Best's Country Risk Report

Bosnia and Herzegovina

CRT-5

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures]

[Guide to Best's Country Risk Tiers]

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Bosnia and Herzegovina, a CRT-5 country, has high levels of economic and political risk and a very high level of financial system risk. Political instability and ethnic tensions have constrained economic potential in recent years. Despite challenges, GDP grew 2.7%, driven largely by domestic consumption and the agricultural and manufacturing sectors. Medium term GDP growth is expected to range between 3.0% and 4.0%.
- A.M. Best categorizes the majority of countries in the region as CRT-1 and CRT-2. Notable exceptions are many of the Eastern European countries such as Belarus, Russia and Ukraine.

- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

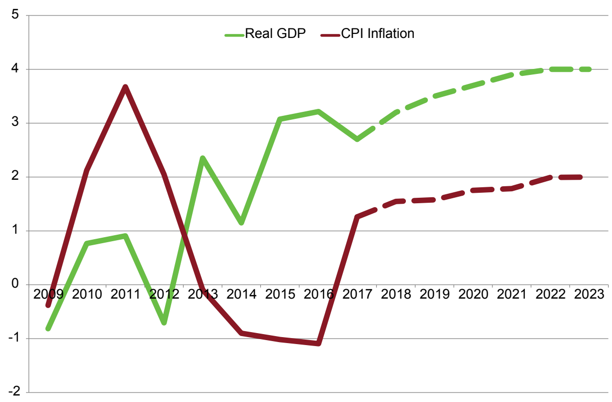
Regional Summary: Eastern Europe

- The Eastern European countries are at various stages of bringing their legal, economic, and political frameworks to be more in line with European Union standards. The region 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.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions, currency volatility, an increase in government influence on state-run institutions potentially undermining independence, and high levels of corruption.

Vital Statistics 2017		
Nominal GDP	USD bn	18.06
Population	mil	3.5
GDP Per Capita	USD	5,149
Real GDP Growth	%	2.7
Inflation Rate	%	1.3
United Nations Estimates		
Literacy Rate	%	98.5
Urbanization	%	40.1
Dependency Ratio	%	43.3
Life Expectancy	Years	76.9
Median Age	Years	42.1
Insurance Statistics		
Insurance Regulator	Insurance Supervisory Agency (NADOS)	
Premiums Written (Life)	USD mil	73
Premiums Written (Non-Life)	USD mil	286
Premiums Growth (2016 - 2017)	%	6.1
Regional Comparison		
	Country Risk Tier	
Bosnia and Herzegovina	CRT-5	
Albania	CRT-4	
Bulgaria	CRT-4	
Croatia	CRT-4	
Hungary	CRT-3	
Romania	CRT-3	

Source: IMF, UN, Swiss Re, Axco and A.M. Best

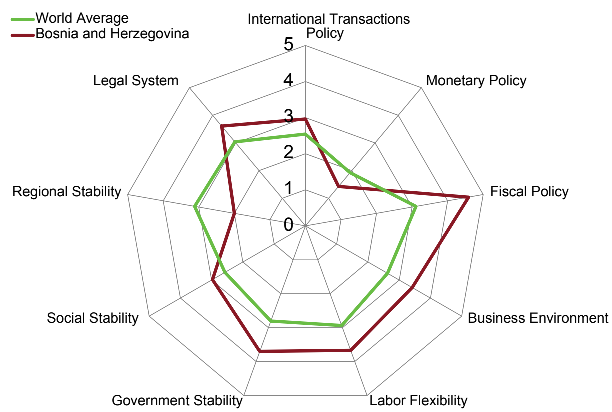
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

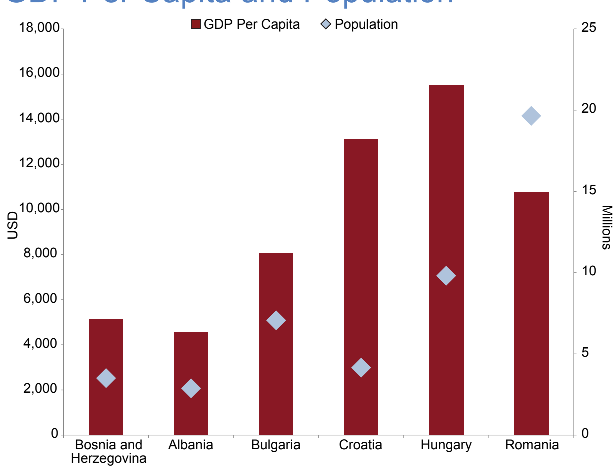
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

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.
- Labor markets have improved. According to the World Bank, the unemployment rate fell from 25.4% in 2016 to 20.5% in the first half of 2017. Youth unemployment, although still high, has also declined, from 54.3%, to 45.8% in 2017. Improvements in the labor market should translate into lower levels of poverty.
- After four years of deflation, inflation turned positive in 2017, registering 1.3%. 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.
- Political elections are scheduled for October 2018. The country's political situation is precarious due 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.
- Due to the government's decentralized nature, there is an overabundant number of civil servants, and efforts to revise the constitution encounter political gridlock.

Financial System Risk: Very 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.
- The 2016 financial assistance agreement with the IMF partially focused on financial-sector reforms. The loan aimed to rejuvenate bank lending, resolve non-performing loans and strengthen financial sector supervision. The World Bank's Banking Sector Strengthening Project also targets bank regulation and supervision.
- Bosnia and Herzegovina's currency, the konvertibilna marka, is pegged to the euro, which constrains monetary policy flexibility. Under the country's currency board system, the Central Bank of Bosnia and Herzegovina maintains the peg.
- The banking sector has high exposure to EU banks, but most parent banks are located in the relatively stable German and Austrian financial systems.