Recession Looms for Western Balkans as Countries Respond to COVID-19

Washington, April 29, 2020 – The Western Balkans region is expected to enter a recession in 2020, with all six countries forecast to experience negative growth as they continue to grapple with the economic impacts of the COVID-19 (Coronavirus) pandemic.

Regional growth in the Western Balkans is forecast to be between -3 and -5.6 percent, according to the World Bank’s latest Regular Economic Report (RER) - which uses a baseline scenario and a downside scenario in the face of high uncertainty brought on by the pandemic. The baseline scenario assumes that the outbreak in Europe begins to slow soon enough, such that containment measures can be lifted by the end of June and a gradual recovery can begin in the second half of 2020. The downside scenario assumes the outbreak lingers and containment measures can only be lifted at end of August, with a recovery of economic activity only in final quarter of 2020.

"The magnitude of the recession depends on the duration of the pandemic in Europe. While the economic impact of the ongoing pandemic in the region is difficult to forecast, there is little doubt that this pandemic is wreaking havoc on lives around the region - taxing health care systems, paralyzing economic activity, and undermining the wellbeing of people,” says Linda Van Gelder, World Bank Country Director for the Western Balkans.

"Over the medium-term, growth is expected to rebound strongly in the region, as economic activity gradually returns to normal, but this also depends on the length and intensity of the current crisis, as well as what steps policymakers take to address this pandemic."

According to the report, quick, bold, and carefully designed mitigation measures can limit the social and economic impact of this crisis. Governments in all six countries have announced fiscal and social measures to support households and businesses during the emergency—ranging from 1 percent to 6.7 percent of GDP. Countries that entered the crisis with larger fiscal and external buffers have more space to finance larger support programs.

The announced short-term measures are necessary and aligned with the policy responses of EU countries. However, more people in the Western Balkans rely on self-employment, part-time work, and incomes from
informal activities. These groups are vulnerable to the crisis but difficult to support through conventional measures.

According to the report, additional support - fine-tuned to the local context - may be necessary to support all vulnerable groups in the region. Several Western Balkan countries, for example, announced an expansion of the coverage of existing social transfer programs to support self-employed families and more vulnerable people. Given the uncertain length of this crisis, policymakers everywhere face the same policy dilemma: using all available fiscal space to mitigate the immediate impact can backfire if the crisis endures. Policy responses should therefore be calibrated to mitigate the immediate effects, adjust to new realities that may emerge, and to leave space to prepare the economy for a recovery.

The latest RER notes that quick, bold, and carefully designed policy measures matter and they need to take into account country conditions and uncertainty about how long the crisis will last.

In Montenegro, the COVID-19 pandemic drives the economy into a sharp recession, exposing how vulnerable the country is to external shocks. The COVID-19 crisis is projected to push the economy into recession primarily due to a plunge in tourism, which has multiplier effects on all sectors. The magnitude will depend on the duration of the pandemic and containment measures in the region and Europe. Under the assumption that Montenegro loses one-third of its tourism revenues, the economy is estimated to contract by 5.6 percent in 2020. The recession could be as deep as -9 percent in case half of the tourism revenues are lost.

Montenegro faces the crisis with record high employment, but also limited fiscal buffers. Despite improvements made in recent years, high public debt constrains the scale of government support to households and firms. The short-term policy responses help mitigate the economic and social impact of the COVID-19 crisis. But parts of the population depending on more informal sources of income may receive little support. If an economic recovery with high growth is to be sustainable over the medium term, Montenegro must improve the economy’s resilience to shocks by addressing its internal and external imbalances and boosting productivity growth.

The report focuses on the macroeconomic impact of COVID-19 in the Western Balkan countries, setting the stage for additional analysis. A series of Regular Economic Report notes, looking at the impact on specific economic areas, social sectors, and on poverty and income distribution in the region, will be published in a follow-up e-launch in May.

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