

BOSNIA AND HERZEGOVINA ECONOMY REPORT

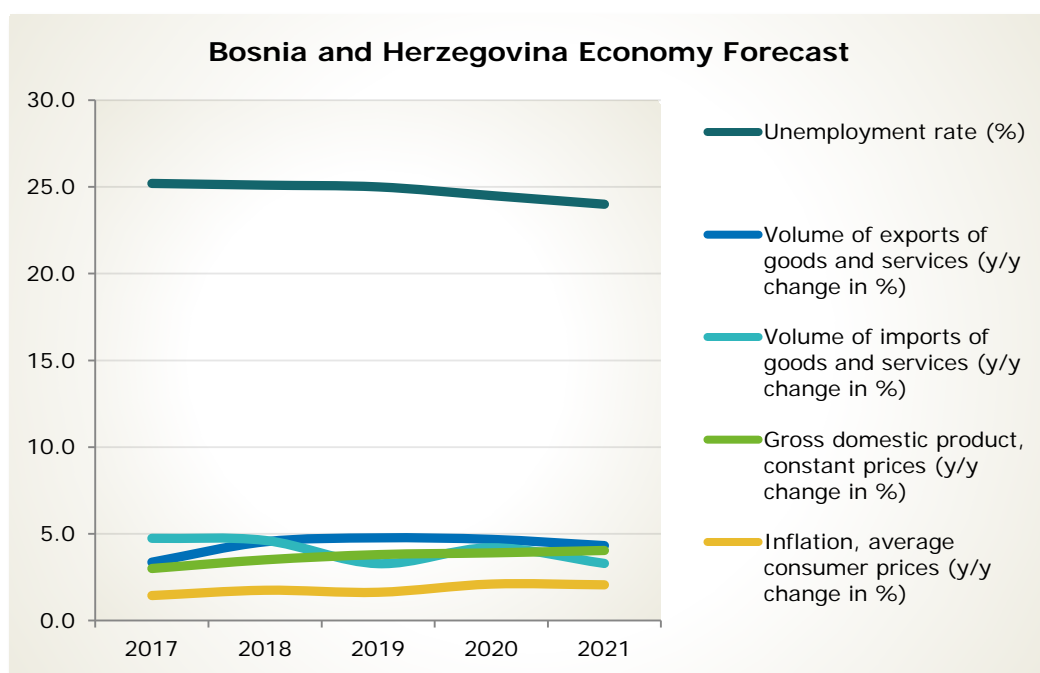
2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN 2016	
GDP Growth	2.0% y/y
Industrial output	4.3% y/y
Wholesales	-2.7% y/y
Retail sales	3.5% y/y
Average annual deflation	1.1%
Unemployment rate	41.7%
Number of building permits	17.6% y/y
Money supply growth	8.3% y/y
Household loans	3.8% y/y
BIRS blue-chip index	-16.4% y/y
SASX-10 blue-chip index	-1.3% y/y
Government external debt	BAM 8.871 bln
Current account gap	BAM 1.310 bln
Net FDI inflow	BAM 144.8 mln (Jan-Sept 2016)
Foreign trade deficit	BAM 6.723 bln
Number of foreign tourist overnights	15.1% y/y



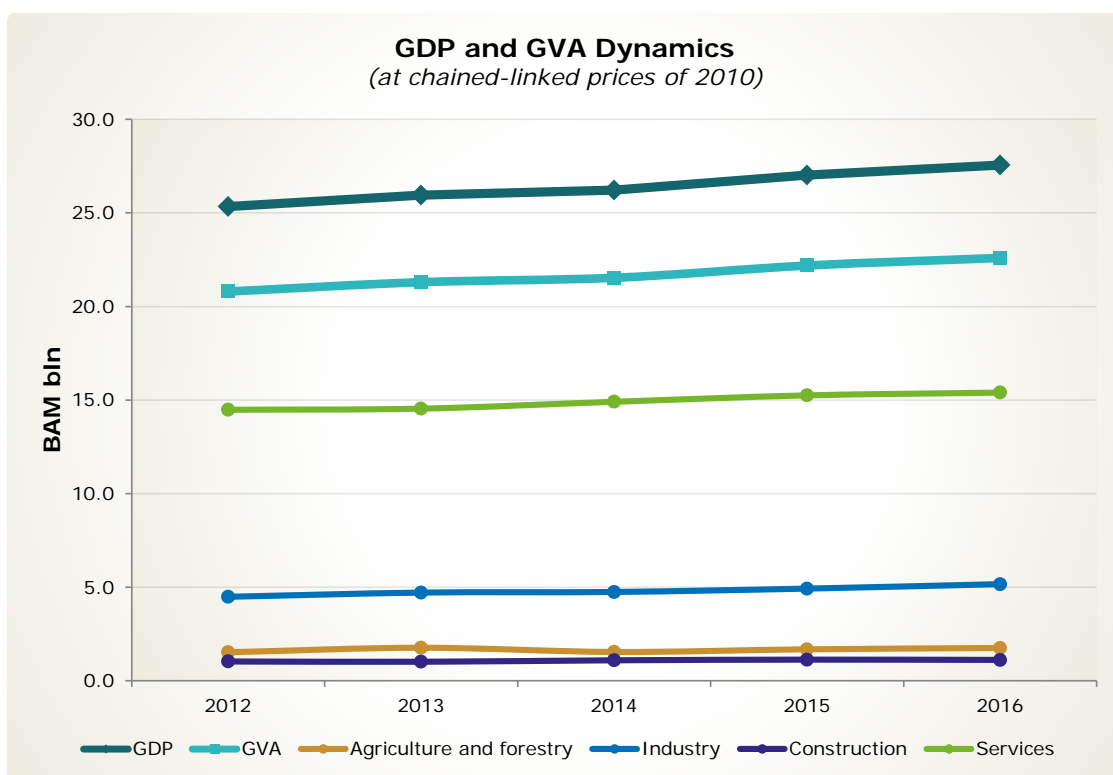
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2017

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 2.0% y/y in 2016, compared to a 3.0% y/y growth in 2015

The country's real GDP annual growth was 2.0%, totalling BAM 27.553 bln in 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 1.8% y/y in 2016 and totalled BAM 22.596 bln. The industrial sector grew by 4.8% and its share in the GVA structure expanded to 22.9% from 22.2% in the previous year. The services sector recorded a 1.0% increase, slicing a 68.1% share in the GVA, compared to 68.7% in 2015. Agriculture and forestry went up by 4.1% and increased its share in the GVA to 7.7% from 7.6%. The construction sector went down by 1.3%, and its GVA share inched down to 4.9% from 5.1%.

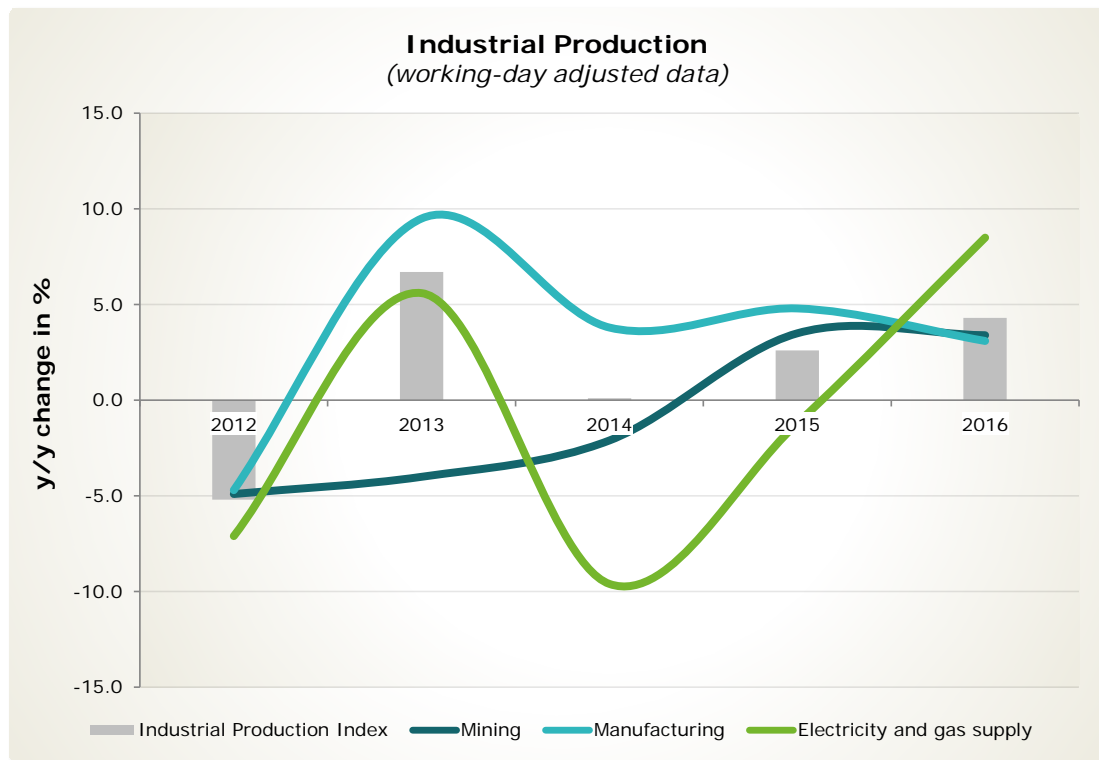
2.2. INDUSTRIAL OUTPUT

Industrial output up 4.3% y/y in 2016

Industrial output went up by 4.3% in 2016, according to BHAS data. The output of electricity and gas supply rose by 8.5%, followed by the mining industry with 3.4%, while the output of the manufacturing sector grew by 3.1%.

Other manufacturing was the segment to report the highest annual production growth, of 17.2%, followed by manufacture of rubber and plastic products with 15.5%, and manufacture of chemicals and chemical products, with a production growth of 14.2%.

The segments with the sharpest drop in 2016 were manufacture of other transport equipment, down 48.5% on the year, mining of metal ores with a 14.5% drop, and manufacture of paper and paper products a 14.3% fall.



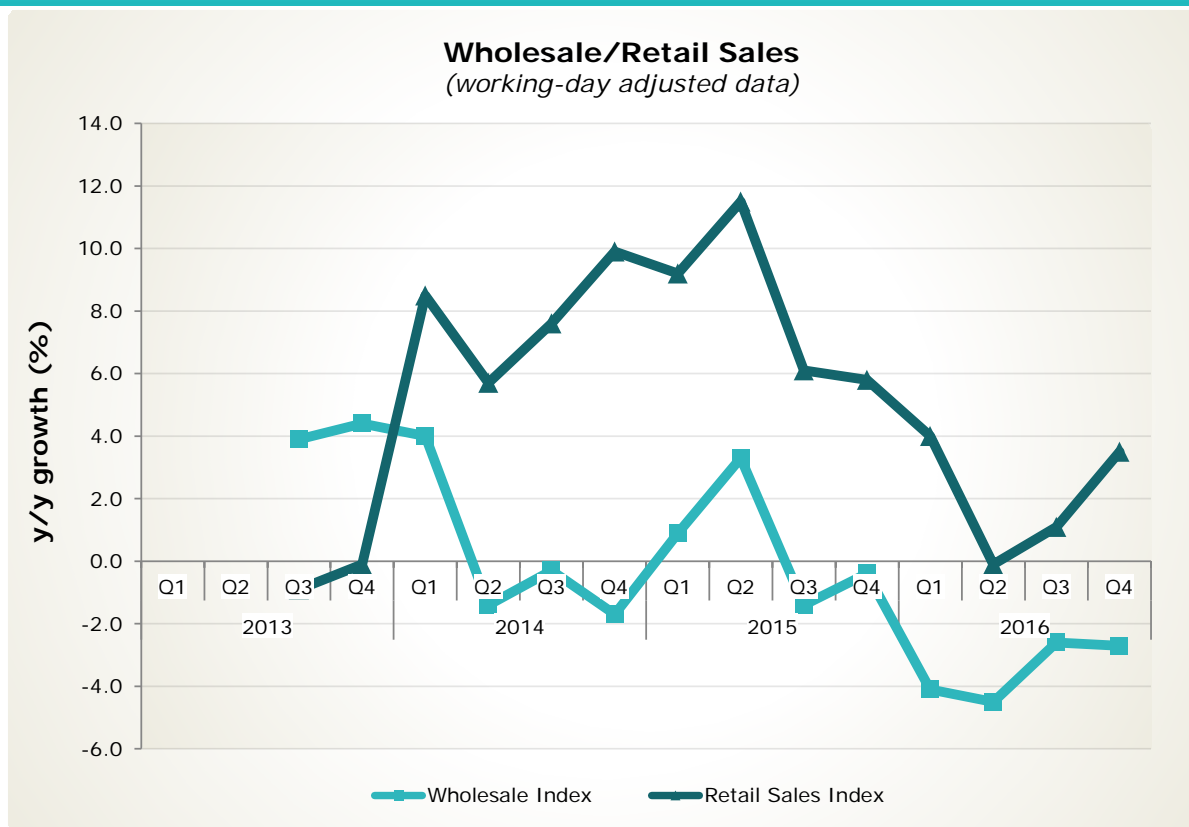
Source: BHAS

2.3. WHOLESALE/RETAIL

Retail grew y/y in Q4 2016, while wholesale recorded a decrease

Retail sales, except of motor vehicles and motorcycles, went up by 3.5% y/y in the fourth quarter of 2016, while wholesale trade fell by 2.7%, according to BHAS data.

Wholesale of other machinery, equipment and supplies marked the highest increase, of 60.2% y/y, while wholesale of information and communication equipment experienced the sharpest annual drop, of 18.5%.



Source: BHAS

Data for Q1 and Q2 2013 is not available

2.4. INFLATION

Average annual deflation of 1.1% in 2016

Bosnia and Herzegovina registered average annual deflation of 1.1% in 2016, according to BHAS.

The largest decrease in consumer prices was registered by footwear, of 9.0%, followed by clothing and operation of personal transport equipment, which got cheaper by 8.8% and 6.9%, respectively.

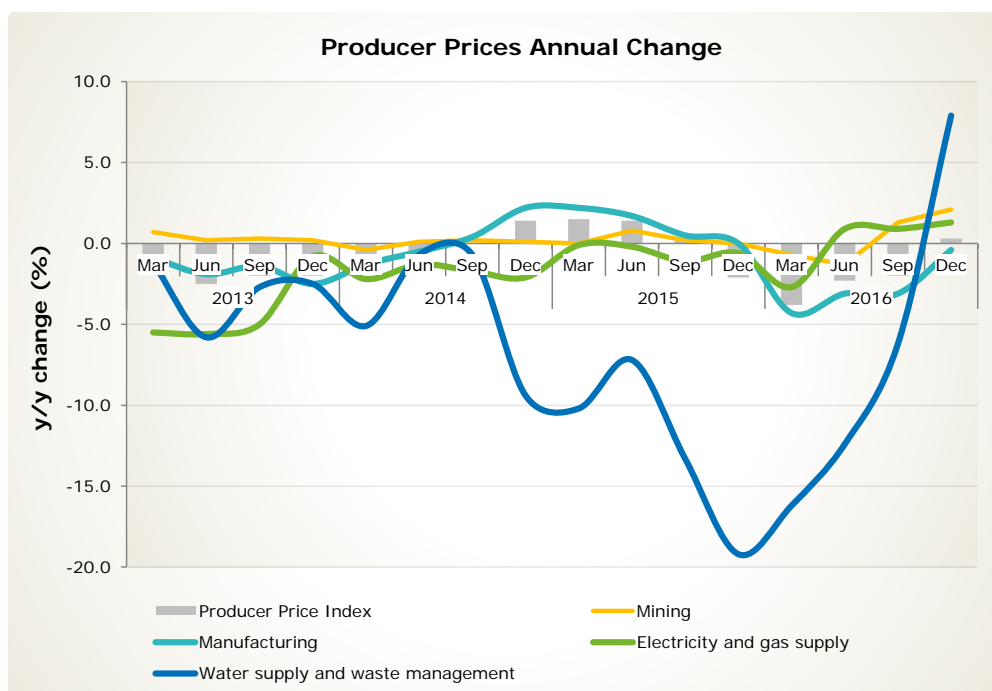
The consumer groups that recorded inflation were led by tobacco with 9.5%, package holidays with 5.7%, and education not definable by level with 3.0%.



Source: BHAS

Producer prices inched up by 0.3% y/y in December 2016 due to the 7.9% rise of water supply prices. Manufacturing prices decreased by 0.4%, while mining and electricity and gas supply sectors recorded an annual increase by 2.1% and 1.3%, respectively.

Segment wise, producer prices increased the sharpest, by 7.9%, in the waste management and recycling sector, while the biggest drop, of 5.6%, was registered by printing and reproduction of recorded media.



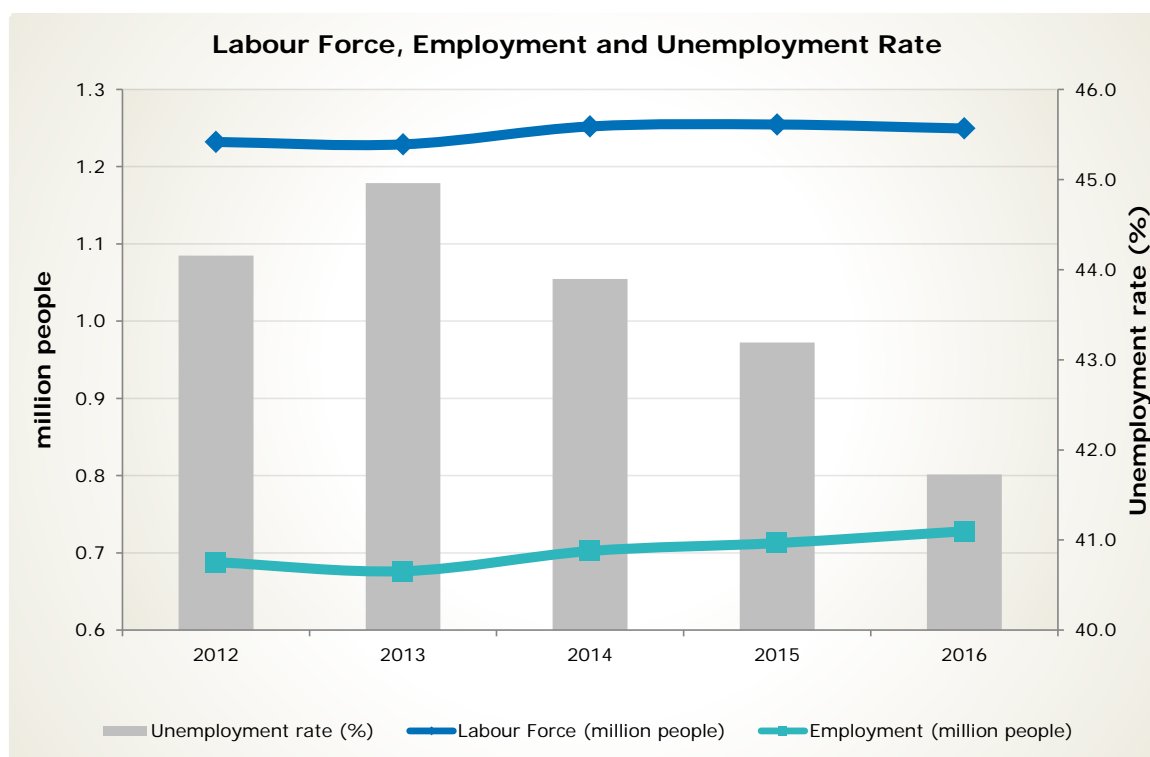
Source: BHAS

3. LABOUR MARKET

Unemployment rate went down to 41.7%, wages inched up y/y in 2016

Unemployment in Bosnia and Herzegovina decreased to 41.7% of the total labour force in 2016 from 43.2% in the previous year, according to data of BHAS.

The employed population aged 15 years and older was 728,040 in 2016, up by 2.2% y/y.



Source: BHAS

The average monthly net salary in 2016 inched up to BAM 838 in comparison to BAM 831 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 17.6% y/y in 2016

The number of building permits, excluding such for civil engineering works, issued in Bosnia and Herzegovina in 2016 jumped by 17.6% y/y, totalling 3,218, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, went up to 432,063 sq m from 400,199 sq m in 2015.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BAM EXCHANGE RATE

The average exchange rate of the BAM against the USD increased to BAM 1.76801 in 2016 from BAM 1.76261 in 2015, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	2016	2015	2014
USD	1.76801	1.76261	1.47402
GBP	2.23640	2.69448	2.42633
CHF	1.79445	1.83291	1.61034
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.

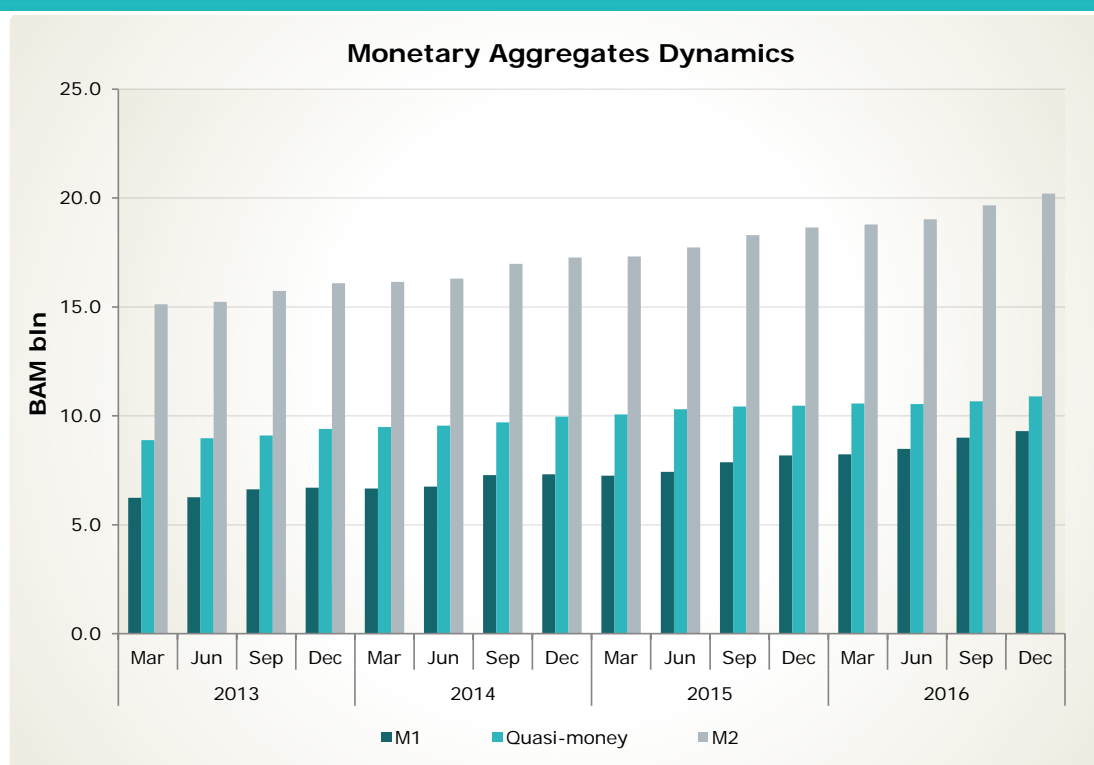
5.2. MONETARY AGGREGATES

Money supply growth was 8.3% y/y as of December 2016

Broad money, money aggregate M2, in Bosnia and Herzegovina increased by 8.3% y/y and reached BAM 20.198 bln in December 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 4.1% to BAM 10.897 bln.

Money aggregate M1, or narrow money, jumped by 13.7% to BAM 9.301 bln.



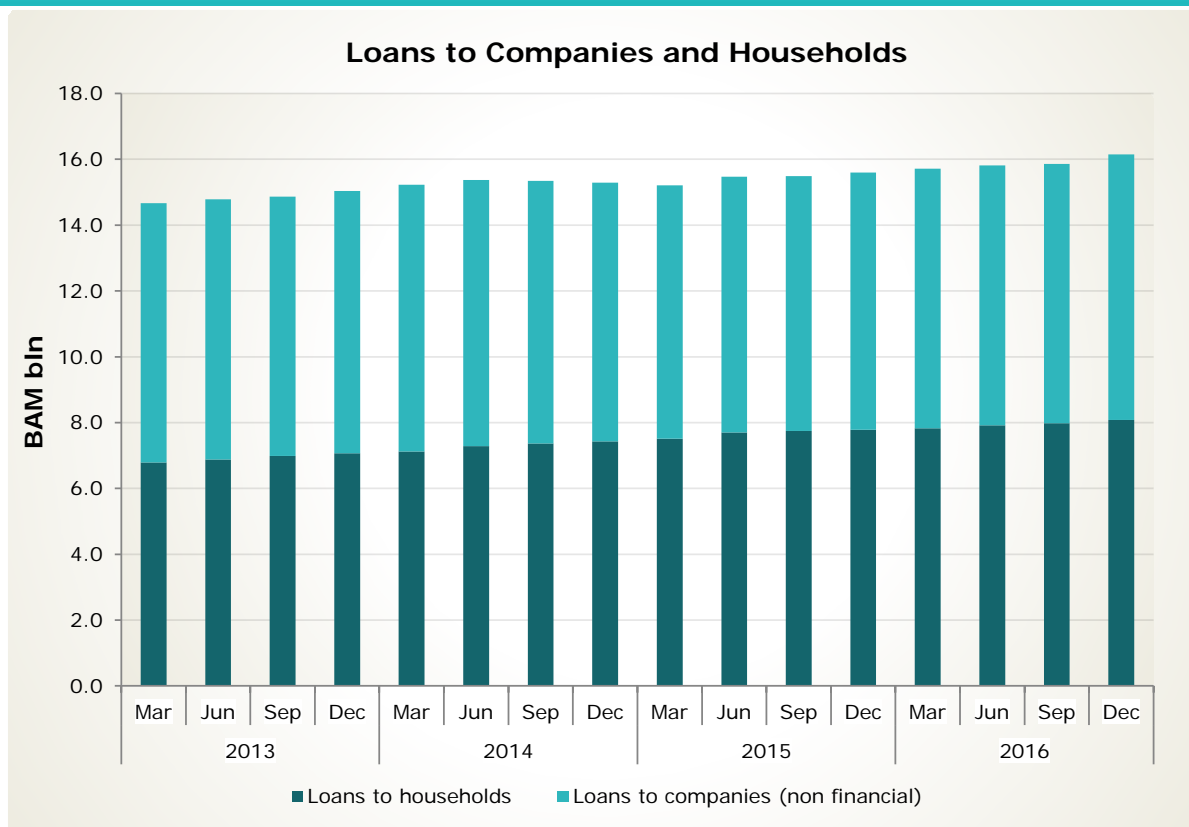
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans increased by 3.8% y/y in December 2016

Loans to the non-government sector totalled BAM 16.152 bln as of December 2016, up by 3.5% y/y, according to CBBH.

Loans to non-financial corporations increased by 3.3% to BAM 8.075 bln, while household loans rose by 3.8% y/y to BAM 8.076 bln. House purchasing loans went down by 2.6% to BAM 1.478 bln. Consumer loans grew by 6.1% to BAM 6.008 bln.



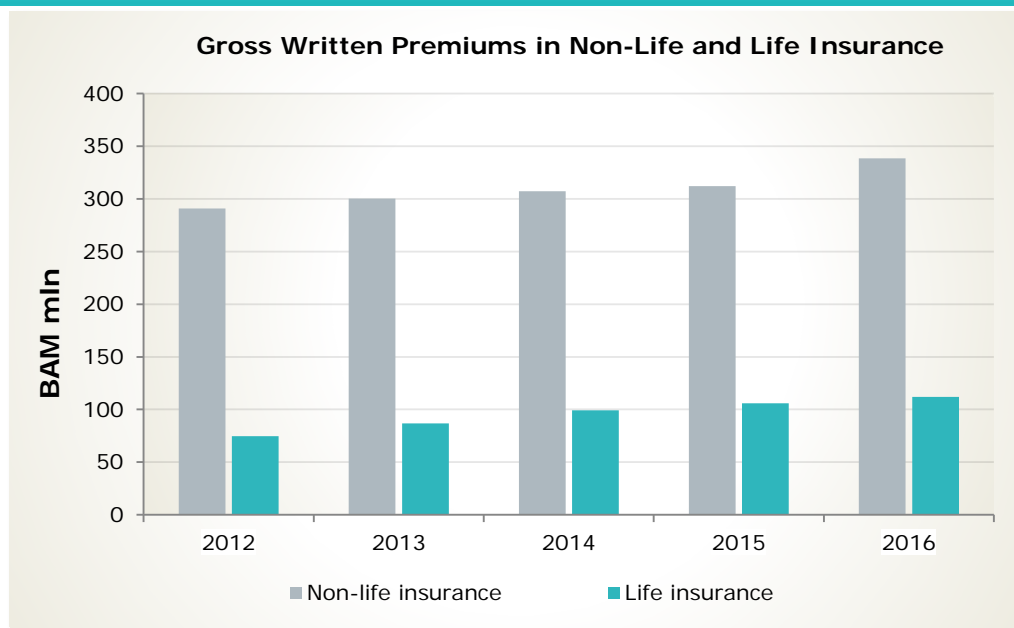
Source: CBBH

Insurance premium income up 7.7% y/y in 2016

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 450.3 mln, up by 7.7% y/y in 2016, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 8.4% rise, to BAM 338.3 mln, of the non-life insurance segment and the 5.7% rise, to BAM 112.0 mln, of life insurance.

In the non-life insurance sector the highest share of gross written premiums was registered by motor third party liability insurance with 59.1% of the total, followed by insurance of land vehicles with 13.3% and accident insurance with an 8.6% share.



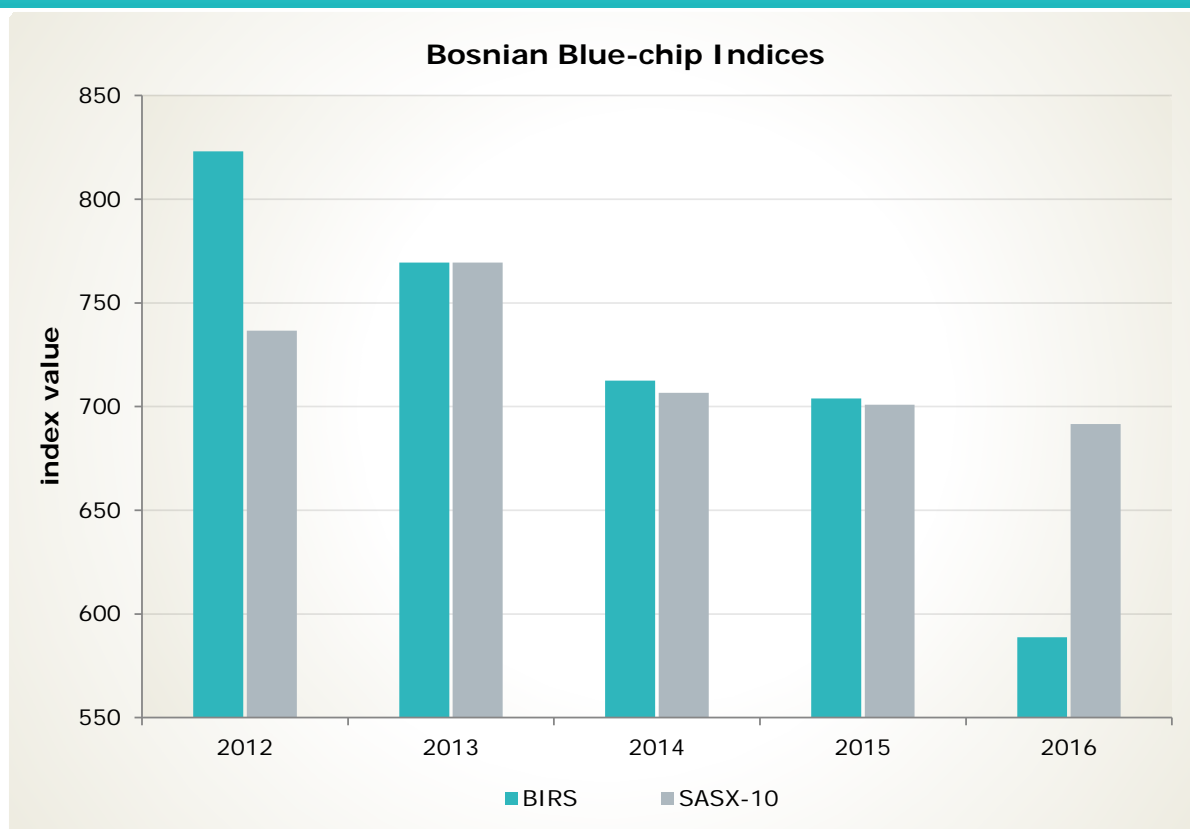
Source: NADOS

6. CAPITAL MARKETS

Blue-chip BIRS down 16.4%, SASX10 down 1.3% y/y in 2016

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLBerza), decreased y/y by 16.4% in 2016, according to BLBerza data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), also registered a decline compared to 2015, of 1.3%.



Source: BLBerza, SASE

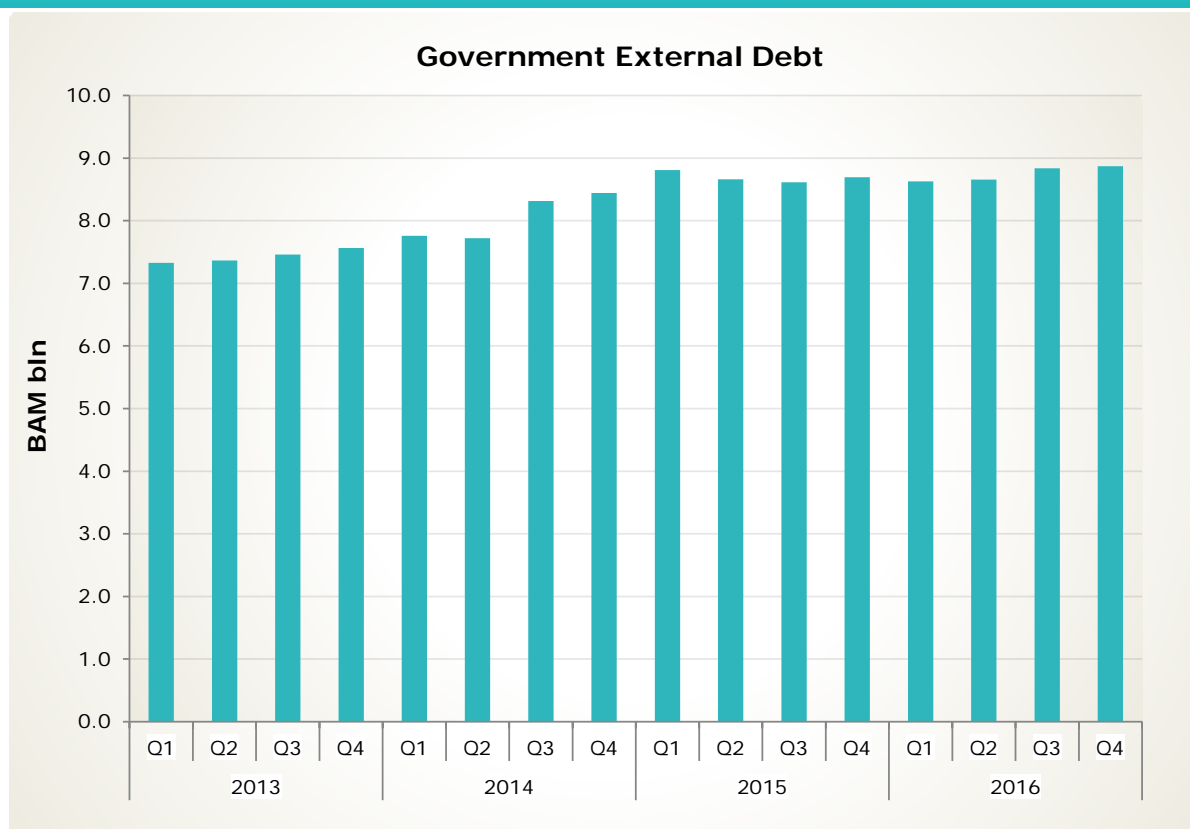
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt went up y/y to BAM 8.871 bln in Q4 2016

The total external government debt amounted to BAM 8.871 bln in Q4 2016, up by 2.0% on the year, according to CBBH data. In comparison to Q3 2016, the government external debt increased by BAM 34.197 mln.

Bosnia and Herzegovina's main foreign creditors as of Q4 2016 were World Bank's International Development Association (IDA), the European Investment Bank, and IMF.

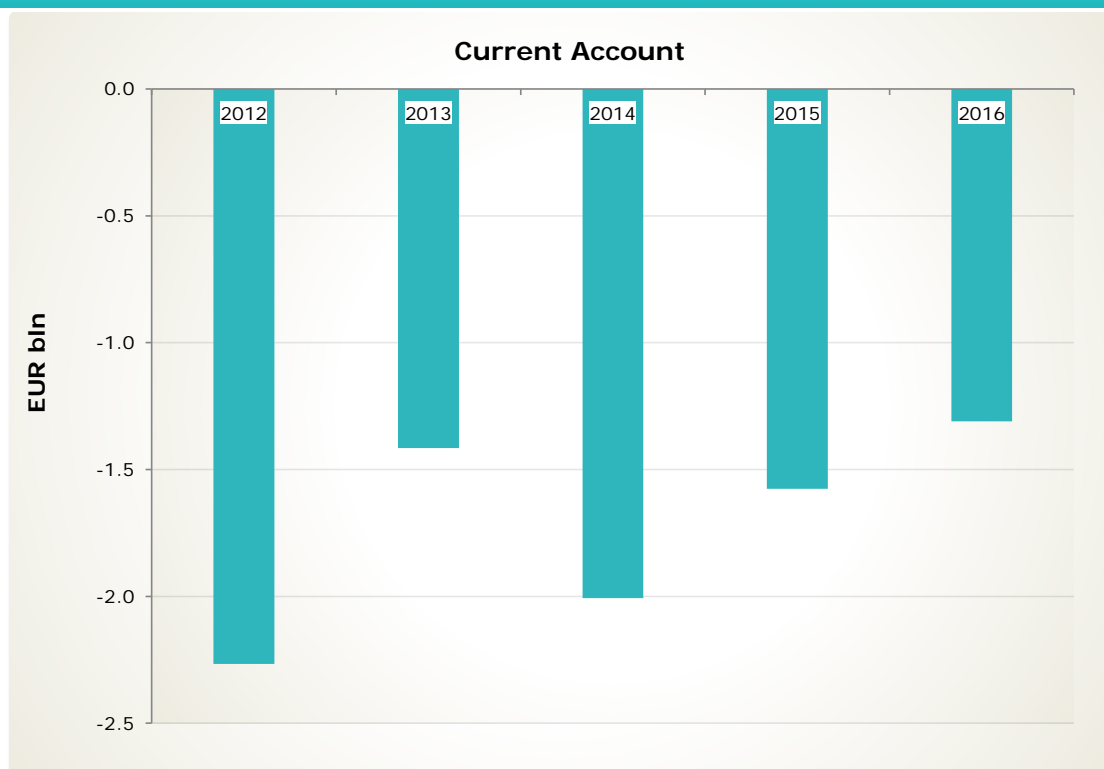


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account gap at BAM 1.310 bln in 2016

The current account gap narrowed to BAM 1.310 bln in 2016 from BAM 1.576 bln in 2015, according to central bank statistics data. The net secondary income decreased by 1.2% on the year to BAM 3.578 bln.



Source: CBBH

7.3. FDI

Net FDI inflow at BAM 144.8 mln in Jan-Sept 2016*

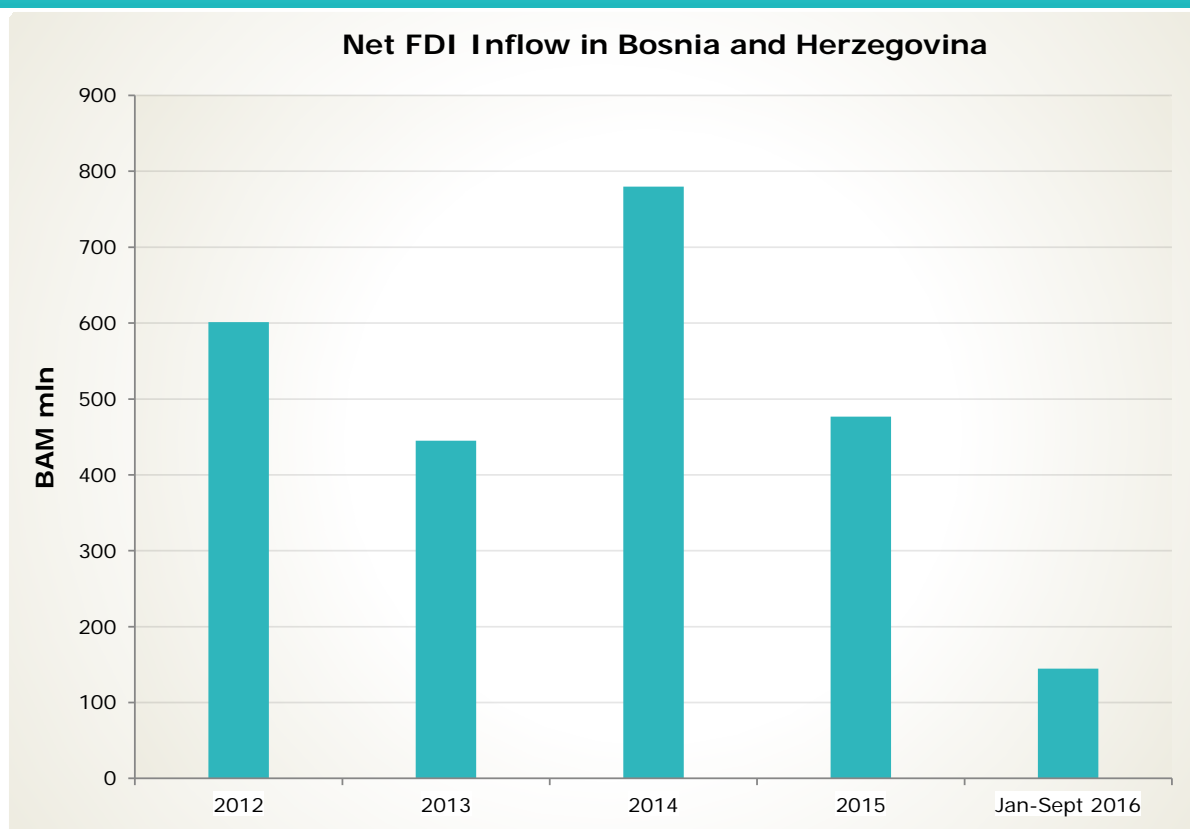
**Annual data for 2016 was not available as of the date of preparation of this report.*

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina totalled BAM 144.8 mln in the first nine months of 2016, according to CBBH data.

The FDI slumped by 64.8% compared to the corresponding period of the previous year and their share in the country's GDP fell to 0.7% from 1.1%.

In Jan-Sept 2016, Croatia was the biggest foreign investor in the country with direct investments of BAM 32.9 mln, United Arabian Emirates came second with BAM 20.1 mln and Austria came third with BAM 19.5 mln.

Financial service activities, except insurance and pension funding, was the most attractive sector for foreign investors with FDI inflow of BAM 77.4 mln, ahead of electricity, gas, steam and air conditioning supply with BAM 22.9 mln and wholesale trade, except of motor vehicles and motorcycles with BAM 21.9 mln.



Source: CBBH

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 6.723 bln in 2016

The trade deficit gap narrowed to BAM 6.723 bln in 2016 from BAM 6.865 bln in 2015, according to BHAS.

In 2016, the leading sector in terms of export value was manufacture of base metals and articles thereof, accounting for 16.7% of the total, followed by miscellaneous manufactured articles with an 11.9% share, and manufacture of machinery and electrical equipment with an 11.1% share.

In terms of imports, the main goods were machinery and electrical equipment, which made up 13.9% of the total, followed by mineral products, slicing a 12.5% share, and chemical products with a 9.9% share.



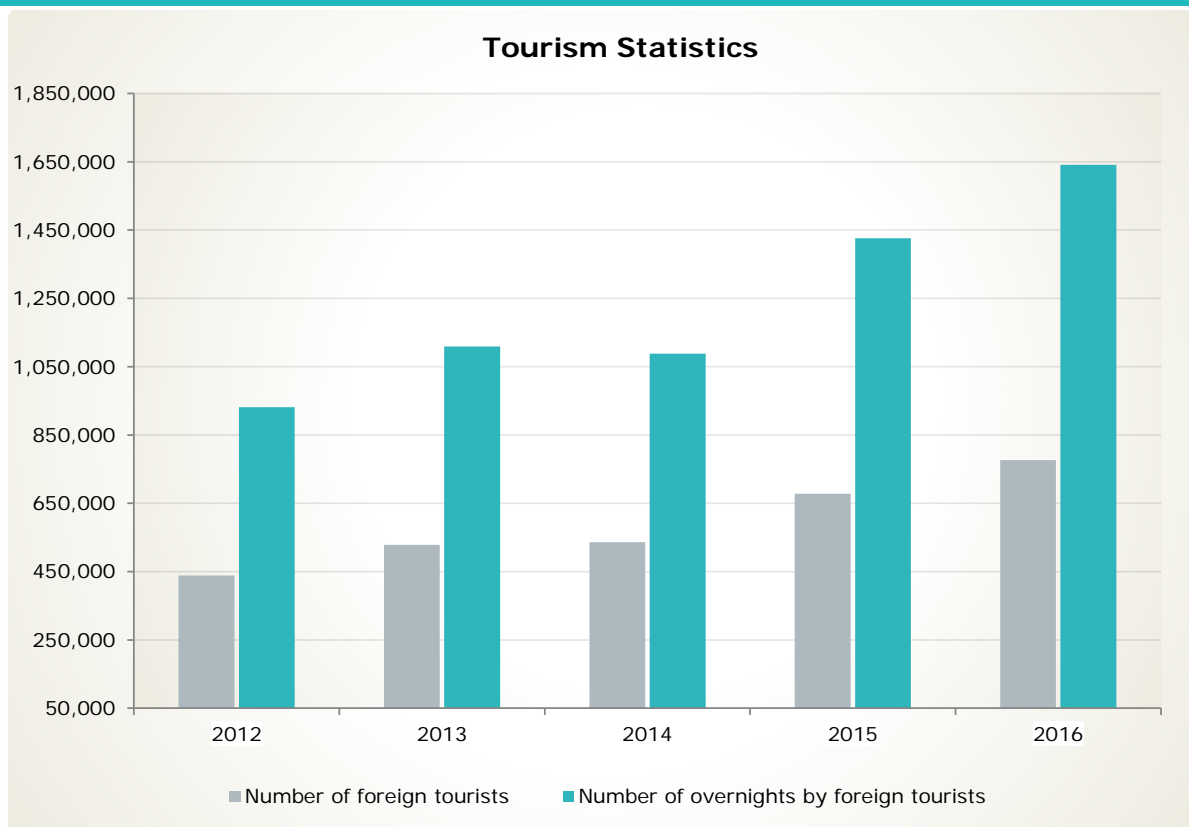
7.5. TOURISM

Number of foreign tourist overnights rose by 15.1% y/y in 2016

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 15.1% to 1,641,421 in 2016, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 69.1% in 2016, versus 66.5% in 2015.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 14.5% y/y to 776,889.

Croatian tourists led the ranking in terms of numbers – 86,054, followed by tourists from Turkey – 83,158, and Serbia – 69,255.



Source: BHAS

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