The coronavirus pandemic poses the most serious threat to the BiH economy since the global financial crisis

Sarajevo, April 29, 2020 – The Western Balkans region is expected to enter a recession in 2020, with all six countries forecast to experience negative growth as they continue to grapple with the economic impacts of the COVID-19 (Coronavirus) pandemic.

Regional growth in the Western Balkans is forecast to be between -3 and -5.6 percent, according to the World Bank’s latest Regular Economic Report (RER) - which uses a baseline scenario and a downside scenario in the face of high uncertainty brought on by the pandemic. The baseline scenario assumes that the outbreak in Europe begins to slow soon enough, such that containment measures can be lifted by the end of June and a gradual recovery can begin in the second half of 2020. The downside scenario assumes the outbreak lingers and containment measures can only be lifted at end of August, with a recovery of economic activity only in final quarter of 2020.

“The magnitude of the recession depends on the duration of the pandemic in Europe. While the economic impact of the ongoing pandemic in the region is difficult to forecast, there is little doubt that this pandemic is wreaking havoc on lives around the region - taxing health care systems, paralyzing economic activity, and undermining the wellbeing of people," says Linda Van Gelder, World Bank Country Director for the Western Balkans.

“Over the medium-term, growth is expected to rebound strongly in the region, as economic activity gradually returns to normal, but this also depends on the length and intensity of the current crisis, as well as what steps policymakers take to address this pandemic.”

The coronavirus pandemic poses the most serious threat to the Bosnia and Herzegovina (BiH) economy since the global financial crisis. The outlook is subject to significant uncertainty and BiH is confronted by the possibility of a deep recession with GDP estimated to contract by 3.2 percent. The effects will be felt in almost every sector of the economy and in particular tourism; real estate; transport; wholesale and retail sales, while disruption in supply chains and lower demand from the EU will cause declines in both manufacturing and exports of goods and services.

The announced government’s response through establishment of economic stabilization and guaranty funds can help mitigate the economic and social impact of the unprecedented crisis in the short-term. As additional measures in response to the crisis are further developed, in particular those related to establishing the new funds, it is important to ensure that the support is transparently allocated, carefully targeted, fiscally sustainable, and easily scaled back when not needed anymore.
The current emergency phase will be followed by an economic recovery phase and institutions will have to be ready to help individuals find jobs, facilitate access to credit and support firms to rebuild businesses. The key will be to use public spending to boost aggregate demand while maintaining overall fiscal stability. Beyond the current crisis, it is important that BiH remains focused on addressing its long-standing structural and institutional weaknesses.

The latest RER notes that quick, bold, and carefully designed policy measures matter and they need to take into account country conditions and uncertainty about how long the crisis will last.

The report focuses on the macroeconomic impact of COVID-19 in the Western Balkan countries, setting the stage for additional analysis. A series of Regular Economic Report notes, looking at the impact on specific economic areas, social sectors, and on poverty and income distribution in the region, will be published in a follow-up e-launch in May.

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