



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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THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

11 May 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 its 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. The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which account for more than 10% of GDP². In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of tourism, COVID-19 has had a limited effect on this sector in BiH, due to its relatively limited economic relevance as compared to some other WB economies.³

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

² European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

³ Ibid.

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, the SASX-10 index lost around 12% of its value from 10 January to 8 May.

Policy reactions

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

Extent of containment measures

- *School closures:* Kindergartens, schools and universities have been closed.
- *Lockdown - main developments:*
 - On 21 March, both entities introduced a curfew lasting from 8 PM to 5 AM, except for drivers of trucks in domestic and international transport, who need to possess a Certificate of Driver Engagement in the FBiH while domestic and foreign drivers transporting goods in road traffic must have the evidence of transport operations in the RS. Both entities also banned movement of persons over 65, whereas in the FBiH, the ban relates to those under the age of 18 as well. However, on 24 April, the FBiH decided to abolish the curfew and allow movement of citizens under 18 and over 65 three times per 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). This measure will last until 15 May 2020. In the RS, the movement of persons aged 65 and over is permitted between 7 AM and 1 PM on weekdays.
 - All public transportation is suspended, taxi services are limited but remain operational and driving personal vehicles is allowed. On 11 May in the RS, however, the public transportation within the entity became operational again. Public gatherings are banned until 25 May at the earliest (in the RS).
 - On 29 April, the FBiH announced that from 1 to 15 May, the wholesale and retail stores as well as small craft shops will be reopened provided that they operate outside of shopping centers⁴. In the RS, the government introduced similar measures on 27 April lasting until 25 May, although the shops will work with reduced working hours (from 7 AM to 7 PM, on the condition that it does not disrupt the duration of the curfew). However, these measures also comprise the stores that are part of the shopping centers, green (from 7 AM to 3 PM) and cattle markets (from 6 AM to 1 PM)⁵. Wearing masks and social distancing (a minimum of 2 metres) are mandatory in all public places for both entities.

⁴ For more details on the measures, please consult: <http://fbihvlada.gov.ba/file/NAREDBA%20154.PDF>.

⁵ For more details on the measures, please consult: https://www.vladars.net/sr-SP-Cyri/Vlada/Ministarstva/mpp/Documents/Закључак%20о%20обавезном%20спровођењу%20мјера%20за%20превањање%20на%20појаву%20болести%20изазване%20новим%20вирусом%20корона_179115208.pdf and https://www.vladars.net/sr-SP-Cyri/Vlada/Ministarstva/mpp/Documents/Закључак%20о%20исправци%20закључка%20о%20обавезном%20спровођењу%20мјера_024290449.pdf

- On 11 May, the RS reopened cafes, restaurants, kindergartens, hair salons, gyms and private dental clinics. Similar measures are being considered at the level of FBiH, but it is uncertain when they will be introduced.

Border measures

- All border crossings (air, land or water) are closed to travellers, except for road transport crews and other persons with a 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 as well as humanitarian flights.

Measures to cope with the health emergency

- Self-isolation at home or quarantine for 14 days was mandatory 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 and on 11 May (starting from 12 May) respectively the government of FBiH and the government of RS abolished the local and border quarantine areas and sent quarantined persons to house isolation (for a total of 14 days). Those citizens coming from abroad are allowed to enter the country, provided that they stay in a 14-day home quarantine.
- Changes in the work hours were introduced to protect the medical staff, e.g. the shifts are fewer and longer, with a smaller number of personnel working at the same time. Medical staff in the RS is expected to receive an increased April salary through 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 of both entities instructed banks to approve certain measures to support clients who are found to have aggravated circumstances for loan repayments due to COVID-19. These measures comprise: a moratorium until at least the end of the state of emergency, a grace period of up to 6 months, and approval of an additional amount to overcome liquidity difficulties. . Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19.
- Banks are also encouraged 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:* The FBiH Development Bank announced the establishment of a

special fund for stabilising the economy, with initial reserves of up to BAM 80 million (~EUR 40 million). On 7 April, FBiH also announced 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 reserved funds from its *Solidarity fund* to support employees directly affected by COVID-19 (BAM 55 million or around EUR 27.5 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees in April and possibly in May).

- *Support to private sector activity and employment:* Businesses in FBiH are entitled to subsidies (i.e. minimal salary contributions covered by the government) 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 a three month repayment moratorium. The Investment and Development Bank of RS also dedicated a credit line to local businesses (craftsmen, entrepreneurs and SMEs). Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of the RS, BAM 50 million (~EUR 25 million) will be provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks.
- *Additional support to particular affected 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:* As highlighted above, 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), the taxes will also be covered by the government for those subjects who are the most affected by the crisis (merchants, caterers, small entrepreneurs). As mentioned before, around EUR 27.5 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees directly affected by COVID-19 in April, and possibly in May.
 - *Support to police officers:* The RS proclaimed that every police officer who had worked for at least three weeks in the period from 15 March to 15 April would receive a cash grant of BAM 1000 (~ EUR 500).
 - *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 goods 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 the coronavirus crisis (EUR 7 million of immediate support for the health sector and EUR 73.5 million for economic and social recovery). On 29 April, the EU announced reinforced support to address the COVID-19 crisis, by reserving additional funds for the Western Balkan (WB) region (a total of EUR 3.3 billion).
- IMF approved a EUR 330 million loan under the Rapid Financing Instrument (RFI) on 21 April 2020.
- 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% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁶. Unemployment remained high, at 15.7%. BiH remains the only Western Balkan 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 the 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, the government projected 3.4% of GDP growth for 2020 – however, due to COVID-19, it is expected to slow down to -1.9%⁷. Unemployment rates, along with inequalities, may further increase and 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. However, enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

⁶ European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

⁷ 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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THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

25 May 2020

COVID-19 update

- *COVID-19 information:* Although the state of emergency in Bosnia and Herzegovina pertains, first deconfinement measures have been introduced on 24 April in the Federation of BiH (FBiH) and on 27 April in the Republika Srpska (RS). Both entities 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 koronavirusrpskoj.com.
- *Assessment of the health system:* The expenditure on healthcare in BiH was 9,2 % of its 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. The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which account for more than 10% of GDP². In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of tourism, COVID-19 has had a limited effect on this sector in BiH, due to its relatively limited economic relevance as compared to some other WB economies.³

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

² European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

³ Ibid.

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, the SASX-10 index lost around 11% of its value from 10 January to 20 May.

Policy reactions

- The Council of Ministers declared a State of Emergency in Bosnia and Herzegovina on 17 March. The entity of Republika Srpska abolished the State of Emergency on 21 May.

Extent of containment measures

- *School closures:* Schools and universities had been closed. Kindergartens have reopened in the RS on 11 May and on 18 May for the majority of cantons in the FBiH.
- *Movement of people and public gatherings:*
 - On 21 March, both entities introduced a curfew lasting from 8 PM to 5 AM, except for drivers of trucks in domestic and international transport, who need to possess a Certificate of Driver Engagement in the FBiH while domestic and foreign drivers transporting goods in road traffic must have the evidence of transport operations in the RS. Both entities also banned movement of persons over 65, whereas in the FBiH, the ban relates to those under the age of 18 as well. However, on 24 April, the FBiH decided to abolish the curfew and a couple of weeks later (on 14 May) allowed movement of all citizens. RS lifted the curfew on 22 May and allowed everybody to move freely.
 - On 11 May in the RS and on 15 May in the FBiH, the public transportation within each entity became operational again. Public gatherings are still banned until end of May at the earliest in the RS. On 14 May, the FBiH allowed indoor public gatherings provided that 10m² per person was ensured and all the hygienic measures were respected.
- *Deconfinement measures:*
 - On 29 April, the FBiH announced that from 1 to 30 May, the wholesale and retail stores as well as small craft shops will be reopened provided that they operate outside of shopping centers⁴. In the RS, the Government introduced similar measures on 27 April, although the shops work with reduced working hours. These measures also comprise the stores that are part of the shopping centers, green (from 7 AM to 3 PM) and cattle markets (from 6 AM to 1 PM)⁵. With the abolishment of the State of Emergency, working hours will

⁴ For more details on the measures, please consult: <http://fbihvlada.gov.ba/file/NAREDBA%20154.PDF>.

⁵ For more details on the measures, please consult: https://www.vladars.net/sr-SP-Cyri/Vlada/Ministarstva/mpp/Documents/Закључак%20о%20обавезном%20спровођењу%20мјера%20за%20превањање%20на%20појаву%20болести%20изазване%20новим%20вирусом%20корона_179115208.pdf and https://www.vladars.net/sr-SP-Cyri/Vlada/Ministarstva/mpp/Documents/Закључак%20о%20исправци%20закључка%20о%20обавезном%20спровођењу%20мјера_024290449.pdf ⁶ European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

return to normal. Wearing masks and social distancing (a minimum of 2 metres) are mandatory in all public places for both entities.

- On 11 May, the RS reopened cafes, restaurants, kindergartens, hair salons, gyms and private dental clinics. The FBiH introduced similar measures on 13 May.

Border measures

- All border crossings (air, land or water) are closed to travellers, except for road transport crews and other persons with a 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. On 20 May, the RS lifted a 14-day quarantine for people coming from abroad.
- International airports in Sarajevo, Banja Luka, Mostar and Tuzla are closed for commercial traffic. The Sarajevo airport remains open for cargo and mail transport as well as humanitarian flights.

Measures to cope with the health emergency

- Self-isolation at home or quarantine for 14 days was mandatory 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 and on 11 May (starting from 12 May) respectively the Government of FBiH and the Government of RS abolished the local and border quarantine areas and sent quarantined persons to house isolation (for a total of 14 days). Those citizens coming from abroad are allowed to enter the country, provided that they stay in a 14-day home quarantine (this measure applies to FBiH only, as the RS abolished home quarantine on 20 May).
- Changes in the work hours were introduced to protect the medical staff, e.g. the shifts are fewer and longer, with a smaller number of personnel working at the same time. Medical staff in the RS is expected to receive an increased April salary through 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 of both entities instructed banks to approve certain measures to support clients who are found to have aggravated circumstances for loan repayments due to COVID-19. These measures comprise: a moratorium until at least the end of the state of emergency, a grace period of up to 6 months, and approval of an additional amount to overcome liquidity difficulties. Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19.
- Banks are also encouraged 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:* The FBiH Development Bank announced the establishment of a *Guarantee fund* for stabilising the economy, with initial reserves of up to BAM 80 million (~EUR 40 million). On 7 April, FBiH also announced 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 reserved funds from its *Solidarity fund* to support employees directly affected by COVID-19. BAM 58 million or around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees in April. Those employees who have not worked for the entire month of May will receive the same support from the Fund, whereas for those who resumed activity in the second half of May, the Government will cover contributions and taxes as in March. Funds for the RS Solidarity fund (after 15 May to be renamed *Compensation fund*) are raised from special contributions for solidarity, tax revenues paid for that purpose under special laws, domestic and foreign donations, the RS budget and other sources.
- *Support to private sector activity and employment:* Businesses in FBiH are entitled to subsidies (i.e. minimal salary contributions covered by the Government) 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 a three month repayment moratorium. The Investment and Development Bank of RS also dedicated a credit line to local businesses (craftsmen, entrepreneurs and SMEs). Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of the RS, BAM 50 million (~EUR 25 million) will be provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks.
- *Additional support to particular affected 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 for the tourism sector was also announced by the RS. Starting from 15 June, citizens will benefit from a 100 BAM (around 50 EUR) voucher that can be used to co-finance accommodation costs at any destination in the RS, provided that the stay lasts a minimum of 3 nights. The Government plans to distribute 20 000 vouchers in the first phase and two times 15 000 in the second and the third phases. Depending on the demand, additional vouchers might be allocated.

- **Support to the population:**

- *Support to workers and social assistance:* As highlighted above, 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), the taxes will also be covered by the Government for those subjects who are the most affected by the crisis (merchants, caterers, small entrepreneurs). As mentioned before, around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70

000 employees directly affected by COVID-19 in April and in May.

- *Support to police officers:* The RS proclaimed that every police officer who had worked for at least three weeks in the period from 15 March to 15 April would receive a cash grant of BAM 1000 (~ EUR 500).
- *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 goods 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 the coronavirus crisis (EUR 7 million of immediate support for the health sector and EUR 73.5 million for economic and social recovery). On 29 April, the EU announced reinforced support to address the COVID-19 crisis, by reserving additional funds for the Western Balkan (WB) region (a total of EUR 3.3 billion).
- IMF approved a EUR 330 million loan under the Rapid Financing Instrument (RFI) on 21 April 2020.
- 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% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁶. Unemployment remained high, at 15.7%. BiH remains the only Western Balkan 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 the 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, the Government projected 3.4% of GDP growth for 2020 – however, due to COVID-19, it is expected to slow down to -1.9%⁷. Unemployment rates, along with inequalities, may further increase and 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.

⁶ European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

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However, enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

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THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

8 June 2020

COVID-19 update

- *COVID-19 information:* The state of emergency in Bosnia and Herzegovina has been abolished and deconfinement measures have been gradually introduced. Both entities continue to 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 its 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. The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which account for more than 10% of GDP². In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of tourism, COVID-19 has had a limited effect on this sector in BiH, due to its relatively limited economic relevance as compared to some other WB economies.³

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³ Ibid.

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, the SASX-10 index lost around 11% of its value from 10 January to 20 May.

Extent of containment measures

- *School closures:* Schools and universities have been closed. Kindergartens have reopened in the RS on 11 May and on 18 May for the majority of cantons in the FBiH. Schools remain closed until the end of the school year in both entities.
- *Movement of people and public gatherings:*
 - On 21 March, both entities introduced a curfew lasting from 8 PM to 5 AM, except for drivers of trucks in domestic and international transport, who need to possess a Certificate of Driver Engagement in the FBiH while domestic and foreign drivers transporting goods in road traffic must have the evidence of transport operations in the RS. Both entities also banned movement of persons over 65, whereas in the FBiH, the ban relates to those under the age of 18 as well. However, on 24 April, the FBiH decided to abolish the curfew and a couple of weeks later (on 14 May) allowed movement of all citizens. RS lifted the curfew on 22 May and allowed everybody to move freely.
 - On 11 May in the RS and on 15 May in the FBiH, the public transportation within each entity became operational again. Public gatherings of more than 50 persons are still banned in the RS. On 14 May, the FBiH allowed indoor public gatherings provided that 10m² per person was ensured and all the hygienic measures were respected.
- *Deconfinement measures:*
 - On 29 April, the FBiH announced that from 1 to 30 May, the wholesale and retail stores as well as small craft shops will be reopened provided that they operate outside of shopping centers. On 28 May, the FBiH reopened all shopping centers. In the RS, the Government introduced similar measures on 27 April, although the shops worked with reduced working hours. These measures also comprised the stores that are part of the shopping centers, green (from 7 AM to 3 PM) and cattle markets (from 6 AM to 1 PM). With the abolishment of the State of Emergency, working hours returned to normal. Wearing masks and social distancing (a minimum of 2 metres) are mandatory in all public places for both entities.
 - On 11 May, the RS reopened cafes, restaurants, kindergartens, hair salons, gyms and private dental clinics. The FBiH introduced similar measures on 13 May.
- *Border measures:*
 - The Council of Ministers of BiH reopened borders for neighbouring countries (Croatia, Montenegro and Serbia) on 1 June, whereas foreign citizens from other countries can enter BiH for business reasons only, provided that they have an invitation from a legal entity from BiH as well as a certificate of a negative COVID-19 test, not older than 48 hours from the moment of entry.
 - International airports in Sarajevo, Banja Luka, Mostar and Tuzla are reopened for commercial traffic on 1 June.

- *Measures to support the health sector:*
 - 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 of both entities instructed banks to approve certain measures to support clients who are found to have aggravated circumstances for loan repayments due to COVID-19. These measures comprise: a moratorium until at least the end of the state of emergency, a grace period of up to 6 months, and approval of an additional amount to overcome liquidity difficulties. Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19.
- Banks are also encouraged 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:* The FBiH Development Bank announced the establishment of a *Guarantee fund* for stabilising the economy, with initial reserves of up to BAM 80 million (~EUR 40 million). On 7 April, FBiH also announced 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 reserved funds from its *Solidarity fund* to support employees directly affected by COVID-19. BAM 58 million or around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees in April. Those employees who have not worked for the entire month of May will receive the same support from the Fund, whereas for those who resumed activity in the second half of May, the Government will cover contributions and taxes as in March. Funds for the RS Solidarity fund (after 15 May to be renamed *Compensation fund*) are raised from special contributions for solidarity, tax revenues paid for that purpose under special laws, domestic and foreign donations, the RS budget and other sources.
 - *Preferential treatment for domestic companies in public procurement procedures:* On 29 May, the Council of Ministers of BiH adopted a Decision on a preferential treatment for domestic companies in calls for public tenders, which will be implemented for a year starting from 1 June 2020. According to the Decision, when calculating bid prices the contracting authority is obliged to reduce the prices of domestic bids by a preferential domestic factor of 30% in all public procurement procedures.
 - *Support to private sector activity and employment:* Businesses in FBiH are entitled to

subsidies (i.e. minimal salary contributions covered by the Government) 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 a three month repayment moratorium. The Investment and Development Bank of RS also dedicated a credit line to local businesses (craftsmen, entrepreneurs and SMEs). Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of the RS, BAM 50 million (~EUR 25 million) will be provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks.

- *Public-private dialogue on mitigating the effects of COVID-19:* On 4 June, the Government of the Federation of BiH held a consultation meeting, the first of its kind, with the private sector representatives from the *BBI Bank*, *AS Holding*, *Sparkasse Bank* and a pharmaceutical company *Bosnalijek*. The purpose of the meeting was to discuss the initiative “We can do it”, proposed by these representatives on how to mitigate the effects of the pandemic on BiH economy and achieve a higher level of economic resilience and sustainability. According to the Initiative, this goal can be reached through public-private partnerships in three key areas: agricultural and food sector, pharmaceutical sector and renewable energy sector. The Initiative was presented in the form of an action plan with concrete measures outlined. The Government accepted the proposal and the measures will be integrated in the short- and mid-term economic recovery plans. The next round of consultations with private sector representatives are announced for the subsequent period.
- *Additional support to particularly affected 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 for the **tourism sector** was also announced by the RS. Starting from 15 June, citizens will benefit from a 100 BAM (around 50 EUR) voucher that can be used to co-finance accommodation costs at any destination in the RS, provided that the stay lasts a minimum of 3 nights. The Government plans to distribute 20 000 vouchers in the first phase and two times 15 000 in the second and the third phases. Depending on the demand, additional vouchers might be allocated. In order for enterprises that provide accommodation services and travel agencies to be eligible to apply and participate in the project of tourist vouchers, they are required to pay taxes regularly and have a minimum of 4 employees.
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Outlook

- *Situation prior to COVID-19:* In 2019, Bosnia and Herzegovina's GDP growth was estimated at 2.8% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁴. Unemployment remained high, at 15.7%. BiH remains the only Western Balkan 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 the 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, the Government projected 3.4% of GDP growth for 2020 – however, due to COVID-19, it is expected to slow down to -1.9%⁵. Unemployment rates, along with inequalities, may further increase and 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.

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THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

15 June 2020

COVID-19 update

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- *Epidemiological situation:* After a week of slight increases, the number of positive cases has started to decline within the entire territory of BiH and the situation has stabilised. As of 15 June, 3003 citizens have been infected by COVID-19 in BiH, while 2145 recovered.
- *Assessment of the health system:* The expenditure on healthcare in BiH was 9,2 % of its 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. The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which account for more than 10% of GDP². In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of tourism, COVID-19 has had a limited effect on this sector

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in BiH, due to its relatively limited economic relevance as compared to some other WB economies.³

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, the SASX-10 index lost around 11% of its value from 10 January to 20 May.

Main measures introduced

- *Education system:* Schools and universities have been closed. Kindergartens have reopened in the RS on 11 May and on 18 May for the majority of cantons in the FBiH. Schools remain closed until the end of the school year in both entities. On 12 June, the RS marked the end of a successful school year – the Government praised the teachers’ efforts in organising the distance learning programmes and maintaining the educational process during the pandemic.
- *Movement of people and public gatherings:*
 - On 21 March, both entities introduced a curfew lasting from 8 PM to 5 AM, except for drivers of trucks in domestic and international transport, who need to possess a Certificate of Driver Engagement in the FBiH while domestic and foreign drivers transporting goods in road traffic must have the evidence of transport operations in the RS. Both entities also banned movement of persons over 65, whereas in the FBiH, the ban relates to those under the age of 18 as well. However, on 24 April, the FBiH decided to abolish the curfew and a couple of weeks later (on 14 May) allowed movement of all citizens. RS lifted the curfew on 22 May and allowed everybody to move freely.
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- *Price controls* were instated that regulate margin limits for specific goods 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 the coronavirus crisis (EUR 7 million of immediate support for the health sector and EUR 73.5 million for economic and social recovery). On 29 April, the EU announced reinforced support to address the COVID-19 crisis, by reserving additional funds for the Western Balkan (WB) region (a total of EUR 3.3 billion).
- IMF approved a EUR 330 million loan under the Rapid Financing Instrument (RFI) on 21 April 2020.
- Aid to the health care system to BiH has arrived from the EU, China, Russia, Turkey and Norway.
- On 10 June, the Government of FBiH supported the initiative for taking a loan from the EU in the amount of up to EUR 250 million as part of the macro-financial assistance to BiH to mitigate the social and economic consequences of the COVID-19 pandemic. The final distribution of the funds between the entities and the Brcko district will be determined either before or during the negotiation process.

Outlook

- *Situation prior to COVID-19:* In 2019, Bosnia and Herzegovina's GDP growth was estimated at 2.8% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁴. Unemployment remained high, at 15.7%. BiH remains the only Western Balkan 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 the GDP, are among the lowest in the WB region. Investors are discouraged by

⁴ European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

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, the Government projected 3.4% of GDP growth for 2020 – however, due to COVID-19, it is expected to slow down to -1.9%⁵. Unemployment rates, along with inequalities, may further increase and 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. However, enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

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⁵ World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>



THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

22 June 2020

COVID-19 update

- *COVID-19 information:* The state of emergency in Bosnia and Herzegovina has been abolished and deconfinement measures have been gradually introduced. Both entities continue to 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.
- *Epidemiological situation:* BiH has seen a recent revival of infections with the number of positive cases increasing within the entire territory of BiH. For instance, 95 newly infected people have been registered in the last 24 hours as of 22 June (the number was 44 a week earlier on 15 June). As of 22 June, 3525 citizens have been infected by COVID-19 in BiH, while 2270 are recovered.
- *Assessment of the health system:* The expenditure on healthcare in BiH was 9,2 % of its 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

- According to Government projections, Bosnia and Herzegovina's economy is expected to drop to between -3.3% and -5% in 2020 due to the coronavirus outbreak¹. The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which account for more than 10% of GDP². In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of

¹ http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

² European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

tourism, COVID-19 has had a limited effect on this sector in BiH, due to its relatively limited economic relevance as compared to some other WB economies.³

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, the SASX-10 index lost around 11% of its value from 10 January to 20 May.

Main measures introduced

- *Education system:* Schools and universities have been closed. Kindergartens have reopened in the RS on 11 May and on 18 May for the majority of cantons in the FBiH. Schools remain closed until the end of the school year in both entities. On 12 June, the RS marked the end of a successful school year – the Government praised the teachers’ efforts in organising the distance learning programmes and maintaining the educational process during the pandemic.
- *Movement of people and public gatherings:*
 - On 21 March, both entities introduced a curfew lasting from 8 PM to 5 AM, except for drivers of trucks in domestic and international transport, who need to possess a Certificate of Driver Engagement in the FBiH while domestic and foreign drivers transporting goods in road traffic must have the evidence of transport operations in the RS. Both entities also banned movement of persons over 65, whereas in the FBiH, the ban relates to those under the age of 18 as well. However, on 24 April, the FBiH decided to abolish the curfew and a couple of weeks later (on 14 May) allowed movement of all citizens. RS lifted the curfew on 22 May and allowed everybody to move freely.
 - On 11 May in the RS and on 15 May in the FBiH, the public transportation within each entity became operational again. Public gatherings of more than 50 persons are banned until 22 June in the RS. On 14 May, the FBiH allowed indoor public gatherings provided that 10m² per person was ensured and all the hygienic measures were respected.
- *Deconfinement measures:*
 - On 29 April, the FBiH announced that from 1 to 30 May, the wholesale and retail stores as well as small craft shops will be reopened provided that they operate outside of shopping centers. On 28 May, the FBiH reopened all shopping centers. In the RS, the Government introduced similar measures on 27 April, although the shops worked with reduced working hours. These measures also comprised the stores that are part of the shopping centers, green (from 7 AM to 3 PM) and cattle markets (from 6 AM to 1 PM). With the abolishment of the State of Emergency, working hours returned to normal. Wearing masks and social distancing (a minimum of 2 metres) are mandatory in all public places for both entities.
 - On 11 May, the RS reopened cafes, restaurants, kindergartens, hair salons, gyms and private dental clinics. The FBiH introduced similar measures on 13 May.
- *Border measures:*

³ Ibid.

- The Council of Ministers of BiH reopened borders for neighbouring countries (Croatia, Montenegro and Serbia) on 1 June, whereas foreign citizens from other countries can enter BiH for business reasons only, provided that they have an invitation from a legal entity from BiH as well as a certificate of a negative COVID-19 test, not older than 48 hours from the moment of entry.
- International airports in Sarajevo, Banja Luka, Mostar and Tuzla are reopened for commercial traffic on 1 June.
- *Measures to support the health sector:*
 - 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 of both entities instructed banks to approve certain measures to support clients who are found to have aggravated circumstances for loan repayments due to COVID-19. These measures comprise: a moratorium until at least the end of the state of emergency, a grace period of up to 6 months, and approval of an additional amount to overcome liquidity difficulties. Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19.
- Banks are also encouraged 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:* The FBiH Development Bank established of a *Stabilisation fund* for stabilising the economy, with initial reserves of up to BAM 80 million (~EUR 40 million). On 7 April, FBiH also announced 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. During the Session held on 18 June, the Government of the FBiH adopted the *Programme of Economic Stabilisation of FBiH 2020-2021*, with the following key objectives: preservation of jobs, fiscal stability, supporting exports, further reform of state-owned enterprises, macro-economic stability, strengthening the health and social protection sectors, improving the business environment and increasing the economic competitiveness. The measures that will support the realisation of these goals are fiscal policy measures, active employment measures and the financial ones through the Guarantee Fund. As for the latter, the Government of the FBiH announced the first injection of funds (BAM 100 million or around EUR 50 million) to provide guarantees to commercial banks for loans destined to companies whose activities are characterised as those in the strategic development sectors. The RS reserved funds from its *Solidarity fund* to support

employees directly affected by COVID-19. BAM 58 million or around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees in April. Those employees who have not worked for the entire month of May will receive the same support from the Fund, whereas for those who resumed activity in the second half of May, the Government will cover contributions and taxes as in March. Funds for the RS Solidarity fund are raised from special contributions for solidarity, tax revenues paid for that purpose under special laws, domestic and foreign donations, the RS budget and other sources. During the Session held on 22 June, the Steering Committee of the RS Solidarity Fund announced the distribution of BAM 30 million (~ EUR 15 million) as an assistance to local communities in the Republika Srpska to help repair the damage caused by the COVID-19 pandemic.

- *Preferential treatment for domestic companies in public procurement procedures:* On 29 May, the Council of Ministers of BiH adopted a Decision on a preferential treatment for domestic companies in calls for public tenders, which will be implemented for a year starting from 1 June 2020. According to the Decision, when calculating bid prices the contracting authority is obliged to reduce the prices of domestic bids by a preferential domestic factor of 30% in all public procurement procedures.
- *Support to private sector activity and employment:* Businesses in FBiH are entitled to subsidies (i.e. minimal salary contributions covered by the Government) 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 a three month repayment moratorium. The Investment and Development Bank of RS also dedicated a credit line to local businesses (craftsmen, entrepreneurs and SMEs). Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of the RS, BAM 50 million (~EUR 25 million) will be provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks. On 19 June, the Minister of Finance of the RS held a meeting with the representatives from the banking sector and micro-credit institutions during which the *Guarantee programme to support the economic recovery* and its Guarantee Fund were presented.
- *Public-private dialogue on mitigating the effects of COVID-19:* On 4 June, the Government of the Federation of BiH held a consultation meeting, the first of its kind, with the private sector representatives from the *BBI Bank*, *AS Holding*, *Sparkasse Bank* and a pharmaceutical company *Bosnalijek*. The purpose of the meeting was to discuss the initiative “We can do it”, proposed by these representatives on how to mitigate the effects of the pandemic on BiH economy and achieve a higher level of economic resilience and sustainability. According to the Initiative, this goal can be reached through public-private partnerships in three key areas: agricultural and food sector, pharmaceutical sector and renewable energy sector. The Initiative was presented in the form of an action plan with concrete measures outlined. The Government accepted the proposal and the measures will be integrated in the short- and mid-term economic recovery plans. The next round of consultations with private sector representatives are announced for the subsequent period.

- *Additional support to particularly affected 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 for the **tourism sector** was also announced by the RS. Starting from 15 June, citizens will benefit from a 100 BAM (around 50 EUR) voucher that can be used to co-finance accommodation costs at any destination in the RS, provided that the stay lasts a minimum of 3 nights. The Government plans to distribute 20 000 vouchers in the first phase and two times 15 000 in the second and the third phases. Depending on the demand, additional vouchers might be allocated. In order for enterprises that provide accommodation services and travel agencies to be eligible to apply and participate in the project of tourist vouchers, they are required to pay taxes regularly and have a minimum of 4 employees.
- **Support to the population:**
 - *Support to workers and social assistance:* As highlighted above, 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), the taxes are also covered by the Government for those subjects who are the most affected by the crisis (merchants, caterers, small entrepreneurs). As mentioned before, around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees directly affected by COVID-19 in April and in May.
 - *Support to police officers:* The RS proclaimed that every police officer who had worked for at least three weeks in the period from 15 March to 15 April would receive a cash grant of BAM 1 000 (~ EUR 500).
 - *Support to parents:* In both entities, one of the two employed parents, including single parent households, with children up to the age of ten, could be released from work during the crisis period as a justified absence.
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Outlook

- *Situation prior to COVID-19:* In 2019, Bosnia and Herzegovina's GDP growth was estimated at 2.8% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁴. Unemployment remained high, at 15.7%. BiH remains the only Western Balkan 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 the 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, the Government projected 3.4% of GDP growth for 2020⁵ – however, due to COVID-19, it is expected to slow down to between -3.2% and – 5%⁶. Unemployment rates, along with inequalities, may further increase and 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. However, enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

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THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

29 June 2020

COVID-19 update

- *COVID-19 information:* The state of emergency in Bosnia and Herzegovina has been abolished and deconfinement measures have been gradually introduced. Both entities continue to 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.
- *Epidemiological situation:* BiH has seen a recent revival of infections with the number of positive cases increasing within the entire territory of BiH. For instance, 146 newly infected people have been registered in the last 24 hours as of 28 June (the number was 95 a week earlier on 21 June). As of 28 June, 4113 citizens have been infected by COVID-19 in BiH, while 2345 are recovered.
- *Assessment of the health system:* The expenditure on healthcare in BiH was 9,2 % of its GDP in 2017. BiH is split into one district and two 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

- According to Government projections, Bosnia and Herzegovina's economy is expected to drop to between -3.3% and -5% in 2020 due to the coronavirus outbreak¹. The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which account for more than 10% of GDP². In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of

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tourism, COVID-19 has had a limited effect on this sector in BiH, due to its relatively limited economic relevance as compared to some other WB economies.³

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 - On 11 May, the RS reopened cafes, restaurants, kindergartens, hair salons, gyms and private dental clinics. These and all other business entities can work until 11 PM the latest at least until 6 July. The FBiH introduced similar measures on 13 May.
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³ Ibid.

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- **Support to the population:**

- *Support to workers and social assistance:* As highlighted above, 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), the taxes are also covered by the Government for those subjects who are the most affected by the crisis (merchants, caterers, small entrepreneurs). As mentioned before, around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees directly affected by COVID-19 in April and in May.
- *Support to police officers:* The RS proclaimed that every police officer who had worked for at least three weeks in the period from 15 March to 15 April would receive a cash grant of BAM 1 000 (~EUR 500).
- *Support to parents:* In both entities, one of the two employed parents, including single parent households, with children up to the age of ten, could be released from work during the crisis period as a justified absence.
- *Price controls* were instated that regulate margin limits for specific goods 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. On 25 June, the Government of FBiH has abolished the measure of immediate price controls. In the RS, the same measure was introduced beginning of June.

International support:

- A package of EUR 80.5 million for Bosnia and Herzegovina has been reserved by the EU to tackle the coronavirus crisis (EUR 7 million of immediate support for the health sector and EUR 73.5 million for economic and social recovery). On 29 April, the EU announced reinforced support to address the COVID-19 crisis, by reserving additional funds for the Western Balkan (WB) region (a total of EUR 3.3 billion).
- IMF approved a EUR 330 million loan under the Rapid Financing Instrument (RFI) on 21 April 2020.
- Aid to the health care system to BiH arrived from the EU, China, Russia, Turkey and Norway.
- On 10 June, the Government of FBiH supported the initiative for taking a loan from the EU in the amount of up to EUR 250 million as part of the macro-financial assistance to BiH to mitigate the social and economic consequences of the COVID-19 pandemic. The final distribution of the funds between the entities and the Brcko district will be determined either before or during the negotiation

process.

Outlook

- *Situation prior to COVID-19:* In 2019, Bosnia and Herzegovina's GDP growth was estimated at 2.8% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁴. Unemployment remained high at 15.7%. BiH remains the only Western Balkan 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 is the highest in the WB region. Foreign direct investments, at around 2% of the 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, the Government projected 3.4% of GDP growth for 2020⁵ – however, due to COVID-19, it is expected to slow down to between -3.2% and – 5%⁶. Unemployment rates, along with inequalities, may further increase and 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. However, enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

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⁴ European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

⁵ World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>⁶
http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

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THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

6 July 2020

COVID-19 update

- *COVID-19 information:* The state of emergency in Bosnia and Herzegovina has been rescinded and deconfinement measures have been gradually introduced. Both entities continue to 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 Federation of Bosnia and Herzegovina's (FBiH) official platform is <https://covid-19.ba/>, whereas all the latest information on COVID-19 in the Republika Srpska (RS) can be accessed on koronavirususrpskoj.com.
- *Epidemiological situation:* BiH has seen a recent revival of infections with the number of positive cases increasing within the entire territory of BiH. For instance, 241 newly infected people have been registered in the last 24 hours as of 05 July (the number was 146 a week earlier on 28 June). As of 5 July, 5 454 citizens have been infected by COVID-19 in BiH, while 2 630 have recovered. The government specified that the increase in the number of COVID-19 positive cases was mostly a result of non-compliance with the introduced sanitary measures (physical distancing and wearing masks). As the Herzegovina region of the RS has been most affected in this recent revival of the pandemic, the Ministry of Health of the RS has reorganized medical staff and sent medical support to this region.
- *Assessment of the health system:* The expenditure on healthcare in BiH was 9,2 % of its GDP in 2017. BiH is split into one district and two 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

- According to Government projections, Bosnia and Herzegovina's economy is expected to drop to between -3.3% and -5% in 2020 due to the coronavirus outbreak¹. The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which

¹ http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

account for more than 10% of GDP². In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of tourism, COVID-19 has had a limited effect on this sector in BiH, due to its relatively limited economic relevance as compared to some other WB economies.³

Financial markets

- The local currency “BAM” has depreciated by 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, the SASX-10 index lost around 11% of its value from 10 January to 20 May.

Main measures introduced

- *Education system:* Schools and universities have been closed. Kindergartens have reopened in the RS on 11 May and on 18 May for the majority of cantons in the FBiH. Schools remain closed until the end of the school year in both entities. On 12 June, the RS marked the end of a successful school year – the Government praised the teachers’ efforts in organising the distance learning programmes and maintaining the educational process during the pandemic.
- *Movement of people and public gatherings:*
 - On 21 March, both entities introduced a curfew lasting from 8 PM to 5 AM, except for drivers of trucks in domestic and international transport, who need to possess a Certificate of Driver Engagement in the FBiH, while domestic and foreign drivers transporting goods in road traffic must have the evidence of transport operations in the RS. Both entities also banned movement of persons over 65, whereas in the FBiH, the ban relates to those under the age of 18 as well. However, on 24 April, the FBiH decided to abolish the curfew, and a couple of weeks later, on 14 May, allowed movement of all citizens. RS lifted the curfew on 22 May and allowed everybody to move freely.
 - On 11 May in the RS and on 15 May in the FBiH, the public transportation within each entity became operational again. Public gatherings of more than 50 persons were banned until further notice in the RS. On 14 May, the FBiH allowed indoor public gatherings provided that 10m² per person was ensured and all the hygienic measures were respected.
- *Deconfinement measures:*
 - On 29 April, the FBiH announced that from 1 to 30 May, the wholesale and retail stores as well as small craft shops will be reopened provided that they operate outside of shopping centers. On 28 May, the FBiH reopened all shopping centers. In the RS, the Government introduced similar measures on 27 April, although the shops worked with reduced working hours. These measures also comprised the stores that are part of the shopping centers, green (from 7 AM to 3 PM) and cattle markets (from 6 AM to 1 PM). With the abolishment of the State of Emergency, working hours returned to normal.

² European Commission (2020), *EU Candidate Countries’ & Potential Candidates’ Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

³ Ibid.

Wearing masks and physical distancing (a minimum of 2 metres) are mandatory in all indoor public places for both entities.

- On 11 May, the RS reopened cafes, restaurants, kindergartens, hair salons, gyms and private dental clinics. These and all other business entities can work until 11 PM until further notice. The FBiH introduced similar measures on 13 May.
- **Border measures:**
 - The Council of Ministers of BiH reopened borders for neighbouring countries (Croatia, Montenegro and Serbia) on 1 June, whereas foreign citizens from other countries can enter BiH for business reasons only, provided that they have an invitation from a legal entity from BiH as well as a certificate of a negative COVID-19 test, not older than 48 hours from the moment of entry.
 - International airports in Sarajevo, Banja Luka, Mostar and Tuzla reopened for commercial traffic on 1 June.
- **Measures to support the health sector:**
 - 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 BAM 30 million in support (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 of both entities instructed banks to approve certain measures to support clients who are found to have aggravated circumstances for loan repayments due to COVID-19. These measures comprise: a moratorium until at least the end of the state of emergency, a grace period of up to 6 months and approval of an additional amount to overcome liquidity difficulties. Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19.
- Banks are also encouraged 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:* The FBiH Development Bank established a *Stabilisation fund* for stabilising the economy, with initial reserves of up to BAM 80 million (~EUR 40 million). On 7 April, FBiH also announced the allocation of a total of BAM 7 million (~EUR 3.5 million) to the Federal Civil Protection Administration and the Federal Civil Protection Headquarters. During the Session held on 18 June, the Government of the FBiH adopted the *Programme of Economic Stabilisation of FBiH 2020-2021*, with the following key objectives: preservation of jobs, fiscal stability, supporting exports, further reform of state-owned enterprises, macro-economic stability, strengthening the health and social

protection sectors, improving the business environment and increasing the economic competitiveness. The measures that will support the realisation of these goals are fiscal policy measures, active employment measures and the financial ones through the Guarantee Fund. As for the latter, the Government of the FBiH announced the first injection of funds (BAM 100 million or around EUR 50 million) to provide guarantees to commercial banks for loans destined to companies whose activities are characterised as those in the strategic development sectors. The RS reserved funds from its *Solidarity fund* to support employees directly affected by COVID-19. BAM 58 million (~EUR 29 million) is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees in April. Those employees who have not worked for the entire month of May will receive the same support from the Fund, whereas for those who resumed activity in the second half of May, the Government will cover contributions and taxes as in March. Funds for the RS Solidarity fund are raised from special contributions for solidarity, tax revenues paid for that purpose under special laws, domestic and foreign donations, the RS budget and other sources. During the Session held on 22 June, the Steering Committee of the RS Solidarity Fund announced the distribution of BAM 30 million (~EUR 15 million) as an assistance to local communities in the Republika Srpska to help repair the damage caused by the COVID-19 pandemic. The funds were distributed on 28 June.

- *Preferential treatment for domestic companies in public procurement procedures:* On 29 May, the Council of Ministers of BiH adopted a Decision on a preferential treatment for domestic companies in calls for public tenders, which will be implemented for a year starting from 1 June 2020. According to the Decision, when calculating bid prices, the contracting authority is obliged to reduce the prices of domestic bids by a preferential domestic factor of 30% in all public procurement procedures.
- *Support to private sector activity and employment:* Businesses in FBiH are entitled to subsidies (i.e. minimal salary contributions covered by the Government) 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 a three month repayment moratorium. The Investment and Development Bank of RS also dedicated a credit line to local businesses (craftsmen, entrepreneurs and SMEs). Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of the RS, BAM 50 million (~EUR 25 million) will be provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2 500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks. On 19 June, the Minister of Finance of the RS held a meeting with the representatives from the banking sector and micro-credit institutions during which the *Guarantee programme to support the economic recovery* and its Guarantee Fund were presented.
- *Public-private dialogue on mitigating the effects of COVID-19:* On 4 June, the Government of the Federation of BiH held a consultation meeting, the first of its kind, with the private sector representatives from the *BBI Bank*, *AS Holding*, *Sparkasse Bank* and a pharmaceutical company *Bosnalijek*. The purpose of the meeting was to discuss the initiative “We can do it”, proposed by these representatives on how to mitigate the effects of the pandemic on BiH economy and achieve a higher level of economic resilience and sustainability. According to the Initiative, this goal can be reached through public-private

partnerships in three key areas: agricultural and food sector, pharmaceutical sector and renewable energy sector. The Initiative was presented in the form of an action plan with concrete measures outlined. The Government accepted the proposal and the measures will be integrated in the short- and mid-term economic recovery plans. The next round of consultations with private sector representatives is announced for the subsequent period.

- *Additional support to particularly affected 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 for the **tourism sector** was also announced by the RS. Starting from 15 June, citizens will benefit from a 100 BAM (~50 EUR) voucher that can be used to co-finance accommodation costs at any destination in the RS, provided that the stay lasts a minimum of three nights. The Government plans to distribute 20 000 vouchers in the first phase and two times 15 000 in the second and the third phases. Depending on the demand, additional vouchers might be allocated. In order for enterprises that provide accommodation services and travel agencies to be eligible to apply and participate in the project of tourist vouchers, they are required to pay taxes regularly and have a minimum of four employees.
- **Support to the population:**
 - *Support to workers and social assistance:* As highlighted above, 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), the taxes are also covered by the Government for those subjects who are the most affected by the crisis (merchants, caterers, small entrepreneurs). As mentioned before, around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees directly affected by COVID-19 in April and in May.
 - *Support to police officers:* The RS proclaimed that every police officer who had worked for at least three weeks in the period from 15 March to 15 April would receive a cash grant of BAM 1 000 (~EUR 500).
 - *Support to parents:* In both entities, one of the two employed parents, including single parent households, with children up to the age of ten, could be released from work during the crisis period as a justified absence.
 - *Price controls* were instated that regulate margin limits for specific goods 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. On 25 June, the Government of FBiH abolished the measure of immediate price controls. In the RS, the same measure was introduced at the beginning of June.

International support:

- A package of EUR 80.5 million for Bosnia and Herzegovina has been reserved by the EU to tackle the coronavirus crisis (EUR 7 million of immediate support for the health sector and EUR 73.5 million for economic and social recovery). On 29 April, the EU announced reinforced support to address the COVID-19 crisis, by reserving additional funds for the Western Balkan (WB) region (a

total of EUR 3.3 billion).

- IMF approved a EUR 330 million loan under the Rapid Financing Instrument (RFI) on 21 April 2020.
- Aid to the health care system to BiH arrived from the EU, China, Russia, Turkey and Norway.
- On 10 June, the Government of FBiH supported the initiative for taking a loan from the EU in the amount of up to EUR 250 million as part of the macro-financial assistance to BiH to mitigate the social and economic consequences of the COVID-19 pandemic. The final distribution of the funds between the entities and the Brcko district will be determined either before or during the negotiation process.

Outlook

- *Situation prior to COVID-19:* In 2019, Bosnia and Herzegovina's GDP growth was estimated at 2.8% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁴. Unemployment remained high at 15.7%. BiH remains the only Western Balkan 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 is the highest in the WB region. Foreign direct investments, at around 2% of the 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, the Government projected 3.4% of GDP growth for 2020⁵ – however, due to COVID-19, it is expected to slow down to between -3.2% and – 5%⁶. Unemployment rates, along with inequalities, may further increase and 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. However, enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

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THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

15 July 2020

COVID-19 update

- *COVID-19 information:* The state of emergency in Bosnia and Herzegovina has been rescinded and deconfinement measures have been gradually introduced. Both entities continue to 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 Federation of Bosnia and Herzegovina's (FBiH) official platform is <https://covid-19.ba/>, whereas all the latest information on COVID-19 in the Republika Srpska (RS) can be accessed on koronavirususrpskoj.com.
- *Epidemiological situation:* BiH has seen a recent resurgence of infections with the number of positive cases increasing within the entire territory of BiH. For instance, 173 newly infected people have been registered in the last 24 hours as of 14 July (the COVID-19 curve has been trending positively since the end of June. As of 14 July, 7 179 citizens have been infected by COVID-19 in BiH, while 3 272 have recovered. The government specified that the increase in the number of COVID-19 positive cases was mostly a result of non-compliance with the introduced sanitary measures (physical distancing and wearing masks). As the Herzegovina region of the RS has been most affected in this recent revival of the pandemic, the Ministry of Health of the RS has reorganized medical staff and sent medical support to this region. If the epidemiological situation continues to worsen in the RS, the Government announced the possibility of rebuilding field hospitals and recreating COVID-19 hospitals.
- *Assessment of the health system:* The expenditure on healthcare in BiH was 9,2 % of its GDP in 2017. BiH is split into one district and two 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

- According to Government projections, Bosnia and Herzegovina's economy is expected to drop to between -3.3% and -5% in 2020 due to the coronavirus outbreak¹. The country is particularly

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vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which account for more than 10% of GDP². In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of tourism, COVID-19 has had a limited effect on this sector in BiH, due to its relatively limited economic relevance as compared to some other WB economies.³

Financial markets

- The local currency “BAM” has depreciated by 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, the SASX-10 index lost around 11% of its value from 10 January to 20 May.

Main measures introduced

- *Education system:* Schools and universities have been closed. Kindergartens have reopened in the RS on 11 May and on 18 May for the majority of cantons in the FBiH. Schools remain closed until the end of the school year in both entities. On 12 June, the RS marked the end of a successful school year – the Government praised the teachers' efforts in organising the distance learning programmes and maintaining the educational process during the pandemic.
- *Movement of people and public gatherings:*
 - On 21 March, both entities introduced a curfew lasting from 20:00 to 05:00, except for drivers of trucks in domestic and international transport, who need to possess a Certificate of Driver Engagement in the FBiH, while domestic and foreign drivers transporting goods in road traffic must have the evidence of transport operations in the RS. Both entities also banned movement of persons over 65, whereas in the FBiH, the ban relates to those under the age of 18 as well. However, on 24 April, the FBiH decided to abolish the curfew, and a couple of weeks later, on 14 May, allowed movement of all citizens. RS lifted the curfew on 22 May and allowed everybody to move freely.
 - On 11 May in the RS and on 15 May in the FBiH, the public transportation within each entity became operational again. Public gatherings of more than 50 persons were banned until further notice in the RS. On 14 May, the FBiH allowed indoor public gatherings provided that 10m² per person was ensured and all the hygienic measures were respected.
- *Deconfinement measures:*
 - On 29 April, the FBiH announced that from 1 to 30 May, the wholesale and retail stores as well as small craft shops will be reopened provided that they operate outside of shopping centers. On 28 May, the FBiH reopened all shopping centers. In the RS, the Government introduced similar measures on 27 April, although the shops worked with reduced working hours. These measures also comprised the stores that are part of the shopping centers, green (from 07:00 to 15:00) and cattle markets (from 06:00 to 13:00). With the abolishment of the State of Emergency, working hours returned to normal.

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³ Ibid.

Wearing masks and physical distancing (a minimum of 2 metres) are mandatory in all indoor public places for both entities.

- On 11 May, the RS reopened cafes, restaurants, kindergartens, hair salons, gyms and private dental clinics. These and all other business entities can work until 23:00 until further notice. The FBiH introduced similar measures on 13 May.
- **Border measures:**
 - The Council of Ministers of BiH reopened borders for neighbouring countries (Croatia, Montenegro and Serbia) on 1 June, whereas foreign citizens from other countries can enter BiH for business reasons only, provided that they have an invitation from a legal entity from BiH as well as a certificate of a negative COVID-19 test, not older than 48 hours from the moment of entry.
 - International airports in Sarajevo, Banja Luka, Mostar and Tuzla reopened for commercial traffic on 1 June.
- **Measures to support the health sector:**
 - 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 (~EUR 25 million or 0.15% of GDP) for dealing with COVID-19, including purchasing medical equipment and supplies. The Federation of BiH reserved BAM 30 million in support (~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 of both entities instructed banks to approve certain measures to support clients who are found to have aggravated circumstances for loan repayments due to COVID-19. These measures comprise: a moratorium until at least the end of the state of emergency, a grace period of up to six months and approval of an additional amount to overcome liquidity difficulties. Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19.
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Fiscal policy

- **Support to firms:**
 - *Support to the economy:* The FBiH Development Bank established a *Stabilisation fund* for stabilising the economy, with initial reserves of up to BAM 80 million (~EUR 40 million). On 7 April, FBiH also announced the allocation of a total of BAM 7 million (~EUR 3.5 million) to the Federal Civil Protection Administration and the Federal Civil Protection Headquarters. During the Session held on 18 June, the Government of the FBiH adopted the *Programme of Economic Stabilisation of FBiH 2020-2021*, with the following key objectives: preservation of jobs, fiscal stability, supporting exports, further reform of state-owned enterprises, macro-economic stability, strengthening the health and social

protection sectors, improving the business environment and increasing the economic competitiveness. The measures that will support the realisation of these goals are fiscal policy measures, active employment measures and the financial ones through the Guarantee Fund. As for the latter, the Government of the FBiH announced the first injection of funds (BAM 100 million or around EUR 50 million) to provide guarantees to commercial banks for loans destined to companies whose activities are characterised as those in the strategic development sectors. The FBiH dedicated BAM 30 million (~EUR 15 million) to support cantons and municipalities, of which one third (BAM 10 million, ~EUR 5 million) is distributed to the cantons in equal amounts, while the remaining BAM 20 million (~EUR 10 million) is allocated to co-finance projects and initiatives, based on a public call issued beginning of July.

The RS reserved funds from its *Solidarity fund* to support employees directly affected by COVID-19. BAM 58 million (~EUR 29 million) is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees in April. Those employees who have not worked for the entire month of May will receive the same support from the Fund, whereas for those who resumed activity in the second half of May, the Government will cover contributions and taxes as in March. Funds for the RS Solidarity fund are raised from special contributions for solidarity, tax revenues paid for that purpose under special laws, domestic and foreign donations, the RS budget and other sources. During the Session held on 22 June, the Steering Committee of the RS Solidarity Fund announced the distribution of BAM 30 million (~EUR 15 million) as an assistance to local communities in the Republika Srpska to help repair the damage caused by the COVID-19 pandemic. The funds were distributed on 28 June.

- *Preferential treatment for domestic companies in public procurement procedures:* On 29 May, the Council of Ministers of BiH adopted a Decision on a preferential treatment for domestic companies in calls for public tenders, which will be implemented for a year starting from 1 June 2020. According to the Decision, when calculating bid prices, the contracting authority is obliged to reduce the prices of domestic bids by a preferential domestic factor of 30% in all public procurement procedures.
- *Support to private sector activity and employment:* Businesses in FBiH are entitled to subsidies (i.e. minimal salary contributions covered by the Government) 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 a three month repayment moratorium. The Investment and Development Bank of RS also dedicated a credit line to local businesses (craftsmen, entrepreneurs and SMEs). Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of the RS, BAM 50 million (~EUR 25 million) will be provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2 500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks. On 19 June, the Minister of Finance of the RS held a meeting with the representatives from the banking sector and micro-credit institutions during which the *Guarantee programme to support the economic recovery* and its Guarantee Fund were presented.
- *Public-private dialogue on mitigating the effects of COVID-19:* On 4 June, the Government of the Federation of BiH held a consultation meeting, the first of its kind, with the private

sector representatives from the *BBI Bank*, *AS Holding*, *Sparkasse Bank* and a pharmaceutical company *Bosnalijek*. The purpose of the meeting was to discuss the initiative “We can do it”, proposed by these representatives on how to mitigate the effects of the pandemic on BiH economy and achieve a higher level of economic resilience and sustainability. According to the Initiative, this goal can be reached through public-private partnerships in three key areas: agricultural and food sector, pharmaceutical sector and renewable energy sector. The Initiative was presented in the form of an action plan with concrete measures outlined. The Government accepted the proposal and the measures will be integrated in the short- and mid-term economic recovery plans. The next round of consultations with private sector representatives is announced for the subsequent period. In this regard, on 8 July, the Prime Minister of FBiH and the Minister of Development, Entrepreneurship and Crafts, visited Tescan, an important industrial center of the FBiH, where they presented the Programme of Economic Stabilisation of FBiH 2020-21 to the private sector representatives and received their proposals on how to mitigate the COVID-19 effects on the economy of FBiH.

- *Additional support to particularly affected 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 for the **tourism sector** was also announced by the RS. Starting from 15 June, citizens will benefit from a 100 BAM (~50 EUR) voucher that can be used to co-finance accommodation costs at any destination in the RS, provided that the stay lasts a minimum of three nights. The Government plans to distribute 20 000 vouchers in the first phase and two times 15 000 in the second and the third phases. Depending on the demand, additional vouchers might be allocated. In order for enterprises that provide accommodation services and travel agencies to be eligible to apply and participate in the project of tourist vouchers, they are required to pay taxes regularly and have a minimum of four employees.
- **Support to the population:**
 - *Support to workers and social assistance:* As highlighted above, 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), the taxes are also covered by the Government for those subjects who are the most affected by the crisis (merchants, caterers, small entrepreneurs). As mentioned before, around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees directly affected by COVID-19 in April and in May.
 - *Support to police officers:* The RS proclaimed that every police officer who had worked for at least three weeks in the period from 15 March to 15 April would receive a cash grant of BAM 1 000 (~EUR 500).
 - *Support to parents:* In both entities, one of the two employed parents, including single parent households, with children up to the age of ten, could be released from work during the crisis period as a justified absence.
 - *Price controls* were instated that regulate margin limits for specific goods 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. On 25 June, the Government of FBiH abolished the measure of immediate price controls. In the RS, the same measure

was introduced at the beginning of June.

International support:

- A package of EUR 80.5 million for Bosnia and Herzegovina has been reserved by the EU to tackle the coronavirus crisis (EUR 7 million of immediate support for the health sector and EUR 73.5 million for economic and social recovery). On 29 April, the EU announced reinforced support to address the COVID-19 crisis, by reserving additional funds for the Western Balkan (WB) region (a total of EUR 3.3 billion).
- IMF approved a EUR 330 million loan under the Rapid Financing Instrument (RFI) on 21 April 2020.
- Aid to the health care system to BiH arrived from the EU, China, Russia, Turkey and Norway.
- On 10 June, the Government of FBiH supported the initiative for taking a loan from the EU in the amount of up to EUR 250 million as part of the macro-financial assistance to BiH to mitigate the social and economic consequences of the COVID-19 pandemic. The final distribution of the funds between the entities and the Brcko district will be determined either before or during the negotiation process.

Outlook

- *Situation prior to COVID-19:* In 2019, Bosnia and Herzegovina's GDP growth was estimated at 2.8% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁴. Unemployment remained high at 15.7%. BiH remains the only Western Balkan 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 is the highest in the WB region. Foreign direct investments, at around 2% of the 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, the Government projected 3.4% of GDP growth for 2020⁵ – however, due to COVID-19, it is expected to slow down to between -3.2% and – 5%⁶. Unemployment rates, along with inequalities, may further increase and 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

⁴ European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

⁵ World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>⁶
http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

⁶ http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

and bridging social gaps. However, enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

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THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

30 July 2020

COVID-19 update

- The state of emergency in Bosnia and Herzegovina has been rescinded, and deconfinement measures have been gradually introduced since the second half of May. Both entities continue to 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 Federation of Bosnia and Herzegovina's (FBiH) official platform is <https://covid-19.ba/>, whereas all the latest information on COVID-19 in the Republika Srpska (RS) can be accessed on koronavirususrpskoj.com.
- As of end of June, BiH has seen a recent resurgence of infections with the number of positive cases increasing within the entire territory of BiH. As of 29 July, 11 708 citizens have been infected by COVID-19 in BiH, while 5 396 have recovered. 212 newly infected people have been registered in the last 24 hours as of 29 July.
- The Government specified that the increase in the number of COVID-19 positive cases was mostly a result of non-compliance with the sanitary measures introduced (physical distancing and wearing masks). This is why the Government of Republika Srpska has been performing intensified controls of business entities and imposing penalties where preventive measures are not implemented. A new measure of wearing a protective mask outdoors has been introduced on 20 July, whenever it is not possible to maintain a distance of two meters.
- As a response to the growing number of COVID-19 positive cases, the Ministry of Health of the FBiH declared an epidemic of COVID-19 for the entire territory of the FBiH on 17 July. Proclamation of COVID-19 epidemic does not directly concern the population, but implies more operative actions (e.g. stricter sanitary control at border crossings) of all relevant institutions to prevent the spread of COVID-19.

Economic impact

Short-term indicators of the economic impact

- According to Government projections, Bosnia and Herzegovina's economy is expected to drop to between -3.3% and -5% in 2020 due to the coronavirus outbreak¹. The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which

¹ http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

account for more than 10% of GDP². In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of tourism, COVID-19 has had a limited effect on this sector in BiH, due to its relatively limited economic relevance as compared to some other WB economies.³

Financial markets

- The local currency “BAM” has depreciated by 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, the SASX-10 index lost around 11% of its value from 10 January to 20 May.

Main measures introduced

- *Education system:* Schools and universities have been closed. Kindergartens have reopened in the RS on 11 May and on 18 May for the majority of cantons in the FBiH. Schools remain closed until the end of the school year in both entities. On 12 June, the RS marked the end of a successful school year – the Government praised the teachers’ efforts in organising the distance learning programmes and maintaining the educational process during the pandemic.
- *Movement of people and public gatherings:*
 - On 21 March, both entities introduced a curfew lasting from 20:00 to 05:00, except for drivers of trucks in domestic and international transport, who need to possess a Certificate of Driver Engagement in the FBiH, while domestic and foreign drivers transporting goods in road traffic must have the evidence of transport operations in the RS. Both entities also banned movement of persons over 65, whereas in the FBiH, the ban relates to those under the age of 18 as well. However, on 24 April, the FBiH decided to abolish the curfew, and a couple of weeks later, on 14 May, allowed movement of all citizens. RS lifted the curfew on 22 May and allowed everybody to move freely.
 - On 11 May in the RS and on 15 May in the FBiH, the public transportation within each entity became operational again. Public gatherings of more than 50 persons were banned until further notice in the RS. On 14 May, the FBiH allowed indoor public gatherings provided that 10m² per person was ensured and all the hygienic measures were respected.
- *Deconfinement measures:*
 - On 29 April, the FBiH announced that from 1 to 30 May, the wholesale and retail stores as well as small craft shops will be reopened provided that they operate outside of shopping centers. On 28 May, the FBiH reopened all shopping centers. In the RS, the Government introduced similar measures on 27 April, although the shops worked with reduced working hours. These measures also comprised the stores that are part of the shopping centers, green (from 07:00 to 15:00) and cattle markets (from 06:00 to 13:00). With the abolishment of the State of Emergency, working hours returned to normal.

² European Commission (2020), *EU Candidate Countries’ & Potential Candidates’ Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

³ Ibid.

Wearing masks and physical distancing (a minimum of 2 metres) are mandatory in all indoor public places for both entities.

- On 11 May, the RS reopened cafes, restaurants, kindergartens, hair salons, gyms and private dental clinics. These and all other business entities can work until 23:00 until further notice. The FBiH introduced similar measures on 13 May.
- **Border measures:**
 - The Council of Ministers of BiH reopened borders for neighbouring countries (Croatia, Montenegro and Serbia) on 1 June, whereas foreign citizens from other countries can enter BiH for business reasons only, provided that they have an invitation from a legal entity from BiH as well as a certificate of a negative COVID-19 test, not older than 48 hours from the moment of entry.
 - International airports in Sarajevo, Banja Luka, Mostar and Tuzla reopened for commercial traffic on 1 June.
- **Measures to support the health sector:**
 - 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 (~EUR 25 million or 0.15% of GDP) for dealing with COVID-19, including purchasing medical equipment and supplies. The Federation of BiH reserved BAM 30 million in support (~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 of both entities instructed banks to approve certain measures to support clients who are found to have aggravated circumstances for loan repayments due to COVID-19. These measures comprise: a moratorium until at least the end of the state of emergency, a grace period of up to six months and approval of an additional amount to overcome liquidity difficulties. Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19.
- Banks are also encouraged 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:* The FBiH Development Bank established a *Stabilisation fund* for stabilising the economy, with initial reserves of up to BAM 80 million (~EUR 40 million). On 7 April, FBiH also announced the allocation of a total of BAM 7 million (~EUR 3.5 million) to the Federal Civil Protection Administration and the Federal Civil Protection Headquarters. During the Session held on 18 June, the Government of the FBiH adopted the *Programme of Economic Stabilisation of FBiH 2020-2021*, with the following key objectives: preservation of jobs, fiscal stability, supporting exports, further reform of state-owned enterprises, macro-economic stability, strengthening the health and social

protection sectors, improving the business environment and increasing the economic competitiveness. The measures that will support the realisation of these goals are fiscal policy measures, active employment measures and the financial ones through the Guarantee Fund. As for the latter, the Government of the FBiH announced the first injection of funds (BAM 100 million or around EUR 50 million) to provide guarantees to commercial banks for loans destined to companies whose activities are characterised as those in the strategic development sectors. The FBiH dedicated BAM 30 million (~EUR 15 million) to support cantons and municipalities, of which one third (BAM 10 million, ~EUR 5 million) is distributed to the cantons in equal amounts, while the remaining BAM 20 million (~EUR 10 million) is allocated to co-finance projects and initiatives, based on a public call issued beginning of July.

The RS reserved funds from its *Solidarity fund* to support employees directly affected by COVID-19. BAM 58 million (~EUR 29 million) is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees in April. Those employees who have not worked for the entire month of May will receive the same support from the Fund, whereas for those who resumed activity in the second half of May, the Government will cover contributions and taxes as in March. Funds for the RS Solidarity fund are raised from special contributions for solidarity, tax revenues paid for that purpose under special laws, domestic and foreign donations, the RS budget and other sources. During the Session held on 22 June, the Steering Committee of the RS Solidarity Fund announced the distribution of BAM 30 million (~EUR 15 million) as an assistance to local communities in the Republika Srpska to help repair the damage caused by the COVID-19 pandemic. The funds were distributed on 28 June.

- *Preferential treatment for domestic companies in public procurement procedures:* On 29 May, the Council of Ministers of BiH adopted a Decision on a preferential treatment for domestic companies in calls for public tenders, which will be implemented for a year starting from 1 June 2020. According to the Decision, when calculating bid prices, the contracting authority is obliged to reduce the prices of domestic bids by a preferential domestic factor of 30% in all public procurement procedures.
- *Support to private sector activity and employment:* Businesses in FBiH are entitled to subsidies (i.e. minimal salary contributions covered by the Government) 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 a three month repayment moratorium. The Investment and Development Bank of RS also dedicated a credit line to local businesses (craftsmen, entrepreneurs and SMEs). Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of the RS, BAM 50 million (~EUR 25 million) will be provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2 500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks. On 19 June, the Minister of Finance of the RS held a meeting with the representatives from the banking sector and micro-credit institutions during which the *Guarantee programme to support the economic recovery* and its Guarantee Fund were presented.
- *Public-private dialogue on mitigating the effects of COVID-19:* On 4 June, the Government of the Federation of BiH held a consultation meeting, the first of its kind, with the private

sector representatives from the *BBI Bank*, *AS Holding*, *Sparkasse Bank* and a pharmaceutical company *Bosnalijek*. The purpose of the meeting was to discuss the initiative “We can do it”, proposed by these representatives on how to mitigate the effects of the pandemic on BiH economy and achieve a higher level of economic resilience and sustainability. According to the Initiative, this goal can be reached through public-private partnerships in three key areas: agricultural and food sector, pharmaceutical sector and renewable energy sector. The Initiative was presented in the form of an action plan with concrete measures outlined. The Government accepted the proposal and the measures will be integrated in the short- and mid-term economic recovery plans. The next round of consultations with private sector representatives is announced for the subsequent period. In this regard, on 8 July, the Prime Minister of FBiH and the Minister of Development, Entrepreneurship and Crafts, visited Tescan, an important industrial center of the FBiH, where they presented the Programme of Economic Stabilisation of FBiH 2020-21 to the private sector representatives and received their proposals on how to mitigate the COVID-19 effects on the economy of FBiH.

- *Additional support to particularly affected 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 for the **tourism sector** was also announced by the RS. Starting from 15 June, citizens will benefit from a 100 BAM (~50 EUR) voucher that can be used to co-finance accommodation costs at any destination in the RS, provided that the stay lasts a minimum of three nights. The Government plans to distribute 20 000 vouchers in the first phase and two times 15 000 in the second and the third phases. Depending on the demand, additional vouchers might be allocated. In order for enterprises that provide accommodation services and travel agencies to be eligible to apply and participate in the project of tourist vouchers, they are required to pay taxes regularly and have a minimum of four employees.
- **Support to the population:**
 - *Support to workers and social assistance:* As highlighted above, 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), the taxes are also covered by the Government for those subjects who are the most affected by the crisis (merchants, caterers, small entrepreneurs). As mentioned before, around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees directly affected by COVID-19 in April and in May.
 - *Support to police officers:* The RS proclaimed that every police officer who had worked for at least three weeks in the period from 15 March to 15 April would receive a cash grant of BAM 1 000 (~EUR 500).
 - *Support to parents:* In both entities, one of the two employed parents, including single parent households, with children up to the age of ten, could be released from work during the crisis period as a justified absence.
 - *Price controls* were instated that regulate margin limits for specific goods 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. On 25 June, the Government of FBiH abolished the measure of immediate price controls. In the RS, the same measure

was introduced at the beginning of June.

International support:

- A package of EUR 80.5 million for Bosnia and Herzegovina has been reserved by the EU to tackle the coronavirus crisis (EUR 7 million of immediate support for the health sector and EUR 73.5 million for economic and social recovery). On 29 April, the EU announced reinforced support to address the COVID-19 crisis, by reserving additional funds for the Western Balkan (WB) region (a total of EUR 3.3 billion).
- The IMF approved a EUR 330 million loan under the Rapid Financing Instrument (RFI) on 21 April 2020. On 29 July, the Government of FBiH decided on the allocation of BAM 200 million of this support (~EUR 100 million) among the different cantons of FBiH.
- Aid to the health care system to BiH arrived from the EU, China, Russia, Turkey and Norway.
- On 10 June, the Government of FBiH supported the initiative for taking a loan from the EU in the amount of up to EUR 250 million as part of the macro-financial assistance to BiH to mitigate the social and economic consequences of the COVID-19 pandemic. The final distribution of the funds between the entities and the Brcko district will be determined either before or during the negotiation process.

Outlook

- *Situation prior to COVID-19:* In 2019, Bosnia and Herzegovina's GDP growth was estimated at 2.8% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁴. Unemployment remained high at 15.7%. BiH remains the only Western Balkan 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 is the highest in the WB region. Foreign direct investments, at around 2% of the 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, the Government projected 3.4% of GDP growth for 2020⁵ – however, due to COVID-19, it is expected to slow down to between -3.2% and – 5%⁶. Unemployment rates, along with inequalities, may further increase and 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

⁴ European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

⁵ World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>⁶
http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

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and bridging social gaps. However, enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

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THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

31 August 2020

COVID-19 update

- The state of emergency in Bosnia and Herzegovina has been rescinded, and deconfinement measures have been gradually introduced since the second half of May. However, as of end of June, BiH has seen a recent resurgence of infections with the number of positive cases increasing within the entire territory of BiH. In the second half of August the Covid-19 curve has started to flatten. There have been 564 confirmed cases per 100 000 inhabitants as of 31 August, or 151 newly infected people registered in the last 24 hours.
- The Government specified that the increase in the number of COVID-19 positive cases was mostly a result of non-compliance with the sanitary measures introduced (physical distancing and wearing masks). This is why both entities have been performing intensified controls of business entities and imposing penalties where preventive measures are not implemented. A new measure of wearing a protective mask outdoors has been introduced on 20 July, whenever it is not possible to maintain a distance of two meters.
- As a response to the growing number of COVID-19 positive cases, the Ministry of Health of the FBiH declared an epidemic of COVID-19 for the entire territory of the FBiH on 17 July. Proclamation of COVID-19 epidemic does not directly concern the population, but implies more operative actions (e.g. stricter sanitary control at border crossings) of all relevant institutions to prevent the spread of COVID-19.
- Both entities continue to 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 Federation of Bosnia and Herzegovina's (FBiH) official platform is <https://covid-19.ba/>, whereas all the latest information on COVID-19 in the Republika Srpska (RS) can be accessed on koronavirusrpskoj.com.

Economic impact

Short-term indicators of the economic impact

- According to Government projections, Bosnia and Herzegovina's economy is expected to drop to between -3.3% and -5% in 2020 due to the coronavirus outbreak¹. The international rating agency Standard and Poor's expects real GDP in 2020 to drop by 5% and the fiscal and external prospects

¹ http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

to deteriorate, whereas economic recovery is expected in 2021². The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which account for more than 10% of GDP³. In addition, the COVID-19 pandemic poses a major challenge to the trade and 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). In terms of tourism, COVID-19 has had a limited effect on this sector in BiH, due to its relatively limited economic relevance as compared to some other WB economies.⁴

Main measures introduced

- *Education system:* Schools and universities have been closed. Kindergartens have reopened in the RS on 11 May and on 18 May for the majority of cantons in the FBiH. Schools remain closed until the end of the school year in both entities. On 12 June, the RS marked the end of a successful school year – the Government praised the teachers' efforts in organising the distance learning programmes and maintaining the educational process during the pandemic.

On 18 August, the Institute for Public Health of the RS published *Guidelines for the Beginning of the New School Year 2020/2021*, outlining the main sanitary rules and the overall organisation of the teaching process in the pandemic conditions⁵. Following the Guidelines, disinfection of all schools and dormitories started on 20 August in the RS.

In the FBiH, each of the ten cantons makes a decision on how to organise the new school year. Economic Pupils in the Sarajevo Canton are returning to school on 1 September, with combined teaching programme (classroom teaching for younger, 1st-5th grade primary-school pupils and online for 6th-9th grade primary-school ones and high-school pupils). In the Una-Sana Canton the school year 2020/2021 is set to begin on 14 September, whereas in the rest of the cantons school year starts on 7 or 8 September, with the possibility of delays depending on the situation with the pandemic. It still unknown how the classes will be organised in these nine cantons.

- *Movement of people and public gatherings:*
 - On 21 March, both entities introduced a curfew lasting from 20:00 to 05:00, except for drivers of trucks in domestic and international transport, who need to possess a Certificate of Driver Engagement in the FBiH, while domestic and foreign drivers transporting goods in road traffic must have the evidence of transport operations in the RS. Both entities also banned movement of persons over 65, whereas in the FBiH, the ban relates to those under the age of 18 as well. However, on 24 April, the FBiH decided to abolish the curfew, and a couple of weeks later, on 14 May, allowed movement of all citizens. RS lifted the curfew on 22 May and allowed everybody to move freely.
 - On 11 May in the RS and on 15 May in the FBiH, the public transportation within each entity became operational again. Public gatherings of more than 50 persons were banned

² European Commission (2020) , *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 2nd Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp042_en.pdf

³ European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

⁴ Ibid.

⁵ 30-minute classes in primary and 20-minute ones in high schools, 15 pupils per class. Wearing masks is obligatory for teaching staff, whereas pupils are recommended to wear masks when entering and leaving school as well as when using common areas. Online classes will be organised for those students suffering from chronic diseases or undergoing hospital treatment, as well as for those who for any other reason cannot attend classes.

until further notice in the RS. On 14 May, the FBiH allowed indoor public gatherings provided that 10m² per person was ensured and all the hygienic measures were respected.

- *Deconfinement measures:*
 - On 29 April, the FBiH announced that from 1 to 30 May, the wholesale and retail stores as well as small craft shops will be reopened provided that they operate outside of shopping centers. On 28 May, the FBiH reopened all shopping centers. In the RS, the Government introduced similar measures on 27 April, although the shops worked with reduced working hours. These measures also comprised the stores that are part of the shopping centers, green (from 07:00 to 15:00) and cattle markets (from 06:00 to 13:00). With the abolishment of the State of Emergency, working hours returned to normal. Wearing masks and physical distancing (a minimum of 2 metres) are mandatory in all indoor public places for both entities.
 - On 11 May, the RS reopened cafes, restaurants, kindergartens, hair salons, gyms and private dental clinics. These and all other business entities can work until 23:00 until further notice. The FBiH introduced similar measures on 13 May.
- *Border measures:*
 - The Council of Ministers of BiH reopened borders for neighbouring countries (Croatia, Montenegro and Serbia) on 1 June, whereas foreign citizens from other countries can enter BiH for business reasons only, provided that they have an invitation from a legal entity from BiH as well as a certificate of a negative COVID-19 test, not older than 48 hours from the moment of entry.
 - International airports in Sarajevo, Banja Luka, Mostar and Tuzla reopened for commercial traffic on 1 June.
- *Measures to support the health sector:*
 - 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 (~EUR 25 million or 0.15% of GDP) for dealing with COVID-19, including purchasing medical equipment and supplies. The Federation of BiH reserved BAM 30 million in support (~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 of both entities instructed banks to approve certain measures to support clients who are found to have aggravated circumstances for loan repayments due to COVID-19. These measures comprise: a moratorium until at least the end of the state of emergency, a grace period of up to six months and approval of an additional amount to overcome liquidity difficulties. Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19.
- Banks are also encouraged 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:* The FBiH Development Bank established a *Stabilisation fund* for stabilising the economy, with initial reserves of up to BAM 80 million (~EUR 40 million). On 7 April, FBiH also announced the allocation of a total of BAM 7 million (~EUR 3.5 million) to the Federal Civil Protection Administration and the Federal Civil Protection Headquarters. During the Session held on 18 June, the Government of the FBiH adopted the *Programme of Economic Stabilisation of FBiH 2020-2021*, with the following key objectives: preservation of jobs, fiscal stability, supporting exports, further reform of state-owned enterprises, macro-economic stability, strengthening the health and social protection sectors, improving the business environment and increasing the economic competitiveness. The measures that will support the realisation of these goals are fiscal policy measures, active employment measures and the financial ones through the Guarantee Fund. As for the latter, the Government of the FBiH announced the first injection of funds (BAM 100 million or around EUR 50 million) to provide guarantees to commercial banks for loans destined to companies whose activities are characterised as those in the strategic development sectors. The FBiH dedicated BAM 30 million (~EUR 15 million) to support cantons and municipalities, of which one third (BAM 10 million, ~EUR 5 million) is distributed to the cantons in equal amounts, while the remaining BAM 20 million (~EUR 10 million) is allocated to co-finance projects and initiatives, based on a public call issued beginning of July.

The RS reserved funds from its *Solidarity fund* to support employees directly affected by COVID-19. BAM 58 million (~EUR 29 million) is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees in April. Those employees who have not worked for the entire month of May will receive the same support from the Fund, whereas for those who resumed activity in the second half of May, the Government will cover contributions and taxes as in March. Funds for the RS Solidarity fund are raised from special contributions for solidarity, tax revenues paid for that purpose under special laws, domestic and foreign donations, the RS budget and other sources. During the Session held on 22 June, the Steering Committee of the RS Solidarity Fund announced the distribution of BAM 30 million (~EUR 15 million) as an assistance to local communities in the Republika Srpska to help repair the damage caused by the COVID-19 pandemic. The funds were distributed on 28 June.

- *Preferential treatment for domestic companies in public procurement procedures:* On 29 May, the Council of Ministers of BiH adopted a Decision on a preferential treatment for domestic companies in calls for public tenders, which will be implemented for a year starting from 1 June 2020. According to the Decision, when calculating bid prices, the contracting authority is obliged to reduce the prices of domestic bids by a preferential domestic factor of 30% in all public procurement procedures.
- *Support to private sector activity and employment:* Businesses in FBiH are entitled to subsidies (i.e. minimal salary contributions covered by the Government) 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 a three month

repayment moratorium. The Investment and Development Bank of RS also dedicated a credit line to local businesses (craftsmen, entrepreneurs and SMEs). Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of the RS, BAM 50 million (~EUR 25 million) will be provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2 500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks. On 19 June, the Minister of Finance of the RS held a meeting with the representatives from the banking sector and micro-credit institutions during which the *Guarantee programme to support the economic recovery* and its Guarantee Fund were presented.

- *Public-private dialogue on mitigating the effects of COVID-19:* On 4 June, the Government of the Federation of BiH held a consultation meeting, the first of its kind, with the private sector representatives from the *BBI Bank*, *AS Holding*, *Sparkasse Bank* and a pharmaceutical company *Bosnalijek*. The purpose of the meeting was to discuss the initiative “We can do it”, proposed by these representatives on how to mitigate the effects of the pandemic on BiH economy and achieve a higher level of economic resilience and sustainability. According to the Initiative, this goal can be reached through public-private partnerships in three key areas: agricultural and food sector, pharmaceutical sector and renewable energy sector. The Initiative was presented in the form of an action plan with concrete measures outlined. The Government accepted the proposal and the measures will be integrated in the short- and mid-term economic recovery plans. The next round of consultations with private sector representatives is announced for the subsequent period. In this regard, on 8 July, the Prime Minister of FBiH and the Minister of Development, Entrepreneurship and Crafts, visited Tesanj, an important industrial center of the FBiH, where they presented the Programme of Economic Stabilisation of FBiH 2020-21 to the private sector representatives and received their proposals on how to mitigate the COVID-19 effects on the economy of FBiH.
- *Additional support to particularly affected 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. In addition to this, beginning of August, the Government of the RS announced that BAM 5 million (~EUR 2.5 million) will be used for intervention purchase of market surpluses of produced vegetables and cattle with an aim of stabilising the market and protecting domestic production. A public call for interested agricultural producers will be open until 30 November 2020. Support for the **tourism sector** was also announced by the RS. Starting from 15 June, citizens will benefit from a 100 BAM (~50 EUR) voucher that can be used to co-finance accommodation costs at any destination in the RS, provided that the stay lasts a minimum of three nights for one voucher user and four nights for two users. The Government plans to distribute 20 000 vouchers in the first phase and two times 15 000 in the second and the third phases. Depending on the demand, additional vouchers might be allocated. In order for enterprises that provide accommodation services and travel agencies to be eligible to apply and participate in the project of tourist vouchers, they are required to pay taxes regularly and have a minimum of four employees. On 14 August, the Government of the RS reduced the prescribed number of nights required for exercising the right to receive a tourist voucher from three to two nights in a row for one and from four to three nights for two voucher users. Earlier in August, the Prime Minister of the RS met with the representatives of the Union of Employers of the RS in the field of **passenger transport** and the representatives of the Association of **caterers and hoteliers** of the RS to discuss the measures to support these

sectors. Following this meeting, it was announced that shortly the RS Government will create a public call with precisely defined criteria, in order to enable economic entities in the field of catering, tourism and passenger transport to apply for support for July, August and September 2020. Similarly, in the FBiH, the Federal Minister of Environment and Tourism held a series of meetings with the Director of the Banking Agency of the FBiH, with whom she discussed how to help tourism workers, especially hoteliers in the Federation of BiH. As the hotel industry is one of the most affected sectors, it was agreed to offer at least a year of a moratorium on loans taken by hoteliers – more details on this decision will be announced in September.

- **Support to the population:**

- *Support to workers and social assistance:* As highlighted above, 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), the taxes are also covered by the Government for those subjects who are the most affected by the crisis (merchants, caterers, small entrepreneurs). As mentioned before, around EUR 29 million is dedicated to cover the minimal salary, contributions and taxes for around 70 000 employees directly affected by COVID-19 in April and in May. On 28 August, the FBiH Ministry of Health pledged to procure a vaccine against COVID-19 for 40% of the FBiH's most vulnerable population – around 800 000 doses of the vaccine.
- *Support to police officers:* The RS proclaimed that every police officer who had worked for at least three weeks in the period from 15 March to 15 April would receive a cash grant of BAM 1 000 (~EUR 500).
- *Support to parents:* In both entities, one of the two employed parents, including single parent households, with children up to the age of ten, could be released from work during the crisis period as a justified absence.
- *Price controls* were instated that regulate margin limits for specific goods 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. On 25 June, the Government of FBiH abolished the measure of immediate price controls. In the RS, the same measure was introduced at the beginning of June.

International support:

- A package of EUR 80.5 million for Bosnia and Herzegovina has been reserved by the EU to tackle the coronavirus crisis (EUR 7 million of immediate support for the health sector and EUR 73.5 million for economic and social recovery). On 29 April, the EU announced reinforced support to address the COVID-19 crisis, by reserving additional funds for the Western Balkan (WB) region (a total of EUR 3.3 billion).
- The IMF approved a EUR 330 million loan under the Rapid Financing Instrument (RFI) on 21 April 2020. On 29 July, the Government of FBiH decided on the allocation of BAM 200 million of this support (~EUR 100 million) among the different cantons of FBiH.
- Aid to the health care system to BiH arrived from the EU, China, Russia, Turkey and Norway.
- On 10 June, the Government of FBiH supported the initiative for taking a loan from the EU in the

amount of up to EUR 250 million as part of the macro-financial assistance to BiH to mitigate the social and economic consequences of the COVID-19 pandemic. The final distribution of the funds between the entities and the Brcko district will be determined either before or during the negotiation process.

Outlook

- *Situation prior to COVID-19:* In 2019, Bosnia and Herzegovina's GDP growth was estimated at 2.8% - a drop from 3.3% in 2018, driven mainly by slower export growth and weaker private consumption⁶. Unemployment remained high at 15.7%. BiH remains the only Western Balkan 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 is the highest in the WB region. Foreign direct investments, at around 2% of the 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, the Government projected 3.4% of GDP growth for 2020⁷ – however, due to COVID-19, it is expected to slow down to between -3.2% and – 5%⁸. Unemployment rates, along with inequalities, may further increase and 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. However, enacting and implementing the necessary reforms to recover from the crisis may be hampered by existing political tensions.

⁶ European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1st Quarter 2020*, https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf

⁷ World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>⁸
http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

⁸ http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638

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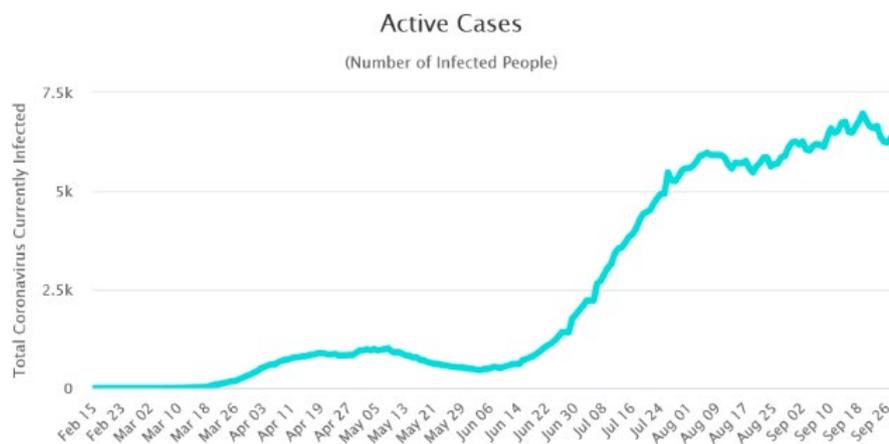
THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

1 October 2020

COVID-19 health situation – August/September 2020

- While Bosnia and Herzegovina saw a sharp resurgence of infections throughout the entire territory in June, the COVID-19 curve began to flatten again in the second half of August. This trend continued during the month of September, but the epidemiological situation remains unfavourable. As of 28 September, Bosnia and Herzegovina ranks 43rd in the world regarding the number of confirmed cases (769.9 cases per 100 000 inhabitants), 37th globally in terms of the number of active cases (175.8 cases per 100 000 inhabitants) and 33rd as to fatalities (23.6 cases per 100 000 inhabitants).

Evolution of active cases in Bosnia and Herzegovina



Source: Worldometers.info

- The wearing of facemasks is mandatory in public (everywhere indoor and outdoor whenever it is not possible to maintain a distance of two meters) and public gatherings of more than 50 people are prohibited. Intensified controls of business entities and catering facilities are performed, and penalties, such as temporary closure of business are imposed where sanitary measures are not implemented.

Policy reactions – August/September 2020

- New School Year 2020/2021 started in BiH with combined teaching programmes (classroom teaching and online classes). Teaching is conducted in smaller groups of pupils, with shorter classes and respect of strict sanitary rules (wearing masks is obligatory for teaching staff, and recommended for pupils).

- Borders of BiH are open for foreigners given that they provide a negative PCR test no older than 48 hours, whereas citizens of Croatia, Montenegro and Serbia are allowed to enter BiH without any testing.
- [The Government of the Federation of BiH \(FBiH\)](#) blocked BAM 100 million (around EUR 50 million) to mitigate the economic consequences of the COVID-19 pandemic in the FBiH, to be distributed in the following manner: support to tourism and catering sectors (BAM 30 million or around EUR 15 million); purchase and export of market surpluses, and support for the export-oriented agricultural production (BAM 10 million, around EUR 5 million); measures in the field of road, railway and air transport (BAM 20 million, around EUR 10 million); support to companies in the field of energy, mining and industry for maintaining current liquidity, working capital and completion of investments started before the pandemic (BAM 30 million, around EUR 15 million) and support to the health sector (BAM 10 million, around EUR 5 million).
- The Government of FBiH will allocate an additional BAM 20 million (around EUR 10 million) to the Guarantee Fund of the FBiH Development Bank, which provides commercial banks with loan guarantees for companies in strategic development sectors.
- In early August, the Government of the Republika Srpska (RS) allocated BAM 5 million (around EUR 2.5 million) for purchasing market surpluses of produced vegetables and cattle to stabilise the market and protect domestic production. A public call for interested agricultural producers will be open until 30 November 2020.
- As of 25 September, [the RS Government](#) has invested more than BAM 100 million (around EUR 50 million) in the health system over the past six months to build new hospitals, extend the capacities of the current ones, open PCR laboratories, and purchase necessary equipment and PCR tests.

Economic impact/outlook

- *Macroeconomic data:* In 2019, the Government projected 3.4% of GDP growth for 2020 – however, due to COVID-19, it is expected to [slow down to between -3.2% and – 5%](#), whereas the international rating agency Standard and Poor's (S&P) expects real GDP in 2020 to [drop by 5%](#). [Unemployment rates increased to 34.2% in April 2020](#), the highest since February 2019, whereas youth unemployment rate remains twice as high as the overall rate, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, is still at around three quarters of total unemployed.
- The COVID-19 pandemic has particularly affected BiH's foreign trade, with [a decrease of 14.1% in total exports noted in August 2020](#) as compared to the same month in 2019, whereas imports recorded a drop of 17% in relation to the same month (August) in 2019. Although the disturbance of trade routes and supply chains did create an opportunity for domestic companies to step in and to grow, the pandemic posed a major challenge to the manufacturing sector, whose value chains have been obstructed in the upstream (e.g. supply from China) and downstream (e.g. deliveries of the textile and leather industry to Italy).
- *Fiscal data:* Public-sector revenue growth was hit hard by the COVID-19 crisis, with gross revenue collection in the period of April to June around 20% lower than in 2019. Overall, in the first half of 2020, [gross indirect revenue collection was about 10% lower than the year before](#), resulting in a revenue deficit of about 1% of GDP, which may increase to around 4% of GDP as a consequence of the announced governmental measures to mitigate COVID-19. No fluctuations regarding the [BAM-EUR exchange rate](#) have been observed since the outset of the pandemic (stable at 1.9558).

All previously published COVID-19 notes can be accessed on the [OECD South East Europe webpage](#)

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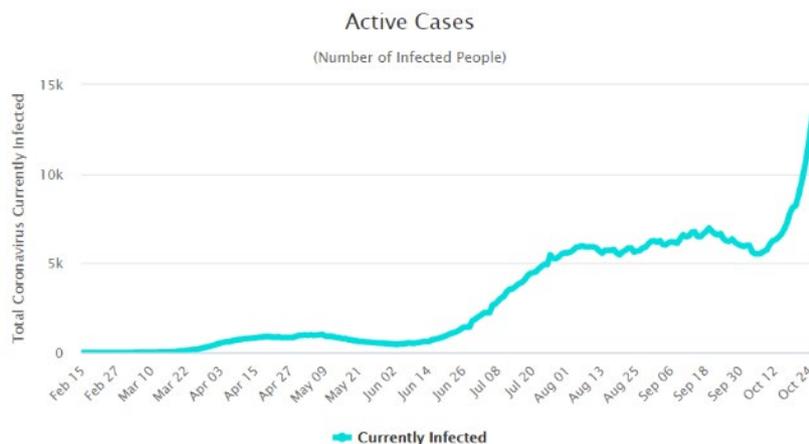
THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

1 November 2020

COVID-19 health situation – October 2020

- After a relatively stable trend in the number of COVID-19 cases in the second half of August and during the month of September, the situation has significantly worsened, with an exponential increase in the number of cases reaching a new all-time high in mid-October. As of 28 October, Bosnia and Herzegovina ranks 41st in the world regarding the number of confirmed cases (1230.4 cases per 100 000 inhabitants), 32nd globally in terms of the number of active cases (431.2 cases per 100 000 inhabitants) and 32nd regarding fatalities (32.1 cases per 100 000 inhabitants).

Evolution of active cases in Bosnia and Herzegovina



Source: Worldometers.info

- The wearing of facemasks is mandatory in public (everywhere indoors and outdoors whenever it is not possible to maintain a distance of two meters) and public gatherings of more than 50 people in closed spaces and more than 100 people in open spaces are prohibited. Intensified controls of business entities and catering facilities are performed, and penalties, such as temporary closure of businesses, are imposed where sanitary measures are not implemented.

Policy reactions – October 2020

- The new school year 2020/2021 started in BiH with combined teaching programmes (classroom teaching and online classes). Teaching is conducted in smaller groups of pupils, with shorter classes and respect of strict sanitary rules (wearing masks is obligatory for teaching staff, and recommended for pupils). On 25 October, the Republika Srpska (RS) provisionally suspended teaching in primary and secondary schools until 1 November and all classes are held online.

- From 25 October, restaurants, bars, cafes and other catering facilities in the RS will work with reduced working hours – from 6 a.m. to 10 p.m.
- Borders of BiH are open for foreigners given that they provide a negative PCR test no older than 48 hours, whereas citizens of Croatia, Montenegro and Serbia are allowed to enter BiH without any testing.
- On 16 October, [the Government of the Federation of BiH \(FBiH\)](#) passed a Decree aimed at mitigating the economic consequences of the COVID-19 pandemic. BAM 90 million (~ EUR 45 million) is being distributed to the four Federal ministries in the following sectors: tourism (BAM 30 million or ~EUR 15 million), agriculture (BAM 10 million, or ~EUR 5 million), exports (BAM 30 million or ~EUR 15 million), transport (BAM 20 million or ~EUR 10 million). Destined at preserving liquidity in these sectors, 40% of the amount will be dedicated to maintaining employment and the other 60% to subsidising business or operational costs.
- The Government of FBiH allocated an additional BAM 20 million (~EUR 10 million) to the Guarantee Fund of the FBiH Development Bank, which provides commercial banks with loan guarantees for companies in strategic development sectors.
- In early August, the Government of the RS allocated BAM 5 million (~EUR 2.5 million) for purchasing market surpluses of produced vegetables and cattle to stabilise the market and protect domestic production. A public call for interested agricultural producers will be open until 30 November 2020.
- As of 25 September, [the RS Government](#) has invested more than BAM 100 million (~EUR 50 million) in the health system over the past six months to build new hospitals, extend the capacities of the current ones, open PCR laboratories, and purchase necessary equipment and PCR tests.

Economic impact/outlook

- *Macroeconomic data:* In 2019, the Government projected 3.4% of GDP growth for 2020 – however, due to COVID-19, it is expected to [slow down to between -3.2% and -5%](#), whereas the international rating agency Standard and Poor's (S&P) expects real GDP in 2020 to [drop by 5%](#). [Unemployment rates increased to 34.7% in July 2020](#), the highest since February 2019, whereas youth unemployment rate remains twice as high as the overall rate, while the share of long-term unemployed, i.e. persons without employment for more than 12 months, is still at around three quarters of the total unemployed.
- The COVID-19 pandemic has particularly affected BiH's foreign trade, with [a decrease of 14.1% in total exports noted in August 2020](#) as compared to the same month in 2019 (mainly due to significantly lower exports to Italy, followed by Serbia and Germany) whereas imports recorded a drop of 17% in relation to the same month (August) in 2019. Although the disturbance of trade routes and supply chains created an opportunity for domestic companies to step in and grow, the pandemic posed a major challenge to the manufacturing sector, whose value chains have been obstructed in the upstream and downstream.
- *Fiscal data:* Public-sector revenue was hit hard by the COVID-19 crisis, with overall revenues [dropping by 11.7% y-o-y in the second quarter of 2020, resulting in a revenue deficit of about 7% of the quarter's GDP](#), mainly due to a sharp decline in tax revenues and the rise in expenditures (primarily to mitigate the crisis impact on households and firms - amounting to some 4% of GDP).
- No fluctuations regarding the [BAM-EUR exchange rate](#) have been observed since the onset of the pandemic (stable at 1.9558).

All previously published COVID-19 notes for Bosnia and Herzegovina can be accessed [here](#)

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