

**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, 28.9% of payments arrived 30 or more days over terms in the year to end-Q4 2009. Some 63.5% of payments were paid promptly in the same period, while 16.0% of payments were paid 60 or more days over terms. Moreover, 2.7% of 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**

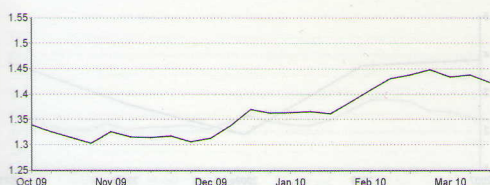
Local Delays: 1-2 months  
 FX/Bank Delays: 1-2 months

**Key Fact**

GDP (USD) 14.8bn

**Local Currency**

(Convertible Mark [BAM]: USD)



**Exchange Rates**

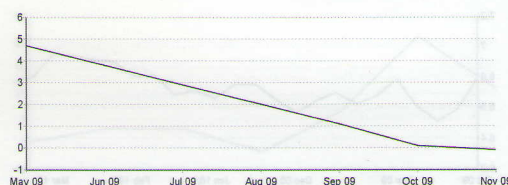
(London, 15 Mar 10)

EUR 1.9558  
 GBP 2.1578  
 JPY\* 1.567  
 USD 1.4218

\*(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	-0.5	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

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**

The parliament of the Bosnian Serb entity, Republika Srpska (RS), passed a law in mid February 2010 that will make it easier to hold referendums by removing the time limits that had enabled Bosniak and Croat ministers in the RS parliament to block referendums by stalling decisions. Prime Minister Milorad Dodik has said that he intends to use this new law to hold a vote to gauge support for the Dayton Accords, that govern the functioning of post-war Bosnia and Herzegovina (BiH), and the international high representative who is responsible for implementing these Accords. We believe that the new law could pave the way for a referendum on independence of the RS entity, although any such vote would probably not be called until after the upcoming general election, which is due in October 2010.

We expect any moves towards the secession of the RS entity to be opposed by both the international community and Bosniaks (Bosnian Muslims). The High Representative for BiH, Valentin Inzko, has responded to the RS parliament's approval of the new law by saying that any referendum that questions the validity of the Dayton Accords would violate BiH's constitution, while the EU's new Foreign Minister Catherine Ashton said in mid February 2010 that the EU would never accept the break-up of BiH. Nonetheless, given the weak BiH state and ongoing tensions between its entities, the current system of government does not appear to

have a long-term future and there will eventually need to be broad reforms of both the constitution and state administration. Without reform (which will involve at least some changes to the Dayton Accords and probably a whole new framework agreement) neither the dismantling of Inzko's role as High Representative nor the longer-term aim of gaining full EU membership are likely to be achieved.

The new law will also be opposed by Bosniaks who, given that they represent the largest ethnic group in BiH, favour greater centralisation of the BiH state and a weaker role for the entities. As such, the law is likely to heighten tensions between the majority-Serb RS and the Bosniak and Croat Federation of Bosnia and Herzegovina (FBiH). Although a return to widespread violence is unlikely in BiH, we believe that the new law in the RS is likely to contribute to a general escalation in tensions and sporadic outbreaks of violence sparked by nationalist rhetoric among the three ethnic groups ahead of the October general election. As a consequence, any reconciliation between the ethnic groups or attempts at achieving the consensus that would allow progress on much needed policy reforms such as strengthening BiH's institutions, improving its judiciary and tackling corruption are unlikely until after the election. Over the next six months we therefore expect a period of political posturing and policy-making stagnation at BiH state level.