COVID-19 update

- 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 Shtërpcë 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.

Economic impact

**Extent of containment measures**

- On 11 March, the government introduced measures prohibiting the export of medicine and medical equipment that may be used to treat COVID-19 cases. The government has implemented
containment measures since 12 March. As part of the initial confinement measures, which were partially lifted beginning 4 May (see Reopening of the Economy below) the government closed all schools and universities, suspended all public transportation services, closed all cafés, bars, restaurants and non-essential stores, cancelled all cultural and sporting events, and obliged all private sector employees to work from home. Supermarkets and pharmacies were allowed to remain open throughout the confinement period, though restrictions were put in place on certain outdoor food markets.

- Although the government initially imposed travel restrictions and a national curfew, on 31 March, the Constitutional Court declared these measures invalid effective 13 April, as it found them to infringe unconstitutionally upon citizens’ right to freedom of movement, freedom of privacy, and freedom of assembly. Despite the ruling, on 15 April the outgoing government tightened restrictions on movement by prohibiting individuals from leaving their houses for more than 90 minutes per day.

- During the confinement, individuals were only allowed to leave their residences for essential reasons, such as healthcare and grocery shopping. Moreover, individuals were only allowed to 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.

<table>
<thead>
<tr>
<th>New Restrictions (6 July – Present)</th>
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<tbody>
<tr>
<td>o 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.</td>
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<td>o 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.</td>
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<td>o 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.</td>
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<tr>
<td>o 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.</td>
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<tr>
<td>o 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.</td>
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<tr>
<td>o 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.</td>
</tr>
<tr>
<td>o 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.</td>
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<tr>
<td>o 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.</td>
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<td>o Public transportation is now required to operate at half capacity to enable riders to follow social distancing guidelines while travelling.</td>
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**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 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.

### Policy reactions

#### 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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1 UNDP (2020) *Rapid Socio-Economic Impact Assessment of COVID-19 in Kosovo*  
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.

**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.

**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%\(^2\) to 5.2%\(^3\) 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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\(^3\) International Monetary Fund (2020), *World Economic Outlook: The Great Lockdown*,
[https://www.imf.org/~/media/Files/Publications/WEO/2020/April/English/text.ashx](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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