

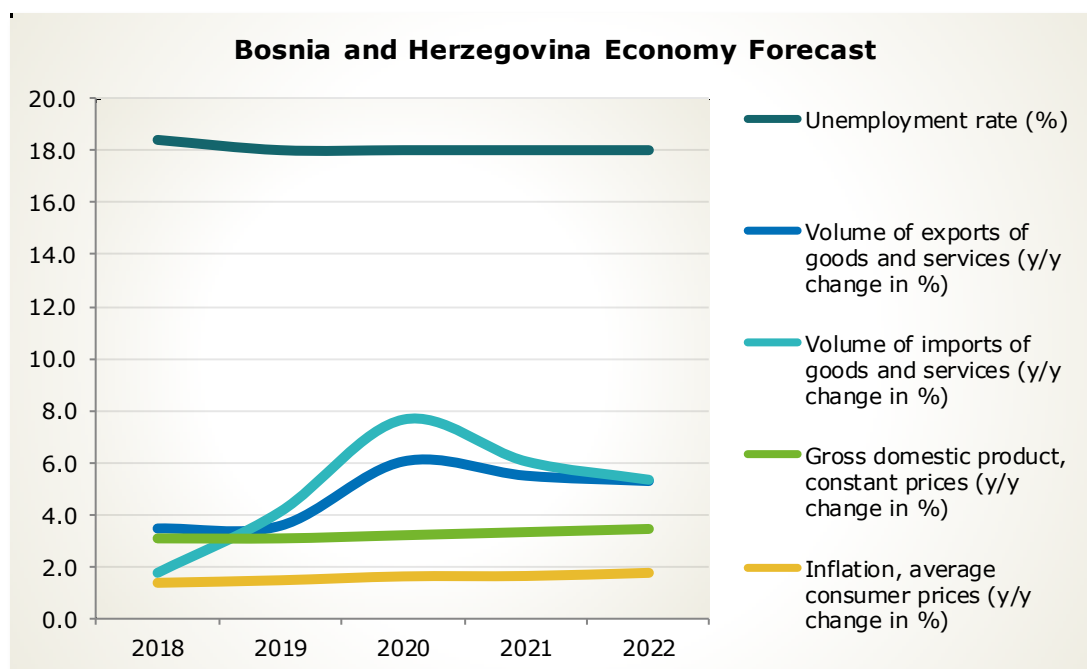
BOSNIA AND HERZEGOVINA ECONOMY REPORT 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

| BOSNIA AND HERZEGOVINA – MACROECONOMIC SNAPSHOT IN 2018 | |
|---|----------------------------|
| GDP Growth | 3.1% y/y |
| Industrial output | 1.6% y/y |
| Wholesales | 7.7% y/y |
| Retail sales | 13.1% y/y |
| Average annual inflation | 1.4% |
| Unemployment rate | 36.0% |
| Number of building permits | 0.3% y/y |
| Money supply growth | 9.4% y/y |
| Household loans | 7.3% y/y |
| BIRS blue-chip index | -6.6% y/y |
| SASX-10 blue-chip index | -0.9% y/y |
| Government external debt | BAM 8.179 bln |
| Current account deficit | BAM 1.371 bln |
| Net FDI inflow | BAM 246.9 mln ¹ |
| Foreign trade deficit | BAM 7.370 bln |
| Number of foreign tourist overnights | 13.2% y/y |



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

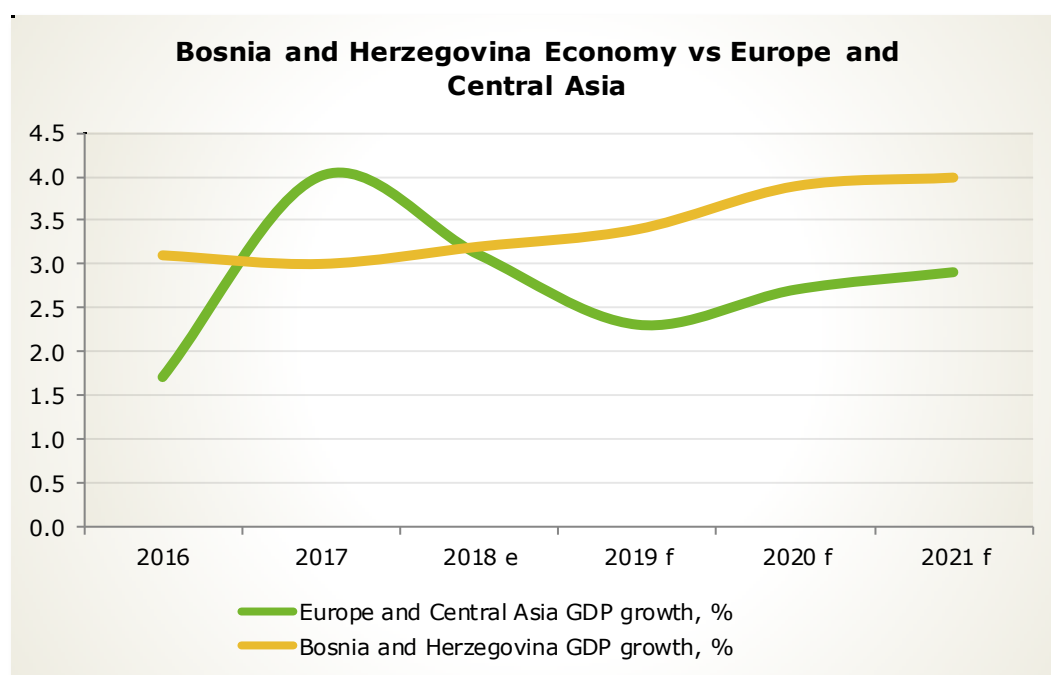
¹ For the period Jan – Sept 2018

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 to remain at 3.1% in 2019. Inflation is likely to accelerate to 1.5% in 2019, an increase 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 2019

According to the World Bank estimates from April 2019, GDP growth is likely to come in at 3.4% in 2019, up from 3.2% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 2.3% in 2019.

| Bosnia and Herzegovina – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %) | | | | | | |
|---|------|------|--------|--------|--------|--------|
| | 2016 | 2017 | 2018 e | 2019 f | 2020 f | 2021 f |
| Real GDP growth, at constant market prices, y/y change | 3.4 | 3.5 | 3.0 | 3.4 | 3.9 | 4.0 |
| Private Consumption | 2.2 | 1.2 | 3.4 | 3.3 | 3.3 | 3.2 |
| Government Consumption | 0.0 | 1.5 | 5.0 | 1.5 | 3.6 | 2.6 |
| Gross Fixed Capital Investment | 2.5 | 6.3 | 2.7 | 4.3 | 3.7 | 5.5 |
| Exports, Goods and Services | 9.3 | 10.1 | 4.5 | 4.6 | 3.5 | 3.5 |
| Imports, Goods and Services | 6.7 | 6.3 | 5.0 | 3.5 | 2.4 | 2.4 |
| Real GDP growth, at constant factor prices (by sectors) | 3.1 | 3.2 | 3.0 | 3.4 | 3.9 | 4.0 |
| Agriculture | 7.6 | -4.4 | 0.5 | 2.9 | 2.9 | 2.9 |
| Industry | 4.7 | 3.0 | 1.5 | 1.9 | 2.5 | 2.5 |
| Services | 2.0 | 4.2 | 3.9 | 4.0 | 4.5 | 4.7 |
| Inflation (Consumer Price Index) | -1.1 | 1.2 | 2.5 | 3.4 | 4.2 | 2.0 |
| Current Account Balance (% of GDP) | -4.5 | -4.6 | -5.6 | -5.8 | -6.3 | -6.4 |
| Net Foreign Direct Investment (% of GDP) | -1.6 | -2.0 | 2.3 | 2.7 | 2.9 | 2.7 |

Source: World Bank, Europe and Central Asia Economic Update, April 2019

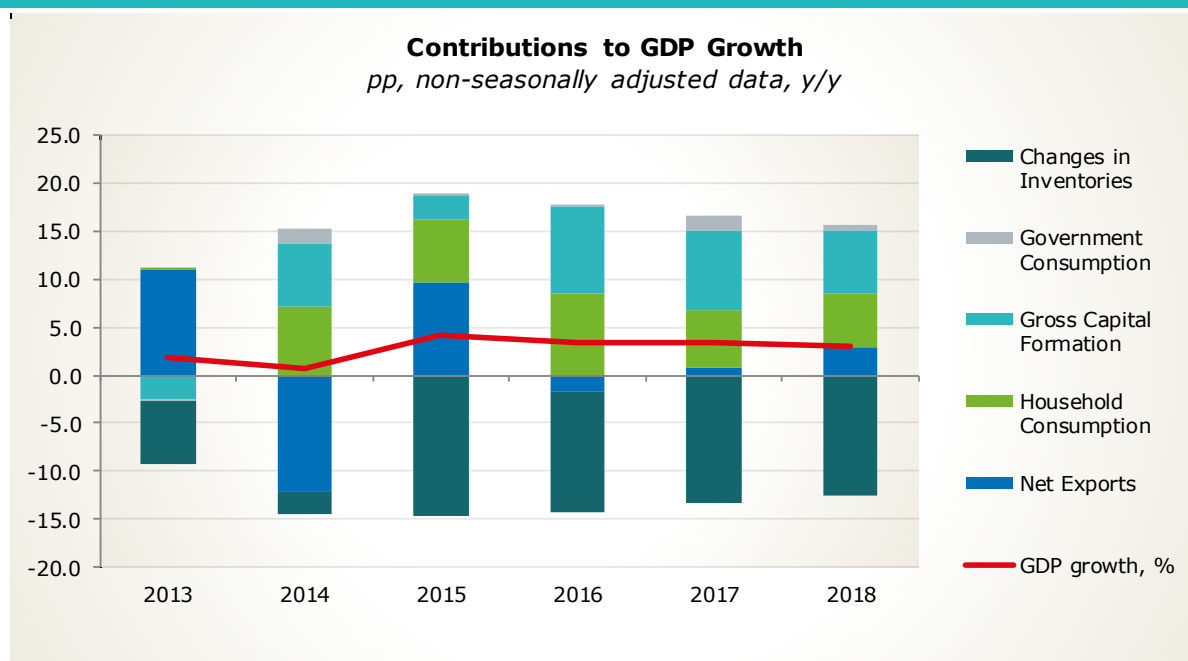
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by a real 3.1% y/y in 2018

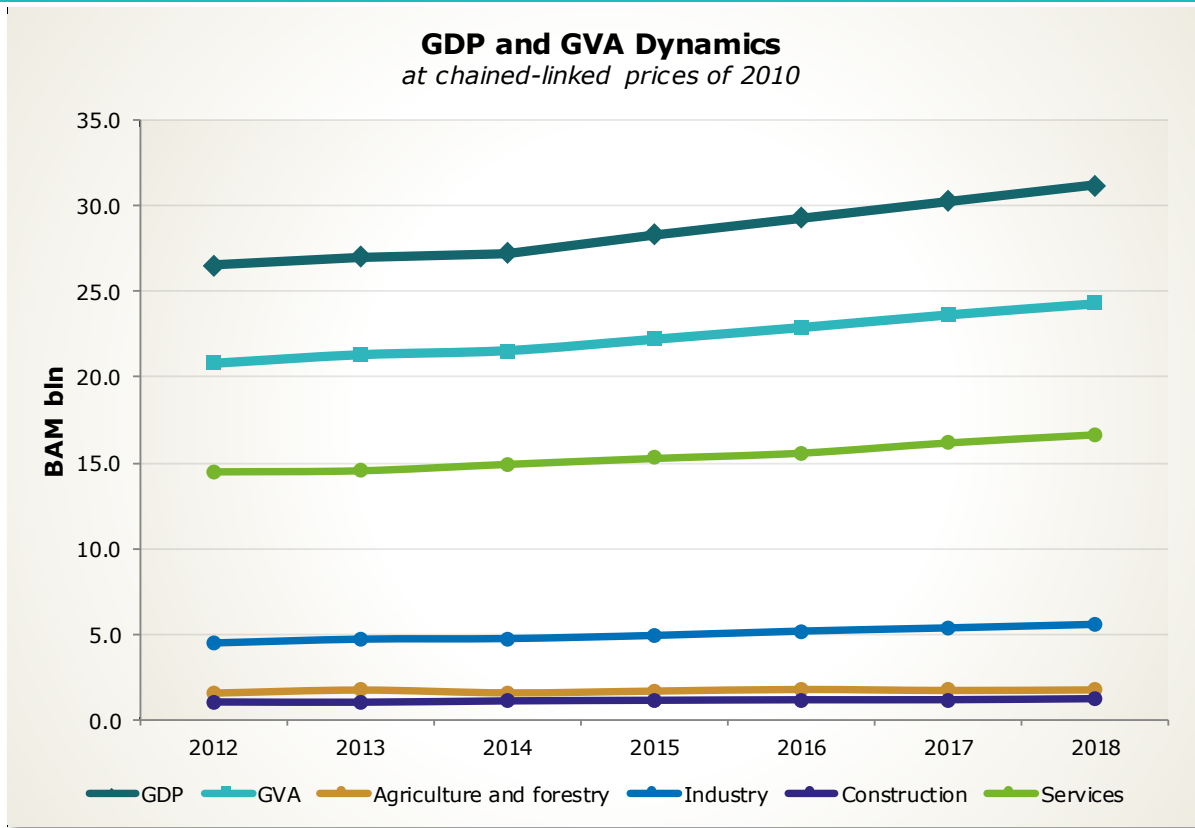
The country's real GDP annual growth was 3.1% to BAM 31.217 bln in 2018, according to estimate data of the Bosnia and Herzegovina's Agency of Statistics (BHAS). This is a minor decrease compared to 2017 when the GDP increased at 3.4% annual rate.

Gross capital formation contributed the most to the overall GDP growth in 2018, by 6.7 pp, followed by household consumption with 5.5 pp.



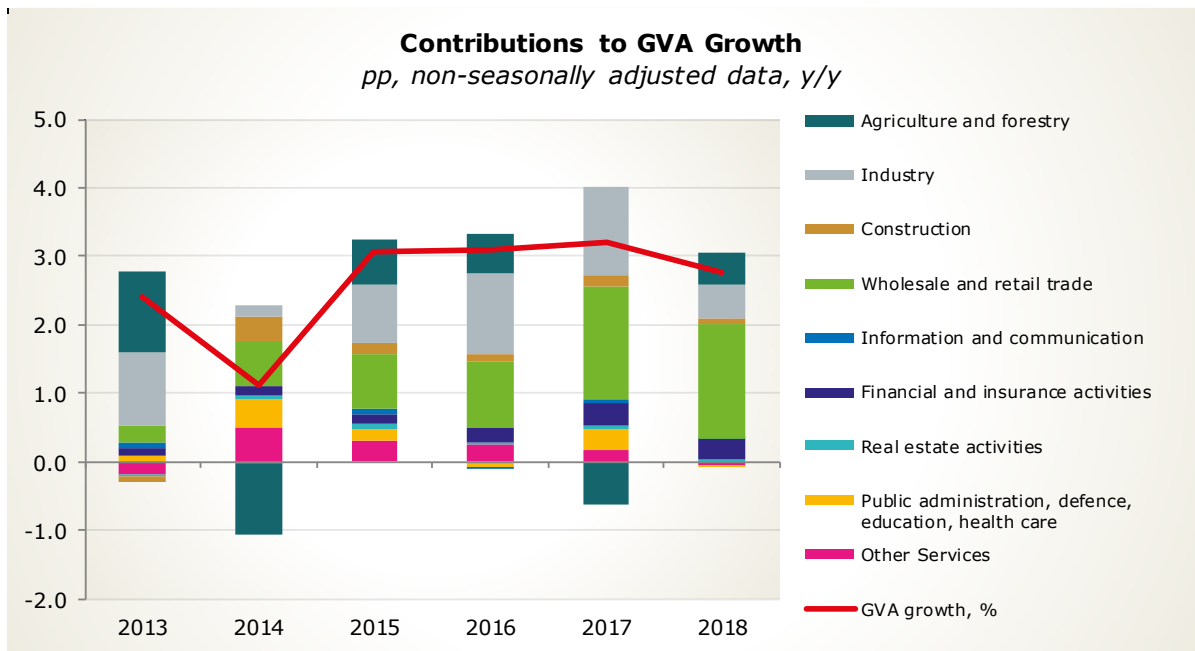
Source: BHAS, SeeNews Calculations

The gross value added (GVA) generated by the national economy increased in value terms by 2.8% y/y in 2018 and totalled BAM 24.304 bln. The industrial sector grew by 2.7% and its share in the GVA structure inched up the most y/y to 23.0% from 22.7% a year earlier. The services sector recorded a 2.9% annual increase, slicing a 68.6% share in the GVA. Agriculture and forestry went up by 2.7% and accounted for 7.3% of the GVA, unchanged from the previous year. Construction sector's GVA went up by 5.1% and its GVA share remained about 5.0%.



Source: BHAS, SeeNews Calculations

In 2018, in terms of industry breakdown, almost all of the sectors had a positive contribution to the economic growth (except Public administration, defence, education, health care which took away 0.1 pp). The wholesale and retail sector was the biggest contributor to GVA growth, adding 1.7 pp, while the contribution of all other sectors was below 1.0 pp.

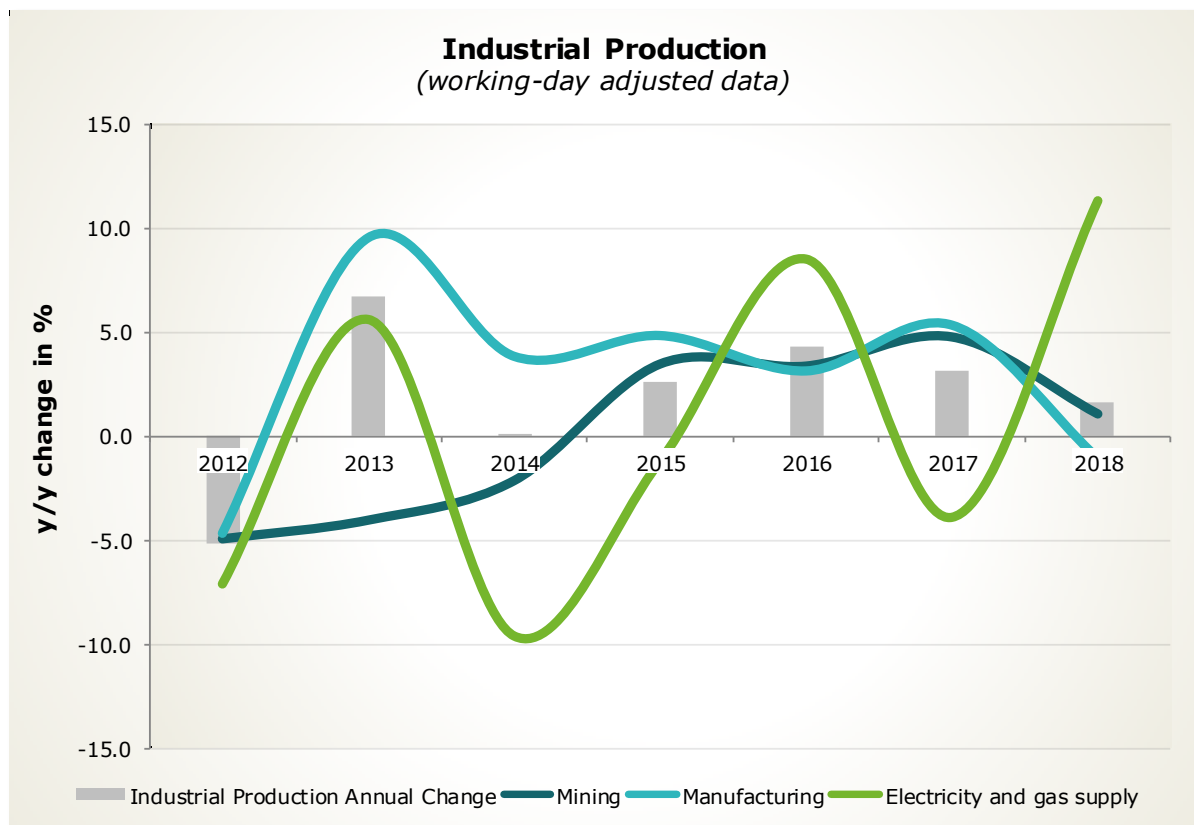


Source: BHAS

2.2. INDUSTRIAL OUTPUT

Industrial output up 1.6% y/y in 2018

Industrial output went up by 1.6% in 2018, according to BHAS data. This is a deceleration compared to 2017, when the industrial production advanced by 3.1% in real terms. The output of the electricity and gas supply sector expanded the most with 11.3%, a shift from 3.9% decrease in 2017. The mining sector increased by 1.1%, while the output of the manufacturing industry registered the first decline since 2013 by 1.1%.



Source: BHAS

2.3. WHOLESALE/RETAIL

Retail and wholesale sectors remained positive y/y in Q4 2018

Retail sales, except of motor vehicles and motorcycles, went up by 13.1% y/y in the fourth quarter of 2018, while wholesale trade increased by 7.7%, according to BHAS data. This is compared to the growth for retail of 12.4% y/y and a rise of 4.9% y/y in the wholesale trade in Q3 2018.



Source: BHAS

2.4. INFLATION

Inflation at 1.4% in 2018

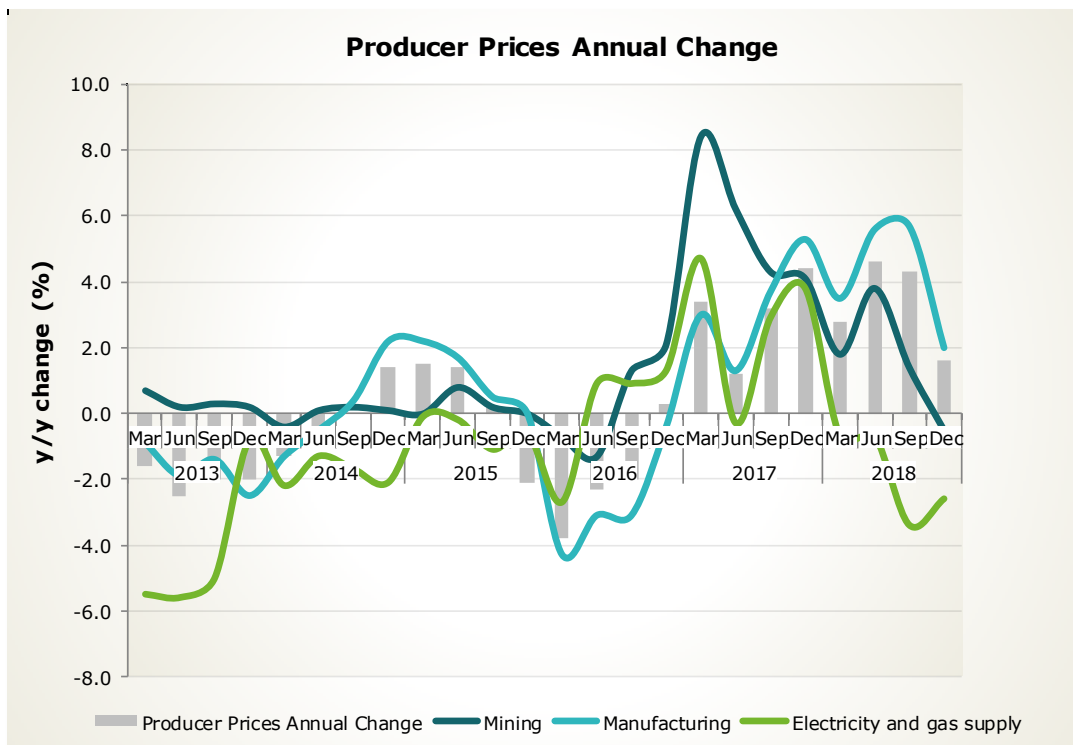
The average prices in Bosna and Herzegovina advanced by 1.4% y/y in 2018, data from BHAS shows. This is a rise compared to 2017, when the average annual inflation was 1.3%.

The inflation was highest in the transport sector – 8.9%, while there were sectors to report a deflation – the highest was 10.2%, registered in clothing and footwear, followed by 1.2% in the communication sector.



Source: BHAS

Producer prices grew by 1.6% y/y in December 2018 due to the 2.0% rise of the average prices in the manufacturing sector. The mining and electricity and gas supply sectors saw a decrease in producer prices by 0.5% and 2.6%, respectively.



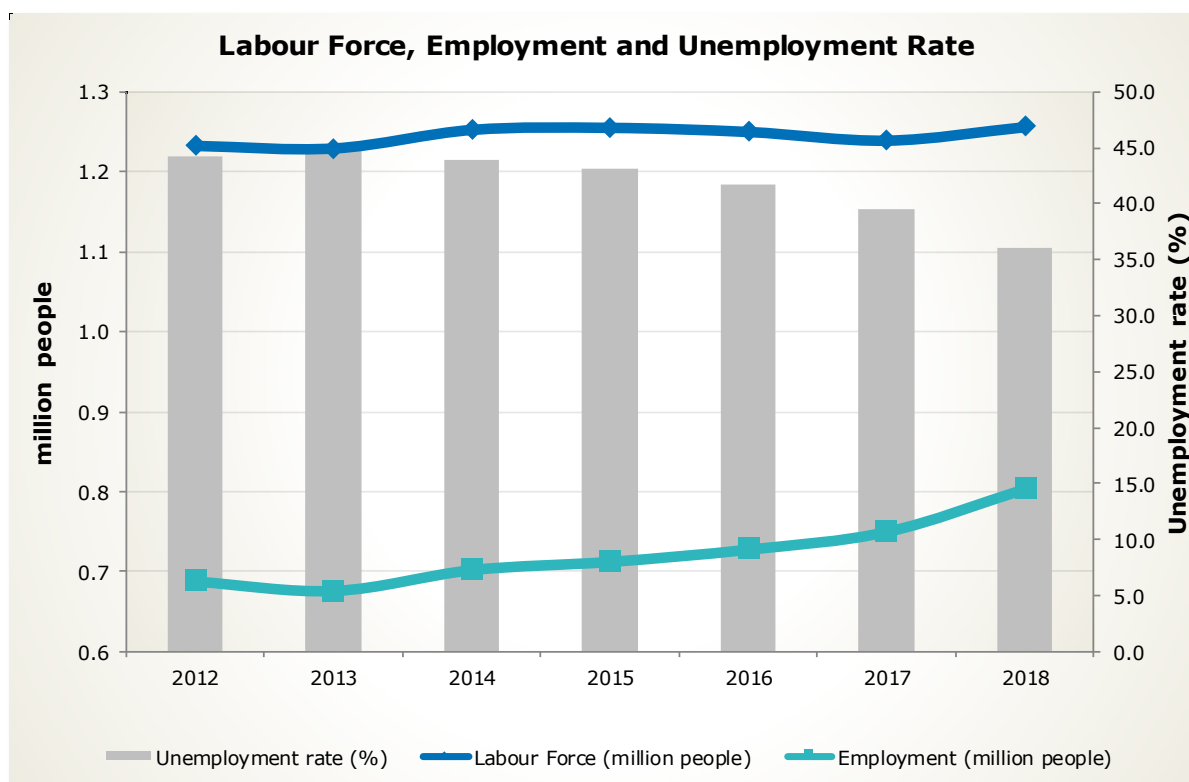
Source: BHAS

3. LABOUR MARKET

Unemployment rate continued to trend downwards in 2018

Unemployment in Bosnia and Herzegovina eased to 36.0% of the total labour force in 2018 from 39.4% in 2017 and 41.7% in 2016, according to data of BHAS.

Employment in the country counted about 803,816 people, up 7.2% y/y, while the labour force inched up by 1.4% y/y to 1.256 million people in 2018.



Source: BHAS

The average monthly net salary in 2018 rose by 3.3% y/y, to BAM 878.9 in comparison to BAM 851 a year earlier.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits inched up y/y in 2018

The number of building permits, excluding civil engineering works, issued in Bosnia and Herzegovina in 2018 inched up by 0.3% y/y and totalled 3,548, according to BHAS data.

The total built-up area of the housing buildings, covered by the permits, expanded to 505,615 sq m from 502,573 sq m in 2017, up 0.6% on the year.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BAM EXCHANGE RATE

The average exchange rate of the USD against the BAM decreased to BAM 1.65750 in 2018 from BAM 1.73548 in 2017, according to the Central Bank of Bosnia and Herzegovina (CBBH).

| Average Quarterly BAM Exchange Rate | | | |
|-------------------------------------|---------|---------|---------|
| Foreign Currency | 2018 | 2017 | 2016 |
| EUR* | 1.95583 | 1.95583 | 1.95583 |
| USD | 1.65750 | 1.73548 | 1.76801 |
| GBP | 2.21099 | 2.23288 | 2.39640 |
| CHF | 1.69376 | 1.76160 | 1.79445 |

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

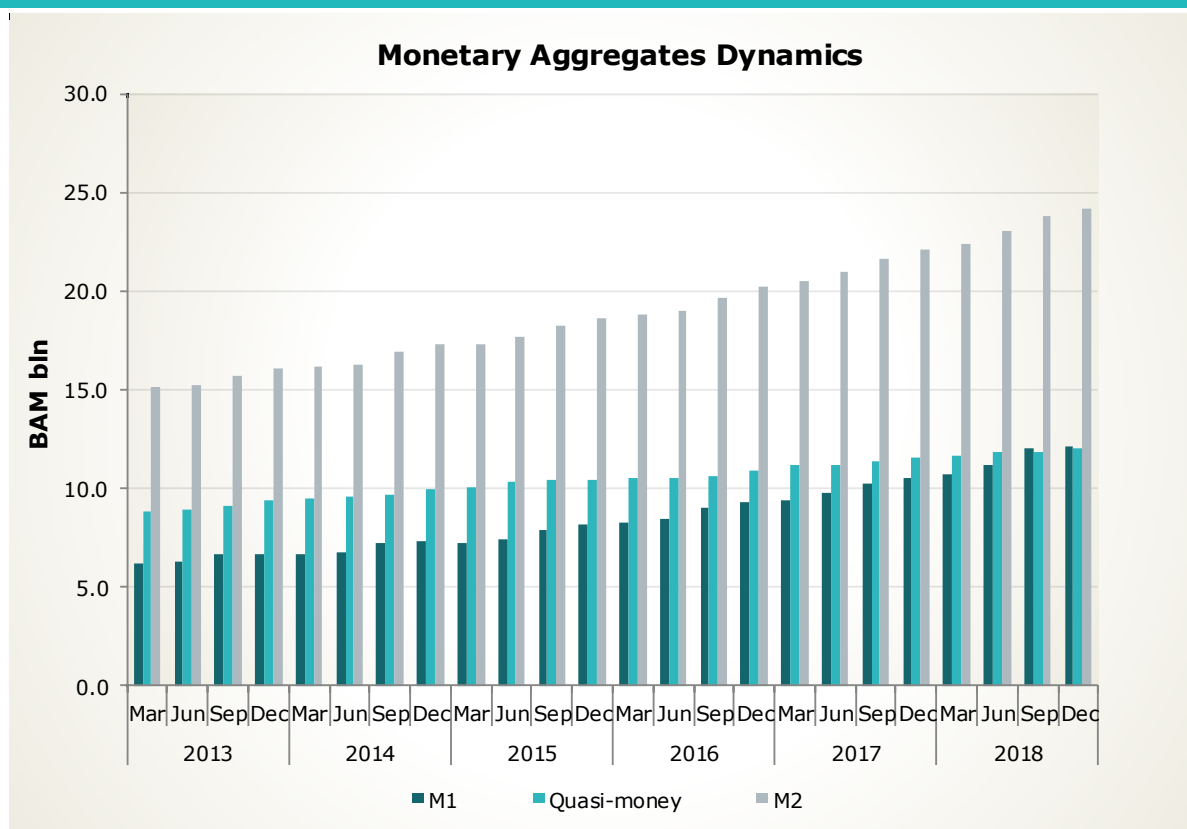
5.2. MONETARY AGGREGATES

Money supply growth up by 9.4% y/y as of December 2018

Broad money, or money aggregate M2, in Bosnia and Herzegovina increased by 9.4% y/y and reached BAM 24.191 bln in December 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 4.4% y/y to BAM 12.046 bln.

Money aggregate M1, or narrow money, expanded by 14.9% y/y to BAM 12.145 bln.



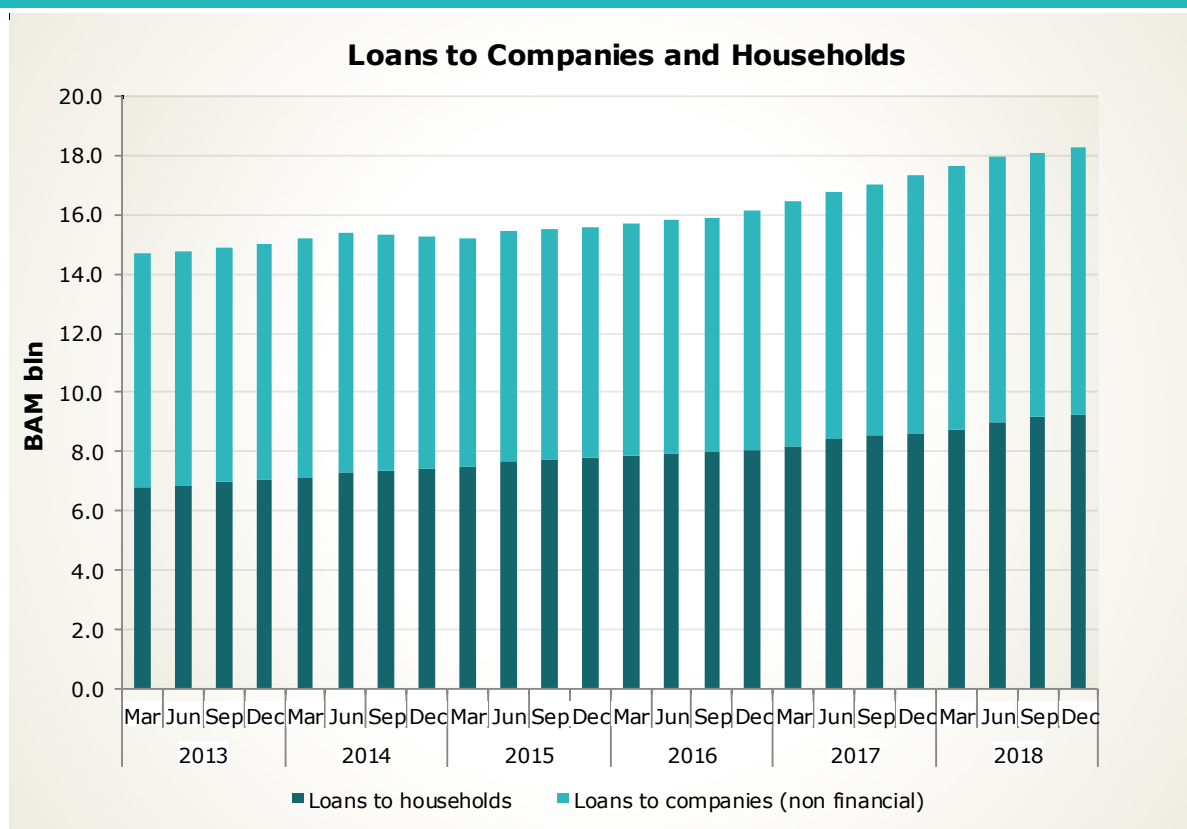
Source: CBBH

5.3. BANKING AND INSURANCE

Household loans continued its uptrend in December 2018

Loans to the non-government sector totalled BAM 17.885 bln as of December 2018, up by 5.5% y/y, according to CBBH.

Loans to non-financial corporations increased by 3.7% to BAM 9.044 bln, while household loans rose by 7.3% y/y to BAM 9.241 bln, while house purchasing loans jumped by 8.9% to BAM 1.676 bln. Consumer loans grew slightly faster, by 7.8% to BAM 6.992 bln.

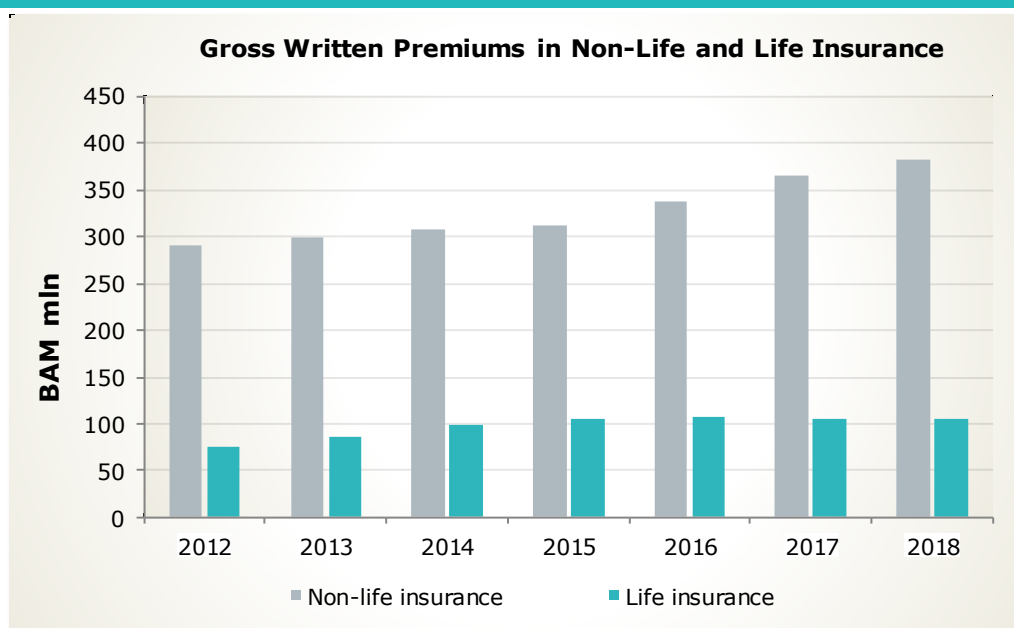


Source: CBBH

Insurance premium income up 3.6% y/y in 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Bosnia and Herzegovina stood at BAM 487.1 mln, up by 3.6% y/y in 2018, according to the Insurance Supervisory Agency of Federation of Bosnia and Herzegovina (NADOS).

The growth was fuelled by the 4.4% y/y rise, to BAM 381.5 mln, of the non-life insurance segment, as well as the life insurance premium income, which increased by 1.1% y/y to BAM 105.5 mln.



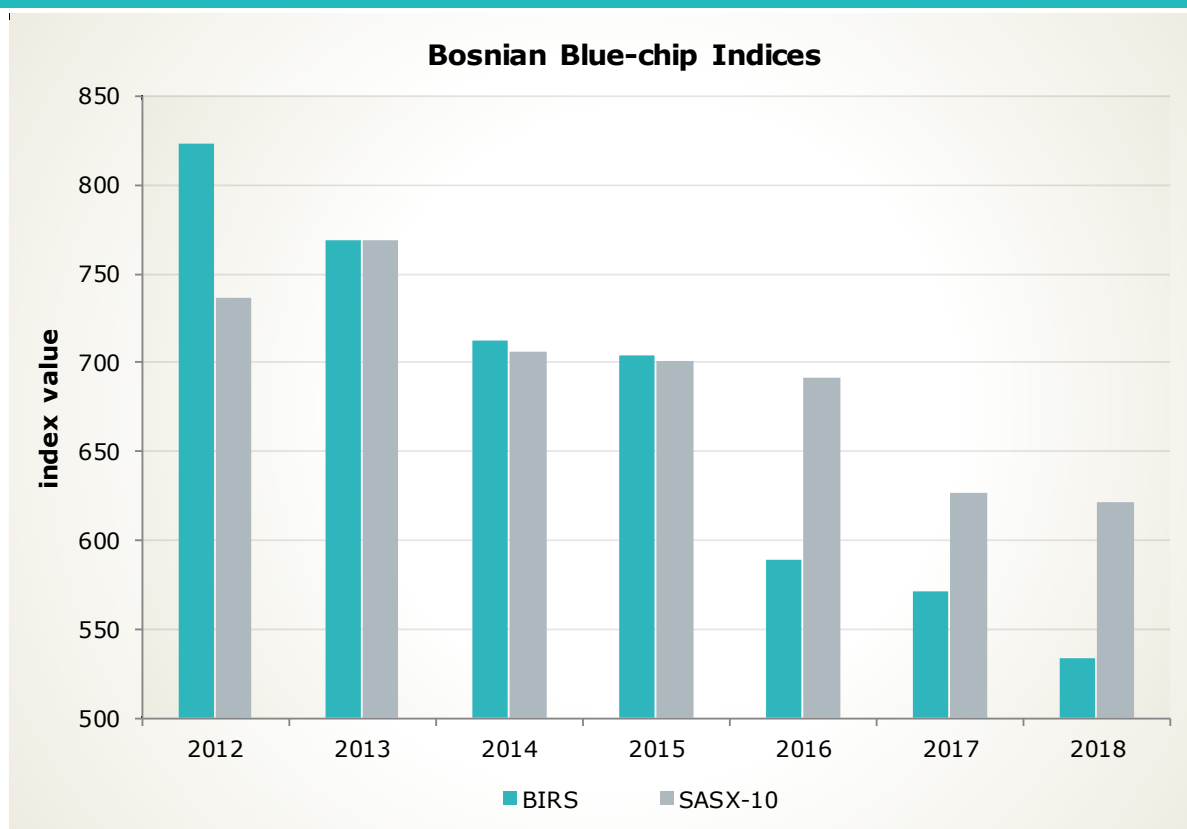
Source: NADOS

6. CAPITAL MARKETS

Blue-chip indices fell y/y in 2018

The average value of BIRS, the blue-chip index of the Banja Luka Stock Exchange (BLSE), decreased by 6.6% y/y in 2018, according to BLSE data.

SASX10, the blue-chip index of the Sarajevo Stock Exchange (SASE), inched down by 0.9% compared to the previous year.



Source: BLSE, SASE

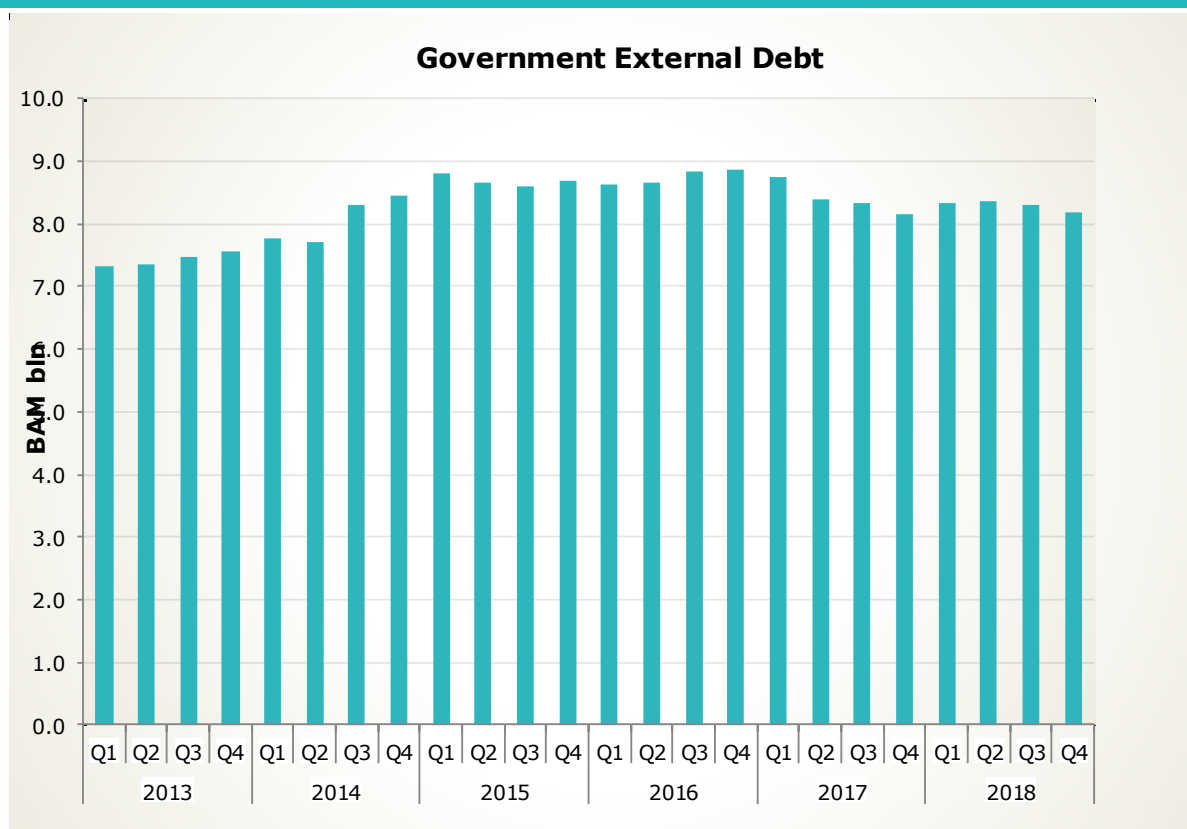
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

Government external debt registered an increase y/y in 2018

The total external government debt amounted to BAM 8.179 bln in Q4 2018, up by 0.4% on the year, according to CBBH data. In comparison, in Q3 2018, the government external debt was BAM 8.298 bln.

Bosnia and Herzegovina's main foreign creditors as of Q4 2018 were the World Bank's International Development Association (IDA) and the European Investment Bank.

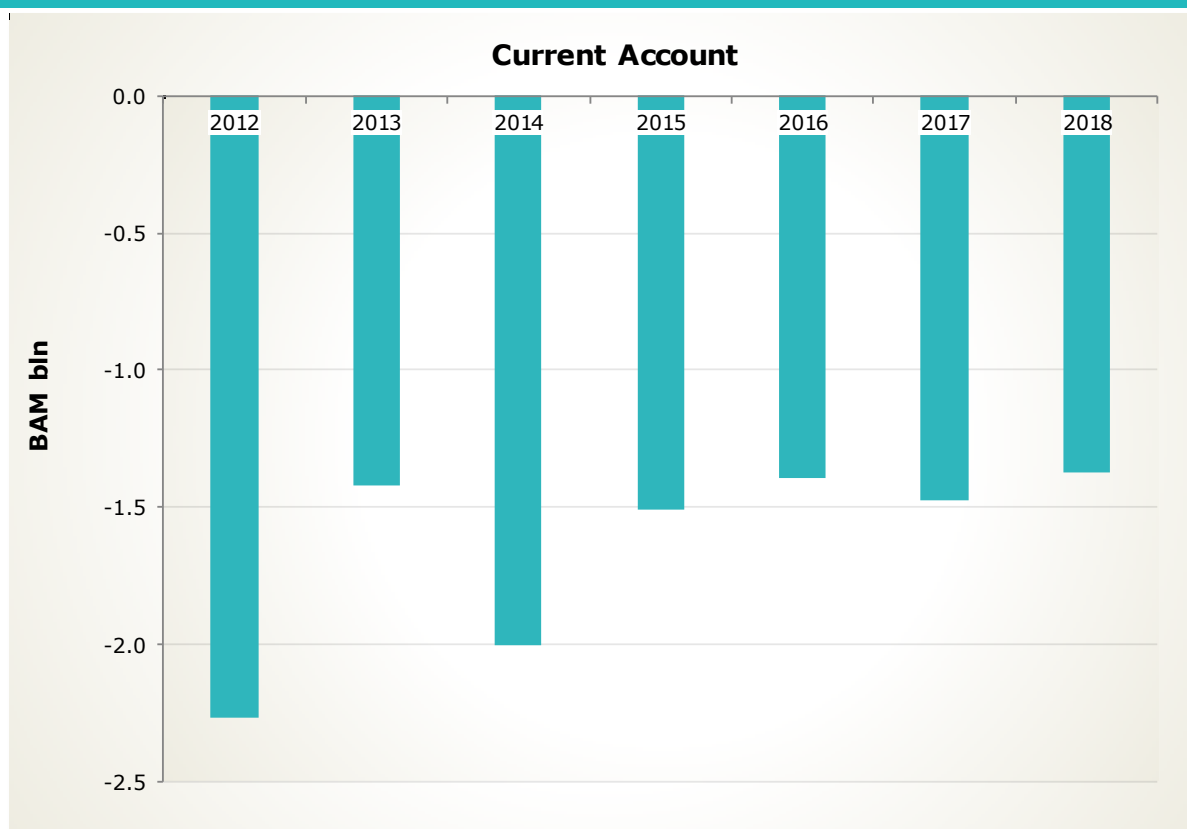


Source: CBBH

7.2. BALANCE OF PAYMENTS

Current account deficit at BAM 1.371 bln in 2018

The current account gap shrank to BAM 1.371 bln in 2018, down by 7.1% y/y, according to central bank statistics data. The net secondary income increased by 2.1% on the year to BAM 3.868 bln.



Source: CBBH

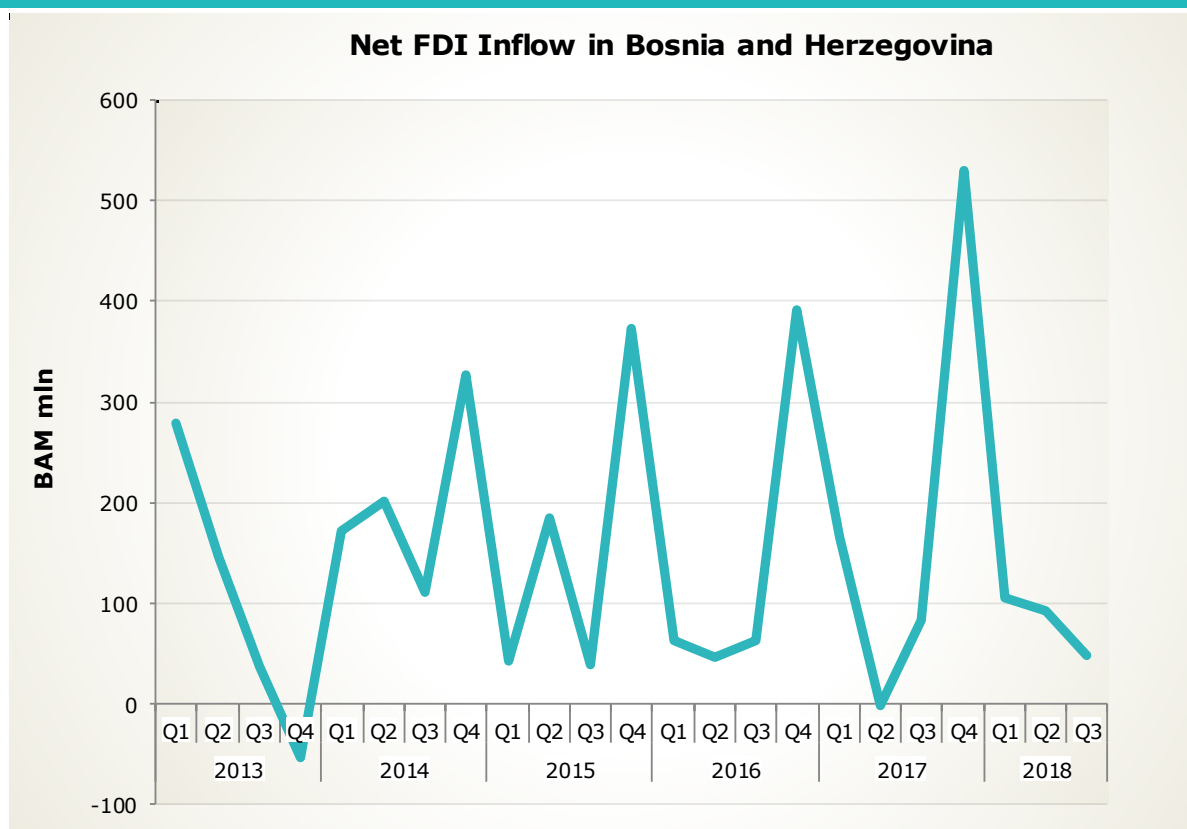
7.3. FDI

Net FDI inflow stayed positive in Jan-Sept 2018²

Net Foreign Direct Investments (FDI) inflow in Bosnia and Herzegovina was positive in the first three quarters of 2018, totalling BAM 246.9 mln, according to CBBH data. The country's FDIs stayed almost unchanged from Jan-Sept 2017 when they stood at BAM 246.8 mln.

FDIs during the third quarter of 2018 took away nearly a quarter of the current account deficit.

² Annual data was not available at the time of preparation of the report.



Source: CBBH

7.4. FOREIGN TRADE

Foreign trade deficit at BAM 7.370 bln in 2018

The trade deficit gap increased by 3.4% y/y to BAM 7.370 bln in 2018 from BAM 7.130 bln in 2017, according to BHAS.

Imports rose by 6.0% to BAM 19.270 bln, while exports jumped by 7.6% y/y to BAM 11.900 bln.

Export to EU countries amounted to BAM 8.682 bln in 2018, which is 10.4% higher than 2017, while import amounted to BAM 11.661 bln, down by 0.8% on the year.

Exports of sector agriculture, forestry and fishing reported the highest fall of 11.8%, followed by mining and quarrying sector which registered a decrease of 4.0%, while the manufacturing sector went up by 7.7%.

There was an increase in imports in the manufacturing sector by 7.9% and mining and quarrying sector by 4.1%, while imports in agriculture, forestry and fishing sector inched down 9.2% on the year.



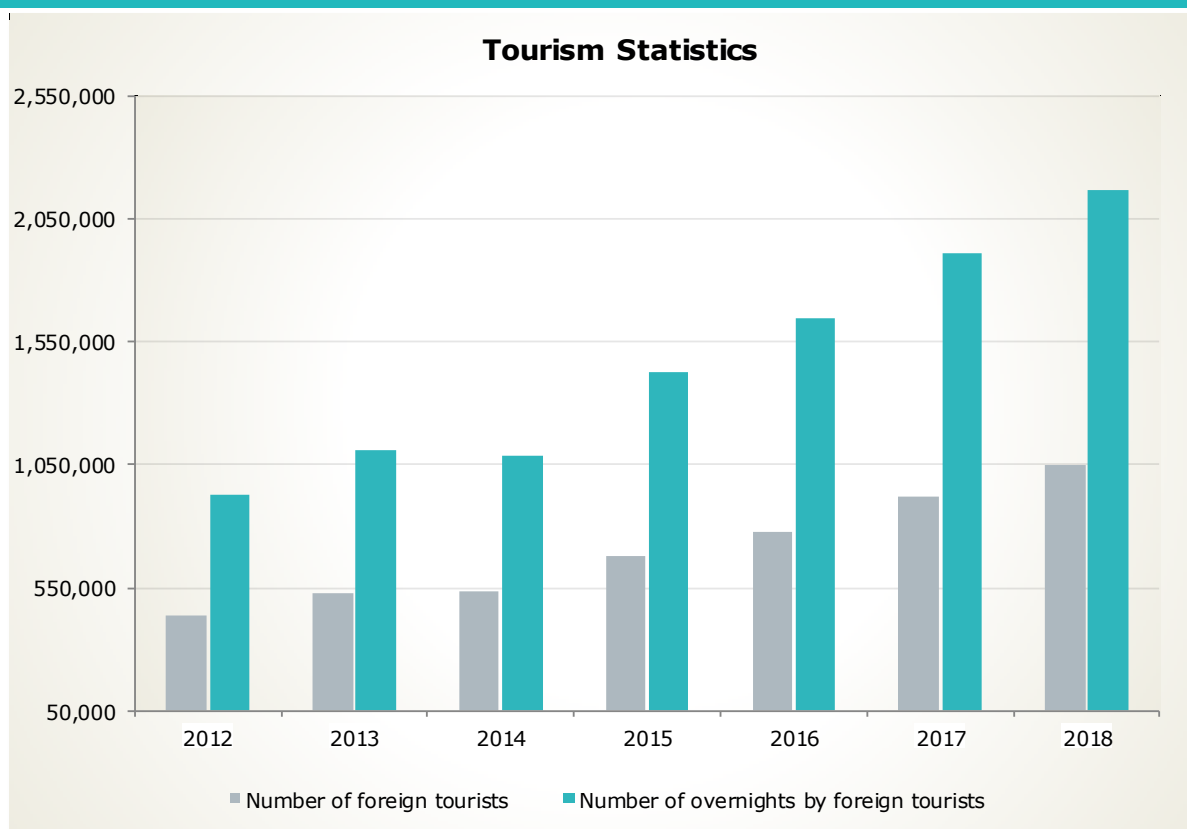
Source: BHAS

7.5. TOURISM

Number of foreign tourist overnights rose by 13.2% y/y in 2018

Tourist overnights of foreigners in Bosnia and Herzegovina went up by 13.2% y/y to 2.165 million in 2018, according to BHAS. The share of foreign tourists in the total overnights in the country accounted for 71.2% in 2018, versus 71.5% in 2017.

Along with the rise in foreign tourist overnights, the number of foreign citizens who visited the country also grew, by 14.1% y/y to 1.053 million.



Source: BHAS

8. MAJOR DEVELOPMENTS

Bosnia's Serb Republic signs motorway concession deal with Shandong

Dec 13, 2018

Bosnia's Serb Republic said it has signed a concession contract with China Shandong International Economic and Technical Cooperation Group for the construction and operation of the first section of the future Banja Luka - Prijedor - Novi Grad motorway.

[Read the full story here](#)

EBRD seeks consultants for biomass-fired heating project in Bosnia

Dec 4, 2018

The European Bank for Reconstruction and Development (EBRD) said it is inviting expressions of interest for a biomass-fired district heating project in Zavidovici, Bosnia and Herzegovina.

[Read the full story here](#)

Bosnia plan no countermeasures after Kosovo hikes import tax

Nov 22, 2018

Bosnia's government said it will not impose countermeasures in response to Kosovo's decision to increase the import tax levied on all goods produced in Serbia and Bosnia to 100% from 10% set earlier this month.

[Read the full story here](#)

Turkey's Cengiz signs 67 mln euro motorway construction deal in Bosnia

Nov 12, 2018

The government of Bosnia's Federation entity said it has signed a EUR 67.4 mln contract for the construction of a section of the pan-European Corridor Vc with Turkish company Cengiz Insaat.

[Read the full story here](#)

Bosnia needs to improve investment climate, advance EU approximation

Nov 13, 2018

Bosnia needs to make a firm commitment to a new reform agenda once the new governments are in place following the October 2018 elections, the European Bank for Reconstruction and Development (EBRD) said.

[Read the full story here](#)

Bosnia to issue guarantee for EBRD motorway works loan

Nov 7, 2018

Bosnia's government has approved the issue of a guarantee to road company Autoputevi Republike Srpske for a EUR 70 mln loan from the European Bank for Reconstruction and Development (EBRD).

[Read the full story here](#)

UN urges Bosnian parties to form government quickly

Nov 7, 2018

The UN Security Council has called on the parties in Bosnia and Herzegovina to speedily form a new government following the recent elections and refrain from polarising policy, action and rhetoric.

[Read the full story here](#)

Bosnia's Serb Republic completes EUR 402 mln motorway project

Oct 2, 2018

Bosnia's Serb Republic said it completed a EUR 402 mln project for the construction of the 72 km-long Banja Luka-Doboj motorway.

[Read the full story here](#)

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