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## THE COVID-19 CRISIS IN KOSOVO\*

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27 April 2020

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### COVID-19 update

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- 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.

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### Economic impact

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#### *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.

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## Policy reactions

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### **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.

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## **Outlook**

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- *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%<sup>1</sup> to 5.2%<sup>2</sup> of GDP for 2020. Likewise, depressed consumption across the region and Europe caused by other economies'

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

<sup>2</sup> 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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## THE COVID-19 CRISIS IN KOSOVO\*

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11 May 2020

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### COVID-19 update

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- As of 11 May, Prime Minister Kurti and his cabinet entered into self-isolation due to contact with a colleague who was exposed to an individual with COVID-19. The Prime Minister and the cabinet will remain in isolation until they have been adequately tested and it has been determined that they are not at risk of spreading the virus.
- The number of new cases has slowed in recent weeks, leading the government to initiate a de-confinement plan that consists of three phases. Each phase will gradually relax restrictions on individuals and businesses to enable the resumption of economic activities while preventing a resurgence of the virus.

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.

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### Economic impact

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#### ***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 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.

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\* 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.

### ***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. Likewise, a number of municipalities including Pristina have ended their quarantine restrictions on movement and business operations.
- 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)
  - Additional businesses will be allowed to resume operations including dentists and physiotherapists, hairdressers, green markets, certain restaurants and cafés, and call centres.
  - Rail transport will also resume, as will urban and interurban transportation networks.
- Phase 3 (1 June)
  - Taxis, cinemas, theatres and select sports events will be allowed to resume operations. Major cultural events such as the Pristina Film Festival are scheduled to take place while continuing to enforce social distancing measures.
  - Higher education and secondary school exams will be held, although distance learning will remain mandatory.

### ***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.

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## **Policy reactions**

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### ***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.
- Effective 1 April, the government removed the 100% tariffs on imports originating from Serbia and Bosnia and Herzegovina and put in place reciprocity measures with Serbia. On 8 May, the Ministry of Health relaxed the duration of mandatory quarantine for persons arriving from abroad from 14 to 7 days.

### ***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.
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### **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.
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- *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.
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## Outlook

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- *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%<sup>1</sup> to 5.2%<sup>2</sup> 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

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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 in the short run.

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## THE COVID-19 CRISIS IN KOSOVO\*

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18 May 2020

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### COVID-19 update

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- As of 11 May, Prime Minister Kurti and his cabinet entered into self-isolation due to contact with a colleague who was exposed to an individual with COVID-19. The Prime Minister and the cabinet will remain in isolation until they have been adequately tested and it has been determined that they are not at risk of spreading the virus.
- The number of new cases has slowed in recent weeks, leading the government to initiate a de-confinement plan that consists of three phases. Each phase will gradually relax restrictions on individuals and businesses to enable the resumption of economic activities while preventing a resurgence of the virus. As of 18 May, Kosovo entered phase two of the de-confinement plan.

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.

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### Economic impact

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#### *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 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. Likewise, a number of municipalities including Pristina have ended their quarantine restrictions on movement and business operations.
- 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, cinemas, theatres and select sports events will be allowed to resume operations. Major cultural events such as the Pristina Film Festival are scheduled to take place while continuing to enforce social distancing measures.
  - Higher education and secondary school exams will be held, although distance learning will remain mandatory.

### ***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.

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## **Policy reactions**

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### ***Border measures***

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- Effective 1 April, the government removed the 100% tariffs on imports originating from Serbia and Bosnia and Herzegovina and put in place reciprocity measures with Serbia. On 8 May, the Ministry of Health relaxed the duration of mandatory quarantine for persons arriving from abroad from 14 to 7 days.

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- 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.

### **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.
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- *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.
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## **Outlook**

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

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



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## THE COVID-19 CRISIS IN KOSOVO\*

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25 May 2020

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### COVID-19 update

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- The number of new cases has slowed, with zero new cases being reported on 22 May for the first time since the beginning of the crisis. This progress has led the government to initiate a de-confinement plan that consists of three phases. Each phase will gradually relax restrictions on individuals and businesses to enable the resumption of economic activities while preventing a resurgence of the virus. As of 18 May, Kosovo entered phase two of the de-confinement plan.

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.

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### Economic impact

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#### *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 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. Likewise, a number of

THE COVID-19 CRISIS IN KOSOVO © OECD 2020

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municipalities including Pristina have ended their quarantine restrictions on movement and business operations.

- 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, cinemas, theatres and select sports events will be allowed to resume operations. Major cultural events such as the Pristina Film Festival are scheduled to take place while continuing to enforce social distancing measures.
  - Higher education and secondary school exams will be held, although distance learning will remain mandatory.

### ***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.

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## **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.
- Effective 1 April, the government removed the 100% tariffs on imports originating from Serbia and Bosnia and Herzegovina and put in place reciprocity measures with Serbia. On 8 May, the Ministry of Health relaxed the duration of mandatory quarantine for persons arriving from abroad from 14 to 7 days.

### ***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.

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## **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%<sup>1</sup> to 5.2%<sup>2</sup> 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 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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## THE COVID-19 CRISIS IN KOSOVO\*

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8 June 2020

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### COVID-19 update

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- 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.

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### Economic impact

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#### ***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.

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## Policy reactions

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### **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.

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## Outlook

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- *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%<sup>1</sup> to 5.2%<sup>2</sup> 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

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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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## THE COVID-19 CRISIS IN KOSOVO\*

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15 June 2020

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### COVID-19 update

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- Despite declining numbers of new COVID-19 cases over the past weeks, the number of new cases rose sharply over the weekend by 160 cases. The increase in the number of new COVID-19 cases jeopardises the de-confinement plan, which entered phase three on 1 June but remained conditional on the state of new COVID-19 cases. Although no new confinement measures have been enacted, police have increased activity to enforce social distancing and responsible conduct.
- The Health Ministry has recommended re-closing a number of firms, theatres and government ministries where there have been new reported cases, although the government has yet to act upon these recommendations. Given the growing number of new cases, new easing measures are unlikely to be implemented until the number of new cases drops to acceptable levels.
- 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.

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### Economic impact

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#### ***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

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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 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.

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.

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## Policy reactions

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### ***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.
- Despite repeated commitments by the Ministry of Infrastructure to reopen airports, flights currently remain suspended. On 15 June, the Pristina Airport announced that all flights scheduled for that day had been cancelled.
- 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 effects the ongoing Kosovo-Serbia dialogue and led the US to unblock aid measures to Kosovo.

### ***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 will allow certain exams and doctoral thesis defences 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.

### ***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.

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## **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%<sup>1</sup> to 5.2%<sup>2</sup> 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 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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<sup>1</sup> World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>

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



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## THE COVID-19 CRISIS IN KOSOVO\*

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29 June 2020

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### COVID-19 update

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- Despite declining numbers of new COVID-19 cases through the month of May, the number of new cases has risen significantly since the beginning of June. The increase in the number of new COVID-19 cases jeopardises the de-confinement plan, which entered phase three on 1 June but remained conditional on the state of new COVID-19 cases.
- Prime Minister Hoti has announced that he may re-impose quarantines on certain areas should the number of new cases continue to rise. The Health Ministry has recommended re-closing a number of firms, theatres and government ministries where there have been new reported cases, although the government has yet to act upon these recommendations. In response to the rising number of new COVID-19 cases, the government has required public and private institutions to prioritise teleworking and instituted more stringent regulations for restaurants and other commercial venues. Likewise, police have increased activity to enforce social distancing and responsible conduct in public spaces. Given the growing number of new cases, new easing measures are unlikely to be implemented until the number of new cases drops to acceptable levels. 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.

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### Economic impact

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#### ***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

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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 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. Likewise, nightclubs are expected to reopen in the coming weeks.
  - Although major cultural events such as the Pristina Film Festival had been scheduled to take place while continuing to enforce social distancing measures, many have been postponed to late August due to the rising number of COVID-19 cases.
  - 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. Likewise, municipal pool were re-opened as of 29 June.
  - On 16 June, the Ministry of Health published more stringent regulations governing the operation of commercial venues. These rules limit the number of customers allowed to enter a business at a time and require the use of disinfectant and face masks, among other measures.

### **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<sup>1</sup> survey 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 deconfinement 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.

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## **Policy reactions**

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### **Border measures**

- As part of phase three of the de-confinement plan, all land borders have been reopened. Travellers entering Kosovo must pass a medical examination and COVID-19 test, but are no longer required to self-isolate for seven days.
- On 28 June, the airport in Pristina was reopened for the first time since it was closed in March due to the COVID-19 crisis.
- 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 effects the ongoing Kosovo-Serbia dialogue and led the US to unblock aid measures to Kosovo.

### **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.

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<sup>1</sup> 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>

- 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 allows certain exams and doctoral thesis defences to be held from 1 June onward.
- A recent UNDP Survey found that 96% of children were able to effectively participate in distance learning initiatives during the confinement and that households hold largely favourable views of the learning opportunities that have been provided throughout the COVID-19 crisis.

### ***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.
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- On 19 June, the government initiated a new agricultural support programme which will provide €53m 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.
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Ministry of Finance and Transfers announced that all interest on unpaid property taxes would be suspended until 2021.

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- *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.

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- 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.
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- 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.

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## Outlook

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- *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%<sup>2</sup> to 5.2%<sup>3</sup> 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 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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## THE COVID-19 CRISIS IN KOSOVO\*

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6 July 2020

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### COVID-19 update

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- Despite declining numbers of new COVID-19 cases through the month of May, the number of new cases has risen significantly since the beginning of June. The increase in the number of new COVID-19 cases jeopardises the de-confinement plan, which entered phase three on 1 June but remained conditional on the state of new COVID-19 cases.
- Due to the rising number of cases, the Health Ministry is mobilising healthcare workers in order to increase its testing capacity and ability to treat patients infected with COVID-19. The government is working to increase the number of available testing kits and intensive care unit.
- The government has imposed new curfews across a number of cities including Pristina, Ferizaj, Prizren and Vushtrri due to increasing numbers of COVID-19 cases in those areas. Any other cities that experience similar increases in COVID-19 cases will automatically face similar restrictions to movement.
- The government has required public and private institutions to prioritise teleworking and instituted more stringent regulations for restaurants and other commercial venues. Likewise, police have increased activity to enforce social distancing and responsible conduct in public spaces. Following previous recommendations by the Health Ministry to restrict certain commercial activities, all restaurants, cafes, nightclubs and other similar venues in Kosovo are now required to close between 21:00 and 05:00.
- 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.

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### Economic impact

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#### ***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

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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 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. Likewise, nightclubs are expected to reopen in the coming weeks.
  - Although major cultural events such as the Pristina Film Festival had been scheduled to take place while continuing to enforce social distancing measures, many have been postponed to late August due to the rising number of COVID-19 cases.
  - 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. Likewise, municipal pool were re-opened as of 29 June.

- On 16 June, the Ministry of Health published more stringent regulations governing the operation of commercial venues. These rules limit the number of customers allowed to enter a business at a time and require the use of disinfectant and face masks, among other measures.
- New Restrictions (6 July)
  - From 6 July 2020, residents of Pristina, Ferizaj, Prizren and Vushtrri will be prohibited from leaving their homes between 21:00 and 05:00 for any reason other than emergencies such as urgent health issues, domestic violence or the death of a family member.
  - As of 6 July, restaurants, bars, nightclubs and similar venues across Kosovo are prohibited from operating between 21:00 and 05:00 in order to reduce the spread of COVID-19.
  - All hospitals and other healthcare centres have been ordered to reduce the number of elective procedures and non-essential health services to focus their resources on combating the growing COVID-19 caseload.
  - To limit the spread of the virus, all public institutions and private firms are required to reduce the number of employees working at a time to the minimum number of staff required to remain operational.
  - All forms of public transportation will be required to limit their capacity by half in order to facilitate social distancing for individuals traveling to and from work.

### **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<sup>1</sup> survey 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 deconfinement 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

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accommodation (hospitality) sector (14%), two sectors where about a fifth of the main income earners of households work in.

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## Policy reactions

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### ***Border measures***

- As part of phase three of the de-confinement plan, all land borders have been reopened. Travellers entering Kosovo must pass a medical examination and COVID-19 test, but are no longer required to self-isolate for seven days.
- On 28 June, the airport in Pristina was reopened for the first time since it was closed in March due to the COVID-19 crisis. Flights are permitted to land at 45 minute intervals to ensure all arriving passengers are adequately screened and to avoid overcrowding.
- 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 effects the ongoing Kosovo-Serbia dialogue and led the US to unblock aid measures to Kosovo.

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- 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.
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- 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 19 June, the government initiated a new agricultural support programme which will provide €53m 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.
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- 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.

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## **Outlook**

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- *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%<sup>2</sup> to 5.2%<sup>3</sup> 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 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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<sup>2</sup> World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>

<sup>3</sup> International Monetary Fund (2020), *World Economic Outlook: The Great Lockdown*, <https://www.imf.org/~/media/Files/Publications/WEO/2020/April/English/text.ashx>

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## THE COVID-19 CRISIS IN KOSOVO\*

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15 July 2020

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### COVID-19 update

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- Despite declining numbers of new COVID-19 cases through the month of May, the number of new cases has continued to rise since the beginning of June. The increase in the number of new COVID-19 cases jeopardises the de-confinement plan, which entered phase three on 1 June but remained conditional on the state of new COVID-19 cases.
- Due to the rising number of cases, the Health Ministry is mobilising healthcare workers in order to increase its testing capacity and ability to treat patients infected with COVID-19. The government is working to increase the number of available testing kits and intensive care unit.
- As of 13 July, all individuals must wear masks when outside their homes. Additionally, the government has imposed new curfews across a number of cities including Pristina, Ferizaj, Prizren Vushtri, Mitrovica South, Gjilan, Fushë Kosovë and Shtërpçë due to increasing numbers of COVID-19 cases in those areas. Any other cities that experience similar increases in COVID-19 cases will automatically face similar restrictions to movement.
- The government has required public and private institutions to prioritise teleworking and instituted more stringent regulations for restaurants and other commercial venues. Likewise, police have increased activity to enforce social distancing and responsible conduct in public spaces. Following previous recommendations by the Health Ministry to restrict certain commercial activities, all restaurants, cafes, nightclubs and other similar venues in Kosovo are now required to close between 21:00 and 05:00.
- 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.

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### Economic impact

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#### ***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,

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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 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 08:00 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. Likewise, nightclubs are expected to reopen in the coming weeks.
  - Although major cultural events such as the Pristina Film Festival had been scheduled to take place while continuing to enforce social distancing measures, many have been postponed to late August due to the rising number of COVID-19 cases.
  - 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. Likewise, municipal pool were re-opened as of 29 June.
- On 16 June, the Ministry of Health published more stringent regulations governing the operation of commercial venues. These rules limit the number of customers allowed to enter a business at a time and require the use of disinfectant and facemasks, among other measures.
- New Restrictions (6 July – Present)
  - Due to high numbers of new COVID-19 cases, residents of Pristina, Ferizaj, Prizren, Vushtri, Mitrovica South, Gjilan, Fushë Kosovë and Shtërpçë are prohibited from leaving their homes between 21:00 and 05:00 for any reason other than emergencies such as urgent health issues, domestic violence or the death of a family member.
  - As of 13 July, all individuals are required to wear masks outside of their homes. The government has not announced any measures to distribute free masks to the public.
  - As of 6 July, restaurants, bars, nightclubs and similar venues across Kosovo are prohibited from operating between 21:00 and 05:00 in order to reduce the spread of COVID-19. Likewise, all indoor pools, gyms and similar athletic facilities were closed.
  - All hospitals and other healthcare centres have been ordered to reduce the number of elective procedures and non-essential health services to focus their resources on combating the growing COVID-19 caseload.
  - To limit the spread of the virus, all public institutions and private firms are required to reduce the number of employees working at a time to the minimum number of staff required to remain operational.
  - All forms of public transportation will be required to limit their capacity by half in order to facilitate social distancing for individuals traveling to and from work.

### **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<sup>1</sup> survey 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

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during the crisis, nearly 40% report that they are still not working at all despite the deconfinement 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.

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## Policy reactions

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### ***Border measures***

- As part of phase three of the de-confinement plan, all land borders have been reopened. Travellers entering Kosovo must pass a medical examination and COVID-19 test, but are no longer required to self-isolate for seven days.
- On 28 June, the airport in Pristina was reopened for the first time since it was closed in March due to the COVID-19 crisis. Flights are permitted to land at 45 minute intervals to ensure all arriving passengers are adequately screened and to avoid overcrowding.
- 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 effects the ongoing Kosovo-Serbia dialogue and led the US to unblock aid measures to Kosovo.
- The Ministry of Internal Affairs has enabled foreigners living in Kosovo to extend their residency through a simplified procedure due to complications in the application process caused by the COVID-19 crisis. Additionally, expired residency permits will continue to be valid for foreigners who are unable to reapply to renew their residence permits due to the closure of public institutions
- As of 13 July, all travellers entering Kosovo from North Macedonia, Bosnia and Herzegovina and Montenegro must provide a negative COVID-19 test taken less than 72 hours before arrival.

### ***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.
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- A recent UNDP Survey found that 96% of children were able to effectively participate in distance learning initiatives during the confinement and that households hold largely favourable views of the learning opportunities that have been provided throughout the COVID-19 crisis.
- Although nurseries and kindergartens were reopened on 1 June, they were closed again as of 13 July due to growing numbers of COVID-19 cases throughout Kosovo.

### **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.
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## **Outlook**

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- *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%<sup>2</sup> to 5.2%<sup>3</sup> 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 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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## THE COVID-19 CRISIS IN KOSOVO\*

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22 July 2020

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### COVID-19 update

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- Despite declining numbers of new COVID-19 cases through the month of May, the number of new cases rose from the beginning of June until mid-July when new restrictions were imposed.
- Due to the rising number of cases, the Health Ministry is mobilising healthcare workers in order to increase its testing capacity and ability to treat patients infected with COVID-19. The government is working to increase the number of available testing kits and intensive care unit. As of 22 July, over 500 healthcare workers have been infected with COVID-19, with 35 doctors becoming infected in the past week alone. There is concern that temporary hospitals erected to treat COVID-19 patients may not be adequately equipped to stop the spread of the disease.
- As of 13 July, all individuals must wear masks when outside their homes. Additionally, the government has imposed new curfews across a number of cities including Pristina, Ferizaj, Prizren Vushtri, Mitrovica South, Gjilan, Fushë Kosovë and Shtërpçë due to increasing numbers of COVID-19 cases in those areas. Any other cities that experience similar increases in COVID-19 cases will automatically face similar restrictions to movement.
- The government has required public and private institutions to prioritise teleworking and instituted more stringent regulations for restaurants and other commercial venues. Likewise, police have increased activity to enforce social distancing and responsible conduct in public spaces. Following previous recommendations by the Health Ministry to restrict certain commercial activities, all restaurants, cafes, nightclubs and other similar venues in Kosovo are now required to close between 21:00 and 05:00.
- 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.

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### Economic impact

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#### ***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

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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.
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### ***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. Likewise, nightclubs are expected to reopen in the coming weeks.
  - Although major cultural events such as the Pristina Film Festival had been scheduled to take place while continuing to enforce social distancing measures, many have been postponed to late August due to the rising number of COVID-19 cases.
  - 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. Likewise, municipal pools were re-opened as of 29 June.
- On 16 June, the Ministry of Health published more stringent regulations governing the operation of commercial venues. These rules limit the number of customers allowed to enter a business at a time and require the use of disinfectant and facemasks, among other measures.
- New Restrictions (6 July – Present)
  - Due to high numbers of new COVID-19 cases, residents of Pristina, Ferizaj, Prizren, Vushtri, Mitrovica South, Gjilan, Fushë Kosovë and Shtërpcë are prohibited from leaving their homes between 21:00 and 05:00 for any reason other than emergencies such as urgent health issues, domestic violence or the death of a family member.
  - As of 13 July, all individuals are required to wear masks outside of their homes. The government has not announced any measures to distribute free masks to the public.
  - As of 6 July, restaurants, bars, nightclubs and similar venues across Kosovo are prohibited from operating between 21:00 and 05:00 in order to reduce the spread of COVID-19. Likewise, all indoor pools, gyms and similar athletic facilities were closed.
  - All hospitals and other healthcare centres have been ordered to reduce the number of elective procedures and non-essential health services to focus their resources on combating the growing COVID-19 caseload.
  - To limit the spread of the virus, all public institutions and private firms are required to reduce the number of employees working at a time to the minimum number of staff required to remain operational.
  - All forms of public transportation will be required to limit their capacity by half in order to facilitate social distancing for individuals traveling to and from work.
  - On 21 July, both major film festivals in Kosovo announced plans to hold events digitally rather than in-person as originally planned.

### **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<sup>1</sup> survey found that roughly

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<sup>1</sup> 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>

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 deconfinement 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.

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## Policy reactions

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### ***Border measures***

- As part of phase three of the de-confinement plan, all land borders have been reopened. Travellers entering Kosovo must pass a medical examination and COVID-19 test, but are no longer required to self-isolate for seven days.
- On 28 June, the airport in Pristina was reopened for the first time since it was closed in March due to the COVID-19 crisis. Flights are permitted to land at 45 minute intervals to ensure all arriving passengers are adequately screened and to avoid overcrowding.
- 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 effects the ongoing Kosovo-Serbia dialogue and led the US to unblock aid measures to Kosovo.
- The Ministry of Internal Affairs has enabled foreigners living in Kosovo to extend their residency through a simplified procedure due to complications in the application process caused by the COVID-19 crisis. Additionally, expired residency permits will continue to be valid for foreigners who are unable to reapply to renew their residence permits due to the closure of public institutions
- As of 13 July, all travellers entering Kosovo from North Macedonia, Bosnia and Herzegovina and Montenegro must provide a negative COVID-19 test taken less than 72 hours before arrival.

### ***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 allows certain exams and doctoral thesis defences to be held from 1 June onward.
- A recent UNDP Survey found that 96% of children were able to effectively participate in distance learning initiatives during the confinement and that households hold largely favourable views of the learning opportunities that have been provided throughout the COVID-19 crisis.

- Although nurseries and kindergartens were reopened on 1 June, they were closed again as of 13 July due to growing numbers of COVID-19 cases throughout Kosovo.

### **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 19 June, the government initiated a new agricultural support programme which will provide €53m 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 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.

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## Outlook

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- *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%<sup>2</sup> to 5.2%<sup>3</sup> 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 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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<sup>2</sup> World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>

<sup>3</sup> International Monetary Fund (2020), *World Economic Outlook: The Great Lockdown*, <https://www.imf.org/~/media/Files/Publications/WEO/2020/April/English/text.ashx>



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## THE COVID-19 CRISIS IN KOSOVO\*

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30 July 2020

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### COVID-19 update

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- Despite declining numbers of new COVID-19 cases through the month of May, the number of new cases rose from the beginning of June until mid-July when new restrictions were imposed. As of 29 July, many of the restrictions included in the initial confinement measures were reinstated, including curfews, limitations to public transport and restricted freedom of movement.
- Due to the rising number of cases, the Health Ministry is mobilising healthcare workers in order to increase its testing capacity and ability to treat patients infected with COVID-19. The government is working to increase the number of available testing kits and intensive care unit. As of 22 July, over 500 healthcare workers have been infected with COVID-19, with 35 doctors becoming infected in the past week alone. There is concern that temporary hospitals erected to treat COVID-19 patients may not be adequately equipped to stop the spread of the disease.
- As of 13 July, all individuals must wear masks when outside their homes. Additionally, the government has imposed new curfews across a number of cities including Pristina, Ferizaj, Prizren, Vushtrri, Mitrovica South, Gjilan, Fushë Kosovë and Shtërpçë due to increasing numbers of COVID-19 cases in those areas. Any other cities that experience similar increases in COVID-19 cases will automatically face similar restrictions to movement.
- The government has required public and private institutions to prioritise teleworking and instituted more stringent regulations for restaurants and other commercial venues. Likewise, police have increased activity to enforce social distancing and responsible conduct in public spaces. Following previous recommendations by the Health Ministry to restrict certain commercial activities, all restaurants, cafes, nightclubs and other similar venues in Kosovo are now required to close between 21:00 and 05:00.
- 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.

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### Economic impact

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#### ***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

\* 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.

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 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 08:00 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. Likewise, nightclubs are expected to reopen in the coming weeks.
  - Although major cultural events such as the Pristina Film Festival had been scheduled to take place while continuing to enforce social distancing measures, many have been postponed to late August due to the rising number of COVID-19 cases.

- 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. Likewise, municipal pool were re-opened as of 29 June.
- On 16 June, the Ministry of Health published more stringent regulations governing the operation of commercial venues. These rules limit the number of customers allowed to enter a business at a time and require the use of disinfectant and facemasks, among other measures.
- **New Restrictions (6 July – Present)**
  - As of 6 July, restaurants, bars, nightclubs and similar venues across Kosovo are prohibited from operating between 21:00 and 05:00 in order to reduce the spread of COVID-19. Likewise, all indoor pools, gyms and similar athletic facilities were closed.
  - All hospitals and other healthcare centres have been ordered to reduce the number of elective procedures and non-essential health services to focus their resources on combating the growing COVID-19 caseload.
  - To limit the spread of the virus, all public institutions and private firms are required to reduce the number of employees working at a time to the minimum number of staff required to remain operational.
  - Due to high numbers of new COVID-19 cases, residents of Pristina and 12 other municipalities are prohibited from leaving their homes between 22:30 and 05:00 for any reason other than emergencies such as urgent health issues, domestic violence or the death of a family member.
  - Building on the restrictions imposed throughout the month, on 29 July, the government announced a comprehensive set of new measures designed to slow the spread of COVID-19. Any public or private gathering greater than five people is now prohibited, as is attending religious services of any kind. Due to upcoming religious holidays, the government has also banned slaughtering animals at home.
  - Masks remain mandatory in public at all times, with firms now obliged to enforce responsible behaviour and social distancing within their premises and to post signage at their entrances. All firms operating in the hospitality sector must close between 22:30 and 5:00 each day and ensure that tables are a minimum of two meters apart and located in well-ventilated areas.
  - As of 29 July, all elderly individuals and individuals whose health conditions make them vulnerable to COVID-19 are only permitted to leave their residences between 5:00 and 10:00 and 18:00 and 21:00 each day.
  - All group sports such as football are prohibited at any venue as of 29 July. Only individual exercise is permitted, including at outdoor pools and gyms.
  - Public transportation is now required to operate at half capacity to enable riders to follow social distancing guidelines while travelling.

### ***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<sup>1</sup> survey 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 deconfinement 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.

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## Policy reactions

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### **Border measures**

- As part of phase three of the de-confinement plan, all borders have been reopened. As of 29 July, travellers entering Kosovo from North Macedonia, Bosnia and Herzegovina, Serbia, Albania and Montenegro must provide a negative COVID-19 test taken less than 48 hours before arrival, but are no longer required to self-isolate for seven days. Travellers transiting Kosovo are not required to pass a PCR test before entering, but must sign a document attesting their intention to leave Kosovo within three hours of entering its territory. Likewise, truck drivers and other commercial drivers are not required to pass a PCR test before entering Kosovo. On 28 June, the airport in Pristina was reopened for the first time since it was closed in March due to the COVID-19 crisis. Flights are permitted to land at 45 minute intervals to ensure all arriving passengers are adequately screened and to avoid overcrowding.
- 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 effects the ongoing Kosovo-Serbia dialogue and led the US to unblock aid measures to Kosovo.
- The Ministry of Internal Affairs has enabled foreigners living in Kosovo to extend their residency through a simplified procedure due to complications in the application process caused by the COVID-19 crisis. Additionally, expired residency permits will continue to be valid for foreigners who are unable to reapply to renew their residence permits due to the closure of public institutions

### **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

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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 allows certain exams and doctoral thesis defences to be held from 1 June onward.
- A recent UNDP Survey found that 96% of children were able to effectively participate in distance learning initiatives during the confinement and that households hold largely favourable views of the learning opportunities that have been provided throughout the COVID-19 crisis.
- Although nurseries and kindergartens were reopened on 1 June, they were closed again as of 13 July due to growing numbers of COVID-19 cases throughout Kosovo. As of 29 July, the government announced that kindergartens can reopen after receiving approval from their municipal governments.
- The government has formed a task force comprising representatives from the National Institute of Public Health and the Ministry of Education to devise a plan to safely reopen schools for the 2020-21 academic year. The task force is expected to publish guidance on the upcoming academic year on 15 August.

### ***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.

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### **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.
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### **International support**

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- 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.

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## Outlook

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- *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%<sup>2</sup> to 5.2%<sup>3</sup> 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 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

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<sup>2</sup> World Bank (2020), *Fighting COVID-19 - Europe and Central Asia Economic Update*, <https://openknowledge.worldbank.org/bitstream/handle/10986/33476/9781464815645.pdf>

<sup>3</sup> International Monetary Fund (2020), *World Economic Outlook: The Great Lockdown*, <https://www.imf.org/~media/Files/Publications/WEO/2020/April/English/text.ashx>

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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## THE COVID-19 CRISIS IN KOSOVO\*

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31 August 2020

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### COVID-19 update

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- On 2 August, Prime Minister Hoti tested positive for COVID-19, but has since returned to work.
- Despite declining numbers of new COVID-19 cases through the month of May, the number of new cases rose from the beginning of June until mid-July when new restrictions were imposed. As of 29 July, many of the restrictions included in the initial confinement measures were reinstated, including curfews, limitations to public transport and restricted freedom of movement.
- Due to the rising number of cases, the Health Ministry is mobilising healthcare workers in order to increase its testing capacity and ability to treat patients infected with COVID-19. The government is working to increase the number of available testing kits and intensive care unit. As of 22 July, over 500 healthcare workers have been infected with COVID-19, with 35 doctors becoming infected in the past week alone. There is concern that temporary hospitals erected to treat COVID-19 patients may not be adequately equipped to stop the spread of the disease.
- As of 13 July, all individuals must wear masks when outside their homes. Additionally, the government has imposed new curfews across a number of cities including Pristina, Ferizaj, Prizren Vushtrri, Mitrovica South, Gjilan, Fushë Kosovë and Shtërpçë due to increasing numbers of COVID-19 cases in those areas. Any other cities that experience similar increases in COVID-19 cases will automatically face similar restrictions to movement.
- The government has required public and private institutions to prioritise teleworking and instituted more stringent regulations for restaurants and other commercial venues. Likewise, police have increased activity to enforce social distancing and responsible conduct in public spaces. Following previous recommendations by the Health Ministry to restrict certain commercial activities, all restaurants, cafes, nightclubs and other similar venues in Kosovo are now required to close between 21:00 and 05:00.
- 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 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.

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## Economic impact

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### ***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 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 08:00 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. Likewise, nightclubs are expected to reopen in the coming weeks.
  - Although major cultural events such as the Pristina Film Festival had been scheduled to take place while continuing to enforce social distancing measures, many have been postponed to late August due to the rising number of COVID-19 cases.
  - 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. Likewise, municipal pool were re-opened as of 29 June.
  - On 16 June, the Ministry of Health published more stringent regulations governing the operation of commercial venues. These rules limit the number of customers allowed to enter a business at a time and require the use of disinfectant and facemasks, among other measures.
- New Restrictions (6 July – Present)
  - As of 6 July, restaurants, bars, nightclubs and similar venues across Kosovo are prohibited from operating between 21:00 and 05:00 in order to reduce the spread of COVID-19. Likewise, all indoor pools, gyms and similar athletic facilities were closed.
  - All hospitals and other healthcare centres have been ordered to reduce the number of elective procedures and non-essential health services to focus their resources on combating the growing COVID-19 caseload.
  - To limit the spread of the virus, all public institutions and private firms are required to reduce the number of employees working at a time to the minimum number of staff required to remain operational.
  - Due to high numbers of new COVID-19 cases, residents of Pristina and 12 other municipalities are prohibited from leaving their homes between 22:30 and 05:00 for any reason other than emergencies such as urgent health issues, domestic violence or the death of a family member.
  - Building on the restrictions imposed throughout the month, on 29 July, the government announced a comprehensive set of new measures designed to slow the spread of COVID-19. Any public or private gathering greater than five people is now prohibited, as is attending religious services of any kind. Due to upcoming religious holidays, the government has also banned slaughtering animals at home.
  - Masks remain mandatory in public at all times, with firms now obliged to enforce responsible behaviour and social distancing within their premises and to post signage at their entrances. All firms operating in the hospitality sector must close between 22:30 and 5:00 each day and ensure that tables are a minimum of two meters apart and located in well-ventilated areas.
  - As of 29 July, all elderly individuals and individuals whose health conditions make them vulnerable to COVID-19 are only permitted to leave their residences between 5:00 and 10:00 and 18:00 and 21:00 each day.
  - Public transportation is now required to operate at half capacity to enable riders to follow social distancing guidelines while travelling.

### **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<sup>1</sup> survey 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 deconfinement 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.

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## **Policy reactions**

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### **Border measures**

- As part of phase three of the de-confinement plan, all borders have been reopened. As of 29 July, travellers entering Kosovo from North Macedonia, Bosnia and Herzegovina, Serbia, Albania and Montenegro must provide a negative COVID-19 test taken less than 48 hours before arrival, but are no longer required to self-isolate for seven days. Travellers transiting Kosovo are not required to pass a PCR test before entering, but must sign a document attesting their intention to leave Kosovo within three hours of entering its territory. Likewise, truck drivers and other commercial drivers are not required to pass a PCR test before entering Kosovo. On 28 June, the airport in Pristina was reopened for the first time since it was closed in March due to the COVID-19 crisis. Flights are permitted to land at 45 minute intervals to ensure all arriving passengers are adequately screened and to avoid overcrowding.
- 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 effects the ongoing Kosovo-Serbia dialogue and led the US to unblock aid measures to Kosovo.
- The Ministry of Internal Affairs has enabled foreigners living in Kosovo to extend their residency through a simplified procedure due to complications in the application process caused by the COVID-19 crisis. Additionally, expired residency permits will continue to be valid for foreigners who are unable to reapply to renew their residence permits due to the closure of public institutions

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<sup>1</sup> 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>

### ***Education policy***

- During the early stages of the crisis, the government sought to develop an online learning platform that can be used by students unable to attend school due to the COVID-19 crisis. Learning materials are shared via online learning platforms such as Moodle, however some recorded courses will be televised. Likewise, the government has worked with internet service providers to provide all students with free internet access so that they can participate in online distance learning activities.
- Although nurseries and kindergartens were reopened on 1 June, they were closed again as of 13 July due to growing numbers of COVID-19 cases throughout Kosovo. As of 29 July, the government announced that kindergartens can reopen after receiving approval from their municipal governments.

Schools are scheduled to reopen on 1 September under a three-stage plan that combines in-person and distance learning systems. Only students from certain grades will start classes on 1 September, with the rest starting between 7 and 10 September depending on their age. The government has proposed three different scenarios for school re-openings that will be chosen depending on the status of the pandemic. Under Scenario A, all students would participate in in-person courses, whereas Scenario B utilises a combined learning method in which students would attend in-person courses on specific days each week. Under Scenario C, students would not attend any in-person courses and would rather participate in courses using distance learning platforms.

### ***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 19 June, the government initiated a new agricultural support programme which will provide €53m in direct payments to farmers.

- On 13 August, the government approved the Plan for the Implementation of the Economic Recovery Programme, which will allocate EUR 365 million in funds to support businesses, create jobs and stimulate aggregate demand. The plan includes measures designed to facilitate loan access for businesses and farms, provide targeted tax relief and rental subsidies for firms, stimulate employment by subsidising worker salaries, and incentivising capital investments.

### **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 was 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 were also suspended. As of 13 August, citizens will be allowed to withdraw up to 10% of their contributions to the pension trust for a period of four months.
- *Tax policy:* At the onset of the crisis, the Tax Administration of Kosovo 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. On August 13, the government allocated EUR 67 million to achieve its commitment to increase employment, with a specific focus on groups of workers with a lower probability of finding employment during the crisis.

*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, which was included in the 13 August Economic Recovery Plan.

### **Support to firms**

- Eligible firms received 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 subsidised 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 suspended loan repayments for firms until 30 April 2020.
- As of 13 August, the government allocated an additional EUR 10 million to subsidise 50% of firm's rental expenses. As part of the Economic Recovery Plan, the government will provide professional support for businesses to help them operate effectively during the pandemic, including guidance on moving operations online, working from home and digitising key business practices.
- *Tax Policy:* As part of the 13 August Plan for the Implementation of the Economic Recovery Programme, the government allocated EUR 15 million to ease the tax burden on firms to improve their short-term liquidity. The government will postpone tax obligations for specific firms, cover 5% of pension contributions that firms pay employees, exempt firms from penalties for late tax payments due to the pandemic, and provide tax breaks for firms operating in strategic sectors. *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. On 13 August, the government allocated an additional EUR 26 million to increase domestic agricultural production and rural employment.
- On 13 August, the government EUR 5 million to subsidise wages for new employees hired to work in specific sectors or categories of employment. The government has yet to release a plan identifying which sectors and categories of employment will qualify for the wage subsidies.
- On 13 August the government allocated EUR 10 million to enable the manufacturing and service sectors to access the equipment and machinery needed for automation processes.
- Publicly owned enterprises will be able to access EUR 14 million to support basic operations as well as EUR 17 million for capital investments.

### **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.

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## **Outlook**

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- *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%<sup>2</sup> to 5.2%<sup>3</sup> 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 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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## THE COVID-19 CRISIS IN KOSOVO\*

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1 October 2020

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### COVID-19 health situation – August/September 2020

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- After peaking over the course of June and July, the number of active cases in Kosovo has steadily declined since early August. The daily rate of new COVID-19 cases fell from a weekly average of 110 cases (5.96 per 100 000 inhabitants) per day to 54 new cases (2.92 per 100 000 inhabitants) per day. To date there have been 15 520 total COVID-19 cases, with 625 deaths reported.
- Current sanitary measures include the mandatory wearing of masks in public spaces, the suspension of indoor sports and cultural activities, the suspension of religious ceremonies, prohibition of gatherings of more than five persons, public transportation operating at half capacity, and limited business hours for retail and culinary businesses. Vulnerable citizens and residents of municipalities with high COVID-19 cases are also subject to curfews limiting the hours during which individuals may leave their homes. Law enforcement authorities have increased their presence throughout the economy and high fines will be imposed on individuals and firms that do not follow the sanitary measures.

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### Policy reactions – August/September 2020

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#### **Education**

- Schools reopened on 14 September under a [three-stage plan](#) that combines in-person and distance learning systems. Under stage 1 of the plan, students in preschool, grades 1, 2, 3, 6 and 10 started attending in-person courses from 14 September, whereas students in the remaining grades started classes on 21 September utilising a combination of in-person and distance learning courses. Should the epidemiological situation deteriorate in Kosovo, the Ministry of Education will stop all in-person courses and shift all teaching to distance learning platforms.
- On 9 September, the Ministry of Education and Science announced a joint [digital platform](#) for pre-university education in Kosovo and Albania. The joint distance learning platform will enable students from both economies to access shared courses and learning materials.

#### **Economic Recovery**

- The government has continued to implement the [Economic Recovery Programme](#), which allocated EUR 365 million in funds to support businesses, create jobs and stimulate aggregate demand. The plan includes measures designed to facilitate loan access for businesses and farms, provide targeted tax relief and rental subsidies for firms, stimulate employment by subsidising worker salaries, and incentivising capital investments.
  - Citizens will be allowed to withdraw up to 10% of their contributions to the pension trust for a period of four months.

\* 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.

- The government allocated EUR 67 million to achieve its commitment to increase employment, with a specific focus on groups of workers with a lower probability of finding employment during the crisis.
- Firms can receive subsidies covering 50% of their rental expenses and can now access professional support to help them operate effectively during the pandemic, including guidance on moving operations online, working from home and digitising key business practices.
- The plan allocates EUR 15 million to ease the tax burden on firms to improve their short-term liquidity. Tax obligations for specific firms will be postponed or cancelled, penalties for late tax payments due to the pandemic have been removed, and the government will cover 5% of pension contributions.

### **Trade and Investment**

- On 4 September, Kosovo and Serbia agreed to economic normalisation measures as part of a US-brokered plan. The plan includes provisions to support EU-funded infrastructure plans linking the two economies and facilitate their participation in the Western Balkan ‘mini-Schengen Zone’ initiated by Serbia, Albania and North Macedonia in late 2019.
- On 21 September, Kosovo and the US International Development Finance Corporation (IDFC) signed a joint statement supporting the creation of an ‘Investment Incentive Agreement’ between the United States and Kosovo. The agreement is projected to finance over USD 1 billion in projects, including infrastructure projects referenced in the 4 September economic normalisation agreement. Prime Minister Hoti estimates that the agreement will be finalised in the coming weeks.
- EU-led Belgrade – Pristina dialogue is progressing in parallel to the Washington agreement, although the meeting scheduled for 29 September was postponed due to complications related to the COVID-19 pandemic.

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## **Economic impact/outlook**

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- *Macroeconomic data:* In 2019, Kosovo’s GDP grew by an estimated 4%, driven primarily by domestic consumption and service exports. Despite sustaining positive growth following the 2008 global financial crisis, Kosovo’s average GDP per capita was the second lowest per capita in 2017 and unemployment remained above 30% on average between 2013 and 2018. Due to the COVID-19 outbreak, Kosovo’s economy is forecasted to contract by [1.6%](#) to [5.2%](#) in 2020. The Kosovar diaspora has strongly supported domestic consumption, remitting EUR 526 million between January – July of 2020, representing EUR 47 million more than the same period in 2019.
- *Fiscal data:* Kosovo has allocated roughly EUR 570 million for economic recovery efforts in 2020 thus far. There is no effect on exchange rates as the country is unilaterally euroized.

All previously published COVID-19 notes can be accessed on the [OECD South East Europe webpage](#)

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## THE COVID-19 CRISIS IN KOSOVO\*

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31 October 2020

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### COVID-19 health situation – October 2020

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- The situation in Kosovo significantly worsened during the month of October with new COVID-19 cases rising exponentially. After declining through August and September, the number of new COVID-19 cases in Kosovo has risen to a weekly average of 172 new cases from 45 at the beginning of the month. The current number of daily new cases is similar to the peak seen in June and July, when the government decided to impose new restrictions on citizens in order to mitigate the spread of the virus. Although no new health measures have been announced thus far, the Minister of Health [announced](#) on 27 October that new restrictions are likely and will be enforced with additional police units. In the same statement, the Minister of Health announced that the government does not intend to impose any lockdown in Pristina in the near future. Current sanitary measures include the mandatory wearing of masks in indoor and outdoor public spaces, the suspension of indoor sports and cultural activities, the suspension of religious ceremonies, prohibition of gatherings of more than five persons, public transportation operating at half capacity, and limited business hours for retail and culinary businesses. Vulnerable citizens and residents of municipalities with high COVID-19 cases are also subject to curfews limiting the hours during which individuals may leave their homes. Law enforcement authorities have increased their presence throughout the economy and high fines will be imposed on individuals and firms that do not follow the sanitary measures.

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### Policy reactions – October 2020

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#### *Education*

- Schools reopened on 14 September under a [three-stage plan](#) that combines in-person and distance learning systems. Under stage 1 of the plan, students in preschool, grades 1, 2, 3, 6 and 10 started attending in-person courses from 14 September, whereas students in the remaining grades started classes on 21 September utilising a combination of in-person and distance learning courses. Should the epidemiological situation deteriorate in Kosovo, the Ministry of Education will stop all in-person courses and shift all teaching to distance learning platforms.
- Schools in Kosovo are currently open and holding in-person classes. However, [at least four schools](#) have been forced to stop in-person courses due to COVID-19 outbreaks among students and teachers. Additionally, it is reported that the vast majority of schools in the capital area have seen positive COVID-19 cases. The Ministry of Education has not announced any intentions so far to switch schools to distance learning formats.

#### *Economic Recovery*

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- The government has continued to implement the [Economic Recovery Programme](#), which allocated EUR 365 million in funds to support businesses, create jobs and stimulate aggregate demand. The plan includes measures designed to facilitate loan access for businesses and farms, provide targeted tax relief and rental subsidies for firms, stimulate employment by subsidising worker salaries, and incentivising capital investments.
  - Citizens will be allowed to withdraw up to 10% of their contributions to the pension trust for a period of four months.
  - The government allocated EUR 67 million to achieve its commitment to increase employment, with a specific focus on groups of workers with a lower probability of finding employment during the crisis.
  - Firms can receive subsidies covering 50% of their rental expenses and can now access professional support to help them operate effectively during the pandemic, including guidance on moving operations online, working from home and digitising key business practices.
  - The plan allocates EUR 15 million to ease the tax burden on firms to improve their short-term liquidity. Tax obligations for specific firms will be postponed or cancelled, penalties for late tax payments due to the pandemic have been removed, and the government will cover 5% of pension contributions.

### **Trade and Investment**

On 13 October, Prime Minister Hoti met with EU Special Representative Miroslav Lajčak to discuss the Kosovo-Serbia dialogue as well as the trade relationship between the two economies.

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## **Economic impact/outlook**

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- *Macroeconomic data:* In 2019, Kosovo's GDP grew by an estimated 4%, driven primarily by domestic consumption and service exports. Despite sustaining positive growth following the 2008 global financial crisis, Kosovo's average GDP per capita was the second lowest per capita in 2017 and unemployment remained above 30% on average between 2013 and 2018. Due to the COVID-19 outbreak, Kosovo's economy is forecasted to contract by [1.6%](#) to [5.2%](#) in 2020. The Kosovar diaspora has strongly supported domestic consumption, remitting EUR 526 million between January – July of 2020, representing EUR 47 million more than the same period in 2019.
- In mid-September, the government [revised its projected economic trajectory](#) for 2020 to a decline of -6.4%. The decline is largely attributed to declining service exports and fixed capital formation, which declined by -63% and -41% respectively y-o-y.
- *Fiscal data:* Kosovo has allocated roughly EUR 570 million for economic recovery efforts in 2020 thus far. There is no effect on exchange rates as the country is unilaterally euroized. From January and August 2020, total public revenue fell by 11.5% y-o-y while budget expenditure grew by 7% y-o-y. Public debt to GDP is expected to grow as the result of increased social expenditure partly financed using loans from multiple IFIs and the EU. In October, the economy received EUR 50 million from the EU Macro-financial Assistance 15-year loan.

**All previously published COVID-19 notes for Kosovo\* can be accessed [here](#)**

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