Bosnia and Herzegovina
CRT-5
August 22, 2019
Region: Europe
Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers
- Bosnia and Herzegovina, a CRT-5 country, has high levels of economic, political, and financial system risk.
- Political instability and ethnic tensions have constrained the economy in recent years. Despite challenges, GDP grew 3.1% in 2018, driven largely by domestic consumption and the agricultural and manufacturing sectors. Medium-term GDP growth is expected to range between 3.0% and 3.5%.
- AM Best categorizes the majority of countries in the region as CRT-1 and CRT-2. Notable exceptions include Belarus, Russia, and Ukraine.

Regional Summary: Eastern Europe
- Economic growth in Eastern Europe is likely to expand in 2019 driven by strong domestic demand supported by higher wages and low unemployment. However, the region will be challenged by labor shortages, lower global growth, and high levels of corruption. Additional risks include currency volatility, an increase in government influence on state-run institutions (potentially undermining their independence), and unfavorable demographic trends.
- The Eastern European countries are at different stages of bringing their legal, economic, and political frameworks to be in more line with EU standards. Eastern Europe has a great deal of economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Although many Eastern European countries are classified as emerging or frontier markets, reforms have enhanced economic stability and regional political power. However, the region’s standards of living vary greatly by country and are usually generally lower than Western Europe.
Economic Risk: High

• The economy relies heavily on the export sector—energy, mining, and crude oil are among the top products traded—as well as foreign aid and remittances.

• Headwinds to growth for Bosnia and Herzegovina include weak industrial production, a sluggish European Union, and continued political gridlock. However, low unemployment and inflation rates will buttress domestic demand.

• Labor markets have improved, with the unemployment rate falling to a record low in 2018. Improvements in the labor market should translate into lower levels of poverty. Current GDP per capita is approximately USD 5,600.

• After four years of deflation, inflation turned positive in 2017 and registered 1.4% in 2018. Inflation levels are forecast to remain below 2.0% over the medium term.

Political Risk: High

• Bosnia and Herzegovina's governmental structure is complex. Under the 1995 Dayton Accords, there are two largely autonomous entities: the Republika Srpska and the Federation of Bosnia and Herzegovina. A central Bosnian government oversees the two entities.

• Following the October 2018 elections, the federation formed a parliament and was able to pass a budget. However, the country still has no state government, due to disagreements about the process of joining NATO.

• The country’s political situation is precarious owing to a number of challenges, including growing nationalist rhetoric, poor government finances, and the implementation of poverty reduction measures. Political infighting among opposing parties is likely to intensify in the run-up to the election.

• Bosnia and Herzegovina is in the process of applying for membership to the World Trade Organization and has applied for EU membership. Structural reforms of the country’s institutions would need to be addressed prior to accession.

• Because the government is decentralized, there is an overabundant number of civil servants, and efforts to revise the constitution encounter political gridlock.

Financial System Risk: High

• The Insurance Supervisory Agency of Bosnia and Herzegovina regulates the insurance industry. Legal grounds for insurance regulation are found in Bosnia and Herzegovina’s Law on Insurance Agency.

• Bosnia and Herzegovina’s currency, the konvertibilna marka, is pegged to the euro, which constrains monetary policy flexibility.

• The banking sector is highly exposed to EU banks, but most parent banks are located in the relatively stable German and Austrian financial systems.