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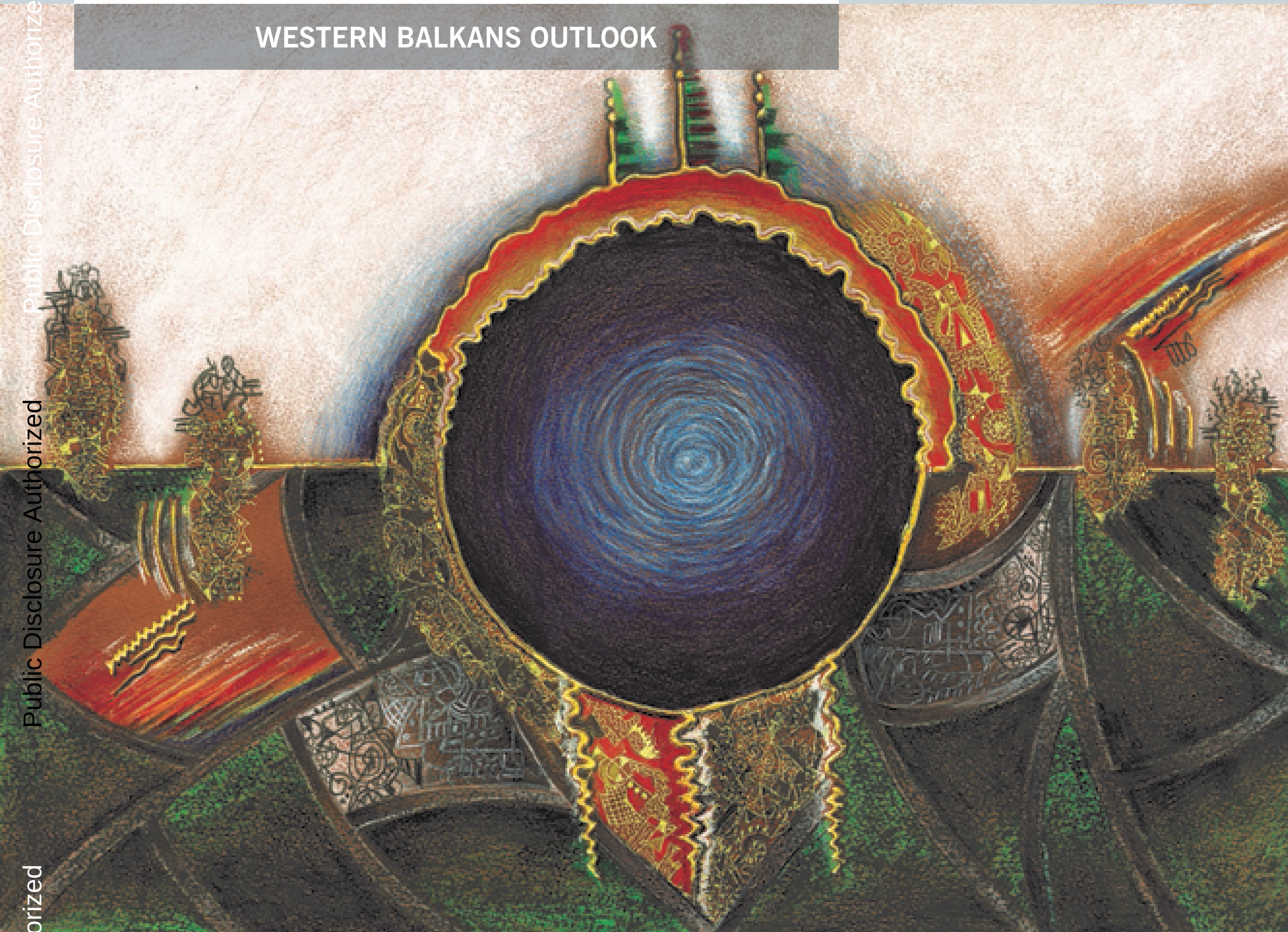
WESTERN BALKANS REGULAR ECONOMIC REPORT
No.17 | Spring 2020

The Economic and Social Impact of COVID-19

WESTERN BALKANS OUTLOOK



"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 will be published in two parts. This first part includes three Notes: "Setting the stage: Reviewing the state and vulnerabilities of the Western Balkan Economies as they face COVID-19"; "Outlook: Hard Times Require Good Economics"; and the Western Balkan Country Notes. The second part discusses the impact of COVID-19 on specific economic areas, social sectors, and on poverty and income distribution in the region and will be published in a follow-up e-launch in May.

Western Balkans Outlook: Hard Times Require Good Economics[1]

Like Europe and the rest of the world, the Western Balkans are projected to endure recessions in 2020, their extent depending on the duration of the COVID-19 pandemic. This crisis is an unprecedented shock that has taken the world and its economy by surprise. As countries shift to stay-at-home mode to slow and stop the spread of the virus, governments and societies are dealing with the high human, social, and economic costs. By April 27, there were more than 3 million confirmed cases of COVID-19 affecting at least 180 countries and putting more than 3 billion people in lockdowns. [2,3]

In this uncharted territory, economic forecasting is particularly challenging because of high uncertainty arising from extraneous factors, such as the scale and impact of interventions like social isolation, progress in developing a vaccine, the extent of supply disruptions, and changes in human behavior. The projections in this note are based on two scenarios for the COVID-19 outbreak and containment measures. The baseline scenario assumes that the outbreak in Europe begins to slow soon enough that containment measures can be lifted by the end of June and gradual recovery can start in the second half of 2020. In the downside scenario, the outbreak lingers so that containment measures cannot be lifted until late in August, with economic activity beginning to recover only in Q4.

1 This note has been prepared by Natasha Rovo, Lazar Sestovic and Collette Mari Wheeler. The note benefited from comments from Marc Tobias Schiffbauer, Edith Kikoni, Enrique Blanco Armas, Jasmin Chakeri, Gallina Vincelette and Michael Lokshin.

2 Update as of April 25; *source:* COVID-19 Tracker.

3 Source: http://dailym.ai/2UuMRCu

The Western Balkans region is projected to enter a recession in 2020 whose magnitude vitally depends on the duration of the COVID-19 outbreak in Europe

In the baseline scenario, the recession would be considerable, with growth in the region contracting by about 3 percent but with substantial differences by country based on economic structure and pre-crisis vulnerabilities.[4] Assuming the COVID-19 outbreak is largely contained by mid-2020—allowing economic activity to resume as measures to contain the virus are lifted and financial market and supply-chain disruptions ease—real GDP growth for the year would fall by 3.1 percent. Because their economic structure depends on service exports, Montenegro, Albania, and Kosovo would be hit hard, with a drop of over 8 percentage points (pp) from pre-COVID-19 2020 projections (Figure 1). Their economies are projected to contract by about 5 percent. BiH, Serbia, and North Macedonia are expected to experience only slightly less acute recessions, by 3.2, 2.5, and 1.4 percent compared to the pre-COVID-19 projections.

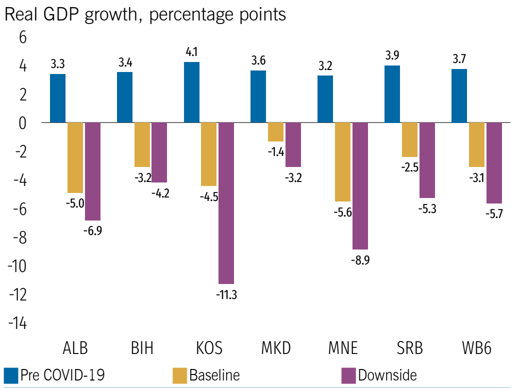
In all Western Balkan countries, the recession will be driven by a plunge in both domestic and foreign demand during the COVID-19 crisis. Global and national virus containment measures, from social distancing to business shutdowns, generate supply-side disruptions and reduce household incomes and

4 Please see the "Heatmap for the relative COVID-19 vulnerabilities in the Western Balkans" in Figure 5 of the companion RER note "Reviewing the State of the Western Balkan Economies as they face COVID-19".

consumption—a twin demand-supply shock. Services may suffer a more protracted impact while travel restrictions and social distancing measures are in place, and they account for a particularly high share of total employment in the region—75 percent in Montenegro and about 50 percent in the other countries. Household consumption will also be affected by lower remittances: they are projected to drop by 10 pp year-on-year in the region, with Serbia and Montenegro likely to experience declines of almost 20 percent. Investment is also expected to plunge in 2020 due to both liquidity constraints and acute uncertainty, with Kosovo hit hardest by a fall of 21.5 pp as delayed public investment and lower diaspora investment in real estate exacerbate the drop (Table A.1). In Albania, the potential erosion of disposable income and consumption, especially consumption of durables, will delay the reconstruction necessary because of the earthquake. Western Balkan exports of both services and goods are also projected to go down—total export growth in 2020 would range from -0.2 percent in North Macedonia to -25 percent in Albania—because of less tourism and less demand for goods from the EU and other trading partners. Imports are also expected to decelerate considerably.

A particularly severe recession will affect Montenegro, Albania, and Kosovo because of their reliance on tourism. Globally, according to the latest UNWTO assumption, international tourist arrivals could fall by as much as 30 percent, much higher than the global decline of 4 percent seen in 2009.[5] In the baseline scenario, Albania, Kosovo, and Montenegro experience a 20–35 percent fall in tourism receipts for 2020, which subtracts significantly from their 2020 GDP growth because for all three countries direct and indirect tourism receipts are estimated to account for 15 to more than 25 percent of GDP. Economic recovery in transport and tourism is also expected to be more gradual, so that growth later in the year would not compensate for the summer season losses. Only Kosovo tourism may resume faster as travel bans ease as 80 percent of its travel service exports are driven by diaspora tourism.

Figure 1. Real GDP Growth, Two Scenarios for 2020



Source: World Bank staff calculations.
Note: For the Western Balkans, real GDP growth is the weighted average. For Albania, the pre-COVID scenario includes the effects of the earthquake and reconstruction. See Table A.1 for a more detailed forecast of real GDP growth and its spending components.

Deeper integration in global value chains and dependence on EU markets equates to supply-side disruptions and a significant decline for export-oriented industry, especially for BiH, North Macedonia, and Serbia. While sectors oriented to the domestic market or connected to online services—such as agriculture, information and communication, and health—are less likely to be directly affected by the pandemic; manufacturing may see a deeper drop in 2020, from an estimated 6.5 percent in BiH up to 9 percent in Serbia. Similarly, in Q2 in North Macedonia,

5 UNWTO. 2020. International Tourism Arrivals Could Fall by 20-30% in 2020. March 26th, 2020. https://www.unwto.org/news/international-tourism-arrivals-could-fall-in-2020

manufacturing, together with construction, tourism, trade, and real estate, may contract by 11.5 percent.

Negative developments in the real sector will exacerbate existing fiscal and external imbalances, especially for countries with limited fiscal space, such as Kosovo, Montenegro, and to a lesser extent Albania. In BiH fiscal balances are projected to turn negative at -3.7 percent of GDP, after years of surpluses. Overall, fiscal deficits may reach values comparable to those in the post-global financial crisis, up to 4.7 percent in North Macedonia, 5.4 percent in Albania, and about 7 percent in Kosovo, Montenegro, and Serbia. The total external debt-to-GDP ratio in the region is expected to peak at over 70 percent of GDP, but the high financing needs may be mitigated by the international reserves, which cover from 3 to 6 months of imports in all countries in the region.

In the downside scenario, growth in the Western Balkans would plummet by about 5.7 percent in 2020, causing a more severe recession than the global financial crisis. If containment measures are extended through August, Albania, Kosovo, and Montenegro would lose most of their 2020 tourism season. This loss may amount to as much as half of expected tourism receipts, exacerbating the decline in growth. Projections for 2020 growth for these three countries are up to 15 pp less than in the pre-COVID 19 scenario.

A longer crisis may also translate into less medium-term growth for the Western Balkans because of limited domestic and foreign investments. Given the protracted reduction in business activity, employment, and income, not only may consumption in the region contract more severely in 2020 at 2.8 percent, but investment may also shrink at 7.7 percent due to uncertainty, financing constraints, and limited fiscal space (Table A.1). Countries that rely heavily on foreign direct investment (FDI), like Albania, Montenegro, and Serbia, where FDI constitutes more than 7 percent of GDP, are at higher risk of a sudden FDI stop. Growth in firm productivity may be depressed for some time as previously productive firms are forced to close, employer-employee networks are lost, and innovative but more risky investments cannot be financed because banks become more risk-averse and international investors flee to safety. The pressure on both the fiscal and external accounts would be further exacerbated.

Over the medium term, growth is expected to rebound strongly in all Western Balkan countries as life and economic activity gradually go back to normal, although the speed of the recovery depends on the duration and intensity of the pandemic. In 2021, growth is expected to bounce back to pre-COVID-19 levels except in Albania, where it may spike to 8.8 percent, and Kosovo, rising to 5.2 percent. It is expected that both consumer and investor confidence will be restored and private consumption and investments will rise. The recovery in investment and activity in vital sectors like services, tourism, construction, and energy, will support job creation. In Albania, reconstruction will be crucial to stimulate the economy in 2021. For North Macedonia, its recent acceptance by NATO and the formal invitation of the EU Council to open negotiations for joining the EU (together with Albania) should help speed up recovery. Yet the expected rebound of economic activity is subject to the assumption that the pandemic effectively fades in the second half of 2020.

A prolonged pandemic would make the unfolding economic crisis increasingly difficult to handle

It could get worse. The main risk for the Western Balkans is that, together with a challenging social and political environment, a prolonged pandemic combined with a deeper recession in the EU could make the unfolding economic crisis increasingly difficult to handle. Beyond increasing human and social costs, a longer pandemic would amplify the global spillovers from trade, financial, and commodity channels. It would also intensify the risk aversion of investors and thus the costs of borrowing, which would have significant fiscal costs for the Western Balkan countries that have high external debt-to-GDP ratios. Unfavorable exchange rate developments could further push up debt service costs (Box 1). Future waves of the COVID-19 outbreak requiring new lockdowns would further amplify economic uncertainty, as well as economic and social costs. In addition to putting pressure on both fiscal and external accounts, there is a risk that the socioeconomic crisis responses will not be effective in the new context of social distancing, imperfect penetration of online government services, and disruptions in the functioning of public administrations. North Macedonia and Serbia have postponed their Spring parliamentary elections; in BiH, Kosovo, and Montenegro, political instability may add to already high uncertainty and weigh heavily on government ability to react.

Box 1. Emerging Global Risks

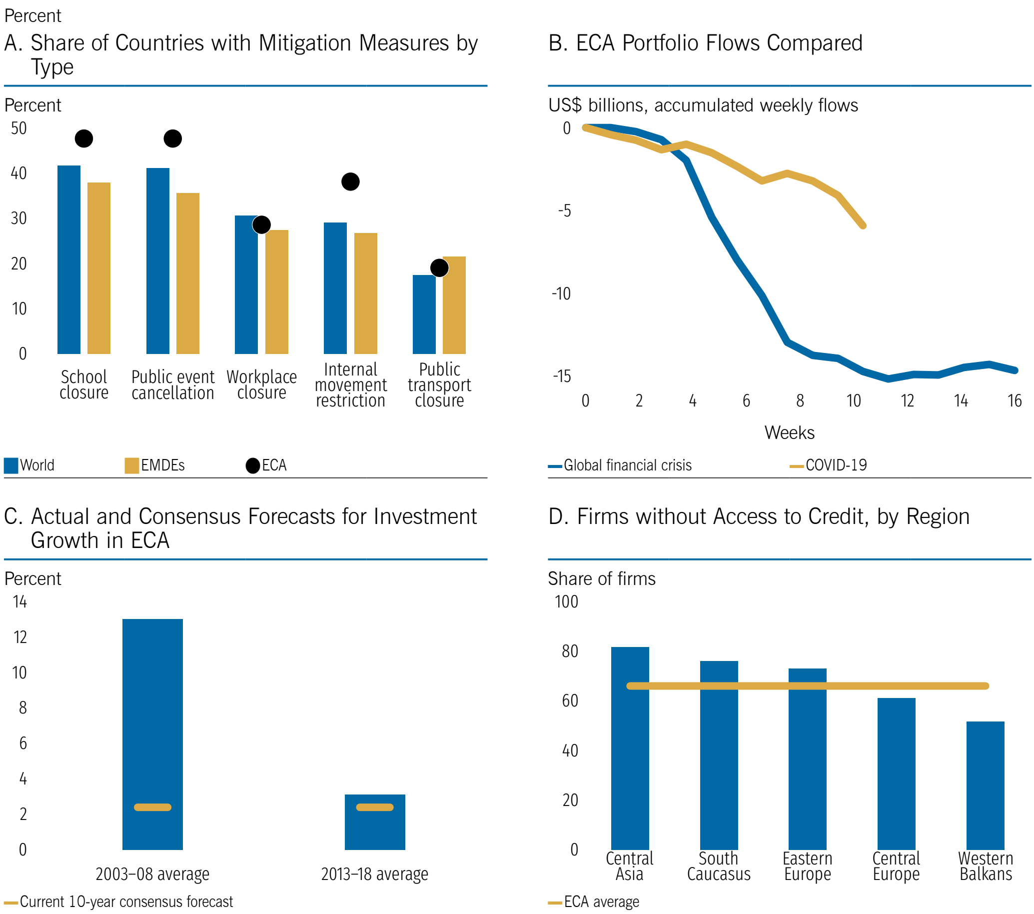
The global outlook is subject to considerable uncertainty and will depend heavily on when containment and mitigation measures can be lifted. Although initially the outbreak in Europe and Central Asia (ECA) was limited, the rapid rise of confirmed cases may force some countries to retain current mitigation measures for a considerable time. The inflection point for recovery will thus vary across the region. Mitigation measures to slow virus transmission have generated a sudden stop in activity in many economies, in ECA as elsewhere. Sectoral models suggest that the shutdown could shave as much as 2 pp off annual growth for each month the measures are in place. This approach, however, does not account for the global spillovers that are generated as external demand weakens because of containment measures in other economies; the impact is likely to be even greater in ECA given its openness to trade and financial flows.

Financial markets have been roiled by the coronavirus pandemic, with emerging market and developing economies (EMDEs) suffering from flight-to-safety outflows. Global equity markets have sunk as the coronavirus pandemic has accelerated globally, with a wide array of companies downgrading earnings estimates because of both falling demand and supply chain disruptions. EMDE assets have come under significant pressure from capital outflows that exceed the worst period of the global financial crisis (Figure B.1.1)—though so far the decline in ECA has been less pronounced. Spreads on sovereign and corporate bonds have been rising, and most EMDEs have seen drastic drops in domestic stock market indexes and currency values. Markets remain unpredictable; in March on average the VIX volatility index tripled. Further tightening in global financing conditions could increase debt-servicing costs for EMDEs, especially those like Albania, Croatia, and Montenegro whose debt is high. In economies with high external imbalances, that could generate pressure on corporate balance sheets and increase rollover risks, which could trigger widespread defaults and

Box 1 continued

the realization of contingent liabilities. A prolonged downturn would affect financial sectors in the Western Balkans by increasing nonperforming loans and undermining earnings and profitability, particularly for banks that are already undercapitalized. In turn that would constrain the ability of banks to lend and support real activity and would further dampen consumption and investment. The impact would be more severe for small and medium-sized enterprises whose access to credit is already minimal (Figure B.1.1D). Lastly, as a result of increasing financial linkages in the region, financial or banking stress in one economy could have serious repercussions elsewhere in the region.

Figure B.1.1. Effects of the Pandemic



Source: European Centre for Disease Prevention and Control; Institute of International Finance; Consensus Economics, The World Bank.
Notes: A. Data are as of March 31, 2020. B. The dates for the start of each episode: COVID-19, January 24, 2020; Global financial crisis, September 5, 2008. Sample for portfolio flows includes Hungary, Poland, Turkey, and Ukraine, for which data are available. Last observation: April 10, 2020.

Prolonged deterioration in global investment sentiment could have material implications for EMDEs in ECA, especially if it triggers a sudden stop in capital flows. Severe erosion of confidence—triggered, for instance, by a worsening of the coronavirus pandemic—could amplify capital outflows from EMDEs and put the brakes on investment, particularly foreign direct investment. Depending on how long the pandemic lasts, in 2020 FDI could fall by 5 to 15 percent.

Box 1 continued

EMDE investment prospects, which at the start of the year were already crumbling, will likely erode further as capital spending slows. The most vulnerable EMDEs are likely to be those suffering from more severe domestic outbreaks or supply chain disruptions, or that have a heavy presence in travel and transport industries and in such capital-intensive sectors as energy and high-value manufacturing. Many multinational enterprises have issued profit warnings, with average earnings being revised down by as much as 10 percent for firms that operate in ECA. This is expected to dampen reinvested earnings—an important source of FDI in ECA.

The risk of a steep drop in remittances could intensify the economic downturn, particularly for EMDEs in Europe, where personal consumption heavily depends on this critical source of income. Remittances to EMDEs are likely to suffer in 2020 as mitigation measures to slow the spread of the virus generate job losses in host countries, with migrant workers idled or furloughed. Before the pandemic, remittances in 2020 were projected to grow 4.2 percent in a broad range of EMDEs (World Bank 2020). This now appears unlikely: containment measures have halted much economic activity in diaspora countries, leading to job losses and gutting disposable incomes, often with few social safety nets for migrant workers. Remittances are also likely to come under further pressure due to increased difficulty in accessing money transfer facilities; several operators in this sector have been temporarily shut down during the pandemic.

Quick and bold mitigation measures can limit the social and economic impact of this crisis, but policymakers face critical tradeoffs

While all countries have crisis response measures in place to cushion the demand effects on labor incomes and firm bankruptcies, countries like Serbia with more fiscal buffers were able to finance larger support programs. Since the outbreak of the COVID-19, many countries have declared states of emergency, including in the Western Balkans. In BiH, Kosovo, and Montenegro, although there has been no formal declaration of a state of emergency, lockdowns and strict social distancing measures are in place. Moreover, all six governments have announced fiscal and social measures to support households and businesses during the emergency, the values ranging from 1 to 7 percent of GDP, including budgetary support but not guarantees (Table 1).

Table 1. Budget Support Measures Adopted by Western Balkan Countries, € billion

	Total	Percent of GDP
Albania	0.4	2.4
BiH	0.4	2.3
Kosovo	0.2	2.8
Montenegro	0.05	1.0
North Macedonia	0.2	2.0
Serbia	3.2	6.7

Source: Ministries of Finance, World Bank staff calculations.
Note: The estimates include budget support in 2020 but not guarantees, announced until April 22.

Most of the measures introduced in the region so far focus on supporting the cash flows of businesses to reduce bankruptcies and thus protect jobs in the next few months until COVID-19 containment restrictions can be lifted (see Table A.2). These measures are designed to mitigate the immediate social as well as economic impact of the erosion in economic demand and supply during the first phase of this crisis, while the containment restrictions to slow down the COVID-19 pandemic are still in place. Specifically, the objective is to preserve incomes and the productive capacity of the most affected parts of the economy because the temporary shutdown of businesses and travel and other restrictions jeopardize the viability of businesses in, e.g., hospitality and transport services, retail other than food, pharmacies, several personal services, and durables manufacturing. For example, Table A.2 shows that most Western Balkan countries have taken a combination of such short-term crisis mitigation measures by providing access to subsidized credit for firms, introducing for tax and loan payment cuts or deferrals, or subsidizing wages for affected firms to avoid high layoffs. Trade measures have mostly been designed to ban exports of medical equipment or food products. Although some trade measures may ameliorate the impact of the crisis, commitments to keep markets open for essential products could help avoid large price swings; export restrictions should be carefully designed to avoid unnecessary barriers to trade and disruption of global supply chains. Moreover, all countries have temporarily increased social assistance for vulnerable households and often also for pensioners. As containment measures are lifted, a second phase of crisis mitigation will begin, and governments will need to think of how to guarantee a safe and gradual re-opening of the economy and support aggregate demand to ensure a swift and equitable recovery.

The crisis response measures adopted so far align with the policy responses of most EU countries, but initial conditions in the Western Balkans and therefore the policy tradeoffs are different. The support for firms and thus jobs, as well as for the most vulnerable, is in line with the policy responses that most EU countries have adopted. Given the nature of these measures, they will primarily reach formal firms and workers. For example, wage subsidies for firms in Serbia, as in most EU countries, are conditional on keeping registered employees. But in the Western Balkans labor markets are different: employment rates are low, and self-employment, part-time, and informal firms and workers are more common. The incomes of far more of the vulnerable are drawn from informal activities; because so many of these people do not have formal jobs and are not covered by social assistance programs targeting the poor, they may receive little support. These specific local labor market characteristics should be considered when implementing crisis response measures and specifying eligibility criteria.

The uncertain duration of the pandemic is a critical dilemma for policymakers: the optimal mitigation measures for a shorter crisis with a quick recovery can be inefficient and costly if the crisis endures. The duration of the crisis is determined by the evolution of the pandemic and thus uncertain. The uncertainty about the length of the crisis generates critical tradeoffs in designing policy responses. Short-term mitigation measures that bridge the liquidity of affected firms can be very effective to preserve incomes in the first few months of the crisis. But they are expensive and may become unsustainable and ineffective if the crisis endures, and firm liquidity becomes a solvency constraint. The depletion of fiscal space would eventually require authorities to limit their support, forcing assisted firms to close or lay off workers. And it would eat up resources that could have been used for long-term programs or economic stimuli in the recovery phase. Like most emerging market economies, countries in the Western Balkans, especially those with little fiscal space, need to carefully weigh these tradeoffs.

To make economic recovery sustainable over the medium term, some countries in the region need to build into their economies more resilience to shocks; and all countries need to continue to pursue structural reforms to boost productivity growth. Several Western Balkan countries entered this crisis with high internal and external imbalances.[6] In Albania and Montenegro the magnitude of public debt limits the fiscal space for responses to the crisis. And current account deficits are high in Albania, Kosovo, Montenegro, and Serbia, exposing their dependence on external financing. The COVID-19 crisis demonstrates once more that preserving macroeconomic and financial sector stability is essential to improving regional resilience to economic shocks; such stability is a necessary condition to sustain high growth over the medium term. Greater resilience to shocks also depends on boosting productivity growth. Medium- and long-term patterns of economic development in the region depend heavily on acceleration of structural reforms to boost productivity by, e.g., reinforcing the state institutions that protect the rule of law; safeguarding private sector competition; addressing skills mismatches; and improving public services to boost human capital. Such structural reforms in combination would help unlock stronger, more equitable, and more sustainable growth, and thus ensure faster convergence with EU income levels and more resilience to external shocks like the COVID-19 pandemic.

6 See the "Heatmap for the relative COVID-19 vulnerabilities in the Western Balkans" in Figure 5 of the companion RER note, "Reviewing the State of the Western Balkan Economies as They Face COVID-19."

Table A.1. Real GDP Growth and Spending by Component in 2020, Two Scenarios

	Albania			BiH			Kosovo		
	Pre-COVID-19	**Baseline Scenario**	**Downside Scenario**	**Pre-COVID-19**	**Baseline Scenario**	**Downside Scenario**	**Pre -COVID-19**	**Baseline Scenario**	**Downside Scenario**
Real GDP growth	3.3	-5	-6.9	3.4	-3.2	-4.2	4.1	-4.5	-11.3
Consumption	3.1	-1.6	-2.2	3.3	-2.7	-3.8	3.2	1.1	-0.6
Investment	7.7	1	0.8	1	-6.2	-7.1	3.8	-21.5	-28.5
Exports	2.7	-25	-30	3	-8.8	-10	4	-12.2	-25.5
Imports	4.6	-9.5	-10.6	5	-6.5	-7.5	2.2	-6.8	-8
	Montenegro			**North Macedonia**			**Serbia**		
	Pre-COVID-19	**Baseline Scenario**	**Downside Scenario**	**Pre-COVID-19**	**Baseline Scenario**	**Downside Scenario**	**Pre-COVID-19**	**Baseline Scenario**	**Downside Scenario**
Real GDP growth	3.2	-5.6	--8.9	3.6	-1.4	-3.2	3.9	-2.5	-5.3
Consumption	2.9	-3.6	-4.8	4.3	0.6	-0.3	5.7	-2.3	-3.5
Investment	0	-8.8	-13.7	8.0	-0.4	-2.7	5.3	-5.2	-7.7
Exports	4.1	-18.5	-27.8	7.4	-0.2	-2.9	4.9	-10.2	-18.5
Imports	1.9	-12.4	-17.7	9.4	1.9	0.1	7.6	-9.7	-15.1
	Western Balkans								
	Pre-COVID-19	**Baseline Scenario**	**Downside Scenario**						
Real GDP growth	3.7	-3.1	-5.7						
Consumption	4.4	-1.7	-2.8						
Investment	4.8	-5.3	-7.7						
Exports	4.5	-11.3	-17.6						
Imports	6.3	-7.6	-10.9						

Source: World Bank staff calculations.
Note: For Albania, the Pre-COVID scenario includes the effects of the earthquake and the reconstruction.

Table A.2. Short-term Measures to Mitigate the Social and Economic Impact of the COVID-19, Western Balkans[7]

Country	Fiscal and Trade-related	Monetary and financial	Social ASSISTANCE
Albania	• Tax return submission deadline deferred from March 31 to June 1 for small businesses and CIT payment for eligible businesses rescheduled • Waiver of interest on delayed payments • Budget increase for health ministry	• Credit guarantee scheme for SMEs to pay wages • Banks allowed to defer loan repayments for those affected by COVID-19, without regulatory penalties • Reduction of the Central Bank benchmark interest rate to a record-low 0.5% and the one-day lending rate to 0.9% • Injection of unlimited liquidity into the banking sector to ensure normal functioning of the electronic payments system	• Budget increases for social transfers for the poor, small businesses, and the unemployed • Rescheduling of rental payments for affected households and small businesses
BiH	• Coordination bodies for economic stabilization. • Procedure for urgent procurements with streamlined process; • Deadlines for tax applications were extended to 30 April (in RS and FBH); and for entrepreneurs till 31 May (FBH). RS introduced tax deferral (profit tax) to 30 June; and subsequent installment payment till end 2020. • Lump-sum tax payment for the total income of micro entrepreneurs (1 or 2 employees) reduced by 60%.	• Moratorium on repayment of credits to investment development banks; • Canton Sarajevo reduced rent by 50% for the property it owns. • Guarantee funds for recovery of economy FBiH; • Guarantee and credit fund for SMEs; • Development bank of FBIH to set up credit line for improvement of liquidity of companies which business is affected by the COVID-19; • Banking Agencies have announced a six-month loan repayment moratorium for restructuring credit arrangements for individuals and legal entities which are found to have aggravated circumstances for loans repayments due to COVID-19. RS introduced a three-month moratorium on IDB loan repayments for legal entities and entrepreneurs • FBiH has adopted Law on negative economic consequence of pandemic • FBiH government has adopted budget rebalance	• In the RS the government decided to set up compensation fund to cover PIT and SSC for about 40,000 workers in those sectors that are closed by the government decision for March, April and May. In FBiH the government decided to set up stabilization fund to cover contributions on minimum wage for those affected by COVID-19 • Fund for healthcare cost coverage in RS • Fund for assistance to units of local self-governance in RS

7 The Table includes measures announced until April 24, 2020. Specific health-related measures are not reported.

Table A.2. continued

Country	Fiscal and Trade-related	Monetary and financial	Social ASSISTANCE
Kosovo	• All direct and indirect tax filing and payment deadlines postponed to April 30, with the possibility of a further extension • Postponement of financial reporting requirements to April 30 • Lifting of the 100% tariff on raw materials from SRB and BiH • VAT and customs duties on wheat and flours removed • Salary supplement of €300 ensured for public sector employees in essential sectors who are directly exposed to the risk of infection (2 months) • Additional payment of €100 for employees of grocery stores, bakeries, and pharmacies (2 months) • Increase of the budget for grants and subsidies for the Ministry of Agriculture, Forestry and Rural Development and Ministry of Culture, Youth and Sports • Support for exporters	• Late loan repayments not to be reflected by a downgrade in credit rating in the Central Bank managed credit registry until April 30 • Interest penalties for late payments to be suspended until April 30, subject to bank case-by-case reviews • Financial support for companies in financial difficulties as a result of the emergency situation (support for salary, contributions, rent payments) • Interest-free lending to public enterprises ensured (repayment by the end of 2020); • Financial support for the Municipality of the Republic of Kosovo ensured • Financial liquidity for eligible micro-enterprises, the self-employed, and commercial companies ensured • Financial support available for companies that register employees with employment contracts of at least one (1) year during the emergency public health situation, from €130 and up, for the two months after registration	• Suspension of all verification procedures for pensions and social assistance benefits until further notice • Early payment of pensions, social benefits, and farming subsidies • Additional payment of €30 a month for all beneficiaries of social and pension schemes below €100 (3 months); • Severance payments for employees who lost their jobs due to the outbreak • Double payment of the value of the social scheme (3 months) • Payment of €130 in monthly assistance for citizens with severe social conditions or declared unemployed by a competent institution, who are not beneficiaries of any monthly assistance (April, May, and June) • Supportive initiatives and projects for improving the lives of non-majority citizens

Table A.2. continued

Country	Fiscal and Trade-related	Monetary and financial	Social ASSISTANCE
Montenegro	• Postponement of PIT and social contribution payments; tax debt obligations restructured for 90 days for all firms. • 90-day postponement of rent payments for state-owned property for natural and business persons • Wage subsidies of 100% of the minimum wage for 2 months and complete exemption of taxes and contributions to the minimum wage for lockdown sectors • Wage subsidies of up to 50% of the minimum wage for other affected sectors • Wage subsidies of 75% of the minimum wage for 6 months for newly reported employees (to encourage formalization of labor) • Electricity subsidies for firms • Suspension of the variable part of earnings for central government employees • Support to agriculture sector • Increase in salaries for health workers	• New IDF credit line of €120 million primarily targeting MSMEs, 1.5% interest rate, up to €3 million per loan, with 2 years grace period and up to 8 years maturity. • Loan repayments deferred for 90 days.	• One-off support of €50 per person for pensioners, vulnerable citizens, and those unemployed • Electricity subsidies for vulnerable households.

Table A.2. continued

Country	Fiscal and Trade-related	Monetary and financial	Social ASSISTANCE
North Macedonia	• Reduction of interest and parafiscal charges • Temporary suspension of PIT payments and advance CIT payments for taxpayers who earn income from self-employment for the months of March, April, and May 2020, specifically in catering, tourism, and transport but also applicable to other sectors affected • Reduced interest rate on tax arrears and overpayments • Support to protect jobs: direct cash transfers to companies that fulfill certain criteria, to be used to pay salaries and keep workers employed • Temporary prohibition on initiating bankruptcy proceedings • Salary reduction for all elected and appointed officials, who will be paid the minimum wage • Abolition of remuneration for members of executive and supervisory boards and committees during crisis.	• Direct financial support for eligible MSMEs that become insolvent due to the coronavirus crisis • Reduction of the base Central Bank (CB) interest rate from 2 to a historic low of 1.75 percent • Temporary changes to loan terms • Reduction of the penalty interest rates for companies and individuals • Reintroduction of the non-standard reserve requirement • Extended deadline for banks to submit their first internal Liquidity Assessment Reports • Abolition of fees for withdrawing and returning cash to the CB central vault • Temporary freeze on NPL reclassification. • Zero interest rate loans for SMEs provided through the Development Bank.	• Subsidies for social contributions to eligible companies in tourism, transport, catering, and other affected companies for April, May, and June. Up to 50 percent of the contributions of the average salary paid in 2019 • Exemption from rent for the beneficiaries of social housing • Cash benefit for citizens who have lost their jobs (50% of the average employee's salary) • Temporary relaxation of the criteria for applying for social assistance
Serbia	• Moratorium on tax payments for financially stressed entities • Price controls for some medical products and basic food • Ban on export of some medicine and medical products and food and agricultural products • The fiscal stimulus plan to offer about €5.2 billion (of which €2.1 billion are loan guarantees) in tax deferrals; cash subsidies and loans and guarantees to businesses • PIT and social security deferrals delayed to 2021. • Cover for 3-month wages in micro and SMEs • Support to large enterprises: 50% of the minimum wage to all employees whose contract ended	• Reduction of the CB policy rate from 2.25% to 1.5% • The CB started regular foreign exchange swap and repo operations to provide additional liquidity (in March they reached over €400 million, 0.9% of GDP) • Moratorium on debt repayments for all businesses and individuals • Support through the Development Fund • Guarantees scheme for loans provided by banks. • Moratorium on payment of dividends and loss of tax on dividends	• One-off payment in April to pensioners (about $40 per person) • Cash transfer of €100 to all citizens.

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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.