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## THE COVID-19 CRISIS IN BOSNIA AND HERZEGOVINA

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30 July 2020

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### COVID-19 update

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- The state of emergency in Bosnia and Herzegovina has been rescinded, and deconfinement measures have been gradually introduced since the second half of May.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](http://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.

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### Economic impact

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#### ***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 outbreak<sup>1</sup>. The country is particularly vulnerable to the breakdown of EU production chains and a drop in workers' remittances, which

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<sup>1</sup> [http://www.fbihvlada.gov.ba/bosanski/aktuelno\\_v2.php?akt\\_id=8638](http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638)

account for more than 10% of GDP<sup>2</sup>. 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.<sup>3</sup>

### **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 10m<sup>2</sup> 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.

<sup>2</sup> European Commission (2020), *EU Candidate Countries’ & Potential Candidates’ Economic Quarterly (CCEQ) – 1<sup>st</sup> Quarter 2020*, [https://ec.europa.eu/info/sites/info/files/economy-finance/tp040\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf)

<sup>3</sup> 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.

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## **Outlook**

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- *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 consumption<sup>4</sup>. 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 2020<sup>5</sup> – however, due to COVID-19, it is expected to slow down to between -3.2% and – 5%<sup>6</sup>. 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

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<sup>4</sup> European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) – 1<sup>st</sup> Quarter 2020*, [https://ec.europa.eu/info/sites/info/files/economy-finance/tp040\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/tp040_en_0.pdf)

<sup>5</sup> World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf><sup>6</sup>  
[http://www.fbihvlada.gov.ba/bosanski/aktuelno\\_v2.php?akt\\_id=8638](http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638)

<sup>6</sup> [http://www.fbihvlada.gov.ba/bosanski/aktuelno\\_v2.php?akt\\_id=8638](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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