




## **Weekly Briefing**

**Bosnia-Herzegovina economy briefing:**  
**Bosnia Herzegovina's Economy in 2020: Rise in general poverty, the**  
**external debt and the new IMF crediting**  
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## **Bosnia Herzegovina's Economy in 2020: Rise in general poverty, the external debt and the new IMF crediting**

*Periodic paralyses of the government, competitive political positions and widespread corruption make administrative powers in Bosnia and Herzegovina incapable of implementing proper economic reforms which would allow the country to move towards more positive trends. This report will review pre-pandemic trends and the effects the COVID-19 pandemic had on the development of the Bosnia and Herzegovina's economy.*

### **Pre-pandemic period and expectations**

The relatively positive predictions of economic growth of Bosnia by the international institutions, which at the beginning of the year generally stood on 3.5% for 2020, 3.6% for 2021 and 3.8% at 2022, did not correspond to the overwhelmingly negative atmosphere of Bosnia and Herzegovina's society. Besides predictions of a small, but positive economic growth, almost all other trends were on the negative side. For instance, a survey conducted on 1,600 respondents in December 2019 by the Prime Communications Agency showed that a third of Bosnia and Herzegovina's citizens (33.5%) over the age 18 is planning to leave the country. Furthermore, unemployment rate in Bosnia and Herzegovina continued to be high after it reached 47.4% and 33% in 2019, according to the latest World Bank and Agency for Statistics of Bosnia and Herzegovina data, respectively. Bosnia and Herzegovina is also falling behind in development of renewable energy sources and protection of the environment. According to the latest Corruption Perceptions Index published annually by Transparency International, Bosnia and Herzegovina in 2019 was in a group of countries with a fairly high level of corruption (101st out of 180). Various reports also showed that Bosnia and Herzegovina face loss of the best part of its workforce and talent pool, with strenuous imbalance between salaries and the cost of living.

Just before the COVID-19 coronavirus pandemic outbreak, another significant economic issue appeared in Bosnia and Herzegovina: the question of the new arrangement with the International Monetary Fund. Between 1998 and 2016, Bosnia and Herzegovina entered a total of five arrangements with the IMF withdrawing approx. €1.44 billion. All debts were repaid,

except the last one (EFF, 2016-2019) which is scheduled for reparation from March 2021 until February 2028.

### **First part of the COVID-19 pandemic period**

With all the negative issues listed above, the overall economy of Bosnia and Herzegovina at the beginning of March 2020 initially did show some improvements, which roughly corresponded with the World Bank and International Monetary Fund (IMF) average economic growth forecasts for the year 2020 of 3.4% and 2.6%, respectively. The emergence of the COVID-19 coronavirus pandemic, however, completely nullified even the notion of any positive economic trends. The negative effects of implemented quarantine measures which included self-isolation of a large number of people, prevention of movement, closing of the border crossings, etc., were already felt by the end of the month, negatively and heavily affecting almost all businesses, many of which now have difficult time surviving the crisis. This is primarily felt within the private sector. Many of the small and mid-size businesses, which contribute up to 65% of Bosnia and Herzegovina's gross domestic product, while officially only 15% of the working population is part of it, will have to close their doors permanently. A 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 also began straining Bosnia and Herzegovina's economy.

According to the data given by the Syndicate of Bosnia and Herzegovina, by the end of April approximately 30,000 workers lost their jobs due to the measures implemented for restraining the COVID-19 disease. The Association of Independent Unions data showed that the service industries have been damaged the hardest, fore mostly small and medium sized companies.

During the summer months, the fragile economy was slowly trying to recover from the consequences of the March-May lockdown measures. Although the relaxation measures were introduced in mid-May, the state interventions to businesses that suffered severe income deficit were slow and inadequate. After almost a month of withholding the IMF loan from being implemented, the Bosnian politicians came to a general agreement of its distribution, so the most important financial injection to the fallen economy was ready to be implemented in the following months. However there has been no general strategy on a state level for the

governmental subsidies that would soften the negative economic effects of the lockdown. The first round of subsidies were given only to companies that were ordered to shut down in Republika Srpska. Their government planned to pay out minimal wage of € 260 for companies that have been banned to continue to work in March, April and May. Tax authorities of Republika Srpska received applications for 24,000 workers and were expect to pay out around € 9 million. The Tax administration of Federation on Bosnia and Herzegovina had received around 25,000 entrepreneurial applications for wage subsidies that relate to 174,000 employees. State subventions were given for April, May and June. Around € 100 million from the IMF loan, that was to be distributed to cantons, was intended to be used for this purpose.

### **The latest International Monetary Fund (IMF) loan distribution problems**

Although the negotiation positions with the IMF and pandemic context changed in favor of Bosnia and Herzegovina and the IMF on April 23rd did transfer the whole previously negotiated € 333 million to the Central Bank of Bosnia and Herzegovina, the entities leaders at first failed to jointly sign and send the letter of intent to the IMF. The loan was approved under the emergency program to mitigate the economic consequences of the coronavirus epidemic without additional conditions. So at the end of the April, Bosnia and Herzegovina received the IMF funds and had the financial means to help the general population, however, the funds couldn't be used until the final agreement on distribution was reached. Main reason of disagreement between Republika Srpska and Federation of Bosnia and Herzegovina was over the distribution of percentages. After the loan had been blocked by the Central Bank of Bosnia and Herzegovina for more than a month the Council of Ministers of Bosnia and Herzegovina finally reached an agreement on June 2nd. This situation was interpreted by the representatives of the international community as political "play" and the Bosnian politician have been given a final warning by the EU delegacy and the United States embassy on May 28th to unblock the loan. Finally, the Council of Ministers decided that 61.5 % will go to the ten cantons of Federation of Bosnia and Herzegovina, 37.5 % to Republika Srpska and 1 % to Brčko district.

### **Effects of the COVID-19 pandemic**

As all year-round results are still coming in, according to the Export Chamber of Bosnia and Herzegovina (Vanjskotrgovinska komora), the country's export in the first six months this

year had declined 18 % and import declined 16 %, when compared to the previous year. The three most endangered economic sectors are tourism, bars and restaurants and international transport. According to the Central Bank of Bosnia and Herzegovina, the external debt of the sector of the general government of Bosnia and Herzegovina towards international creditors by the end of the second quarterly was € 4.333 billion, increasing from € 4.052 billion that was recorded at the end of 2019.

In general, as analyzed by the experts of the World Bank and other international institutions, the country's economy was hit hard. Expectations of an ongoing deficit crisis is comparable to the recent world financial crisis. The rise in poverty in Bosnia and Herzegovina is becoming a significant problem. Current forecasting predict a 14.6 % increase due to the effects of the COVID-19. Local economy experts find that the situation is even worse, warning that these forecasts are founded on a research that uses an ineffective methodology and old data from 2015. The latest IMF and World Bank crediting for this year, as new debt crediting negotiations are under way, as announced by the government, will be concluded by the end of the year. Local economy analysts warn that the crediting so far has not been used to help out the country's economy in general but is spent to fix the state budget holes. There are no guarantees that any IMF crediting will change this local political practice.

## **Conclusion**

As soon as the COVID-19 coronavirus appeared in Bosnia and Herzegovina, the already fragile economy was affected. Various implemented restrictions drastically slowed down the economy. After an important decision by the Council of Ministers of Bosnia and Herzegovina regarding the distribution of the International Monetary Fund loan, it was expected that positive changes will be taking place in months to come, but the two entities differed in the application strategies, and the funds were mostly directed to the state budget and not to the economy in general. The external debt of Bosnia and Herzegovina in this year had significantly increased, while the poverty, due to the pandemic, is increasing at a concerning rate.