

D&B Country Risk Indicator: DB5c

Level of Risk: High risk

Ratings Trend: Deteriorating

BOSNIA & HERZEGOVINA

Trade Terms

Minimum Terms: LC
 Recommended Terms: CLC
 Usual Terms: 30-60 days

Transfer Situation

Local Delays: 1-2 months
 FX/Bank Delays: 1-2 months

Key Fact

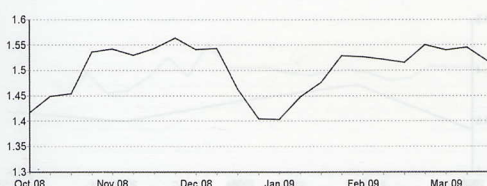
GDP (USD) 14.8bn

Trade & Commercial Environment

It appears that final bilateral talks will be held in April between representatives of the Ministry of Foreign Trade and the WTO, which should result in Bosnia & Herzegovina (BiH) finally obtaining WTO membership in mid-2009. However, further progress will depend entirely on the speed with which parliament adopts the necessary legislation. Meanwhile, BiH's foreign debt reached BAM4.2bn at the end of 2008, up 5.5% from 2007. Equivalent to just 17% of GDP (compared with Croatia's 53%, for example), this low level of foreign debt limits some of the risks stemming from the unfavourable global financial and economic conditions. Finally, we continue to advise CLC terms, although shippers should expect a range of buyers to experience considerable difficulties in opening LCs.

Local Currency

(Convertible Mark [BAM]: USD)



Exchange Rates

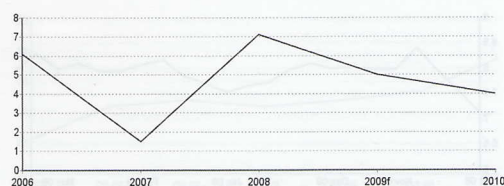
(London, 16 Mar 09)

EUR 1.9558
 GBP 2.1197
 JPY* 1.5476
 USD 1.5172

*(x 100)

Inflation

(annual rate, %)



Economic Indicators	2006	2007	2008e	2009f	2010f
Real GDP growth, %	6.2	5.8	5.5	2.5	3.5
Inflation, annual ave, %	6.1	1.5	7.1	5.0	4.0
Govt balance, % GDP	2.2	-0.1	-1.9	-2.5	-3.0
Unemployment, %	21.6	22.4	20.7	20.5	20.5
C/A balance, % GDP	-8.4	-13.0	-16.0	-12.0	-12.0

Export Credit Agencies

US Eximbank Restricted ST/MT cover available
Atradius Cover available subject to approved LC, no discretionary limits
ECGD ST cover subject to CLC, restricted MT cover
Euler Hermes UK Restrictions will apply

Economic Indicators and "Inflation" chart: Inflation data are a weighted average of the data registered in the two entities.

Risk Factor

The effects of the global economic crisis are unlikely to be as painful for Bosnia & Herzegovina (BiH) as for other countries in the region; nevertheless, there is certain to be a reduction in the inflow of capital, and there will be effects on the economy from the strong credit-adverse stand of the Central Bank of BiH. As a result, we have cut our forecast for economic growth in 2009 from 4.0% to 2.5%, with a likely pick-up to 3.5% in 2010. It is clear that some trade sectors are suffering; in January, exports of metal ores fell by 73.0% year on year (y/y), while overall exports fell by 21.0%. At the same time, there was good growth in the food sector (up 15.0% y/y) and alcoholic beverages (44.0%), while the overall trade deficit declined by 16.0% y/y. On this basis, we expect the current account deficit to amount to 12.0% of GDP in both 2009 and 2010.

There have been two important results of the likely slowdown in economic growth. Firstly, the state government has sought to fast-track the privatisations of a number of key companies. This includes the sale of 75% of both BH Telecom and HT Mostar Telecom, 67% of the construction companies Hidrogradnja and 70% Fabrika duhana. These would realise at least BAM1bn in inputs to the state budget. The second result has been the fairly stringent policy stance taken towards the banking system by the central bank. As well as announcing stricter terms on the issue of credit by

commercial banks, the central bank is also increasing the guaranteed deposit to BAM50,000 and making a corresponding increase in the contributions that commercial banks have to make to the bank deposit fund. Financial sector risk appears limited. The total indebtedness of the population amounts to just BAM6.7bn (EUR3.4bn, or EUR850 per capita); there has been no increase in default levels over the past year. Additionally, the central bank has around BAM560m of unappropriated reserves, which are available for injection into the banking system if any liquidity problems arise. While property prices declined by 18% during 2008, the only severe collapse of prices was in Banja Luka, where, following a huge surge in prices during 2005-08, the market showed a 53% annual decline.

Forecasts for CPI inflation have been adjusted following the release of the final data for 2008, which showed growth in the CPI of 7.1%. Prices fell again in January, with the overall CPI declining by 0.2% month on month; we expect disinflation to continue (driven by strong declines in housing and food costs), with the annual average inflation rate falling to 5.0% in 2009. For 2010, we expect the rate to fall even further, to 4.0%, driven in part by a significantly lower level of inflation in the Republika Srpska, mainly because public sector salaries will no longer be index-linked to price developments.