

BOSNIA AND HERZEGOVINA ECONOMY REPORT

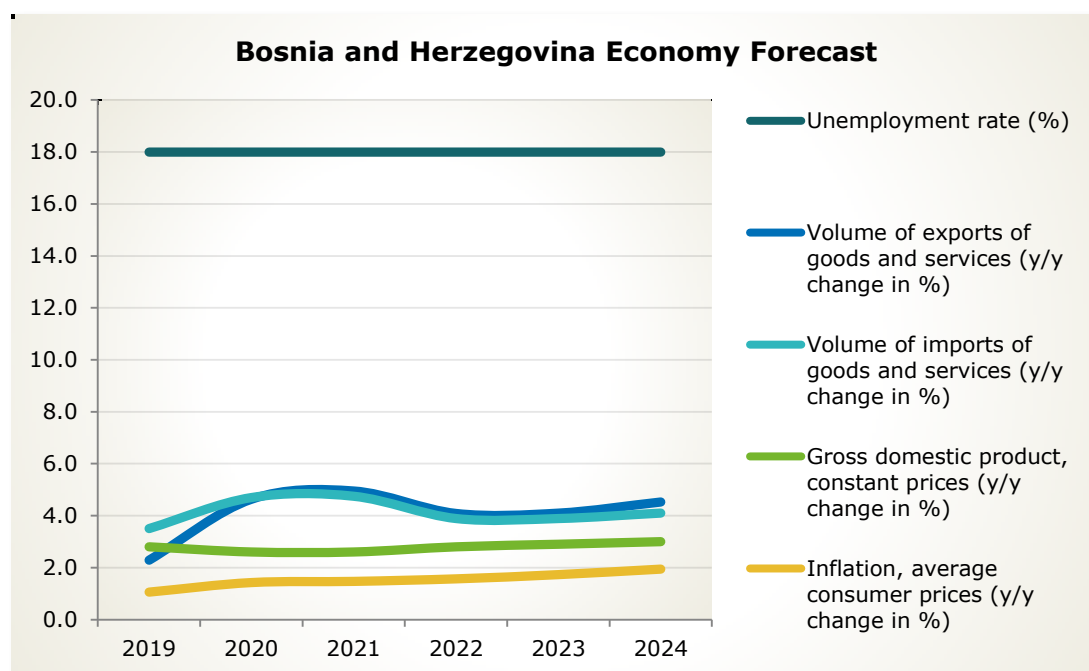
Q3 2019

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	5
2.1. GROSS DOMESTIC PRODUCT (GDP)	5
2.2. INDUSTRIAL OUTPUT	7
2.3. WHOLESALE/RETAIL	7
2.4. INFLATION.....	8
3. LABOUR MARKET.....	10
4. CONSTRUCTION AND REAL ESTATE	11
5. MONEY SUPPLY AND BANKING SYSTEM.....	11
5.1. BAM EXCHANGE RATE	11
5.2. MONETARY AGGREGATES	11
5.3. BANKING AND INSURANCE.....	12
6. CAPITAL MARKETS	15
7. EXTERNAL SECTOR.....	15
7.1. FOREIGN DEBT	15
7.2. BALANCE OF PAYMENTS	16
7.3. FDI.....	17
7.4. FOREIGN TRADE	17
7.5. TOURISM	18
8. MAJOR DEVELOPMENTS	19

1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN Q3 2019	
GDP Growth	2.6% y/y
Industrial output	-5.0% y/y
Wholesales	5.8% y/y
Retail sales	5.7% y/y
Average annual inflation	0.7%
Unemployment rate	33.1%
Number of building permits	-20.5% y/y
Money supply growth	8.1% y/y
Household loans	7.7% y/y
BIRS blue-chip index	-8.8% q/q
SASX-10 blue-chip index	1.0% q/q
Government external debt	BAM 8.2 bln
Current account deficit	BAM 118.8 mln
Net FDI inflow	BAM 221.8 mln
Foreign trade deficit	BAM 2.0 bln
Number of foreign tourist overnights	6.8% y/y

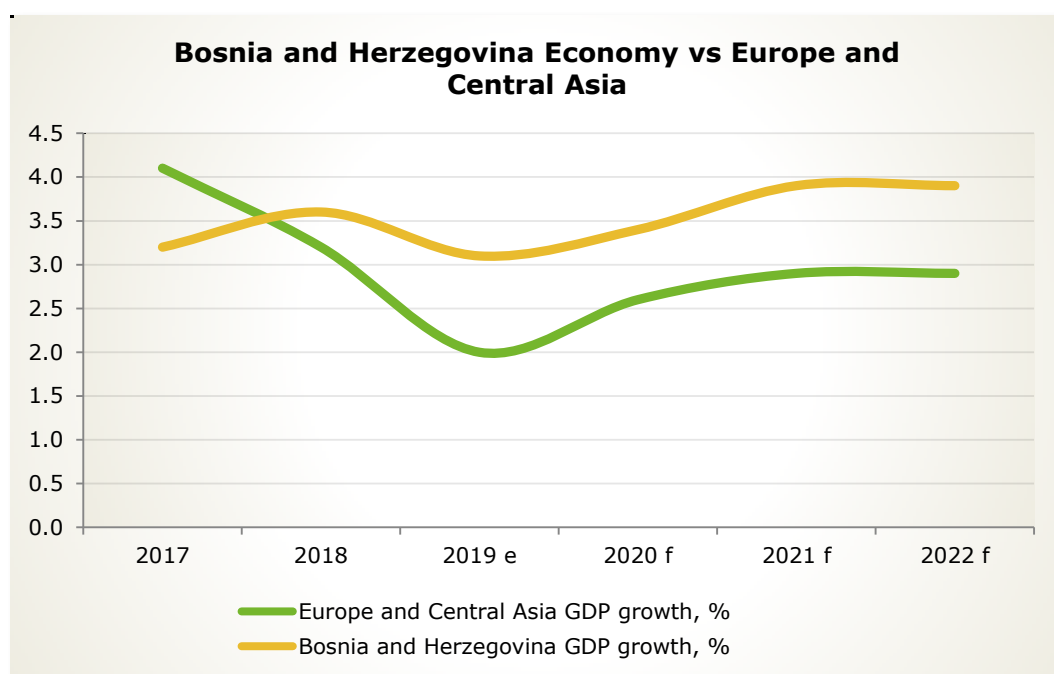


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

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*, January 2020

According to the World Bank estimates from January 2020, GDP growth is likely to come in at 3.1% in 2019, down from 3.6% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 2.0% 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

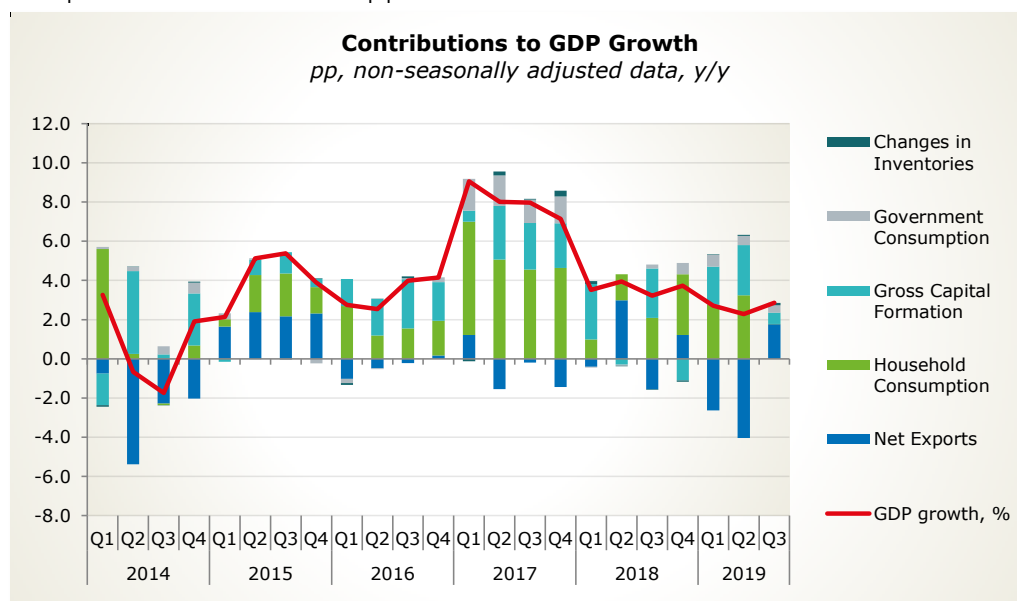
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 2.6% y/y in Q3 2019

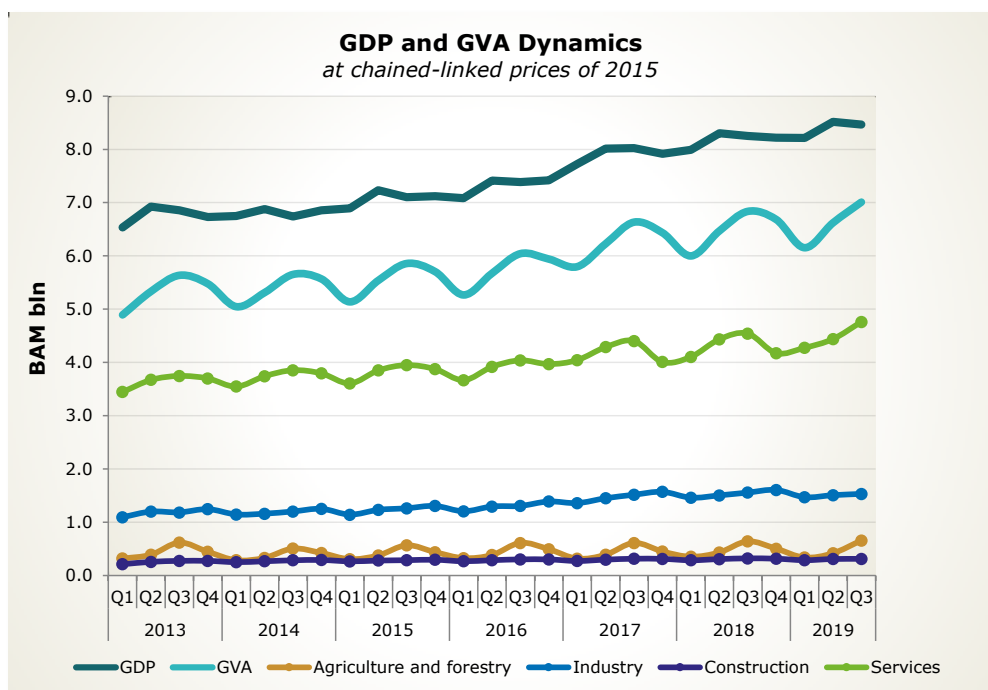
The country's real GDP grew by 2.6% y/y to BAM 8.5 bln in Q3 2019, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS).

Net exports contributed the most to the overall GDP growth in Q3 2019, by 1.8 pp, followed by gross capital formation with 0.6 pp.



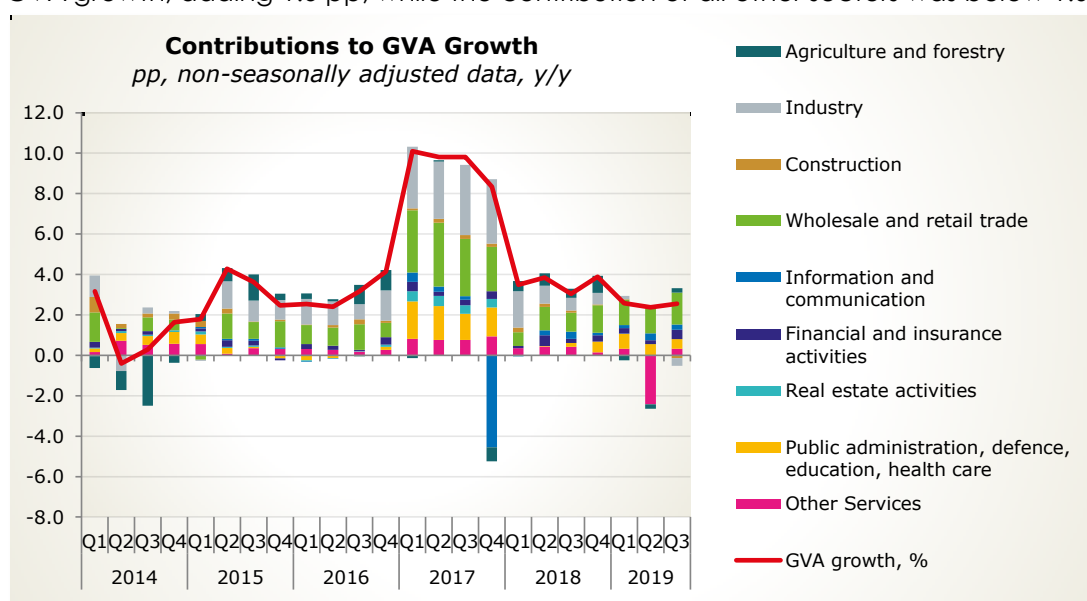
Source: BHAS, SeeNews Calculations

The gross value added (GVA) generated by the national economy increased in value terms by 2.6% y/y in Q3 2019 and totalled BAM 7.0 bln. The services sector grew the most, by 4.8%, and its share in the GVA structure came in at 67.9%. The agriculture and forestry sector recorded a 2.6% increase, slicing a 9.3% share in the GVA. Construction and industry sectors went down by 2.9% and 1.6%, respectively, and accounted for 4.5% and 21.8% in the GVA.



Source: BHAS, SeeNews Calculations

In Q3 2019, in terms of industry breakdown, almost all of the sectors had a positive contribution to the economic growth (except industry and construction, which took away 0.4 pp and 0.1 pp, respectively). The wholesale and retail sector was the biggest contributor to the GVA growth, adding 1.6 pp, while the contribution of all other sectors was below 1.0 pp.

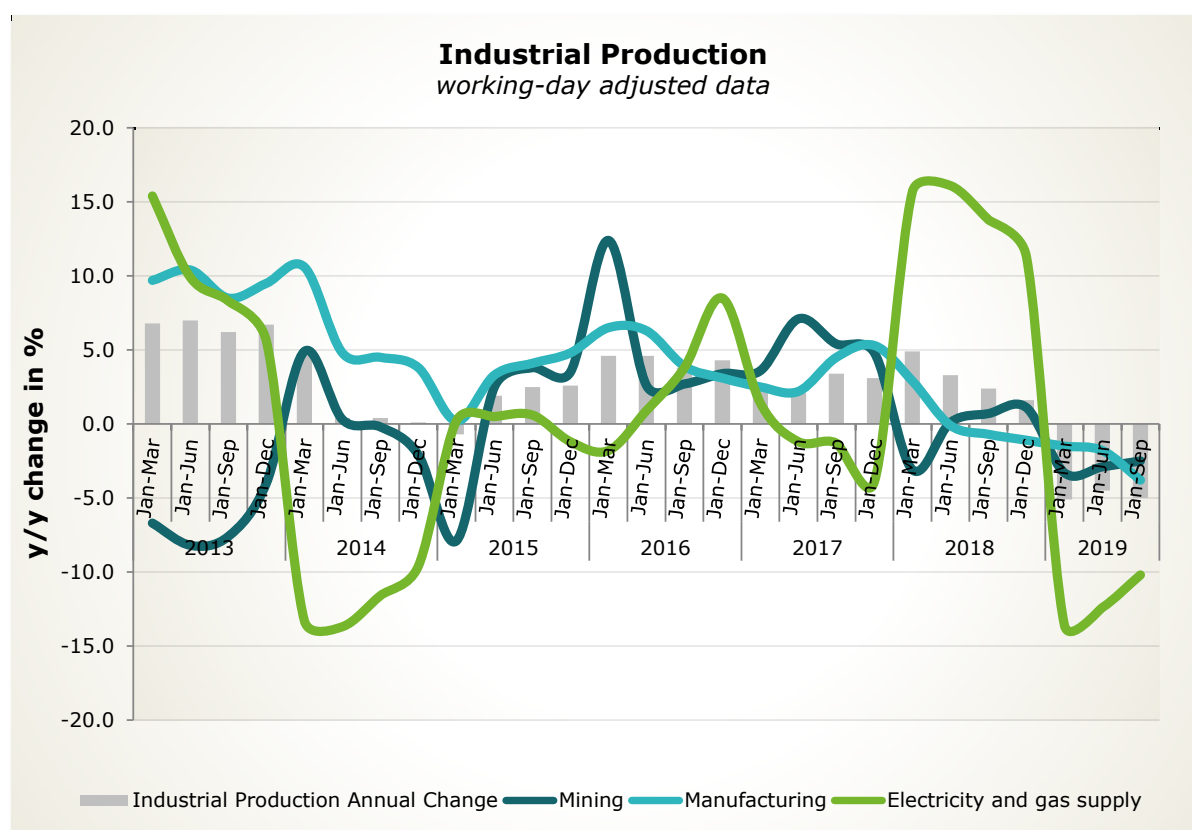


Source: BHAS

2.2. INDUSTRIAL OUTPUT

Industrial output down 5.0% y/y in Jan-Sept 2019

Industrial output went down by 5.0% in January-September 2019, according to BHAS data. This is a significant deceleration compared to the first nine months of 2018, when the industrial production rose by 2.4% on the year in real terms. The output of the electricity and gas supply sector declined by 10.2% in the first nine months of 2019, followed by manufacturing - 3.8%, and mining - 2.5%.



Source: BHAS

2.3. WHOLESALE/RETAIL

Retail sales grew 5.7% y/y, wholesale went up by 5.8% y/y in Q3 2019

Retail sales, except of motor vehicles and motorcycles, went up by 5.7% y/y in the third quarter of 2019, while wholesale trade increased by 5.8%, according to BHAS data. This is an acceleration compared to the growth for retail of 4.1% y/y and a rise of 6.1% y/y in the wholesale trade in Q2 2019.



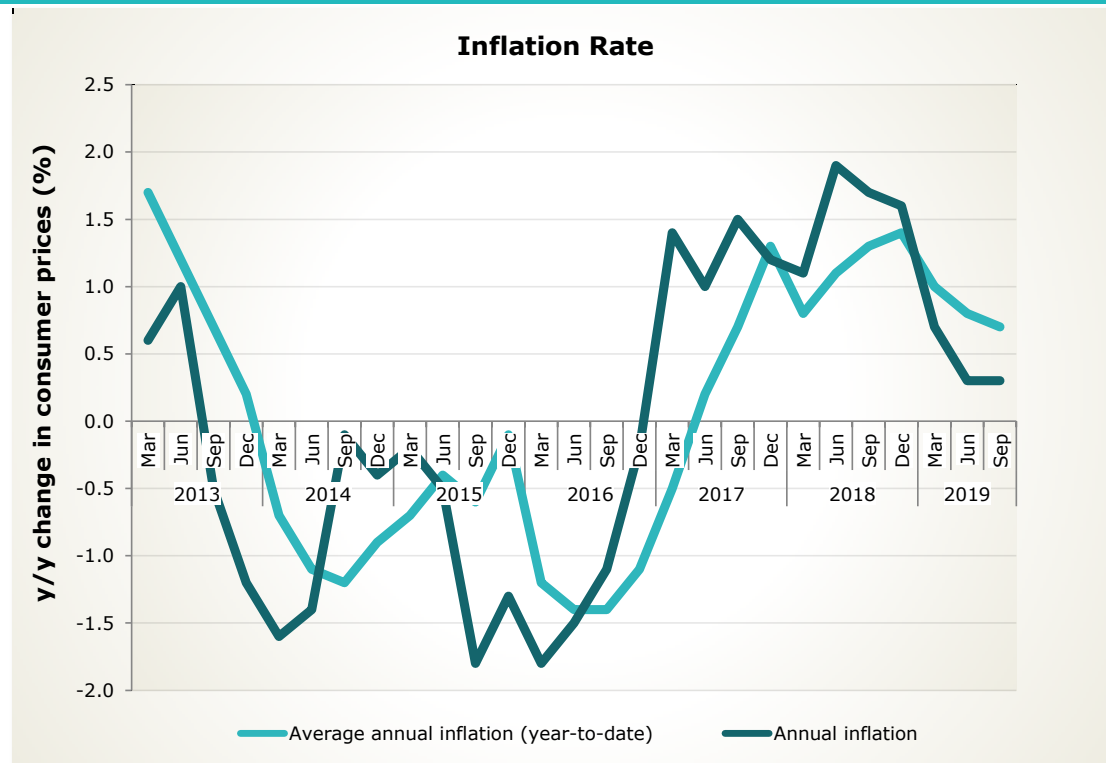
Source: BHAS

2.4. INFLATION

Inflation at 0.7% in Jan-Sept 2019

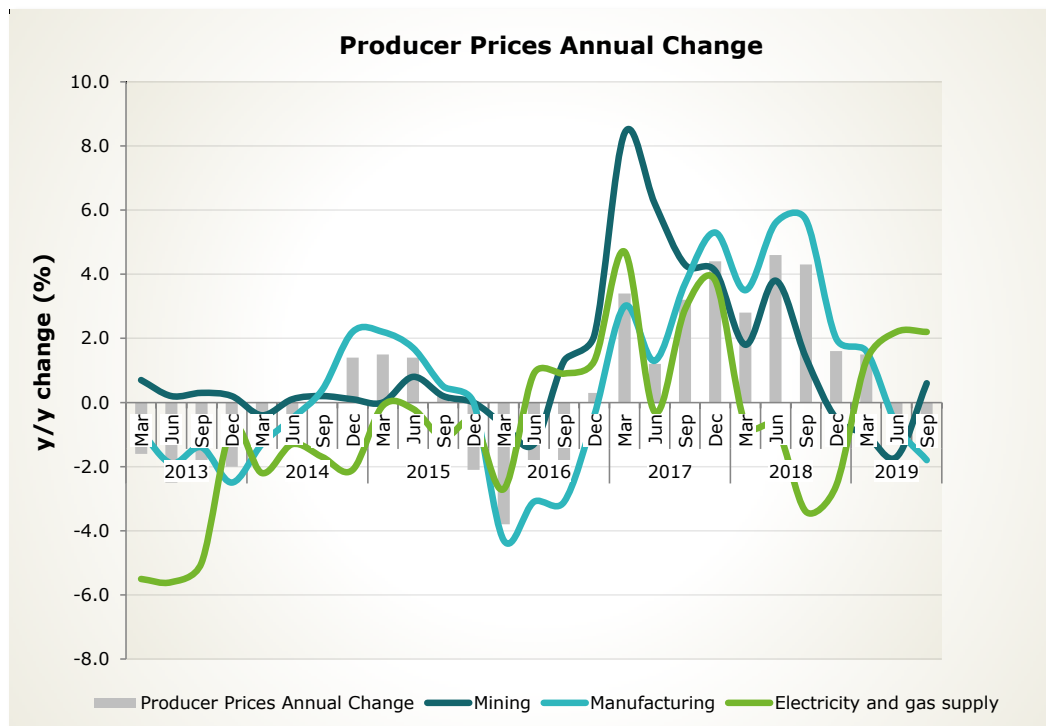
The average prices in Bosnia and Herzegovina advanced by 0.7% y/y in January-September 2019, data from BHAS shows. This is down compared to the same period of 2018, when the average annual inflation was 1.3%.

The product and services which registered the highest inflation were: alcoholic beverages and tobacco - 4.8%, housing, water, electricity, gas and other fuels - 2.8%, and transport - 1.9%. In terms of deflation, the leaders were: clothing and footwear - 10.7%, communications - 0.7%, and other goods and services - 0.6%.



Source: BHAS

Producer prices declined by 1.0% y/y in September 2019 due to the 1.8% drop of the average prices in the manufacturing sector. Electricity and gas supply marked an increase in producer prices by 2.2% and the mining sector rose by 0.6% during the month under review.



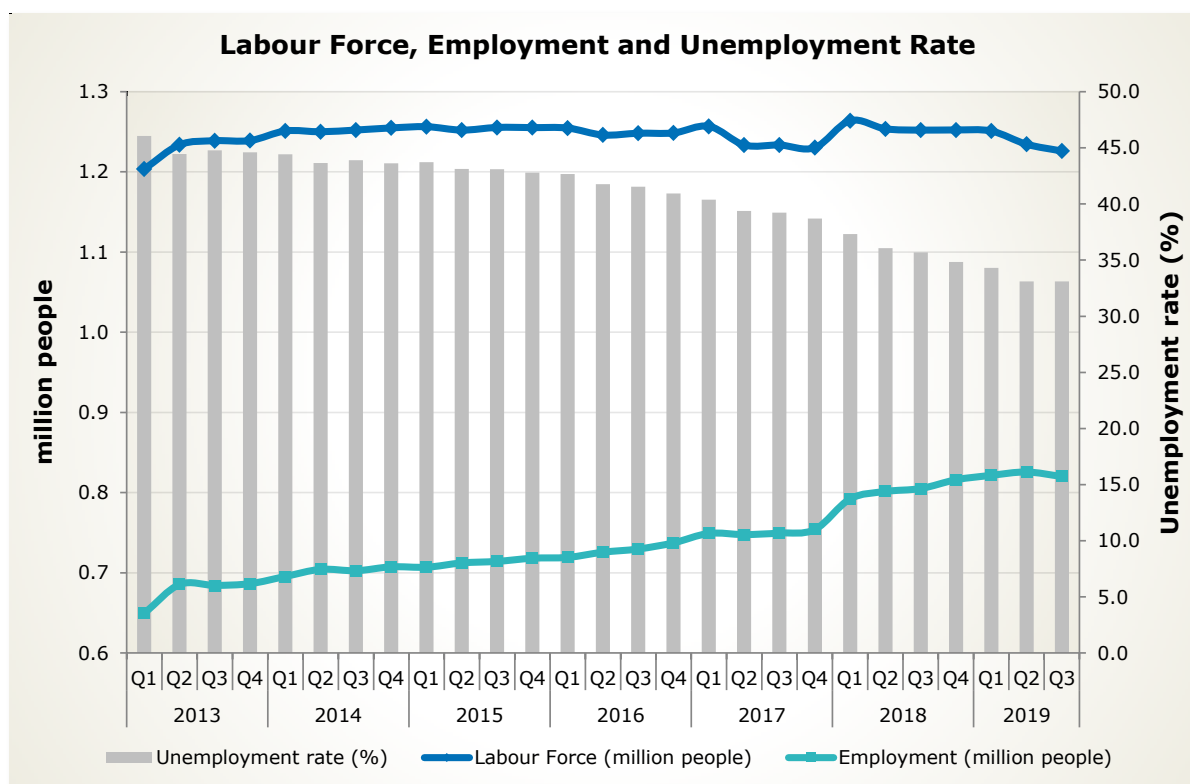
Source: BHAS

3. LABOUR MARKET

Unemployment rate went down but remained high, at 33.1% in Q3 2019

Unemployment in Bosnia and Herzegovina decreased to 33.1% of the total labour force in Q3 2019, down from 35.7% in Q3 2018, according to data of BHAS.

Employment in the country counted 820,325 people, up 1.9% y/y, while the labour force decreased by 2.1% y/y to 1.226 million people in Q3 2019.



Source: BHAS

The average monthly net salary in Q3 2019 rose by 4.9% y/y to BAM 924 in comparison to BAM 881 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 20.5% y/y in the third quarter of 2019

The number of building permits, excluding civil engineering works, issued in Bosnia and Herzegovina in Q3 2019 went down by 20.5% y/y and totalled 723, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, declined to 124,321 sq m, or 9.6% y/y, from 137,526 sq m in Q3 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 1.7586 in Q3 2019 from BAM 1.68244 in Q3 2018, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	Q3 2019	Q2 2019	Q3 2018
EUR*	1.95583	1.95583	1.95583
USD	1.75860	1.74086	1.68244
GBP	2.16919	2.23751	2.19195
CHF	1.78433	1.73565	1.70944

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

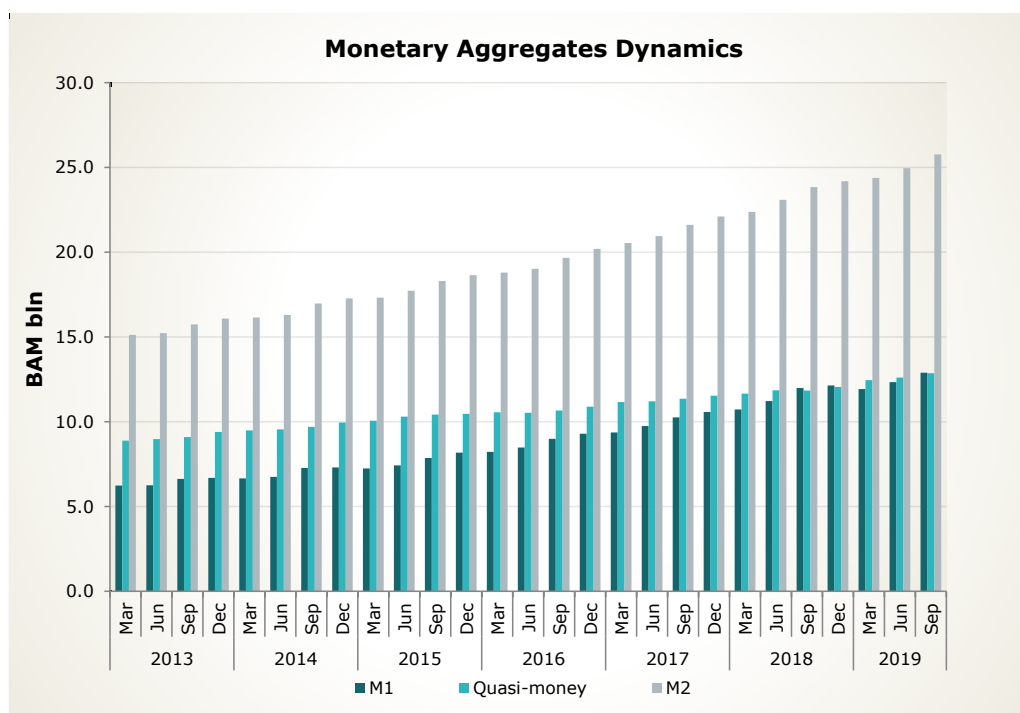
5.2. MONETARY AGGREGATES

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

Broad money or money aggregate M2 increased by 8.1% y/y and reached BAM 25.8 bln in September 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 8.6% to BAM 12.9 bln.

Money aggregate M1, or narrow money, expanded by 7.5% y/y to BAM 12.9 bln.



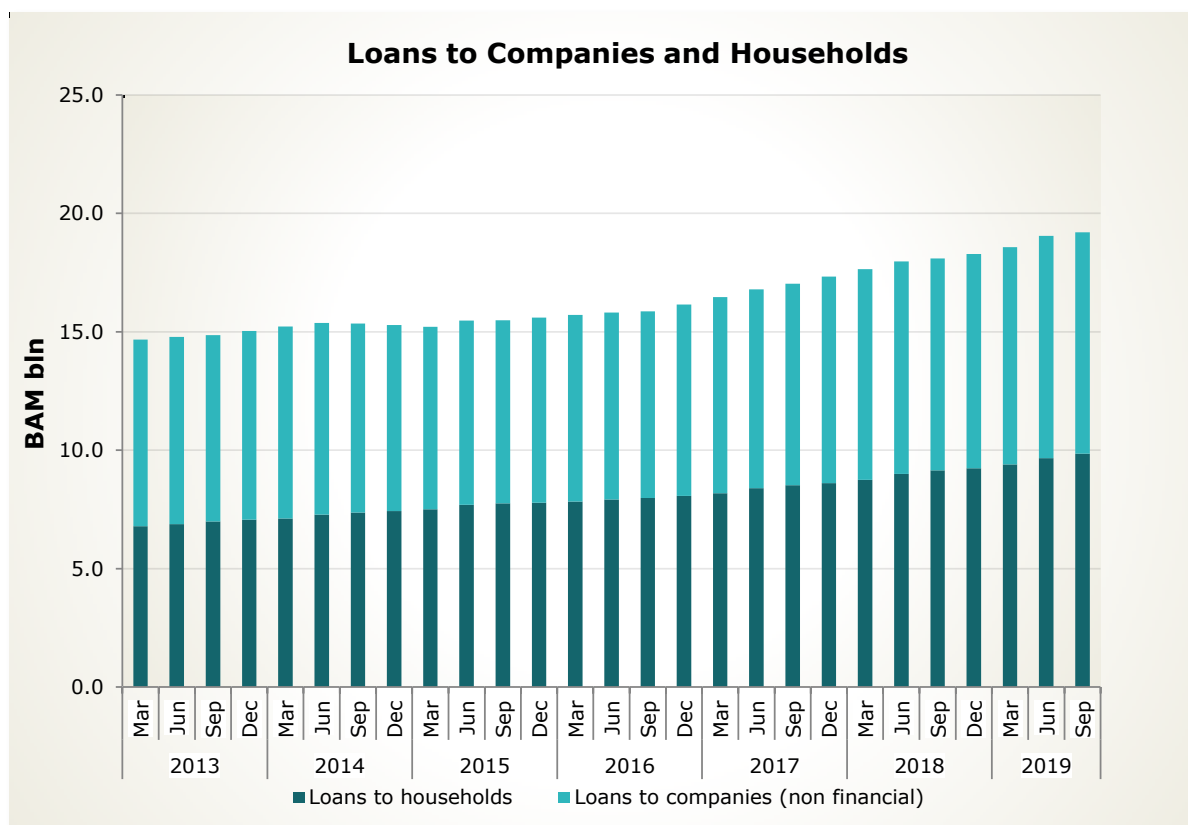
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans increased by 7.7% y/y as of September 2019

Loans to the non-government sector totalled BAM 18.8 bln as of September 2019, up by 6.1% y/y, according to CBBH.

Loans to non-financial corporations increased by 4.4% to BAM 9.3 bln, while household loans rose by 7.7% y/y to BAM 9.9 bln. House purchasing loans grew the most, by 12.8%, to BAM 1.9 bln. Consumer loans were also up, by 7.6%, to BAM 7.5 bln.



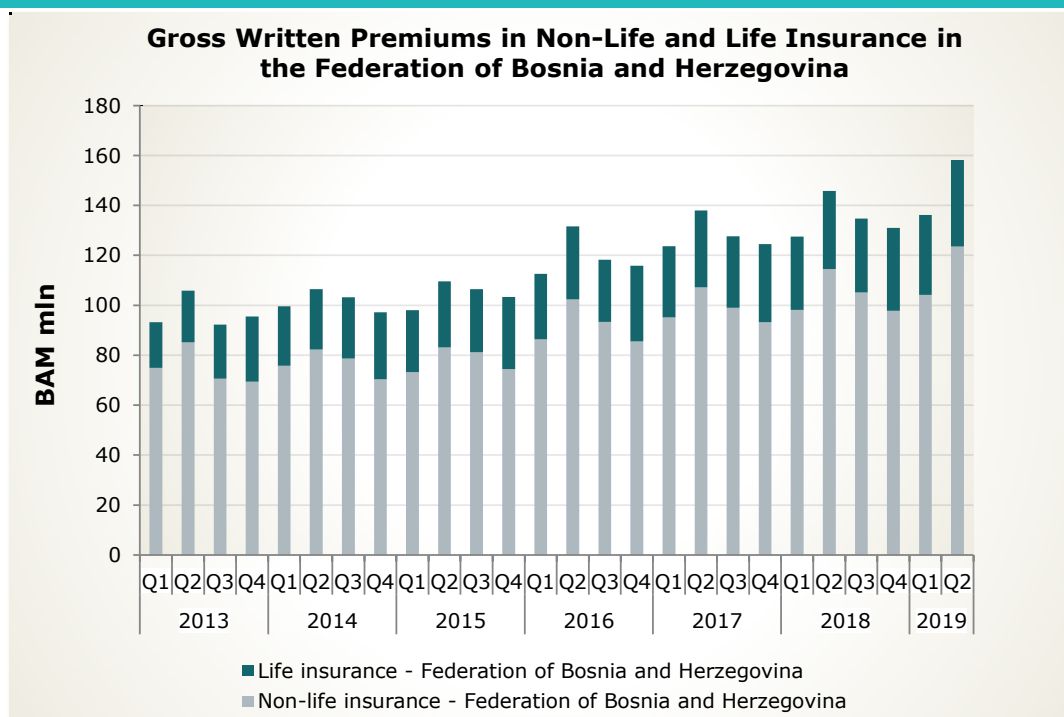
Source: CBBH

Insurance premium income in the Federation of Bosnia and Herzegovina (FBiH) up 7.8% y/y in Q3 2019; In Republika Srpska the insurance market grew by 2.8% y/y in Jan-Jun 2019¹

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 145.2 mln, up by 7.8% y/y in Q3 2019, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

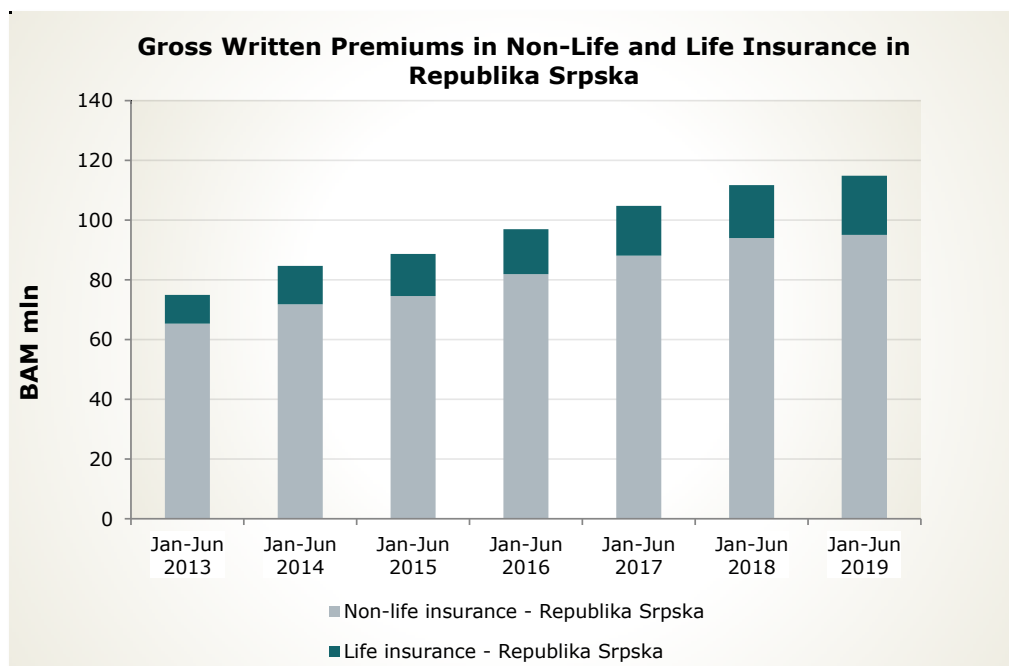
The growth was fuelled by the 7.6% rise, to BAM 113.2 mln, of the non-life insurance segment. The life insurance premium income expanded even faster, by 8.6% y/y to BAM 32.1 mln.

¹ Editor's note: Data for the insurance market in Republika Srpska are published semi-annually.



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.



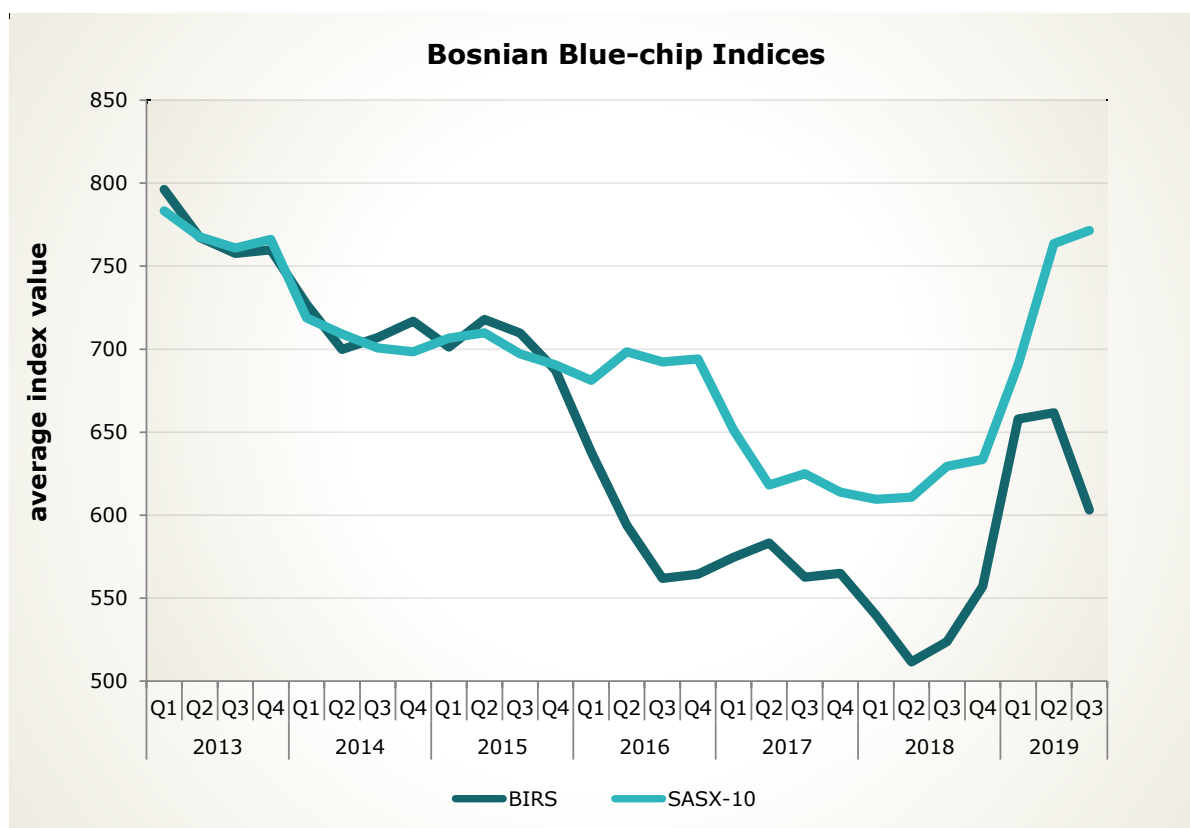
Source: AZORS

6. CAPITAL MARKETS

Blue-chip BIRS down 8.8% q/q, SASX10 increased by 1.0% q/q in Q3 2019

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), decreased q/q by 8.8% in Q3 2019, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), grew by 1.0% compared to the previous quarter.



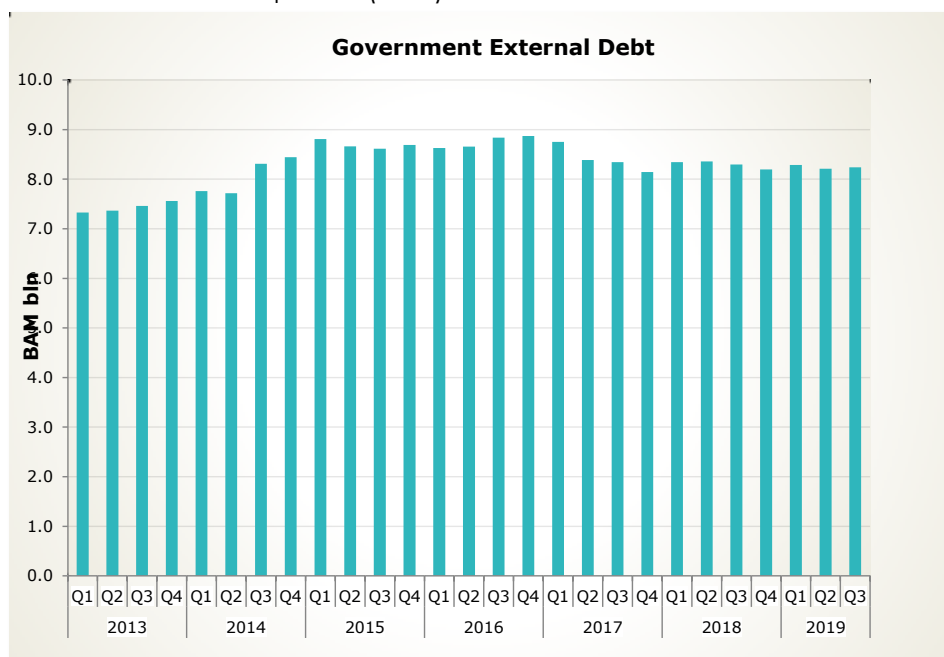
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt went down by 0.7% y/y to BAM 8.2 bln in September 2019

The total external government debt amounted to BAM 8.2 bln in September 2019, down by 0.7% on the year, according to CBBH data. In comparison to Q2 2019, the government external debt increased by BAM 30.4 mln.

Bosnia and Herzegovina's main foreign creditors as of Q3 2019 were the European Investment Bank, World Bank's International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD).

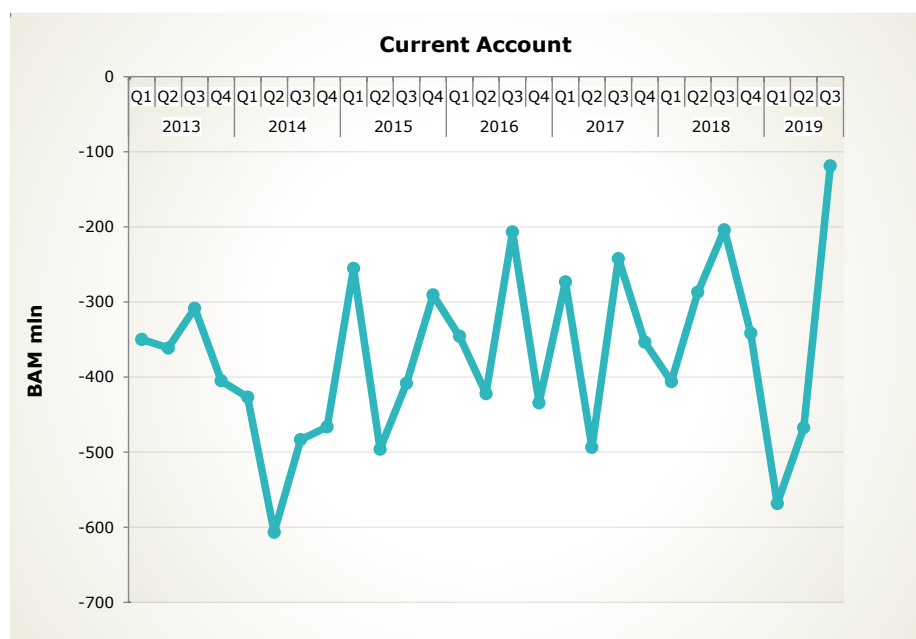


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account gap at BAM 118.8 mln in Q3 2019

The current account gap expanded to BAM 118.8 mln in Q3 2019, up 41.8% y/y, according to central bank statistics data. The net secondary income increased by 4.4% on the year to BAM 1.1 bln.



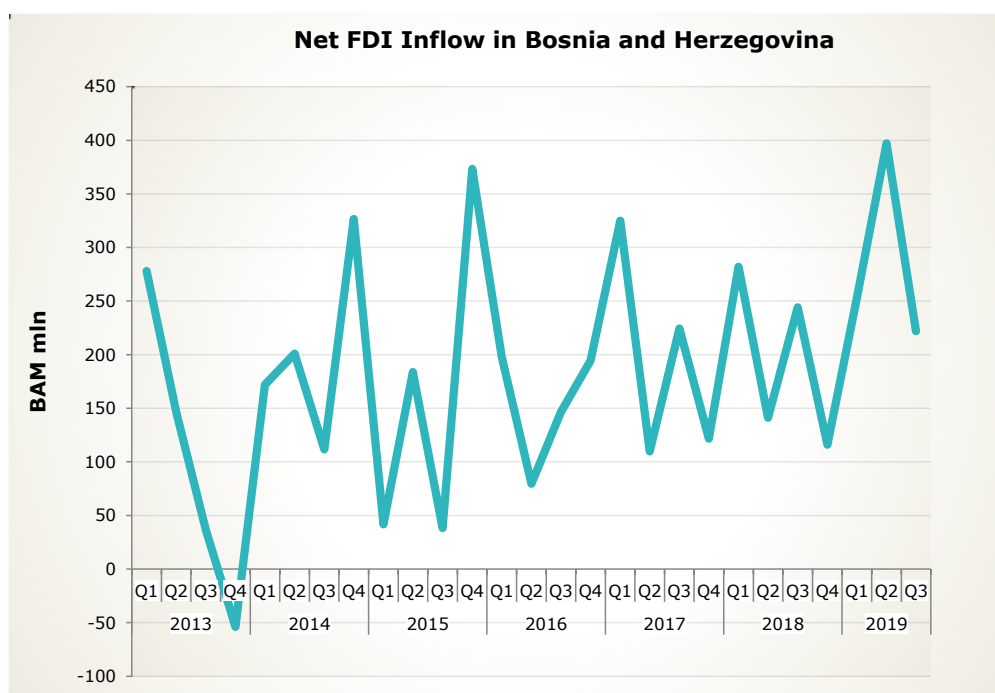
Source: CBBH

7.3. FDI

Net FDI inflow stayed positive in Q3 2019

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina was positive in the third quarter of 2019, totalling BAM 221.8 mln, according to CBBH data. The country's FDI was by 9.2% lower compared to the same quarter of 2018 when they stood at BAM 244.1 mln.

FDI inflow accounted for 2.6% of the country's GDP in Q3 2019, lower than the 3.0% in the year-ago quarter.



Source: CBBH

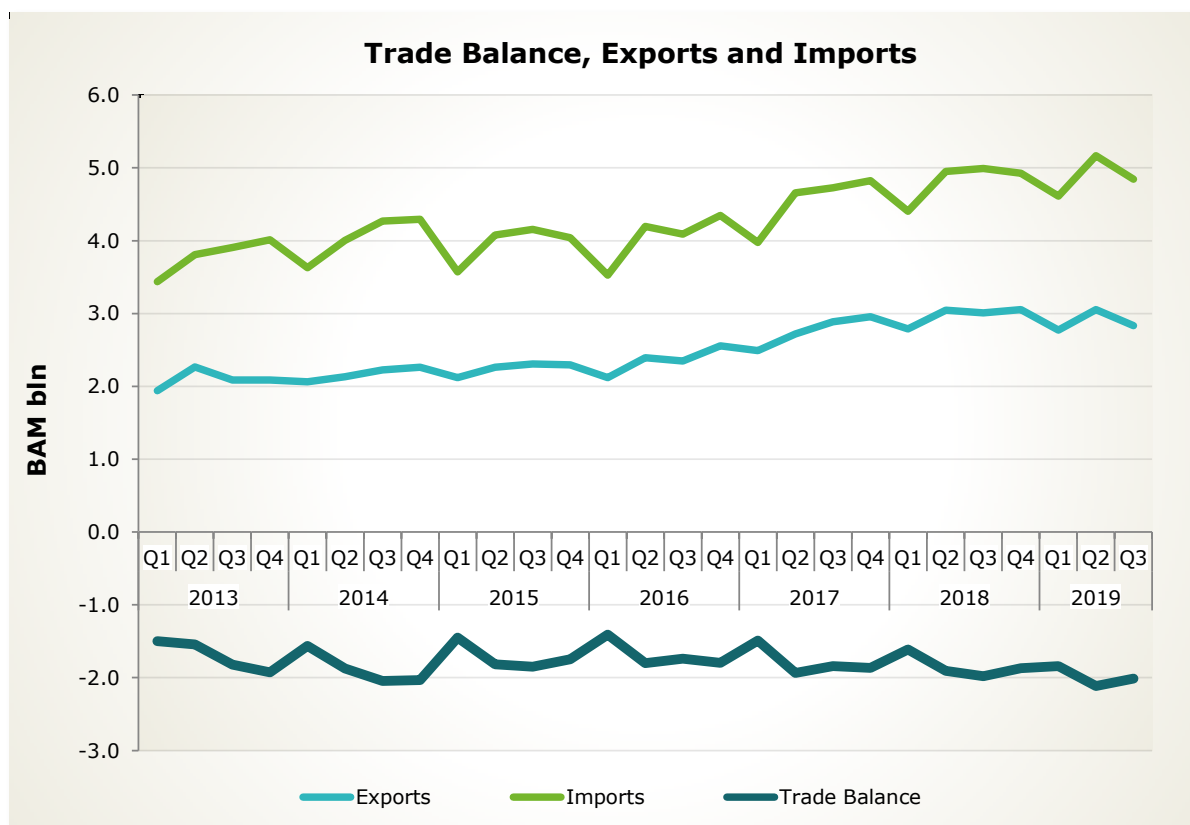
7.4. FOREIGN TRADE

Foreign trade deficit at BAM 2.0 bln in Q3 2019

The trade deficit gap widened, by 1.5% y/y to BAM 2.0 bln in Q3 2019, according to BHAS.

Exports went down by 5.8% y/y to BAM 2.8 bln, while imports decreased by 2.9% y/y to BAM 4.8 bln.

Export to EU countries amounted to BAM 2.0 bln, which is 8.1% lower than in the same period of 2018, while import amounted to BAM 3.0 bln, which is 1.7% below the same quarter of the previous year.



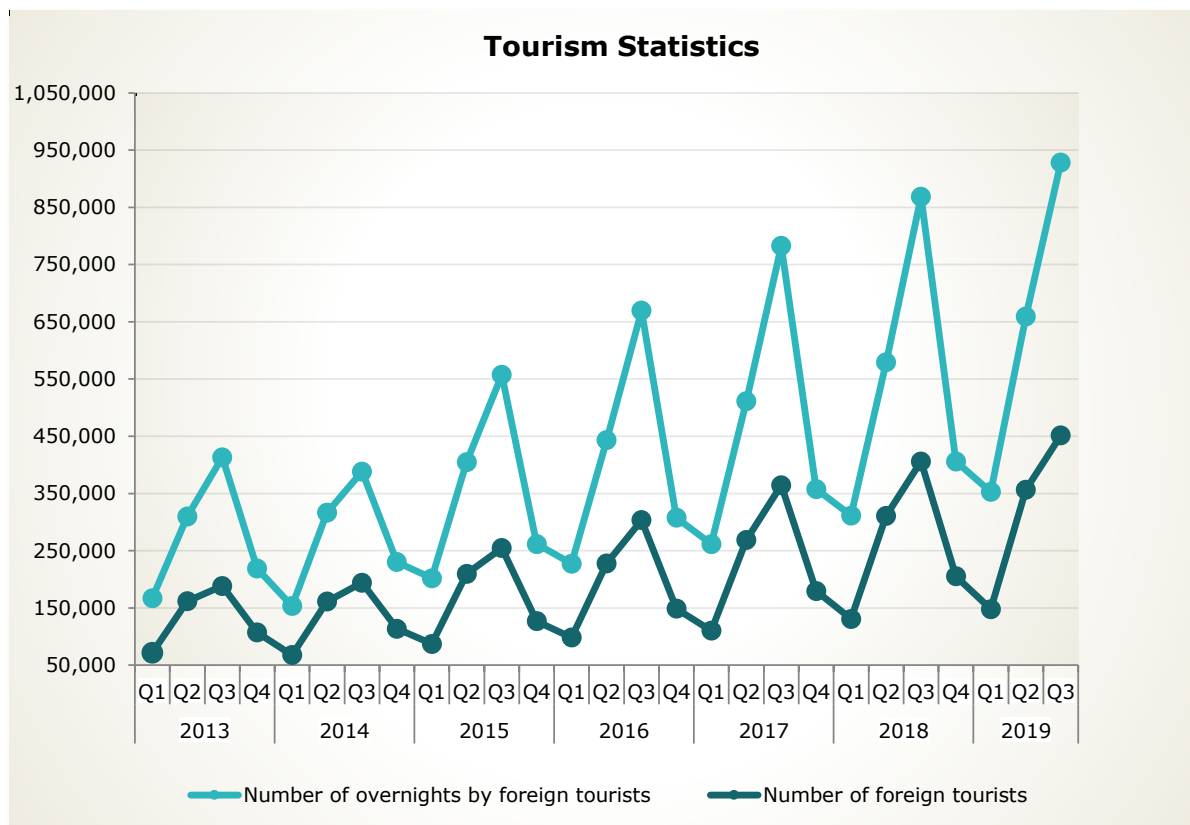
Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 6.8% in Q3 2019

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 6.8% to 928,081 in Q3 2019, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 76.9%, versus 76.6% 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 11.2% y/y to 451,424.



Source: BHAS

8. MAJOR DEVELOPMENTS

EBRD to provide EUR 4.0 mln to Bosnia's Banja Luka to improve water supply

Sept 13, 2019

The European Bank for Reconstruction and Development (EBRD) will finance improvements of Bosnia's Banja Luka water supply network through a loan of EUR 4.0 mln, the bank said.

[Read the full story here](#)

Serbia to provide EUR 25 mln to support Bosnia's Serb Republic budget

Aug 28, 2019

Serbia will provide EUR 25 mln to support the liquidity of Bosnia's Serb Republic budget by the end of 2019, Milorad Dodik, the Serb member of Bosnia's tripartite presidency, said.

[Read the full story here](#)

Bosnian presidency fails to agree on new govt, NATO membership plan

Aug 21, 2019

Bosnia's tripartite presidency has failed to agree on the country's NATO membership plan and on a new government more than ten months after the elections, local media reported.

[Read the full story here](#)

EBRD, Bosnia sign EUR 15 mln EU grant agreement for Corridor Vc section

Aug 1, 2019

Bosnia signed EUR 15 mln European Union grant agreement with the European Bank for Reconstruction and Development for financing the construction of a Corridor Vc motorway section, the EU delegation to Bosnia said.

[Read the full story here](#)

EU endorses feasibility study preparation for Croatia-Bosnia gas link

July 18, 2019

The European Commission's directorate general for neighbourhood and enlargement negotiations (DG NEAR) has approved the preparation of a feasibility study on the South Gas Interconnector Bosnia - Croatia project, Bosnian gas supplier BH-Gas said.

[Read the full story here](#)

Bosnia's Serb Republic approves plans for EUR 150 mln EBRD loan for Corridor V

July 17, 2019

The parliament of Bosnia's Serb Republic said it approved a government decision to take EUR 150 mln loan from the European Bank for Reconstruction and Development (EBRD) to finance construction works on Corridor Vc.

[Read the full story here](#)

Bosnia in talks with Chinese investors on Bihac airport construction

July 2, 2019

Bosnia is holding talks with potential Chinese investors on their participation in the construction of an airport in the town of Bihac, local media reported.

[Read the full story here](#)

DISCLAIMER:

Whilst the information contained in this Profile has been given in good faith and every effort has been made to ensure its accuracy, SeeNews cannot guarantee the accuracy of this information and hereby expressly disclaims any responsibility for error, misinterpretation and any and all loss, disappointment, negligence or damage caused by reliance on the information contained in the Profile or any failure or alleged failure in the delivery of the Service referred to herein, or in the event of bankruptcy, liquidation or cessation of trade in any company, individual or firm referred to herein. Confirmation of the information accuracy should be sought from the establishments concerned. Unless otherwise stated, the copyrights and any other rights in all material on this site are owned by SeeNews. Use of this Profile is provided by SeeNews subject to the following Terms and Conditions:

1. Use of this Profile constitutes your acceptance of these Terms and Conditions which take effect when you first use this Profile. SeeNews reserves the right to change these terms and conditions at any time by posting changes on line. You are responsible for reviewing regularly information posted on line to obtain timely notice of such changes. Your continued use of the Profile after changes are posted constitutes your acceptance of this agreement.
2. Neither SeeNews nor other related parties, whilst endeavouring to provide 24/7 availability, will be held liable if for any reason the Profile is unavailable at any time.
3. Access to this Profile may be suspended temporarily or permanently and without notice.
4. Whilst SeeNews endeavours to ensure that the information on this site is correct and up-to-date, no warranty, express or implied, is given as to its accuracy and SeeNews does not accept any liability for error or omission.
5. Part of this Profile contains materials submitted to SeeNews by third parties. Third parties are responsible for ensuring that materials submitted for inclusion on this Profile complies with national and relevant international law. SeeNews can not guarantee the accuracy of this material and hereby expressly disclaims any responsibility for error, omission or inaccuracy in the material, misinterpretation and any all loss, disappointment, negligence or damage caused by reliance on the information contained in the Profile or any failure or alleged failure in the delivery of the services referred to herein, or in the event of bankruptcy, liquidation or cessation of trade of any company, individual or firm referred to herein. Confirmation of the information accuracy should be sought from the establishments concerned or from SeeNews upon explicit request.
6. SeeNews shall not be liable for any damages (including, without limitation, damages for loss of business or loss of profits) arising in contract, tort or otherwise from the use of or inability to use this Profile, or any data contained in it, or from any action or decision taken as a result of using this Profile or any such information.
7. SeeNews accepts no responsibility for the content of any site to which a hypertext link from this Profile exists. Such links are provided for your convenience on an "as is" and "as available" basis with no warranty, express or implied, for the information provided within them.
8. If any of these terms should be determined to be illegal, invalid or otherwise unenforceable by reason of the laws of any state or country in which these terms are intended to be effective, then to the extent and within the jurisdiction in which that term is illegal, invalid or enforceable, it shall be severed and deleted from the clause concerned and the remaining terms and conditions shall remain in full force and effect and continue to be binding and enforceable.
9. By accessing and reading any part of this Profile, you should have accepted these Terms in full.

Copyright

All rights reserved. Downloads and print extracts of SeeNews content are allowed for personal and non-commercial use only. Re-publication or re-distribution of content, including by framing, is strictly prohibited without the prior written consent of SeeNews.