

War in Ukraine: what are the implications for Kosovo?

Several countries in Eastern and Southeastern Europe have economic ties with Russia and Ukraine and are thus negatively affected by the ongoing war and sanctions. The war has added to concerns of a global slow-down, surging inflation and a spike in poverty levels.

However, Kosovo has practically no economic links with Russia and Ukraine; thus, the war in Ukraine and the sanctions against Russia do not affect Kosovo in a direct manner. With no imports of gas and only limited imports of oil there is no risk for energy security in Kosovo. In addition, the impact on exports, tourism and remittances is negligible.

However, there is a sizeable indirect negative effect due to higher oil prices and increased import prices for electricity. Higher wheat prices add further inflationary pressure.

Background

The war in Ukraine has led to a wave of bilateral and multilateral sanctions on Russia by the US, EU, G7 and others. These entail significant impediments to trade (including logistics), as well as to foreign investments. The Russian economy is severely weakened and incomes will decline. High uncertainty prevails as war continues and new sanctions may follow that target the crucial energy sector. As a result, Russia's real GDP is likely to decline by 10% in 2022, which is unprecedented in modern history.

Historic GDP declines in Russia



Source: Rosstat, own calculations

According to the World Bank, Ukraine's economy is even expected to shrink by an estimated 45.1% this year, although the magnitude of the contraction will depend on the duration and intensity of the war.

Economic links with Russia and Ukraine

There are practically no economic links to Russia and Ukraine regarding trade, tourism and remittances. This is a key difference to many countries in Eastern Europe and the South Caucasus.

Economic links of Kosovo with Russia

| Kosovo - Russia | 2021 |
|--------------------------|-------|
| Exports to RUS, % of GDP | <0.01 |
| Exports to RUS, USD m | 0.08 |
| Tourism in % | <0.01 |
| Remittances, USD m | <0.01 |

Source: Kosovo Agency of Statistics

Economic links of Kosovo with Ukraine

| Kosovo - Ukraine | 2021 |
|--------------------------|-------|
| Exports to UKR, % of GDP | <0.01 |
| Exports to UKR, USD m | 0.12 |
| Tourism in % | <0.01 |
| Remittances, USD m | <0.01 |

Source: Kosovo Agency of Statistics

Implications for energy and food sector

In general, there is barely any energy trade with Russia and thus little direct risk exposure.

However, there is indirect exposure to price increases of electricity as import prices have increased dramatically during the energy crisis. Since electricity is subsidised, this also implies an additional fiscal burden for the country.

Global oil prices increased by 75% from last September also due to the war, passing through to refined oil products. Kosovo imports refined oil products, mainly road fuels. Assuming prices remain high, Kosovo will face additional expenditures of EUR 262 m or 3.9% of GDP in 2022.

In addition, wheat prices increased strongly due to the war in Ukraine and a Russian export ban. This leads to additional expected expenditures of EUR 11 m or 0.2% of GDP in 2022.

In summary, higher oil prices (3.9% of GDP), import prices for electricity (0.5% of GDP) and wheat prices (0.2% of GDP) add up to an expected balance of payments shock of 4.6% of GDP in 2022.

Kosovo energy supply and imports from Russia (2019)

| | Share in TES* | Gross import share | RUS share in imports | RUS share in TES* |
|----------------------|---------------|--------------------|----------------------|-------------------|
| Solid fossil fuels | 56% | 1% | 0% | 0% |
| Oil and oil products | 28% | 100% | | 1% |
| Natural gas | 0% | - | - | 0% |
| Other | 15% | - | - | - |

*Total Energy Supply; Source: Eurostat, own calculations

Implications for inflation

Oil prices are important for the consumer price index (CPI) and the producer price index (PPI). Moreover, with almost 40%, food is a major component of the CPI basket. This contributes to higher inflation in Kosovo. In fact, the inflation rate in Kosovo increased to 11.2% in April from 10% in March of 2022, led by higher prices of bread and cereals (24.3%), meat (13.5%), milk, cheese and eggs (21.7%), edible oils and fats (51.3%), and vegetables (13.8%).

Along with the rise in food prices, people in Kosovo may soon have less purchasing power due to the energy crisis that led to the revision of electricity tariffs. New energy tariffs may lead to people having to pay up to 40% more for electricity.

Implications for trade, remittances and tourism

Just as tourism and trade, remittances with Russia are negligible and do not impact the economy of Kosovo directly. However, there is an indirect impact on the economy due to a weaker economic situation in partner countries, particularly those with significant foreign trade activities.

The European Commission has applied trade restrictions on Russia in the form of import and export bans. These include restrictions on some Russian (and Belarussian) steel products, coal, cements, rubber products, wood, alcohol and seafood.

The global economic slowdown accompanied by a decrease in trade implies that partner countries of Kosovo now have an economic outlook weaker than before:

- GDP forecast for Germany 2022 (IfW Kiel): 4.0% before war, now 2.7%
- GDP forecast for EU 2022 (IfW Kiel): 3.5% before war, now 2.8%

Weaker economic growth in partner countries will adversely affect trade, the inflow of remittances and tourism for Kosovo.

Outlook

Russia’s war will further cause global economic disruptions including the functioning of global supply chains. Depending on the magnitude of the continuing war, growth projections will be further downgraded in all Eastern and Southeastern economies due to spillovers from the war, weaker-than-expected growth in the Euro area, and commodity and trade shocks.

For Kosovo, the uncertainty of fluctuating energy prices will continue to weaken the economic activity in 2022. The war-triggered spike in electricity prices and in global oil prices underscores the need for stepping up the design and implementation of large-scale energy efficiency measures.

Hereby, the German Economic Team currently supports the Ministry of Economy with the development of the National Energy and Climate Plan.

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This newsletter is based on the Policy Briefing: [Economic implications for Kosovo and the Western Balkan of the war in Ukraine and the sanctions against Russia](#)

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* Advisory activities in Belarus are currently suspended.