

## **Restarting Belgrade – Pristina talks could unlock new resources for COVID recovery**

On 27 June 2020 the leaders from Belgrade and Pristina will meet in Washington, DC with the goal of restarting formal dialogue. The meeting has potential to be a turning point on the road to normalization of relations.

Political analysts have suggested that the timing looks promising. Both sides are at the start of their political mandates. Furthermore, key roadblocks that derailed previous efforts at dialogue have, at least in part, been addressed. Perhaps of most significance, the 100% tariffs imposed by Kosovo in November 2018 on imports from Serbia and Bosnia have been removed in April 2020. Earlier in June 2020, the new Kosovo leadership also removed the recently imposed non-tariff measures.

Both sides need international support to sustain a post-COVID recovery. Restarting Belgrade – Pristina talks on normalization can unlock additional funds to support the economic recovery following the COVID-19 shock.

### **Removing trade barriers is good for Kosovo and will ease recovery from COVID**

The decisions taken earlier in the year to lift the mentioned tariffs and other non-tariff barriers are good for consumers and businesses in Kosovo. Reduced trade restrictions make it easier for Kosovo to bounce back from the COVID-19 shock as it becomes less costly to source inputs for the recovery.

As our previous analysis examined, these [tariffs were harmful to Kosovo](#). A year ago, [experts also warned that import taxes would lead to higher prices in Kosovo](#).

Estimated consumer prices inflation for 2019 shows that despite using the Euro, inflation in Kosovo was more than two times higher than the Eurozone average. The process used by the Kosovo Agency of Statistics (KAS) for estimating inflation could benefit from greater transparency, nevertheless, taking the published figures at face value indicates that inflation in Kosovo was 2.7% compared to the Eurozone average of 1.2%.

The higher rate of inflation captures only part of the impacts. A retrospective assessment of the tariff impacts would likely show that the tariffs led to a combination of higher prices, consumption of lower quality products and potentially lower profit margins in the distribution chain within Kosovo.

### **Restarting talks can help unlock new resources to accelerate post-COVID recovery**

The IMF expects the outbreak of COVID-19 will severely curtail Kosovo's economic performance through depressing tourism receipts, remittances, exports and FDI. Even at the beginning of April, IMF forecasted the economy to shrink by 5% in 2020, with external financing inflows cut by half. In 2018, personal remittances received were equal to 15.6% of GDP or €1.1 bn and expectation for 2020 point to a sharp contraction. Since these forecasts, the response to the epidemiological situation has led to an even weaker economic backdrop and implies an even worse outlook.

Across Serbia, COVID-19 is expected to have a significant adverse impact on the economy. The travel and tourism sector contributed to nearly 6% of GDP in 2019 and grew nearly two percentage points faster than the overall economy. In 2018, personal remittances received were equal to 8.8% of GDP or €3.9 bn. A major contraction in remittances and the travel and tourism sector combined with a challenging external environment pose serious difficulties to the post-COVID recovery.

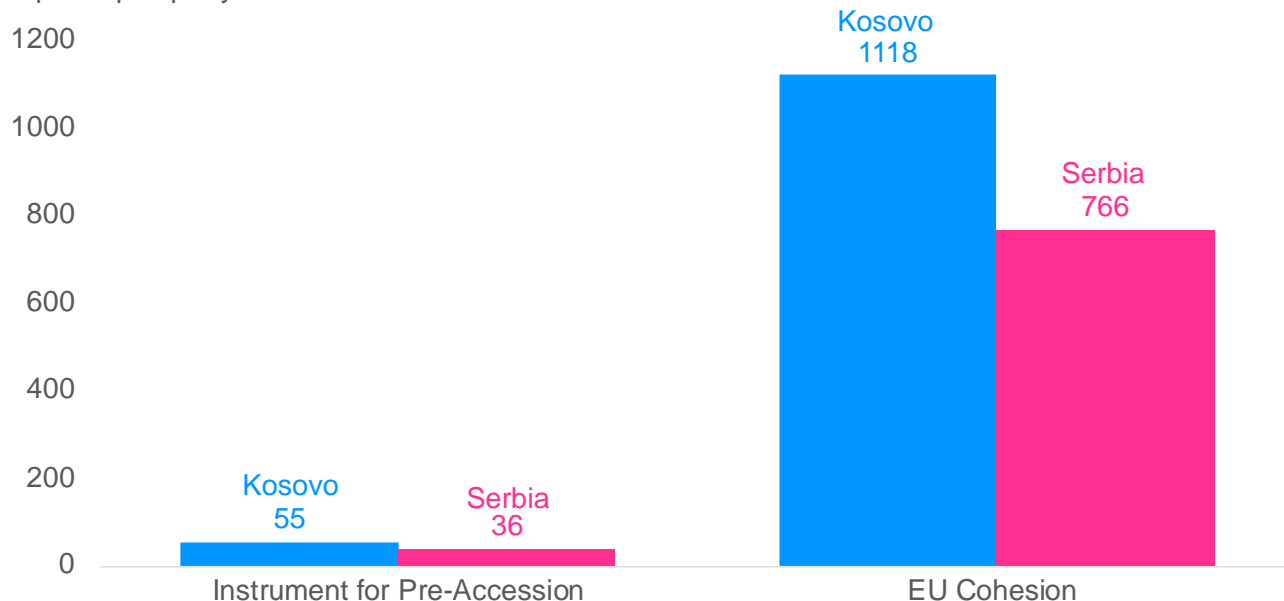
Formally restarting the normalization discussions can help unlock additional international support for the recovery. Immediate opportunities for leveraging additional funds, beyond those already

[announced](#) in the EU post-pandemic recovery plan, could come from EU instruments such as the Stabilization and Association Process (SAP) and investment initiatives targeting the Western Balkan region.

In the medium term, a particularly promising source of additional funds could come from the [new EU methodology for enlargement](#), which promises to front load some of the benefits associated with the EU accession process. Historically, there was a big difference in the support provided through the instrument for pre-accession and the scale of funds that would be available upon EU membership through the EU cohesion program (see chart).

### Front loading benefits of EU membership should lead to a major scale-up in assistance

€ per capita per year



Source: Veritas Global using data from the European Commission.

Note: IPA allocation is estimated based on 2018 allocation. EU cohesion allocation is estimated based on cohesion program budget 2021-2027 with proportionate allocation based on level of GDP per capita in Kosovo and Serbia.



As illustrated in the chart, economic transfers from the EU under the instrument for pre-accession were significantly lower than the potential funds that would be available through the EU Cohesion program if Kosovo and Serbia were EU members. One of the aims of the new methodology for enlargement is to front load the benefits of EU membership and make them available throughout the accession process. While operational aspects of the new methodology are still being finalized, this new approach could serve as a major opportunity for accessing additional resources and lead to a scale-up in EU assistance during the accession process.

### Combining economics and international support improves prospect of normalization

[Imbedding economic issues](#) as part of the dialogue on normalization has potential to improve the negotiation dynamics. A greater focus on the economic dimension could change the negotiation from a “slicing the pie” to a “growing the pie” dynamic.

Focusing on economic benefits in combination with targeted international support has potential to greatly improve the prospects of normalization.



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