Support and Importance of Integration in Disruptive Times – Comparative Analysis of Serbia and Neighboring Countries during COVID-19 Pandemic

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Abstract: Nowadays, in a highly globalized world, the level of economic integration has reached enormous proportions and there is almost no country that is not a part of some economic agreement. The purpose of this paper is to determine if countries that are members of the European Union have been less affected by the COVID-19 crisis and if EU membership helped their economies recover faster compared to those which are not in the EU. In order to conduct such an analysis six countries of the region have been chosen, three of them as EU members and the remaining three as EU membership candidates. Economic activity and foreign trade of Serbia and selected surrounding countries will be analyzed through indicators such as gross domestic product, and import and export trends during the four years, from 2018 to 2022. Furthermore, the research will encompass implemented support programs and measures for overcoming the consequences of the coronavirus pandemic.

Keywords: Integration; COVID-19 crisis; GDP growth rate; Foreign trade

Introduction

Since the middle of the 20th century, the urge for economic integration has been growing. From free trade agreements to European Union (EU), different kinds of economic cooperation have been made. Governments realized that many economic, social and environmental goals can be achieved more efficiently by joining forces, and defining and implementing mutual strategies and measures. Over the last decades, globalization has reached enormous proportions. Economic interdependence significantly increased as countries began to remove barriers and became more open to free trade of goods and services, movement of people, capital transactions and exchange of information and technology. Therefore, a huge number of free trade areas, customs unions and common markets have been established, whereas European Union presents the highest level of economic and political integration. How high were the intensity and the extent of integration processes that occurred in the 20th century, is perhaps described the best by Haberler (1964, p.1) who claimed that it was the “age of integration” since “every conceivable, or inconceivable, a combination of countries has been proposed, more or less seriously, as a candidate for integration, other planets and outer space being almost the only areas that do not yet figure in any of the many plans and proposals”.

EU Cooperation and Solidarity Through the Crisis

Countries in Europe started reporting COVID-19 cases at the end of January and by the spring of 2020, the disease had already escalated. Europe, especially some western countries like Italy and Spain, was among the worst affected regions. What followed the world had never witnessed before. Lockdowns, closure of borders, suspension of all non-essential activities and restricted movement completely changed everyday life, almost shut down international trade, transport and

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travelling. Economic activity across the world plummeted. Production dropped sharply as it was constrained to essential goods only for quite some time, many parts of the services sector were completely disabled, people were left unemployed or working fewer hours, whereas foreign exchange was significantly decelerated and decreased. It was a huge challenge for the whole world to react fast and cooperatively in order to protect health systems, economies and social peace. Although the EU eventually established mechanisms to respond to the crisis, it was not a simple task. European Union reflects the highest level of economic and political integration, comprised of 27 countries. Besides the internal market, EU members share the same values and aims related to social progress, security, environment protection, cultural diversity, technological development and other issues important for further growth and improvement. However, being a part of the EU also means that many measures, strategies or policy changes have to be discussed among and approved by all members. And in a group of 27 entities, it is not always an easy process. Different views and goals among the EU members are not a surprise since demographic and economic disparities across the Union are noticeable. Even in emergencies, the interests and approaches to the crisis can differ significantly among member states, which slows down the decision-making process and prolongs solutions. In such cases, it all depends on the readiness and the ability of member states to put the benefits of the integration as a whole above its own. Over the years, integration mechanisms of the EU have become more flexible and responsive, while the common policy instruments have reached high levels of efficiency, although still not sufficient (Todorović & Marković, 2020).

Even though the political and economic coordination between member states is well established, it is not easy to overcome adversities since social, economic, political and demographic disparities across the EU cannot be disregarded. The global financial crisis in 2008 caused severe economic consequences, but the intensity and the time of the recession which hit European economies varied significantly. COVID-19 pandemic reopened some questions about cross-national solidarity and „the foundational controversy over who owes what to whom” during difficult times, making member states deeply divided on how to respond to this crisis (Ferrera, Miró & Ronchi, 2021). Despite that the virus has had the same impact on people’s health around Europe, the impact on the economy and overall society differed considerably. Regions and countries with economies which heavily rely on exports, which are deeply involved in international supply chains, where a significant part of economic activity is concentrated in services that require a physical presence of the client and economies based on small and medium-sized enterprises were the hardest hit. Furthermore, the extent of support each member state is able to implement varies a lot, as well as the potential for fast recovery. Thus, the risk of widening disparities across the EU has become higher. In order to improve the EU’s competitiveness and maintain its position as one of the top global players, even and collective recovery has been necessary. After the initial disagreements which lasted for the first few months following the outbreak of coronavirus, leaders of the EU managed to find a compromise and shift from confrontation to reconciliation. The efforts resulted in the Next Generation EU plan, a historic 750 billion euros recovery instrument, included in the new long-term EU budget. It emphasized that “solidarity, cohesion and convergence must drive Europe’s recovery”, and that “no person, no region, no Member State should be left behind” (EC, 2020).

3. ECONOMIC ACTIVITY AND FOREIGN TRADE OF THE OBSERVED REGION BEFORE AND AFTER THE EMERGENCE OF PANDEMIC

From the group of countries explored in this research, Hungary has been the oldest EU member, since 2004, and it is the country with the highest gross domestic product (GDP) per capita in the region. Bulgaria joined the EU in 2007, whereas Croatian accession to the Union occurred in
2013, making it the youngest EU member. Since none of them have adopted the euro as its official and primary currency yet, they are not part of the monetary union (euro area). Serbia, Montenegro and Albania are among the countries which are recognized as candidates for EU membership with signed Stabilisation and Association Agreements. In order to examine the impact of the COVID-19 crisis on the economy of observed countries, GDP growth rates will be analyzed for the period before and after the coronavirus outbreak. Presented data shows dynamics of GDP quarterly, expressing the change compared to the same quarter of the previous year.

<table>
<thead>
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<th>Year/quarter</th>
<th>Hungary</th>
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<th>Serbia</th>
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*compared to the same quarter of the previous year; NA-data not available

**Source:** Hungarian Central Statistical Office; Croatian Bureau of Statistics; Republic of Bulgaria National Statistical Institute; Statistical Office of the Republic of Serbia; Institute of Statistics, Albania; Statistical Office of Montenegro.

Analyzing the presented data, it could be noticed that 2020 was the year with the biggest fall in overall economic activity in all observed countries (Table 1). After two years of constant growth, the beginning of 2020 was marked by an economic slowdown in the whole area. Until the second quarter, the coronavirus disease had already spread throughout Europe and consequences of restrictive measures arose. The second quarter of 2020 was the time when the whole world economy was hit the hardest by the pandemic and the observed region was no exception. Official national statistics of selected countries show that each of them experienced a significant decline in GDP, compared to the same period of the previous year. The most dramatic fall was registered in Montenegro (20.5%), whereas Serbia had the smallest drop in GDP (6.4%). Hungary, Croatia and Albania all recorded a decrease above 10% (13.2%, 14.5% and 10.2% respectively) while Bulgaria managed to maintain its economy at a 7.7% fall. The same trend continued during the whole year. All observed economies suffered huge losses in industry performance in the second quarter of 2020, especially in manufacturing. Although the production of pharmaceutical products mostly increased, it could not compensate for the huge decline in other manufacturing categories like motor vehicles. The construction sector also started to slow down. However, the services sector was the most affected. The highest drop, compared to the same period of the previous year, was recorded in accommodation and food service activities, arts and entertainment, transportation and storage. Financial and insurance activities, along
with information and communication, public administration and defense, education and health were sectors that registered an increase or the smallest decline in most countries during this period. Despite the fact that in the third-quarter economic activity slightly increased, it was still significantly lower compared to the same period of 2019. Manufacture started to rise in some branches, but it was still behind 2019 levels, as well as the rest of the industry sector and agriculture, whereas construction had an even bigger drop than in the second quarter in most observed countries. In the service sector, the highest decrease in the third quarter was still in accommodation and food service activities, arts and entertainment, transportation and storage. Positive trends were mainly continued in information and communication and financial and insurance activities which moderated the GDP decline. In the last quarter of 2020, Albania was the only country in the region that recorded a positive growth rate, thanks to highly increased construction activity, financial and insurance services, real estate activity and information and communication services. The remaining states kept negative trends. According to the Eurostat data, Montenegro was the country with the lowest annual real GDP growth rate in Europe in 2020, registering a decline of 15.3%. Croatia was below the EU average (-5.9%) as well, with an 8% drop in GDP. Hungary and Bulgaria managed their economies at levels above the EU average, dealing with a 5% and 4.2% fall respectively, whereas Serbia was in the top five, having a 1% decline in GDP. Not until the beginning of 2021 did the economies of the region start to recover. Hungary, Croatia, Bulgaria and Montenegro were still maintaining negative growth rates, whereas Serbia and Albania registered positive economic trends. Mitigation of pandemic measures, widespread vaccination and adaptation to the “new reality” led to improved economic conditions in 2021. The second quarter of 2021 was the period when all the observed countries registered the highest GDP growth rates, but it should be kept in mind that such high numbers were actually the result of very low base values in the corresponding period of the previous year. The same applies to the third quarter when positive trends continued.

![Figure 1. Imports of goods and services in million euros 2018-2021 (current prices)](source: Eurostat; authors’ work)

Foreign trade has been among the most jeopardized segments of the economy during the pandemic, in particular during the first wave of contagion since restrictive measures and supply chain disruptions seriously affected international trade. Due to the limited availability of data for the observed period, different calculation methodologies and currencies, the unadjusted data of Eurostat will be used as the only database containing the data which can be compared for selected
countries. As could be seen in Figure 1, all states had an almost steady rise in their imports in the last two years before the COVID-19 pandemic. In the first quarter of 2020, that tendency changed and imports in all countries of the region started to decrease. As the pandemic escalated and restrictive measures were imposed, international exchange was at risk, which resulted in a decline in imports in all mentioned countries during the second quarter. Hungary experienced the sharpest fall. Bulgaria faced a significant decrease as well, Serbia and Croatia followed, while Albania and Montenegro had the slightest imports drop. However, the negative trend did not last for long. Since the third quarter imports began to rise, exceeding the value from the first quarter at the end of the year in all countries except Bulgaria. The rise continued throughout the observed period, with a small decrease in the first quarter of 2021 in some countries.

Figure 2. Exports of goods and services in million euros 2018-2021 (current prices)

Source: Eurostat; authors’ work

Based on the export data presented in Figure 2, primarily it can be noticed that during 2018 and 2019, Hungary, Croatia and Bulgaria had a steady growth in export, while Serbia, Albania and Montenegro achieved modest growth in exports of goods and services. During the third quarter of 2018, Hungary recorded a slight decrease in exports, whereas Croatia and Bulgaria reflected a significant increase. Hungary’s export-oriented economy was heavily damaged by the COVID-19 crisis which caused a slowdown in the exchange of goods and services, especially in the second quarter of 2020. Reduced foreign demand, as well as logistical challenges in the realization of global trade and overall uncertainty, significantly impacted the Croatian export in the first and the second quarter of 2020 and the first quarter of 2021. Bulgaria also recorded a decrease in export values in the first and the second quarter of 2020. Actually, there was a negative trend in exported consumption goods and major differences in the dynamics of the export level in 2020, compared to the previous year. A heavy recession during the first wave of coronavirus and lockdown in Serbia negatively affected exports in the first two quarters of 2020 and the impact has been larger on manufacturing than service companies. Serbia has prohibited the export of some medicine and medical products and agricultural products (World Bank Group, 2020). Due to the barriers to the movement of people and tourism sector losses, the analysis of Albanian exports of goods and services indicates a huge decline in services export during the second quarter of 2020. Montenegro also suffered serious supply shocks from the COVID-19 outbreak which resulted in a slowdown in exports. Practically, in every sector of the economy, negative growth rates have been observed. The service sector, which contributes the most to the Montenegrin economy, was hit the worst by the pandemic. Since the
current crisis was driven by pandemic and epidemiological constraints, not by internal concerns, the economic rebound in the second half of 2020 was rather swift, starting immediately after countries mitigated the restrictions.

Despite the fact of being members, the external exchange of Hungary, Croatia and Bulgaria with the rest of the EU was highly affected in 2020. According to the Hungarian Central Statistical Office data, external trade of goods with the EU countries had been rising through the years until 2020, when both imports and exports declined. However, the fall was stopped in 2021 already, with imports and exports even surpassing the pre-pandemic values. On the other hand, the value of goods imports and exports to non-EU countries did not register any decrease during the COVID-19 crisis, since the upward trend has continued during the last two years. External trade of services with both groups of countries, EU and non-EU, recorded a fall in 2020 and an increase in 2021, although not enough to reach the pre-pandemic levels. Data provided by the Croatian Bureau of Statistics (CBS, 2021) shows that Croatian external trade with the EU countries was also down in 2020. On the other hand, imports from certain EFTA countries, countries in the region, countries in Asia and countries of Oceania recorded a growth, in some cases even multiplied a few times, as well as exports to some EFTA countries, OPEC countries, non-EU European countries and countries in America. In 2021 the value of foreign trade was significantly higher since both imports and exports registered an increase in almost all groups of countries (CBS, 2022). As stated in the official database of the National Statistical Institute of the Republic of Bulgaria, external trade with the EU countries, as well as with non-EU countries, decreased in 2020. The value of exports from non-EU members dropped more than from the EU partners, while the fall in the value of imports was bigger in the group of EU members than the others. Despite the decline in 2020, the value of foreign trade in 2021 was already improved significantly. Both exports and imports with the EU partners and with the non-EU countries were considerably increased, reaching even higher levels than in 2019, before the COVID-19 crisis.

Serbian statistical data for 2020 (SORS, 2021) show that the value of Serbian exports to the EU, after an increase in 2019, was down, whereas exports to EFTA and other industrial countries continue to rise. Exports to developing countries also recorded a slight decrease. The imports trend was different. Imports value from the EU countries declined in 2019 compared to the previous year, but in 2020 it grew, exceeding the 2018 level. Imports from EFTA countries recorded an upward trend in previous years, while the value of imports from other industrial countries and developing countries raised in 2019, before going down in 2020. After the initial period of shock caused by the pandemic, the external trade of Serbia in 2021 recovered. The value of imports and exports with the EU, as well as with all the other regions and economic zones, except Northern Africa and OPEC countries, increased (SORS, 2022). According to the Statistical Office of Montenegro (MONSTAT, 2021), the value of exports to the EU had already been decreasing, and in 2020 that downward trend continued, while imports value dropped in 2020 after an incline in 2019. Trade between Montenegro and other CEFTA member countries also declined in 2020, after growth in previous years. Interestingly, the pandemic did not influence the exports to America, Asia and Africa since it continued its growth in 2020, whereas imports from Asia and Africa went down, but the value of imports from America raised after a decline in 2019. External trade of Montenegro in 2021 recorded a positive trend, with rising exports and imports from all continents (MONSTAT, 2022). Asia was the only region in which the value of exports significantly declined in 2021 compared to the previous years. Statistics on the international trade of Albania suggest that the value of exports to European countries and the majority of the EU was in decline since 2019 and it continued in 2020 as well. The same applies to the
export value to America and Asia, whereas export to African countries recorded a considerable increase. Export to Australia and Oceania raised as well despite the pandemics. Imports from Europe and the majority of EU countries were also down in 2020, as from all the other regions except Australia and Oceania. In 2021 both imports and exports between Albania and the EU, and with other major partner countries increased (ISTAT, 2021).

4. MECHANISMS OF RESPONSE TO COVID-19 CRISIS

Coronavirus and widespread lockdowns have resulted in an unparalleled amount of economic uncertainty, comparable to or perhaps exceeding that experienced during the Great Recession of 2007-2009. The COVID-19 pandemic has triggered the worst economic crisis in our lives. The economy has shrunk, and job losses have increased. To a greater or lesser extent, the COVID-19 crisis has impacted every country in the world and globalization has become one of the decisive factors in the disease’s spread (Sheresheva, 2020). Authorities were forced to impose measures to prevent the spread of the disease and it caused a significant slowdown in national economies and the global economy (Hayakawa, K. & Mukunoki, H., 2021). In all the analyzed countries, the epidemic did not have an equal impact on all sectors. Border closures, restrictions on people’s mobility and gathering, and the prohibition on the operation of catering facilities all had a substantial impact on the tourism and hospitality industries.

The global crisis induced by the COVID-19 pandemic has far-reaching consequences that will be felt in the following years, across all economic sectors and social strata in Hungary (Nicola et al., 2020). As a result of COVID-19 restrictions, people began to self-quarantine, switching to remote working or enrolling in learning programs. Digital achievements have been revalued, and the relevance of broadband internet access in numerous domains such as shopping and managing finances has increased (Kovács et al., 2020). The Hungarian government launched a variety of programs to mitigate the effects of the economic crisis caused by the pandemic. Due to the COVID-19 crisis, the measures of the Hungarian government were aimed at: 1) healthcare sector (HUF 245 billion, 0.6 percent of GDP); 2) liquidity financing loans in a total amount of HUF 300 million; 3) job creation and job protection (HUF 450 billion); 4) support for tourism, agriculture, construction, transport, logistics (HUF 150 million); 5) investments in enhancing export competitiveness (EUR 800,000 grant) (IMF, 2021).

The COVID-19 crisis brought unprecedented situations and significant disruptions to all aspects of life in Bulgaria as well. The Bulgarian government has imposed limitations on people and businesses in order to stop and minimize the spread of the coronavirus. To aid the struggling economy and preserve employment, the government has launched a comprehensive package of measures. Bulgarian authorities have aided households and businesses financially by raising the capital of the Bulgarian Development Bank, providing portfolio guarantees for company loans, and guaranteeing no-interest consumer loans (BGN 700 million, 0.6 percent of GDP). Furthermore, the state authority has introduced the possibility of deferral of payments to sole traders and tax returns for corporate income taxes and personal income taxes (OECD, 2021). Bulgaria has enacted a payment act, which included financing 60% of salary, social security and healthcare insurance for all employees engaged in human health services, retail, transportation companies, private education, trade fair organizers, hotels, restaurants, bars, cinema, tourism operators, and financing 60% of salary and the employer’s social security and healthcare insurance (OECD, 2021). One of the additional measures was a monthly pension supplement of BGN 50 (about EUR 25) for pensioners.
Faced with broad economic instability as a result of the COVID-19 pandemic, Croatia, like other countries, launched a variety of legislative measures to help the ailing economy, maintain jobs, restrict the spread of the disease and reduce the healthcare system’s shock. In order to support the liquidity of financial institutions, the Croatian National Bank adjusted its regulatory framework and monitoring activities, lowering the total amount of mandatory reserve by HRK 10.45 billion (EUR 1.3 billion) (OECD, 2020). For the maintenance of liquidity, the government has ensured the structural repo facility and regular weekly repos (HRK 3.8 billion) (IMF, 2021). Croatian government outlined certain actions in coping with the effects of the pandemic: 1) Measures to preserve jobs in affected sectors and to support the tourism industry; 2) Authorized tax payment delays; 3) Procurement of sanitary equipment such as disinfection equipment, soap, masks, etc. European Commission has approved a number of subsidized loan programs to the Croatian Bank for Reconstruction and Development (HBOR), as well as an HRK 1.53 billion state aid package for tourism and sports firms.

Without a doubt, the presence of COVID-19, as well as the implementation of all state-level efforts to limit the virus’s transmission, have had a substantial impact on the health system of Serbia. Improving the prompt detection of new potential cases and hotspots was crucial. Serbia has significantly increased its testing, whereas its vaccine capacity was the highest in the region, outperforming both OECD and EU averages (OECD, 2021). For economic recovery, Serbia spent EUR 73 million and purchased and transported medical equipment for EUR 15 million. Serbia has hired 2500 health personnel (doctors and nurses) and increased wages in the public healthcare sector by 10% in response to the COVID-19 pandemic (RSD 13 billion). A one-time payment of RSD 10,000 was also made to public healthcare staff (about 0.02 percent of GDP). To mitigate the negative impact of the crisis caused by COVID-19, the government of Serbia has introduced three sets of tax policy, direct payments and measures for maintaining the liquidity of economic entities (OECD, 2021). The fiscal stimulus package had a total value of EUR 6.0 billion (12.7% of GDP), consisting of EUR 4.0 billion in direct financial support and expenditures and EUR 2.0 billion in loan guarantees schemes and grants for the maintenance of liquidity of small and medium-sized enterprises (OECD, 2021). In addition, 160 000 holiday vouchers were distributed to the tourism sector and direct aid to the hospitality sector, totaling RSD 1.4 billion. To control and avoid further severe spreading of coronavirus, the European Union (EUR 100 million loans), World Bank (EUR 200 million loans), and Council of Europe Development Bank (EUR 200 million financial support) gave further assistance to the economy of Serbia.

The pandemic and its consequences provided a huge challenge for Albania as well, not only in terms of the healthcare system’s timely response but also in terms of society’s socio-economic segment. Albanian Ministry of Finance and Economy prepared a recovery and response plan to assist businesses (particularly small firms), damaged by the pandemic. The authorities have instituted a range of financial stimulus for the people and businesses that included (OECD, 2021): 1) Support for small businesses and the unemployed in the amount of EUR 52 million (welfare benefits, sick pay, cash transfer, housing relief); 2) Sovereign financial guarantee for companies who are having trouble paying their employees, in the total value of EUR 80 million; 3) State guarantee for tourism, garment industry and manufacturing business for EUR 138 million and 4) Ensuring minimum salary for public transport workers (EUR 1 million). In the context of health measures, the Albanian government has enacted additional initiatives (OECD, 2021): 1) Purchasing medical materials and equipment for medical staff amounting to EUR 20 million; 2) Providing EUR 16 million for humanitarian operations.
and creation of a financial anti-COVID-19 fund and a reserve fund for any unforeseen emergency of EUR 8 million; 3) Increasing salaries for healthcare workers and social assistance payments (0.8% of GDP). International Monetary Fund, European Union and other donors have approved emergency funding for the Albanian government in order to help it respond to the crisis (OECD, 2021).

COVID-19 presented challenges and great strain on Montenegro’s health system, adequate social protection and economic progress (UNSDG, 2020). To support the health system and slow down the spread of the coronavirus, Central Bank supported the government of Montenegro to adopt a moratorium on loan repayment for citizens who lost their jobs. To support the economy and citizens, authorities approved a package of measures and allocated funds for general economic support, tourism, hospitality, agriculture and fisheries in the amount of EUR 163 million. Regarding disease control and health safety issues in Montenegro, the EU allocated an additional EUR 9.5 million for investment in infrastructure, equipment and human capacity of the health sector (OECD, 2021).

5. CONCLUSION

COVID-19 pandemic caused unprecedented health, social and economic consequences that completely changed the world. It also proved that mutual support and cooperation between countries is the only way to a successful recovery. The integration provides higher security for its member in the period of crisis, by protecting the joint interests and giving help to those who need it. This research indicates that the EU membership did not have a significant influence on the economic activity during the first two years of the pandemic since GDP trends were more or less similar across the region, regardless of EU membership. Present differences were more related to the specific features of each economy since some sectors were more affected by the pandemic than others. Foreign trade analysis of the observed countries suggests that despite the EU membership, the external exchange of Hungary, Croatia and Bulgaria with the rest of the EU was highly affected in 2020, whereas with other countries and regions it recorded more positive movements. External trade of Serbia, Albania and Montenegro varied across the partner countries and regions, not showing that being outside the EU has influenced significantly their foreign exchange during COVID-19.

To mitigate the crisis’s detrimental effects on the health system and economy, all the countries have implemented budgetary measures and other support programs. Different world organizations, such as the European Commission, Council of Europe Development Bank, International Monetary Fund and World Bank have approved financial aid packages to observed EU and non-EU countries, to combat coronavirus consequences and promote socio-economic recovery. In comparison to Hungary, Croatia and Bulgaria, it’s important to highlight that Serbia, Albania and Montenegro are not EU members yet, therefore, these countries have had less availability and access to EU funding for their medium-term recovery from the pandemic. Based on all of the above, it can be assumed that EU member states had a greater approach to funding sources, but that did not lead to a faster recovery from this crisis caused by COVID-19.

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