

## Update: General covid-19 response in the WB economies

**The COVID-19 pandemic hit the six Western Balkans (WB6) amidst a reacceleration of economic activity and promising economic outlook for 2020.** With the rapid spreading of the coronavirus in the Western Balkans, governments introduced measures to protect their fragile health systems by purchasing medical equipment and medicine, converting medical centres to specialised COVID-19 centres and concert and sport arenas to temporary field hospitals, increasing the salaries of medical staff, and changing the work hours to safeguard the medical staff. In addition, governments responded with lockdowns and partial shutdowns in the second half of March, resulting in the closure of airports and borders, educational institutions, restaurants and shops, bans on large gatherings, restrictions on domestic travel, and the instatement of curfews.

These containment measures and external shock result in a **notable contraction across the region**. The containment measures affect unequivocally the WB domestic demand and supply significantly decreasing economic activity. Exports across the region are further affected by depressed demand, as well as disruptions in value chain. A deceleration of both public and private investment is envisaged, which will further inhibit economic growth. The COVID-19 crisis has already curtailed global international travel demand and will lead to a collapse in tourism ahead of the summer season

**The Western Balkan governments responded with immediate monetary policy tools and fiscal stimulus packages to counteract the economic downturn.** All Western Balkan economies have introduced fiscal stimulus packages, to support firms by temporarily subsidising salaries of employees. Governments have expanded their support packages to provide social assistance to unemployed persons and the most vulnerable households. Immediate financial support was given to the health sector to purchase medical equipment and to support medical staff.

When it comes to the industrial sector, SMEs in the Western Balkans make up 99% of all firms, generate around 65% of total business sector value added and account for 73% of total business sector employment (OECD, 2019). Given their substantial contributions to the economy, **providing support to the private sector is very important to tackle the severe impact of the COVID-19 pandemic.** The measures adopted so far by the Western Balkans are largely aligned with those taken across the OECD states to mitigate the immediate challenges faced by SMEs (OECD, 2020). These include: 1) Financial Instruments: The region's economies have either provided guarantees on loans and/or introduced dedicated working capital credit lines. These will ease SMEs access to finance by allowing them to cover operational costs, such as staff salaries and rents. A number of economies in the region also went one-step further by subsidising rent payments and employee salaries. 2) Deferral Options: All economies in the region have introduced measures towards the deferral of various payments, such as income tax, VAT, social security or utility that ease SMEs liquidity constraints. Most economies in the region also introduced temporary moratorium on debt repayments.

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**The Western Balkans seem now to have escaped a more dramatic fate seen in other parts of Europe during the COVID-19 pandemic and things are currently slowly returning to normal.** The reported number of COVID-19 cases in the Western Balkans currently ranges from several hundred in Montenegro and Albania to more than 1000 in North Macedonia, and more than 10.000 in Serbia. In some countries, the situation is gradually beginning to stabilize thus countries easing COVID-19 measures at different speeds while the region moves towards opening of border crossings. Montenegro and Croatia have either not registered any new cases of COVID-19 for days, or have marked only single-digit numbers, prompting a gradual easing of movement restrictions and safety measures. Serbia cancelled most of its restrictive measures this month, including curfews, but registered the largest number of infected in the region. Prime Minister of Albania Edi Rama announced today that the whole Albania will emerge from COVID-19 restrictions as of 1 June.

**The crisis caused by the pandemic has however an unprecedented impact on WB health systems, societies and economies.** It has moreover proven that solidarity, cooperation and coordination at a bilateral, regional and international level are key for removing threats and consequences.

As recently stressed by the director of Istituto Affari Internazionali in an article for *Politico*, on top of the devastating socio-economic costs generated by close borders, societal lockdowns and the indirect effects of the global depression to come, the pandemic has revealed the fragility of Western Balkans' state system — and the region's need for outside partners if it is to survive. This is an opportunity the EU cannot miss to guarantee a **post-coronavirus future in which**

**the region grows ever closer to the European Union. That future will only become reality if the EU moves decisively to make it happen.**

The European Union, the United States, China, Russia, and others have sent aid to the six non-EU Western Balkan states to help with their responses to the coronavirus pandemic.

An initial EU aid package has foreseen 38 million euros to address immediate medical needs as well as the reallocation of 374 million euros from the Instrument for Pre-Accession Assistance for short and medium term social and economic recovery. Since then, the EU has made over 3.3 billion euros available to the region to help with COVID-19 and the post-pandemic recovery, cementing them as the region's top supporter during this crisis.

At the request of the WB economies, **the Commission responded to health systems' immediate needs** by supporting the supply of medical devices and personal equipment, such as ventilators, laboratory kits, masks, goggles, gowns, and safety suits. 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 up to €3 million, Kosovo\* up to €5 million and up to €15 million go to Serbia.

To **help mitigate the socio-economic impact** of the coronavirus, the EU also redirects funds from the Instrument for Pre-Accession Assistance (IPA) to help the recovery in the Western Balkan partners in the short and medium term. This includes support to the private sector, increasing social protection, with a specific attention to the vulnerable groups, and strengthening resilience in the public health sector. For this purpose, the Commission will mobilise up to €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.

To **further prevent the widening of the economic gap** after the pandemic, the European Commission is currently proposing an additional billion euros in pre-accession IPA funds (Instrument for Pre-Accession Assistance) which the countries in the neighborhood of the EU and the Western Balkans could use to combat the economic consequences of the pandemic. The European Commission is finally also preparing an **Economic and Investment Plan for the Western Balkans** region that should be ready in the Fall 2020 to start working on connections in the field of energy, transport, on the green agenda, as well as to include the region in the EU digital agenda and bring it as close as possible to the EU economy. The plan's goal is to reduce and completely compensate for the fact that the Western Balkan countries are falling behind the EU average.

**The EU membership prospects for six Western Balkan economies were recently reaffirmed at the virtual EU Western Balkans Zagreb Summit** held on 6 May 2020. The event had special focus on the joint response to the crisis and on the joint commitment to support the political, economic, and social transformation. The EU leaders and the Western Balkans partners reiterated their commitment to the European perspective as their firm strategic choice while also stressing the important role of research and innovation as drivers of economic growth.

Research and innovation are more and more called upon to play an important role in overcoming this crisis. This is also why the EC DG Research and Innovation is currently organising regular and frequent virtual meetings in the frame of the Western Balkans Steering Platform for Research and Innovation. The EC intends to allow for continuation of work, dialogue but also exchange of information as to the continuous work in response to the COVID-19 situation, for a better coordination of R&I efforts and international cooperation regarding the pandemic.

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