October 2010

D&B Country Risk Indicator: DB6a
Level of Risk: Very high risk
Ratings Trend: Deteriorating

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

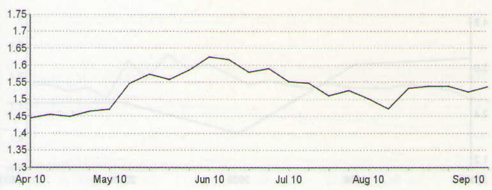
GDP (USD)	16.8bn

Trade & Commercial Environment

Bosnia &Herzegovina (BiH) 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 ranks 116 out of 183 countries in terms of the 'ease of doing business', 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

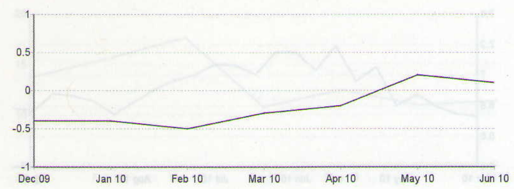
(London, 13 Sep 10)

EUR	1.9558
GBP	2.3643
JPY*	1.8242
USD	1.5369

*(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	-15.1	-8.9	-6.7	-7.4

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

D&B has downgraded Bosnia & Herzegovina's (BiH) risk ratings trend from 'stable' to 'deteriorating' because of several political developments. The ruling by the International Court of Justice (ICJ) in July that Kosovo's declaration of independence from Serbia was in accord with international law led to further tensions in BiH. After the ruling, Milorad Dodik, the prime minister of the Serbian republic in BiH, said that the Serbian entity could leave the federation with the predominantly Muslim/Croat entity after the elections in October. Importantly, Dodik also pointed out that the Serbian republic would not unilaterally seek independence. Meanwhile, government officials from the Muslim/Croat side have rejected Dodik's announcement. In addition to the ICJ ruling, relations between the two parts of the country worsened due to other political events. The biggest Serbian party boycotted the parliamentary vote on a census in 2011, because they are afraid of losing power if the new results are used in any power sharing arrangement. Furthermore, the Muslim/Croat entity has also acted more divisively in the recent past by refusing to execute a ruling from the European Court for Human Rights that demands compensation payments for Serbs who lost property during the war of 1992-95. The political tensions between the ethnic groups hamper investment prospects and worsen the business environment further. However, it is likely that both sides will return to a more moderate position after the elections in October.

The IMF, which remains the most important source of external borrowing for BiH, has announced the postponement of the payment of the fourth tranche (worth of EUR38bn) of its stand-by agreement, because BiH did not fulfil the required fiscal benchmarks. Negotiations are ongoing to secure the important payment for BiH, otherwise the government will have to reduce government consumption even more sharply, thus reducing GDP growth significantly. We believe that an agreement will be found in the short term, probably after the elections.

The economy is sending ambiguous signals at the moment. On the one hand, industrial production has developed unfavourably: in July, it fell by 11.5% year on year (y/y) in the Serb republic, and decreased by 3.3% in the Muslim-Croatian part of the country. One the other hand, exports grew by 32.2% (y/y) in the first half of 2010, boosted by strong sales of metals, fuels and furniture. In the same period, imports grew by only 4.5% (y/y), reflecting sluggish domestic demand. Consequently, the trade deficit decreased to BAM2.8bn (USD1.9bn), down from BAM3.4bn (USD2.3bn) at the beginning of 2010. Overall, we forecast no change in real GDP for 2010 compared to 2009 levels. For 2011 we expect real GDP growth of 2.4%.