

Economic implications for Kosovo and the Western Balkan of the war in Ukraine and the sanctions against Russia

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Summary

Direct impact of war in UKR and sanctions against RUS inconsiderable for KOS

- KOS has practically no economic links with RUS and UKR; thus, the war in UKR and the sanctions against RUS do not affect KOS in a direct manner
- However, there is a sizeable indirect negative effect due to higher oil prices (3.9% of GDP) and higher import prices for electricity (0.5% of GDP)
- Additional shock due to higher wheat prices in 2022 (0.2% of GDP)
- Oil prices and food major component of CPI consumer basket contributing to higher inflation in KOS

For Western Balkan countries the review shows a mixed picture

- Negative impact on SRB to be expected; probably strongest effect of all WB6
- For Bosnia and Herzegovina, risk of disrupted energy supply as gas is imported from RUS through UKR
- Montenegro depends largely on tourism (25% of GDP) with tourists from RUS, BLR and UKR now falling away

Outline

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1. Introduction

The war in UKR and sanctions against RUS affect KOS economy in indirect ways

- Several countries in Eastern Europe have economic ties with RUS and UKR and are thus negatively affected by war and sanctions
- The RUS economy is severely weakened and incomes will decline
- With no imports of gas and only limited imports of oil there is no risk for energy security in KOS
- However, energy and food prices have increased significantly, putting pressure on inflation with a sizeable negative impact on GDP in KOS
- Due to fixed and subsidized electricity prices, significant fiscal burden arises

Aim of the briefing

- Analysis of key economic implications for KOS and WB6 of war in UKR & sanctions against RUS

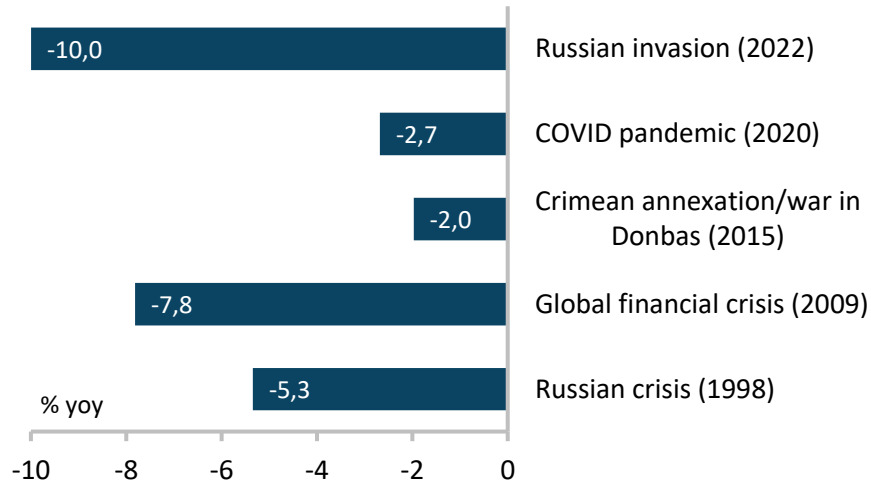
2. Economic outlook in Russia in 2022

Selected economic indicators

Indicators	2022
Real GDP growth, %	-10%
Nominal USD GDP growth, %	-34%
Inflation, % eop	20%
Exchange rate, RUB/USD	120

Sources: Goldman Sachs, CBR, own assumptions/calculations

Historic GDP declines



Sources: Rosstat, own calculations

Severe economic and financial damage

- The war has led to a wave of sanctions on Russia by Western countries
 - Significant impediments to trade (including logistics) as well as to foreign investments
 - Russia reacted by tightening financial conditions, e.g. emergency CBR rate hike to 20% p.a.
 - Material risk that RUS defaults, ratings only slightly above „Default“ status

Still high uncertainty

- As war continues, new sanctions may follow & target the crucial energy sector
- **Russia's real GDP likely to decline by 10% in 2022, which is unprecedented in modern history**

3. Economic links of Kosovo with Russia and Ukraine

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

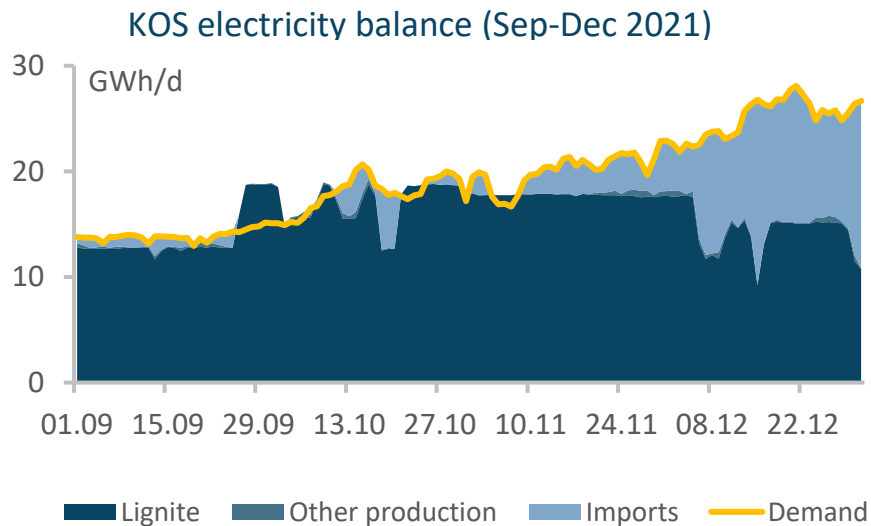
- Remittances, tourism and trade with Russia and Ukraine is negligible and does not impact the economy of Kosovo directly
 - Key difference to many countries in Eastern Europe and the South Caucasus
- **Conclusion: no direct economic effect of war/sanctions on KOS**

4. Implications for energy and food sector of Kosovo

KOS energy supply and imports from RUS (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%	3%	1%
Natural gas	0%	-	-	0%
Other	15%	-	-	-

*Total Energy Supply; Source: Eurostat, own calculations



Source: ENTSO-E Transparency Platform, own calculations

General

- Barely any energy trade with RUS, little direct risk exposure
- **Indirect exposure to price increases**

Electricity

- KOS imports electricity from its neighbours, esp. in winter months
- Import prices have increased dramatically during energy crisis
- EUR 38 m additional expenditures or **0.5 % of GDP** in 2022 expected due to war & sanctions (see next page)
- **Since electricity is subsidised, fiscal burden for KOS**

Effect of higher oil and wheat prices

Selected energy & food imports: Aggregate price shock

	Oil	Electricity	Wheat
Net quantity imported p.a.	5.5 m bbl	649 GWh	115 thsd t
Import price before war*	63 EUR/bbl	148 EUR/MWh	255 EUR/t
Expected import price**	111 EUR/bbl	207 EUR/MWh	349 EUR/t
Price differential	48 EUR/bbl	59 EUR/MWh	94 EUR/t
Additional cost p.a.	EUR 262 m	EUR 38 m	EUR 11 m
Additional cost p.a., % GDP	3.9 %	0.5 %	0.2 %

Source: Eurostat, ENTSO-E, IEA, U.S. EIA, World Bank, Marketwatch, own calc.;

*Sep-20 2021 for oil, week of Sep-20 to 26 for electricity (avg. SRB DAM prices as proxy for KOS import prices), avg. 2021 for wheat; **28 March 2022 for oil, week of Mar-28 to Apr-03 for electricity, avg. 2022 future prices for wheat

Oil

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

Wheat

- Wheat prices increased strongly due to war in UKR & RUS export ban
- Add. expected expenditures of EUR 11 m or 0.2 % of GDP in 2022
- **Balance of payments shock of 4.6 % of GDP due to higher oil, electricity & wheat prices**

5. Implications for inflation in Kosovo

- Oil prices are important for CPI and PPI
- Food major component of CPI consumer basket; almost 40%
- **Thus:** contribution to higher inflation in KOS
- March 2022: inflation at 10%, April 2022: inflation increases to 11.2%

	y-o-y % change		Contribution to inflation	
	Jan-Feb 2022 (avg)	Feb-22	Jan-Feb 2022 (avg)	Feb-22
Total CPI	7.3%	7.5%	7.3%	7.5%
Food and non-alcoholic beverages	9.3%	9.7%	3.7%	3.9%
of which: Bread and Cereals	15.3%	15.8%	1.3%	1.4%
of which: Oils and Fats	32.9%	32.1%	0.2%	0.2%
Alcoholic Beverages	3.0%	2.4%	0.2%	0.2%
Clothing and footwear	-1.2%	-1.8%	0.0%	-0.1%
Housing, water, electricity, gas, fuels	8.8%	8.9%	0.7%	0.7%
Furnishing	3.5%	3.5%	0.3%	0.3%
Health	1.3%	1.2%	0.0%	0.0%
Transport	13.4%	13.9%	2.1%	2.2%
Communication	0.4%	0.3%	0.0%	0.0%
Education	1.5%	1.5%	0.0%	0.0%
Restaurants	6.6%	6.8%	0.2%	0.2%
Miscellaneous goods and services	2.5%	2.4%	0.1%	0.1%

Source: Kosovo Agency of Statistics

6. Implications for exports, remittances and tourism of KOS

- Remittances, tourism and trade with Russia and Ukraine is negligible and does 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
- In fact, those countries 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%
- Implications: indirect negative effect on exports, remittances and tourism through weakened economy of partner countries

7. Effect on Western Balkan countries

Common effect to all WB6

- Negative effect of higher energy prices
- Negative effect of higher wheat prices on most WB6 (exemption: SRB)
- Negative effect of weaker economic outlook in the region and in the EU

MNE

- Immediate economic impact of inflation, since Montenegro is a small, open, and import-dependent economy
- The economy is highly dependent on tourism (25% of GDP in 2021)
- The 2022 summer season will be severely affected as Russian and Ukrainian tourists account for a high percentage of foreign tourists (comprised 21.3% in 2021)

Albania and North Macedonia

ALB

- Rising inflation with prices of several products spiking, including fuel price leading to protests
- Tourism is expected to be hit hard given the rising number of Russian and Ukrainian tourists over the last few years
- No energy security issues as Albania relies heavily on hydropower sources and is less dependent on gas

MKD

- North Macedonia is 100% dependent on natural gas imports from Russia, but its share of the total energy consumption of the country is only 9%
- Trade with Russia is marginal, possible Russian retaliatory measures or further sanctions would be relatively bearable for the Macedonian economy

Serbia and Bosnia & Herzegovina

SRB

- The exposure of oil (40%) and gas (100%) imports from RUS are substantial
- There is a major issue for energy security as there is risk of disruption due to war
- The exports to RUS (USD 976 m, 2% of GDP in 2021) will decline, creating further pressure on the economy of Serbia
- The current position of Serbia unwillingly to comply with EU measures could lead to serious political, economic and social tensions

BIH

- Gas imports from RUS through UKR: thus risk of disruption

8. Effect on energy security in Western Balkan countries

WB6 energy supply and imports from RUS (2019)

	Share in TES*	Gross import share	RUS share in imports	RUS share in TES*
Solid fossil fuels	46%	17%	15%	1%
Oil and oil products	28%	100%	18%	5%
Natural gas	8%	100%	100%	8%
Other	18%	-	-	-

*Total Energy Supply; Source: Eurostat, own calculations

SRB energy supply and imports from RUS (2019)

	Share in TES*	Gross import share	RUS share in imports	RUS share in TES*
Solid fossil fuels	49%	13%	23%	2%
Oil and oil products	24%	96%	40%	9%
Natural gas	13%	100%	100%	13%
Other	13%	-	-	-

*Total Energy Supply; Source: Eurostat, own calculations

- **Coal:** mostly domestic lignite production
- **Oil:** 18% imported from RUS to WB6
 - Almost entirely driven by **Serbia**, who imports 40% of their oil from RUS via **Adriatic Oil Pipeline (AOP)** from Croatia to Serbia
 - RUS-owned Naftna Industrija Srbije (NIS) **sanctioned starting from May 15**, pipeline imports via Croatian-owned AOP at risk
 - NIS & SRB gov. examining alternatives
- **Gas:** large RUS import dependency but low overall gas use
 - SRB & MKD, to a lesser extent BIH concerned

BiH, MKD, MNE and ALB

BiH energy supply and imports from RUS (2019)

	Share in TES*	Gross import share	RUS share in imports	RUS share in TES*
Solid fossil fuels	54%	30%	2%	0%
Oil and oil products	23%	94%	0%	0%
Natural gas	3%	100%	100%	3%
Other	20%	-	-	-

*Total Energy Supply; Source: Eurostat, own calculations

MKD energy supply and imports from RUS (2019)

	Share in TES*	Gross import share	RUS share in imports	RUS share in TES*
Solid fossil fuels	37%	15%	21%	1%
Oil and oil products	37%	100%	3%	1%
Natural gas	9%	100%	100%	9%
Other	17%	-	-	-

*Total Energy Supply; Source: Eurostat, own calculations

MNE energy supply and imports from RUS (2019)

	Share in TES*	Gross import share	RUS share in imports	RUS share in TES*
Solid fossil fuels	34%	1%	0%	0%
Oil and oil products	35%	100%	0%	0%
Natural gas	0%	-	-	0%
Other	31%	-	-	-

*Total Energy Supply; Source: Eurostat, own calculations

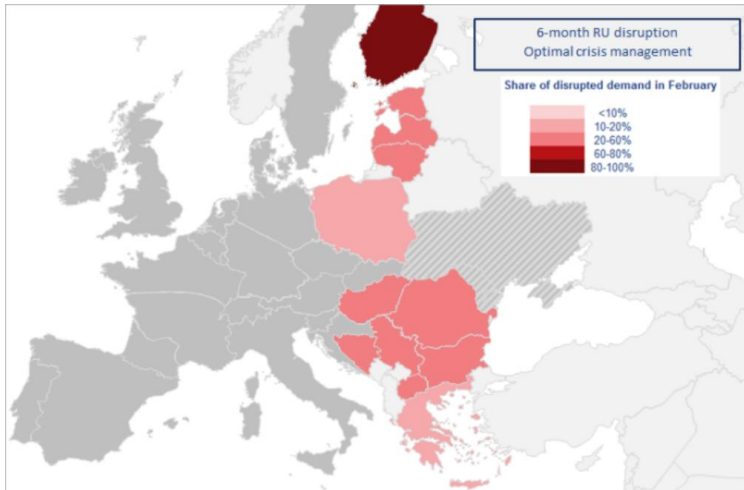
ALB energy supply and imports from RUS (2019)

	Share in TES*	Gross import share	RUS share in imports	RUS share in TES*
Solid fossil fuels	5%	69%	96%	3%
Oil and oil products	52%	94%	5%	2%
Natural gas	2%	0%	-	0%
Other	41%	-	-	-

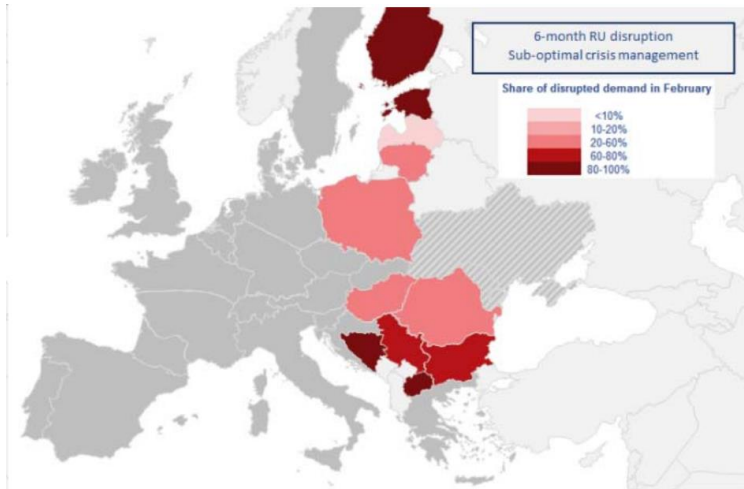
*Total Energy Supply; Source: Eurostat, own calculations

Effect on gas imports

Cooperative scenario: 6-month RUS disruption



Non-cooperative scenario: 6-month RUS disruption



Source: ENTSOG (2014)

- Last time ENTSOG stress test included results for full RUS supply disruption was in 2014
 - RUS gas dependence has further increased since then
 - Results show SE Europe would be strongly affected
 - WB6 gas-using countries (SRB, MKD, BIH) even stronger affected in non-cooperative scenario (when transit countries not sharing burden)
 - Gas less important than in other countries, however, district heating gas-dependent for some cities
- **SRB, MKD, BIH are vulnerable to a RUS gas import stop scenario**

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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