



Weekly Briefing

**Bosnia-Herzegovina economy briefing:
Saving the economy amidst the coronavirus epidemics**
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Saving the economy amidst the coronavirus epidemics

As soon as the SARS-CoV-2 coronavirus appeared in Bosnia and Herzegovina, it immediately began to affect the country's fragile economy. Various restrictions, implemented by the state, entities' and local governments, drastically slowed the economy down, forcing many of the small and mid-size businesses to close their doors permanently. Noticeable rise in unemployment, slowing down of production in almost all sectors, as well as the sharp drop in the exports due to the drop in foreign markets demand throughout the April were the top concerns for the Bosnia and Herzegovina leaders and experts.

Compared to the rest of the Bosnia and Herzegovina, Republika Srpska took the lead in implementation of the restrictions and measures contain both the spread of epidemics and breakup of economy. The first moves made in April were centered on securing the distribution of food. On April 1, the Headquarters for Emergency Situations of Republika Srpska decided to procure 75 tonnes of flour for 11 local communities in the Republika Srpska and Federation of Bosnia and Herzegovina. The very next day, the Republika Srpska Government introduced measures which are to indefinitely regulate the prices of food, basic life necessities, disinfectants, and protective equipment, and thus prevent market disruptions related to the supply of such goods. Introduced measures locked the profit margins of the mentioned goods to the level existed on March 5. Besides securing the food, protective gear and basic life necessities, the Republika Srpska leaders also payed great amount of attention to the preservation of jobs and attempted to find the means to maintain the continuous flow of salaries for the workers employed in the private sector. On April 2, the Government of Republika Srpska allowed 16.5 million BAM (€ 8.42 million) to be spent on salary subsidies for March for workers in the service sector (trade, transport and storage, catering, etc.), which at the time was assessed to be hit by the general restrictions the most. On April 15, the Government of Republika Srpska redirected 50 million BAM (€ 25.52 million) from the entity's budget to the account of the Republika Srpska Solidarity Fund for mitigation of economic damages caused coronavirus epidemics. In attempt to calm the population of Republika Srpska, member of the Presidency of Bosnia and Herzegovina Milorad Dodik stated on April 7 that Republika Srpska has enough of respirators and enough food to sustain the population until the end of the year. However, he also hinted that the current economic situation is serious. Since the coronavirus

outbreak in Bosnia and Herzegovina, the economy of Republika Srpska was already damaged for about € 400 million.

Federation of Bosnia and Herzegovina moved in a similar direction. On April 1, the Prime Minister of Federation of Bosnia and Herzegovina Fadil Novalić opened political discussions on the direct measures necessary to mitigate the economic effects the coronavirus epidemics had caused. As Novalić stated, priority for Federation of Bosnia and Herzegovina was the prevention of rise of unemployment in the private sector. In order to prevent or slow down the new lay-offs, Novalić announced that the Government of Federation of Bosnia and Herzegovina in the process of developing two funds with a total worth of 1 billion BAM (€ 500 million), from which the Government will be able to help businesses to keep workers employed. On April 6, Novalić signed the so-called “Anti-corona” law, which was previously confirmed by the Government of the Federation of Bosnia and Herzegovina. This law is to be the cornerstone for the mitigation of the effects the coronavirus restrictions had on Federation of Bosnia and Herzegovina economics. More precisely, the law stipulates that all business subjects and entrepreneurs, that completed their obligations toward workers and the state in February, are entitled to subsidy of contributions in the amount of 244.85 BAM (€ 125) per month for each employee, starting with April, and lasting until one month after the Government proclaims the emergency to be over. As an additional measure, in order to subsidize 350,000 employees, the Government Federation of Bosnia and Herzegovina on April 17 decided to raise its debt by additional € 354 million. The Federation of Bosnia and Herzegovina Government’s concern over loss of jobs is more than justified because the numbers have been on the continuous rise since the coronavirus epidemics started. Rough estimates show that around 14,000 people lost their jobs in Federation of Bosnia and Herzegovina between mid-March and the beginning of April. This figure rose to 21,000 by mid-April.

Government of Bosnia and Herzegovina dealt with the similar issues on a state level. At the beginning of April, Chairman of the Council of Ministers of Bosnia and Herzegovina Zoran Tegeltija stated that an estimated € 600 million will be needed for the recovery of Bosnia and Herzegovina’s economy. At that time, it was too early to say how this number will be reached. However, by the end of April, aside from the rebalancing of the states budget, three main sources of financing appeared: the financial aid of European Union (which might reach € 250 million assistance from the yet not fully defined European Commission plan), the International Monetary Fund (IMF), and the series of smaller loans. While waiting the first two to bear fruit, the Government of Bosnia and Herzegovina immediately began applying for the smaller loans and redirecting the funds from the existing programs. On April 7, the Council of Ministers of

Bosnia and Herzegovina sent a delegation to conclude the \$ 20 million loan agreement with the International Bank for Reconstruction and Development (IBRD). Besides the deal with the IBRD, Council of Ministers also decided to divert some of the funds from the European Union's Instrument of Pre-accession Assistance program (IPA). As it was decided by the Council of Ministers that the rest of the funds from IPA for the year 2018 is to be used for further prevention of the spread of epidemics (€ 2 million) and migrant crisis (€ 10 million), while the € 14 million from IPA for the years 2019 and 2020, is to be used as a relief to the small and mid-size business.

Negotiations with the IMF, which began in the previous months, took a somewhat unexpected turn in April. Although Bosnia and Herzegovina recently became eligible for a new arrangement, the negotiations with the IMF dragged on, primarily because, due to the internal political instability and paralysis of government, Bosnia and Herzegovina continuously failed to implement certain reforms needed for the new arrangement with the IMF. More so, prior to the coronavirus epidemics, Bosnia and Herzegovina's Government did not even pass a budget for 2020 (budget draft was adopted on March 24, with Republika Srpska ministers voted against it; adjustments were made and discussed until the end of April). The coronavirus epidemics outbreak, however, radically changed the conditions previously set by the IMF. At the end of March, despite of the shortcomings of Bosnia and Herzegovina, the IMF offered a new arrangement worth € 333 million (38% Republika Srpska, 62% Federation of Bosnia and Herzegovina), primary goal of which is to be the mitigation of the effects brought by the epidemics. However, although the negotiation positions and context changed in favor of Bosnia and Herzegovina, the entities leaders failed to jointly sign and send the letter of intent to the IMF. Reasons for Bosnia and Herzegovina inactivity partly hide in the disagreement between Republika Srpska and Federation of Bosnia and Herzegovina over the distribution of percentages. Opposing the current arrangement, the Republika Srpska's Milorad Dodik indicated that the funds should be distributed so that Republika Srpska gets 40%, Federation of Bosnia and Herzegovina 60%, while the Brčko District would subsequently get 0.5% from the each entity. On the other hand, besides the disagreement between entities, another disagreement over distribution of funds, the one within the Federation of Bosnia and Herzegovina, also stood in the way. Last voting on the distribution of the new IMF arrangement funds took place on April 21, when it failed to pass. The three of the Bosnia and Herzegovina ministers opted not to support the arrangement in current conditions: Minister of Foreign Affairs Bisera Turković, Defense Minister Sifet Podzić and Deputy Minister for Human Rights and Refugees Dževad Mahmutović. To make the situation somewhat more absurd, the IMF did in the end (April 23)

transfer the previously negotiated funds (the whole € 333 million) to the Central Bank of Bosnia and Herzegovina. The loan was approved under the emergency program to mitigate the economic consequences of the coronavirus epidemic, without the additional conditions. This all means that at the end of the April, Bosnia and Herzegovina received the IMF funds, and thus currently has the financial means to help the general population. However, the funds cannot be used until the final agreement on distribution is reached.

Conclusion

The restriction of the coronavirus epidemics will leave dire consequences to the economy of Bosnia and Herzegovina. The country itself, on the state and entity level, responded in basically the only way it could, making the supply of food and life necessity products and preventing the loss of jobs a priority. However, even in circumstances such as this, the disfunction of Bosnia and Herzegovina still finds a way to shine. While on one hand the country, on a state and entity level, is trying to find a way to enlarge special funds to help the economy, on the other, the expected political disfunction is making the country lose valuable time, even when all the conditions for needed actions are met.