

## **BOSNIA AND HERZEGOVINA ECONOMY REPORT**

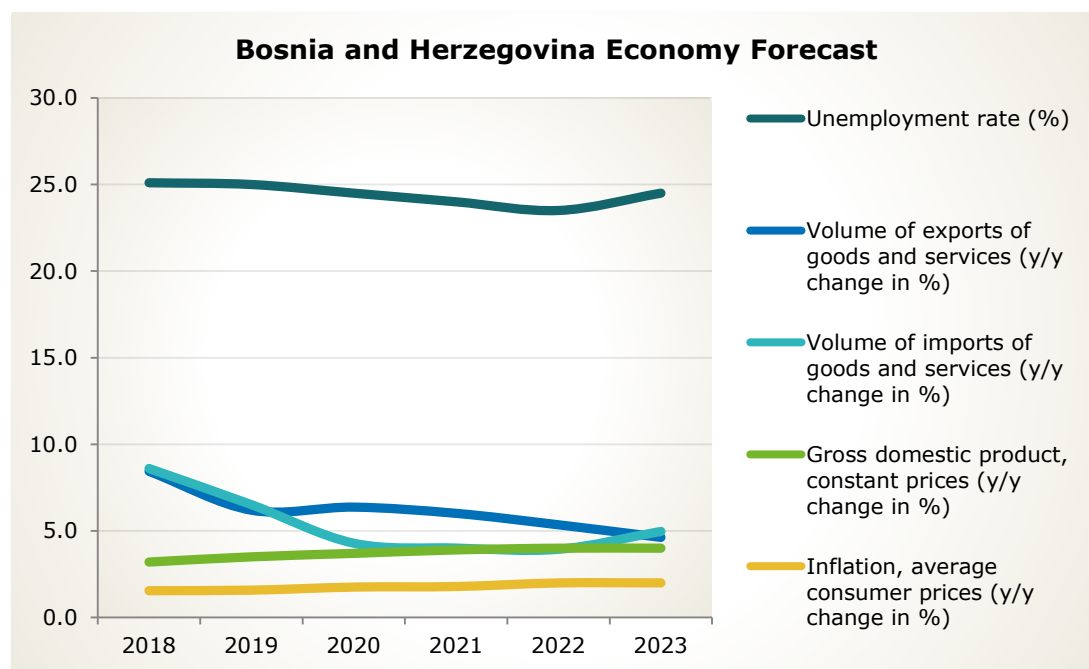
### Q2 2018

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN Q2 2018	
<b>GDP Growth</b>	3.4% y/y
<b>Industrial output</b>	3.3% y/y
<b>Wholesales</b>	8.1% y/y
<b>Retail sales</b>	12.1% y/y
<b>Average annual inflation</b>	1.1%
<b>Unemployment rate</b>	36.1%
<b>Number of building permits</b>	3.1% y/y
<b>Money supply growth</b>	10.2% y/y
<b>Household loans</b>	7.2% y/y
<b>BIRS blue-chip index</b>	-5.2% q/q
<b>SASX-10 blue-chip index</b>	0.2% q/q
<b>Government external debt</b>	BAM 8.282 bln
<b>Current account deficit</b>	BAM 344.8 mln
<b>Net FDI inflow</b>	BAM 91.8 mln
<b>Foreign trade deficit</b>	BAM 1.903 bln
<b>Number of foreign tourist overnights</b>	13.2%



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

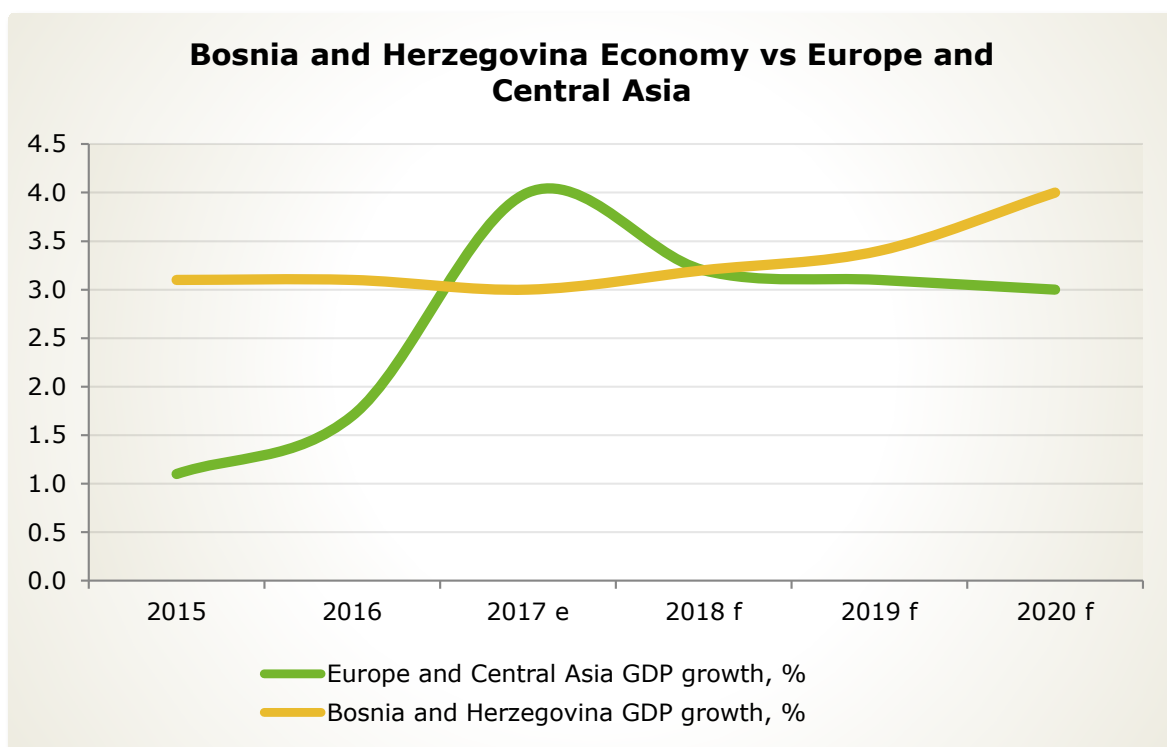
According to the International Monetary Fund (IMF), macroeconomic conditions in Bosnia and Herzegovina have remained stable. The country has made progress in reducing internal

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 modernisation 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 1.4% in 2018, an increase from 1.3% in 2017. The fund forecasts unemployment rate to ease to 18.0% in 2018, down from 20.5% in 2017.



Source: World Bank, Europe and Central Asia Economic Update, May 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.

<b>Bosnia and Herzegovina – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)</b>						
	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices, y/y change	3.7	3.1	3.0	3.2	3.4	4.0
Private Consumption	0.4	1.8	3.2	3.4	3.7	3.5
Government Consumption	0.8	1.8	3.6	5.5	6.3	4.2
Gross Fixed Capital Investment	1.0	1.7	3.8	2.5	6.5	4.7
Exports, Goods and Services	6.3	4.1	12.5	9.2	4.7	3.6
Imports, Goods and Services	0.9	1.2	9.9	8.0	6.5	3.3
Real GDP growth, at constant factor prices (by sectors)	3.1	3.1	3.0	3.2	3.4	4.0
Agriculture	9.2	5.0	2.8	3.0	3.0	3.0
Industry	3.4	3.0	2.7	3.0	3.0	3.0
Services	2.3	2.9	3.1	3.4	3.6	4.5
Inflation (Consumer Price Index)	1.0	-0.8	1.2	1.4	1.4	1.4
Current Account Balance (% of GDP)	-5.7	-4.5	-5.8	-6.2	-6.8	-6.8
Net Foreign Direct Investment (% of GDP)	-1.4	-1.6	1.2	2.5	2.8	2.8

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

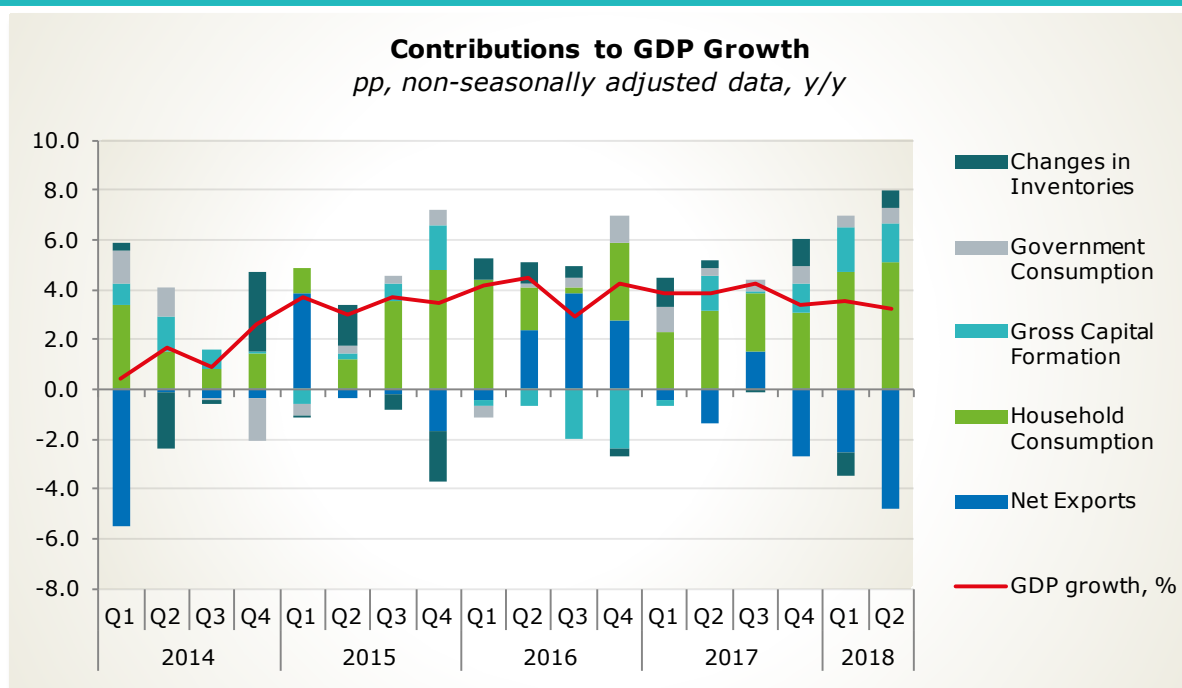
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### *GDP went up by a real 3.4% y/y in Q2 2018*

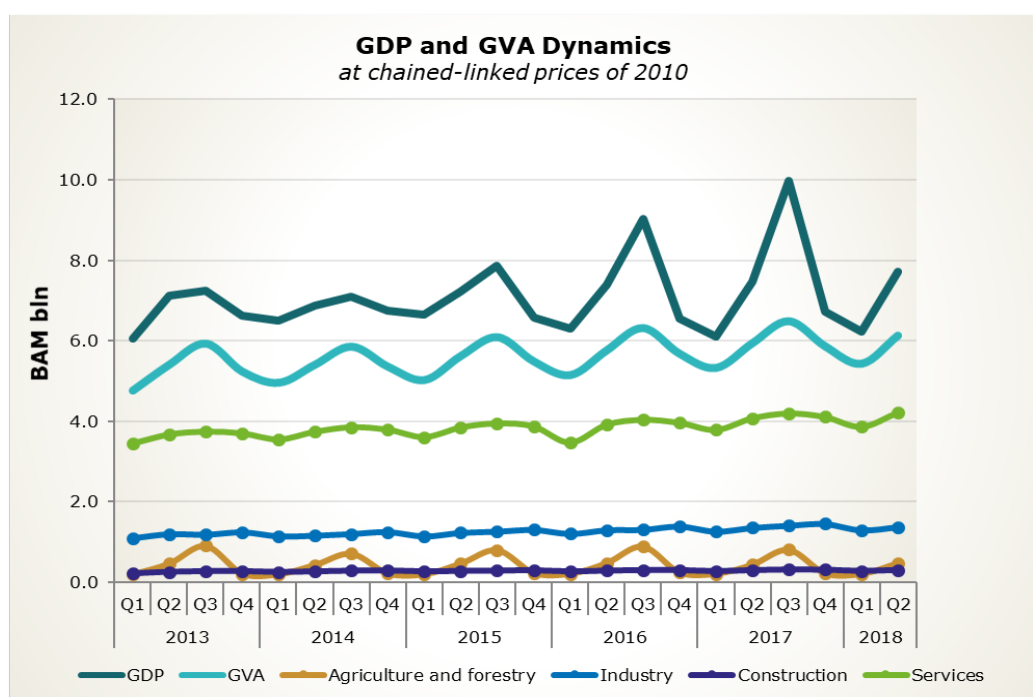
The country's real GDP annual growth was 3.4% to BAM 7.724 bln in Q2 2018, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS). This is an improvement compared to Q2 2017 when the GDP increased at 3.2% annual rate.

Household consumption contributed the most to the overall GDP growth in Q2 2018, by 3.4 pp, followed by export of goods & services with 1.9 pp.



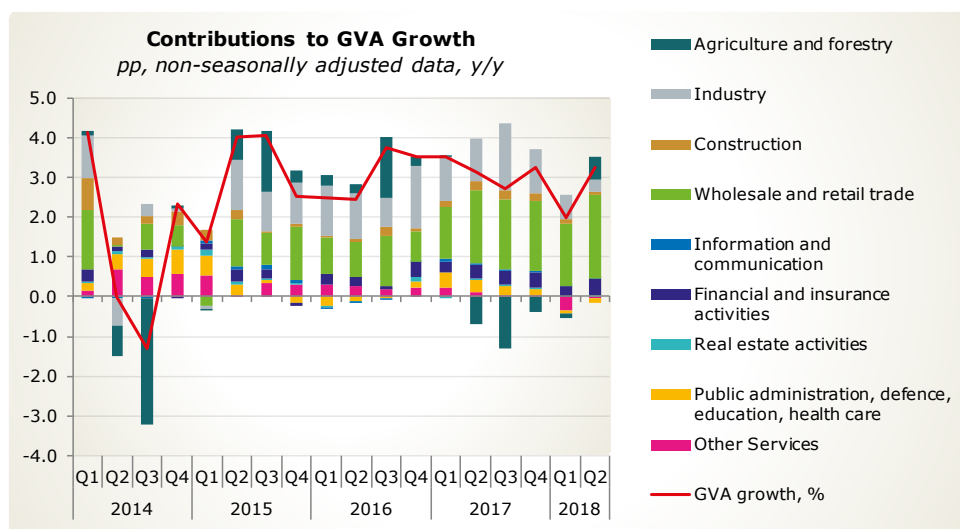
Source: BHAS, SeeNews Calculations

The gross value added (GVA) generated by the national economy increased in value terms by 3.2% y/y in Q2 2018 and totalled BAM 6.134 bln. The industrial sector grew by 1.3% but its share in the GVA structure inched down to 22.3% from 22.8%. The services sector recorded a 3.6% annual increase, slicing a 68.8% share in the GVA, almost unchanged compared to a year earlier. Agriculture and forestry went up by 8.5% and accounted for 7.6% of the GVA, up from 7.3%. Construction sector's GVA went grew by 1.6% and its GVA share remained around 5.0%.



Source: BHAS, SeeNews Calculations

In Q2 2018, in terms of industry breakdown, all sectors except Public administration, defence, education, health care, and Other services had a positive contribution to the economic growth. The wholesale and retail sector was the biggest contributor to GVA growth, adding 2.1 pp, while the contribution of all other sectors was below 1.0 pp.

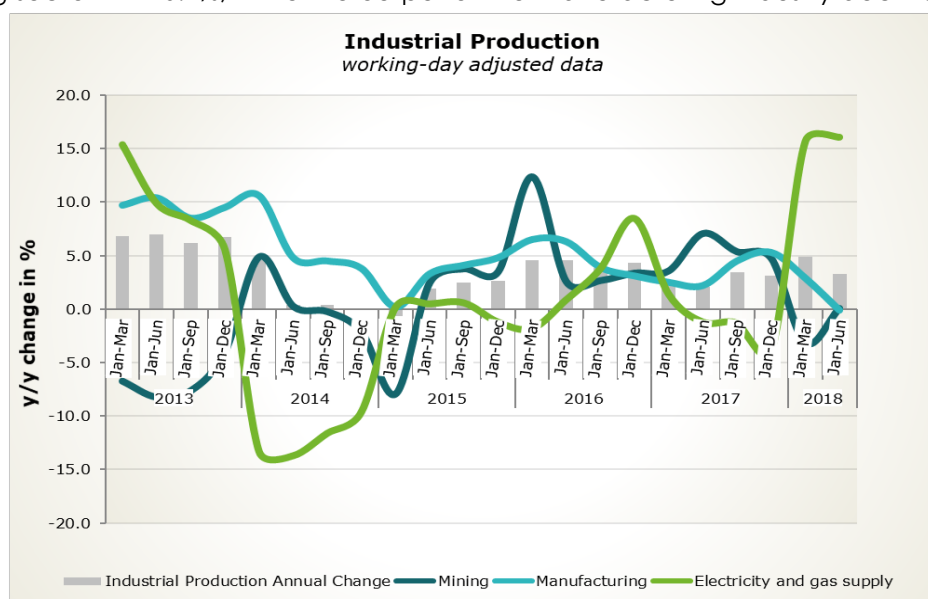


Source: BHAS

## 2.2. INDUSTRIAL OUTPUT

### Industrial output up 3.3% y/y in Q2 2018

Industrial output went up by 3.3% in Q2 2018, according to BHAS data. This is a deceleration compared to Q1 2018, when the industrial production advanced by 4.9% in real terms. The output of the electricity and gas supply sector expanded by 16.1% in Q2 2018, followed by the mining sector with 0.1%, while the output of the manufacturing industry declined by 0.1%.



Source: BHAS

## 2.3. WHOLESALE/RETAIL

*Retail sales grew 12.1% y/y, wholesales up 8.1% y/y in Q2 2018*

Retail sales, except of motor vehicles and motorcycles, went up by 12.1% y/y in the second quarter of 2018, while wholesale trade increased by 8.1%, according to BHAS data. This is compared to growth for retail of 6.9% y/y and a rise of 4.1% y/y in the wholesale trade in Q1 2018.



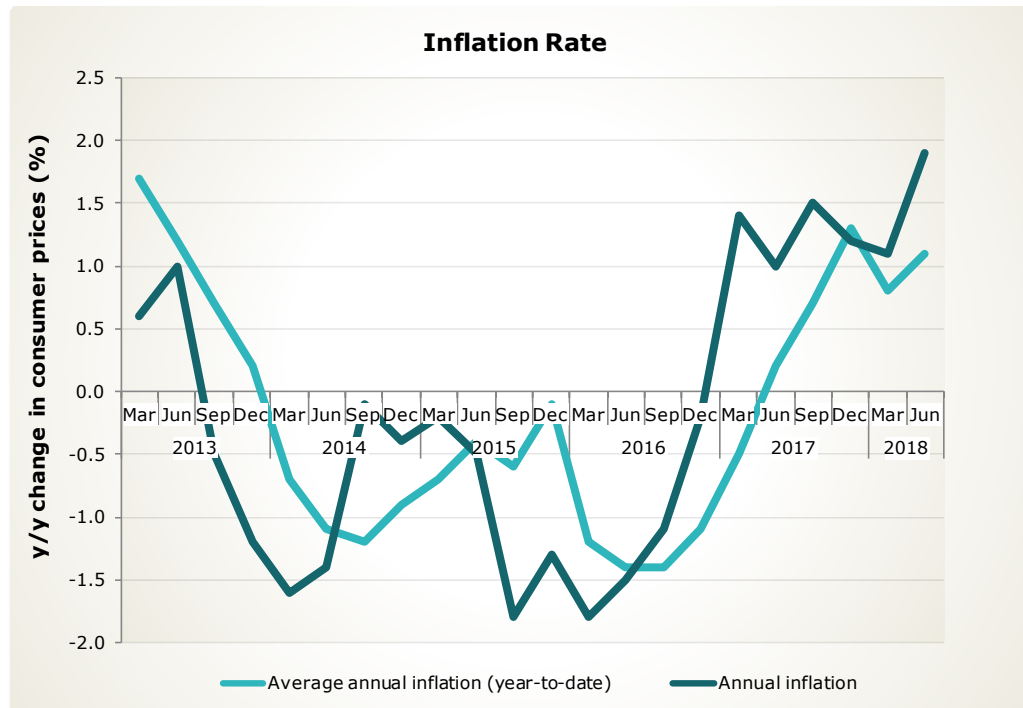
Source: BHAS

## 2.4. INFLATION

*Inflation at 1.1% in Q2 2018*

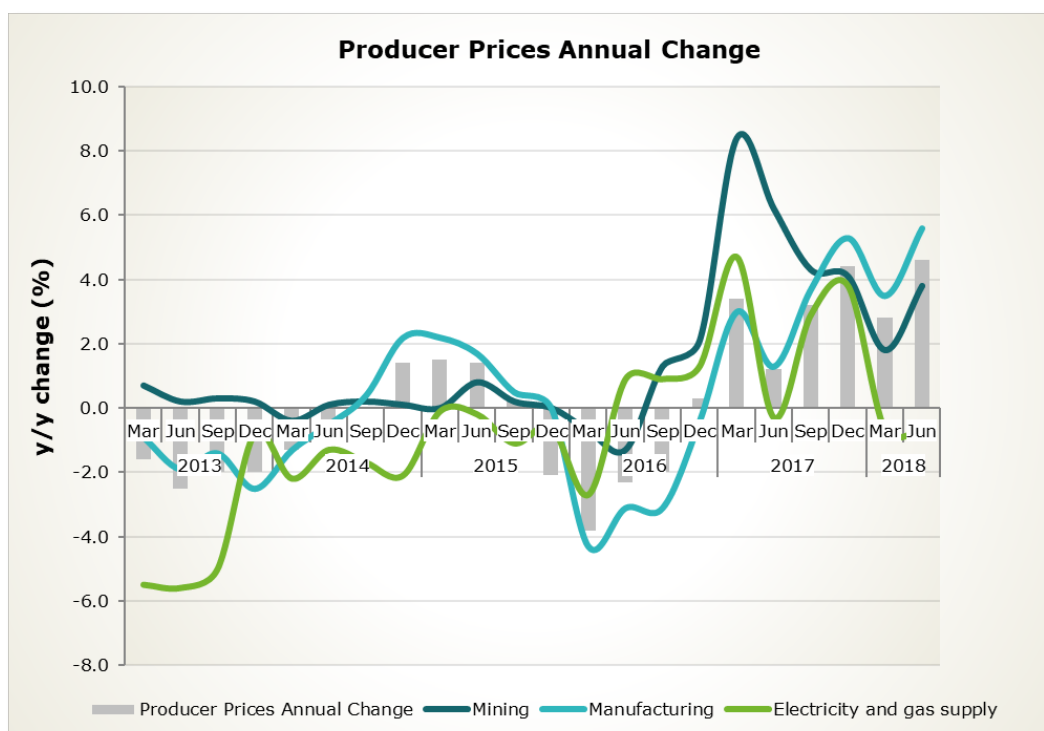
The average prices in Bosna and Herzegovina advanced by 1.1% y/y in the first half of 2018, data from BHAS shows. This is a rise compared to Q1 2018, when the average annual inflation was 0.8%.

The inflation was highest in the alcoholic beverages and tobacco sector – 7.4%, while there were also sectors to report a deflation – the highest was 10.0%, registered in clothing and footwear.



Source: BHAS

Producer prices grew by 4.6% y/y in June 2018 due to the 5.6% rise of the average prices in the manufacturing sector, followed by a 3.8% increase in the mining sector. Electricity and gas supply saw producer prices inching down by 0.7%.



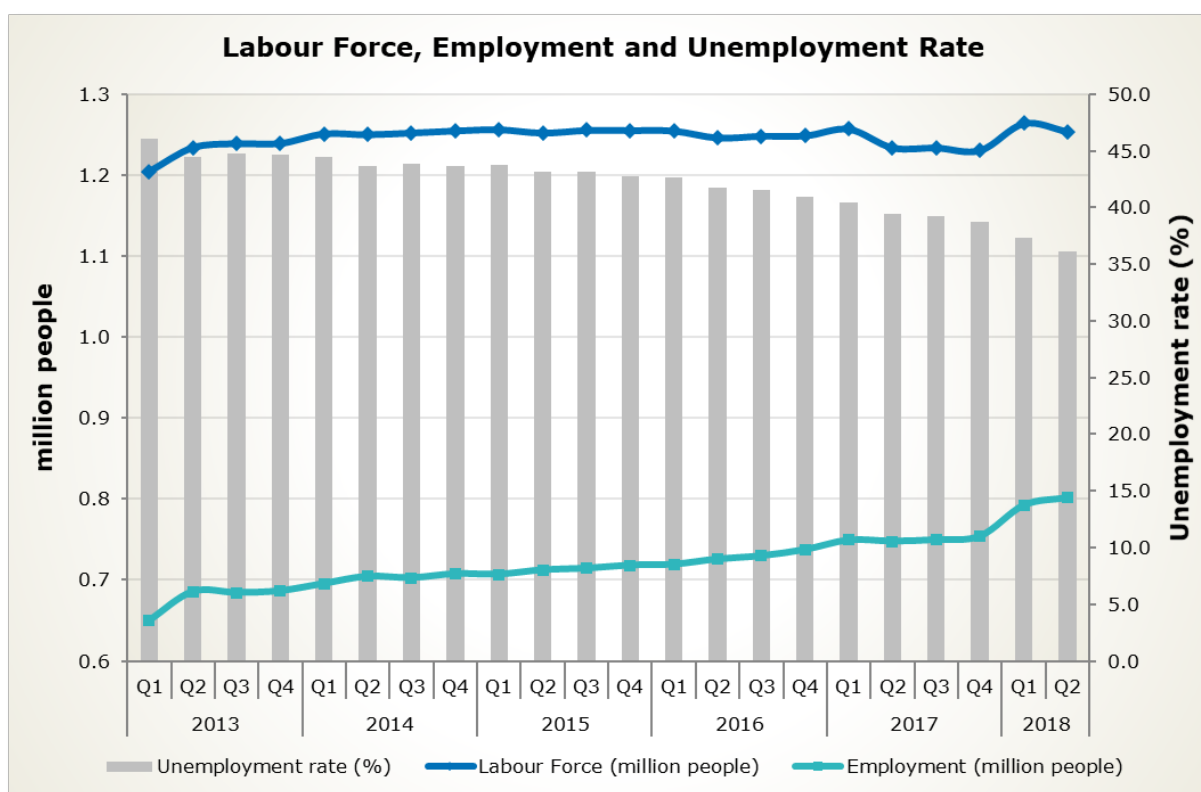
Source: BHAS

## 3. LABOUR MARKET

### Unemployment rate went down but remained high, at 36.1%, in Q2 2018

Unemployment in Bosnia and Herzegovina eased to 36.1% of the total labour force in Q2 2018 from 37.3% in Q1 2018 and 39.4% in Q2 2017, according to data of BHAS.

Employment in the country counted about 801,579 people, up 7.2% y/y, while the labour force inched up by 1.6% y/y to 1.254 million people in Q2 2018.



Source: BHAS

The average monthly net salary in Q2 2018 climbed, by 2.6% y/y, to BAM 872.0.

## 4. CONSTRUCTION AND REAL ESTATE

### The number of building permits increased by 3.1% y/y in Q2 2018

The number of building permits, excluding civil engineering works, issued in Bosnia and Herzegovina in Q2 2018 grew by 3.1% y/y and totalled 919, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, narrowed to 118,061 sq m from 120,548 sq m in Q2 2017.

## 5. MONEY SUPPLY AND BANKING SYSTEM

### 5.1. BAM EXCHANGE RATE

The average exchange rate of the USD against the BAM increased to BAM 1.64022 in Q2 2018 from BAM 1.59182 in Q1 2018, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q2 2018	Q1 2018	Q2 2017
EUR*	1.95583	1.95583	1.95583
USD	1.64022	1.59182	1.78098
GBP	2.23286	2.21391	2.27548
CHF	1.66504	1.67874	1.80608

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

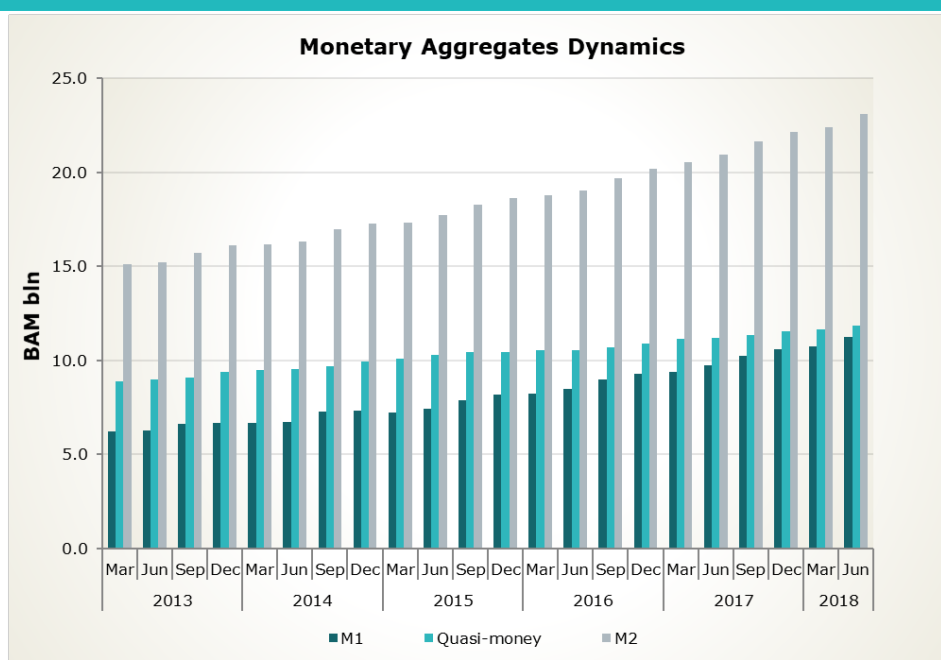
### 5.2. MONETARY AGGREGATES

#### Money supply growth was 10.2% y/y as of June 2018

Broad money, or money aggregate M2, in Bosnia and Herzegovina increased by 10.2% y/y and reached BAM 23.085 bln in June 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 5.8% to BAM 11.861 bln.

Money aggregate M1, or narrow money, expanded by 15.1% y/y to BAM 11.224 bln.



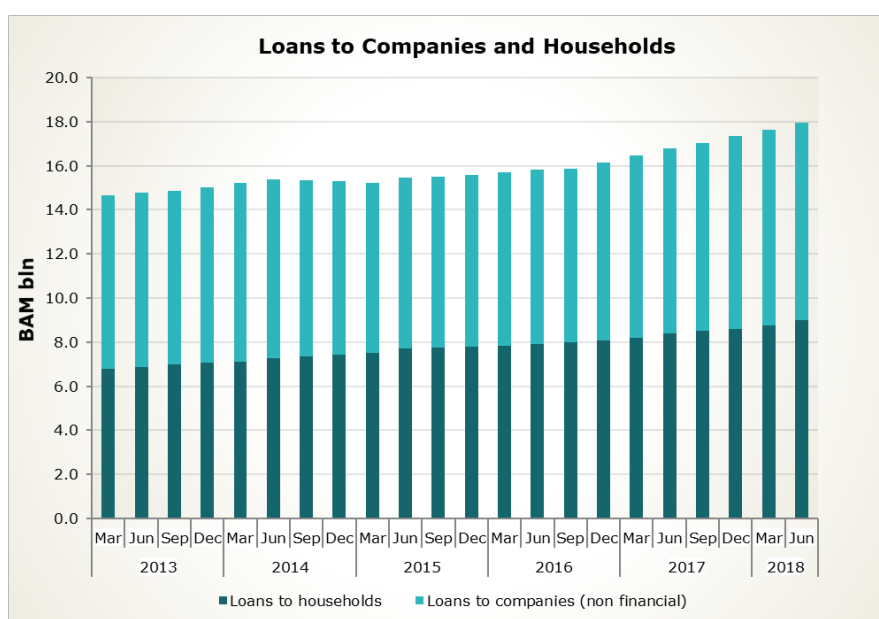
Source: CBBH

### 5.3. BANKING AND INSURANCE

#### Household loans increased by 7.2% y/y as of June 2018

Loans to the non-government sector totalled BAM 17.584 bln as of June 2018, up by 6.9% y/y, according to CBBH.

Loans to non-financial corporations increased by 6.8% to BAM 8.976 bln, while household loans rose by 7.2% y/y to BAM 8.994 bln. House purchasing loans went up by 7.4% to BAM 1.606 bln. Consumer loans grew slightly faster, by 7.8% to BAM 6.804 bln.

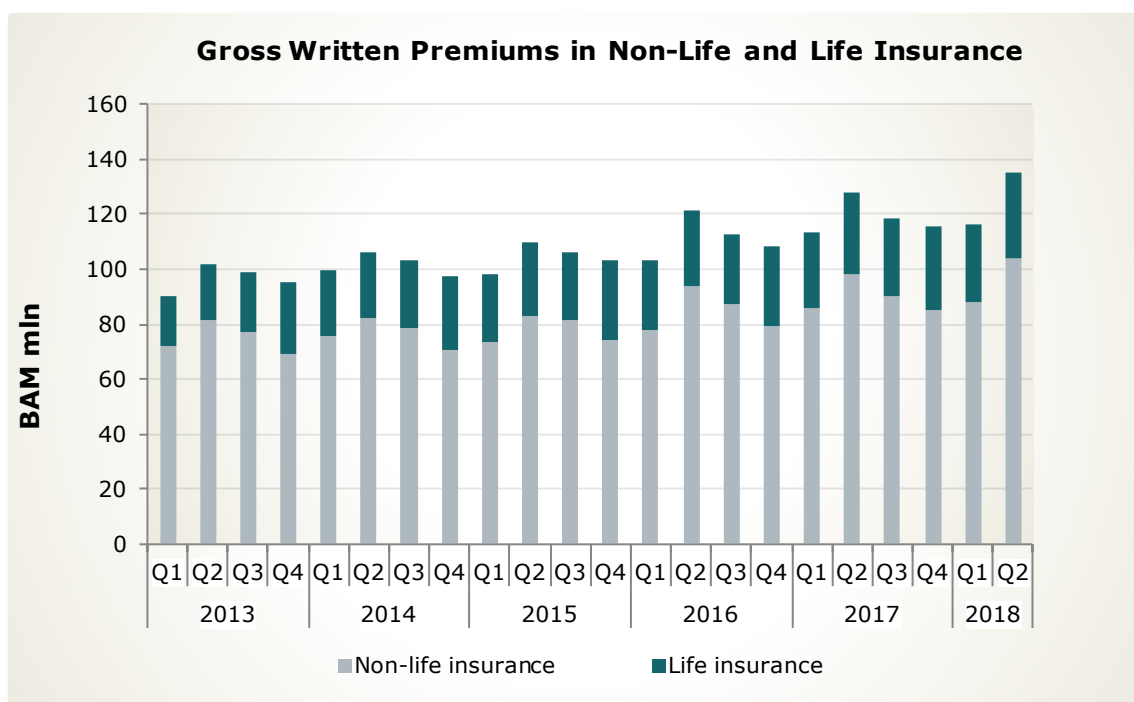


Source: CBBH

## Insurance premium income up 5.8% y/y in Q2 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 135.4 mln, up by 5.8% y/y in Q2 2018, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 6.4% rise, to BAM 104.2 mln, of the non-life insurance segment, as well as the life insurance premium income, which expanded by 4.1% y/y to BAM 31.2 mln.



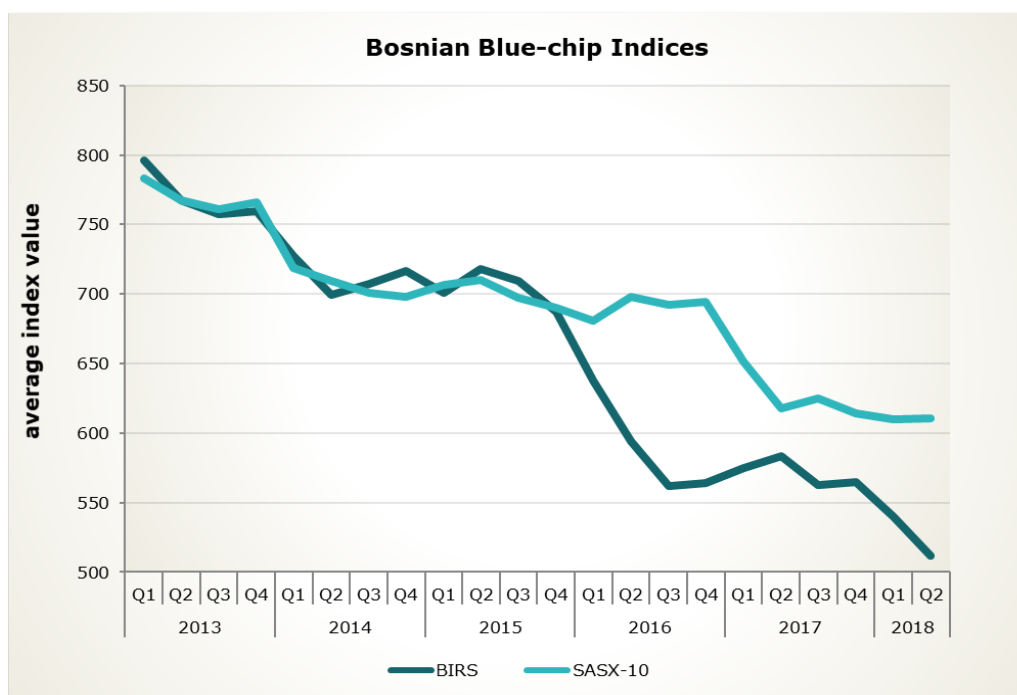
Source: NADOS

## 6. CAPITAL MARKETS

### Blue-chip BIRS down 5.2% q/q, SASX10 up 0.2% y/y in Q2 2018

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), decreased by 5.2% q/q in Q2 2018, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), inched up by 0.2% compared to the first quarter of 2018.



Source: BLSE, SASE

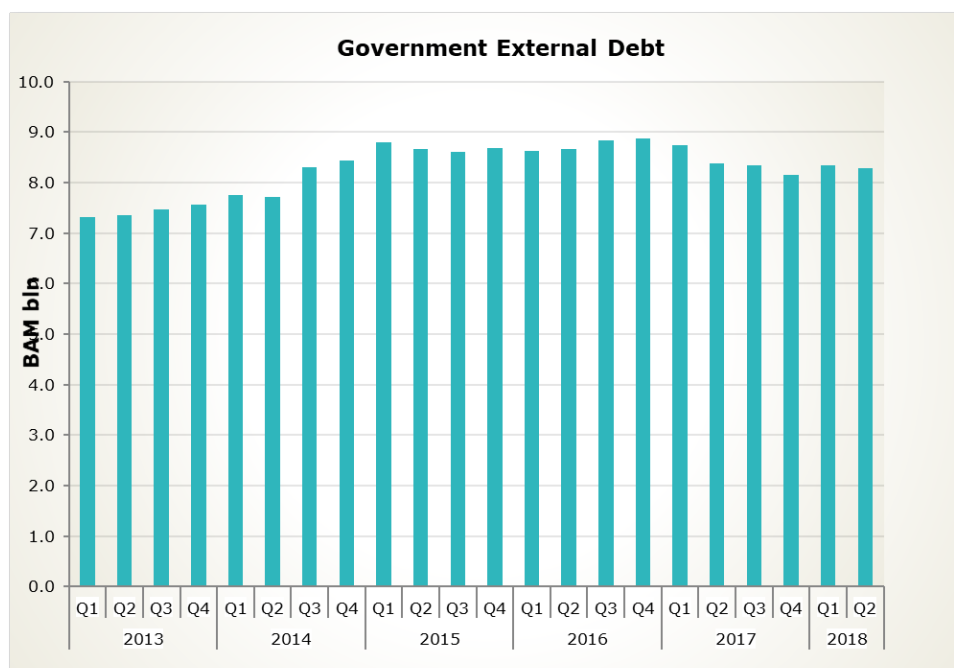
## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

**Government external debt went down by 1.3% y/y to BAM 8.282 bln in Q2 2018**

The total external government debt amounted to BAM 8.282 bln in Q2 2018, down by 1.3% on the year, according to CBBH data. In comparison, in Q1 2018, the government external debt was BAM 8.343 bln.

Bosnia and Herzegovina's main foreign creditors as of Q2 2018 were the World Bank's International Development Association (IDA), the European Investment Bank, the The International Bank for Reconstruction and Development (IBRD), as well as the European Bank for Reconstruction and Development (EBRD).

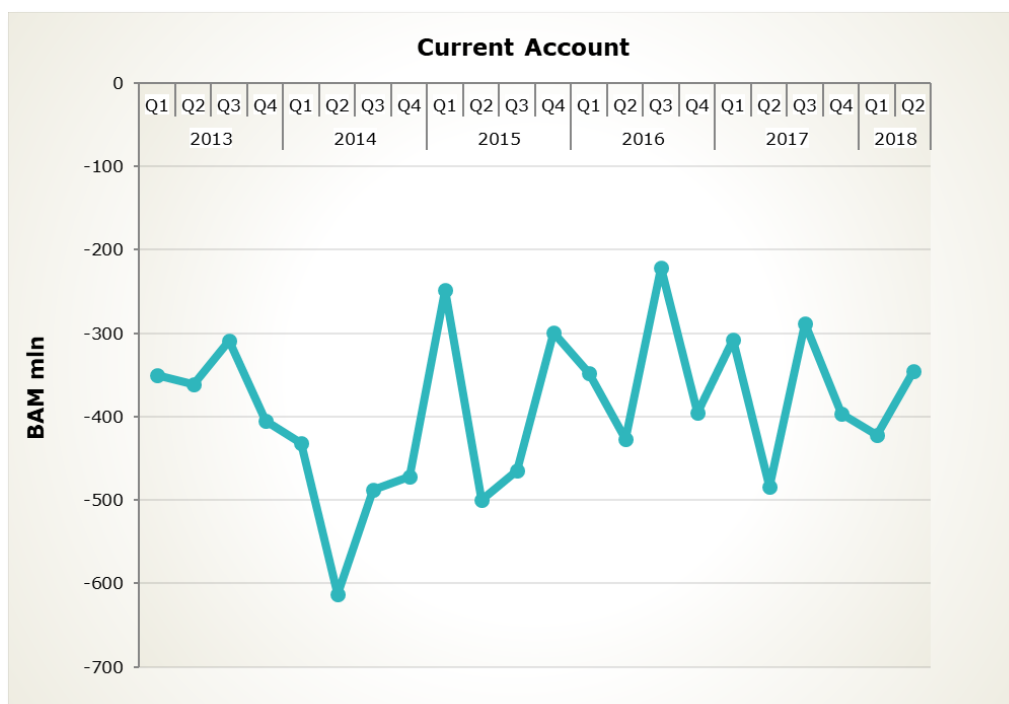


Source: CBBH

## 7.2. BALANCE OF PAYMENTS

### Current account gap at BAM 344.8 mln in Q2 2018

The current account gap shrank to BAM 344.8 mln in Q2 2018, down 28.7% y/y, according to central bank statistics data. The net secondary income increased by 1.3% on the year to BAM 1.006 bln.



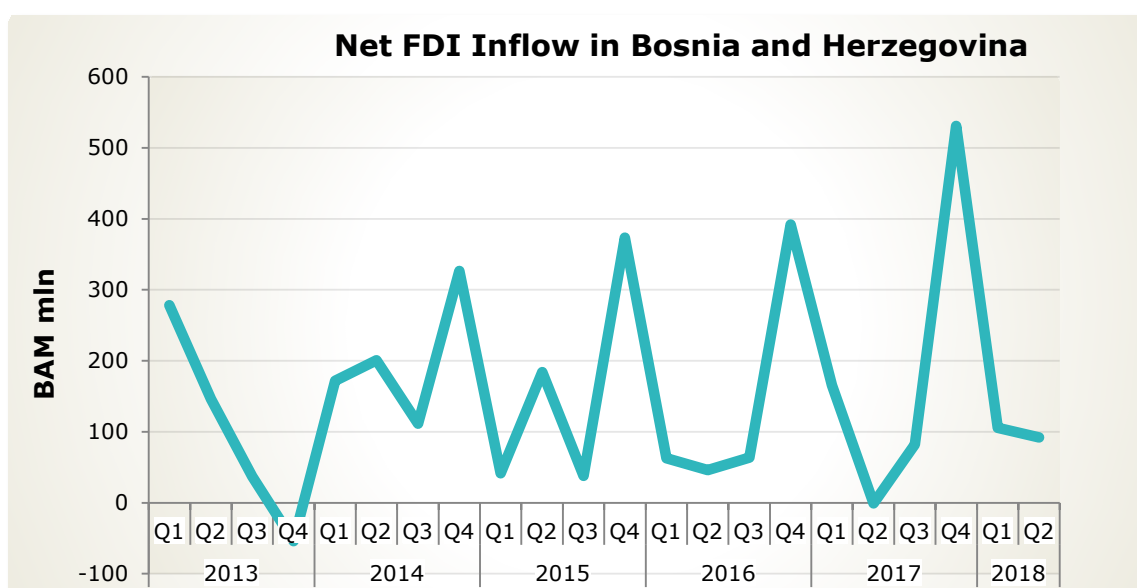
Source: CBBH

## 7.3. FDI

### Net FDI inflow at BAM 91.8 mln in Q2 2018

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina was positive in the second quarter of 2018, totalling BAM 91.8 mln, according to CBBH data. Country's FDI's increased drastically compared to Q2 2017 when they were negative at BAM 1.1 mln.

FDIs during the first quarter of 2018 covered near 27% of the current account deficit.



Source: CBBH

## 7.4. FOREIGN TRADE

### Foreign trade deficit at BAM 1.903 bln in Q2 2018

The trade deficit gap stood almost the same at BAM 1.903 bln in Q2 2018 from BAM 1.935 bln in Q2 2017, according to BHAS.

Exports surged by 11.9% y/y to BAM 3.047 bln, while imports jumped by 6.3% y/y to BAM 4.950 bln.

Export to EU countries amounted to BAM 4.280 bln in Q2 2018, which is 13.5% higher than Q2 2017, while import amounted to BAM 5.611 bln, up by 7.0% on the year.

Exports of sector agriculture, forestry and fishing reported a fall of 27.6%, mining and quarrying sector a decrease of 0.9%, while the manufacturing sector went up by 12.3%.

There was an increase in imports in the manufacturing sector by 10.3% and mining and quarrying sector by 5.9%, while imports in agriculture, forestry and fishing sector inched down 5.4% on the year.



Source: BHAS

## 7.5. TOURISM

### Number of foreign tourist overnights rose by 13.2% in Q2 2018

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 13.2% to 579,258 in Q2 2018, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 70.4% in Q2 2018, versus 70.5% in Q2 2017.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 15.6% y/y to 310,860.



Source: BHAS

## 8. MAJOR DEVELOPMENTS

### **Bosnia's HET opens tender for construction, financing of HPP Dabar**

June 28, 2018

Bosnia's state-owned hydro power producer Hidroelektrane na Trebisnjici (HET) is inviting expressions of interest in the construction and financing of the 160 MW Dabar hydro power plant - a project valued at EUR 200 mln.

[Read the full story here](#)

### **Over 56% of Bosnian citizens support EU accession**

June 19, 2018

Over 56% of the citizens of Bosnia and Herzegovina support its potential accession to the European Union, according to the results of a new survey.

[Read the full story here](#)

### **Bosnian food exporters to soon gain access to Chinese market**

June 8, 2018

Bosnia and China will sign an agreement on cooperation in the veterinary field, which will provide Bosnian food exporters with access to the Asian country's market.

[Read the full story here](#)

### **Bosnia's Tuzla Airport to complete terminal expansion project in H2 2018**

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May 14, 2018

Bosnia's Tuzla International Airport is due to complete a project for expansion of its passenger terminal in the second half of 2018.

[Read the full story here](#)

## **Bosnia's Serb Republic plans to privatise 14 companies in 2018**

May 4, 2018

The government of Bosnia's Serb Republic plans to sell its stakes in 14 companies this year, according to the 2018 privatisation plan published by the entity's Investment-Development Bank IRBRS.

[Read the full story here](#)

## **EBRD mulls EUR 38 mln funding for road infrastructure in Bosnia - Sarajevo Canton**

Apr 11, 2018

The European Bank for Reconstruction and Development (EBRD) is considering providing EUR 38 mln financing for road infrastructure projects in the region.

[Read the full story here](#)

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