



## Building Economic Resilience in Western Balkans during COVID-19

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### Abstract

COVID-19 has had a significant impact on global trade costs (WTO, 2021). Predicting, and managing risks is a necessary and difficult task for policymakers thus to minimize the negative effects coming from these unexpected incoming shocks. Natural disasters, health crisis and political conflicts over the recent decade, are pushing more pressure to developing countries to re-evaluate their trade partners in the international cooperation, as a way to prevent the direct impact of a probable shock on trade. The early stages of the pandemic exposed also how reliant Western Balkans had become on relatively few global producers of critical medical supplies, prompting widespread calls for greater supply chain diversification. This study attempts to answer the question: Did the effects of the COVID-19 pandemic on regional trade policies revealed an increase or decrease of economic resilience? Travel restrictions and border closures, which were an important part of the initial policy response to the pandemic, disrupted freight transport, business travel and the supply of services that rely on the presence of individuals abroad. Trade facilitation measures taken at the border made it possible for supply chains to continue delivering and have been critical during the COVID-19 crisis. GDP recovery in the last year has been faster in economies with strong pre-pandemic trade ties to countries with fewer COVID-19 cases. In the post COVID-19 area, the Western Balkan countries are recommended to make sustainability and resilience a baseline requirement for every trade and investment decision.

**Keywords:** Covid-19, international cooperation, economic resilience, Western Balkans

### 1. Introduction

Today's global economy, characterized by deep trade links, has made the world economy more vulnerable to shocks, but also more resilient to them when they strike. The fragile part of this interdependence is that crises in one part of the world, such as epidemics, financial shocks or environmental catastrophes, can quickly turn into global crises.

The early stages of the pandemic exposed how reliant Western Balkans had become on relatively few global producers of critical medical supplies, such as face masks or ventilators, prompting widespread calls for greater supply chain diversification. What was the impact of COVID-19 pandemic on international cooperation in the Western Balkans? Did the effects of the COVID-19 pandemic on regional trade policies revealed an increase or decrease of economic resilience? The regular economic report prepared by the World Bank for the fall 2020 projected that, in the Western Balkans (WB), economic activity will have contracted by 4.8 percent in 2020, with serious implications for employment and poverty levels. The relatively low level of new export orders prior to the COVID-19 crisis, combined with the

pandemic related export bans, movement of people limitations or retail shutdowns, resulted in a significant drop in imports and exports. (OECD, 2021). After the pandemic-induced contraction in 2020, the value of merchandise trade in WB soared about 30 percent in 2021, but the strong rebound reflected an increase of 39 percent year on year in exports, and a strong jump in imports of 29 percent year on year. Technology has been just as critical to helping many services sectors to adapt, as remote work and teleconferencing took the place (at least temporarily) of locked-down offices and paralyzed business travel. Nothing better exemplifies technology's role in re-inventing and "COVID-19 proofing" many aspects of global trade during the pandemic than the explosion of e-commerce (WTO, 2021).

However, it's a fact that after contracting sharply at the beginning of the COVID-19 pandemic – as countries tried to isolate the virus's spread with lockdowns, border closures and travel bans – trade flows have bounced back, supply chains managed the adapting process, and the world economy began to recover. (Foreign Policy, 2020). Following a drop of 5.3 per cent in 2020, it is estimated that merchandise trade will rise by 10.8 per cent in 2021 – which would, in fact, result in a higher volume of world trade than before the pandemic. Even services trade, which was disproportionately affected by COVID-19, is showing tentative signs of recovery. The fact that world trade flows exhibited a similar accordion-like "bust and boom" pattern after the 2008-2009 financial crisis suggests that the system's resilience in the face of COVID-19 is not simply a one-off lucky break, unlikely to be repeated, but rather is an inherent feature of today's globally integrated economy (WTO, 2021). One reason for the system's resilience is that networked economies are better placed than isolated ones to allocate resources, share expertise and diversify their sources of supply.

Fiscal and monetary policies are a major determinant of trade recovery; indeed, they can have a larger impact on trade than trade policy itself on the role of trade policy in trade recovery). Importantly, policy responses to shocks can have significant medium- to long-term impacts on trade recovery beyond their immediate impact, for instance by affecting trade balances and the political economy surrounding them. Fiscal stimuli, or an expansionary monetary policy can accelerate trade recovery by ensuring stable financing conditions and by contributing to currency depreciation, which in turn increases a country's competitiveness, at least temporarily (Dornbusch, 1979; Inoue and Rossi, 2019). However, currency depreciation can become a zero-sum game when other countries apply similar strategies, thus hindering a global recovery. This suggests that an appropriate balance between monetary policy and fiscal stimuli is critical in the aftermath of a crisis to prevent exchange rate distortions. Mishra and Rajan (2016) advocate the international collaboration of countries in the implementation of macroeconomic policies to avoid adverse spill-over effects such as exchange rate distortions.

Despite, the world economy has faced various crises in recent years, perhaps COVID-19 has been the only truly global in terms of reach and impact. Global openness and integration have brought several benefits to raise productivity gains, facilitate technology diffusion and reduce the poverty. However, within such globally integrated economies, shocks, whether endogenous, such as the Global Financial Crisis of 2007-2009, or exogenous, such as the Covid-19 pandemic, can rapidly turn into severe global economic downturns. But, what were the measures that made it possible the recovery so fast in post Covid-19 period.

Firstly, the fiscal stimulus enacted by all WB governments in response to the COVID-19 crisis is considered to be one of the main reasons why trade has been recovering so quickly from its trough (WTO, 2021). The Western Balkan governments responded with immediate monetary policy tools and fiscal stimulus packages to counteract the economic downturn. All Western Balkan economies have introduced fiscal stimulus packages, to support firms by temporarily subsidizing salaries of employees. Governments have expanded their support packages to provide social assistance to unemployed persons and the most vulnerable households. Immediate financial support was given to the health sector to purchase medical equipment and to support medical staff. The central banks across the region reacted by cutting their key policy rates and providing liquidity to banks and non-bank financial institutions, which in turn, ease the burden on companies and individuals affected by sharp disruptions. Referring to the OECD evaluation of crisis response of COVID-19 crisis, the Western Balkans showed that they continue to make the most of the positive regional initiatives triggered by the COVID crisis (green lanes) and try to translate them to longer-term solutions.

The paper proceeds as follows: In section 2 we will discuss the importance of economic resilience. In the next section we will present the relation of international cooperation and economic resilience in Western Balkans, focusing in trade and regional agreements. Section 4 outlines the role of trade in economic resilience in Western Balkans, coming to the challenges for the regional cooperation of Western Balkans in the next decade to increase economic resilience. Lastly, section 5 gives the conclusions and main findings of this paper.

## 2. Literature Review: The Importance of Economic Resilience

COVID-19 pandemic showed that highly connected global economy were more exposed to risks and vulnerable to shocks. Risks can come from a multitude of hazard sources. Different efforts have been made to classify the broad spectrum of hazards (UNDRR, 2020), and they can be grouped into three broad categories according to their origin, i.e.: (1) Natural risks, (2) Technological and operational risks, (3) Socio-economic risks. Financial and macroeconomic hazards, in our main interest to this paper, include operational and societal factors that are disruptive to business activity, such as price shocks, trade wars, financial crashes, supplier insolvencies and political barriers to trade (Barry, 2004; Martin, 2012; OECD, 2020e). Although the shocks are constantly evolving, the occurrence of some types of shocks has increased over the last years and it is expected to increase further in the future. Risks remain, however, not equally distributed across countries, leaving certain developing countries more vulnerable, while socio-economic crises are particularly expected to affect mostly the countries with weak institutions and vulnerable economic fundamentals.

Over the past decades, the term “economic resilience” has become a popular one to describe the diverse strategies of developing countries. Compared to advanced economies, developing economies face higher financial and macroeconomic risks and are more vulnerable during downturns because of their lower economic growth, higher average levels of debt, weaker institutions, higher borrowing costs and strong reliance on commodity prices and exchange rates (IMF, 2020). This exposes developing countries to the risk of hyperinflation crises, exchange rate crises and sovereign debt risks. What are the main indicators that contribute in the “economic resilience” of a country or a region?

These considerations underline the importance of strengthening economic and financial resilience through increased global cooperation, to ensure the resilience of trade and assist trade in playing its role positively. International cooperation in the field of economic and financial resilience has, primarily since the 2008-09 global financial crisis, translated into various forms of “soft law” issued by G20 in the form of nonbinding declarations or recommendations, or in “best practices” resulting from the consultation of expert groups convened by the United Nations or prepared by international organizations such as the Organization for Economic Co-operation and Development (OECD).

In comparison to financial resilience, multilateral cooperation in trade-related matters follows a somewhat different path. The 1994 Marrakesh Agreement Establishing the World Trade Organization (WTO Agreement), like the General Agreement on Tariffs and Trade (GATT) 1947 before it, provides for essentially binding rules and disciplines legally enforceable through a dispute settlement mechanism. The WTO Agreement also contains built-in flexibilities which allow members to respond to higher interests, such as health or national security. The GATT 1947 achievements on tariff reduction alone are evidence of how the multilateral trading system can reinforce economic resilience by reducing trade costs and, more generally, maintaining trade flows, even in times of crisis. The existing body of rules and disciplines is complemented by an increasing number of joint actions decided at the level of heads of international organizations aimed at enhancing and structuring cooperation in certain domains, essentially by pooling information, technical assistance and other forms of capacity-building (WTO, 2021). Some of these actions take the form of agreements between organizations defining common work programs.

A few emerging global trends point towards an increase in political, financial and economic risks for the next years, in particular for countries with weak institutions and vulnerable economic fundamentals (IMF, 2020). For example, the recovery from the COVID-19 pandemic is likely to be unequal between and within countries (IMF, 2021), and the uncertain post-pandemic economic outlook is coupled with previous weak past global economic growth, historically low interest rates and historically high government debts (IMF, 2020). The combination of these factors suggests governments will have limited fiscal and monetary policy space, that are a major determinant of trade recovery; as they can have a larger impact on trade than trade policy. In all three stages of resilience – preparation, coping and recovery – the benefits from international cooperation through trade can arise independently of the economic development position of a country. In addition, international cooperation can involve an element of solidarity between countries, such as when a rich country provides aid to a poorer country hit by a natural catastrophe, or when donor countries and international organizations supply vaccines to low-income countries (WTO, 2021). Developing economic resilience through international co-operation and within an open international economic system remains vital to build systems that are designed to facilitate recovery and adaptation in the aftermath of shocks – while keeping markets open and upholding the benefits from an open, interconnected global economy (WTO, 2021).

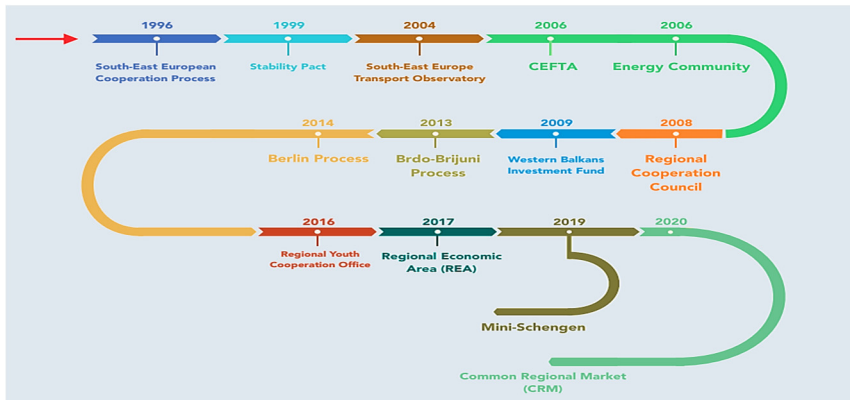
## 3. International Cooperation and Economic Resilience in Western Balkans

The increase in regional cooperation in the past decade, following the conflicts in the 1990s, has been one of the greatest

recent achievements of the Western Balkans. Firstly they reduced the tension and strengthened the regional stability, allowing more attention to focus on common economic challenges and increasing the attractiveness of the region as an investment destination; secondly, they brought various benefits enhancing the competitiveness of relatively small economies.

Since then for Western Balkans cooperation policy was a new wave of regional initiatives up until the present. This was achieved with the Stability Pact in 1999 and through the format of the South-East European Cooperation Process (SEECP) in 1996, including a group of countries beyond the Western Balkans. However, fully-fledged regional cooperation in the Western Balkans was possible only following the agreement on Kosovo's regional representation in 2012 and the First Agreement on Principles Governing the Normalization of Relations in 2013, between Kosovo and Serbia. This enabled the launch of the Berlin Process in 2014 which further shaped regional cooperation through the format of the "Western Balkans Six" (BPRG, 2021).

Regional cooperation can be considered as a tool for the evaluation of the six countries of Western Balkans, not only for their path towards EU integration but for regional economic integration between the neighbor countries. Among the many regional initiatives, the most debated have been — the Regional Economic Area (REA) and the so-called "Mini-Schengen", and most recently — the Common Regional Market (CRM). (look Figure nr 1 below)



**Figure 1:** Regional initiatives in Western Balkans cooperation

**Source:** BPRG, (2021), Regional Cooperation in the Western Balkans, "Regional Economic Area, the "Mini-Schengen" and the Common Regional Market Policy Report, January 2021

The Multi-annual Action Plan for a Regional Economic Area (MAP REA) was developed upon the request of the Prime Ministers of the Western Balkans Six "for a joint approach to furthering economic cooperation in the Western Balkans" in the context of the Berlin Process and subsequently endorsed at the Trieste Summit in 2017.

In practice, the Berlin Process Agenda was considered as an instrument uniting multiple mechanisms to strengthen cooperation and economic development in the six WB countries. As part of the Berlin Process, in July 2017, the Regional Cooperation Council (RCC) presented the Multi-annual Action Plan for a Regional Economic Area in the Western Balkans (MAP REA) during the Berlin Process Summit in Trieste, Italy. Two years after, the initiative was criticized for insufficient progress which could be shaped into economic growth and further integration.

In October 2019, the leaders of Serbia, North Macedonia, and Albania, unilaterally announced the "mini-Schengen" initiative seeking to establish the free movement of people, goods, services, and capital in the Western Balkans. On 4 September 2020, at the White House Summit in Washington, Kosovo agreed to become part of the "mini-Schengen". With US support, the initiative gained momentum and became an agenda on the table against the desires of the international community and the European Union. Following the "mini-Schengen" initiative, the Common Regional Market (CRM) was developed to address similar issues specifically those related to 'four freedoms' and subsequently endorsed by the leaders of the Western Balkans at the Berlin Process Summit in Sofia, Bulgaria in November 2020. It aims to create a regional market based on EU rules and procedures and bring the Western Balkans closer to the European Single Market.

All of the three last regional initiatives — the Regional Economic Area (REA), the "mini-Schengen" and the

Common Regional Market (CRM), seek to regionally replicate the ‘four freedoms’ of the European Union in the Western Balkans. However, unlike the “mini-Schengen”, the Common Regional Market (CRM) and the Regional Economic Area (REA), aim to ensure the free flow of goods, services, investments, and skilled people without tariffs, quotas, or other unnecessary barriers. In this regard, the “mini Schengen” intends to facilitate this by using ID cards, a concept which has also been adopted by the more recent Common Regional Market (CRM). While all seek to make the region more attractive for investments, only the REA includes specific measures such as the Regional Investment Reform Agenda (RIRA) which aims to enhance entry and establishment opportunities for investors. As a successor to the REA, the Common Regional Market builds upon this by seeking to harmonize investment policies with EU standards and establish a Regional Investment Area. In the digital integration, REA sought to develop the region’s digital infrastructure and improve regional connectivity culminating in the Regional Roaming Agreement which reduced the cost of roaming services in public mobile communications networks in the Western Balkans region. Expanding upon this, the CRM aims to establish a Regional Digital Area to integrate the Western Balkans into the pan-European digital market. On the other hand, the “mini-Schengen” is less specific or has yet to address these areas (BPRG, 2021)

However, the many regional initiatives which have been established so far in the Western Balkans, and which may continue to appear in the upcoming years are largely unimplemented – due to a lack of bilateral relations and lack of capacity, and bring very limited change to regional cooperation. Moreover, governments of the Western Balkans countries hardly treat regional cooperation as a policy priority. (BPRG, 2021). If the short policy cycles in the WB6 economies continue, due to features such as snap elections and short-lived governments, the results will be a decrease of effective policy planning process.

To sum up, the unresolved conflicts and bilateral disputes may increase the lack of trust in the region which at times is a source of instability, undermining cooperation and progress on regional initiatives. If this lack of trust expands more between the six Western Balkans countries, it will be challenging for policymakers to achieve the regional economic integration and this may also affect the EU integration process.

During the next years, the Western Balkan countries will have to work on bilateral issues, and improve the relationships with one another, as the main criteria for progress on regional cooperation. In addition, implementation capacities will need to be improved and regional cooperation will need to be higher on the policy agenda for the governments of Western Balkan countries.

#### **4. Trade and Economic Resilience in Western Balkans**

Building economic resilience requires an understanding of economic challenges and opportunities, facing the unexpected shocks, and evaluating to manage the risks. Although trade can spread and magnify shocks, it can help countries prepare for, cope with and recover from shocks. Initial conditions, the nature of the shock and policy choices, including the level of diversification, are important in determining what role trade will play (WTO, 2021).

Trade-related mobility can contribute to the spread of an epidemic, for this statement there are several examples in human history of trade-related human mobility. Nevertheless, the relationship between trade-related human mobility and the spread of communicable diseases is ambiguous. Less exposure to international mobility may be associated with greater harm during pandemics, through various mechanisms (Clemens and Ginn, 2020). First, more isolated countries with less frequent exposure to a variety of pathogens may develop less cross-immunity to reduce the harm from new communicable diseases. Second, a country’s isolation may complicate globally coordinated economies. In the aftermath of the COVID-19 pandemic, virtually all countries implemented emergency restrictions on international, as well as internal, mobility. All these measures were translated with higher transportation costs; depending on the sector the raise of costs varied 15-30% (WTO, 2020). Changes in the conditions under which goods and services are traded, or trade costs, can impact trade, and this, in turn, affects the rest of the economy. Although trade can serve as a shock absorber, it also can be a source of shocks, contributing to macroeconomic volatility which can hinder economic resilience.

Because of COVID-19, many trade restrictions have been imposed in recent years. For example, the 2019 trade monitoring report of WTO observes that countries imposed 102 new trade-restrictive measures, such as tariff increases, quantitative restrictions, stricter customs procedures, and import taxes and export duties (WTO, 2019). Higher trade policy uncertainty can make entry into export markets more difficult for companies because they must wait to pay the entry costs. A larger difference between bound and applied tariffs, which increases uncertainty over the scope of future tariff increases, depresses trade in a global sample of countries (Osnago et al., 2018). The analysis in this section underlines the potential for trade policy changes to hamper economic resilience. To prevent trade from becoming a source of shocks as a result of trade policy volatility, it is essential that trade policy is stable and predictable.

The main questions raised in this section are:

1. What was the impact of COVID-19 pandemic on international cooperation in the Western Balkans?
2. Did the effects of the COVID-19 pandemic on regional trade policies revealed an increase or decrease of economic resilience?

The relatively low level of new export orders prior to the COVID-19 crisis, combined with the pandemic related export bans, movement of people limitations or retail shutdowns, were expected to result in a significant drop in imports and exports in Western Balkan countries. The first obvious impact was a slowdown in the region's trade flows: The industry in the Western Balkan economies was affected by the supply shock from the COVID-19 outbreak and the resulting slowdown of trade flows. Even though the Western Balkan countries aren't heavily integrated into global value chains (GVCs), economies with higher levels of trade integration are particularly exposed and will feel immediate effects more severely. Trade with the EU countries accounts for an average of 70% of imports and 80% of exports of goods of the Western Balkans (Eurostat, 2019). The confinement measures of China, the third largest trade partner for imports, stopped the domestic production of certain goods, mainly used in the automotive sector. The second impact was a slowdown in services industry: It is estimated that the COVID-19's impact on the tourism, retail, and transport sectors had the biggest effect on the Western Balkan's economies (IMF, 2019). Also, travel restrictions and social distancing measures had a strong impact on services industry.

The main challenges were on the agro-food sector, as the major contributor to gross value added (11.7% of GDP) of the region and the highly labour intensive, employing one out of four workers in the Western Balkans. Travel bans and containment measures and social distancing created constrains on the agro-food labour market in the Western Balkan. On the other hand, regional production of agro-food products is mainly for national and intra-region consumption. Thus, the agro-food sector presents a great potential for the region to intensify intra-regional trade.

The main recommendations given by OECD in the last analysis for the COVID-19 crisis in the WB were focused on:

- Preserve the flow of goods and services within and outside the region
- Continue the flawless agro-food supply
- Redouble efforts to overcome tariff barriers
- Avoid export restrictions

Despite the threat of COVID-19 pandemic has not finished yet, the global economic effects of the war in Ukraine started in March 2022, and associated with the sanctions imposed to Russia, are expected to have a strong but short-lived post-pandemic recovery in the Western Balkans. Also, the energy shock and accompanying terms of trade deterioration are likely to widen the current account deficit across the Western Balkans in 2022. Russia, as a major supplier of natural gas and oil, and Ukraine as one of the main transit routes, can threaten the economic resilience created in Western Balkans. The impact of the Ukraine war will be significant across the region because of the expected increase in commodity and energy prices, but some countries are expected to be hit more than others since channels of transmission differ from country to country. With increased energy, food, and raw material prices, external deficits are also expected to widen (WBG, 2021). Most of the economies have recently adopted legislative amendments in their policy planning systems aimed to address these shortcomings; however their effects are yet to be seen.

## **5. Government Support in Building Economic Resilience**

Reviewing the publications from public institution and researchers we found that the measures implemented by the governments of the WB6 countries over the last year, were immediate, as short-term mitigation measures that governments took immediately to ensure resilience. While the urgency for governments to act in the face of increasing energy prices is understandable, the efficacy, efficiency, and sustainability of different measures vary and should be considered when adopting mitigating measures (World Bank, 2022).

Referring to World Bank Economic Report (2022), the short-term measures that governments can adopt to mitigate the impacts of the energy crisis in the short term can include:

- Promoting energy conservation and accelerating energy efficiency measures
- Providing targeted social protection (e.g., emergency income support, cash transfers) to vulnerable consumers;
- Implementing liquidity programs through public banks to support SMEs and critical industries (or extend and expand existing ones);
- Introducing temporary tax breaks, price caps, or discounts/deferrals on utility bills for vulnerable households



and industrial customers;

- Stepping up market surveillance to ensure the transparency and integrity of the energy markets' functioning.

Among the short-term measures that have a significant fiscal impact, governments should prioritize the ones aiming at expanding targeted social protection for vulnerable consumers, which have proven to be more cost-effective and avoid distortionary effects. For these reasons, when they cannot be avoided, these measures should at least be designed in a way to be time-bound, fully budgeted, and transparent.

In the medium to long term, to build resilience against future energy price shocks, the governments of WB6 countries could adopt measures aimed at:

1. Improving energy security, such as
  - i. diversifying the sources of natural gas imports and the supply routes involved;
  - ii. expanding investments in energy storage capacity (including natural gas storage capacity, pumped hydro storage, battery energy storage systems); and
  - iii. designing and implementing hydropower risk mitigation strategies to reduce risks of supply disruption related to climate change;
2. Fostering regional integration and cooperation, such as
  - iv. signing bilateral agreements with neighboring countries to share gas reserves and promote electricity trade;
  - v. accelerating the creation of regional energy markets in the Western Balkans or coupling existing markets to take advantage of complementary firm and intermittent energy sources;
  - vi. Reducing domestic energy demand, by scaling up investments in energy efficiency (which should be viewed as the "first fuel of choice"), continuing efforts in the public sector and introducing new initiatives to incentivize energy efficiency in the residential sector;
  - vii. Diversifying the energy supply mix, by (i) scaling up investments in renewable energy (including bioenergy) and battery energy storage, and tapping the potential of decentralized renewables (e.g., the installation of roof-top solar PV on residential and commercial buildings), (ii) further transitioning from feed-in tariffs to auction systems to harness global competition and unlock lower-cost supply options, and (iii) exploring the potential for investments in new technologies such as green hydrogen and biomethane;
  - viii. Improving energy sector performance, by promoting sector reforms and enhancing the operational efficiency and financial sustainability of utilities and service providers;
  - ix. Protecting the most vulnerable, by ensuring that assistance programs are in place to support vulnerable consumers at risk of energy poverty..

In addition, the energy crisis could make Western Balkan governments reluctant to proceed with introducing some form of carbon pricing as a means to account for the environmental cost of fossil fuels and to set clear incentives to decarbonize and spur innovation, productivity growth, and diversification through the deployment of renewable energy and energy efficiency. However, this could perpetuate a condition (common in Western Balkan countries) in which low domestic energy prices (especially for coal and electricity) reduce the incentives to improve energy efficiency and sector performance, and countries are exposed to greater risks associated with future energy price volatility because of the high energy intensity of their economies. Governments across the Western Balkans have implemented a variety of measures with respect to oil, electricity, and gas price hikes, in addition to food price hikes. The support packages range from 0.2 percent of GDP in Montenegro to 4.9 percent of GDP in North Macedonia. To cushion the impact of rising energy prices, authorities have implemented measures on the supply and demand side (World Bank, 2022)..

**On the supply side**, policies have taken the form of fuel subsidies to farmers and public transport companies, price controls of oil products, cuts in VAT rates on energy products, and cuts in excises on oil derivatives. For example, in Albania, public transport companies received subsidies to prevent a sizable price hike in bus fares. Also in Bosnia and Herzegovina, the governments in both entities gave support by limiting retail and wholesale margins on oil and other products, while in North Macedonia the government decided to cut the VAT and excises on electricity, gas, and oil derivatives. In Kosovo, profit margins on diesel fuel were temporarily frozen, whereas in Serbia a maximum fuel price has been introduced and is adjusted monthly (World Bank, 2022).

**On the demand side**, measures largely focused on supporting pensioners and other vulnerable groups, firms, and energy efficiency and installation of solar rooftops (in North Macedonia for example). Across the region, authorities increased the minimum wage and pensions.

A few Western Balkan countries have limited fiscal space and will need to revise their fiscal plans to accommodate the energy crisis support. Two years into the extraordinary pandemic shock, the size of the new supply- and demand-side