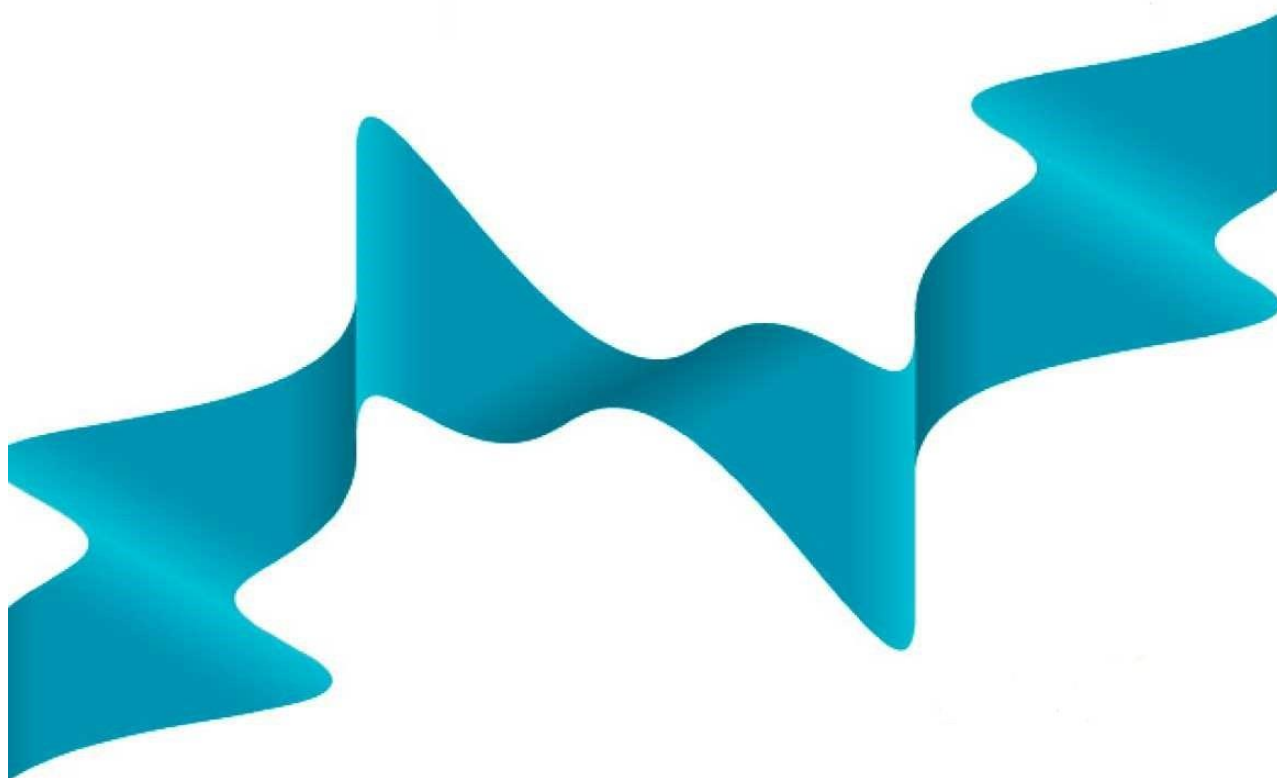


ANALYSIS OF ECONOMIC AND SOCIAL CONSEQUENCES OF THE COVID-19 PANDEMIC IN WESTERN BALKANS ADMINISTRATIONS

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¹ "This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo declaration of independence."

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Abbreviations

	Explanation
AL	Albania
BA	Bosnia and Herzegovina
BAM	Bosnian Convertible Mark
BB	Balkan Barometer
BBi	Bosna Bank International
CAD	Current account deficit
CB	Central Bank
CBBiH	Central Bank of Bosnia and Herzegovina
CEB	Council of Europe Development Bank
CIT	Corporate income tax
CPI	Consumer Price Index
DCM	Decision of the Council of Ministers
DG	Directorate-General
DG ECFIN	DG for Economic and Financial Affairs
DG REGIO	DG for Regional and Urban Policy
EBRD	European Bank for Reconstruction and Development
ECDC	European Centre for Disease Prevention and Control
EEA	European Economic Area
EIB	European Investment Bank
EPCG	State Electricity Company
ERP	Economic Reform Programme
EU	European Union
FDI	Foreign Direct Investment
FSEU	European Union Solidarity Fund
GDP	Gross domestic product
GPPFL	Annual personal income tax return form
GVC	Global value chains
IBRD	International Bank for Reconstruction and Development
ICT	Information and communication technology
IDB	Inter-American Development Bank
IDF	Investment and Development Fund
IFIs	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
INSTAT	National Statistical Office of Albania
IOPPD	Report on calculated and paid taxes and contributions form
IPA	Instrument for Pre-Accession assistance
IPARD	Instrument for Pre-Accession assistance for Rural Development
IPHMNE	Institute of Public Health of Montenegro
IR	Interest rate
IT	Information Technology
KS*	Kosovo*
LFS	Labour Force Survey
LTV	Loan-to-value
ME	Montenegro
MFA	Macro-financial assistance
MFF	Multiannual Financial Framework
MK	North Macedonia
MS	Member State
MSME	Micro, Small & Medium Enterprises

	Explanation
MSME&Es	Micro, Small and Medium Enterprises and Entrepreneurs
NACE	Statistical classification of economic activities in the European Community
NATO	North Atlantic Treaty Organization
NBRSM	National Bank of the Republic of Northern Macedonia
NBS	National Bank of Serbia
NCB	National Coordination Body
NPL	Non-performing loan
OECD	Organisation for Economic Co-operation and Development
PESR	Public Enterprise for State Roads
PHEIC	Public Health Emergency of International Concern
PIT	Personal income tax
PPE	Personal protective equipment
PPG	Public and publicly guaranteed
PPP	Purchasing power parity
RCC	Regional Cooperation Council
RFI	Rapid Financing Instrument
RS	Serbia
RSD	Serbian Dinar
RSHC	Russian-Serbian Humanitarian Centre
S&P	Standard & Poor's
S3	Smart Specialization Strategy
SDGs	Sustainable Development Goals
SEE	South East Europe
SME	Small and medium enterprise
SOE	State Owned Enterprise
SSC	Social security contribution
UCPM	Union Civil Protection Mechanism
UK	United Kingdom
UN	United Nations
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
USA	United States of America
USAID	U.S. Agency for International Development
VAT	Value Added Tax
WB	Western Balkans
WB	World Bank
WEO	World Economic Outlook
WHO	World Health Organization
WTTC	World Travel and Tourism Council
ZPO	Application for flat-rate taxation (form)

I. Introduction: the COVID-19 health crisis

In late December 2019, a cluster of unexplained pneumonia cases has been reported in Wuhan, China. A few days later, the causative agent of this mysterious pneumonia was identified as a novel coronavirus. This causative virus has been temporarily named as severe acute respiratory syndrome coronavirus 2², and the relevant infected disease has been named as coronavirus disease 2019 (COVID-19) by the World Health Organization, respectively³.

The pandemic disease COVID-19 continues to spread into the integrated world, especially from human to human, having no vaccine to offset such an outbreak. The World Health Organization declared on 30 January 2020 the outbreak of a novel coronavirus a global health emergency (PHEIC⁴), an acknowledgement of the risk the virus poses to beyond its origin in China and of the need for a more coordinated international response to the outbreak.

No health system in the globe is capable of stopping the virus. The epidemic centre initiated in China, and after four weeks, other epicentres have been identified, such as Japan, Iran, Italy, Spain, Germany, United Kingdom, United States, and throughout the globe. The uncertainty about the emergence of new cases and locations is not silent. The coronavirus outbreak has evolved into a global pandemic. The WHO announced COVID-19 outbreak as a global pandemic on 11 March 2020.

Although most people with **COVID-19** have mild to moderate symptoms, the disease can cause **severe** medical complications and lead to death in some people. Preliminary data from the European Centre for Disease Prevention and Control for the EU/EEA countries show that around 20-30% of diagnosed COVID-19 cases are hospitalised and 4% have severe illness. Hospitalisation rates are higher for those aged 60 years and above, and for those with other underlying health conditions.

Still, there is no specific **treatment**⁵ or **vaccine**⁶ for this disease approved by the WHO. Although work on a vaccine has already started by several research groups and pharmaceutical

² Severe Acute Respiratory Syndrome Coronavirus-2 (SARS-CoV-2) is the name given to the 2019 novel **coronavirus**. COVID-19 is the name given to the **disease** associated with the virus. SARS-CoV-2 is a new strain of coronavirus that has not been previously identified in humans (<https://www.ecdc.europa.eu/en/covid-19/questions-answers>);

³ He F, Deng Y, Li W (2020) Coronavirus disease 2019: What we know? Journal of Medical Virology. March 2020, doi: 10.1002/jmv.25766

⁴ Public Health Emergency of International Concern ([https://www.who.int/news-room/detail/30-01-2020-statement-on-the-second-meeting-of-the-international-health-regulations-\(2005\)-emergency-committee-regarding-the-outbreak-of-novel-coronavirus-\(2019-ncov\)](https://www.who.int/news-room/detail/30-01-2020-statement-on-the-second-meeting-of-the-international-health-regulations-(2005)-emergency-committee-regarding-the-outbreak-of-novel-coronavirus-(2019-ncov)));

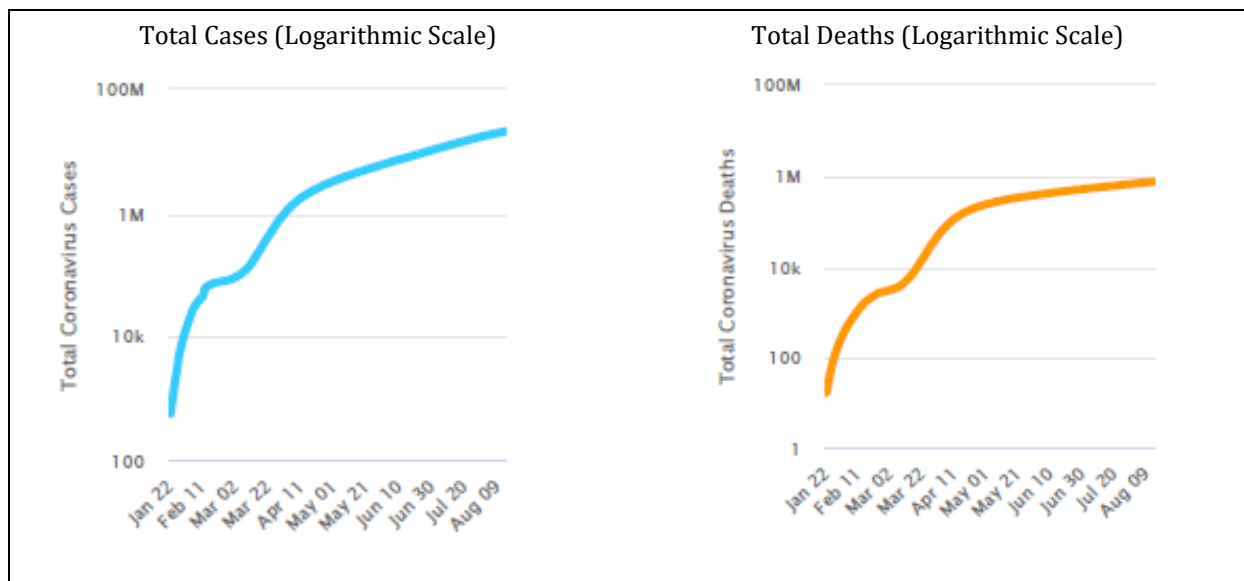
⁵ Healthcare providers are mostly using a symptomatic approach, meaning they treat the symptoms rather than target the virus, and provide supportive care (e.g. oxygen therapy, fluid management) for infected persons, which can be highly effective. In severe and critically ill patients, a number of drugs are being tried to target the virus, but the use of these need to be more carefully assessed in randomised controlled trials. Several clinical trials are ongoing to assess their effectiveness but results are not yet available.

⁶ Russia announced on 11 August 2020 approval of the vaccine against SARS-Cov-2. However, the announcement has caused global concern by numerous immunologists around the world regarding its safety and effectiveness (because of reasonable doubt on shortening of some test phases, i.e. pre-registration of phase 1 and phase 2 trials). <https://www.newscientist.com/article/2251722-everything-you-need-to-know-about-russias-coronavirus-vaccine-claims/#ixzz6VARqbsx3>

companies worldwide⁷, it may be months or even more than a year before a vaccine has been tested and is ready for use in humans⁸.

In the first half of 2020, the world has seen explosive growth of infections with the deadly novel virus. The COVID-19 pandemic is affecting **213 countries and territories** around the world.

Figure 1 Coronavirus cases and deaths: Worldometers (14/08/2020)



A numerous **health protection measures** and controlled/prohibited **transport** between (and within) countries are recommended, in order to prevent the further spread of the virus. In spite of all recommended and implemented measures, the number of total cases is growing all around the world as it is presented in Figure 1.

The causes for dynamic spreading of the infection can be largely found in the following:

- Still, no specific treatment or vaccine,
- Non-compliance with health care measures, general reduction of discipline, and
- Relaxation of protective measures in many countries in order to create space for economic activities, which were almost locked for several months.

Globally, as of **14 August 2020**, according to the World Health Organisation (WHO) data, there are 20,687,815 confirmed cases of the COVID-19, including 750,400 deaths, (Table 1). In the last 24 hours around 270,000 were number of newly reported cases and 7,000 deaths.

According to the Worldometers data⁹ estimated number of recovered cases is around two third of total registered cases of the world data and 61% of data for Europe. Estimated number of active cases is 30.3% for the World and 33% for the Europe. Number of deaths is 3.6% and 7% in the total structure respectively for the World and for the Europe.

⁷ On 13 August 2020, according to the WHO data, there are 29 candidates for the COVID-19 vaccines that are in clinical evaluation phase, and 138 candidates in pre-clinical evaluation. **6 developers/manufacturers are in the final phase of evaluation**, i.e. clinical stage – phase 3: University of Oxford/AstraZeneca; Sinovac; Wuhan Institute of Biological Products/Sinopharm; Beijing Institute of Biological Products/Sinopharm; Moderna/NIAID; and Biotech/Fosun Pharma/Pfizer (WHO, Draft Landscape of COVID-19 candidate vaccines, 13 August 2020, available at <https://www.who.int/publications/m/item/draft-landscape-of-covid-19-candidate-vaccines>);

⁸ European Centre for Disease Prevention and Control, <https://www.ecdc.europa.eu/en/covid-19/questions-answers>

⁹ <https://www.worldometers.info/coronavirus/>

Table 1 The COVID-19 reported cases on 14 August 2020

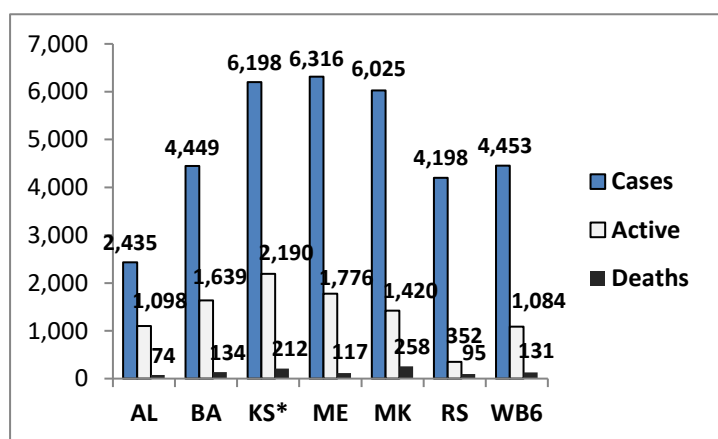
14.8. 2020.	Total cases	Deaths	Recovered	Active cases	Tests	Mortality ratio ¹⁰	Total cases/ 1 M pop	Deaths/ 1 M pop	Tests/ 1 M pop	Population 2019
World	20,687,815	750,400	66.4%	30.3%	n. a.	3.63	2,702	97	n. a.	7,806 mil
Europe	3,668,652	218,255	61.0%	33.0%	n. a.	5.95	4,154	270	n. a.	748 mil
AL	6,971	213	3,616	3,142	42,854	3.06	2,435	74	14,971	2,862,427
BA	15,535	469	9,344	5,722	159,613	3.02	4,449	134	45,708	3,492,018
KS* ¹¹	11,130	381	6,817	3,932	43,093	3.42	6,198	212	23,998	1,795,666
ME	3,930	73	2,752	1,105	42,406	1.86	6,316	117	68,157	622,182
MK	12,515	535	9,030	2,950	123,122	4.27	6,025	258	59,275	2,077,132
RS	29,233	665	26,117	2,451	789,480	2.27	4,198	95	113,370	6,963,764
WB	79,314	2,336	57,676	19,302	1,200,568	2.27	4,453	131	67,398	17,813,189

Source: <https://covid19.who.int/>, <https://www.worldometers.info/coronavirus/> and EUROSTAT;

European population is 9.6% of the World population.¹² The number of registered cases in the Europe is 15% of total registered cases, 27% of death cases, 13% of recovered cases and 16% of active cases.

The WB region is 2.4% of European population. The number of registered cases in the region is 2.2% of cases in the Europe, the number of deaths is 1.1%, number of recovered is 3.1% and active cases is 1.9% respectively, in comparison with the Europe data.

Table 2 WB COVID 19 cases per 1 million of population (14/08/2020)



Montenegro has the biggest number of cases per million of population (Albania the smallest), Kosovo* has the biggest number of active cases per million of population (*Serbia the smallest), and North Macedonia has the biggest number of deaths per million of population (Albania the smallest).

The first cases in the region were recognized in North Macedonia (26/02/2020), Bosnia and Herzegovina (5/03/2020), Serbia (06/03/2020), Albania (09/03/2020), Kosovo* (13/03/2020) and Montenegro (17/03/2020).

As economy after economy has been forced to shut down large areas of social and economic life to slow contagion, the Western Balkans have not been spared. In response, all WB have enforced

¹⁰ Mortality ratio is calculated as relation between deaths and total cases.

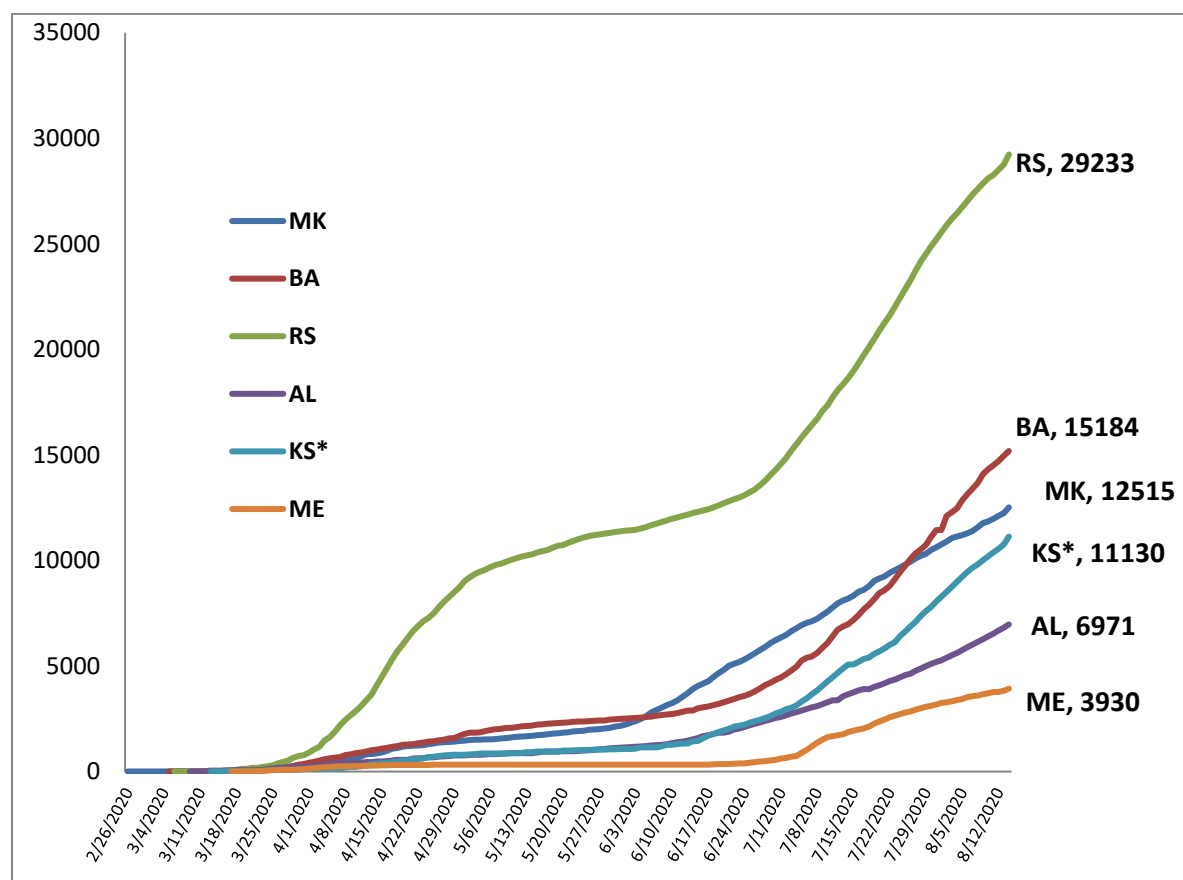
¹¹ Kosovo* (KS*) - This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Advisory opinion on the Kosovo* declaration of independence.

¹² 8,805 mil - World data and 747 mil - data for Europe (Wordometer, 14 August 2020);

lockdowns and strict social distancing measures. International airports in all economies were closed for passenger traffic. Key economic sectors, such as restaurants and nonessential retail, have been shut down. Travel and social gatherings have been restricted or banned, and schools and universities have been closed. The initial lockdowns have been extended. However, after recognition of a certain slowdown of the COVID-19 spread, the economies lifted most mobility restrictions and gradually create more space for the economic recovery.

In spite of all recommended and implemented **health protection measures** (physical distance, hygiene, masks, reduction of contacts, so-called COVID-hospitals, isolation of suspicious cases, mandatory quarantine, closing of educational institutions, restriction of mass gatherings, etc.) and controlled/prohibited transport between (and within) economies, as well as radical reduction of economic activities to prevent the further spread of the virus in the first phase - the number of total cases **continue to grow** in these economies (Figure 2).

Figure 2 Number of COVID-19 cases in the Western Balkans region (14/08/2020)



Source: <https://covid19.who.int/>

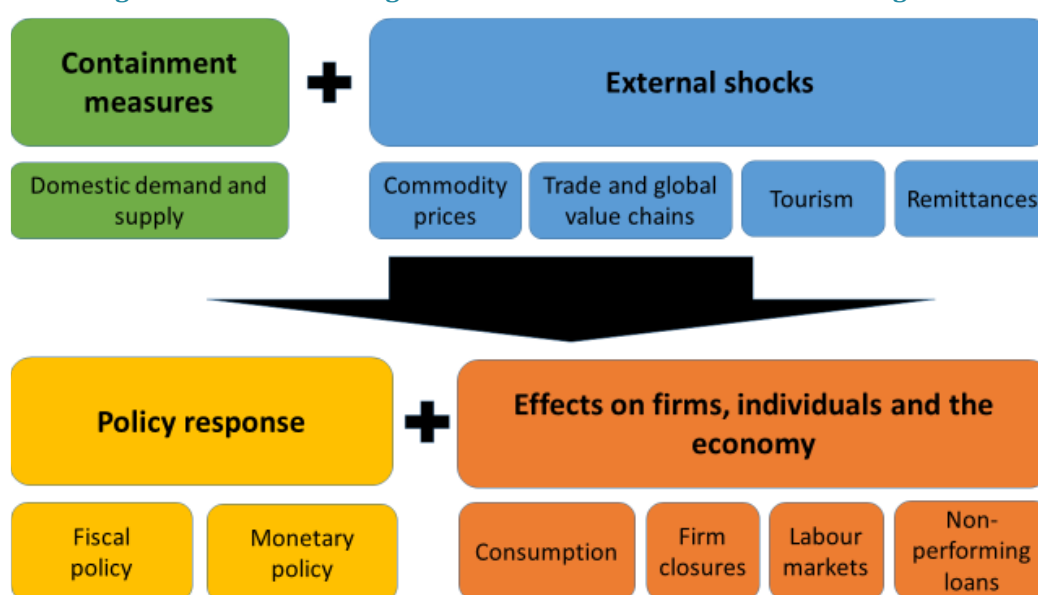
The causes for dynamic spreading of the infection within the region are the same as for the whole world.

2. The state and vulnerabilities of the Western Balkan Economies as they face the COVID-19

Symmetric effects of the health crisis to the WB economies: The COVID-19 crisis has severe consequences for the economies of the Western Balkans as both aggregate supply and aggregate demand contract simultaneously. Safeguards, designed to help health system cope with the virus, reflect both domestic demand (while people stay home and spend less) and domestic supply (fewer people work). On the other hand, closing the border and stopping travel significantly reduce external demand, on which WB economies significantly depend.

Not only government restrictions but also the responses of households and businesses to the crisis are putting unprecedented strain on the economies in the region. Declining economic activity is also complicating public finances and expanding the financing needs of governments.

Figure 3 Channels through which the Covid-19 crisis affects the region¹³



Aggregate demand is collapsing. Consumers avoid activities that could expose them to infection. The summer tourism season is expected to be extremely low. Nonessential consumption and investment are delayed until the uncertainty linked to the crisis is resolved. Similar problems in key trading partners, such as the EU, will weigh on exports.

Aggregate supply is also contracting. Government restrictions force nonessential businesses and companies that cannot meet social distancing requirements to close or scale back operations to mitigate the outbreak. Operation through online sales or telework is productive only for some businesses. Some workers must stay home to look after children whose schools have closed or are social distancing to avoid infection. Disruptions in global and domestic supply chains hurt manufacturing. Declining commodity prices eat into the margins of extractive industries. Liquidity constraints cause further disruptions in production.

¹³ EBRD, Regional Economic Prospect Report, April 2020, p.4.
(<https://www.ebrd.com/cs/Satellite?c=Content&cid=1395290493496&d=&pagename=EBRD%2FContent%2FDownloadDocument>);

Services, especially those that require physical interaction, are likely to suffer most. Government restrictions have forced much of the hospitality, retail, and in-person service sector to close. Restrictions on travel intended to avoid travellers sharing close quarters with others, as in buses, trains, and planes, have severely disrupted transportation.

Table 3 Analysis of Gross Value Added by economic activity (NACE Rev.2) in 2018

	Agriculture, forestry and fishing	Industry	Construction	Services	Contribution of travel & tourism to GDP in 2019 (WTTC)	Contribution of travel & tourism to employment in 2019 (WTTC)
EU 27	1.8	20.1	5.4	72.6	9.5	11.2
AL	21.0	13.9	10.4	54.6	21.20	22.20
BA	7.0	23.0	4.7	65.4	9.3	9.6
KS*	8.9	21.8	10.8	58.5	6.5 ¹⁴	10.1
ME	8.2	12.5	7.0	72.4	32.1	32.8
MK	9.8	21.4	6.2	62.7	6.2	6.6
RS	7.7	25.4	5.4	61.6	5.9	6.2

Source: Eurostat (online data code: nama_10_a10) and the World Travel and Tourism Council, <https://wtcc.org/Research/Economic-Impact>

Tourism has collapsed representing the typical case of locked industry. According to the WTTC data, the strongest negative impact on tourism revenues will be in Montenegro. It will take time to revive even when the crisis is brought under control. Manufacturing suffers from social distancing safeguards that disrupt production, a collapse in orders, and supply chain problems. Relatively more robust are essential sectors like medicine, the food supply chain, the public sector, and sectors that can more easily shift to telework, such as professional services related to the digital economy.

Hence, this crisis is different:

1. In terms of the speed of expansion and the extent of its impact on the economy, this new crisis **surpassed** the global economic crisis of 2008. The strength of this crisis acted **symmetrically** on both the supply and demand sides, and it did not come from the economic sector, but from the health sector.
2. More than ever, it is accompanied by **uncertainty** about the length and depth of the crisis.
3. **It is a large-scale health shock** that has required a conscious—and necessary—temporary activity freeze to slow the spread of infection. The length and depth of the crisis will depend on how effective the containment measures are, how well the health system can deal with the outbreak, and the successful development of effective treatment and vaccines for the illness.
4. **Economic policy alone cannot end this crisis**, but it does have a crucial role: to protect livelihoods by preserving jobs and reinforcing the social safety net.
5. **A brisk economic recovery is possible— but not a given.** Relaxation of lockdown measures may free pent-up consumption and investment, which would encourage economic activity to rebound quickly. But to the extent that the economic freeze and liquidity shortages force fundamentally viable businesses to shut down, rupture productive supply-chain relationships, or let go of employees who have built up significant on-the-job knowhow, the shock may have undermined medium term productivity. To the extent that the crisis eats into public and private financial buffers, efforts to consolidate and to restore balance sheets may weigh on recovery. To the extent

¹⁴ Data for KS* are from the Statistical Office.

that the threat of the virus lingers, the recovery may be overshadowed by concerns about a recurrence of the epidemic, and of containment measures¹⁵.

The Western Balkan growth model was vulnerable before the crisis. In the region, consumption accounted for more than 60% of growth in recent years fuelled by higher public spending and by one off wage policies and near double-digit growth in household lending, raising questions on the sustainability of the consumption driven growth in the region. The contribution of investment was about 47% in 2019 while net exports subtracted from growth. In Albania, Bosnia and Herzegovina, and Kosovo*, growth of investment in 2019 has been limited while consumption grew strongly driven by remittance inflows and higher consumer lending. In the last few years, across the region, net exports subtracted from growth because of the high level of imports. Productivity, including growth of advanced manufacturing and services, has lagged behind what is necessary for the region to catch up with incomes in the advanced EU¹⁶.

Table 4 Expenditure components of GDP in 2018 (% relative to GDP)

2018	General government	Households	Gross capital formation	External balance of goods and services
EU-27	20.5	53.4	21.9	4.2
AL	11.1	79.6	24.1	-13.7
BA	20	77.4	21.7	-15.5
KS*	14	85.6	29.5	-29.2
ME	18.5	73.4	31.9	-23.8
MK	14.8	65.9	31.9	-12.6
RS	16.6	69.3	22.7	-8.5

Source: Source: Eurostat (online data code: nama_10_gdp)

Going into the COVID-19 crisis, Western Balkan economies had different economic strengths and weaknesses. A heat-map (Figure 4) is a useful way to summarize this, particularly if complemented by economy-by-economy qualitative analysis. Also useful is a multidimensional assessment that reviews characteristics of regional labour markets, the sectoral composition of each economy, fiscal policy space, monetary policy space, financial buffers, and external vulnerabilities.

First, labour markets where informal, temporary, and self-employment is disproportionate, are likely to be confronted by job destruction, which will cause considerable hardship, especially if the social safety net is not adequate. By end- 2019, the employment rate in the Western Balkans reached 44.3 percent, up from 42.7 percent for 2018 and 36.9 percent for 2012. However, many of the jobs created were in low-paying labour-intensive manufacturing and services. Low employment rates and high unemployment rates have had considerable influence in limiting inclusive growth in the Western Balkans. Many jobs are temporary or informal. As the COVID-19 crisis unfolds, those jobs are likely to be highly vulnerable to destruction, reversing the job creation gains of recent years. Worse, many of these workers may not be able to access social safety nets. As highlighted by the heat-map, these problems are particularly acute in Kosovo* (low employment, much of it temporary), Bosnia and Herzegovina (low employment and high informality), and Albania (high self-employment and informal employment).

¹⁵ World Bank, Western Balkans Regular Economic Report, spring 2020: The Economic and Social Impact of COVID-19; Setting the Stage, pp. 1-2. (<http://documents1.worldbank.org/curated/en/301261588088338100/pdf/The-Economic-and-Social-Impact-of-COVID-19-Setting-the-Stage.pdf>)

¹⁶ Op.cit, pp. 3-4.

Table 5 Heat-map of relative COVID-19 vulnerability in the Western Balkans¹⁷

		AL	BA	KS*	ME	MK	RS
1. Labour market	Self-employed (% of total employment)	34.7	17.6	21.3	19.4	14.3	22.4
	Temporary employment (% total)	9.7	17.5	79.5	34.6	16.1	22.6
	Informal employment (% of total)	61	29.5	33 ¹⁸	19.9	26 ^{19*}	19.8
	Employment rate (% population aged 15+)	52	34.3	25.4	48.1	44.9	48.6
2. Fiscal policy	Fiscal balance (%GDP)	-2.5	-0.5	-2.5	-3.0	-2.1	-0.2
	Revenue (% of GDP)	27.8	42.6	26.7	43.6	31.2	42.1
	PPG Debt (% of GDP)	68.0	34.6	17.6	80.7	48.9	52.9
3. Monetary policy	Exchange rate (1-flexible, 0-fixed)	1	0	0	0	1	1
4. Financial sector policy	Capital Adequacy Ratio	18.3	18.1	15.9	17.7	16.3	23.4
	Liquidity ratio (liquid assets as % of total assets)	35.7	29.6	28.9	20.8	24.0	36.0
	Non-performing loans (% of total loans)	8.4	7.4	2.0	5.1	4.6	4.1
5. External vulnerability	Current account (as % of GDP)	-7.6	-3.7	-5.5	-15.2	-2.8	-6.9
	Goods exports (as % of GDP)	6.8	29.0	5.6	9.5	47.0	35.8
	Service exports (as % of GDP)	23.9	10.8	23.2	34.6	14.7	14.0
	International tourism (as % of export)	48.2	12.7	n.a.	50.8	5.1	7.7
	Travel/transport exports (as% of services exports)	60.7	44.8	82.5	85.5	20.9	33.5
	Remittance-inflows (as % of GDP)	5.2	8.4	12.0	4.0	1.7 ²⁰	5.8
	Reserves (in months of imports)	6.4	7.8	2.3	6.3	3.8	5.7

Source: World Bank RER 17, Spring 2020 (WB, ILO, UNCTAD, WBI)

Second, the importance of tourism and transport to their economies makes Albania, Montenegro, and Kosovo* more vulnerable to the economic impact of the crisis than the rest of the economies in the region. The structure of Western Balkan economies contributes to their vulnerabilities. Externally, the economies of Albania, Montenegro, and Kosovo* are highly dependent on services exports, mainly tourism; the goods exports base is very narrow. Hence, the COVID-19 outbreak may affect Albania, Montenegro, and Kosovo* not only directly through travel restrictions but also perhaps through a change in consumer behaviour after the outbreak. Kosovo's* tourism might prove more resilient: it depends mainly on diaspora tourists. For the economies of Bosnia and Herzegovina, North Macedonia, and Serbia, goods exports are a higher percentage of GDP; they are thus better connected to global value chains because of healthy automotive and automotive parts industries. These economies are affected by the disruption in global value chains and by lower demand for durable goods. In all Western Balkan economies, the retail, hospitality, and entertainment sector accounts for more than 10 percent of employment, and much that business has had to close because of the epidemic.

¹⁷ The selected indicators on the real sector, financial sector, external sector, fiscal policy, and monetary policy only present a limited view of a broad range of factors that are associated with macroeconomic risks and vulnerabilities. Colour coding is based on indicator values relative to each other and should be viewed strictly within the context of the discussion

¹⁸ Kojocar A. (2016). Jobs Diagnostic Kosovo*, World Bank, Jobs Issue Series, No. 5, p.44;

¹⁹ EBRD, ILO, COVID-19 and the World of Work, Rapid Assessment of the Employment Impacts and Policy Responses, North Macedonia, 15 May 2020.

²⁰ Worker's remittances coming to North Macedonia through official channels amounted to 1.6 percent of GDP in 2019. Nevertheless, overall private transfers in 2019 were 13.6 percent of GDP.

Third, fiscal policy support is crucial to help the private sector through the COVID-19 crisis, but economies in the region have little fiscal space for new measures (fiscal deficit, public debt, difficulties to access to access international capital markets). There is some space for accepting higher deficits during the COVID-19 crisis that should be used as economic policy support measures are activated, but fiscal policy is expected to be inhibited by concerns to keep debt under control and secure financing from markets and official creditors. Furthermore, automatic stabilizers are expected to be limited as social safety nets, such as unemployment benefits and social protection spending, are limited in the region.

Fourth, economies across the region have few monetary policy options, especially Kosovo* and Montenegro, which undertook unilateral euroization. Tools for active monetary policy are also limited in Bosnia and Herzegovina by its currency board arrangement. In the other economies, low pre-crisis interest rates narrow the space for conventional monetary easing²¹.

Fifth, financial sectors have generally solid capital and liquidity buffers—though they will be tested in this downturn. Financial systems are more resilient than before, partly because of financial sector reforms undertaken after the global financial crisis of 2008/09. Western Balkan banking systems enter this crisis with strong aggregate capital and liquidity buffers.

Sixth, throughout the crisis significant current account deficits will need to be financed, especially in Montenegro and to a lesser extent in Albania, Kosovo*, and Serbia. In 2019, Western Balkan trade deficits reached 13.8 percent of GDP. Key exports were international tourism, manufactures, and extractives—all of which were vulnerable to the coronavirus crisis. In the past, trade deficits were mainly financed by remittances and foreign direct investment (FDI), which have both been slashed in this crisis. While remittances tend to be resilient during downturns, that may not be true this time, partly because a large share of remittances arrive through informal channels, but also because the virus containment measures may have cost many in the diaspora their jobs. Current as well as new FDI flows are likely to be delayed as the crisis freezes much of economic life in the Western Balkans and economic uncertainty is not resolved. Throughout the crisis foreign currency reserve buffers are likely to be crucial for financing external imbalances.

In addition, the EBRD analysed **level of resilience to the COVID-19 shock** in the Region. They defined four areas where the resilience is estimated (health care system, resilience to domestic disruption, to external shocks and in the policy space).

Table 6 Resilience to the Covid-19 shock in the WB region

	Resilience of health care system	Resilience to domestic disruption		Resilience to external shocks				Policy space		
	Public sector health expenditure as % of GDP	Retail service shocks	Labour market shocks	Commodity prices	Global value chains (GVC)	Tourism	Remittances	Fiscal policy space	External	Strength of financial system
AL	moderate	high	moderate	high	high	low	high	moderate	moderate	high
BA	high	moderate	moderate	high	high	high	moderate	high	high	high

²¹ Meanwhile, high unofficial euroization is a tail risk for financial stability in economies where banks are exposed to indirect credit risk through their exposure to unhedged borrowers and by possible increased demand for foreign exchange instruments. As international capital pulls back from emerging markets during the crisis, economies with flexible exchange rates are seeing their currencies depreciate. But price competitiveness gains do not offer much support, given the general freeze of the global economy, and central banks are intervening to stabilize their exchange rates. For example, the National Bank of Serbia is providing liquidity to the system by cutting its policy rate and by FX swap and repo operations.

KS*	moderate	high	moderate	high	high	high	moderate	high	low	high
ME	moderate	low	moderate	high	high	low	moderate	low	moderate	high
MK	high	moderate	high	high	moderate	high	high	high	moderate	high
RS	high	moderate	moderate	high	moderate	high	high	moderate	high	high

In these four areas, they defined the following measures:

1. **Public sector health expenditure as a share of GDP** - Low if public sector health expenditure is below 2 % of GDP in the latest available year; moderate if between 2-4 %.
2. **Retail service shock** - Low if retail services exceed 25 % of GDP in 2018; moderate if they are 20- 25%.
3. **Labour market shock** - Low if less than 50% of those employed in the last year had permanent written contracts in 2016, moderate if 50-75%.
4. **Commodity prices** - Low if the net trade balance in gas and oil or coal and ores exceeds 5% of GDP in 2018; moderate if between 1 - 5 %.
5. **Global value chains (GVC)** - Low if GVC linkages exceed 30 % of GDP in 2018; moderate if 15-30 %.
6. **Tourism** - Low if tourism accounts for over 20 % of GDP in 2018; moderate if between 10 and 20%.
7. **Remittances** - Low if remittances exceed 25% of GDP in 2019; moderate if between 10 and 25 %.
8. **Fiscal policy space** - Low if government debt exceeds 100 % of GDP in 2018 or net borrowing exceeds 5 % of GDP or government bond yields exceed 10 %; moderate if debt between 50 and 100 % or borrowing between 3 and 5 % or yields between 5 and 10 %.
9. **External** - Low if short-term reserve coverage below one year of external financing needs (short-term debt plus current account deficit) in 2018/2019; moderate if between 1 and 2 years
10. **Strength of financial system** - Low if non-performing loans exceed 20 % of total loans in March 2020; moderate if between 10 and 20 %.²²

Having in mind all abovementioned, the resilience of Western Balkan economies is tested in the COVID-19 crisis. The resilience is high in the financial system and with commodity prices. Low level of resilience is evaluated for some economies in the following measures: commodity prices, tourism, fiscal policy space and external.

Economies need to take advantage of all available options to navigate the crisis, using assistance when it is available, such as accessing funding through IFIs. Wherever there is fiscal and monetary policy space, now is the time to use it to maintain the productive capacity of economies and the functioning of markets and to support, and save, lives and livelihoods. Given limited resources, policy support needs to be timely, time-bound, targeted, and transparent. As economies in the region come out of the crisis, their policies need to shift from crisis-fighting to restarting the economy—and eventually to normalizing balance sheets and bringing down the debt accumulated during the crisis²³.

In the longer term, response to the Covid-19 crisis may also offer **economic opportunities**. The crisis may lead to greater scrutiny of supply chains, with an emphasis on resilience and

²² EBRD, Regional Economic Prospects in the EBRD Regions, Covid-19: From shock to recovery, April 2020, pp. 2-3.

²³ Op.cit, pp. 3-7.

diversification. In addition, governments could put **climate action** at the core of economic stimulus packages accompanying recovery, ensuring that public spending addresses the current economic crisis and the longer-term climate emergency.

3. Selected economic indicators and projections

The documents Program of Economic Reforms 2020-2022 (ERPs), which were adopted at the end of January 2020, projected quite positive medium term development scenario for the Region. Economic growth strengthened in the Region in 2019 and the ERPs expected the outlook to remain positive.

Table 7 Medium-term macroeconomic scenario in the ERPs 2020-2022

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
EU	-4.3	2.2	1.8	-0.7	-0.1	1.6	2.3	2.1	2.7	2.1	1.5	1.4	1.4	1.4*
AL	3.4	3.7	2.5	1.4	1.0	1.8	2.2	3.3	3.8	4.1	2.2	2.2	3.3	2.6
BA	-3.0	0.9	1.0	-0.8	2.4	1.1	3.1	3.1	3.2	3.1	2.9	3.5	3.6	3.8
KS*	3.6	3.3	4.4	2.8	3.4	1.2	4.1	4.1	4.2	3.8	4.2	4.4	4.5	4.5
ME	-5.8	2.7	3.2	-2.7	3.5	1.8	3.4	2.9	4.7	5.1	3.6	3.4	2.8	3.2
MK	-0.4	3.4	2.3	-0.5	2.9	3.6	3.9	2.8	1.1	2.7	3.6	3.8	4.1	4.3
RS	-2.7	0.7	2.0	-0.7	2.9	-1.6	1.8	3.3	2.0	4.4	4.3	4.0	4.0	4.0

Source: ERP 2020-2022 for AL, BA, KS*, ME, MK and RS, January 2020; EU Winter Economic Forecast, 13 Feb. 2020;

The risks of realizing the presented macroeconomic scenario have suddenly joined at the beginning of the year by a new and unexpected risk, which for the first time in recent economic history came from a completely different aspect - from the health sector.

The COVID-19 pandemic and the confinement measures taken to limit its spread have caused a sharp slump in the global economy. The global economy entered a sudden recession in the first half of this year with the deepest output contraction since World War II²⁴. To counter the spread of COVID-19, major containment measures were introduced around the world, voluntarily shutting down large parts of the economy.

With the COVID-19, the range of growth outcomes in 2020-21 remains exceptionally uncertain and recovery is highly dependent on global progress in containing and mitigating the pandemic.

According to the World Bank data (June 2020), in a base case scenario, the global economy could shrink by **5.2%** in 2020 before rebounding in 2021 by 4.2%; in the downside scenario of prolonged shutdowns, world output could contract by almost **8%** in 2020. Billions of jobs are under threat worldwide. Nearly 80% of the world's informal economy workers – 1.6 billion people – have faced COVID-19 lockdowns and slowdowns in hard-hit industries including wholesale and retail, food and hospitality, tourism, transport and manufacturing²⁵.

Like Europe and the rest of the world, the Western Balkan is projected to endure recessions in 2020, their extent depending on the duration of the COVID-19 pandemic. According to **the EBRD** data from May 2020, growth in the WB region averaged 3.5% in 2019, down from 4% in 2018, mirroring the ongoing slowdown in global growth and global trade growth. The Covid-19 pandemic hit on top of this deceleration and is expected to result in a substantial output contraction, at least in the near term. Assuming domestic containment measures are gradually relaxed, with return to normality during the second half of the year, output in the WB region is projected to contract on average by **4.8%** in 2020 followed by a recovery in 2021, with an

²⁴ <https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii>

²⁵ <https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii>

average growth rate of **7.1%** in 2021. While this scenario assumes a modest impact of the crisis on the long-term trajectory of output, the pandemic may have significant longer-term economic, political and social impacts. These estimates are subject to unprecedented uncertainty. If social distancing remains in place for much longer than anticipated, the recession may be much deeper, with the 2019 levels of output per capita not attained again for years to come²⁶.

Table 8 Scenarios from different institutions about GDP growth prospects for the region

WB	World Bank, July 2020			IMF April 2020 ²⁷		DG ECFIN summer forecast, July 2020		EBRD, May 2020		Ministry of finance revised	
	2020 baseline scenario	2020 downside scenario	2021	2020	2021	2020	2021	2020	2021	2020	2021
AL	-5.0	-6.9	8.8	-5.0	8	-4.8	4.2	-9.0	12.0	-4.8 ²⁸	4.2
BA	-3.2	-4.2	3.4	-5.0	3.5	n.a.	n.a.	-4.5	6.0	-2.3 ²⁹	2.8
KS*	-4.5	-11.3	5.2	-5.0	7.5	n.a.	n.a.	-5.0	7.5	-	-
ME	-5.6	-8.9	4.8	-9.0	6.5	-5.9	4.4	-8.0	10.5	-6.8 ³⁰	4.9
MK	-2.1	-3.2	3.9	-4.0	7	-3.9	4	-3.5	3.6	-3.4 ³¹	-
RS	-2.5	-5.3	4.0	-3.0	7.5	-4.1	6.1	-3.5	6.0	-1.8 ³²	-

Economic forecasting is particularly challenging because of high uncertainty arising from e factors, such as the scale and impact of interventions like social isolation, progress in developing a vaccine, the extent of supply disruptions, and changes in human behaviour.

According to **the World Bank**, in the baseline scenario³³ for 2020, the recession would be considerable, with growth in the Region contracting by about **3.1%** but with substantial differences by economy based on economic structure and pre-crisis vulnerabilities. Because their economic structure depends on service exports, Montenegro, Albania, and Kosovo* would be hit hard and their economies are projected to contract by about 5%. BiH, Serbia, and North Macedonia are expected to experience slightly less acute recessions, between 2 and 3%. For the WB economies, projections are different, from different sources, as it is presented in the table 8. However, there are some specific per economy that are presented in the next chapters.

²⁶ <https://www.ebrd.com/documents/comms-and-bis/rep-corona-may.pdf>

²⁷ IMF, WEO, April 2020, <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/World-Economic-Outlook-April-2020-The-Great-Lockdown-49306>

²⁸ According to the EC spring forecast and INSTAT;

²⁹ Macroeconomic projection – baseline scenario – 12 May 2020 – BIH Directorate for economic planning ; (http://www.dep.gov.ba/analizeiprosjekcije/projekcije/perspektive/Archive.aspx?langTag=bs-BA&template_id=140&pageIndex=1)

³⁰ Ministry of Finance, Macroeconomic and Financial projections for Montenegro 2020-2023, 9 July 2020.

³¹ Ministry of Finance of Republic of Macedonia, Indicators and projections, May 2020, <https://finance.gov.mk/en/node/882>

³² Ministry of finance, Republic of Serbia, <https://www.mfin.gov.rs/dokumenti/makroekonomski-i-fiskalni-podaci/>

³³ The baseline scenario assumes that the outbreak in Europe begins to slow soon enough that containment measures can be lifted by the end of June and gradual recovery can start in the second half of 2020. In the downside scenario, the outbreak lingers so that containment measures cannot be lifted until late in August, with economic activity beginning to recover only in Q4.

1. Albania

- **Albania has been hit by two devastating shocks in quick succession:** The November 2019 earthquake³⁴ and the COVID-19 pandemic in spring 2020 that has frozen large parts of the economy. These shocks dominate recent economic developments and the near-term outlook for the economy.
- Reliance on tourism, close ties to the heavily affected Italian economy, and limited fiscal space make Albania **particularly vulnerable to the COVID-19 crisis**.
- Even in a baseline scenario in which most economic life can resume by the start of the summer, annual GDP growth is expected to contract by 5% in 2020.
- The recession and economic support measures are projected to increase the fiscal deficit to 5.4 of GDP in 2020, pushing government debt up to 75.8% of GDP.
- Once the crisis is overcome, normalization of economic activity and earthquake reconstruction are expected to drive a brisk growth, but in the medium-term structural reforms are necessary.
- Because the COVID-19 crisis is unprecedented, uncertainty about the forecast is unusually high³⁵.

Table 9 Selected macroeconomic indicators and projections: Albania

ALBANIA	2018	2019	2020f	2021f
Real GDP growth (percent)	4.1	2.2	-5.0	8.8
Composition (percentage points):				
Consumption	3.9	2.6	-1.3	3.1
Investment	1	-1.1	0.2	1.2
Net exports	-0.8	0.7	-4	4.5
Exports	1	2	-8.5	
Imports (-)	1.8	1.3	-4.5	5.3
GDP per capita, PPP (current international \$)	13,833	14,495		
Consumer price inflation (% , period average)	2.1	1.4	2.1	2.4
Unemployment rate (% , period average)	12.3	12.3	12.8 ³⁶	n.a.
Youth unemployment rate (% , period average)	23.1	26.9	n.a.	n.a.
Labour force participation rate (% , period average, 15+)	59.4	60.4	55.5 ³⁷	n.a.
Public revenues (% of GDP)	27.6	27.8	27	27.9
Public expenditures (% of GDP)	29.4	29.7	32.4	30.5
Of which:				
Wage bill	4.5	4.6	4.8	4.8
Social benefits	11.6	11.9	13.3	12.7
Capital expenditures	4.8	4.5	5.9	5.1
Fiscal balance (% of GDP)	-1.8	-1.9	-5.4	-2.6
Primary fiscal balance (% of GDP)	0.4	0.2	-3.0	-0.1

³⁴ The earthquake that hit Albania on November 26 was severe. It measured 6.3 on the Richter scale, caused 51 fatalities, and displaced the 17,000 people who lost their homes. Damages to physical assets and losses were equivalent to an estimated 7.5 % of GDP. The damages amounted to 26.4% of 2018 gross fixed capital formation. Tourism and housing were hit hardest (11,490 housing units categorized as fully destroyed or demolished need to be rebuilt; another 83,745 housing units were somewhat damaged, needing repair and refitting. In the Durrës municipality, Albania's largest tourism destination, not many hotels were destroyed, but many residential buildings are rented out to tourists), although also damaged were buildings related to education, health and other public infrastructure, manufacturing, and trade. Action by the Albanian government and international partners helped mitigate the adverse human and economic impact.

³⁵ <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf> 29/04/2020;

³⁶ https://www.ilo.org/gateway/faces/home/statistics?_afdf.ctrl-state=93rdc4nsl_4&locale=EN&countryCode=ALB; According to the INSTAT it could be up to 15% in 2020;

³⁷ https://www.ilo.org/gateway/faces/home/statistics?_afdf.ctrl-state=93rdc4nsl_4&locale=EN&countryCode=ALB

Public debt (percent of GDP)	64.6	63.5	71.2	65.9
Public and publicly guaranteed debt (% of GDP)	69.7	68.0	75.8 ³⁸	70.4
Goods exports (% of GDP)	7.7	6.8	6.3	5.9
Goods imports (% of GDP)	30.2	32	30.4	28.7
Net services exports (% of GDP)	8.6	11.4	4.7	8.5
Trade balance (% of GDP)	-13.8	-13.8	-19.4	-14.3
Remittance inflows (% of GDP)	5.2	5.2	5.0	5.0
Current account balance, CAD (% of GDP)	-6.7	-7.6	-12.0	-7.5
Net FDI inflows (% of GDP)	8	7.6	6.7	7.5
Real private credit growth (% , period average)	-3	n.a.	n.a.	n.a.
NPL (percent of gross loans, end of period)	11.1	n.a.	n.a.	n.a.

Source: Country authorities, World Bank estimates and projections, 2020;

Growth decelerated from 4.1 percent in 2018 to an estimated 2.2 percent in 2019. In the first half of 2019, drought had already slashed energy production. Because large FDI-financed energy projects were winding down, investment decelerated, and consumption became the main driver of the economy. When the November earthquake disrupted Q4 GDP, both consumption and investment contracted dramatically.

The economy has the highest employment rate among Western Balkan economies (67% in 2019, age group 15-64). But the unemployment remains still significant (12% in 2019)³⁹. The youth unemployment rate is still high (27 % in 2019) and the high rate of youth not in education, employment or training (26%) is a cause of concern. Active labour market policies and programs have been continuously introduced, but they cover only a limited percentage of the unemployed (5.5% in 2017). 42% of the workforce is currently employed in agriculture (2019), mostly in low-skilled and low-productivity jobs, revealing the need for structural changes in the labour market. Almost 30% of all employment in the non-agricultural sector is informal⁴⁰. According to the INSTAT, registered unemployment rate in Q1 2020 is 11.4%, number of employed person is 1,133 thousands (15% in public sector, 45% in non-agriculture private sector and 40% in agriculture private sector) and activity rate is 53%. Annual inflation averaged to 1.4% in 2019 and expectation for 2020 is 2.5%.

Albania entered the crisis with little space for fiscal and monetary policy to operate. Despite a gradual decline of public debt and an S&P rating confirmed at B+ in February, public debt, which ended 2019 at 68% of GDP, is high. There are also significant contingent liabilities and fiscal risks from public-private partnerships and energy SOEs⁴¹. Moreover, after the monetary policy rate was cut to 0.5% in March, there is little room for any more conventional monetary policy. In addition, in its June budget revision, the Government estimated that the public debt ratio could increase to about 80% of GDP by the end of 2020.

Banks are well-capitalized, highly liquid, and mainly funded by deposits. Nonperforming loans (NPLs) have been reduced through mandatory write-offs, sales, and out-of-court resolution. Foreign-exchange deposits, which to some extent reflect relatively high remittances,

³⁸ DG ECFIN, Candidate Countries Economic Quarterly, Q2 2020, July 2020;

³⁹ According to the Labour Force Survey, during the first quarter of 2020, the employment rate for the population aged from 15 to 64 is 61.4 %. In the first quarter of 2020, the official unemployment rate in Albania, for the population aged 15 years and over is 11.4 %. Compared to the first quarter of 2019, the official unemployment rate decreased with 0.7 percentage points. In the first quarter of 2020, the labour force participation rate for the population aged from 15 to 64 is 69.6 %. In the first quarter of 2020, the official unemployment rate in Albania is 11.4 %. (<http://www.instat.gov.al/en/themes/labour-market-and-education/employment-and-unemployment-from-lfs/#tab2>)

⁴⁰ https://www.ilo.org/budapest/countries-covered/albania/WCMS_461305/lang--en/index.htm

⁴¹ State Owned Enterprise.

rose to 54.6% of total deposits.

When the crisis began, the current account deficit (CAD) was already large but was cushioned by reserves. The CAD widened from 6.7% of GDP in 2018 to 7.6% in 2019. Despite the record high tourism receipts in 2019, low commodity and energy exports plus high energy imports caused the CAD to widen. Foreign direct investment (FDI) in Albania declined to 7.6% of GDP as the investment phase of large energy and gas transmission projects ended. Foreign-exchange reserves, which have been going up consistently for several years, reached €3.3 billion as 2019 ended; their coverage of over 6 months of imports of goods and services are an adequate safeguard against adverse shocks.

However, the current health crisis has substantially diminished Albania's growth prospects. The effects of its supply and demand shocks to the economy could spiral down through several rounds. The economy would face supply shocks due to both disruption in global supply chains and a decrease in the labour supply due to quarantines and social distancing. Given the acute uncertainty about the duration and progression of the pandemic, there may be additional demand effects as workers lose their incomes, particularly in the most affected sectors, such as tourism and hospitality, manufacturing, and nonessential trade. In the likely event of a drop in disposable income, households would consume less, especially durables, which would prevent reconstruction from achieving its full effect. Trade disruptions and foreign investor risk-aversion are also likely to add pressure. Albania's exposure to Italy, the most affected country in the EU, is substantial: Italy receives 47% of exports (mainly manufactures) and is the source of 9.7% of FDI. As recession spreads throughout the entire EU, the external shocks are expected to be higher: the EU receives 94.9% of exports and provides 44% of FDI.

According to the World Bank projection, if the coronavirus outbreak is largely contained by mid-2020, by year-end the economy will still have to deal with a recession of 5%. On the other hand, prolonged disruption of economic activities until August 2020 would cause growth to fall by 6.9 %.⁴².

On 17 February 2020 'Together for Albania' donor conference had just raised €1.15 billion for reconstruction when in March the COVID-19 pandemic plunged the country into an unprecedented—and continuing—public health crisis. The European Commission pledged EUR 115 million of support consisting of two components: a) an initial amount of EUR 15 million, announced already in December 2019, focusing on rehabilitation and reconstruction of education facilities. To allow the urgent launch of the construction operations, it is being implemented through an agreement signed with the United Nations Development Programme (UNDP). It foresees the rehabilitation and reconstruction of 22 schools; b) an additional EUR 100 million was approved on 17 July 2020 through the newly adopted programme focused on rehabilitation and reconstruction of education facilities, the rehabilitation of damaged cultural heritage sites, including monuments, museums, libraries and archaeological sites, contributing in this way also to local economic development⁴³. The government's earthquake reconstruction package of €160 million was mainly for housing.

⁴² <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf> 29/04/2020;

⁴³ <https://euronews.al/en/daily-news/2020/07/17/european-commission-approves-100-million-euros-financial-package-for-reconstruction-after-the-earthquake>

2. Bosnia and Herzegovina

- The coronavirus pandemic poses **the most serious threat** to the BiH economy since the global financial crisis.
- Despite important reductions in internal and external imbalances, **the growth outlook for 2020** is much less optimistic than it was earlier, mainly because of COVID-19 but also because of political gridlock, low capital spending, and slow progress in reforms.
- **The immediate challenge for the government** is to prevent further COVID-19 infections, reinforce medical care, and counteract the negative economic effects of the containment measures.
- Several policy measures to limit the human and economic cost of the pandemic have been announced. However, **the complexity of the country's institutional setup and its limited resources** constrain the provision of support⁴⁴.

Table 10 Selected macroeconomic indicators and projections: Bosnia and Herzegovina

BOSNIA AND HERZEGOVINA	2018	2019e	2020f	2021f
Real GDP growth (percent)	3.6	2.8	-3.2 ⁴⁵	3.4
Composition (percentage points):				
Consumption	n.a.	2.6	-2.6	3.5
Investment	n.a.	0.4	-1.1	0
Net exports	n.a.	-0.2	0.5	-0.1
Exports	n.a.	-0.1	-3.1	0.3
Imports (-)	n.a.	0.1	-3.6	0.3
GDP per capita, PPP (current international \$)	13,200	13,775	14,258	14,550
Consumer price inflation (% , period average)	1.4	0.6	0.7	0.5
Unemployment rate (% , period average)	18.4	15.7	18.4 ⁴⁶	n.a.
Youth unemployment rate (% , period average) ⁴⁷	38.8	33.8	n.a.	n.a.
Labour force participation rate (% , period average)	42.1	42.1	n.a.	n.a.
Public revenues (% of GDP)	42.7	42.6	42.4	43.9
Public expenditures (% of GDP)	40.2	43.2	46.1	42.5
Of which:				
Wage bill	10.2	11	11.6	11.3
Social benefits	17.8	18.1	19.9	19.1
Capital expenditures	2.8	3.6	2.7	2.4
Fiscal balance (% of GDP)	2.5	-0.5	-3.7	1.4
Primary fiscal balance (% of GDP)	3.2	0.3	-2.9	2.3
Public debt (percent of GDP)	34.2	33.1	37.1	36.6
Public and publicly guaranteed debt (% of GDP)	35.6	34.6	37.4	37.2
Goods exports (% of GDP)	31.2	29	27.2	27
Goods imports (% of GDP)	53.6	51.8	49.3	49.1
Net services exports (% of GDP)	7.4	7.5	6.8	7.2
Trade balance (% of GDP)	-15	-15.2	-15.3	-14.9

⁴⁴ <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf> 29/04/2020;

⁴⁵ 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 (<https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Bosnia-and-Herzegovina.pdf>)

⁴⁶ https://www.ilo.org/gateway/faces/home/statistics?_adf.ctrl-state=5qiz0dvam_4&locale=EN&countryCode=BIH

⁴⁷ BiH remains the only Western Balkan economy where employment is yet to recover to the levels seen before the 2008 crisis; high youth unemployment and high levels of long-term unemployment remain major sources of concern. Youth unemployment continues to contribute to an endemic brain drain from the country and is the highest in the WB region.

Remittance inflows (% of GDP)	8.1	8.4	7.4	7.8
Current account balance (% of GDP)	-3.9	-3.7	-4.8	-4.2
Net FDI inflows (% of GDP)	2.5	2.7	2.6	2.8
Real private credit growth (% , period average)	5.1	5.2	n.a.	n.a.
NPL (percent of gross loans, end of period)	8.8	7.4	n.a.	n.a.

Source: Country authorities, World Bank estimates and projections, 2020;

BiH economy, which was already in the grip of a slowdown, is now confronted by the possibility of a deep recession as the coronavirus outbreak crimps economic activity. In 2019 real GDP growth slowed from 3.6% in 2018 to 2.8% in 2019 because of a less supportive external environment and domestic political uncertainty. Slower growth in the Euro zone, the largest BiH export market, and regional trade disputes contributed to a fall in exports, as did a slump in industrial production, resulting in part from temporary output disruptions at large exporting firms. Delayed formation of the government also delayed policy-making and impaired confidence in the economy. Consumption growth moderated adding 2.6 percentage points (pp) to economic growth in 2019, investment added 0.4 pp, but net exports subtracted 0.2 pp. More recent data for Q1 2020 indicate a sharp broad-based slowdown of economic activity as a result of the current pandemic.

Unemployment, already high, is expected to increase as a result of COVID-19. The unemployment rate fell from 18.4% in 2018 to 15.7% in 2019⁴⁸ as employment⁴⁹ rose to 35.5%, though the activity rate was unchanged. However, the labour market still suffers from high structural unemployment, and the falling unemployment rate partly reflects the country's aging and shrinking workforce. Job creation has been minimal, and the COVID-19 now threatens loss of a significant share of existing jobs, especially in the service industry. BiH labour market presents a formidable challenge in the unfolding crisis, with over 20,960 jobs lost in FBiH since the start of the pandemic through April 14, according to FBiH tax authority data. In the RS, authorities estimate that about 800 jobs have been lost.

According to **the ILO data**, although the economy of Bosnia and Herzegovina has been expanding steadily in the past few years, job creation has not kept up and the country shows one of the most challenging labour market situations in the region. Employment and activity rates remain very low. Unemployment remains high despite a downward trend in recent years (15.7% in 2019) and especially among youth (34 % in 2019). One out of four youth is neither in education, employment nor in training. The country has one of the lowest female employment rates in the Balkans (around 27%). The share of informal employment in total employment is relatively high (30%). The outward migration coupled with a rapidly aging population put a strain on the social security systems, challenging their sustainability over the long-term. Because of the political divisions in the country and a rather fragmented government structure the public administration has difficulties in coming up with solid diagnostics and the necessary reforms of education, labour markets and social policies. For the same reasons the administration cannot guarantee sufficient outreach and coverage of related services like employment services or active labour market programs. Social dialogue and stakeholder involvement are poorly developed when developing new labour legislation or other reform measures⁵⁰.

⁴⁸ The average number of unemployed in 2019 was 411.2k which was about 9% less compared to 2018, and it represented the major fall of number of the unemployed persons in BiH to date. The decrease of unemployment was evidenced in the both Entities (Bosnia and Herzegovina, Economic Trends in 2019, Annual Report, 23.7.2020).

⁴⁹ 2019 Labour Force Survey.

⁵⁰ ILO, Data about Bosnia and Herzegovina, https://www.ilo.org/budapest/countries-covered/bosnia-herzegovina/WCMS_471903/lang--en/index.htm

The financial sector is expected to remain stable even with the COVID-19. Credit growth has been positive and accelerating in 2019, with lending growing faster to households than to businesses. Most banks are sufficiently capitalized, liquid, and profitable but the performance of foreign-owned and domestic banks differs. The latter suffer from lower capitalization, high nonperforming loans (NPLs), and falling intermediation margins. NPLs are high at 7.4% (Q4 2019) but seem to be sufficiently provisioned by most banks.

The fiscal deficit is expected to persist in 2020 due to COVID-19. In 2019, the deficit was estimated at 0.5%⁵¹ of GDP, down from a surplus of 2.5 percent⁵² in 2018 as growth in public spending outpaced a solid expansion in revenue. The main upward spending pressure has been on the public wage bill: after several years of freezes both entities increased wages for public employees, and FBiH raised the minimum pension by 3.2%. Capital spending rose by 3.6 pp in 2019 mainly due to investments in roads, and at yearend total public debt was a moderate 33.1% of GDP. Fiscal discipline has been largely maintained, clearing some space to address the economic and human costs of the pandemic. Still, with the additional financing needs the authorities have announced, public debt is estimated to rise to about 37.4% in 2020.

In 2019 the current account deficit (CAD) narrowed to 3.7%. The improvements are the result of increased worker transfers and services offsetting the widening trade deficit. Exports fell by 2.3% and imports rose by 1.3%. Exports were weighed down by the slowdown in economic growth in the EU and the loss of markets for some commodities due to regional trade disputes. Rises in other components of the CAD, such as the services surplus arising from construction, transport, travel, and remittances, have been sufficient, supported by FDI and other investment, to finance a significant part of the CAD. FDI rose by 12.1% in 2019 and, together with other investment, was sufficient to finance the CAD. Reserve coverage seems to be adequate thanks to official inflows, remittances, and FDI. Because monetary policy is managed through a currency board, it is important that the Central Bank of BiH (CBBiH) remain independent in crises. In particular it is vital not to use its reserves to finance the CAD. Due to COVID-19, the CAD is expected to widen as trade conditions worsen and receipts from other trade services slow.

The outlook is affected by the measures taken to combat the pandemic. What started as a shock to the health sector has quickly become an economic crisis that has engendered both a supply and a demand shock. BiH production and supply chains are being disrupted as measures to contain the pandemic are imposed. The outlook is subject to significant uncertainty.

The effects on BiH's small and open economy⁵³ will affect almost every sector of the economy. In addition to the containment measures that have been introduced, an acute contraction in tourism and connected sectors, such as accommodation and food; real estate (5%); transport; and wholesale and retail sales will cut deeply into private consumption, which is still the main driver of the economy (74% of GDP) but is expected to decline by -1.9% in 2020. Disruption in supply chains and lower demand from the EU will cause declines in both manufacturing and exports of goods and services. The export is projected to decline by 8.8% and imports by 6.5% as demand drops in both the EU and Western Balkan economies. Investment is also expected to decline sharply in 2020 (-6.2%). In 2019 BiH had already seen a severe decline in industry and export-oriented manufacturing (the second largest individual sector, accounting for 14.2% in GDP), and a further decline of -6.5% is expected in 2020, though with a less

⁵¹ BiH Global Fiscal Framework for 2020-22.

⁵² See Consolidated CBBiH data, available at the CBBiH Panorama web portal;

⁵³ Level of openness, i.e. foreign trade is 81.3% of GDP;

pronounced impact on production of food, beverages, and hygienic products. Sectors oriented to the domestic market or connected to online services are less likely to be directly affected by COVID-19 due to higher demand or fewer disruptions; they include agriculture, information and communication (ICT), and health and social services. Looking at the expenditure side of GDP, the only stabilizing factor is public consumption, which is expected to grow by 0.8%.

Increased financing needs will reverse the recent downward debt trajectory, but debt is expected to remain sustainable. The fiscal deficit should widen to 3.7% of GDP this year compared to last year. Compared to the agreed global fiscal framework the expected fall is from a 1.2% surplus to a 3.7% deficit because of higher spending on health and social and economic support, and lower revenues. The authorities plan to expand the country's social safety net to provide help to individuals by, e.g., extending unemployment benefits; they are also considering measures to support the businesses most affected by the crisis. Because part of the increased financing needs will be met through borrowing, the general government debt-to-GDP ratio is projected to rise from 33% in 2019 to about 37.4% this year. Inflation will again be subdued: along with weak demand and lower private consumption, downward pressure on consumer prices will be exerted on transport and housing costs, which depend heavily on oil prices and make up 27.3% of the CPI.

There are notable risks to the economic outlook, both domestic and external. In the short term, COVID-19 is the largest risk. Difficulty containing the outbreak promptly could result in the downside scenario (-4.2%). The unfolding economic crisis, together with the challenging political environment, will make it difficult to carry out the new socioeconomic program, especially in such areas as infrastructure, energy, and transport, which could further affect growth. During and after the unfolding crisis, a major challenge will be to address unemployment and minimize layoffs in the private sector. The main external risk for BiH will continue to be slow growth in the EU and political tensions within the region.

Beyond the current crisis, it is important that BiH keep to its structural reform path to address medium-term challenges. Reforms are necessary to address long-standing structural and institutional weakness and to enhance competitiveness. BiH needs to unleash the potential of the private sector as it reduces the footprint of the very large public sector. It also needs to shift its economy from a focus on local consumption and imports to one that recognizes the potential of international integration through investments and exports. To achieve this, the country needs a business environment that allows companies to grow and expand output, employment, and exports. Currently, incentives for reform are misaligned, and unfavourable demographics exacerbate the problems⁵⁴.

3. Kosovo*

- Kosovo* was projected to grow at about 4% in 2020; however, because of the COVID-19 outbreak, the economy is expected to contract by 4.5% as service exports, public and private investment plunge.
- If the outbreak is prolonged and containment measures are maintained through the third quarter of 2020, the recession may be longer and the revenue shortfall larger, limiting further policy response.

⁵⁴ <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf> 29/04/2020;

- The government has announced a stimulus package of **2.8% of GDP** to support affected citizens, businesses, and professions. Adequate targeting of this package remains crucial in softening the economic, poverty, and social impact of the crisis.

Table 11 Selected macroeconomic indicators and projections: Kosovo*

KOSOVO*	2018	2019e	2020f	2021f
Real GDP growth (percent)	3.8	4.2	-4.5	5.2
Composition (percentage points):				
Consumption	5.4	2.3	1.2	3
Investment	2.1	1.7	-6.1	3.1
Net exports	-3.8	0.2	0.4	-0.8
Exports	1	2.8	-3.4	1.8
Imports (-)	4.8	2.5	-3.8	2.6
GDP per capita, PPP (current international \$)	4,423	4,409	4,318	4,615
Consumer price inflation (% , period average)	1.1	2.7	1.6	1.8
Unemployment rate (% , period average)	29.5	25.7	n.a.	n.a.
Youth unemployment rate (% , period average)	55.4	49.4	n.a.	n.a.
Labour force participation rate (% , period average)	40.9	40.5	n.a.	n.a.
Public revenues (% of GDP)	26.1	26.7	24.4	26.1
Public expenditures (% of GDP)	29	29.5	30.7	30.5
Of which:				
Wage bill	8.8	8.7	9.4	8.9
Social benefits	6.1	6.3	7.1	6.3
Capital expenditures	7.9	7.5	4.4	7.8
Fiscal balance (% of GDP)	-3	-2.9	-6.3	-4.4
Primary fiscal balance (% of GDP)	-2.7	-2.5	-5.8	-3.9
Public debt (percent of GDP)	16.3	17	22.5	23.3
Public and publicly guaranteed debt (% of GDP)	16.9	17.6	23.1	23.9
Goods exports (% of GDP)	5.6	5.6	5	5
Goods imports (% of GDP)	46.3	45.7	45.8	43.5
Net services exports (% of GDP)	12.7	13.2	13.3	11.5
Trade balance (% of GDP)	-28	-26.9	-27.5	-27
Remittance inflows (% of GDP)	11.3	12.0	11.6	12.3
Current account balance (% of GDP)	-7.6	-5.5	-7.2	-6.7
Net FDI inflows (% of GDP)	3.4	2.8	2.9	3.4
Real private credit growth (% , period average)	10.1	7.8	n.a.	n.a.
NPL (percent of gross loans, end of period)	2.5	2.0	n.a.	n.a.

Source: Country authorities, World Bank estimates and projections, 2020;

The economy continued to grow at 4.2% in 2019, but the COVID-19 outbreak interrupts the growth momentum. The main drivers of growth will continue to be consumption and service exports, predominantly travel services to the diaspora of Kosovo*. Private consumption added 1.8 percentage points (pp) to growth, supported by a double-digit expansion of credit, higher remittances, and higher employment. Government consumption added another 0.5 pp. Exports overall added 3.9 pp to growth thanks to reactivation of the Ferronickel plant and solid growth in services exports growth due to diaspora tourism. Investment in general contributed 1.3 pp to growth, fuelled by higher lending and private investment in construction; public investment held constant in nominal terms. On the production side, services— primarily trade and financial services—were the main engine of growth, followed by industry. Agriculture subtracted from growth for the second consecutive year.

Labour market indicators improved in 2019 but are weak compared to other economies in the Western Balkans. The employment rate increased by an average of 1.3 pp in 2019, compared to the same period in 2018, but is still the lowest in the region. Unemployment dropped by 3.9 pp as more citizens found jobs, but labour force participation dropped by 0.4 pp, and participation averages a low 40.5 percent. Thus, as Kosovo* enters the COVID-19 crisis, 70 percent of the working-age population are not employed.

Because Kosovo* ended 2019 with higher government deposits and **relatively low debt**, it has some fiscal room to mitigate the effects of the pandemic, albeit limited by the concurrent growth of current expenditure. At yearend 2019 Kosovo* had a deficit of 2.9% of GDP. Revenues grew by percent driven by strong growth and higher tax debt collections; spending went up by 7.4% as current spending went up. Capital spending rose by just 0.2%, with notable underspending on projects financed by external debt. As a result, government cash deposits increased by 0.5 pp, to 5.2% of GDP (€367 M). Public and publicly guaranteed debt remains low at 17.6% of GDP.

The performance of the financial sector supported growth in 2019, but the COVID-19 outbreak will put pressures on the sector. Continuing the 2018 momentum, bank loans to corporations grew by 9.8%, and household loans grew by 10.4%. In December 2019 nonperforming loans made up 2% of total loans. Average effective interest rates on new loans decreased slightly, from 6.6 to 6.5%, and household loan rates had a more pronounced drop, from 7.2 to 6.8%. In the banking sector deposit growth of 16%, surpassed loan growth of 10%. Capital adequacy at 15.9% at yearend was above the regulatory minimum, and stress tests show that the sector is resilient to significant shocks.

The current account deficit (CAD) improved in 2019 as import growth slowed and exports increased, but the external balance is highly susceptible to diaspora-driven service exports, remittances, and foreign direct investment (FDI). The CAD dropped to 5.5% in 2019. At yearend reserve coverage was up from months of imports in 2018 to 3.6 months. Merchandise import growth decelerated from to 3.8% as large public infrastructure projects were completed in early 2019. Merchandise exports grew by 4.4% y-o-y and service exports by 7.3%. The share of service exports, mainly diaspora visits, increased to 23.4% of GDP. Net FDI stayed low at 2.8% of GDP, concentrated mainly in real-estate purchases by non-residents of Kosovo*. Remittances continued to be the main source of financing for the external deficit, which went up by 7.9% to an estimated percent of GDP.

In 2020 the COVID-19 outbreak will weigh on Kosovo's* growth. The impact of the COVID-19 outbreak will be transmitted through both external channels and lower domestic demand. According to the World Bank projection, if the coronavirus outbreak is largely contained by mid-2020, by year-end the economy will still have to deal with a recession of 4.5%. On the other hand, prolonged disruption of economic activities until August 2020 would cause growth to fall by -11.3 %.

Advancing structural reforms in the medium term will be necessary to reverse the negative economic impact of the outbreak and help citizens to become more resilient to future negative shocks. The epidemic has proved the importance of well-functioning social protection mechanisms that can identify and support groups vulnerable to adverse economic shocks while preserving fiscal buffers. Better targeting of social protection spending to the poorest is crucial for faster poverty reduction and as an automatic stabilizer to prevent a steep decline in consumption. To sustain high and inclusive growth it is also necessary for Kosovo* to boost productivity by reducing the administrative burden on firms, e.g., by better coordinating

business inspections, investing in human capital, and improving rule of law so that all firms and citizens are treated fairly⁵⁵.

4. Montenegro

- The COVID-19 crisis has exposed Montenegro's vulnerability to **external shocks**
- Montenegro's growth was expected to moderate, but the crisis is projected to push the economy into **recession** primarily due to a plunge in tourism, which has multiplier effects on all sectors
- If outbreaks prolong after August, the recession will be severe resulting in significant revenue shortfalls in 2020
- The government has adopted **measures** to help soften the economic and social impacts, but the country's limited fiscal buffers constrain their financing and scale
- If an economic recovery with high growth is to be sustainable over the medium term, Montenegro must **improve the economy's resilience to shocks** by addressing its internal and external imbalances and boosting productivity growth

Table 12 Selected macroeconomic indicators and projections: Montenegro

MONTENEGRO	2018	2019e	2020f	2021f
Real GDP growth (percent)	5.1	3.6	-5.6	4.8
Composition (percentage points):				
Consumption	5.2	2.8	-3.7	4.7
Investment	4.9	-0.5	-3.9	-2.2
Net exports	-5	1.2	2.1	2.3
Exports	3.4	3.2	-9.5	7.4
Imports (-)	8.4	2	-11.5	5.1
GDP per capita, PPP (current international \$)	21,994	21,950	20,974	22,230
Consumer price inflation (% , period average)	2.6	0.4	0.2	1.5
Unemployment rate (% , period average, LFS)	15.2	15.1	18.26 /July	n.a.
Youth unemployment rate (% , period average)	29.4	25.2	n.a.	n.a.
Labour force participation rate (% , period average, LFS, activity rate)	56	57.4	55.2 (1Q)	n.a.
Public revenues (% of GDP)	42	43.6	44.1	44.1
Public expenditures (% of GDP)	46.6	46.6	51.3	44.1
Of which:				
Wage bill	11.2	11.1	12.4	12.1
Social benefits	11.7	11.3	13.8	12.3
Capital expenditures	8.5	8.8	7.6	4.6
Fiscal balance (% of GDP)	-4.6	-3	-7.1	0
Primary fiscal balance (% of GDP)	-2.4	-0.8	-4.9	2.2
Public debt (percent of GDP)	70.1	77.2	83.1	73.6
Public and publicly guaranteed debt (% of GDP)	74.1	80.7	86.9	77.1
Goods exports (% of GDP)	9.4	9.5	9.4	9.5
Goods imports (% of GDP)	53.3	51.5	46.9	47.3
Net services exports (% of GDP)	20.1	20.7	14.7	19.3
Trade balance (% of GDP)	-23.9	-21.4	-22.7	-18.6
Remittance inflows (% of GDP)	4	4	3.4	4
Current account balance (% of GDP)	-17	-15.2	-17	-12.9

⁵⁵ <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf> 29/04/2020;

Net FDI inflows (% of GDP)	6.9	7	3	8
Real private credit growth (% , period average)	5.9	6.7	n.a.	n.a.
NPL (percent of gross loans, end of period)	7.4	5.1	n.a.	n.a.

Source: Country authorities, World Bank estimates and projections, 2020;

The COVID-19 pandemic and the associated containment measures have begun to stifle economic activity. Although in 2018 growth expanded briskly at 5.1%, in 2019, growth fell to 3.6% due to lower domestic demand. Private consumption still was the backbone of 2019 growth, adding 2.6 percentage points (pp); it was supported by booming tourism, solid lending to households, and higher employment. However, under execution of highway spending caused investment to decelerate, subtracting 0.5 pp from growth. Strong service exports resulted in a positive net exports contribution to growth of 1.2 pp but industrial production contracted by 6.3% and construction began to cool. Retail trade, on the other hand, grew by percent 5.2 and tourist arrivals by 10.3%. The travel restrictions amid the COVID-19 pandemic started reversing this trend in the first quarter of 2020.'

Montenegro entered the COVID-19 crisis with employment at a historical high. In 2019 employment went up 2.6%, mostly in construction, tourism, and retail sectors. The participation and employment rates reached their record highs of 57.4 and 48.7%. The unemployment rate was 15.1% and youth unemployment rate fell to a record low of 25.2%. Yet many Montenegrins of working-age entered the COVID-19 crisis without a job.

In **July 2020**, official unemployment rate is **18.26%** (July 2019 – 14.9%)⁵⁶. Level of registered unemployment in July 2020 is 42.367; in comparison with February 2020 is lower for 20% (6.785 persons lost their jobs). Labour participation and employment rate in the first quarter of 2020 are 55.2% and 46.0% respectively (LFS). Registered employment in June 2020 (178.178) is lower for 17% in comparison with June 2019.

From 2.6% in 2018, inflation fell to just 0.4 percent and the recent plunge in oil prices is further cooling it. In March and April 2020 the COVID-19 pandemic pushed down global commodity prices, further reducing inflationary pressure. After dropping by 2.5% in 2018, real wages grew by 0.5% in 2019.

Though bank lending has remained robust, the pandemic will severely test the financial sector. In 2019 bank lending, mainly to households, grew by 4.5%. After two banks were liquidated early in the year, deposits recovered slightly, growing in 2019 by 0.5%. In December, nonperforming loans fell to 5.1% of total loans, and the capital adequacy ratio was a healthy 17.7%. The uneven distribution of profits discloses vulnerabilities of some smaller banks. Although declining asset quality will reduce profitability, the financial sector can play an important role to mitigating the economic impact of the crisis.

External imbalances lessened as lower tourism receipts are starting to reverse this trend in 2020. As the trade deficit shrank, the current account deficit (CAD) narrowed in 2019 from 17% of GDP in 2018 to 15.2%. The strong tourism season had boosted exports in 2019, but imports grew much more slowly. The primary account shrank as remittance inflows held at 5% of GDP. Net FDI covered almost half of the CAD; the rest was mostly financed by external debt. In December 2019, foreign reserves covered 6.3 months of merchandise imports.

⁵⁶ Employment Office of Montenegro, August 2020;

As a result of recent consolidation efforts, Montenegro's fiscal position as it entered the COVID-19 crisis was significantly better than it was two years ago. Continued fiscal consolidation reduced the fiscal deficit from 4.6% of GDP in 2018 to 3% in 2019. A new law taking over the debt and capital spending of Montenegro Airlines' debt and capital expenditures implies an estimated total net fiscal impact of about 1.5% of GDP over the next five years. Supported by favourable global financial conditions, in September 2019 Montenegro issued a €500 million Eurobond at a record-low interest rate of 2.55% and a record-long maturity of 10 years. This pushed public and publicly guaranteed (PPG) debt to 81% of GDP in 2019 but the proceeds were deposited, and some were used in March 2020 to repay €320 million in Eurobonds; the rest will be used to fill 2020 financing needs. Revenues in the first quarter of 2020 were stronger than a year ago but the crisis impact is expected to become evident in the second quarter.

The COVID-19 pandemic exposes how vulnerable Montenegro is to external shocks. This health crisis is different from past crises because it implies shocks to both supply (value chain disruptions) and demand (lower earnings, the effects of social distancing). It affects economies through a variety of channels, among them underutilization of human and physical capital, lower commodity prices, fewer tourists, capital outflows from emerging market, credit rationing, and higher uncertainty. Montenegro is particularly vulnerable to the economic downturn caused by the COVID-19 pandemic due to its high reliance on the tourism sector (critical driver of growth) as well as high external financing needs. The country's lack of monetary policy, limited fiscal buffers, and high public debt amplify its vulnerability⁵⁷.

Ministry of Finance revised its projections for GDP growth in July 2020: for 2020 it is -6.8% and for 2021, 2022 and 2023 it is 4.9%, 4.2% and 3.4% respectively. Public debt 2020-2023 is projected on the level of 82.5, 82.0, 78.5 and 73.6% of GDP respectively (without guarantees)⁵⁸.

5. North Macedonia

- After a robust 3.6% growth in 2019, the outlook for 2020 is for a **recession** amid the unprecedented downside risks due to the coronavirus pandemic
- After a historical low in 2019, **unemployment rate** will rise as the firms worst affected by the pandemic begin defensive restructuring despite government subsidies
- **The fiscal deficit and debt** will widen as the impact of the pandemic on fiscal outcomes is compounded by the 2019 procyclical policies (through wage and transfers' increases)
- While mitigating the crisis impact takes **priority**, once conditions normalize NATO accession and launch of the EU accession negotiations offer the country an opportunity to accelerate fiscal, competition, judicial, and regulatory reforms for faster recovery

Table 13 Selected macroeconomic indicators and projections: North Macedonia

NORTH MACEDONIA	2018	2019e	2020f	2021f
Real GDP growth (percent)	2.7	3.6	-1.4	3.7
Composition (percentage points):				
Consumption	3.3	3.6	0.6	3.8
Investment	-2.6	2.1	-0.1	1.9
Net exports	2	-2.1	-1.9	-1.9
Exports	9.2	5.5	-0.1	4.1

⁵⁷ <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf> 29/04/2020;

⁵⁸ Ministry of Finance, Macroeconomic and Financial projections 2020-2023, 9 July 2020.

Imports (-)	7.3	7.6	1.7	6
GDP per capita, PPP (current international \$)	16,359	17,046	17,096	17,831
Consumer price inflation (% , period average)	1.5	0.8	2.1	1.8
Unemployment rate (% , period average)	20.7	17.3	20	18.3
Youth unemployment rate (% , period average)	37.1	32.8	n.a.	n.a.
Labour force participation rate (% , period average)	56.9	57.2	56.9	57.4
Public revenues (% of GDP)	30.5	31.2	28.2	31.2
Public expenditures (% of GDP)	31.6	33.3	32.9	33.8
Of which:				
Wage bill	6.3	6.3	6.3	6.1
Social benefits	15.3	15.5	16.5	15.4
Capital expenditures	2.5	3.4	1.9	3.8
Fiscal balance (% of GDP)	-1.1	-2.1	-4.7	-2.7
Primary fiscal balance (% of GDP)	0.1	-1	-3.5	-1.5
Public debt (percent of GDP)	40.6	40.2	46	46.7
Public and publicly guaranteed debt (% of GDP)	48.6	48.8	55.7	56.4
Goods exports (% of GDP)	45.6	47	45.8	46.9
Goods imports (% of GDP)	61.8	64.3	64.6	64.3
Net services exports (% of GDP)	3.4	3	2.8	2.9
Trade balance (% of GDP)	-12.8	-14.3	-16	-14.6
Remittance inflows (% of GDP)	1.9	1.7	1.7	1.6
Current account balance (% of GDP)	-0.1	-2.8	-3.3	-2.1
Net FDI inflows (% of GDP)	5.6	2.6	1.4	4
Real private credit growth (% , period average)	5.7	4.9	n.a.	n.a.
NPL (percent of gross loans, end of period)	5.1	4.6	n.a.	n.a.

Source: Country authorities, World Bank estimates and projections, 2020;

The economy continued to expand in 2019 before COVID-19 interrupted the upturn economic cycle. Growth accelerated in 2019 to 3.6%, up from 2.7% in 2018. The main contributors—wholesale and retail trade, construction, and real estate services— together added 1.7 percentage points (pp) to growth. Agriculture and public services each contributed 0.3 pp, while due to a slowdown in late 2019 the contribution of manufacturing was neutral. The energy sector and mining added to the growth. On the demand side, the main contributor to growth was private consumption (2.6 pp) spurred by rising wages, employment, pensions, and household lending. Investments added another 2.1 pp, but as import growth surpassed exports net exports subtracted from growth.

The labour market continued to improve. Employment went up by 5.1% y-o-y, more than doubling growth in 2018, partly thanks to government employment schemes. Manufacturing, trade, transport, accommodation, administrative services, and entertainment created the most jobs. The employment rate further improved to 48.4% in 2019—up 3.2 pp, as unemployment rate declined to 17.3%, down 3.5 pp. The participation rate improved marginally (to 57.2%) but in the most dynamic regions around technological zones labour shortages continued. However, the administrative unemployment data already suggests an increase by 1.4% y-o-y by March 2020 as firms cope with the COVID-19 crisis.

Wage pressures intensified in 2019. The average gross wage increased in real terms by 4.1%, mainly because a continued increase in the minimum wage, particularly affected such labour-intensive industries as construction, textiles, and agriculture. Public sector wages also went up with the largest impact to be felt in 2020. In January 2020, average real gross wage increased by 12.2 % y-o-y. The continued trend of wage growth, coupled with a decline in labour productivity

in most sectors, is making the economy less competitive. Average inflation remained low in 2019: consumer prices rose by 0.8 y-o-y because of higher prices for food. Moreover, it further slowed down to 0.6 percent y-o-y by March 2020 as oil prices declined.

The external imbalance widened ahead of the crisis. In 2019 current account deficit reached 2.8 % of GDP, compared to just 0.1% in 2018. FDI-related exports like automobile parts, electrical machinery, and buses grew at double-digit rates, and exports of furniture, iron, and steel were solid, but traditional apparel exports declined. However, the trade deficit hit 14.3% of GDP because of rising imports, and lower net services exports due to an outflow of intellectual property services in late 2019. Net current transfers declined driven by a fall in remittances and EU grants. Though very low in early 2019, by year- end net foreign direct investment picked up to reach 2.6% of GDP. External debt was relatively stable at 74% of GDP.

In 2019 the banking sector supported growth. Credit growth of 6 % was led by household loans (10.5 % y-o-y), accounting for 80 % of total growth in credit; for credit to businesses growth was just 1.9%. At 4.6% nonperforming loans (NPLs) were down from 5.1% in but corporate NPLs stood at 7.4%, down from 7.8 %. Deposit growth was a buoyant 10.1% y-o-y, for a loan-to- deposit ratio of 83.1%. Banks thus have ample room to lend more.

The fiscal deficit widened as spending increased more than revenues. The general government deficit was 2.1% of GDP in 2019; the increase in general government revenues of 0.7 pp of GDP was not enough to compensate for spending that was up by 1.7 pp of GDP. The rise in revenues was underpinned by social contributions, which were up by 10% y-o-y because pension and health contribution rates rose in January 2019, personal income tax (though the higher rate introduced in January was suspended in September), VAT, and one-off nontax revenues. On the other hand, higher spending was driven by the government scaled up subsidies for wages and social contributions; higher spending for goods and services; and clearance of local government arrears. From a historic low in 2018, capital spending went up to 3.4 % of GDP, not counting the operations of the Public Enterprise for State Roads (PESR). With PESR, capital spending would be 4.4 % of GDP, and the deficit 2.4 % of GDP. Public and publicly guaranteed debt was up slightly from 2018 at 48.9% of GDP.

Unprecedented downside risks related to the coronavirus pandemic now confront the economy, which entered recession in Q2 2020. On March 18, the president declared a state of emergency and the government announced measures to contain the impact of the coronavirus crisis. Due to the crisis, the snap elections scheduled for April have been postponed for 15 July. The growth projections reflect the uncertainty surrounding the ultimate severity and duration of the pandemic. While the magnitudes are uncertain, the channels of transmission are clear. On the one hand, the pandemic is pushing down commodity prices; while on the other is disrupting global and regional supply chains, reducing travel and tourist arrivals, decreasing demand for exports, and reducing household demand as containment measures and job losses change household incomes and behaviour.

If the coronavirus outbreak is largely contained by mid-2020, by year-end the economy will still have to deal with a recession of 1.4%. On the other hand, prolonged disruption of economic activities until August 2020 would cause growth to fall by -3.2 %, the biggest drop since 2001. The prolonged shock would worsen the contraction in demand and probably cause a longer disruption of supply chains.⁵⁹

⁵⁹ <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf> 29/04/2020;

6. Serbia

- After solid growth of 4.2% in 2019, the Serbian economy is now dealing with a COVID-19-related recession
- **Unemployment** at a historical low of 10.4% in 2019 will help to cushion the negative impact
- However, both **external and fiscal imbalances** are widening: the current account deficit reached 6.9% of GDP in 2019, and the small fiscal deficit from 2019 is expected to go up significantly in 2020.
- As the COVID-19 pandemic spreads, chances are rising that **the economic scenario** will worsen

Table 14 Selected macroeconomic indicators and projections: Serbia

SERBIA	2018	2019e	2020f	2021f
Real GDP growth (percent)	4.4	4.2	-2.5 ⁶⁰	4.0
Composition (percentage points):				
Consumption	2.8	2.7	-1.9	2.8
Investment	4.2	3	-1.3	1.4
Net exports	-2.6	-1.5	0.8	-0.2
Exports	4.3	4.6	-5.7	4.3
Imports (-)	6.9	6	-6.5	4.5
GDP per capita, PPP (current international \$)	17,552	18,564	19,767	21,067
Consumer price inflation (% , period average)	2	1.9	2	2.2
Unemployment rate (% , period average)	12.7	10.4	13.9	13.6
Youth unemployment rate (% , period average)	29.8	27.6	n.a.	n.a.
Labour force participation rate (% , period average)	54.5	54.6	n.a.	n.a.
Public revenues (% of GDP)	41.5	42.1	37.7	41.1
Public expenditures (% of GDP)	40.9	42.3	45	42.9
Of which:				
Wage bill	9.2	9.5	9.8	9.8
Social benefits	14.7	14.5	15.9	14.8
Capital expenditures	3.9	4.9	3.7	4.5
Fiscal balance (% of GDP)	0.6	-0.2	-7.3	-1.8
Primary fiscal balance (% of GDP)	2.8	1.8	-5.5	0.2
Public debt (percent of GDP)	50.8	49.7	56.9	52.3
Public and publicly guaranteed debt (% of GDP)	54.4	52.9	63.9	57.3
Goods exports (% of GDP)	35.2	35.8	34.4	35.1
Goods imports (% of GDP)	47.1	48	44	47.5
Net services exports (% of GDP)	2.3	2.3	1.2	2.6
Trade balance (% of GDP)	-9.5	-9.9	-8.4	-9.8
Remittance inflows (% of GDP)	6.4	5.8	4.8	5.2
Current account balance (% of GDP)	-4.8	-6.9	-7	-7.5
Net FDI inflows (% of GDP)	7.4	7.8	4.8	5.2
Real private credit growth (% , period average)	3.7	7.1	n.a.	n.a.
NPL (percent of gross loans, end of period)	5.7	4.1	n.a.	n.a.

Source: Country authorities, World Bank estimates and projections, 2020;

The Serbian economy grew by a solid 4.2% in 2019 but it is now threatened by a COVID-19-

⁶⁰ Projection of Ministry of Finance is -1.8%, August 2020;

related recession. In the second half of the year the government stepped up efforts to complete the gas pipeline to Bulgaria (part of the “Turkish Stream”), which lifted real GDP growth by 0.7 pp. Resilient to global developments, Serbian exports grew by 8.7% in 2019. The main drivers of growth were services, up 4.2% and construction, up 30.2%.

Before the pandemic the labour market had improved significantly. According to Labour Force Survey data, in 2019 unemployment fell to an estimated 10.4% (annual average, population age over 15) and employment reached a record-high 49%. Average wages also went up, by 10.6% in nominal terms. According to data for July 2020, number of registered employment is 2,197 thousands (y-to-y growth of 1.6% and growth of 0.5% in comparison with IQ2020)⁶¹. Unemployment in July 2020 was 517.997 (y-to-y reduced only for 0.03%).⁶²

Low inflation and a sound banking sector are a solid foundation for pandemic responses. Inflation in 2019 was low and stable, as it was through February 2020, with prices up 1.9%. In March inflation eased to 1.3%. To stimulate the economy, the National Bank of Serbia (NBS) continued to lower the key policy rate—in March by 50 bps to 1.75%, and in April further down to 1.5%. After a small appreciation in 2019, the dinar held steady in Q12020. The NBS intervened regularly in the foreign exchange market. Consequently, official foreign currency reserves declined by €264 million and stood at €13.9 billion in June 2020. The banking system is performing well with a continued increase in lending (up by 10.3%, y/y, as of February), while NPLs continued to decline. Gross nonperforming loans (NPLs) declined to 4.1% in December 2019 and remained unchanged through end-February.

The widening current account deficit (CAD) has become a concern as the COVID-19 pandemic has caused international financial markets to tighten, thus making its financing more difficult. In 2019 the CAD went up by 52% from 2018 and hit 6.9% of GDP. Most of the rise is explained by the fact that the trade deficit widened by 10.4%. Exports of goods rose by 8.8%, despite a slowdown in Europe and a halt of exports to Kosovo*. However⁶³, imports were up by 9.2%, from a much higher base. Still, foreign direct investment continued to be strong at €3.6 billion, more than sufficient to finance the CAD in 2019. In the period January – June 2020, export and import of goods were reduced for -8.9 and 6.8 respectively.

Because of the COVID-19 pandemic, in 2020 the Serbian economy will enter recession. In the first half of March, 168 companies were temporarily closed and nearly 5 % of all employees had to stay at home. The disruption to economic activities is most pronounced in transport and tourism. Based on government estimates in late April, the transport sector has had losses of about €110 million since the crisis began, and tourism arrivals and bookings declined dramatically. According to the World Bank projection, if the coronavirus outbreak is largely contained by mid-2020, by year-end the economy will still have to deal with a recession of 2.5%. On the other hand, prolonged disruption of economic activities until August 2020 would cause growth to fall by -5.3 %.

⁶¹ <https://www.stat.gov.rs/oblasti/trziste-rada/>

⁶² National Employment Office, Monthly Statistical Bulletin, July 2020;

http://www.nsz.gov.rs/live/digitalAssets/15/15338_bilten_nsz_-_jul_2020.pdf

⁶³ <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf> 29/04/2020;

4. Short-term measures to mitigate the social and economic impact of the COVID-19

The three thematic areas for resilient, inclusive and sustainable recovery can be presented in this chapter per each economy:

- a) **Public health and medical equipment** - emergency support to health interventions for saving lives threatened by the virus;
- b) **Social assistance** - social policy response for protecting poor and vulnerable people from the impact of the economic and social crisis triggered by the pandemic;
- c) **Economic policy response** - for saving livelihoods, preserving jobs, and ensuring more sustainable business by helping firms and financial institutions survive the initial crisis shock, restructure and recapitalize to build resilience in recovery (monetary and financial measures, fiscal policy measures, trade related measures, etc.);

These areas do not have absolute boundaries. They inform and interact with each other. The stages within each crisis response area can overlap both chronologically and in terms of types of activities.

When it comes to medium term priorities, important area is also **intervention on strengthening policies and institutions for better rebuilding** in order to help economies to maintain a focus on their long-term development goals across all areas – even as they fight the coronavirus. The better rebuilding is about achieving resilient, inclusive and sustainable recovery. It entails avoiding early policy mistakes such as those that treat private business poorly (e.g. delaying payment to government suppliers, defaulting on independent power producers, debt moratoriums, continuation of subsidies and support to old technologies) which may permanently destroy viable enterprises, or limit potential competitiveness of new ones, and will deter future private investment. This can help ensure that emergency-related short-term government actions keep a clear line of sight on supporting the recovery and long-term development goals as embodied in the 2030 Agenda for achieving the Sustainable Development Goals⁶⁴.

1. Albania

To contain the spread of the virus, Albania ordered **the temporary lockdown** of such key economic sectors as restaurants, theatres, and nonessential trade; limited the movement of people; and issued wide-ranging limitations on domestic and international travel. Many industries still permitted to operate, among them textiles, mining, call centres and construction, and have had to restrict business to comply with the restrictions. Given the current disruptions and uncertainty about what is to come, both households and businesses are also delaying nonessential spending. And severe economic dislocations in major trading partners, such as Italy, have caused export orders to collapse.

On 3 April, Albania received 8 tons of personal protective equipment for medical staff, reaching a total of **23 tons of new equipment** including masks, special clothing, goggles, protective helmets and other elements enabling the increase of the safety of doctors and nurses in dealing

⁶⁴ World Bank, Saving Lives, Scaling-up Impact and Getting Back on Track, June 2020; pp. 5-6. <http://documents1.worldbank.org/curated/en/136631594937150795/pdf/World-Bank-Group-COVID-19-Crisis-Response-Approach-Paper-Saving-Lives-Scaling-up-Impact-and-Getting-Back-on-Track.pdf>

with COVID-19⁶⁵. As of April 7, the government considered **expanding the package** with measures to improve business liquidity and support affected households.

To support the economy through this crisis, Albania has announced a series of policy measures:

Table 15 Short term measures to mitigate the social and economic impact of the COVID-19 in Albania⁶⁶

Area	Short-term measures
Public health and medical equipment	<ul style="list-style-type: none"> • Budget increase for Ministry of health • Humanitarian emergencies: US\$20 million for operational humanitarian emergencies • Main protection measures introduced (education sector, limited movement of people and public gatherings, confinement measures, border measures, etc.) • Albania is also receiving aid for its health care system from Turkey, China, Switzerland, Norway, Hungary, UNDP, etc.
Social assistance	<ul style="list-style-type: none"> • Budget increases for social transfers for the poor, small businesses, and the unemployed • Additional social transfers for the poor, small businesses, and unemployment benefits⁶⁷ (US\$65 million). • Rescheduling of rental payments for affected households and small businesses • Amnesty on penalties for late payment of energy bills, which will affect about 211,000 people (US\$150 million) • Suspension of rent payments for affected households and small businesses
Monetary and financial measures ⁶⁸	<ul style="list-style-type: none"> • Credit guarantee scheme for SMEs that are finding it difficult to pay wages and insurance contributions (US\$100 million) • A credit guarantee fund for soft loans to businesses that are finding it difficult to pay wages • Banks allowed to defer loan repayments for those affected by COVID-19, without regulatory penalties • Reduction of the Central Bank benchmark interest rate to a record-low 0.5% and the one-day lending rate to 0.9%; and maintained the interest rate for the overnight deposit facility unchanged, at 0.1%. • Injection of unlimited liquidity into the banking sector to ensure normal functioning of the electronic payments system • Extension of loan repayment deadlines for businesses and individuals in distress due to COVID-19: they can contact financial institutions to reschedule loan repayments or delay interest payments • Waiver of interest on delayed payments • If an agreement is reached, banks do not need to increase provisioning for these loans and borrower credit status is not affected
Fiscal policy and Trade-related measures	<ul style="list-style-type: none"> • Tax return submission deadline deferred from 31 March to 1 June for small businesses and payment of contributions and taxes for eligible businesses rescheduled • Rescheduling of the corporate income tax payment for businesses with turnover of US\$17-120 million • A budget contingency that is higher by US\$10 million

Fiscal Interventions: The government has approved two support packages for individuals and businesses affected by the COVID-19 pandemic, totalling ALL 45 billion (**2.8% of GDP**):

⁶⁵ OECD, The COVID-19 crisis in Albania, 30*07/2020; <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Albania.pdf>

⁶⁶ World Bank, The Economic and social impact of COVID-19, WB Outlook, RER No. 17, 29 April 2020, p. 10.

⁶⁷ The magnitude of the informal sector also suggests that many individuals affected would not be reached by measures directed to the formal sector.

⁶⁸ Monetary interventions: This measure is expected to provide temporary liquidity to enterprises and individuals in a total amount of about USD 150 million

- **Support package 1⁶⁹** - The first support package had as its main objective the facilitation of income losses for all those affected by the crisis caused by COVID-19, and at the same time aimed at keeping the majority of workers in their jobs, the unemployed to be supported through increased unemployment benefits, and the rest to be supported through the economic assistance program. The first financial package supported:
 - i) additional funding for the **health sector** in the amount of 3.5 billion ALL;
 - ii) 6.5 billion ALL **for small business** support who were forced to **close activities** - businesses with annual revenues up to 14 million ALL (100.000 €), which were closed as a result of restrictions imposed on businesses (closed) by the Ministry of Health and Social Protection - this measure included about 30,000+ entities (**38.702**) whose employees will receive monthly payments equal to the minimum wage (26,000 ALL) during the months of April, May and June 2020. Individuals with an annual personal income over 2 million ALL do not benefit from such support. It is important to note that this measure includes the self-employed and unpaid family members who would not be able to receive unemployment benefits – in total **65.115** employees, unpaid family workers & self-employed;
 - iii) 2 billion ALL **reallocated to humanitarian aid** for the strata in need (60.750 families, doubled assistance for the period April-June; doubled assistance for registered unemployed – 3100 persons for the period April – June 2020),
 - iv) 11 billion ALL **sovereign guarantee fund (1)** - for companies to be able to obtain loans; To support liquidity entities, the Albanian Government approved the first guarantee in the amount of 11.0 billion ALL (about 100 million USD), which would be allocated by banks to entities that have *difficulty paying salaries*. Interest rate costs are fully covered by the government and no collateral is required from the companies. The loan will cover the salaries of employees for a period of 3 months, not exceeding the monthly salary of 150,000 ALL per employee. All sectors of the economy are involved, with the exception of telecommunications, retail of food products and pharmaceuticals. (0.6% of GDP). 12 banks have signed the first guarantee agreement, with total value of the applications made of 8 billion ALL; 751 enterprises have submitted applications out of which - 521 are approved applications;
- **Support Package 2⁷⁰**: The second package extended support to all employees of entities directly affected by the closure of the business, those who lost their jobs, employees in the tourism sector, and all employees in businesses with an annual income of less than 14 million, who faced declining economic activity due to the COVID-19 crisis.
 - i) ALL 7 billion (0.4% of GDP) to provide a **single payment to affected small business employees** (around 144.000 employees and 60.000 entities);
 - ii) **a second guarantee (2)**: In addition to the Sovereign Guarantee, the Government of Albania issued a second Guarantee, in the amount of ALL 15.0 billion (approximately USD 136 million or 0.9 of GDP), providing loans to the working capital and investments for all sectors of the economy. The government guarantees 60% of the principal and the maximum value of the loan for a company cannot exceed 300 million. The grace period is 6 months, and the loan must be repaid within a 5-year period; For lending to *all* private companies that have paid their tax liabilities and were solvent before the pandemic; to support liquidity entities, Interest rate costs

⁶⁹ Decision of the Council of Ministers, DCM No. 254, dated 27/03/2020 (amended) 'On determining the procedures, documentation and the measure of benefiting financial assistance for employees in business entities with annual income up to 14 million ALL, economic assistance and payment of income from unemployment during the period of natural disaster, declared as a consequence of the COVID-19';

⁷⁰ Decision of the Council of Ministers no. amended by DCM No. 13, dated 22/04/2020, and dated 28.04.2020)

are fully covered by the government and no collateral is required from the companies; 9 banks have signed a second guarantee agreement, 89 enterprises have submitted applications, 40 applications approved;

- **Profit tax:** for all businesses with annual income from up to 14 million ALL, profit tax is eliminated for this tax year. Profit tax has been postponed a) for the tourism, clothing and footwear trade sector until January 1, 2021; and, b) for all other sectors (except banks, pharmaceutical companies, food retailers and telecommunications) by 1 October 2020⁷¹.

While responding to the epidemic is urgent, **earthquake reconstruction** should not fall by the wayside. While the pandemic has halted many reconstruction projects temporarily, it is crucial to proceed where it is safe to do so. These projects can also stimulate Albania's economy in 2020 and 2021.

International support

- The EU is mobilising a package of over EUR 410 million in reallocated bilateral financial assistance to support the Western Balkans during the coronavirus emergency. Out of this package, Albania will receive EUR 4 million of immediate support for the health sector and EUR 46.7 million of support for the social and economic recovery.
- The Commission has adopted a proposal for a EUR 3 billion macro-financial assistance (MFA) package to ten enlargement and neighbourhood partners to help them limit the economic fallout of the coronavirus pandemic. Albania will receive USD 180 million out of this package.
- On 10 April, the IMF approved USD 190.5 million in financial assistance to Albania.
- Albania is receiving USD 700 000 in health assistance from the USA to help prepare the response of the health sector to the COVID-19 pandemic.

To accelerate the economic recovery and sustain higher medium-term growth, Albania must address both its fiscal imbalances and its productivity problem. Though extreme, the combined epidemic and earthquake shocks underscore the importance to improving resilience, of reinforcing macroeconomic balances and building up the private sector. Additional challenges are linked to sustainable use of the environment and managing rural to urban shifts. Structural reforms to improve the business environment and address other areas that are barriers to sustain and higher economic growth will also help to make the economy more resilient.

2. Bosnia and Herzegovina

The announced solidarity and guaranty funds and other elements of the government's response can help mitigate the economic and social impact of the unprecedented crisis. Authorities in BiH have responded with measures to protect affected economic sectors and households and strengthening health sector resilience to COVID-19. The entity governments have so far allocated about KM 100 million (0.28% of GDP) for pandemic-related health spending. RS has postponed the deadline for payments of business tax from March 31st to June 30th and is speeding up tax and social security contribution - SSC refunds. It also plans to introduce one-off support of 1,000KM per health worker. In rebalancing its budget, the FBiH government announced that a total of about KM 1 billion (3% of GDP) will be secured to support the economy, through setting up special funds (1) to stabilize the economy, mainly by

⁷¹ Ministry of Finance and Economy, Pandemic COVID-19, Support policies, An Implementation update, 22 June 2020, <https://financa.gov.al/wp-content/uploads/2020/06/COVID-support-packages-implementation-update-22-06-2020.pdf>

supporting exporting companies; and (2) to maintain and improve the liquidity of companies and prevent loss of jobs. The banking agencies have announced a six-month moratorium on loan repayments for businesses and individuals that may be finding it difficult to repay loans. As these measures are 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.

Table 16 Short term measures to mitigate the social and economic impact of the COVID-19 in Bosnia and Herzegovina⁷²

Area	Short-term measures
Public health and medical equipment	<ul style="list-style-type: none"> • Budget increase for the health sector • The entity Governments have allocated around BAM 50 million (~EUR 25 million or 0.15% of GDP) for dealing with COVID-19, including purchasing medical equipment and supplies. The Federation of BiH reserved BAM 30 million in support (~EUR 15 million or 0.1% of GDP) to hospitals. In Republika Srpska, the health fund will cover health care costs for all patients⁷³ • Main protection measures introduced (education sector⁷⁴, limited movement of people and public gatherings, confinement measures, border measures, etc.) • 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. • Aid to the health care system to BiH arrived from the EU, China, Russia, Turkey, Norway, etc.
Social assistance	<ul style="list-style-type: none"> • In the RS the government decided to set up the Compensation fund to cover personal income tax (PIT) and social security contribution (SSC) for about 40,000 workers in those sectors that are closed by the government decision for March, April and May. • In FBiH the government decided to set up the Stabilization fund to cover contributions on minimum wage for those affected by COVID-19 • Fund for healthcare cost coverage in RS • Fund for assistance to units of local self-governance in RS
Monetary and financial measures ⁷⁵	<ul style="list-style-type: none"> • Moratorium on repayment of credits to investment development banks; • Canton Sarajevo reduced rent by 50% for the property it owns. • Guarantee funds for recovery of economy FBiH; • Guarantee and credit fund for SMEs; • Development bank of FBiH to set up credit line for improvement of liquidity of companies which business is affected by the COVID-19; • Banking Agencies have announced a six-month loan repayment moratorium for restructuring credit arrangements for individuals and legal entities which are found to have aggravated circumstances for loans repayments due to COVID-19. RS introduced a three-month moratorium on IDB loan repayments for legal entities and entrepreneurs • FBiH has adopted Law on negative economic consequence of pandemic • FBiH government has adopted budget rebalance
Fiscal policy	<ul style="list-style-type: none"> • Coordination bodies for economic stabilization • Procedure for urgent procurements with streamlined process;

⁷² World Bank, The Economic and social impact of COVID-19, WB Outlook, RER No. 17, 29 April 2020, p. 10.

⁷³ OECD, The COVID-19 Crisis in Bosnia and Herzegovina, 20/07/2020, p.2. (<https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Bosnia-and-Herzegovina.pdf>);

⁷⁴ 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.

⁷⁵ Monetary interventions: This measure is expected to provide temporary liquidity to enterprises and individuals in a total amount of about USD 150 million;

and Trade-related measures	<ul style="list-style-type: none"> Deadlines for tax applications were extended to 30 April (in RS and FBH); and for entrepreneurs till 31 May (FBH). RS introduced tax deferral (profit tax) to 30 June; and subsequent instalment payment till end 2020. Lump-sum tax payment for the total income of micro entrepreneurs (1 or 2 employees) reduced by 60%.
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Financial market: The local currency “BAM” has depreciated by around 3% since the beginning of the year signalling a potential capital outflow and rendering international trade and investment decisions more difficult.

Monetary measures: 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 six 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

- The FBiH Development Bank established 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 of 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 FBiH dedicated BAM 30 million (~EUR 15 million) to support cantons and municipalities, of which one third (BAM 10 million, ~EUR 5 million) is distributed to the cantons in equal amounts, while the remaining BAM 20 million (~EUR 10 million) is allocated to co-finance projects and initiatives, based on a public call issued beginning of July.
- The RS reserved funds from its **Solidarity fund** to support employees directly affected by COVID-19. BAM 58 million (~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. The funds were distributed on 28 June.

- **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 2 500 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 is announced for the subsequent period. In this regard, on 8 July, the Prime Minister of FBiH and the Minister of Development, Entrepreneurship and Crafts, visited Tesanj, an important industrial center of the FBiH, where they presented the Programme of Economic Stabilisation of FBiH 2020-21 to the private sector representatives and received their proposals on how to mitigate the COVID- 19 effects on the economy of FBiH.
- **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 (~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 three 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 four employees.

Fiscal policy - support to the population:

- **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.
- **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).
- **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.
- **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. On 25 June, the Government of FBiH abolished the measure of immediate price controls. In the RS, the same measure was introduced at the beginning of June.

International support for Bosnia and Herzegovina:

- 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).
- The IMF approved a EUR 330 million loan under the Rapid Financing Instrument (RFI) on 21 April 2020. On 29 July, the Government of FBiH decided on the allocation of BAM 200 million of this support (~EUR 100 million) among the different cantons of FBiH.
- 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 process⁷⁶.
- The Council of Ministers of BIH adopted an Initiative by the Ministry of Finance and

⁷⁶ OECD, The COVID-19 Crisis in Bosnia and Herzegovina, 20/07/2020, pp. 3-6. (<https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Bosnia-and-Herzegovina.pdf>);

Treasury, and designated a negotiating delegation for conclusion of a Loan Agreement between Bosnia and Herzegovina and the IBRD for an Emergency Support for COVID-19 Outbreak in BiH, worth USD 20 million. This is a new emergency financial instrument to enable a wide range of support, including efforts to disease monitoring, inciting public health interventions and work with private sector at reducing the effects of the outbreak to economy⁷⁷.

According to the World Bank report, budget support measures adopted by BiH until end of April 2020 were around 400 mil EUR, or **2.3% GDP-a**⁷⁸.

3. Kosovo*

Short term economic impact: The COVID-19 outbreak and associated confinement measures may instigate an economic recession in Kosovo*, whose economy is heavily reliant on remittances. Confinement measures are likely to suppress domestic demand and contribute to increased levels of unemployment. Likewise, travel restrictions and economic downturns abroad, particularly in the EU, may reduce the volume of remittances sent by the diaspora, which represent 15% of the GDP. These developments are likely to slow economic activity and suppress economic growth during 2020. As of 15 June, the number of reported job seekers rose by six times between January and April 2020 compared to the same period in 2019. On 18 June, the government announced expectations for GDP to shrink by 3% and its tax base to decline by nearly half a billion euros by the end of 2020.

A recent UNDP survey⁷⁹ found that roughly 8% of workers lost their jobs due to the COVID-19 epidemic, with the largest job losses occurring in the construction and hospitality sectors. However, of the people who did not lose their jobs during the crisis, nearly 40% report that they are still not working at all despite the de-confinement measures. About a fifth of respondents report that they continued working the same hours as before the pandemic (22%). Only 8% of the respondents lost their job due to COVID-19. It should be noted that the biggest loss of jobs was seen in the construction sector (23%) and the food and accommodation (hospitality) sector (14%), two sectors where about a fifth of the main income earners of households work in. The government has announced a stimulus package to mitigate the economic and poverty impact of the epidemic.

Table 17 Short term measures to mitigate the social and economic impact of the COVID-19 in Kosovo*⁸⁰

Area	Short-term measures
Public health and medical equipment	<ul style="list-style-type: none"> • Budget increase for Ministry of health • Main protection measures introduced (education sector, limited movement of people and public gatherings, confinement measures, border measures, etc.) • On 11 March, the government introduced measures prohibiting the export of medicine and medical equipment that may be used to treat COVID-19 cases
	<ul style="list-style-type: none"> • procedures for pensions and social assistance benefits until further notice

⁷⁷ Council of Ministers, 04/07/2020;

http://www.vijeceministara.gov.ba/saopstenja/sjednice/saopstenja_sa_sjednica/default.aspx?id=32769&langTag=en-US

⁷⁸ World Bank, Western Balkans Outlook, RER No. 17. p. 6.

⁷⁹ UNDP (2020) Rapid Socio-Economic Impact Assessment of COVID-19 in Kosovo* ;

<https://www.ks.undp.org/content/kosovo/en/home/library/poverty/rapid-socio-economic-impact-assessment-of-covid-19-in-kosovo.html>

⁸⁰ World Bank, The Economic and social impact of COVID-19, WB Outlook, RER No. 17, 29 April 2020, p. 11.

Social assistance	<ul style="list-style-type: none"> • Early payment of pensions, social benefits, and farming subsidies • Additional payment of €30 a month for all beneficiaries of social and pension schemes below €100 (3 months); • Severance payments for employees who lost their jobs due to the outbreak • Double payment of the value of the social scheme (3 months) • Payment of €130 in monthly assistance for citizens with severe social conditions or declared unemployed by a competent institution, who are not beneficiaries of any monthly assistance (April, May, and June) • Supportive initiatives and projects for improving the lives of non-majority citizens
Monetary and financial measures	<ul style="list-style-type: none"> • Late loan repayments not to be reflected by a downgrade In credit rating In the Central Bank managed credit registry until April 30 • Interest penalties for late payments to be suspended until April 30, subject to bank case-by-case reviews • Financial support for companies in financial difficulties as a result of the emergency situation (support for salary, contributions, rent payments) • Interest-free lending to public enterprises ensured (repayment by the end of 2020); • Financial support for the Municipality in Kosovo* ensured • Financial liquidity for eligible micro-enterprises, the self- employed, and commercial companies ensured • Financial support available for companies that register employees with employment contracts of at least one (1) year during the emergency public health situation, from €130 and up, for the two months after registration
Fiscal policy and Trade-related measures	<ul style="list-style-type: none"> • All direct and Indirect tax filing and payment deadlines postponed to April 30, with the possibility of a further extension • Postponement of financial reporting requirements to April 30 • Lifting of the 100% tariff on raw materials from SRB and BiH • VAT and customs duties on wheat and flours removed • Salary supplement of €300 ensured for public sector employees in essential sectors who are directly exposed to the risk of infection (2 months) • Additional payment of €100 for employees of grocery stores, bakeries, and pharmacies (2 months) • Increase of the budget for grants and subsidies for the Ministry of Agriculture, Forestry and Rural Development and Ministry of Culture, Youth and Sports • Support for exporters

The economic and social package includes temporary increases in social assistance benefits and pensions that are less than €100 a month and a severance payment for employees who lost their jobs because of the outbreak. The package also includes short- and medium-term measures to support private firms that are affected by the epidemic, among them wage subsidies. The cost of the package is estimated at **190 mil €, about 2.8% of GDP**. However, a longer outbreak would push up the cost of the package.

Fiscal policy

- On 11 March, the government allocated EUR 10 million to fund efforts to contain the spread of the virus and reinforce the **healthcare system**.
- On 30 March, the government passed a **major emergency support package** of about 170.6 mil € (3% of GDP) to support individuals, firms, and municipalities affected by the COVID-19 crisis.
- On 18 May, the government allocated an additional 10.9 mil € to facilitate the implementation of **the emergency support package**, of which 9.4 mil € was allocated to the Ministry of Economy, Employment, Trade, Industry, Entrepreneurship and Strategic Investments and 1.5 mil € to the Ministry of Finance and Transfers.

- On 19 June, the government initiated a new agricultural support programme which will provide 53 mil € in direct payments to farmers.

Support to the population

- **Support to vital workers:** Vital health and safety personnel such as doctors, police officers and firefighters will receive EUR 300 per month in additional wages from the government during the crisis. Likewise, workers at pharmacies, grocery stores and other essential businesses will receive EUR 100 per month in additional wages from the government during the crisis.
- **General economic support:** All payments to social welfare recipients will be doubled during April and May. Likewise, the Kosovo* Central Bank suspended loan repayments for individuals until at least 30 April, while payments to public utility companies have also been suspended.
- **Tax policy:** The Tax Administration of Kosovo* has extended the deadline to file and pay tax liabilities and pension contributions until 30 June. Additionally, taxpayers affected by the crisis will be able to apply for an extension of tax payment deadlines for up to three years. On 18 May, the Ministry of Finance and Transfers announced that all interest on unpaid property taxes would be suspended until 2021.
- **Support for crisis-related unemployment:** The government has guaranteed that all individuals who lose their jobs due to the COVID-19 crisis will receive monthly payments of EUR 130 from April to June.
- **Support for cultural sectors:** The Ministry of Culture, Youth and Sports has allocated EUR 5 million in funds to support cultural and athletic activities affected by the crisis.
- As of 11 May, over **170 000 workers** had applied for salary compensation, unemployment benefits and other social welfare measures included in the Emergency Fiscal Package.

Support to firms

- **Support to private sector activity and employment:** Eligible firms will receive EUR 170 per month for each employee on their payroll for March and April. Likewise, firms will receive EUR 206 for each new employee hired on a minimum one-year contract during the crisis. The government will subsidise up to 50% of rent costs for SMEs during April and May, and has allocated EUR 20 million to public enterprises with access to interest free loans until December 2020. Micro-enterprises and self-employed workers can apply to receive credit guarantees valued up to EUR 10 000. The Kosovo* Central Bank has suspended loan repayments for firms until at least 30 April 2020.
- As of 11 May, over **14 000 firms** had applied for rent subsidies included in the Emergency Fiscal Package.
- **Support for particular sectors:** The Ministry of Agriculture, Forestry and Rural Development has allocated EUR 5 million for grants and subsidies to increase agricultural production during the crisis.

International support

- The EU has approved a support package of EUR 68 million to help Kosovo* navigate the COVID-19 crisis (EUR 5 million for immediate support for the health sector and EUR 63 million to support Kosovo's* social and economic recovery).
- On 22 April 2020, the European Commission proposed the use of the macro-financial assistance (MFA) programme of EUR 100 million to support the economy of Kosovo*. The Commission's proposal is subject to adoption by the European Parliament and the Council of the EU.

- Through the Rapid Financial Instrument, the IMF executive board has approved USD 56.5 million (~EUR 52 million) in financial assistance to help Kosovo* strengthen its health sector and mitigate the immediate effects of the crisis on households and firms.
- On 13 May, the Council of Europe Development Bank (CEB) approved EUR 35 million in short-term financing to support Kosovo's* health sector as it copes with the COVID-19 crisis.
- On 21 May, the World Bank approved EUR 46 million in financial assistance through its International Development Association branch to support Kosovo* as it manages the COVID-19 crisis and initiates its economic recovery process. The Ministry of Finance announced that the funds would be used to expand the economy's COVID-19 treatment and testing capacity, and to support social assistance measures for individuals and firms⁸¹.

Given the limited fiscal envelope, the cost, financing, and targeting of the measures should be carefully assessed to increase the effectiveness of the stimulus package. For Kosovo*, fiscal policy is particularly relevant for supporting the economic recovery because it lacks monetary policy options. Rationalizing non-essential public spending may be necessary it is to afford the package announced and the additional cost of the social assistance program in the future⁸².

4. Montenegro

Montenegro has announced **short-term policy responses** to mitigate the economic and social impact of the COVID-19 crisis. Safeguards, designed to help health system cope with the virus, reflect both domestic demand (while people stay home and spend less) and domestic supply (fewer people work). On the other hand, closing the border and stopping travel significantly reduce external demand, on which economy significantly depends⁸³. However, as early as March 13, 2020, the government had already adopted a set of **emergency measures** to slow the spread of the coronavirus infection, including the closure of schools, public buildings, borders and ports (other than trade in goods). Public gatherings were forbidden and it was recommended to move to work from home where it was possible to organize. Montenegro Airlines has suspended all its flights, except for organized humanitarian flights and the return of Montenegrin citizens from abroad.

Table 18 Short term measures to mitigate the social and economic impact of the COVID-19 in Montenegro⁸⁴

Area	Short-term measures
Public health and medical equipment	<ul style="list-style-type: none"> • Budget increase for Ministry of health • Introduction set of emergency measures and additional budget for operational humanitarian emergencies (12 mil EUR) • Introduction of the health protective measures by the National Coordination Commission for fights against COVID-19 pandemic • On 28 July, as part of the support package, the EU provided 86 ventilators and over 235 000 pieces of personal protective equipment
	<ul style="list-style-type: none"> • One-off support of per person for pensioners, vulnerable citizens and those

⁸¹ OECD, The COVID-19 Crisis in Kosovo*, 20/07/2020, pp. 5-7. <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Kosovo.pdf>

⁸² <http://documents1.worldbank.org/curated/en/457181588085856454/pdf/The-Economic-and-Social-Impact-of-COVID-19-The-Country-Notes.pdf> 29/04/2020;

⁸³ On March 17, 2020, Montenegro became **the last European country** to record a positive COVID-19 test. By mid-May 2020, 324 cases of the disease had been registered, most of which had already recovered, while 9 patients had lost the battle with the virus. After 28 days without newly registered cases (Corona-free status), a new wave started again, even, without border opening (www.coronainfo.me)

⁸⁴ World Bank, The Economic and social impact of COVID-19, WB Outlook, RER No. 17, 29 April 2020, p. 11.

Social assistance	unemployed (50€ and 100€ per package 1 and 2) • Electricity subsidies for vulnerable households
Monetary and financial measures	• New Investment Development Fund credit of 120 mil € primarily targeting the MSMEs, 1.5% interest rate, up to 3 mil € per loan, with 2 years grace period and up to 8 years maturity • Loan repayments deferred for 90 days
Fiscal policy and Trade-related measures	• Postponement of taxes and social contribution payments; tax debt obligations restructured for 90 days for all firms. • 90-day postponement of rent payments for state-owned property for natural and legal persons • Wage subsidies of 100% of the minimum wage for 2 months and complete exemption of taxes and contributions to the minimum wage for lockdown sectors • Wage subsidies of up to 50% of the minimum wage for other affected sectors • Wage subsidies of 75% of the minimum wage for 6 months for newly reported employees (to encourage formalization of labour) • Electricity subsidies for firms • Suspension of the variable part of earnings for central government employees • Support to agriculture sector • Increase in salaries for health workers

The socio-economic support is realized through the **three packages**. In the next tables, all measures are presented per packages.

Table 19 First package of COVID-19 pandemic mitigation measures in Montenegro: 19/03/2020

	MEASURES
1	MITIGATION OF THE NEGATIVE IMPACT OF THE PANDEMIC ON THE FINANCIAL SYSTEM - DELAY OF PAYMENT OF ALL LOANS TO 90 DAYS - for business and citizens, moratorium on loan payments, Central Bank - Decision on temporary measures to mitigate the negative effects of the new corona virus on the financial system ("Official Gazette of Montenegro", no. 019/20 of 19.03.2020 and 028/20 of 02.04.2020). Deferred repayment of loans to individuals and businesses with all banks, microcredit institutions and IDF for 90 days, all types of loans, including cash loans (secured and unsecured), housing loans, loans for retirees, consumer loans, investment loans, working capital loans, liquidity loans, credit products related to the use of cards, etc.
2	DELAY OF PAYMENT OF TAXES AND CONTRIBUTIONS ON WAGES AS WELL AS OBLIGATIONS ACCORDING TO THE LAW ON REPROGRAM UP TO 90 DAYS - Postponement of payment of taxes and contributions on salaries for 90 days, later added to the second package and subsidies to the economy. Law on Reprogramming of Tax Claims ("Official Gazette of Montenegro", no. 83/16, Public call for reprogram was in 2017 where the process is led by the Tax Administration) - postponement for 90 days.
3	CREATION OF A NEW IDF LINE FOR ECONOMIC ASSISTANCE - liquidity, up to a maximum of EUR 3 million per user, with interest rate 1.5% (EIB funds, while other sources can go up to 2% IR), grace period - 2 years, payback period - 8 years, which does not include a grace period, for entrepreneurs and SMEs, in priority areas: procurement of medicines, medical equipment, vehicles, tourism, catering, food production and processing, transport, services. The liquidity loan is intended primarily for the payment of salaries to employees for these three months, based on the last paid net salary; The loan will be disbursed through banks to the current account of employees.
4	PROVIDING ASSISTANCE TO THE MOST VULNERABLE - The Government has provided one million euros of assistance to the most vulnerable, (50 euros for 8,500 social assistance beneficiaries and 11,900 pensioners receiving a minimum amount of 128 €)
5	LIMITATION AND CONTROL OF BUDGET SPENDING - with a ban/suspension of all tenders, except the necessary ones. Procurement in accordance with IPHMNE recommendations/11.3.2020, 13.3.2020. - The Property Administration, as well as the competent services of local self-government units, to procure additional quantities of hygiene products, as well as means for disinfection of hands, work space and equipment for the needs of state bodies, state administration bodies, administrative bodies and local authorities. Procurement should be performed in accordance with the recommendations of the Institute of Public Health of Montenegro. Plus - for educational and health institutions. In order to maximize the rationalization of costs, the Government has introduced restrictions and strict control of budget spending, with a ban on all public procurement, except those necessary for the functioning of the health system, or emergency procurement, in accordance with the provisions of the law
6	BUDGET SAVINGS on gross salaries of employees in public administration (central level, local self-government units, public enterprises majority owned by the state and/or local self-government units, public institutions, regulators and other bodies). Only basic salary - payments of the variable part of salary and all budget fees for

	work in commissions, management boards will be suspended. It is recommended that local governments do the same. Only basic earnings. The Prime Minister also said that the members of the Government will pay half of the salary once to the account of the National Coordination Body for Infectious Diseases. It is forbidden for budget users (further) payment of NCB funds, because the budget is unique.	
7	POSTPONEMENT OF PAYMENT OF STATE-OWNED PROPERTY RENTAL FOR 90 DAYS. The government has instructed all state institutions that lease state-owned real estate to allow all tenants, upon request, to defer payment of the obligation for a period of 90 days. The measure enters into force on April 1, 2020, by which the State wants to provide an example and encourage responsible behaviour to others.	
8	ADVANCE PAYMENT TO CONTRACTORS, FOR INVESTMENT WORKS, where it does not endanger the health of citizens. Started capital projects will not be stopped. Continuation of financing of started capital projects and necessary services of suppliers, through advance payments with a bank guarantee in the amount of the advance (Public Works Administration and Traffic Administration)	
9	MEDIA ASSISTANCE - All measures related to the liquidity of the economy, also apply to companies that are the founders of the Montenegrin media. The Media Agency to release them from paying the fee, and the print media to urgently provide competitive funds for their functioning. Support to local public broadcasters, through the Ministry of Culture, as a one-time financial assistance.	
EFFECTS OF REALIZATION OF MAIN KEY MEASURES FROM THE FIRST PACKAGE:		
	Deferred liabilities to the Investment Development Fund (IDF), Tax Administration and rents by the State	205,800
	Provided support to the economy through dedicated credit lines of the IDF	73,400
	Social assistance for vulnerable categories of the population (electricity subsidies and one-time financial aid)	1,400
	Total (million EUR) until 1 July 2020	280,600

Implementation of the second package of measures is in fact continuity of the first package expanded deeply to specific sectors, as follows:

Table 20 Second package of COVID-19 pandemic mitigation measures in Montenegro: 24/04/2020

I.	PROGRAM FOR PROVIDING SUPPORT TO THE ECONOMY AND EMPLOYEES, IN ORDER TO MITIGATE THE NEGATIVE EFFECTS OF THE NEW COVID-9 PANDEMIC
1	SUBVENTIONS FOR CLOSED ACTIVITIES (List 1 - 77 code of activities)
	<p>The business entity can receive a subsidy, upon request, for the salaries of employees for the months of April and May 2020. The amount of the subsidy is defined in relation to the value of the minimum wage determined by the Government Decision on determining the minimum wage ("Official Gazette of Montenegro", no. 33/19), by deciding the amount of taxes and contributions in proportion to earnings, up to 100% the amount of taxes and contributions on the minimum wage and 100% of the net minimum wage for employees in the company, which were recorded in February 2020.</p> <p>The subsidy is given for entrepreneurs and employees' salaries for which the entrepreneur, who pays taxes and contributions on real income or in a lump sum, submitted the GPPFL form for 2018 or 2019, or the ZPO form for 2020 and paid the advance payments in 2019. The subsidy is given for employees of the company who were registered in February 2020, and for whom the IOPPD form was submitted to the Tax Administration at the end of the month for which the subsidy is submitted and if the company has settled tax liabilities based on taxes and contributions for 2019. Business entities that regularly settle rescheduled tax liabilities at the time of applying for a subsidy, in accordance with the Law on Reprogramming Tax Claims („Official Gazette of Montenegro“, no. 83/16), also have the right to receive a salary subsidy. Additionally, business entities can receive subsidy if it does not reduce the number of employees during the duration of the measure, in relation to the number of employees recorded in February 2020.</p>
2	SUBVENTIONS FOR TOURIST SECTOR (List 2 - 7 code of activities)
	The subsidy is given to entrepreneurs, micro, small and medium-sized companies, in the field of tourism, whose work is not banned, but the scope of activities has been significantly reduced as a result of orders from the Ministry of Health to combat the coronavirus epidemic. Up to 100% of the amount of taxes and contributions on the minimum wage and 100% of the net minimum wage for employees in the company, which were recorded in February 2020.
3	SUBVENTIONS FOR VUNERABLE ACTIVITIES (List 3 - 105 code of activities)
	<p>Entrepreneurs, micro, small and medium-sized companies in activities whose work is not prohibited, but the scope of activities has been significantly reduced as a result of orders from the Ministry of Health in order to combat the epidemic, can receive subsidies on gross wages for April and May 2020.</p> <p>The subsidy does not apply to: state institutions, local self-government and companies majority owned by the state or local self-government, as well as to companies with codes of basic activities listed in Annex 3. The subsidy is realized in the amount of 50% of taxes and contributions to the minimum wages, and 50% of the net minimum wage for employees in the company that were recorded in February 2020. The amount of the difference to the full gross salary of the employee is provided by the employer. Out of 5 newly added institutions and companies in the field of health, for those who have ceded their accommodation capacities for the needs of the implementation of quarantine measures, a subsidy in the amount of 100% of the net minimum wage is approved.</p>
4	SUBVENTIONS FOR NEW EMPLOYEMENT
	<p>Subsidies are given to economic entities that:</p> <ul style="list-style-type: none"> • did not reduce the number of employees compared to February 2020, • record new employees for a period of six months starting from 1 April 2020 (who were not registered as employees of that business entity in January and February 2020) and who were simultaneously registered as unemployed persons at the Employment Service Montenegro in the previous month in relation to the month for which the application is submitted. <p>The maximum number of employees for whom a subsidy can be realized on this basis is equal to the difference between the number of employees in the month for which the request is submitted and the number of employees registered in February 2020.</p>

	The subsidy is realized by determining the amount of taxes and contributions in proportion to the earned income, in the amount of 70% of the amount of taxes and contributions to the minimum wage and 70% of the net minimum wage . The amount of the difference to the full gross salary of the employee is provided by the employer.
5	SUBVENTIONS FOR EARNINGS OF EMPLOYEES ON PAID LEAVE
	An entrepreneur and a company whose employee uses the right to paid leave from work on the basis of caring for a child under the age of 11, may, upon request, receive a subsidy on gross earnings for those employees. The amount of the subsidy is 70% of the amount of taxes and contributions to the minimum wage, and 70% of the net minimum wage for employees in the company, which were recorded in February 2020. The amount of the difference to the full gross salary of the employee is provided by the employer. The subsidy does not apply to: state institutions, local governments, companies majority owned by the state or local governments. The subsidy is received for the period of exercising this right of the employee, upon the submitted request of the employer.
6	SUBVENTIONS FOR EARNINGS OF EMPLOYEES IN QUARANTINE OR ISOLATION
	An entrepreneur or a company whose employees have been placed in quarantine or isolation by orders of the Ministry of Health, in order to suppress the epidemic, will receive a subsidy on gross earnings for those employees upon request. Up to 70% of the net minimum wage for employees in the company registered in February 2020. The amount of the difference to the full gross salary of the employee is provided by the employer. The subsidy does not apply to: state institutions and local governments.
II.	SPECIAL SUPPORT MEASURES FOR AGRICULTURE AND FISHERY
7	MARKET INTERVENTION PROGRAM
	<p>In order to maintain the existing level of production and maintain market stability, both in terms of prices and in terms of quantities offered on the market of agricultural products (live animals, milk and dairy products, fruits and vegetables, etc.) and fishery and aquaculture products, and maintaining the income stability of farmers and fishermen, a special Market Intervention Program is adopted to mitigate the effects of the coronavirus crisis. This program contains the following measures:</p> <ul style="list-style-type: none"> • Withdrawal and storage of surplus agricultural products and fishery and aquaculture products, and assistance in the distribution of products by economic entities that have adequate conditions for these purposes; • Support to agricultural producers, fishermen, fish farmers and processors due to market disruptions caused by a significant drop in prices, in order to maintain price stability and income stability; • Support for the income of agricultural producers, fishermen, fish farmers and processors due to the inability to market products, the creation of surpluses by losing the market for products that cannot be distributed or their decline; • Assignment of surplus products to public institutions (hospitals, social housing centres, etc.), the Red Cross and others, with compensation to producers of 100% of the market value of these products. <p>Depending on the circumstances and problems that have affected individual sectors, taking into account the specifics of production, sales, etc., some of the above measures of market intervention will be initiated. The Ministry shall prescribe the conditions for initiating the necessary measure by a special act. In addition to the above measures, the Ministry may adopt an additional set of measures in order to maintain the continuity of production and purchase, and perform all activities related to the smooth production and distribution of agri-food and fishery and aquaculture products, bearing in mind the special sensitivity of the agri-food and products market from the fisheries and aquaculture sector, specific production conditions, and possible disturbances in the international and domestic markets that may arise as a result of the global epidemiological situation caused by the coronavirus, which are currently unpredictable.</p>
8	ONE-TIME ASSISTANCE TO FISHERMEN, HOLDERS OF COMMERCIAL FISHING LICENSES
	In Montenegro, commercial fishing is performed by 184 fishermen with a valid license. With the closure of catering facilities, and the reduced intensity of the work of green markets, the existence of commercial fishermen, their employees and their families is greatly endangered. Therefore, support is proposed in the form of one-off assistance to all commercial fishermen who are holders of a valid commercial fishing license. The amount of this support will be determined on the basis of the catch logs entered in the Fisheries Information System for 2019. With this support, the realization of announced public calls within the Agri-budget continues. Financial resources required for the implementation of the measure: € 200,000.
9	SUPPORT FOR THE PURCHASE OF DOMESTIC PRODUCTS
	During the COVID 19 epidemic and during the remediation of the consequences, in order to procure agricultural and food products safer, contracting authorities shall pay particular attention to the freshness and seasonal character of the products, as well as the length of transport of these products, in order to ensure a shorter supply chain to the environment. Affirmation of the principle of safe food. It is recommended that other procuring entities harmonize their procurements with these principles.
10	SUPPORT FOR THE PAYMENT OF CONTRIBUTIONS TO INSURED PERSONS BASED ON AGRICULTURAL ACTIVITY
	The Ministry of Agriculture and Rural Development will pay all contributions of insured farmers, both those that fall on the budget and contributions that fall on the insured for a period of six months. It will include 529 insured persons who regularly pay contributions. Financial resources required: € 100,000
11	ONE-TIME SUPPORT TO BENEFICIARIES OF THE OLD-AGE COMPENSATION
	The Law on Agriculture and Rural Development has determined that the holder of a family farm, under certain conditions, is entitled to old-age compensation. Most of such households are engaged in agriculture in rural areas and thus maintain life in the countryside. Beneficiaries of old-age benefits will be paid one extraordinary benefit in the amount of € 64. Financial resources: € 225,000
12	SUPPORT FOR TIMELY SETTLEMENT OF OBLIGATIONS TO MANUFACTURERS BY TRADE COMPANIES
	In order to shorten payment deadlines, the IDF will create a new credit line that will allow retail chains to pay for products to domestic producers within 15 days.
13	FAVORABLE INVESTMENT DEVELOPMENT FUND CREDIT LINE FOR AGRICULTURE AND FISHERIES

	<p>The IDF will create a new credit line to support registered farmers, processors, commercial fishermen and aquaculture/mariculture licensees.</p> <p>In its portfolio, the IDF already has four credit lines intended for agriculture, which are of an investment nature and which serve for IPARD pre-financing, measures from the Agri-budget, as well as for the purchase of agricultural products, so this credit line is intended for registered agricultural producers, processors and commercial fishermen and holders of aquaculture/mariculture licenses in order to mitigate the consequences caused by the coronavirus pandemic, through the procurement of the necessary working capital for uninterrupted production. Recall, the IDF has already provided a moratorium on instalments for existing loans for a period of three months. Lending conditions for the purchase of working capital:</p> <ul style="list-style-type: none"> - Maximum amount up to € 20,000.00; - The interest rate is 1.50% per annum with a proportional method of interest calculation - Repayment period up to 2 years (including grace period); - Grace period up to 1 year. <p>Credit beneficiaries - registered agricultural producers, processors, commercial fishermen and holders of aquaculture / mariculture licenses; Purpose of the loan - procurement of working capital, raw materials, intermediate goods, semi-finished products in order to establish a new and maintain existing production</p>
14	INTEREST SUBSIDIZATION FOR A NEW IDF CREDIT LINE FOR AGRICULTURE AND FISHERIES
	For all users of the new IDF credit line for support of agriculture and fisheries, interest will be subsidized during the grace period. Financial resources required for the implementation of the measure: € 150,000.
15	ADVANCE PAYMENT OF 80% OF THE TOTAL SUPPORT FOR PREMIUMS PER HEAD IN CATTLE, SHEEP, GOAT AND PIG BREEDING, AND PER HECTARE OF AREA
	Based on the payment lists from 2019 and the data in the relevant registers of the Ministry. On this basis, the advance payment would amount to about € 3,500,000 and would be realized in the first half of May, which is significantly earlier than payments in previous years. The advance payment of part of the premiums provides additional security to agricultural producers and a motive to continue production. The necessary financial resources for the implementation of this measure will be provided from the already planned funds of the Agri-budget in the amount of € 3,500,000.
III.	MEASURES IN THE FIELD OF TAXES, CUSTOMS AND EARNINGS
16	BENEFITS IN ORDER TO IMPROVE LIQUIDITY
	<p>Relief in order to improve the liquidity of the economy by reducing the deadline for VAT refunds and extending the deadline for exposure to the customs guarantee for deferred payment of customs debt; In order to implement these measures in the part of VAT refund, it is necessary for the Tax Administration to take all legally prescribed activities in order to determine the merits of the request for refund and, accordingly, the implementation of VAT refund within a maximum of 45 days from the date of submission. If the taxpayer has overdue and unpaid other tax liabilities, they will be settled from the VAT credit, and the remaining part will be refunded within the specified period.</p> <p>In addition to the above, economic entities that are prohibited from performing activities due to the epidemic, in order to improve liquidity, should be able to defer payment of customs debt for 60 days from the date of acceptance of the customs declaration, according to the debtor's request.</p>
17	CREATION OF ADDITIONAL FISCAL SPACE FOR IMPLEMENTATION OF MONTENEGRIN GOVERNMENT MEASURES
	In order to create additional fiscal space for the implementation of government measures to support the economy and citizens and promote the consolidation of public finances, it is proposed to reduce the salaries of employees in public administration, categorized within the group of jobs A and B in Art. 22, 23 and 24 of the Law on Salaries of Employees in the Public Sector, for a period of two months, in accordance with the Law on Salaries of Employees in the Public Sector, through the Decision on the calculated value of the coefficient for employees in the public sector for fiscal 2020. Reduction of the calculated value of the coefficient from € 90 to € 45. The proposed reduction is expected to create savings in the amount of approximately € 400,000 per month, or € 800,000 for the duration of this measure.
18	FINANCIAL SUPPORT INSTRUMENTS
	It is necessary to design the new credit lines of the Investment and Development Fund in a way that is complementary to the measures of the Government. In order to create the preconditions for adequate implementation of measures, it is necessary to amend the Annual Work Plan of the IDF for 2020, and adjust it to the existing circumstances of the COVID-19 pandemic, in order to include "providing emergency credit support for liquidity of entrepreneurs, small, medium and large companies in order to provide a response to the negative consequences caused by the COVID-19 pandemic", as well as to simplify the procedures for approving loans in cooperation with the Central Bank of Montenegro.
19	SUSPENSION OF FORCED COLLECTION, FOR THE PURPOSE OF SOCIO-ECONOMIC PROTECTION OF ECONOMIC ENTITIES IN ACTIVITIES WHICH ARE PROHIBITED BY THE ORDER OF THE MINISTRY OF HEALTH IN ORDER TO COMBAT THE EPIDEMIC
	This measure will additionally contribute to the social protection of citizens, as well as to the protection of the economic strength of economic entities during the current situation caused by the epidemic. Namely, by postponing enforcement for a certain period of time, which, in accordance with the Law on Enforcement and Security, at the request of the enforcement creditor can be determined for up to a year by citizens on whose funds enforcement is carried out on the account, especially those or pensions for the collection of claims of executive creditors, as well as those according to which the collection of claims is made by selling their real estate, will be additionally socially protected, while delaying the payment of financial obligations of economic entities with the status of executive debtors will increase their economic power and will in significant proportion support successful overcoming negative effects of the epidemic.
IV.	ADDITIONAL MEASURE FOR THE TOURIST SECTOR
20	DECISION ON SPECIAL CONDITIONS FOR ELECTRICITY TRADE DURING THE DURATION OF MEASURES TO PREVENT THE SPREAD OF THE INFECTIOUS DISEASE COVID 19
	In the period from April 1 to June 30, 2020, the calculation and collection of the fixed part of the electricity bill will not be performed to entrepreneurs and companies in the field of tourism, as well as entrepreneurs and companies whose work is prohibited by orders of the Ministry of Health in order to control the spread of infectious disease COVID - 19.
V.	SOCIAL POLICY
21	MEASURES IN THE FIELD OF SOCIAL BENEFITS WITHIN THE SECOND PACKAGE OF SOCIO-ECONOMIC MEASURES

<ul style="list-style-type: none"> • Providing one-time financial assistance in the amount of € 50 to unemployed persons who were on the register of unemployed persons at the Employment Service of Montenegro on 31 March of the current year, and who do not exercise the right to financial compensation or material security, either as right holders or family members exercising the right to MS. • The Pension and Disability Insurance Fund of Montenegro pays 13,819 proportional pensions, i.e. pensions of pension insurance beneficiaries who have exercised this right partly on the basis of insurance in Montenegro, and partly on the basis of pension and disability insurance of other countries with insurance experience and with which Montenegro applies international social security agreements. 5,767 pensions are paid in Montenegro, with an average of € 82.81. Identify the number of beneficiaries whose amount of Montenegrin proportional pension, together with the pension from abroad, does not exceed the amount of the lowest pension of € 128.82, and provide one-time financial assistance in the amount of € 50 for this category of pensioners. • EPCG/State Electricity Company, announces the following measures: 1. to provide an additional discount for consumers from the category of vulnerable customers who are charged a 50% discount in the same amount as this category of consumers on the basis of electricity bills would not have any costs during the measures; 2. to double the percentage of the subsidy to other subsidized consumers, at its own expense; 3. to postpone the termination of all types of protocols on debt settlement from the previous period. 	
EFFECTS OF REALIZATION OF MAIN KEY MEASURES FROM THE FIRST PACKAGE:	
Salaries paid for nearly 64,000 employees in over 15,000 Montenegrin companies	33,200
Provided support to the economy through dedicated credit lines of the IRF	73,400
Additional fiscal space was created in the state budget based on the reduction of salaries for public officials from categories A and B, for two months	1,050
Provided support to farmers	4,020
One-time financial assistance was given to the most endangered categories	0.890
Total (million EUR) until 1 July 2020	39,200

Implementation of the third package of measures is in fact continuity of the first package expanded deeply to specific sectors:

Table 21 the third package of COVID-19 pandemic mitigation measures in Montenegro:
24/07/2020

SHORT TERM MEASURES – in 2020, with selective continuation of measures until 2024	
1	Fiscal incentives based on covering of the interest rates of IDF credit lines as well as commercial banks loans during the grace period of reprogram of actual loans (tourism and agriculture) and future loans for the priority development projects
2	New IDF credit lines
3	Fiscal incentives – lower VAT rates for some economic sectors (tourism) at 7%
4	Direct support to SMEs - through subsidizing the salaries of employees in certain areas (Prohibited activities 100%, Tourism 70%, Catering 50%, Road traffic 50%, Quarantine and self-isolation 50%, Parents of children up to 7 years 50%, To support new employment for 6 months 70% of earnings will be subsidized)
5	State competitiveness program – support through 17 lines, with reduction of administrative procedures for applications
6	Defined structure and dynamics of investments by sectors
7	Support to vulnerable categories of populations
8	Creating of the additional fiscal space – saving and reallocations for the COVID-19 socio-economic packages
Total short term measures: 127,350,000 EUR	
MEDIUM AND LONG TERM MEASURES 2020-2024	
	Strengthening IT sector and implementation of the Smart Specialization Strategy (Digital transformation)
	Tourism
	The concept of rapid breakthroughs in the agriculture and fisheries sectors (for 10 competitive products)
	Energy sector – rehabilitation and development economic measures
	Transport (without the highway project investment)
Total medium and long term measures: 1,093,730,750 EUR	
Total the third package: 1,221,080,750 EUR	

Sources of financing are the following: budget, Investment Development Fund, commercial banks and private sector.

Estimated level of support measures for the first and the second package is **7% of GDP⁸⁵** (0.9% and 6.1% respectively per package). Estimated level of the third package 2020-2024 is 26.5% of estimated GDP in 2020.

Estimated level of support measures for 2020 is 561.83 million EUR, or 12.2% of GDP (319.8 mil EUR for Package 1 and 2 – 6.1%, and 281.23 mil EUR for Package 3 in 2020 – 6.1%).

⁸⁵ 4,607.3 million EUR in 2020.

International support

- The European Union announced a **support package** of EUR 3 million for the health sector and EUR 50 million of support for social and economic recovery (reallocation of IPA II funds);
- On 20 May, the European Council adopted a decision to provide EUR 60 million of **macro-financial assistance** to Montenegro to help them cope with the economic fallout of the COVID-19 pandemic. Financial assistance will be provided in the form of loans on highly favourable terms.
- **European Union Solidarity Fund (FSEU):** Montenegro North is eligible to use the FSEU, which was extended to support COVID-19 responses on April 2020.

5. North Macedonia

On 18 March, the President of North Macedonia declared a state of emergency for the entire territory of North Macedonia, initially for 30 days, it was later extended until 22 June 2020. The 12 April general elections have been postponed over concerns about the COVID-19 and took place on the 15 July 2020.

North Macedonia has announced short-term policy responses to mitigate the economic and social impact of the COVID-19 crisis.

Table 22 Short term measures to mitigate the social and economic impact of the COVID-19 in North Macedonia⁸⁶

Area	Short-term measures
Public health and medical equipment	<ul style="list-style-type: none">• Budget increase for Ministry of health• Introduction set of emergency measures and additional budget for operational humanitarian emergencies⁸⁷• Main protection measures introduced (education sector, limited movement of people and public gatherings, confinement measures, border measures, etc.)
Social assistance	<ul style="list-style-type: none">• Subsidies for social contributions to eligible companies in tourism, transport, catering, and other affected companies for April, May, and June. Up to 50 percent of the contributions of the average salary paid in 2019• Exemption from rent for the beneficiaries of social housing• Cash benefit for citizens who have lost their jobs (50% of the average employee's salary)• Temporary relaxation of the criteria for applying for social assistance
Monetary and financial measures	<ul style="list-style-type: none">• Direct financial support for eligible MSMEs that become insolvent due to the coronavirus crisis• Reduction of the base Central Bank (CB) interest rate from 2 to a historic low of 1.75%• Temporary changes to loan terms

⁸⁶ World Bank, The Economic and social impact of COVID-19, WB Outlook, RER No. 17, 29 April 2020, p. 11.

⁸⁷ At the beginning of the outbreak, there was a general shortage of protective masks. The Ministry of Health mandated all local companies to procure the masks that they have in order to protect medical personnel; clothing factories were mobilised to produce masks for the general population. North Macedonia benefitted from various masks and gloves donations worth a total of EUR 110 000. In addition, an export ban on selected medical products and derivatives was put in place (IMF, COVID-19 Policy Tracker, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#M>);

	<ul style="list-style-type: none"> • Reduction of the penalty interest rates for companies and individuals • Reintroduction of the non-standard reserve requirement • Extended deadline for banks to submit their first internal Liquidity Assessment Reports • Abolition of fees for withdrawing and returning cash to the CB central vault • Temporary freeze on NPL reclassification. • Zero interest rate loans for SMEs provided through the Development Bank.
Fiscal policy and Trade-related measures	<ul style="list-style-type: none"> • Reduction of interest and para-fiscal charges • Temporary suspension of PIT payments and advance CIT payments for taxpayers who earn income from self-employment for the months of March, April, and May 2020, specifically in catering, tourism, and transport but also applicable to other sectors affected • Reduced interest rate on tax arrears and overpayments • Support to protect jobs: direct cash transfers to companies that fulfil certain criteria, to be used to pay salaries and keep workers employed • Temporary prohibition on initiating bankruptcy proceedings • Salary reduction for all elected and appointed officials, who will be paid the minimum wage • Abolition of remuneration for members of executive and supervisory boards and committees during crisis.

In response to the declaration by the WHO of the global COVID-19 pandemic, the Government has undertaken a series of regulatory responses to mitigate the negative effects of population protection measures on the economy. The measures were taken as of March 2020. In May 2020, the Government retroactively classified the measures into **three distinct packages**. The first two sets of measures mitigated the impact of the health crisis on the economy and the population, and were implemented between March and May 2020. The third package concerns revitalization, economic recovery and stimulation of consumption and industry which began on 17 May 2020 and is still ongoing.

The third package of newly implemented measures is systematised in three main pillars: the distribution of means of payment to the population in order to encourage the consumption of local goods and services; a direct support for the economy; and an aid for the agrarian sector in North Macedonia. The value of the third package is estimated to cost around EUR 355 million and will affect 733 000 users.

With the third package, the total economic assistance from all of measures taken by the Government is estimated to **550 million euros or 5.5%** of North Macedonia's GDP⁸⁸.

Monetary policy

- The National Bank of North Macedonia cut its policy rate by 0.25% to 1.75%. It has also revised its credit risk regulation to encourage banks to restructure loans temporarily, and has relaxed the loan classification standards for NPLs. In addition, it has reduced the base for the reserve requirement by the amount of new loans to firms in affected sectors.

⁸⁸ OECD, The Covid-19 crisis in North Macedonia, 30/07/2020, <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-North-Macedonia.pdf>

- The Government has also signed a decree that facilitates procedures in banks. This decree allows banks to easily and simply postpone loans to their customers without signing annexes or having to physically go to bank offices.

Fiscal policy

- The Government has implemented a three-month fiscal package (0.2% of GDP) to help address firms' liquidity problems and protect jobs, targeted to affected sectors such as transport, hotel and restaurants starting in April. 3
- On 24 April, the Government introduced a tax deferral system for VAT returns.
- On 14 May, the Government introduced a tax deferral system for excise duties for selected excise goods (mainly auxiliary medicines and disinfectants).

Support to firms

- **Support to salaries and firm liquidities:** The Government initiated a support programme on salaries by subsidising contributions to employees of companies in the tourism, transport and catering sectors along with other affected companies for the months of April – July of 2020. It will also subsidise contributions for employees up to 50% of the average salary paid in 2019, provided that the company does not reduce the number of employees below its number from February 2020. For other sectors, the measure supports employer liquidity including for the self-employed, independent performers and private media legal entities. North Macedonia subsidises salaries for the months of April – July 2020 up to a maximum of 14 500 denars (~EUR 235) per month and per employee.
- **Credit support:** The National Bank of the Republic of Northern Macedonia (NBRSM) has changed its methodology for credit risk management. This decision is in addition to those taken previously, mainly aimed at promoting more favourable credit standards for companies affected by the COVID-19 crisis and easing the standards for household and corporate loan restructuring. Each company, depending on the number of employees, can receive from 3 000 to 30 000 euros. Micro companies, with up to ten employees, are able to borrow from 3 000 to 5 000 euros, small companies with 10 to 50 employees, are able to borrow from 10 000 to 15 000 euros, and medium-sized companies with 50 to 250 employees are able to borrow from 15 000 to 30 000 euros. Loans are interest-free.
- **The Development Bank of Northern Macedonia** issued a first set of 13.7 million (5.7 million + 8 million) interest-free loans for micro, small and medium enterprises the amount of which depended on the number of employees. The loans were up to 90 000 euros. Further to this, as part of the third package of measures, the Development Bank of Northern Macedonia unblocked interest free loans worth EUR 31 million. This credit line is available to all micro and small companies and it will also offer a 30% grant (non-refundable) for those companies that are run or founded by women or employ young people, are export-oriented or introduce innovation and digitalization in their operations.
- **Reduction of the instalment and reprogramming of loans to financial companies and leasing companies.** Instalments in the repayment of loans by individuals were reduced by 70% over until June 2020.
- **State guarantee for commercial loans and customs debt:** a support for start-ups and small and micro companies through commercial banks with EUR 10 million initial capital for easier access to funds was granted, mainly by taking part of the credit risk.

- **Bankruptcy measures:** North Macedonia adopted a decree amending the Bankruptcy Law during the state of emergency which froze all bankruptcy procedures during the state of emergency.
- **Support for the development of domestic start-up products and services:** The already existing *Innovation and Technological Development Fund* is being granted additional EUR 1.6 million for the development of innovative products and services. Additionally, the Macedonian tourist village in Skopje's Nerezi is transformed into a Macedonian start-up incubator.
- **Additional support to the tourism sector:** The Government issued a decision supporting the tourism sector by regulating the means of reimbursing customers who bought a trip during the crisis period. This program works in conjunction with the Tourism Fund, which is currently valued at a total of 74 million denars (~EUR 1.2 million). As part of the *third package of measures*, the Government is indirectly supporting **the domestic tourism** sector by distributing vouchers to the local population⁸⁹.
- **Additional support to the textile sector – digital platform:** With financial support of EUR 1 million, the Government will help the textile industry to create a digital platform on which the companies will place their products.
- **Additional support to the agro-food sector:** As part of the first and second package of measures, the Government allocated funds from the Program for enhancing the activities in tobacco production for 2020 in the Program for financial support in agriculture for 2020. The transfer is estimated to be around 110 million denars (~EUR 780 000). The third package of measures supporting agriculture will mobilise up to EUR 76.1 million. It includes support to micro enterprises and SMEs; direct support to green oil farmers. The measure will cover 50 000 farmers and is worth EUR 4.6 million; Support to grape processors and wineries with EUR 3.5 million over three years to stimulate alcoholic distillate production that will be used by domestic chemical companies to produce disinfectants; Long-term lease of pastures to support cattle breeders; and a Program for financing micro-agricultural companies in the amount of EUR 3 million for processing equipment and marketing.

Support to the population

- **Price control regulations:** The Government has implemented price controls on basic food products, medicines, and disinfection products, and abolished the import duties on medical supplies. In addition, a ban on exports of wheat and flour was put in place. Those measures were abolished after the end of the state of emergency.
- **Unemployment measures:** On 6 April, the Government set up an unemployment insurance system for employees who lose their jobs due to the health crisis. The state is paying a monthly allowance of 50% of the average monthly net salary of the employee for the last 24 months.
- For citizens who lost their jobs or were part of **the informal economy**, the North Macedonian Government provided accelerated access to the social protection system for April and May by providing 7 000 denars (~EUR 113) per household. This measure affected about 20 000 new households from the informal economy and 30 000 existing users.

⁸⁹ More details of this measure under paragraph "Support to population - Support of domestic tourism by vulnerable households" below.

- **Support for education:** Since 8 April, the Government in partnership with a local telecoms provider, Makedonski Telekom, is donating mobile internet for distance learning purposes to 30 000 primary and secondary school students from families at social risk.
- **Financial support for young people:** As part of the third package of measures, up to 6 000 denars for tuition fees and a payment card of 3 000 denars and co-financing vouchers up to 30 000 denar for IT and digital skills training are to be distributed to North Macedonian students. The measure is estimated to affect 100 000 students and mobilise around EUR 12 million. The payment cards are currently being distributed and will be active until 15 August.
- **Support for local consumption of vulnerable households:** The Government initially adopted measures to support vulnerable households by postponing the rent of social housing. Additionally, as part of the third package of measures, the Government distributes payment cards credited with 9 000 denar in order to stimulate the consumption of domestic goods and services. The measure will affect about 100 000 citizens from the poorest households, i.e. earning less than 15 000 denar per month (the minimum wage is denar 14 500 per month). Payment cards are valid for 30 days and can only be used to purchase local goods and services. The measure aims to boost local consumption and limit informal cash exchanges, thus reducing the grey economy. The Government estimates the measure to mobilise around EUR 16 million. This program will end mid-August.
- **Support of domestic tourism by vulnerable households:** As part of the third package of measures, the Government distributes payment cards credited with 3 000 denar and 6 000 denar vouchers in order to stimulate domestic tourism by the poorest households. The measure will affect about 100 000 citizens from the poorest households, i.e. earning less than 15 000 denar per month (the minimum wage is 14 500 denar per month). The voucher must be used in domestic hotels and other accommodation facilities, while with the payment card will encourage the purchase of domestic tourism products and services.
- **Support of private solidarity initiatives:** In addition to the aid paid directly by the Government, North Macedonia has set up a fund to support private associative initiatives that respond to the need for solidarity arising from the COVID-19 crisis. 30 million denar (~EUR 485 000) will be allocated in tranches of 600 000 to 900 000 denar to associations and foundations working, inter alia, in the field of information, education, assistance, including legal assistance, for the populations affected by the pandemic, as well as the fight against corruption and the promotion of sustainable means of agricultural production.

Additional measures

- **Revenue measures for civil servants:** Public officials received salaries reduced to the legal minimum of 14 500 denars (~EUR 230) for April and May 2020.
- **Change in the modality of financing of political parties:** North Macedonia has decided to lower the rate of participation of the state budget in the financing of political parties. The rate will decrease from 0.15% to 0.04% of the total income of the budget.
- **Additional measures for the medical staff:** doctors and medical staff of infectious disease clinics and departments, like all members of the emergency medical teams received a 20% higher salary for May and June 2020, via a home payment card.

- **Support for the transport** of goods, road traffic and facilitation of the work of companies in the **construction** sector: The Government has enacted regulations to better organise the transport companies in the context of a state of emergency.
- **Additional measures to support the State budget:** The Government amended the Law on Games of Chance and Entertainment Games allowing online hazard games services. The decision provides for the possibility of collecting revenue in the budget which, until the decision on measures to prevent the spread of the virus, was generated by bookmakers, automatic clubs and casinos. The organisers of these services have closed all payment due to the shutdown. The decree allows those operators to continue their activities online, which creates conditions to save 7 500 jobs in this activity and will support the state budget in 2021.

International support

- **EU Support:** The EU is mobilising a package of over EUR 410 million in reallocated bilateral financial assistance to support the Western Balkans during the coronavirus emergency. Out of this package, North Macedonia will receive EUR 4 million of immediate support for the health sector and EUR 62 million of support for social and economic recovery.
- **EU accession and European Union Solidarity Fund (FSEU):** On 26 March, the EU formally gave the green light to start accession negotiations with North Macedonia. As an EU candidate country, North Macedonia is eligible to use the FSEU, which was extended to support COVID-19 responses on April 2020. The fund is approx. EUR 800 million.
- **IMF support:** The International Monetary Fund is mobilising USD 191.8 million in emergency aid to North Macedonia to help it deal with the economic impact of the COVID-19 outbreak.
- **USAID:** on 11 May 2020, North Macedonia and the United States of America agreed on the amendment of the USAID grant. With this amendment, USAID is increasing the amount of funds it provides with an additional USD 16 million which will be used to support the growth of the private sector.
- **World Bank support:** a loan from the World Bank of EUR 50 million, for the modernisation of agriculture.⁹⁰

6. Serbia

With the outbreak of the pandemic and lockdown of economic activities, forecasts from April suggested that Serbia's economy will enter into a recession in 2020⁹¹, as the whole WB region.

⁹⁰ OECD, The Covid-19 crisis in North Macedonia, 30/07/2020, <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-North-Macedonia.pdf>

⁹¹ According to the OECD data (30/07/2020), 67 000 employees are working from home, 168 manufacturing companies have stopped production (27 March). Damages in infrastructure and transport amount to over 110 mil € (17 March). The damage to the tourism sector totalled EUR 2.7 mil between March and the first half of April. Around 85% of SMEs are expected to be negatively affected by the COVID-19 outbreak (poll, March 2020). The share of firms that drastically reduced their productive capacities accounts for around 60.5% (survey, April 2020), the share of firms expecting difficulties in covering liabilities accounts around 91% (survey, April 2020), and losses in tourism for 2020 are estimated at up to 1 billion € (National Travel Agency Assoc.). Many supply chains have been disrupted, FDI inflows and domestic investments are expected to decrease and falls in remittances might lead to further decreases in

The government declared a national state of emergency on 15 March and decided to adopt containment measures, with gradual opening after 21 April 2020.

Serbia has announced short-term policy responses to mitigate the economic and social impact of the COVID-19 crisis.

Table 23 Short term measures to mitigate the social and economic impact of the COVID-19 in Serbia⁹²

Area	Short-term measures
Public health and medical equipment	<ul style="list-style-type: none"> • Budget increase for Ministry of health • Introduction set of emergency measures and additional budget for operational humanitarian emergencies • Main protection measures introduced (education sector, limited movement of people and public gatherings, confinement measures, border measures, self-isolation and quarantine, Covid-19 hospitals, new temporary hospitals, etc.) • Support to the health sector: <ul style="list-style-type: none"> - 10% wage increase for public healthcare sector to RSD 13 billion (~EUR 110 million) and increased healthcare spending to about RSD 12 billion (~EUR 100 million). - Between 13 to 27 April, more than 2 500 health workers (doctors and nurses) had been employed. - Bilateral support for the fight against COVID-19 pandemic⁹³
Social assistance	<ul style="list-style-type: none"> • One-off payment in April to pensioners (about \$40 per person) • Cash transfer of €100 to all citizens
Monetary and financial measures ⁹⁴	<ul style="list-style-type: none"> • Reduction of the CB policy rate from 2.25% to 1.5% • The CB started regular foreign exchange swap and repo operations to provide additional liquidity (in March they reached over €400 million, 0.9% of GDP) • Moratorium on debt repayments for all businesses and individuals • Support through the Development Fund • Guarantees scheme for loans provided by banks. • Moratorium on payment of dividends and loss of tax on dividends
Fiscal policy and Trade-related measures	<ul style="list-style-type: none"> • Moratorium on tax payments for financially stressed entities • Price controls for some medical products and basic food • Ban on export of some medicine and medical products and food and agricultural products • The fiscal stimulus plan to offer about €5.2 billion (of which €2.1 billion are loan guarantees) in tax deferrals; cash subsidies and loans and guarantees to businesses • PIT and social security deferrals delayed to 2021. • Cover for 3-month wages in micro and SMEs • Support to large enterprises: 50% of the minimum wage to all employees whose contract ended

Policy reaction on the COvid-19 pandemic, according to the OECD report (30/07/2020) is the following:

consumption. According to preliminary data from the National Bank of Serbia, in the first three months of this year, online shopping has increased by 80%

⁹² World Bank, The Economic and social impact of COVID-19, WB Outlook, RER No. 17, 29 April 2020, p. 12.

⁹³ According to the OECD data (30/07/2020), Serbia received bilateral support for immediate medical aid: Hungary has sent 200 000 masks and 10 000 protective suits. The USA announced that it would send 6 000 coronavirus test kits. Serbia received a donation from Turkey containing various medical devices, including 100 000 protective masks, 2 000 protective suits and 1 500 COVID-19 tests. China has supported Serbia with a donation for the construction of two coronavirus laboratories, which will run 3 000 tests a day. Serbia received medical aid from Russia, which was transported by 11 airplanes. The Russian-Serbian Humanitarian Centre (RSHC) handed over 3 000 sets of protective equipment and personal protective kits for the work in the environment with the coronavirus spread. Humanitarian goods were bought by the Russian part of the RSHC with the support of the Russian Ministry of Emergencies. Serbia also received humanitarian aid from Qatar, Azerbaijan and recently from Poland and Austria

⁹⁴ Financial market: The local currency "RSD" has depreciated around 3% since the beginning of the year, signalling a potential capital outflow and rendering international trade and investment decisions more difficult.

Monetary policy

- Under the plan agreed upon with the International Monetary Fund, Serbia's **public debt** should not exceed 60% of GDP, from 52.4% at the end of 2019.
- On 12 March, the **National Bank of Serbia (NBS)** lowered its key policy rate from 2.25% to 1.75% and narrowed its core interest rate corridor from plus/minus 1.25 percentage point to plus/minus 1.0 percentage point relative to the key policy rate. On 9 April, the NBS cut the policy rate from 1.75 % to 1.5%. On 11 June, it cut the policy rate again to 1.25%. Moreover, the NBS provided liquidity to banks through an additional three-month EUR/RSD swap auction (RSD 14.9 billion) and repo purchase auctions of dinar government securities (RSD 25.2 billion) at 0.75%. It also introduced a three-month moratorium on all repayments under bank loans and financial leasing agreements. On 11 June, the NBS relaxed the loan-to-value (LTV) cap for first-home buyer's mortgage loans, increasing the limit from 80% to 90%.

Fiscal policy

- On 1 April, the Minister of Finance and the President of the Chamber of Commerce of Serbia announced a **EUR 5.1 billion (11% of the national GDP) financial package** to support the economy. The government also announced that it will invest RSD 24 billion (~EUR 200 million) in infrastructure projects in a bid to mitigate the risks of the coronavirus crisis on the country's economic growth.

Support to firms

- **Support to private sector activity and employment:**
 - The government will pay a minimum monthly salary to every employee of a micro, small and medium sized enterprise in Serbia for a period of three months. These measures cover more than **900 000** people and will amount to RSD 97.3 billion.
 - Large enterprises will get similar support but with 50% of the minimum wage for each employee for three months.
 - The government has also announced guarantee schemes for loans for the maintenance of liquidity and working capital for small business owners, SMEs and agricultural enterprises through commercial banks operating in Serbia.
 - The payment of payroll taxes and contributions will be deferred during the period of the state of emergency, while the payment of corporate income tax for the second quarter will also be delayed.
 - As of 25 March, the government announced measures to support private sector activity and employment, which could amount to RSD 300-530 billion (~EUR 2.5-4.5 billion). All the measures are currently in the implementation phase.
 - The Serbian Innovation Fund introduced a special call for proposals to respond to pandemic tailored for micro, small and medium enterprises (MSMEs) developing new products, technologies and prototypes to be set up in a very short time. By the end of March 12, contracts were signed and during May, the companies had to develop their products and services (e.g. protective reusable masks, devices for disinfection).
 - Additional support to particular effected sectors: Tourism, transport and logistics are currently the hardest hit economic sectors. The government of Serbia

distributed 160 000 holiday vouchers in Serbia in order to compensate for the commensurate number of foreign guests.

- The Investment-Development Fund offers working capital loans to companies in the sector of medical supplies, tourism and hospitality, and food processing, up to EUR 3 million per borrower.
- As paying rent for their business/office space during the state of emergency has become one of its most important issues, the city of Belgrade has decided not to charge rent for office/business space. Once the state of emergency is over, tenants will have 30 days to declare how they want to pay the lease for the space for this period.
- As of 16 April, the government adopted measures to support farmers. The new measures aim to facilitate the eligibility criteria for loans and to provide financial assistance.
- As of 12 May, the government announced its readiness to provide further assistance to the most vulnerable sectors, including hoteliers, travel agencies and bus companies.
- As of 28 May, the government adopted new measures providing further support to the sectors of tourism, hospitality and transport. Companies from these segments will be able to take out loans from the Development Fund to improve their liquidity and working capital under changed conditions, which include a longer repayment period of up to five years and a grace period of up to two years.

Support to the population

- The government decided that **all pensioners and temporary benefit beneficiaries** who have exercised their rights will be paid a **one-off financial assistance** in the amount of RSD 4 000 (RSD 7 billion).
- **The authorities will also provide a universal cash transfer of EUR 100 to each citizen over 18 years old** (about RSD 70 billion).
- The Gender Coordination Body, the Ministry of European Integration, and the EU Delegation in Serbia announced that **14 000 of most vulnerable women in 50 municipalities** will receive assistance worth EUR 100 000 in hygiene packages and essential food products. In order to provide better protection for children without parental care, UNICEF has provided hygiene packages for 19 institutions in Serbia.
- **Support to workers and social assistance:** As of 6 April, the government announced that it will pay each worker employed by a small business about EUR 750, or over RSD 90 000, which is equivalent to the minimum wage for three months. The government also recommended that all employers give their employees full compensation for those who are in self-isolation or have contracted COVID-19 due to direct exposure to the virus at work.
- On 12 June, the government announced **new measures to stimulate youth employment**. As part of this programme, the government wishes to help young people who have graduated high school or college to find job while simultaneously motivating employers to hire them. The government has decided to allocate RSD 2 billion from the state budget for this project. The Minister of Finance has also announced additional training programmes for those who wish to find a new job. The implementation of these measures will most likely begin in the autumn of 2020.
- On 29 July, Finance Minister announced a new package of support measures for businesses, with the goal of **maintaining employment**. The package will total around

RSD 66 billion, will cover around 60% of the average monthly salary per worker, and will be accompanied with an additional month of tax exemptions.

International support

- The European Union has announced a package of EUR 93 million for Serbia to tackle the coronavirus crisis (EUR 15 million for immediate purchase and transport of medical equipment, and EUR 78 million for economic recovery). On 4 April, an additional grant agreement worth EUR 4.9 million was signed to purchase respirators, tests, and proactive and laboratory equipment.
- The European Commission proposed to narrow down export authorisation requirements to protective masks only and extended geographical exemption to Western Balkans, including Serbia (the new regulation is set out to apply for a limited period of 30 days as of 26 April 2020).
- As of 21 April, Serbia joined the EU mechanism for joint procurement of medicines and medical supplies. As of 29 April, the European Commission announced over EUR 3.3 billion in an EU financial support package for the Western Balkans, mobilised jointly with the European Investment Bank.
- The EU has also involved Serbia in the initiative such as the “Green Lanes”.
- The World Bank has USD 20 million at its disposal if the Serbian government needs assistance in mitigating the negative impacts of the Coronavirus pandemic.
- As of 3 April, the European Investment Bank intends to mobilise EUR 400 million in funding to back efforts by SMEs to overcome the difficulties caused by the pandemic.
- The World Health Organisation (with participation of the Ministry of Health, the Ministry of Labour, Employment, Veteran and Social Affairs and other professional public institutions from Serbia) will organise and conduct training for safe behaviour and the implementation of measures to prevent and control the infection in social care institutions.
- As of 13 May, the Council of Europe Development Bank (CEB) has approved a EUR 200 million loan to Serbia to finance health expenditures for combatting COVID-19.
- The European Bank for Reconstruction and Development (EBRD) plans to raise its financing for the Western Balkans (including Serbia) to EUR 1.7 billion in 2020 from a record EUR 1.3 billion in 2019⁹⁵.

⁹⁵ OECD, The Covid-19 crisis in Serbia, 30/07/2020, <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Serbia.pdf>

6. The EU support to the Region

The Western Balkans is an integral part of Europe and a **geostrategic priority** for the European Union. The European perspective of the entire region was confirmed again in March 2020, when the Member States endorsed the Commission's proposals for a strengthened methodology⁹⁶ for the accession process and decided to open accession negotiations with the Republic of Albania and the Republic of North Macedonia. It is of key importance to the European Union to continue fostering the stability and prosperity of this region, and build on our shared strategic interests.

In its response to the crisis, the EU decided to provide substantial **financial support** but also to include, to the greatest possible extent, the Western Balkans in its own response. Within the existing MFF 2014-2020, the EU has mobilized a package of over EUR **3.3 billion** to the benefit of Western Balkans citizens for the following priorities:⁹⁷

- a) **EUR 38 million of immediate support for the health sector**, through reallocations of some IPA funds, in particular through delivering essential supplies to save lives such as personal protective equipment, tests and ventilators⁹⁸, The EU assisted Albania and North Macedonia to cover the immediate needs of their public health systems with up to €4 million each, Bosnia and Herzegovina with €7 million, meanwhile Montenegro received €3 million, Kosovo* €5 million and €15 million went to Serbia;
- b) **EUR 389 million to address social and economic recovery needs** (national IPA reallocations); €46.7 million to support the social and economic recovery of Albania, €73.5 million for Bosnia and Herzegovina, €50 million for Montenegro, whilst North Macedonia will benefit from €62 million, Serbia from €78.4 million and Kosovo* will receive up to €63 million; and
- c) **a further EUR 455 million economic reactivation package for the region in close cooperation with the International Financial Institutions** (50,7 mil EUR for Albania, economic reactivation package for Albania), as well as
- d) **a proposal for EUR 750 million of Macro-Financial Assistance** (180 mil EUR for Albania, BiH 250 mil EUR, Kosovo* 100 mil EUR, Montenegro 60 mil EUR and North Macedonia 160 mil EUR)⁹⁹ and
- e) **EUR 1.7 billion package of assistance from the European Investment Bank** (preferential loans)¹⁰⁰.

Furthermore, given their European perspective, the EU is treating the Western Balkans as **privileged partners** by granting them access to many initiatives and instruments reserved for EU Member States.

⁹⁶ Commission Communication *"Enhancing the accession process - A credible EU perspective for the Western Balkans"* [COM\(2020\) 57 final](#)

⁹⁷ This includes reallocations from the Instrument for Pre-accession Assistance. Existing IPA support programs are also being adapted and accelerated e.g. EU pre-accession assistance for rural development (IPARD) and for EU-Western Balkans cross-border cooperation (REGIO).

⁹⁸ The EU is funding the delivery of some 95.000 COVID tests, 500 hospital beds, 450 ventilators, 100 intensive care monitors, 100 containers for triage, 10 ambulances, as well as more than 4.5 million pieces of protective equipment as well as hundreds of medical devices (such as x-rays, ECGs, CT scanners, defibrillators, infusion pumps) and thousands of supplies (such as thermometers, catheters, tubes, syringes, masks). The EU has also covered the cost of 16 long-haul flights carrying 750 tons of medical supplies purchased from other sources.

⁹⁹ Proposal for a Decision of the European Parliament and of the Council on providing Macro-Financial Assistance to enlargement and neighborhood partners in the context of the COVID-19 pandemic crisis. 22 April 2020. 2020/0065 (COD)

¹⁰⁰ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, Support to the Western Balkans in tackling COVID-19 and the post-pandemic recovery Commission contribution ahead of the EU-Western Balkans leaders meeting on 6 May 2020, COM/2020/315 final

The Commission is also including the Western Balkans in EU initiatives to tackle the coronavirus crisis like the **joint procurement schemes of protective personal equipment** and has accelerated the implementation of a project with the European Centre for Disease Prevention and Control (ECDC). Initially envisaged for 2021, this project will enhance their capacities to survey and control communicable diseases, improve their health emergency preparedness capabilities, and support the development of their public health microbiology laboratory systems.

Privileged partnership also includes for instance exempting the region from the EU's export authorization scheme for personal protective equipment, ensuring the fast flow of essential goods across land borders through “**green lanes**”, and the EU supply of testing material to ensure the correct functioning of coronavirus tests in the Western Balkans. The region is also associated to the work of relevant health bodies.

Table 24 COVID-19: the EU package for the Western Balkan of 3.3 billion EUR

	To deal with the health crisis	To support business and public sector investment		To kick-start the socio-economic recovery	
	38 mil EUR of immediate support to the health sector	455 mil EUR for economic reactivation package in close cooperation with the IFIs	1.7 billion EUR of preferential loans by the EIB	389 mil EUR reallocation of IPA for social and economic recovery	750 mil EUR of Macro-Financial Assistance (direct loan to the state budget)
AL	4	50.7		46.7	180
BA	7	80.5		73.5	250
KS*	5	60.0		63.0	100
ME	3	53.0		50.0	60
MK	4	66.0		62.0	160
RS	15	93.4		78.4	-

As a result of the coronavirus outbreak, the Western Balkans has also activated the **Union Civil Protection Mechanism (UCPM)** and has already started to receive assistance through delivery of equipment and repatriation of citizens from the UCPM Member States and Participating States.

The EU is also providing immediate humanitarian assistance **to vulnerable refugees and migrants** amounting to €4.5 million and €8 million to address pressing needs in migrant camps across the region.

Looking ahead - an economic and investment plan for recovery

The Western Balkans will require continued support to address the impact of the pandemic once the immediate crisis is over. The European Commission will later in the year come forward with an **Economic and Investment Plan for the region**, to spur the long-term recovery, boost economic growth and support reforms required to move forward on the EU path.

It will also include a substantial investment package for the region. For the period **2021-2027**, the Commission has proposed a total envelope for **the Pre-Accession Instrument III of €12.9 billion¹⁰¹**, of which the lion's share is destined for the Western Balkans. The Commission foresees a doubling in the provision of grants through the Western Balkans Investment Framework and substantially increasing the financial guarantees to support public and private investment in the region through a dedicated Guarantee Instrument under the Western Balkans Investment Framework.

¹⁰¹ EC revised proposal, 27 May 2020;

The Green transition and the Digital transformation will play a central role in relaunching and modernizing the economies of the Western Balkans. Investing in clean and digital technologies and capacities, together with a circular economy, will help create jobs and growth. Support will also be provided to improve the competitiveness of the economies of the Western Balkans, to better connect them within the region and with the EU, and to help make the Western Balkans fit for the digital age. A strong focus will be put on the transport and energy links, which are crucial for the economic development of the region and the EU alike.

Tackling fundamental reforms

The recovery from the current crisis will only work if the partners keep delivering on their reform commitments and produce tangible results in their implementation. This is also crucial to realizing their European perspective. In addition to continued economic reforms, this requires a stronger focus on the rule of law, the functioning of democratic institutions and public administration¹⁰².

¹⁰² Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, Support to the Western Balkans in tackling COVID-19 and the post-pandemic recovery Commission contribution ahead of the EU-Western Balkans leaders meeting on 6 May 2020, COM/2020/315 final

7. Role of the public administration within the COVID-19 measures

The COVID-19 pandemic forced the public service and public servants to not only deal with fighting its spread, but trying to manage its accompanying socioeconomic fallout. It has catapulted public servants onto the frontlines in the response to the crisis without any clear roadmap, forcing them to deal with a quickly and ever-changing situation and improvising along the way¹⁰³.

From frontline healthcare workers and public health officials to teachers, sanitation workers, social welfare officers and more, the humble public servant has been thrust into the spotlight, helping elevate awareness and understanding of the critical role public servants play in everyday life, and in particular during times of severe crises, such as the COVID-19 pandemic.

In the ongoing COVID-19 pandemic however, public servants are working under **life-threatening circumstances**. In all COVID-19 pandemic affected administrations they are both expected to deliver services despite the pandemic while at the same time suffering its impact, either by being directly infected or having family members who are¹⁰⁴.

According to the UNDESA research, the following are some of **the roles public servants have played are playing and must continue to play in the pandemic response**:

1. Ensuring continuity of public services - By threatening disruption of public service delivery, the COVID-19 pandemic touched a cardinal principle of public service, that of continuity. In a show of courageous response however, in many administrations, public servants have been quick to adapt and re-adjust the way in which services are delivered so as to minimize the negative impact of the pandemic on individuals and communities.

- For example, as many schools, including colleges and universities, were suddenly closed as a result of nationwide lockdowns, teachers and education professionals rushed to provide at *home learning solutions via online platforms and e-materials*, where there was infrastructure to support such approaches.
- Similarly, in many places where medical facilities have been overwhelmed by high numbers of COVID-19 patients, online tools, such as *telemedicine and telehealth*, have been set up or enhanced to provide non-emergency medical services so as to not disrupt the delivery of health services to people with other ailments.
- Courts are hearing and judging cases through *video conferencing*,
- In some places *virtual marriages* have been legalized,
- different institutions quickly reorganized their working schedule and/or organized *teleworking* (work from home);
- inspectorates were under specific pressure in order to *control respect of health protection measures* by business sector; to coordinate limited capacities on more effective way and to introduce better IT support of their everyday work, etc.;
- number of different *on-line services has grown*;

¹⁰³ UN, Department for Economic and Social Affairs, The role of public service and public servants during the COVID-19 pandemic, Policy Brief #79, 11/06/2020; <https://www.un.org/development/desa/dpad/publication/un-des-a-policy-brief-79-the-role-of-public-service-and-public-servants-during-the-covid-19-pandemic/>

¹⁰⁴ Moreover, the pandemic hit the world at a time when, according to the WHO, the world needs six million more nurses and midwives to achieve global health targets within the SDGs. These critical workers are confronting a dangerous highly infectious virus but they in insufficient numbers.

- State employees and employed in state bodies, state administration bodies, administrative bodies and state employees in local self-government bodies are *prohibited from traveling abroad*, except in cases where the trip is of state interest with the prior consent of the head of the authority.

In these cases, and others, public servants have demonstrated versatility in **service delivery** that has benefitted service users amidst challenges caused by the pandemic.

Finally, all these rapid adjustments were **positive** in order to ensure continuity of public services, but issue of **quality of public services** (sustainability of providing public services on the proper quality level) in medium or long term is open. This is especially case in the education sector, at all levels.

2. Service before self: courage and humanness in practice - Many public servants have put their lives at risk in order to continue serving the public throughout the pandemic. Sadly, many have subsequently been infected and an alarming number have lost their lives. For example, in the UK at least 100 medical and health workers have died as a result of COVID-19. In China it was reported that within the first 3 months of fighting the virus some 3000 healthcare workers had been infected. In the USA, although the exact figure is unknown, an estimated 5,000 healthcare workers have been infected, while in New York City 1000 of the city's police officers accounted for some of the 40, 000 people in that city who tested positive for the infection by April 2020. The numbers are likely much higher, given not all public servants have been tested for COVID-19 and many may be asymptomatic carriers of the virus¹⁰⁵.

3. Quick thinking, creativity and innovation - In the response to the COVID-19 pandemic public service and public servants, many who were used to operating in routine, predictable and regulated systems had to deploy quick thinking, instant creativity and innovation to counter the destruction caused by the pandemic in *service delivery*, particularly in critical areas such as healthcare¹⁰⁶. The COVID-19 responses have seen innovation in the public service flourish. From the development of **drive-thru testing sites** and contact tracing apps in the Republic of Korea, to the use of robots to carry out medical tasks such as temperature taking so as to minimize contact between infected patients and healthcare workers in Rwanda, public servants have leveraged innovation and creativity, often on a shoestring budget, to come up with unique and quick responses to the crisis.

4. Reliable information and awareness as a critical service - One of the most needed and lifesaving services during the pandemic has been accurate and reliable information about the virus, including on its spread, prevention, recognition of symptoms and importantly, on debunking myths and misinformation around it. In the early days of its spread, a lack of or inadequate knowledge and awareness about the virus helped it to penetrate communities before government authorities realized its seriousness. Public servants in the health sector, including

¹⁰⁵ One reason for such high infection rates amongst public servants, particularly frontline public servants like healthcare workers, has been a **shortage of personal protective equipment (PPE)**. Most economies have struggled to ensure enough medical masks, N-95 respirators, surgical gowns and other protective gear, forcing many to improvise, including using bin liners for gowns and home-made masks. It is tragic and regrettable that many public servants have been working under such dangerous conditions. Their heroic self-sacrifice and extraordinary humanness have saved many lives. In recognition of this, governments should work towards developing and/or enhancing preparedness and contingency plans for future such crises so that public servants always have access to the protective gear that both their profession and safety demands.

¹⁰⁶ For example, at the onset of the outbreak of the virus in **Wuhan**, the Chinese military took only 10 days to construct a makeshift two storied hospital which could hold up to 1000 patients and included several isolation wards and 30 intensive care units.

frontline doctors and nurses, virologists, epidemiologists and other health experts, were some of the first to document this new infection, getting the word out that a new and highly contagious virus was gaining ground. As information about the virus started filtering through, public health officials, the news media, and research institutions started giving information to both the public and authorities which progressively proved vital in the fight against the spread of the virus. However false or misleading information about the virus, including *conspiracy theories* surrounding its origins and unproven cures, have greatly hampered efforts to ensure the circulation of reliable information. The UN Secretary-General, António Guterres, notes that “As the world fights the deadly COVID-19 pandemic—the most challenging crisis we have faced since the Second World War—we are also seeing another epidemic, a dangerous *epidemic of misinformation*.”

5. Strategic thinking and planning amidst chaos - Many public servants have been strategizing and planning amidst the chaos about how to beat the pandemic, save lives, ensure social protection, and sustain economies. *National taskforces* have been formed incorporating representatives of a cross-section of the public service to plan and coordinate efforts to fight the spread and impact of the pandemic. In a whole of government and whole of society approach they brought on board scientists and experts in public health, to ensure the effectiveness, coordination, coherence and integration of the strategies and plans aimed at stopping the spread of the virus and managing the broader impacts of the pandemic. These taskforces and the lessons learned from their work will develop or enhance institutional mechanisms with capacities to deal more effectively with such crises in the future. If leveraged, these taskforces could provide a foundational building block for enhancing government preparedness and crisis response.

6. Sustaining resilience and building a more effective and responsive public service - The world has experienced global pandemics before and COVID-19 will not be the last. Therefore, one of the critical roles the public service must play is *to prepare the service to be more resilient for any future crisis*. Public servants must turn the challenges posed by the COVID-19 pandemic into an opportunity for devising strategies for strengthening the resilience, effectiveness and responsiveness of the public service and the services they deliver, so as to be better prepared in future. *It should be every government's to have in place institutional arrangements, policies, systems, infrastructure, plans, including contingency plans, and resources to foresee, identify and quickly respond to pandemics and other crises.*

7. Building and enhancing state legitimacy, government credibility and people's trust - Public servants who deliver services responsively, equitably and with humanness help enhance the credibility of the government, and as a consequence, foster trust amongst the people. The determination of public servants to continue providing services in the face of the dangers the COVID-19 pandemic has posed to their own lives has contributed greatly to the *government being seen as critical in and caring for the lives of the people*. The ongoing work of public servants, therefore, has in many places elevated a *sense of trust* in government. The sustainability of this trust, however, will be heavily dependent on the extent to which the struggle against the pandemic succeeds.

8. Resource allocation and distributive accountability - Crises that emerge abruptly, such as the COVID-19 pandemic, catch governments' budgets by surprise, presenting a big challenge to the public servants who are responsible for preparing and implementing them. The way in which resources are allocated and utilized determines whether systems, practices institutional arrangements meant to protect societies against pandemics of this nature, get put in place and

become operational or not. In many administrations public servants have had to quickly review available resources, mobilize others and deploy them quickly in tackling the pandemic and all the challenges it has caused. Resource allocation and distributive accountability is a critical role that public servants have played during the pandemic and one which has had great bearing on trust in government, delivery of critical services, minimizing of inequality and the saving of lives.

9. Collaborative and networked leadership - In many administrations, the COVID-19 pandemic has revealed that collaborative and networked leadership is critical when it comes to dealing with complex challenges and problems. *The need for resolved people-focused, calm, credible, trusted leadership* is critical in times of crisis. Public servants played their roles in a collaborative way to ensure a coordinated and successful response in containing the spread of the virus and mitigating the impact of the pandemic. At the global level too, collaborative leadership is essential. The COVID-19 pandemic has provided opportunities for public services in different economies to learn from each other's successes and failures in their ability to identify and respond to pandemics. Multilateral institutions, such the WHO provide a critical platform for this type of collaboration and for the sharing of public health data and information. Public servants must be facilitated to network, collaborate, and share to enhance co-learning at local, national and international levels.

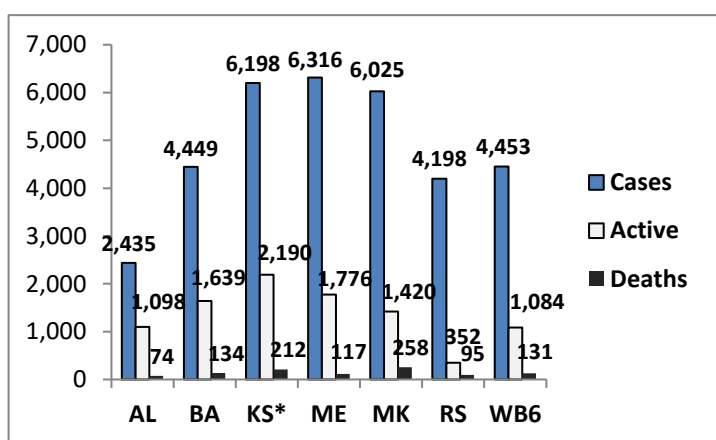
10. Profile of a public servant who can work effectively in crisis - Considering all the above roles public servants have played, we can derive that an effective public servant has the following profile: self-sacrificing, trustworthy, risk-taking, transparent, accountable versatile, adaptable, creative, innovative, knowledgeable and skilled, persistent, empathetic, collaborative, and competent in the use of technology. Above all, they have a high dose of humanness in their personality which makes them work for others even at the risk of their own lives. This profile should be part of the guide in training public servants to enable them serve in crisis.

IV. Summary and key recommendations

The COVID-19 health crisis

The COVID-19 pandemic is affecting 213 countries and territories around the world. In the first half of 2020, the world has seen explosive growth of infections with the deadly novel virus. A numerous health protection measures and controlled/prohibited transport between (and within) countries are recommended, in order to prevent the further spread of the virus. In spite of all recommended and implemented measures, the number of total cases is growing all around the world. Globally, as of 14 August 2020, according to the World Health Organisation (WHO) data, there are 20,68 million confirmed cases of the COVID-19, including 750,400 deaths. In the last 24 hours around 270,000 were number of newly reported cases and 7,000 deaths.

WB: COVID 19 cases per 1 million of population (14/08/2020)



Montenegro has the biggest number of cases per million of population (Albania the smallest), Kosovo* has the biggest number of active cases per million of population *Serbia the smallest), and North Macedonia has the biggest number of deaths per million of population (Albania the smallest).

The causes for dynamic spreading of the infection can be largely found in the following: still, no specific treatment or vaccine, non-compliance with health care measures, general reduction of discipline, and relaxation of protective measures in many countries in order to create space for economic activities, which were almost locked for several months.

The state and vulnerabilities of the Western Balkan Economies as they face the COVID-19

The Western Balkan economies are particularly affected through several channels: The containment measures unequivocally have an impact on domestic demand and supply, significantly decreasing economic activity; reduction of export, disruption of value chains; a deceleration of both public and private investment; collapse of the tourism summer season; reduction of remittances which constitute 10% of the GDP in the Western Balkans, etc.

Going into the COVID-19 crisis, Western Balkan economies had different economic strengths and weaknesses. Main areas to analyse vulnerabilities are labour market, capacities of fiscal and monetary policy, situation on the financial markets and external vulnerabilities.

Heat-map of relative COVID-19 vulnerability in the Western Balkans

		AL	BA	KS*	ME	MK	RS
1. Labour market	Self-employed (% of total employment)	34.7	17.6	21.3	19.4	14.3	22.4
	Temporary employment (% total)	9.7	17.5	79.5	34.6	16.1	22.6
	Informal employment (% of total)	61	29.5	33	19.9	26*	19.8
	Employment rate (% population aged 15+)	52	34.3	25.4	48.1	44.9	48.6
2. Fiscal policy	Fiscal balance (%GDP)	-2.5	-0.5	-2.5	-3.0	-2.1	-0.2
	Revenue (% of GDP)	27.8	42.6	26.7	43.6	31.2	42.1
	PPG Debt (% of GDP)	68.0	34.6	17.6	80.7	48.9	52.9
3. Monetary policy	Exchange rate (1-flexible, 0-fixed)	1	0	0	0	1	1
4. Financial sector policy	Capital Adequacy Ratio	18.3	18.1	15.9	17.7	16.3	23.4
	Liquidity ratio (liquid assets as % of total assets)	35.7	29.6	28.9	20.8	24.0	36.0
	Non-performing loans (% of total loans)	8.4	7.4	2.0	5.1	4.6	4.1
5. External vulnerability	Current account (as % of GDP)	-7.6	-3.7	-5.5	-15.2	-2.8	-6.9
	Goods exports (as % of GDP)	6.8	29.0	5.6	9.5	47.0	35.8
	Service exports (as % of GDP)	23.9	10.8	23.2	34.6	14.7	14.0
	International tourism (as % of export)	48.2	12.7	n.a.	50.8	5.1	7.7
	Travel/transport exports (as% of services exports)	60.7	44.8	82.5	85.5	20.9	33.5
	Remittance-inflows (as % of GDP)	5.2	8.4	12.0	4.0	1.7	5.8
	Reserves (in months of imports)	6.4	7.8	2.3	6.3	3.8	5.7

Source: World Bank RER 17, Spring 2020 (WB, ILO, UNCTAD, WBI)

In addition, **resilience to the Covid-19 shock in the WB region is analysed in the four areas: health care system, resilience to domestic disruption, to external shocks and in the policy space.** The resilience is high in the financial system and with commodity prices. Low level of resilience is evaluated for some economies in the following measures: commodity prices, tourism, fiscal policy space and external.

Macroeconomic projections

In terms of the speed of expansion and the extent of its impact on the economy, this new crisis **surpassed** the global economic crisis of 2008. The strength of this crisis acted **symmetrically** on both the supply and demand sides, and it did not come from the economic sector, but from the health sector. More than ever, it is accompanied by **uncertainty** about the length and depth of the crisis.

It is a large-scale health shock that has required a conscious—and necessary— temporary activity freeze to slow the spread of infection. The length and depth of the crisis will depend on how effective the containment measures are, how well the health system can deal with the outbreak, and the successful development of effective treatment and vaccines for the illness.

Economic policy alone cannot end this crisis, but it does have a crucial role: to protect livelihoods by preserving jobs and reinforcing the social safety net. **A brisk economic recovery is possible— but not a given.**

WB - Macroeconomic projections

WB	GDP - Real growth rate projection					Projection of selected indicators for 2020 (World Bank)					EUROSTAT	
	ERP	World Bank, July 2020			Ministry of finance July 2020	Unemployment rate (ILO)	Fiscal balance (% of GDP)	Public debt, PPG (% of GDP)	net FDI inflows as % of GDP	CAD as % of GDP	GDP/pc, €, 2019*	GDP/pc PPP, 2019, EU=100
		2020 baseline scenario	2020 downside scenario	2021								
	2020				2020							
AL	2.2	-5	-6.9	8.8	-4.8	12.8	-5.4	75.8	6.7	-12	4,781	31
BA	3.5	-3.2	-4.2	3.4	-2.3	18.4	-3.7	37.4	2.6	-4.8	5,168	32
KS*	4.4	-4.5	-11.3	5.2	-	25.7('19)	-6.3	23.1	2.9	-7.2	3,943	n.a.
ME	3.4	-5.6	-8.9	4.8	-6.8	18.2	-7.1	86.9	3.0	-17.0	7,888	50
MK	3.8	-2.1	-3.2	3.9	-3.4	20	-4.7	55.7	1.4	-3.3	5,460	38
RS	4.0	-2.5	-5.3	4	-1.8	13.9	-7.3	63.9	4.8	-7.0	6,593	41

Like Europe and the rest of the world, the Western Balkans is projected to endure recessions in 2020, as it is presented in the table. The extent of recession depends on the duration of the COVID-19 pandemic.

Short-term measures to mitigate the social and economic impact of the COVID-19

This crisis is an unprecedented shock that has taken the world and its economy by surprise. As economies shift to stay-at-home mode to slow and stop the spread of the virus, governments and societies are dealing with the high human, social, and economic costs.

The three thematic areas for resilient, inclusive and sustainable recovery are presented in this chapter per each economy:

- d) **Public health and medical equipment** - emergency support to health interventions for saving lives threatened by the virus;
- e) **Social assistance** - social policy response for protecting poor and vulnerable people from the impact of the economic and social crisis triggered by the pandemic;
- f) **Economic policy response** - for saving livelihoods, preserving jobs, and ensuring more sustainable business by helping firms and financial institutions survive the initial crisis shock, restructure and recapitalize to build resilience in recovery (monetary and financial measures, fiscal policy measures, trade related measures, etc.);

In the next table key measures (except public health sector) are presented.

World Bank: An overview of the implemented measures in the Western Balkans (April 2020)

WB	Fiscal and Trade-related	Monetary and financial	Social Assistance
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AL	<ul style="list-style-type: none"> • Tax return submission deadline deferred from March 31 to June 1 for small businesses and CIT payment for eligible businesses rescheduled • Waiver of interest on delayed payments • Budget increase for health ministry 	<ul style="list-style-type: none"> • Credit guarantee scheme for SMEs to pay wages • Banks allowed to defer loan repayments for those affected by COVID-19, without regulatory penalties • Reduction of the Central Bank benchmark interest rate to a record-low 0.5% and the one-day lending rate to 0.9% • Injection of unlimited liquidity into the banking sector to ensure normal functioning of the electronic payments system 	<ul style="list-style-type: none"> • Budget increases for social transfers for the poor, small businesses, and the unemployed • Rescheduling of rental payments for affected households and small businesses
BA	<ul style="list-style-type: none"> • Coordination bodies for economic stabilization • Procedure for urgent procurements with streamlined process; • Deadlines for tax applications were extended to 30 April (in RS and FBH); and for entrepreneurs till 31 May (FBH). RS introduced tax deferral (profit tax) to 30 June; and subsequent instalment payment till end 2020. • Lump-sum tax payment for the total income of micro entrepreneurs (1 or 2 employees) reduced by 60%. 	<ul style="list-style-type: none"> • Moratorium on repayment of credits to investment development banks; • Canton Sarajevo reduced rent by 50% for the property it owns. • Guarantee funds for recovery of economy FBiH; • Guarantee and credit fund for SMEs; • Development bank of FBiH to set up credit line for improvement of liquidity of companies which business is affected by the COVID-19; • Banking Agencies have announced a six-month loan repayment moratorium for restructuring credit arrangements for individuals and legal entities which are found to have aggravated circumstances for loans repayments due to COVID-19. RS introduced a three-month moratorium on IDB loan repayments for legal entities and entrepreneurs • FBiH has adopted Law on negative economic consequence of pandemic • FBiH government has adopted budget rebalance 	<ul style="list-style-type: none"> • In the RS the government decided to set up compensation fund to cover personal income tax (PIT) and social security contribution (SSC) for about 40,000 workers in those sectors that are closed by the government decision for March, April and May. In FBiH the government decided to set up stabilization fund to cover contributions on minimum wage for those affected by COVID-19 • Fund for healthcare cost coverage in RS • Fund for assistance to units of local self-governance in RS
KS*	<ul style="list-style-type: none"> • All direct and Indirect tax filing and payment deadlines postponed to April 30, with the possibility of a further extension • Postponement of financial reporting requirements to April 30 • Lifting of the 100% tariff on raw materials from SRB and BiH • VAT and customs duties on wheat and flours removed • Salary supplement of €300 ensured for public sector employees in essential sectors who are directly exposed to the risk of infection (2 months) • Additional payment of €100 for employees of grocery stores, bakeries, and pharmacies (2 months) • Increase of the budget for grants and subsidies for the Ministry of Agriculture, Forestry and Rural Development and Ministry of Culture, Youth and Sports • Support for exporters 	<ul style="list-style-type: none"> • Late loan repayments not to be reflected by a downgrade In credit rating In the Central Bank managed credit registry until April 30 • Interest penalties for late payments to be suspended until April 30, subject to bank case-by-case reviews • Financial support for companies in financial difficulties as a result of the emergency situation (support for salary, contributions, rent payments) • Interest-free lending to public enterprises ensured (repayment by the end of 2020); • Financial support for the Municipality in Kosovo* ensured • Financial liquidity for eligible micro-enterprises, the self-employed, and commercial companies ensured • Financial support available for companies that register employees with employment contracts of at least one (1) year during the emergency public health situation, from €130 and up, for the two months after registration 	<ul style="list-style-type: none"> • procedures for pensions and social assistance benefits until further notice • Early payment of pensions, social benefits, and farming subsidies • Additional payment of €30 a month for all beneficiaries of social and pension schemes below €100 (3 months); • Severance payments for employees who lost their jobs due to the outbreak • Double payment of the value of the social scheme (3 months) • Payment of €130 in monthly assistance for citizens with severe social conditions or declared unemployed by a competent institution, who are not beneficiaries of any monthly assistance (April, May, and June) • Supportive initiatives and projects for improving the lives of non-majority citizens
ME	<ul style="list-style-type: none"> • Postponement of PIT and social contribution payments; tax debt obligations restructured for 90 days for all firms. • 90-day postponement of rent payments for state-owned property for natural and legal persons • Wage subsidies of 100% of the minimum wage for 2 months and complete exemption of taxes and contributions to the minimum wage for lockdown sectors • Wage subsidies of up to 50% of the minimum wage for other affected sectors • Wage subsidies of 75% of the minimum wage for 6 months for newly reported employees (to encourage formalization of labour) • Electricity subsidies for firms • Suspension of the variable part of 	<ul style="list-style-type: none"> • New Investment Development Fund credit of 120 mil € primarily targeting the MSMEs, 1.5% interest rate, up to 3 mil € per loan, with 2 years grace period and up to 8 years maturity • Loan repayments deferred for 90 days 	<ul style="list-style-type: none"> • One-off support of €50 per person for pensioners, vulnerable citizens and those unemployed • Electricity subsidies for vulnerable households

	<ul style="list-style-type: none"> earnings for central government employees Support to agriculture sector Increase in salaries for health workers 		
MK	<ul style="list-style-type: none"> Reduction of interest and para-fiscal charges Temporary suspension of PIT payments and advance CIT payments for taxpayers who earn income from self-employment for the months of March, April, and May 2020, specifically in catering, tourism, and transport but also applicable to other sectors affected Reduced interest rate on tax arrears and overpayments Support to protect jobs: direct cash transfers to companies that fulfil certain criteria, to be used to pay salaries and keep workers employed Temporary prohibition on initiating bankruptcy proceedings Salary reduction for all elected and appointed officials, who will be paid the minimum wage Abolition of remuneration for members of executive and supervisory boards and committees during crisis. 	<ul style="list-style-type: none"> Direct financial support for eligible MSMEs that become insolvent due to the coronavirus crisis Reduction of the base Central Bank (CB) interest rate from 2 to a historic low of 1.75 percent Temporary changes to loan terms Reduction of the penalty interest rates for companies and individuals Reintroduction of the non-standard reserve requirement Extended deadline for banks to submit their first internal Liquidity Assessment Reports Abolition of fees for withdrawing and returning cash to the CB central vault Temporary freeze on NPL reclassification. Zero interest rate loans for SMEs provided through the Development Bank. 	<ul style="list-style-type: none"> Subsidies for social contributions to eligible companies in tourism, transport, catering, and other affected companies for April, May, and June. Up to 50 percent of the contributions of the average salary paid in 2019 Exemption from rent for the beneficiaries of social housing Cash benefit for citizens who have lost their jobs (50% of the average employee's salary) Temporary relaxation of the criteria for applying for social assistance
RS	<ul style="list-style-type: none"> Moratorium on tax payments for financially stressed entities Price controls for some medical products and basic food Ban on export of some medicine and medical products and food and agricultural products The fiscal stimulus plan to offer about €5.2 billion (of which €2.1 billion are loan guarantees) in tax deferrals; cash subsidies and loans and guarantees to businesses PIT and social security deferrals delayed to 2021. Cover for 3-month wages in micro and SMEs< Support to large enterprises: 50% of the minimum wage to all employees whose contract ended 	<ul style="list-style-type: none"> Reduction of the CB policy rate from 2.25% to 1.5% The CB started regular foreign exchange swap and repo operations to provide additional liquidity (in March they reached over €400 million, 0.9% of GDP) Moratorium on debt repayments for all businesses and individuals Support through the Development Fund Guarantees scheme for loans provided by banks. Moratorium on payment of dividends and loss of tax on dividends 	<ul style="list-style-type: none"> One-off payment in April to pensioners (about \$40 per person) Cash transfer of €100 to all citizens

All six governments have announced and implemented economic and social packages, numerous measures to support households and businesses during the emergency.

WB: Estimation of the Economic-social packages as support measures for households and businesses against the COVID-19 pandemic in 2020

	Amount (mil EUR)	% of GDP	Note
Albania	362	2.8	MoF, July 2020, 2 packages and 2 Guarantees
Bosnia and Herzegovina	400	2.3	World Bank, 29 April 2020
Kosovo*	190	2.8	World Bank, 29 April 2020
Montenegro	320	6.1 (12.2)	MoF, 24 July 2020, 2 packages (with 3 rd package in 2020 it is 12.2%)
North Macedonia	550	5.5	Three packages, OECD, 30 July 2020
Serbia	5.100	11	Ministry of finance, 11 April 2020

When it comes to medium term priorities, important area is also **intervention on strengthening policies and institutions for better rebuilding** in order to help economies to maintain a focus on their long-term development goals across all areas – even as they fight the

coronavirus. The better rebuilding is about achieving resilient, inclusive and sustainable recovery.

The EU support to the Region

Within the existing MFF 2014-2020, the EU has mobilized a package of over EUR **3.3 billion** to the benefit of Western Balkans citizens for the following priorities:

- f) **EUR 38 million of immediate support for the health sector**, through reallocations of some IPA funds, in particular through delivering essential supplies to save lives such as personal protective equipment, tests and ventilators, The EU assisted Albania and North Macedonia to cover the immediate needs of their public health systems with up to €4 million each, Bosnia and Herzegovina with €7 million, meanwhile Montenegro received €3 million, Kosovo* €5 million and €15 million went to Serbia;
- g) **EUR 389 million to address social and economic recovery needs** (national IPA reallocations); €46.7 million to support the social and economic recovery of Albania, €73.5 million for Bosnia and Herzegovina, €50 million for Montenegro, whilst North Macedonia will benefit from €62 million, Serbia from €78.4 million and Kosovo* will receive up to €63 million; and
- h) **a further EUR 455 million economic reactivation package for the region in close cooperation with the International Financial Institutions** (50,7 mil EUR for Albania, economic reactivation package for Albania), as well as
- i) **a proposal for EUR 750 million of Macro-Financial Assistance** (180 mil EUR for Albania, BiH 250 mil EUR, Kosovo* 100 mil EUR, Montenegro 60 mil EUR and North Macedonia 160 mil EUR) and
- j) **EUR 1.7 billion package of assistance from the EIB** (preferential loans).

It will also include a substantial investment package for the region. For the period **2021-2027**, the Commission has proposed a total envelope for **the Pre-Accession Instrument III of €12.9 billion**, of which the lion's share is destined for the Western Balkans.

Role of the public administration within the COVID-19 measures

The COVID-19 pandemic forced the public service and public servants to not only deal with fighting its spread, but trying to manage its accompanying socioeconomic fallout. Public servants play important role in the pandemic response. Its role is growing, since they **need to ensure** the following: continuity of public services (service before self; courage and humanness in practice); quick thinking, creativity and innovation; reliable information and awareness as a critical service; Strategic thinking and planning amidst chaos; sustaining resilience and building a more effective and responsive public service; building and enhancing state legitimacy, government credibility and people's trust; resource allocation and distributive accountability; collaborative and networked leadership.

Considering all the above roles public servants have played, we can derive that an effective public servant has the following **profile**: self-sacrificing, trustworthy, risk-taking, transparent, accountable versatile, adaptable, creative, innovative, knowledgeable and skilled, persistent, empathetic, collaborative, and competent in the use of technology. Above all, they have a high

dose of humanness in their personality which makes them work for others even at the risk of their own lives. This profile should be part of the guide in training public servants to enable them serve in crisis.

1. Key recommendations for mid-term management of the COVID-19 crisis

- **Economies need to take advantage of all available options to navigate the crisis**, using assistance when it is available, such as accessing funding through IFIs.
- Wherever there is fiscal and monetary policy space, **now is the time to use it** to maintain the productive capacity of economies and the functioning of markets and to support, and save, lives and livelihoods.
- Given limited resources, **policy support needs to be timely, time-bound, targeted, and transparent**.
- As economies in the region come out of the crisis, their policies need to shift **from crisis-fighting to restarting the economy**—and eventually to normalizing balance sheets and bringing down the debt accumulated during the crisis.
- **In the longer term, response to the Covid-19 crisis may also offer economic opportunities**. The crisis may lead to greater scrutiny of supply chains, with an emphasis on resilience and diversification.
- In addition, governments could put **climate action at the core of economic stimulus packages accompanying recovery**, ensuring that public spending addresses the current economic crisis and the longer-term climate emergency.

2. Key recommendations for strengthening of the public administration in time of mixed health and economic crisis

1. **Comprehensive public service capacity development**: Governments must pay attention to developing the capacities of the public service and public servants; be it in their numbers, their competences, values, the protective gear they need, the incentives for their productivity, the tools and facilities as well as the technology they require to effectively do their jobs. Governments must invest in having very well-functioning public services and effective public servants.
2. **Institutionalize early warning, emergency planning, preparedness and quick response in the public service**: Governments must put in place and operate effectively, permanent, public sector, well-coordinated institutional frameworks that can support public servants to be anticipatory and prepared, to look out for signs of crisis, such as pandemics, find solutions quickly and respond appropriately in time to avoid severe impact.
3. **Network, collaborate, share and learn from successful practices and mistakes to build better and more effective public services for future pandemics and crisis**: Public servants must be facilitated to network, collaborate, and share to enhance co-learning; something that stands better chances for improvement in finding quick

solutions not only to pandemics and crisis but in the work of public service delivery in general.

4. **Sustain development of responsible, responsive, accountable and people-focused leadership in public sector institutions:** The COVID-19 pandemic has shown that during uncertain and fluid times, resolved people-focused, calm, credible, trusted leadership is required. The development of this kind of leadership in the public service must be sustained.
5. **Provide for financial resources for pandemic and crisis before they happen:** Governments must always provide budgetary resources to take care of emergencies and crisis such as this pandemic. The often-cited excuse that Governments have no funds for problems that have not happened has been proven wrong by the COVID-19 pandemic. Many governments have had to spend lots of money suddenly and in unforeseen way; probably more than they would have spent if they had already provided for this in their public service delivery budgets¹⁰⁷.

¹⁰⁷ UN, Department for Economic and Social Affairs, The role of public service and public servants during the COVID-19 pandemic, Policy Brief #79, 11/06/2020;

Annexes:

Annexe 1: RCC, Balkan Barometer 2020 (special edition): Covid-19 impact assessment - Public and Business Opinion, Analytical report, Overview and Key Findings, June 2020

The Balkan Barometer regular survey (edition) provides insights into the public and business opinion in the Western Balkans (WB). Launched as an attempt to measure the impact of regional actions implemented under the SEE2020 Strategy, the Barometer is now firmly established as a reliable source of regional data widely employed and referenced by media, business, civil society and decision makers alike.

The latest developments related to the COVID-19 pandemic outbreak significantly impacted public and business perceptions as the shock of this magnitude set to change business, society and global economic order in many ways. By now, it is crystal clear that COVID-19 has presented an **unprecedented challenge to the global economy**, including the Western Balkan region, which is bracing for a recession and a post-recovery period.

In such uncertain times, data and up-to-date information particularly matters, along with the essential insights to gain a better understanding of the context under which the world and the Western Balkan region is to operate in times to come. As there have been no comprehensive surveys of public and business sentiments after the outbreak of the pandemic at the WB level, there was a need for capturing the latest insights with a view to shed light on the realistic perspective within the current context.

Given the rapidly evolving nature of the circumstances, this edition of BB survey provides adaptation and update of the findings from the regular BB 2020 survey. It is, therefore, the purpose of the 2020 COVID-19 edition of the Balkan Barometer to provide a snap-shot analysis of the public and business opinion in addition to the BB 2020 report. The period of rapid and unprecedented events requires monitoring and understanding of the drivers of change, insights into the context and perspective on perceptions and behaviour changes.

The 2020 Balkan Barometer COVID-19 edition surveys were conducted in the month of **May 2020** in Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, Republic of North Macedonia and Serbia. The Public Barometer survey encompassed 9 questions posed to 3078 citizens while the Business Opinion survey presented 12 questions to 614 business owners, managers and executives.

Following the annual issue of the Balkan Barometer survey, the Regional Cooperation Council (RCC) initiated additional analysis to observe more closely sentiments and perceptions of the general public and the business community in the context of recent developments deriving from the COVID-19. In this respect, RCC engaged in data collection and data processing as a basis for snap-shot analysis of the attitudes, experiences and perceptions on the recent developments in six economies.

Accordingly, this analysis aims to assess the perception of citizens and businesses of specific topics covering COVID-19 issues, such as perception of the threat and assessment of present situation, assessment of mitigation measures, assessment of citizens' confidence in sources of information, assessment of perception of businesses of the present situation, as well as their financial and operational performance. The report also provides assessment of future actions and expectations for both businesses and citizens.

The **key findings** can be summarised as follows:

- Citizens of the Western Balkans feel that the coronavirus outbreak poses **a very high and high threat to both global and their national economies**. This sentiment has been observed at the regional level, but also at the level of each economy, where overwhelming majority of respondents (71% at the level of the Western Balkans) fear the threat of COVID-19 for the global economy, whereas 72% of them see this threat as very high or high for their respective national economies.
- Western Balkan citizens do not feel very threatened by the coronavirus in terms of them or their **family members losing their job**. Instead, 30% of them consider the outbreak to be a moderate threat to their job, while the other 30% feel the threat is low or very low.
- When asked about the introduction of the most effective measures to curtail the spread of coronavirus, Western Balkan citizens were most in favour (83%) of the measure entailing **mandatory quarantine** for those who could have the infection. Imposing travel ban restrictions to and from economies most affected by coronavirus or mandatory self-isolation is also high on the priority measures of the Western Balkan citizens (79%).
- The restrictions imposed amid the coronavirus outbreak were not that belligerently received in the Western Balkan economies. Only 26% of respondents in the Western Balkans were angry with the restrictions imposed on their freedom. The most agitated respondents were in Kosovo*, where one third of people (34%) were angry, whereas in Montenegro only 16% showed their disapproval of the imposed measures.
- 76% of the respondents in the Western Balkans showed vast support for the precautionary measures that have been undertaken to help control the spread of the coronavirus, such as social distancing, wearing face masks and gloves.
- When asked about the **travel restrictions and bans to certain economies** or areas of the coronavirus outbreak, Western Balkan citizens demonstrated their understanding of the situation with almost 80% of them saying they support these measures and find them extremely effective or effective. The lack of support for travel restrictions to other economies does not go above 10% across all Western Balkan economies.
- Overwhelming majority of respondents in the Western Balkans (65%) favourably see the **foreign assistance** aimed at helping their economy amid the coronavirus outbreak, considering it as either extremely effective or effective.
- Only one third of respondents in the Western Balkans (32%) are **satisfied with their governments** and ways in which they ensure that people do not lose their jobs as a consequence of the coronavirus outbreak.
- The majority of respondents (57%) said that their business was **mostly faced with problems related to access to domestic customers, finances (42%)**, supply chain (38%) and staff availability (28%). Only 10% of businesses in the Western Balkans reported having no problems at all amid the pandemic outbreak.
- When asked about the **usefulness of the measures introduced during the COVID-19 pandemic**, businesses in the region report that the most useful measure was to

temporary reduce employers' social security contributions and individual contributions (59%), followed by direct subsidies provided by the governments (49%), tax deferral (48%) and direct financial interest-free loans (47%).

- Only one third (36%) of Western Balkan businesses are confident they can financially take the burden of the negative implications of COVID-19.
- Western Balkan businesses expressed a certain dose of optimism when it comes to their businesses getting back to normal. More than 2/3 of the respondents said they expected their business to come back to normal by the end of 2020, while only 10% were pessimistic and stated that it will take 2 years for their business to recover from the pandemic outbreak.

Annexe 2: UNDP, Assessment of the Impact of COVID-19 on the Business Sector and the Growth Prospects of the Montenegrin Economy, July 2020¹⁰⁸

The survey was conducted from 7 to 20 May 2020 by the Ipsos Agency. The sample included 319 businesses and is quota-based, defined by the region, number of employees, and the type of activity.

The research will be repeated in the second half of the year.

Major findings from the surveys on impact of the COVID-19 are the following:

Changed working hours and falling revenues

- The pandemic has led to **changes in the work regime for more than three-quarters of employees** since 15 March 2020, who primarily had to go on **paid leave or adopt a part-time work regime**. 17% of MSME&Es either sent their employees on unpaid leave or reduced their salaries and other benefits. 22% respondents - no changes.
- **The impact of the crisis is further reflected in falling sales and rising losses.** Specifically, among companies that had lower sales compared to the same period in 2019, more than half of them have over 75% lower sales compared to the same period a year ago, while four out of 10 companies have had a 100% reduction in sales. Losses of over 75% are mostly present in service companies.

Struggling to pay liabilities and to remain afloat

- **More** than one-third of companies state that they can repay over 75% of their short-term liabilities, as well as long-term debts and financial liabilities in the next month. However, 29% report that they either cannot meet any of their liabilities or can only meet up to 25%. Almost one-third of them estimate that they can work for another four weeks, while one-quarter state a period from one month to three months.
- Furthermore, **companies from the South** (less developed region) are significantly more likely to state that they are unable to pay their financial obligations and debts, and almost 66% of them estimate that in the current circumstances they can work for a maximum of 12 weeks suggesting a severe liquidity issue.
- **Reduced demand** caused by the lockdown and the collection of receivables were assessed as the biggest and at the same time the most significant challenges that Montenegrin companies have been facing during the COVID-19 pandemic (86% respondents reported reduced business revenues).
- **The problems with illiquidity**, if prolonged, will potentially trigger the subsequent insolvency of many companies. Procurement of raw materials and resources stands out as the biggest challenge, especially among manufacturing companies and companies in the North. In addition, companies in the north are significantly more likely to point out problems with reduced cash flow, which prevents them from performing regular

¹⁰⁸ <https://www.me.undp.org/content/montenegro/en/home/presscenter/articles/2020/Covid19EIA.html>

operations, while companies in the Central region are especially struggling with the costs of pandemic prevention and control. Furthermore, trading companies have a greater problem with disrupted supply chains, as well as with interruptions in delivery or procurement, compared to the total number of companies.

- In order to achieve the most efficient adjustment and cope with the emerging crisis, companies in Montenegro have taken various measures and changed certain aspects of their business model. In response to the COVID-19 crisis, **28% of companies primarily decided to shorten their working hours, or their operations were completely suspended (22%)** in the light of the health safety measures introduced by the National Coordination Body for Communicable Diseases. However, over one-quarter of the companies (27%) stated that they had not made any adjustment decisions in response to the COVID-19 crisis. 15% of companies cancelled already agreed deals and 9% reduced salaries.
- Furthermore, companies changed certain elements of their business model, primarily reducing the volume of work (working shorter hours), taking loans, or using savings. However, over 22% of the companies have completely ceased operations, while 4% are considering closing their businesses. In addition, **companies have taken various measures vis-à-vis their suppliers, consumers, and customers.** In particular, most companies (71%) procured protective equipment to work with suppliers, and a significant number negotiated with suppliers to change payment deadlines or cancel orders. More than one-quarter talked to their consumers about the impact of the pandemic on their partnership and negotiated with them about delaying delivery.
- On the other hand, **companies have rarely (92%) decided to invest in new equipment, software, or digital solutions in order to successfully cope with the challenges** brought about by the new crisis. Also, most companies did not start or increase their use of the internet to perform business functions during the COVID-19 crisis. In general, two-fifths of businesses use the internet, platforms, and social networks for business administration, while close to one-third use it for marketing.
- **Most companies (73%) do not use external digital platforms, applications, or the company's website for sales.** Half of the companies that normally use them do not currently have a share of sales through them. In the previous month, more than half of the companies did not have a changed share of online sales. However, a third of companies and primarily companies in the service business report in fact the reduced share of online sales. These points to the lack of habits but also lack of readiness to explore new platforms. It also implies the need to accelerate the adoption of the Digital Transformation Strategy, currently being developed.

Empowerment of women in Montenegro

- It is estimated that in Montenegro 45% of the population is active in the labour market, while **women account for 44% of total employment in the country.** Twenty-eight percent work in the private sector, and women make up 44% of all employees in the private sector.
- During the pandemic, **two out of five women in Montenegro faced financial difficulties** such as the payment of rent and utility costs; while 38% of women reported

challenges in terms of reduced financial capacity to cover basic living costs such as food or hygiene supplies.

- Nearly **20% of women reported that they had asked friends and family for financial support in order to overcome financial difficulties**. During the pandemic **36% of women reported a reduction in or complete absence of access to health services**.
- During the pandemic **21% of the overall employed population experienced salary cuts**, of which 76% work in the private sector. One-third had a salary reduction of between 21% and 40%, **while almost 20% did not have any income**. Fourteen percent of employees in the private sector were on unpaid leave.

Reduced revenues, working hours, and their knock-on effect on incomes

- A significant number of citizens are in **an unenviable situation** according to the UN Rapid Social Impact Assessment. According to this data, **60% of the population expect a drop in income, of which almost 40% believe that the decline will be 30%**.
- **About 70% households can see themselves through for up to one month**. Also, 15% of respondents point to a lower regular income from their salaries, while 25% report lower other work-related income. Already **during the epidemic, 20% of respondents reported either not receiving a salary or losing their job, while 12% of those reporting income from work were not socially insured**.
- This result is not surprising, because the UNDP survey shows that **seven out of 10 companies expect a decrease in revenue in the next three months**. The wage reductions have been more often in retail, transport, tourism, and catering, while unpaid leave has also been present in manufacturing and trade. More than half of the citizens worked 8–9 hours a day on average before the pandemic, while this percentage fell to 21% during COVID-19. During the pandemic, there has been a noticeable increase in the number of citizens who report that they worked on average 1–4 hours a day, from 4% before to 26% during the pandemic, which is in line with the reported changes in terms of part-time work.
- Also, findings from the survey conducted by the Montenegrin Employers' Federation, supported by the ILO and EBRD, indicate that 10% of economic entities have reduced the number of employees due to the COVID-19 crisis, while 90% of them have not. Of the entrepreneurs downsized, one-third reduced their human resources by over 31%, while in 54% of them the decrease was to a lesser extent, from 1% to 10%.
- **UNESCO research related to the culture industry** shows that 42% of the respondent cultural institutions reported that up to 50 previously scheduled events or cultural manifestations were cancelled or postponed, thus losing income of €5 per admission/membership fee. Thirty percent of the respondents expected more than 1,000 people to attend the cancelled and postponed events. This shows the impact on this minor, but growing sector of the economy. At the same time, entrepreneurs in this field seem to be eager to explore digital platforms.

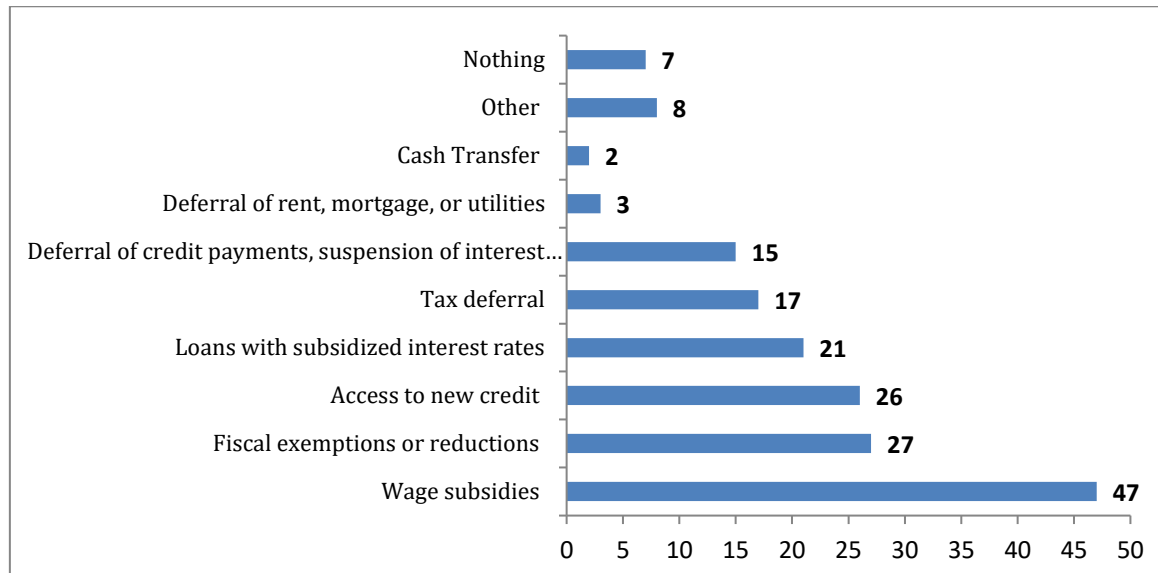
MSME&Es¹⁰⁹ expectations towards the Government's measures, current and future

- In general, **nine out of 10 companies in Montenegro have heard of the measures** introduced by the local or national governments, while six out of 10 companies have applied for or are currently using some of the measures.

¹⁰⁹ Micro, Small and Medium Enterprises and Entrepreneurs.

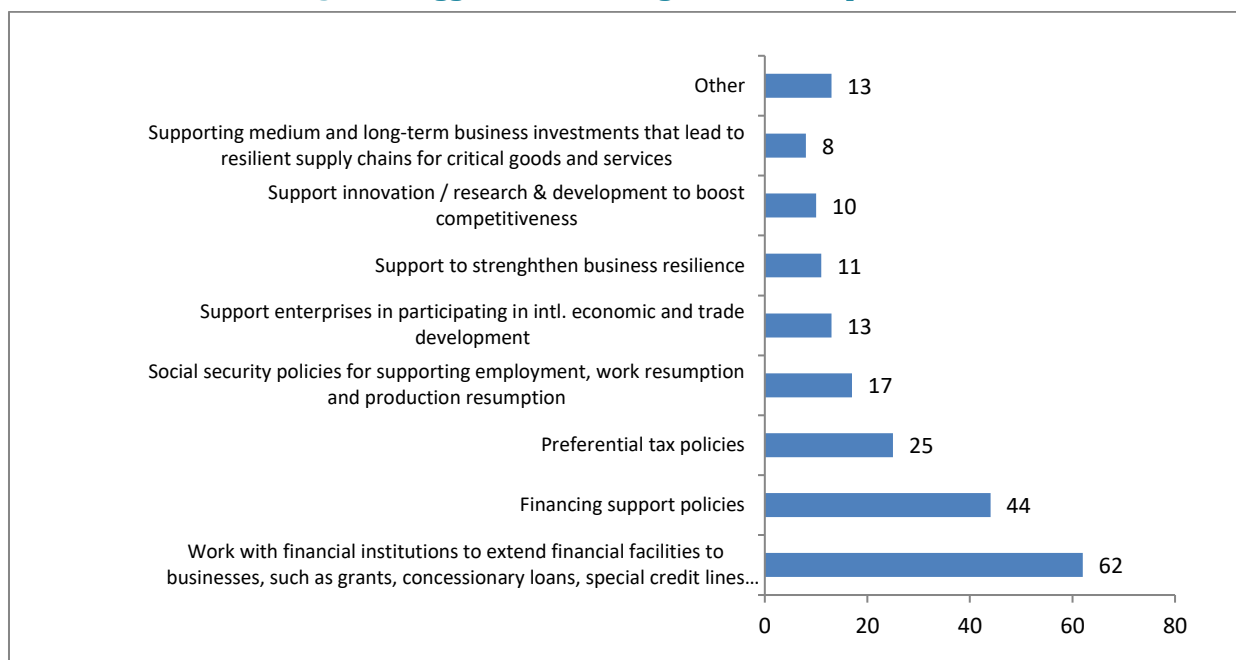
- **The wage subsidy has been singled out as an extremely effective economic measure** that the largest shares of companies have applied for or are using. Hence, the companies expect/hope that support through this measure will be even stronger in the coming period.
- In addition to the wage subsidy, over one-quarter of companies point out that measures such as **fiscal relief or cuts** (especially for companies in the North) and **access to new loans** should be a part of the government's intervention in the coming period.

Figure 4 Companies expectations in Montenegro regarding the Government's future measures



- **More than a half of the companies are confident about their future development**, while almost the same number of companies express opposite views regarding their expectations regarding the future development of the macroeconomic environment.
- Over **two-thirds of the companies expect** that in the next three months their revenues will decrease compared to the same period in 2019, but there will be no changes in investments and the number of employees will remain the same.
- However, **companies located in the Southern region of Montenegro** are significantly more likely to state that they are not confident about their future development or in the future development of the macroeconomic environment given their reliance on tourism. In addition, they are significantly more likely to predict a reduction in revenue of over 75% and a reduction in the number of employees.
- Considering what can be done to ensure long-term development, more than three out of five companies propose **cooperation with financial institutions** that would provide companies with grants, concessional loans, and special credit lines for micro, small, and medium enterprises, while companies in the North are significantly more likely to propose a **social policy** that would support employment and the resumption of work and production.
- Obviously **additional measures to help with liquidity and securing cash collection are needed**, whether this is through a guarantee fund, a more robust factoring scheme, more tax relief, or another model designed with the commercial banks.

Figure 5 Suggestions for long-term development



- Obviously **additional measures to help with liquidity and securing cash collection are needed**, whether this is through a guarantee fund, a more robust factoring scheme, more tax relief, or another model designed with the commercial banks.
- The nature of the government's measures primarily targets formal firms and workers. Since many people do not have a formal job and are not covered by social assistance programmes that target the existing poor, these **specific characteristics of the local labour market should be considered** when implementing crisis response measures and determining eligibility criteria. In that regard, medium- and long-term changes to the tax policy could be considered in order to enable transition of informal labour to formal employment, especially given the low median salary levels.

The way forward: Key recommendations

The report opens new **avenues** to re-think development beyond COVID-19. It argues for a shift from traditional approaches and explores new perspectives: **green transition** and **digital transformation**. If taken as the key drivers of recovery, they hold the potential to attract new investment. Key recommendations:

1. Explore the scenarios to maintain **business continuity** considering green initiatives and digital transformation; Conduct **SDG mapping** of the key value chains and programmes created to support the achievement of defined SDG business indicators; and address segments of the value chain that can be digitized or substantially improved to lessen their impact on environment.
2. Consider additional measures to support businesses run by **women, youth and vulnerable social groups** and ensure employment programmes that contribute to the environment protection; ensure innovation investment;
3. Align all sectoral strategies with **Smart Specialization Strategy (S3)** including the Economic Reform Programme 2021-2023, which should be linked to the UN Agenda 2030; and accelerate drafting of the National Energy and Climate Plan until 2035,

Digital Transformation Strategy, new spatial plan of Montenegro and legislation that deals with innovation;

4. Remove administrative barriers to **reduce the informal economy**;
5. Extend the programme of **economic passports**, with investments in green transition and digital transformation;

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