

## Bosnia and Herzegovina



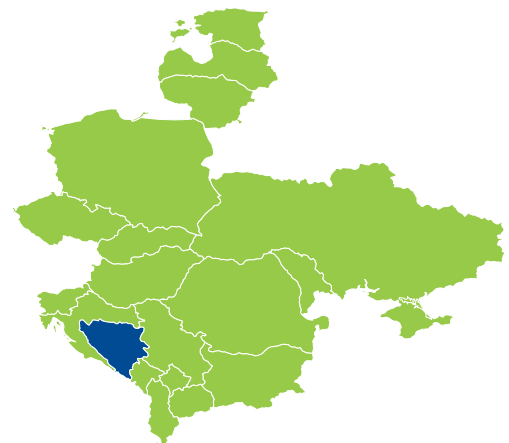
The state of Bosnia and Herzegovina (BiH) comprises two main territories – the Federation of Bosnia and Herzegovina (Federation) and the Republika Srpska (RS). Political stability is proving difficult to establish in the country, particularly after the resignation of former prime minister Nedžad Branković in late May 2009. This followed pressure from his own party – the Bosniak Party of Democratic Action (SDA) – and the Croatian Democratic Union of BiH, both of which are in favour of constitutional reform alongside the Alliance of Independent Social Democrats (SNSD). Disagreement over some proposals has stalled the reform process, which in turn is placing in doubt BiH's likelihood of being accepted as a candidate for EU membership.

There is some perceived danger of social discontent due to public-sector wage cuts and the recession, which threatens to increase the country's already very high unemployment rate (23.4% in 2008). The population has declined significantly since the 1991 census, from 4.4 million to 3.8 million in 2008. This reflects the impact of the 1992-1995 war and a prolonged decline in the birth rate, while recent surveys show that many young people are considering emigration in search of better prospects.

As part of its efforts to mitigate the effects of economic downturn, the government has agreed a three-year stand-by loan worth SDR 1.01 billion (USD 1.57 billion) from the IMF. This followed repeated calls from the IMF for greater fiscal discipline in BiH, which is now a major priority as the country seeks macroeconomic stability. The loan will only come into force once the authorities have fully drafted plans for expenditure cuts, including wage reductions, stricter eligibility criteria for benefits and a redirection of current public spending towards investment.

BiH has also signed the Stabilisation and Association Agreement (SAA) with the EU, which is setting the country's broad policy framework in 2009 and 2010. One result is the reduction or abolition of customs duties on a wide range of EU imports, which is increasing competition for local producers. By way of contrast, however, a bill to protect domestic production by reintroducing tariffs on products including milk, meat, fruit and vegetables has on first reading received the approval of the upper house of the BiH government, even though it contravenes the CEFTA.

Following a 5.5% growth in GDP to EUR 13.1 billion in 2008, this is now expected to contract by some 2% in 2009. This will be driven by reduced private consumption and lower industrial output due to recession in the Eurozone and the main Balkan export markets, as well as low prices for commodities such as steel and aluminium and significantly reduced demand for the output of the mining and electricity sectors.



These and other factors, including a sharp fall in the global oil price and a slowing in the increase in food prices, have slowed inflation from the consumer price index average of 3.8% during 2008 to 0.4% in April 2009.

The local currency, the Marka (KM), is pegged to the Euro by the BiH currency board regime at a rate of 1.96, which appears to be a considerable over-valuation at the time of writing. There is little current likelihood of change, however, unless other Adriatic states with similar arrangements abandon their pegs to enable devaluation.

Industrial performance in the country's two territories is markedly different, with year-on-year output shrinking in the Federation and increasing in the RS. Industrial output in the Federation shrank by over 10% year-on-year in the first quarter of 2009, although there have been some subsequent signs of improvement, while an exceptionally strong performance by the Bosanski Brod oil refinery drove a 50.3% year-on-year manufacturing increase in the RS.



| Bosnia and Herzegovina           | 2005/2007                 | 2007-2008                 | 2008     |
|----------------------------------|---------------------------|---------------------------|----------|
| Average Values                   |                           |                           |          |
|                                  | Change (%)                | Change (%)                |          |
| Population (mil.)                | 0                         | -0.1                      | 3.8      |
| Average monthly gross wage (EUR) | 10.9                      | 17.7                      | 616      |
| EUR Exchange rate vis-à-vis      | -0.3                      | -0.2                      | 1.9      |
| USD Exchange rate vis-à-vis      | -2.7                      | 4.3                       | 1.4      |
|                                  | Real change (%)           | Real change (%)           | EUR mil. |
| GDP                              | 12.6                      | 5.5                       | 13,070   |
| Private consumption              | 9.3                       | n/a                       | n/a      |
| Public consumption               | 4.7                       | n/a                       | n/a      |
| Gross fixed capital investments  | 15.2                      | n/a                       | n/a      |
| Exports (goods and services)     | 18.1                      | n/a                       | n/a      |
| Imports (goods and services)     | 8.5                       | n/a                       | n/a      |
|                                  | Nominal change (EUR mil.) | Nominal change (EUR mil.) | EUR mil. |
| Trade balance                    | -136                      | -665                      | -4,484   |
| Current account balance          | 53                        | -743                      | -1,914   |
| General government balance       | 94                        | -780                      | -248     |
| General government gross debt    | 452                       | 1,053                     | 4,483    |
| External debt                    | -7                        | 122                       | 2,183    |
| Foreign currency reserves        | 430                       | -583                      | 2,517    |
|                                  | Percentage point change   | Percentage point change   | %        |
| Economic activity rate           | 0.9                       | 0.7                       | 54.3     |
| Unemployment rate                | -1.5                      | -5.6                      | 23.4     |
| CPI rate (previous year = 100%)  | 0.4                       | 5.9                       | 7.4      |
| Central bank interest rate       | n/a                       | n/a                       | n/a      |
| 1-year yield on Treasury Bill    | n/a                       | n/a                       | n/a      |
| 10-year yield on Treasury Bond   | n/a                       | n/a                       | n/a      |

Sources used: Reuters EcoWin Pro

# Contacts

## Bosnia and Herzegovina

### Office Managing Partner

**Milos Macura**  
+381 11 3812 111  
mmacura@deloittece.com

### Country Leaders

**Sead Bahtanovic**  
+387 33 277 560  
sbahtanovic@deloittece.com

**Ranko Travar**  
+387 0 51 213 361  
rtravar@deloittece.com

### Industry Leaders

**Mike Jennings**  
*Financial Services*  
+420 246 042 576  
mijennings@deloittece.com

**Vladimir Vanek**  
*Energy & Resources*  
+420 246 042 361  
wanek@deloittece.com

**Dariusz Nachyla**  
*Technology, Media & Telecommunications*  
+48 22 511 0631  
dnachyla@deloittece.com

**Diana Rogerova**  
*Real Estate*  
+420 246 042 572  
drogerova@deloittece.com

**Martin Buransky**  
*Public Sector*  
+420 246 042 351  
mburansky@deloittece.com

### Country Review Analysts

**Tomasz Ochrymowicz**  
+48 22 511 0456  
tochrymowicz@deloittece.com

**Rafal Antczak**  
+48 22 511 0043  
rantczak@deloittece.com

### Clients & Markets

**Matthew Howell**  
+420 234 078 558  
mathowell@deloittece.com

**Aleksandra Kolaric**  
+385 1 2352 123  
akolaric@deloittece.com

"Deloitte" is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, and tax services to selected clients. These firms are members of Deloitte Touche Tohmatsu, a Swiss Verein ("DTT"). Each member firm provides services in a particular geographic area and is subject to the laws and professional regulations of the particular country or countries in which it operates. DTT helps coordinate the activities of the member firms but does not itself provide services to clients. DTT and the member firms are separate and distinct legal entities, which cannot obligate the other entities. DTT and each DTT member firm are only liable for their own acts or omissions, and not those of each other. Each DTT member firm is structured differently in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in their territories through subsidiaries, affiliates, and/or other entities.

Deloitte Central Europe is a regional organization of entities organized under the umbrella of Deloitte Central Europe Holdings Limited, the member firm in Central Europe of Deloitte Touche Tohmatsu. Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities.

The subsidiaries and affiliates of Deloitte Central Europe Holdings Limited are among the region's leading professional services firms, providing services through more than 3800 people in more than 30 offices in 17 countries.

For regional projects and projects requiring regional resources, the services are provided by Deloitte Central Europe Limited, which is an affiliate of Deloitte Central Europe Holdings Limited. Deloitte Central Europe Limited is one of the leading professional services organizations in the country providing services in tax, consulting, risk management and financial advisory services.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 165,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

This publication contains general information only, and none of Deloitte Touche Tohmatsu, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

None of Deloitte Touche Tohmatsu, its member firms, or its and their respective affiliates shall not be responsible for any loss whatsoever sustained by any person who relies on this publication.