

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

Transfer Situation

Local Delays: 1-2 months

FX/Bank Delays: 1-2 months

Key Fact

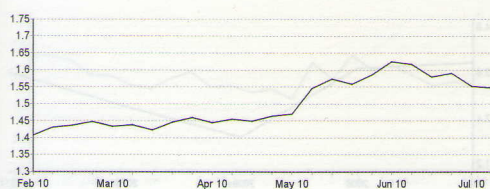
GDP (USD) 16.8bn

Trade & Commercial Environment

The country is still a relatively onerous place in which to do business given corruption, the time taken to deal with regulations 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 'ease of doing business', which leaves it below all its Balkan competitor countries. The country performs relatively well in terms of getting credit, trading across borders and closing a business, where it ranks in the top third. BiH has also made strong improvements when it comes to paying taxes, although it has a relatively poor score owing to the fact that an entrepreneur has to spend an average of 422 hours per annum in the administration of tax requirements against 194 in developed economies.

Local Currency

(Convertible Mark [BAM]: USD)

**Exchange Rates**

(London, 12 Jul 10)

EUR 1.9558

GBP 2.3392

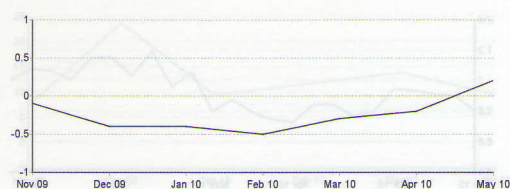
JPY* 1.7496

USD 1.5481

*(x 100)

Consumer Price Inflation

(% 12-month average)



Economic Indicators	2007	2008	2009e	2010f	2011f
Real GDP growth, %	6.8	5.4	-3.5	2.0	3.0
Inflation, annual ave, %	1.5	7.4	-0.4	1.7	2.7
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	-6.5	-7.1

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

Latest official statistics show that the economy is continuing to recover after the downturn created by the global financial and economic crisis. According to the Agency for Statistics for Bosnia and Herzegovina, exports from Bosnia & Herzegovina (BiH) rose by a buoyant 30.6% year on year (y/y) during the first five months of 2010, reflecting improving external demand conditions (especially for metals and minerals, two important commodity groups for BiH). Although foreign demand is staging a recovery, domestic demand in BiH remains weak, as demonstrated by a relatively meagre 3.3% y/y rise in imports between January and May. We expect export growth to outpace that of imports during the rest of 2010, helping to reduce the current account deficit to 6.5% of GDP from 8.9% of GDP in 2009. As domestic demand strengthens, pulling in more imports, the current account deficit will expand again to 7.1% of GDP in 2011. D&B expects BiH to finance the shortfall through a combination of a moderate surplus on the capital and financial account and, importantly, external borrowing, notably from the international financial institutions such as the IMF and World Bank, as well as the EU.

Other data provide further support for the emerging recovery. Stronger exports appear to be feeding through into higher industrial output, which was up by 12.1% y/y in May (although some of this can be attributed to base effects).

Meanwhile, loans from the banking system were up in May compared to April, albeit by only 0.5%, while deposits flowing into banks rose by 0.8% month on month in May. Positively, BiH's banking sector has, for the most part, escaped the worst of the downturn, even if the banks' currently more risk-averse approach to lending, prompted by the crisis, means that credit growth has a long way to go before it returns to pre-crisis levels. This is likely to mean some restriction in business activity, especially for small- and medium-sized enterprises. Despite this constraint, given the strength of the recovery in foreign demand in the first half of the year, we have revised up our forecast for average real GDP growth in 2010 to 2.0%, with a further acceleration, to 3.0%, likely in 2011.

The IMF remains a key source of external borrowing for BiH. However, in mid-May, the Fund postponed approval of a USD49m loan tranche to BiH because structural benchmarks had not been met, including measures relating to pension reform and the government's 2010 wage bill. The IMF also signalled that fiscal policy should not be undermined by uncertainty in the run up to the general election in October. Positively, D&B expects the government to make steady progress over the next few months in meeting the IMF's demands, leading to the postponed loan tranche being approved before the end of 2010.