

BOSNIA AND HERZEGOVINA ECONOMY REPORT

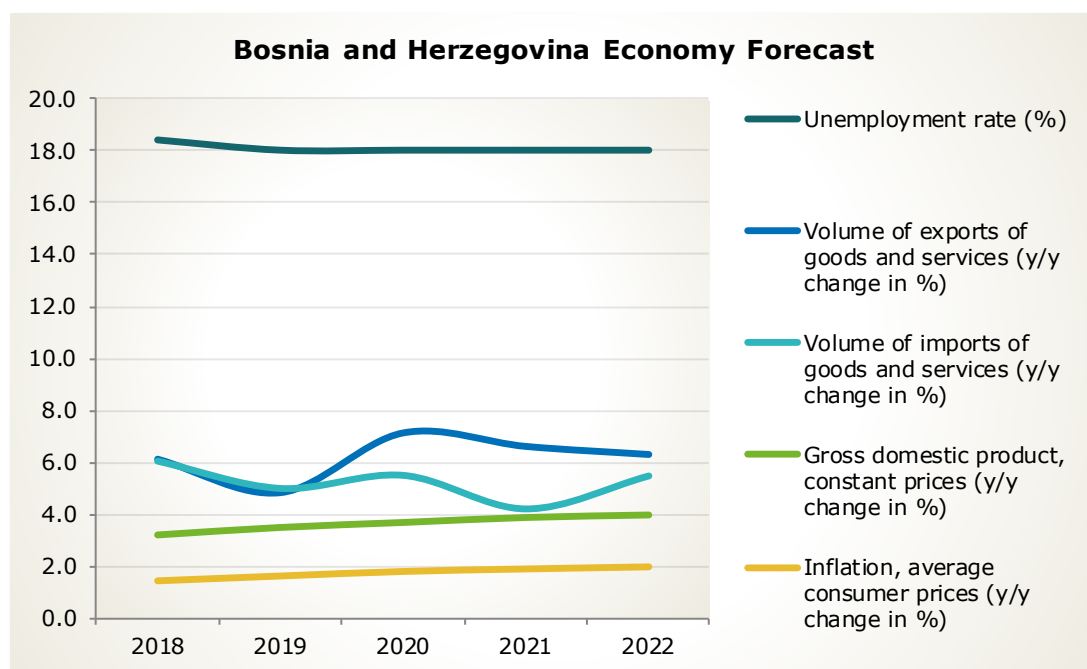
Q3 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN Q3 2018	
GDP Growth	3.0% y/y
Industrial output	2.4% y/y
Wholesales	4.6% y/y
Retail sales	12.5% y/y
Average annual inflation	1.3%
Unemployment rate	35.7%
Number of building permits	-3.2% y/y
Money supply growth	10.3% y/y
Household loans	7.4% y/y
BIRS blue-chip index	2.4% q/q
SASX-10 blue-chip index	3.1% q/q
Government external debt	BAM 8.566 bln
Current account deficit	BAM 312.5 mln
Net FDI inflow	BAM 48.7 mln
Foreign trade deficit	BAM 1.961 bln
Number of foreign tourist overnights	11.0% y/y



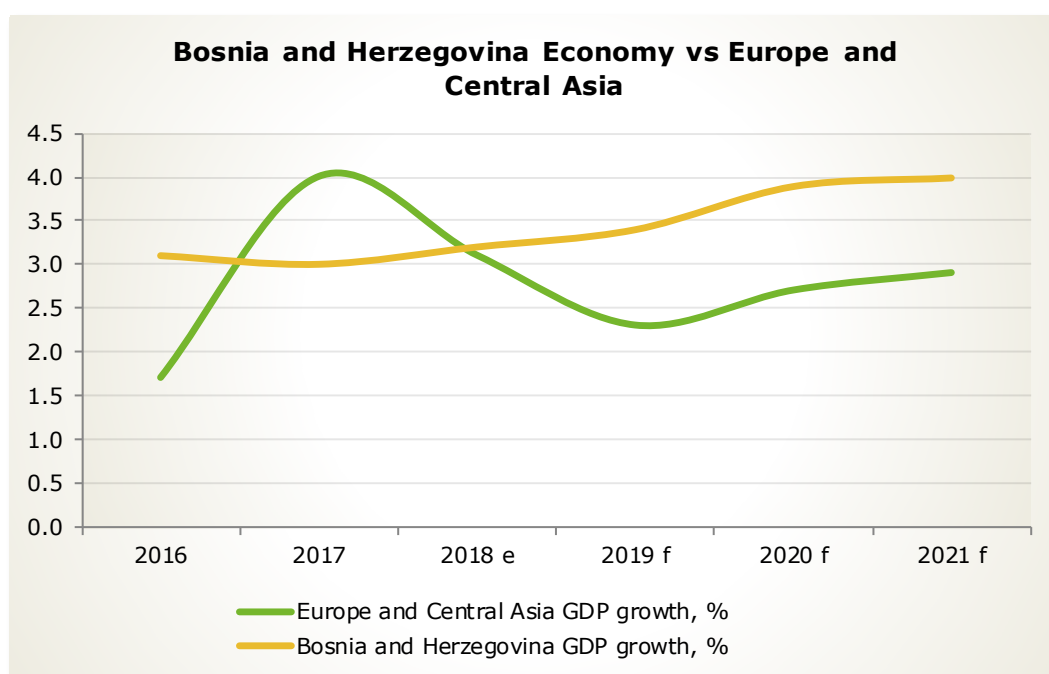
Source: International Monetary Fund (IMF) World Economic Outlook Database – October I 2018

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 18.4% in 2018, down from 20.5% in 2017.



Source: World Bank, *Global Economic Prospects*, January 2019

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 3.1% in 2018.

Bosnia and Herzegovina – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	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

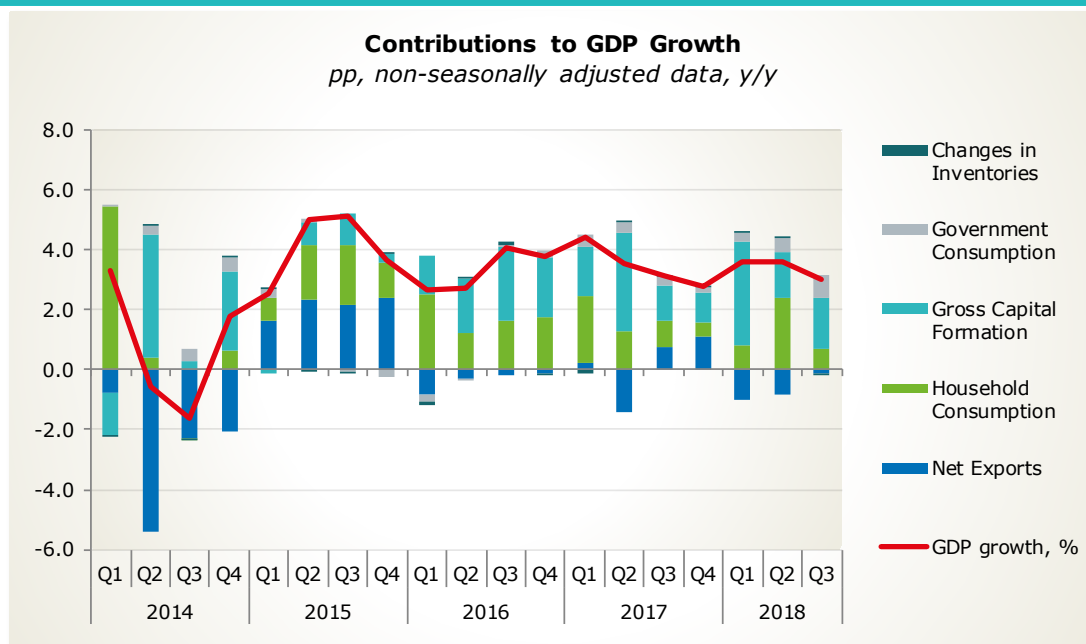
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 3.0% y/y in Q3 2018

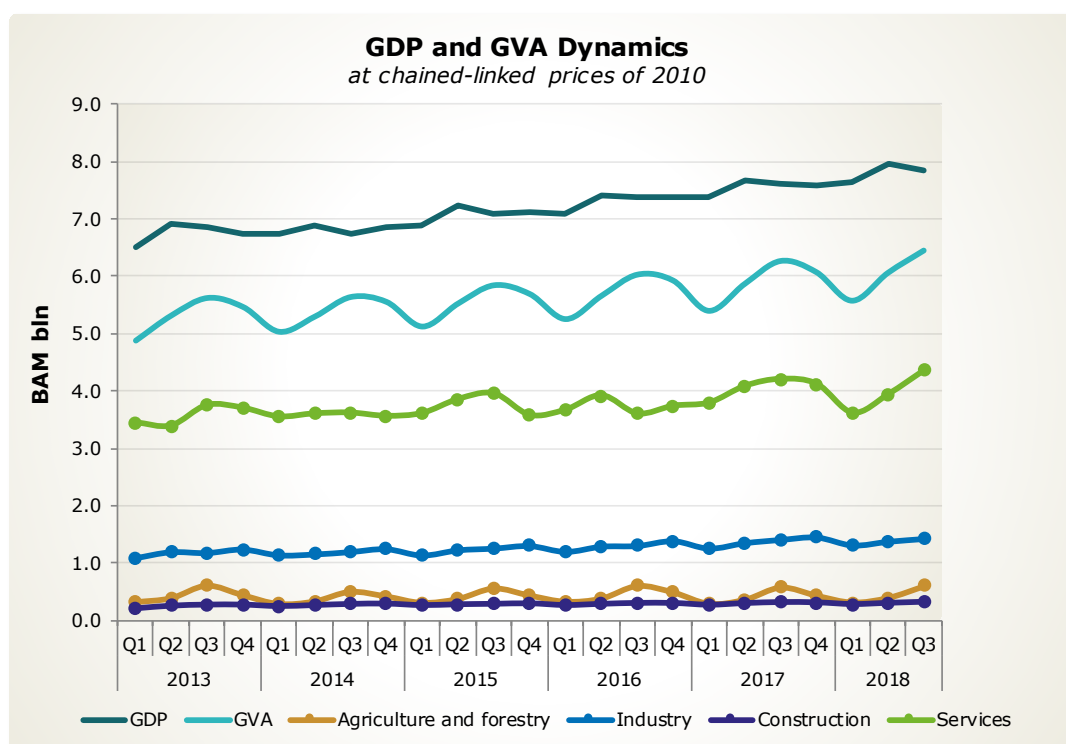
The country's real GDP annual growth was 3.0% to BAM 7.842 bln in Q3 2018, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS). This is a minor decrease compared to Q3 2017 when the GDP increased at 3.1% annual rate.

Gross capital formation contributed the most to the overall GDP growth in Q3 2018, by 1.7 pp, while the only negative contribution was made by the net exports with 0.1 pp.



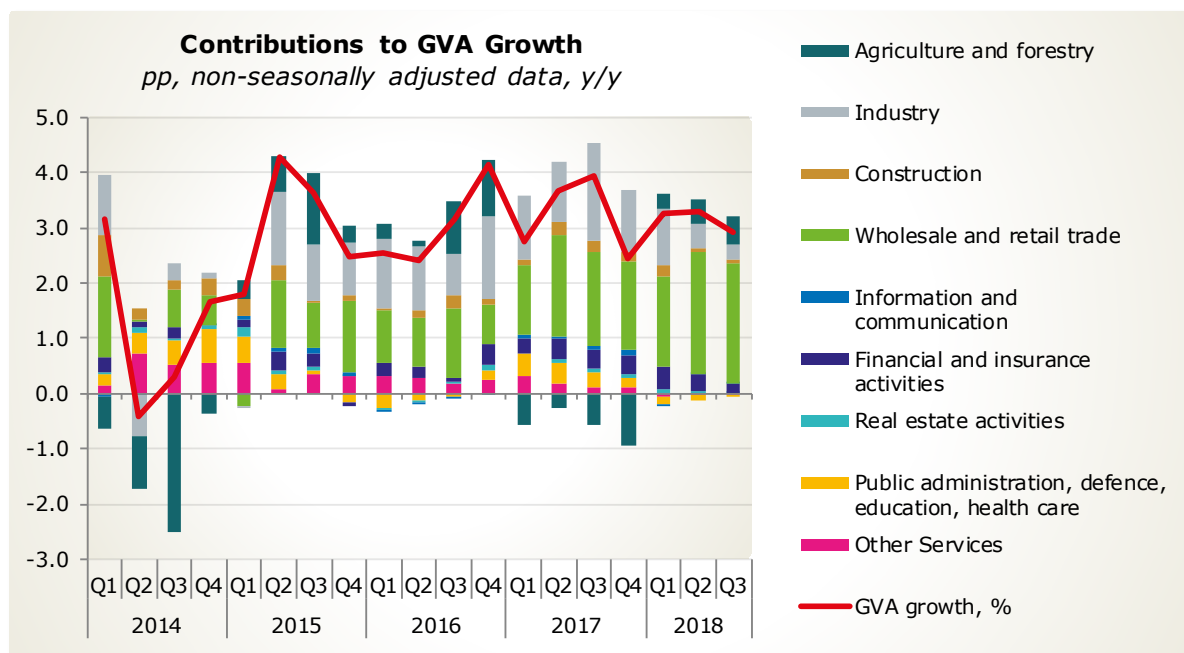
Source: BHAS, SeeNews Calculations

The gross value added (GVA) generated by the national economy increased in value terms by 2.9% y/y in Q3 2018 and totalled BAM 6.462 bln. The industrial sector grew by 1.2% but its share in the GVA structure inched down to 22.1% from 22.5% a year earlier. The services sector recorded a 3.7% annual increase, slicing a 67.4% share in the GVA. Agriculture and forestry went up by 4.4% and accounted for 9.4% of the GVA, almost unchanged from the same quarter in the previous year. Construction sector's GVA went up by 1.6% and its GVA share remained about 5.0%.



Source: BHAS, SeeNews Calculations

In Q3 2018, in terms of industry breakdown, almost half of the sectors had a positive contribution to the economic growth (except Information and communication, Real estate activities, Public administration, defence, education, health care, and Other Services, with 0.0 pp contribution). The wholesale and retail sector was the biggest contributor to GVA growth, adding 2.2 pp, while the contribution of all other sectors was below 1.0 pp.

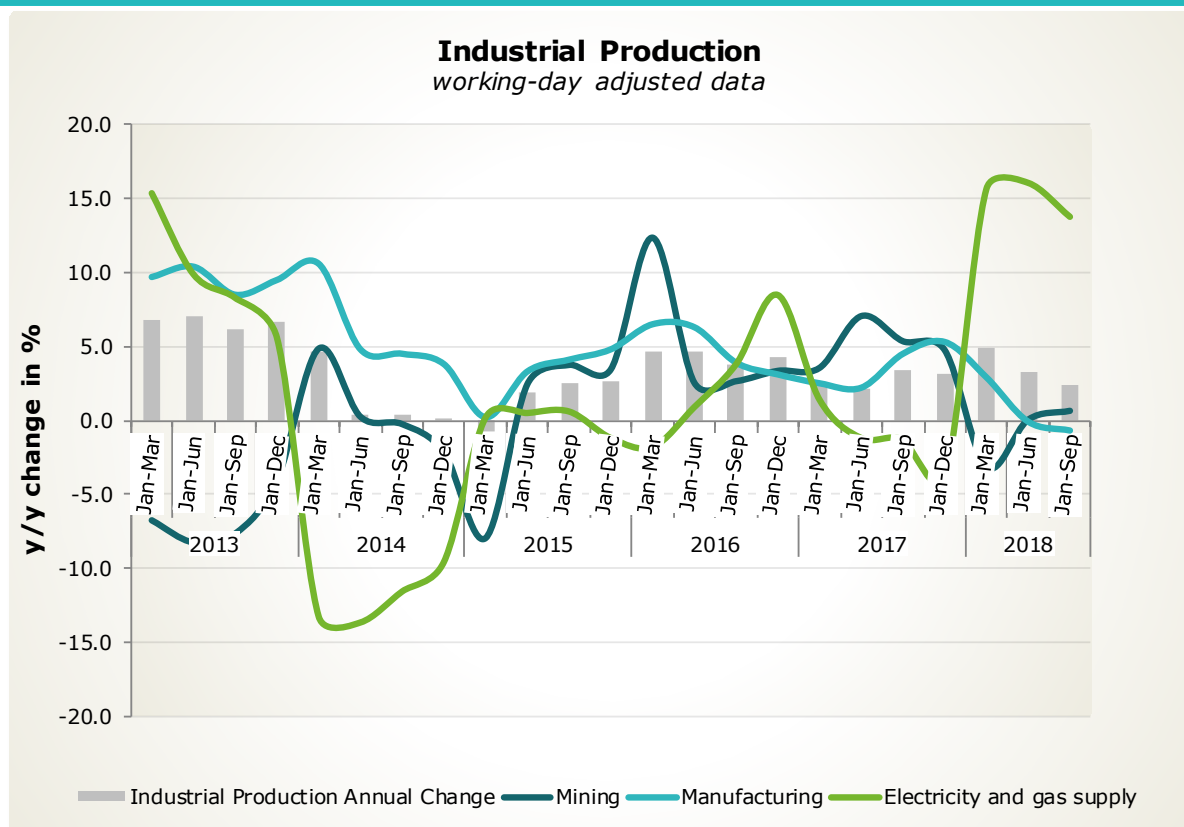


Source: BHAS

2.2. INDUSTRIAL OUTPUT

Industrial output up 2.4% y/y in Jan-Sep 2018

Industrial output went up by 2.4% in the first nine months of 2018, according to BHAS data. This is a deceleration compared to the first half of 2018, when the industrial production advanced by 3.3% in real terms. The output of the electricity and gas supply sector expanded the most with 13.8%, followed by the mining sector with 0.7%, while the output of the manufacturing industry declined by 0.7%.



Source: BHAS

2.3. WHOLESALE/RETAIL

Retail and wholesale sectors remained positive y/y in Q3 2018

Retail sales, except of motor vehicles and motorcycles, went up by 12.5% y/y in the third quarter of 2018, while wholesale trade increased by 4.6%, according to BHAS data. This is compared to the growth for retail of 12.1% y/y and a rise of 8.7% y/y in the wholesale trade in Q2 2018.



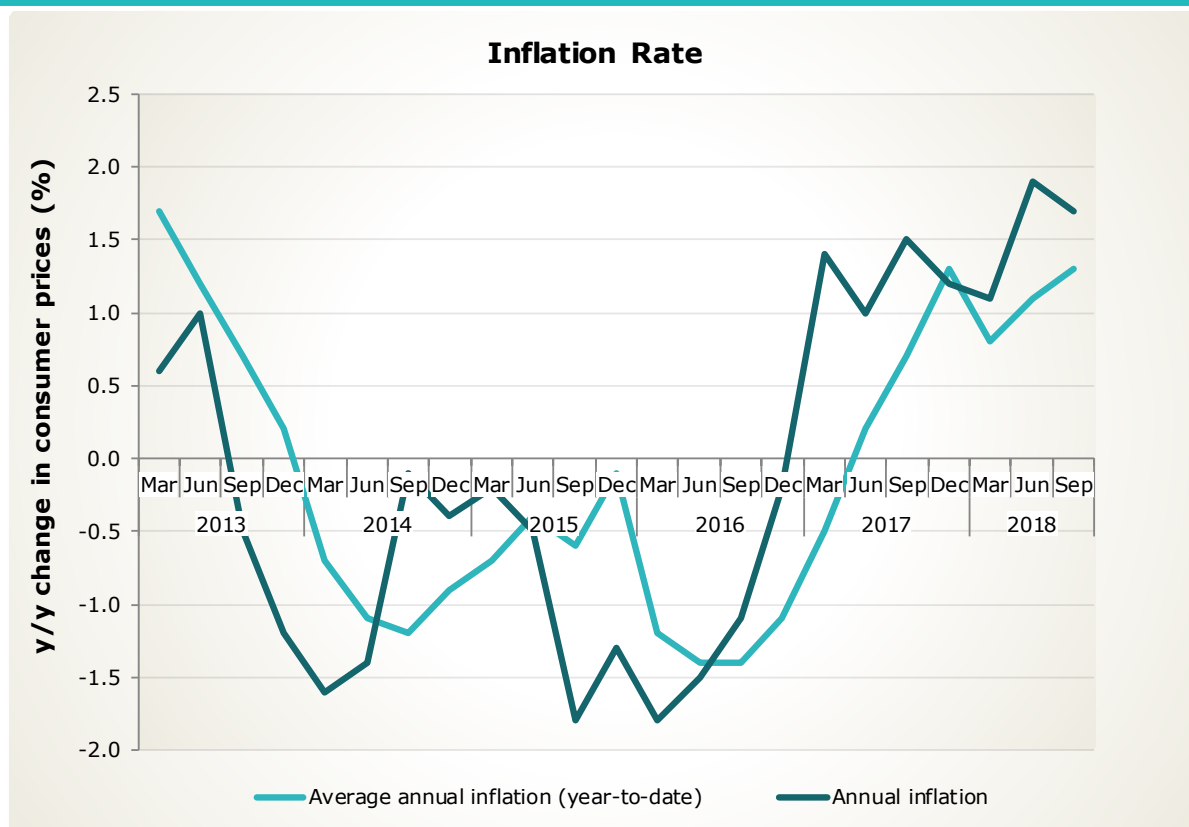
Source: BHAS

2.4. INFLATION

Inflation at 1.3% in Jan-Sep 2018

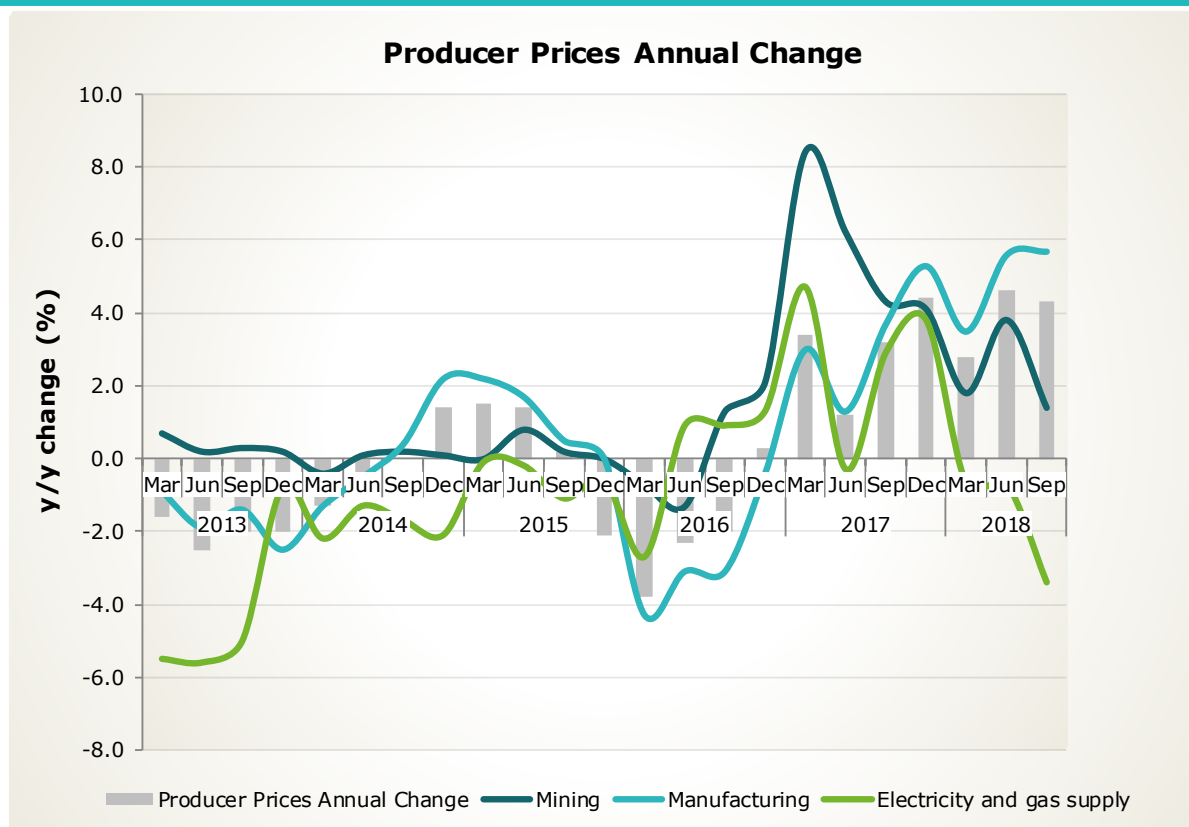
The average prices in Bosna and Herzegovina advanced by 1.3% y/y in the period Jan-Sep 2018, data from BHAS shows. This is a rise compared to the first half of 2018, when the average annual inflation was 1.1%.

The inflation was highest in the transport sector – 8.0%, while there were sectors to report a deflation – the highest was 10.0%, registered in clothing and footwear.



Source: BHAS

Producer prices grew by 4.3% y/y in September 2018 due to the 5.7% rise of the average prices in the manufacturing sector, followed by a 1.4% increase in the mining sector. Electricity and gas supply saw producer prices decreasing by 3.4%.



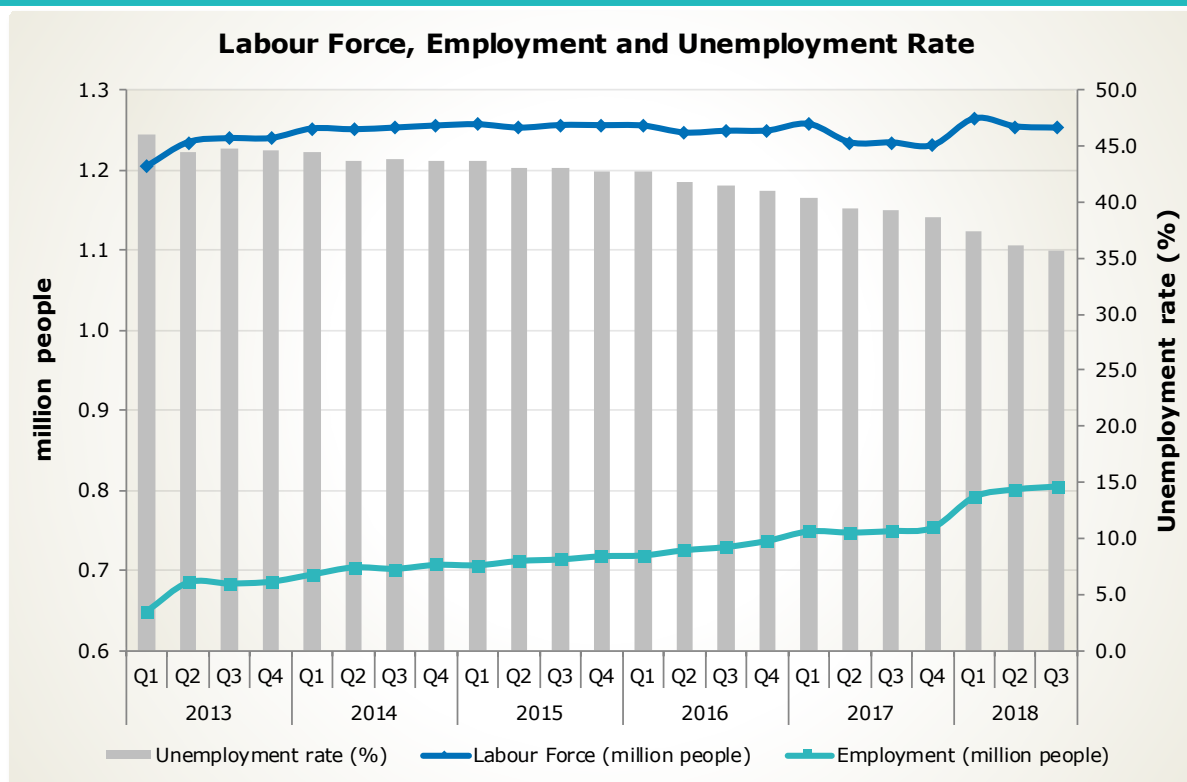
Source: BHAS

3. LABOUR MARKET

Unemployment rate continued to trend downwards in Q3 2018

Unemployment in Bosnia and Herzegovina eased to 35.7% of the total labour force in the third quarter of 2018 from 36.1% in Q2 2018 and 39.2% in Q3 2017, according to data of BHAS.

Employment in the country counted about 805,212 people, up 7.4% y/y, while the labour force inched up by 1.5% y/y to 1.252 million people in Q3 2018.



Source: BHAS

The average monthly net salary in Q3 2018 rose by 3.6% y/y, to BAM 881.0.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 3.2% y/y in Q3 2018

The number of building permits, excluding civil engineering works, issued in Bosnia and Herzegovina in Q3 2018 dropped by 3.2% y/y and totalled 909, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, expanded to 137,526 sq m from 129,210 sq m in Q3 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 1.68244 in Q3 2018 from BAM 1.64022 in Q2 2018, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q3 2018	Q2 2018	Q3 2017
EUR*	1.95583	1.95583	1.95583
USD	1.68244	1.64022	1.66612
GBP	2.19195	2.23286	2.17952
CHF	1.70944	1.66504	1.73113

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

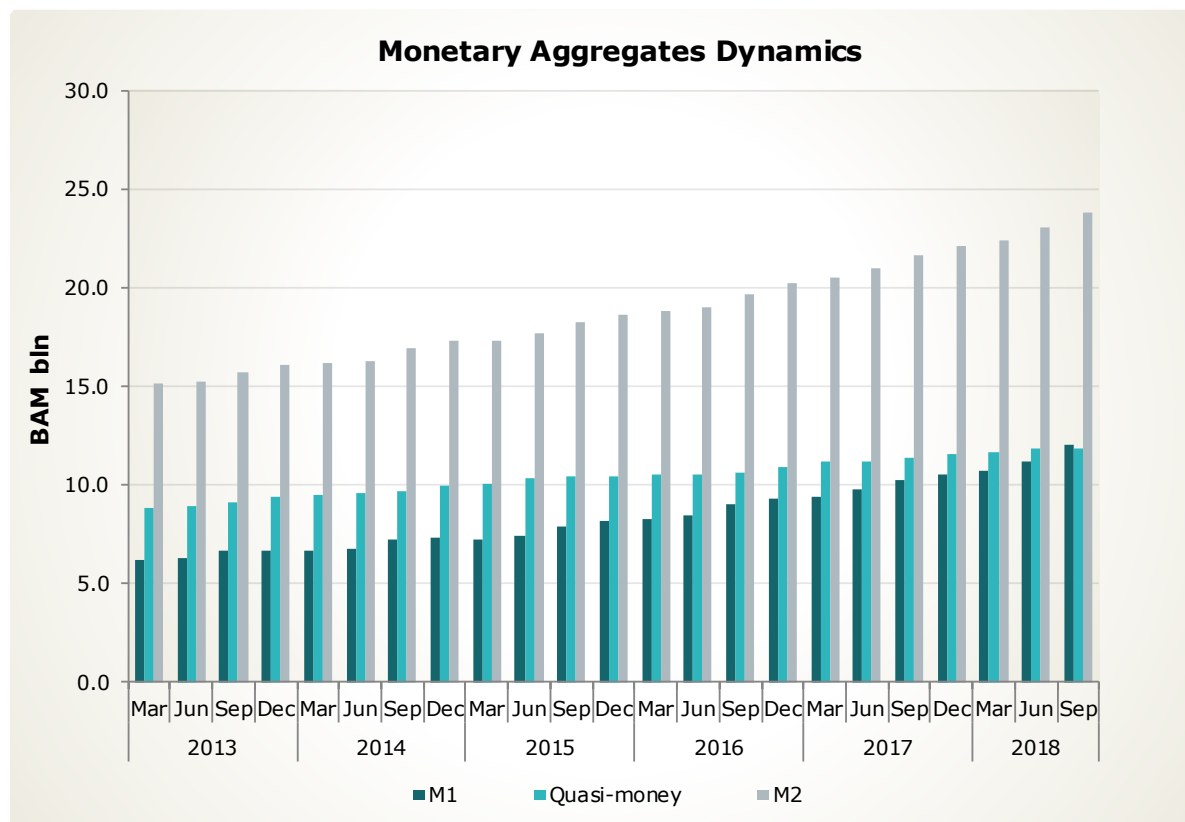
5.2. MONETARY AGGREGATES

Money supply growth up by 10.3% y/y as of September 2018

Broad money, or money aggregate M2, in Bosnia and Herzegovina increased by 10.3% y/y and reached BAM 23.840 bln in September 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 4.3% y/y to BAM 11.847 bln.

Money aggregate M1, or narrow money, expanded by 16.9% y/y to BAM 11.993 bln.



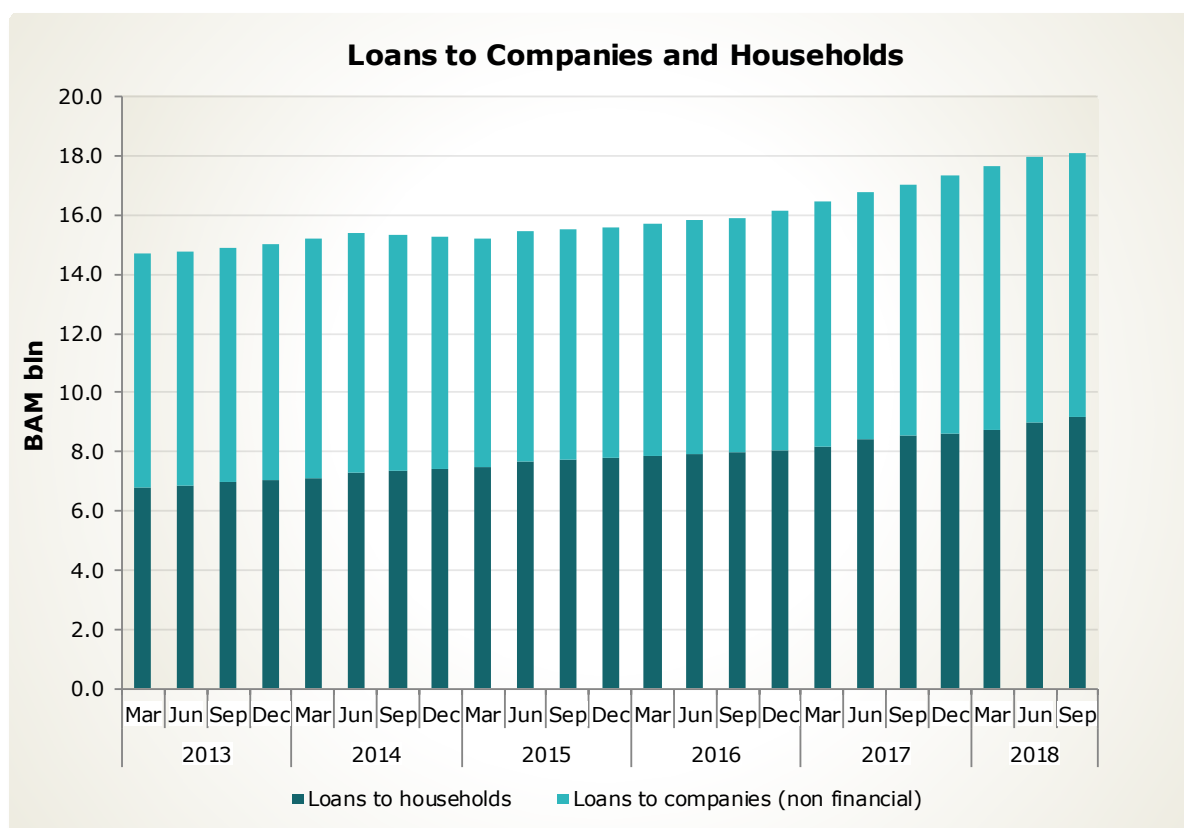
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans continued its uptrend in September 2018

Loans to the non-government sector totalled BAM 17.714 bln as of September 2018, up by 6.3% y/y, according to CBBH.

Loans to non-financial corporations increased by 5.2% to BAM 8.948 bln, while household loans rose by 7.4% y/y to BAM 9.154 bln, while house purchasing loans jumped by 9.2% to BAM 1.650 bln. Consumer loans grew slightly faster, by 8.0% to BAM 6.934 bln.

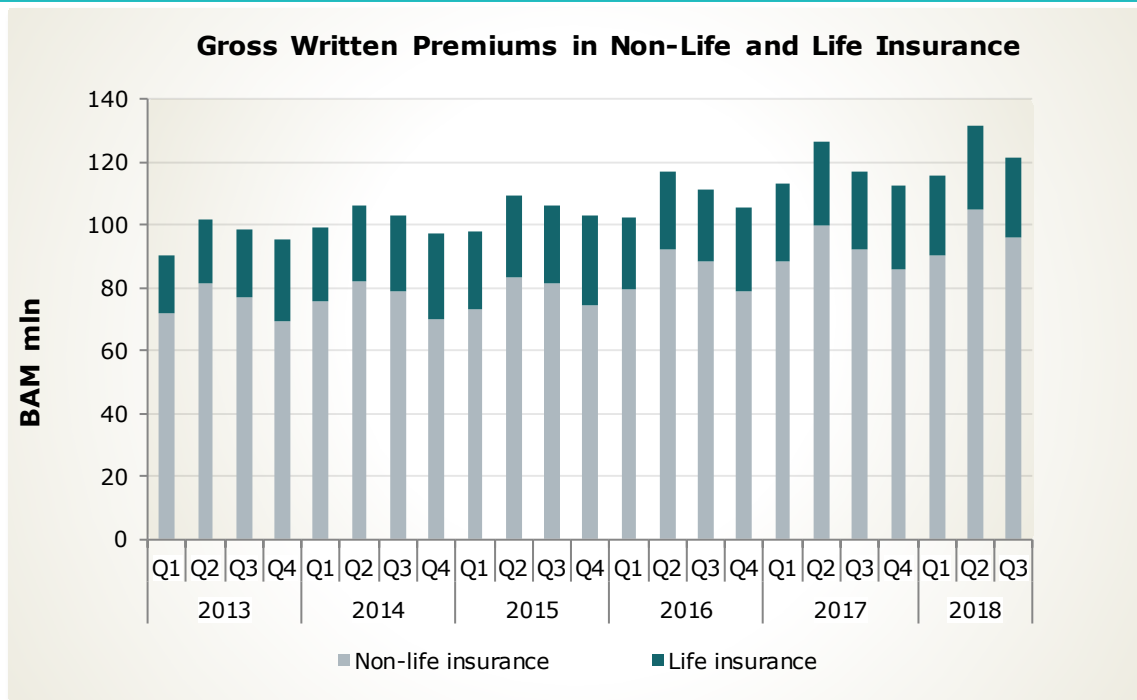


Source: CBBH

Insurance premium income up 4.0% y/y in Q3 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 121.5 mln, up by 4.0% y/y in Q3 2018, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 4.7% y/y rise, to BAM 96.3 mln, of the non-life insurance segment, as well as the life insurance premium income, which increased by 1.4% y/y to BAM 25.2 mln.



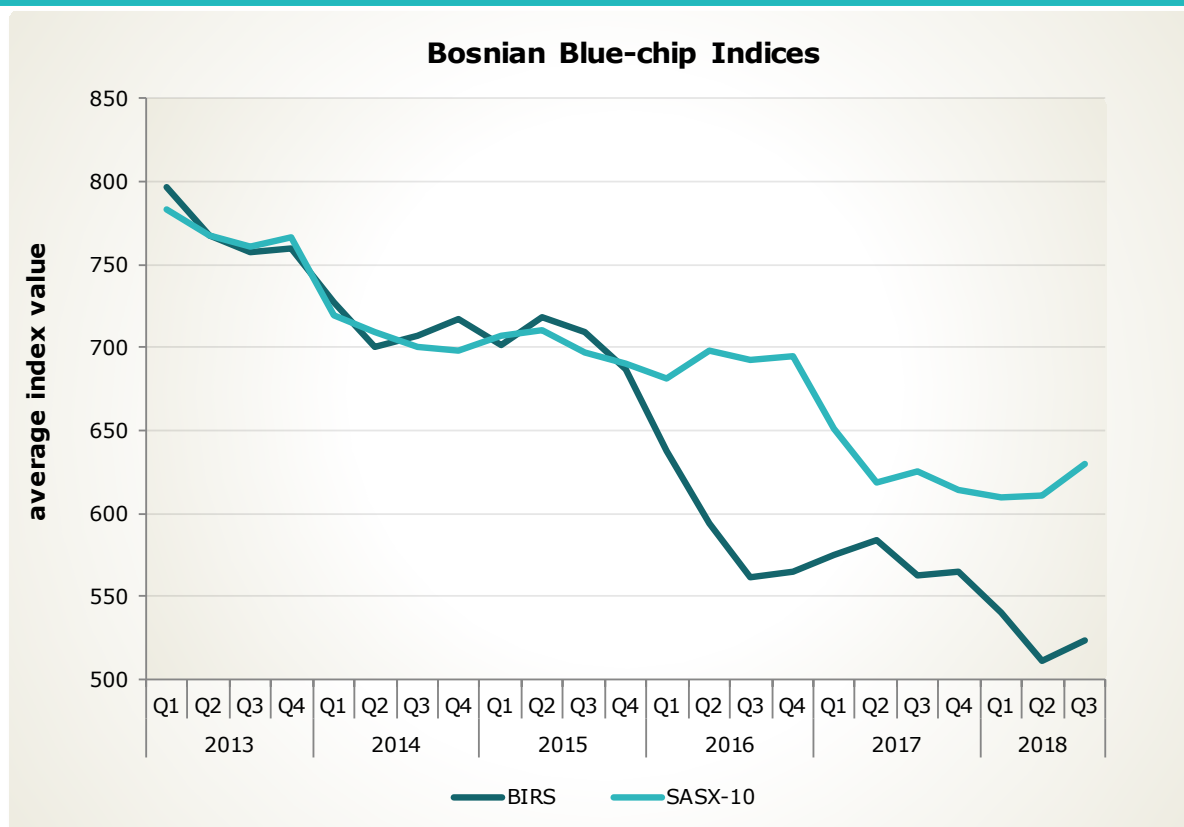
Source: NADOS

6. CAPITAL MARKETS

Blue-chip indices grew q/q in Q3 2018

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), increased by 2.4% q/q in Q3 2018, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), rose by 3.1% compared to the second quarter of 2018.



Source: BLSE, SASE

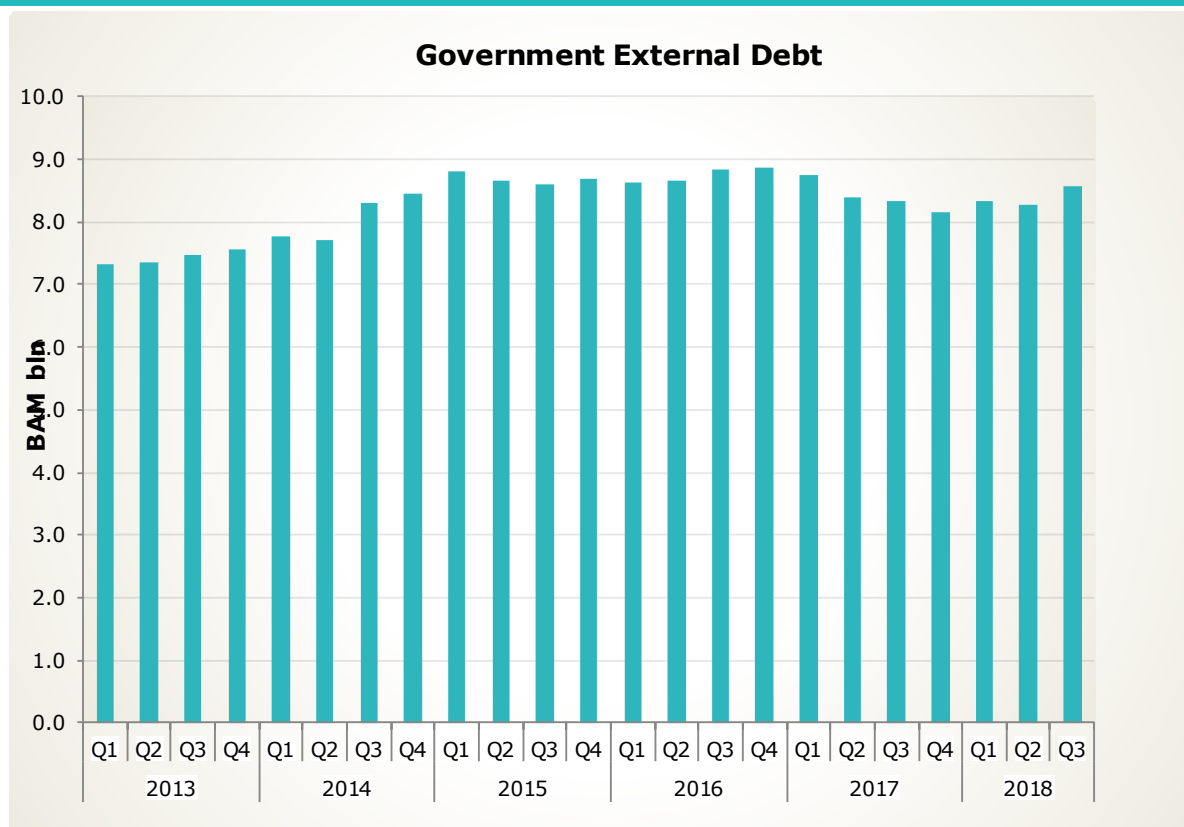
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt registered an increase y/y in Q3 2018

The total external government debt amounted to BAM 8.566 bln in Q3 2018, up by 2.6% on the year, according to CBBH data. In comparison, in Q2 2018, the government external debt was BAM 8.282 bln.

Bosnia and Herzegovina's main foreign creditors as of Q3 2018 were the World Bank's International Development Association (IDA) and the European Investment Bank.

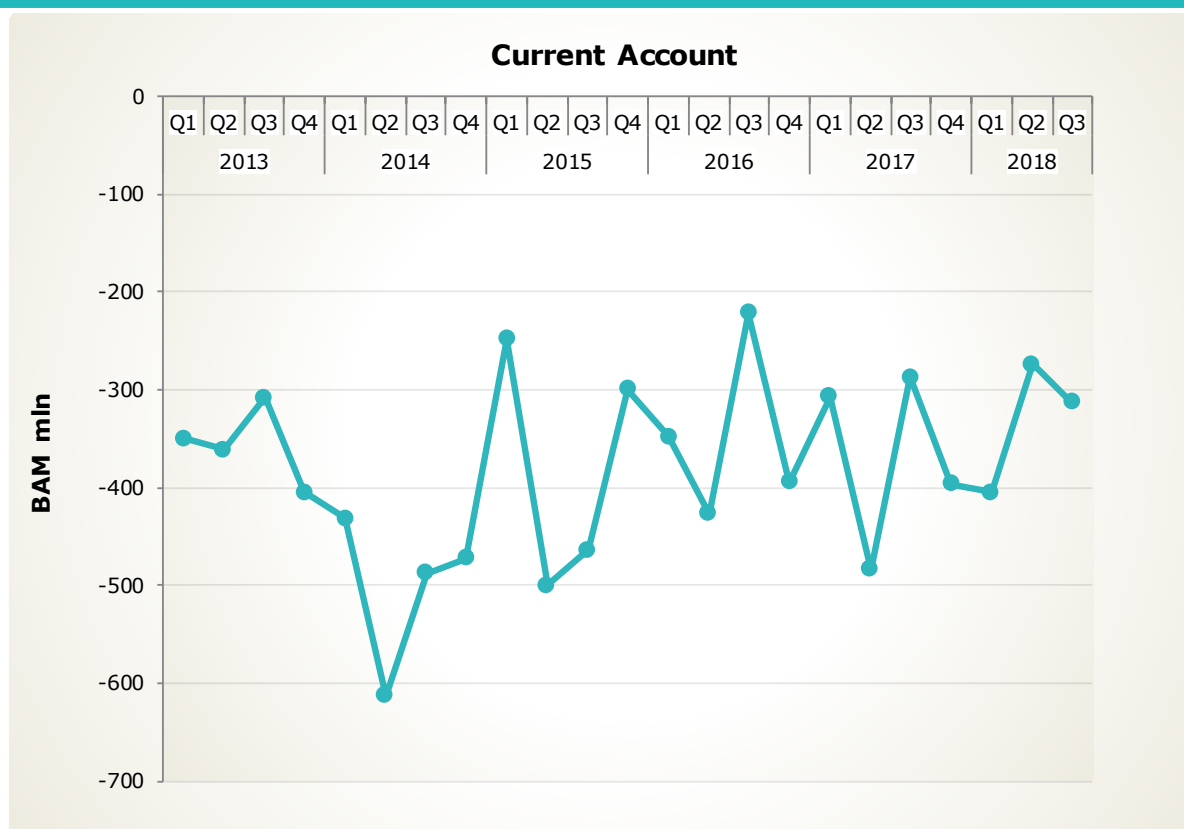


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account deficit at BAM 312.5 mln in Q3 2018

The current account gap shrank to BAM 312.5 mln in Q3 2018, up by 8.6% y/y, according to central bank statistics data. The net secondary income increased by 3.6% on the year to BAM 1.016 bln.



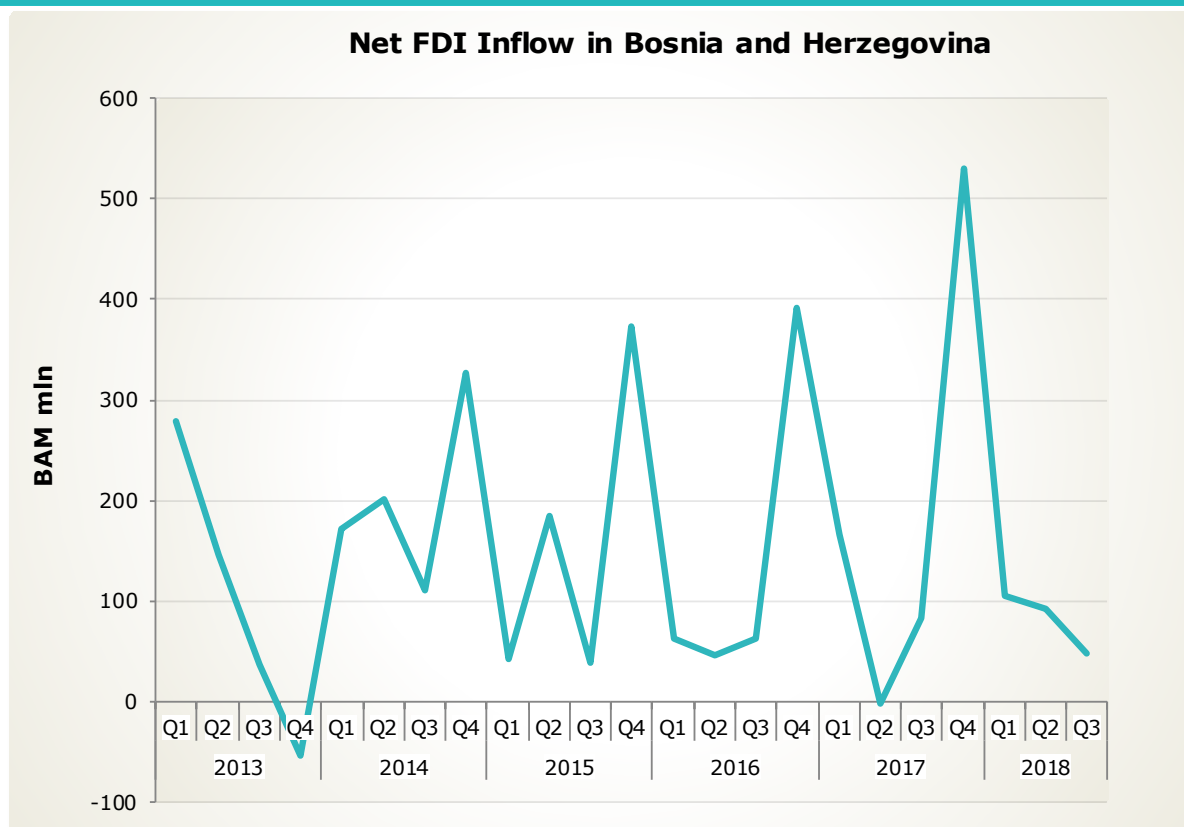
Source: CBBH

7.3. FDI

Net FDI inflow stayed positive in Q3 2018

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina was positive in the third quarter of 2018, totalling BAM 48.7 mln, according to CBBH data. Country's FDIs almost decreased by half compared to Q3 2017 when they stood at BAM 82.3 mln.

FDIs during the third quarter of 2018 took away near 16% of the current account deficit.



Source: CBBH

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 1.961 bln in Q3 2018

The trade deficit gap increased by 7.7% y/y to BAM 1.961 bln in Q3 2018 from BAM 1.821 bln in Q3 2017, according to BHAS.

Exports rose by 3.0% y/y to BAM 2.974 bln, while imports jumped by 4.8% y/y to BAM 4.935 bln.

Export to EU countries amounted to BAM 6.476 bln in Q3 2018, which is 11.3% higher than Q3 2017, while import amounted to BAM 8.578 bln, up by 5.4% on the year.

Exports of sector agriculture, forestry and fishing reported the highest fall of 20.3%, followed by mining and quarrying sector which registered a decrease of 7.2%, while the manufacturing sector went up by 8.9%.

There was an increase in imports in the mining and quarrying sector by 13.0% and manufacturing sector by 8.1%, while imports in agriculture, forestry and fishing sector inched down 6.9% on the year.



Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 11.0% y/y in the third quarter of 2018

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 11.0% y/y to 868,633 in Q3 2018, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 76.6% in Q3 2018, versus 77.7% in Q3 2017.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 11.4% y/y to 406,010.



Source: BHAS

8. MAJOR DEVELOPMENTS

Bosnia to open tender soon for building border crossing on bridge to Serbia

Sept 21, 2018

Bosnia will soon launch a tender for the construction of a border crossing on a bridge linking the country to Serbia and plans to have it open for traffic in 2019

[Read the full story here](#)

EBRD lending Bosnia EUR 180 mln for works on Corridor Vc

Sept 12, 2018

The EBRD said it is providing a EUR 180 mln sovereign loan to Bosnia for the construction of three new sections of pan-European Corridor Vc with a total length of some 15.8 km.

[Read the full story here](#)

Bosnia adopts Framework Energy Strategy, gains access to EU funds

Sept 3, 2018

Bosnia's government has adopted a Framework Energy Strategy until 2035, following a ten-year negotiation period during which the country lost out on EUR 200 mln in energy sector funding, the Foreign Investment Promotion Agency (FIPA) said.

[Read the full story here](#)

EU supports Bosnia in managing migration flows with EUR 6 mln

Aug 13, 2018

The European Commission said it will provide an additional EUR 6.0 mln to support Bosnia and Herzegovina in managing migration flows.

[Read the full story here](#)

EC gives green light to Bosnia to export all types of milk, dairy products to EU

Aug 7, 2018

The European Commission has placed Bosnia on its list of countries that are allowed to export all types of milk and dairy products to the EU, the country's minister of foreign trade, Mirko Sarovic, said.

[Read the full story here](#)

EU plans over 300 mln euro pre-accession aid for Bosnia in 2018-2020

Aug 7, 2018

The European Commission plans to provide over EUR 300 mln of pre-accession aid to Bosnia from 2018 to 2020 under the revised Indicative Strategy Paper for the country it has adopted, the EU delegation in Bosnia said.

[Read the full story here](#)

Bosnia-Croatia gas link project is financially viable - Energy Community

July 19, 2018

The Energy Community secretariat said an EU-funded study has confirmed the financial viability of the southern gas interconnector between Bosnia and Croatia.

[Read the full story here](#)

Long-delayed construction of Bosnia's 49.5 MW Trusina wind park to begin shortly - FIPA

July 5, 2018

The construction of the 49.5 MW Trusina wind park in Bosnia's Serb Republic is expected to begin in the next few months, after several years of delays due to legal issues, the country's Foreign Investment Promotion Agency (FIPA) said.

[Read the full story here](#)

Bosnia hopes to complete EC's follow-up accession questionnaire within 3 months

July 3, 2018

Bosnia's government said it expects the answers to 655 follow-up questions it received in June from the European Commission as part of the country's EU accession process will be completed within the next three months.

[Read the full story here](#)

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