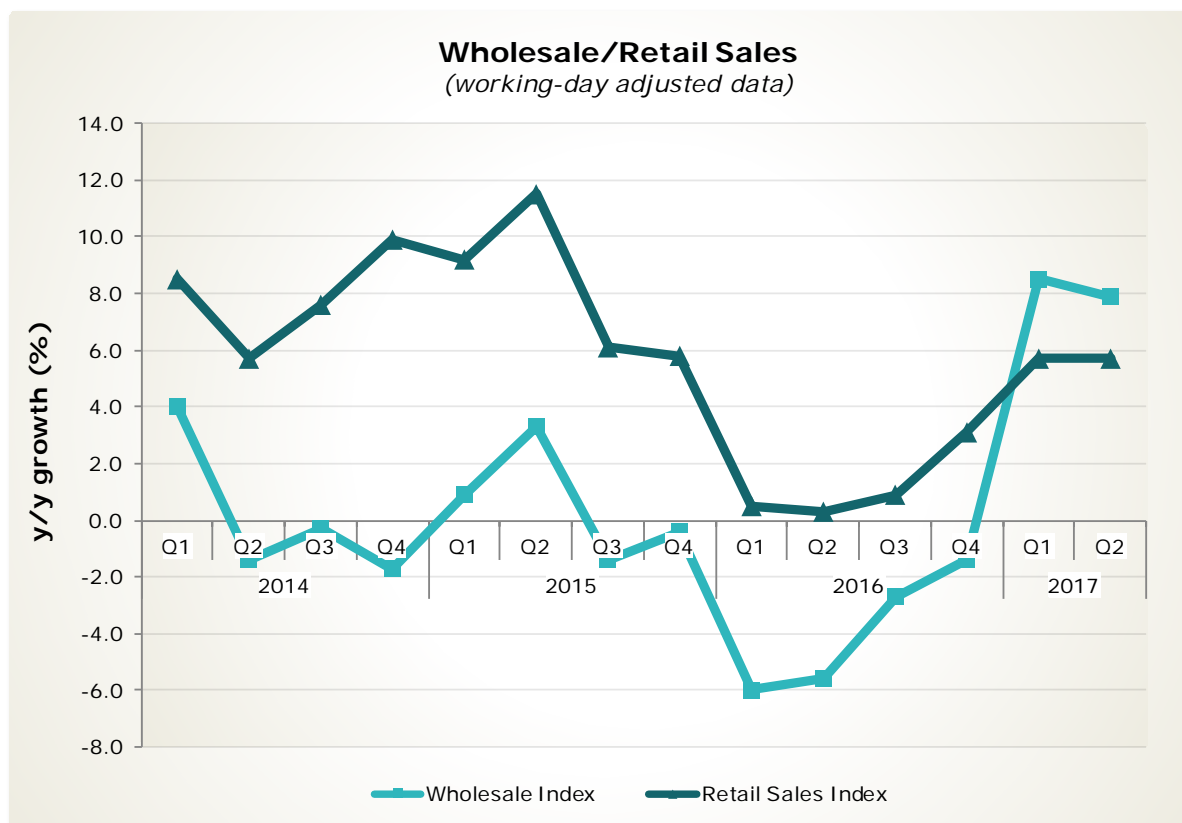


Source: BHAS

2.3. WHOLESALE/RETAIL

Retail grew 5.7% y/y, wholesale went up by 7.9% y/y in Q2 2017

Retail sales, except of motor vehicles and motorcycles, went up by 5.7% y/y in the second quarter of 2017, while wholesale trade increased by 7.9%, according to BHAS data. This is compared to growth for retail of again 5.7% y/y and a rise of 8.5% y/y in the wholesale trade in Q1 2017.



Source: BHAS

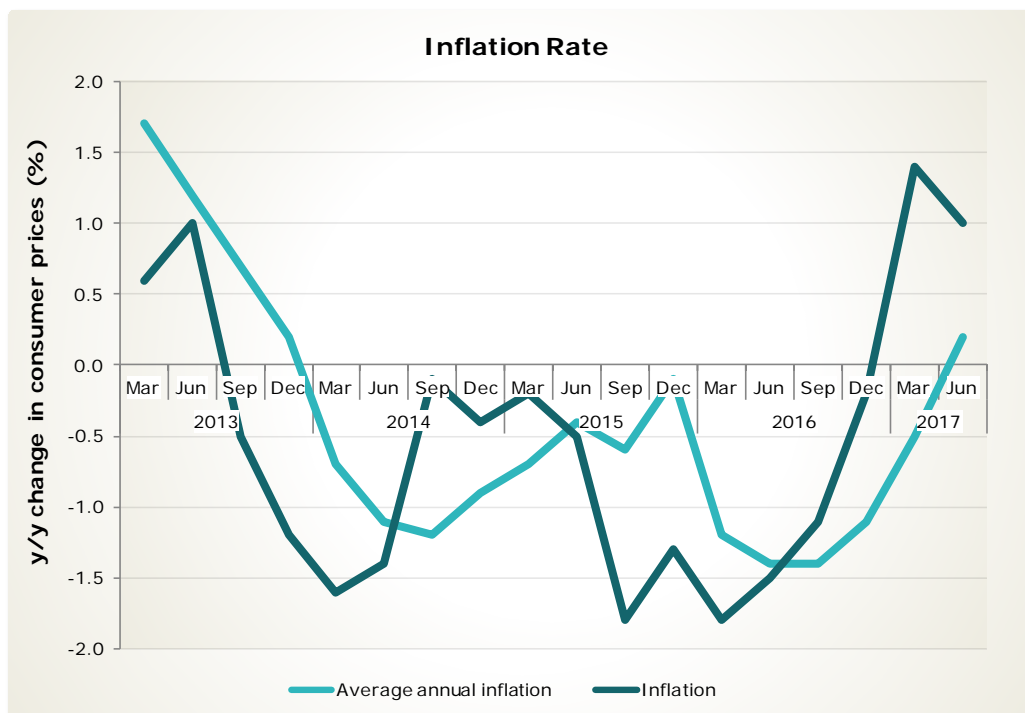
2.4. INFLATION

Inflation continues with consumer price increase of 1.0% y/y on average in June 2017

Inflation remained in Bosnia and Herzegovina as consumer prices grew by 1.0% y/y in June 2017 after growing by 1.4% in March 2017. As a result, the country experienced average annual inflation of 0.2% for the period July 2016 – June 2017, according to BHAS.

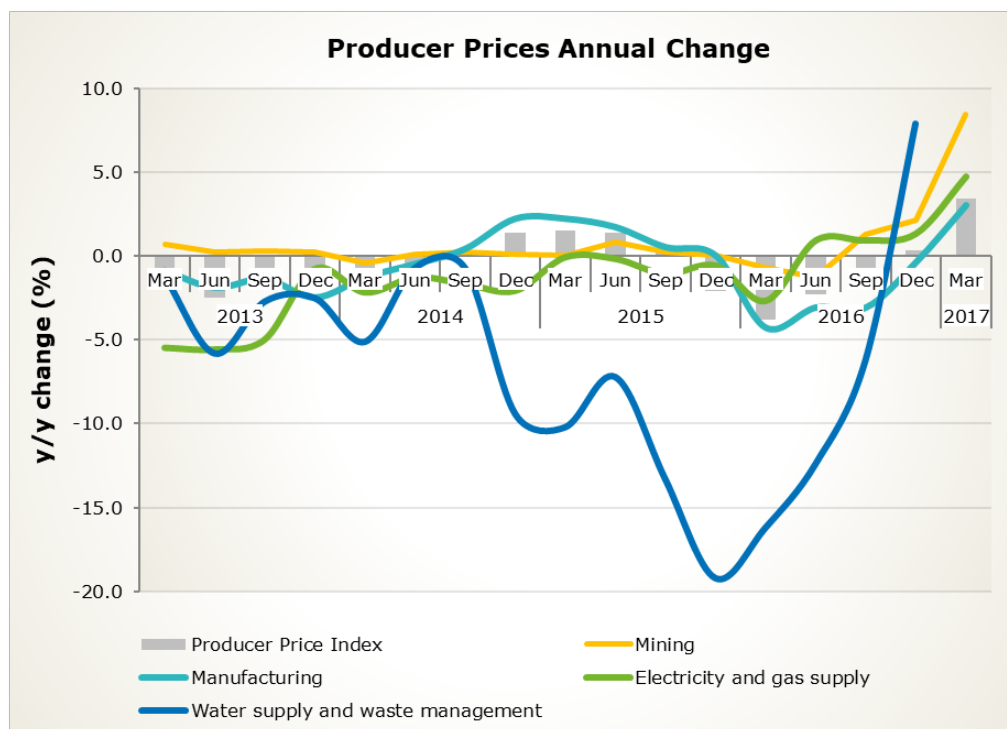
As of June 2017, the highest average annual inflation, of 5.3%, was registered by alcoholic beverages and tobacco, followed by transport services – 1.9%, and housing, water, electricity, gas and other fuels – 1.0%.

In terms of deflation, the ranking was led by clothing and footwear – 8.4%, furnishings and household equipment – 1.2%, and other goods and services – 0.5%.



Source: BHAS

Producer prices grew by 1.2% y/y in June 2017 due to the 6.2% rise of producer prices in the mining sector. Manufacturing prices increased by 1.3%, while producer prices in the electricity and gas supply industry inched down by 0.3%.



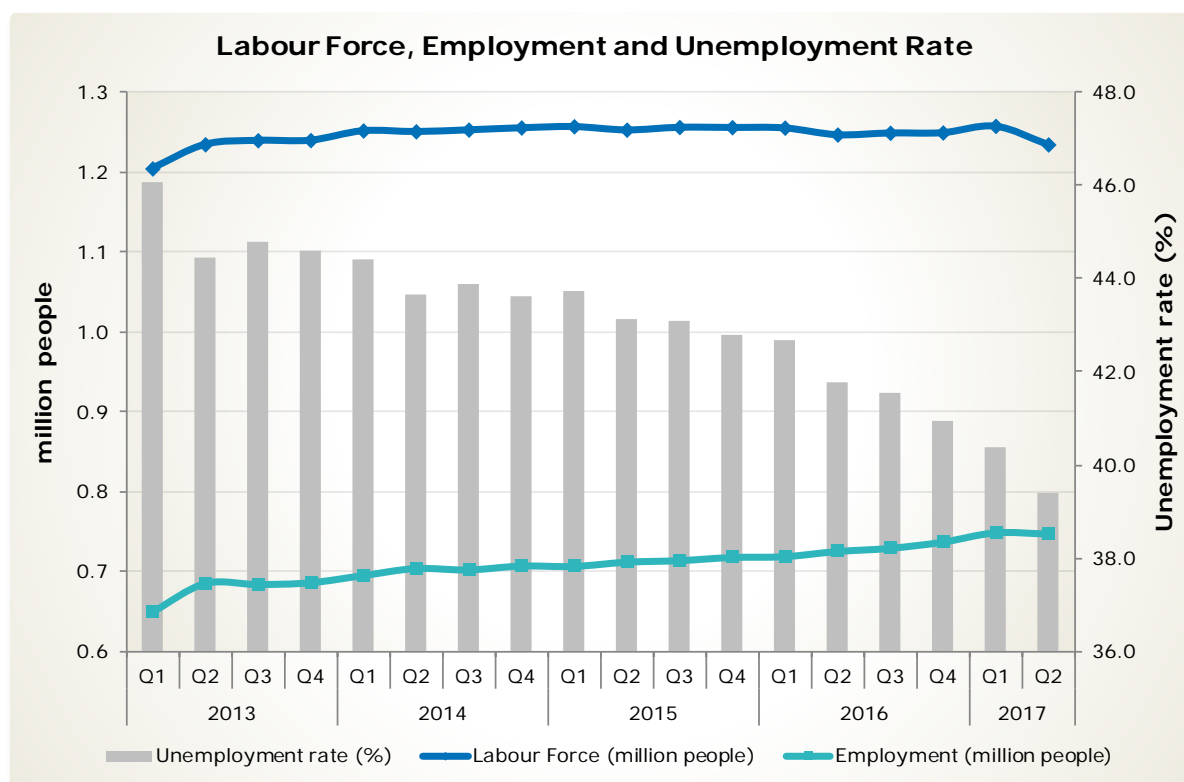
Source: BHAS

3. LABOUR MARKET

Unemployment rate went down but remained high, at 39.4%, as of June 2017

Unemployment in Bosnia and Herzegovina decreased to 39.4% of the total labour force in Q2 2017 from 41.8% in Q2 2016, according to data of BHAS.

Employment in the country counted 748,000 people, up 3.0% y/y, while the labour force inched down by 1.0% y/y to 1,234,000 on average in Q2 2017.



Source: BHAS

The average monthly net salary in Q2 2017 inched up by 1.8% y/y to BAM 850 in comparison to BAM 835 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 6.8% y/y in Q2 2017

The number of building permits, excluding such for civil engineering works, issued in Bosnia and Herzegovina in Q2 2017 grew by 6.8% y/y, totalling 891, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, went down to 120,548 sq m from 123,064 sq m in Q2 2016.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BAM EXCHANGE RATE

The average exchange rate of the BAM against the USD decreased to BAM 1.78 in Q2 2017 from BAM 1.84 in Q1 2017, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q2 2017	Q1 2017	Q2 2016
USD	1.78098	1.83678	1.73226
GBP	2.27532	2.27392	2.48785
CHF	1.80621	1.82874	1.78432
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.

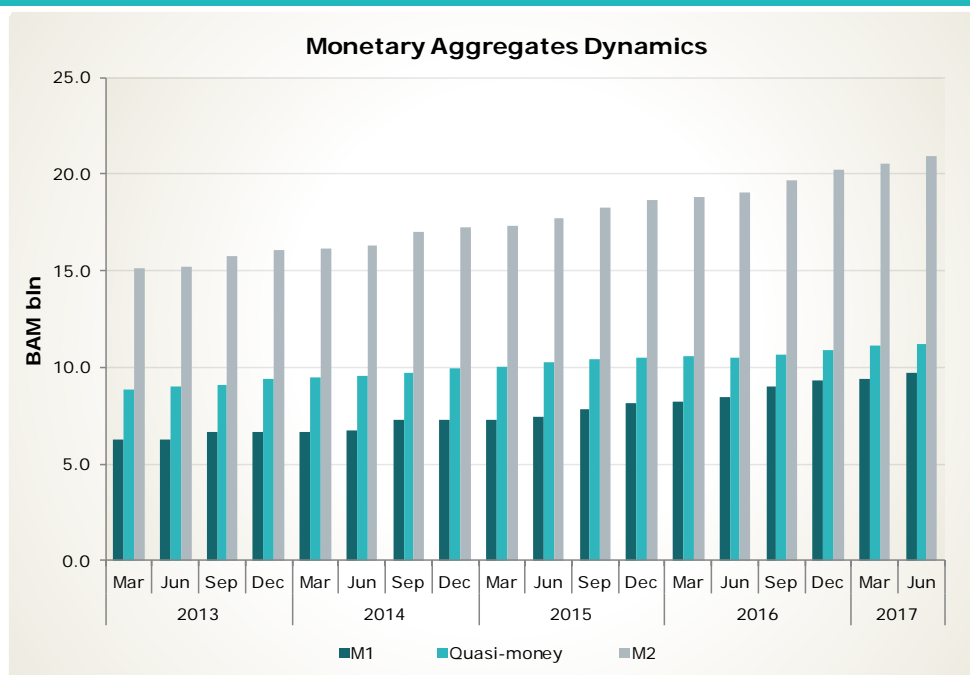
5.2. MONETARY AGGREGATES

Money supply growth was 10.2% y/y as of June 2017

Broad money, money aggregate M2, in Bosnia and Herzegovina increased by 10.2% y/y and reached BAM 20.957 bln in June 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 6.4% to BAM 11.208 bln.

Money aggregate M1, or narrow money, jumped by 14.9% to BAM 9.749 bln.



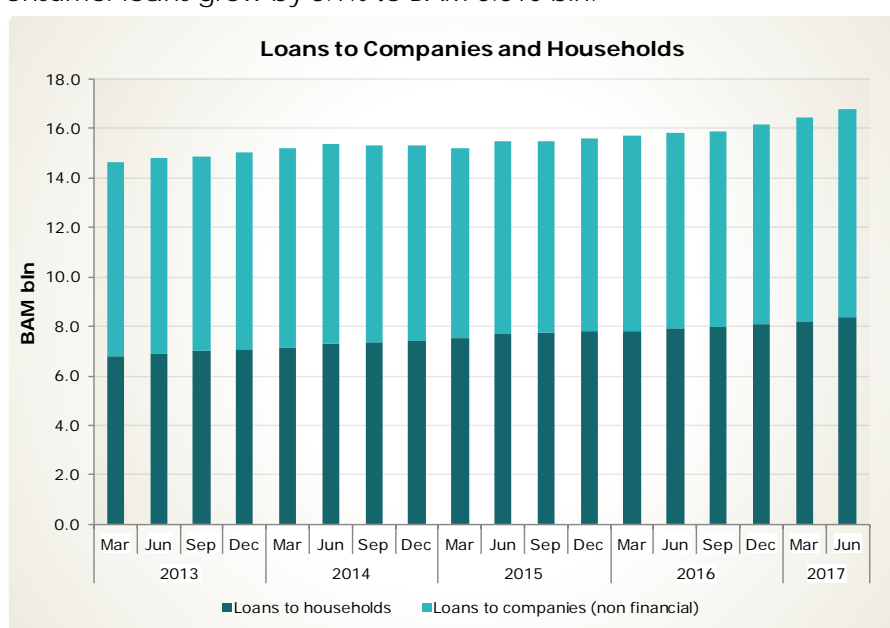
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans increased by 6.0% y/y in June 2017

Loans to the non-government sector totalled BAM 16.446 bln as of June 2017, up by 6.4% y/y, according to CBBH.

Loans to non-financial corporations increased also by 6.4% to BAM 8.404 bln, while household loans rose by 6.0% y/y to BAM 8.394 bln. House purchasing loans inched up by 0.4% to BAM 1.495 bln. Consumer loans grew by 8.1% to BAM 6.310 bln.

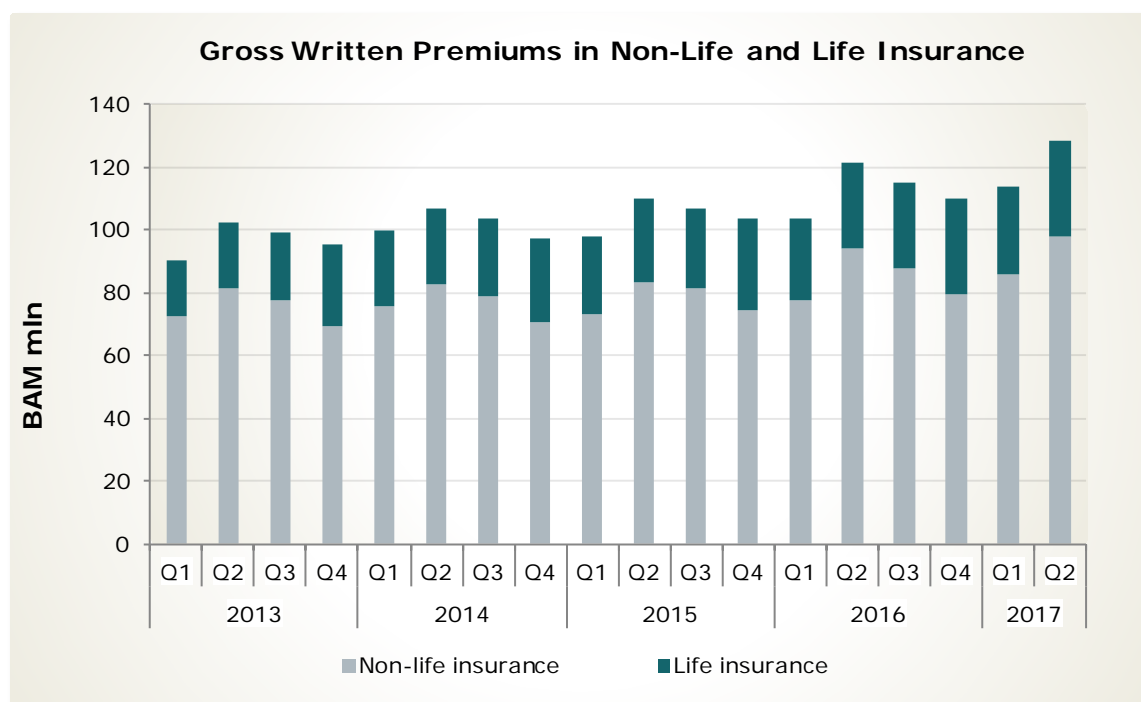


Source: CBBH

Insurance premium income up 5.3% y/y in Q2 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 128.0 mln, up by 5.3% y/y in Q2 2017, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 4.4% rise, to BAM 98.0 mln, of the non-life insurance segment and the 8.4% rise, to BAM 30.0 mln, of life insurance.



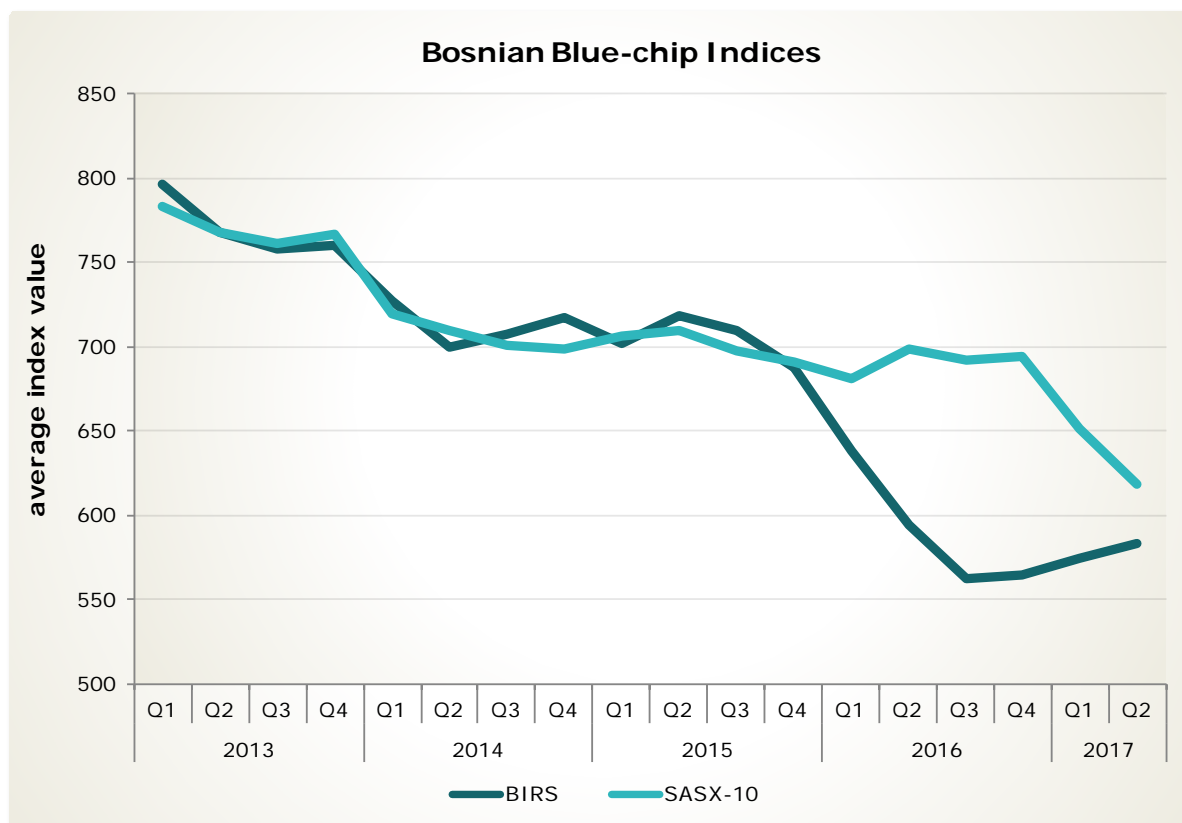
Source: NADOS

6. CAPITAL MARKETS

Blue-chip BIRS up 1.5% q/q, SASX10 down 5.1% q/q in Q2 2017

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), increased y/y by 1.5% in Q2 2017, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), registered a decline compared to Q2 2016, of 5.1%.



Source: BLSE, SASE

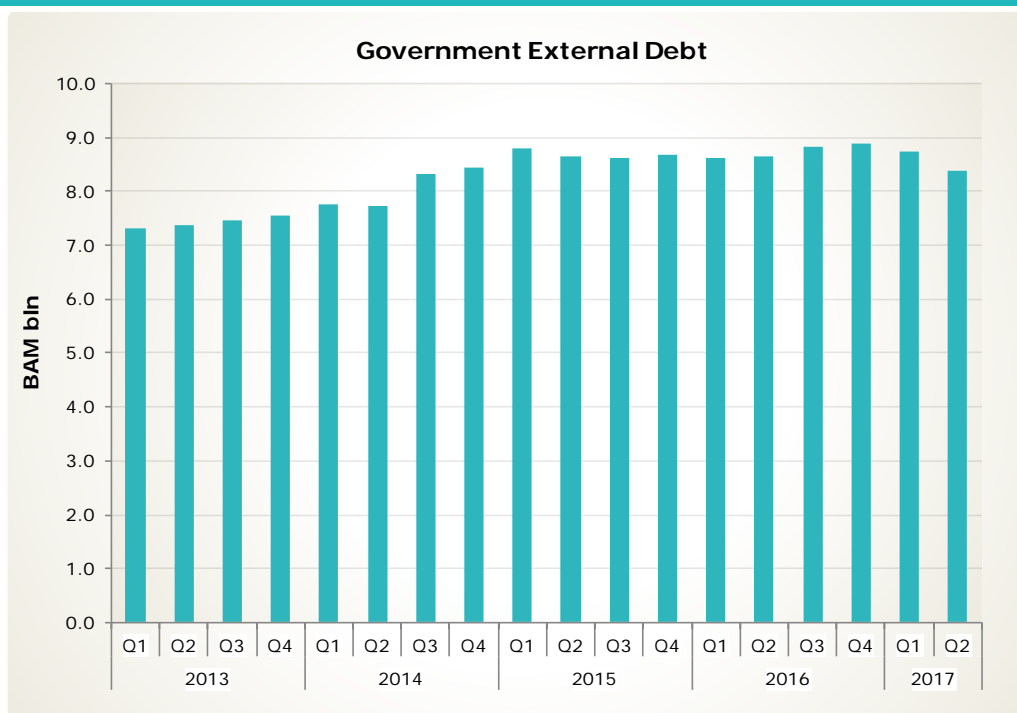
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt went down by 3.1% y/y to BAM 8.387 bln in Q2 2017

The total external government debt amounted to BAM 8.387 bln in Q2 2017, down by 3.1% on the year, according to CBBH data. In comparison to Q1 2017, the government external debt decreased by BAM 364.7 mln.

Bosnia and Herzegovina's main foreign creditors as of Q2 2017 were World Bank's International Development Association (IDA), the European Investment Bank, and the European Bank for Reconstruction and Development (EBRD).

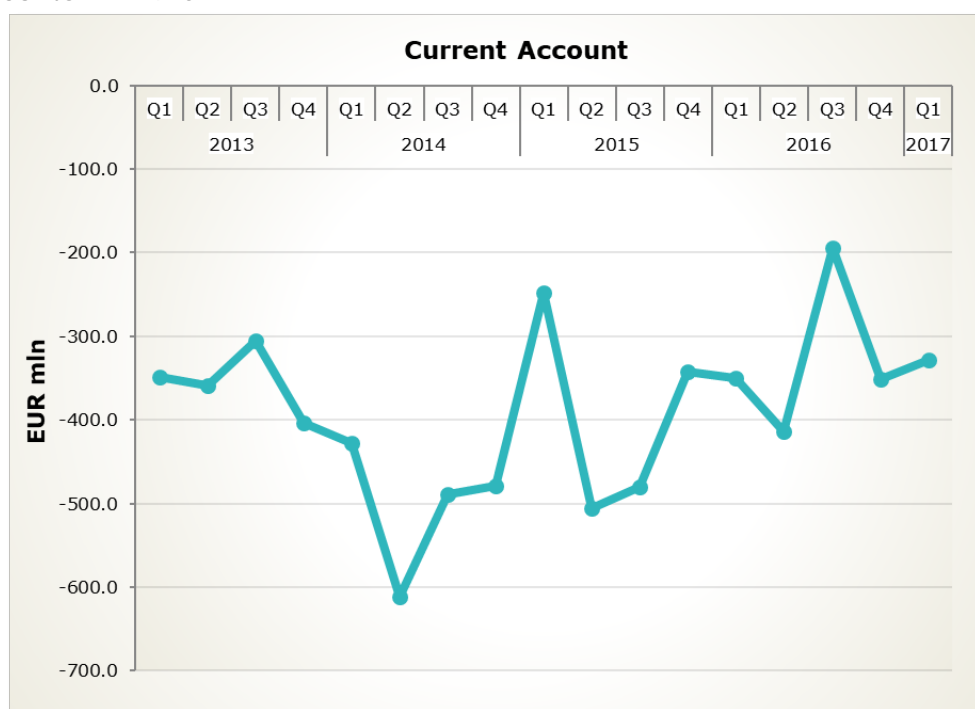


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account gap at BAM 472.6 mln in Q2 2017

The current account gap narrowed to BAM 472.6 mln in Q2 2017 from BAM 473.4 mln in Q2 2016, according to central bank statistics data. The net secondary income increased by 6.0% on the year to BAM 976.1 mln.



Source: CBBH

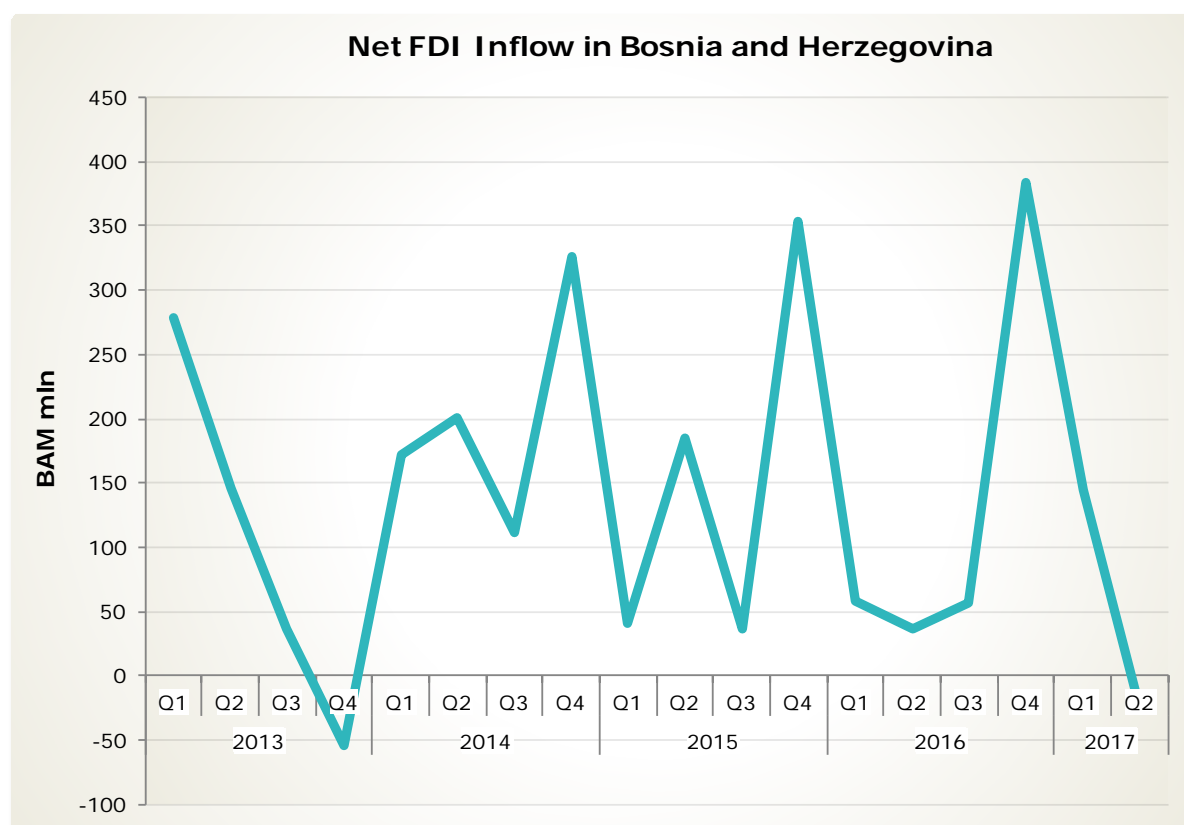
7.3. FDI

Net FDI inflow negative at BAM 22.8 mln in Q2 2017

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina was negative in the second quarter of 2017, totalling BAM -22.8 mln, according to CBBH data.

In Q2 2017, Kuwait was the biggest foreign investor in the country with direct investments of BAM 10.0 mln, Switzerland came second with BAM 8.5 mln and Serbia came third with BAM 5.7 mln.

Manufacture of motor vehicles, trailers and semi-trailers, was the most attractive sector for foreign investors with net FDI inflow of BAM 5.7 mln, ahead of construction of buildings with BAM 5.3 mln and manufacture of basic metals with BAM 3.8 mln.



Source: CBBH

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 1.916 bln in Q2 2017

The trade deficit gap widened to BAM 1.916 bln in Q2 2017 from BAM 1.801 bln in Q2 2016, according to BHAS.

Exports surged by 13.7% y/y to BAM 2.721 bln, while imports jumped by 10.5% y/y to BAM 4.636 bln.

Export to EU countries amounted to BAM 1.955 bln in Q2 2017, which is 12.1% higher than in the same quarter of 2016, while import amounted to BAM 2.786 bln, or by 7.8% more than in the year-ago quarter.

Exports of base metals and articles of base metals had the biggest share in Bosnia and Herzegovina's total exports – 17.7%, ahead of machinery and electrical equipment with a 12.3% share and miscellaneous manufactured articles – 11.5%.

In terms of imports, mineral products had the largest share, of 15.3%, followed by machinery and electrical equipment with 13.5%, and base metals and articles of base metals with 10.7%.



Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 15.5% y/y in Q2 2017

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 15.5% to 511,508 in Q2 2017, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 70.5% in Q2 2017, versus 68.1% in Q2 2016.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 18.0% y/y to 268,827.



Source: BHAS

8. MAJOR DEVELOPMENTS

Bosnia not expected to transition to IP technology until 2022

Jun 29, 2017

The complete transition of Bosnia's telecommunications market to Internet Protocol technology may not occur until 2022, the country's telecommunications regulator, RAK, announced in June 2017.

[Read the full story here](#)

EBRD pioneers private pension management in Bosnia

Jun 24, 2017

The EBRD said it is pioneering the development of private pension management in Bosnia with an equity investment in the European Voluntary Pension Fund Management Company (EPF) together with Skupna pokojninska druzba and the Pension Reserve Fund of Bosnia's Serb Republic.

[Read the full story here](#)

EBRD, UK govt programme to improve public procurement in Bosnia

Jun 20, 2017

The European Bank for Reconstruction and Development (EBRD) announced in June 2017 it is launching a technical cooperation programme in Bosnia and Herzegovina, with support from the UK government, to improve public procurement practices.

[Read the full story here](#)

Tourism contributes directly 2.5% of Bosnia's GDP in 2016 – WTTC

Jun 15, 2017

Bosnia's tourism and travel industry contributed BAM 711.1 mln (EUR 363.6 mln) directly to the country's economy in 2016, equivalent to 2.5% of its gross domestic product (GDP), the World Travel&Tourism Council (WTTC) announced in June 2017.

[Read the full story here](#)

Bosnia burdened by problems in every sector of state in 2016 - Freedom House

Apr 4, 2017

Bosnia and Herzegovina was burdened by a weak economy, high indebtedness, and problems in every sector of the state in 2016, while its politicians continued to deflect attention from their poor performance on governance matters, independent watchdog organisation Freedom House announced in April 2017.

[Read the full story here](#)

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