# Kosovo*: a new "Law on Economic Recovery" to address the socio-economic impact of the COVID-19 pandemic

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ARTAN MUSTAFA – EUROPEAN SOCIAL POLICY NETWORK

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*On 4 December 2020, the Parliament of Kosovo voted a "Law on Economic Recovery", which launches a €30 million unemployment assistance support fund in addition to several measures aimed at boosting business confidence and private consumption following the COVID-19 pandemic.*

*(*) This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence*



## Description

The Government had sent the draft law on "Economic recovery" from the consequences of the COVID-19 pandemic to the Parliament on 24 July 2020, but the governing coalition parties failed to pass it in seven attempts. The law was voted through only when the Government accepted substantial compromises based on proposals from the opposition Democratic Party of Kosovo (PDK).

The law launches a €30 million fund to finance up to three monthly payments of €300 for workers who lost their jobs between 29 February and 30 December 2020, due to the pandemic.

As expected, the law also paved the way for pension savings contributors to withdraw 10% of their savings from the Kosovo Pension Savings Trust (KPST) in an effort to boost people's consumption (Mustafa, 2020). The Government's initial proposal did not contain a pledge to replace the voluntary savings withdrawals, but it will now refinance all withdrawals by owners who have under €9,999 in total pensions savings.

Other measures contained in the law aim to support business confidence. They include various tax incentives, public guarantees to enable businesses to access credit, government subsidies for some expenditure on electricity originating from renewable resources, and positive discrimination in favour of local producers in government public procurement, etc.

## Outlook and commentary

Kosovo's first policy measures related to COVID-19, announced back in March 2020 through an emergency package (Ministry of Finance, 2020a), aimed to tackle employment stress and unemployment in the private sector in two ways. First, through a prioritised job retention scheme that allocated a €170 wage per month (the equivalent of the official minimal wage for workers aged 35 years or above [which corresponds to 37% of average wages in the market]) during April and May 2020 to workers at risk of dismissal, if employers provided evidence of negative consequences from the pandemic. Second, through an unemployment assistance support scheme that allocated €130 per month (the official minimum wage for workers less than 35 years old [28% of average wages in the market]) in April, May and June to workers dismissed during the pandemic. In late September 2020, the Government allocated another €60 million, distributing a one-off €290 allowance per worker to employers still actively paying taxes

By 18 May 2020, the previous coalition government reported 142,320 applications (about 63.7% of all registered employees in the private sector) to the job retention scheme and a further 1,459 applications to the emergency unemployment assistance support scheme (Ministry of Finance, 2020b). Since then, no data or reports on the job retention policy have been released. The fact that the Parliament has now allocated a €30 million fund to finance unemployment assistance (€300/month during 3 months) indicates that the authorities estimate that around 33,000 people (15% of private sector employees) have lost their jobs following the pandemic. The most recent official statistics show a 24.6% unemployment rate for the third quarter of 2020, declining from 27.2% in the previous quarter (KAS, 2020).

The €300 monthly payment is an improvement compared to payments issued under the emergency measures, as it corresponds to 66% of average market wages.

The Parliament's decision to refinance (from 2023 onwards) 10% pension savings withdrawals for contributors with less than €9,999 in total savings means that around 91% of all savers may be compensated; only 9% have accumulated more than this amount since the KPST was created in 2002. While 63% of owners have less than €2,000 in savings, the replacement will be of most benefit to workers in the public administration, public enterprises and to some higher-earning private sector workers who have been able to accumulate more savings over the years (KPST, 2020).

According to the World Bank, around 35% of Kosovo employees may be in the informal sector (Cojocaru, 2017). The Government emergency measures (back in March 2020) seemed to prove the extent of informal work: the measures included a €130 payment, for three months, for families without income from wages or social transfers, and 68,000 applications were received by May 2020 (Ministry of Finance, 2020b). The high level of informality is perhaps helped by the weak rule of law, and a weak social protection system. For example, there are no typical social insurance institutions (i.e. unemployment, sick leave, health insurance), employment protection is weak and up to 85% of national revenue comes from taxes on consumption (Mustafa and Haxhikadrija, 2019). It is not therefore in workers' interests to take on formal work. The Government, moreover, which gets most of its revenue from indirect taxation, employs the lowest number of work inspectors in the region, and does not prioritise employment policy (Haxhikadrija et al., 2019). Kosovo's Social Assistance Scheme is also highly targeted and its coverage has declined over the past decade (Haxhikadrija, 2020). This means that most new measures – and in particular measures related to the unemployment assistance support and pension savings withdrawals – will not provide relief for families depending on informal sector income, nor will these families find help from the existing social protection system.

## Further reading


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## Author


Artan Mustafa (University for Business and Technology (UBT)



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