Understanding the EU's Association Agreements
and Deep and Comprehensive Free Trade Areas
with Ukraine, Moldova and Georgia

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Exit strategies and economic recovery

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Ready to end the lockdown?

In this second bulletin, we review the latest data on the Covid–19 pandemic in the Western Balkans and Turkey, the general easing of restrictions, the economic impact so far and recovery measures.

It comes a few days after the annual economic policy dialogue between the EU and the Western Balkans as well as Turkey which was devoted to the unprecedented challenges arising from the pandemic. In addition to short term measures being taken by the countries concerned, the participants agreed that this year's policy guidance will focus on measures providing "an immediate fiscal, economic and social response to mitigate the impact of the pandemic as well as on the transition from these short term to more structural measures to foster the medium term recovery". This dialogue follows the EUR 3.3 billion package announced by the EU on 29 April to support the Western Balkans in tackling the pandemic and the post-pandemic recovery.

A reading of the massive economic damage caused by the Covid-19 crisis in the Western Balkans and Turkey and the preventive and response measures taken so far underline the critical importance of the EU's support (together with that of the EIB) and how much the countries concerned, whose economies are inextricably tied to that of the EU, are dependent on its continued assistance and solidarity for their recovery.

Epidemiological evolution

With the exception of Turkey, where the infection and death rates are continuing to rise – albeit at a slower pace than before, the number of infections and deaths due to Covid-19 appears to be under control and slowing down throughout the region. In Montenegro for example, there have been no new cases for ten days in a row.

Although the level of testing undertaken appears adequate in some countries, it nevertheless remains a weak point particularly in terms of capacity (as in Kosovo) and could be a critical factor should a second wave of infections occur.

Unwinding strategy

The easing of lockdown measures has been initiated in a phased manner throughout the region, although the speed of lifting restrictions varies considerably, with some public criticism over citizens' behaviour in not respecting physical distancing (as in Turkey) or initial lack of coordination (as in Bosnia and Herzegovina). Political considerations on the pace of unwinding have started to manifest themselves in a number of cases such as North Macedonia where the prospect of early elections has increased the pressure for more rapid easing. In Montenegro, controversy over the behaviour of Orthodox clergy continues.

Table: Infections and deaths, as per 15 May 2020

	No. of infections	Infections per 100,000	No. of deaths	Deaths per 100,000	Population (Mio)
EU/EEA + UK	1.286,952 (+70,051)	247.9	153,361 (+9,631)	30.2	507
Albania	916 (+143)	32.02	31 (=)	1.08	2,86
Bosnia and Herzegovina	2,236 (+479)	68.2	128 (+59)	3.9	3,28
Kosovo	955 (+149)	52.76	29 (+7)	1.6	1,81
Montenegro	324 (+2)	51.4	9 (+2)	1.4	0,63
North Macedonia	1,762 (+297)	85,2	98 (+21)	4.7	2,08
Serbia	10,438 (+1,429)	149.5	225 (+46)	3.2	6,98
Turkey	146,457 (+26,253)	173.6	4,055 (+881)	4.8	84,34

Authors' own compilation, based on figures from the ECDC and national authorities of SEE-7

Economic Impact and recovery measures

The predictions of the massive damage to the economies of the region are reflected in the expected decrease of between 4 and 9% in the GDP. Worst affected are Montenegro (which has a public debt of 80% of GDP) and Albania (which, after the earthquake of November 2019, suffers from a second major economic shock in less than six months).

Increased levels of unemployment remain a critical factor not least in those countries which are heavily dependent on tourism (such as Montenegro, Albania and Turkey), and exports to member states (Serbia, Turkey). In Turkey, youth unemployment is expected to reach 40%.

A drop in diaspora remittances is also a major factor in the region, with Kosovo together with Bosnia and Herzegovina being the most affected.

All countries have put in place a series of recovery measures and stimulus packages with North Macedonia's appearing to offer the most comprehensive set of measures, even including non-repayable loans to artists (and sportspersons), which would make their counterparts in the EU envious. Most of these packages include tax reductions and postponement of debt repayments, as well as in some cases loans and capital investments for SMEs, or a once off payment to all citizens (as in Serbia).

A critical factor remains that of the informal sector (which in Kosovo, for example, represents one third of GDP), with workers neither having contracts nor a social security safety net. Failure of government recovery measures to include this sector could result in further hardship and increased poverty levels, already high (according to some estimates up to 40% in Albania).

It is too early to determine whether all these measures will be sufficient, nor what impact they will have in addressing some of the most immediate needs of the citizens. A lot will depend on the efficiency and effectiveness in implementation, as well as on government oversight, respecting public procurement regulations as well as transparency in decision making by governments, some of whom (North Macedonia, Serbia) are facing electoral timelines/challenges.

	AL	BiH	KS	MNE	MK	SB	TR
Public gatherings	Restrictions on public gatherings remain in place until further notice.	All public gatherings above 20 (Federation) and 50 (RS) banned until further notice	Banned under phase I and II, No more than two 2 people are allowed out at the same time or in the same car; except for funerals	Banned until further notice	Banned until further notice; protocols for political rallies for the electoral period are being developed	Allowed since 7 May, up to 50 persons, police to be notified in advance	Normalisation steps expected in June
Places of worship	Closed; Instructions on possible opening of religious institutions to be issued on 18 May.	Open since 6 May; social distancing, face masks and hygiene rules apply	Closed, except funerals and only with immediate family members; reassessed after 18 May	Open, but during a religious ceremony only one person can be at $10m^2$, with the obligation to respect a physical distance of at least 2m (plus other protection measures)	Open; following consultations with the prime minster religious institutions called on their followers to practice religion at home	Open; religious ceremonies discouraged; public gathering laws apply	Some mosques are expected to reopen on 29 May
Personal movement	Allowed for two hours between 05:30 and 17:30 only for essential services in red zones (authorization needed). In green zones, free movement between 09:30 and 17:30, (without authorization and accompanied of a maximum of one other person).	Curfew lifted in Federation, from 22:00 to 05:00 in RS. Federation lifted its ban of all outdoor activities for <18 and >65 (15 May)	Until 18 May 2x 1.5h/day based on penultimate number of ID card. From 18 May 2x 2h/day	There are no longer restrictions on freedom of movement	A curfew for all citizens is in place from 19:00 to 05:00, with specific time slot limitations for young and elderly persons	Unrestricted as of 7 May; no more curfews; no form/authorisation needed	Easing free movement restrictions started on 11 May, but an all-day weekend curfew will stay in place in 15 big cities
Public transport	Remains suspended until further notice.	Until further notice allowed with social distancing measures, face masks and hygiene rules	Stopped; rail and urban transport will recommence on 18 May	Allowed with face masks and other protection measures	Allowed under specific conditions, with exceptions to some municipalities	Resumed on 8 May; distancing measures apply	Until further notice allowed with face masks only

Intercity travel	Allowed only for taxi services, with a maximum of 2 members of the same family, and for enterprises that conduct essential activities.	Allowed	Allowed only for the cities that are not in quarantine. Public transport for intercity travel is not allowed, only people with private cars and permits can move.	Allowed with face masks and other protection measures	Allowed; distancing rules and limited capacity up to 50% applied	Permitted as of 8 May	The ban decreased from 31 to 15 big cities, allowed for essential purposes
Shops and markets, basic services	Shops, markets and other activities offering basic services are opened during the hours of free personal movement, under strict security protocols.	Open; social distancing rules apply, face masks and hygiene rules	Grocery stores, pharmacies and bakeries have always been open. Green market and other retail shops resume on 18 May. Gastronomy will continue with take-away and resume fully from 1 June. Social distancing rules apply	Basic services were open from the very beginning (with limited working hours according to the situation) Other stores (plus beauty salons and other services) opened on 4 May, shopping malls on 15 May	Shops, market and malls are opened under specific guidelines and protocols	Initially partially open; fully resumed since 7 May; cautionary measures apply	Resume from 11 May; social distancing rules apply
Schools & universities	Schools have been closed with the exception of third year students in high school. The latter will resume on18 May, until 5 June only for the subjects of the State Matura exams Ministry of Education issued a directive for the closure of universities until the end of the academic year. Students should be back in classes for a few weeks ahead of the final exams in July and August.	Partially resume; kindergartens open (11 May)	Closed until further notice. Exams in higher education; matura and other achievement tests to be held in June. Reconsideration based on the evolving situation	Closed until further notice	Distance learning and online examination applied at all educational levels. The state exam (State Matura) has been cancelled	Remain closed until further notice	Face-to-face education at universities will begin under special conditions on 15 June, primary/secondary education will begin in September

Outdoor sporting activities	Parks remain closed for another 14 days in the green zones. For the red zones, outdoor sporting activities are yet not allowed.	Allowed	Selective opening of sporting activities	Allowed without the possibility of organising competitions without public	Allowed, under specific protocols	Allowed, with appropriate cautionary measures	Allowed; senior citizens and those below 21 are allowed to go outside only for four hours on set days
Bars, restaurants, hotels, attractions	From 18 May, service units, bars and restaurants can open for only outdoor attendance until 17:30, with strict security protocols.	Opened (15 May); Strict social distancing, face masks and hygiene rules apply	Gastronomy is expected to fully re-open after 1 June	Opened on 15 May	Bars and restaurants are opened only for self-service and delivery. No restrictions, but in general hotels and attractions remain closed	Bars and restaurants reopened on 4 May, Hotels remained open; cautionary measures apply	Reopening of libraries, museums, picnic areas, tea gardens, local community centres, and pools on 15 June
International borders	Remain closed for all citizens except for repatriation. In all cases a 14-day quarantine is required.	Only essential arrivals of citizens and residents are allowed until 1 June; 14-day self-quarantine for incoming passengers	Borders are closed; only essential arrivals of citizens and residents are allowed; 14 day quarantine for incoming passengers. Reassessment in Phase III.	Closed; 14-day quarantine for incoming passengers	Essential arrivals are allowed. Mandatory quarantine of 21 days applied, with exception of public officials	As of 12 May, citizens permitted entry only with negative PCR test, or with mandatory 14-day home isolation; foreign citizens permitted entry only with negative PCR test and special permit; land borders remain closed; to be partially reopened early June	Borders that were closed are set to open on 15 June

ALBANIA

1. General overview: While the number of infections in Albania has increased to 916 (+143), the number of fatalities (31) has remained unchanged since 30 April. In this regard, Albania has experienced a steady trend also in the number of new infections. **Status: The situation with Covid-19 pandemic crisis seems stable.**

2. Unwinding strategy: The lockdown measures in Albania were very strict and introduced comparatively early. Restrictions remain in place and the population has been compliant. Currently there is a debate about accompanying the easing of restrictions on personal movements with similar measures for shops, transport and work conditions in densely populated factory halls. The government maintains warnings of a possible reversal if the number of the infected people increases. Slowly, the Covid-19 discourse is shifting from health repercussions toward social and economic consequences, and on its eventual impact on individual freedoms. **Status: Stable with prospects of easing lockdown measures.**

3. Economic impact and recovery measures: The Albanian economy is largely based on agriculture (19% of GDP), trade (12% of GDP), services (22% of GDP). Budget expenditures are low - at 30% of GDP (of which 5% are capital expenditures) - and this is related with the comparatively low tax revenues (27% of GDP). The economy of Albania is highly affected by the Covid-19 crisis due to: (i) its dependence on tourism; (ii) its very high dependence from Italy on supplying low value-added intermediate goods to its fashion industry; (iii) a reduction in remittances; and iv) structural weaknesses such as a high rate of informality, a high share of self-employment and of low-added value jobs mostly in trade and services. Very importantly, Covid-19 caused the second economic shock for Albania after the devastating earthquake that hit Central Albania on 26 November 2019. National currency fell up to 6.5% against the euro in the first days of the Covid-19 outbreak, but has now been stabilized close to pre-crisis level.

Early projections following the earthquake and the Covid-19 pandemic suggest that poverty will continue to hover around 40% in 2020, essentially wiping out any poverty reduction progress from recent growth years. The Central Bank of Albania estimates that a 10% drop in all demand components - family consumption, investment and exports - employment would decrease by about 8.3%, while the unemployment rate would increase by 7.4%.

The government has adopted two support packages for people and businesses affected by the Covid-19 pandemic of a combined size of 45 billion Lek, or EUR 360 million (2.8% of GDP). They consist of budget spending, sovereign guarantees and tax deferrals:

i) direct budget support is 0.86% of GDP, limited by the high debt level (67% of GDP at the end of 2019) and from low fiscal revenues (27% of GDP). This direct support goes to small businesses/self-employed that are forced to close activities due to the Covid-19 crisis (paying minimum salaries of EUR 210 per month for three months) for 60,000 employees (up to two in the case of family businesses with unpaid family members); doubling of the unemployment benefits; and of social assistance. The second support consists of one-off transfer of Lek 40,000 (circa EUR 320) to employees of small businesses affected by the pandemic not covered in the first package for 176,000 families. Therefore, about 236,000 employees (or 46% of the total number of employees in the private sector) benefit from direct supporting schemes;

ii) two sovereign guarantee schemes (1.5% of GDP) to provide loans for working capital and paying wage have been approved;

iii) the government has also adopted tax deferral measures allowing all companies (except banks, telecommunication companies, public enterprises and companies in the chain of supply of essential goods) to defer payment of profit tax until after September. The profit tax for small businesses has been cancelled for 2020.

The IMF predicts that due to the earthquake and the Covid-19 pandemic the country's public debt will reach 75.6% of GDP in 2020 (an increase of 10%). According to IMF forecasts, public revenues will be at least 15% lower compared to the initial planning for 2020. The IMF Executive Board approved USD 190.5 million in emergency support to Albania to combat the pandemic and to address Albania's urgent needs on balance of payments.

The EU has reallocated EUR 50 million in IPA II funding to help Albania fight the coronavirus crisis and its impact on the economy. The financial assistance will include EUR 4 million for immediate equipment and health support, and EUR 11 million for social protection. The EU has pledged another EUR 180 million in loans for Albania's economic recovery.

Status: As forecasted by the EBRD, the Covid-19 crisis will hit the Albanian economy the hardest of all Western Balkan countries. This is due to structural weaknesses. Limited by high public debt and low fiscal revenues, the Albanian Government is providing comparatively less direct support to its economy.

BOSNIA AND HERZEGOVINA

1. General overview: By 15 May, the authorities in Bosnia and Herzegovina reported 2,236 confirmed cases, of which 128 died and 1,336 recovered (772 active cases). The total number of performed tests was 47,149 (data for the number of persons tested is not available). Almost half (59 people or 46%) of all deaths were registered in the first half of May. Of those, 53 people died in Republika Srpska. This increase is linked to the virus spreading unnoticed within the main medical facility in Banja Luka and in one elderly home in Derventa**. Status: The doubling of cases continued to slow down from every 22 days on 30 April to 30 days on 15 May.**

2. Unwinding strategy: The Federation's decision to lift the curfew as of 24 April provoked a country-wide debate whether sub-state authorities should rather ease restrictions in a coordinated way with some success in better coordination. As the number of confirmed cases continued to decline, the debate has increasingly focused on how self-disciplined citizens are and whether restrictions on travel to and from neighbouring countries should be eased (e.g. by lifting the need for 14-day self-isolation upon return to the country). **Status: some corrections after an uncoordinated start of the implementation of the exit strategy.**

3. Economic impact and recovery measures: The economy of Bosnia and Herzegovina is largely based on services. Public expenditure is high (40 to 45%) and the 2019 UNDP Human Development Index put the country in the high human development category (75th out of 189 countries). The IMF has projected the GDP to decline by 5% in 2020 "due to plummeting external and domestic demand, aggravated by a significant slowdown in remittances." Official figures show that more than 30,000 people lost their jobs since the start of the pandemic and until 30 April (no data for May). Due to a large informal economy (30 to 35% in 2016, IMF estimate) this number is surely higher. Demand for social support has seen a sharp increase (Red Cross reports).

Due to its federal structure, Bosnia and Herzegovina has a highly decentralised economic policy. The authorities have been criticised for not reacting in a more coordinated manner but by mid-May they seemed to be implementing similar measures. Both entities froze prices on groceries early on. They have also allocated part of the funds (so far EUR 25 million in Republika Srpska and EUR 40 million in the Federation) that would serve as guarantee for businesses taking loans at commercial banks. Both entities decided to take over part of the financing of employment benefits for businesses that were affected by the pandemic (e.g. had to be closed). Furthermore, they eased tax rules (e.g. tax return for 2019 was paid out earlier and some tax forepayment were postponed). According to investigative media reports, emergency measures have led to an increase in corruption in public procurement. Experts and the wider public have complained about the slow reaction of the judicial authorities to these reports.

For April 2020 alone, authorities across the country have reported a drop of revenues ranging from 19% (Republika Srpska) to 38% (Tuzla Canton). All levels of governments are revising their budgets with an expectation of a significant decrease in revenues to be covered by domestic and international loans. So far, the government has agreed to take on EUR 330 million in loans from the IMF (the distribution of money is pending due to political disagreements in the Federation). The European Commission has provided EUR 7 million of immediate support for the health sector, 73.5 million euros in grants for social and economic recovery (redistribution of unused IPA II funds) and EUR 250 million in loans for macro-financial assistance. The impact of these measures will depend on the ability of the authorities to implement the agreed measures and introduce additional ones in an open and transparent manner, dimensions of good governance where in past governments have performed poorly. Bosnia and Herzegovina has no access to the EU Solidarity Fund.

Status: wide-ranging measures were criticized being too little too late. Impact of implementation uncertain.

KOSOVO

1. General overview: The pandemic Covid-19 is kept under control with 235 active cases. Between 27 April and 11 May the number of recovered cases was higher than the number of infected. Yet, from 12 May the number of cases with Covid-19 infections began to slowly rise again. Until 15 May, 11,178 tests have been carried out**. Status: Number of recovered is rising but there is a fear for a second wave of infections with the gradual opening.**

2. Unwinding strategy: The citizens have generally respected the confinement rules. On 4 May, the government began easing the lockdown measures, which should develop in three phases. Phase I (4-18 May) includes the partial reopening of retail, construction, real estate, and consultancy offices. Phase II (18 May-1 June) allows citizens to circulate for 2x 2 hours, scheduled by the penultimate digit of their ID card, while respecting the social distancing. It also includes fully opening retail, dentists and physiotherapists, hairdressers and hair salons, the green market, urban transport and museums. Phase III (1 June) allows the circulation of citizens, taxi services, the selective opening of sports activities, gastronomy in general, exams in higher education. **Status: The unwinding strategy is working; citizens are generally satisfied with how the government has managed the situation.**

3. Economic impact and recovery measures: Kosovo's economy is largely based on services and public expenditure; and the standard of living is the lowest compared to other countries in the region with USD 4,458 per capita, according to the World Bank 2019 estimate GDP. Kosovo's budget for 2020 is EUR 2.357 billion. The informal economy forms one third of Kosovo's EUR 7,3 billion GDP; equally between 30-40% of employees work without contract or social security. The Government and the Tax Administration of Kosovo (TAK) have struggled to guarantee the fiscalisation of businesses so they can fight fraud and ensure that shops and businesses report transactions to the competent authorities. TAK claims that only 30,000 out of 160,000 registered businesses pay taxes. The EU Commission reports that only 25% of employees in the workforce have permanent contracts, while 74,5% work on temporary contracts. Due to Covid-19, TAK has extended the deadline for tax payments until 30 June. The Central Bank has similarly instructed commercial banks to delay the loan payments for companies and households. According to World Bank's latest Regular Economic Report the containment measures are straining investment, private consumption, but also exports and remittances from the diaspora. They estimate that the GDP will drop by 4.5%. Their 'Impact of Covid19 2020 report', estimates that service exports constitute around 23.7 % of the GDP of which 80 % relate to travel from the diaspora. According to the Central Bank, Kosovo received EUR 745.5 million in remittances in 2018. The diaspora, which is estimated to form one third of the population, plays a major role in providing the essential means for living of a large portion of families. Their contribution is estimated to drop by at least 20%. Taking these into account, the World Bank forecasts a significant shortfall of public revenues. The change could affect the consumer behaviour after the outbreak. Although consumption may rebound as the economy recovers, service exports and investment will take longer to recover. A lot of companies have already declared a huge financial loss and decline in their production capacities. According to the survey commissioned by the Chambers of Commerce, 95% of the surveyed enterprises have qualified the impact of Covid-19 as negative. 50.4% expressed concerns regarding their ability to survive the crisis. 29.2% have declared that within the third week they reduced the number of staff. 38.6% of construction companies that were surveyed declared that they have entirely stopped their operations. 47.9% of retail trade and 38.4% of wholesale declared the same thing. Kosovo's Minister of Finance stated in an interview, that Kosovo loses up to 6 million euros per day from the pandemic. To mitigate such losses there is a great reliance on foreign aid.

The Government of Norway donated EUR 450,000 to Kosovo; Switzerland 500,000 CHF. The UNDP has donated 3,000 Covid-19 kits; Luxembourg donated 5000 Covid-19 kits. In an unprecedented move, Serbia donated (and Kosovo accepted) 1000 Covid-19 kits. The EU Science Hub donated test calibration material which is sufficient to validate 60,000 tests. Turkey donated 1000 Covid-19 kits and a high number of protective masks, protective suits and other medical equipment's. On 25 March, the European Commission decided to reallocate EUR 68 million of IPA funds to Kosovo to fight the pandemic. Of this package, the EU allocated EUR 5 million to assist Kosovo in the health sector by providing medical supplies, test kits and equipment. On 20 May, the EU Council decided on EUR100 million in loans to assist Kosovo in dealing with the economic fall-out of the crisis. There is no risk of devaluation of the national currency because Kosovo uses the euro.

Status: The containment measures have severely weakened the economy.

MONTENEGRO

1. General overview: In the first half of May, the number of infected people increased by two to a total of 324, with an additional two fatalities to be mourned. 311 persons recovered, with only 4 cases active on 15 May. No new cases have been reported for 10 days in a row. The number of tested per day varied, with the highest recordings at 294 per day, and 66 as the lowest. **Status: the situation is under control.**

2. Unwinding strategy: Given the epidemiological evolution, the government's roadmap for easing lockdown measures was generally welcomed. However, after a violation of measures by supporters of the Serbian Orthodox Church in Niksic on 12 May (the Day of Saint Basil of Ostrog which is normally widely respected and celebrated in Montenegro), followed by the arrest and detention of bishops and priests, a revolt among the local population triggered new gatherings throughout the country. The situation only calmed down after the clergymen were released from custody. It is still uncertain what consequences the demonstrations may have on the epidemiological situation. **Status: The measures have been significantly relaxed.**

3. Economic impact and recovery measures: Montenegro has a vulnerable economy that relies mainly on tourism as well as foreign direct investments from the EU and, increasingly, non-EU countries. The tourism sector's direct and indirect contribution accounts for around 25% of the GDP and 18% of investments. As a large number of countries keep their borders closed and have restrictions in place, it is still not possible to estimate the extent to which the tourist season in Montenegro will be damaged by the epidemic. It will also affect wages and employment in all sectors that are directly or indirectly dependent on tourism. Data from the Employment Agency at the end of April show that the unemployment rate was 17.4%. The consequences for internal labour market mobility will be massive, as the need for part-time employment during the summer season will be far less than in previous years.

According to a forecast of the IMF from mid-April, Montenegro's GDP is expected to fall by 9% in 2020. Due to a large increase in government debt, including guarantees due to the construction of the Bar-Belgrade highway, which is being built by the China Road and Bridge Corporation, Montenegro's public debt in 2018 amounted to 79% of GDP, 80% in 2019, and it is expected to increase by an additional 2.6% in 2020.

The government has adopted a number of measures to alleviate the effects of the epidemic on the population and the economy including postponement of loans' repayment at the citizens' request, postponements of payment of taxes and contributions on earnings, loans to improve the liquidity of entrepreneurs, micro, small, medium-sized and large enterprises. One-off short-term assistance in the amount of 50 euros is offered to pensioners and social beneficiaries. One million euros is allocated for this purpose.

The support the country has received from the EU amounts EUR 3 million in immediate support for the health sector and EUR 50 million in support of social and economic recovery by reprogramming already available pre-accession funds dedicated to Montenegro. On 20 May, the Council of the EU decided on a new EUR 60 million macro-financial assistance package to lessen the blow of the Covid-19 crisis on the Montenegrin economy.

Status: Despite the measures taken, the epidemic will have a huge impact on the economy.

NORTH MACEDONIA

1. General overview: The country entered in its 11th week of the Covid-19 pandemic. The Commission of infectious diseases assesses the situation as stable and a further reduction in the spread of the virus is expected. The reproductive rate is below 1 with only local transmission and epidemiological linkage identified for 80% of the patients. By mid-May, 21,010 tests had been conducted with an average of 10,154 per 1 million inhabitants. Targeted screening in kindergarten commenced in Skopje and Bitola. **Status: The situation remains stable.**

2. Unwinding strategy: The government's easing of lockdown measures will happen in three phases according to three criteria assessed at each stage. There are concerns that pressure from businesses, the need for a proper government and the push to hold early elections are politicising the Ministry of Health decisions. The government allowed initial re-establishment of work activities (planned for phase two), even though the state of emergency and curfew remain in place (current phase one). There are fears that the announced guidelines for electoral campaigns, which allow rallies, tolerance to religious public gatherings and public officials circumvent mandatory quarantine without testing after international travel, pose a risk in the care-taking government's exit strategy. **Status: There is a push to accelerate the implementation of the exit strategy.**

3. Economic impact and recovery measures: Before the Covid-19 crisis, economic growth was solid, with strong domestic demand and resilient exports. The services sector represented 54.2% of the GDP the agriculture stood at 7.2%, while the industry accounted for 23.6% of the GDP. SMEs represented 99% of the companies, employment in these companies accounted for 76.6% and 66% gross value added.

The Ministry of Finance forecasts a 16.8% decline in exports and 15.8% in imports. Private consumption is expected to fall by 3.3%, while public spending to grow by 2.7%. Gross investment will fall by 9.6%. Thus, economic activity is expected to decline by 3.4% in 2020. This is the biggest drop since 2001. April polls show 20.6% of workers have lost their jobs while 38% of the employed already have or expect reduced incomes. There is no clear account on the effect of the crisis on the workers in the informal economy (18.1% in 2018).

The Central Bank reduced the main interest rate to a historically low 1.5%. The offer of treasury bills was lowered by around EUR 241 million to encourage credit activity and provide liquidity in the banking system. The national currency remains stable, but in April the Central Bank intervened in the foreign exchange market by selling EUR 28 million.

The first and second sets of macro-financial support measures were presented in Bulletin No.1. A third set of measures estimated at EUR 355 million is meant to aid further recovery. The first pillar in this set are payment cards for domestic products and domestic tourism vouchers while young people will benefit from tuition fees subsidies and IT and digital skills training vouchers. The second is financial support for companies through interest-free loans with grant component for female run companies, employment of young people or innovation and digitalisation in operations. Export-oriented companies will benefit from customs debt guarantee. SMEs and start-ups from loans and capital investments, respectively. Other programmes include competitiveness and modernisation, a digital platform for textile companies, co-finance for events and conferences. The third pillar focuses on restructuring of the agriculture sector with credits guarantees, increased green fuel subsidies, stimulus for fine grape products, public private partnerships in viticulture and tobacco sector, and consolidation of agricultural land.

Combined with the first two, the allocated budget totals EUR 550 million or 5.5% of GDP. With snap elections expected before the implementation of the third set, there are two main concerns. Firstly, a new government may not follow this plan in full, adding uncertainty to households and businesses. Secondly, with some business groups and worker unions contesting the plans, fears grow that the package is insufficient or may have been politicised.

The current government nonetheless adopted a budget rebalance that provides fiscal space for the third set to be financed. The budget deficit for 2020 is estimated at 6.8% of GDP, while public debt is expected to increase to 50.7% of GDP. Overall, North Macedonia remains a moderately indebted country.

The government reached out to several partners to secure finance. The IMF landed EUR 176 million while the World Bank provided EUR 140 million. The EU contributes through the reallocation of EUR 66 million unused IPA funds to fight the pandemic and macro-financial assistance to the tune of EUR 160 million in loans for economic recovery. A new 'Eurobond' will amount up to EUR 800 million for financing the budget deficit for 2020-21 and repayment of government debt.

Status: Massive impact on the economy, as well as massive government response coupled with political risks due to pending elections.

SERBIA

1. General overview: Even though the state of emergency has been lifted on 7 May, testing is still being conducted, with new cases and fatalities still reported daily. To date, 168,670 persons were tested for Covid-19. It would seem that the rate of infection is indeed slowing down, though the curve is not yet flattened. **Status: Stable; effects of exit strategy remain to be seen.**

2. Unwinding strategy: During the lockdown, debate primarily focused on the severity of the measures, as many believed them to be excessive. Since the state of emergency has ended, there are now concerns that the liberalisation is occurring too fast. As there are still new cases and fatalities daily, along with concerns of a second wave, some question the prudence of rapid unwinding. Precautionary measures, i.e. masks, gloves and distancing, are adhered to by most people. That said, there are some who disregard these measures. **Status: Concerns over the scope and speed of the liberalisation, looming question of a second outbreak.**

3. Economic impact and recovery measures[3]: The Serbian economy is primarily based on services (~68%), and to a lesser extent on industry (~26%) and agriculture (~6%). In 2019, public expenditure was estimated at around 41.2% of GDP, while the living standard is considered to be relatively low when compared to the European average.

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[3] N.B.: There is scarce recent data showing the impact of the Covid-19 crisis, presumably due to the nation-wide lockdown and ongoing crisis. Therefore the available data is not well suited for adequately judging the impact of the crisis on the Serbian economy. Nevertheless, all of the following figures are based on the most recent available official data.

In 2019, the GDP of Serbia amounted to USD 51.5 billion, with a growth of 4.2%. However, it is now expected that GDP will fall by 3.5% in 2020 (EBRD forecast). Foreign Direct Investment in Serbia amounted to EUR 279 million (Feb 2020), a monthly increase of 1.67%. Serbian imports amount to $2.34 billion, while exports amount to USD 1.53 billion (March 2020). Private consumption was recorded at RSD956 billion – approximately EUR 8.13 billion (January 2020), a 2.12% increase since the previous month. Remittances in 2019 were approximately 5.2% of GDP. The currency, the Serbian Dinar (RSD) has depreciated by approximately 3% since the beginning of the year, currently at 117.5 RSD to 1 euro. As mentioned, it is expected that the GDP and the other indicators listed will decrease further, and that the economy faces a recession.

The unemployment rate has risen rapidly since the start of the crisis. While there are no official numbers available, the Serbian finance minister has stated that the unemployment as of May 15 was "around 10%", an expected increase from the 9.5% measured at the end of 2019. Most international reports, such as that by the World Bank and OECD, suggest that unemployment will continue to rise. Adequate recent data on poverty and informal economy are not available. Predictions suggest that all of these indicators will be negatively impacted by the ongoing crisis.

In order to combat the fallout of the crisis, the Serbian government has adopted a set of state aid measures and an economic package worth EUR 5.1 billion. The set of measures introduced deals with three distinct aspects. One concerns tax policy measures and direct assistance to the private sector, involving easing the tax policy provided the businesses do not reduce their workforce by more than 10%. The second set deals with financial support to companies for maintaining liquidity, allocating EUR 204.1 million for lending purposes, i.e. to support companies in the procurement of capital and maintaining liquidity. The third set deals with simplifying the procedure for issuing debt securities. For the duration of the state of emergency, the obligation to pay taxes was postponed. The government will pay three months' worth of minimum monthly salary to every SME employee in Serbia to further alleviate pressure. Finally, every adult citizen of Serbia was promised a direct payment of EUR 100, to be paid in early June.

The National Bank of Serbia lowered its key policy rate from 2.25% to as low as 1.5%, while also providing bank liquidity via currency swap auctions and repurchase auctions. Furthermore, the NBS introduced a three-month moratorium on repayment of obligations, i.e. loans and financial leasing agreements.

Foreign aid plays a crucial role in the economic response to the pandemic. While multiple foreign partners have provided assistance in the form of donations and favourable offers of financial aid and equipment, the EU stands out as the principal source of foreign aid. Announcing a package of EUR 93 million to be relocated from the IPA II fund (Instrument of Pre-Accession Assistance), as well as donating and financially/logistically supporting the acquisition of much needed equipment, the EU has done much to alleviate the pressure that rests on Serbia's shoulders in this crisis. Furthermore, the EU has involved Serbia in multiple regional and Europe-wide initiatives, such as the "Green Lanes" system, the EU mechanism for joint procurement of medical supplies as well as offering access to the EU Solidarity Fund.

Status: Severe impact on economy, with recession all but inevitable; limited but adequate measures primarily aimed at job retention, support for SMEs and liquidity maintenance.

TURKEY

1. General overview: While the outbreak in Turkey has been slowing down, the total number of deaths and those who are infected is still rising. According to the official figures, as of May 15, Turkey had 146,457 known cases, 4,055 deaths, and 106,133 recovering from the virus. Over 1,547,389 tests had been completed, with an average of some 31,000 tests per day in the first half of May. On 6 May, the Turkish Health Minister announced that Turkey had the pandemic "under control" and that the "first phase" of the crisis was over and he offered a "controlled social life". **Status: the numbers of infections and deaths are declining gradually.**

2. Unwinding strategy: The government has loosened some of the curfew measures and is considering taking further normalisation steps starting in June. The number of cities where a curfew is imposed on weekends and national holidays decreased first to 24, and then to 15 big cities. After seven weeks, Turkey's senior citizens and those aged below 21 were allowed to go outside for four hours on set days. On 11 May, shopping centres, barbers and hairdressers reopened, with only a limited number of people, but restaurants and cafes remain closed. 2.3 million Turks visited shopping centres in the first two days and the Health Minister complained that people who rushed to the malls were not observing social distancing. There is also some criticism about opening shopping malls before opening public spaces and risking workers' health in the malls. **Status: loosened measures with instances of undisciplined behaviour.**

3. Economic impact and recovery measures: Turkey is an emerging market economy driven by industrial and service sectors, and where traditional agriculture still occupies an important place. According to recent data from the Turkish Statistical Institute (TUIK), 15.5% of people are employed in the agriculture sector, 20.9% in industry, 5.2% in construction, and 58.3% in service sectors.

The coronavirus outbreak threatens an already fragile Turkish economy, which had entered a recession in the summer of 2018 and had limited policy options because of its low fiscal space, and reliance on capital flows. According to IMF's World Economic Outlook of April 2020, a 5% decrease in GDP and close to a 17.2% unemployment rate is expected for this year. According to *The Economist*, the current account balance is -2.9% of GDP in 2020. Moreover, from the start of the outbreak, public spending has grown by 16%, increasing the budget deficit to over EUR 16 billion. The EBRD expects the Turkish economy to contract by 3.5% in 2020, but a forecast published on 13 May predicts a strong recovery in 2021 if the government is able to prioritise "providing liquidity to the economy, particularly SMEs, and revenue support to vulnerable workers and other individuals".

The Turkish lira hit a record low on 7 May, trading at 7.26 TL per USD, and losing 16.4% of its value relative to the USD since May 2019. To limit the impact of the outbreak, the central bank lowered the amount of reserves and cut interest rates to 8.75%. In the export sector, a new lending facility for SMEs was set up. On 7 May, Turkey's Banking Regulation and Supervision Agency (BDDK) issued anti-manipulation rules to block institutions from spreading "false or misleading information" in financial markets and transactions damaging financial stability. Yet, on 11 May, the BDDK dropped a "short-lived" ban on three foreign banks from trading Turkish lira. To strengthen state-owned banks, the Turkish Wealth Fund decided to inject nearly USD 3 billion into Ziraat Bank, Halkbank, and Vakifbank.

Turkey's economy is dependent largely on capital inflows and in December 2019 foreign debt stood at USD 473 billion. According to the World Bank's 'Impact of COVID-19' economic outlook, the global disruption will impact exports, tourism, and finance sectors the most. The size of the external debt payment is more than 20% of the GDP, and as global capital flows are reversed, Turkey carries an important risk given that the private sector holds high levels of foreign debt. According to the TUIK, exports in March 2020 amounted to USD 13.4 billion, a fall of 8.3% compared to February 2020 and 17.8% compared to March 2019. The continuing partial lockdowns in European countries, which are the main export markets for Turkey's automobiles and textiles, create more problems for the Turkish economy. According to the Turkish Exporters' Association's data for April, exports declined by 41% compared to the same month last year. The current account deficit reached USD 4.9 billion in March. The inflation rate is 12% in 2020, which leads to concerns over possible food price volatility. The inflation rate announced by TUIK for April was 0.85% compared to the previous month and 10.94% compared to the same month of the previous year.

The seasonally adjusted unemployment rate in Turkey was 12.7% in February 2020, while youth unemployment stood at 23.4%. A massive increase in unemployment is estimated for 2020: three million people are expected to lose their jobs, and the youth unemployment rate might hit the 40% mark. The main opposition party, the CHP, claims that the impact of Covid-19 on employment has not yet been fully observed since the figures refer to the average over the first quarter of 2020. Moreover, the government's policies aimed at reducing the economic fall-out of the pandemic seem to ignore informal workers, who are among the most vulnerable people.

In terms of crisis response, the government has announced multiple stimulus packages to support vulnerable households, workers, and businesses, and provided USD 15 billion in support for workers' salaries, which is equivalent to 2% of GDP. This includes several tax reductions and the postponement of debt payments for up to 12 months, such as rental payments on state-owned properties, water bills, payments on student loans, and agricultural loans. To ease the liquidity of SMEs, the government decided to defer loan repayment, expand credit guarantees, and provide low-cost loans through state banks. The performance payments of medical personnel have been maximised. Moreover, a short employment allowance was introduced for workers forced to take unpaid leave due to the outbreak. As of 27 April, 292,000 companies benefited from these economic measures, covering 3.19 million workers.

Economists fear that the government's measures are not sufficient. There are concerns that domestic resources are not enough for the economic recovery. Turkey's stimulus package is not as extensive as that of many other European countries. Moreover, the government's fiscal response package is not transparent, making it hard to fully account for the direct income support. Before the outbreak, Turkey had wrong-footed economic and monetary choices especially with interest rates and by refusing to approach the IMF. Talks over IMF financing were suspended in March, even if the business community sees financial support of the IMF as essential for tackling the country's public debt. To support the Turkish health system, the World Bank said that it has approved USD 100 million. The European Commission redirected EUR 8.75 million in pre-accession funding for the prevention and the treatment of Covid-19 cases. On 19 May, the European Commission and the European Central Bank released a joint statement with the Western Balkans and Turkey and agreed on a continued economic policy dialogue. However, the EU's 3 billion euro macro-financial assistance package released on 22 April does not cover Turkey. Turkey has expressed an interest in receiving assistance from the EU Solidarity Fund.

Status: The Covid-19 crisis has a massive impact on the Turkish economy, and the counter-recession measures are weak due to lack of fiscal capacity.