

Bosnia a. H. Watch: GDP Q2 below expectations, at 2.2% yoy

The Q2 GDP release reveals a weakened momentum followed by a downward revision of Q1 by 20bp. GDP growth in Q2 landed at 2.2% yoy in real terms, even though high-frequency indicators on the consumption and lending side gave a sense of better performance in Q2, apart from the troubled industrial side and exports.



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Deceptive signals and benchmark revisions challenge the GDP forecast for 2024

The initial Q1 GDP result at 2.7% yoy, after bottoming economic activity in 2023 (1.7% yoy), gave the sense of **accelerated momentum in 2024. Robust final consumption and investments led the growth, supported by high-frequency indicators** balancing the absence of a rebound in industrial production and exports. In addition, **banking sector dynamics started on a strong foot this year**, especially on the lending side of both corporate and retail indicating ongoing strong demand. With expectations of a recovery of euro area demand over Q2, we have based our expectations on a more forceful Q2 and traditionally Q3 (3% on average) supporting the 2.9% yoy target at that point of time.

Meanwhile, the Agency for Statistics in BiH announced the **benchmark revision as of Q2**, with the largest revision referring to the change of reference rate from 2015=100, to the new 2021=100. Furthermore, the **first official data for the full 2023 came at the same time as Q2 figures, being also revised up significantly** due to methodology change (1.7% yoy to 2.1% yoy - production side and 1.6% to 1.9% yoy expenditure side, respectively). Inevitably, with these revisions and underperformance of Q2 with growth by 2.2% yoy, we are putting our GDP growth target for this year under revision.

Q2 GDP supported by same drivers although softer than expected

From the expenditure viewpoint, **GDP rise by 2.2% yoy in Q2** was led by **moderate growth of private consumption (by 1.8% yoy)**, contributing 1.1 pp to overall growth. However, we expected more notable growth of this largest GDP category, considering prominent retail trade turnover in Q2 with double-digit growth by 11.1% yoy fueled by an above-average growth of retail lending (8.7% yoy), remittances inflow by 12.1% yoy and wage growth by 9.3% yoy in Q2.

After investments surged in Q1 by 48.2% yoy, **Q2 brought a prolonged positive dynamic at a softer pace with reported growth by 9.6% yoy**, contributing 2.9 pp to real GDP growth. Local elections scheduled for Sunday, 6 October 2024, are expected to have a moderate effect on government expenses, most probably kicking in more strongly in Q3. Thus, in Q2 **government expenditures expanded by 1.9% yoy** contributing 0.3 pp to overall growth this quarter.

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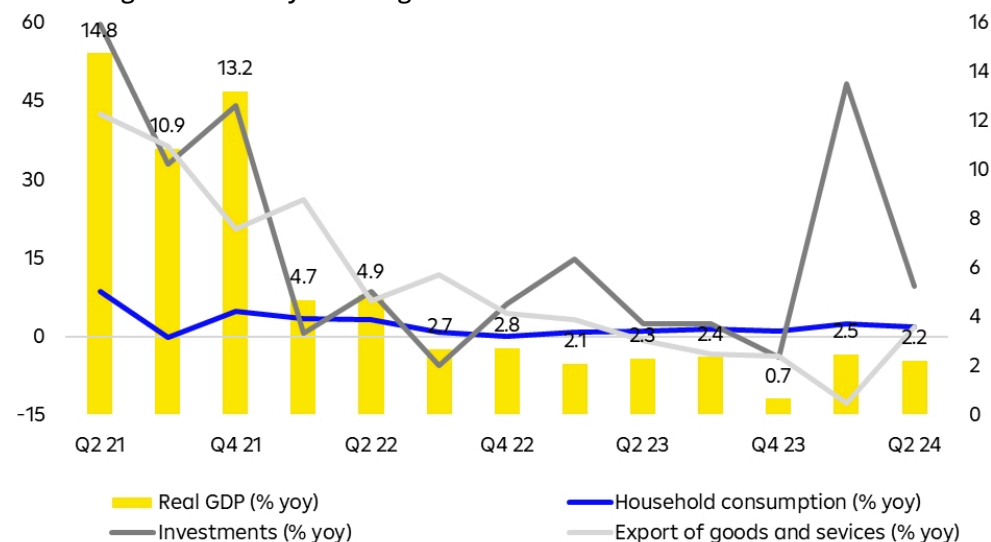
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Real GDP growth and key subcategories



Source: Agency for Statistics BiH

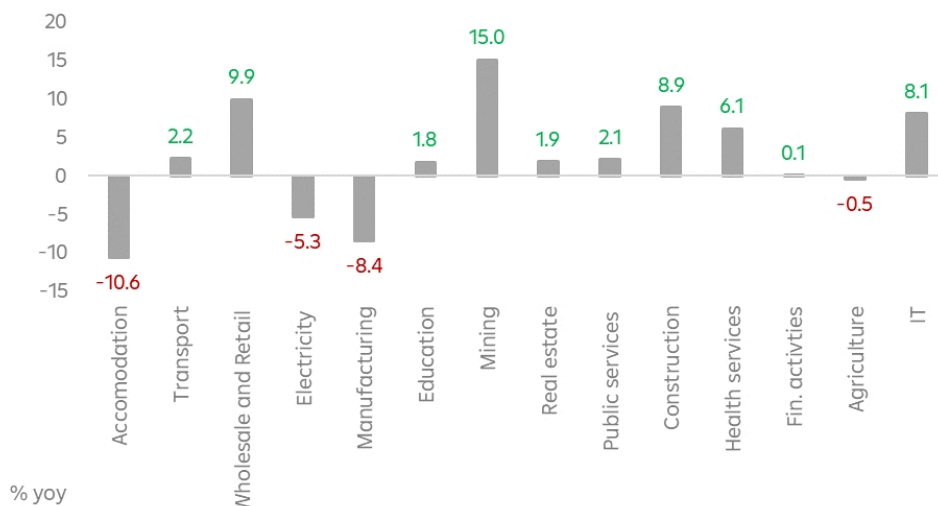
Moreover, **exports of goods and services finally reemerged in a positive area increasing by 1.8% yoy** (0.7 pp contribution) after four quarters of negative reading. On the other hand, net exports deteriorated further due to relentless import growth that in **Q2 reached 5.2% yoy**, ultimately subtracting half of the positive contribution of the rest of GDP drivers.

Industrial sector in deep contraction, significant boost from wholesale and retail

The production side approach pointed to key pain points of BiH economic recovery in 2024 - **contraction of industry** and most of the main categories within the sector (only mining went up by 15% yoy). Namely, **manufacturing as a sector with the largest share within the industry contributed the most on the negative side with contraction by -8.4% yoy** which is a -1.1 pp negative contribution to the overall GDP growth rate. **Electricity production and distribution** contracted by -5.3% yoy which is -0.2 pp of negative contribution. Surprisingly, amid the acceleration of tourism record-breaking figures, **accommodation and hospitality services plummeted by -10.6% yoy in Q2** also negatively contributing to overall growth (-0.2 pp).

As suggested by high-frequency indicators, **wholesale and retail experienced remarkable growth by 9.9% yoy** with the most significant contribution of 1.5pp to overall growth. The **construction and IT sector also exhibited robust growth by 8.9% and 8.1% yoy respectively** becoming one of the key pillars of the growth this quarter. These two sectors also reported positive labour trends with a total of 500 new workers in 2024 vs. the end of 2023 (over 20% of total newly employed people are in these sectors), while on the other hand, the manufacturing sector lost over 2 thousand workers within the same period.

Production approach: Key sectors dynamic in Q2



Source: Agency for statistics BiH

Reconcile optimism with reality

Benchmark revision to 2021, conducted by the Agency for Statistics, mostly affected GDP growth rates in 2023 with a 40bp upward adjustment. On the other hand, Q1 2024 GDP growth, due to the same reasoning, was revised downward by 20bp, hence the overall picture became quite different from our initial view. On top of that, worse than envisaged Q2 outcome which, according to our opinion, is not fully aligned with high-frequency indicators, pushed us ultimately **to a downward revision of the 2024 growth forecast and return from 2.9% to 2.5% yoy estimate** - close to our previous forecast (2.6% yoy). The new forecast is based on the anticipation of better Q3 growth of 2.8% yoy settling at 2.3% in the last quarter mostly owing to the low base effect.

In addition, due to methodological changes, we were forced also to revise downwards our GDP forecast for 2025 and 2026 to 2.8% yoy and 3.2% yoy driven by private consumption, investments and finally positive contribution in net exports.

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BA	24.04.2024	Under Revision	Bosnia and Herzegovina
BA	20.10.2023	Under Revision	Bosnia and Herzegovina

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BA	24.04.2024	Not rated	Bosnia and Herzegovina
BA	20.10.2023	Not rated	Bosnia and Herzegovina

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