



# THE COVID-19 CRISIS IN THE WESTERN BALKANS

Economic impact, policy responses,  
and short-term sustainable solutions

# Overview

The COVID-19 pandemic hit the six Western Balkans<sup>1</sup> (WB6) amidst a reacceleration of economic activity and promising economic outlook for 2020 (EC, 2020<sub>[1]</sub>)<sup>2</sup>. 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 are expected to result in a notable contraction across the region. The Western Balkan economies are particularly affected through several channels.

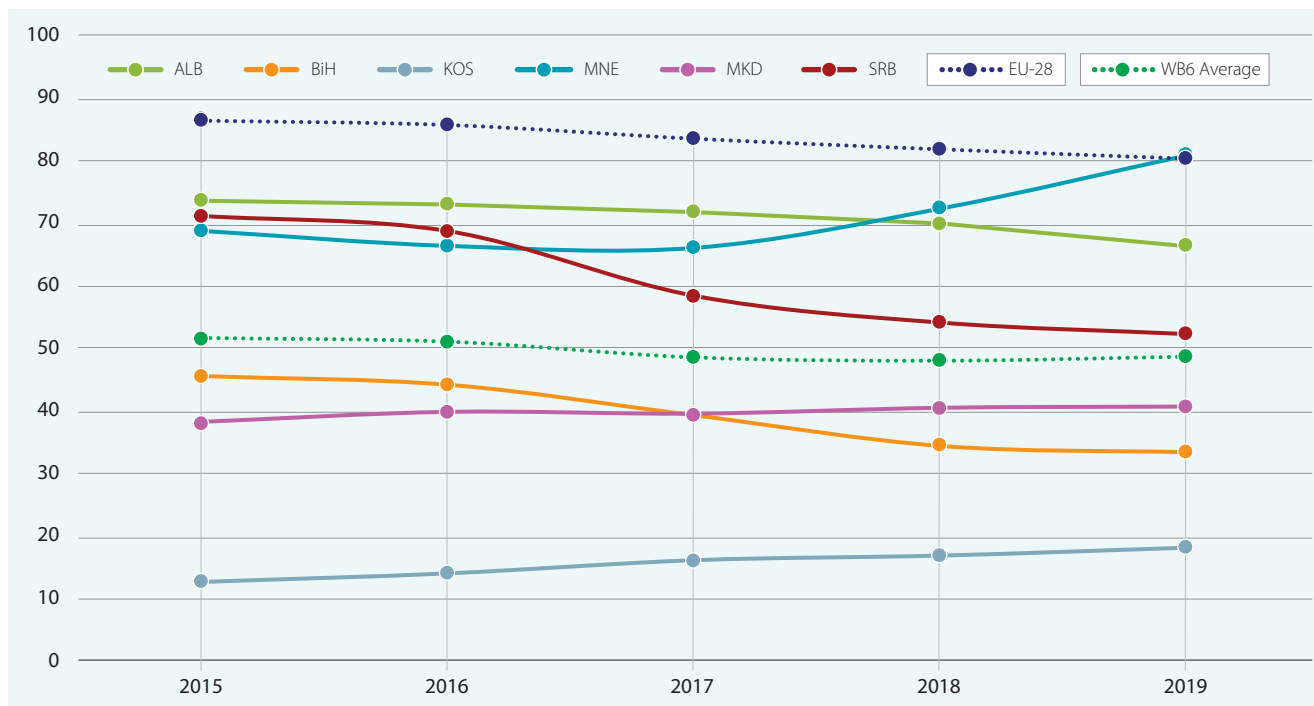
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1. Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, North Macedonia, Serbia.

*\* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.*

2. In the third quarter of 2019 the annual real GDP growth averaged 4.1% for the Western Balkan region, up from 2.9% in the previous three months. The real GDP was expected to grow between 3.0% and 3.8% in 2020.

Figure 1. General government gross debt (% of GDP)



Source: IMF

- The containment measures unequivocally have an impact on **domestic demand and supply**, significantly decreasing economic activity. Supportive macroeconomic policies can partially aid the recovery of demand but cannot completely offset the economic consequences of enforced shutdowns.
- **Exports** across the region are affected by depressed demand, as well as **disruptions in value chains**. Those economies in the region, which have manufacturing sectors that are comparatively more integrated into global supply chains (Serbia and North Macedonia) and have higher contributions in terms of value-added and employment would likely bear the greatest cost of the pandemic in the short term.
- A deceleration of both public and private **investment** can be expected, which will further inhibit economic growth. A reduction in foreign direct investment (FDI) to the Western Balkan economies would also negatively affect job creation and technological progress.
- The COVID-19 crisis has already curtailed global international travel demand and will lead to a collapse in **tourism** ahead of the summer season. Albania and Montenegro will be hit particularly hard, as tourism revenues exceed 20% of GDP in both economies (EBRD, 2020<sub>[2]</sub>).
- The Western Balkans rely heavily on the steady inflow of **remittances**, financing domestic demand and investment. Remittances, which constitute 10% of the GDP in the Western Balkans, are likely to diminish due to travel restrictions and increased unemployment, linked to the anticipated economic contraction in the EU – the main source of remittances for the Western Balkans.
- The Western Balkan governments responded with immediate monetary policy tools and fiscal stimulus packages to counteract the economic downturn.
- The central banks across the region reacted by cutting their key policy rates and providing liquidity to banks and non-bank financial institutions, which in turn, ease the burden on companies and individuals affected by sharp disruptions.
- 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.

- These support packages will inevitably lead to fiscal deficit and accumulation of debt in the Western Balkans, which have been rising in recent years. Their GDP to debt ratios (albeit varying across the region, ranging from 81% in Montenegro to 18% in Kosovo) are still comparatively lower than the EU-27 average of 80% (Figure 1). Despite the existence of a relatively larger fiscal space, spending will still need to carefully prioritize the most urgent needs in order not to jeopardize debt sustainability.

### The way forward in the short-term

Cross-border and domestic activities are likely to be remain restricted in the months to come, despite expected gradual relaxation. During the period of restrictions, economic support packages will be deployed across the region to limit layoffs and insolvencies and to bolster incomes of households. During this time, governments in the Western Balkans could take immediate actions to mitigate short-term challenges and to enable sustainable solutions for structural constraints:

- **SMEs:** Supporting SMEs in response to COVID-19 requires fast and well co-ordinated support that combines financial measures to address their short-term cash-flow problems. Addressing structural problems by stepping-up the efforts on SMEs digital transformation and by leveraging innovative start-ups in the fight against COVID-19. Encourage SMEs uptake of e-commerce to facilitate their entry into new markets.
- **Tourism:** Ensure efficient co-operation mechanisms between the government and tourism sector actors to introduce sound and sustainable tourism recovery measures. Develop health and safety guidelines in the hospitality sector and promote domestic tourism.
- **Employment:** Policies should aim both to protect workers from exposure to the disease at workplace, while at the same time ensuring workers' access to income support. Further facilitate the transition

towards teleworking through free and rapid access to communication tools. Secure jobs and the economic viability of firms through specific support measures.

- **Education:** Promote remote learning and the use of online school learning platforms and continue supporting students to gain access to the necessary equipment for remote learning. Provide teachers with digital learning opportunities on how to teach online, to share their resources and give and receive peer feedback.
- **Digitalisation:** Promote the effective and widespread transition of many activities onto digital platforms. Take measures to avoid online congestion by reducing temporarily mobile network congestion and by upgrading interconnection capacity of network operators.
- **Trade:** Keep supply chains going by ensuring the flow of goods and services within and outside the region. Continue the effective regional cooperation to keep food supply chains flowing to ensure the food delivery and to reduce the risk of food loss. Avoid export restrictions on essential goods, such as medical equipment and food products.
- **Investment:** The region's governments can encourage and support businesses that can shift their production toward essential healthcare goods and services. Economies in the region should keep paying attention to protect sensitive assets in strategic sectors, while continuing to promote market openness and responsible investment policy.
- **Environment:** The pandemic has called for an all-inclusive approach to human health by also considering environmental health, especially in relation to air quality, water and sanitation, waste management and biodiversity preservation. Thus support measures should not derail the efforts to tackle the ongoing environmental challenges.
- **Gender Equality:** Governments should continue adopting emergency measures to support women and parents with caring responsibilities, and to offer public childcare options to working parents in essential services such as health care. All policy responses to the crisis must embed a gender lens and account for women's unique needs, and responsibilities.

# Impact on SMEs in the Western Balkans

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[3]). Given their substantial contributions to the economy, providing support to the private sector will be very important to tackle the severe impact of the COVID-19 pandemic.

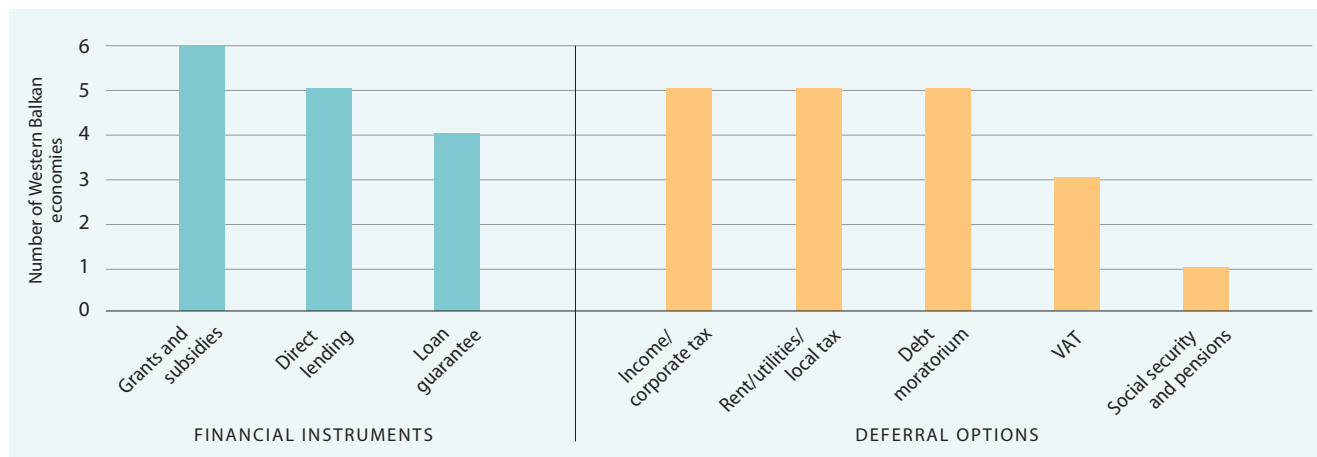
Some of the major immediate challenges faced by SMEs are as follows:

- Sudden loss of demand and revenue induced by the containment measures are likely to lead to severe **cash-flow problems**. This will threaten SMEs' survival, as they have limited financial resources, especially compared to larger enterprises, to withstand a long-lasting crisis.
- SMEs that are dependent on imported components and raw materials to produce final products are likely to **encounter supply-chain disruptions**. As SMEs in the Western Balkans traditionally rely on a limited number of suppliers in the EU, they are more vulnerable to disruptions.
- SMEs across the region are likely to experience **shortages in labour** as they have a lower capacity to shift to teleworking and digital work processes in the context of movement restrictions.

## Immediate policy responses

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<sub>[4]</sub>). These include:

- **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.

Figure 2. **Overview of immediate policy responses for SMEs in the Western Balkans**

**Note:** Given the rapid developments of measures, the information in the table may not be fully up to date.

**Source:** OECD team calculations based on the information gathered from official sources

- **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 (Figure.2) Most economies in the region also introduced temporary moratorium on debt repayments.

### Short-term policy priorities

The Western Balkan economies have so far aimed to address these urgent challenges faced by SMEs, focusing primarily on their cash-flow problems. These measures are critical to prevent businesses from going bankrupt, and avoid a long-term economic depression and recession in the aftermath of the COVID-19 crisis. However, other structural policy measures would also be needed to further strengthen the resilience of SMEs. Some priorities with a view to ensuring a comprehensive and sustainable policy response to SMEs' competitiveness are listed below:

- **Step-up the efforts on SMEs digital transformation:** The Western Balkans are encouraged to intensify SME digitalisation support that would promote the adoption of teleworking practices and ICT technologies. These would help SMEs, among others, manage remote working, digital payment options, and protect their business with increased cybersecurity.
- **Embed the green agenda into new support initiatives:** The region's policy-makers can capitalise on the increasing public support measures to

transform the SME sector with a view to driving its transition to a low-carbon economy. The eligibility for grants, subsidies and soft loans can be tied to increased environmental performance and to the introduction of green business models.

- **Support and leverage innovative start-ups in the fight against COVID-19:** The growing innovation ecosystem of the Western Balkans can be a critical resource for recovery from the COVID-19 crisis, providing solutions in various areas. Thus, new programmes can be rolled out, incentivising start-ups to develop innovative products or services intended to overcome the economic, health and societal effects of the pandemic.
- **Encourage SMEs uptake of e-commerce:** As the percentage of SMEs selling on line is already below 10% in several economies across the region, the governments can enhance their support in helping SMEs build an online presence using e-commerce or digital marketing (OECD, 2019<sup>[3]</sup>). This would facilitate their entry into new markets and expand their customer base.
- **Continue enhancing insolvency regimes:** Despite all the policy measures to mitigate the crisis impact, a jump in bankruptcy proceedings can still be expected. This will undoubtedly put a lot of pressure on bankruptcy courts, causing further delays in resolving insolvency. Further efforts will be needed to reduce the time and cost of bankruptcy by simplifying proceedings and increasing the use of out-of-court settlement systems (OECD, 2019<sup>[3]</sup>)

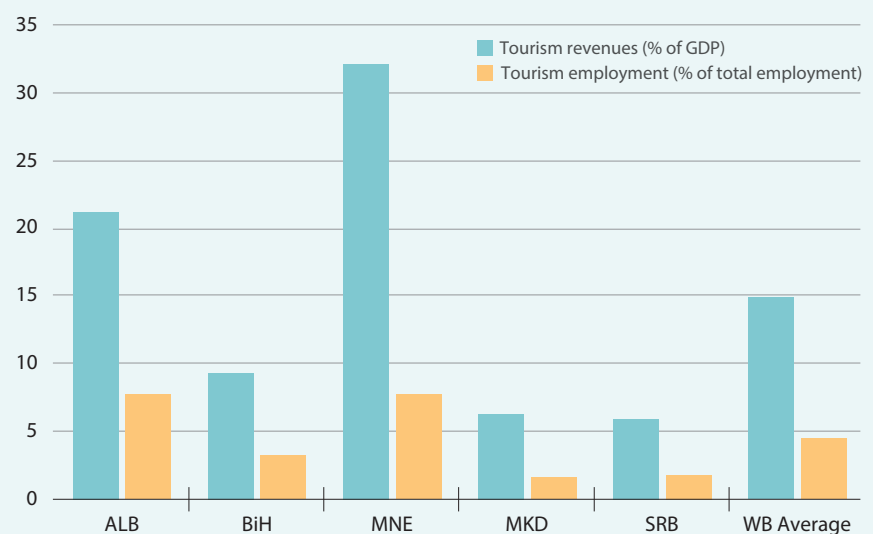
# Impact on tourism in the Western Balkans

Tourism is among the worst impacted sectors of the economy by the COVID-19 crisis. Depending on the severity of the pandemic, the decline in the international tourism industry is projected to be between 45 to 70% in 2020 (OECD, 2020<sup>[5]</sup>).

In the Western Balkans, borders have been closed and international aviation is severely restricted. Moreover, hotels and restaurants are closed, touristic attractions are shut, yachts and cruise boats are prohibited from entering Adriatic ports and people returning from high and medium-risk countries are required to self-isolate for 14 days. All these containment measures to prevent the spread of the virus will have a significant impact on the industry in the Western Balkans:

- **Tourism directly contributes 15% to overall GDP of the Western Balkans, and it supports a multitude of jobs and industries, accounting for around 550 000 jobs** in 2019 (RCC Int., 2020<sup>[6]</sup>) (Figure 3). This economic shock will affect negatively jobs in the tourism industry and have knock on effects for other downstream sectors such as agro-food industry.

Figure 3. **Contributions of the tourism sector in the Western Balkans, 2019** (or latest year available)



Note: No available data for Kosovo.

Source: World Travel and Tourism Council, World Bank (<https://data.worldbank.org/>)

- **The summer season that contributes to the majority of the tourism revenue in the region will be especially affected in the short term**, resulting in booking cancellations and in reduction of the cruise ship arrivals. For instance, according to the Albanian Tourism Union, around 5 million overnight stays during the summer season have been cancelled in Albania and 1 in 5 trips cancelled across the region (RCC Int., 2020<sub>[6]</sub>).

### Immediate policy responses

All governments in the region have responded to the crisis by adopting emergency measures focused on liquidity support to companies and on preventing staff layoffs by subsidising salary contribution (for more information, see the section on SMEs). In the majority of economies, the support measures do not differentiate between sectors and are offered to all enterprises affected by the crisis. Nevertheless, there have been some sector-specific developments to weather the impact of the crisis on tourism:

- Some economies have set up a **dedicated crisis committee** to deliver a tailored response to the crisis in the tourism sector, involving the relevant stakeholders such as national tourism agencies.
- Certain economies have allocated a **dedicated budget/ fund** to assist the tourism industry during the COVID-19 crisis to weather the impact on tourism.

### Short-term policy priorities

Specific measures targeting the tourism sector will be required to mitigate the impact of the pandemic and accelerate the recovery of tourism in the region. The industry needs to prepare for COVID-19 recovery and adapt their offer to the new global tourism market, once the restrictions are lifted. Some of the policy priorities, based on the OECD COVID-19 policy brief on tourism policy responses (OECD, 2020<sub>[5]</sub>), are as follows:

- **Establish efficient cooperation mechanism between the government, private sector and civil society.** A whole-of-government approach that harnesses synergies across relevant sectors, such as transportation and health, is more important than ever to set strategies to support industry recovery (OECD, 2020<sub>[5]</sub>). The current situation also underlines

the need to collect timely data in order to inform decision-making and better plan for the type and scale of the immediate impact of the current crisis and the tourism recovery planning.

- **Promote the domestic demand for tourism:** In the short-term, the region's economies can foster domestic tourism through the provision of incentives for citizens to spend their holidays in their own economies, such as tourism vouchers.
- **Emphasise health and safety measures to regain the tourists' trust.** This could include the development of health and safety guidelines for tourism companies, especially for accommodation facilities and restaurants. Guidelines should be also accompanied with targeted training options to advise service providers on how to ensure the health and safety of the visitors in their facilities.
- **Introduce targeted marketing campaigns promoting ecotourism:** Given the current health and safety requirements induced by the current pandemic, a shift away from mass tourism can be expected in the short to medium-term. Therefore, the tourism agencies across the region can promote alternative travel destinations, allowing for experiences for individuals/small groups.
- **Reconsider their current tourism policies and define tourism products aligned with new trends.** The region's economies need to diversify their offer and disperse further tourism development to new destinations while emphasising the principles of sustainable tourism development. The region has high potential (natural and cultural heritage) for tourism development, from mass tourism with overcrowded destinations to green and sustainable destinations, offering unique tourism experiences.

The COVID-19 pandemic will change the way the people travel as well as the tourists' expectations. One can expect a shift from mass tourism to a more individual, personal/tailored experience. Developing sustainable tourism will be a key to the post COVID-19 recovery.

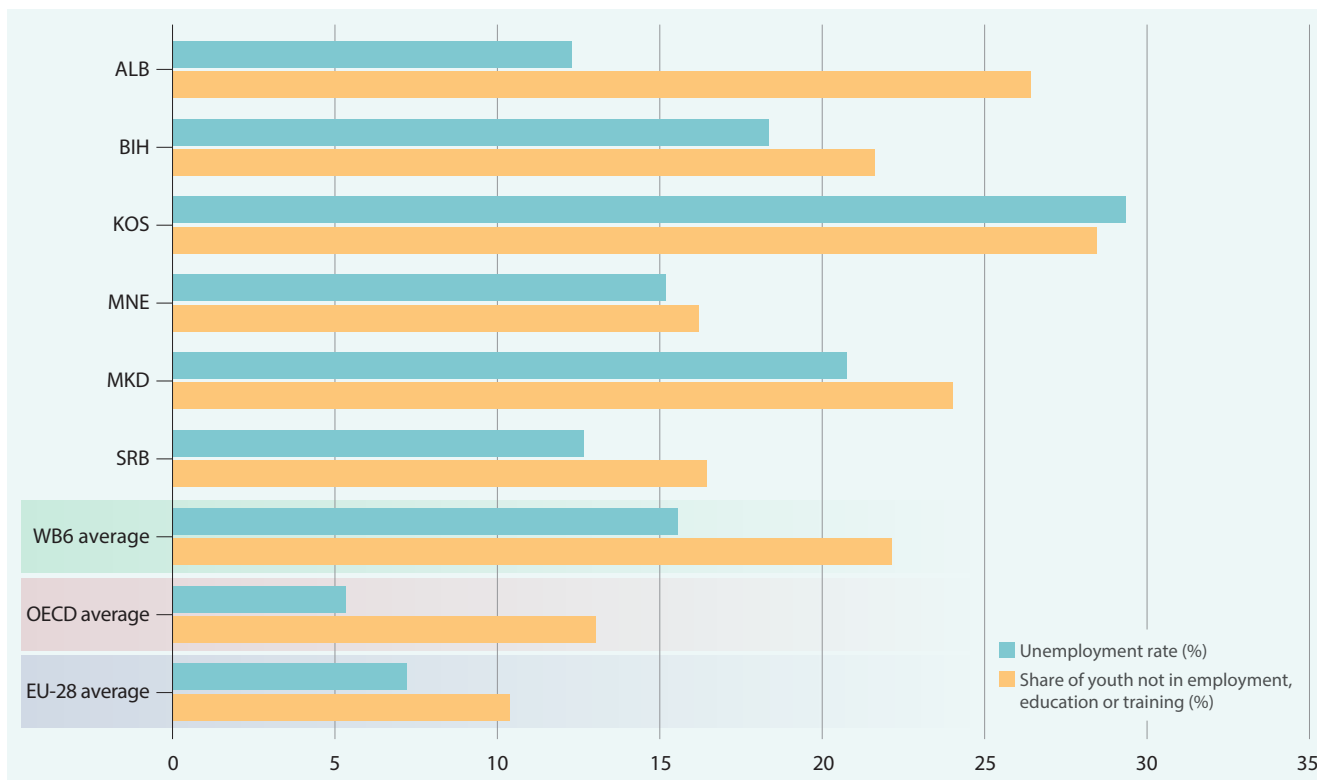


# Impact on employment and labour markets in the Western Balkans

The COVID-19 pandemic is putting labour markets in the Western Balkans under enormous pressure, adding to the following existing structural challenges whose extent is captured in Figure 4 overleaf:

- **Informality in the six Western Balkan economies remains high** both in the share of total output and in the number of people employed. Informal employment in the three Western Balkan economies where data is available, reached an average of 25%.
- The average **unemployment** rate of the six Western Balkan economies stood at approximately 16% in 2018. More alarmingly, approximately **one fifth of young people were not in employment, education or training** in 2018 (Vienna Institute of International Economic Studies, 2020<sup>[7]</sup>)
- **The gender gap** in labour markets of the Western Balkans is a key challenge on women's access to economic opportunities. Women make up about 40 percent of the total employed in Western Balkan labour markets (World Bank, 2019<sup>[8]</sup>). Moreover, only 27.5 per cent of business owners are women, and they hold just 14.2 per cent of the top management positions in companies (OECD, 2019<sup>[3]</sup>).

Figure 4. Employment data in the WB6 (2018)



Sources: (World Bank, 2020[9]), World Development Indicators, <https://databank.worldbank.org/source/world-development-indicators>; (Vienna Institute of International Economic Studies, 2020[7]), SEE Jobs Gateway database, <https://wiiw.ac.at/seejobsgateway/html>

In the context of the current COVID-19 crisis, the following structural challenges could gain significance:

- **Significant brain drain:** In 2015/2016, the total stock of emigrants from the six Western Balkan economies living in OECD countries accounted for almost 3.4 million (OECD, 2019<sub>[10]</sub>), representing around 19% of the population. In particular, young, skilled workers seek job opportunities outside the region. In addition, many health professionals leave for Western EU countries and Switzerland.
- **Two-thirds of people with a high education level have no prior experience with teleworking.** On average, only about one third of individuals aged 25 to 64 with high formal education have worked from home at least once in 2018 and only one-fifth used the Internet for the job when working from home in the five Western Balkan economies for which data was available (Eurostat, 2019<sub>[11]</sub>).

## COVID-19 measures to mitigate unemployment risks

The six Western Balkan economies have responded to the COVID-19 crisis by taking a variety of measures intended to protect workers and prevent job loss centred around the following elements:

- **Reducing workers' exposure to the COVID-19 virus in the workplace:** All Western Balkan economies have taken measures to limit physical interaction, and the workplace was the first focus of those measures. Existing regulations have already been relaxed and new options for teleworking have been introduced.
- **Contributing financial support to employees' salaries** to compensate the income loss of employees caused by the halt of economic activity. The amount of support for employees unable to work due to the crisis has differed in the Western Balkan economies, from a capped amount of financial support to a monthly allowance corresponding to half of employees' average monthly net salary (over the last 24 months).

- **Extended and simplified access to unemployment support:** In some Western Balkan economies, the unemployed can exceptionally apply online and receive unemployment benefits while others have ensured that all unemployed, including those normally not registered, will receive unemployment benefits.
- **Widening access to social protection systems:** Families with social assistance will receive up to double the normal amount during the crisis. Almost all Western Balkan governments have provided additional financial assistance to pensioners through a one-off payment.
- **Help women, workers and families with caring responsibilities.** Offer public childcare options to working parents in essential services. Offer direct financial support to workers who need to take leave and give financial subsidies to employers who provide workers with paid leave.
- **Secure jobs and the economic viability of firms.** Implement measures to secure jobs and incomes, and grant firms flexibility to quickly recruit staff replacements, where necessary. Simplify procedures and provide easy access to online information for employers, promoting the uptake of online training for employees.

### Short-term policy priorities

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In the current context and depending on the measures already implemented by each of the WB6 economies, they could consider the following recommendations, which are based on the OECD COVID-19 policy brief on options for an immediate employment and social-policy response (OECD, 2020<sub>[12]</sub>):

- **Further facilitate the transition towards teleworking.** Develop the collaboration with technology companies to provide SMEs and the self-employed with free and rapid access to communication and sharing tools.
- **Provide income replacement to quarantined workers who cannot work from home.** Adapt regulations ensuring that quarantined workers have access to paid sick leave and that non-standard workers in quarantine receive support. Consider reimbursing employers who provide paid sick leave to quarantined workers.
- **Tailor support to the needs of women and youth:** Women and youth will likely suffer the most from business shutdowns in a number of sectors where they are typically overrepresented, such as restaurants, hotels, passenger transports, personal care services and leisure services. This situation warrants specific support measures tailored to the needs of women and youth.

# Impact on education in the Western Balkans

Students' performances for reading, mathematics, and science in most of the six Western Balkan economies are located in the bottom quartile of the 2018 PISA sample (OECD, 2019<sub>[13]</sub>).

Low participation in early childhood education, low attractiveness of the teaching profession, inadequate educational material or physical infrastructure remain key structural challenges for education in the region (OECD, 2018<sub>[14]</sub>). Schools' insufficient or inadequate equipment for digital learning and teachers' digital skills pose additional challenges for effective student learning in times of schools closures. Figure 5 indicates the extent of those challenges in the Western Balkans, namely:

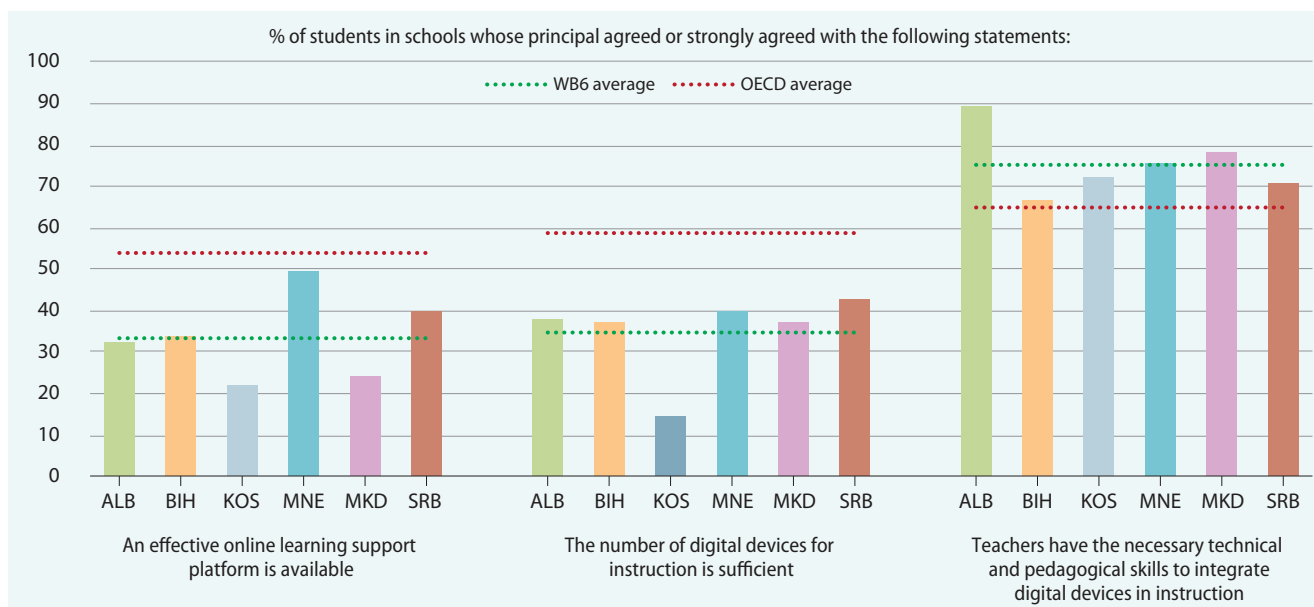
- About two thirds of 15-year-old students are in schools where an **effective online learning support platform was not available**.
- About two thirds of 15-year-old students are in schools where **the number of digital devices for instruction was not sufficient**.
- About one quarter of 15-year-old students are in schools where **teachers did not have the necessary technical and pedagogical skills to integrate digital devices in instruction**.

## COVID-19 measures to continue school education

The six Western Balkan economies have taken a variety of measures intended to ensure continued schooling of students despite the closure of schools. While the specificities of the measures differ, the approaches taken by the governments have generally been centred on the following elements:

- **Distance learning:** The six Western Balkan economies offer distance learning via televised pre-recorded lessons played on major TV channels and available on YouTube. Since few schools in the Western Balkans have proper online platforms, schools use private sector alternatives (e.g. google classroom).
- **Access to computers and internet:** In some Western Balkan economies, schools provided students who lack home computers with computers or tablets. Some Western Balkan economies have also collaborated with internet service providers to give students free internet connections for the duration of the COVID-19 crisis.

Figure 5. PISA 2018 data on the possibility of home-based school learning in the WB6



Source: (OECD, 2019[15]), PISA 2018 Database, [www.oecd.org/pisa/data/2018database/](http://www.oecd.org/pisa/data/2018database/)

- **Training for teachers:** Since the onset of the crisis, few Western Balkan economies have provided teachers with training on how to fully utilise distance-learning tools.
- **Modified academic calendars:** Some Western Balkan economies have modified their academic calendar such that primary and secondary students will take Spring break at different times.
- **Support for parents:** Some Western Balkan economies provided educational materials for parents that give advice on how to help their children study, utilise distance-learning platforms, access course schedules and maintain their own and their children's mental health.
- **Further promote remote learning and the use of online school learning platforms:** Ensure that teachers can remotely teach their students by utilising school's existing online distance learning platforms or, if necessary, developing new platforms (e.g. through collaboration with the private sector) as quickly as possible.
- **Continue supporting students to gain access to the necessary equipment for remote learning.** Public institutions and the private sector can be called on to donate equipment and to cancel fees for subscriptions and the instalment of the internet to students that would otherwise be excluded from online and remote learning opportunities. Going forward, all schools should be equipped with a sufficient number of digital devices for instruction.

### Short-term policy priorities

In the context of school closures necessitated by the COVID-19 pandemic, the Western Balkan economies should continue to mobilise different forms of online education and education resources. In addition and depending on the measures already implemented by each of the six Western Balkan economies, the following recommendations could be considered, which are based on the OECD policy brief on education responses to COVID-19 through digital learning and online collaboration (OECD, 2020<sub>[16]</sub>):

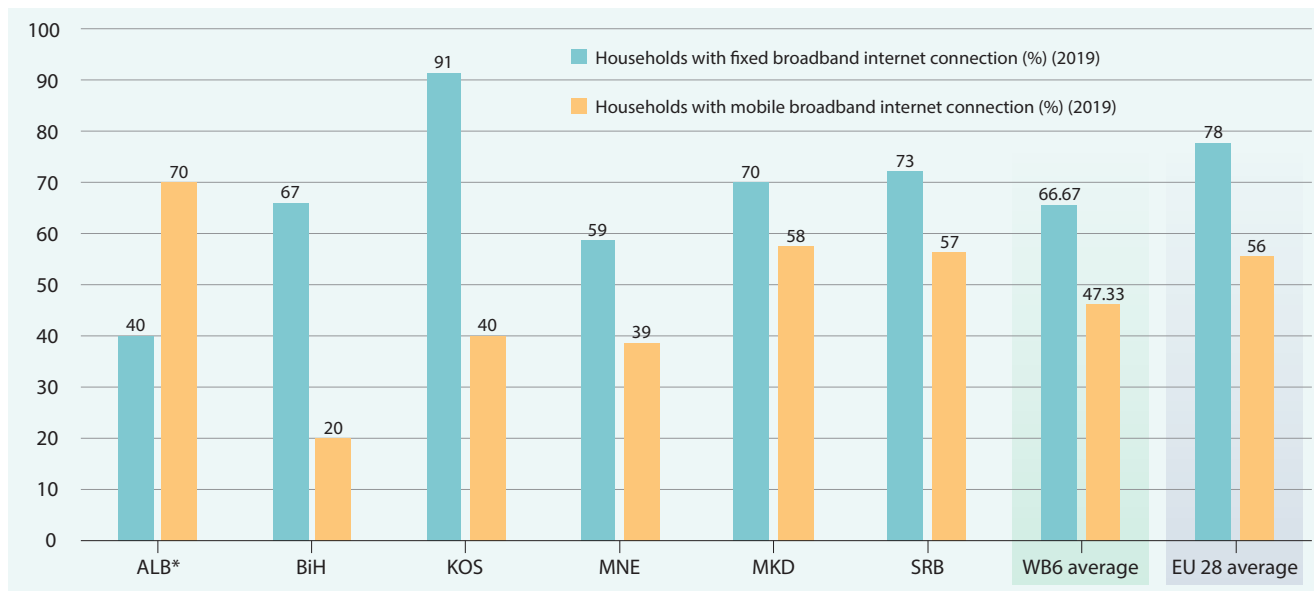
- **Collaborate internationally to mutualise existing online educational resources.** Although educational curricula may not align perfectly, the various common languages spoken among the six Western Balkan economies provide many opportunities to co-ordinate efforts and share online educational resources.
- **Provide teachers with digital learning opportunities** on how to teach online, but also with online collaborative platforms that allow them to share their resources and give and receive peer feedback.

# Impact on digitalisation in the Western Balkans

As containment measures force individuals to work, study and shop from home, internet traffic has grown dramatically, testing the resilience and capacity of broadband networks and digital services. Figure 6 and Table 1 shows the extent of digital infrastructure challenges in the six Western Balkan economies, which are likely to complicate the COVID-19 situation in the region.

Those include:

- **Many households lack reliable computer and broadband internet access:** Nearly half of all households in the six Western Balkan economies lack computer access at home. Additionally, about one third lack fixed broadband internet connections, which offer higher, more reliable connection speeds than other types of broadband connections.
- **The majority of individuals in the six Western Balkan economies lack basic digital skills:** On average, two thirds of individuals in the six Western Balkan economies lack skills required to navigate digital spaces.
- **Limited use of digital government platforms:** On average, only about one fifth of individuals in the six Western Balkan economies used the internet to connect with public authorities in 2019.
- **Firms are underprepared for digital security challenges:** On average, only 12% of firms in the six Western Balkan economies defined or revised their security policy in 2019.

Figure 6. **Households with fixed and mobile broadband internet connection** (%) (2019)

Note: \*= Latest data available from 2018.

Source: Eurostat (2019), Digital Economy and Society Dataset: <https://ec.europa.eu/eurostat/web/digital-economy-and-society/data/database>

## Immediate policy responses

The six Western Balkan economies have implemented a range of measures to accommodate increased internet use and assist individuals to successfully navigate digital spaces as work from home orders, schools suspensions and the closure of non-essential businesses drives many activities online. While specific policy responses vary, they share the following central elements:

- Providing internet access for free or at reduced prices:** A number of Western Balkan economies have worked with telecommunications firms to provide free or reduced internet access to citizens. Likewise, a number of Western Balkan economies are providing students with free internet access to ensure that they can access online courses and learning materials.
- Partnering with ICT sector to support public outreach:** Some Western Balkan economies have partnered with telecommunications firms and internet service providers to support public outreach efforts related to public health and digital security.

Table 1. **Relevant data on internet access and use in the Western Balkans**

	ALB	BIH	KOS	MNE	MKD	SRB	WB6 average	EU-28 average
Households with computer access at home (%) (2017)	n.a.	n.a.	61	10	67	68	51.5	84
Individuals with basic or above basic digital skills (%) (2019)	n.a.	24	28	50*	32	46	36	58
Individuals using the internet to connect with public authorities in past 12 months (%) (2019)	13*	18	16	23	25	29	20.67	55
Enterprises (excl. financial sector) whose ICT security policy was defined or most recently revised within the past 12 months (%) (2019)	n.a.	7	n.a.	11	15*	16	12.25	26

Note: \*= Latest data available from 2018

Source: (Eurostat, 2019<sub>(17)</sub>) Digital Economy and Society Dataset: <https://ec.europa.eu/eurostat/web/digital-economy-and-society/data/database>

## Short-term policy priorities

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A combination of short and medium term policy measures can help the Western Balkan economies strengthen the resilience of digital infrastructure and promote the effective and widespread transition of many activities onto digital platforms. Depending on the measures already taken by each Western Balkan economy, the following policy priorities based on the OECD policy briefs on dealing with digital security risks (OECD, 2020<sub>[18]</sub>) and keeping the internet up and running in times of crisis (OECD, 2020<sub>[19]</sub>) could be considered:

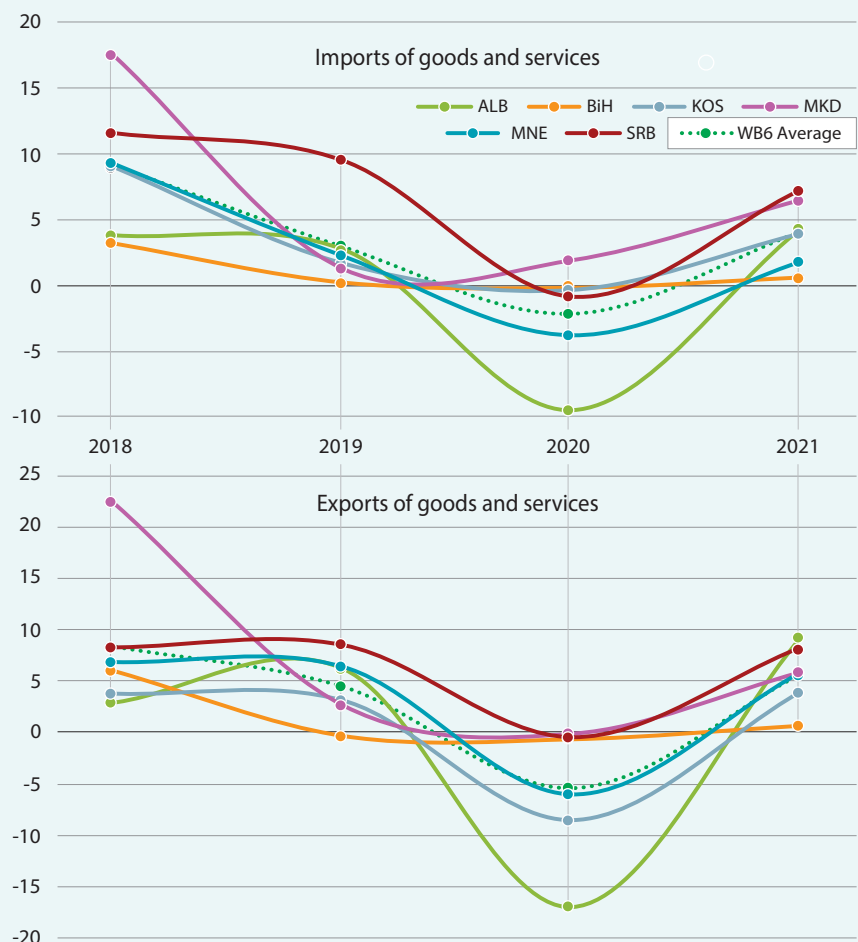
- **Continue allowing ICT workers to access key infrastructure:** Mobility restrictions may affect the ability of ICT workers to perform critical operations in datacentres, on cable paths, at cell sites and other critical infrastructural locations. Governments should explicitly include communication-engineering staff as essential workers and grant them permission to access datacentres and other critical sites to keep ICT services running.
- **Take measures to avoid online congestion:** Reduce mobile network congestion by temporarily releasing additional spectrum or approving temporary commercial spectrum transactions that put unused spectrum into service. Network operators should upgrade their interconnection capacity with other providers, including direct traffic exchanges between networks (peering).
- **Raise awareness on the increasing digital security risk related to COVID-19:** In particular, policymakers should implement initiatives that raise awareness about phishing campaigns, ransomware and distributed denial-of-service attacks using practical guidance and tools (posters, diagrams, case studies) that can be easily picked up by other stakeholders.
- **Support vulnerable groups, particularly the elderly and SMEs, against digital security risks** as they will likely be spending more time online and may be less familiar with threats. The competent public institutions should monitor the threat landscape to identify and alert targeted communities whenever possible.
- **Reduce barriers to make it cheaper and easier to stay connected to jobs and markets:** Remove tariffs on information and communication technology goods, as well as measures that limit access to digitally enabled services. Western Balkan economies can keep trade moving by temporarily increasing *de minimis* thresholds to ease cross-border e-commerce and enact regulations to enable e-payments, e-signature and e-contracts.



# Impact on trade in the Western Balkans

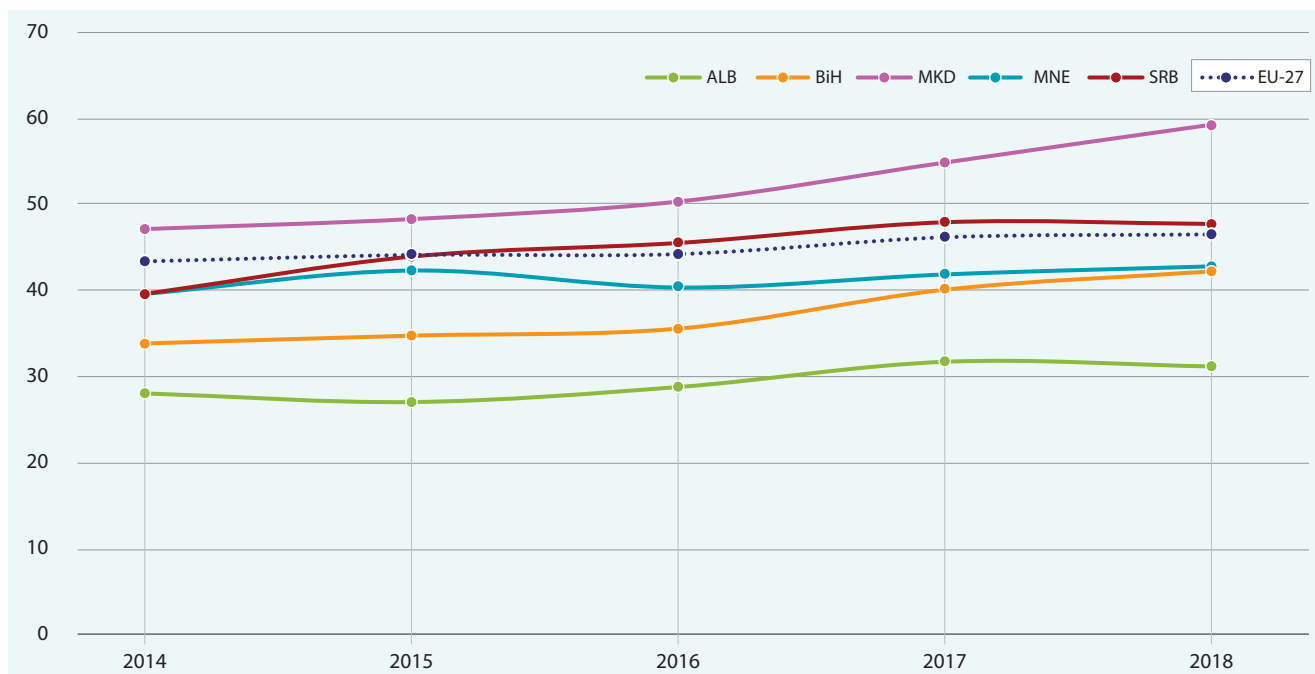
Sustained weakness in export growth was accompanied by slowing manufacturing activity and investment in 2019. The relatively low level of new export orders prior to the COVID-19 crisis, combined with the pandemic related export bans, movement of people limitations or retail shutdowns, are expected to result in a **significant drop in imports and exports** (Figure 7).

Figure 7. Trade flows in the WB



Source: World Bank (2020).

Figure 8. Trade openness indicators: total trade in goods and services (in % of GDP)



Note: No data available for Kosovo.

Source: UNCTAD statistics

- Slowdown in the region's trade flows:** The industry in the Western Balkan economies is likely to be affected by the supply shock from the COVID-19 outbreak and the resulting slowdown of trade flows. Even though the Western Balkans are not heavily integrated into global value chains (GVCs), economies with higher levels of trade integration are particularly exposed and will feel immediate effects more severely (Figure 8). GVCs are concentrated in a few sectors (automotive, electrical equipment, machinery, chemicals and metals) and are located around a few European countries (Germany). Trade with the EU accounts for an average of 70% of imports and 80% of exports of goods of the Western Balkans (Eurostat, 2019<sub>[20]</sub>). The confinement measures of China, the third largest trade partner for imports, put a halt of domestic production of certain goods, mainly used in the automotive sector.
- Slowdown in services:** Albeit the role of the services sector in exports is minimal, services, generating between 66 and 79 percent of gross value added and accounting for the majority of total employment (IMF, 2019<sub>[21]</sub>). They are most likely to be heavily impacted by both domestic and foreign demand drop during the pandemic. Travel restrictions and social distancing measures have a strong impact on services as well.

It is estimated that the COVID-19's impact on the tourism, retail, and transport sectors will have the biggest effect on the Western Balkan's economies.

- Challenges on the agro-food sector:** the agro-food sector is the major contributor to gross value added (11.7% of GDP) of the region and is highly labour intensive, employing one out of four workers in the Western Balkans. Travel bans and containment measures and social distancing might create constraints on the agro-food labour market in the region. On the other hand, regional production of agro-food products is mainly for national and intra-region consumption. Thus, the agro-food sector presents a great potential for the region to intensify intraregional trade.
- Limited cargo possibilities:** The spread of COVID-19 across Europe triggered tough measures among EU member states, especially the closure of the EU borders to non-EU citizens. The sum of these regulatory responses and some Western Balkan logistic challenges has resulted in the creation of a very heterogeneous network of difficulties that has greatly complicated, both materially and procedurally, the logistics of goods transport.

## Immediate policy responses

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- Western Balkan economies have established a coordination body tasked with the exchange of all information related to trade in goods. They also introduced priority “green lanes” to facilitate the free flow of goods of first necessity – through the “green” priority border/customs crossing points.
- Faced with the fear of shortages or runaway price, some economies have introduced measures to regulate the costs of certain necessities some implemented export bans, in addition to the bans already present for strategic medical products and devices for the fight against the COVID-19.

## Short-term policy priorities

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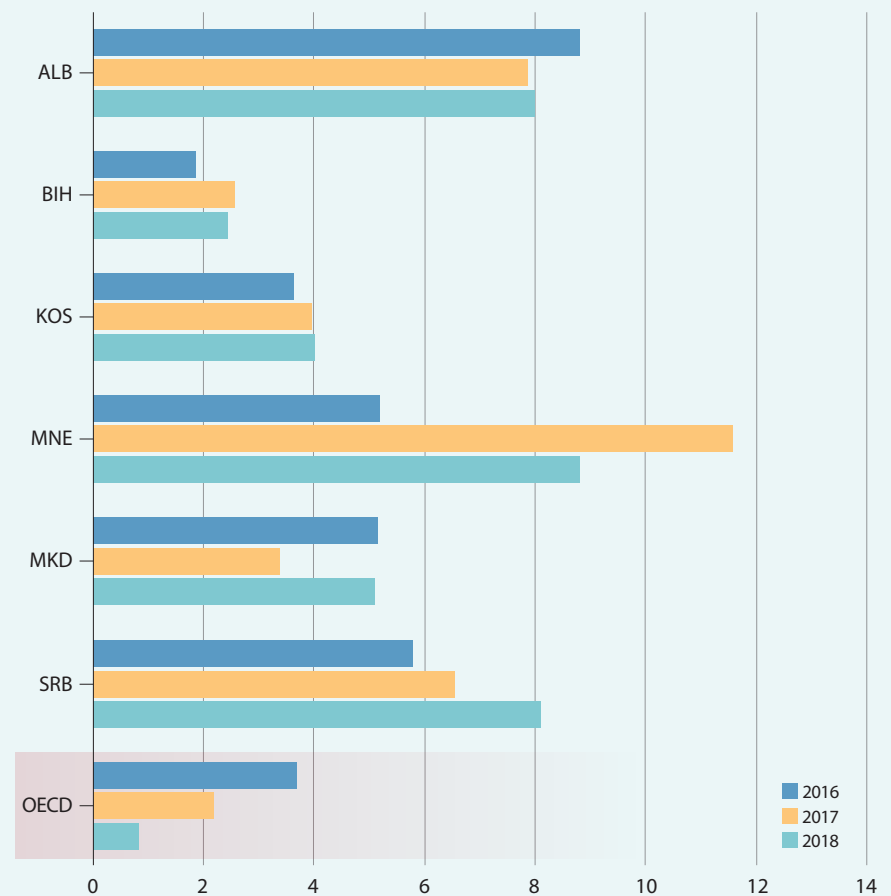
In the current context and depending on the measures already implemented by each of the WB6 economies, they could consider the following recommendations, which are based on the OECD COVID-19 policy brief on international trade (OECD, 2020<sub>[22]</sub>).

- **Preserve the flow of goods and services** within and outside the region. Unimpeded transport at border key points will be crucial to maintain availability of goods, in particular of essential goods and equipment that the region largely imports during the time of the crisis but also goods embedded into GVCs and necessary for the local industries’ production. Close co-operation with the private sector through the chambers of commerce and sector associations is needed to tackle the logistical constraints affecting the ability to get strategic products.
- **Continue the flawless agro-food supply:** at present regional food markets remain well-balanced. It is paramount to continue the effective regional cooperation to keep food supply chains flowing to ensure the food delivery and to reduce the risk of food loss. There is also a need to continue the efforts that food supply flows to quarantined areas, and that appropriate biosecurity arrangements are in place. Finally, make the most of the positive regional initiatives triggered by the COVID crisis (green lanes) and translate them to longer-term solutions.
- **Redouble efforts to overcome tariff barriers** and make it cheaper and easier for people to stay connected to jobs and markets: Reducing tariffs, in particular, those imposed on basic supplies whose shortage could lead to a runaway price is paramount. Imposing costs on firms and consumers through tariffs not only increases the already present suffering from lost income, but also forces more public aid to support firms and consumers.
- **Avoid export restrictions** on essential goods, such as medical equipment and, especially, food products. Export bans temporarily lower domestic prices and raise availability, but they also discourage domestic production and tend to undermine trust in international markets, which raises panic and hoarding buying further escalating problems in import-dependent economies.

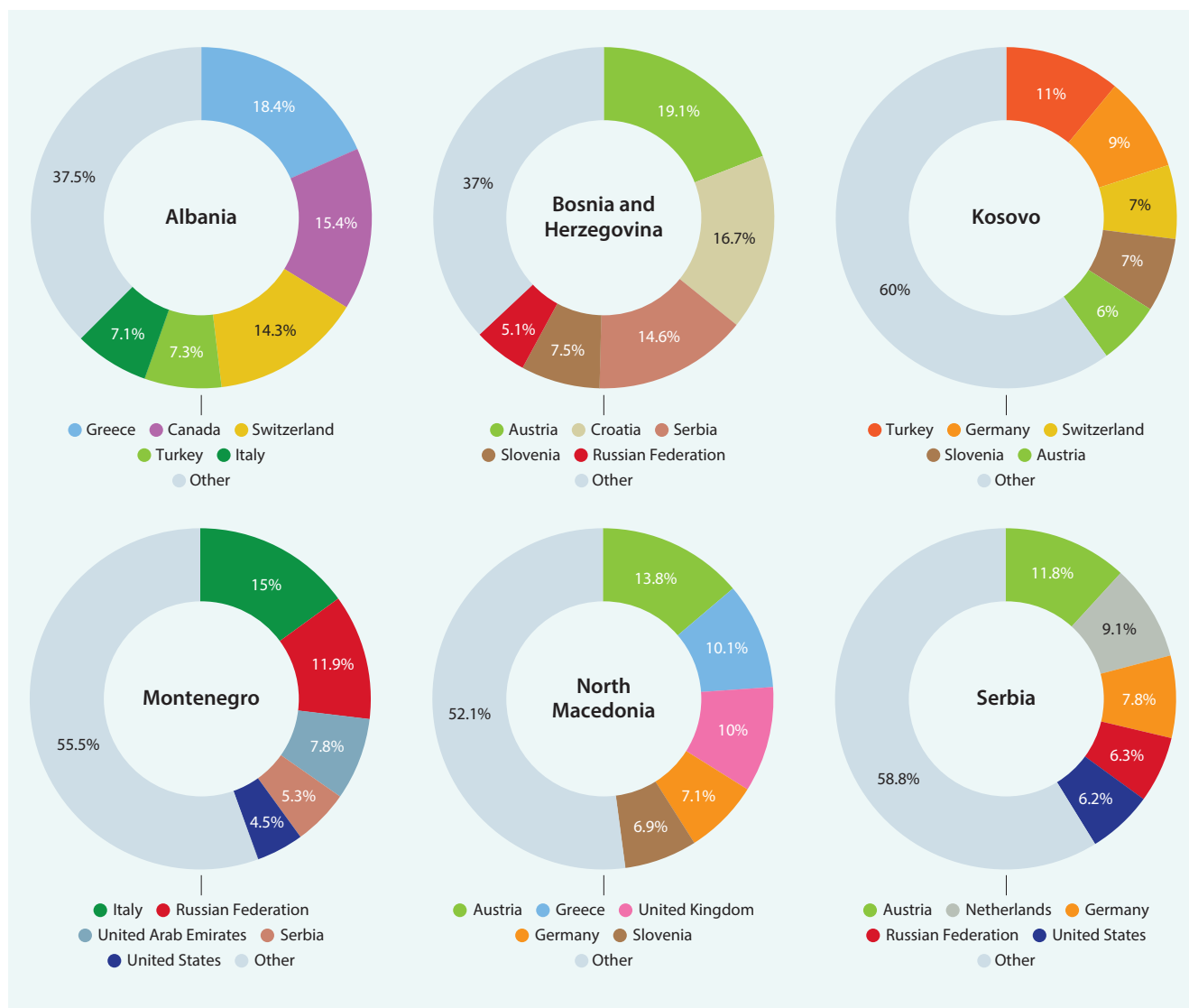
# Impact on investment in the Western Balkans

The contributions of foreign direct investment (FDI) to the Western Balkan economies have been relatively sizeable over the last years (Figure 9), providing support for economic growth, job creation, innovation and technological progress.

Figure 9. **Foreign direct investment, net inflows** (% of GDP)



Source: World Bank data URL: <https://data.worldbank.org/indicator/bx.klt.dinv.cd.wd>

Figure 10. **Top five FDI investors** (Share in inward FDI stock, 2017)

Note: Latest available data for Kosovo, 2015.

Source: UNCTAD (2019), [https://unctad.org/Sections/dite\\_dir/docs/WIR2019/WIR19\\_tab22.xlsx](https://unctad.org/Sections/dite_dir/docs/WIR2019/WIR19_tab22.xlsx)

A deceleration of both public and private investment can be expected in the Western Balkan region as a consequence of the lockdown's effect on enterprise revenues, supply disruptions, and the negative forecast of economic actors in the main investing countries. A **drop in earnings of foreign enterprises** will likely result in a **decline of many new investments**, both mergers and acquisitions and greenfield investments (226 announced FDI greenfield projects in WB in 2018, excluding Kosovo), as parent companies will not be able to inject enough liquidity in their regional affiliates. The following regional specificities will further expose investment to the pandemic's impact:

- The highly concentrated source of foreign investment in the Western Balkan economies emphasises the region's high dependency.** Foreign investment in the region comes primarily from the EU Member States (Austria, Germany, Greece, Italy, the Netherlands, and Slovenia) as well as the United Kingdom, the United States, and the Russian Federation (Figure 10) who have been severely affected by the pandemic crisis. Given the high concentration of FDI sources, it is very likely to observe a fall in FDI inflows if the economic policy measures do not yield sufficient results in investing countries.

- **The composition of FDI stock in the Western Balkans underlines the region's vulnerability against the pandemic's impact.** The manufacturing sector accounts for the greatest share of FDI stocks in North Macedonia (36% of FDI stock), Serbia (32%), Bosnia and Herzegovina (28%), and Kosovo (12%). As EU investors have located export-oriented activities in the region to serve their home markets (OECD, 2018<sub>[14]</sub>), a potential demand contraction might result in drops in earnings affecting sectors such as automotive, machinery parts, and textile.

### Short-term policy priorities

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The priority of governments over the last two months has been to limit the capital outflows by providing subsidies or delaying payments. Measures toward solely stimulating investments were limited across the region. Nevertheless, during the lockdown period a number of investment promotion agencies had to close their offices but continued to provide active supports to their clients on line. Following the de-confinement phase, the Western Balkan economies need to turn their attention to a more sustainable development when designing policies to address the challenges faced by the crisis, as issued by the OECD investment policy responses to COVID-19 (OECD, 2020<sub>[23]</sub>).

- **Leverage investor networks and investment promotion agencies in addressing the medical supply shortage.** In doing so, the region's governments can encourage and support businesses that can shift their production toward essential healthcare goods and services.

- **Consider essential security objectives while designing investment policies.** Economies in the region should keep paying attention to protect sensitive assets in strategic sectors, while continuing to promote market openness. This could be achieved by establishing a foreign investment negative list which prohibits or enumerates foreign investment conditions and clearly delimits sectors with essential security objectives.
- **Ensure that FDI serves the purpose of economic development.** Private investment, especially FDI that brings innovation, decent and inclusive jobs, and sustainable production methods can help attenuate the impact of the pandemic. Private investment will be key in contributing to the development finance equation, in a time where capital and public investment will be heavily stretched.
- **Continue improving the clarity, reachability and predictability of legal frameworks for investment,** especially for foreign investors, would greatly help further improve the overall investment climate. The lack of readily accessible information on these matters online hinders the legibility of the legal framework for foreign investors. Having a clear and easy access has become all the more important with the pandemic crisis.

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