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/](https://covid-19.ba/), whereas all the latest information on COVID-19 in the RS can be accessed on [koronavirususrpskoj.com](http://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 outbreak\(^1\). 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 GDP\(^2\). 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 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 centers. 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). Wearing masks and social distancing (a minimum of 2 metres) are mandatory in all public places for both entities.


5 For more details on the measures, please consult: [https://www.vladars.net/sr-SP-Cyril/Vlada/Ministarstva/mpp/Documents/Закључак%20о%20обавезном%20спровођењу%20мјера%20реаговање%20на%20постојање%20новог%20вируса%20корона_179115208.pdf](https://www.vladars.net/sr-SP-Cyril/Vlada/Ministarstva/mpp/Documents/Закључак%20о%20обавезном%20спровођењу%20мјера%20реаговање%20на%20постојање%20новог%20вируса%20корона_179115208.pdf) and [https://www.vladars.net/sr-SP-Cyril/Vlada/Ministarstva/mpp/Documents/Закључак%20о%20исправци%20закључка%20о%20обавезном%20спровођењу%20мјера_024290449.pdf](https://www.vladars.net/sr-SP-Cyril/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).
- 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 consumption. 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%. 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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