

**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**

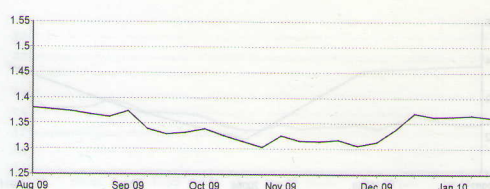
GDP (USD) 14.8bn

**Trade & Commercial Environment**

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.

**Local Currency**

(Convertible Mark [BAM]: USD)

**Exchange Rates**

(London, 18 Jan 10)

EUR 1.9558

GBP 2.2124

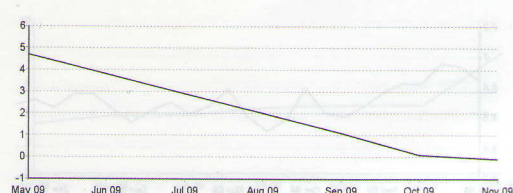
JPY\* 1.4981

USD 1.3612

\*(x 100)

**Consumer Price Inflation**

(% 12-month average)



Economic Indicators	2007	2008	2009e	2010f	2011f
Real GDP growth, %	6.8	6.0	-3.0	0.0	2.4
Inflation, annual ave, %	1.5	7.4	-0.4	1.0	2.2
Govt balance, % GDP	-0.1	-4.0	-8.0	-6.0	-4.5
Unemployment, %	42.1	40.9	43.0	45.0	42.0
C/A balance, % GDP	-10.5	-15.0	-8.8	-6.5	-6.2

**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**

Ethnic tensions will probably come to the fore in advance of the October 2010 elections and we expect there to be an escalation in demands from ethnic-Serbian politicians for the secession of the Republika Srpska (RS) entity. Hence, outbreaks of violence are possible as nationalistic rhetoric becomes more heated among the three ethnic groups. The current system of government does not appear to have a long-term future and the next poll will almost certainly produce another disparate range of political parties and individuals. The central state-level government remains weak, has a limited mandate and is undermined by the attempts of the RS to secede from Bosnia & Herzegovina (BiH). The prime minister of RS, Milorad Dodik, will probably continue to promote a nationalist policy line, if only in private. However, the international community remains firmly opposed to a break-up of the country and Serbia itself is not pushing for such an outcome, lessening its chances for the time being.

Alongside the current political stagnation, the domestic economy is also being buffeted by the global economic recession. We expect a contraction in real GDP in 2009 of 3.0% and the economy will probably not begin to recover before late 2010, leading to economic stagnation in 2010 as a whole, before stronger growth of 2.4% in 2011. As a result of below-trend growth, already-high rates of unemployment

will increase further, investment will fall sharply and the deflation that has affected the economy in 2009 will probably continue into early 2010. The ability of policy tools to reflate the economy and deal with the economic contraction is, however, limited by a currency-board regime that constrains monetary policy. Such an arrangement has the benefit of adding stability to the often-turbulent political and economic environment. However, it also means that direct policy support for the economy cannot be provided by the central bank's cutting interest rates. Meanwhile, the government is restricted from providing a buffer to the downturn by an already-high budget deficit.

The combination of a worsening economy and less credit being extended will lead to payments delays over the forecast period and a rise in the number of bankruptcies. The mostly foreign-owned banking sector can deal with most mild blows but remains vulnerable to major shocks, including a widespread increase in the number of bad debts. The country is still a relatively onerous place in which to do business given the time taken to deal with regulations, corruption and the difficulty in setting up a business. According to the World Bank's *Doing Business 2010* report, BiH is ranked 116 out of 183 countries in terms of the ease of doing business, up from 119 in 2009, but this still leaves it below all its Balkan competitor countries.