



# Covid-19 Crisis Response in South East European Economies

Updated 24 November 2020

---

This note focuses on the multi-faceted structural challenges in the Western Balkans, which have exacerbated by the COVID-19 pandemic, and it assesses the economic impact of COVID-19 on the region, with special focus on SMEs, tourism, education, employment, digitalisation, trade, and investment. As governments combat the economic and societal consequences of the crisis, the note offers policy considerations towards the objective of building back better a better future, with more inclusive, sustainable and resilient economies. This note provides an update of the previous note published in [May 2020](#).

---



## Overview

The Western Balkans have seen a sharp rise in the number of COVID-19 infections since the easing of containment measures over the summer, with most of the economies witnessing a record number of cases in October. Governments of the region responded with stricter sanitary rules and re-introduced containment measures, similar to those seen in the spring. To protect their fragile health systems, Western Balkan governments responded by purchasing medical equipment and medicine, converting medical centres to specialised COVID-19 centres and concert and sport arenas to temporary field hospitals, increasing the salaries of medical staff, and changing the work hours to safeguard the medical staff. In addition, the region witnessed lockdowns and partial shutdowns during the first wave in the spring, resulting in the closure of airports and borders, educational institutions, restaurants and shops, bans on large gatherings, restrictions on domestic travel, and the instatement of curfews.

The effect of the containment measures and external shocks have put a sharp halt on economic activities. The initial promising economic outlook for 2020 (projected GDP growth between +2.5% and +4%) reversed into a notable contraction in the second half of the year (European Commission, 2019<sup>[1]</sup>). GDP is projected to decline across the region, albeit unevenly, varying between -2.5% and -12% (Figure 1). Highly tourism dependent countries have been strongly affected due to the significant drop of tourism activities (between 50%-70% compared to 2019). Suspended remittances are further impacting GDP adversely in some economies. Disruptions of supply chains negatively affected foreign trade and industrial production. Unemployment rates have started to rise again, with only some economies upholding 2019 levels using government support measures. COVID-19 has also severely affected business communities across the Western Balkans, threatening the survival of the region's SMEs and self-employed. Governments of the region responded with economic support packages to mitigate losses by businesses (e.g. loan guarantees, wage subsidies) and stimulate consumption among citizens (e.g. temporary VAT reduction). These support packages inevitably lead to further fiscal deficit and accumulation of debt.

## Structural weaknesses further exacerbated by the pandemic

- Containment measures like limitations in the movement of people and temporary shutdowns of businesses had an impact on **domestic demand and supply**, significantly decreasing economic activity. Supportive macroeconomic policies can partially aid the recovery of demand but cannot completely offset the economic consequences of enforced shutdowns. Disruptions in value chains further contributed to a significant drop in the trade volumes across the region. Exports dropped by -20% and imports by -14% on average (IMF, 2020<sup>[2]</sup>).
- The Western Balkans heavily rely on the steady inflow of **remittances**, financing domestic demand and investment. Remittances, which constitute around 10% of the GDP in the Western Balkans, diminished due to travel restrictions and increased unemployment, linked to the anticipated economic contraction in the EU – the main source of remittances for the Western Balkans.
- **Private consumption**, which accounted for more than 60% of growth in recent years (World Bank, 2020<sup>[3]</sup>), dropped significantly in almost all Western Balkan economies (Figure 2). The vulnerability of the Western Balkan growth model became especially apparent during the pandemic. The recent contraction in global trade and the early expectations of a shift in supply chains further demonstrate the importance of structural policies that enhance export competitiveness and diversify products and markets.
- **Private investment** declined steeply amidst rising uncertainties, contributing to the recession. Lower revenues and higher spending to mitigate the immediate impact of COVID-19 have reduced



the space for public investment and consumption that would support recovery of the economy (World Bank, 2020<sup>[4]</sup>).

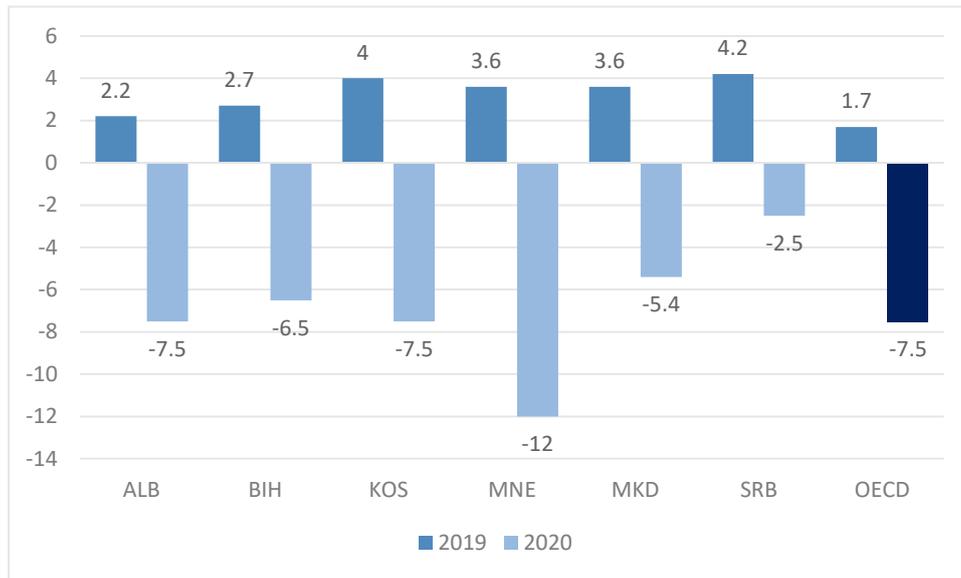
- **Net foreign direct investment** (FDI) in the region decreased in some Western Balkan economies, while it slightly increased in others (European Commission, 2020<sup>[5]</sup>). Since the inflows mainly come from EU Member States who have been severely affected by the pandemic, FDI in the region might continue to decrease in the coming months once the economic situation in the EU deteriorates due to stricter containment measures. However, EU investors tend to shift to near shore destinations, bearing new opportunities for the Western Balkans.
- **SMEs** in the region were severely hit by the reduction in demand, as well as supply chain disruptions, which in some cases resulted in cash-flow problems. Despite the support measures introduced, a vast majority of Western Balkan enterprises reported losses in revenue compared to pre-COVID levels (OECD, 2020<sup>[6]</sup>).
- The COVID-19 crisis has already curtailed global international travel demand through travel bans and entry restrictions which has led to a collapse in **tourism**, especially in the summer season. Since tourism directly contributes 15% to overall GDP of the Western Balkans, the region was particularly affected (RCC Int., 2020<sup>[7]</sup>).
- **Labour markets** in the region are under enormous pressure. Unemployment rates are on the rise again (+2.27% in 2020 compared to 2019), despite wage subsidies and suspended business insolvencies (Figure 3). Youth unemployment is among the highest in Europe and is significantly above the OECD average (ILO, 2020<sup>[8]</sup>). Informality, estimated at 25% in the WB6, also remains high. It is expected that informality and unemployment levels will increase more significantly once temporary subsidies phase out. Many of the workers in informal or temporary employment may not be able to access social safety nets.
- **Education** systems experienced a disruption due to implemented containment measures. Educational institutions in the Western Balkans are characterised by low levels of digital equipment and skills (OECD, 2019<sup>[9]</sup>) and were likely to face significant challenges during the pandemic, while the efforts to provide distance learning support, digital equipment and training became necessary.
- Containment measures and remote work highlighted existing **digital** infrastructure challenges in the Western Balkan economies, often characterised by lack of broadband access and insufficient digital skills (Eurostat, 2019<sup>[10]</sup>).

The Western Balkan governments responded with immediate monetary policy tools and fiscal stimulus packages to counteract the economic downturn.

- The central banks across the region reacted by cutting their key policy rates and providing liquidity to banks and non-bank financial institutions, which in turn, eased the burden on companies and individuals affected by sharp disruptions.
- All Western Balkan economies have introduced fiscal stimulus packages, to support firms by temporarily subsidising employee salaries. Governments have expanded their support packages to provide social assistance to unemployed persons and the most vulnerable households. Immediate financial support was given to the health sector to purchase medical equipment and to support medical staff. Still, in more than half of the economies in the Western Balkans the COVID-19 crisis is estimated to have pushed more than 300,000 people into poverty – a significant number, but less than half of what it would have been without the government response measures (World Bank, 2020<sup>[4]</sup>).
- These support packages inevitably led to fiscal deficit and accumulation of government debt in the Western Balkans, which have been rising in recent years. Still the debt ratios of most economies in the region are below the OECD average.

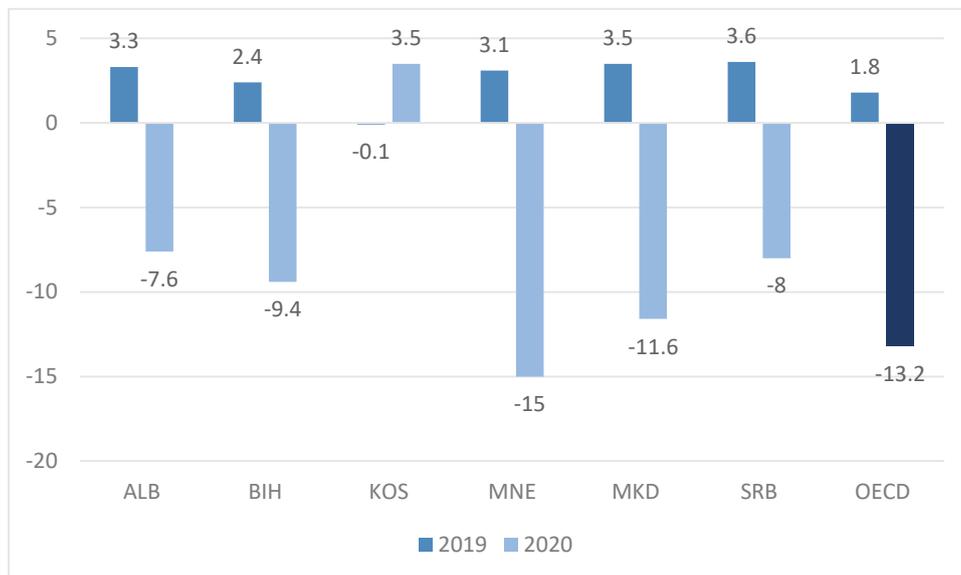


**Figure 1. GDP, constant prices (year-on-year percentage change)**



Source: (IMF, 2020<sup>[2]</sup>), World Economic Outlook (data last updated in August/September 2020); (OECD, 2020<sup>[11]</sup>), Economic Outlook, June

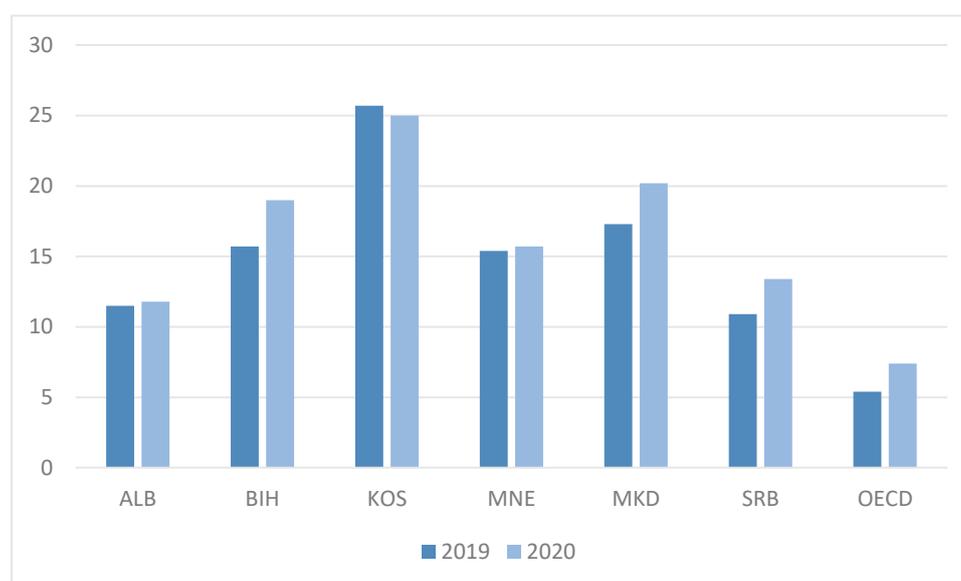
**Figure 2. Private consumption (annual percentage change)**



Source: (European Commission, 2020<sup>[5]</sup>), EU Candidate Countries' & Potential Candidates' Economic Quarterly (CEEQ), 3<sup>rd</sup> Quarter

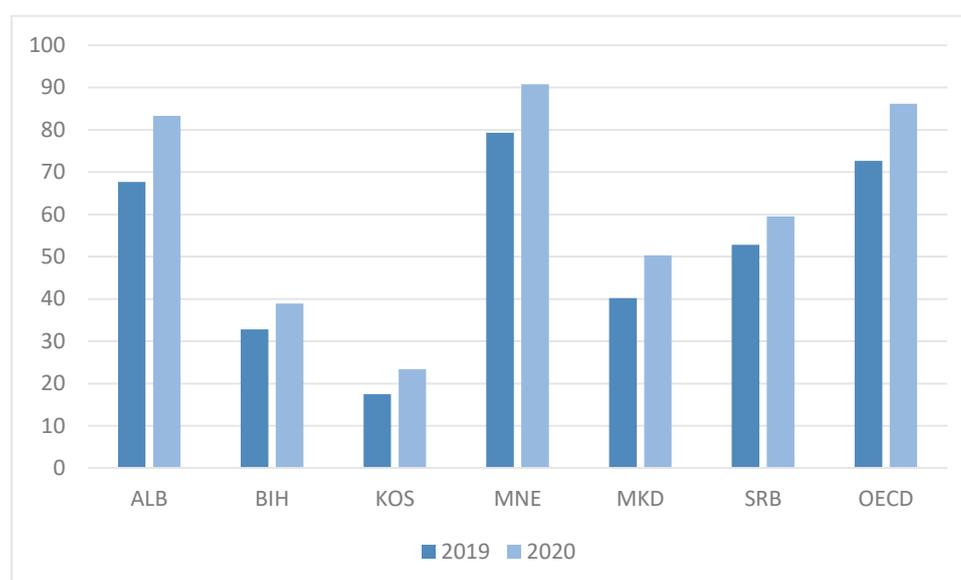


**Figure 3. Unemployment (% of labour force)**



Source: (IMF, 2020<sup>[2]</sup>), World Economic Outlook; (European Commission, 2020<sup>[5]</sup>), CCEQ, 3rd Quarter (for KOS & MNE); (OECD, 2020<sup>[12]</sup>), Labour Market Statistics (last updated in September 2020)

**Figure 4. General government gross debt (% of GDP)**



Source: (IMF, 2020<sup>[2]</sup>), World Economic Outlook; (OECD, 2020<sup>[11]</sup>) Economic Outlook, June

### ***The way forward in the short and medium-term***

The economic downturn is expected to prevail in the months to come. During this period, economic support packages will continue to be deployed across the region to limit layoffs and insolvencies and to bolster household incomes. Given their substantial costs, governments should prioritise public spending towards most affected segments in the economy. While governments of the region address immediate challenges, they should take advantage of reviewing structural constraints and of repositioning Western Balkan economies for the future to achieve a sustainable and resilient recovery:



- **SMEs:** Further support for SMEs in the region should include addressing structural problems by stepping-up the efforts on SMEs digital transformation and by leveraging innovative start-ups in the fight against COVID-19. Encourage SMEs uptake of e-commerce to facilitate their entry into new markets.
- **Tourism:** Ensure efficient co-operation mechanisms between the government and tourism sector actors to introduce sound and sustainable tourism recovery measures. Keep up and further develop health and safety guidelines in the hospitality sector and promote domestic tourism. Guarantee strict compliance with entry regulations.
- **Employment:** Policies should aim to both protect workers from exposure to the disease at workplace, while at the same time ensuring workers' access to income support. Further facilitate the transition towards teleworking through free and rapid access to communication tools. Secure jobs and the economic viability of firms through specific support measures.
- **Education:** Promote the use of online school learning platforms and continue supporting students to gain access to the necessary equipment for remote learning. Provide teachers with digital learning opportunities on how to teach online, to share their resources and give and receive peer feedback.
- **Digitalisation:** Continue addressing basic deficiencies of low digitalisation of households. Promote the effective and widespread transition of many activities onto digital platforms. Reduce barriers to make it cheaper and easier to stay connected to jobs and markets:
- **Trade:** Keep supply chains going by ensuring the flow of goods and services within and outside the region. Continue the effective regional cooperation to maintain supply chains flowing to ensure the food delivery and to reduce the risk of food loss. Avoid export restrictions on essential goods, such as medical equipment and food products.
- **Investment:** The region's governments can encourage and support businesses that can shift their production towards essential healthcare goods and services. Economies in the region should leverage arising opportunities of near-shore investments from EU companies in strategic sectors, enabling Western Balkan economies to diversify their economies and to step their structural transformation process.
- **Environment:** The pandemic has called for an all-inclusive approach to human health by also considering environmental health, especially in relation to air quality, water and sanitation, waste management and biodiversity preservation. Thus support measures should not derail the efforts to tackle the ongoing environmental challenges.
- **Gender Equality:** Governments should continue adopting emergency measures to support women and parents with caring responsibilities, and to offer public childcare options to working parents in essential services such as health care. All policy responses to the crisis must embed a gender lens and account for women's unique needs and responsibilities.

## Impact on SMEs in the Western Balkans

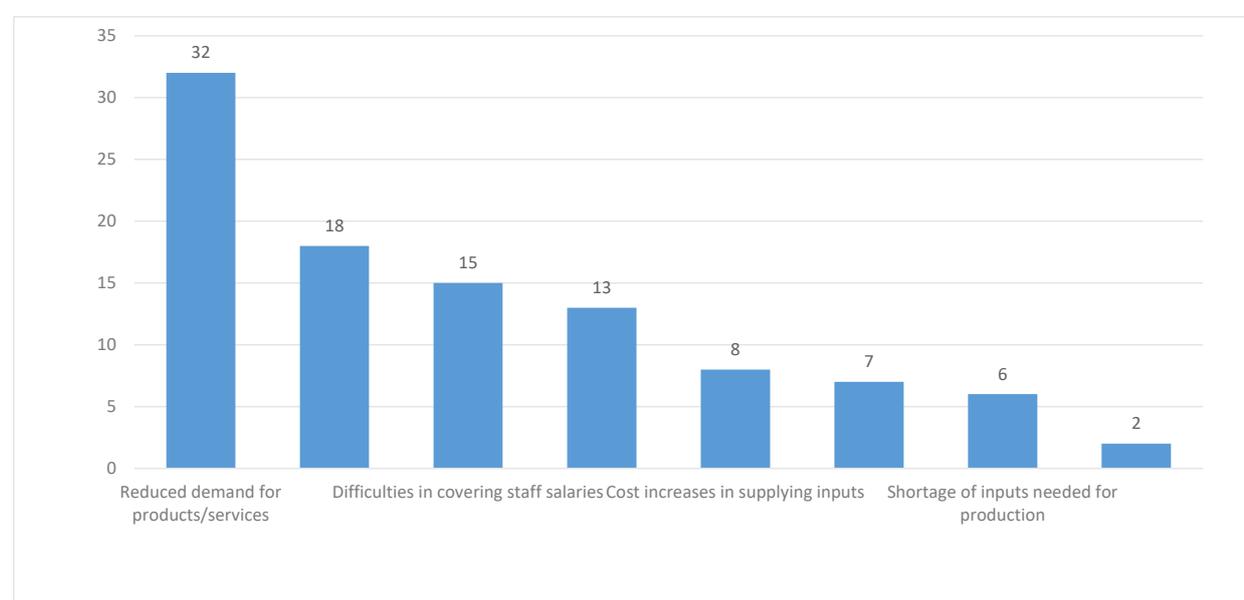
SMEs in the Western Balkans make up 99% of all firms, generate around 65% of total business sector value added and account for 73% of total business sector employment (OECD, 2019<sup>[13]</sup>). Given their substantial contributions to the economy, providing support to the private sector is crucial to tackle the severe impact of the COVID-19 pandemic. Some of the major challenges faced by SMEs are shown in Figure 5 and described below:

- According to the Western Balkan Business Survey, about half of enterprises had to discontinue their business activity due to COVID-19, while 82% reported losses in revenue compared to pre-COVID levels (OECD, 2020<sup>[6]</sup>).



- The greatest challenge faced by enterprises was **reduced demand** for their products or services.
- Sudden loss of demand and revenue induced by the containment measures can lead to severe **cash-flow problems**. As SMEs have limited financial resources to withstand a long-lasting crisis, especially compared to larger enterprises, their survival is threatened.
- SMEs that are dependent on imported components and raw materials to produce final products **encountered supply-chain disruptions**. As SMEs in the Western Balkans traditionally rely on a limited number of suppliers in the EU, they are more vulnerable to disruptions.
- 59% of enterprises surveyed in the Western Balkan Business Survey were able to employ teleworking (OECD, 2020<sup>[6]</sup>). Since SMEs across the region have a lower capacity to shift to teleworking and digital work processes, they were more likely to experience **shortages in labour** in the context of movement restrictions.

**Figure 5. Greatest challenges affecting enterprises as a result of COVID-19 (in %)**



Source: (OECD, 2020<sup>[6]</sup>), Western Balkan Business Survey

### ***Policy priorities for a sustainable and resilient recovery***

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

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



can be tied to increased environmental performance and to the introduction of green business models.

- **Support and leverage innovative start-ups in the fight against COVID-19:** The growing innovation ecosystem of the Western Balkans can be a critical resource for recovery from the COVID-19 crisis, providing solutions in various areas. Thus, new programmes can be rolled out, incentivising start-ups to develop innovative products or services intended to overcome the economic, health and societal effects of the pandemic.
- **Encourage SMEs uptake of e-commerce:** As the percentage of SMEs selling online is already below 10% in several economies across the region, the governments can enhance their support by helping SMEs build an online presence using e-commerce or digital marketing (OECD, 2019<sup>[13]</sup>). This would facilitate their entry into new markets and expand their customer base.
- **Continue enhancing insolvency regimes:** Despite all the policy measures to mitigate the crisis impact, a jump in bankruptcy proceedings can still be expected. This will undoubtedly put a lot of pressure on bankruptcy courts, causing further delays in resolving insolvency. Further efforts will be needed to reduce the time and cost of bankruptcy by simplifying proceedings and increasing the use of out-of-court settlement systems (OECD, 2019<sup>[13]</sup>).

## Impact on tourism in the Western Balkans

Tourism is among the worst impacted sectors of the economy by the COVID-19 crisis. Depending on the severity of the pandemic, the decline in the international tourism industry is projected to be between 45 to 70% in 2020 (OECD, 2020<sup>[14]</sup>).

In the Western Balkans, borders have been closed and entry is still restricted. People returning from high and medium-risk countries are required to have negative PCR test results and to self-isolate for 14 days. Hotels, restaurants and touristic attractions had been closed but had mostly reopened during the summer. The containment measures to prevent the spread of the virus has had a significant impact on the industry in the Western Balkans:

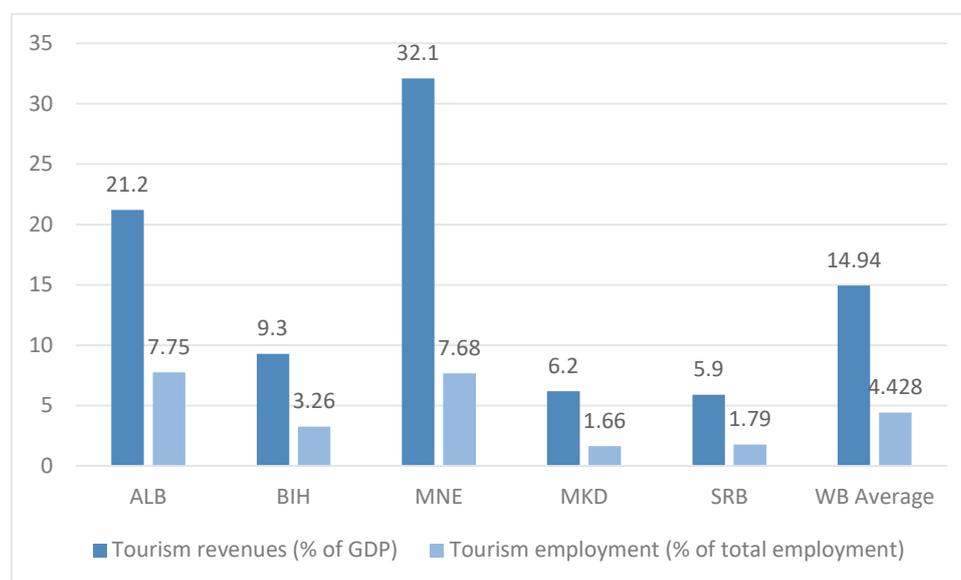
- **Tourism directly contributes 15% to overall GDP of the Western Balkans, and it supports a multitude of jobs and industries, accounting for around 550 000 jobs** in 2019 (RCC Int., 2020<sup>[7]</sup>) (Figure 6). This economic shock will negatively affect jobs in the tourism industry and have knock on effects for other downstream sectors such as the agro-food industry. In addition to being the sectors with the most discontinued businesses, enterprises in the hospitality industry reported the biggest losses in revenue compared to the previous year. The accommodation (90%), arts, entertainment and recreation (90%), restaurant and cafe (79%), and tourism and travel (89%) sectors reported losses of over 50% (OECD, 2020<sup>[6]</sup>). Albania, Montenegro and Kosovo\*, where tourism revenues exceed 20% of GDP, were hit particularly hard (EBRD, 2020<sup>[15]</sup>).
- **The summer season that contributes to the majority of the tourism revenue in the region was especially affected**, resulting in booking cancellations and reduction of cruise ship arrivals. For instance, according to the Albanian Tourism Union, around 5 million overnight stays during the summer season have been cancelled in Albania, and 1 in 5 trips cancelled across the region (RCC Int., 2020<sup>[7]</sup>). In Montenegro – despite a loosening of border restrictions – foreign tourism arrivals plummeted by 93% y-o-y in July and 80.7% y-o-y in August, negatively impacting retail sales which further fell by 32.4% and 37.1% y-o-y in July and August, respectively (European Commission, 2020<sup>[5]</sup>).

---

\* 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.



**Figure 6. Contributions of the tourism sector in the Western Balkans, 2019 (or latest year available) (in %)**



Note: No available data for Kosovo.

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

### ***Policy priorities for a sustainable and resilient recovery***

Specific measures targeting the tourism sector will be required to mitigate the impact of the pandemic and accelerate the recovery of tourism in the region. The industry needs to prepare for a COVID-19 recovery and adapt their plans to the new global tourism market, once the restrictions are lifted. Some of the policy priorities, based on the OECD COVID-19 policy brief on tourism policy responses (OECD, 2020<sup>[14]</sup>), are as follows:

- **Establish efficient cooperation mechanisms between the government, private sector and civil society.** A whole-of-government approach that harnesses synergies across relevant sectors, such as transportation and health, is more important than ever to set strategies that will support industry recovery (OECD, 2020<sup>[14]</sup>). The current situation also underlines the need to collect timely data in order to inform decision-making and better plan for the type and scale of the immediate impact of the current crisis and the tourism recovery planning.
- **Promote the domestic demand for tourism:** In the short-term, the region's economies can foster domestic tourism through the provision of incentives for citizens to spend their holidays in their own economies, such as tourism vouchers.
- **Emphasise health and safety measures to regain tourists' trust.** This could include the development of health and safety guidelines for tourism companies, especially for accommodation facilities and restaurants. Guidelines should be also accompanied by targeted training options to advise service providers on how to ensure the health and safety of the visitors in their facilities.
- **Introduce targeted marketing campaigns promoting ecotourism:** Given the current health and safety requirements induced by the current pandemic, a shift away from mass tourism can be expected in the short to medium-term. Therefore, tourism agencies across the region can promote alternative travel destinations, allowing experiences for individuals/small groups.
- **Reconsider their current tourism policies and define tourism products aligned with new trends.** In the medium to long term, the region's economies need to diversify their offers and



disperse further tourism development to new destinations while emphasising the principles of sustainable tourism development. The region has high potential (natural and cultural heritage) for tourism development, from mass tourism with overcrowded destinations to green and sustainable destinations, offering unique tourism experiences.

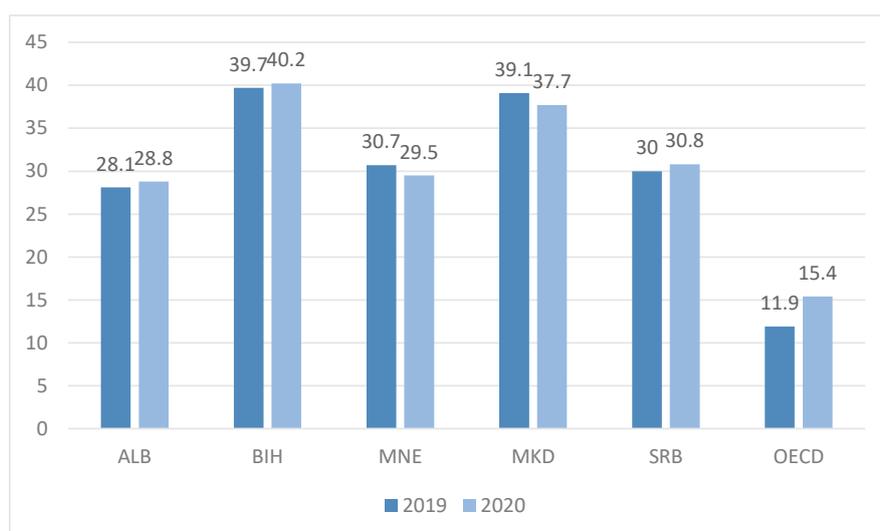
The COVID-19 pandemic will change the way the people travel as well as the tourists' expectations. One can expect a shift from mass tourism to a more individual, personal/tailored experience. Developing sustainable tourism will be key to the post COVID-19 recovery.

## Impact on employment and labour markets in the Western Balkans

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

- **Informality in the six Western Balkan economies remains high**, both in the share of total output and in the number of people employed. Informal employment in the three Western Balkan economies where data is available, reached an average of 25% (Vienna Institute of International Economic Studies, 2020<sup>[16]</sup>).
- The average **unemployment** rate of the six Western Balkan economies stands at approximately 16% in 2020 (IMF, 2020<sup>[2]</sup>). The unemployment rate rose by 2.27% in 2020 compared to 2019, despite wage subsidies and suspended business insolvencies.
- The **youth unemployment** rates remain among the highest in Europe, with an average youth unemployment rate for five WB economies amounting to 33.4% in 2020. Diminishing job opportunities for young workers and graduates increases the potential for brain drain.
- The **gender gap** in labour markets of the Western Balkans is a key challenge on women's access to economic opportunities. Women make up about 40 percent of the total employed in Western Balkan labour markets (World Bank, 2019<sup>[17]</sup>). Moreover, only 27.5 per cent of business owners are women, and they hold just 14.2 per cent of the top management positions in companies (OECD, 2019<sup>[13]</sup>).

**Figure 7. Youth Unemployment (% of total labour force ages 15-24)**



Note: No available data for Kosovo.

Sources: (ILO, 2020<sup>[8]</sup>), Youth Labour Statistics, June 2020; (OECD, 2020<sup>[12]</sup>), Labour Market Statistics



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

- **Significant brain drain:** The stock of Western Balkan emigrants in the world has more than doubled since 1990, reaching on average 26% of the Western Balkan population, and rising up to 50% in some WB economies in 2019 (UN DESA, 2019<sup>[18]</sup>). The **emigration rates of high-skilled workers** are especially high, amounting for up to 55% in Bosnia and Herzegovina and almost 40% in Albania and North Macedonia (World Bank, 2019<sup>[17]</sup>). In addition, many health professionals leave for Western EU countries and Switzerland.

### ***Policy priorities for a sustainable and resilient recovery***

In the current context and depending on the measures already implemented by each of the WB6 economies, they could consider the following recommendations, which are based on the OECD COVID-19 policy brief on options for an immediate employment and social-policy response (OECD, 2020<sup>[19]</sup>) and the OECD Employment Outlook 2020 (OECD, 2020<sup>[20]</sup>):

- **Further facilitate the transition towards teleworking and better digital services.** Develop the collaboration with technology companies to provide SMEs and the self-employed with free and rapid access to communication and sharing tools. Strengthening digital services especially for PES would allow them to better respond to the growing number of unemployed jobseekers while also respecting physical-distancing measures.
- **Provide income replacement to quarantined workers who cannot work from home.** Adapt regulations ensuring that quarantined workers have access to paid sick leave and that non-standard workers in quarantine receive support. Consider reimbursing employers who provide paid sick leave to quarantined workers.
- **Help women, workers and families with caring responsibilities.** Offer public childcare options to working parents in essential services. Offer direct financial support to workers who need to take leave and give financial subsidies to employers who provide workers with paid leave.
- **Secure jobs and the economic viability of firms.** Implement measures to secure jobs and incomes, and grant firms flexibility to quickly recruit staff replacements, where necessary. Consider temporarily increasing subsidies for time-limited hiring or offering re-employment bonuses to jobseekers. Simplify procedures and provide easy access to online information for employers, promoting the uptake of online training for employees.
- **Tailor support to the needs of youth:** Support companies who offer jobs or work experience to young people to promote job creation in times of crisis. Introduce subsidies to help companies expand their apprenticeship and in-firm training programmes.

### **Impact on education in the Western Balkans**

Students' performances for reading, mathematics, and science in most of the six Western Balkan economies are located in the bottom quartile of the 2018 PISA sample (OECD, 2019<sup>[21]</sup>). Low participation in early childhood education, low attractiveness of the teaching profession, and inadequate educational material or physical infrastructure remain key structural challenges for education in the region (OECD, 2018<sup>[22]</sup>). Schools' insufficient or inadequate equipment for digital learning and teachers' digital skills pose additional challenges for effective student learning in times of schools closures. Figure 8 indicates the extent of those challenges in the Western Balkans, namely:

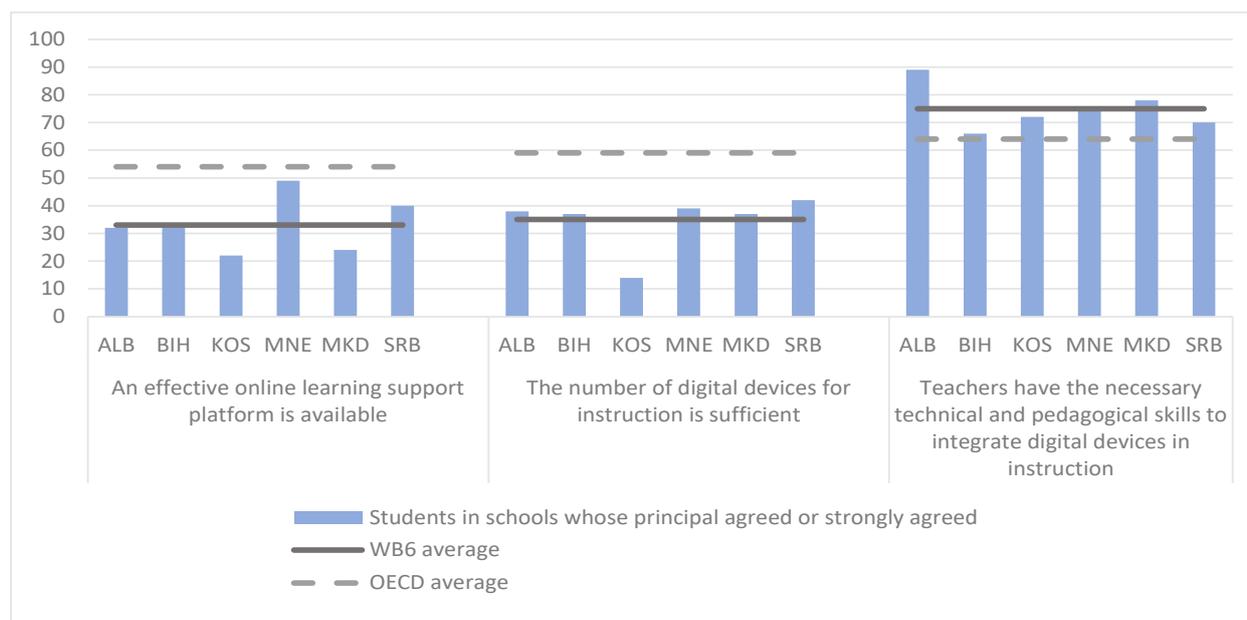
- About two thirds of 15-year-old students are in schools where an **effective online learning support platform is not available**.



- About two thirds of 15-year-old students are in schools where **the number of digital devices for instruction is not sufficient**.
- About one quarter of 15-year-old students are in schools where **teachers do not have the necessary technical and pedagogical skills to integrate digital devices in instruction**.

**Figure 8. PISA 2018 data on the possibility of home-based school learning in the WB6**

% of students in schools whose principal agreed or strongly agreed with the following statements



Source: (OECD, 2019<sup>[9]</sup>), PISA 2018 Database

### **Policy priorities for a sustainable and resilient recovery**

In the context of newly implemented hybrid classroom models, the Western Balkan economies should continue to mobilise different forms of online education and education resources. In addition and depending on the measures already implemented by each of the six Western Balkan economies, the following recommendations could be considered, which are based on the OECD policy brief on education responses to COVID-19 through digital learning and online collaboration (OECD, 2020<sup>[23]</sup>):

- **Further promote remote learning and the use of online school learning platforms:** Ensure that teachers can remotely teach their students by utilising school's existing online distance learning platforms or, if necessary, developing new platforms (e.g. through collaboration with the private sector).
- **Continue supporting students in gaining access to the necessary equipment for remote learning.** Public institutions and the private sector can be called on to donate equipment, cancel fees for subscriptions and install internet for students that would otherwise be excluded from online and remote learning opportunities. Going forward, all schools should be equipped with a sufficient number of digital devices for instruction.
- **Collaborate internationally to mutualise existing online educational resources.** Although educational curricula may not align perfectly, the various common languages spoken among the six Western Balkan economies provide many opportunities to co-ordinate efforts and share online educational resources.



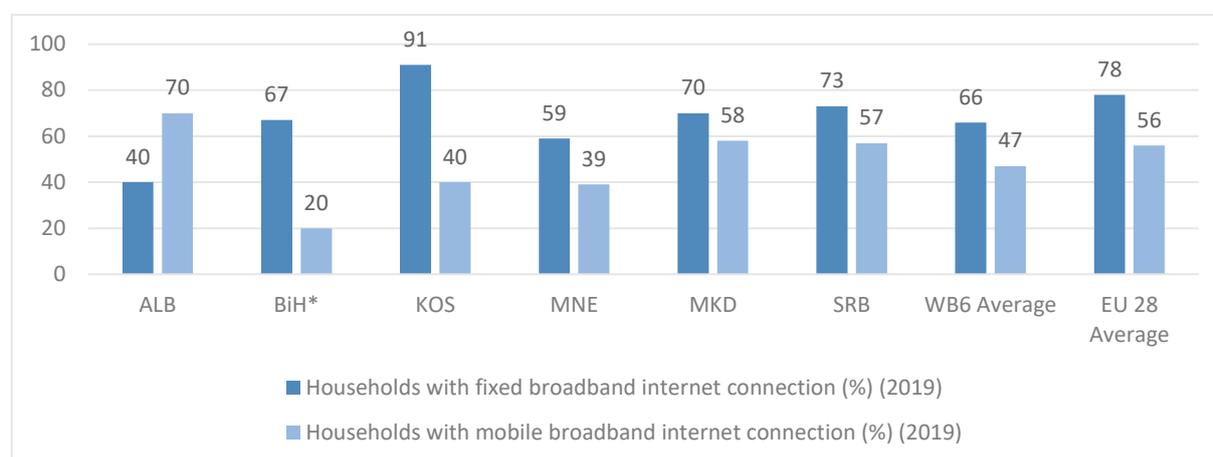
- **Provide teachers with digital learning opportunities** on how to teach online, but also with online collaborative platforms that allow them to share their resources as well as give and receive peer feedback.

## Impact on digitalisation in the Western Balkans

As containment measures force individuals to work, study and shop from home, internet traffic has grown dramatically, testing the resilience and capacity of broadband networks and digital services. Figure 9 and Table 1 show the extent of digital infrastructure challenges in the six Western Balkan economies, which are likely to complicate the COVID-19 situation in the region. Those include:

- **Many households lack reliable computer and broadband internet access:** Nearly half of all households in the six Western Balkan economies lack computer access at home. Additionally, about one third lack fixed broadband internet connections, which offer higher, more reliable connection speeds than other types of broadband connections.
- **The majority of individuals in the six Western Balkan economies lack basic digital skills:** On average, two thirds of individuals in the six Western Balkan economies lack skills required to navigate digital spaces.
- **Limited use of digital government platforms:** On average, only about one fifth of individuals in the six Western Balkan economies used the internet to connect with public authorities in 2019.
- **Firms are underprepared for digital commerce and security challenges:** According to the OECD's Western Balkan Business Survey results, in May 2020, only 63% of businesses reported having digital payment infrastructure, 55% had cyber security, and 46% had cloud-based ICT services set up (OECD, 2020<sup>[6]</sup>). On average, only 12% of firms in the six Western Balkan economies defined or revised their security policy in 2019.

**Figure 9. Households with fixed and mobile broadband internet connection (in %) (2019)**



Note\*: Latest data available from 2018

Source: (Eurostat, 2019<sup>[10]</sup>), Digital Economy and Society Dataset

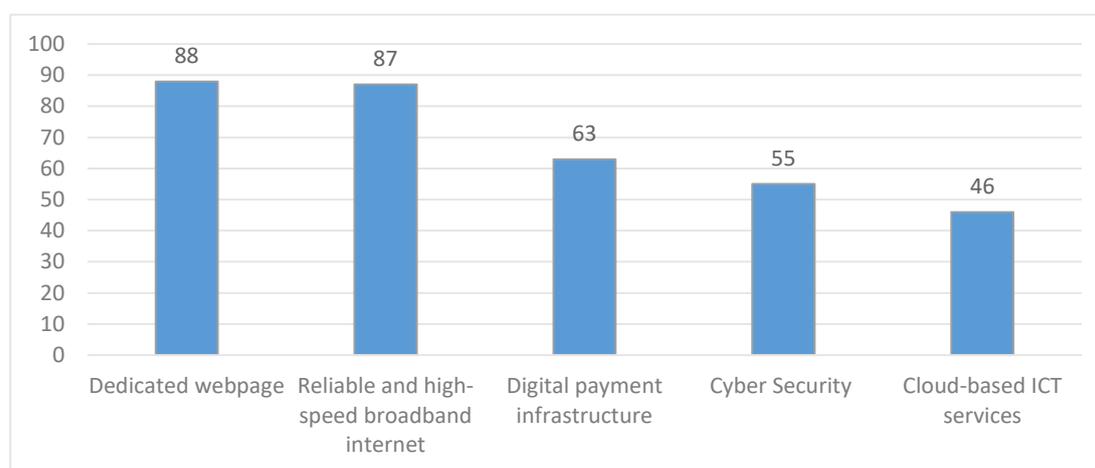


**Table 1. Relevant data on internet access and use in the Western Balkans**

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

Note: \*= Latest data available from 2018

Source: (Eurostat, 2019<sup>[10]</sup>), Digital Economy and Society Dataset

**Figure 10. Existing digital infrastructure of enterprises in the Western Balkans (in %)**

Source: (OECD, 2020<sup>[6]</sup>), Western Balkans Business Survey

### ***Policy priorities for a sustainable and resilient recovery***

A combination of short and medium term policy measures can help the Western Balkan economies strengthen the resilience of digital infrastructure and promote the effective and widespread transition of many activities onto digital platforms. Depending on the measures already taken by each Western Balkan economy, the following policy priorities, based on the OECD policy briefs on dealing with digital security risks (OECD, 2020<sup>[24]</sup>) and keeping the internet up and running in times of crisis (OECD, 2020<sup>[25]</sup>), could be considered:

- **Address basic deficiencies of low digitalisation of households:** Support citizens by equipping them with computers and internet access, and help the population increase their digital skills.
- **Continue allowing ICT workers to access key infrastructure:** Mobility restrictions may affect the ability of ICT workers to perform critical operations in datacentres, on cable paths and at cell sites and other critical infrastructural locations. Governments should explicitly include communication-engineering staff as essential workers and grant them permission to access datacentres and other critical sites to keep ICT services running.
- **Take measures to avoid online congestion:** Reduce mobile network congestion by temporarily releasing additional spectrum or approving temporary commercial spectrum transactions that put unused spectrum into service. Network operators should upgrade their interconnection capacity with other providers, including direct traffic exchanges between networks (peering).

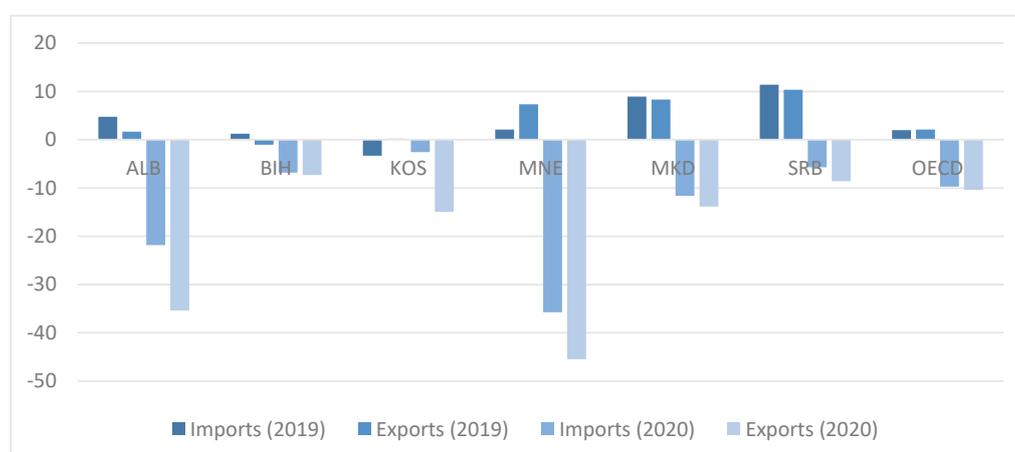


- **Raise awareness on the increasing digital security risk related to COVID-19:** In particular, policymakers should implement initiatives that raise awareness about phishing campaigns, ransomware and distributed denial-of-service attacks using practical guidance and tools (posters, diagrams, case studies) that can be easily picked up by other stakeholders.
- **Support vulnerable groups, particularly the elderly and SMEs, against digital security risks** as they will likely be spending more time online and may be less familiar with threats. The competent public institutions should monitor the threat landscape to identify and alert targeted communities whenever possible.
- **Reduce barriers to make it cheaper and easier to stay connected to jobs and markets:** Remove tariffs on information and communication technology goods, as well as measures that limit access to digitally enabled services. Western Balkan economies can keep trade moving by temporarily increasing *de minimis* thresholds to ease cross-border e-commerce and enact regulations to enable e-payments, e-signature and e-contracts.

## Impact on trade in the Western Balkans

Sustained weakness in export growth was accompanied by slowing manufacturing activity and investment in 2019. The relatively low level of new export orders prior to the COVID-19 crisis, combined with the pandemic related export bans, limitations on the movement of people and retail shutdowns, resulted in a **significant drop in imports and exports** (Figure 11). Albania and Montenegro were particularly affected with a decrease of import and export volumes of -20% to -40%. Serbia and Bosnia and Herzegovina experienced the smallest drop, keeping the percentage change above -10%. The manufacturing, transportation and tourism sectors are the most affected industries. Essential sectors like medicine, the food supply chain and the public sector are more robust and maintained relative levels during the crisis. The vulnerability of the Western Balkan growth model became especially apparent during the pandemic. The recent contraction in world trade and early expectations of changes in supply chains quickly demonstrated the importance of implementing structural policies that strengthen export competitiveness and diversify products and markets. Similarly, the crisis has exacerbated infrastructural limitations to trade that will need to be addressed to support a sustainable post-crisis recovery.

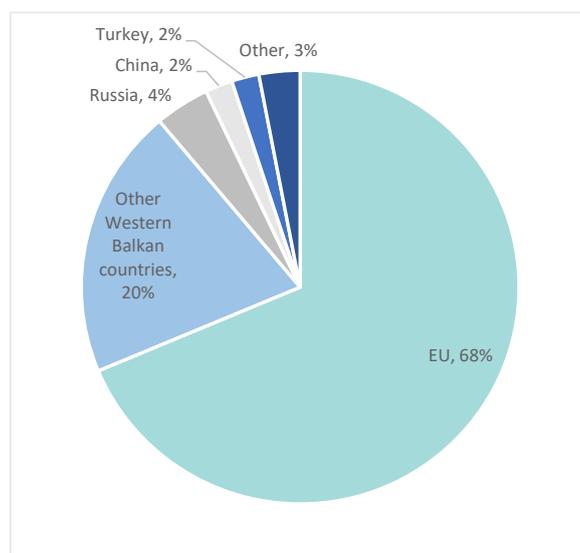
**Figure 11. Volume of Imports & Exports (in percentage change)**



Source: (IMF, 2020<sup>[2]</sup>), World Economic Outlook, (OECD, 2020<sup>[11]</sup>), OECD Economic Outlook, June.

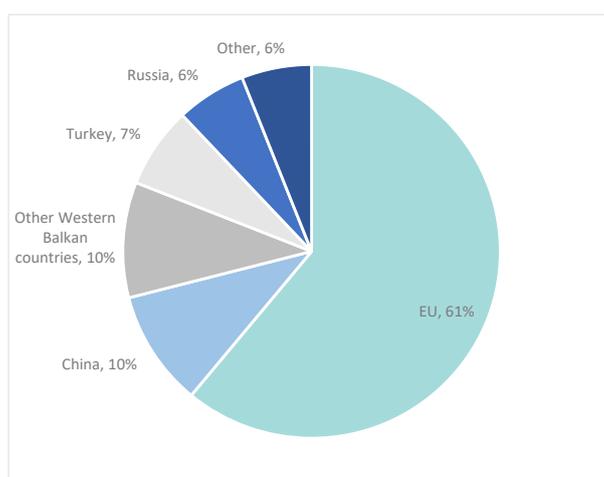


**Figure 12. Main Trade in Goods Partners of the Western Balkans (2019) – Exports**



Source: (Eurostat, 2019<sup>[26]</sup>), International Trade in Goods Database

**Figure 13. Main Trade in Goods Partners of the Western Balkans (2019) – Imports**



Source: (Eurostat, 2019<sup>[26]</sup>), International Trade in Goods Database

- Slowdown in the region's trade flows:** The industry in the Western Balkan economies has been affected by the supply shock from the COVID-19 outbreak and the resulting slowdown of trade flows. Even though the Western Balkans are not heavily integrated into global value chains (GVCs), economies with higher levels of trade integration were particularly exposed and felt the immediate effects more severely. In the region, GVCs are concentrated in a few sectors (automotive, electrical equipment, machinery, chemicals and metals) and are located around a few European countries (Germany). For the Western Balkans it is especially problematic that the EU, as their main trade partner for imports (61%) and exports (68%) of goods, has been strongly hit by the pandemic (Figure 12 and Figure 13). This dependence will slow down the Western Balkan's economic recovery process. Moreover, the confinement measures of China, the second largest trade partner for imports, put a halt to domestic production of certain goods, mainly used in the automotive sector.



To ease the situation the Western Balkans took part in the EU-initiated "Green Lanes" initiative, aimed at ensuring the fast flow of essential goods across the region.

- **Slowdown in services:** Albeit the percentage of services sector in exports is lower than the export of goods, services generate between 66% and 79% of gross value added and account for the majority of total employment (IMF, 2019<sup>[27]</sup>). They were heavily impacted by both a domestic and foreign demand drop during the pandemic. In general, travel restrictions and social distancing measures had a strong impact on services as well. It is estimated that the impact of COVID-19 on the tourism, retail, and transport sectors will have the biggest effect on the Western Balkan's economies.
- **Challenges for the agro-food sector:** the agro-food sector is a major contributor to gross value added (11.7% of GDP) of the region and is highly labour intensive, employing one out of four workers in the Western Balkans. Travel bans, containment measures and social distancing created constraints on the agro-food labour market in the region. Similarly, the constraints linked to health measures aimed at protecting the population have slowed down the implementation of policies necessary for the development of the agriculture sectors in the region. On the other hand, regional production of agro-food products is mainly for national and intra-region consumption. Thus, the agro-food sector presents great potential for the region to intensify intraregional trade.
- **Limited cargo possibilities:** The spread of COVID-19 across Europe triggered tough measures among EU member states, especially the closure of the EU borders to non-EU citizens. The sum of these regulatory responses and some Western Balkan logistic challenges has resulted in the creation of a very heterogeneous network of difficulties that has greatly complicated, both materially and procedurally, the logistics of goods transport. However, Western Balkan economies established a coordination body tasked with the exchange of all information related to trade in goods at the start of the pandemic. They also introduced priority "green lanes" to facilitate the free flow of goods of first necessity – through the "green" priority border/customs crossing points (within WB6 and with EU). At the worst moment of the crisis (April - May), most road transport in the WB6s passed through the green corridors. The latter made it possible to maintain a certain degree of international trade in goods in the region. Indeed, only about 20% of the goods that benefited from the green corridor regime were basic necessities, the rest being normal trade. This regime is becoming the basis for considering a more efficient transit of goods within WB6 and with the EU.

### ***Policy priorities for a sustainable and resilient recovery***

In the current context and depending on the measures already implemented by each of the WB6 economies, they could consider the following recommendations, which are based on the OECD COVID-19 policy brief on international trade (OECD, 2020<sup>[28]</sup>).

- **Preserve the flow of goods and services** within and outside the region. Unimpeded transport at key border points will be crucial to maintain availability of goods, in particular of essential goods and equipment that the region largely imports during the time of the crisis, but also goods embedded into GVCs and necessary for the local industries' production. In this sense, close cooperation with the private sector through chambers of commerce and sectoral associations is necessary to address the logistical constraints affecting the ability to obtain strategic products. Similarly, it is essential to maintain and build on the momentum and achievements of cooperation in the area of goods transport flows initiated at the first peak of the health crisis by perpetuating the regime set up in the framework of the "green lanes".
- **Continue the flawless agro-food supply:** at present regional food markets remain well-balanced. It is paramount to continue effective regional cooperation to keep food supply chains flowing to ensure the food delivery and reduce the risk of food loss. There is also a need to continue food



supply flows to areas more affected by the COVID-19 virus, and ensure that appropriate biosecurity arrangements are in place. Finally, make the most of the positive regional initiatives triggered by the COVID-19 crisis and translate them into long-term solutions.

- **Redouble efforts to overcome tariff barriers** and make it cheaper and easier for people to stay connected to jobs and markets: Reducing tariffs, in particular those imposed on basic supplies whose shortage could lead to a runaway price, is paramount. Imposing costs on firms and consumers through tariffs not only increases lost income, but also forces more public aid to support firms and consumers.
- **Avoid export restrictions** on essential goods, such as medical equipment and, especially, food products. Export bans temporarily lower domestic prices and raise availability, but they also discourage domestic production and tend to undermine trust in international markets, which raises panic and hoard buying, further escalating problems in import-dependent economies.

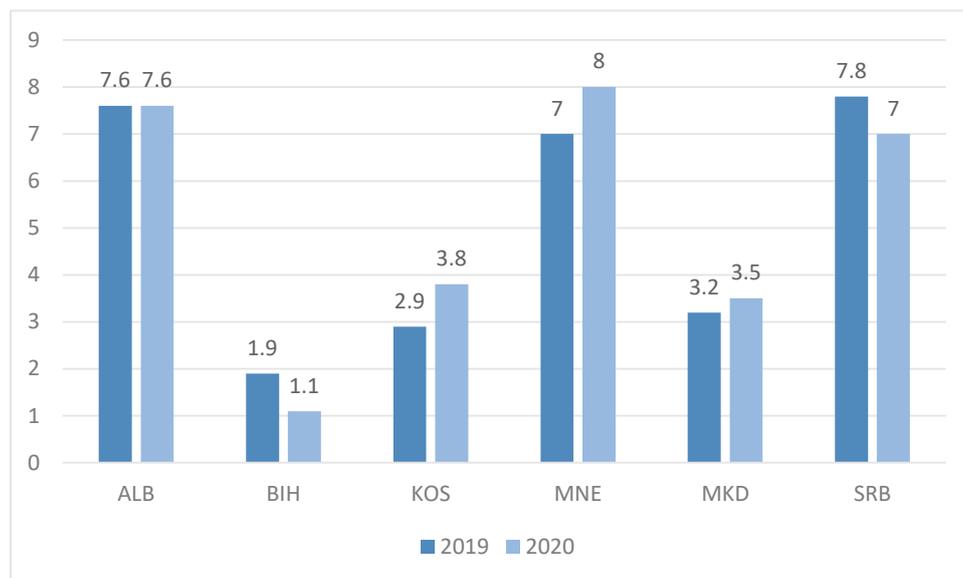
## Impact on investment in the Western Balkans

The contributions of foreign direct investment (FDI) to the Western Balkan economies have been relatively sizeable over the last years, providing support for economic growth, job creation, innovation and technological progress. A deceleration of both public and private investment can be expected in the Western Balkan region as a consequence of the lockdown's effect on enterprise revenues, supply disruptions, and the negative forecast of economic actors in the main investing countries. A **drop in earnings of foreign enterprises** will likely result in a **decline of many new investments**, both mergers and acquisitions and Greenfield investments (226 announced FDI Greenfield projects in WB in 2018, excluding Kosovo), as parent companies will not be able to inject enough liquidity in their regional affiliates. The following regional specificities will further expose investment to the pandemic's impact:

- **The highly concentrated source of foreign investment in the Western Balkan economies emphasises the region's high dependency.** Foreign investment in the region comes primarily from the EU Member States (Austria Germany, Greece, Italy, the Netherlands, and Slovenia) as well as the United Kingdom, the United States, and the Russian Federation (European Commission, 2020<sup>[5]</sup>) who have been severely affected by the pandemic crisis. However, so far net FDI inflows held up or even slightly increased in Montenegro, Kosovo and Albania. Other economies (Serbia, North Macedonia, Bosnia and Herzegovina) recorded moderate declines (Figure 14) (European Commission, 2020<sup>[5]</sup>). This trend might change once EU member states are forced to further decrease investments after the expected deterioration of the economic situation caused by the reintroduction of containment measures in the coming months.
- **The composition of FDI stock in the Western Balkans underlines the region's vulnerability against the pandemic's impact.** The manufacturing sector accounts for the greatest share of FDI stocks in North Macedonia (36% of FDI stock), Serbia (32%), Bosnia and Herzegovina (28%), and Kosovo (12%). As EU investors have located export-oriented activities in the region to serve their home markets (OECD, 2018<sup>[22]</sup>), a potential demand contraction might result in drops in earnings affecting sectors such as automotive, machinery parts, and textiles.

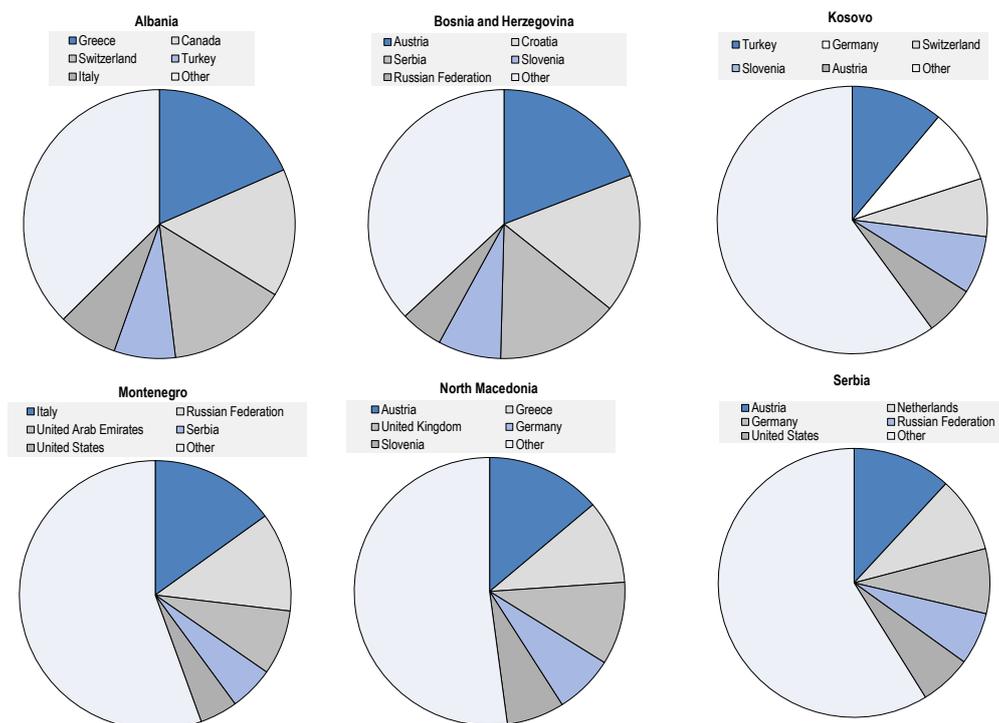


Figure 14. Direct Investment (FDI, net; % of GDP)



Source: (European Commission, 2020<sup>[5]</sup>), CCEQ, 3rd Quarter

Figure 15. Top five FDI investors (share in inward FDI stock, 2017)



Note: Latest available data for Kosovo, 2015.

Source: (UNCTAD, 2020<sup>[29]</sup>), UNCTAD STAT Database



### ***Policy priorities for a sustainable and resilient recovery***

The priority of governments during the pandemic has been to limit the capital outflows by providing subsidies or delaying payments. Measures toward solely stimulating investments were limited across the region. Nevertheless, during the lockdown period a number of investment promotion agencies had to close their offices but continued to provide active support to their clients online. Following the de-confinement phase, the Western Balkan economies need to turn their attention to a more sustainable development when designing policies to address the challenges faced by the crisis, as issued by the OECD investment policy responses to COVID-19 (OECD, 2020<sup>[30]</sup>).

- **Leverage investor networks and investment promotion agencies in addressing the medical supply shortage.** In doing so, the region's governments can encourage and support businesses that can shift their production toward essential healthcare goods and services.
- **Consider essential security objectives while designing investment policies.** Economies in the region should continue protecting sensitive assets in strategic sectors and promoting market openness. This could be achieved by establishing a foreign investment negative list which prohibits or enumerates foreign investment conditions and clearly delimits sectors with essential security objectives.
- **Ensure that FDI serves the purpose of economic development.** Private investment, especially FDI that brings innovation, decent and inclusive jobs, and sustainable production methods can help attenuate the impact of the pandemic. Private investment will be key in contributing to the development finance equation, at a time where capital and public investment will be heavily stretched.
- **Continuing to improve the clarity, reachability and predictability of legal frameworks for investment,** especially for foreign investors, would greatly help further improving the overall investment climate. The lack of readily accessible information on these matters online hinders the legibility of the legal framework for foreign investors. Having clear and easy access has become all the more important with the pandemic crisis.



## References

- EBRD (2020), *Regional Economic Prospects: COVID-19: From Shock to Recovery*. [15]
- European Commission (2020), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) 3rd Quarter*, [https://ec.europa.eu/info/sites/info/files/economy-finance/tp044\\_en.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/tp044_en.pdf). [5]
- European Commission (2019), *EU Candidate Countries' & Potential Candidates' Economic Quarterly (CCEQ) 4th Quarter*, [https://ec.europa.eu/info/sites/info/files/economy-finance/tp038\\_en.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/tp038_en.pdf). [1]
- Eurostat (2019), *Digital Economy and Society Dataset*, <https://ec.europa.eu/eurostat/web/digital-economy-and-society/data/database>. [10]
- Eurostat (2019), *International Trade in Goods Database*. [26]
- ILO (2020), *ILOSTAT Youth Labour Statistics*, <https://ilostat ilo.org/topics/youth/>. [8]
- IMF (2020), *World Economic Outlook (October)*, <https://www.imf.org/en/Publications/WEO/weo-database/2020/October>. [2]
- IMF (2019), *Lifting Growth in the Western Balkans The Role of Global Value Chains and Services Exports*, Washington, DC : International Monetary Fund, <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2019/11/11/Lifting-Growth-in-the-Western-Balkans-The-Role-of-Global-Value-Chains-and-Services-Exports-46860>. [27]
- OECD (2020), *Covid-19 Tourism Policy Responses*, [https://read.oecd-ilibrary.org/view/?ref=124\\_124984-7uf8nm95se&Title=Covid-19:%20Tourism%20Policy%20Responses](https://read.oecd-ilibrary.org/view/?ref=124_124984-7uf8nm95se&Title=Covid-19:%20Tourism%20Policy%20Responses). [14]
- OECD (2020), *Database of OECD Economic Outlook (June)*, <https://doi.org/10.1787/eo-data-en>. [11]
- OECD (2020), *Database on Employment and Labour Market*, <https://doi.org/10.1787/lfs-data-en>. [12]
- OECD (2020), *Database on Employment and Labour Market*, <https://doi.org/10.1787/lfs-data-en>. [34]
- OECD (2020), *Dealing with digital security risks during the coronavirus (COVID-19) crisis*. [24]
- OECD (2020), *Education responses to COVID-19: Embracing digital learning and online collaboration*, [https://oecd.dam-broadcast.com/pm\\_7379\\_120\\_120544-8ksud7oaj2.pdf](https://oecd.dam-broadcast.com/pm_7379_120_120544-8ksud7oaj2.pdf). [23]
- OECD (2020), *Investment Policy Responses to COVID 19*, [https://read.oecd-ilibrary.org/view/?ref=129\\_129922-gkr56na1v7&title=OECD-Investment-Policy-Responses-to-COVID-19](https://read.oecd-ilibrary.org/view/?ref=129_129922-gkr56na1v7&title=OECD-Investment-Policy-Responses-to-COVID-19). [30]
- OECD (2020), *Keeping the Internet up and running in times of crisis*. [25]
- OECD (2020), *OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis*, <https://doi.org/10.1787/1686c758-en>. [20]
- OECD (2020), *Policy brief: COVID-19 and international trade: issues and actions*. [28]



- OECD (2020), *Supporting people and companies to deal with the COVID-19 virus: Options for an immediate employment and social-policy response*, Organisation for Economic Co-operation and Development, [https://oecd.dam-broadcast.com/pm\\_7379\\_119\\_119686-962r78x4do.pdf](https://oecd.dam-broadcast.com/pm_7379_119_119686-962r78x4do.pdf). [19]
- OECD (2020), *The Western Balkans Business Survey [unpublished]*. [6]
- OECD (2019), *PISA 2018 Database*, <http://dx.doi.org/www.oecd.org/pisa/data/2018database/>. [9]
- OECD (2019), *PISA 2018 Results (Volume I): What Students Know and Can Do*, OECD Publishing, <https://doi.org/10.1787/5f07c754-en>. [21]
- OECD (2019), *SME Policy Index: Western Balkans and Turkey*, <https://www.oecd.org/publications/sme-policy-index-western-balkans-and-turkey-2019-g2g9fa9a-en.htm>. [13]
- OECD (2018), *Competitiveness in South East Europe: A Policy Outlook*, OECD Publishing, <https://doi.org/10.1787/9789264298576-en>. [22]
- OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264308817-en>. [32]
- OECD (2014), "The crisis and its aftermath: A stress test for societies and for social policies", in *Society at a Glance 2014: OECD Social Indicators*, OECD Publishing, Paris, [https://dx.doi.org/10.1787/soc\\_glance-2014-5-en](https://dx.doi.org/10.1787/soc_glance-2014-5-en). [33]
- OECD (2010), *OECD Employment Outlook 2010: Moving beyond the Jobs Crisis*, OECD Publishing, Paris, [https://dx.doi.org/10.1787/empl\\_outlook-2010-en](https://dx.doi.org/10.1787/empl_outlook-2010-en). [31]
- RCC Int. (2020), *Bregu: Tourism in the Western Balkans already feels the pinch of COVID-19 pandemic*, <https://www.rcc.int/news/618/bregu-tourism-in-the-western-balkans-already-feels-the-pinch-of-covid-19-pandemic>. [7]
- UN DESA (2019), *United Nations Database; International Migrant Stock: The 2019 Revision*, <https://www.un.org/en/development/desa/population/migration/data/estimates2/estimates19.asp>. [18]
- UNCTAD (2020), *UNCTADSTAT Database*, [https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en). [29]
- Vienna Institute of International Economic Studies (2020), *SEE Jobs Gateway Database*, <https://data.wiiv.ac.at/seejobsgateway.html> (accessed on 9/04/2020). [16]
- World Bank (2020), *Western Balkans Regular Economic Report No.17 (Spring): The Economic and Social Impact of COVID-19*, <http://documents1.worldbank.org/curated/en/301261588088338100/pdf/The-Economic-and-Social-Impact-of-COVID-19-Setting-the-Stage.pdf>. [3]
- World Bank (2020), *Western Balkans Regular Economic Report: An Uncertain Recovery, No. 18 (Fall)*, <https://openknowledge.worldbank.org/bitstream/handle/10986/34644/153774.pdf>. [4]
- World Bank (2019), *Western Balkans Labor Market Trends*, <http://documents.worldbank.org/curated/en/351461552915471917/pdf/135370-Western-Balkans-Labor-Market-Trends-2019.pdf>. [17]



## Contact

Marzena KISIELEWSKA, Head of the South East Europe Division (✉ [marzena.kisielevska@oecd.org](mailto:marzena.kisielevska@oecd.org))

Anita RICHTER, Senior Policy Analyst (✉ [anita.richter@oecd.org](mailto:anita.richter@oecd.org))



Co-funded by  
the European Union

---

This paper is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and the arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.

