

# Bosnia a. H. Watch: Resilient rebound in Q3 points to record growth in 2021

The recovery of the B&H economy in 2021 was far more pronounced than initially expected, with all three quarters bringing above expected GDP growth rates. Supported heavily by strong tailwinds coming from exports of goods and services, GDP grew in Q3 by +8.4% yoy.



*Exports of goods and services fueled GDP growth in 2021* **1**

*Q3 showed a continuation of the strong rebound - With GDP expanding by 8.4% yoy* **1**

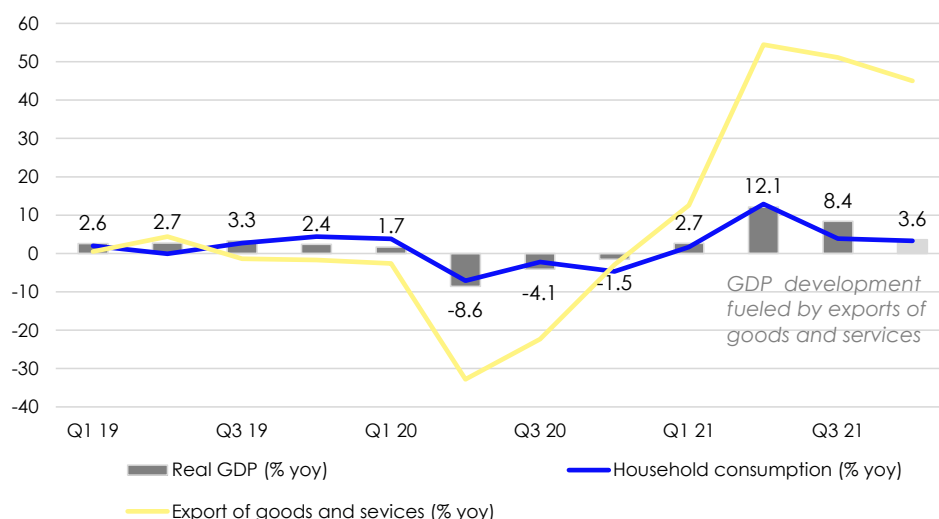
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## Exports of goods and services fueled GDP growth in 2021



BHAS, RBI/Raiffeisen Research

## Q3 showed a continuation of the strong rebound - With GDP expanding by 8.4% yoy

The key real sector indicators in Q3 already pointed towards a continuation of the robust recovery trend - with only a modest slowdown of the pace - so the outcome of better-than-expected GDP growth did not come as a surprise. Therefore, **Q3 GDP recorded a growth by 8.4% yoy** (1.4pp higher than our forecast of 7% yoy) and up by 1.4% on a quarterly basis. Furthermore, the B&H Agency for statistics (BHAS) also revised upwards the previous growth rates for Q1 to 2.7% (from 2.5%) and Q2 to 12.1% (from 11.6%).

Based on the expenditure approach, all GDP components contributed positively to overall growth - improving both in annual and quarterly terms - with only final consumption (private + government spending) reporting negative quarterly dynamics, with a decline of -1.2% qoq. **Exports of goods and services was vanguarding the recovery, being up by 51.3% yoy, led by widespread growth of exports of goods** - exceeding pre-pandemic levels already - as well as the pent-up service sector dynamics. In particular, exports

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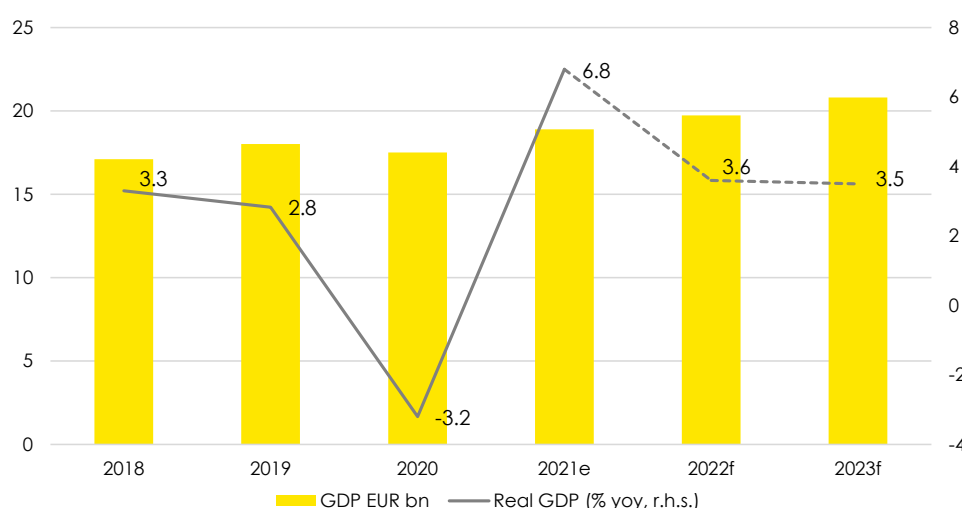
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of goods rebounded significantly in 2021 as B&H considerably improved its market position in EU as our key export market where more than 70% of goods are exported. The competitiveness of domestic export oriented companies, mostly in the metal, wood and furniture industry and global demand pressure, **strengthened the position in global supply chains, which would ultimately result with record high exported amount (over 7 bn EUR in 2021)**. Whereas the services sector was supported by the loose containment measures and low levels of infections during the 4<sup>th</sup> wave in Q3, which enabled smooth summer months and a satisfying touristic season. However, imports of goods and services also strengthened further in Q3, with 32.9% yoy growth, thereby mitigating the exceptional contribution of exports to the overall GDP performance.

**The pent-up demand in private consumption resulted in a 3.9% yoy growth rate in Q3** which was below our estimation that was initially based on the excellent retail sales performance and positive labour market performance in terms of both employment and unemployment and steady wage growth around 3.8% yoy. In addition, **government consumption increased by 2.1% yoy**, supporting the headline figure by 0.4pp, much like in the previous quarter. **Gross capital formation was up by 16.2% yoy in Q3**, with the expected stabilization of investment inflow in the next year - considering the fact that Securities Commission finally started to operate after the 20 months of stalemate in the local capital market.

**After the exceptional growth in 2021, 2022-2023 should bring more moderate dynamics**



BHAS, RBI/Raiffeisen Research

### Both Q4 2021 and FY GDP forecast revised upwards

The better-than-expected Q3 dynamics and available Q4 sentiment indicators as well as the revised growth rates for Q1 and Q2, resulted in an **upward revision of Q4 forecasted GDP growth to 3.6% yoy**, from 2.5% yoy previously, supported by the same drivers as in the previous period (i.e. exports of goods and services and private consumption). Consequently, **considering the substantial rebound effect from Q2 2021 onwards and the latest available data, we reckon growth will reach 6.8% yoy in 2021**, adjusted up from 5.8% yoy previously, pointing to record high growth in real terms. **In 2022-2023 we anticipate more moderate economic growth in range 3.6% yoy in 2022 and 3.5% yoy in 2023.**

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