

BOSNIA AND HERZEGOVINA ECONOMY REPORT 2017

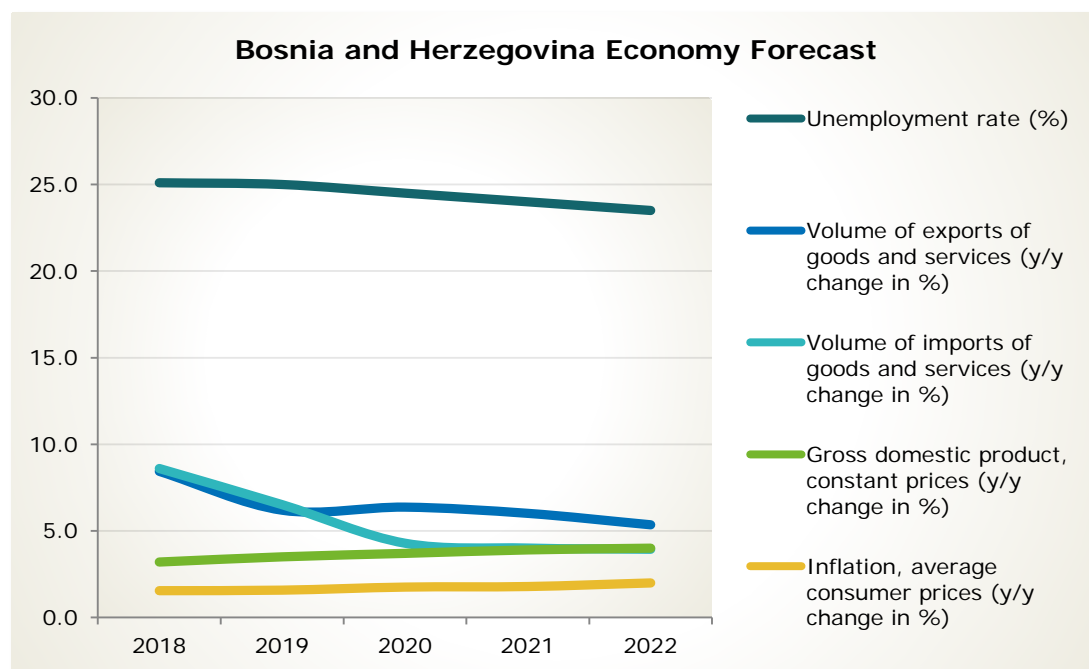
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1. MACROECONOMIC SNAPSHOT AND FORECAST

BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN 2017	
GDP Growth	3.0% y/y
Industrial output	3.1 % y/y
Wholesales	10.8% y/y
Retail sales	4.1% y/y
Average annual inflation	1.3%
Unemployment rate	39.4%
Number of building permits	9.9% y/y
Money supply growth	9.5% y/y
Household loans	6.7% y/y
BIRS blue-chip index	0.1% y/y
SASX-10 blue-chip index	-11.6% q/q
Government external debt	BAM 8.146 bln
Current account deficit	BAM 1.512 bln
Net FDI inflow	BAM 233.4 mln*
Foreign trade deficit	BAM 7.081 bln
Number of foreign tourist overnights	12.3% y/y

*In Jan-Sept 2017



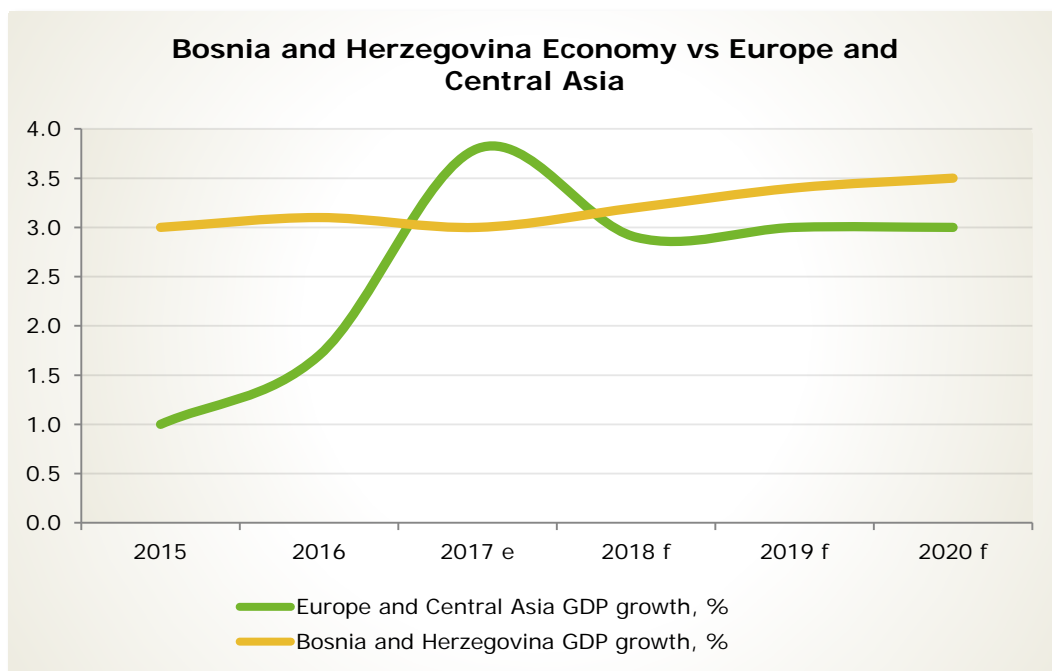
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

The economic growth of Bosnia and Herzegovina is expected to accelerate to 3.2% in 2018 and 3.5% in 2019 from the registered 2.7% in 2017, supported primarily by domestic demand,

according to IMF forecasts. While private consumption will continue to be the main contributor to GDP growth over the medium term, public investment is expected to pick up significantly, and this combined with continued implementation of structural reforms are expected to promote private sector activity, allowing growth to rise to around 4.0% by 2022, according to IMF.

The Fund forecasts that inflation should moderate slightly to 1.5% in 2018 once second-round effects from higher commodity prices in 2017 dissipate, but is expected to pick up to about 2.0% with gradual narrowing of the output gap in medium term. While the current account deficit is expected to increase in 2018–2019 reflecting import needs of the heavy public investment, it should stabilize at around 5.0% of GDP by 2022.

There are elevated risks that political support for sound policies may falter in the run up to general elections in October 2018. With ethno-nationalist politics expected to continue to take center stage in the election season, the risk of a widening chasm in the single economic space and deterioration of regulatory coherence cannot be discounted. On the external front, adverse shocks in Europe could pose spillover risks to the country and a stronger-than-projected growth in Europe or the US would have an upside in the economic growth, IMF concludes.



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)	1.1	3.1	3.1	3.0	3.2	3.5
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

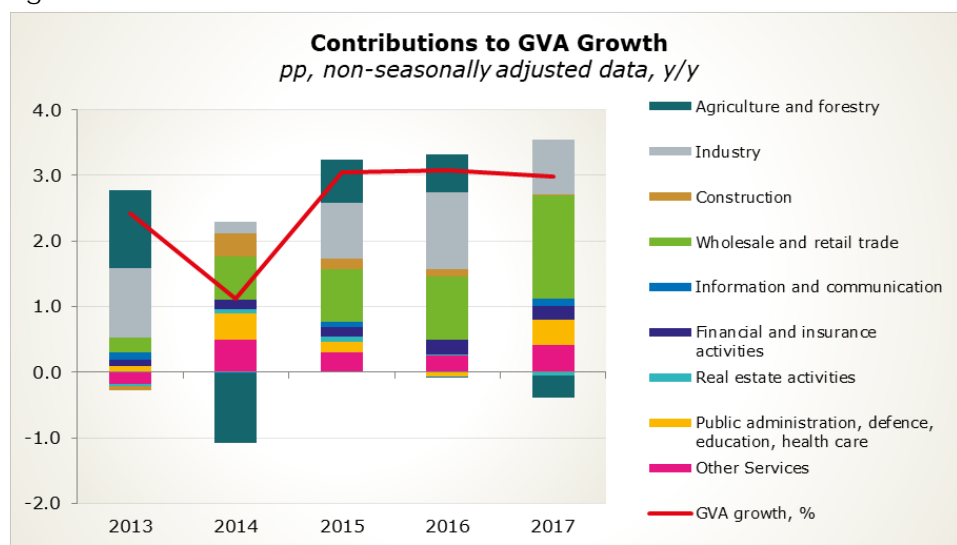
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 3.0% y/y in 2017

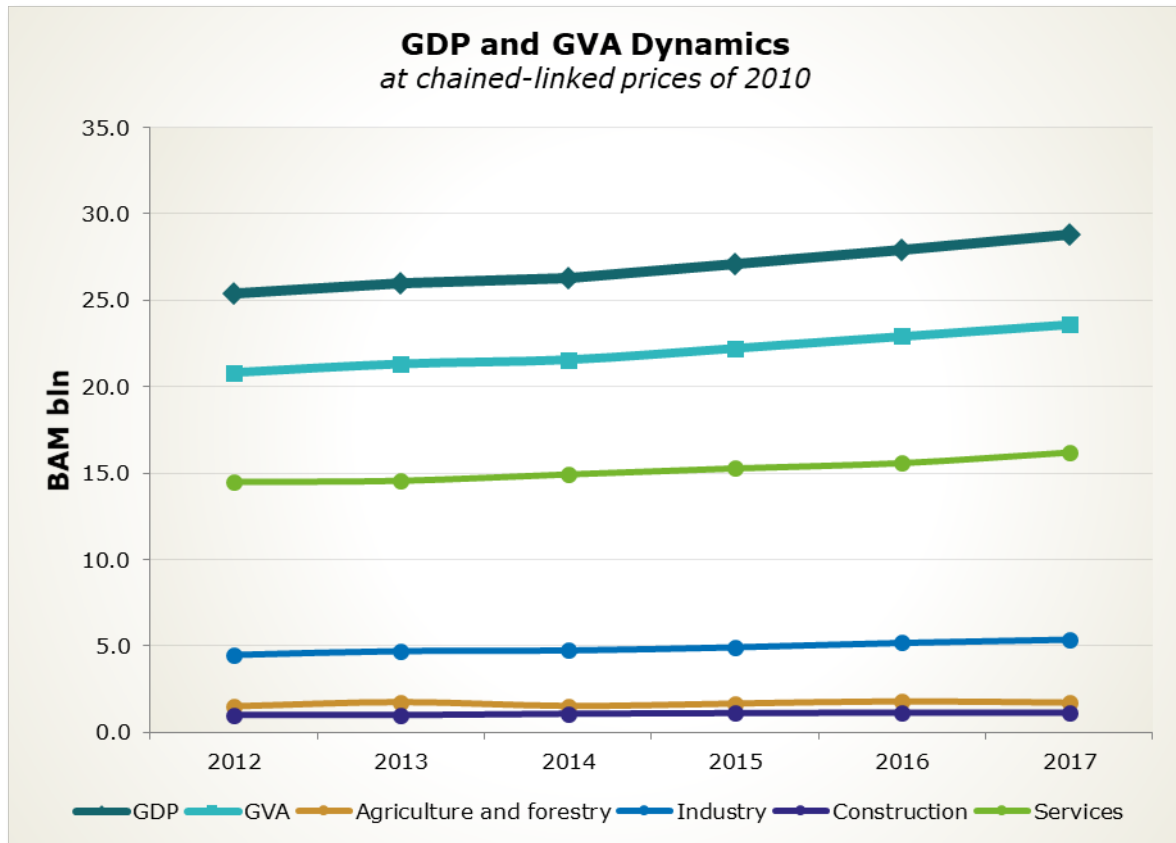
The country's real GDP annual growth was 3.0%, totalling BAM 28.802 bln in 2017, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS). This is slightly down compared to 2016 when the GDP increased at 3.1% annual rate.

Wholesale and retail trade contributed the most to the overall GDP growth in 2017, by 1.6 pp, followed by industry with 0.8 pp. The agriculture and forestry sector took away 0.3 pp from the economic growth in 2017.



Source: BHAS, SeeNews Calculations

The gross value added (GVA) generated by the national economy increased in value terms by 3.0% y/y in 2017 and totalled BAM 23.594 bln. The industrial sector grew by 3.6% and its share in the GVA structure came in at 23%. The services sector recorded a 3.9% increase, slicing a 69% share in the GVA. Agriculture and forestry went down by 4.4% and accounted for 7.3% in the GVA. Construction GVA went up by 0.3% and its GVA share was 4.9%.

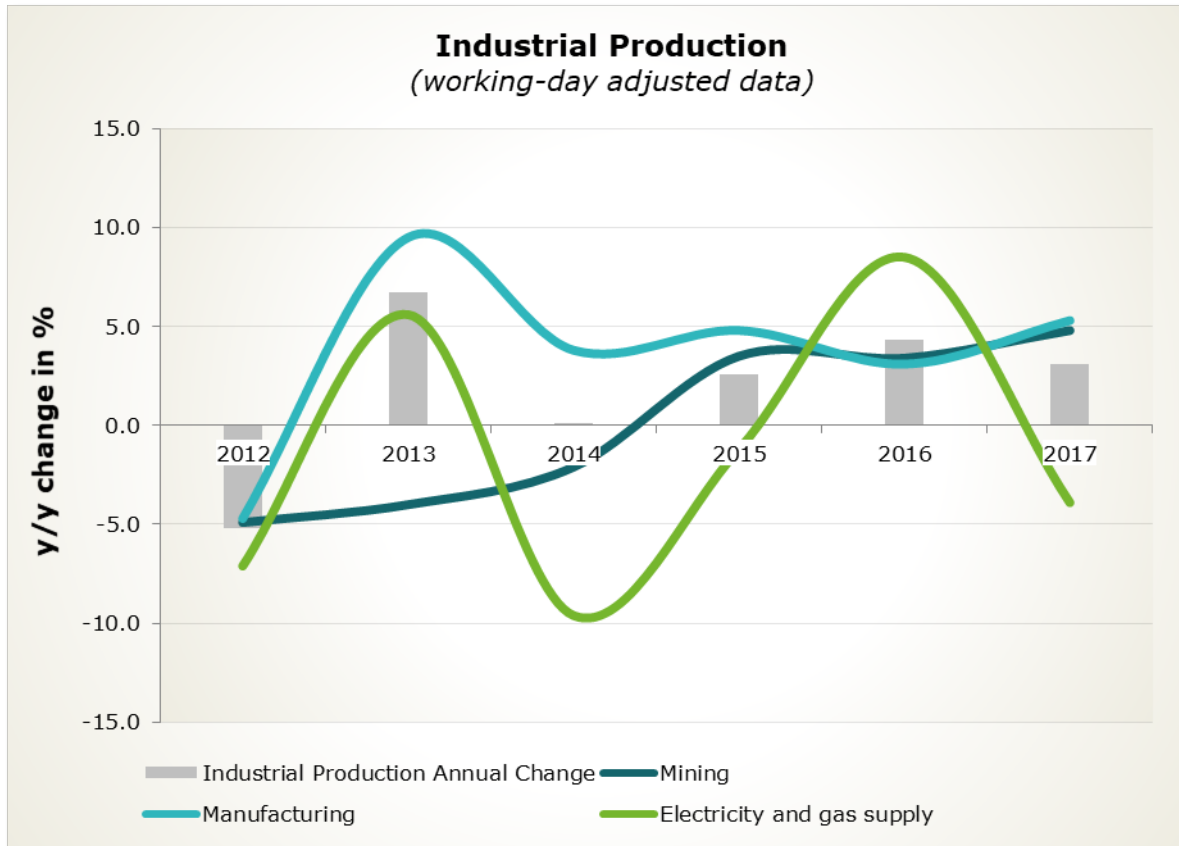


Source: BHAS, SeeNews Calculations

2.2. INDUSTRIAL OUTPUT

Industrial output up 3.1% y/y in 2017

Industrial output went up by 3.1% in 2017, according to BHAS data. This is a slowdown compared to 2016, when the industrial production advanced by 4.3% in real terms. The output of the mining sector rose by 4.8% in 2017, followed by the manufacturing industry with 5.3%, while the output of the electricity and gas supply sector narrowed by 3.9%.



Source: BHAS

2.3. WHOLESALE/RETAIL

Retail grew 4.1% y/y, wholesale went up by 10.8% y/y in Q4 2017

Retail sales, except of motor vehicles and motorcycles, went up by 4.1% y/y in the fourth quarter of 2017, while wholesale trade increased by 10.8%, according to BHAS data. This is compared to growth for retail of 4.8% y/y and a rise of 8.4% y/y in the wholesale trade in Q3 2017.



Source: BHAS

2.4. INFLATION

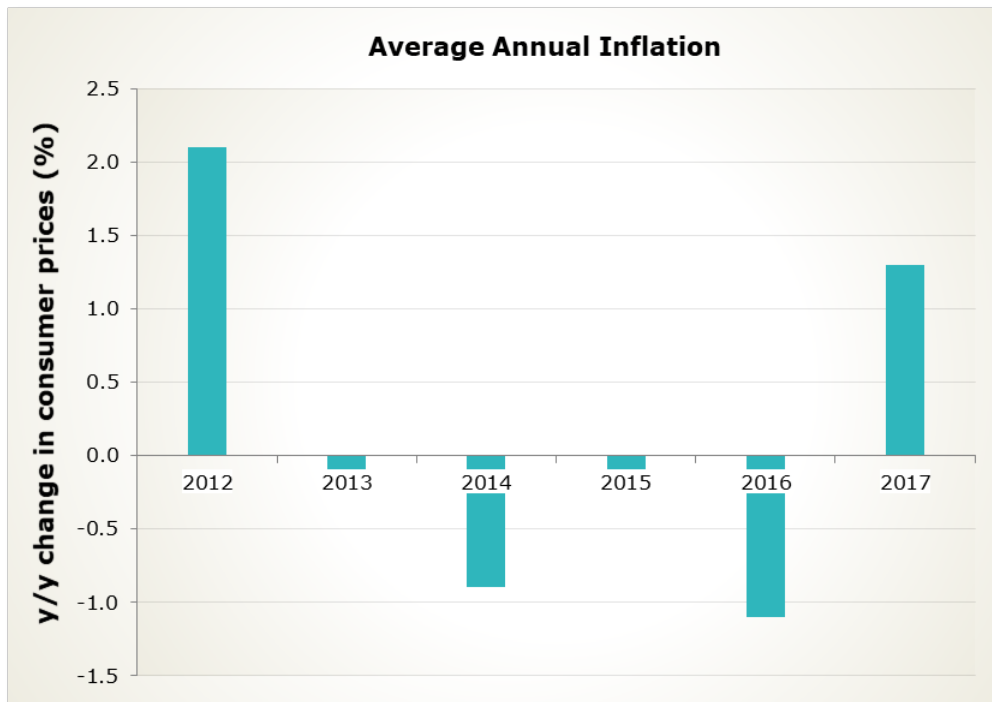
Inflation is finally here with 1.3% rise of the average prices in 2017

After four years of deflation, in 2017, the average prices in Bosna and Herzegovina advanced by 1.3% y/y, data from BHAS shows.

The return of the inflation is to a large extent due to the rise of the oil prices on the international markets

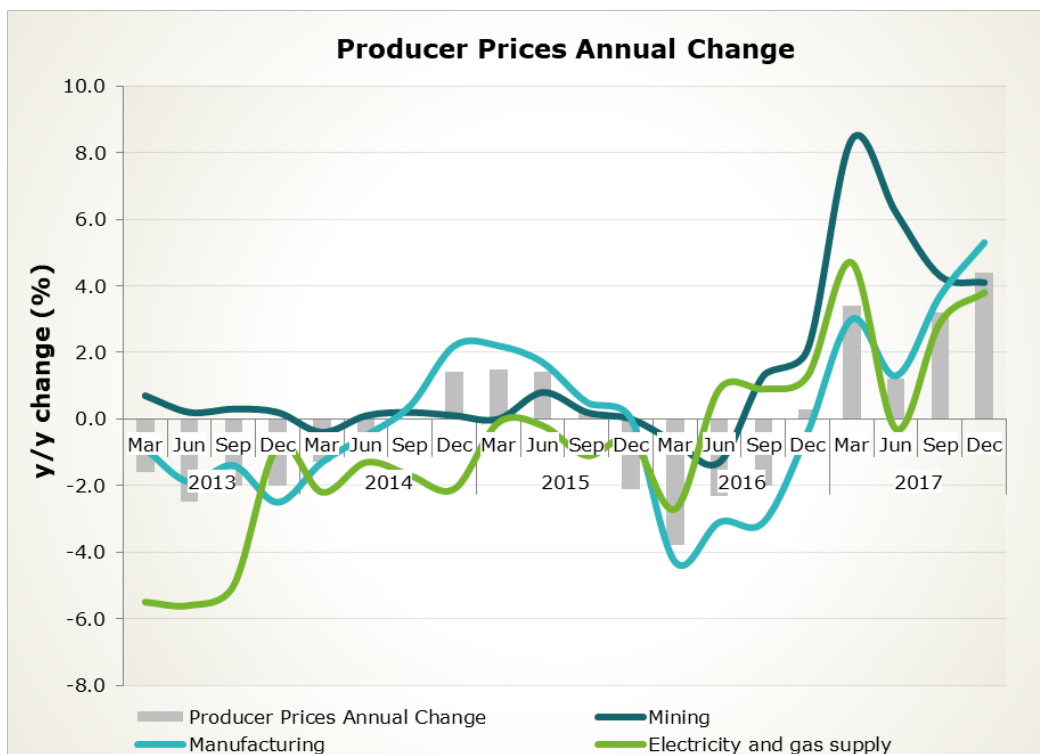
The highest average annual inflation in the period, of 5.6%, was registered by the transport sector as companies in the transport industry increased prices for transportation services on the higher costs for fuels, followed by alcohol, beverages and tobacco which experienced inflation of 5.2% in 2017.

In terms of deflation, the ranking was led furnishings, household equipment and routine maintenance of the house with 1.0% decrease of the average prices in 2017 and personal care goods with 0.8% deflation.



Source: BHAS

Producer prices grew by 4.4% y/y in December 2017 due to the 5.3% rise of the average prices in the manufacturing sector. Mining prices increased by 4.1%, while producer prices in the electricity and gas supply industry went up by 3.8%.



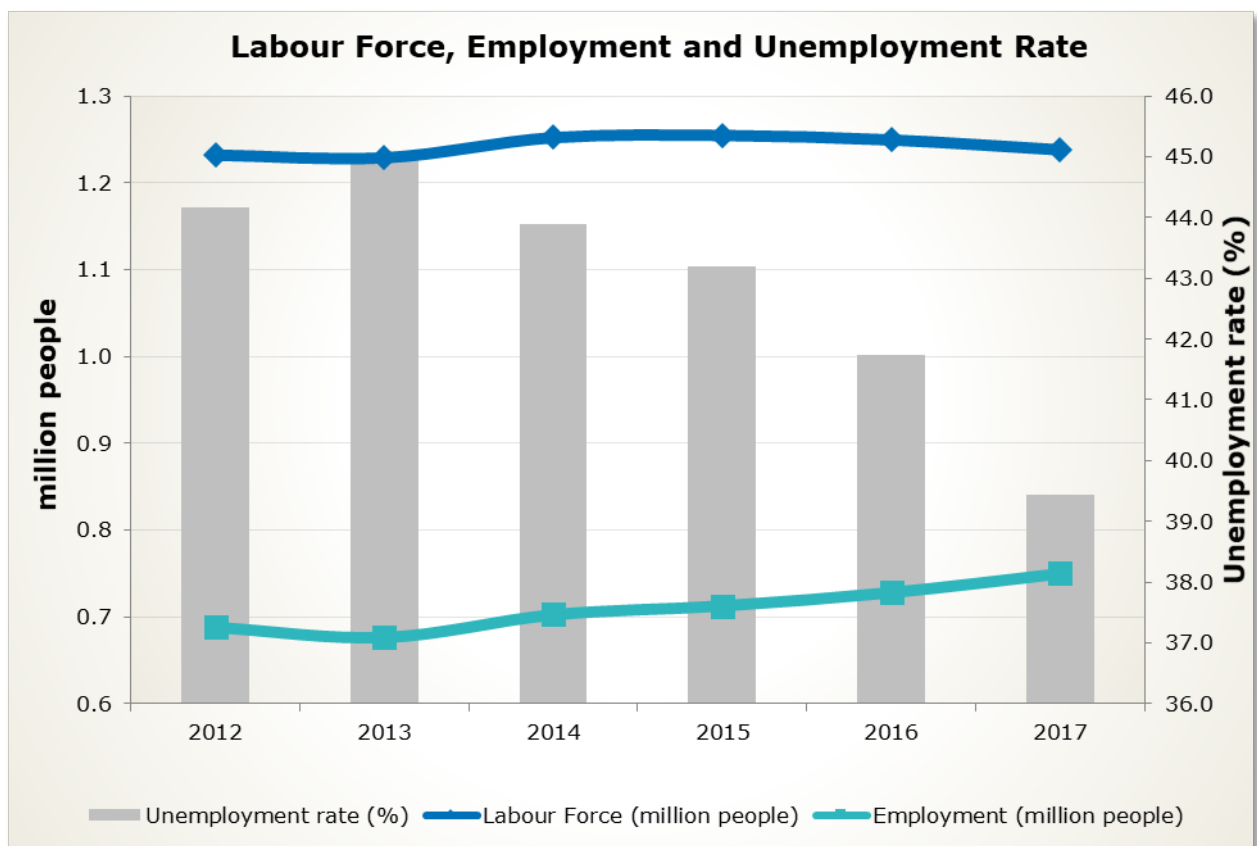
Source: BHAS

3. LABOUR MARKET

Unemployment rate went down but remained high, at 39.4%, as of December 2017

Unemployment in Bosnia and Herzegovina decreased to 39.4% of the total labour force in 2017, down from 41.7% in 2016, according to data of BHAS.

Employment in the country counted about 750,000 people, up 3.0% y/y, while the labour force inched down by 0.9% y/y to 1.2 million people in 2017.



Source: BHAS

The average monthly net salary in 2017 climbed by 1.6% y/y to BAM 851 in comparison to BAM 838 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 9.9% y/y in 2017

The number of building permits, excluding civil engineering works, issued in Bosnia and Herzegovina in 2017 grew by 9.9% y/y and totalled 3,537, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, soared to 502,573 sq m from 432,063 sq m in 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 1.73548 in 2017 from BAM 1.76801 in 2016, according to the Central Bank of Bosnia and Herzegovina (CBBH).

Average Quarterly BAM Exchange Rate			
Foreign Currency	2017	2016	2015
EUR	1.95583	1.95583	1.95583
USD	1.73548	1.76801	1.76261
GBP	2.23288	2.39640	2.69448
CHF	1.76160	1.79445	1.83291

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

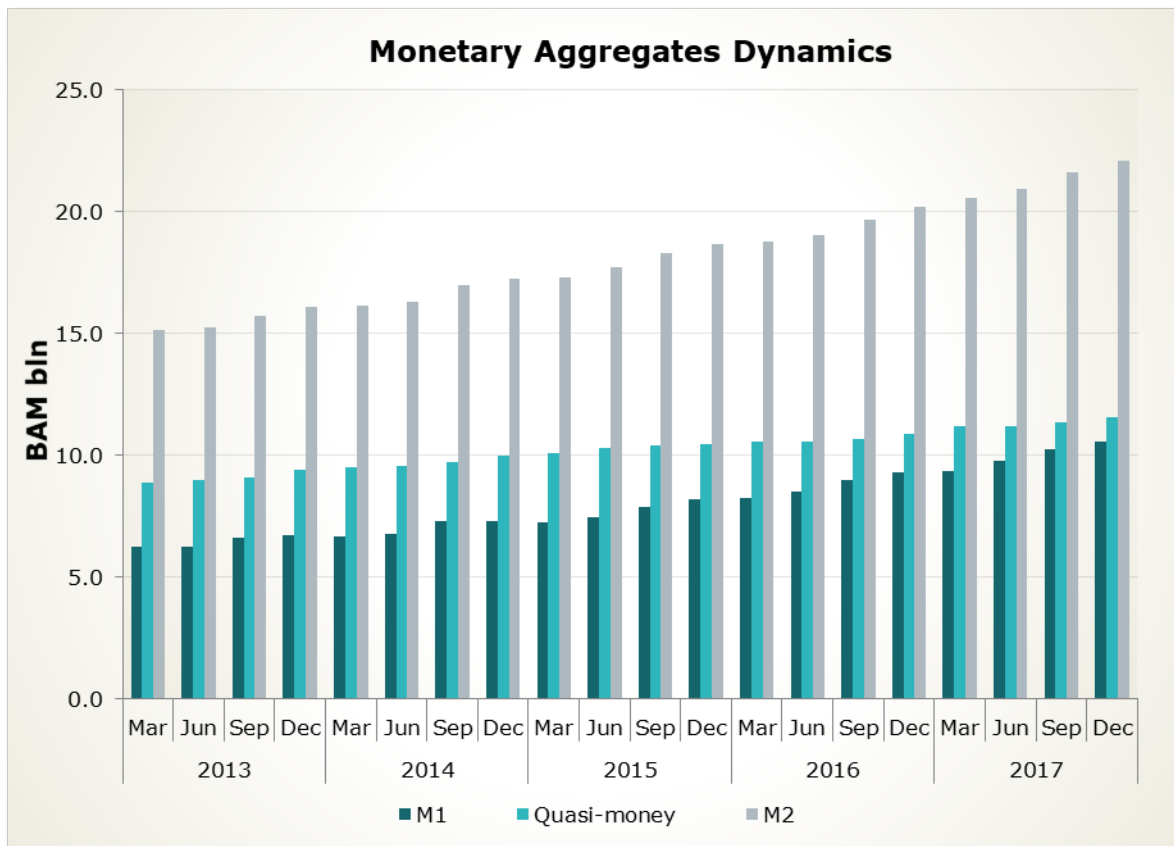
5.2. MONETARY AGGREGATES

Money supply growth was 9.5% y/y in 2017

Broad money, or money aggregate M2, in Bosnia and Herzegovina increased by 9.5% y/y and reached BAM 22.116 bln in end-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 5.9% to BAM 11.544 bln.

Money aggregate M1, or narrow money, expanded by 13.7% y/y to BAM 10.572 bln.



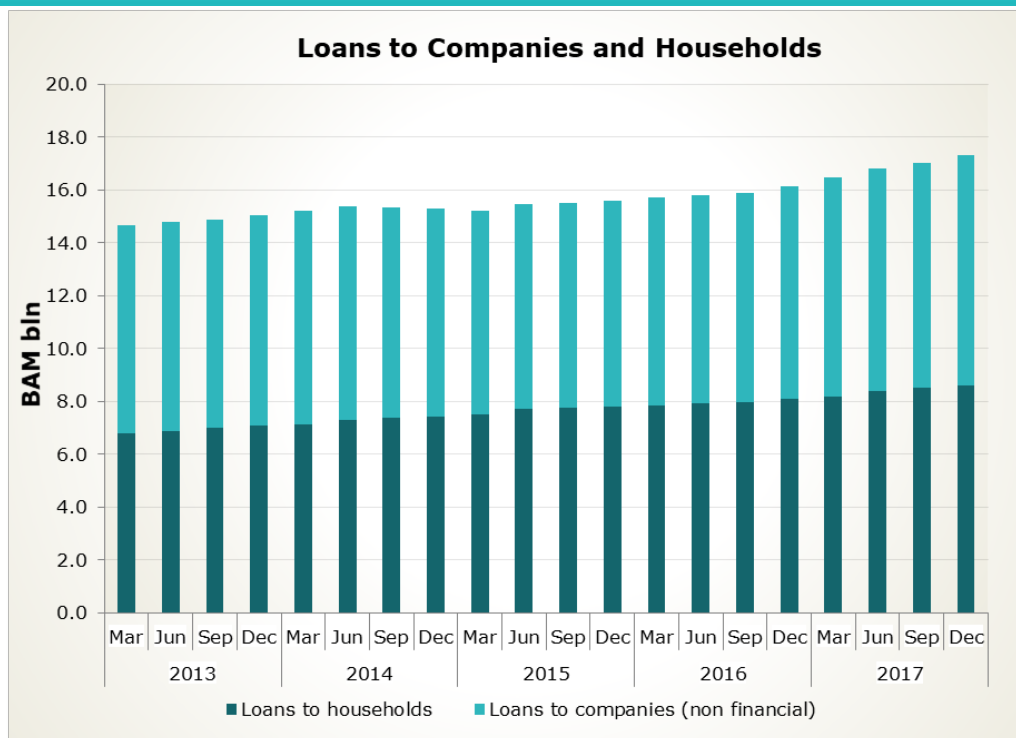
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans increased by 6.7% y/y in 2017

Loans to the non-government sector totalled BAM 17.335 bln as of end-2017, up by 7.3% y/y, according to CBBH.

Loans to non-financial corporations increased by 8.0% to BAM 8.721 bln, while household loans rose by 6.7% y/y to BAM 8.614 bln. House purchasing loans inched up by 3.6% to BAM 1.531 bln. Consumer loans grew the most, by 7.8% to BAM 6.477 bln.

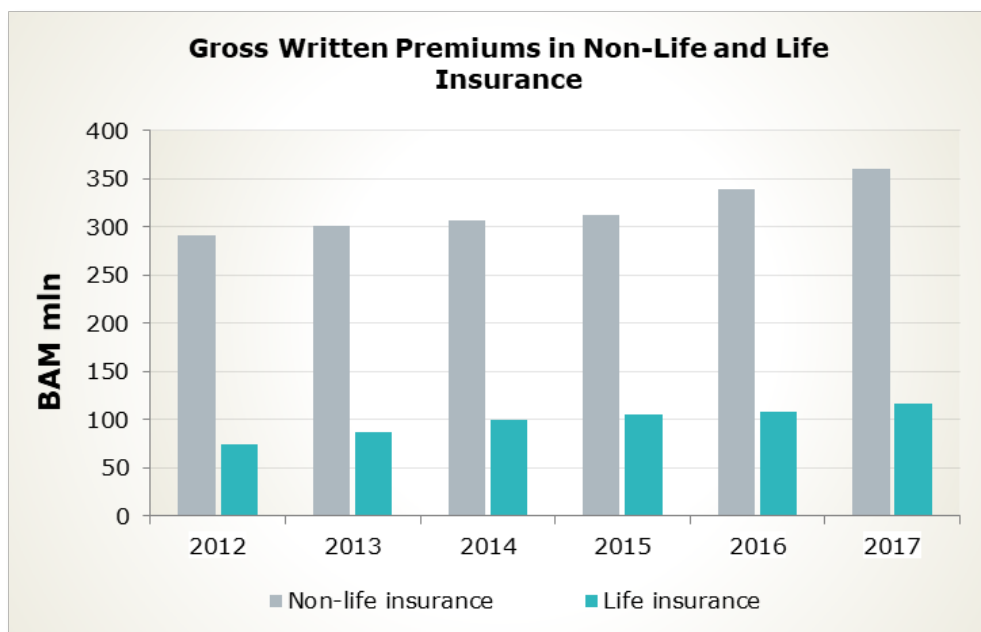


Source: CBBH

Insurance premium income up 6.4% y/y in 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 475.3 mln, up by 6.4% y/y in 2017, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 6.3% rise, to BAM 359.3 mln, of the non-life insurance segment and the 7.1% rise, to BAM 116 mln, of life insurance.



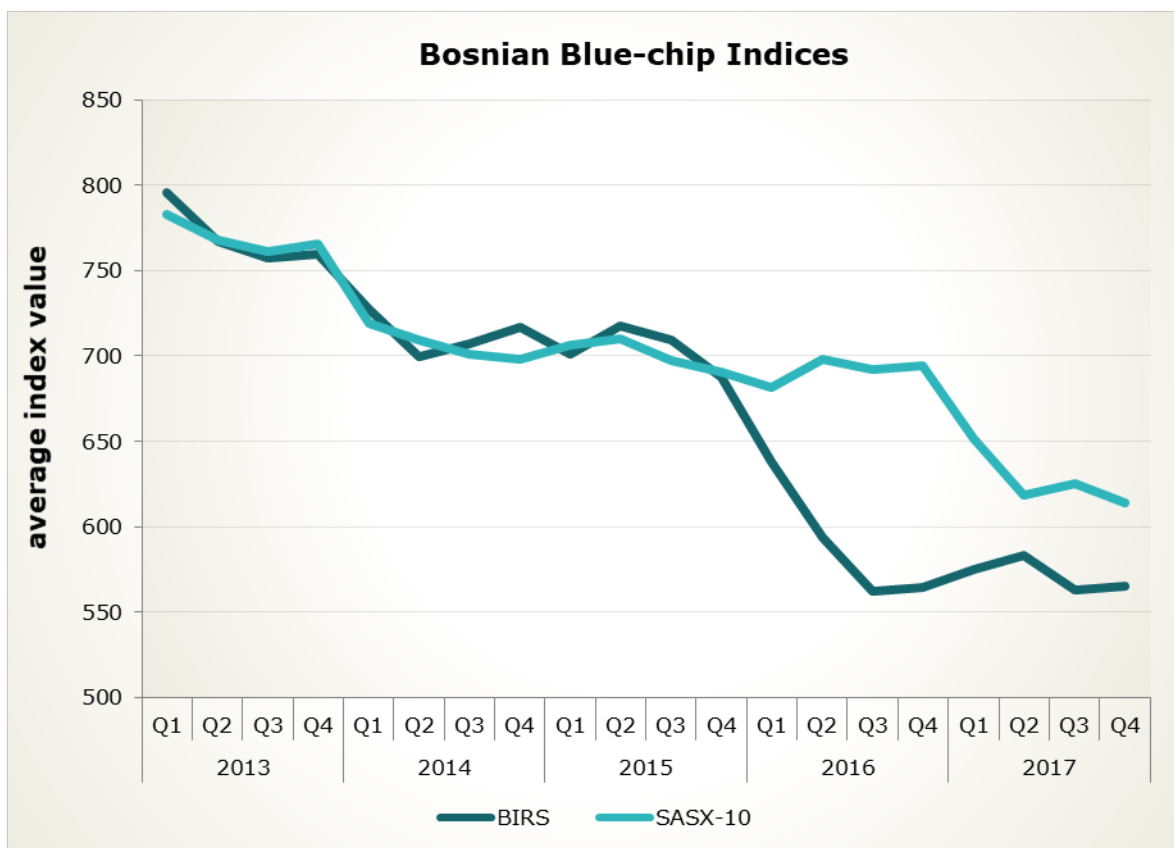
Source: NADOS

6. CAPITAL MARKETS

Blue-chip BIRS down 3.0% y/y, SASX10 down 9.3% y/y in 2017

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), decreased q/q by 3.0% in 2017, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), fell by 9.3% compared to end-2016.



Source: BLSE, SASE

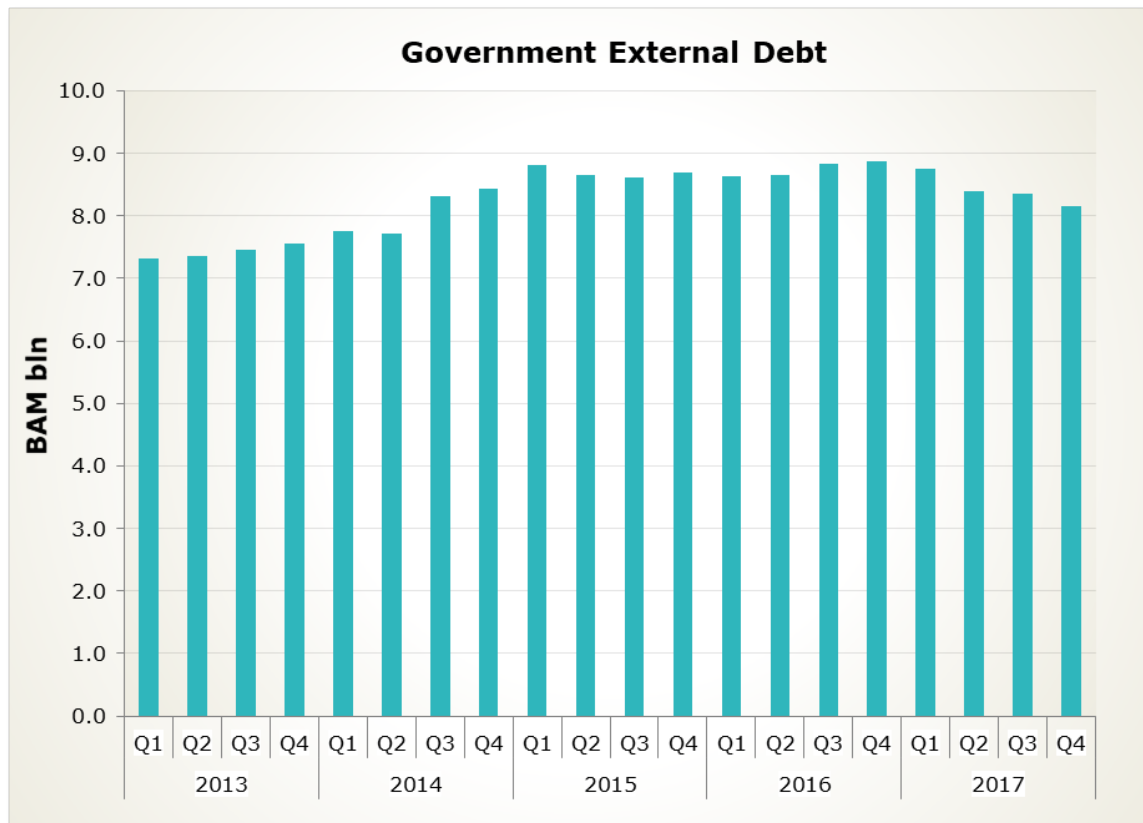
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt went down by 8.2% y/y to BAM 8.146 bln in 2017

The total external government debt amounted to BAM 8.146 bln in 2017, down by 8.2% on the year, according to CBBH data. In comparison to Q3 2017, the government external debt decreased by BAM 200 mln.

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

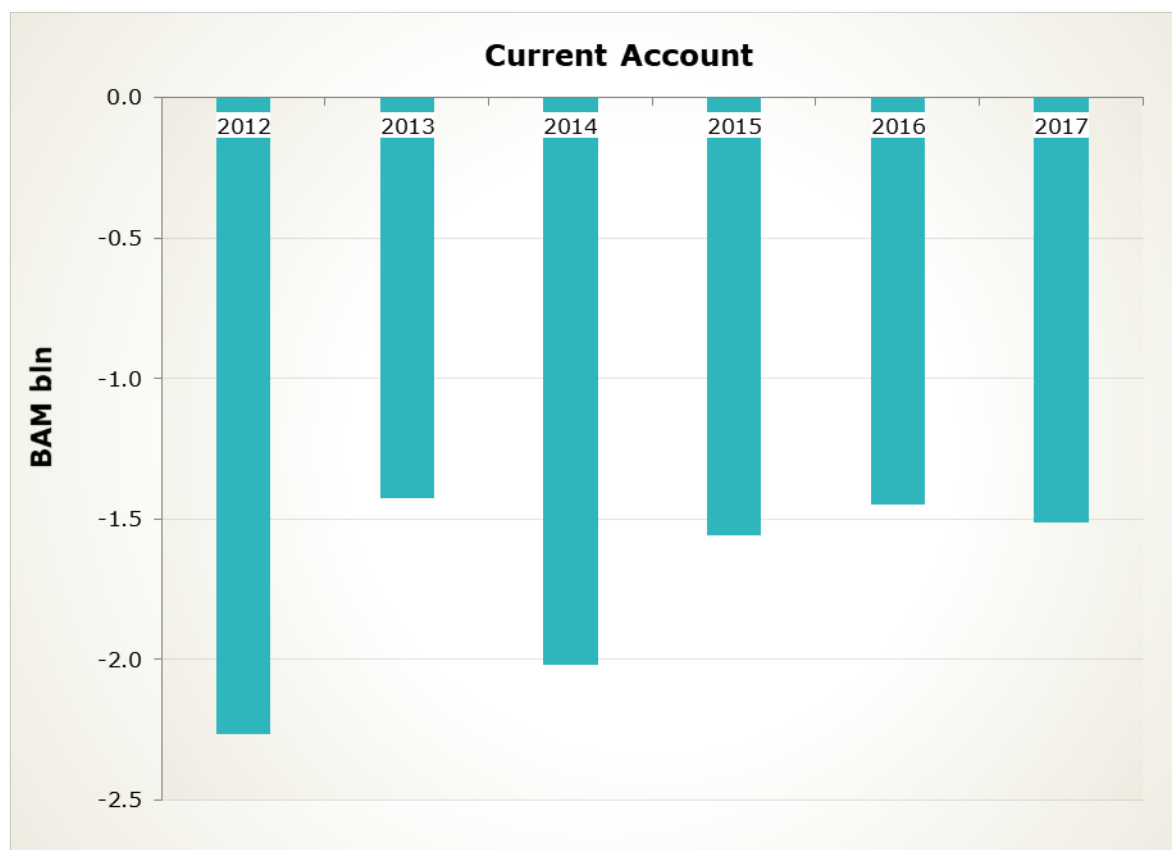


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account gap at BAM 1.512 bln in 2017

The current account gap expanded to BAM 1.512 bln in 2017, up from BAM 1.450 bln in 2016, according to central bank statistics data. The net secondary income increased by 7.0% on the year to BAM 3.754 bln.



Source: CBBH

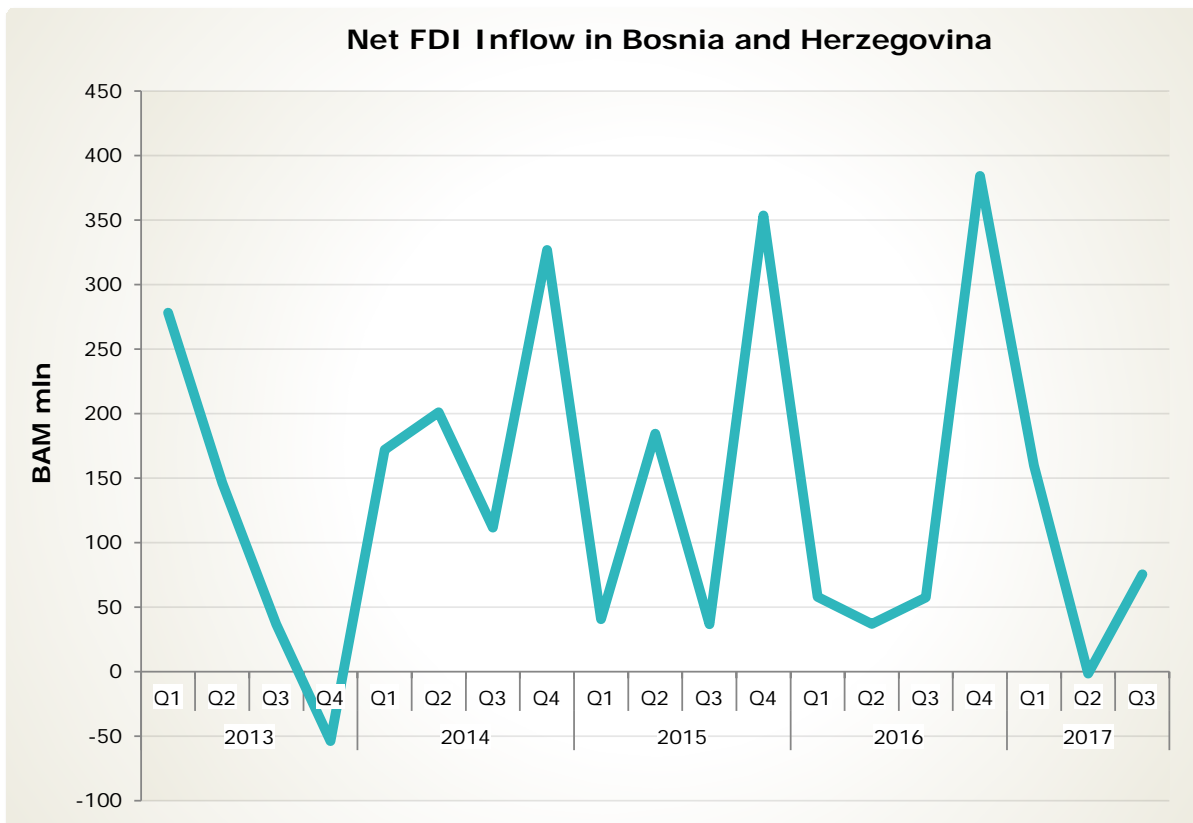
7.3. FDI

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

* Data for Q4 2017 and annual data for 2017 was not available at the time of preparation of this report.

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 7.081 bln in 2017

The trade deficit gap widened to BAM 7.081 bln in 2017 from BAM 6.743 bln in 2016, according to BHAS.

Exports surged by 17.4% y/y to BAM 11.054 bln, while imports jumped by 12.2% y/y to BAM 18.134 bln.

Export to EU countries amounted to BAM 7.866 bln in 2017, which is 16.8% higher than 2016, while import amounted to BAM 11.760 bln, or by 10.7% more than 2016.

Exports of sector mining and quarrying advanced by 30.5%, while agriculture, forestry and fishing increased by 7.9% and the manufacturing sector went up by 1.8%.

There was an increase in imports in the mining and quarrying sector by 5.7%, in agriculture, forestry and fishing by 0.7% and in manufacturing by 0.5%.



Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 16.2% y/y in 2017

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 16.2% to 1.9 mln in 2017, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 71.5% in 2017, versus 69% in 2016.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 18.6% y/y to 923,000.



Source: BHAS

8. MAJOR DEVELOPMENTS

Bosnian power utility ERS to invest EUR 250 mln in construction of new facilities

Dec 28, 2017

Bosnian power utility Elektroprivreda Republike Srpske (ERS) will invest EUR 249.5 mln in the construction of new energy facilities in 2018.

[Read the full story here](#)

EBRD lending EUR 70 mln to Bosnia for investment in Corridor Vc section

Dec 27, 2017

The European Bank for Reconstruction and Development is providing a EUR 70 mln loan for the expansion of the motorway infrastructure in Bosnia to strengthen the country's integration and connectivity with the European Union.

[Read the full story here](#)

Investors led by Dubai fund plan to invest 255 mln euro in construction project in Bosnia - report

Dec 27, 2017

A group of international investors led by an investment fund from Dubai plans to invest some BAM 500 mln (USD 303.7 mln/EUR 255.6 mln) in the development of a multifunctional construction project in Sarajevo, Bosnian media reported on Wednesday.

[Read the full story here](#)

Bosnia to shortly access 850 mln euro in loans for road sector projects - govt official

Dec 21, 2017

Bosnia and Herzegovina will soon have access to over 850 million euro (\$1 billion) in loans for the road sector, the chairman of Bosnia's state-level government, the Council of Ministers, said.

[Read the full story here](#)

Bosnia's parl adopts changes to excise tax law

Dec 15, 2017

The House of Representatives of Bosnia's state-level Parliamentary Assembly said on Friday it has adopted changes to the excise tax law envisaging an increase in excise taxes on biofuels and bioliquids, and road tolls.

[Read the full story here](#)

Bosnia's Serb Republic parl adopts 2018 budget, sets surplus at EUR 64 mln

Dec 14, 2017

The parliament of Bosnia's Serb Republic said it has approved the 2018 budget bill, which envisages a surplus of BAM 125.2 mln (USD 76.1 mln/EUR 64 mln).

[Read the full story here](#)

World Bank lending 51.3 mln euro to Bosnia's Serb Republic for railway project

Dec 8, 2017

The World Bank said on Friday it has approved a EUR 51.3 mln (USD 60.2 mln) loan to Bosnia's Serb Republic for a railways restructuring project.

[Read the full story here](#)

Bosnia needs to kick-start reforms in 2018 to unlock IMF funding

Nov 23, 2017

Bosnia and Herzegovina needs to kick-start its reform agenda in 2018 in order to get the IMF programme back on track, according to the European Bank for Reconstruction and Development (EBRD).

[Read the full story here](#)

Bosnia adopts updated public investment programme for 2018-2020

Nov 23, 2017

Bosnia's state-level government said it has adopted an updated public investment programme for the period 2018-2020 worth BAM 1.95 bln (USD 1.2 bln/EUR 997.0 mln).

[Read the full story here](#)

EBRD, EU, Austria support energy efficiency projects in Bosnia

Nov 7, 2017

The EBRD, the European Union (EU) and the Austrian finance ministry have launched a joint programme to support energy efficiency investment in the residential housing sector in Bosnia and Herzegovina.

Read the full story [here](#)

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