

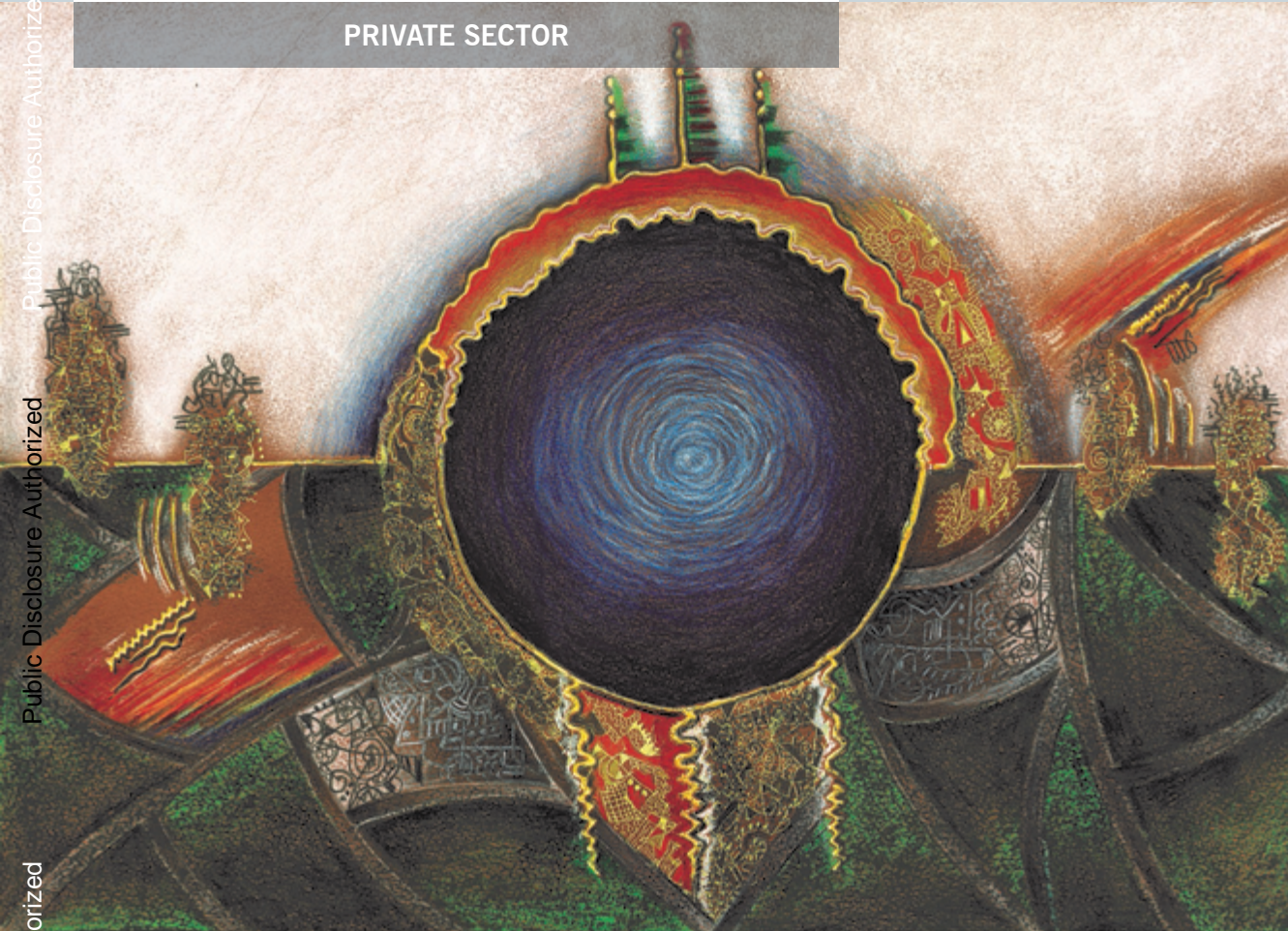


WORLD BANK GROUP

WESTERN BALKANS REGULAR ECONOMIC REPORT  
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# The Economic and Social Impact of COVID-19

PRIVATE SECTOR



*"You and me" by Tanja Burzanovic (Montenegro)*

The RER No. 17 is a collection of notes on the Economic and Social Impact of COVID-19 that has been published in three parts. The first part was launched on April 29 and focused on the macroeconomic impact of COVID-19. This second part, launched on May 29, shows how the macroeconomic impact affects the people in the region. This third part focuses on specific economic policy response areas—fiscal, external, and financial sector—and the crisis impact on the private sector as reported by firms.



## Coping with the effects of COVID-19: Firm-level perspective<sup>1</sup>

- The economic impact reported by the surveyed firms so far has been substantial: in each country at least 50 percent of firms in the sectors most affected had been forced to close to some extent, and those that remained open saw activity plunge.
- Liquidity constraints are a major issue everywhere, although financial sector capacity to offset this varies by country.
- Surveys conducted at the onset of the crisis show that the total reported layoffs are concerningly large but, arguably, smaller than one may have expected.
- Access to raw materials and imports has been less of a constraint than the liquidity, declining demand, and uncertainty.

### Introduction

**The COVID-19 pandemic and associated social distancing measures are expected to cause wide-ranging damage to economies around the world.** Demand has been reduced by movement restrictions, supply shocks due to the restricted labor supply and difficulties in sourcing material inputs have also occurred. Access to financing could also be a problem if credit options deteriorate while demand rises. Lastly, the uncertainty associated with the crisis is driving down investment and innovation. The breakup of otherwise healthy businesses in response to such a temporary shock hints at severe social and fiscal costs.

**This note discusses economic vulnerability to the COVID-19 crisis in the Western Balkans—Albania, Bosnia and Herzegovina (BiH), Kosovo, Montenegro, North Macedonia, and Serbia.** It first gives a regional summary before moving on to analysis by country. The note combines two approaches:

- a. In each country section, the note, first, takes a forward-looking perspective to consider the potential severity of the crisis using administrative firm-level data, except for Albania, where in the absence of administrative data, highly reliable data was available from the structural business survey. The firm data necessary for this exercise was not available for Kosovo and BiH. In this exercise, the paper quantifies the economic importance of the sectors most likely to be affected by the lockdowns and restrictions imposed on the economy. Economic importance is determined based on the number of people employed in a sector and its wage bill as a percentage of the overall economy prior to the crisis. This section focuses on “sensitive” sectors, among them not only various services, but also durable goods and textiles. These services are considered sensitive because their delivery is substantially reduced due to lockdowns<sup>2</sup>.

<sup>1</sup> The note was prepared by Besart Avdiu, Elwyn Davies, Tianyu (John) Dong, and Raha Shahidsaless. It has benefited from contributions from Marc Schifflbauer, Edith Kikoni, Ruvejda Aliefendic, Keler Gjika, Sanja Madzarevic-Sujster, Bojan Shimbov, Dusko Vasiljevic, Tatjana Markovska, and Maja Andjelkovic.

<sup>2</sup> Annex 1 discusses classification of sensitive services, which follows Vavra (2020).<sup>3</sup> Durables are also considered sensitive, because demand tends to plunge in a crisis. While not traditionally considered durable, garments and textiles may similarly suffer because they are not immediately perishable. For Albania and Serbia, the report also uses export data, which can inform vulnerability as global demand falls and trading routes are

b. Next, using firm survey data from the crisis (except Montenegro due to missing data) the note examines the limited evidence available on the impacts that have already occurred. We examine four possible channels that are relevant here: demand shocks, supply shocks, financial shock, and uncertainty. While the regional summary looks at all four based on survey data, the country-specific sections provide details on demand and supply channels only.<sup>3</sup>

**This note draws on a variety of data sources that are subject to certain limitations.** These restrictions apply to both administrative firm level analysis as well as the country-level surveys conducted during the crisis:

a. Administrative data covers only tax-registered firms and thus excludes the informal firms that may be most exposed to the crisis. Further, since this section determines the likelihood of a sector experiencing impact only based on its share in the country's overall employment and wage bill, it does not necessarily consider sectors that may be impacted by the crisis through channels such as the global value chain supply shock (e.g. for sectors relying strongly on imports) or financial shocks for sectors dependent on external finance.

b. In the snapshot analyses we use surveys conducted by local organizations, such as business associations,<sup>4</sup> that may not be representative of the country because certain sectors or firm types may be oversampled. We therefore provide the distribution of survey respondents in Annex 2. Furthermore, there are methodological and sampling differences that make comparisons across countries difficult. Yet some results seem to be common in all surveys, which make it possible to draw some soft conclusions.

## 1. Regional Analysis

### 1.1 Forward-looking Analysis

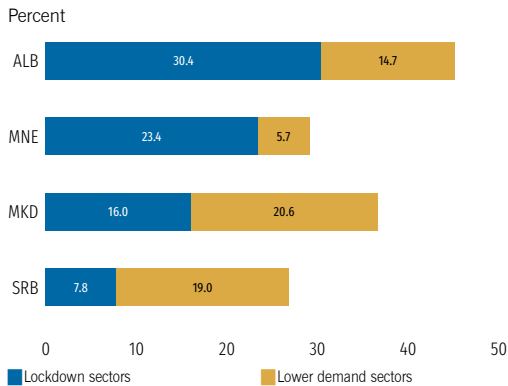
**There are notable differences between countries in the sectors vulnerable to COVID-19 as it relates to services versus manufacturing.** At opposite ends of the spectrum are Serbia and Montenegro. Given the employment numbers, Serbia will likely be affected through durable manufacturing, while Montenegro will mainly be affected through services, especially tourism. That is mainly because in Serbia, 19 percent of the workforce are employed in durables and 26 percent in exporting manufacturing, while in Montenegro, manufacturing employs only 5.7 percent. Meanwhile the affected services comprise 23.4 percent of the workforce in Montenegro but only 7.8 percent in Serbia (Figure 1). Albania and North Macedonia are more mixed: Albania can expect a larger burden on services, since accommodation and food services alone employ 13.4 percent. Conversely, in North Macedonia, manufacturers of durable

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disrupted.

3 While complementary, it is difficult to make a direct connection between the first (forward-looking) and second (crisis firm-survey data) parts of the analysis. One reason is that in the first part sectors are classified at 4-digit level, but surveys largely ask about aggregate single-digit sectors. While useful and presenting information about the impact of the crisis on firms, it is not possible to simply rely on the crisis survey results used in the second part because country surveys are not necessarily representative or comparable—and the ways they are not representative differ by country and methodologies, which are sometimes imperfect. However, these are the only data currently available. The data in the first part are more comparable because they capture the universe of firms.

4 We use one survey for each country, except for North Macedonia, where it was necessary to rely on three.

**Figure 1. Employees in Lockdown by Suppressed Demand Sector**

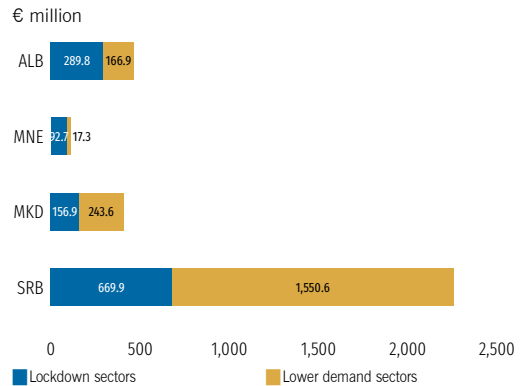
Source: Firm-level data, 2016 and 2017, World Bank staff calculations.

goods and garments employ 20.6 percent of the workforce. The total wages at risk in vulnerable services, durable manufacturing and garments and textiles are also substantial, ranging from €110 million (Montenegro) to €2.22 billion (Serbia) (Figure 2). As lockdowns are lifted, manufacturing may resume before important services like tourism. In that case the effects on Montenegro and Albania may last longer.

**The majority of firms in each of the more vulnerable sectors have fewer than 50 employees.** The only exception is the North Macedonian garment and textile industry, where small firms make up 46 percent of all firms. For the entire North Macedonian economy, however, the average share of small firms in potentially vulnerable sectors is 72 percent, for Serbia and Albania each 88 percent, and for Montenegro 92 percent.

## 1.2 Current Snapshots

**Businesses in the Western Balkans have suffered substantial revenue losses in the COVID-19 crisis.** Based on country-level survey data collected during the crisis, at

**Figure 2. Total Wage Bill in Lockdown and Suppressed Demand Sectors**

Source: Firm-level data, 2016 and 2017, World Bank staff calculations.

least 50 percent of the firms in the surveys of each country had been forced to close at least partly, and business was minimal for those that remained open. Two trends are clear:

- Micro and small firms were more negatively affected than medium and large firms. For example, 12 percentage points more BiH micro-firms reported having significant revenue drops compared to the average. Further, 35 percent of Serbian micro-firms expect revenue drops above 80 percent compared to 10 percent of medium firms with the same expectation.
- The service and tourism industries expectedly experienced a more severe impact than the rest of the economy. In Albania, demand shocks in tourism were cited as the main constraint more often than in any other sector, while in Serbia tourism losses are expected to be the largest with 45.5 percent of tourism firms expect to bring in 80–100 percent less revenues than in 2019.

**In all countries, disappearing market demand has been reported as the number one challenge.** 71 percent of respondents in BiH and 81 percent in North Macedonia were significantly affected by demand losses, which has driven revenue losses not only from the fall of new orders but also in cancellation of previous orders.

**Compared to the demand side, supply shocks, among them labor and raw materials, have been relatively mild.** For example, only 15 percent of Albanian firms saw supply-side issues as their main challenge. And obtaining the raw materials needed for production was cited as a concern by only 13.8 percent of respondents in North Macedonia and 10.4 percent in BiH.

**Firms throughout the region are suffering from liquidity constraints.** About 56 percent of respondents in North Macedonia and 63 percent in BiH consider liquidity as their main problem. For those in Albania, Serbia and Kosovo it is the second most cited issue overall.

**Businesses have shown different levels by country about whether to seek new credit or renegotiate current loans.** For example, only 20 percent of respondents in Albania and 4.2 percent North Macedonia consider seeking new loans as an option, but for firms in BiH 40 percent would do so, and in Serbia 30 percent might do so.<sup>5</sup>

**Future expectations also vary considerably; Albania and BiH are the most pessimistic.** In both Serbia and North Macedonia, more than 80 percent of surveyed firms believe that the impact of the COVID-19 crisis will

disappear in less than three months, but fewer than 50 percent of firms in Albania and BiH hold that opinion. In the countries much more optimistic about a fast recovery, 80 percent of businesses in Serbia expect to resume work within six months and 72 percent in North Macedonia have not considered closing the company. Conversely, only 10 percent of BiH survey respondents expected their businesses to survive the crisis, and in Kosovo 60 percent of surveyed firms see COVID-19 as jeopardizing their survival.

**So far, firms in each country have absorbed most of the impact without laying off workers.** Only a minority of firms have chosen forced leave or laid-off employees: 5 percent in Serbia, 11 percent in Albania and BiH, 19.8 percent in North Macedonia, and 29.2 percent in Kosovo. Hence, the negative employment effects may yet worsen.

## 2. Albania

### 2.1 Forward-looking Analysis

**Based on employment and wage bills, the COVID-19 crisis is expected to impact Albania's economy primarily through tourism-related sectors and garments and textiles.** Moreover, as demand for durable goods tends to fall in a crisis, to some extent the COVID-19 demand shock will also affect durable manufacturing. Because their products are of semi-durable nature and they employ much of the workforce share, garments and textiles firms will be one of the hardest hit manufacturing sectors, especially clothing and footwear, which have a large export share. The total share of employment and wage bills of the vulnerable sectors include the following:

<sup>5</sup> For Kosovo, there is no available survey data on access to finance.

- a. In 2016 the total share of formal employment in sectors expected to be directly affected by the lockdown was 30.4 percent (142,750 of 469,600 employees). Of these, 13.4 percent was in tourism-related food, accommodation and travel, including transport. Adding durable goods manufacturers as well as firms producing garments and textiles—all sectors affected but not necessarily locked down—the share of these sectors in total employment becomes 45 percent.
- b. In 2016, the total wage bill in services locked down was 24 percent of total national wages, €290 million a median annual wage of €1,190. Beyond lockdown sectors, the results for all sensitive sectors (lockdown, durables and textiles) are more concerning: the total vulnerable wage bill accounts for 38 percent of Albania's total (€459 million out of €1.2 billion).

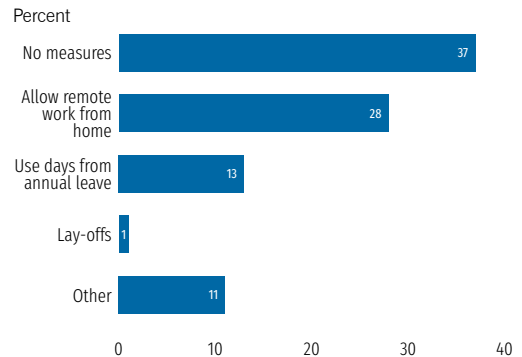
## 2.2 Current Snapshots<sup>6</sup>

**Firm operations are in critical condition, but layoffs have not been common.** According to the Investment Council Secretariat survey,<sup>7</sup> the COVID-19 crisis has seen economic activities drop considerably, with half of the surveyed firms completely shut down. Nevertheless, as Figure 3 shows, so far only 11 percent had laid-off workers, 28 percent were allowing employees to work from home, and 13 percent were allowing them to use annual leave.

<sup>6</sup> Of the respondents, 82 percent operated in services, 10 percent in manufacturing, 5 percent in construction, and 2 percent in agriculture (Figure A2.1).

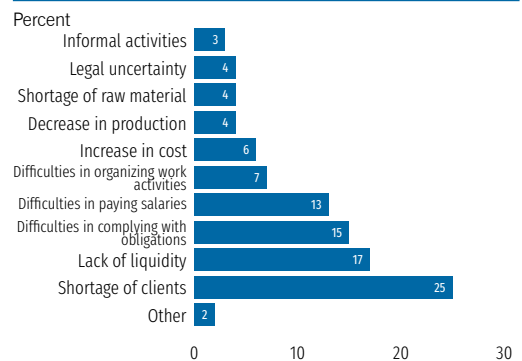
<sup>7</sup> The IC has kept the survey open and the responses are increasing over time. As the crisis continues, the responses are likely to show stronger negative effects. The analysis is based on data available on May 9, 2020.

**Figure 3. How Firms Are Dealing with Less Business**



Source: IC Secretariat.

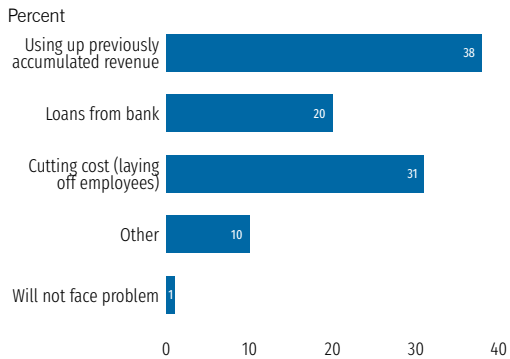
**Figure 4. Impacts Reported by Firms**



Source: IC Secretariat.

**The reduction of demand for goods and services is the most pressing challenge firms currently face.** 25 percent of respondents cited a shortage of clients as their number one challenge (Figure 4). This negative demand shock is more prominent in services (27 percent) and construction (26 percent) than in manufacturing (16 percent) or agriculture (17 percent). Despite the serious liquidity shortage, to ensure the continuity of their business activities, about 69 percent of firms planned to either use their own revenue reserves or to cut costs, only 20 percent planned to take out bank loans as their first option (Figure 5).

**Figure 5. Measures Planned to Ensure Firm Survival**



Source: IC Secretariat.

**Supply shocks were not as serious as demand shocks.** While only 8 percent of surveyed firms still operated at full capacity, companies did not consider negative supply shocks to be as serious as lower demand. As Figure 4 shows, for only about 15 percent of respondents the biggest supply-related challenges included: difficulties in organizing work activities (7 percent), reduced labor productivity (4 percent), or shortage of supply (4 percent). However, among firms that rely on imported raw materials, 55 percent faced problems.

### 3. Bosnia and Herzegovina

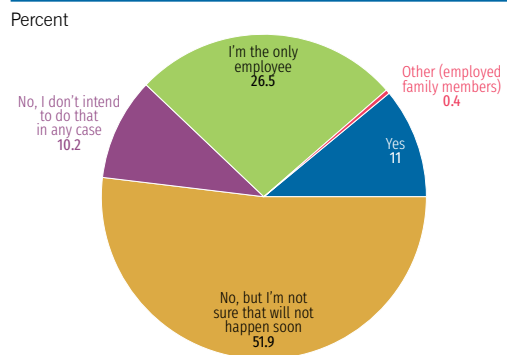
#### 3.1 Current Snapshots<sup>8</sup>

**The operation status of BiH firms is in critical condition, with micro firms hit hardest.** According to a Foundation 787 survey, by April 11, 72.7 percent of respondents had already discontinued operations, and to remain active, 16.4 percent had introduced an alternative form of business. Approximately 71.5 percent

<sup>8</sup> Retail and wholesale constitute the largest share of surveyed firms, 20.1 percent, followed by accommodation and food services, 14 percent; professional, scientific and technical activities, 13 percent; and manufacturing, 11.6 percent (Figure A2.2).

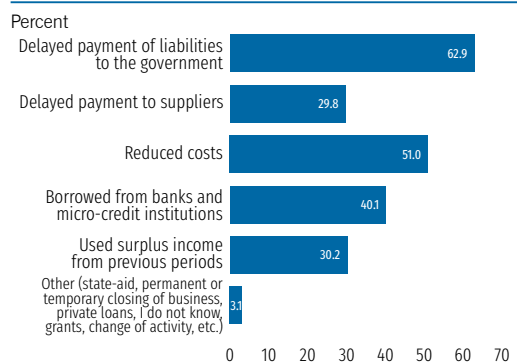
of those responding also reported that the crisis had already had a very negative impact on their business and revenues. Approximately, 11 percent of respondents had to deregister employees with another 51.9 percent reporting they might soon have to do so (Figure 6). This would exacerbate already high levels of structural unemployment in BiH. Among micro firms, 72.4 percent reported an extremely negative impact, compared to 67.5 percent of small businesses and 57.1 percent of medium-sized companies. And in order to cope, almost 63 percent of firms have delayed payments of government liabilities (Figure 7).

**Figure 6. Responses to “Were you forced to temporarily deregister your employees?”**



Source: Foundation 787.

**Figure 7. How Firms Are Dealing with Less Business**



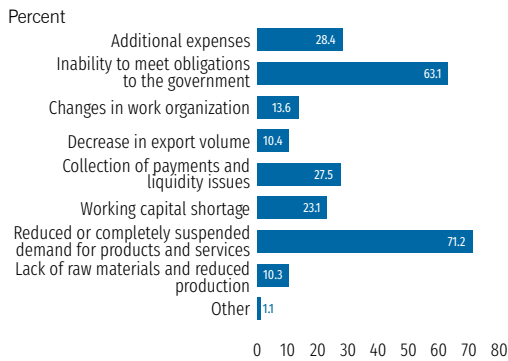
Source: Foundation 787.



**Reduction of demand is a pressing concern.**

When asked to select up to three problems, 71.2 percent of respondents identified lower demand, another 10.4 percent mentioned reduction in exports (Figure 8), and 27.5 percent were unable to collect payments from other businesses along the value chain.

**Figure 8. Major Impacts Reported by Firms**



Source: Foundation 787.

**Supply factors were not as serious as the demand shocks.** Only 10.4 percent of the firms listed a lack of raw material and reduced production as their major concern, and 13.6 percent reported difficulties in reorganizing their work setup (Figure 8).

**4. Kosovo**

**4.1 Current Snapshots<sup>9</sup>**

**Firm operations are in critical condition.**

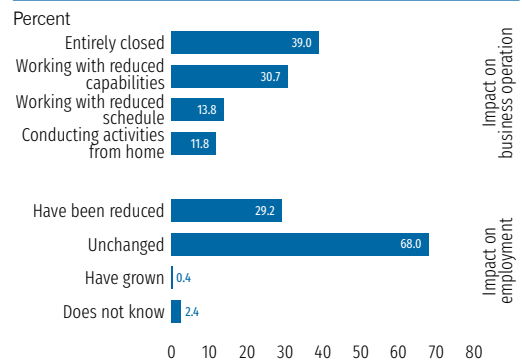
According to a survey conducted by several business associations,<sup>10</sup> 39 percent of firms responding were closed entirely, 31 percent

<sup>9</sup> About 33 percent of respondents came from production sector, 14.8 percent from retail, 13.3 percent from wholesale, and 6.8 percent from construction (Figure A2.3).

<sup>10</sup> This survey was commissioned and executed jointly by the Kosovo Chamber of Commerce, American Chamber of Commerce in Kosovo, Kosovo German Chamber of Commerce, European Investors Council, and Kosovo Manufacturing Club.

were working at lower capacity, and 14 percent were working with reduced hours (Figure 9). The smallest firms, those with fewer than 10 employees, were most likely to be entirely closed, as reported by 54.4 percent of respondents in this category; 29.2 percent of all respondents reported a reduced workforce, though 0.4 percent did report an increase (Figure 9).

**Figure 9. Major Impacts Reported by Firms**



Source: RECURA.

**Figure 10. How Firms Are Dealing with Less Business**



Source: RECURA.

**The two impacts most commonly cited were financial losses, affecting 69.7 percent, and lack of liquidity, affecting 39.5 percent (Figure 10).** Financial losses were reported by 76 percent of retailers and 74.4 percent of wholesale traders; these two sectors also had

the most liquidity problems, which affected 45.3 percent of wholesale and 40.6 percent of retail firms.

**Supply factors were not as serious as the demand shocks.** Of their main concerns, 24.1 percent cited loss of production capacity, 35.3 percent a loss of work efficiency, and 22.4 percent low employee commitment (Figure 10). Of firms with 10 to 49 employees, 35.4 percent reported production capacity as their main concern. Firms classified in the production sector<sup>11</sup> unsurprisingly reported such issues at a higher rate than others, which was cited by 48.1 percent of respondents in this group.

## 5. Montenegro

### 5.1 Forward-looking analysis

**Based on the 2017 data, services likely to be directly affected by the fall in tourism accounted for 23 percent of total reported employment (of total employment of 127,000).** Durable goods firms add another 6 percent to the employment share to reach 29 percent. Hotels, restaurants, bars, and retail other than food and pharmacies have a combined share of employment of 19.8 percent. The annual median wage per worker affected by lockdown averaged €5,092 (€509 monthly). The vast majority of affected firms have fewer than 50 employees, with a lower annual wage per employee of in 2017 of €5,004 (€417 monthly).

**Because tourism is of major importance to Montenegro's economy, firms there are likely to be more heavily impacted by the pandemic than those elsewhere in the Western Balkans.**

Tourism receipts account for about 21 percent of Montenegro's GDP, compared to 7.2 percent in North Macedonia, and 6.9 percent in Serbia<sup>12</sup>. In 2019, accommodation and food services alone employed over 15,000, accounting for over 10 percent of formal private sector employment.

## 6. North Macedonia

### 6.1 Forward-looking Analysis

**The COVID-19 crisis is expected to impact North Macedonia's economy not only through services but also manufacturing, especially durable goods and garments and textiles.** Those two manufacturing subsectors have the most employees and the largest yearly wage bill among affected sectors. Non-essential retail, which in North Macedonia employs about 70 percent as many workers as durable manufacturing, will also be strongly impacted by a lockdown (see Annex 1 for the industries comprising this sector). The most affected (i.e. sensitive or locked down) sectors contribute to employment and the national wage bill as follows:

- a. Garments, textiles, and durable manufacturing firms together accounted for slightly over 20 percent of total reported employment in 2016. With a total national workforce of 396,770 workers, the garment and textile industries employ 10.6 percent and durable manufacturing

<sup>11</sup> The exact composition of this sector is unclear.

<sup>12</sup> Only Albania has a higher share at 27.3 percent.

another 10 percent. In addition, non-essential retail employs 6.9 percent, and food services, travel and accommodation 6.5 percent. North Macedonia's economy is thus exposed through several sectors. A concern is that most affected firms have fewer than 50 employees and are thus more vulnerable.

- b. The total yearly wage bill for the garments and textiles industry is €244 million. Durable manufacturing wages, though second in employment, are first among vulnerable sectors with a total wage bill at €131.5 million. The combined total for food services, travel and accommodation is €60 million. All potentially vulnerable sectors together account for almost a third of the country's annual wage bill (€400 million out of €1.26 billion).

## 6.2 Current Snapshots<sup>13</sup>

**North Macedonian firms have already been severely affected.** The Finance Think survey found that about 41.5 percent of businesses were forced to close due to measures preventing interactions and 43.1 percent expected a significant drop in revenue (Figure 11). The impact on micro-firms has been particularly strong with the fraction of respondents forced to close at 8 percentage points above average and those with significant drops in revenue 12 points higher. However, the Economic Chamber survey found that 72 percent had no plans to close the company, and 21 percent were considering closing only in part (Figure 12).

<sup>13</sup> Of respondents to the survey, 46 percent of the firms were in industry and construction, 40 percent in tourism and hospitality, 7 percent in trade, and 7 percent in service and agriculture (Figure A2.4).

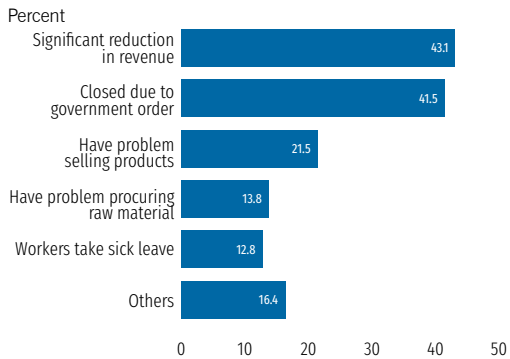
**Negative demand shocks have been very strong.** The Economic Chamber found that 81 percent of businesses saw their revenue drop because contracted work was cancelled, and about a third said the loss was more than 50 percent. In the Finance Think survey, 21.5 percent of firms indicated they had sales issues (Figure 11) and in the survey by the Fund for Innovation and Technology Development, 59 percent of startups identified demand as a risk factor.

**Supply factors such as drops in labor or raw materials have not been major constraints.**

According to the Economic Chamber, just 19 percent of firms have sent workers on forced leave (Figure 13) and only 0.8 percent have fired employees. This result seems inconsistent with the reported revenue decreases while firms are liquidity and credit constrained (Figure 14). It is possible that firms may be having difficulty firing or that the survey was unclear. However, among early government measures was a wage subsidy program.<sup>14</sup> The Finance Think survey found that only 13.8 percent experienced trouble in obtaining raw materials (Figure 11). Similarly, in the Fund survey for startups, supply chains were not a major risk factor, reported only by 39 percent.

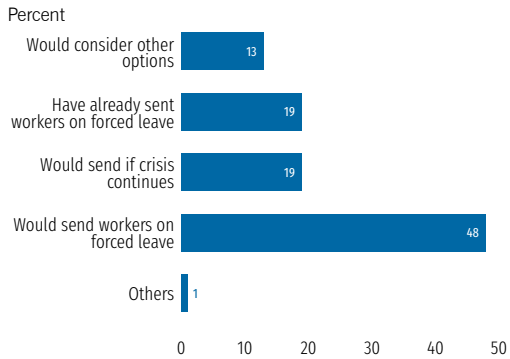
<sup>14</sup> For the month of April 21,030 companies (1/3 of all companies in country), employing 139,437 people (1/3 of all private sector employees) received subsidies in amount of minimal net salary and/or 50 percent of social contributions. 59 percent of supported employees work in micro and small enterprises (up to 50 employees), 21 percent in medium size enterprises (50–250 employees) and 20 percent in large companies (over 250 employees). The total cost of these subsidies exceeded 27.6 million euros.

**Figure 11. Major Impacts Reported, All Firms**



Source: Finance Think survey.

**Figure 13. How Firms Are Dealing with Less Business**



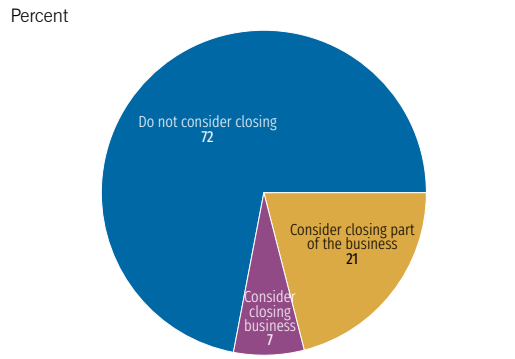
Source: Economic Chamber of Macedonia survey.

## 7. Serbia

### 7.1 Forward-looking Analysis

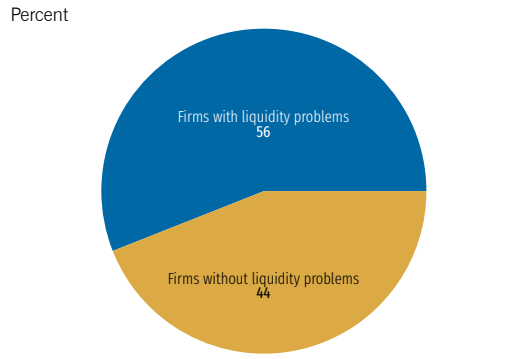
**The COVID-19 crisis is expected to impact Serbia's economy primarily through manufacturing, with exports and durable goods especially important.** Among sectors potentially affected, manufacturers who export employ by far the most workers. As demand for exports falls and as logistics, e.g. for importing materials, becomes more difficult, there could be a negative ripple effect. Further, in a crisis, the demand for durable goods tends to plummet. Almost half of all employees in exporting firms

**Figure 12. Responses to "Do you have plans to close your business?"**



Source: Economic Chamber of Macedonia survey.

**Figure 14. Liquidity Problems**



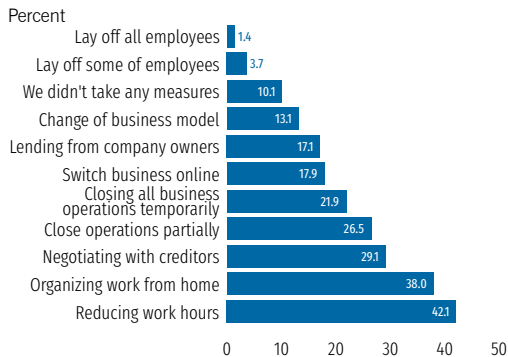
Source: Economic Chamber of Macedonia survey.

work in durables, and 86 percent of durable manufacturers also export, which compounds the possible negative effects. Among services, the affected sector with the most workers is nonessential retail<sup>15</sup>. However, this sector employs only about one-eighth as many formal Serbian workers than export manufacturers:

- Setting aside sole proprietors, in 2017 export manufacturers accounted for over 25 percent of formal employment. The available data covers 1 million formal workers (sole proprietors would add

<sup>15</sup> The industries that comprise this sector are shown in Annex 1.

**Figure 15. How Firms Are Dealing with Less Business**

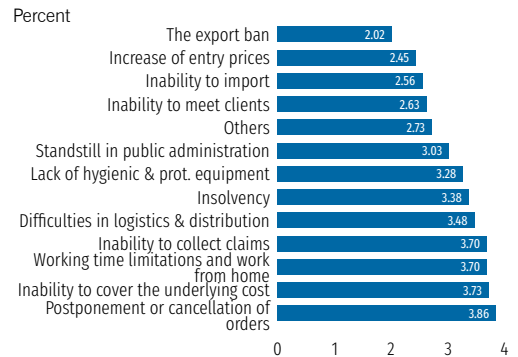


Source: Serbian Chamber of Commerce and USAID.

another 1.1 million), of whom export manufacturers alone employ 26.4 percent, while those exporting durables account for 12.5 percent. Services employ fewer people but enough that there will be negative impacts on the 90,000 workers in food services and accommodation and the 120,000 in transport. Moreover, a majority of affected firms have less than 50 employees.

- b. The total wage bill for exporting manufacturers is close to €2.5 billion. However, taking all sensitive services, durable manufacturing and garments and textiles (regardless of export status) adds up to a wage bill of about €2.2 billion. For all durables, the total wage bill is €1.3 billion and for exporters of durables it is €1.15 billion. For comparison, the wage bill for nonessential retail is just €0.25 billion. Hence, Serbia's vulnerability comes primarily from its large manufacturing and less from services affected by the lockdown.

**Figure 16. Major Impacts, Firms with 5 or Fewer Workers**



Source: Serbian Chamber of Commerce and USAID.

## 7.2 Current Snapshots<sup>16</sup>

**In Serbia services and smaller firms have been hit hardest.** As Figure 15 shows, 22 percent of respondents have temporarily closed all operations, and another 26.5 percent have partially closed. Over half believed their March 2020 revenues had been reduced by more than 50 percent compared to 2019. For a third of the firms, this drop was above 80 percent. The survey by the Serbian Chamber of Commerce and USAID also found the situation was worse in tourism and hospitality. About 35 percent of self-employed entrepreneurs and micro-firms also expected their revenues in March to drop by more than 80 percent compared to March 2019. In contrast, 7.2 percent of medium companies (with 250 or fewer employees) and 15.4 percent of larger companies expected similarly large shortfalls.

**The reduction of demand is the most important concern of all Serbian firms, but the problem is less severe for manufacturing** (Figure 16). In rating the severity of the drop

<sup>16</sup> Of respondents to the survey, 31 percent of the firms were in manufacturing, 17 percent in trade, 18 percent in professional and administrative services, and 15 percent in other services (Figure A2.5).

in demand on a scale of 1–5, tourism had the highest average score at 4.3. Crucially for Serbia, the average score for manufacturing firms was 3.6. While fairly large, only agriculture and ICT had lower reported intensities.

**On the supply side, limitations in working time and home-based work have been the main concerns; inability to import has had only limited effects** (Figure 16). However, only 5.1 percent of firms have laid off some or all employees (Figure 15). Surveyed firms were also asked to express the intensity of various challenges on a scale from 1–5 (highest). As for the discussed labor supply constraints, the strongest effects are in tourism (4.5 average intensity) and other services (3.8 average), followed by industry and manufacturing (3.6 average). Interestingly, most firms, except those operating in trade-related sectors, had not been significantly affected by inability to import. Trade firms report a 3.4 average challenge intensity for imports, followed by industry and manufacturing at 2.7.

## 8. Broad Policy Directions

**Firms will have to adapt their business models to the new normal.**<sup>17</sup> In general, this kind of crisis has two phases, outbreak and recovery. However, with the risk of multiple waves of COVID-19, these two phases may repeat themselves. In the first phase, keeping the lights on with immediate support is necessary, especially for viable firms to retain their human resources and talent, so that

they can quickly go back to their pre-crisis levels in the recovery phase. However, for both phases, firms must also make structural adjustments in three areas if they are to survive: (1) compliance with health guidelines, such as social distancing; (2) adoption of digital technology to enable remote delivery of work and of services to consumers; and (3) access to inputs and international markets after the inevitable disruptions, which will require creative adjustments.

**Policymakers should offer both financial and business development support to help firms to adapt to new business models.** Here, access to finance in this sense should focus not only on overcoming liquidity problems but also ensuring sufficient flows into potentially risky technology adoption and innovation. The uncertainty created by the COVID-19 crisis can exacerbate access to credit in the private sector. Among policy responses are credit guarantees and expanded credit factoring programs. To complement this, business development support services and innovation and entrepreneurship support can guide firms through new business models and technologies by providing access to consultants, experience, and expertise.

<sup>17</sup> Recommendations on what countries could do to support firms and workers can be found in the following companion RER notes: “Financial Sector Vulnerabilities, Mitigation, and Policy Options”; “Social Protection Responses to COVID-19 in the Western Balkans”; and “Fiscal Policy to Flatten the Curves: Crisis Containment and Mitigation.”

## *Annex 1. Lockdown Services (Vavra 2020) and Durables Defined*

The numbers refer to the NAICS classification.

### **Food and drink services**

7223 Special Food Services  
7224 Drinking Places (Alcoholic Beverages)  
7225 Restaurants and Other Eating Places

### **Travel (transportation and hotels)**

4811 Scheduled Air Transportation  
4812 Nonscheduled Air Transportation  
4853 Taxi and Limousine Service  
4854 School and Employee Bus Transportation  
4859 Other Transit and Ground Passenger Transportation  
4881 Support Activities for Air Transportation  
4883 Support Activities for Water Transportation  
7211 Traveler Accommodation

### **Personal services**

6212 Offices of Dentists  
8121 Personal Care Services  
8129 Other Personal Services

### **Arts, recreation, and entertainment**

7111 Performing Arts Companies  
7112 Spectator Sports  
7115 Independent Artists, Writers, and Performers  
7131 Amusement Parks and Arcades  
7132 Gambling Industries  
7139 Other Amusement and Recreation Industries

### **Nonessential retail**

4411 Automobile Dealers  
4412 Other Motor Vehicle Dealers  
4421 Furniture Stores  
4422 Home Furnishings Stores

4481 Clothing Stores  
4482 Shoe Stores  
4483 Jewelry, Luggage, and Leather Goods Stores  
4511 Sporting Goods, Hobby, and Musical Instrument Stores  
4512 Book Stores and News Dealers  
4522 Department Stores  
4531 Florists  
4532 Office Supplies, Stationery, and Gift Stores  
4539 Other Miscellaneous Store Retailers  
5322 Consumer Goods Rental  
5323 General Rental Centers  
4243 Apparel, Piece Goods, and Notions Merchant Wholesalers  
4413 Automotive Parts, Accessories, and Tire Stores  
4543 Direct Selling Establishments

### **Durable Manufacturing**

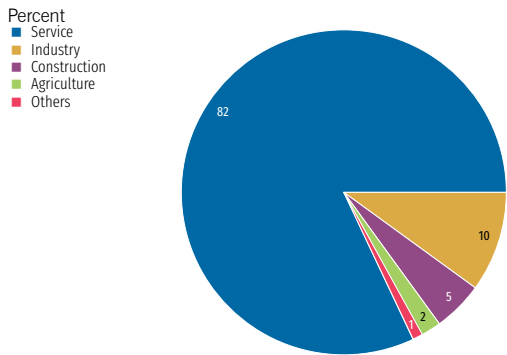
321 Wood Product Manufacturing  
327 Nonmetallic Mineral Product Manufacturing  
33 Miscellaneous Manufacturing

### **Garments and Textiles**

313 Textile Mills  
314 Textile Product Mills  
315 Apparel Manufacturing  
316 Leather and Allied Product Manufacturing

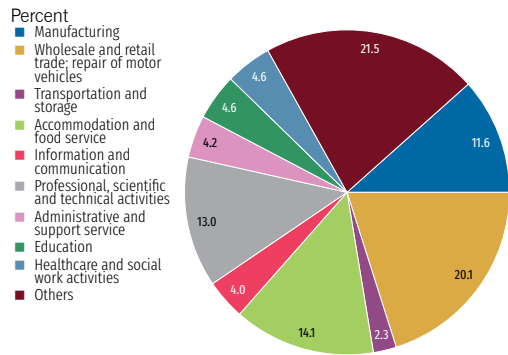
## Annex 2. Sectoral Composition of Survey Respondents by Country

Figure A2.1. Sectoral Composition, Albania



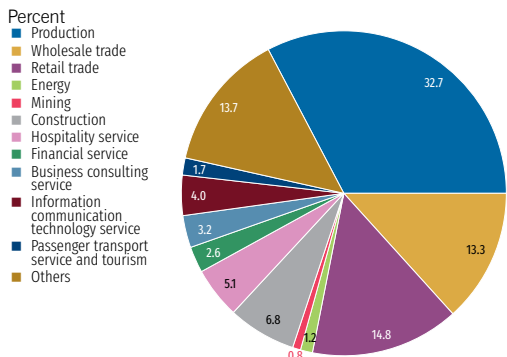
Source: IC Secretariat.

Figure A2.2. Sectoral Composition, BiH



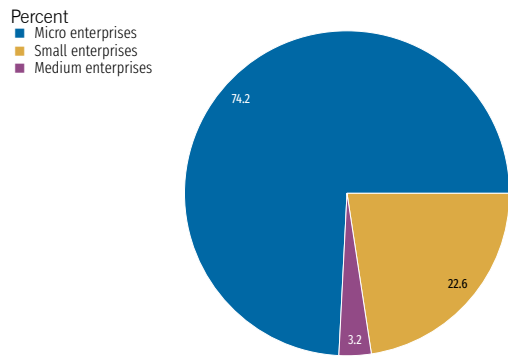
Source: Foundation 787.

Figure A2.3. Sectoral Composition, Kosovo



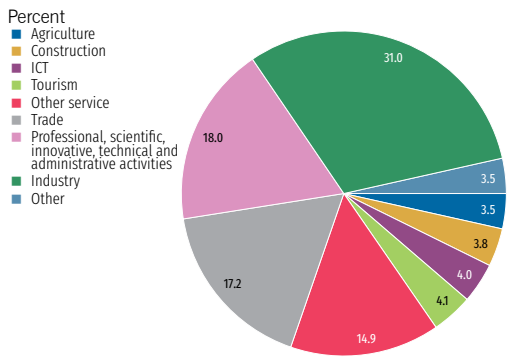
Source: RECURA.

Figure A2.4. Sectoral Composition, North Macedonia



Source: Fund for Innovation and Technology Development.

Figure A2.5. Sectoral Composition, Serbia



Source: Serbian Chamber of Commerce and USAID.









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### **You and me**

*by Tanja Burzanovic (Montenegro)*

Dr. Tatjana Burzanovic has a wide experience in the fields of graphic design, graphics in architecture, interior design. She has worked as an art editor, interior designer and graphic designer at various levels. Many of her art exhibitions have taken place at different places. She has received many awards for her arts and literary works. She has published a book with a title *The Interrelation between Art Worlds*, with the support from the Embassy of India for Austria and Montenegro in Vienna. Her artistic philosophy includes displaying of interrelationship between art worlds (spatial and temporal arts). The artist thus meditates between nature and the sprits and yet stems from the absolute idea and serves the goal of realization of absolute sprit. 'Grasping the meaning through the form' is a task of the art set by a contemporary thinker to demonstrate that building forms and creating sense are two simultaneous, intertwined, and absolutely inseparable processes in Arts. Without that recognition it is not possible to take any further step in investigating the nature of art and literature. She believes that art is a way to search the truth. Art is inseparable from searching the truth.

*People forge ideas, people mold dreams, and people create art. To connect local artists to a broader audience, the cover of this report and following editions will feature art from the Western Balkan countries.*