

BOSNIA AND HERZEGOVINA ECONOMY REPORT

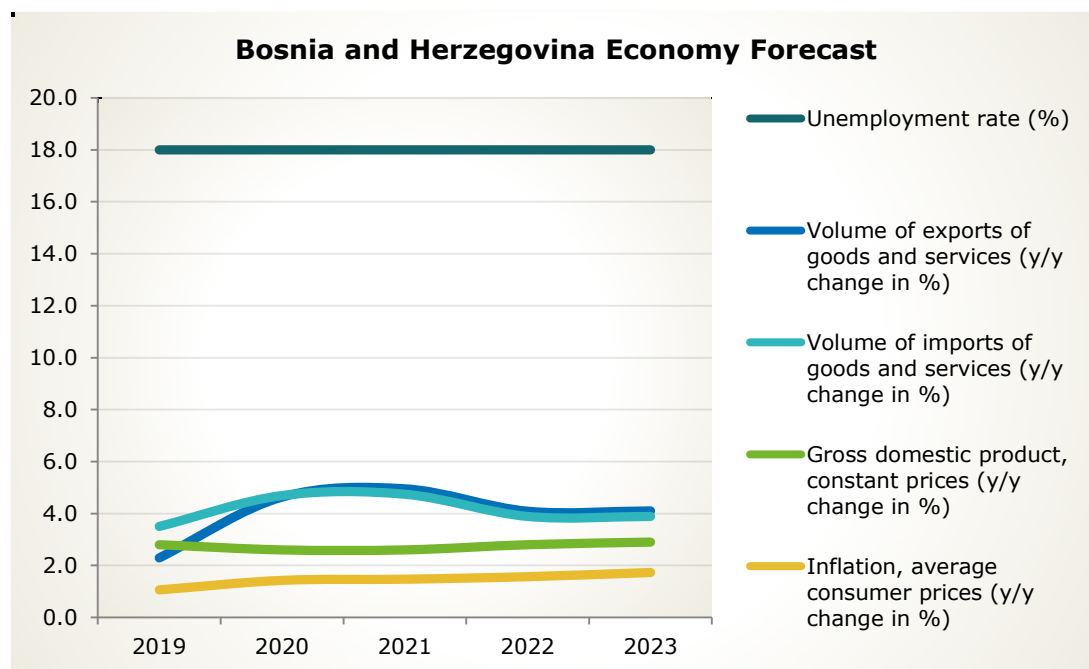
Q2 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN Q2 2019	
GDP Growth	2.6% y/y
Industrial output	-4.5% y/y
Wholesales	6.1% y/y
Retail sales	4.1% y/y
Average annual inflation	0.8%
Unemployment rate	33.1%
Number of building permits	-14.7% y/y
Money supply growth	8.1% y/y
Household loans	7.4% y/y
BIRS blue-chip index	0.6% q/q
SASX-10 blue-chip index	10.6% q/q
Government external debt	BAM 8.205 bln
Current account deficit	BAM 466.9 mln
Net FDI inflow	BAM 397.3 mln
Foreign trade deficit	BAM 2.109 bln
Number of foreign tourist overnights	13.8% y/y

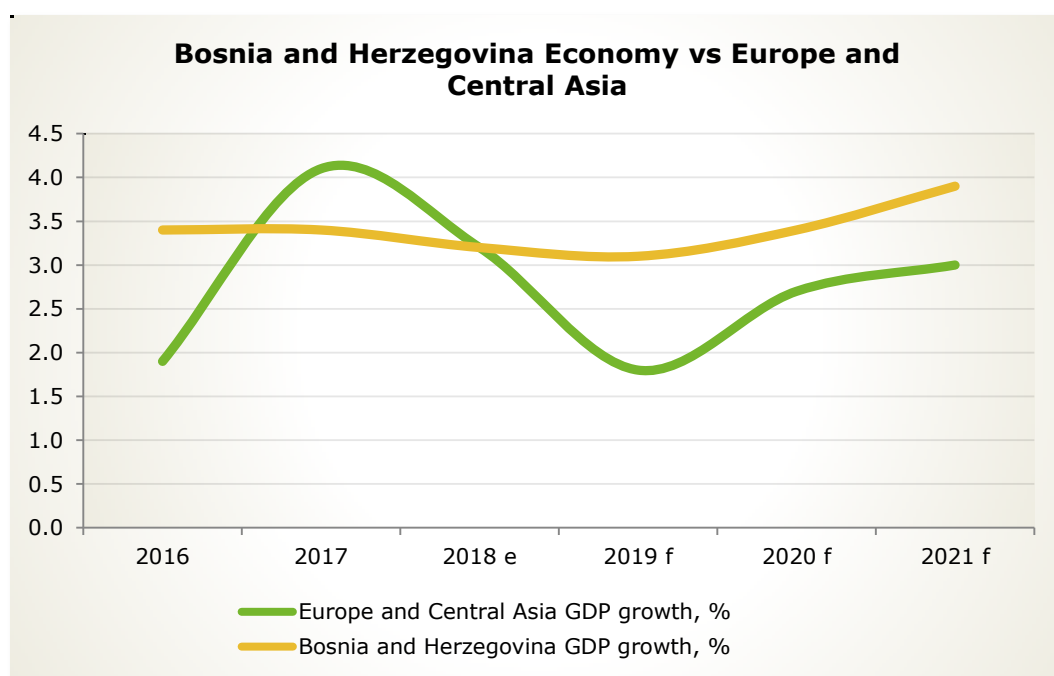


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

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.

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.

IMF expects GDP growth to slow down to 2.8% in 2019. Inflation is likely to decelerate to 1.1% in 2019, a decrease 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*, October 2019

According to the World Bank estimates from October 2019, GDP growth is likely to come in at 3.1% in 2019, down from 3.2% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.8% in 2019.

Bosnia and Herzegovina – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change	3.4	3.4	3.2	3.1	3.4	3.9
Private Consumption	2.2	1.5	1.4	3.2	3.2	3.3
Government Consumption	0.0	1.5	0.6	1.5	3.6	2.6
Gross Fixed Capital Investment	2.4	16.4	0.0	2.1	1.9	4.7
Exports, Goods and Services	9.3	11.8	5.9	1.1	1.5	3.0
Imports, Goods and Services	6.8	7.7	3.2	0.8	1.2	2.0
Real GDP growth, at constant factor prices (by sectors)	3.1	3.2	3.6	3.1	3.4	3.9
Agriculture	7.6	-8.1	6.8	2.9	2.9	2.9
Industry	4.7	5.2	1.9	1.9	2.5	2.6
Services	2.0	3.7	4.0	3.6	3.8	4.5
Inflation (Consumer Price Index)	-1.1	1.2	1.4	1.2	1.2	1.2
Current Account Balance (% of GDP)	-4.5	-4.5	-4.2	-4.3	-4.9	-5.0
Net Foreign Direct Investment (% of GDP)	1.6	2.0	2.2	2.8	3.0	3.1

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

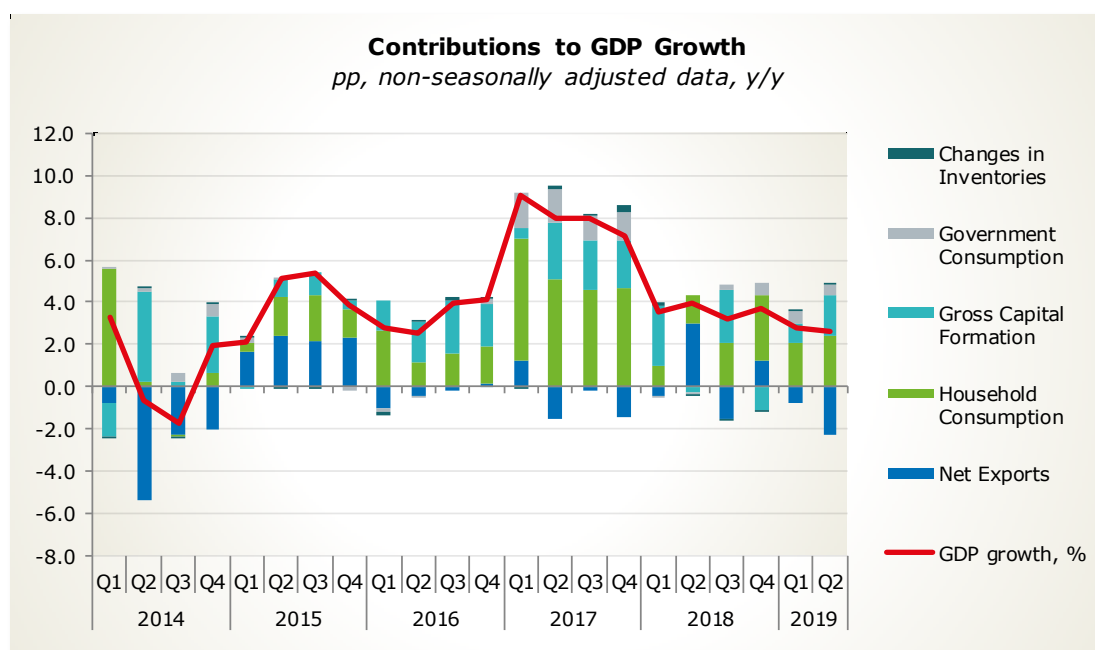
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 2.6% y/y in Q2 2019

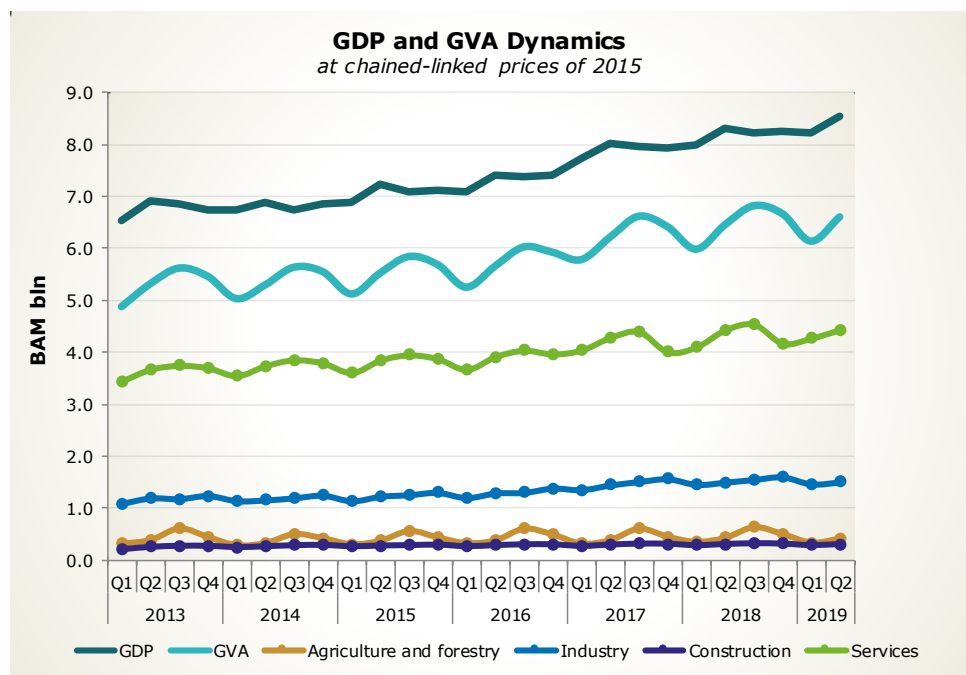
The country's real GDP grew by 2.6% y/y to BAM 8.540 bln in Q2 2019, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS).

Household consumption contributed the most to the overall GDP growth in Q2 2019, by 2.4 pp, followed by gross capital formation with 2.0 pp.



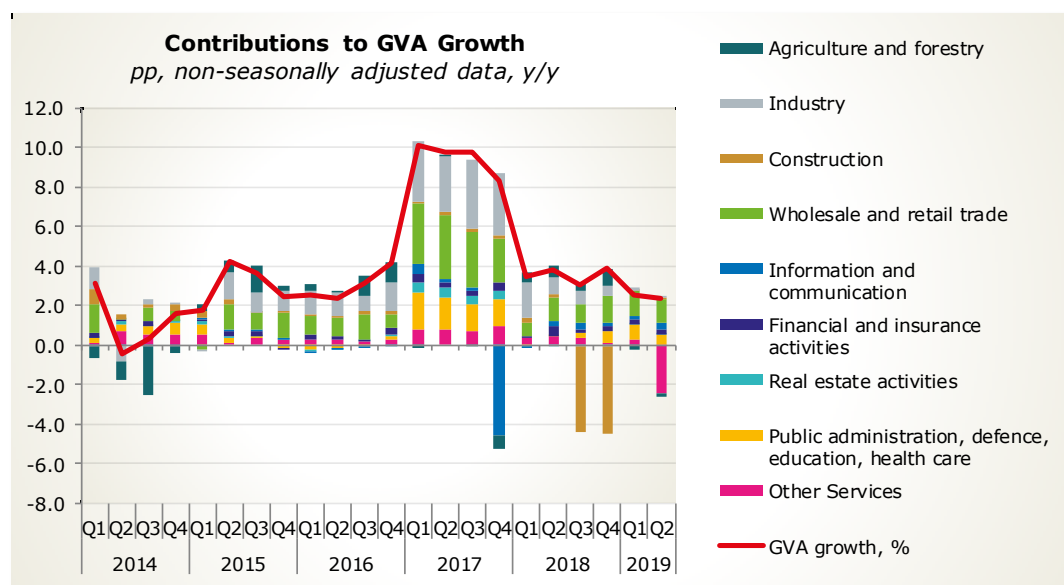
Source: BHAS, SeeNews Calculations

The gross value added (GVA) generated by the national economy increased in value terms by 2.4% y/y in Q2 2019 and totalled BAM 6.622 bln. The construction sector grew the most, by 0.5%, and its share in the GVA structure came in at 4.7%. The industry sector recorded a 0.2% increase, slicing a 22.8% share in the GVA, while services grew by 0.1% and took 67.0% of the total GVA. Agriculture and forestry went down by 3.2% and accounted for 6.3% in the GVA.



Source: BHAS, SeeNews Calculations

In Q2 2019, in terms of industry breakdown, almost all of the sectors had a positive contribution to the economic growth (except agriculture and forestry, which took away 0.2 pp). The wholesale and retail sector was the biggest contributor to GVA growth, adding 1.2 pp, while the contribution of all other sectors was below 1.0 pp.

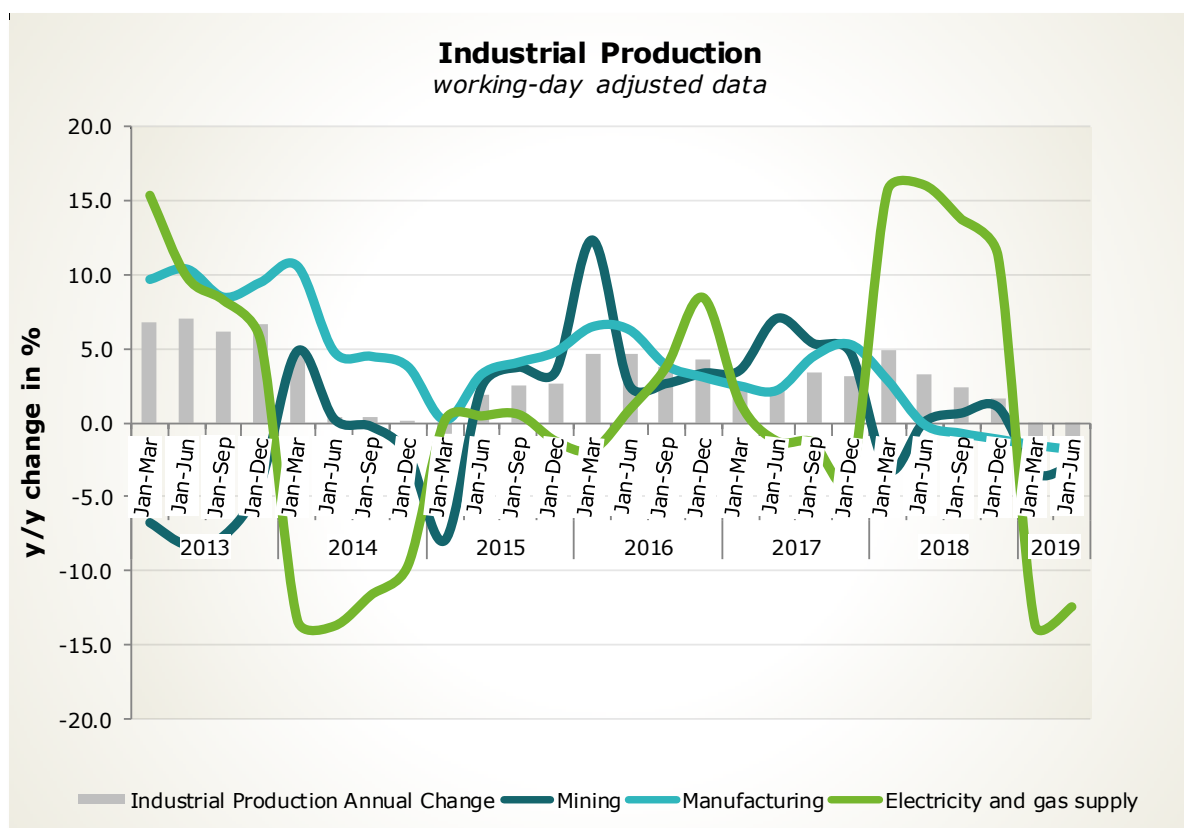


Source: BHAS

2.2. INDUSTRIAL OUTPUT

Industrial output down 4.5% y/y in Jan-June 2019

Industrial output went down by 4.5% in January-June 2019, according to BHAS data. This is a significant deceleration compared to H1 2018, when the industrial production rose by 3.3% on the year in real terms. The output of the electricity and gas supply sector declined by 12.4% in the first half of 2019, followed by the mining sector with 2.9%, and the manufacturing industry with 1.8%.



Source: BHAS

2.3. WHOLESALE/RETAIL

Retail sales grew 4.1% y/y, wholesale went up by 6.1% y/y in Q2 2019

Retail sales, except of motor vehicles and motorcycles, went up by 4.1% y/y in the second quarter of 2019, while wholesale trade increased by 6.1%, according to BHAS data. This is a slowdown compared to the growth for retail of 9.2% y/y and a rise of 6.6% y/y in the wholesale trade in Q1 2019.



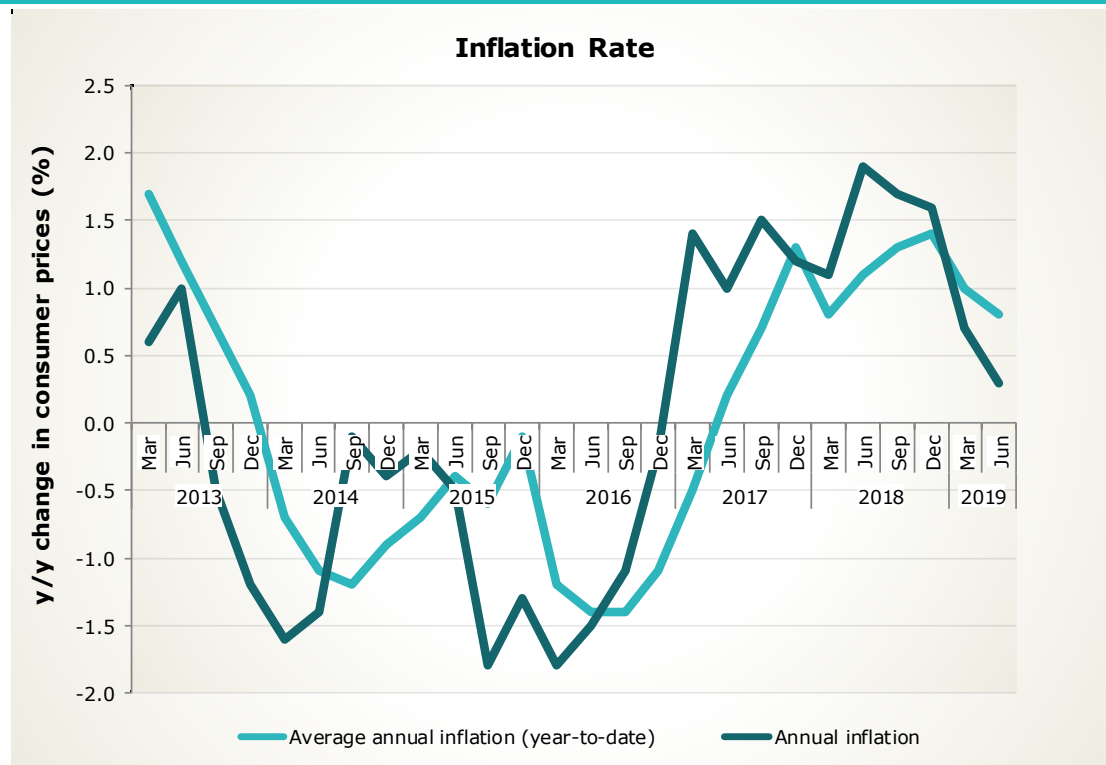
Source: BHAS

2.4. INFLATION

Inflation at 0.8% in Jan-June 2019

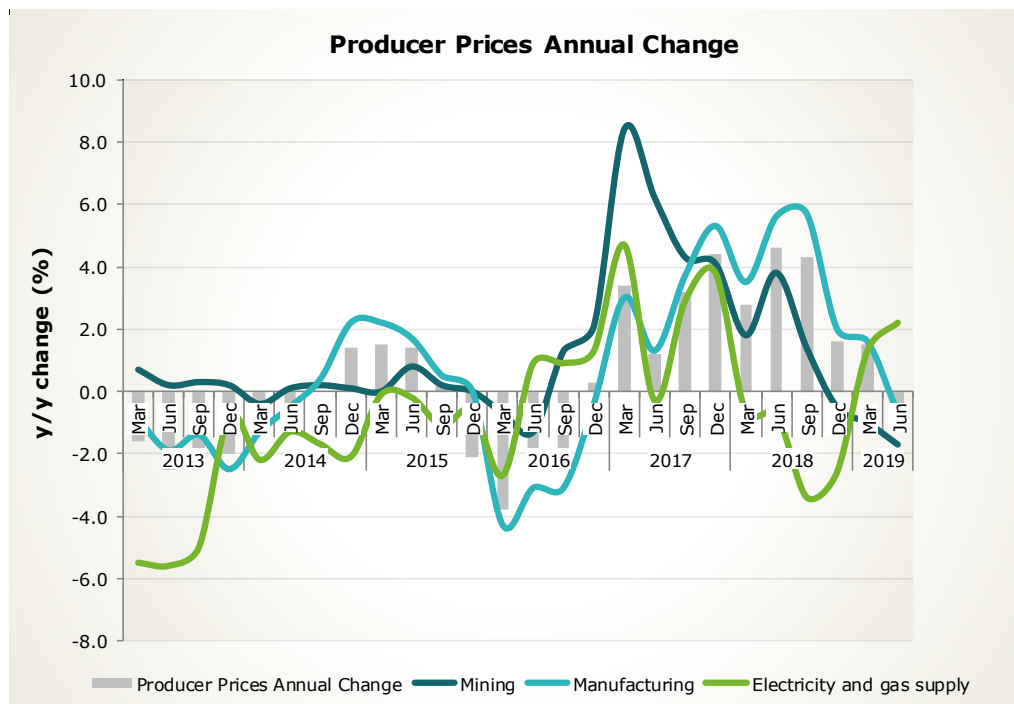
The average prices in Bosnia and Herzegovina advanced by 0.8% y/y in the first half of 2019, data from BHAS shows. This is down compared to the same period of 2018, when the average annual inflation was 1.1%.

Consumer price index for the group of alcoholic beverages and tobacco advanced by 4.2% y/y in the first half of 2019, while the groups of transport services and housing, water, electricity, gas and other fuels saw 2.9% increase of prices on average. Clothing and footwear were cheaper by 10.9% compared with January-June 2018.



Source: BHAS

Producer prices declined by 0.4% y/y in June 2019 due to the 1.7% drop of the average prices in the mining sector and the downturn of manufacturing sector by 0.7%. Electricity and gas supply was the only sector to mark an increase in producer prices, by 2.2%.



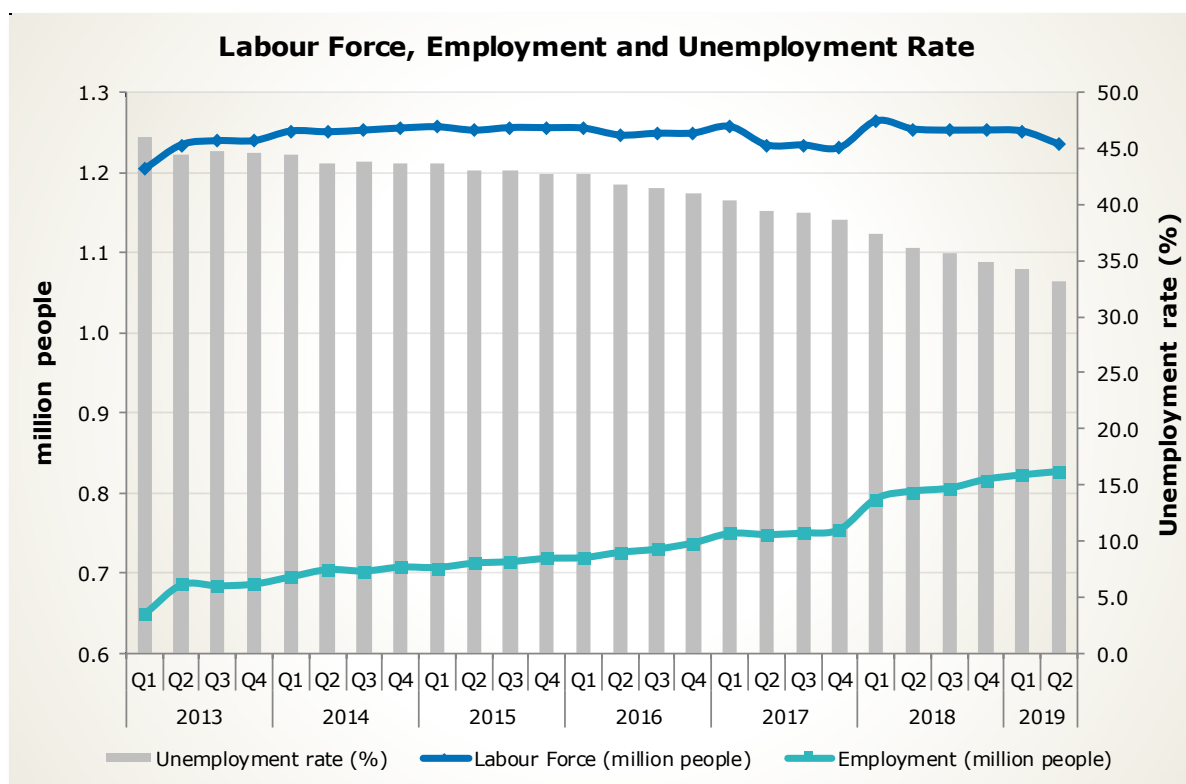
Source: BHAS

3. LABOUR MARKET

Unemployment rate went down but remained high, at 33.1%, as of June 2019

Unemployment in Bosnia and Herzegovina decreased to 33.1% of the total labour force in June 2019, down from 36.1% in June 2018, according to data of BHAS.

Employment in the country counted 825,907 people, up 3.0% y/y, while the labour force decreased by 1.5% y/y to 1.235 million people in June 2019.



Source: BHAS

The average monthly net salary in Q2 2019 rose by 5.9% y/y to BAM 918 in comparison to BAM 867 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 14.7% y/y in the second quarter of 2019

The number of building permits, excluding civil engineering works, issued in Bosnia and Herzegovina in Q2 2019 went down by 14.7% y/y and totalled 784, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, grew to 143,773 sq m, or 21.8% y/y, from 118,061 sq m in Q2 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 1.74086 in Q2 2019 from BAM 1.64022 in Q2 2018, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q2 2019	Q1 2019	Q2 2018
EUR*	1.95583	1.95583	1.95583
USD	1.74086	1.72188	1.64022
GBP	2.23751	2.24076	2.23286
CHF	1.73565	1.72737	1.66504

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

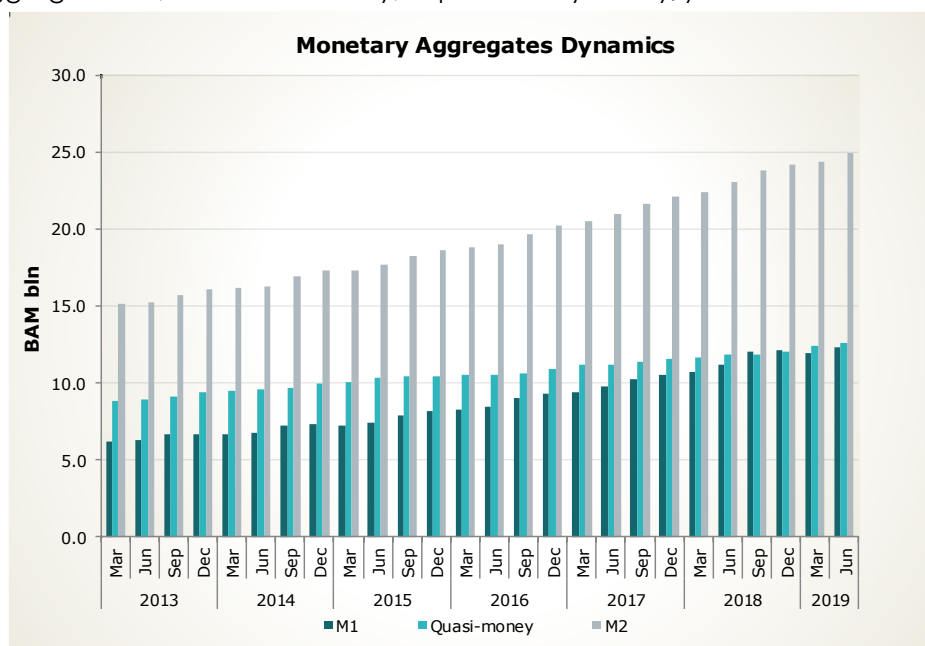
5.2. MONETARY AGGREGATES

Money supply growth up by 8.1% y/y as of June 2019

Broad money or money aggregate M2 increased by 8.1% y/y and reached BAM 24.949 bln in June 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 6.3% to BAM 12.614 bln.

Money aggregate M1, or narrow money, expanded by 9.9% y/y to BAM 12.335 bln.



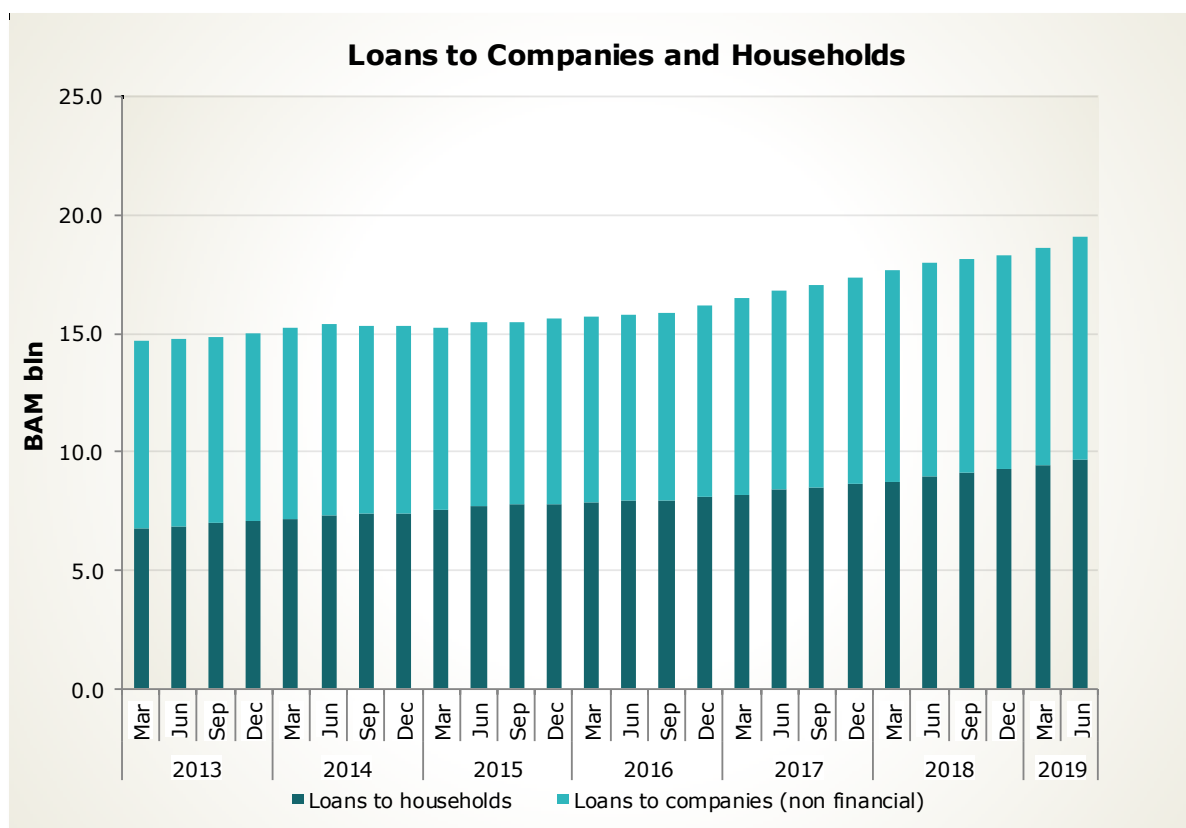
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans increased by 7.4% y/y as of June 2019

Loans to the non-government sector totalled BAM 18.859 bln as of June 2019, up by 7.2% y/y, according to CBBH.

Loans to non-financial corporations increased by 4.6% to BAM 9.392 bln, while household loans rose by 7.4% y/y to BAM 9.662 bln. House purchasing loans grew the most, by 11.6%, to BAM 1.793 bln. Consumer loans were also up, by 7.3% to BAM 7.300 bln.

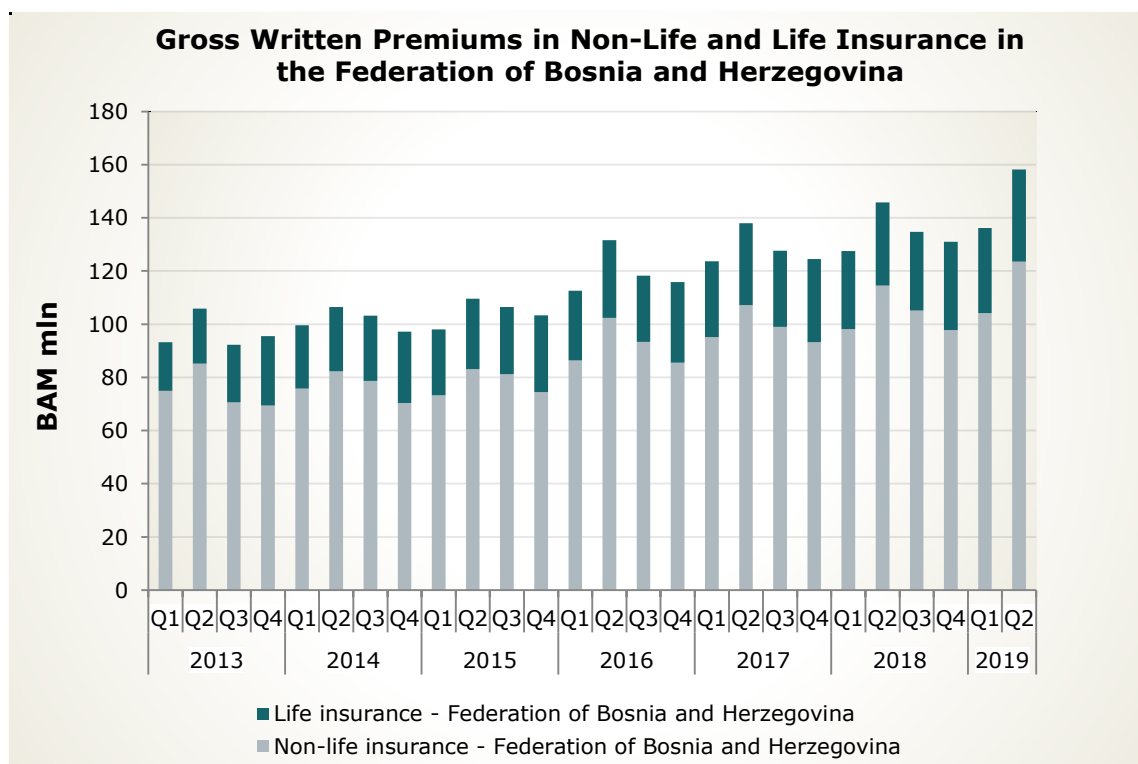


Source: CBBH

Insurance premium income in the Federation of Bosnia and Herzegovina (FBiH) up 8.5% y/y in Q2 2019; In Republika Srpska the insurance market grew by 2.8% y/y in Jan-Jun 2019

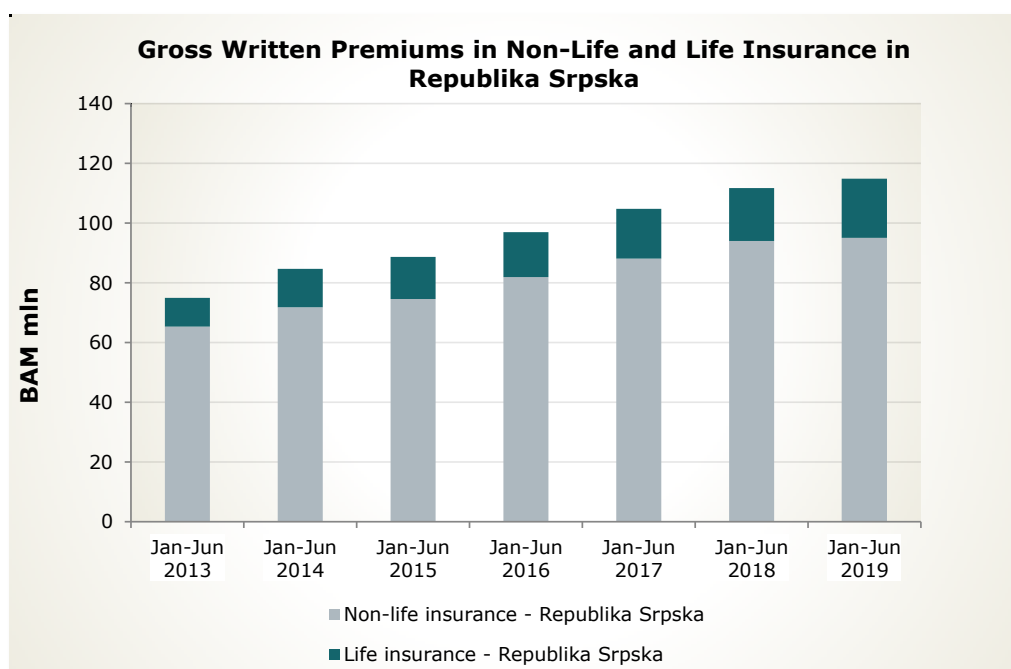
The total gross written premiums (GWP) of the non-life and life insurance companies in the Federation of Bosnia and Herzegovina, one of the two political entities composing Bosnia and Herzegovina, with the other being Republika Srpska, stood at BAM 158.2 mln, up by 8.5% y/y in Q2 2019, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 7.9% rise, to BAM 123.6 mln, of the non-life insurance segment. The life insurance premium income expanded even faster, by 10.9% y/y to BAM 34.6 mln.



Source: NADOS

The insurance market in Republika Srpska grew by 2.8% y/y to BAM 114.8 mln in the first half of 2019, according to the Insurance Agency of Republika Srpska (AZORS). The life insurance segment was the main contributor to the overall growth – its GWP advanced by BAM 2.1 mln, while the non-life insurance segment saw its premium income rising by BAM 1.1 mln.



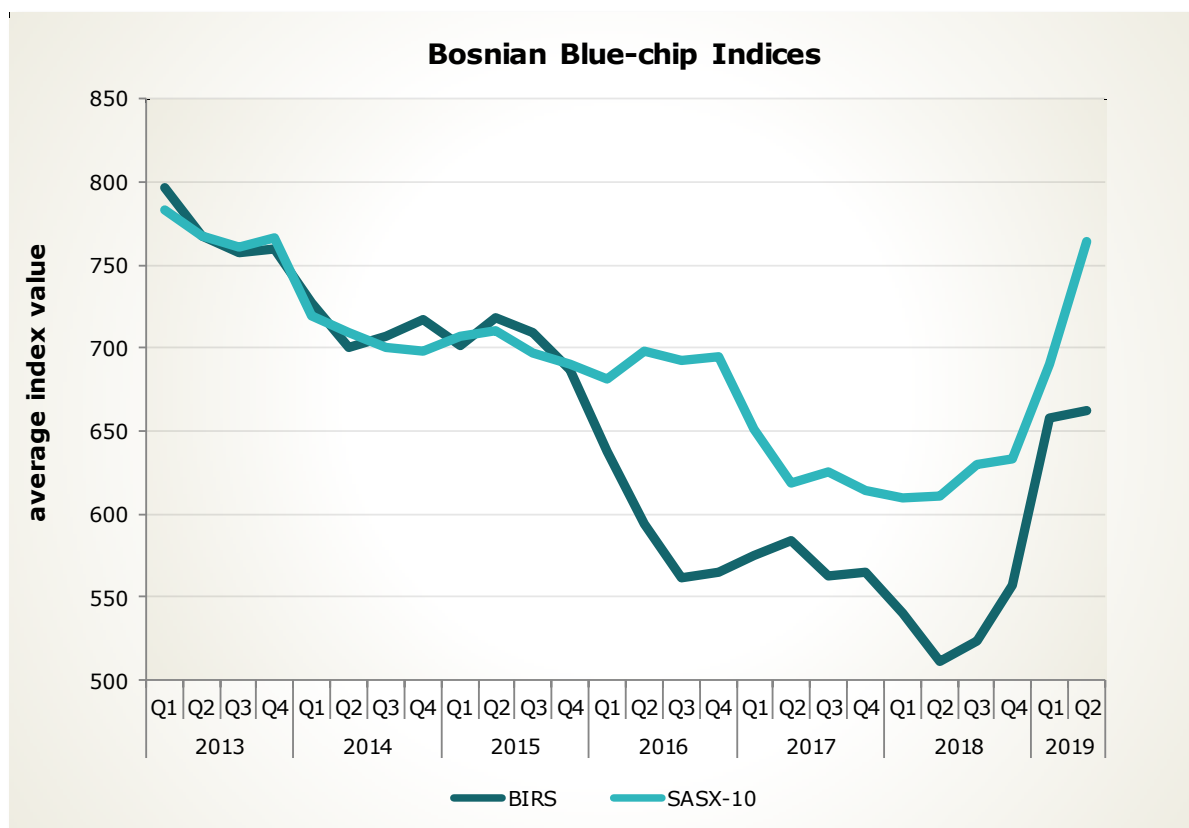
Source: AZORS

6. CAPITAL MARKETS

Blue-chip BIRS up 0.6% q/q, SASX10 increased by 10.6% q/q in Q2 2019

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), increased q/q by 0.6% in Q2 2019, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), grew by 10.6% compared to the previous quarter.



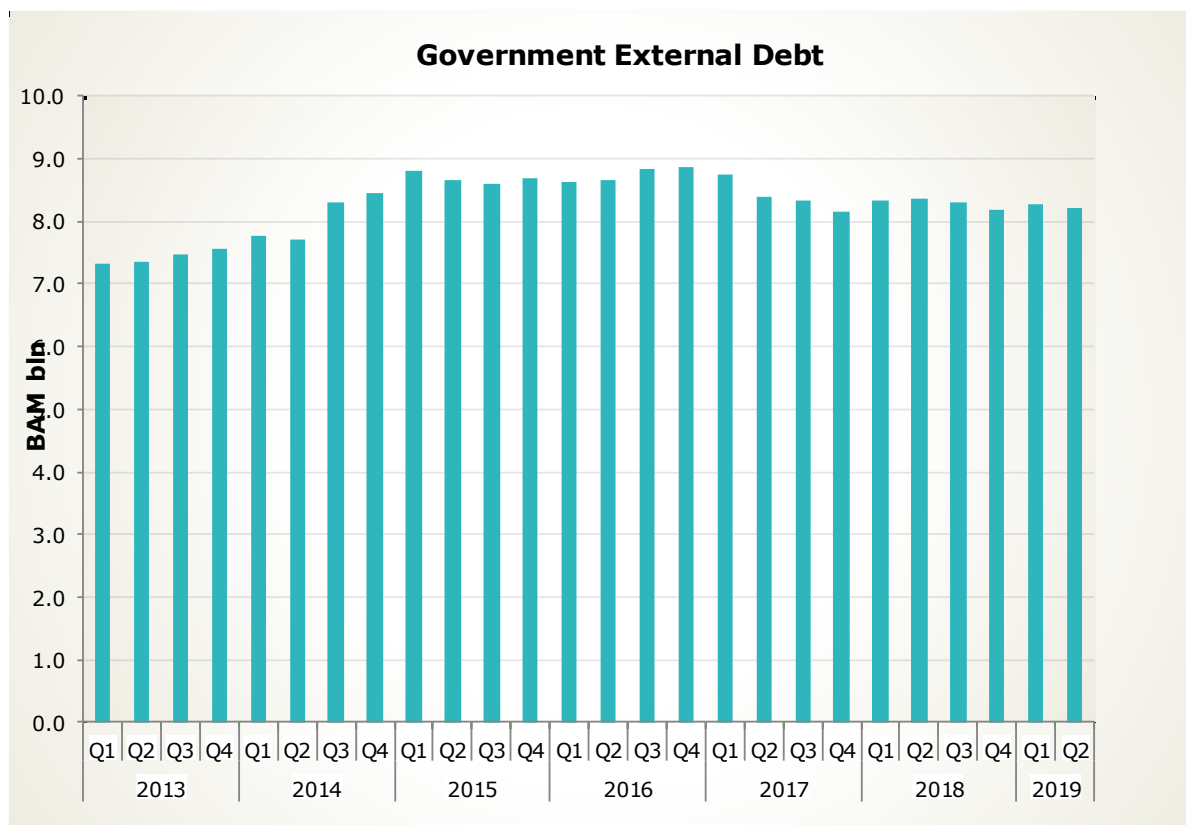
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt went down by 1.8% y/y to BAM 8.205 bln in June 2019

The total external government debt amounted to BAM 8.205 bln in June 2019, down by 1.8% on the year, according to CBBH data. In comparison to Q1 2019, the government external debt narrowed by BAM 80.0 mln.

Bosnia and Herzegovina's main foreign creditors as of Q2 2019 were the European Investment Bank, World Bank's International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD).

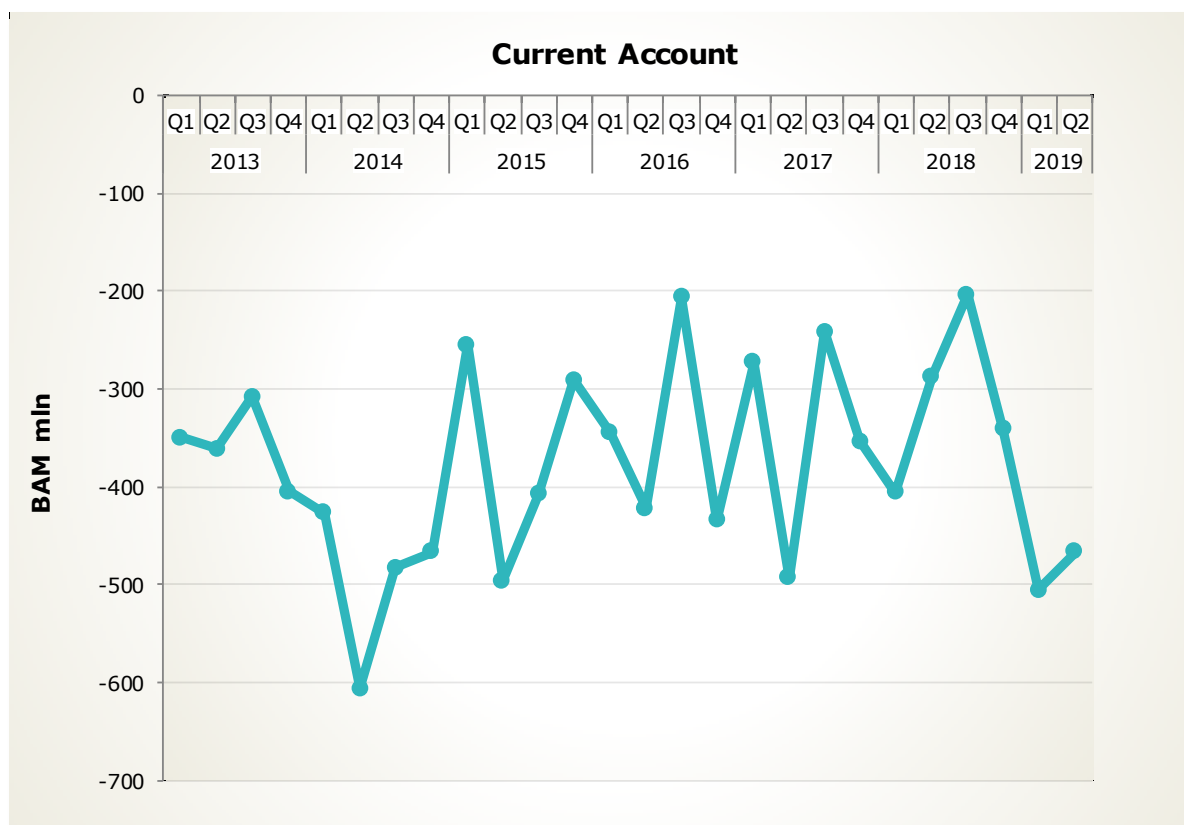


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account gap at BAM 466.9 mln in Q2 2019

The current account gap expanded to BAM 466.9 mln in Q2 2019, up 62.7% y/y, according to central bank statistics data. The net secondary income inched down by 0.7% on the year to BAM 1.012 bln.



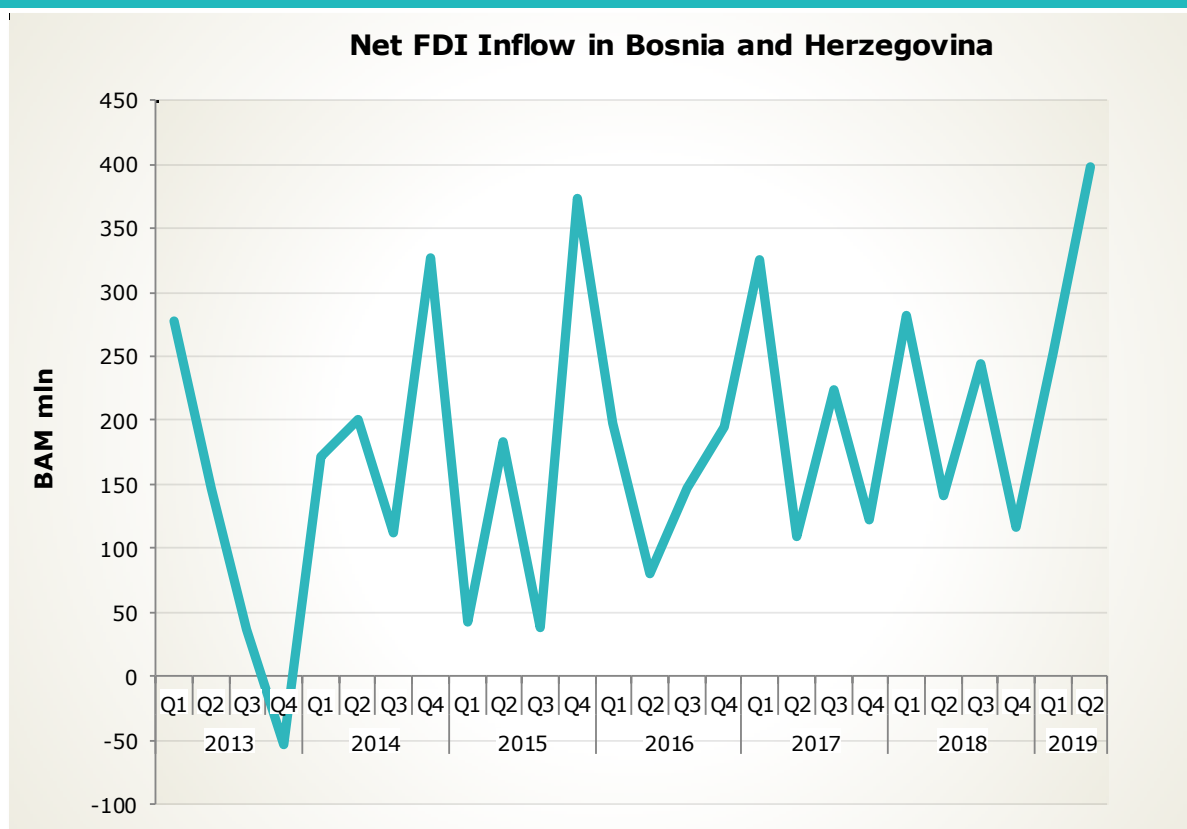
Source: CBBH

7.3. FDI

Net FDI inflow stayed positive in Q2 2019

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina was positive in the second quarter of 2019, totalling BAM 397.3 mln, according to CBBH data. The country's FDIs almost doubled compared with the same quarter of 2018 when they stood at BAM 141.1 mln.

FDIs took away nearly three quarters of the current account deficit during the second quarter of 2019.



Source: CBBH

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 2.109 bln in Q2 2019

The trade deficit gap widened to BAM 2.109 bln in Q2 2019 from BAM 1.905 bln in Q2 2018, according to BHAS.

Exports inched up by 0.4% y/y to BAM 3.058 bln, while imports jumped by 4.4% y/y to BAM 5.168 bln.

Export to EU countries amounted to BAM 2.233 bln in Q2 2019, which is 1.6% higher than in Q2 2018, while import amounted to BAM 3.244 bln, up by 15.8% y/y.



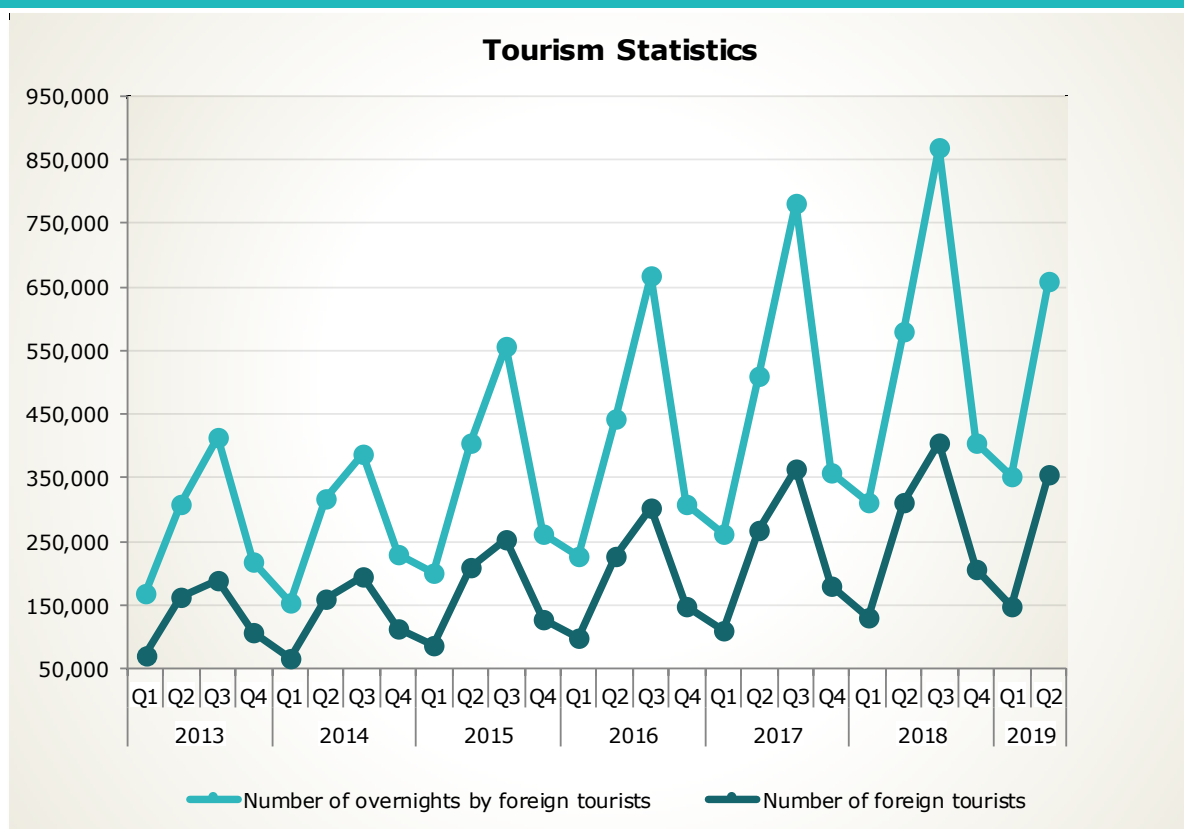
Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 13.8% in Q2 2019

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 13.8% to 659,410 in Q2 2019, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 71.4%, versus 70.4% in the corresponding quarter of 2018.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 14.7% y/y to 356,518.



Source: BHAS

8. MAJOR DEVELOPMENTS

EBRD, EU provide package of finance, technical assistance to support SMEs in Bosnia

June 27, 2019

The European Bank for Reconstruction and Development (EBRD) and the EU are providing a package of loans, grants and technical assistance to help small firms in Bosnia improve their production capacities and processes, the bank said.

[Read the full story here](#)

Bosnia approves draft contract for EUR 12.9 mln EBRD grant for Corridor Vc

June 13, 2019

Bosnia's state-level government said it has approved a draft contract for taking a EUR 12.9 mln grant from the European Bank for Reconstruction and Development (EBRD) for the construction of Corridor Vc on its territory.

[Read the full story here](#)

Bosnia to seek EUR 20 mln IBRD loan for real estate registration project

June 11, 2019

Bosnia's government said it has decided to start negotiations for a EUR 19.9 mln loan from the International Bank for Reconstruction and Development, part of the World Bank Group, to be used to finance a real estate registration project.

[Read the full story here](#)

Bosnia needs to address political hindrance before starting accession talks - EU Commission

May 29, 2019

Accession talks with Bosnia should be opened only after the country starts complying with the membership criteria, and in particular the political criteria requiring stability of institutions, and guaranteeing democracy and rule of law, the European Commission said.

[Read the full story here](#)

Bosnia's Federation earmarks EUR 5.4 mln to support airports' development

May 14, 2019

The government of Bosnia's Federation entity said it has allocated EUR 5.4 mln to three airports on its territory to support the development of domestic air transport.

[Read the full story here](#)

EBRD to provide EUR 200 mln financing to back SMEs, green cities in Bosnia

May 9, 2019

The European Bank for Reconstruction and Development plans to back private sector, infrastructure and green city projects in Bosnia with financing of EUR 200 mln, the country's foreign trade minister said.

[Read the full story here](#)

EIB opens office in Sarajevo to enhance financing in Bosnia, Montenegro

Apr 3, 2019

The European Investment Bank (EIB) said it opened a desk office in Sarajevo to enhance financing activities in Bosnia and Montenegro.

[Read the full story here](#)

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