

## **BOSNIA AND HERZEGOVINA ECONOMY REPORT**

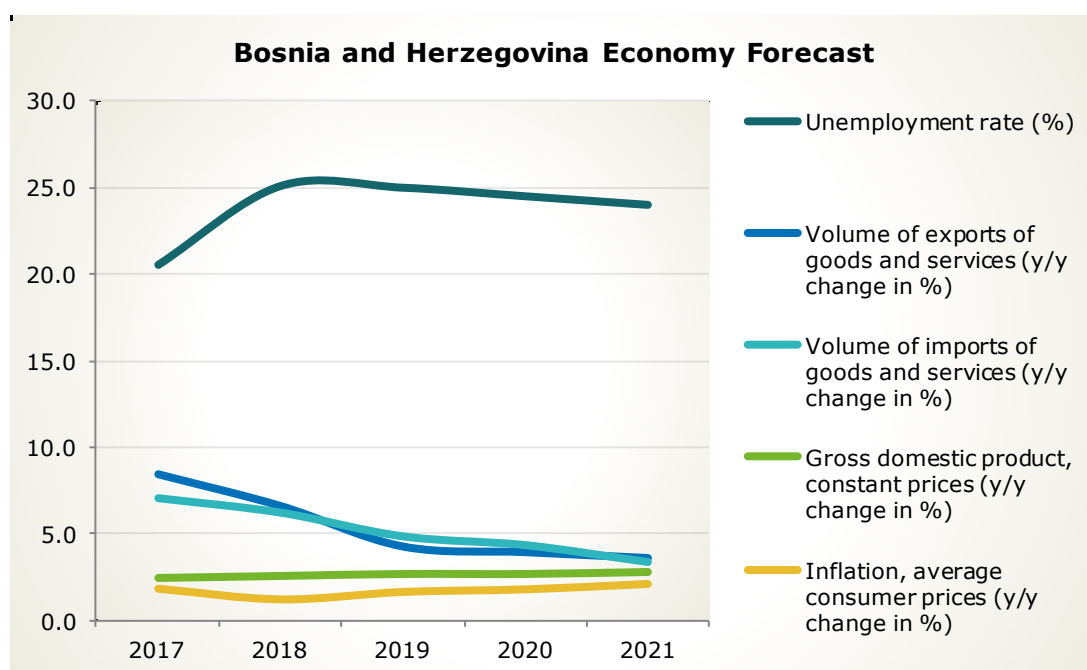
Q3 2017

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN Q3 2017	
<b>GDP Growth</b>	2.9% y/y
<b>Industrial output</b>	3.4% y/y
<b>Wholesales</b>	10.1% y/y
<b>Retail sales</b>	5.6% y/y
<b>Average annual inflation</b>	0.7%
<b>Unemployment rate</b>	39.2%
<b>Number of building permits</b>	8.2% y/y
<b>Money supply growth</b>	9.9% y/y
<b>Household loans</b>	6.8% y/y
<b>BIRS blue-chip index</b>	-3.5% q/q
<b>SASX-10 blue-chip index</b>	1.1% q/q
<b>Government external debt</b>	BAM 8.342 bln
<b>Current account gap</b>	BAM 252.7 mln
<b>Net FDI inflow</b>	BAM 75.4 mln
<b>Foreign trade deficit</b>	BAM 1.809 bln
<b>Number of foreign tourist overnights</b>	17.1% y/y



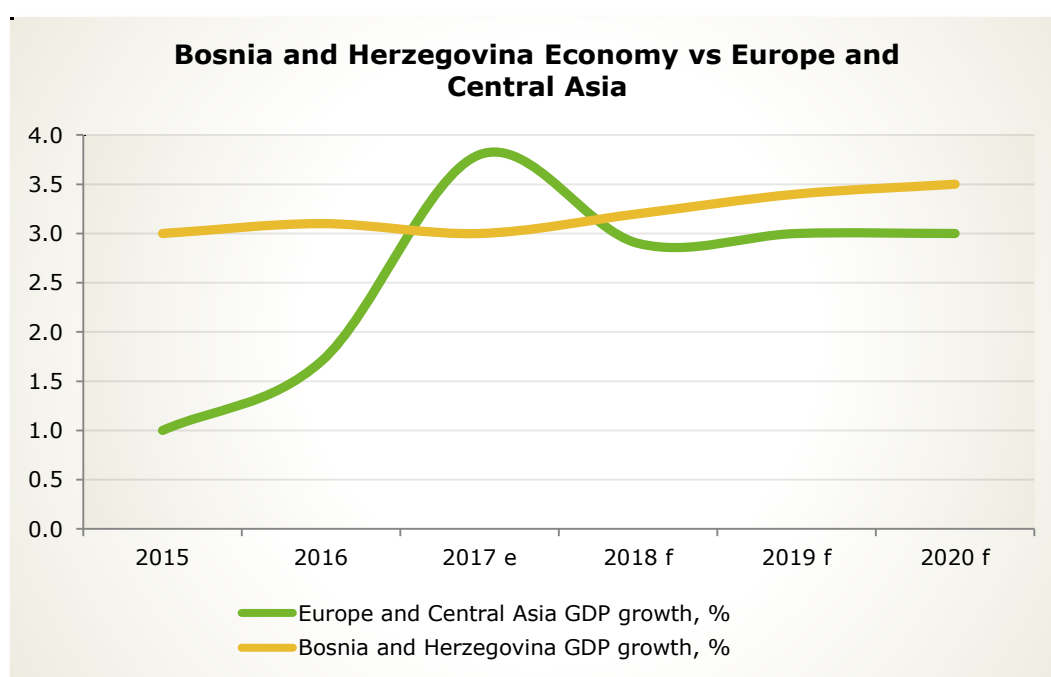
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

The economic growth of Bosnia and Herzegovina is expected to accelerate to 2.5% in 2017 and 2.7% in 2019 from the registered 2.0% in 2016, supported primarily by 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 and low oil prices.

Inflation in 2017 is estimated at 1.8% y/y and is projected to 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, January 2018

### 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)						
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

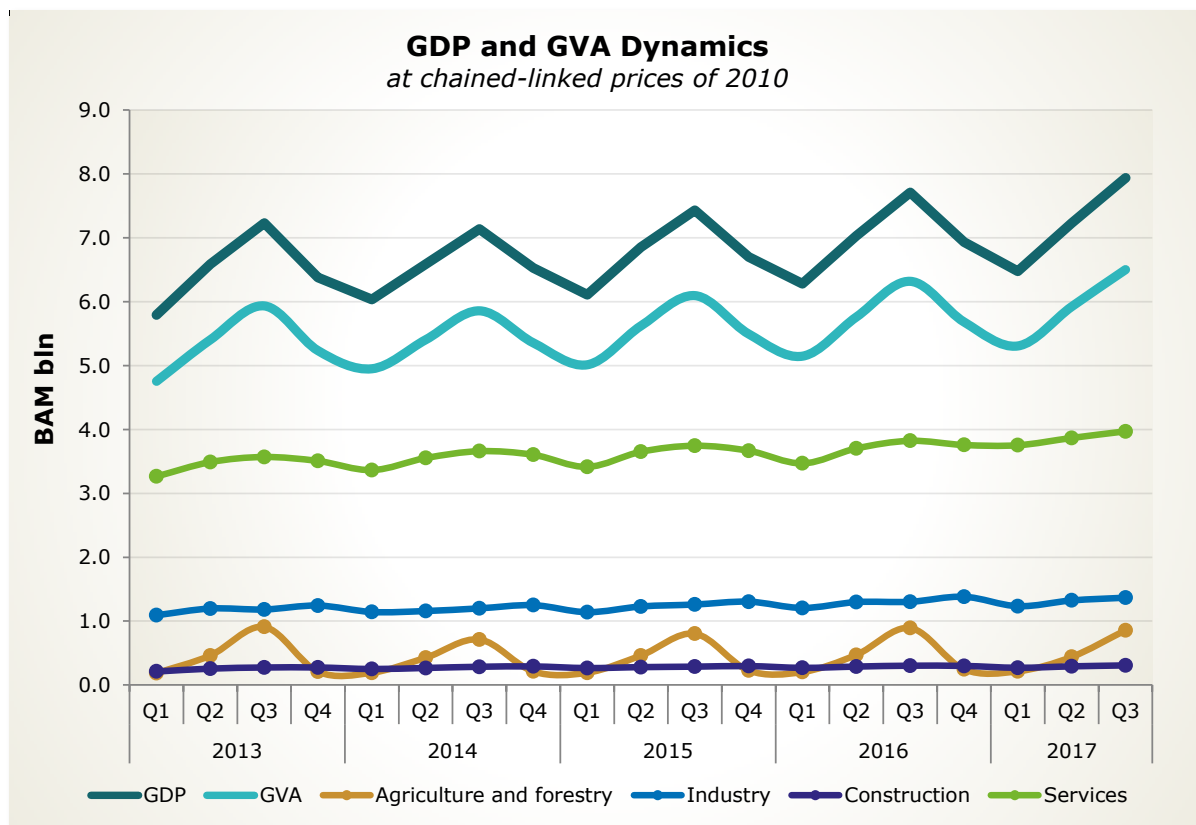
Source: World Bank, Europe and Central Asia Economic Update, October 2017

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

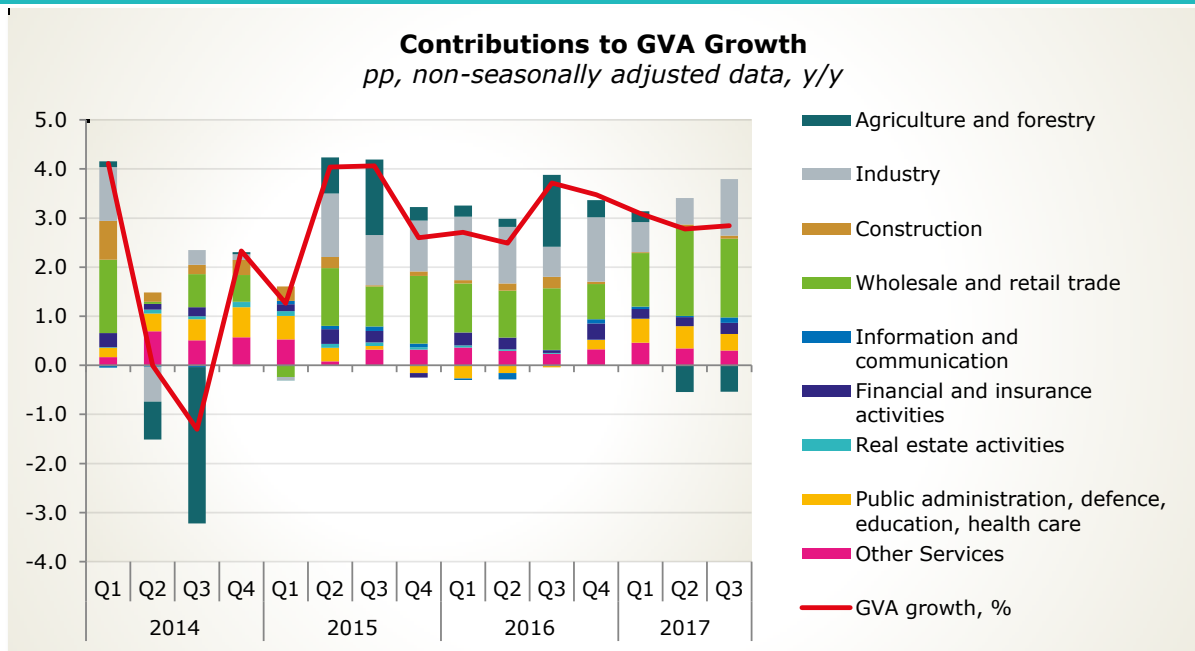
*GDP went up by a real 2.9% y/y in Q3 2017, compared to a 1.7% y/y growth in Q2 2017*

The country's real GDP annual growth was 2.9%, totalling BAM 7.937 bln in Q3 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 2.9% y/y in Q3 2017 and totalled BAM 6.502 bln. The industrial sector grew by 4.9% and its share in the GVA structure notched up to 21.0% from 20.6% a year ago. The services sector recorded a 3.9% increase, slicing a 61.1% share in the GVA. Agriculture and forestry went down by 3.8% and accounted for 13.2% in the GVA, down from 14.1% in Q3 2016. Construction GVA went up by 1.5% and its GVA share was 4.7%, almost unchanged from the same quarter of the previous year.



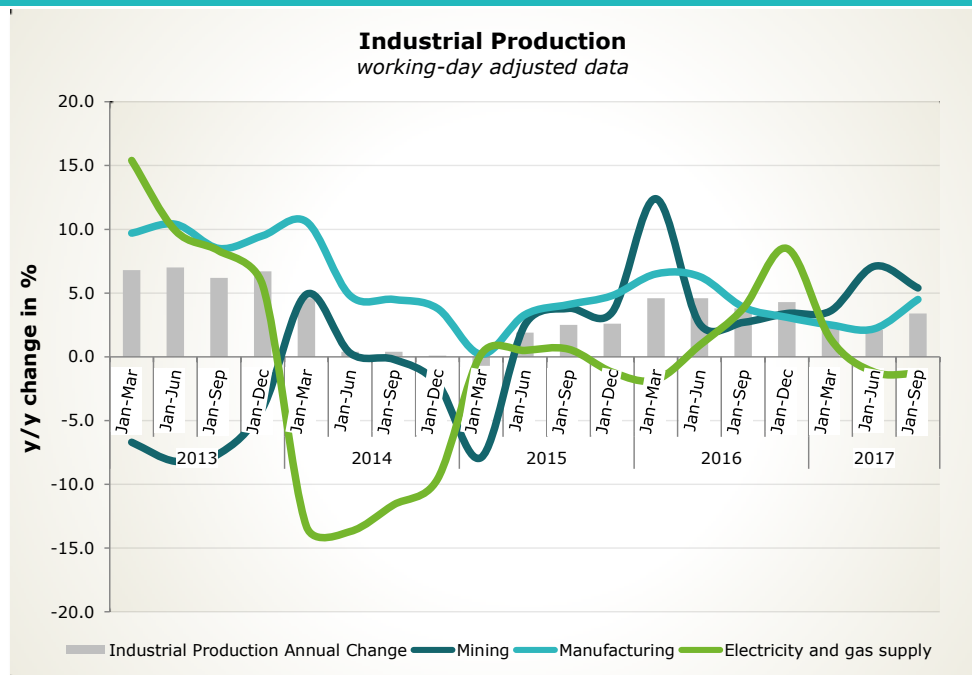
Source: BHAS

## 2.2. INDUSTRIAL OUTPUT

### Industrial output up 3.4% y/y in Jan-Sept 2017

Industrial output went up by 3.4% in January - September 2017, according to BHAS data. The output of the mining sector rose by 5.4%, followed by the manufacturing industry with 4.5%, while the output of the electricity and gas supply sector narrowed by 1.3%.

Production of capital goods expanded the most, by 8.9% y/y, while production of non-durable goods went up on average by 4.8% in the first nine months of 2017. Production of consumer durable goods plunged by 18.1% y/y.



Source: BHAS

## 2.3. WHOLESALE/RETAIL

Retail grew 5.6% y/y, wholesale went up by 10.1% y/y in Q3 2017

Retail sales, except of motor vehicles and motorcycles, went up by 5.6% y/y in the third quarter of 2017, while wholesale trade increased by 10.1%, according to BHAS data. This is compared to growth for retail of 6.5% y/y and a rise of 8.0% y/y in the wholesale trade in Q2 2017.



Source: BHAS

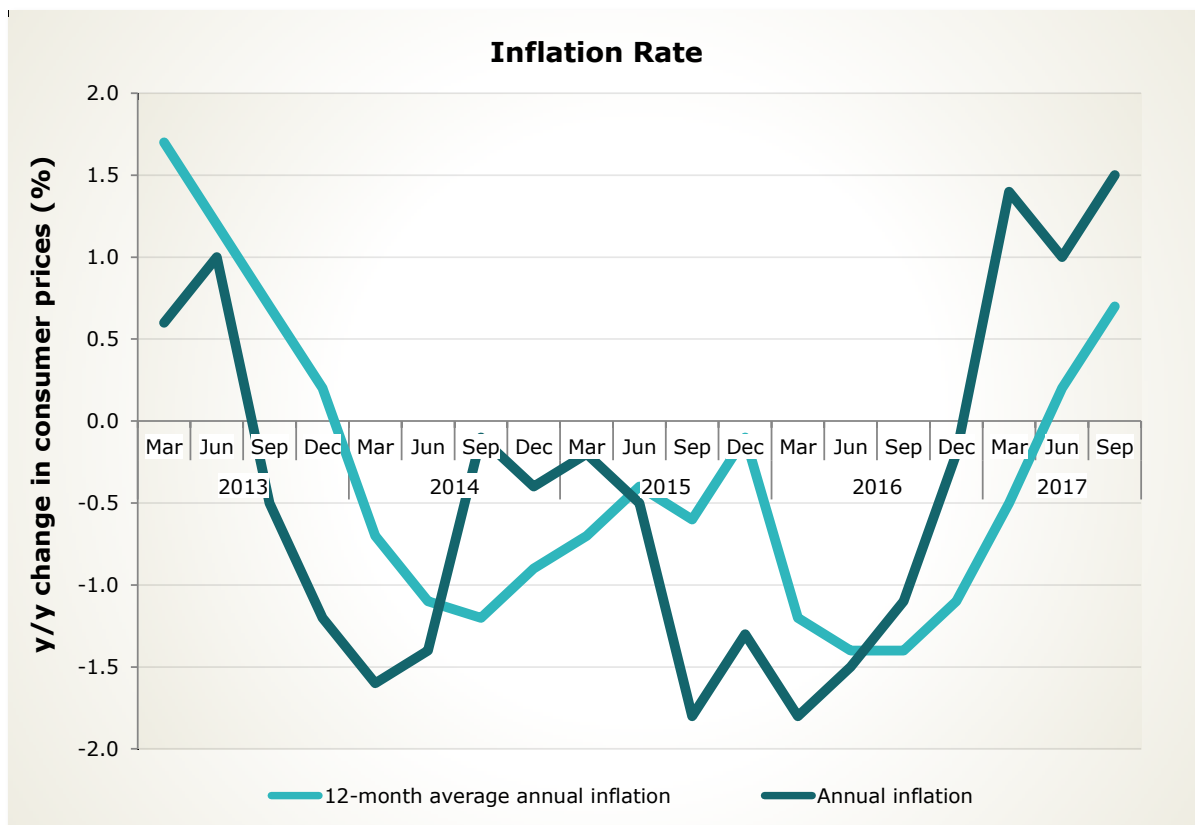
## 2.4. INFLATION

### *Inflation continues with consumer price increase of 1.5% y/y on average in September 2017*

Inflation persisted in Bosnia and Herzegovina as consumer prices grew by 1.5% y/y in September 2017 after growing by 1.0% in June 2017. As a result, the country experienced average annual inflation of 0.7% for the period October 2016 – September 2017, according to BHAS.

The highest average annual inflation in the period, of 5.3%, was registered by alcoholic beverages and tobacco, followed by transport services – 4.4%, and housing, water, electricity, gas and other fuels – 1.2%.

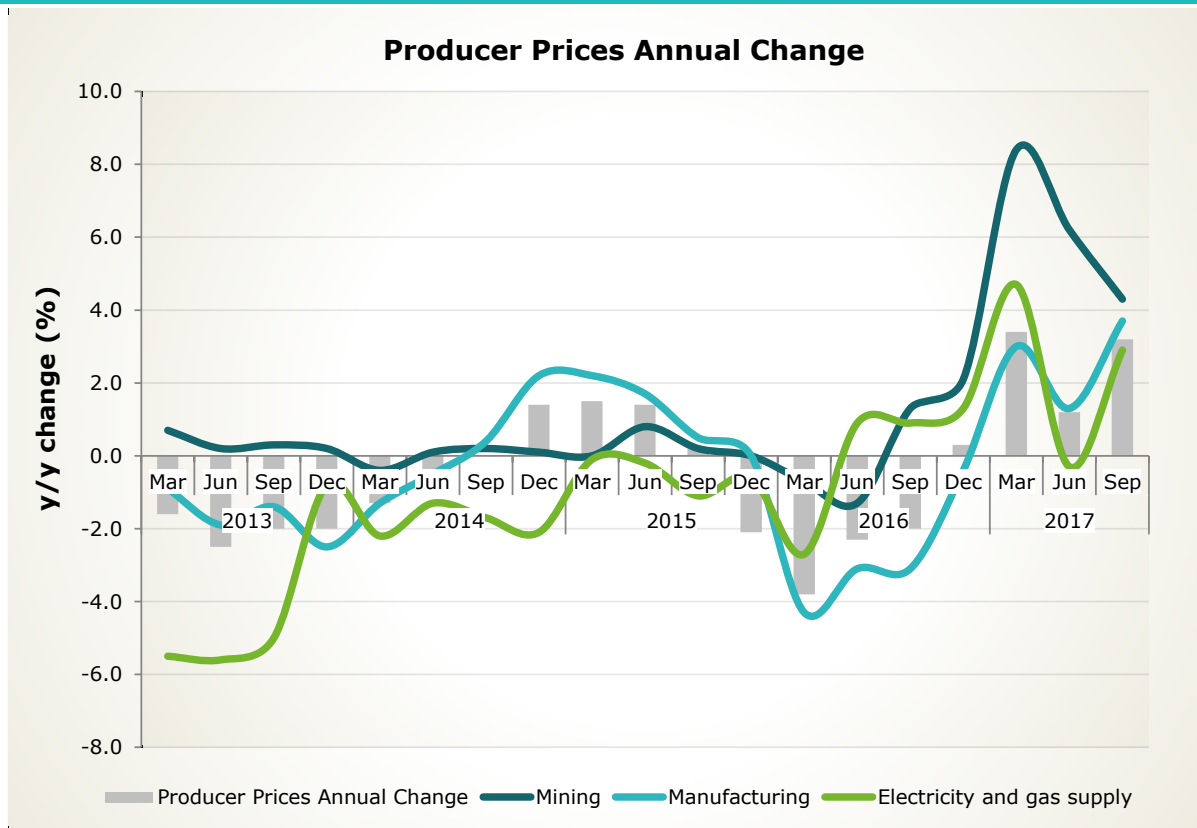
In terms of deflation, the ranking was led by clothing and footwear – 8.4%, furnishings and household equipment – 1.2%, and other goods and services – 0.5%.



Source: BHAS

Producer prices grew by 3.2% y/y in September 2017 due to the 4.3% rise in the mining sector. Manufacturing prices increased by 3.7%, while producer prices in the electricity and gas supply industry went up by 2.9%.





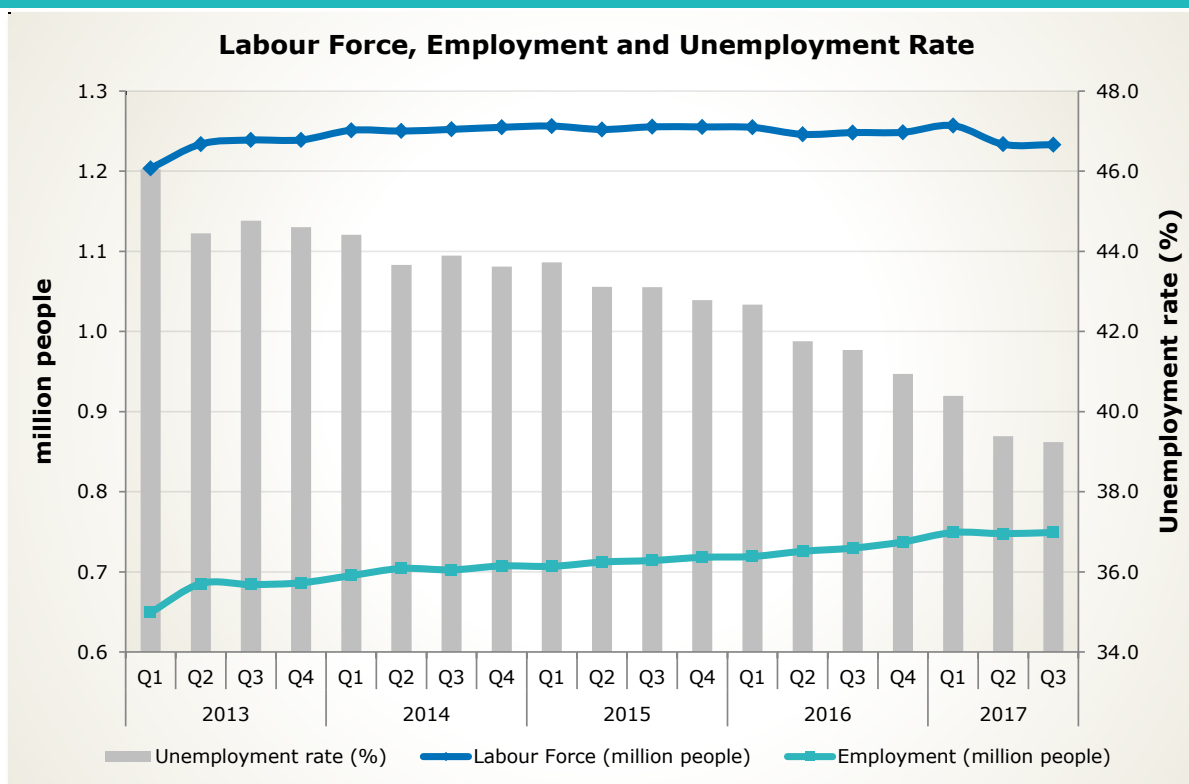
Source: BHAS

### 3. LABOUR MARKET

#### Unemployment rate went down but remained high, at 39.2%, as of September 2017

Unemployment in Bosnia and Herzegovina decreased to 39.2% of the total labour force in Q3 2017 from 41.5% in Q3 2016, according to data of BHAS.

Employment in the country counted 749,266 people, up 2.7% y/y, while the labour force inched down by 1.2% y/y to 1,233,191 on average in Q3 2017.



Source: BHAS

The average monthly net salary in Q3 2017 climbed by 1.4% y/y to BAM 850 in comparison to BAM 838 a year earlier.

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits increased by 8.2% y/y in Q3 2017*

The number of building permits, excluding civil engineering works, issued in Bosnia and Herzegovina in Q3 2017 grew by 8.2% y/y and totalled 939, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, soared to 129,210 sq m from 101,622 sq m in Q3 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 1.66611 in Q3 2017 from BAM 1.78098 in Q2 2017, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q3 2017	Q2 2017	Q3 2016
USD	1.66611	1.78098	1.75132
GBP	2.17952	2.27532	2.30336
CHF	1.73113	1.80621	1.79621
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.

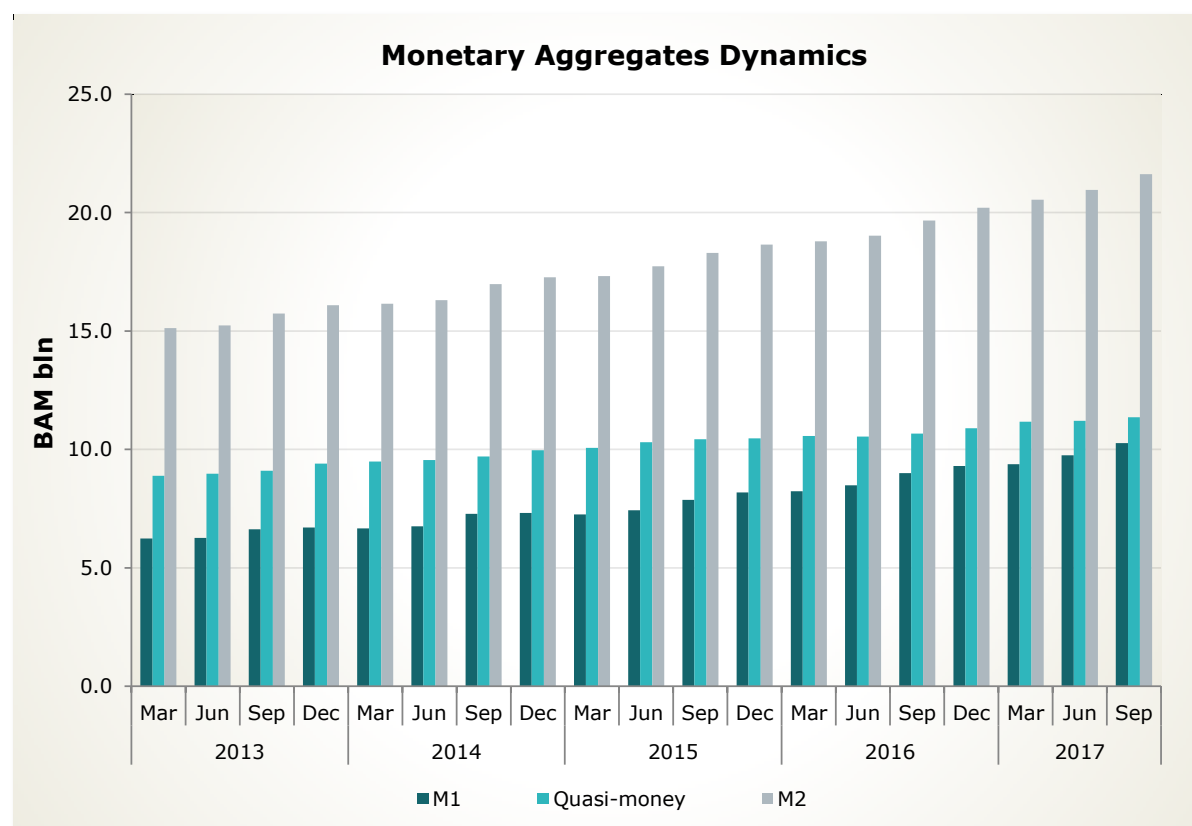
## 5.2. MONETARY AGGREGATES

### Money supply growth was 9.9% y/y as of September 2017

Broad money, or money aggregate M2, in Bosnia and Herzegovina increased by 9.9% y/y and reached BAM 21.618 bln in September 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 11.357 bln.

Money aggregate M1, or narrow money, expanded by 14.0% y/y to BAM 10.261 bln.



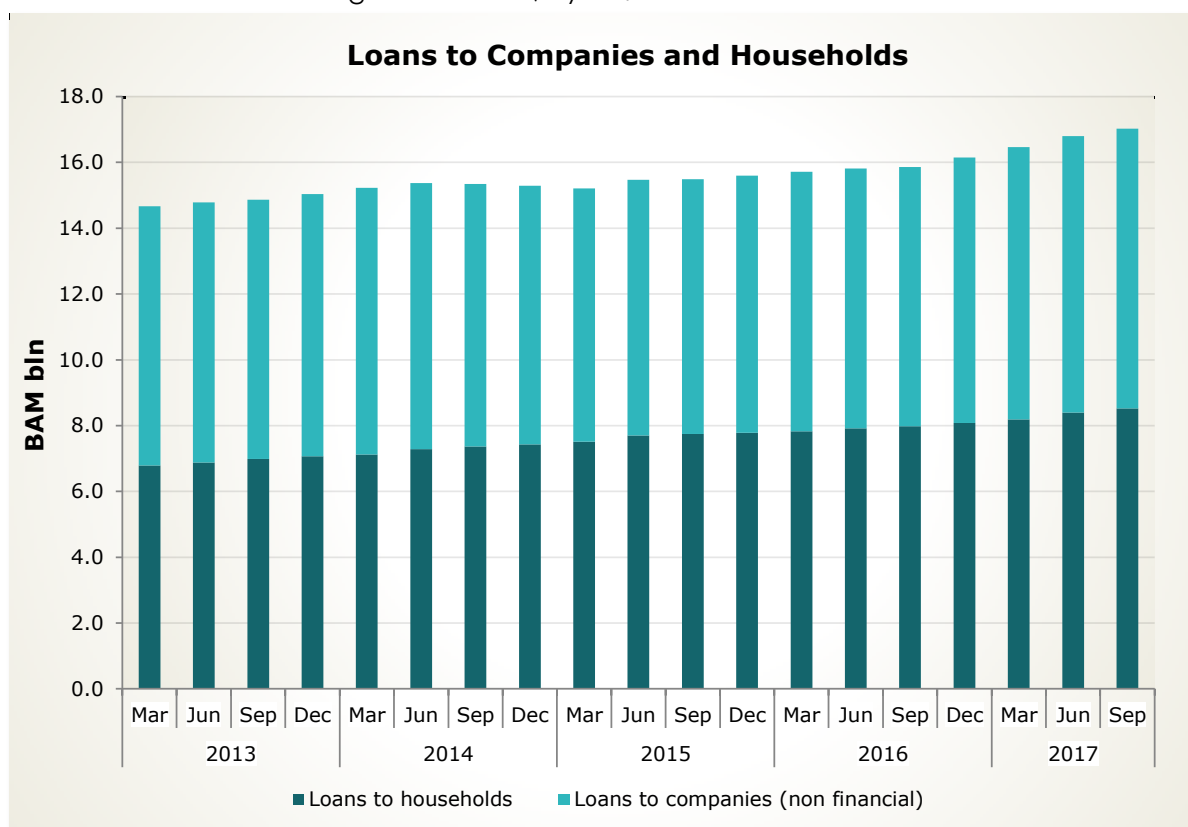
Source: CBBH

## 5.3. BANKING AND INSURANCE

### Household loans increased by 6.8% y/y in September 2017

Loans to the non-government sector totalled BAM 16.668 bln as of September 2017, up by 7.6% y/y, according to CBBH.

Loans to non-financial corporations increased by 7.9% to BAM 8.505 bln, while household loans rose by 6.8% y/y to BAM 8.522 bln. House purchasing loans inched up by 2.2% to BAM 1.511 bln. Consumer loans grew the most, by 8.7% to BAM 6.423 bln.

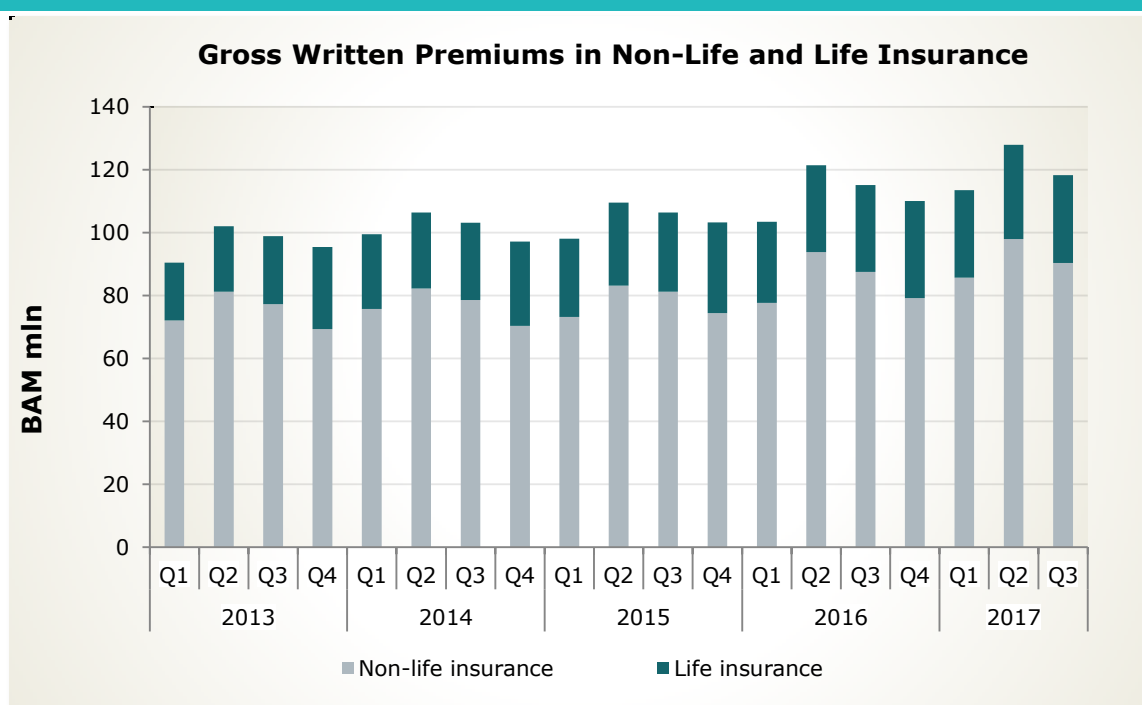


Source: CBBH

### Insurance premium income up 2.7% y/y in Q3 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 118.3 mln, up by 2.7% y/y in Q3 2017, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 3.3% rise, to BAM 90.4 mln, of the non-life insurance segment and the 1.0% rise, to BAM 27.9 mln, of life insurance.



Source: NADOS

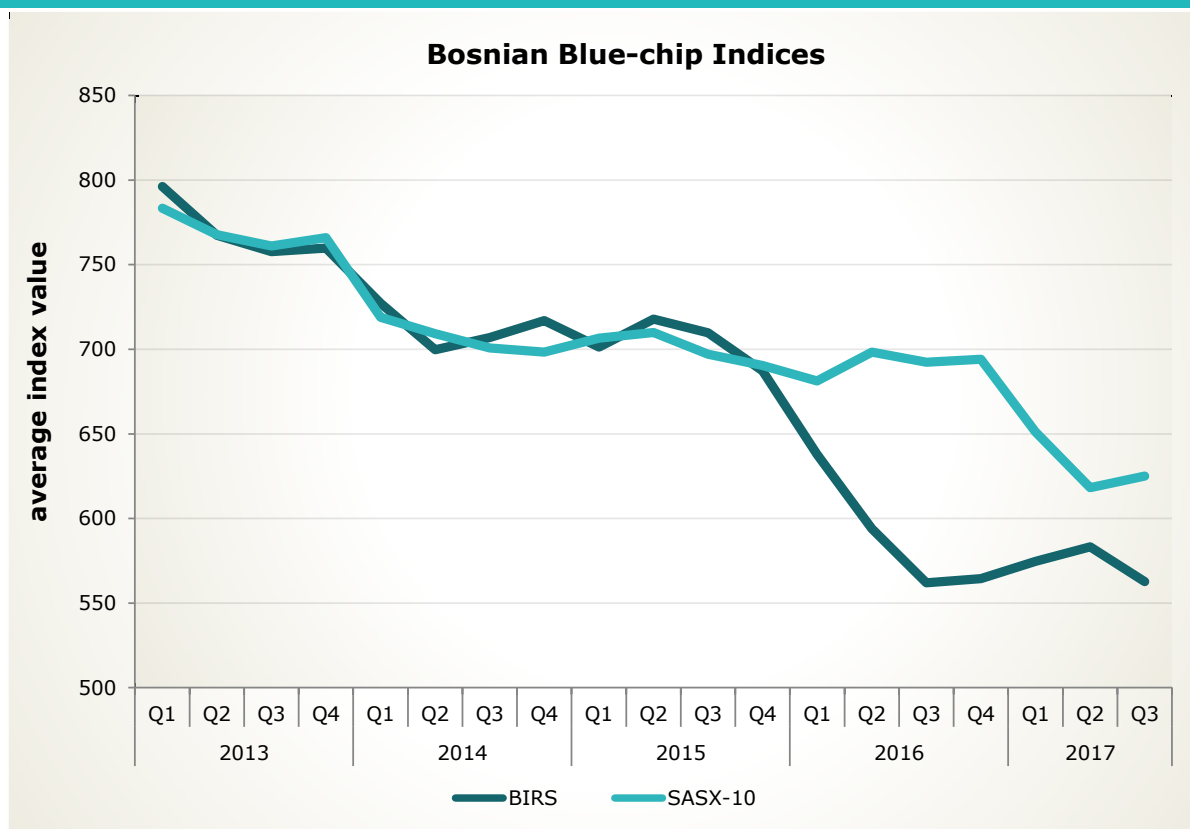
## 6. CAPITAL MARKETS

### Blue-chip BIRS down 3.5% q/q, SASX10 up 1.1% q/q in Q3 2017

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), decreased q/q by 3.5% in Q3 2017, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), registered an increase compared to Q2 2017, of 1.1%.

On year-to-year basis, SASX10 recorded decrease of 9.7%, while the blue-chip index BIRS notched up by 0.1%.



Source: BLSE, SASE

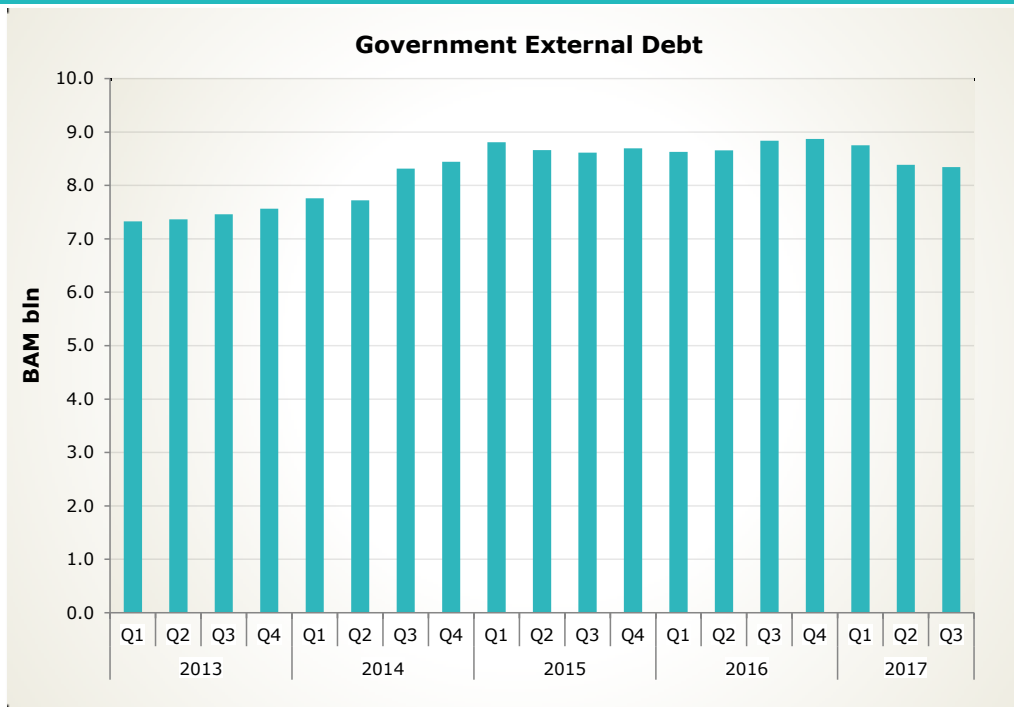
## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

#### **Government external debt went down by 5.6% y/y to BAM 8.342 bln in Q3 2017**

The total external government debt amounted to BAM 8.342 bln in Q3 2017, down by 5.6% on the year, according to CBBH data. In comparison to Q2 2017, the government external debt decreased by BAM 45.0 mln.

Bosnia and Herzegovina's main foreign creditors as of Q3 2017 were World Bank's International Development Association (IDA), the European Investment Bank, and the European Bank for Reconstruction and Development (EBRD).

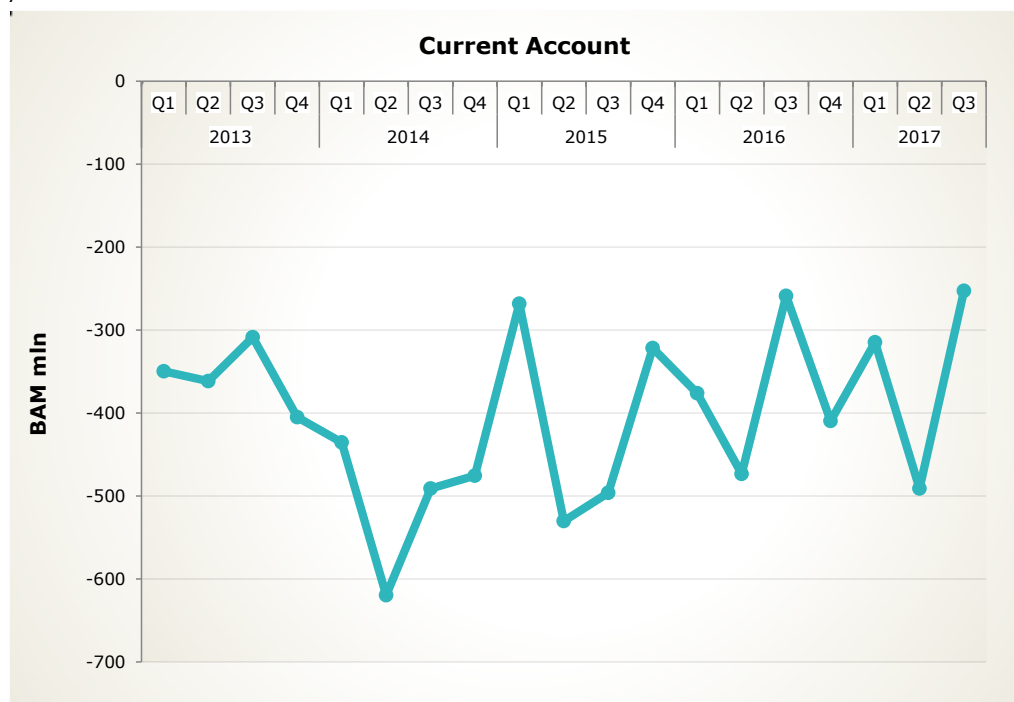


Source: CBBH

## 7.2. BALANCE OF PAYMENTS

### Current account gap at BAM 252.7 mln in Q3 2017

The current account gap narrowed to BAM 252.7 mln in Q3 2017 from BAM 258.7 mln in Q3 2016, according to central bank statistics data. The net secondary income increased by 4.1% on the year to BAM 982.2 mln.



Source: CBBH

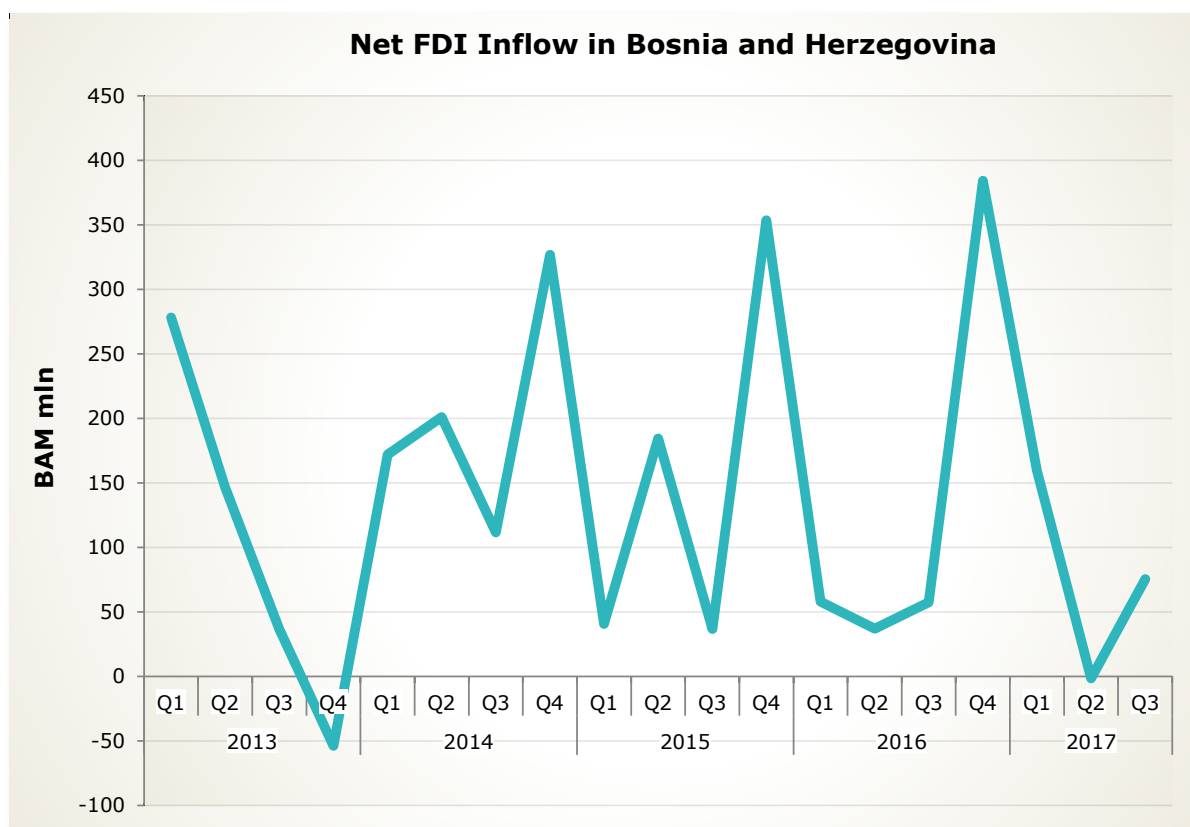
## 7.3. FDI

### Net FDI inflow at BAM 75.4 mln in Q3 2017

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina was positive in the third quarter of 2017, totalling BAM 75.4 mln, according to CBBH data.

In Q3 2017, Slovenia was the biggest foreign investor in the country with direct investments of BAM 22.4 mln, Italy came second with BAM 11.9 mln and Kuwait came third with BAM 8.2 mln.

Electricity, gas, steam and air-conditioning supply was the most attractive sector for foreign investors with net FDI inflow of BAM 24.1 mln in Q3 2017, ahead of real estate activities with BAM 22.5 mln and retail trade with BAM 11.6 mln.



Source: CBBH

## 7.4. FOREIGN TRADE

### Foreign trade deficit at BAM 1.809 bln in Q3 2017

The trade deficit gap widened to BAM 1.809 bln in Q3 2017 from BAM 1.740 bln in Q3 2016, according to BHAS.



Exports surged by 22.8% y/y to BAM 2.884 bln, while imports jumped by 14.8% y/y to BAM 4.693 bln.

Export to EU countries amounted to BAM 2.045 bln in Q3 2017, which is 23.7% higher than in the same quarter of 2016, while import amounted to BAM 2.893 bln, or by 14.6% more than in the year-ago quarter.

Exports of base metals and articles thereof had the biggest share in Bosnia and Herzegovina's total exports – 18.5%, followed by machinery and electrical equipment with an 11.2% share and miscellaneous manufactured articles – 10.1%.

In terms of imports, machinery and electrical equipment had the largest share, of 15.1%, followed by mineral products with 13.7%, and base metals and articles thereof with 11.2%.



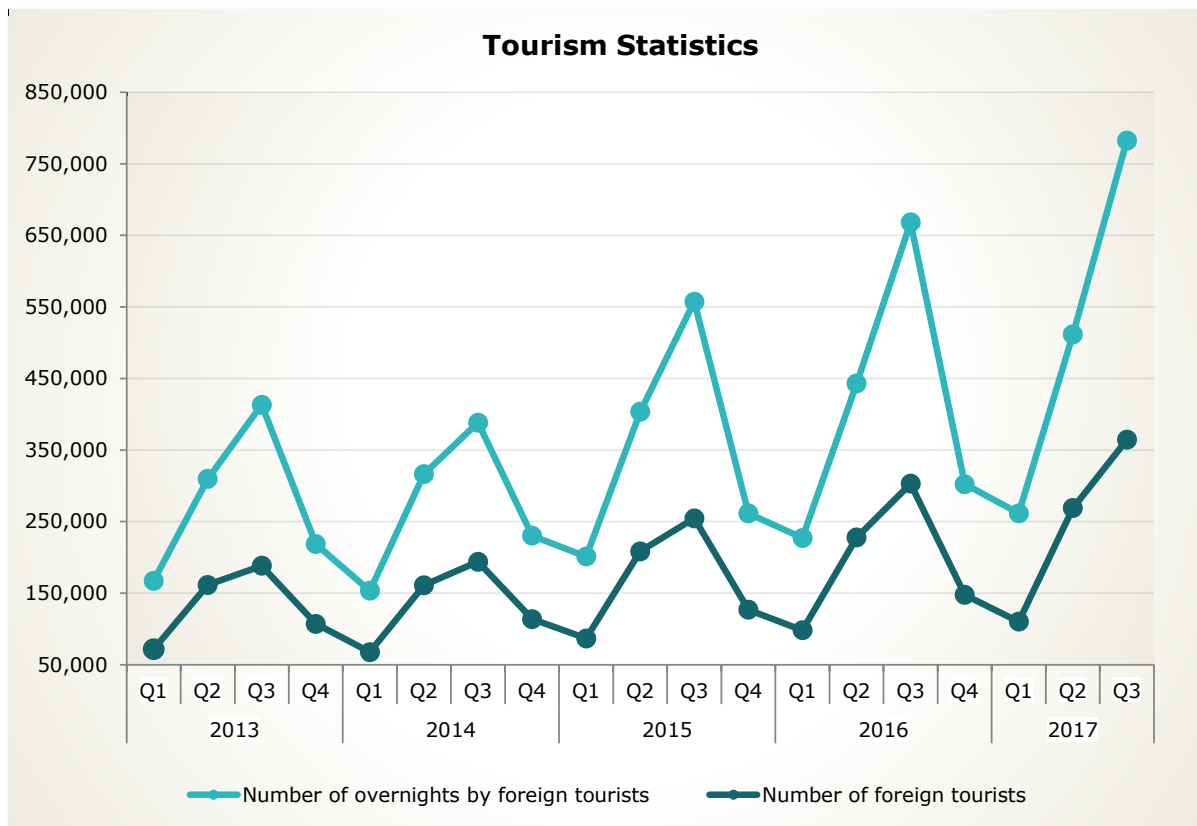
Source: BHAS

## 7.5. TOURISM

### Number of foreign tourist overnights rose by 17.1% y/y in Q3 2017

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 17.1% to 782,618 in Q3 2017, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 77.7% in Q3 2017, versus 76.0% in Q3 2016.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 20.3% y/y to 364,518.



Source: BHAS

## 8. MAJOR DEVELOPMENTS

### **Bosnia joins Western Balkans Transport Community Treaty**

Sept 20, 2017

Bosnia's state-level government said it has signed an agreement to join the Transport Community promoted by the European Union in the Western Balkans.

[Read the full story here](#)

### **S&P affirms Bosnia's ratings at B/B, outlook stable**

Sept 12, 2017

Ratings agency Standard & Poor's (S&P) said it affirmed its 'B/B' long- and short-term foreign and local currency sovereign credit ratings on Bosnia and Herzegovina, with a stable outlook.

[Read the full story here](#)

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**Bosnia's Federation signs EUR 221.0 mln loan deals with EBRD**

Aug 30, 2017

The president of Bosnia's Federation has signed two loan deals for a total of EUR 221.0 mln with the European Bank for Reconstruction and Development intended to finance road projects, the president's office said.

[Read the full story here](#)

**New border crossing aims to provide Bosnia with stronger link to Croatia's Dubrovnik**

Aug 30, 2017

A newly built border crossing unveiled in August aims to create a stronger link between lower Bosnia and Croatia's coastal city of Dubrovnik, Bosnia's Indirect Taxation Authority said.

[Read the full story here](#)

**EFSE lends EUR 2.0 mln to Bosnia's MI-BOSPO to fund micro enterprises**

July 27, 2017

The European Fund for Southeast Europe (EFSE) said in July it has expanded its partnership with Bosnia's MI-BOSPO by providing the non-profit financial institution with a EUR 2.0 mln senior loan to support the development of micro enterprises in the country.

[Read the full story here](#)

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