



THE COVID-19 CRISIS IN KOSOVO*

8 June 2020

COVID-19 update

- Despite declining numbers of new COVID-19 cases over the past weeks, the number of new cases rose sharply over the weekend by 76 cases. This development jeopardises the de-confinement plan, which entered phase three on 1 June but remained conditional on the state of new COVID-19 cases.
- On 3 June, the Parliament voted to elect a new coalition government led by LDK's Avdullah Hoti. This follows the successful vote of no confidence against the previous government, which complicated Kosovo's initial response to the crisis and saw former Prime Minister Albin Kurti lead a caretaker government until a new governing coalition was formed.
- The decision to elect a new government without general elections was enabled by a 29 May decision by the Constitutional Court to reverse a previous decision blocking Hoti's nomination. This ruling enabled the formation of a new government without holding new elections.
- It is unclear how the new government will react to the resurgence of new COVID-19 cases, or whether new containment measures will be put in place.

Economic impact

Extent of containment measures

- On 11 March, the government introduced measures prohibiting the export of medicine and medical equipment that may be used to treat COVID-19 cases. The government has implemented containment measures since 12 March. As part of the initial confinement measures, which were partially lifted beginning 4 May (see Reopening of the Economy below) the government closed all schools and universities, suspended all public transportation services, closed all cafés, bars, restaurants and non-essential stores, cancelled all cultural and sporting events, and obliged all private sector employees to work from home. Supermarkets and pharmacies were allowed to remain open throughout the confinement period, though restrictions were put in place on certain outdoor food markets.
- Although the government initially imposed travel restrictions and a national curfew, on 31 March, the Constitutional Court declared these measures invalid effective 13 April, as it found them to infringe unconstitutionally upon citizens' right to freedom of movement, freedom of privacy, and freedom of assembly. Despite the ruling, on 15 April the outgoing government tightened restrictions on movement by prohibiting individuals from leaving their houses for more than 90 minutes per day.
- During the confinement, individuals were only allowed to leave their residences for essential reasons, such as healthcare and grocery shopping. Moreover, individuals were only allowed to

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leave their homes on certain days allocated based on their national identification number within specific timeframes designated by municipality. Certain essential sectors were allowed to continue operations within specific times. For example, farms were allowed to operate between 8:00 and 22:00.

Reopening of the Economy

- On 4 May, the government initiated its de-confinement plan, which consists of three phases that will be initiated depending on approval from the Ministry of Health.
- Phase 1 (4-17 May)
 - Individuals may leave their residences for three hours each day (as opposed to alternating days) and certain businesses such as car dealerships, real estate offices, consulting firms and certain types of retail firms may resume operations.
- Phase 2 (18-31 May)
 - Individuals are permitted to leave their residences for four hours each day during specific timeframes in the morning and evening. Citizens are allocated two timeslots per day to travel outside based on their national identity number.
 - Additional businesses will be allowed to resume operations including dentists and physiotherapists, hairdressers, green markets, certain restaurants and cafés for takeout only, call centres, and museums and galleries.
 - Rail transport will also resume, as will urban and interurban transportation networks. Passengers are required to prove that they are travelling during their allocated time slot or that they are essential workers.
- Phase 3 (1 June)
 - Taxis, dine-in restaurants, cinemas, theatres, shopping malls and select sports events have resumed operations. Major cultural events such as the Pristina Film Festival are scheduled to take place while continuing to enforce social distancing measures. Likewise, nightclubs are expected to reopen in the coming weeks.
 - Nurseries and kindergartens have reopened, with elementary and secondary schools expected to open between 15 and 30 June.

Mosques, churches and other religious centres have reopened.

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.

Policy reactions

Border measures

- As part of phase three of the de-confinement plan, all land borders have been reopened for the first time since 16 March. Travellers entering Kosovo must pass a medical examination and COVID-19 test, but are no longer required to self-isolate for seven days.
- Flights remain suspended, however on 8 June the Ministry of Infrastructure announced plans to reopen them as soon as possible.
- Effective 1 April, the former government removed the 100% tariffs on imports originating from Serbia and Bosnia and Herzegovina and put in place reciprocity measures with Serbia. These reciprocity measures were reversed on 5 June by the new Prime Minister Hoti, which led the US to unblock assistance to Kosovo and are likely to impact the ongoing Kosovo-Serbia dialogue.

Education policy

- The government is currently developing an online learning platform that can be used by students unable to attend school due to the COVID-19 crisis. At the moment, learning materials are shared via online learning platforms such as Moodle, however some recorded courses will be televised. Likewise, the government is currently working with internet service providers to provide all students with free internet access so that they can participate in online distance learning activities.
- The Ministry of Education, Science, Technology and Innovation is working with firms to provide students with computers to enable them to participate in online distance learning activities.
- Phase three of the de-confinement plan would allow certain exams to be held from 1 June onward.

Monetary policy

- Kosovo has unilaterally abandoned independent monetary policy to adopt the Euro as its currency, rendering it unable to make full use of typical monetary policy tools. The economy is therefore dependent on the monetary decisions taken at the EU level.
- The Central Bank has suspended loan repayments for individuals and businesses until at least 30 April 2020. Moreover, the Kosovo Central Bank has begun reviewing requests for the suspension of credit repayments and frozen individual credit ratings to assist borrowers during the crisis.
- The interest rate on loans for SMEs operating in the tourism sector has been cut by 50%, while the interest rate on loans for large companies has been cut by 15%. Likewise, the reserve capital of the Finance Development Institution ALTUM has been increased to enable firms affected by the crisis to access support instruments such as credit guarantees and loans.

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 EUR 170.6 million (3% of GDP) to support individuals, firms, and municipalities affected by the COVID-19 crisis.
- On 18 May, the government allocated an additional EUR 10.9 million to facilitate the implementation of the emergency support package, of which EUR 9.4 million was allocated to the

Ministry of Economy, Employment, Trade, Industry, Entrepreneurship and Strategic Investments and EUR 1.5 million to the Ministry of Finance and Transfers.

- On 23 May, the Ministry of Finance announced that an Economic Recovery Package valued around EUR 1.1 billion would be unveiled on 1 June as part of phase three of the de-confinement plan. The package will reportedly use banks to disburse funds to individuals and firms in the form of loans, grants and subsidies. All businesses are expected to be eligible to access the funds through application processes that will be clarified next week.

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 Kosovar economy. 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 firms.

Outlook

- *Situation prior to COVID-19:* In 2019, Kosovo's GDP growth was estimated to be 4%, driven by domestic consumption and service exports. Despite sustaining positive growth following the 2008 global financial crisis, in 2017, Kosovo's average GDP per capita was the second lowest in Europe and persistent levels of unemployment remained above 30% on average between 2013 and 2018. Despite being one of the economies most open to foreign direct investment (FDI) in the region, FDI represented only 4.2% of the GDP from 2013-18 and was primarily driven by remittances from the Kosovar diaspora. Likewise, Kosovo is one of the largest per capita importers of food in Europe and remains reliant on imported inputs for industrial production. Kosovo's economic stability and food security are thus especially vulnerable to any disruptions to global supply chains. Finally, the informal economy is quite large in Kosovo, with 30-40% of employees working without contracts or social security, and nearly 20% of registered businesses do not pay taxes. The size of the informal economy may hinder economic recovery efforts by excluding many individuals from social assistance schemes and straining already tight public funds.
- Containment measures will suppress domestic demand and supply by significantly decreasing economic activity, leading to an expected economic contraction of 1.6%¹ to 5.2%² of GDP for 2020. Likewise, depressed consumption across the region and Europe caused by other economies' containment measures may dampen demand for exports and likely disrupt cross-border value chains. These factors will likely have a large impact on Kosovo's manufacturing sector, which represents 11% of the economy's GDP. A deceleration of public and private investment is also likely, which will further inhibit economic growth. In particular, inflows of FDI to Kosovo, which represented roughly 4% of its GDP in 2018, are likely to fall, marking the decline of

¹ World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>

² International Monetary Fund (2020), *World Economic Outlook: The Great Lockdown*, <https://www.imf.org/~media/Files/Publications/WEO/2020/April/English/text.ashx>

a key source of economic growth, job creation and technological progress in the economy. Finally, economic downturns abroad may diminish the volume of remittances flowing to Kosovo, where they account for 15% of the overall GDP. In the short term, remittances are likely to fall due to confinement measures and other restrictions; in the medium term, probable economic contraction in the European Union – the primary sources of remittances – is likely to lead to higher unemployment and reduced inflows of remittances. Given the sudden contraction of economic activity and the tax base coupled with increased fiscal expenditures in response to the COVID-19 crisis, Kosovo's budget deficit and debt burden are expected to increase in the short run.

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