



# The Effect Of Covid-19 Pandemic in Kosovo

## OUTLOOK OF MUNICIPAL BUDGETS



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## EXECUTIVE SUMMARY

This paper aims at analyzing the effects coming from the spread of coronavirus (COVID-19) pandemic in the Republic of Kosovo. The analysis gives an overview of the policy actions undertaken by the Government, respectively in three key affected areas by the COVID-19: health care, economy and education. The paper focuses on the

economic impact deriving from the pandemic, which has largely affected the financial picture in Kosovo and placed enormous budget pressure on central and local governments. Furthermore, the report showcases an outlook of the budget of municipalities as an implication of crisis management by analyzing the effect of the pandemic in government spending and own-source revenues.

## INTRODUCTION

In the verge of changes and difficulties arising from the impact of the Coronavirus (COVID-19) pandemic worldwide, Kosovo has been experiencing a high degree of uncertainty in different dimensions such as health, education, finances and so forth. The Government of the Republic of Kosovo (RKS) has undertaken a range of critical actions to contain pandemic-induced downturns in order to address health and economic threats. A variety of measures have been tailored and introduced to serve as tools for central and local governments to ease and mitigate the effects of COVID-19 pandemic.

The economic impact and changes in the financial picture in Kosovo have placed enormous budget pressure on central and local level governments. Besides the principal fiscal effect in the central level, COVID-19 pandemic has seriously affected municipalities given the fiscal interrelation between the two levels of governments. The local level has faced difficulties as a result of substantial changes in budgeting and financial management.

Due to the coronavirus economic shock, local governments in Kosovo have noticed a significant decrease in income tax, sales tax and other revenues. The combination of negative indicators such as decreased revenues, increased level of unemployment, and high health costs has led to projected budget shortfalls for the municipal level. The impact of these changes in revenue, poses potential and adverse cuts to infrastructure, health, education and other important investments. All these cuts are expected to bear negative consequences in the public services sector at the local level in Kosovo.

This paper aims at reporting on the changes in municipal finances and budget in the Republic of Kosovo as a result of the COVID-19 pandemic. The report showcases an outlook of the budget of municipalities as an implication of crisis management. Furthermore, the report showcases an outlook of the budget of municipalities as an implication of crisis management by analyze the effect of the pandemic in government spending and own-source revenues.

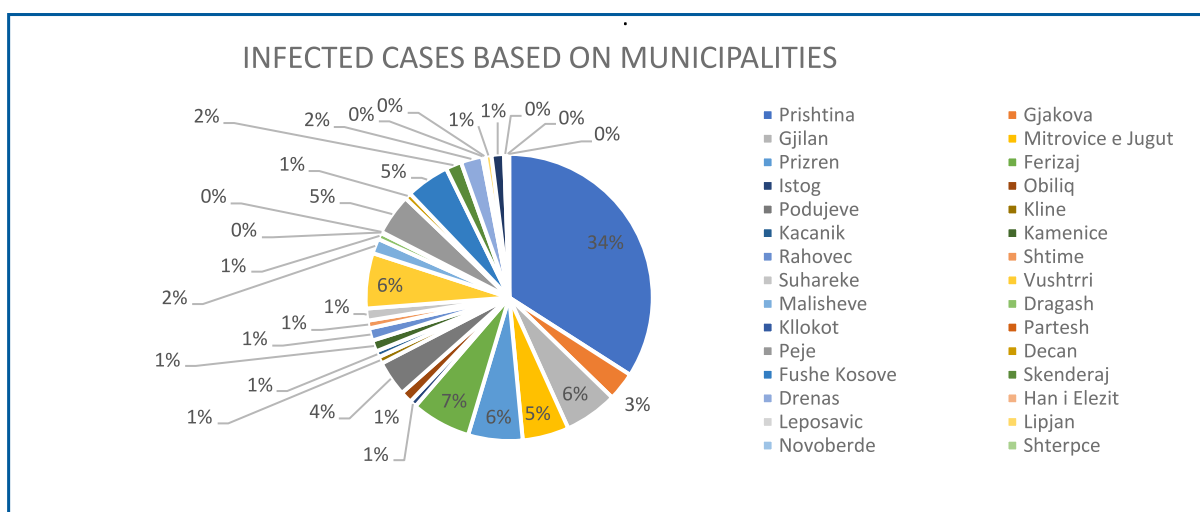
## COVID-19 IN THE REPUBLIC OF KOSOVO

### BACKGROUND

The first two confirmed COVID-19 cases in Kosovo were reported on March 13, 2020. With a significantly increased trend throughout these months, the total number of confirmed cases has reached 15,814 identified cases, out of which 13,856 been recorded as recovered and 630 deceased<sup>1</sup>. Up to this date, the COVID-19 outbreak trajectory in Kosovo includes three stages of development and policy measures.

The initial stage of the trajectory started when the first few cases of COVID-19 were recorded and the Government of the Republic of Kosovo decided to close entrances and exits to certain municipalities which confirmed high number of infected cases.

The second stage of the outburst trajectory and institutional measures started as cases of infected citizens became evident in most municipalities. As new cases emerged, most of municipalities were in quarantine and adopted preventive and restrictive measures. Following these developments, the second trajectory included new and stricter movement restrictions, social distancing measures, closure of all non-essential businesses, suspension of educational process, and movement and travel restrictions. Gradually, with the decrease on the number of infected people, the Government of the Republic of Kosovo has started to implement the third stage of trajectory, which accounts for new measures which constitute more lenient measures in terms of movement restrictions, business operations, reopening of schools and so forth.<sup>2</sup>



**Chart 1. Percentage of infected cases based on municipalities**

Source: Open Data Kosovo

<sup>1</sup> <http://niph-rks.org/>

<sup>2</sup> <https://kryeministri-ks.net/qeveria-miratoi-masat-e-reja-per-parandalimin-e-perhapjes-se-pandemise-covid-19/>

## CENTRAL GOVERNMENT'S RESPONSE

### POLICY REACTIONS

To address the threats coming from the pandemic and contain the outburst of COVID-19, the policy

response undertaken by the Government of the Republic of Kosovo includes a response plan in three main affected areas, respectively health care, economy and education. Main actions undertaken in these three areas include the following policies in the table below, Table1.

HEALTH CARE	ECONOMY	EDUCATION
<ul style="list-style-type: none"> <li>• Flatten the curve (movement restrictions and social distancing)</li> <li>• Enhance health care system capacity</li> <li>• Overcome critical shortage</li> <li>• Test and trace</li> <li>• Provide information and guidance</li> </ul>	<ul style="list-style-type: none"> <li>• Provide emergency financial support for individuals and businesses</li> <li>• Economic stimulus measures</li> <li>• Mandate industrial actions (closures, repurposing and airlines)</li> <li>• Extend deadlines</li> </ul>	<ul style="list-style-type: none"> <li>• Online Learning Platform</li> <li>• Internet access and Computers</li> <li>• Plan to Reopen Schools for the 2020- 21 Academic year</li> </ul>

Table 1. Policy actions undertaken by the Government of the Republic of Kosovo

### RESPOND: THE HEALTH CARE FRONT

To address and prevent the outburst of the COVID-19 pandemic in Kosovo, much of the efforts in the health care front have focused in 'flatten the curve' strategy and capacity-building to enhance the health care system. 'Flatten the curve,' introduced as a world-wide public health strategy, was implemented in Kosovo with the aim of managing the number of infected cases not to overload the health care system. Certain mitigation techniques

under this strategy include movement restrictions, mandatory masks and social distancing. Coupled with the isolation and the restrictive measures, the Government aimed at flattening the curve of the infection by working to keep a low number of infected cases. Given the low health care system capacity, much of the strategy was based on facilitating the day-to-day management of the COVID-19 cases and building additional capacity to accommodate and treat new cases.<sup>3</sup>

Main responsive and protective mechanisms adopted by the Government of the Republic of Kosovo in the health care front include:

<sup>3</sup> <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-Kosovo.pdf>

Main responsive and protective mechanisms adopted by the Government of the Republic of Kosovo in the health care front include:

- (1) **Social distancing.** With certain regulations, the Government adopted a social distancing policy in order to reduce the speed of transmission and allow the health care system to plan resources for helping people with higher predisposition to have severe or lethal consequences from the virus.
- (2) **Increase personnel capacity.** By means of new alignments in clinics, there was an increase in numbers of health care professionals and clinics that deal with COVID-19 cases.
- (3) **Overcome critical shortage.** In order to enhance health care capacity and overcome critical shortage, the Government purchased or received as donation a number of testing kits, masks, respirators, and beds
- (4) **Communication.** Government used communication as a tool to inform and guide citizens, but also build trust and offer support for the citizens.

## RESPOND: THE HEALTH CARE FRONT

To sustain public welfare and address negative impacts of public health control on the economy, the Government of the Republic of Kosovo adopted economic packages by targeting all sectors of the economy. The economy policy packages introduced in Kosovo include different policy variables falling under two main categories: monetary and fiscal policy. The monetary and

fiscal stimulus measures undertaken by the Government to counteract the disruptions following the outburst of the virus are outlined in the upcoming paragraphs.

### MONETARY POLICY<sup>4</sup>

The list of key monetary policy measure include the following actions:

- Loan repayments for individuals and businesses have been suspended by the Kosovo Central Bank until at least 30 April 2020. Additionally, the Kosovo Central Bank has it under review the requests of for the suspension of frozen individual credit ratings and credit repayments to support borrowers during the pandemic crisis;
- Fifty percent (50%) cut on the interest rate on loans for SMEs operating in the tourism sector.
- Fifteen percent (15%) cut on the interest rate on loans for large companies; and,
- The reserve capital of the Finance Development Institution ALTUM has increased to support and give access to instruments such as loans and credit guarantees for firms affected by the crisis.

### FISCAL POLICY<sup>5</sup>

Additionally, the list of key fiscal policy measure include the following actions:

- On 11 March, reinforcement of the healthcare system was done by allocating ten (10) million EUR to fund efforts to contain the outbreak of the COVI-19 virus;
- On 30 March, major emergency support package with an amount of about EUR 170.6 million (3% of GDP) was passed by the Government of RKS to assist individuals, firms, and municipalities affected by the COVID-19 pandemic;

<sup>4</sup> Operational Plan on Emergency Fiscal Package. Ministry of Finance and Transfers. Government of the Republic of Kosovo

<sup>5</sup> Operational Plan on Emergency Fiscal Package. Ministry of Finance and Transfers. Government of the Republic of Kosovo



- On 18 May, the Government of RKS allocated an additional EUR 10.9 million to enable the implementation of the emergency support package; and,
- On 19 June, the Government of RKS initiated a new agricultural support programme with direct payments to farmers.
- to financially support taxpayers, employees and businesses to cope with the COVID-19 pandemic and its underlying consequences.

Following the collapse of the economy as a result of the pandemic and the undertaken institutional measures, on 30 March 2020, the Government of the Republic of Kosovo approved the Emergency Fiscal Package.

#### EMERGENCY FISCAL PACKAGE.

The goal of the Emergency Fiscal Package was to financially support taxpayers, employees and businesses to cope with the COVID-19 pandemic and its underlying consequences. Key measures in this Package include the following:

- (1) Financial support for Business Organizations that have been facing financial difficulties coming from restrictions and emergency public health situation that have decrease of their activity:
  - Covering 170 € (one-hundred and seventy euros) as monthly wage expenses of employees for two months, April and May;
- (2) Up to 50% (fifty percent) of the value of the rent for small and medium enterprises (SME), as rent subsidy payment, for two months, April and May. The total amount offered by means of this financial measure is estimated up to 12,000,000.00 € (twelve million euros);

- (3) 130 € (one hundred and thirty euros), as payment of monthly assistance of April, May and June, for citizens who have lost their jobs due to COVID-19 pandemic. This financial measure amounts an estimate up to 4,000,000.00 € (four million euro); and,

- (4) Ensuring the financial liquidity<sup>6</sup>

#### ECONOMIC STIMULUS MEASURES

Within the Emergency Fiscal Measures Package undertaken by the Government of the Republic of Kosovo, the economic stimulus measures include seven key interventions:

- (1) State-owned enterprises which face financial difficulties, and legal entities/companies authorized to provide essential services, are offered interest-free loans repayable until 31 December 2020. This measure amounts to a total of EUR 20 million.
- (2) Financial liquidity support extended through the programs of Kosovo Fund for Loan Guarantees as a tool to help micro-enterprises and self-employed. This includes an amount up to 10,000 EUR for period of 24 months. This financial measure amounts a total estimate up to 15 million Euro.
- (4) Monthly salaries coverage of EUR 130 for two consecutive months as financial support measure for business organization that register the employees with contract at least with duration of 1 year during public health emergency. The validity of the measure is after registration of the employees. This financial measure amounts a total estimate up to six (6) million euros.
- (5) Financial support to exporters after the termination of the COVID-19 situation will be at the total amount of EUR 10 million.

<sup>6</sup> Operational Plan on Emergency Fiscal Package. Ministry of Finance and Transfers. Government of the Republic of Kosovo

- (5) Support to initiatives and projects aimed at improving the lives of ethnic minority in the Republic of Kosovo being affected by the public health emergency situation, will amount to a total of EUR 2 million.
- (6) An addition to the monthly salary, at the amount of EUR 300, will be paid to on-site workers and those exposed directly to the risk of infection for the period April-May 2020. The total coverage amounts to EUR 15 million.
- (7) 100 € (one hundred euros) as additional payment for employees of grocery stores, bakeries and pharmacies for April and May.

This financial measure amounts an estimate up to 3,000,000.00 € (three million euros).

- (8) Increase of budget for grants and subsidies to the Ministry of Culture, Youth and Sports in order to avoid the situation created by the public health emergency in sports and cultural activities, amounting to five million (€5,000,000.00) Euros.<sup>7</sup>

A simplified representation of the total stimulus measures adopted by the Government of Kosovo and their distribution format, can be seen in the table below, Table 2.

	EUR millions	Share, %
<b>Total Stimulus Amount</b>	<b>180</b>	<b>100.0</b>
<b>Economic Stimulus Measures</b>	<b>71</b>	<b>39.4</b>
Interest-Free Loans	20	11.1
Financial Liquidity Support	15	8.3
New Employment Support	6	3.3
Support to Exporters	10	5.6
Support to Minorities	2	1.1
Support to COVID-19 Infection-Risk Groups	15	8.3
Support to Groceries, Bakeries and Pharmacies	3	1.7
<b>Financial Support to Private Sector</b>	<b>61</b>	<b>33.9</b>
Support for Wages and Salaries	41	22.8
Social Insurance Contributions	8	4.4
Rent Support for SMEs	12	6.7
<b>Extended Social Safety</b>	<b>28</b>	<b>15.4</b>
Additional Social Assistance Allowances	8	4.3
Increased Pensions	13	7.2
Unemployed (on Health Condition) Labor Support	4	2.2
Increased Monthly Assistance under Poverty Threshold	3	1.7
<b>Increased Budget Allocations</b>	<b>20</b>	<b>11.1</b>
Municipal Administrations	20	11.1

**Table 2 - List of Economic Stimulus Measures**

**Source: Operational Plan on Emergency Fiscal Package (MoF)**

<sup>7</sup> Operational Plan on Emergency Fiscal Package. Ministry of Finance and Transfers. Government of the Republic of Kosovo

## RESPOND: EDUCATION FRONT

The third category in the portfolio of measures introduced by the Government of the Republic of Kosovo includes the policy measures in the education front. Preventive and restrictive measures undertaken by the Government have largely affected the traditional system of education, therefore, showing a necessity for a new, formatted system. The policy response measures adopted in the education front have introduced a virtual learning domain that has changed teaching and learning patterns. Few of these actions undertaken in education in Kosovo are:

- The establishment of an online learning platform by the Government of the Republic of Kosovo for students who are not able to attend classes due to the restrictions in light of the public emergency situation caused by the pandemic.
- o Shared learning materials via online learning platforms
- o Recorded courses to be televised
- Align with internet service providers for the provision of free internet access to all students in order to give access to all of them in online distance learning activities.
- Align with firms to provide students with computers and enable them to engage in online distance learning activities.
- Establishment of a task force with representatives from the Ministry of Education and National Institute of Public Health to develop a plan to safely reopen schools for the 2020- 21 academic year.

Prior to the starting of the new academic, the Ministry of Education is expected to present guidelines and a detailed action plan for the reopening of schools.

## COVID-19 FINANCIAL EFFECT IN LOCAL GOVERNMENTS

Besides the principal fiscal effects of the pandemic in the central level in Kosovo, COVID-19 has seriously affected municipalities. The local level governments have been in the forefront of adopting responsive and preventive measures with the purpose of ensuring a proper functioning despite the pandemic crisis. Additional to business-as-usual policy actions, the thirty eight (38) municipalities in Kosovo have intensified their work to provide emergency services and communicate to the citizens to contain the outburst of the virus. The coordination between the central and local level has also become more eminent in ensuring effective responses during crisis management.

With the increase in the number of infected citizens and aggravation of the economic situation, the role of municipalities in Kosovo has become essential in all parts of the social and economic system. Municipalities have played a crucial role in implementing public health measures such as enforcing confinement policies, population monitoring, care for vulnerable populations, crisis communications, and ensuring public order and safety. Furthermore, the local level has been a key factor in guaranteeing social protection, sustaining local services and providing financial support for citizens.<sup>8</sup>

<sup>8</sup> Study on Emergency Needs and Socio-Economic Impact of Covid-19 on Local Government in Kosovo. The Association of Kosovo Municipalities

<sup>9</sup> The Impact of the COVID-19 Pandemic on Local Government. GAP

The reduced economic activity as a result of the pandemic coupled with the necessary reactive measures undertaken by the local governments are largely affecting the financial outlook at the local level in Kosovo. Upsurges in the local government expenditures and collapses in revenues caused by pandemic-related effects are creating an asymmetric relation between expenditures and revenues for municipalities. To see this asymmetric relation and have an overview of the municipal economic outlook, in the following sections, we will analyze the effect of the pandemic in government spending and own-source revenues.

### GOVERNMENT SPENDING

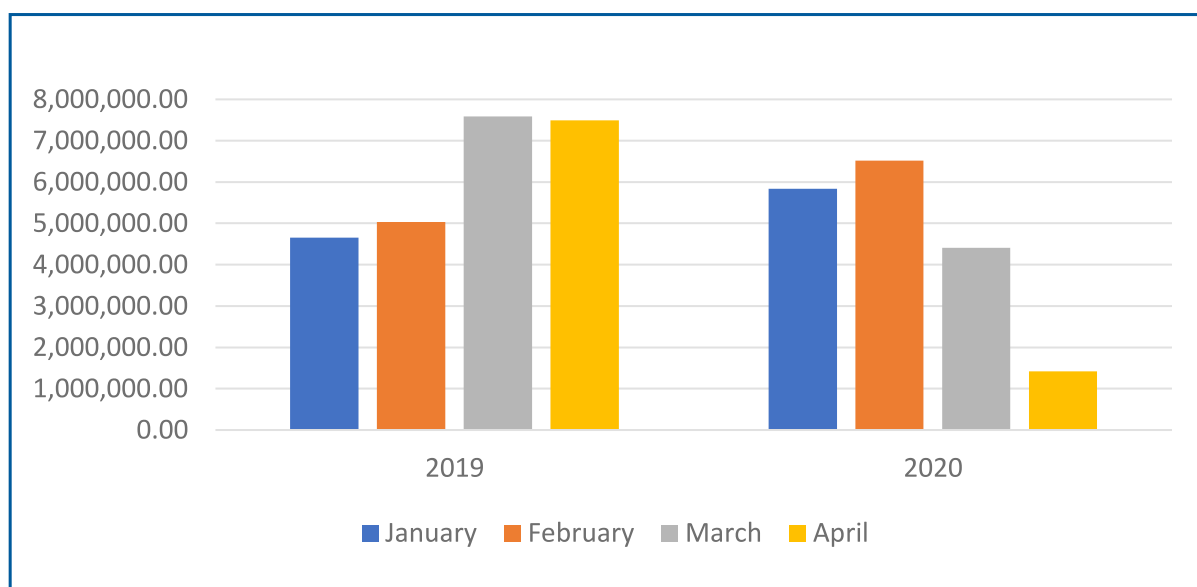
The outburst of the COVID-19 pandemic has led to increased government spending, especially with regards to the purchase of goods and services. There has been an evident, increased spending to address supplementary needs and shortfalls of the health care system in municipalities, especially the demand for medical equipment and disinfectants as preparedness for responding to an outbreak of COVID-19. Given that a significant proportion of the local budgets is amounted to non-discretionary spending, mainly related to wages and salaries, there is very little space for municipalities to address additional expense coming from the controlling of the pandemic. As such, the limited space for maneuver and high dependence on the grants from the central government, has limited local governments from undertaking public procurement procedures, public investments, and sufficiently addressing socioeconomic challenges deriving from the pandemic.<sup>9</sup>

### OWN-SOURCE REVENUES

The fiscal capacity of local governments in Kosovo, which accounts for the capacity to collect revenues to assure the functioning of the governments, has decreased during the pandemic crisis management. Due to weakened economic activity and changes in tax policies, the gap between collected revenues and required expenditures to address the pandemic has increased. Consequently, this damaged fiscal balance has left local government with insufficient means to tackle the crisis and highly depended on the central level.

The high reliance of local own-source revenues on taxes has become a particular risk. With the decision of the Ministry of Finance and Transfers

(Regulation No. 05/2020) to suspend property tax payments, the collection of revenues from property tax will fall short. Coupled with the decreased activity in the construction sector, consequently the decrease proceeds from business licenses and construction permits, this will result in a sharp decline on own-source revenues in the year 2020. According to the data from the Ministry of Finance and Transfers, there has been a significant drop in own-source revenues in the first half of the year 2020. The collected revenues in the year 2020, account for about 5.8 million Euro, which in comparison to those of the year 2019 are approximately 9.3 million Euros less for the same period. (Chart1).



**Chart 2. Changes in Financial Outlook; First Quarter 2019 And 2020**

**Source: MoF Data, Kosovo Treasury**

The detained financial outlook for the local government balance in the year 2019 and 2020 can be seen in the table below:

	2019	2020
<b>Total Revenues</b>	<b>532</b>	<b>535</b>
<b>1- Own Source Revenues</b>	<b>84</b>	<b>65</b>
A- Municipal Taxes	46	34
Property Tax	24	17
Motor Vehicle Fee	4	3
Land Tax	5	3
Other Taxes	14	11
B- Municipal Licenses and Fees	30	25
Construction Permits	13	11
Certificates and Other Licenses	17	15
C- Municipal Assets	2	2
Sales and Rents of Municipal Assets	2	2
D- Co-Payments	5	4
Co-payment for Education	3	2
Co-payment for Health	2	2
E- Other Own Source Revenues	5	4
<b>2- Grants and Contributions</b>	<b>443</b>	<b>470</b>
A- General Grant	198	196
B- Education Grant	187	207
C- Health Grant	56	64
D- Contribution to Residential Services	2	3
<b>3- Borrowing Receipts</b>	<b>5</b>	<b>0</b>
<b>Total Spending</b>	<b>518</b>	<b>554</b>
1- Wages and Salaries	264	282
2- Purchase of Goods and Services	64	69
3- Utilities	11	12
4- Subsidies and Transfers	22	24
5- Capital Expenditures	156	167
<b>Budget Deficit</b>	<b>14</b>	<b>-18</b>

**Table 3 - Local Government Balance (in EUR million)**

Source: MoF data

## LOCAL GOVERNMENT RESPONSE AND WAY FORWARD

Despite major changes in the business-as-usual scenario for the local level in Kosovo, municipalities have been actively engaged in undertaking and implementing protective and preventive measures to control the outbreak of the COVID-19 virus. Following a successful coordination with the central level much of the measures introduced by the municipalities in Kosovo derived from the decisions of the central government. Complementary to these decisions, the local level has set up local institutional and operational mechanisms to address threats and challenges coming for the public emergency situation.<sup>10</sup>

The effect of changes in the local financial outlook in Kosovo has become burdensome for the municipalities in Kosovo. As we can see from the

data presented above, the noticeable decrease in income tax, sales tax and other revenues at the municipal level are threats to the short-term and long-term financial stability in the municipalities. The combination of negative indicators such as decreased revenues, increased level of unemployment, and high health costs leads to project potential budget shortfalls for municipal level. The impact of these changes in revenue poses potential and adverse cuts to infrastructure, health, education and other important investments at the municipal level. All these spending cuts will bear negative consequences in the public services sector at the local level in Kosovo.

Considering the unknown nature of the COVID-19 virus and the ambiguities for future developments, it is essential for municipalities to sustain their dynamic role and effective coordination with the central level to the benefit of assuring a healthier society.

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<sup>10</sup> Study on Emergency Needs and Socio-Economic Impact of Covid-19 on Local Government in Kosovo. The Association of Kosovo Municipalities.

