



Bosnia and Herzegovina Analytical Report

August 2020

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Russian Influence Raises Concerns in BiH

1.0 Summary

Bosnia and Herzegovina (BiH) has witnessed some positive as well as negative developments over the last few months. On the one hand, BiH has found itself caught up in deepening geopolitical competition, which has been affecting the Balkans in recent months, and now seems to be getting dragged into a possible newly-created rift between Belgrade and Moscow. With his latest statements, Bosnian Serb leader Milorad Dodik has tried to link the fates of BiH and Kosovo, threatening to push for full independence for the Republika Srpska (RS) entity if the same is granted to Kosovo. This has triggered new tensions and rebukes, mainly from Bosniak politicians and media, who repeatedly stressed that any new move for a breakup of BiH could lead to new violence, just like it did in 1991. Preoccupied with their own internal issues and focused on the restart of the EU-led dialogue between Kosovo and Serbia, EU and US diplomats have so far mainly ignored this tense public discourse.

On the other hand, Bosnia has witnessed what seems to be a significant breakthrough after EU and US diplomats brokered a wider political agreement, which led to the State Parliament finally adopting the 2020 budget at the end of July. Adoption of the budget enables the holding of local elections which according to current legal regulations and technical deadlines will be held throughout the country, with the exception of the southern city of Mostar, on November 15. Mostar local elections are currently scheduled for December 20, which may cause further political and ethnic frictions in the coming weeks, since the ruling Croat party, the Croat Democratic Union (HDZ) has been insisting on local elections taking place at the same time across the country, fearing Bosniaks could try to manipulate the registration of voters to boost their numbers in Mostar. The HDZ, as well as the ruling Bosnian Serb party, the Alliance of Independent Social Democrats (SNSD) are still challenging the legality of the three latest appointments to the Central Election Commission, (CEC) claiming this institution is now fully

controlled by the Party of Democratic Action (SDA), their nominal coalition partner and dominant Bosniak party.

This dispute is expected to fuel further political quarrels, especially as all political parties slowly start their pre-election campaigns. One such campaign has taken the center stage in the capital, Sarajevo, as a growing spat between the city's two main hospitals – Kosevo hospital and the General hospital – is being instrumentalised as part of the political battle on the Bosniak political scene. At the same time, this situation is undermining the capacity of the health system in the capital to deal with the latest worrisome spike in the number of COVID-19 patients.

Meanwhile, latest economic and social statistical data shows some signs of improvement, especially in BiH's Bosniak and Croat-dominated Federation entity (FBiH), while the economy still seems to be slowing down in the other entity, Republika Srpska (RS). While some experts say this mixed picture may give at least some ground for mild optimism, others warn that the full impact of global economic slowdown caused by the COVID-19 pandemic will be felt later this year and – just like with the effects of the 2008/9 global recession.

2.0 Key Political Developments

2.1 Russia Uses Dodik to Tie Future of BiH and Kosovo

Russia's increasingly aggressive behaviour in the Balkan region raised concerns in BiH over the last month, after Milorad Dodik, the Bosnian Serb member of the State Presidency and the leader of the ruling Bosnian Serb party, the SNSD, once again dragged the country into the rift between Moscow and Belgrade.

This development came on the heels of recent violent protests in Serbia, as well as the re-start of EU-led talks between Kosovo and Serbia. Some Serbian tabloids – which often serve as an unofficial mouthpiece of the ruling Serbian Progressive Party (SNS) – have suggested that Moscow's hand is behind these protests; other, more independent analysts have accused the ruling party of orchestrating violence at the protests. Either way, the land-slide victory of Aleksandar Vucic's SNS in the June general elections and the restart of the EU-led dialogue between Pristina and Belgrade has apparently increased concerns among Russian officials that they may lose some of their influence in the region, which Russia has been steadily building over the recent years.

All of these developments and what seems to be a new major crack in relations between Belgrade and Moscow has created an odd situation between Vucic and Dodik, who is also considered to be closely linked with and influenced by Moscow.

This was reflected during the visit of Vucic to Banja Luka on July 23. Vucic arrived to the administrative centre of Republika Srpska (RS) bringing hefty gifts reportedly worth 2.7 million euro^[1], including a 540,000 euro donation for schools and health centres, donation of 15 ambulances worth 750,000 euro, and a 600,000 euro donation for the ongoing construction of the Russian religious and cultural centre. Vucic also pledged future investments worth millions of euros for Republika Srpska, including construction of an airport near the south-eastern town of Trebinje and participation in the construction of the Bijeljina-Belgrade highway.

Despite Vucic's multi-million pledges, the one statement that drew most public attention came from Dodik, who directly linked the future status of Republika Srpska, as a part of BiH, with the status of Kosovo. Speaking at a press conference, Dodik stated: "Today we informed President Vucic that it is impossible to discuss the separation of Kosovo (from Serbia) without talking also about the status of Republika Srpska. The President (Vucic) has taken this issue seriously, but he did not respond to it".^[2] Dodik's statement was obviously timed to coincide with the re-start of the EU-led talks about the resolution of Kosovo-Serbia relations. Many experts and commentators from the region saw Dodik's statement as evidence that Dodik – and by proxy Republika Srpska and BiH – are being used by Moscow to maintain influence in the Kosovo-Serbia dialogue.

"The West is playing with fire: Republika Srpska is strengthening Belgrade's position in the battle for Kosovo," reported Russian Sputnik Serbia news agency on July 24.^[3] The article added that Republika Srpska will remain within Bosnia as long as Kosovo does not get full international recognition of the independence it declared in 2008. However, it also warned that international recognition of Kosovo's independence would enable RS to follow suit and declare its own independence.

Dodik's statement and Vucic's silence on this issue, triggered new ethnic and political tensions and rebukes, especially from Bosniak officials and media in BiH. Many experts and commentators agreed that with his statement, Dodik was basically reiterating Moscow's positions and limitations for the Kosovo-Serbia talks that are expected to continue in the coming weeks. However, some Serbian and Bosnian Serb officials argue that this statement also helps Vucic, giving him an excuse to drag his feet in the continuation of the EU-led dialogue on Kosovo-Serbia relations.

While some EU officials expressed hopes that the EU could finalize Kosovo-Serbia talks with some kind of technical agreement already by the end of the year^[4], Dodik's statement indicates that EU should not be so optimistic, sources say.^[5] This is so especially having in mind that Dodik has been for years undermining the integrity of Bosnia-Herzegovina and threatening to

separate Republika Srpska from the rest of the country – especially in the case of the final recognition of Kosovo. Any new attempt for a breakup of Bosnia could easily lead to new ethnic violence in the country and the rest of the region.

2.2 Adoption of BiH Budget Clears the Way For Local Elections

After a series of breakthroughs mediated by Western diplomats, the Upper House of the BiH State Parliament, the House of Peoples, on July 21 adopted in the first and second readings the 2020 state budget. Yet the text of the adopted budget differed from the one proposed by the BiH Presidency as it included six amendments proposed by HDZ MPs. It also differed from the text of the budget adopted previously by the Lower House, the House of Representatives on July 15, which included one other amendment. The two different texts of the state budget were harmonized by a joint Parliamentary commission after which both houses of the Parliament finally adopted the 2020 budget by July 29.

This breakthrough opens the door for the Central Election Commission (CEC) to finally start organization of the local elections. However, local officials said that more political tensions can be expected in the coming months because the ruling Bosnian Croat party, the Croatian Democratic Union (HDZ), insists on local elections being held throughout the country at the same time – including in the city of Mostar – on the same date. The HDZ fears that Bosniaks could launch an organized campaign for re-registration of voters in Mostar to boost their numbers there, as they did in Srebrenica in the 2012 local elections.

According to the current regulations, local elections in Mostar are scheduled for December 20, while in the rest of the country they will take place on November 15. The discrepancy was a result of the fact that amendments to the election law that were adopted by the State House of Representatives on July 7 and by the House of Peoples on July 8 - which enabled the holding of local elections in Mostar for the first time since 2008 - omitted to include a provision that would enable the CEC to speed up the preparation of Mostar elections.

Furthermore, both the HDZ and the ruling Bosnian Serb party, the SNSD, still question the legitimacy of the three latest members who were appointed to the CEC. The three appointments were made by the State House of Representatives in March and May thanks to the votes of the Bosniak ruling SDA and a few other Bosniak and Bosnian Serb parties. The HDZ and SNSD, who are in coalition with the SDA, strongly criticized the SDA for this move which, according to them, was aimed at establishing political control over the CEC. In addition, the HDZ and SNSD claim these appointments were made in violation of the relevant laws and regulations.

Following this development, the HDZ and SNSD announced that their ruling coalition with the SDA was officially over and proceeded to block any decisions in state institutions. After a series of talks with local leaders in July, the US and EU ambassadors appeared to have brokered a compromise on the budget, election law for Mostar and several key appointments. In the meantime, SNSD officials have filed a complaint against the CEC appointments before the Court of BiH, whose ruling is still pending. If the Court of BiH fails to revoke the appointments, it can be expected that the HDZ and SNSD will continue undermining the work of both the CEC and the Court itself.

2.3 Bosniak Political Scene: Battle of Two Hospitals

BiH media have been dominated in recent days by growing public disputes between two Sarajevo hospitals, the main Kosevo hospital – managed by Sebjica Izetbegovic, the influential wife of SDA leader Bakir Izetbegovic – and the General hospital (Abdulah Nakas) - which is as of recently run by one of the best known BiH doctors, Ismet Gavrankapetanovic.

While this clash is mainly focused on how these two hospitals handle COVID-19 challenges, it is not coincidental and has much deeper political implications. According to several sources from Sarajevo political scene and health system, a few months ago a group of senior politicians, businessmen and doctors have prepared a plan to undermine or possibly even topple the Izetbegovic family from the leadership position of the SDA, by undermining Bakir Izetbegovic's wife and her position as the director of the Kosevo hospital. This group apparently includes

several senior Bosniak officials, members and/or supporters of the Party for a Better Future, SBB, the Democratic Front, DF, Elmedin Konakovic's People and Justice party, but also several senior members of the SDA who have all been trying to undermine and/or topple Bakir Izetbegovic over the past few years.

While on the surface this plan may sound frivolous, it is reportedly already being implemented and - apparently - seems to be working, at least for the time being. It also demonstrates deepening divisions within the Bosniak political scene, but similar rifts are appearing in all key Bosnian Croat and Bosnian Serb parties. This move also shows that leaders of all key parties have cemented their political control in recent years, with their opponents now seeking alternative ways to weaken and eventually replace them.

As part of this plan, the General hospital has been building its capacity, hiring the best doctors and nurses from Kosevo and East Sarajevo hospitals in an attempt to take away as many patients (and medical staff) from the Kosevo hospital as possible. The idea is to further weaken, or even potentially bankrupt, the Kosevo hospital, which would further undermine the already very poor public image of Sebija Izetbegovic. This move has over the last week led to a new series of public clashes and controversies, especially after Ismet Gavrankapetanovic on July 15 announced that the Doctors' ethical committee of the Sarajevo Canton has launched a process aimed at withdrawing his medical license. Several different doctors from this committee in subsequent days gave contradictory statements, further confusing the public. This also raised additional concerns over the fact that the health system in the capital is increasingly being used for political battles, which could further undermine the health system's ability to handle continued increases of COVID-19 cases.

Subsequently, this battle of the two hospitals escalated, with a number of highly respected doctors resigning from the Kosevo hospital and/or joining the General hospital's staff. This situation has further undermined the Kosevo hospital's capacity not only to deal with the COVID-19 pandemic, but even more so to provide appropriate medical services to other patients, especially those with heart conditions and cancer. This situation has coincided with a new sharp increase in the number of people infected with COVID-19 in the second half of July,

prompting Kosevo hospital director Sebija Izetbegovic to repeatedly warn about the possible reintroduction of stricter protective measures in the capital.

The 'battle of two hospitals', as well as the increase in the number of COVID-19 infections, have played prominently in local media, most of which are linked with either the SDA or with some of the opposition parties that make the anti-SDA block (such as People and Justice party, DF, Nasa Stranka or SDP). This seems to be the effective beginning of the pre-election campaign of both political blocs, and is expected to escalate even further in September.

3.0 Socio-Economic Developments

3.1 Overview

The Bosnian economy showed signs of recovery as the Federation entity (FBiH) in June recorded an increase in industrial production of 4.7% compared to the previous month.^[6] It was the second month in a row that industrial production registered growth, but it is still far below the levels before the COVID-19 pandemic, as industrial production in June was still 9% lower compared to June 2019.^[7] At the same time recovery in the Republika Srpska (RS) was slower, as industrial production in June, compared to May, recorded a fall of 0.8%, while in comparison with the same month during the previous year, industrial production in June was lower by 14.7%.^[8] These numbers suggest that economic problems in RS are not related only to the pandemic, since the highest drop in industrial production in this year was recorded in February (a drop of 6.1%), which was a whole month before Bosnia went into lockdown measures and the economy was practically shut down.^[9]

During June, both exports and imports recorded strong growth in BiH. Compared with the previous month BiH exports increased by 20.5% while imports increased by 19.5%.^[10] Yet when these numbers are compared with the same month during the previous year, it shows that exports and imports were lower by a whole 10.8% and 12% respectively.

The real economic cost of the pandemic can best be seen through foreign trade data for the first six months of this year. Compared with the same period during the previous year, Bosnian exports were lower by 15.1%, while imports were lower by 18%.^[11]

What will happen in the second half of 2020 will primarily depend on the economic situation in Bosnia's main foreign trade partners - Germany, Italy and Croatia. If these economies manage to avoid another pandemic shock, that would provide a chance for a faster and stronger recovery

of the BiH economy as well. Since a significant portion of BiH exports is reserved for auto parts exported to Germany, the fortunes of the German auto industry in the coming months will be of special importance for the BiH economy.

The state of economies in Germany, USA, Canada and Scandinavian countries in the next months will have an additional impact on the BiH economy, due to the fact that a major part of the Bosnian diaspora is concentrated in these countries. Any worsening of the economic situation in these countries will also affect the amount of remittances which the diaspora sends to their families in BiH, complicating the socio-economic situation too. According to different estimates, remittances make up around 10% of Bosnia's GDP.

Nevertheless, the reduction of BiH exports as well as a general slowdown of the country's economy so far have not had a major impact on the BiH financial system. Foreign exchange reserve in the BiH Central bank in May decreased by 0.9% compared with the previous month, yet compared with May 2019, these reserves were higher by 10.1%.^[12] As the Central Bank

operates on the principle of the currency board^[13], this means that the stability of the Bosnian currency is still not threatened. On the other hand, the currency board arrangement makes it impossible for the BiH government to directly support local companies and economy through 'controlled inflation' – printing of additional amounts of money.

The commercial banking sector in BiH has also felt the consequences of the economic slowdown caused by the coronavirus pandemic. In May, the total assets of the commercial banking sector in BiH were 0.1% lower compared to the previous month. This was the third month in a row that these assets recorded a fall, but when compared with the same month in 2019, the assets still show growth of 9.6%.^[14] Yet it is still early for the full effects of the pandemic to be seen on the commercial banking sector, especially when it comes to the ability of clients, companies and citizens to repay their existing loans as well as their financial ability to take on new loans.

One way or the other, it is expected that banks will in the coming period become more cautious in approving new loans. This, combined with the expected rise of non-performing loans, could lead to a further decrease of the total assets in banks.

One area where the impact of COVID-19 is obvious is unemployment. The total number of employed persons in BiH in May this year remained unchanged compared with the previous month, but when compared with May 2019 the data shows a decrease of employed persons by 2.5. In absolute terms, from the beginning of the pandemic in March, the number of employed persons in BiH decreased by 21,553 and this number is expected to rise even further in the following months.^[15]

While the number of employed in Bosnia dropped, number of pensioners continued to grow. In FBiH the number of pensioners in June was higher by 0.3%. When compared with the same month during the previous year, the data shows a 2% increase. At the same time average pensions remain unchanged compared with the previous month, while compared with the same month in 2019 average pensions were lower by 0,2 percent.^[16]

The number of pensioners continued growing in the RS as well, where June data showed a 0.3% increase compared with the previous month and a 1.7% increase compared with the same month in the previous year. In RS the average pension in June remained unchanged compared with April, but was higher by 5.2% compared to June 2019.^[17]

Due to the decrease in the number of workers, the average net salary in FBiH decreased by for 0.4% compared with the previous month and by 0.2% when compared with the same month in the previous year.^[18] In RS, however, the average net wage in June was 0.8% higher compared with the previous month and 5.3% higher than in the same month during the previous year.^[19]

In June, prices in BiH (CPI) compared with previous months increased by 0.1% while compared with the same month in the previous year prices were lower by 1.5%.^[20]

3.2 Latest Statistical Data

GDP growth (2019): 2.68%

GDP per capita 2019 (EUR) : 5.168

GDP per capita 2019 (USD): 5.785

GDP (2019) (EUR mil.) : 18.013

GDP (2019) (USD mil.): 20.163

Population ('000) - 2019 est.: 3.485

(Source: Agency for Statistics of Bosnia-Herzegovina)

Foreign trade

Month	BiH Export (mil. EUR)			Change (%)	
	VI-2019	V-2020	VI-2020	VI-2020/ V-2020	VI-2020 / VI -2019
	508	376	453	20,5	-10,8

Source: Agency for statistics of Bosnia-Herzegovina

Month	BiH Import (mil. EUR)			Change (%)	
	VI-2019	V-2020	VI-2020	VI-2020/ V-2020	VI-2020 / VI -2019
	820	604	722	19,5	-12,0

Source: Agency for statistics of Bosnia-Herzegovina

Period	BiH Export (mil. EUR)		Change (%)	BiH Import (mil. EUR)		Change (%)
	I-VI-2019	I-VI-2020	I-VI-2020/ I-VI-2019	I-VI-2019	I-VI-2020	I-VI-2020/ I-VI-2019
	2.974	2.524	-15,1	4.990	4.091	-18,0

Source: Agency for statistics of Bosnia-Herzegovina

Foreign Exchange Reserves

Month	Foreign exchange reserves (EUR billion)			Change (%)	
	V-2019	IV-2020	V-2020	V-2020/ IV-2020	V-2020 / V -2019
	6,05	6,72	6,66	-0,9	10,1

Source: Central Bank of BiH

Banking sector

May 2020

Month	Total assets - commercial banking sector in BiH (EUR billion)			Change (%)	
	V-2019	IV-2020	V-2020	V-2020/IV-2020	V-2020 / V -2019
	15.135	16.601	16.585	-0,1	9,6
Source: Central Bank of BiH					

Q1 2020

Period	Total assets - commercial banking sector in BiH (EUR billion)			Change (%)	
	Q1 2019	Q4 2019	Q1 2020	Q1 2020 / Q4 2019	Q1 2020 / Q1 2019
	15.392	16.579	16.254	-2,00	5,60
Source: Central Bank of BiH					

Inflation (CPI)

Inflation (CPI) in BiH in %		
Month	VI-2020/ V-2020	VI-2020 /VI -2019
	0,1	-1,5
Source: Agency for statistics of Bosnia-Herzegovina		

Industrial production

Industrial production			
FBiH (%)		RS (%)	
VI-2020/ V-2020	VI-2020 / VI-2019	VI-2020/ V-2020	VI-2020 / VI-2019
4,7	-9,0	-0,8	-14,7
Source: Institute for Statistics of FBiH Source: Institute of Statistics - Republic of Srpska			

Employment and Unemployment

Month	Number of employed in B&H			Change (%)	
	V-2019	IV-2020	V-2020	V-2020/ IV-2020	V-2020 / V-2019
	829.477	808.894	808.868	0,0	-2,5

Source: Labour and Employment Agency of Bosnia – Herzegovina

Month	Number of unemployed persons in BiH			Change (%)	
	V-2019	IV-2020	V-2020	V-2020/ IV-2020	V-2020 / V-2019
	406.685	419.582	421.474	0,5	3,6

Source: Labour and Employment Agency of Bosnia – Herzegovina

Wages

Month	Average net wages in BiH (EUR)			Change (%)	
	V-2019	IV-2020	V-2020	V-2020/ IV-2020	V-2020 / V-2019
	472	480	479	-0,2	1,5

Source: Agency for statistics of Bosnia-Herzegovina

Month	Average net wages in FBiH (EUR)			Change (%)	
	V-2019	IV-2020	V-2020	V-2020/ IV-2020	V-2020 / V-2019
	478	479	477	-0,4	-0,2

Source: Institute for Statistics of FBiH

Month	Average net wages in RS (EUR)			Change (%)	
	VI-2019	V-2020	VI-2020	VI-2020/ V-2020	VI-2020 / VI -2019
	464	485	489	0,8	5,3

Source: Institute of Statistics - Republic of Srpska

Pensions

Month	FBiH number of pensioners			Change (%)	
	VI-2019	V-2020	VI-2020	VI-2020/ V-2020	VI-2020 / VI -2019
	417.667	424.964	426.194	0,3	2,0

Source: Federal pension and disability insurance institute

Month	FBiH average pension (EUR)			Change (%)	
	VI-2019	V-2020	VI-2020	VI-2020/ V-2020	VI-2020 / VI -2019
	214	213	213	0	-0,2

Source: Federal pension and disability insurance institute

Month	RS number of pensioners			Change (%)	
	VI-2019	V-2020	VI-2020	VI-2020/ V-2020	VI-2020 / VI -2019
	264.202	267.745	268.616	0,3	1,7

Source: Fund for pension and disability insurance RS

Month	RS average pension (EUR)			Change (%)	
	VI-2019	V-2020	VI-2020	VI-2020/ V-2020	VI-2020 / VI -2019
	191	201	201	0,0	5,2

Source: Fund for pension and disability insurance RS

Footnotes

[1] “Vucic in Banja Luka: brings donations worth 2.7 million euro,” BNTV report, July 23, 2020. Available at: <https://www.rtvbn.com/3988681/vucic-u-bl-donosi-donaciju-od-27-miliona-evra>

[2] “Available at: <https://www.kurir.rs/vesti/politika/3502387/vucic-danas-u-banjaluci-predsednik-urucuje-pomoc-republici-srpskoj-od-27-miliona-evra>

[3] See: <https://rs.sputniknews.com/analize/202007241123072553-zapad-se-igra-plamenom-republika-srpska-oja-cala-poziciju-beograda-u-bici-za-kosovo/>

[4] Interview with a senior EU official, July 2020.

[5] Interview, Serbian and Bosnian Serb officials, July 24, 2020.

[6] Institute for Statistics of FBiH (<http://fzs.ba>)

[7] Institute for Statistics of FBiH (<http://fzs.ba>)

[8] Institute of Statistics - Republic of Srpska (<https://www.rzs.rs.ba>)

[9] Institute of Statistics - Republic of Srpska (<https://www.rzs.rs.ba>)

[10] Agency for statistics of Bosnia-Herzegovina (<http://bhas.gov.ba>)

[11] Agency for statistics of Bosnia-Herzegovina (<http://bhas.gov.ba>)

[12] Central Bank of BiH (<https://www.cbbh.ba>)

[13] Bosnian Central bank operates in line with the principles of currency board, where exchange rate of local currency, “Konvertibilnamarka” (BAM) is fixed to euro. This principle requires that the amount of local currency in circulation is covered 100 percent with euro in Central bank reserves.

[14] Central Bank of BiH (<https://www.cbbh.ba>)

[15] Agency for statistics of Bosnia-Herzegovina (<http://bhas.gov.ba>)

[16] Federal pension and disability insurance institute (<https://www.fzmiopio.ba>)

[17] Fund for pension and disability insurance RS (<http://www.fondpiors.org/>)

[18] Institute for Statistics of FBiH (<http://fzs.ba>)

[19] Institute of Statistics - Republic of Srpska (<https://www.rzs.rs.ba>)

[20] Agency for statistics of Bosnia-Herzegovina (<http://bhas.gov.ba>)