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/](https://covid-19.ba/), whereas all the latest information on COVID-19 in the RS can be accessed on [koronavirususrpskoj.com](http://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 outbreak. 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. 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.  

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**:

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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.
o **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:**

  o **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.

  o **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).

  o **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.

  o **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 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 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 between -3.2% and – 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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6 http://www.fbihvlada.gov.ba/bosanski/aktuelno_v2.php?akt_id=8638