

D&B Country Risk Indicator: DB5c

Level of Risk: 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

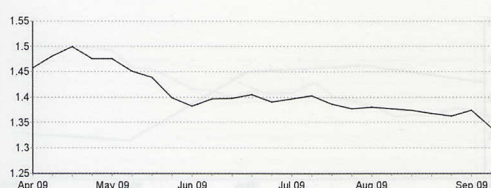
GDP (USD) 14.8bn

Trade & Commercial Environment

According to a monitoring report from Transparency International published in early September, BiH has not achieved any progress in implementing anti-corruption reforms and has no real political will to do so. Despite some action in adopting an anti-corruption strategy, corruption is perceived as being pervasive and Bosnia has the highest rate of graft in the region, a factor that is certainly undermining overall economic growth potential. Courts are inefficient and there is thought to be corruption at the highest levels of elected office with little chance of the officials concerned being brought to justice. Bribes are most frequently paid to doctors or other medical staff and police: an average of BAM247 is paid to doctors compared with just BAM27 to a police officer.

Local Currency

(Convertible Mark [BAM]: USD)

**Exchange Rates**

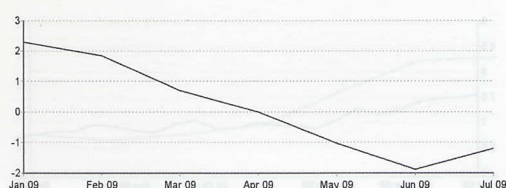
(London, 14 Sep 09)

EUR 1.9558
GBP 2.2358
JPY* 1.4777
USD 1.3385

*(x 100)

Consumer Price Inflation

(annual average, %)



Economic Indicators	2006	2007	2008e	2009f	2010f
Real GDP growth, %	6.2	5.8	5.5	-2.5	2.5
Inflation, annual ave, %	6.1	1.5	7.2	2.0	4.0
Govt balance, % GDP	2.2	-0.1	-4.0	-4.9	-4.0
Unemployment, %	21.6	22.4	20.7	20.5	20.5
C/A balance, % GDP	-8.4	-13.0	-14.7	-10.0	-12.0

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 mandate of the UN role of Office of the High Representative (OHR) was originally due to have come to an end in 2007. This date has, however, repeatedly been pushed back and in August 2009 the Peace Implementation Council (PIC, the body that oversees the work of the OHR and contains representatives of the key countries involved in the implementation of the Dayton Agreement) again postponed a decision on its closure until its November 2009 meeting. The repeated postponement of the decision to close the OHR is owing to the failure of Bosnian politicians to meet certain conditions (full compliance with the Dayton Agreement, resolving the status of the Brcko district and dealing with state property) but also, importantly, to growing security concerns and a deteriorating political climate. The current political standstill means that the process of meeting the required conditions has stalled (a situation that is unlikely to improve ahead of the October 2010 elections).

The OHR will eventually close, although a decision on its demise will probably be delayed beyond the November 2009 meeting and its actual closure deferred beyond 2010. Even if a decision is taken to close the OHR, such a move may only be possible if the EU, US and Russia agree to waive the unmet criteria, which appear some distance from being fulfilled. Agreement among these global powers will be difficult to achieve, but if it is decided to finally shut the

OHR, Bosnian politicians would still not be able to govern themselves fully autonomously. International oversight would remain in the form of the EU's Special Representative (EUSR). The EUSR would not have the same extensive powers held by the OHR but would still have a range of other potential diplomatic, economic or political sanctions that could be put in place should it be necessary for the international community to encourage domestic politicians not to engage in potentially damaging law making.

The closure of the OHR would, however, leave more power in the hands of Bosnian politicians to make their own decisions. Most importantly, a resolution on the future structure of government will eventually need to be taken, perhaps through a new constitution that supersedes the Dayton Agreement. This may be achieved either through domestic consensus or, more likely, through the application of international pressure. In any case, such a result remains several years away and even negotiation towards that end will almost certainly not begin until after next October's elections. Closure of the OHR would be a key milestone towards achieving Bosnia's bids to join the EU and NATO. However, given limited progress to date on meeting EU accession-related criteria and the current stagnation in domestic politics, EU membership is likely to be delayed for several years and is probably unlikely for another ten years.