



THE COVID-19 CRISIS IN KOSOVO*

27 April 2020

COVID-19 update

- Kosovo's containment and crisis management measures have been affected by the dissolution of the governing coalition and a successful parliamentary vote of no confidence against Prime Minister, Albin Kurti. Prime Minister Kurti will serve as caretaker Prime Minister until a new governing coalition is formed.
- On 31 March, the Constitutional Court declared a number of containment measures to be unconstitutional, and invalidated them effective 13 April. Despite this ruling, the government has continued to enforce containment measures and expand restrictions to movement and gatherings.
- The government has not yet declared a state of emergency.

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. To date, the government has 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 remain open.
- 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.
- Individuals are currently only allowed to leave their residences for essential reasons, such as healthcare and grocery shopping. Moreover, individuals are only allowed to leave their homes on certain days allocated based on their national identification number within specific timeframes designated by municipality. Certain essential sectors are allowed to continue operations within specific times. For example, farms are only allowed to operate between 8:00 and 22:00.
- *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

- The government suspended flights into the region and closed all land borders on 16 March. However, on 18 March the government loosened its border restrictions to allow all Kosovar citizens to return. Recent reports indicate that some flights carrying foreign passengers are being permitted to land in Pristina despite the ban.

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.

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.

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 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.

- *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 per month 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.

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.
- *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.

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.
- 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'

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>

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 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 over the short run.

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