

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

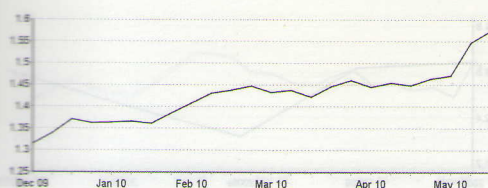
GDP (USD) 14.8bn

Trade & Commercial Environment

According to D&B's latest proprietary cross-border payments performance data, 30.1% of payments arrived 30 or more days over terms in the year to end-Q1 2010. Some 63.5% of payments were paid promptly in the same period, while 16.9% of payments were paid 60 or more days over terms. Moreover, 2.4% 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.

Local Currency

(Convertible Mark [BAM]: USD)

**Exchange Rates**

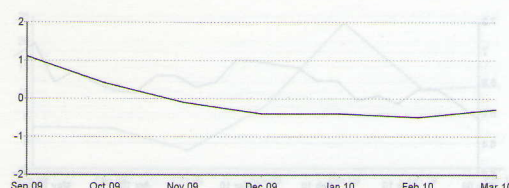
(London, 17 May 10)

EUR	1.9558
GBP	2.2912
JPY*	1.711
USD	1.5742

*(x 100)

Consumer Price Inflation

(% 12-month average)

**Economic Indicators**

	2007	2008	2009e	2010f	2011f
Real GDP growth, %	6.8	5.4	-3.5	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, %	43.6	40.1	41.5	45.0	42.0
C/A balance, % GDP	-10.5	-14.9	-8.9	-6.7	-7.3

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

Although there are some tentative signs of improvement, the near-term economic outlook for Bosnia & Herzegovina (BiH) remains very challenging. According to the national statistics agency, the average after-tax salary in the country was BAM782 in February 2010, a decline of 2.4% from December 2009. In addition, the number of unemployed people in the country increased by 5.6% to 519,366 in the same period. With the government effectively being forced by multilateral donor agencies to cut public sector wages and reduce social welfare benefits, the prospects for private consumption growth remain poor. Moreover, we believe that both private consumption and fixed investment could be at risk from a further deterioration in political conditions ahead of presidential and parliamentary elections due to take place in October 2010; in keeping with past elections, it is very likely that BiH's rival ethnic leaders will escalate their nationalist rhetoric in the next few months.

On a more positive note, the BiH economy is getting some assistance from the recovering global economy: official data showed that merchandise exports in Q1 2010 jumped by 23.9% year on year to (y/y) BAM1.54bn. With weak domestic demand resulting in a 1.7% y/y decline in imports in the same period, the trade deficit fell by 22.4% to BAM1.21bn. In turn, stronger export growth appears to be filtering slowly through to industrial activity, with a 4.3%

y/y increase in production in March, following contractions of 0.5% in both February and January. On balance, with improving external demand serving to offset continued domestic demand weakness, we are maintaining our forecast of 0% real GDP growth in 2010, following a revised contraction of 3.5% in 2009.

Despite difficult economic conditions, we expect that financing risks in relation to the BiH's large current account and fiscal deficits should be mitigated by continuing external donor support. Positively, in late March 2010 the IMF approved a USD184.6m loan disbursement (combining two tranches) following a review of the country's performance under a USD1.57bn programme that was agreed in July 2009. The IMF had been considering releasing some of this aid back in January 2010 but had delayed disbursement owing to BiH's failure to pass legislation toughening the criteria for cash transfers to veterans of the 1992-95 war. However, in February, BiH's two regions, the Muslim Croat Federation and Republika Srpska, both fulfilled the lender's criteria by passing laws that cut some of the very generous provisions for veteran groups. The passage of the laws also enabled the World Bank to approve its USD111m budgetary support for BiH in April. However, with further austerity measures likely to be necessary in the future, there will be a high risk of social unrest in the outlook period.