

**D&B Country Risk Indicator: DB6a**

Level of Risk: Very high risk

Ratings Trend: Stable

**BOSNIA & HERZEGOVINA****Trade Terms**

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

**Trade & Commercial Environment**

According to D&B's latest proprietary cross-border payments performance data, 20.3% of payments arrived 30 or more days over terms in the year to end-Q3 2009. Some 74.0% of payments were paid promptly in the same period, while 9.8% of payments were paid 60 or more days over terms. No payments were severely delinquent (with delays of 120 days or longer). In view of the payments performance of companies operating in Bosnia & Herzegovina (BiH), D&B recommends the use of CLC terms when trading with counterparties in the country. Payments culture in BiH, which remains riven with corruption, is relatively poor and most cross-border business is done on a CiA or CLC basis, helping to keep delinquencies down.

**Transfer Situation**

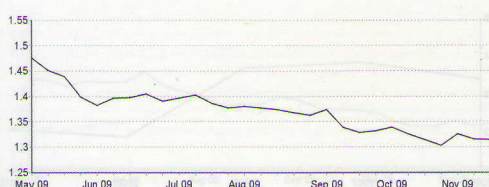
Local Delays: 1-2 months  
 FX/Bank Delays: 1-2 months

**Key Fact**

GDP (USD) 14.8bn

**Local Currency**

(Convertible Mark [BAM]: USD)

**Exchange Rates**

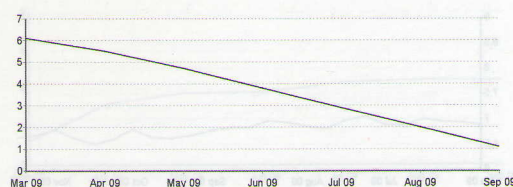
(London, 16 Nov 09)

EUR 1.9558  
 GBP 2.1906  
 JPY\* 1.4653  
 USD 1.3138

\*(x 100)

**Consumer Price Inflation**

(% 12-month average)



Economic Indicators	2006	2007	2008	2009f	2010f
Real GDP growth, %	6.2	6.8	6.0	-3.0	0.0
Inflation, annual ave, %	6.1	1.5	7.4	-0.3	1.2
Govt balance, % GDP	2.2	-0.1	-4.0	-8.0	-6.0
Unemployment, %	47.6	42.1	40.9	43.0	45.0
C/A balance, % GDP	-0.5	-10.5	-15.0	-8.8	-6.5

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

**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

**Risk Factor**

We are downgrading our country risk indicator by two quartiles to DB6a (which is just inside our 'Very High Risk' category) as security concerns increasingly come to the fore and because political infighting shows little sign of abating in the foreseeable future.

Underlining the extent to which political considerations dominate the risk environment in Bosnia & Herzegovina (BiH), the rejection by all three ethnic groups of joint EU-US proposals to amend the constitutional arrangements put in place by the 1995 Dayton Agreement (which ended the armed conflict in the country) has raised fears of a return to violence. In a rare demonstration of agreement, leaders representing ethnic Serbs, Croats and Bosniaks (Muslims) all rejected constitutional amendments that aimed to facilitate the closure of the Office of the High Representative (OHR, which has the power to overrule any decision made by Bosnian politicians if deemed detrimental to ethnic harmony) and create a self-governing unified state. For the Bosniaks and Croats, who together form the Federation of Bosnia & Herzegovina (FBiH) in the west of the former Yugoslav republic of BiH, the proposals were insufficient to strengthen state institutions. However, the prime minister of the eastern entity, the ethnic Serb Republika Srpska (RS), Milorad Dodik, opposes any moves that could dilute the power of the RS. Dodik has repeatedly called for a

referendum on the right of the RS to secede from BiH. Indeed, some UN observers claim that there has been a recent influx of light armaments to the area amid signs that ethnic Serbs are becoming more entrenched in their desire to formally split the two entities.

The Dayton Agreement created a weak federal state with two highly autonomous entities (FBiH and RS) linked by a common parliament, a three-member presidency and a council of ministers. There are also separate arrangements for the UN-administered special district of Brcko. However, lines of authority remained blurred and each side has interpreted their powers in different ways. In addition to the lack of clarity over the separation of powers, the constitutional arrangements themselves are unwieldy, resulting in three presidents, 13 prime ministers and 180 ministers at various state and entity levels. Consensus is almost impossible to achieve and the OHR often imposes decisions by fiat. Complicating matters even further, ministers from the two main ethnic groupings in FBiH also continue to clash, paralysing policy-making. Most recently, ministers are reported to have traded insults at a cabinet meeting called to discuss budgetary cuts needed as part of a three-year, USD1.6bn stand-by arrangement agreed with the IMF in July (less than a month after Croat politicians ended several weeks of boycotting cabinet sessions altogether).