

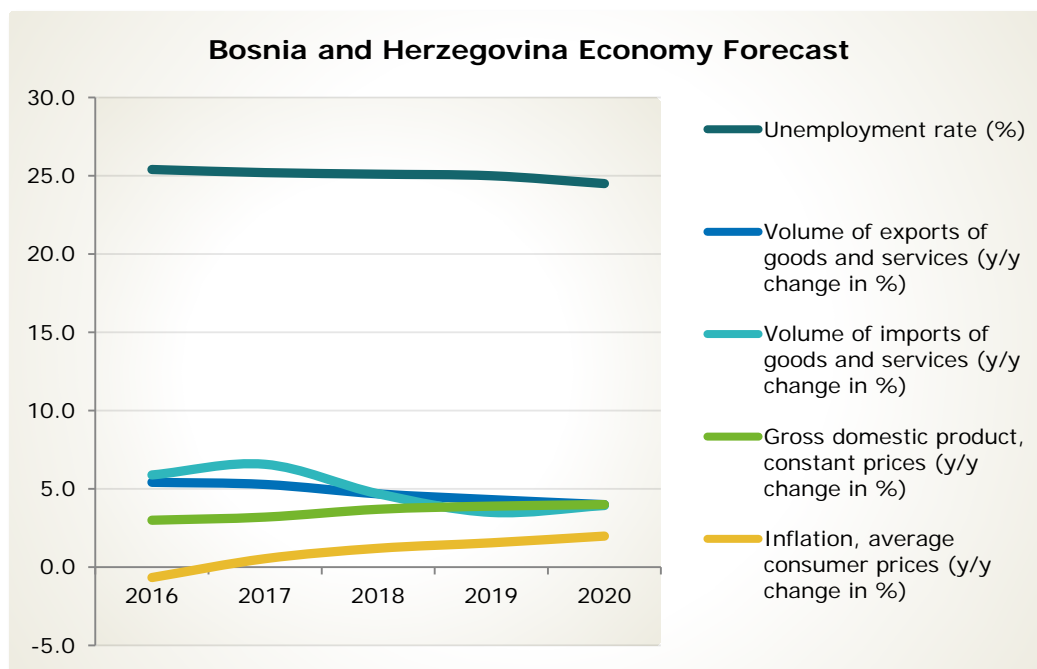
## **BOSNIA AND HERZEGOVINA ECONOMY REPORT** Q3 2016

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT AS OF Q3 2016	
<b>GDP Growth</b>	2.4% y/y
<b>Industrial output</b>	3.8% y/y
<b>Wholesales</b>	-2.4% y/y
<b>Retail sales</b>	1.3% y/y
<b>Average annual deflation</b>	1.4%
<b>Unemployment rate</b>	41.5%
<b>Number of building permits</b>	5.3% y/y
<b>Money supply growth</b>	7.5% y/y
<b>Household loans</b>	2.9% y/y
<b>BIRS blue-chip index</b>	-20.8% y/y
<b>SASX-10 blue-chip index</b>	-0.7% y/y
<b>Government external debt</b>	BAM 8.804 bln
<b>Current account gap</b>	BAM 209.6 mln
<b>Net FDI inflow</b>	BAM 21.8 mln
<b>Foreign trade deficit</b>	BAM 1.740 bln
<b>Number of foreign tourist overnights</b>	19.9% y/y



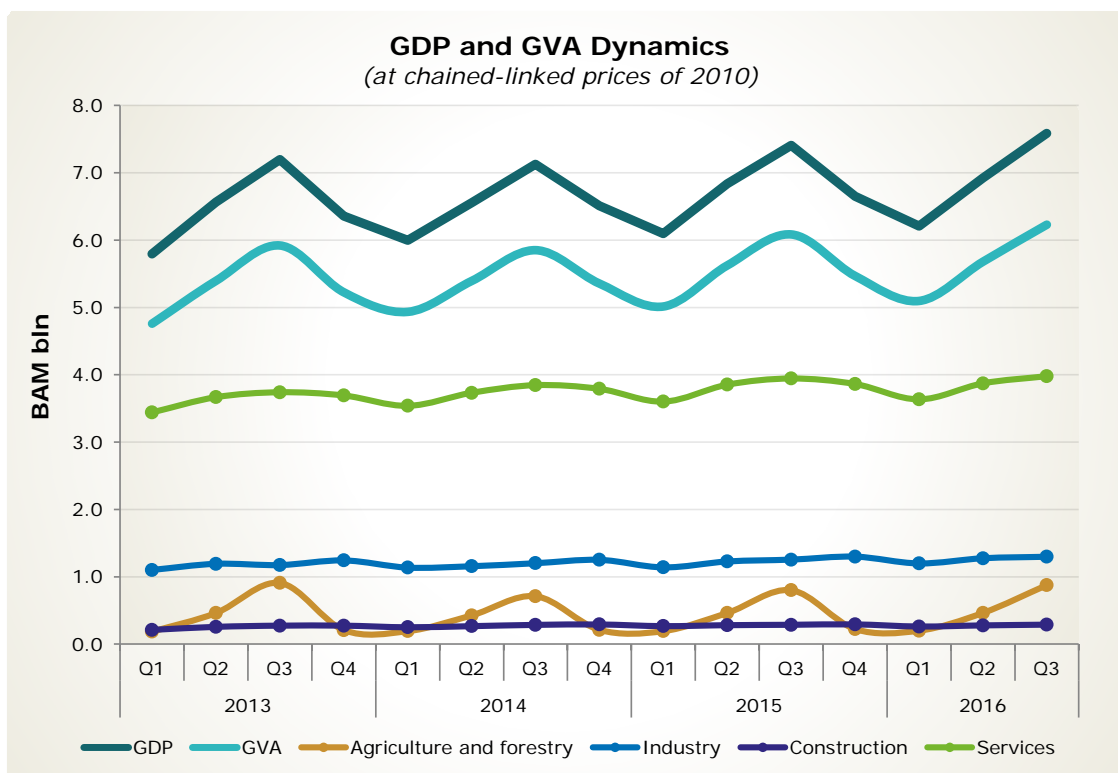
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2016

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

*GDP went up by a real 2.4% y/y in Q3 2016, compared to a 3.9% y/y growth in Q3 2015*

The country's real GDP annual growth was 2.4%, totalling BAM 7.587 bln in Q3 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 2.4% y/y in Q3 2016 and totalled BAM 6.230 bln. The industrial sector grew by 3.4% and its share in the GVA structure expanded to 20.8% from 20.6% in the same quarter of the previous year. The services sector recorded a 0.9% increase, slicing a 63.9% share in the GVA, compared to 64.8% in Q3 2015. The agricultural sector went up by 9.5% and increased its share in the GVA to 14.1%, from 13.1%. The construction sector inched up by 0.7%, while its GVA share inched down to 4.6% from 4.7%.

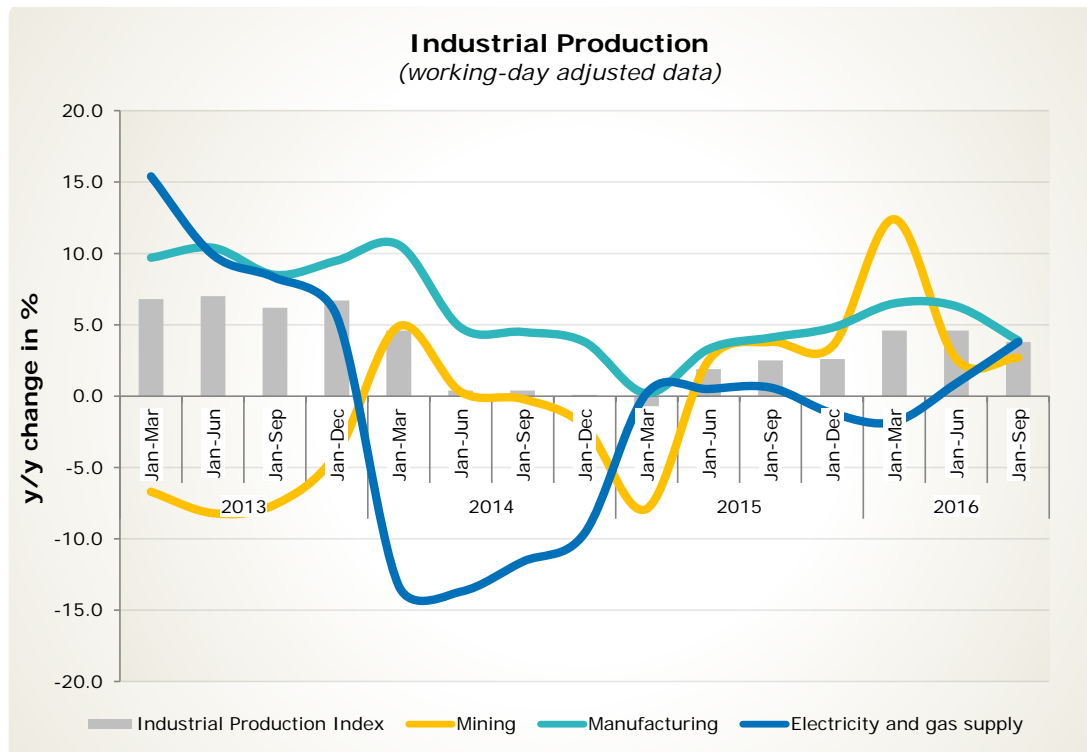
### 2.2. INDUSTRIAL OUTPUT

*Industrial output up 3.8% y/y in January-September 2016*

Industrial output went up by 3.8% in January-September 2016, according to BHAS data. The output of manufacturing rose by 3.9%, followed by the electricity and gas supply with 3.8%, while the output of the mining industry grew by 2.7%.

Other manufacturing was the segment to report the highest annual production growth, of 20.6%, followed by manufacture of furniture with 18.8%, and manufacture of fabricated metal products, except machinery and equipment, with a production growth of 15.2%.

The segments with the sharpest drop in the first nine months of 2016, were manufacture of other transport equipment, down 54.8% on the year, manufacture of computer, electronic and optical products with a 18.9% drop, and manufacture of coke and mining of metal ores with a 15.6% fall.



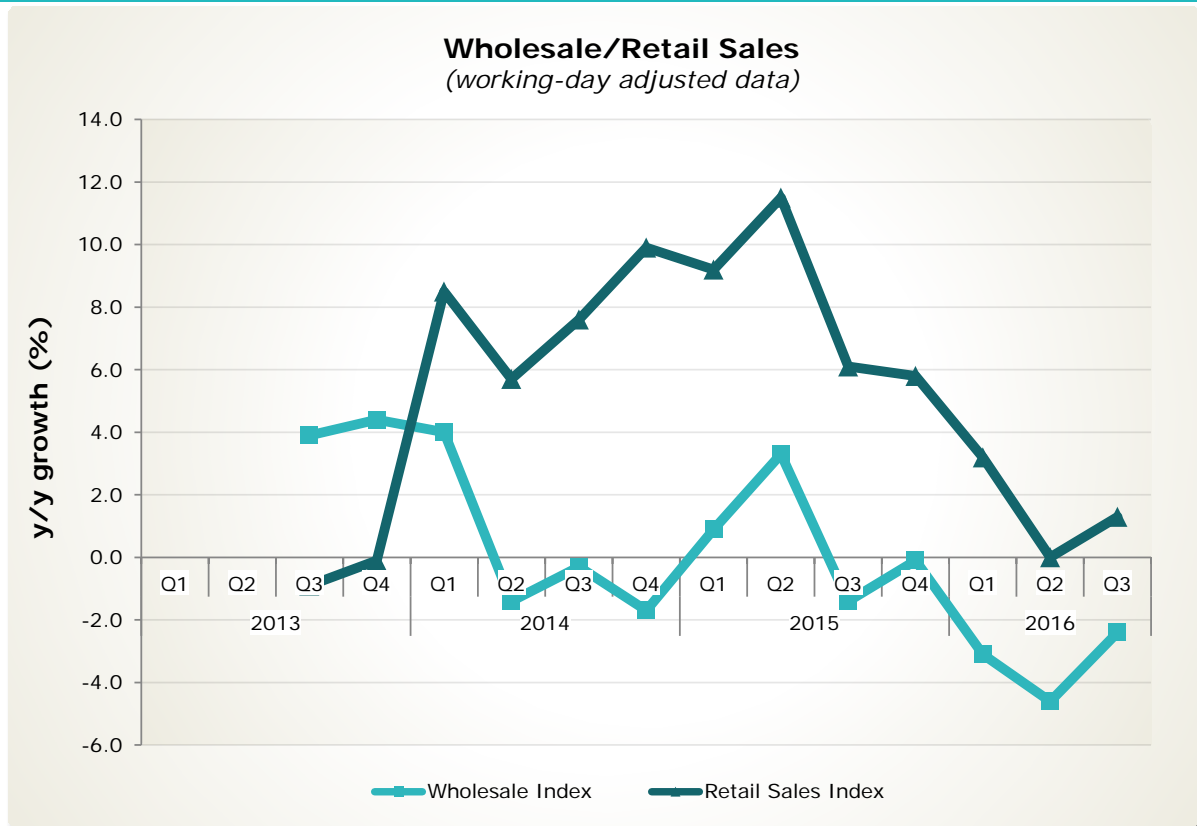
Source: BHAS

## 2.3. WHOLESALE/RETAIL

### *Retail grew y/y in Q3 2016, while wholesale recorded a decrease*

Retail sales, except of motor vehicles and motorcycles, inched up by 1.3% y/y in the third quarter of 2016, while wholesale trade fell by 2.4%, according to BHAS data.

Wholesale on a fee or contract basis marked the highest increase, of 31.4% y/y, while Wholesale of information and communication equipment experienced the sharpest annual drop, of 11.3%.



Source: BHAS

Data for Q1 and Q2 2013 is not available

## 2.4. INFLATION

### Average annual deflation of 1.4% as of September 2016

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

The largest decrease in consumer prices was registered in operation of personal transport equipment, of 9.3%, followed by clothing and footwear, which got cheaper by 8.9% and 8.3%, respectively.

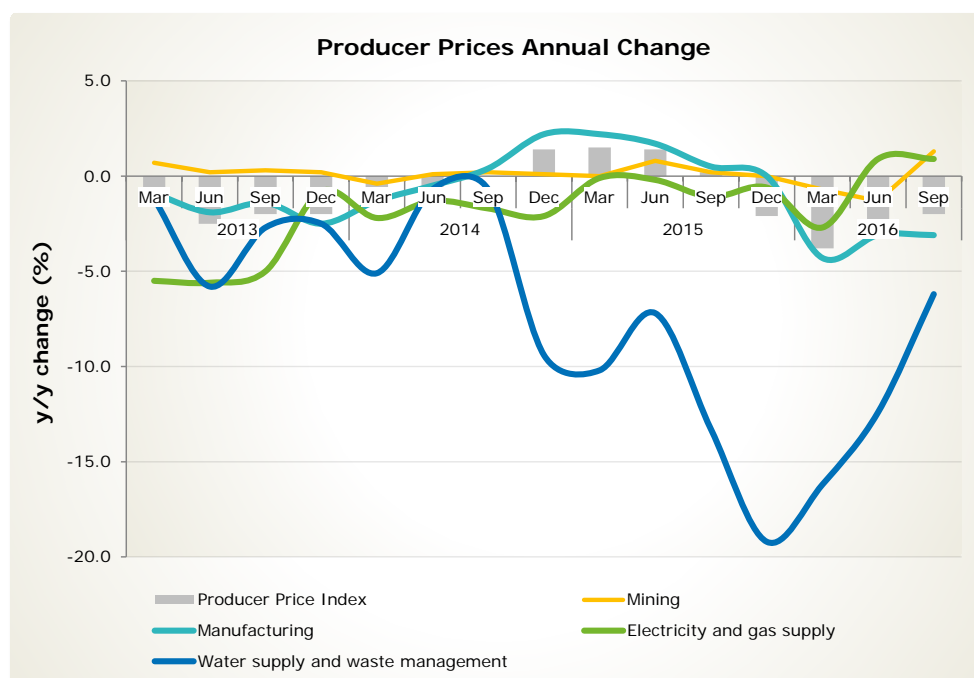
The consumer groups that recorded inflation were led by tobacco with 9.1%, package holidays with 9.0%, and education not definable by level with 5.2%.



Source: BHAS

Producer prices went down by 2.0% y/y in September 2016 due to the 6.2% fall of water supply prices. Manufacturing prices decreased by 3.1%, while mining and electricity and gas supply sectors recorded an annual increase by 1.3% and 0.9%, respectively.

Segment wise, producer prices dropped the sharpest, by 15.1%, in the manufacture of coke and refined petroleum products, while the biggest increase, of 12.6%, was registered by manufacture of textiles.



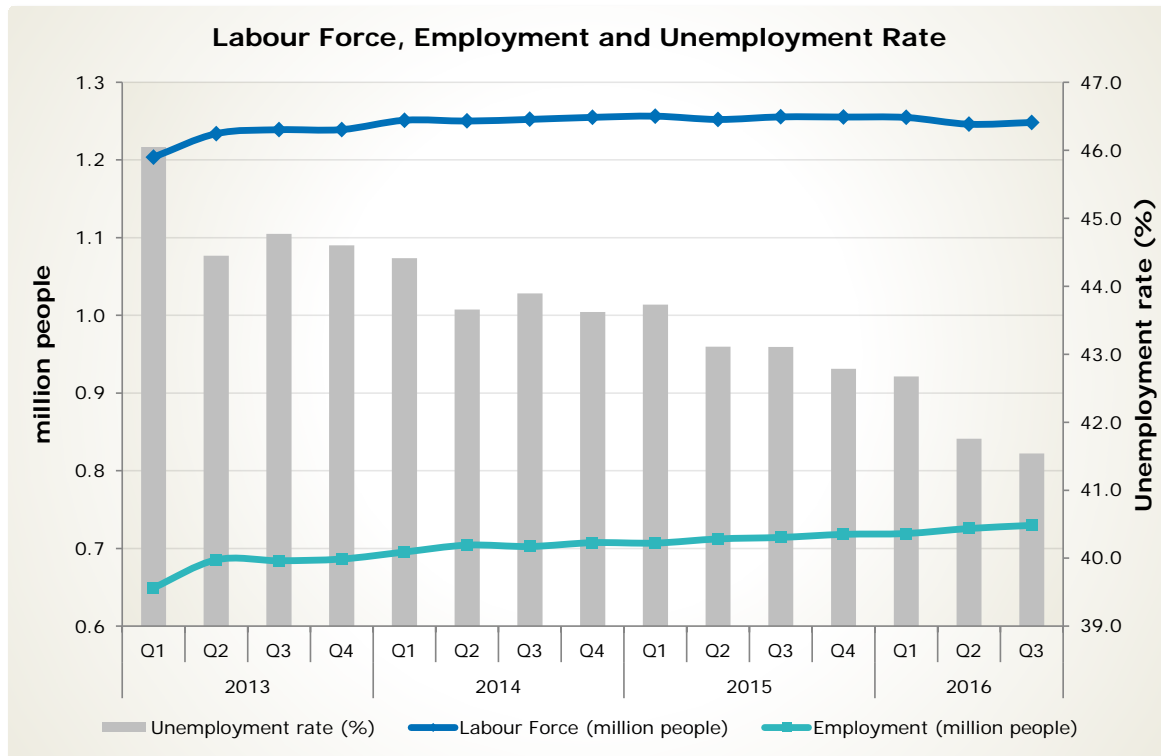
Source: BHAS

## 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 41.5% of the total labour force in Q3 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 729,728 in Q3 2016, up by 2.2% y/y.



Source: BHAS

The average monthly net salary for the third quarter of 2016 inched up to BAM 838 in comparison to the BAM 831 a year earlier.

## 4. CONSTRUCTION AND REAL ESTATE

*The number of building permits increased by 5.3% y/y in Q3 2016*

The number of building permits, excluding such for civil engineering works, issued in Bosnia and Herzegovina in Q3 2016 increased by 5.3% y/y, totalling 868, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, shrank to 101,622 sq m from 113,486 sq m in Q3 2015.



## 5. MONEY SUPPLY AND BANKING SYSTEM

## 5.1. BAM EXCHANGE RATE

The average exchange rate of the BAM against the USD decreased to BAM 1.75124 in Q3 2016 from BAM 1.75907 in Q3 2015, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q3 2016	Q2 2016	Q3 2015
USD	1.75124	1.73226	1.75907
GBP	2.30329	2.48785	2.72738
CHF	1.79614	1.78432	1.82576
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.

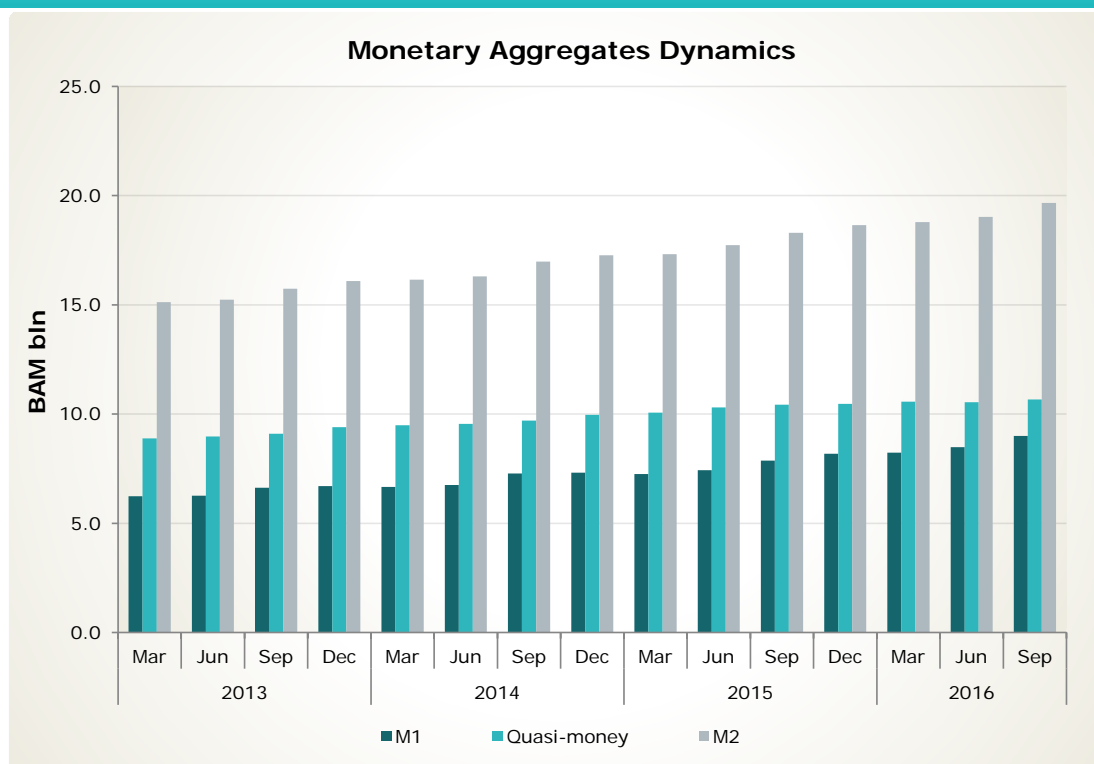
## 5.2. MONETARY AGGREGATES

*Money supply growth was 7.5% y/y as of September 2016*

Broad money, money aggregate M2, in Bosnia and Herzegovina increased by 7.5% y/y and reached BAM 19.668 bln in September 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 2.4% to BAM 10.670 bln.

Money aggregate M1, or narrow money, jumped by 14.3% to BAM 8.998 bln.



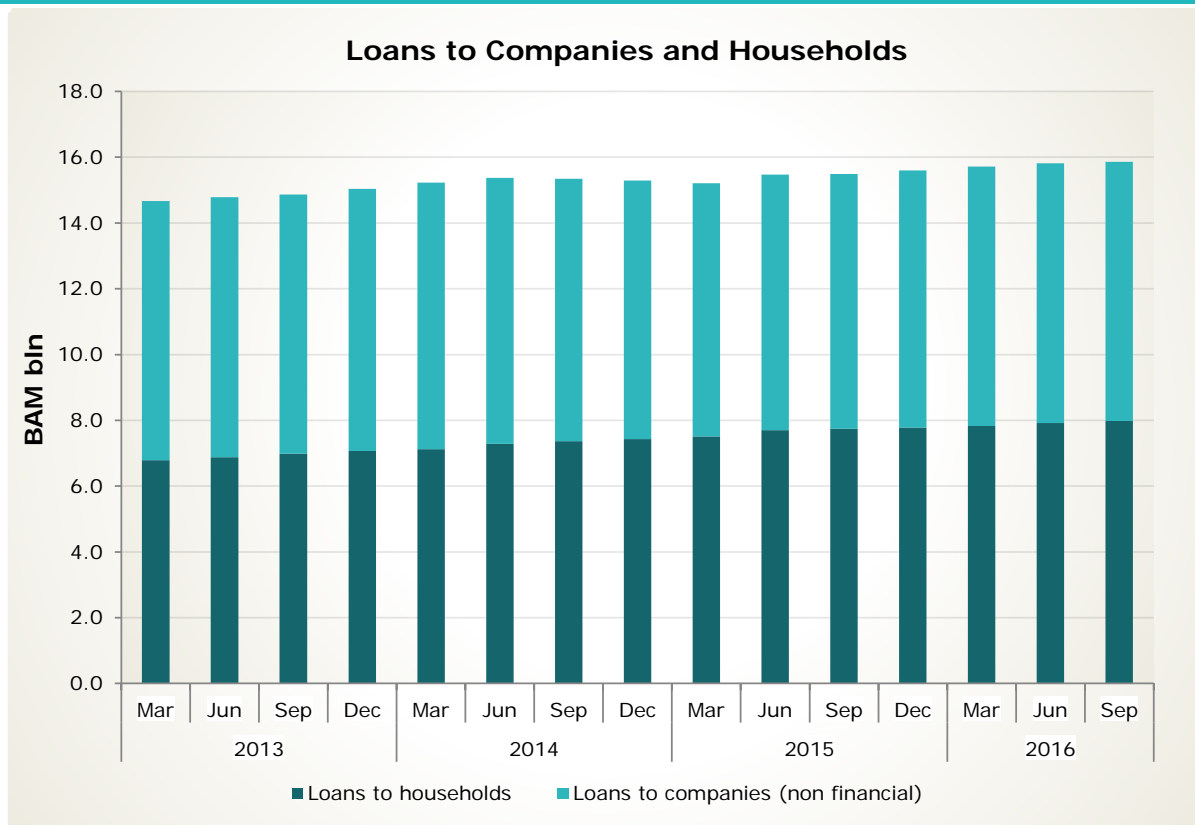
Source: CBBH

### 5.3. BANKING AND INSURANCE

#### *Household loans increased by 2.9% y/y in September 2016*

Loans to the non-government sector totalled BAM 15.862 bln as of September 2016, up by 2.4% y/y, according to CBBH.

Loans to non-financial corporations increased by 1.9% to BAM 7.884 bln, while household loans rose by 2.9% y/y to BAM 7.978 bln. House purchasing loans went down by 2.9% to BAM 1.478 bln. Consumer loans grew by 5.0% to BAM 5.912 bln.



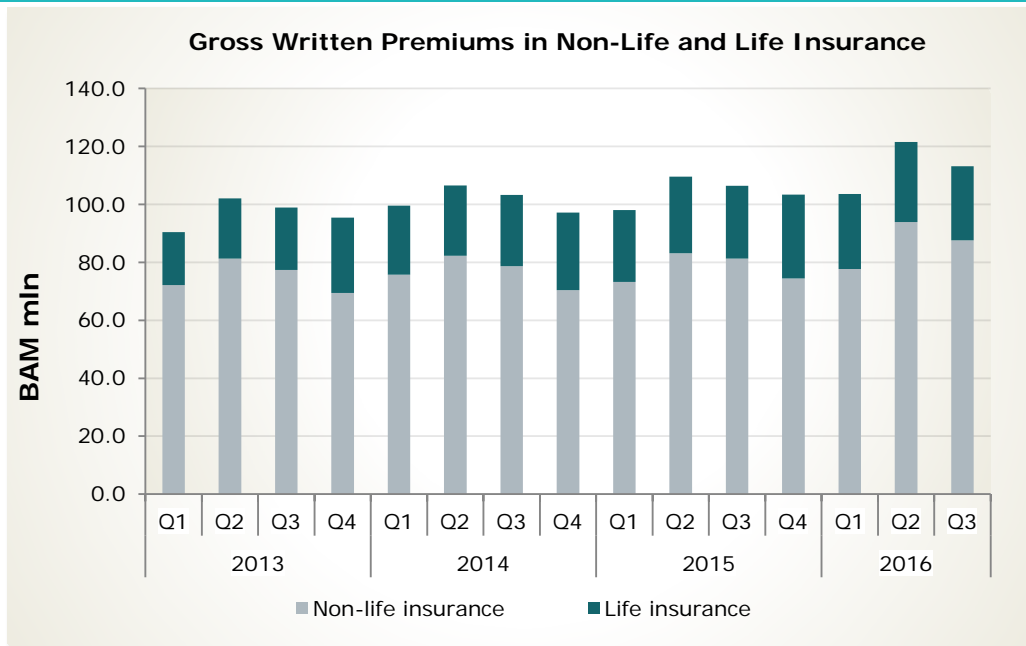
Source: CBBH

### Insurance premium income up 8.2% y/y in Q3 2016

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 115.2 mln, up by 8.2% y/y in Q3 2016, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 9.8% rise, to BAM 27.671 mln, of the life insurance segment and the 7.8% rise, to BAM 87.521 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 58.6% of the total, followed by insurance of land vehicles with 13.4% and accident insurance with an 8.7% share.



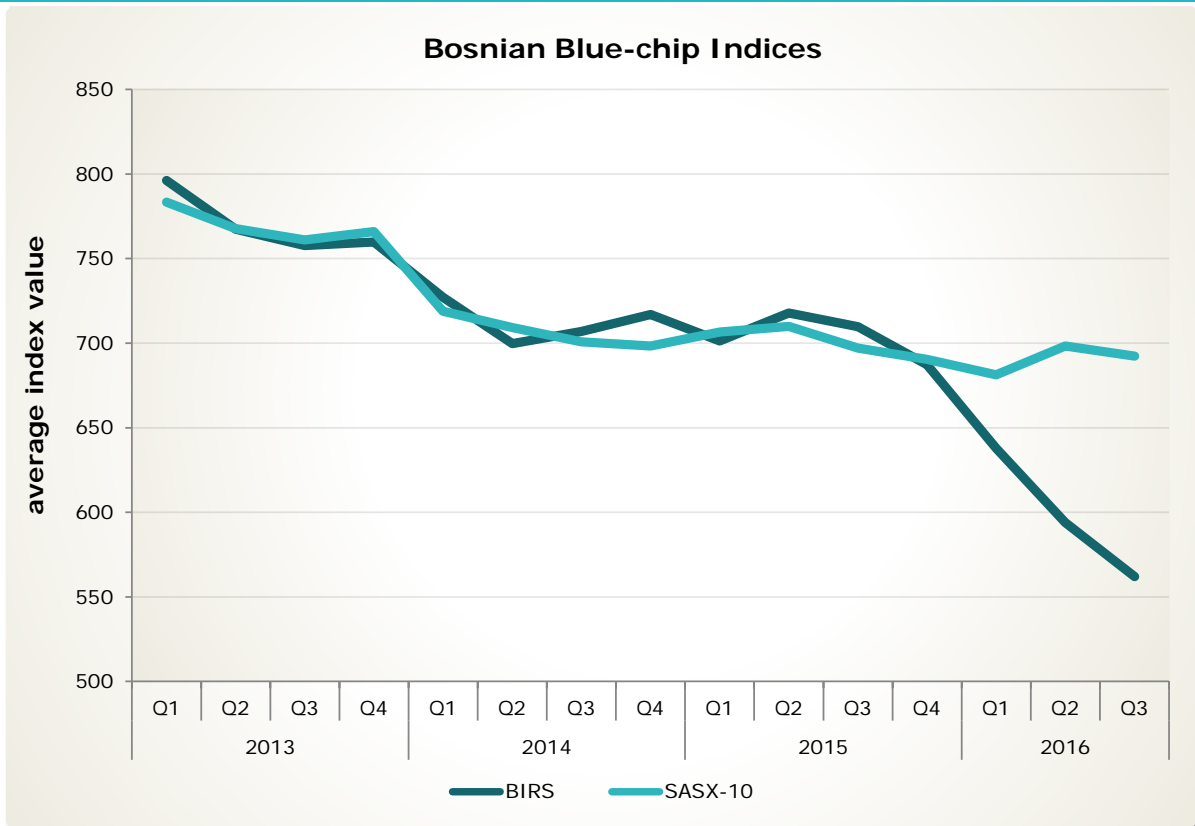
Source: NADOS

## 6. CAPITAL MARKETS

### *Blue-chip BIRS down 20.8%, SASX10 down 0.7% y/y in Q3 2016*

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLBerza), decreased by 20.8% in Q3 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 0.7%.



Source: BLBerza, SASE

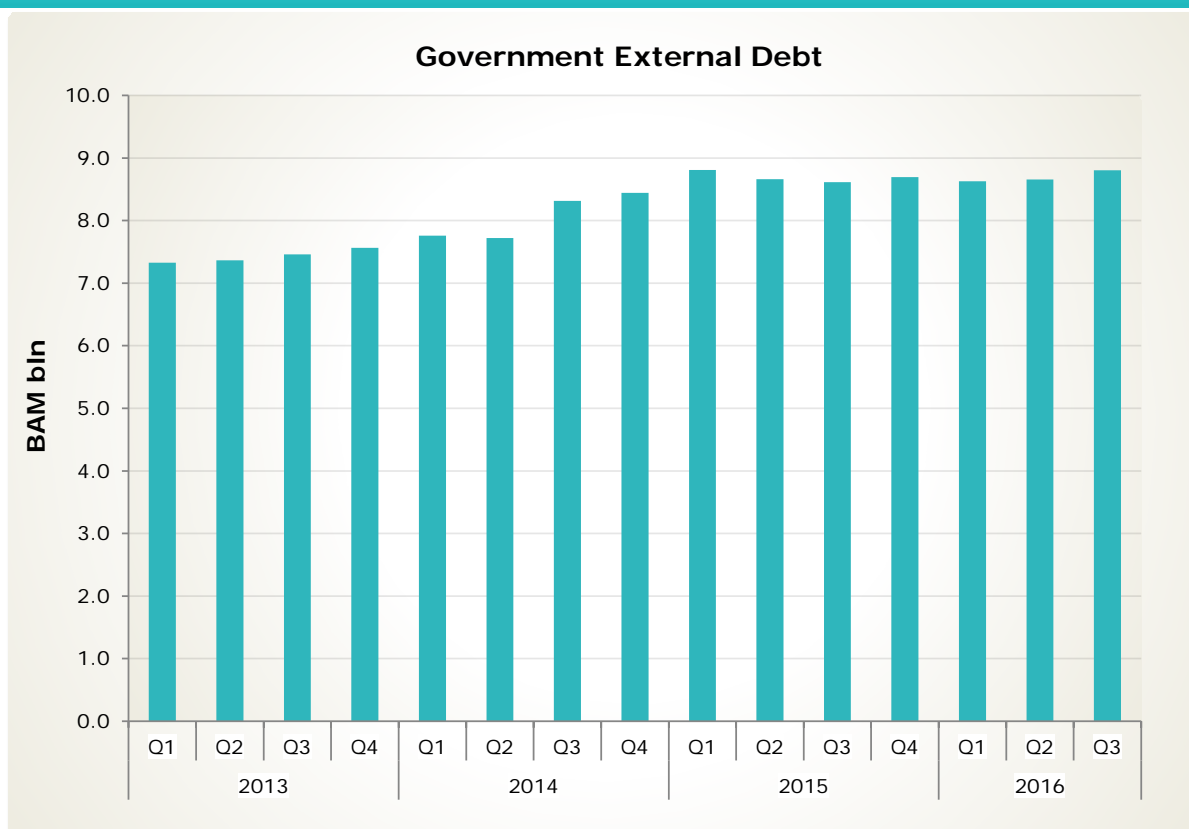
## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

#### *Government external debt went up y/y to BAM 8.804 bln in Q3 2016*

The total external government debt amounted to BAM 8.804 bln in Q3 2016, up by 2.2% on the year, according to CBBH data. In comparison to Q2 2015, the government external debt increased by BAM 147.6 mln.

Bosnia and Herzegovina's main foreign creditors as of Q3 2016 were World Bank's International Development Association (IDA), the European Investment Bank, and IMF.

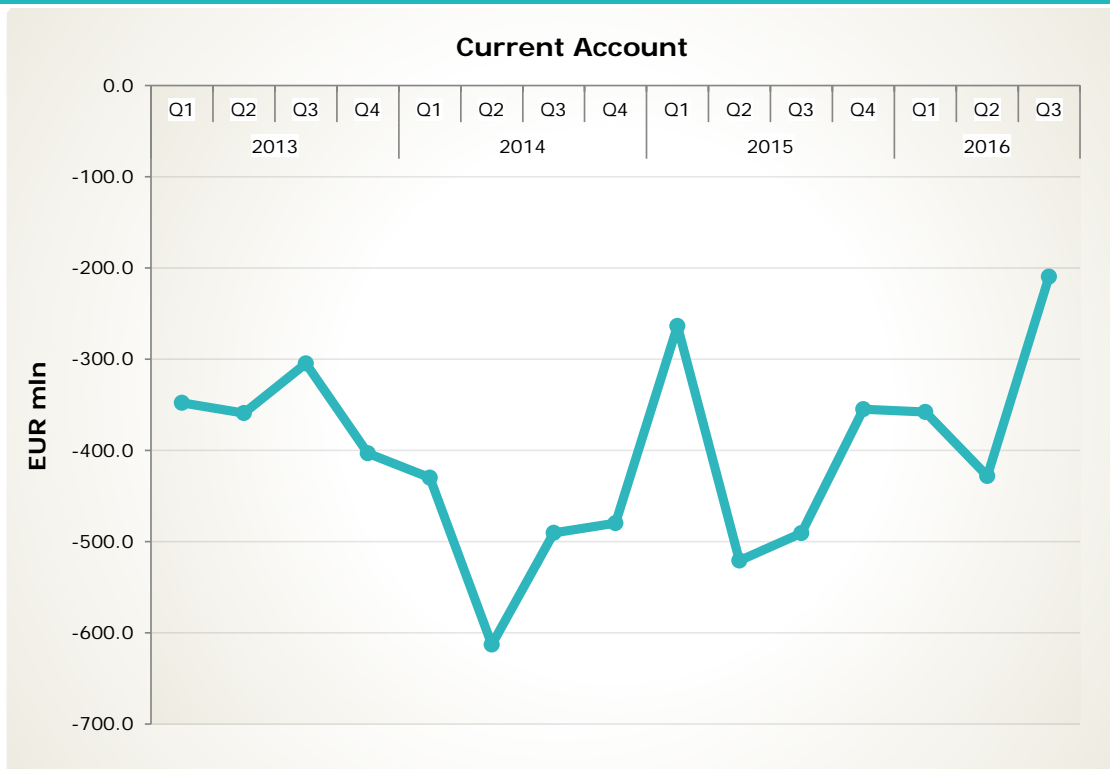


Source: CBBH

## 7.2. BALANCE OF PAYMENTS

### *Current account gap at BAM 209.6 mln in Q3 2016*

The current account gap narrowed to BAM 209.6 mln in Q3 2016 from BAM 490.6 mln in Q3 2015, according to central bank statistics data. The net secondary income increased by 6.2% on the year to BAM 950.1 mln.



Source: CBBH

### 7.3. FDI

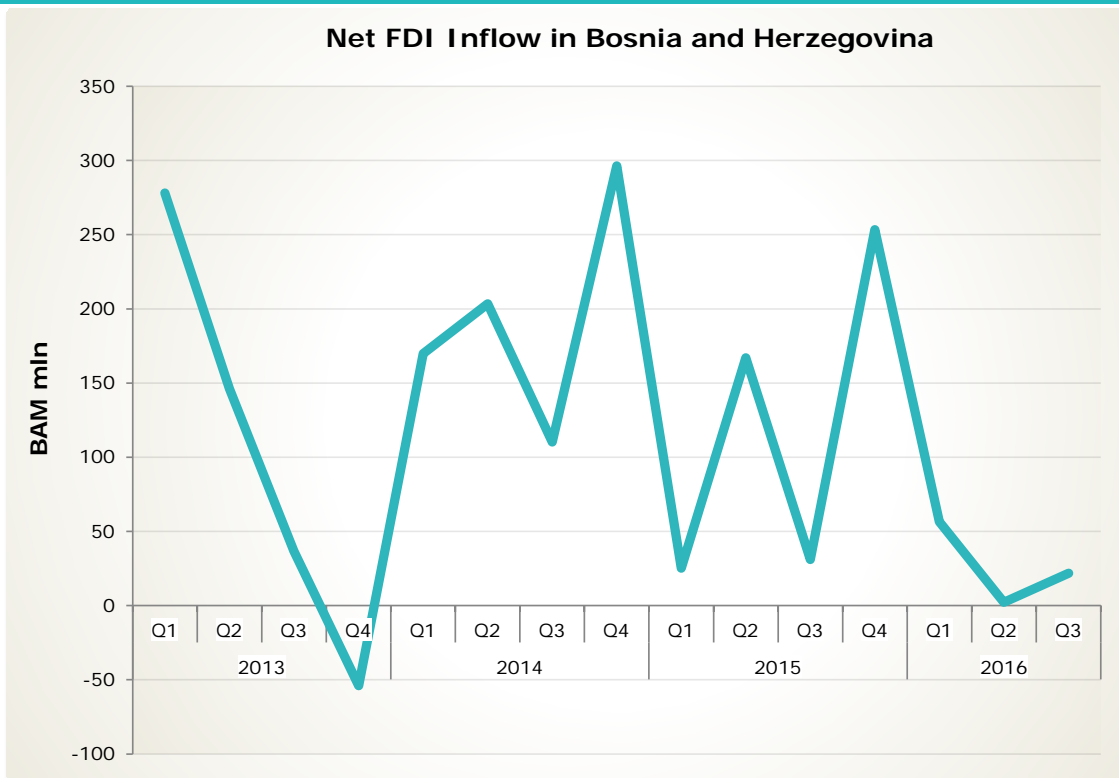
#### Net FDI inflow at BAM 21.8 mln in Q3 2016

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina totalled BAM 21.8 mln in the third quarter of 2016, according to CBBH data.

The FDI slumped by 29.9% compared to the corresponding period of the previous year and their share in the country's GDP fell to 0.3% from 0.4%.

In Q3 2016, Croatia was the biggest foreign investor in the country with direct investments of BAM 23.6 mln, United Arabian Emirates came second with BAM 17.9 mln and Saudi Arabia came third with BAM 13.0 mln.

Financial service activities, except insurance and pension funding, was the most attractive sector for foreign investors with FDI inflow of BAM 34.4 mln, ahead of electricity, gas, steam and air conditioning supply with BAM 12.8 mln and manufacture of rubber and plastic products with BAM 4.3 mln.



Source: CBBH

## 7.4. FOREIGN TRADE

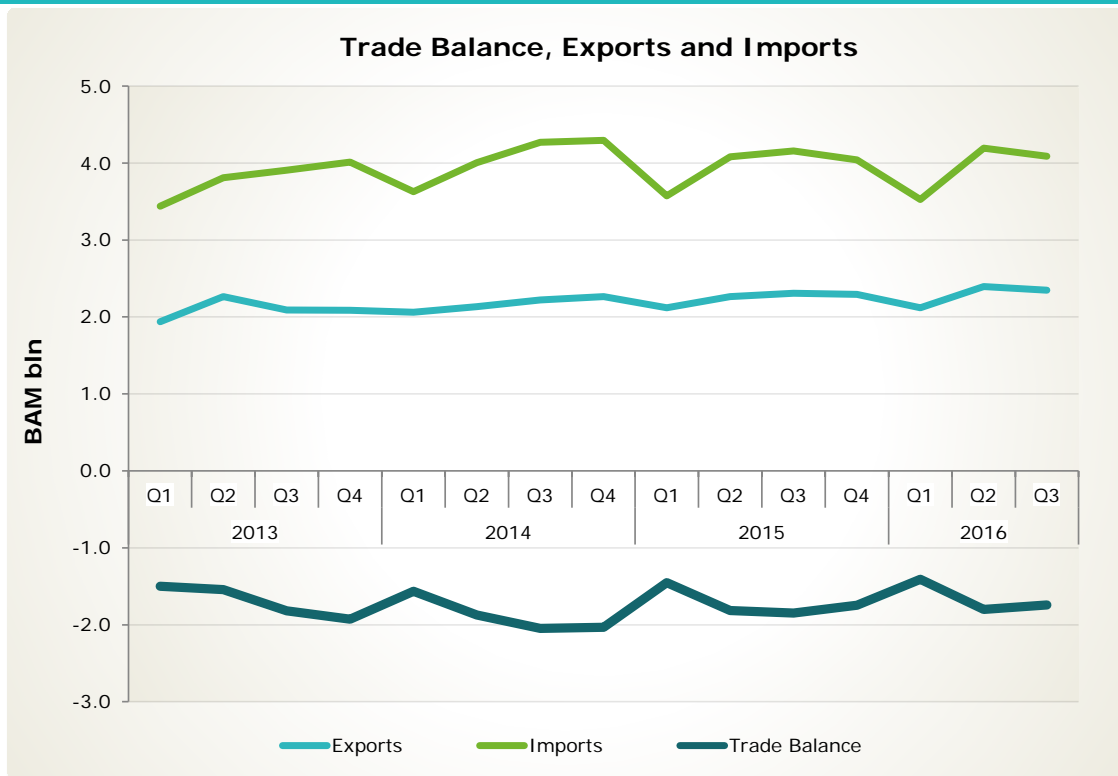
### *Foreign trade deficit at BAM 1.740 bln in Q1 2016*

The trade deficit gap narrowed to BAM 1.741 bln in Q3 2016 from BAM 1.849 bln in Q3 2015, according to BHAS.

In Q3 2016, the leading sector in terms of export value was manufacture of base metals and articles thereof, accounting for 16.4% of the total, followed by miscellaneous manufactured articles with an 11.0% share, and manufacture of machinery and electrical equipment with a 10.7% share.

In terms of imports, the main goods were machinery and electrical equipment, which made up 13.6% of the total, followed by mineral products, slicing a 13.0% share, and chemical products with a 9.7% share.





Source: BHAS

## 7.5. TOURISM

### *Number of foreign tourist overnights rose by 19.9% y/y in Q3 2016*

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 19.9% to 668,234 in Q3 2016, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 76.0% in Q3 2016, versus 73.2% in Q3 2015.

Following the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 19.0% y/y to 302,993.



Source: BHAS

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