



Monthly Economic Survey

JANUARY -
FEBRUARY
2020

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
OFFICE OF CHIEF ECONOMIST

MONTHLY ECONOMIC SURVEY
JANUARY - FEBRUARY 2020

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INTRODUCTORY SUMMARY

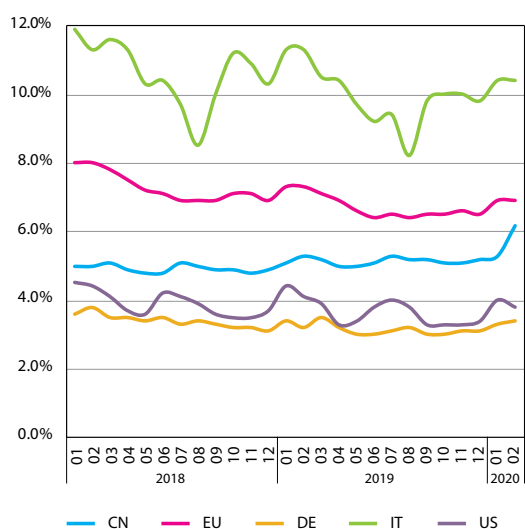
The growth of unemployment in the world was recorded resulting from the COVID-19 pandemic, the economic consequences of which were first felt in China (G01). Although the number of the unemployed decreased, due to many activities affected by the COVID-19 pandemic, the growth of unemployment in BH is expected as well (G02). The prices of oil and iron ore declined in the global markets due to the global slowdown of economies (G03). Imports decreased, mainly due to the decrease of imports of mineral origin products, while on the other hand, exports also decreased, firstly the exports of base metals (G04 and G05). The decline of industrial production in BH resulted from the halt of operations of some strategic companies, but also lower foreign demand, due to the spreading of the COVID-19 pandemic. Manufacturing industry recorded the most significant decline (G06). A slow growth of the prices was mainly influenced by the growth of the prices of food and beverages (G07). The nominal exchange rate of KM in January depreciated against most of the currencies of BH trade partners (G08).

The foreign exchange reserves recorded a low decrease compared to the end of the year, resulting from the change in the level of banks' foreign liabilities, which is usual for the beginning of the year (G09). Only slight acceleration of money multiplication was recorded due to rather unchanged trends in money supply components (G10). The required reserve base was stagnating since the end of 2019, with excess reserves decreasing (G11). In the banking sector, the total deposit growth was recorded on one hand, while a significant decline of lending was recorded on the other hand (G12 and G13).

The collection of indirect tax revenues in the first two months was stable, but a considerable decline of the revenues in the period ahead is expected due to negative consequences of the COVID-19 pandemic (G 14 and G15). BH general government recorded a significant increase of liabilities on the basis of the issue of securities at the annual level (G16). There were two issues of securities by the Republika Srpska government, while there were no issues by the Federation of BH government in the capital market during the first two months of the current year (G17). The public debt of BH general government sector was moderate (G18).

NOTE: DUE TO THE EMERGENCY WORK CONDITIONS CAUSED BY THE PANDEMIC, THIS MONTHLY ECONOMIC SURVEY DOES NOT INCLUDE STATISTICAL TABLES. WE WOULD KINDLY ASK YOU TO DOWNLOAD THE DATA DIRECTLY FROM THE CBBH WEB SITE. THANK YOU.

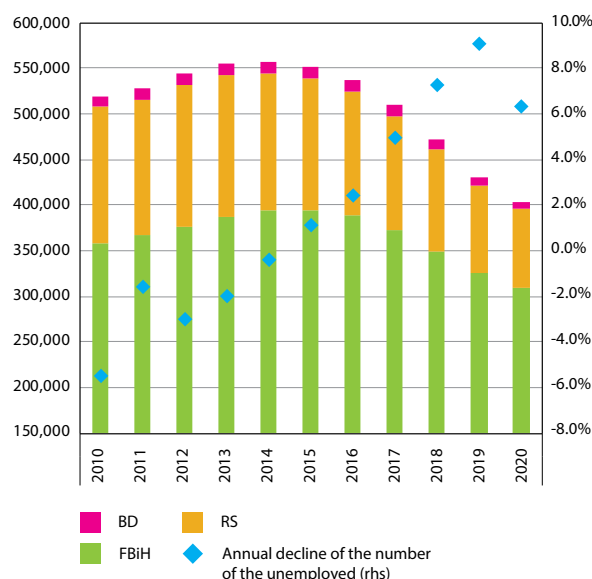
G01: Unemployment Rate in the Selected Countries



Source: Eurostat, National Bureau of Statistics of China

Over the recent years, a downward trend of the unemployment rate was evident in most of the countries, resulting from the economic activity growth. Due to the strong effect of the COVID-19 pandemic which slowed down or stopped the global flow of goods and services, the growth of unemployment is expected in the months to come, this being evident in the end of February in China, which was the initial source of the epidemic.

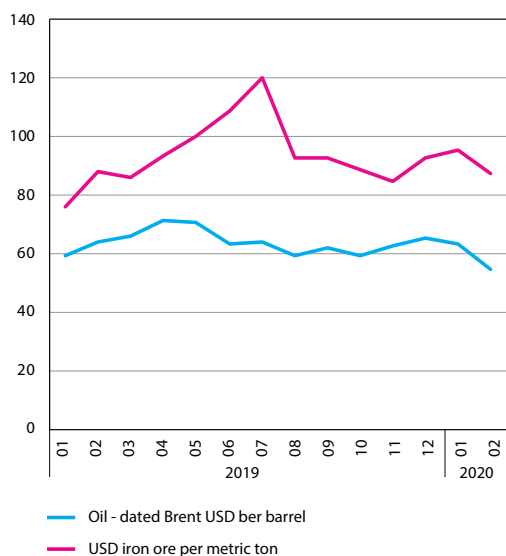
G02: The Number of the Unemployed in February



Source: BH Labour and Employment Agency

Following the lowest number of the unemployed in the previous ten year period which was recorded in the previous year, a decline of the number of the unemployed continued at the annual level during the first two months of the current year. Yet, due to a very strong impact of the coronavirus pandemic, which brought about a halt in operations in many activities, such positive trend is expected to end.

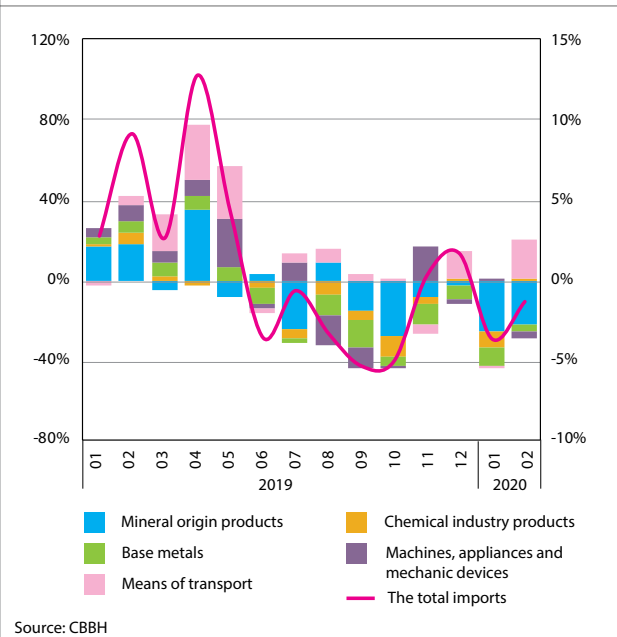
G03: Oil and Iron Ore Prices in the Global Market



Source: www.indexmundi.com

The oil price in the global market was declining since the beginning of the year, i.e. from mid 2019, when global economic slowdown took place and trade barriers as well. In February, the oil price amounted to USD 55 per barrel which was a monthly decline of 13.5%, while at the annual level, the oil price was lower by 14.2%. The global slowdown of economies brought about also the decrease of iron ore price, the price per metric ton amounting to USD 87.6 in February, which was a decrease of 8.4% at the monthly level.

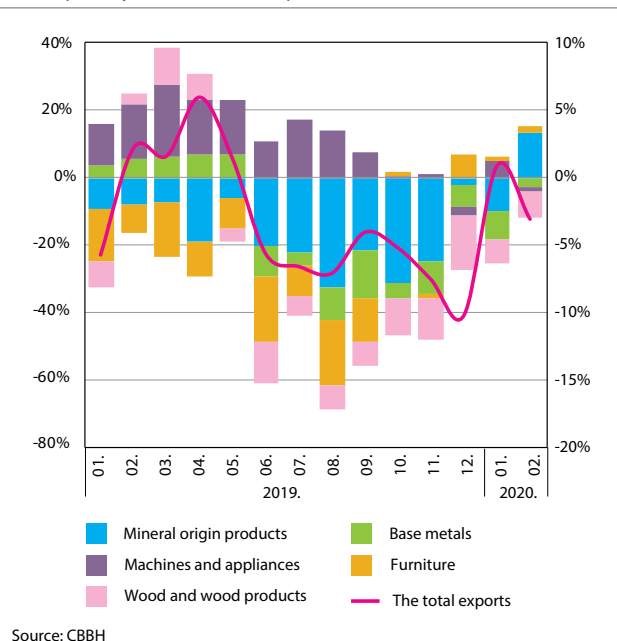
G04: Imports by Main Product Groups, Annual Growth Rates



Source: CBBH

During the first two months of 2020, imports decreased by 2.3% at the annual level. The most significant decrease was registered with the imports of mineral origin products by 22.8%, with the oil price declining in the global market, but the imported quantity having declined as well. The decrease was recorded in the imports of base metals, but not so dramatic as in case of exports, so the decrease in the first two months was 5.5%. Only the imports of vehicles still recorded positive and high growth rates. So, the imports of vehicles for the first two months of 2020 at the annual level increased by 10.9%.

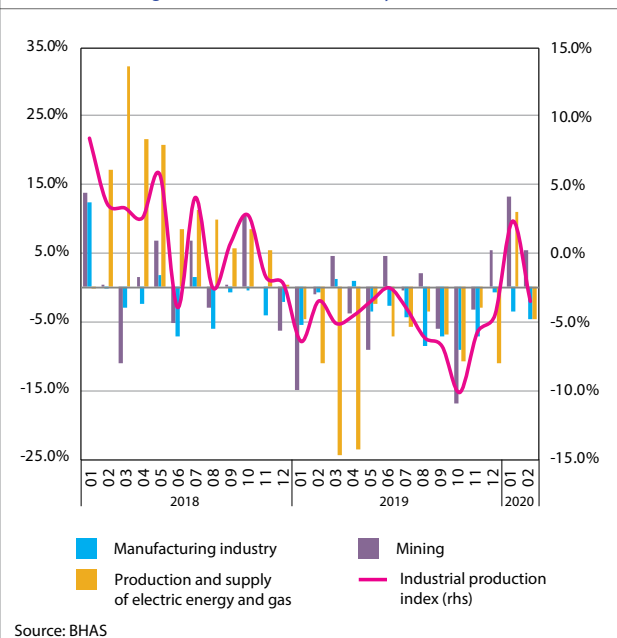
G05: Exports by Main Product Groups, Annual Growth Rates



Source: CBBH

In the first two months of 2020, exports decreased by 1.2% at the annual level. The export decrease rate in February was 3.0% at the monthly level. The exports of mineral origin products in the first two months had a positive growth rate of 1.2% at the annual level, with strong monthly oscillations. In January, the decrease of the exports for this group was 9.6%, while in February, the growth amounted to 13.2%. Since the beginning of the year, the largest decrease of the exports was recorded in case of base metals, amounting to 16.9% for the first two months, mainly due to the closing of Aluminium, while the exports of steel and iron products decreased by 4.1%, due to decreased demand. The exports of wood and wood products decreased by 7.2%. Only the exports of machines, appliances and electric devices recorded a positive, but quite low annual growth rate (1.7%) in the first two months.

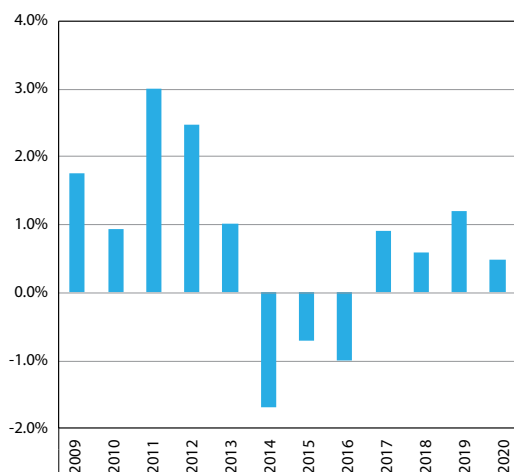
G06: Annual Changes of Industrial Production by Areas



Source: BHAS

A significant decline of industrial production which was recorded during the entire previous year was briefly interrupted in January, following a decline of output at the annual level recorded again in February. The decline of output resulted from halted operations of some strategic companies, and lower foreign demand, due to the increasing effect of the coronavirus pandemic. Observing the first two month period, compared to the same period of the previous year, a decline of industrial output was 0.7%. In the activities of production and distribution of electric energy and gas, and mining, output increased, while a strong decrease recorded in manufacturing industry had the strongest effect on the decline of industrial production.

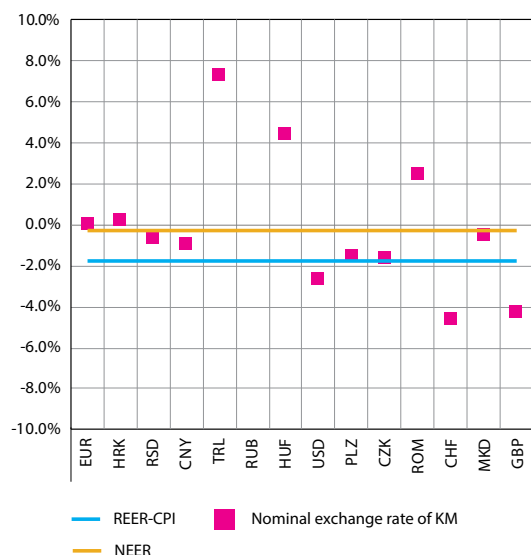
G07: Annual Change of Average Consumer Prices for the First Two Months



Source: BHAS

At the annual base, in the first two month period, a slow growth of the general price level was mainly determined by the impact of the growth of the prices of food and beverages (0.4 pp), and alcohol beverages and tobacco (0.3 pp). At the same time, the prices of clothes and footwear had a negative contribution to the general price level increase (-0.4 pp), with the recorded annual decline of prices of 9.1%

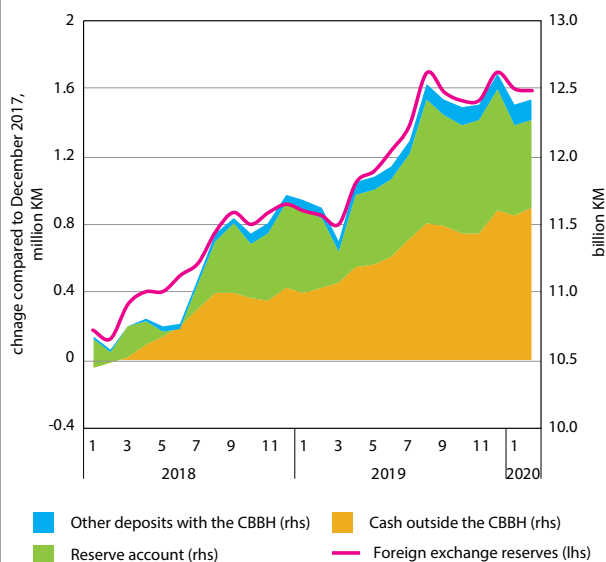
G08: Annual Foreign Exchange Rate Changes , January 2020



Source: CBBH

The nominal exchange rate of KM in January 2020 depreciated against most of our trade partners' currencies. The most significant depreciation of KM at the annual level was recorded in relation to Russian ruble by 10.2%, British pound by 4.2% and US dollar by 2.7%. So, the nominal effective exchange rate NEER indicated the depreciation of KM against the main trade partners' currencies by 0.2% over the previous year, with the currencies in the order of the significance of the respective country in trade. The depreciation of NEER was brought about by the nominal depreciation of KM against the developing countries' currencies, resulting from the trend of EUR (our peg currency) to US dollar. The real effective exchange rate of KM (REER) at the annual level showed a significant depreciation of 1.8%, indicating a lower inflation in our country than in the countries which are our trade partners.

G09: The CBBH Foreign Exchange Reserves

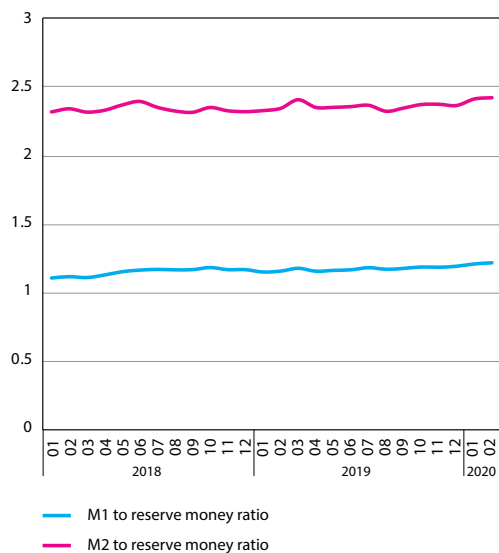


Source: CBBH

Foreign exchange reserves slightly decreased (KM 135.2 million, or 1.07%) during the first two months, compared to the end of 2019. This is not unusual for the beginning of the year, mainly due to the changes in the level of banks' foreign liabilities.

Among the reserve money components, cash outside the CBBH had an increasing impact on the changes in the foreign exchange reserve level. It is important to mention that the quantity of KM outside commercial banks was almost the same from mid 2019, but the quantity of KM in banks' vaults increased.

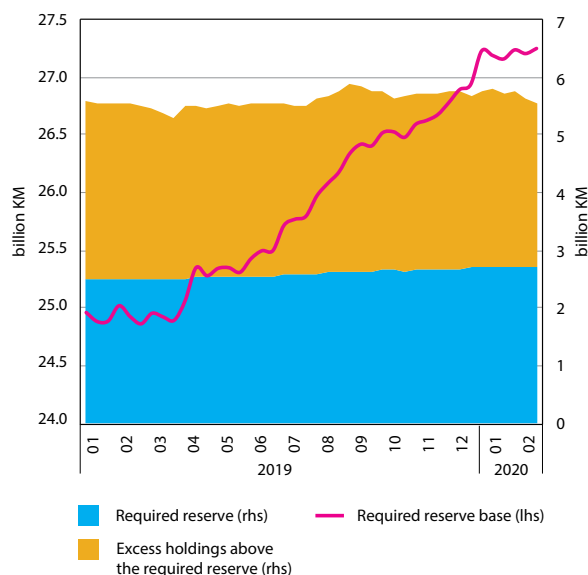
G10: Monetary Multiplication



Source: CBBH

Due to rather unchanged trends of money supply components, only a slight acceleration of money multiplication was recorded in the first two months of 2020. Without a significant maturity transformation of local sector deposits, primarily conditioned by the level of interest rates on local sector deposits, and also stronger lending, a considerable growth of money multiplier cannot be expected.

G11: Balances of Reserve Accounts with the CBBH



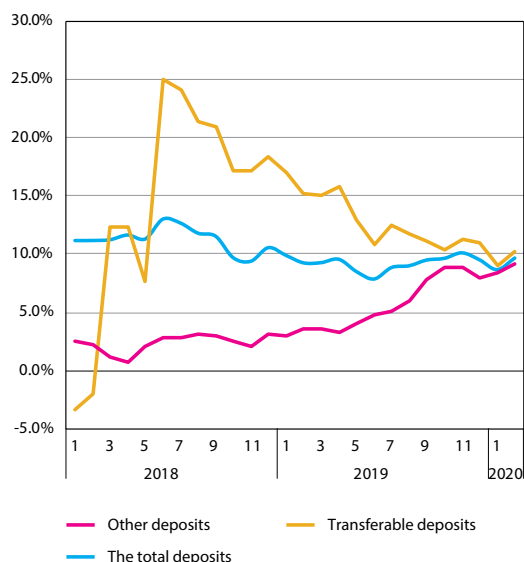
Source: CBBH

The required reserve base was stagnating since the end of 2019. We cannot speak of the trend change, as banks' foreign liabilities usually decrease in the first months of the year on temporary basis.

On the other hand, excess reserves decreased in the first two months of 2020 (KM 150.4 million, or 5.05%). There are no indications that preferences to foreign assets, or cash holdings were growing stronger either in case of banks or households. This indicates that the decrease of excess reserves was a consequence of regulatory changes in respect of loan loss provisions.

The implicit required reserve rate, over the last calculation period in February, amounted to 20.4%. The required reserve rate was unchanged at 10%.

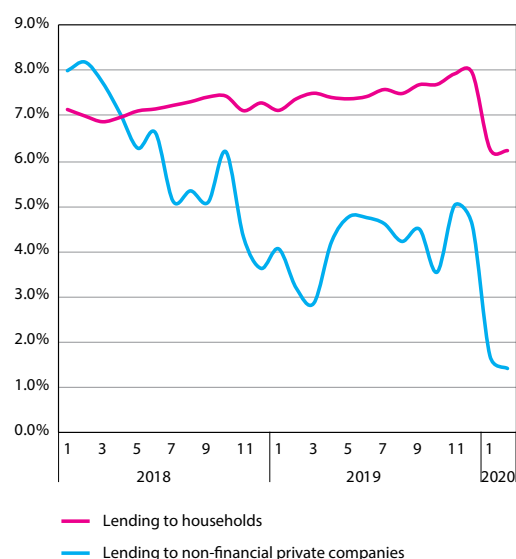
G12: Deposits, Annual Growth Rates



Source: CBBH

In February, the total deposit growth was continued at high rates. The growth rate of 9.67% was recorded at the annual level, with the so far highest value of the total deposits (KM 23.96 billion at the end of February). Deposits in the local currency were growing faster than foreign currency deposits both at the monthly and at the annual level. Within both groups of deposits, the upward trend of term deposits was continued.

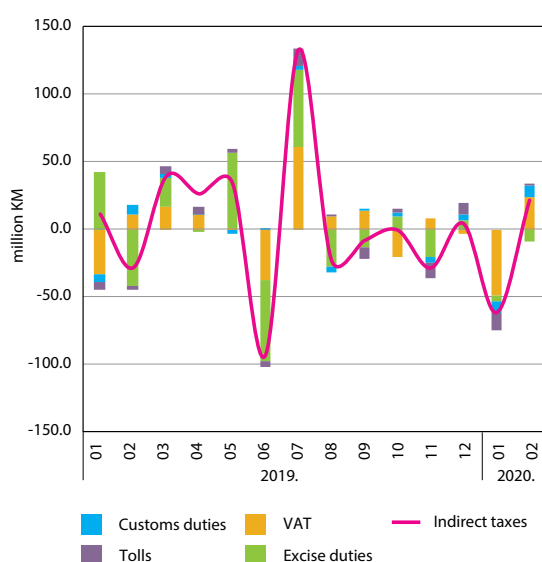
G13: Lending in BH Banking Sector



Source: CBBH

In the reporting period, lending considerably decreased. The difference between the rate of credit growth to corporates and that to households expanded additionally. Resulting from different pace of credit growth, the loan portfolio structure was changed. Corporate loans in the period 2/2019-2/2020 decreased their share in the total loans by 1.36 pp, while household loans increased by 0.73 pp, so their share in the total loans was 48.35% at the end of February 2020.

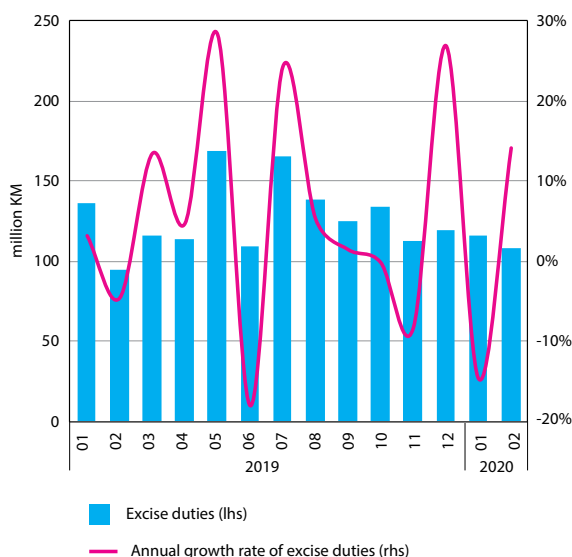
G14: Monthly Changes of Indirect Taxes



Source: Indirect Taxation Authority

During the first two months of 2020, the growth of indirect tax revenues was continued, which compared to the same period of the previous year, recorded a cumulative growth of KM 45.3 million (4.5%). The highest contribution to the growth of revenues came from VAT, which, after the usual decline in January at the monthly level, recorded a monthly increase in February. Although revenues from customs duties lost a part of their significance which they had earlier had for budget financing, they remained significant for fiscal consolidation at all the government levels in BH. Their considerable decrease could lead to budget problems. Customs duties are charged for the imports of goods from third countries, primarily from China. The preliminary data on indirect taxes for March indicate a further growth of indirect tax revenues, which will certainly in the forthcoming period be disturbed due to the global COVID-19 pandemic.

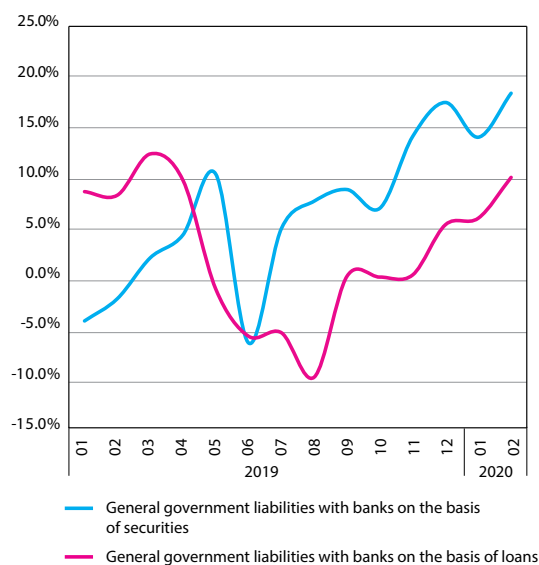
G15: Annual Growth Rate of Excise Duties



Source: Indirect Taxation Authority

During the first two months of the current year, a slightly better collection of the revenues from excise duties was recorded compared to the same period of the previous year. In the mentioned period, KM 230.7 million was collected on the basis of excise duties, which was a growth of KM 6.6 million. Due to the restrictive measures in effect due to the COVID-19 pandemic, resulting already in a lower demand and use of oil and other excise products, a negative effect on the collection of revenues on this basis is certainly to be expected in the period ahead.

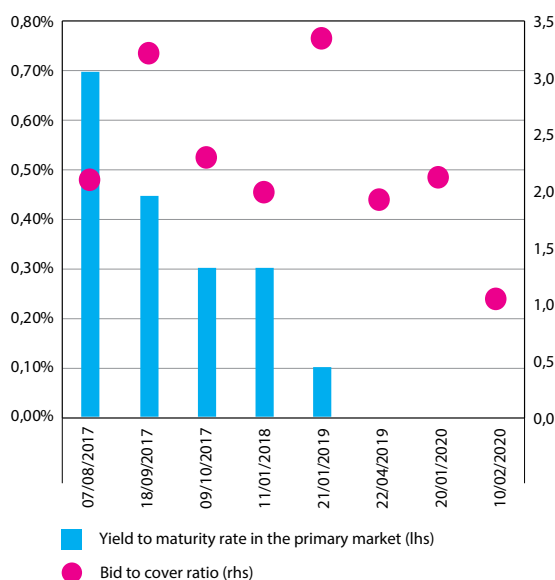
G16: General Government Debt with Commercial Banks, Annual Changes



Source: CBBH

In February, a significant growth of liabilities on the basis of the general government securities at the annual level was recorded (KM 335.7 million), while for the same period, the growth of the general government loans was low. In the end of February, the total debt of the general government sector on the mentioned two bases amounted to KM 2.62 billion, which was the annual growth of liabilities of 14.7%. The banking sector exposure to the general government sector at the end of February was around 8.0% of the total banking sector assets. In the period ahead, such exposure would certainly be higher, as the governments would need to compensate by new debt for the insufficient income in budgets, which would be lower due to the consequences of the COVID-19 pandemic.

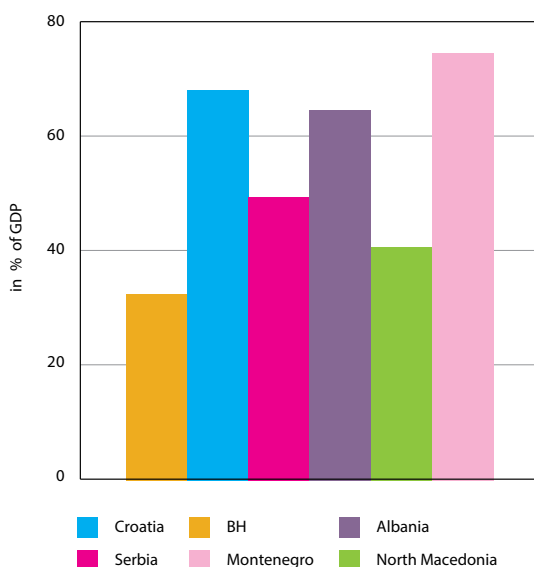
G17: Issues of Six Month Treasury Bills of Republika Srpska



Source: BLSE

During the first two months, there were no issues of the Federation on Sarajevo stock exchange, while Republika Srpska had two issues of six month treasury bills. Both issues were successful, and the total amount of the issues was KM 66 million. Although January and February issues were carried out at the 0% interest rate, the demand for short-term public debt of Republika Srpska was quite different. The considerable decrease of demand for public debt present during the February issue had been recorded last time three years ago and could be related to the change in banks' business policy related to the degree of exposure to the general government sector, but also the level of Republika Srpska public debt.

G18: Public Debt of BH General Government Sector and Countries in the Region



Source: IMF

BH is in the group of countries with a moderate level of debt. The public debt of BH general government sector compared to the countries in the region was the lowest amounting to 32.5% presented in per cents of GDP. In that respect, some possibilities for a new debt exist. At the state level, new debt is expected, with the funds to be allocated to the mitigation of the consequences of the global COVID-19 pandemic on BH budgets.

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