



THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

27 April 2020

COVID-19 update

- *COVID-19 information:* Both entities (the Federation of BiH – FBiH and the Republika Srpska – RS) provide regular updates on the number of COVID-19 cases and the measures introduced by the governments to mitigate the economic and health crisis caused by the pandemic. The FBiH's official platform is <https://covid-19.ba/>, whereas all the latest information on COVID-19 in the RS can be accessed on koronavirususrpskoj.com.
- *Assessment of the health system:* The expenditure on healthcare in BiH was 9,2 % of GDP in 2017. BiH is split into one district and 2 entities, one of which has ten separate cantons, and each has its own health fund. Over the past few years, BiH has recognised the need to improve its health sector, and supported by external financing and advice, it worked on restructuring and strengthening its primary health care as well as enhancing its policy making process through the implementation of a system for monitoring and evaluating health sector performance.

Economic impact

Short-term indicators of the economic impact

- Bosnia and Herzegovina's economy is expected to drop to -1.9% in 2020 due to the coronavirus outbreak¹. With the transport of goods and services significantly reduced, trade, tourism and transport are among the most affected sectors in BiH. In addition, the COVID-19 pandemic poses a major challenge to the manufacturing sector, whose value chains are broken in the upstream (e.g. supply from China) and downstream (e.g. deliveries of the textile and leather industry to Italy).

Financial markets

- The local currency "BAM" has depreciated around 3% since the beginning of the year signalling a potential capital outflow and rendering international trade and investment decisions more difficult. When it comes to the stock market, SASX-10 index lost around 15% of its value from 10 January to 24 April.

¹ World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>

Policy reactions

- The Council of Ministers declared a State of Emergency in Bosnia and Herzegovina on 17 March.

Extent of containment measures

- *School closure:* Kindergartens, schools and universities have been closed.
- *Lockdown:* On 21 March both entities introduced a curfew that lasts from 8 PM to 5 AM, except for drivers of trucks in domestic and international transport, who need to possess a Certificate on Driver Engagement in the FBiH and except for domestic and foreign drivers, who transport goods in road traffic and have the evidence on transport operations in the RS. The FBiH also banned movement of persons under the age of 18 and over 65. However, on 24 April, the FBiH decided to abolish the curfew and allow movement of the citizens under 18 and over 65 three times a week (on Tuesdays, Thursdays and Saturdays from 2 PM to 8 PM for the former and on Mondays, Wednesdays and Fridays from 9 AM to 1 PM for the latter). In the RS movement of persons aged 65 and over remains prohibited (except on Tuesdays and Fridays from 7 AM to 10 AM). All public transportation is suspended, taxi services are limited but remain operational and driving personal vehicles is allowed. Cafes, restaurants and retail stores are closed and public gatherings are banned. Only food stores, pharmacies, gas stations, post offices and banks remain open, albeit with reduced working hours.

Border measures

- All border crossings (air, land or water) are closed to travellers, except for road transport crews and other persons with special permit.
- Borders are closed to non-BiH citizens, whereas BiH citizens entering the country from abroad need to stay in a 14-day quarantine.
- International airports in Sarajevo, Banja Luka, Mostar and Tuzla are closed for commercial traffic. The Sarajevo airport remains open for cargo and mail transport and humanitarian flights.

Measures to cope with the health emergency

- Self-isolation at home or quarantine for 14 days for those who entered the country after 16 March 2020. For this purpose, the government built several quarantine areas close to the main border crossings. On 24 April, however, the government of FBiH abolished these border quarantine areas and allowed citizens coming from abroad to enter the country and stay in home quarantine.
- Changes in the work hours were introduced to protect the medical staff, e.g. the shifts are fewer and longer, with smaller number of personnel working at the same time. Medical staff in the RS will receive an April salary increased by a compensation of BAM 1 000 (around EUR 500).
- The Council of Ministers introduced a tax exemption on equipment and resources (e.g. protection medical gear, respirators) granted by both domestic and international entities for the needs of prevention, containing and termination of the epidemics caused by COVID-19.
- The entity governments have allocated around BAM 50 million (around EUR 25 million or 0.15% of GDP) for dealing with COVID-19, including purchasing medical equipment and supplies. The Federation of BiH reserved support of BAM 30 million (around EUR 15 million or 0.1% of GDP) to hospitals. In Republika Srpska, the health fund will cover health care costs for all patients.

Monetary policy

- Banking Agencies have announced a six-month loan repayment moratorium for restructuring credit arrangements for individuals and legal entities which are found to have aggravated circumstances for loans repayments due to COVID-19. Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19.
- Banks are also instructed to consider additional customer relief, including reviewing current fees for services and avoiding charging fees to handle exposure modifications. All banks were ordered not to pay dividends or bonuses.

Fiscal policy

- **Support to firms:**
 - *Support to the economy:* FBiH Development Bank established a *Guarantee Fund* with initial reserves of up to BAM 80 million (~EUR 40 million). As of 7 April, FBiH also approved the allocation for a total of BAM 7 million (~EUR 3.5 million) to the Federal Civil Protection Administration and the Federal Civil Protection Headquarters. The RS announced the establishment of the *Fund for Economy Aid*, which should become operational in May.
 - *Support to private sector activity and employment:* Businesses in FBiH are entitled to subsidies in the amount of BAM 245 (~EUR 120) per month, per employee. The obligation to make advanced payments on corporate income tax for businesses and self-employers is abolished. Lease amounts are decreased by 50% for business premises managed by the FBiH Office of Joint Affairs. Corporate income tax liabilities in RS are postponed until 30 June. All borrowers from the Investment and Development Bank of RS are granted three month repayment moratorium. Deadlines for filing tax returns and salary specifications have been extended to 30 April 2020 in both entities.
 - *Additional support to particular effected sectors:* The Republika Srpska's Ministry of Agriculture has also allocated BAM 2.2 million (~EUR 1.1 million) in loans to encourage agricultural output for small producers.
- **Support to the population:**
 - *Support to workers and social assistance:* The Federation of BiH will cover minimal salary contributions to all employees in the real sector (from March until one month after the end of the state of emergency), while in the Republika Srpska, in addition to the full salary contributions (March) and minimal salary contributions (April for now), the taxes will also be covered by the government for those subjects who are the most affected by the crisis (merchants, caterers, small entrepreneurs).
 - *Support to parents:* In both entities, one of the two employed parents, including single parent households, with children up to the age of ten, may be released from work during the crisis period as a justified absence.
 - *Price controls* were instated that regulate margin limits for specific good and products (e.g. essential groceries and basic hygiene supplies) and penalties for retailers. The prices should not exceed the price they had on 5 March 2020.

International support:

- A package of EUR 80.5 million for Bosnia and Herzegovina has been reserved by the EU to tackle coronavirus crisis (EUR 7 million of immediate support for the health sector, and EUR 73.5 million for economic and social recovery).
- Aid to the health care system to BiH has arrived from the EU, China, Russia, Turkey and Norway.

Outlook

- *Situation prior to COVID-19:* In 2019, Bosnia and Herzegovina's GDP growth was estimated at 2.8%, driven mainly by domestic consumption. Unemployment remained high, at 15.7%. BiH remains the only Western Balkan (WB) economy where employment is yet to recover to the levels seen before the 2008 crisis; high youth unemployment (of over 60%) and high levels of long-term unemployment (82% of all unemployed people) remain major sources of concern. Youth unemployment continues to contribute to an endemic brain drain from the country and the highest in the WB region. Foreign direct investments, at around 2% of GDP, are among the lowest in the WB region. Investors are discouraged by fragmented and poorly functioning product and labour markets, the weak rule of law and a continuing poor business environment. Total external debt in 2019 was estimated at 70.5% of GDP.
- In 2019, government projected 3.4% of GDP growth for 2020 – however, due to the COVID-19, it is expected to slow down to -1.9%². Unemployment rates might further increase, together with inequalities, whereas the public debt might escalate. The policy measures introduced are adequate, addressing challenges coming from the slowdown in key sectors, such as trade, services, transport, manufacturing and tourism. Once the COVID-19 situation starts improving, accelerated reform implementation will be key to lifting the economy out of the crisis and bridging social gaps. Enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

² World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>

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