

Bosnia and Herzegovina

Large current account deficits and high external debt



General Information

GDP	USD18.1bn (World ranking 109, World Bank 2011)
Population	3.75 millions (World ranking 128, World Bank 2011)
Form of state	Emerging Federal Democratic Republic
Head of government	Nebojsa RADMANOVIC
Next elections	2014, presidential and legislative



Strengths

- A currency board has helped to provide a stable exchange rate and fairly low inflation.
- Foreign exchange reserves currently cover around 5 months of imports.

Weaknesses

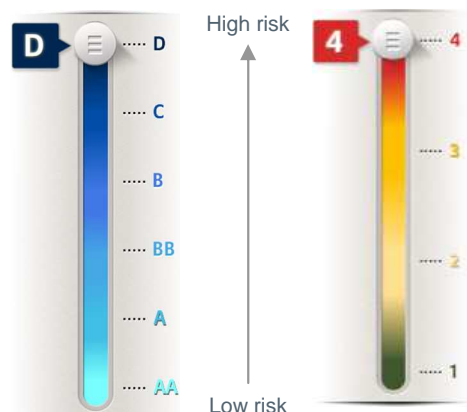
- Persisting ethnic-nationalistic pressures. Highly ethnically fragmented government hinders efficient policymaking.
- Widespread poverty and high unemployment.
- Small manufacturing base concentrated on low-value-added products.
- Main export destinations are other emerging Eastern European countries.
- Rapidly rising public debt.
- Unsustainably large current account deficits.
- High external debt burden.

Country Rating

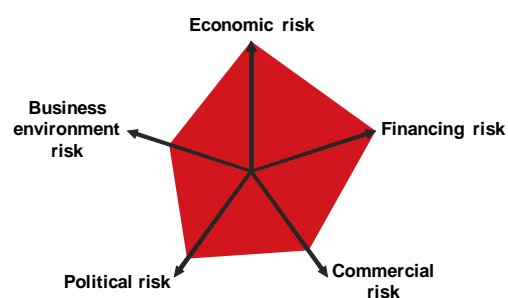
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Country Grade

Country Risk Level

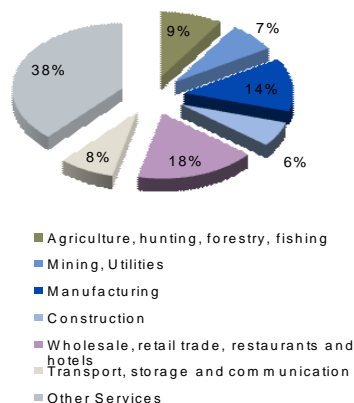


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports	Rank	Imports
Croatia	14% 1	17% Croatia
Slovenia	13% 2	14% Serbia
Italy	13% 3	12% Germany
Germany	12% 4	9% Italy
Serbia	12% 5	9% Slovenia

By product

Exports (% of total)	Rank	Imports (% of total)
Non-ferrous metals	8% 1	14% Petroleum, petroleum products and related materials
Footwear	7% 2	6% Road vehicles
Metalliferous ores and metal scrap	7% 3	4% Iron and steel
Iron and steel	6% 4	4% Electrical machinery, apparatus and appliances,
Manufactures of metal, n.e.s.	6% 5	4% Manufactures of metal, n.e.s.

Economic Forecasts

	Average 2000-08	2009	2010	2011	2012f	2013f	2014f
GDP growth (% change)	6.6	-1.8	1.0	1.3	-0.2	0.9	2.0
Inflation (% end-year)	2.9	0.0	3.1	2.7	1.8	2.9	2.5
Fiscal balance (% of GDP)	-1.8	-5.9	-3.9	-3.1	-3.1	-4.1	-3.9
Public debt (% of GDP)	29.5	36.0	39.4	40.3	44.0	45.0	45.5
Current account (% of GDP)	-13.7	-7.0	-6.1	-9.7	-9.2	-8.3	-7.6
External debt (% of GDP)	53.5	66.4	65.7	59.3	64.0	78.6	76.6

Sources: IHS Global Insight, National sources, Euler Hermes

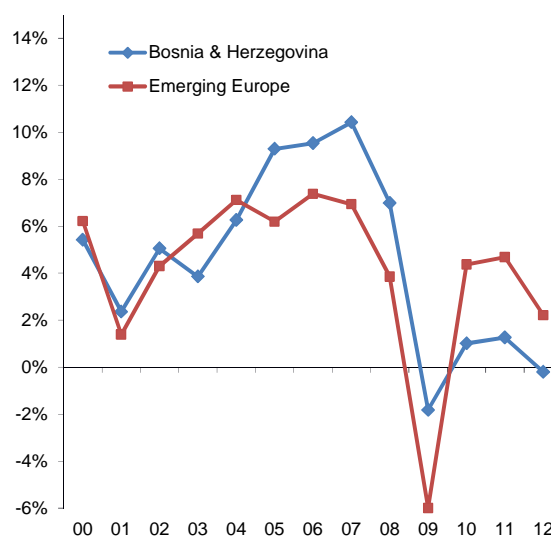
Economic Overview

Following relatively robust average annual real GDP growth of +6.6% in 2000-08, the economy slipped into recession in 2009 (-1.8%) in the wake of the global financial crisis. Thereafter, the economy recovered only modestly, growing by just +1% in 2010 and +1.3% in 2011, and is estimated to have contracted again in 2012 (-0.2%).

Inflation has been moderate in recent years (1.8% at end-2012) and should remain so in 2013-14. The fiscal deficit has narrowed from 5.9% of GDP in 2009 to just above 3% in 2011-12 but is forecast to rise again to around 4% in 2013-14. Public debt has doubled from 21% of GDP in 2006 to about 44% in 2012 and is forecast to rise further in 2013-14.

Bosnia & Herzegovina's external position remains weak. Despite debt reduction agreements with the Paris and London Clubs and substantial international aid, post-war economic progress has been attained at the expense of sizeable and worrisome external imbalances. The country has persistently run substantial current account deficits. The deficit was around 14% of GDP in 2011 and 9% in 2012 and we do not expect a big improvement in 2013.

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Net FDI inflows have covered just 27% of the cumulative current account deficit in 2009-12, requiring the remaining financing gap to be met through new external indebtedness. Hence, gross external debt has continued to increase to approximately USD12.5bn at end-2012 (about 64% of GDP or 190% of export earnings) and is forecast to rise further in the near future. Foreign exchange reserves stood at EUR3.25bn (USD4.28bn) at end-2012, sufficient to cover around five months of imports.

A high vulnerability to external shocks was revealed by the 2008-09 global economic crisis which pushed the economy into recession and crisis. An IMF financial support package was needed and approved in mid-2009 (a total of EUR1.1bn). A subsequent IMF facility was granted in September 2012. Bosnia & Herzegovina will remain highly dependent on international transfers in the foreseeable future and is still far from attaining self-sustaining growth. External liquidity and debt risks will remain very high in the medium term.

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