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# **Central and Eastern Europe Development Outlook 2021**

**Chief Editor: Dr. Chen Xin**

**CHINA-CEE INSTITUTE**

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## Table of Contents

<b>Preface</b> .....	<b>5</b>
<b>Part I Political Development Outlook</b> .....	<b>7</b>
2021: The year that will forge Albania’s political landscape (irreversibly).....	<b>8</b>
2021: Expected end of COVID-19 and the revival of BiH old political trends .....	<b>13</b>
Outlook of the political 2021 year for Bulgaria.....	<b>18</b>
A preview of 2021 key political events in Croatia .....	<b>24</b>
Prospects of the Czech national politics in 2021 .....	<b>29</b>
A new year with a new government for Estonia.....	<b>34</b>
Greek Politics for 2021 .....	<b>40</b>
Hungarian Politics in 2021: Challenges and Responses .....	<b>45</b>
Latvian politics development outlook for 2021.....	<b>50</b>
An outlook of the shared EU priorities by Lithuania for 2021 .....	<b>56</b>
Montenegro Political outlook for 2021 .....	<b>62</b>
Macedonian political developments in 2021 .....	<b>67</b>
Outlook on Polish domestic policy in 2021 .....	<b>73</b>
Outlook for Romanian politics: a coalition government who has to deal with the pandemic .....	<b>78</b>
Forecasting Serbia’s internal politics in 2021: dilemmas and prospects.....	<b>83</b>
The most important political events awaiting Slovakia in 2021.....	<b>89</b>
Slovenian politics outlook for 2021.....	<b>94</b>

<b>Part II Economic Development Outlook.....</b>	<b>99</b>
Economic prospects for Albania in 2021: trying to stay afloat .....	100
BiH and its economic development outlook for 2021 .....	106
Bulgarian economic outlook for 2021 .....	111
A preview of 2021 key economic events in Croatia .....	118
Prospects of the Czech national economy in 2021 .....	123
The ‘reformists’ and Estonian economy .....	129
Greek Economy Outlook for 2021.....	135
Hungarian economy in 2021: challenges and responses.....	140
Latvia: the main prospects and challenges of 2021 .....	145
An outlook of Lithuania’s steps towards a higher added value economy ....	150
Montenegrin economic outlook for 2021.....	156
Macedonian economic developments in 2021.....	161
Polish economic outlook for 2021 .....	166
Outlook for 2020: three threats for Romanian economic growth.....	172
Economic forecast for Serbia in 2021 .....	177
Slovakian economic outlook for 2021 .....	184
Slovenian economic outlook for 2021 .....	192
<b>Part III Social Development Outlook.....</b>	<b>197</b>
Daunting prospects of the Albanian society in 2021 .....	198
BiH social development outlook for 2021 .....	203
Outlook of the social challenges for Bulgaria in 2021.....	208
A preview of 2021 key social events in Croatia .....	213
Prospects of social development in 2021 .....	217

A year of Estonian social protection? .....	224
The Greek society in 2021 .....	230
Social issues in Hungary: An outlook for 2021 .....	235
The trends and forecasts for Latvian main social indicators in 2021.....	240
An outlook of the impact of COVID-19 on the labour force in Lithuania...	246
Montenegrin social development outlook for 2021 .....	252
Macedonian social developments in 2021.....	257
Poland 2021 outlook on social issues .....	262
Romanian social development outlook for 2021 .....	268
Serbian social outlook for 2021 .....	273
Slovakian social development outlook for 2021.....	279
Slovenian social development outlook for 2021.....	284
<b>Part IV Outlook for External Relations.....</b>	<b>289</b>
Albania's 2021 foreign policy and the paths forward.....	290
BiH external relations outlook for 2021: The basic premise.....	295
Outlook of the Bulgarian international relations in 2021 .....	300
A preview of 2021 key foreign policy events in Croatia .....	305
Prospects of Czech external relations in 2021 .....	310
A system of signals for 2021 and a foreign policy context .....	315
Greek foreign policy for 2021 .....	321
Hungarian foreign policy for 2021: An outlook.....	326
Latvian foreign policy prospects and relations with EU, US, China in 2021	331
An outlook of Lithuania's value-based foreign policy.....	337
Montenegrin external relations outlook 2021.....	343

Macedonian external relations outlook for 2021 .....	<b>348</b>
Poland 2021 outlook on foreign policy .....	<b>353</b>
Outlook for 2021: embracing predictability in Romanian foreign policy ....	<b>359</b>
Foreign policy predictions for the Republic of Serbia during 2021.....	<b>364</b>
Slovakian external relations development outlook for 2021 .....	<b>368</b>
Slovenian foreign policy outlook for 2021.....	<b>374</b>



## Preface

When the new year 2021 started, most CEE countries were still struggling with the second wave of coronavirus pandemic and its containment measures. Some countries were even in face of the third pandemic wave. So far, it has exerted great impact on both national policies and international relations. Unfortunately, it's unlikely to measure the consequences of coronavirus crisis in a short time.

This book is providing a brief analysis on the development outlook of Central and Eastern European countries against the backdrop of the second pandemic wave and the attendant uncertainties. The book is structured from four different perspectives on the subject: domestic politics, economic situation, social development and external relations. Even though it's quite difficult to predict future developments considering the uncertainties and changeability, authors made great efforts to better understand the possible directions of developments. The book is a collection of 68 reports written by the associate researchers of China-CEE Institute. The reports are originally from the January issue of the 2021 Weekly Briefings, a core product by China-CEE Institute. The views in the book are represented by the individual authors instead of China-CEE Institute.

China-CEE Institute, registered as a non-profit limited company in Budapest, Hungary, was established by the Chinese Academy of Social Sciences (CASS) in April 2017. China-CEE Institute builds ties and strengthens partnerships with academic institutions and think tanks in Hungary, Central and Eastern European countries, as well as other parts of Europe. China-CEE Institute aims to encourage scholars and researchers to carry out joint research and field studies, to organize seminars and lecture

series, to hold some training programs for younger students, and to publish academic results, etc.

I hope this book will be helpful to enrich the knowledge of how the pandemic crisis is influencing the countries in the region and how these countries will deal with their future developments while the coronavirus is still lingering around.

Prof. Dr. CHEN Xin

Executive President and Managing Director, China-CEE Institute

Deputy Director General, Institute of European Studies, CASS

# **Part I Political Development Outlook**

## **2021: The year that will forge Albania's political landscape (irreversibly)**

**Marsela Musabelliu**

***Summary:** In the dawn of a New Year, Albania is still facing the extreme challenges that Covid-19 brought to the country. Continuation of insecurities and fears are politically translated into a further concentration of power into few people and the shifting of attention into major health issues, has created a 'playground' for shady affairs always starring the same politicians. Entering 2021 there is only one major headline, the general elections scheduled for April 25<sup>th</sup> – as tensions run high because there is too much at stake, for the first time in Albanian pre-elections history since the regime change there is a dominating aspect: people are detached from the political struggle, the ferocity of political attacks from one side to the other is not impacting voters as it used to do, and the electoral campaign is everything but a clash of ideas and stance on issues. Politics in Albania is changed forever due to Rama's eight years in power, but 2021 could be the year that seals this new type of political scene irreversibly.*

### **Events of lasting importance**

Albania ended 2020 with one internal, political milestone achieved – a functional Constitutional Court. Although the total number required is 9, the quorum is achieved by 7 judges. Yet, this did not happen without controversy. As soon as the names of the new members were made public, suspicions started immediately.... Indeed, the judges appointed to Court are known sympathizers of the left, the right and center – thus their selection seems a very well-thought “compromise” of all main political fractions of Albania. The natural question is evident: if there is a

compromise on the Constitutional Court, what other political aspects did the parties compromise over? The most evident spectrum would be a backroom deal on the next elections, yet this is difficult to prove. Another end-of-year political act of Prime Minister Edi Rama was the reshuffling of three ministers: the Ministry of Foreign Affairs, the Ministry of Defense and the Ministry of Agriculture are now lead by “new” people. Not so much as a novelty in people since these are all political exponents whom currently or in the past have lead other ministries as well. Three months prior to the elections these moves were entirely dictated by electoral needs rather than ministerial needs of cabinet. However, these moves impacted only the inner circles of the Socialist Party (PS) and nothing more.

**The only alternative  
for the future is a political recycling of the past**

The April 25<sup>th</sup> process is the 10<sup>th</sup> in the cycle of parliamentary elections after the regime change Albania. They come in a time when the PS only aim is to win the third consecutive governing term, against all other opposition parties, and depending on the outcome, the result will be decisive for many future developments.

Will the socialists make history and win three mandates in a row? – The general feeling on the ground and numerous comments of experts (and not), is a sense of surrendering, where it does not matter who wins or loses, the outcome will be the same. Nonetheless, for the ones that still want see a winning and a losing side, the majority believes that Rama might triumph again and the PS will rule Albania for another four years. And if it actually happens it will be a win by default! - By it by default or by compromise, it is too early to tell, one stance is for sure, that the right wing opposition is too weak and too divided to have the upper hand.

Beside the Democratic Party (PD) led by Basha, there other four main fractions, and none of the four forces are political innovations. With no idea or vision of theirs, starting from the catharsis of what happened when they were part of the leadership, to the current attitudes no tangible inspiration is present. More than a war of ideas, it will be a war of political figures. Anyone who leaves Basha will find a place in the new gates that have been

opened. Anyone who will admit to knocking into the PD will find the door open, but this constitutes neither a novelty nor a political purge, it has been like this for decades.

On the other hand there is the Socialist Movement for Integration (LSI), former party of the current President, who is actually ready, willing and eager for a share of the political feast.

At a time when more than 13 political forces, from the known left to the right are lined up against PM Edi Rama, it would not be surprising that as they continue to seize the same furrow, the head of the socialist will continue to govern.

### **The reforms**

The parliamentary elections of 2021 are officially returning to the main condition for Albania in the next evaluation of the negotiations with the European Union (EU). Previously it was the Netherlands that described the Electoral Reform as fragile, demanding that the opinion of the Venice Commission on this reform and its practical implementation be awaited. In a polarized country like Albania there are conspicuous political conflicts, so it is difficult to find a consensus on the electoral code. In fact, the implementation of the new Electoral Reform was among the nine preconditions of the European Council for the second intergovernmental conference.

The Justice Reform is another step to be taken into the European perspective, and in 2021 this will be mentioned by all political forces as if there was nothing more important, however, on what Albanians have been witnessing in the past four years (since the reform was approved by the Parliament) is a lot of debate and almost inexistent action. It is our argument that 2021 will continue on this course.

### **Political feudalism of 2021**

In the Middle Ages the hierarchies were formed up of four main parts: the Monarch, the Nobles, Knights, and Peasants. What is expected in Albania in 2021 is a deeper outline of this old traits into a modern society.

Intellectuals in the country believe that the people are deceived, manipulated, exploited and ruled by a political oligarchy with a deep material and power cravings. Deepening corruption at all levels, nepotism, as evidence of unsurpassed primitivism, plunder of national wealth, as evidence of greed demonstrated by mysterious and quasi-criminalized privatizations. A state, which has not yet become a state with full rule of law, but a state of rulers, who see the country as their private property, as a state that tramples on the personality of the citizens, which distorts and undoes all the customs of the nation, which fades the splendor of dignity, which tries to obscure reason – this is the Albanian political reality, created in three decades of transition and it will be pervasive in 2021 as well.

### **Albania's fate in the hands of three "leaders"**

In Albanian politics, party leader are party owners, and as close as it can get to modern feudal lord, not only because they are surrounded by loyalists of the village or town where they are from, but also because they behave, act, think, do their best to be valued and be the eternal.

Since it is all about people not policies, there are three persons and their close political or otherwise interests, that will shape Albania for not only years to come, but generations: PM Edi Rama, opposition/PD leader Lulzim Basha and President Ilir Meta are the ones that will decide (or have already decided) which will be their share on the future management of the country.

Unless there is a monumental political force made of outsiders, the clout of the above-mentioned three leaders will never vanish, it will only modify percentages of power from one to the other, however they are the only players on the ground and they will forge the rules of the game as they please.

### **Where do the voter stand in 2021?**

For the first time in three decades the (true) socialist base appears lethargic; indeed, in previous elections these voters were the first to be active and rally around the leader, this time around what is mostly heard

from left wing activists is that most probably they will altogether not vote at all.

On the other side of the spectrum, the PD right-wing base seems disappointed to say the least from a very passive leader who altogether abandoned the Parliament and the municipalities to the political opponent and for eight years in opposition and has almost been invisible.

The LSI is the one that will decide where it stands as soon as the winner is proclaimed and their base is only hoping for some sections of power, at whatever cost.

In 2021 Albanians will choose the future political force that will rule the country, but will they really? At this point in time, fading hopes for a decent and patriotic political class is omnipresent.

### **Conclusions**

In the past, electoral years used to be years of hope for Albanians; hope for a shift in power, hope for more diligent political class, and ultimately hope for a better future – not this time around!

Managing the ongoing and the aftermath of the pandemic, recovery after the earthquake, and the functioning of the new justice system this will be the major challenges ahead, for the current and for the new government after April 2021. While Albanians from all walks of life are only eager for economic recovery and a swift vaccination process, politics has a life of its own, an internal struggle of its own and will have an outcome of its own in the next general elections.



## **2021: Expected end of COVID-19 and the revival of BiH old political trends**

**Zvonimir Stopić**

***Summary:** Aside from the new developments regarding the SARS-CoV-2 coronavirus pandemics, the year 2020 in Bosnia and Herzegovina, in a political sense, ended with some interesting indications for the change in future. Bosnia and Herzegovina's local (municipal) elections, held on November 15th, as well as the separate local elections in Mostar held on December 20th, wrapped up the year 2020 and shifted focus back from the SARS-CoV-2 coronavirus pandemics to Bosnia and Herzegovina's never-changing political, structural, constitutional and ethnic issues. These events can be viewed as important variables of the Bosnia and Herzegovina's political situation, which can help us understand what the main political issues for Bosnia and Herzegovina will be in the year 2021 and 2022.*

In regard to SARS-CoV-2 coronavirus pandemics, the new 2021 in Bosnia and Herzegovina began with around 111,000 confirmed cases in total. Out of this number little over 77,500 have recovered, while 4,050 people have been confirmed that have died from the complications due to the from COVID-19 disease. Similarly as all other countries in the world, the government of Bosnia and Herzegovina has ordered vaccine doses, which are expected to be delivered to Bosnia and Herzegovina during the first several months of 2021. Currently, the number of doses that have been ordered so far is enough for about 1/5 of Bosnia and Herzegovina's population. How fast Bosnia and Herzegovina will be able to vaccinate 50 % or more of its population will depend on the possibilities allowed by

the the rebalance of the state budget and the funds all are hoping that will be allocated by the European Union.

The SARS-CoV-2 coronavirus did not stop the local (municipal) elections in Bosnia and Herzegovina, despite of its exponential rise in the months which preceded it. The results of the elections, looking from above passed more or less as expected. Serbs, Bosniaks, Croats and other ethnic minorities, almost exclusively voted for those parties that aim to represent them on the national basis. The actual party programs regarding overall social, structural or economic progress of Bosnia and Herzegovina were of little or no consequence. This approach left the same political forces in power, fixing the disunity of Bosnia and Herzegovina's three largest ethnicities firmly in place. However, looking from the inside, several significant shifts did occur, the largest one being the loss of Banja Luka and Sarajevo for Milorad Dodik's Alliance of Independent Social Democrats (Savez nezavisnih socijaldemokrata, SNSD) and Bakir Izetbegović's Party of Democratic Action (Stranka demokratske akcije, SDA), respectively. In both cities, the the power did not surpass ethnic limits, but will affect the struggle for power within them, thus influencing the overall structure of politics of entire Bosnia and Herzegovina.

Despite of the victories achieved in about forty municipalities and cities in the Republika Srpska, as well as in Drvar, Bosanski Petrovac and Glamoč in the Federation of Bosnia and Herzegovina, which on the surface makes them look like the strongest power in Republika Srpska, Dodik's SNSD took a significant hit in this elections. Besides losing the position of mayor in capital of Republika Srpska to Draško Stanivuković from the Party of Democratic Progress (Partija demokratskog progresna, PDP), they also lost an ally, the People's Democratic Alliance (Demokratskog narodnog saveza, DNS), which basically fell apart and announced its placement in the opposition to SNSD. As a result, Dodik's SNSD did lose a two-third majority, necessary for the changes of the constitution of Republika Srpska, which for the time being, somewhat removes Dodik's strongest weapon for manipulations of Bosnia and Herzegovina's overall politics away from his hands, namely the firmness and resolution of his

threats regarding change of Republika Srpska's constitution and secession of Republika Srpska. However, the SNSD still holds majority in the parliament of Republika Srpska which is enough for them to continue to stay in power for a while longer, but will also make them more susceptible to political deals and calculations. When it comes to the surprising losses in Banja Luka, as well as in the city of Bijeljina, one should keep in mind that SNSD still holds the majority in the assemblies of both cities.

Izetbegović's SDA also did not fare well in the elections. They did win or retained power in about thirty municipalities, but they failed to win in major cities. The largest loss occurred in Sarajevo, where SDA failed to win the support in the three city municipalities, namely Sarajevo Centar (Center Sarajevo), Stari Grad (Old City Sarajevo) and Novo Sarajevo (New Sarajevo). An especially interesting surprise occurred in Sarajevo Centar, where victory fell into the hands of Srđan Mandić, an ethnic Serb, who during the war in Bosnia and Herzegovina believed in multiethnic Bosnia and Herzegovina, stood against radicalism and fought for the Army of Bosnia and Herzegovina. Mandić's election as mayor showed that there is still enough political capital in Bosnia and Herzegovina, no matter how small it is, for seeking solutions alternative to those determined along the strong ethnic lines.

Out of the "big three", the SNSD, SDA and Dragan Čović's Croatian Democratic Union of Bosnia and Herzegovina (Hrvatska demokratska zajednica Bosne i Hercegovine, HDZ BiH), only the latter achieved almost fully expected victory. HDZ BiH won in twenty municipalities, effectively showing that current representative in Bosnia and Herzegovina's presidency Željko Komšić of Democratic Front (Demokratska front, DF) does not have the support of the Croatian people in Bosnia and Herzegovina.

The last political "battle", based on ethnic differences, occurred in Mostar, one Bosnia and Herzegovina's largest, most important and most troublesome cities. The city, all but physically divided between the Bosniaks and Croats, witnessed long awaited elections for the first time in twelve years, but only after the European Court of Human Rights on

October 29th, 2019, ruled against Bosnia and Herzegovina in the case of Baralija v. Bosnia and Herzegovina, requesting constitutional changes and basically ordering the state to finally organize elections in Mostar. Subsequent deal between HDZ BiH and SDA allowed the electoral amendment to pass in July 2020, which opened a way for the long-awaited elections. Although the final results will be officially confirmed on January 20th, 2021, the counting of the votes and statistic analysis indicate that HDZ BiH, currently owning 36.5 % of the votes, is the single most successful party. Its major opponent, the Bosniaks' Coalition for Mostar 2020 led by SDA, won around 30 % of the votes. This mean that HDZ BiH will most probably provide 13 members of the city council, while the Coalition for Mostar 2020 will provide 12. However, several other parties also won significant support, which will affect the final outcome of the elections. BH Block Mostar (BH Blok Mostar) won enough support for 6 members of the city council, Croatian Republican Party (Hrvatska republikanska stranka; HRS) for 3, while the Serbian list Stay here (Ostajte ovdje) will provide 1. The results, as they are known at the moment, indicate that the Mostar mayor will be chosen by the coalition between Coalition for Mostar 2020 and BH Block Mostar.

## **Conclusion**

In the political sense, the year 2020 brought little new to Bosnia and Herzegovina. The SARS-CoV-2 coronavirus pandemics, which began at the beginning of March, did for a while manage to somewhat shift the focus of the country away from the usual political issues, but only for a while. Further more, focusing on SARS-CoV-2 coronavirus more or less conveniently prevented Bosnia and Herzegovina's leaders to address the always growing structural and institutional issues, many of which are critically in need of a solution if the country wishes to move forward. The shift of focus might, as the vaccines will began eliminating SARS-CoV-2 from Bosnia and Herzegovina, very well be compensated in the year 2021, during which the discussions over the changes of the constitution, further and possibly more aggressive requests of secession of Republika Srpska,

as well as the tensions between Serbs, Bosniaks and Croats might reach a new level. The municipal (local) elections in Bosnia in Herzegovina showed indication to all of that. However, the elections also showed that at least two out of three major “old” political forces, namely, Dodik’s SNSD and Izetbegović’s SDA have serious issues regarding support outside and inside of their ranks, which will no doubt affect how the both parties will approach Bosnia and Herzegovina’s politics in 2021. The drop in support during municipal elections also show that the political struggle for the state election, which should be held in 2022, will be intense, to say the least. The year 2021 might entirely be stretched between the results of the local elections and expected results of the upcoming 2022 elections.

## **Outlook of the political 2021 year for Bulgaria**

**Evgeniy Kandilarov**

For Bulgaria, as well as for all other countries in the world, the past 2020 was marked predominantly by the pandemic caused by the coronavirus and the ensuing health crisis. Given that the pandemic is still raging and it is completely unclear how long this process will last and what consequences it will have, all the forecast for the coming 2021 seems extremely complicated and quite difficult. However, some clear and visible political trends can be outlined.

During the last year In Bulgaria, the health and socio-economic crisis followed and resulted in the political crisis, which led to a collapse of trust in the institutions, political parties and individuals who represent them.

The development of this trend is especially important in view of the coming 2021 year, mainly because two extremely important political events are coming up in Bulgaria, which will outline the government and respectively the development of the country in the next four years.

First of all, it is about holding the regular parliamentary elections, which will be held in the spring of 2021. After that, during the autumn the regular presidential elections are planned to take place. So after them the newly elected president should take the office in January 2022.

Still many questions remain such as when exactly the elections will take place, with respect to the development of the pandemic as well as will there be more changes in the electoral code, will machine and remote voting be allowed, will the epidemic have an impact on the electoral activity etc. To these issues must be added some others like what is the attitude of the population towards the various political parties, as well as where the protest vote, which took effect in the middle of last year, will go.

In addition, last year, several new political entities appeared or at least applied to participate in the upcoming vote.

### **Parliamentary elections**

Borissov's government was delegitimized to a great extent last year by number of scandals and wide spread social-political protests of the Bulgarian population. However the government survived protests and resignation demands, the tensions across society remain.

This is a serious prerequisite for the parliament to not be the same as the old one after elections. Most probably there will be a change, both party and political. However it seems that there will be no radical change in the ratio between the largest parties (GERB and BSP). It is even possible that GERB will again be the first in the number of mandates, but most likely they will not have a majority.

Winning seats in Bulgaria's National Assembly requires crossing a threshold of a four per cent share of the vote. At the same time, the question of how many parties have a chance to cross the 4% barrier and enter the future parliament depends on turnout. With higher-than-usual turnout, ie about 60% of those eligible to vote, new political parties that have not been part of the parliamentary-represented political forces so far will have the opportunity to enter parliament. With lower turnout of about 40%, no more than 3-4 parties will be able to enter parliament. So far analysts predict low voter turnout. This is a phenomenon that has been registered in all European countries that have held elections in recent months. All registered a low turnout. About 49.6 per cent of those polled in December 2020 said that they intended to vote at the forthcoming elections during the year. Twenty-eight per cent are hesitant about whether to vote and 22 per cent do not intend to vote at all.

Since 1991, 9 parliamentary elections have been held in Bulgaria. In this regard, the elections in 2021 will be an anniversary - for the 10th time. Throughout this period, the smallest number of parties elected in the parliament was once - 3 parties (in 1991), and the biggest number of elected

parties was 8 (2014). Beside that there have always been a "new players" in the electoral campaigns.

For 2021, sociological forecasts provide for the election of between 4 and 6 parties to be able to enter the future Parliament. The winner will be the party with the most votes and respectively mandates. It is not clear whether it will be able to form a cabinet. Analysts do not allow the possibility of an absolute majority, but most likely expect a coalition government again, which corresponds to the peculiarities of the proportional electoral system applied in Bulgaria.

Sociological data show that up to that moment GERB remains in first place. And this is despite the internal turmoil in this party and the protests against its government. One of the most serious factors that will influence the voter motivation campaign is the lack of a strong political opponent of GERB.

At the same time, the results of the elections will be highly dependent on the question how the results of the government's work to deal with the crisis caused by the pandemic will be finally assessed.

Sociological research so far provides a snapshot of a rather fragmented future National Assembly. According to some sociological polls if the election were held today, the most likely result would be a National Assembly with six political parties, an unstable majority and a difficult governing coalition.

Again according to the sociological research Prime Minister Boiko Borissov's GERB party has 24.3 per cent support and Kornelia Ninova's opposition Bulgarian Socialist Party 21.9 per cent support among those who intended to vote. In third place was television showmen Slavi Trifonov's party "There is Such People" with 10.2 per cent. This is one of the newly emerged political formations with strong chances of winning seats in the next National Assembly. In fourth place according to the polls is the Movement for Rights and Freedoms, with 7.2 per cent, and in fifth, the reformist Democratic Bulgaria, with 6.1 per cent. Sixth was former Ombudsman Maya Manolova's political formation "Stand UP.bg", with 4.9



per cent. Close to the four per cent threshold to win seats in Bulgaria's National Assembly is Hristo Ivanov's reformist Democratic Bulgaria, with 3.9 per cent. The ultra-nationalist VMRO-NFSB, currently the minority partner in Borissov's government, has fallen further below the 4 % threshold to 2.7 per cent in last December.

According to some other prognosis there are only four political formations that will certainly enter the next parliament - GERB, BSP, "There is such a people" and MRF. "Democratic Bulgaria" and "United Patriots" have a rather potential opportunity to cross the 4% barrier, but nothing is certain yet.

In any case, these sociological data are rather preliminary and surprises can be expected. All political formations that are preparing for parliamentary elections are in very good condition, because they currently function in the time of economic, political and medical crisis which keeps them in high political readiness. According to experts, finally the election campaign itself will ultimately decide the winner.

According to the surveys the protest vote will most clearly and permanently be robbed by Slavi Trifonov's party "There is such a people".

In order to reach the majority needed for a stable parliament, at least three formations will have to agree to rule together, but from the positions of the parties at the moment it is clear that such an agreement is almost impossible for the time being.

That is why it is very likely that a possible new cabinet could be declared "programmatic" or "expert" in order to put in the background the idea of a coalition between political groups that do not agree in principle to work together.

### **Presidential elections**

From the point of view of the forthcoming presidential elections set to be held in the autumn of 2021, according to opinion polls, the current president Rumen Radev is having a very high chance of being elected for

a second term if he runs. It should be borne in mind that presidential elections can be strongly influenced by the results of the previous parliamentary elections.

One of the visible and very important factors related to the presidential election of Rumen Radev for a second term is the fact that the tension between the president and the BSP leadership is quite visible and obvious. This is due to the fact that during his mandate, gradually Rumen Radev started to play role of an independent opposition center, distancing himself from the BSP. In this regard without the support of the BSP, it may turn out that the re-election of Radev for a second term will be difficult to achieve, as usually in all presidential elections so far the runoff is always between the candidates of the two largest parties in the country. For now President Rumen Radev is the politician with the highest rating of trust and public support in Bulgaria. According to sociological agencies he is having 50.9 per cent approval and a 37.6 per cent disapproval. However, in presidential elections, there is always the possibility of sudden and surprising last-minute reversals.

### **Conclusion**

The political year 2021 will be definitely extremely important for Bulgaria due to the fact that within the year two of the most important elections will be held, determining the future governance and therefore the development of the country. In this regard this year will be a major test of the ruling coalition of GERB and the United Patriots after so much criticism and protests over corruption and many other accusations within the last year.

Still, at this point, sociological surveys give GERB an advantage. Since 2007, the GERB party has won 4 parliamentary votes, 4 European votes and 3 local elections. GERB also won presidential elections once and lost them once. In 2013, GERB won the parliamentary elections, but failed to form a cabinet, leading to a coalition government of a minority made up of the BSP and MRF. Most analysts are unanimous that it seems that in the

next parliament GERB will rule again together with other parties that will partner with it. However, GERB faces the problem of leadership - undoubtedly belonging to Boyko Borissov, who has repeatedly stated that after this term he will resign only in the leadership of his party, and will leave public and foreign positions to "his children". However, the question remains whether this would be a winning move.

How the political events in the country will develop remains to be seen. In any case, a very important year is coming up, full of drama, tension and political clashes.

# **A preview of 2021 key political events in Croatia**

**Valentino Petrović**

***Summary:** It is always a difficult task when someone is trying to predict the events in the upcoming year given the lack of information and ever-changing political environment. The year 2020 brought us COVID-19 and a couple of earthquakes with serious damage in Zagreb and Sisak-Moslavina County. Thus, almost everything that happened in political sphere was heavily influenced by the health emergency and natural catastrophe. With this in mind, one has to be very careful when making political forecast, however, there are a few processes that we have decided to include in this analysis based on their nation-wide political importance.*

## **Introduction**

After everyone in Croatia hoped that a disastrous 2020 is finally over, on 29<sup>th</sup> December another earthquake of 6.4 magnitude struck Sisak-Moslavina County and was felt throughout Croatia, even in some other neighboring countries such as Slovenia, Bosnia and Herzegovina, and Serbia. The earthquake caused a widespread infrastructural damage, with the town of Petrinja being severely affected in addition to number of nearby towns and villages. Unfortunately, seven people were confirmed dead and many others were injured. The political context of the year 2021 will therefore be heavily dictated by the speed of the reconstruction process as well as the process of acquiring the financial aid to support all the families left without rooftops. It is expected that everyone involved will showcase a high level of coordination whether from the offices of decision-makers or from the very streets of damaged areas.

However, at the moment of writing, it appears that the confusion is still overabundant, hopefully, not for a long time. Except for the political consequences of this year's both earthquakes and COVID-19 pandemic, the 2021 will bring us another election race, this time for local and regional offices, with much of publicity already being shifted towards the future of Zagreb's mayor, Milan Bandić. The elections will also serve as a test point for both major political parties as well as other political actors who were quite successful in 2020 July parliamentary elections. Finally, some analysts have underlined the importance of 2021 census, which will demonstrate demographic characteristics and trends of Croatian population in the last ten years.

### **The 2020 Sisak-Moslavina County Earthquake**

After witnessing both earthquakes in a time span of only nine months, a usual phrase has become that Croatian people will always display a highest level of empathy, national unity and humanitarian assistance in times of health emergency or natural catastrophe such as this one. This has proven to be true, but cynics would argue that such sentiments or even the most rudimentary inter-personal understandings should be among us at all time, not only in crisis situation. However, these times require much more than empathy and mutual understanding; it is prevalent that all emergency services and crews are well coordinated by the token of clear and visible vertical chain of command. This, unfortunately, was not the case until a week after the earthquake when President Zoran Milanović gave an interview in which he spoke of the much-needed field coordination and called for the declaration of catastrophe in order to make sure who will call the shots and how money will be distributed to endangered cities, towns and other affected areas.

Only a day later Prime Minister made a decision to establish a special branch of the Civil Protection Directorate which will be designated to mitigate the earthquake consequences. The organization will be supervised by the Deputy Prime Minister, Tomo Medved, with the assistance of other

Deputy Prime Minister, Boris Milošević, and the Minister of Construction, Physical Planning and State Property, Darko Horvat. It has yet to be seen how the process of reconstruction will unfold and what would be the true colors of it, taking into account the fact that such projects can often be subject of corruption and conflict of interest as it was the case during the post-War nineties. Unfortunately, communication is still not a notable trait when it comes to field coordination since mayor of Petrinja, Darinko Dumbović, recently complained that he was not invited to participate in a meeting of the above-mentioned Directorate.

### **The Local Elections**

Apart from day-to-day political intrigues, one of the 2021 major political outings will be the May/June local elections. After securing another mandate as a president of Croatian Democratic Union (HDZ) and a comfortable win in last year's parliamentary elections, Andrej Plenković will have an opportunity to further strengthen his party's organization even though it is still not clear who will run against Milan Bandić for a mayor of Zagreb. Nevertheless, it could be interesting to take a peek at the previous results of local elections in Croatia with regards to the aggregate number of votes that two main parties (HDZ and Social Democratic Party (SDP)), won in the Zagreb City Assembly and in county assemblies. According to analysis by Marijana Grbeša and Berto Šalaj, both from Faculty of Political Science in Zagreb, in 2017 local elections HDZ won 536 000 votes (32%), while SDP won 380 000 (23%). If we look at 2013 local elections, it is clear that SDP's support is declining due to the fact that it previously won 450 000 of votes, while HDZ is on the rise with 502 000 votes in 2013. The authors indicate that HDZ position on local level is even more superior taking into account that it won 12 county governors and 60 mayors in 2017 elections. SDP, on the other hand, won only 2 county governors and 22 mayors.

There was a lot of discussion on who will be SDP's candidate in Zagreb and for some time the media speculation was that the major center-

left party will support the leader of green-left platform We Can! (Možemo!), Tomislav Tomašević, to run against Milan Bandić. The leaders of both Možemo! and SDP refused to give comments on this issue, however it was clear that negotiations were in progress. According to opinion polls commissioned by these very parties, Tomislav Tomašević was the one who had the best opportunity to beat Bandić with 30% of votes against 15%. Eventually, the deal was not reached and SDP will have to find its own candidate in the capital, while Možemo! can keep its hands clean by not going into a coalition with SDP which was one of the primary reasons why it managed to produce a fine result on 2020 parliamentary elections. The local elections will be the first real test for SDP under a new leadership and also the possibility for the newly-elected president Peđa Grbin to see on which people he can count on as well.

### **The 2021 Census**

The year 2021 will mark the first nation-wide census since 2011 and it will surely provoke further political debates. Lidija Brković from the Croatian Bureau of Statistics has highlighted that citizens will have an opportunity to register themselves online which will modernize the whole process by improving the efficiency of the data processing. The logic behind this was to improve the accuracy and quality of the census by not allowing any kind of data manipulation. Ivan Penava, a former member of HDZ, a mayor of Vukovar, and the president of Local and Regional Self-government parliamentary Committee, already warned that 2011 census was highly manipulated by interest groups and politics. He further argued against the intention to include the national minority members as census takers/officers and said there is no reason why somebody would ask the census taker about his nationality. He supported his thesis on data manipulation with the example from Vukovar. According to 2011 census, Vukovar had 28 000 citizens, while the city administration registered 22 000 citizens. However, it is assumed that citizens would be more open and candid if the census taker would share their nationality. Of course, the census and everything that was discussed in previous paragraphs will be

heavily influenced by the COVID-19 situation and circumstances around it. Therefore, it is wise to wait a little bit longer before making any kind of predictions for 2021.



# Prospects of the Czech national politics in 2021

Ladislav Zemánek

***Summary:** The upcoming Parliamentary election will likely to be the major political event in the Czech Republic in 2021. They will be held in October, not being excluded that the election will bring a substantial change of domestic politics. In the briefing, I will analyse the present principal pre-election tendencies and possible scenarios, putting them into a broader context of the national political scene.*

The election to the Chamber of Deputies, the lower chamber of the Parliament, are scheduled on the 8th and 9th of October. The term was set by the President Miloš Zeman at the end of December 2020 which is unusual in comparison with former precedents. In the past, the President announced the term four months prior to the election on an average. The Zeman's decision implies at least two important things: First, the election campaign started at the very beginning of 2021, thus lasting over a substantial part of the year which will not contribute to political stability and responsible behaviour of individual political actors who will be engaged in the pre-election struggles and driven by the motivation to succeed in the election at any cost. Second, the early start of the campaign entails the legal obligation of the political parties or movements to include all expenses on the election campaign since the end of December in the official transparent account, the total limit of the expenses being set on 90 million CZK (less than 3.5 million EUR). Therefore, the political subjects will have much time to conduct a campaign but, at the same time, they are forbidden to exceed the limit which is fixed and unchanged irrespective of the period of the official part of the campaign launched by the President. As a consequence, it might put smaller parties with a lower budget at a

disadvantage. Moreover, one should take into consideration the fact that five opposition parties want to run as coalitions, not separately, the limit remaining the same regardless of the number of coalition members. It is possible that this intention hid behind the President's December decision and was aimed especially against the Social Democrats and the opposition parties which aspire to defeat the leading ANO movement led by the Prime Minister Andrej Babiš.

### **Declining social democrats and the hegemon's isolation**

Even though the election is to take place in October, there is a question whether the present ruling coalition, consisting of the ANO and Social Democratic Party (ČSSD), persists up to the regular term. From time to time, the Government has been paralysed by frictions between the two subjects. Many representatives of the social democrats have repeatedly cast doubt upon the alliance with the PM's movement, calling for a departure from the coalition. This inner struggle in the Social Democratic Party has existed from the very beginning of the existence of the Government and will probably last to the election itself. The truth is that the political orientation of the originally catch-all ANO movement has gradually shifted to the left, taking over a social-democratic agenda as well as their voters. It contributed significantly to a weakening of the Social Democratic Party whose support is slightly above the minimum limit of 5 per cent. Notwithstanding these factors, the party's leadership always decided not to leave the Government. Therefore, their departure is unlikely as they would hardly be able to justify such a step and explicate it to the public several months before the regular election. The departure would not bring enough voters to change the declining tendency substantially. Besides, the end of the coalition would lead to an active engagement of President Zeman who could either appoints his own interim government (as in 2013 and 2014 in the case of the Jiří Rusnok's cabinet) or support the incumbent PM who would complement the cabinet with more loyal members. Both scenarios are not advantageous for the Social Democratic Party. After its possible departure, they would inevitably become marginal. If the current cabinet

persists, the inner frictions, nevertheless, will be increasingly intensive in the months to follow.

A year ago, nothing indicated a change in support for the hegemonic political force and the PM Andrej Babiš. Although the parties involved in the government usually lost popularity in the course of their mandate in the past, the ANO movement represented an exception. According to numerous opinion polls, election preferences oscillated around 30 per cent without any considerable fluctuations. However, the unexpected development provoked by the novel coronavirus epidemic and related anti-crisis measures and interventionist policies adopted by the Government has brought about a turn. The support for the ANO stable so far has started to decrease, thus stimulating the fragmented opposition to attempts at cooperation and establishment of election coalitions, a united rival bloc. At the beginning of this year, two groupings have been formed concentrating around the two strongest opposition parties – the centre-right Civic Democratic Party (ODS) and liberal-progressivist Pirate Party. Seemingly, these two coalitions will stand in the election, their gain being higher than the result of the ANO. After all, the principal common denominator is the anti-Babiš ethos, the goal of removal of Andrej Babiš from the executive. Albeit the ODS-led bloc is frequently described as conservative while the Pirates-led one as liberal, considering them as different shades of liberal opposition is more accurate.<sup>1</sup> Ideologically, they have much in common but differ from each other in some political questions such as the attitude towards the European Union, protection of traditional family or a level of economic interventionism in the market and redistribution of resources. These differences will be dampened before the election but will manifest themselves right after it, being multiplied by personal rivalry and animosity. Especially due to the individual ambitions and removal of the common „arch-foe“ – Andrej Babiš and the ANO movement – if they succeed, a long-term stable and calm cooperation or even integration of the

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<sup>1</sup> I analysed the formation of the opposition blocs and their ideological affinity in greater detail in the November briefing: <https://china-cee.eu/2020/11/13/czech-republic-political-briefing-new-dynamics-of-the-domestic-politics-forming-blocs-against-the-hegemon/>.

five opposition subjects will be highly unlikely. The coalition-forming process will not, therefore, lead to integration and overcoming of the political fragmentation but will remain a purpose-built, pragmatic project which has been initiated in response to the voters' demand and objective weakening of the ANO in connection with the 2020 crisis. It will be only a minor chapter in the political history of our country.

### **Crisis of the traditional left**

Unfortunately, the autumn Parliamentary election will not bring about higher political transparency, crystallisation and efficiency of the political processes. The Czech Republic's political system suffered from excessive fragmentation for a long period, making effective governance freed from endless negotiations and halfway compromises impossible, thus contributing to a deep disillusionment of the citizens with the political elites, be they leftist or rightist. Given the establishment of the coalitions described above, representatives of some parties will get through to the lower chamber which would be highly uncertain in case these run separately. This is another reason for the current coalition-building tendency. It applies primarily to the Christian and Democratic Union – Czechoslovak People's Party (KDU-ČSL) and liberal-conservative and radically pro-EU orientated TOP 09 party. If each subject runs separately, it would not be excluded that the number of parties represented in the Chamber of Deputies would decrease from nine to five. Nevertheless, the opposite scenario will likely to happen. Probably, eight subjects will be elected with the exception of one of the left-wing parties – either Social Democratic or Communist Party, not being impossible that both of them will fail. The 2021 election will thus confirm a deep crisis of the traditional Czech left. The leftist agenda has been adopted by the ANO and the Pirate Party, in the second case in a specific, liberal-progressivist interpretation. Paradoxically, therefore, traditional leftist voters from lower and middle class from regions could support the populist and Eurosceptic Freedom and Direct Democracy movement or national-conservative Tricolour Citizens'

Movement, established by a son of the former President Václav Klaus after his expulsion from the Civic Democratic Party in 2020.

This year, communists will commemorate the centenary of the founding of the Communist Party of Czechoslovakia. The centenary, however, can bring their defeat as the support for the successor Communist Party of Bohemia and Moravia (KSČM) has been decreasing year by year. As soon as they do not get through to the Chamber of Deputies, it will be utterly difficult to get back in the future. Seemingly, the party could get a second wind in case of an alteration in the leadership as it has been led by Vojtěch Filip since 2005. A congress which was to be held last year has been postponed due to the epidemic crisis and will probably be summoned in the following months. If the delegates elect the member of the European Parliament Kateřina Konečná a new chairman, the party could gain broader support and even overshadow the social democrats.

### **Conclusion**

The election will likely to be won by the ANO which, however, will not be able to gain a majority in the lower chamber as no opposition coalitions want to cooperate with the movement. Under certain circumstances, the current model could continue but it requires a relative success of the Social Democratic Party and the Communist Party, which is rather improbable. A crucial role can be played by President Miloš Zeman who has different possibilities how to influence on the post-election processes and negotiations. He will give preference to Andrej Babiš and in case Babiš does not succeed in forming the Government, Zeman could appoint an interim, in fact presidential cabinet as in the past, or work towards calling of a new election. Nevertheless, these prospects may be changed by the unpredictable epidemic development.

## A new year with a new government for Estonia

### E-MAP Foundation MTÜ

When on 13 January 2021, very early in the morning, the country's Prime Minister Jüri Ratas (*Centre*) was about to announce his resignation, he visibly seemed much happier than he used to look like during the previous one and a half years (in fact, a bit more than that). Since 29 April 2019, when Ratas was appointed by the *Riigikogu* to run his second cabinet, the Prime Minister's political life was resembling a permanent nightmare, due to a range of different scandals, which, one after another, were preventing the *Centre Party*-led governmental coalition from establishing some sort of normality, daily routine wise. This is never to say that a liberal democracy has to be less turbulent in terms of generating fierce debates on complicated issues. No, not at all. However, the outgoing governmental coalition's boisterousness had, objectively, nothing to do with classic political deliberations within a democracy – as extensively discussed in a number of 2020-bound briefs on Estonian politics, almost each of those setbacks was clearly associated with a mini- or a maxi-crisis of the entire Government. Therefore, the eventual resignation was, speculatively, some kind of a relief for Jüri Ratas – in the wake of a big scandal that was surrounding a property development project in Tallinn, the Prime Minister decided that he simply had enough<sup>1</sup>.

Some more details on the actual crisis will definitely follow the most recent political shake-up, and, during February-March 2021, the society will learn plenty on what went dramatically wrong. In the meantime, what is known thus far, the Office of the Prosecutor General “declared five

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<sup>1</sup> ‘Jüri Ratas resigns as prime minister following loan scandal’ in *ERR*, 13 January 2021. Available from [<https://news.err.ee/1608071542/juri-ratas-resigns-as-prime-minister-following-loan-scandal>].

persons and the *Centre Party* suspects in the criminal investigation related to *Porto Franco*”, and those “include [...] [the then] [S]ecretary [G]eneral of the *Centre Party*, [an] adviser to the Minister of Finance, and [a] businessman”<sup>1</sup>. On a concrete note, the businessman “is suspected of bribe-giving”, the adviser – “of influence peddling”, and the *Centre Party*’s top-official – “of a second-degree crime”<sup>2</sup>.

Back in July 2020, it was reported that *Porto Franco*, “the largest development project in Estonia ever, with a total area of 150,000 m<sup>2</sup>”, consisting “of three underground floors with 1,170 parking spaces and commercial rental spaces, and five above-ground floors for a shopping centre, office centre and hotel”, got the news that the Government decided to finance it “with a bridge loan from *KredEx*”<sup>3</sup>. In January 2021, Taavi Pärn, State Prosecutor, reported that the prosecuted businessman “who has ties to [...] *Porto Franco* [...] and Secretary General of the Centre Party [...] agreed that the businessman would donate a total of almost one million euros to the party leading up to local elections this fall in exchange for [the politician] making sure an exit road could be built on city land”<sup>4</sup>. In addition, as Pärn noted, the ‘centrists’ as a party are “suspected of influence peddling”, and they received EUR 120,000 in donations from the businessman in 2020<sup>5</sup>. In short, it was too much for the then ruling governmental coalition to bear, and shortly after the Prime Minister’s

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<sup>1</sup> ‘Prime Minister Jüri Ratas resigns amid property project financing scandal’ in *Postimees*, 13 January 2021. Available from [<https://news.postimees.ee/7154566/prime-minister-juri-ratas-resigns-amid-property-project-financing-scandal>].

<sup>2</sup> ‘Prime Minister Jüri Ratas resigns amid property project financing scandal’.

<sup>3</sup> ‘The government decided to finance Porto Franco with a bridge loan from KredEx / Porto Franco will be financed by a bridge loan from KredEx, the government decided’ in *Porto Franco*, 30 July 2020. Available from [<https://portofranco.ee/en/2020/07/30/the-government-decided-to-finance-porto-franco-with-a-bridge-loan-from-kredex-porto-franco-will-be-financed-by-a-bridge-loan-from-kredex-the-government-decided/>].

<sup>4</sup> Janno Riispapp, ‘Teder promised close to a million in return for favor’ in *Postimees*, 13 January 2021. Available from [<https://news.postimees.ee/7154724/teder-promised-close-to-a-million-in-return-for-favor>].

<sup>5</sup> Riispapp.

resignation, the coalition of the *Centre Party*, *EKRE*, and *Pro Patria* had dramatically collapsed. With almost immediate effect, the country realised that the new year (and, most probably, the whole period until the next parliamentary elections in 2023) will be spent with a new Government.

The ‘reformists’, who won the March 2019 elections but could not form a coalition then, got the second chance. President Kersti Kaljulaid decided to ask Kaja Kallas, the leader of the Reform Party, to have another go on forming a new cabinet, noting the following:

We do not have time to wait for formal deadlines to come and go. There is no time for stalling. The government crisis needs to be solved as quickly as possible. The people of Estonia need functional administration.<sup>1</sup>

Despite the objective fact that the performance of Kaja Kallas as a leader of the country’s parliamentary opposition deserves to be more effective, – after all, it could be evidently argued, the only serious political force that was opposing the discrepancies within the Ratas-led coalition was the country’s President herself, – she accepted the presidential call and ... asked<sup>2</sup> the *Centre Party* to partner the ‘reformists’ in a new Government. ‘What a surprise!’, – a naïve outsider may scream, having heard the news. ‘Not at all!’, – a seasoned analyst from Estonia would reply to that. In 2002-2003, for example, Siim Kallas, the founding ‘father’ of the ‘reformists’ and the father of Kaja Kallas, had run a Government together with the *Centre Party*. Then, one of his capable successors, Andrus

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<sup>1</sup> Kersti Kaljulaid as cited in Henry-Laur Allik, ‘Kaja Kallas’ second shot at becoming prime minister’, *Postimees*, 14 January 2021. Available from [<https://news.postimees.ee/7155468/kaja-kallas-second-shot-at-becoming-prime-minister>].

<sup>2</sup> Loora-Elisabet Lomp, ‘Reform and Center to hammer out coalition agreement over week and a half’ in *Postimees*, 15 January 2021. Available from [<https://news.postimees.ee/7156385/reform-and-center-to-hammer-out-coalition-agreement-over-week-and-a-half>].



Ansip, also invited the ‘centrists’ into his first cabinet. Therefore, there is no surprises here – **the new Government of Estonia will be based on the Reform-Centre coalition**, which possess 59 seats in the current *Riigikogu* out of 101. Clearly, it is going to be a decisive majority, being composed by the two largest parliamentary parties in the country<sup>1</sup>. Of course, there is a certain lack of ‘political comfort’ for the *Reform Party* to be teaming up with the ‘centrists’ who objectively did not perform well enough in the previous Government (not to mention their perceived involvement in the latest crisis, which pushed Jüri Ratas ‘down the hill’). Even Andrus Ansip himself admitted that he “would have preferred a corruption-free coalition as a first option, which would comprise *S[ocial] D[emocrats]*, [*Pro Patria*] and the *Reform Party*”, and that it seemed to him that “financial discipline has not received the slightest attention in the last four years”<sup>2</sup>. However, it is what it is, and with the *EKRE* (arguably, the main ‘newsmaker’ in the previous Government) going back to the opposition for quite some time, Kaja Kallas is about to become Estonia’s next Prime Minister. What does this all mean in analytical terms?

In the most recent poll, the *Reform-Centre* pair is the electorate’s most preferable choice, being supposed by 35 per cent of the respondents<sup>3</sup>. This particular bit of data underlines the fact that nothing is seen as abnormal in this situational ‘union’ of a party that in opposition during the last two Governments and a party that was running the ‘show’ at the same time. What is already known – Kaja Kallas declared that the upcoming coalitional agreement will be of a general nature, and no specific ‘clashes’

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<sup>1</sup> ‘Estonian Reform Party Faction’ and ‘Estonian Centre Party Faction’ in *Riigikogu*. Available from [<https://www.riigikogu.ee/en/parliament-of-estonia/factions/estonian-centre-party-faction/>] and [<https://www.riigikogu.ee/en/parliament-of-estonia/factions/estonian-reform-party-faction/>].

<sup>2</sup> Andrus Ansip as cited in ‘Andrus Ansip: I would have preferred Reform-SDE-Isamaa coalition’, *ERR*, 14 January 2021. Available from [<https://news.err.ee/1608073429/andrus-ansip-i-would-have-preferred-reform-sde-isamaa-coalition>].

<sup>3</sup> ‘Norstat survey: Center, Reform coalition most popular’ in *ERR*, 15 January 2021. Available from [<https://news.err.ee/1608074044/norstat-survey-center-reform-coalition-most-popular>].

over crucial political issues are expected to be discussed during the rounds of negotiations with the ‘centrists’. Speaking on the theme, she stated that there is a plan to “form the coalition on equal basis, decisions will be made by consensus”<sup>1</sup>.

In a much broader sense, the situation needs to be analysed from an international perspective. As argued by Kristi Raik, “[d]uring the past year and eight months, Estonia experimented with a coalition including radical right-wing populists”, and this “experiment damaged Estonia’s international reputation and its relations with allies, put pressure on its democratic institutions, and increased polarisation within society”<sup>2</sup>. With Joseph Biden as U.S. President, there is a likelihood for the fragile international system to be going into an imaginary geo-strategic ‘tie-break’ to see how well the main international actors can perform in the process of restoring some kind of normality. The radicalisation of everything that could be radicalised – discourse, policies, procedures, and, eventually, key interrelations – dramatically led to a multiplicity of collapses in different spheres. Some promising relations were never established, some seemingly unbreakable ties were broken, some animosities turned into abhorrence. Therefore, Kaja Kallas and her new Government will be having a monumental task to construct a range of clear strategic narratives for Estonia to project those through on the international stage. More specifically, a set of orientational priorities on Estonia’s foreign policy will have to be worked out immediately. Especially, when it comes to the process of ‘repairing’ some reputational damage that Estonia, via its *EKRE*-associated Ministers in the Government, incurred in communication with Finland, Lithuania, and Sweden. Finally, as Raik noted, there is a “lesson learned for other Western countries experiencing similar political trends” –

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<sup>1</sup> Kaja Kallas as cited in ‘Kallas: Coalition agreement will be general], *ERR*, 15 January 2021. Available from [<https://news.err.ee/1608073864/kallas-coalition-agreement-will-be-general>].

<sup>2</sup> Kristi Raik, ‘Liberal Estonia is Back—With Some Lessons Learned About Engaging with Radical Right-wing Populists’ in *ICDS*, 21 January 2021. Available from [<https://icds.ee/en/liberal-estonia-is-back-with-some-lessons-learned-about-engaging-with-radical-right-wing-populists/>].

the lesson is that “including radical populists in government does not solve the problems that explain their rise, such as alienation and bitterness among sections of society”<sup>1</sup>. It means that the so-called mainstream politics, which is back on track in the United States or, for that matter, Estonia will be required to urgently work out a range of solutions to prevent the radical populism from entering the political summit once again. Does it sound like a common task for 2021?

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<sup>1</sup> Raik.

## **Greek Politics for 2021**

**George N. Tzogopoulos**

***Summary:** Scenarios for a snap election have been traditionally vivid in Greece. The beginning of 2021 has been accompanied with relevant speculation indeed. If Prime Minister Kyriakos Mitsotakis calls an early election throughout the year, he will be able to benefit by the current problematic status of SYRIZA and count on his party's existing unity that will be arguably tested according to the future result of the Greek-Turkish negotiations. At the same time, SYRIZA and the Movement of Change are struggling to define their political orientation. The political risk for Mitsotakis is that the electoral behavior of centrist voters can hardly be predetermined under current circumstances. The performance of the governing New Democracy party remains mediocre and cannot guarantee an electoral triumph in a period during which numerous Greek citizens are suffering by the pandemic.*

The new year started with a governmental reshuffle in Greece. It was the second time Prime Minister Kyriakos Mitsotakis made mild changes in the team after his victory in the national election of July 2019. The first reshuffle had been announced in August 2020. At that time, Theodoros Skylakakis was upgraded to Alternate Minister of Finance, and Nikos Papathanasis to Alternate Minister of Development and Investment. Additionally, Panagiotis Tsakoglou was appointed to the position of Deputy Minister of Labor and Social Affairs, Zoe Rapti to the position of Deputy Minister of Health and Nikolaos Tagaras to the position of Deputy Minister of Environment and Energy. The reshuffle of January 2021 went further but was not structural either. Modifications include that of Kostis Hatzidakis, who left the Ministry of Energy and Environment and

undertook the Labor Ministry portfolio, and that Makis Voridis became Minister of the Interior leaving the post of the Minister of Agricultural Development. Kostas Skrekas took the previous position of Hatzidakis and Spilios Livanios that of Voridis, while Stelios Petsas became Deputy Minister of the Interior leaving the role of the governmental spokesperson to Christos Tarantilis.

The basic interpretation of the January 2021 reshuffle is that Mitsotakis has been very satisfied with the performance of his key ministers. Finance Minister Christos Staikouras, Foreign Minister Nikos Dendias, Defence Minister Nikos Panagiotopoulos, Education Minister Niki Kerameos and Tourism Minister Harry Theocharis have all kept their position. The only ‘victims’ were former Interior Minister Takis Theodorikakos and Labor Minister Giannis Vrotsis. While Theodorikakos is not an elected MP, Vrotsis became New Democracy’s parliamentary group leader. The latter’s performance was rather poor during the first wave of COVID-19 when he connecting allowances for self-employees with unreliable education programs. In December 2020, Vrotsis came under criticism for delaying the settlement of pending pensions.

Several political commentators interpret the January 2021 reshuffle as an indication of Mr Mitsotakis’s appetite to call an early election during the year. Bizarre as it is, snap election scenarios tend to frequently dominate the Greek media discourse. Last year, for example, speculation about a potential early election was on the rise during the summer period. However, the deterioration of the COVID-19 situation and the outbreak of Greek-Turkish tensions in the Eastern Mediterranean buried the alleged plan. What is currently being discussed in the Greek media discourse is that New Democracy could still have an opportunity to politically surprise the main opposition SYRIZA party that remains weak in the aftermath of its electoral defeat in the national election of July 2019. In that regard, the reshuffle itself exhibits the interest of Mitsotakis in offering ministerial positions to members of the party – instead of centrist politicians, technocrats or other figures. The replacement of Theodorikakos by Voridis is placed in this context.

The party of New Democracy has shown resilience and cohesion in spite of Greek-Turkish tensions. In the last months of 2020, during which Turkish vessel ‘Oruc Reis’ was carrying out research in the Eastern Mediterranean, New Democracy MPs, who can be identified as belonging to the right-wing political spectrum, refrained from criticizing the government. This unity will arguably prevail throughout 2021. The rather mild posture of Mitsotakis on foreign policy issues contrasts that of Foreign Minister Nikos Densias, who appears more vocal vis-à-vis Turkish provocations. By calling an early election in June or September, the Prime Minister will be able to prevent an internal crisis within New Democracy that will allegedly be erupted as long as Greece and Turkey are engaged in dialogue under the umbrella of the so-called exploratory talks.

For the majority of citizens, Greek-Turkish relations are not their top priority under current circumstances. The pain of the pandemic and its economic consequences largely attract their attention. In the scenario of an early election, Mitsotakis will need to look at his party’s internal dynamics and, simultaneously, offer messages of hope to struggling people. These messages will perhaps draw on a combination of the potential return to normalcy – in line with the vaccination process – and the possible economic recovery during the summer season. The existing risk is that several voters – especially centrist ones – will not necessarily understand the need of a snap election for a government that is stable and has a clear four-year mandate. In other words, the political motivation of Mitsotakis to damage SYRIZA will questionably be shared by middle ground citizens, who are striving to cope with the pandemic impact in their daily life. Further to this, it is difficult to predetermine their electoral behavior after months of lockdown, psychological fatigue and economic losses. Mitsotakis will perhaps count on their ‘fear’ of a SYRIZA administration but such a ‘fear’ will not automatically favor New Democracy the political performance of which has been mediocre.

At the writing, SYRIZA is not ready to compete with New Democracy in a national election to take place in the next months. Although the problematic management of the pandemic by the government has been

exposed by Alexis Tsipras in several parliamentary debates, he and other party member have not inspired the society that they would have performed better if in government. More importantly, internal disagreements within SYRIZA are generating questions about its future orientation. A political trend called ‘Movement of Members’ and led by Nikos Pappas, Costas Zachariadis, Rena Dourou, George Balafas and Nikos Santorinios raises its voice against a potential introversion of the party. Another one called ‘Umbrella’ contains the ‘Group of 53’ under Euclid Tsakalotos and Theodoros Dritsas and attempts to join forces with old guard SYRIZA politicians such as Nikos Vroutsis, Panos Skourletis, Nikos Filis and Dimitris Papadimoulis. There are also other SYRIZA politicians such as Dimitris Tzanakopoulos, Efi Achtsiouglou and Nasos Iliopoulos, who enjoy a proximity to Tsipras, and others such as George Ragkoussis, Marilisa Xenogiannakopoulou, Olga Gerovassili and George Katrougalos who do not belong to any internal political subgroup.

An important question in Greek politics is whether the center-left ground could be revitalized. The Movement of Change presided by Fofi Gennimata gathered 8.1 percent of the vote in the national election of July 2019 but has not successfully acted as an alternative political pole balancing between New Democracy and SYRIZA. The Movement of Change is expected to hold its internal leadership election throughout the year. Nikos Androulakis and Andreas Loverdos will be candidate along with the current leader. At the beginning of January, Gennimata removed Loverdos from his position as parliamentary group representative triggering speculation about her motivations. Loverdos is a respectable politician but is considered an old guard of the party, whereas Androulakis, who lost to Gennimata in 2017 and is currently a Member of the European Parliament, counts on his young age and international record. Obviously, the internal electoral process with the Movement of Change will depend on the course of domestic politics. A snap national election will derail the plan or prevent the party from possibly renewing its leadership on time. Scenarios of cooperation between the Movement of Change and SYRIZA have been theoretically discussed but not yet materialized.

## **Conclusion**

The new year will be challenging for the governing New Democracy party. The management of the pandemic and Greek-Turkish negotiations under the ‘exploratory talks’ format will determine its popularity. Prime Minister Mitsotakis and New Democracy are currently politically dominating due to the weakness of the main opposition SYRIZA party. The scenario of a snap election is thus gaining ground. SYRIZA needs more political time to redefine its orientation amid internal cleavages and the Movement of Change has planned to organize its internal leadership battle during the year. But Mitsotakis and New Democracy will perhaps risk to witness centrist citizens question the necessity of an early election in a period during which unprecedented public health and economic problems have not been solved.



# **Hungarian Politics in 2021: Challenges and Responses**

**Csaba Moldicz**

*Summary: The next election in Hungary will take place in 2022, but the Hungarian Parliamentary election is to be held in the first half-year of 2022, so that means that Hungarian parties will use the year 2021 to prepare for it and finalize their communication and messages to be used in the upcoming election. Given this background, it should come as no surprise that the Coronavirus pandemic and the ensuing economic crisis will be on the top of political debates leading to the election in 2021.*

*The way of how we interpret the Hungarian government's reactions to the pandemic and the crisis will be crucial in the outcome of the election. At the same time, the strategy of parties will also be one of the critical points, as we already know that the opposition parties agreed to have a single opposition candidate for every parliamentary seat to concentrate the power of the opposition. We can also propose the rather decisive questions of who is going to run for the Prime Minister's position on behalf of the opposition and how the governing party will be able to deal with the fall-out of the Szájer-scandal. In our view, focus on economic questions offers the government an opportunity to boost the economy and thus reshape the political discourse again. This briefing attempts to offer an outlook for 2021 concerning the Hungarian political landscape.*

## **1. Potential Prime Minister Candidates from the Opposition**

The Századvég Group conducted a poll on 20<sup>th</sup> of December 2020, which in addition to party preferences, asked who opposition voters would like to see in the Prime Minister seat. According to the results, Klára Dobrev, who is an MP in the European Parliament from the DP, would receive 23 percent of the opposition votes. The second strongest candidate was Gordon Bajnai, Prime Minister from 2009 to 2010 with 20 percent,

while the third candidate on the list, Péter Márki-Zay, would receive 17 percent. Gergely Karácsony, the capital's mayor, received little support, with only 14 percent of those polled saying they would like to see him as Prime Minister. The result is surprising as opposition forces have gained popularity in recent months and he is one of the key figures in the opposition camp. One possible explanation for this is that some promises made during the election campaign have not yet been fulfilled.

Klára Dobrev's popularity reflects the growing public support for DK. The messages of DK are easy for voters to understand, the party is a pro-EU party with the vision of "the United States of Europe" and at the same time, the party's functioning is efficient, which will give strong support to the party's candidates during the election campaign in 2021 and 2022. Since As she and Ferenc Gyurcsány (Hungarian Prime Minister between 2004 and 2009) are a couple, it will not be difficult for Fidesz to "present" her as a protégé of the former Prime Minister, who still meets with strong disapproval among the electorate. This situation is easy to convey so that the opposition parties – after a decade of preparation – can offer no more than the wife of the formal Prime Minister, whose governing is still regarded as having been very controversial today.

It is also a question whether or not the opposition block will be able to collect the needed public support and form a government in 2022. The next subchapter looks at the initiatives of the opposition camp.

## **2. Sensing momentum?**

In addition to the economic impact of the Coronavirus pandemic, the negative impact of the Szájer- scandal must be mitigated by the governing party's messaging and communications in the coming months. This problem must be addressed by the Fidesz-KDNP, otherwise there could be long-term changes in political support that could be decisive in the next elections. Recent public polls provide mixed results on the question of whether the ruling party or the opposition parties together have, at the moment more popularity amongst the eligible voters. Based on the

Századvég Group and Nézőpont Intézet results, the governing party is more popular than the opposition, while the Publicus Institute and Závecz-Research have opposite results.

The opposition camp – sensing the momentum – is trying to get the attention of the public. For this reason, the opposition parties agreed on the six principles of joint governance and held a press conference on 5<sup>th</sup> of January 2021:

- Unification of the nation and social peace,
- Rule of law,
- Future-oriented governance,
- Caring society,
- ‘Fair Hungary’,
- Patriotic government, and a European Hungary.

The principles are obviously side issues, seeing as the opposition parties are probably trying to convince voters who are unsure of their ability to govern together. The period between 2002 and 2010 was very much marked by infightings in government, which at the time relied on the support of two parties. It is not an exaggeration to say that the government of six parties will most likely face similar problems after 2022 in case of government formation. Another initiative of the opposition parties was to define the selection criteria of candidates for parliamentary seats last December.

According to the opposition parties, every candidate must go through a screening procedure. People who have been involved in corruption and have previously made statements that offend human dignity cannot be nominated as opposition candidates. It is clear that these criteria are established to avoid situations where opposition candidates could be attacked by the ruling party. At the same time, the credibility of the opposition parties conviction in their ability to govern together could be the Achilles heel of the opposition camp. The next subsection looks at the question of how the government will most likely face problems of a different nature in the upcoming year.

### 3. Government responses

As we can see today, the arrival of vaccines does not immediately solve the problems caused by the Coronavirus pandemic; rather, it may take several months, even a year, for a sense of normalcy to return to the society and the economy. The government's strategy appears to be a slow opening in both society and the economy.

*Responses to economic problems.* This is reflected in the extension of the loan moratorium until 30<sup>th</sup> of June 2021. The loan moratorium was introduced as one of the most important decisions last March when the first wave of the global pandemic hit the Hungarian economy. Since then, about 1.6 million households, or 60 percent of Hungary's households, have taken advantage of it.

A similar approach is reflected in the planned budget deficit, which is projected to be 6.5 percent in 2021 and 4.8 percent in 2022. Both figures are significantly higher than in "normal times". It is certain that in the event of a rapid recovery of the economy, political support for the Fidesz-KDNP can easily be strengthened again.

As long-term vision is concerned, the Hungarian Prime Minister stressed strategic goals as follows:

- digitalized economy,
- circular economy with extremely low CO2 emissions,
- full employment,
- faster growth rates than in the Western European countries.

According to the Prime Minister, the FDI outflow must match FDI inflow in Hungary at the end of the 2020s. This implies a strong outward internalization trend in the Hungarian economy too. He referred to the proposal of left-wing parties on how to deal with the crisis. He said he does not believe in tax raises during the economic crisis.

*Responses to the spread of the pandemic.* Since appropriate policy steps require balancing conflicting goals (protecting lives and jobs), the government's response can seem vague, and this offers a point of criticism.

Opposition parties are also divided on many issues as to how to deal with them. The issue of vaccination offers us a case study. While Momentum would make vaccination mandatory, DK's communications are about the government conducting "human trials with Russian vaccines" on Hungarians. At the same time, the party does not reject the German-American vaccine. Jobbik demands from the government not to make the vaccine obligatory and not to give more rights to the vaccinated.

### **3. Summary**

We can conclude that the government's strategy in 2021 will focus on balancing conflicting goals, while the focus will slowly shift to economic goals over the next year. In our view, we can expect announcements of significant economic developments in order to boost the economy and gain more popularity with voters. The fight against the pandemic will still be on the agenda, but the introduction of vaccines will be a game-changer this year. At the same time, opposition parties seem to be focusing on technical hurdles to bipartisan cooperation, issues that could cause problems during the government's term between 2022 and 2026. The dilemma of whether these parties can find a common vision and communicate it to the electorate remains. Given the nature of the current problems, the so-called 'weak point' that makes any government easily attackable is what approach they are to take in tackling the Coronavirus pandemic, which would serve as a great common ground for the opposition parties, the only problem is that there seems to be no unity among them on this issue. It is foreseeable that the eventual introduction of Russian and Chinese vaccines in Hungary will lead to heated political debates, while the slow arrival of "Western" vaccines will logically lead the to the government considering these options as well.

# **Latvian politics development outlook for 2021**

**Nina Linde**

## **Introduction**

Attention of Latvian society currently is focused on Covid-19 and its consequences. But we should not forget that this year for Latvian politics is the year of municipal elections. It is planned to hold elections on Saturday, 5 June 2021, but experience of 2020 shows that Covid-19 pandemic can introduce any changes to any plans. However, the municipal elections are not far away anyway and will be major political event in Latvia this year. In turn, elections of Parliament will take place next year.

## **Regular municipal elections take place in 2021 and reduction of number of deputies**

This year in Latvian politics will be mainly focused on forthcoming municipal elections, which will be held in Latvia on 5 June 2021.<sup>1</sup> This year in municipal elections voters are expected to be able to vote at any polling station in their municipality. This is provided for by amendments to the City Council and Municipality Council Election Law and amendments to the Electoral Register Law. At the same time, the Parliament adopted amendments to the law, which provides for the possibility for voters abroad to participate in municipal elections by postal voting.

There is also a significant change expected at local elections in 2021. Unlike previous municipal elections, there will be a drastically smaller number of local government and deputies to be elected. In the result of the

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<sup>1</sup> <https://www.cvk.lv/en/elections/local-elections/local-elections-2021>

administrative territorial reform, which currently is carried out, there will be 42 municipalities in Latvia instead of the previous 119, while the number of deputies will fall by almost half.

According to the law, in the future Latvian new counties with a population of up to 60 000 will have 23 deputies, in counties with a population of 30 001 to 60 000 - 19 deputies, if population of the county is 30 000 then the number of deputies will be 15. In turn, for state cities division will be following: cities with a population of up to 50 000 will elect 13 deputies, but in cities with more than 50,000 inhabitants the council will have 15 deputies. The number of deputies to be elected in the Riga City Council remains unchanged - 60 deputies. Elections in Riga municipality will not take place in 2021, as the council was elected in extraordinary elections last year, and it will continue to work until the 2025 elections.<sup>1</sup>

The submission of lists of candidates for the local elections of 2021 will take place from March 17 to April 6.

### **Pre-election campaign, vaccination plan and reforms**

The first half of 2021 will be focused on pre-election campaign and it is expected that pre-election processes will soon take over political stage in Latvia. All planned reform will be implemented in this context. One of the particular challenges present for Latvian politicians in 2021 is implementation of Covid-19 immunization plan.

With regard to this, the beginning of January was marked by resignation of Health Minister Ilze Viņķele. On January 5 Latvian Prime Minister Krišjānis Kariņš announced that he had lost confidence in Health Minister Ilze Viņķele, due to the delay in presenting the vaccination plan

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<sup>1</sup> <https://lvportals.lv/skaidrojumi/323898-pasvaldibu-domes-turpmak-veles-mazaku-deputatu-skaitu-2021>

she responsible for<sup>1</sup>. As a result, another member of Development/For party, Daniels Pavļuts, was appointed as new Health Minister of Latvia.

President of Latvia Egils Levits told Latvian Television that the dismissal of Health Minister Ilze Viņķele was a 'logical decision' and the Prime Minister has acted adequately and decisively in the crisis, demanding the resignation of Health Minister. Levits said that Viņķele and Kariņš have long had different views in terms of reducing Covid-19 spread. According to President of Latvia, the dismissal of Health Minister is also a signal for other ministers to work as a team, despite the fact that the members of the Government represent five different political forces.

In the context of upcoming election, worth to mention that Prime Minister is representing a political party “New Unity” (Jaunā Vienotība), but Ilze Viņķele was coming from “Development/For” (Attīstībai/Par), and dismissal of minister is viewed as confrontation between two political forces who are competing for the same liberal or centrist liberal electorate. According to economic and sociology experts and local entrepreneurs, main mistake regarding handling the pandemic crisis in Latvia made by “New Unity” party is “stubborn desire to implement tax reform that is absolutely unsuitable for Covid-19 crisis”. Minister of Finances who also represents “New Unity”, is criticized by society for his reform on mandatory social insurance contributions and insufficient support for citizens who were not allowed to work during emergency situation (for example, hairdressers and other similar service providers). So, it is possible that this situation will weaken positions of Prime Minister party at forthcoming elections.

While the biggest threat and at the same time opportunity for “Development/For” is closely related to their Health Minister actions towards mitigation of Covid-19 crisis and vaccination plan. If the vaccination process will be successful and pandemic risks will decrease, it

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<sup>1</sup> <https://eng.lsm.lv/article/politics/politics/health-minister-to-be-dismissed-over-vaccine-plan-differences.a387746/>



can made positive contribution to “Development/For” party chances to win over their opponent during the summer elections.

Therefore, it is expected that competition between two parties and fight over liberal voters will grow this year, and the outcome depends on how well parties will handle their government job.

### **Administrative territorial reform in action and further discussions**

As said before, from 1 July 2021 onward there will be 42 municipalities in Latvia, as dictated by the Administrative Territorial Reform approved by the Parliament in 2020. Prior to this reform, there were 119 administrative territories in the country, but before to the previous territorial reform in 2009, there were 26 district municipalities and 527 local governments in Latvia<sup>1</sup>.

The municipal reform is intended to create in 2021 economically viable administrative territories with municipalities that are able to ensure the fulfilment of their statutory autonomous functions in comparable quality and accessibility and provide quality services to the population at reasonable costs. It has been decided that co-financing will be provided for joint territory development planning documents in some municipalities (Daugavpils, Liepāja, Ventspils, Jelgava) together with municipalities part of the newly-formed counties. Development of aforementioned projects by 30 June 2021 will be headed by the municipality with the largest population. This year Latvia’s cities will receive status of national cities and county cities. National city status has been provided to Daugavpils, Jelgava, Jēkabpils, Jūrmala, Liepāja, Ogre, Rēzekne, Rīga, Valmiera and Ventspils.

However, not all municipalities are satisfied with the current state of affairs. Although Latvian Parliament have approved the new plan for

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<sup>1</sup><https://www.innovationcircle.no/getfile.php/4790778.1169.jabztatimapmjp/Latvia+Territorial+reform%2C+Rita+Merca.pdf>

administrative territories, some local governments have applied for Constitutional Court (Satversmes Tiesa) with objection to their merge with other municipalities. For example, upon the application of Auce District Council, the Constitutional Court has initiated a case regarding the planned annexation of Auce District to Dobele District in the course of administrative-territorial reform<sup>1</sup>. Also, the Constitutional Court is considering the claim of Ikšķile city and Tīnūži parish against joining Ogre region. Furthermore, deputies of Ikšķile municipality starting to sue the state of Latvia and not relying on the favor of the secular judiciary, have called on the leaders of Latvia's largest denominations to pray for the preservation of the "Christian cornerstone" region<sup>2</sup>. In conclusion, the territorial reform is yet to be discussed in 2021 and will be present at political agenda.

## **Conclusion**

The political outlook of 2021 includes several topics and challenges. Main political event of 2021 will be municipal elections taking place in Latvia in summer. Therefore, first half of the year will be tough for political parties trying to gain favor of electorate. Along with local elections in 2021 a priority of Latvian domestic politics will be management of Covid-19 crisis and vaccination process, recovery of national economics and providing support to entrepreneurs, and handling consequences of changes of administrative-territorial plan, another important reform which Latvia will encounter in 2021. The reform aims at developing economically viable administrative territories with local authorities in 2021. The Law on Administrative Territories and Populated Areas envisages the reduction of municipalities with the establishment of 42 local governments in Latvia

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<sup>1</sup> <https://jauns.lv/raksts/zinas/422089-satversmes-tiesa-ierosina-lietu-par-planoto-auces-novada-pievienosanu-dobeles-novadam>

<sup>2</sup> <https://jauns.lv/raksts/zinas/423268-ikskiles-novada-deputati-versas-pie-dieva-lai-satversmes-tiesa-panaktu-regionalas-reformas-atcelsanu>

from July 2021 onwards. In future Latvia will be divided into so-called "state cities" and local governments.

There is hope that the successful recovery of the economy from the crisis will also be stimulated by the implementation of already approved public infrastructure projects, the most ambitious of which is the *RailBaltica* project, as well as available EU funds, including the Recovery Resilience Fund (RRF).

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## **An outlook of the shared EU priorities by Lithuania for 2021**

**Linas Eriksonas**

On 15 January the joint meeting of the Committee on European Affairs and the Committee on Foreign Affairs of Lithuania's Parliament approved the political priorities for 2021 by selecting them from the list of the EU policy initiatives as defined in the European Commission Work Programme 2021. Lithuania's decision to set its legislative body's priorities by following the European Commission's political objectives is quite a unique case of the direct overlap of the national politics with the broader political framework of the EU. It can help identify those policy areas where Lithuania has closely aligned with the EU objectives by shortlisting them as the national legislators' priorities and the areas where no direct match or national interest was registered.

Below is a brief overview of the selected EU policy objectives by Lithuania's Parliament for the upcoming year. It summarizes the prioritization of specific policy areas and related initiatives by the national legislators and reflects upon the EU policy objectives overlooked by them. One can assume that such juxtaposition of the adopted priorities and those that have not been picked up might reveal domestic politics' overall scope.

The Commission's work programme is a strategic document that contains an annual plan of action for the EC to be adopted for each calendar year. The work programme captures, in a nutshell, the President's political priorities, delivered annually in September in a State of Union address before the European Parliament. It further reflects the discussions held between the EC and the Parliament and the EU Council during the work programme's preparation. The document represents the EU decision makers' overall consensus on the strategic steps to legislate the specific initiatives for the next 12 months.

Specifically, the work programme sets out the key initiatives for the year ahead and serves as a planning tool for the EU bodies and the Member States, highlighting the priorities and explaining how the EC will deliver on the established political priorities and turn them into concrete action. Though the work programme results from a broad political agreement reached by the EU central bodies, it by no means represents the imperative for the national legislations to use it as a blueprint for adopting the priorities at the national level.

Until the emergence of the pandemic, the Commission's work programme was primarily the matter for the Commission and the related EU bodies responsible for prioritizing policy areas in the EU. However, the challenges posed by COVID-19 created momentum for better coordination of a wide range of policy measures concerning Europe's recovery planning, thus bringing about the need to synchronize the policy planning at the EU and the national levels and to that end deepen the dialogue between the Commission and the national legislators in the Member States.

Reacting to the first wave of the pandemic last spring, the Commission adjusted the work programme for 2020, "responding to the coronavirus pandemic by refocusing its work and prioritising the actions needed to propel Europe's recovery and resilience", and embarked on communicating it to the national legislators in order to get them on board. Thus, the EU Commissioner for Environment, Ocean and Fisheries Virginijus Sinkevičius (Lithuania's former Minister of Innovation and the Economic), took care to present to Lithuania's Parliament the Commission's work programme twice last year. In March he presented the revised work programme for 2020 and in November – the follow-up work programme for 2021.

The Seimas Committee on European Affairs and the Committee on Foreign Affairs deliberated with other committees the Commission's work programme for 2021 and picked specific policy initiatives that became the parliament's priorities for this year. Out of 44 initiatives that the work programme contained Lithuania's legislators adopted as the national priorities about one third.

Under the priority “A European Green Deal”, which has as its objective to achieve a climate-neutral Europe by 2050, Lithuania has endorsed the prioritization of a Fit for 55 package of legislative initiatives to reduce emissions least 55% by 2030. The package foresees the adoption of a wide range of legislation covering wide-ranging policy areas relevant for achieving the target – from renewables to energy efficiency first, energy performance of buildings, land use, energy taxation, effort sharing and emissions trading.

Under the priority “A Europe fit for the digital age”, which aims to roadmap the clearly defined digital targets for 2030 related to connectivity, skills and digital public services, Lithuania will prioritize along with the EC the initiatives related to Europe’s digital decade, data package, industrial strategy for Europe and improvement of the conditions concerning foreign subsidies.

Under the priority "An economy that works for people", which aims to ensure that the health and economic crisis does not turn into a social crisis, Lithuania will prioritize the deepening of the capital markets union, the completion of the banking union, the development of a standard for EU Green Bonds, the strengthening of the EU and its members' framework for preventing money laundering and terrorist financing. It indicates support for the action plan to fully implement the European Pillar of Social Rights and reduce social exclusion.

Under the priority “A Stronger Europe in the World” Lithuania will prioritize a coordinated EU policy in the fields of research, innovation, education, while under the priority “Promoting our European way of life” - the protection of young people and children and the strengthening of the Schengen Area. Under the priority “A new push for European democracy” Lithuania’s parliament expressed the commitment to the EC’s priority in strengthening the fight against gender-based violence.

Though Lithuania's Parliament endorsed many European Commission's political objectives, specific policy areas have been left under the radar. Significantly, most of the objectives which have been left

out are related to the welfare state policies. For example, under "A European Green Deal" no interest was registered as was concerning a circular economy package, biodiversity and toxic-free environment package, sustainable and smart mobility. Under the priority "A Europe Fit for the Digital Age" the objective such EC objectives as to ensure platform workers' rights and to design requirements and consumer rights for electronics went unnoticed. Under the priority "An Economic That Works for People" a fair economy package, including a recommendation for a European child guarantee, an initiative on a new occupational safety and health strategy framework, and the action plan for the social economy, have not made into the national priorities.

Under the priority "A Stronger Europe in the World" Lithuania's Parliament did not express any opinion, thus not taking on board the EC political objectives related to strengthening the EU's contribution to rules-based multilateralism and European health data space. The initiatives under the new pact on migration and asylum or the EU strategy on combating antisemitism did not attract sufficient attention. Under the priority "A New Push for European Democracy" the policy objectives addressing fighting hate crime and hate speech, transparency and democracy package, long-term vision for rural areas, EU disability strategy have not made into the final selection of the priorities by the Parliament.

The selection and approval of Lithuania's parliamentary committees' priorities have shown that the EC political objectives only partially overlap with the objectives of the domestic politics. The closest overlap is related to the initiatives aiming to strengthen the economic union, including the EU capital markets union and the banking union, and to pursue a closer integration of the national economy with the core economies of the EU as part of liberalization.

Only partial match with the political objectives of the EU suggests that the room is kept open for formulating the national political goals which might differ from the main directions pursued by the EC in certain areas. A new parliamentary committee, entitled the Committee for the Future, was formed to act as a political body to generate, formulate and put ahead the

strategic insights based upon the consultations with stakeholders nationally. The Committee aims to act as a generator rather than a recipient of the external strategic plans.

"One of the Committee on the Future's tasks is to reclaim a future planning initiative to make strategic forecasting more effective. But to take that step, there needs to be a consensus between political forces, society, knowledge institutions. Currently, more focus is given to the management rather than governance, the ideas get lost because of the procedures – these things need to change", - argued Professor Raimundas Lopata elected to chair the Committee. "One of the tasks of the Committee on the Future is to establish a direct link with the intellectual and academic community; to seek a consensus on the future of Lithuania and Europe and its political recognition in the decisions of the present. More generally, we will make this Committee a platform for real parliamentary scrutiny for cooperation between the academy, business, government and society", - stated the Committee's chairperson.

The analysis of the forecasting practices in Europe has shown that it is the scarcity of resources which drives the need for prediction and planning for a future. The strategic planning cannot be done within a few years' time horizons unless related to the budgetary expenditure planning. The lack of forecast and foresight and analytical insight create a deficiency in domestic politics to create a more effecting feedback loop linking up the annual EU policy planning with the national interests long-term.

As it is now, the policies are broadly defined at the EU level while the politics and concrete actions – by the political actors and stakeholders nationally. The capacity for forecasting and long-term planning can address this deficiency. Until this capacity is fully developed, the politicians will keep selecting the priorities ad hoc.



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# Montenegro Political outlook for 2021

Vojin Golubovic

***Summary:** After a turbulent 2020, it seems that 2021 will be just as dynamic and uncertain when it comes to the political scene in Montenegro. The change of government that took place in the previous year will have consequences in 2021, which can be reflected in both domestic and foreign policy. The new government will face a number of challenges, and the fact that cohabitation will continue in Montenegro for a few more years, further complicates the situation. The political scene in Montenegro in 2021 will undoubtedly be determined by events such as the political response of the recent ruling party and now the strongest opposition Democratic Party of Socialists (DPS), local elections in Montenegro's second largest municipality - Niksic, and expected squabbles within the parliamentary majority. Also, in 2021, it is difficult to expect more significant progress in terms of various aspects of government functioning compared to the previous one. On the foreign policy scene, one can expect the continuation of the undertaken commitments on the issue of European integration.*

## **Political action of the new government**

The power won by the ideologically diverse opposition will be put to a great test during 2021. However, it seems that this exam will not result in a question of confidence in the government itself, but rather in the face of continued pressure under which different parts of the new government will find themselves during the year. First of all, this statement is referred to the various crises that can be caused by the fact that there is currently a cohabitation system in Montenegro (because the President of Montenegro is from the opposition DPS). In such a system, there can be a series of crises when the president does not want to sign laws or acts passed in parliament,

leading consequently to an attempt of new new government to marginalize the president himself. Nevertheless, the political system in Montenegro is such that in various domains (defense, judiciary, etc.) requires the cooperation of two, currently conflicting parties. The first disagreements (such as the illegal or at least questionable passing of a number of laws in the Parliament at the end of December 2020 when a quorum was not provided, as well as the non-signing of the passed laws by the President of Montenegro who considered it unconstitutional) had shown that expectations about crises in political functioning seem quite real. Additionally, political intolerance between the highly divided political public on the pro-Montenegrin bloc and the ruling bloc gathered around a coalition that has repeatedly shown intolerance towards its own state and its symbols (led by the current Prime Minister and with the blessing of the Serbian Orthodox Church in Montenegro) refer to the political instability during the coming period.

In addition, the initial behavior of the new government, which announced experts in all positions, indicates that there will be none of that, but that it will continue what the people have just criticized - party employment, nepotism and the like. Therefore, a crisis could be expected in state-owned enterprises, the education sector and the state administration, so that the new government can more easily implement the policy of hiring "suitable" and sow fear of dismissal of "unsuitable". In addition, for any failure, incompetence, or crisis, it is possible to blame the old government for producing a "catastrophically bad situation". Such rhetoric could be expected.

### **The local elections in Niksic may be a reflection of the parliamentary elections**

This division into the Montenegrin and pro-Serbian blocs will probably be reflected in those situations when it should not be reflected in normal circumstances, ie. in local elections. The fact that local elections are planned in Niksic in March indicates that the results of these elections will

be largely the result of unsettled national passions aroused after the parliamentary elections, and not so much the treatment of local issues, perceptions of local development or the presence of any strategy for Niksic municipaluty.

The new government sees the local elections in Niksic as an opportunity to confirm the results achieved in the parliamentary elections, so that "taking over" the government in this city from the DPS would mean, above all, victory in the psychological war with the former government. Therefore, it is possible to expect that during these elections there will be national rhetoric and the formation of similar coalitions as during the state parliamentary elections. Undoubtedly, the Democratic Front, which led a coalition of pro-Serbian parties in the previous elections, will now form a similar coalition with the aim of strengthening its political position and possibly gaining the mayor position in this city after the elections. Also, one can expect the same composition of other coalitions that won power in the parliamentary elections. It is almost certain that these parties will invoke their closeness to the Serbian Orthodox Church, and it is possible to expect support from that religious organization in any form.

However, when it comes to pro-Montenegrin parties, a slightly different performance can now be expected. Unlike the state parliamentary elections, when the DPS ran almost independently, a broad coalition with the parties that make up the pro-Montenegrin bloc can be expected in the local elections, despite various ideological divergences. Therefore, it is possible to expect a broad coalition with the Social Democrats, the Liberal Party, the Patriotic Committee Alliance and possibly the Social Democratic Party with which the DPS is furthest away. Defeat in these elections would mean a possible further weakening of the party and the loss of its membership. Although making a comparison with the state parliamentary elections is inappropriate, it should be noted that the coalitions that make up the new government in the parliamentary elections received over 7,000 votes more than the DPS in this municipality with total voting body of 58,000. Certainly, the DPS in a broad coalition can expect a much better result, but the question is whether that will be enough to win.

### **Real reform of the strongest political party?**

The DPS, which remains the single strongest political party, now part of the opposition, is facing most important decisions on the party's future. What is clear is that if this party wants to continue to participate as the most important political factor in Montenegro, it must undergo significant reforms within the party itself. This primarily refers to the different structure of human resources at the very top of the party, bearing in mind that a large number of current personnel are associated with corrupt practices. Whether the party has the tendency to reform from within will be shown by an extraordinary congress that can be expected at the end of January. Namely, some radical changes have been announced within the party, which should primarily refer to the much stronger role of young people who are not burdened by the corruption. However, the question is whether such changes, if they occur, will be peacefully accepted by the old cadres, or whether the resistance will result in the loss of cadres in the party. In any case, if only "cosmetic changes" take place without radical cuts in the party, it is very likely that the progressive electorate will abolish further support for the party and turn to other parties. Nevertheless, the results of the previous parliamentary elections appear to be a sufficient warning for party leaders. When it comes to the party's policy on foreign relations, it is likely that it will remain unchanged, because this policy was the main trump card of this party in the previous period and its most successful policy. At the domestic level, this party should be expected to unite with democratically oriented parties that do not support the current government.

### **No changes in foreign policy**

The new government will not pursue a different foreign policy than the previous government. Not because it would not want to (because a large part of the new government is negative towards integration and favors closeness with Russia, unification with Serbia, etc.), but because it simply cannot be otherwise. Losing support from European officials, due to any

negative tone towards Brussels or NATO, would be a big blow for the new government, which would face a crisis and probably a loss of political power. Therefore, foreign policy was determined even earlier, and any deviation from Euro-Atlantic integration would be counterproductive. However, the new Prime Minister's daily flirtation with Serbia, and the Democratic Front's clear focus on pro-Russian and pro-Serbian interests, can lead to quarrels from time to time. However, the current capacities of the new government are not such that they could give up European integration and NATO membership. Although some parties in power would probably like to.

Therefore, the current year will be one of the most interesting in the political era of parliamentary democracy in Montenegro. There are many conflicting parties and many conflicting interests. However, it seems that the new government will find a way to meet the needs of all those involved. And it will do it without hesitation with everything it has criticized so far – even party employment and nepotism if necessary.

## Macedonian political developments in 2021

Gjorgjioska M. Adela

*Summary: The first half of 2021 is likely to be dominated by three key developments. The first is the Government's (mis)handling of the coronavirus pandemic, and particularly the way and the speed with which it will be able to organize the Covid19 vaccinations. The second major event will be the organization of the first population Census in the country since 2002. The third important development will be the handling of the deadlock in the bilateral relations with Bulgaria and its veto on the Macedonian EU accession path. Whilst the first two issues will reflect on the Government's governance capacity, the third will reflect on its capabilities in diplomacy and foreign relations. Each of these will put the Government to the test. The public will be able to evaluate its performance in the second half of 2021 when local elections will take place.*

By the end of 2020 the Macedonian authorities were faced with the tasks of obtaining Covid19 vaccines, as well as organizing their storage, distribution and phased administration. In early December, the health authorities informed that vaccinations will begin after New Year's.<sup>1</sup> Health minister Venko Filipce said that the country had ensured the delivery of 833,000 COVID-19 vaccine doses for 400,000 citizens through the COVAX system and additional 800,000 vaccine doses through the EU.<sup>2</sup> Moreover, he informed that the refrigerators necessary for vaccine storage, will be sourced through an American foundation and will arrive in the country in early January. It soon became clear that these announcements

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<sup>1</sup> <https://cutt.ly/Nj5OwSO>

<sup>2</sup> <https://seenews.com/news/n-macedonia-to-get-first-batch-of-pfizers-covid-19-vaccine-in-feb-726439>

had been premature and unrealistic. Instead of the vaccine supplies promised in early December, by early January the figures provided by the authorities had changed. They were only able to confirm that 5850 doses of the Pfizer vaccine will arrive in February, allowing for the vaccination of 2925 people.<sup>1</sup> On this occasion once more the health minister informed the public that 800,000 Pfizer doses had been secured for 2021, announcing that large portions will be arriving in March and April. However, as the month went by, even these forecasts proved to be unfounded. By the end of January, it was clear that the promised orders from Pfizer and Astra Zeneka had not been secured and the Government started to look to the Chinese company Sinopharma to secure a new contract for the delivery of necessary vaccines.<sup>2</sup> Meanwhile, in order to make a start on the overdue vaccinations process the country put its hope on donations from countries such as Serbia, Bulgaria, Greece and Austria.<sup>3</sup> Overall, the inconsistent and chaotic information provided by the officials enhanced the overall sense of mistrust in the institutions. At the same time the state's inability to source vaccines in a timely and a planned manner underlined the Government's failures in both public health and foreign policy. As the mistrust increases amongst the general population, the Government's continuing (mis)handling of the coronavirus pandemic is likely to have political implications, which will reverberate in different ways throughout 2021.

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<sup>1</sup> <https://cutt.ly/7j5Fx56>

<sup>2</sup> <https://cutt.ly/cj5Gx26>

<sup>3</sup>

<https://www.dw.com/mk/%D1%84%D0%B8%D0%BB%D0%B8%D0%BF%D1%87%D0%B5-%D0%BD%D0%B5%D0%BC%D0%B0-%D1%86%D0%B5%D0%BD%D0%B0-%D1%88%D1%82%D0%BE-%D0%BD%D0%B5-%D1%81%D0%BC%D0%B5-%D0%BF%D0%BE%D0%B4%D0%B3%D0%BE%D1%82%D0%B2%D0%B5%D0%BD%D0%B8-%D0%B4%D0%B0-%D1%98%D0%B0-%D0%BF%D0%BB%D0%B0%D1%82%D0%B8%D0%BC%D0%B5-%D0%B7%D0%B0-%D0%B2%D0%B0%D0%BA%D1%86%D0%B8%D0%BD%D0%B8%D1%82%D0%B5/a-56098459>



The second key event of 2021 will be the country's first Population Census in 18 years, planned for April 2021.<sup>1</sup> The state's failure to organize a Census since 2002 means that most of the demographics on the population are unreliable and outdated. This is especially the case in view of the large emigration waves that have been taking place in the past decades. Whilst the need to hold a Census is unquestionable and urgent, the manner in which it will be organized suggests that it will not be an uncontested, straightforward operation. Since the signing of the Ohrid Framework Agreement (OFA) in 2001, the Census has ceased to be merely a statistical procedure, but has also acquired a deeply ethno-political character.<sup>2</sup> According to the OFA specific preferential rights and treatments have been secured for the ethnic group, which consists of at least 20% of the country's population. For instance, in addition to the Macedonian language, "the language spoken by at least 20% of the population" is also considered to be an official language in national institutions as well as local institutions in municipalities where there is at least 20% of an ethnic minority population.<sup>3</sup> Since 2001 a number of additional rights and privileges have been reserved for the Albanian ethnic group specifically based on the assumption that it makes up at least 20% of the country's population. The Census could disturb the basis for this institutional set up if it demonstrates that the number of ethnic Albanians in the country is below 20%, a scenario which is not unlikely in view of the large emigration flows in recent years. The opposition parties have raised severe objections to the way in which the Governing coalition SDSM-DUI has set the scene for the operation. In order to hold the Census in April 2021, in October 2020, the governing parties from the SDSM and DUI introduced a draft Law on the Census. Facing opposition from both the

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<sup>1</sup> [http://www.stat.gov.mk/OblastOpsto\\_en.aspx?id=31](http://www.stat.gov.mk/OblastOpsto_en.aspx?id=31)

<sup>2</sup> OFA is the peace deal and a consociational agreement signed by the government of the Republic of Macedonia and representatives of the Albanian minority on 13 August 2001 following an armed conflict.

<sup>3</sup> [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/the\\_former\\_yugoslav\\_republic\\_of\\_macedonia/franework\\_agreement\\_ohrid\\_130801\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/the_former_yugoslav_republic_of_macedonia/franework_agreement_ohrid_130801_en.pdf)

VMRO-DPMNE and Levica, the Law was withdrawn from standard parliamentary procedure in late December 2020, and soon after was re-introduced under fast-tracked parliamentary procedure. As a result, the opposition parties had only 18 hours to submit their Amendments, which raised some of the following concerns: the draft Law fails to define key terms such as “population” and household”, it fails to set strict guidelines in terms of who can be registered as a citizen (according to the draft law a family member can register on behalf of a relative simply by giving their national ID number), failure to stipulation whether emigrants will be able to register and the failure to specify which identification documents will be required in the process (the draft law only states “appropriate documentation”).<sup>1</sup> In spite of the legitimacy of the concerns, all Amendments were swiftly rejected. This suggests that the Governing coalition is determined to conduct the Census on its own terms, in spite of severe objections from the Opposition.<sup>2</sup> Both the planning and the conduct of the Census is likely to spill over from the political onto the social scene, threatening to cause a further deterioration in the already vulnerable inter-ethnic relations in the country. These in turn are likely to impact on the political processes in the country.

The third consequential and potentially turbulent political event in the first half of 2021 will be the status of the country’s EU accession path, currently blocked by the Bulgarian veto.<sup>3</sup> The Government’s ability to break the current gridlock will depend on both domestic and external factors. Externally, the outcome of Parliamentary elections in Bulgaria in April 2021 could affect the bilateral relations and the status of the negotiations.<sup>4</sup> Domestically, the rift between the Government and the population has widened due to the former’s handling of the relations with

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<sup>1</sup> <https://levica.mk/2021/01/14/borislav-krmov-tselta-na-popisot-e-demografski-i-etnichki-inzhenering/>

<sup>2</sup> <https://www.balcanicaucaso.org/eng/Areas/North-Macedonia/North-Macedonia-census-yes-census-no-207268>

<sup>3</sup> <https://balkaninsight.com/2020/12/08/bulgaria-refuses-to-remove-barrier-to-north-macedonias-eu-talks/>

<sup>4</sup> <https://balkaninsight.com/2021/01/07/bulgaria-in-2021-testing-times-for-govt-people-and-environment/>

Bulgaria. A growing number of politicians, public intellectuals and citizens have started to openly criticize the tactics employed by the Prime Minister, increasing the overall public opposition to the line followed by the Government. In view of this, any potential compromises accepted by Zaev's government are not likely to be accompanied by a public approval at home. This in turn could further diminish the ratings of Zaev's political party, the SDSM.

The seventh Macedonian local elections will be organized in the autumn of 2021. The most recent polls from December 2020 suggest that the public support for the Government is on a decline. 54,7% of the respondents graded the Government's performance with either 1 or 2 (on a scale of 5). Ethnic Macedonians are especially dissatisfied, 60,5% of which marked the Government with either 1 or 2. The survey also indicated that the ratings of the biggest political parties are head to head, 18,6% for the SDSM and 18,1 for the VMRO-DPMNE; the historically lowest rating of both parties. In contrast to this however, the rating of the political party "Levica", is swiftly rising; from 1,5% in June 2020 to 6,2% in December 2020. According to Europe Elects' M-Prospect poll Levica stands at 10,6% approval amongst decided voters.<sup>1</sup> What is more, the rating of their leader is at 29,7%, the second highest in the country after PM Zaev whose rating is at 39,7%. In the ethnic Albanian block, the governing DUI is leading with 6,7%, followed by Alliance for Albanians with 4,6% and Besa with 2,4%.

The continuing mis-handling of the pandemic, the bad track record in the areas of the economy, the rule of law and foreign policy, as well as the organization of the population census are all likely to further diminish the already worsening approval ratings of the governing parties on the Macedonian political scene (and particularly the SDSM). These in turn will have a huge impact on the outcome of the local elections in the autumn of 2021. The election ballot will serve as a litmus paper for the public legitimacy of the political parties from the current coalition Government,

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<sup>1</sup> <https://twitter.com/europeelects/status/1343661214900039681>

as well as their standing and public support vis a vis opposition parties. At the same time the elections will serve as a test for the performance of the Governing coalition, potentially raising the possibility for early Parliamentary elections to take place in the course of 2022.

## **Outlook on Polish domestic policy in 2021**

**Joanna Ciesielska-Klikowska**

***Summary:** The continuing fight against the pandemic, the implementation of national vaccination plan and economic recovery are crucial challenges facing Poland in the coming year. But politically, it can also be very hot twelve months. Although this year's calendar is the first since a long time where no elections are scheduled, the political situation is developing so dynamically that there may also be some surprises in this regard. The growing political and social conflict, as well as changes taking place in the opposition, will be the leading themes of the new political season in 2021.*

The pandemic and the long presidential campaign 2020 have strained all political forces to make maximum effort. The beginning of 2021 is still dominated by the fight against the epidemic, including the political discussion around the vaccination program, which for Group Zero (medics) began on December 27, 2020, and for Group One (seniors over 60 years of age and direct contact professions) is to start at the end of January 2021. Along with increasing vaccination exposure covering majority of generations and professions, it can be assumed that the country will return to normality, at least partially. This “new normal” will also be related to the defrosting of the economy, which theoretically did not suffer much because of Covid-19 (according to the latest estimates, Poland's GDP fell only by 3.5% in 2020 compared to 2019; inflation was 3.4%, and unemployment remained at 6.1%), but in practice it hit hard in the pockets of both employers and employees.

Along with thawing of the economy, the country will start to return to political normality as well - and it can be assumed that the “classic” party

politics will start all over again. This applies to both the ruling, and opposition parties. Here are some important events that may influence Polish domestic policy in 2021.

### **Changes in the ruling camp**

After recent declines in polls of the ruling coalition United Right (*Zjednoczona Prawica*), which consists of three parties: Law and Justice (*Prawo i Sprawiedliwosc*, PiS), United Poland (*Solidarna Polska*, SP) and Agreement (*Porozumienie*), the opposition, broadly understood as anti-PiS, has raised the wish that maybe since 2015 the breakthrough moment has come, after which the power camp will finally start to lose its political position.

It was long hoped that one of the scandals would eventually plunge the ruling formation, that it would wear out naturally, or that it would be permanently burst by internal conflicts. However, the United Right turned out to be a “Teflon coalition”, with no scandal harming its governing. It happened already that it was losing 10% in polls, it was caught up by the largest opposition party, the Civic Platform (*Platforma Obywatelska*, PO), when both groupings had the support of 25% of voters, but these were only incidents. There was a quick rebound and another top political support. The events that should have knocked this political elephant down did not make a big impression. This year it may be similar, although there is undoubtedly a belief that another scandal involving the authorities may overflow the cup of bitterness. If this actually happens, it is probable that Poland will face one of two scenarios:

1. Collapse of the United Right camp and the formation of a minority government – it is likely that PiS and Agreement will split up with United Poland. Its leader, Zbigniew Ziobro, has been conducting quite confrontational rhetoric in recent months. Ziobro is not only the Minister of Justice, but also the Prosecutor General, which means that he has enormous political power in terms of jurisdiction. Ziobro is also the biggest political competitor in the

fight for the seizure of power on the right, after the expected departure of PiS chairman, Jarosław Kaczyński - currently the undisputed leader of the conservative camp. For many months, there has been a growing tension between Prime Minister Mateusz Morawiecki, Kaczyński's favourite nowadays, and Ziobro. As Ziobro's party has recently been gaining in polls (in the latest polls it reaches the ceiling of 5.4% of votes, i.e. it may assume that in the event of an election it could enter parliament on its own), the appetite for leaving the uncomfortable coalition and building a stronger conservative base, even more to the right from PiS, is growing. Members of the Confederation party may be Ziobro's allies - together, both parties may constitute an important political camp that will counteract the political steps of PiS and the Agreement. The stakes are high, but the risk of failure is also great. So the political calculation of profit and loss will be very important here.

2. Early elections - if social tensions increase and the rift between the government parties grows, early parliamentary elections cannot be ruled out. All the more so as it is increasingly heard that the United Right may lose a slight advantage in Sejm (lower house), due to the planned transfer of several politicians to other parliamentary clubs. Moreover, months of social protests, triggered by the judgment of the Constitutional Tribunal on the prohibition of abortion despite incurable defects of the fetus, symbolize a generational change - it is not the generation of 40- or 50-year-olds who took to the streets, but young people who are fed up with the current political system and shaping it by the same people for last 20 years. If, however, PiS feels relatively confident in its permanent electorate (around 30% support), it may decide to hold an early election.

## **Change in the opposition camp**

On January 24, 2001, the founding meeting of the Civic Platform took place. For the largest opposition party, the first event in the 2021 calendar is therefore its 20th anniversary. But there is no indication that it will be particularly boisterous. On the occasion of the anniversary, this party, founded among others by Donald Tusk, announced a new ideological declaration - it is to be presented in spring 2021. So far, PO politicians have held 7 out of 16 regional meetings concerning the declaration. The important question is whether Civic Platform will in coming months absorb the Modern party (*Nowoczesna*), with which it forms the Civic Coalition parliamentary club, or will the two parties part ways? The declaration may provide an answer here.

The situation in the agricultural party, the Polish People's Party (*Polskie Stronnictwo Ludowe*, PSL), which is facing internal elections, is also interesting. For years this party sat as a minor coalition partner in successive governments, assuming the role of a "revolving party" in Polish domestic politics. For several years now, however, it has not been able to get out of the hole of social confidence - the question whether the new leadership will give it a new impetus is open.

Other opposition forces are also preparing their plans. In the next few weeks, a new party, Poland 2050 (*Polska 2050*), whose leader is the charismatic journalist Szymon Hołownia, may be registered. The registration of the party will be an important event for the entire project, which lasts since spring 2020, when Hołownia decided to run as a non-party candidate in the presidential election and gained almost 14% of the votes. In the next few months, the long-announced parliamentary circle *Polska 2050* may be created in Sejm (at least 3 members). Currently, Hołownia's movement is represented only by Hanna Gill-Piątek, who got to Sejm from the political lists of the Left (*Lewica*).

Yet, in fact Hołownia is counting on early elections, which give his movement a great chance for a high result (app. 15%). From the point of view of a moderate voter, discouraged from mainstream parties, Hołownia



may be a safe haven. Especially for those who now believe that PiS deserves a defeat, but that the opposition does not deserve a victory either.

The Left party remains the big unknown. It gained 12.5% of votes in parliamentary elections 2019, but its position is weakening (currently around 7%). Perhaps 2021 will bring a revival - especially if there are actually early elections, and the level of social anxiety increases.

### **Internal policy around EU recovery program**

Finally, the European context. Over the next few months, Polish parliament will vote on the ratification of the “Generation Next EU” plan. This event has a chance to become a real test of unity of views of individual parties. Discussions around the vetoing of the EU budget for 2021-27, where this recovery program is written, inflamed Polish political scene in November and December 2020.

It is already known, that Ziobro’s party is to be against the project, the right-wing Confederation, and perhaps some Eurosceptic PiS politicians will probably join them. Yet, PiS and Agreement are to vote for. Thus the question of the plan’s approval divides the United Right. The leaders of the parliamentary opposition have previously announced that they will support the ratification.

The question of what to spend the money on from the EU program will become the most important topic for the entire political class and beyond. The EU only sets the priorities in general, but it is the governments that decide the details, adapting the plan to local needs. The Chancellery of the Prime Minister and the PiS leader, Jarosław Kaczyński realize the importance of this project. Prime Minister Morawiecki - as announced in December 2020 - is to present a draft of the New Social and Economic Deal in January this year.

The EU reconstruction plan itself will start working from the third quarter of 2021 - it is interesting whether the government in Poland will not change until then. And if so, what political forces will create it.

## **Outlook for Romanian politics: a coalition government who has to deal with the pandemic**

**Oana Cristina Popovici**

***Summary:** 2021 started with a new liberal Government, representing a coalition formed by three parties which managed to impose the majority in the new Parliament, elected in December 2020. The probability of populist measures, meant to further affect the budget deficit, is reduced, but the Government has to deal with several major problems this year: first of all, the adoption of the state budget; secondly, the relaunch of the economy while continuing to handle the COVID-19 pandemics and the vaccination campaign and finally, drawing the Resilience and Recovery Plan for absorbing the European Union's funds.*

The end of 2020 in Romania was marked out by the elections for the National Parliament, whose results were meant to shape the new political environment. The results were in the favour of the Social Democrat Party, which gathered almost 29% of the total number of votes, followed by the National Liberal Party (NLP) with over 25% and the Union Save Romania (USR) and PLUS alliance, with over 15%. The results were not the expected ones for NLP, which was the main favourite to win the election, according to the opinion pools. In addition, the tradition was that the new Prime Minister to be nominated among the members of the winning party. However, very quickly, NLP managed to form an alliance with USR-PLUS and the party of ethnic Hungarians in Romania, UDMR, and to ensure the majority in the Parliament. As a consequence, the three parties negotiated and proposed an NLP Prime Minister, in the person of Florin Cîțu, the former Minister of Finance in the Orban Government. The choice of Cîțu was a delicate one, as he was the one nominated to be the Prime Minister

in March, after the first Orban Government was dismissed by motion of censure. At that moment, given the SDP majority in the Parliament, he had low chances of being accepted, and at that moment he was considered to be one of the less desirable persons to hold this position. However, he decided not to accept the mandated and refused the nomination, therefore, in the midst of the crisis and the debut of pandemics, the second Orban Government was formed. This time, in December, President Klaus Iohannis designated Florin Cîțu for this position and the NLP - USR-PLUS - UDMR Government passed the vote of Parliament, with 260 votes, over the 228 required ones, just before Christmas. On the other hand, SDP also considered that it deserved the leading of the Government, being the first ranked in the polls, therefore the party's discontent increased.

This is the context in which this year starts on the political arena. NLP, although it is the party providing the Prime Minister, had a lower performance than expected. The loss of the election raised complaints inside the party. This is why a new reform is expected. Some of its members admit that strong leaders and a refresh of the party's image are needed because the fight for 2024 has already begun. In addition, the entry into Parliament of extremist parties tends to show the failure of a political class still rooted in the past, but also the failure of the educational system. This year the NLP congress is expected to take place, meaning that changes at the leadership of the party could occur.

SDP, which started the year from an unfavourable position following the events in 2019, improved its image. USR-PLUS managed to enter the governing team, being at the lead of several ministries in the new Government. The entering in the Parliament of the Alliance for the Union of Romanians (AUR, whose initials mean "gold" in Romanian) is the surprise of the last elections. Mostly unknown in the mainstream landscape of Romanian politics, it has an extreme right, ultranationalist and anti-European orientation. The party was founded in December 2019 and had a vocal presence on social media lately. In this context, it is possible to assist to an increase of the patriotism and nationalism, similar to other waves in this part of the continent. Romania used to have a similar conservative party

during the 90's, but its ascension ended starting with 2000. Now, analysts consider that it was replaced by this new one. For the moment, AUR leaders declared that the party will not form alliances in the Parliament.

The new Government's objectives are to achieve stability and to enhance commitment and competence in order to modernize Romania, according to the governing agreement 2020 – 2024 signed by the leaders of NLP, USR-PLUS and UDMR. The 18 ministers are distributed between the members of this alliance. From this point of view, analysts and even NLP members consider that the Cîțu Government has a difficult mission. On one hand, the hardest fight would be the one inside the government. NLP had to manage the relationship with USR. Their disagreements in the past almost threatened their partnership. Such difficulties are also signalled in an analysis of the rating agency Fitch, which considers that the result of the Romanian elections reflects the current political uncertainty and creates a difficult environment for the elaboration of fiscal policies. The agency states that running a coalition formed by three parties could consume political energy and hamper NLP's attempts to implement certain measures, as well as its ability to prevent a long-term weakening of public finances. On the other hand, NLP has to deal with SDP, which continues to be a redoubtable opponent and is skilled in seizing the vulnerable points, while AUR seems to have its own path, not supporting the pro-European NLP attitude. SDP remains the largest party in Parliament, and, by forming an opposition bloc, would make it more difficult to implement policies, according to analysts. SDP already started to make a strong opposition, launching accusations towards the Government. These are signals that the whole year will continue in a similar manner.

In addition, there are some major problems that the Government has to face this year. Firstly, the Government has to build the draft law on the 2021 budget. The public money must be allocated by sectors, in accordance with the macroeconomic targets set through the government program. It is a difficult mission, given the impact of the pandemic on the economy and the limits raised by a budget deficit that is forecasted to surpass 9% of the GDP in 2020 and the economic decline of over 4% this year. Moreover,

NLP leaders have repeatedly promised that they will not increase the current level of taxes and duties, nor will impose new ones. According to the Fitch agency's analysis, this work on the 2021 budget will be a test for the cohesion of the new administration involving the members of the three parties and an indicator of the future fiscal policy.

It is clear that the need to limit the COVID-19 pandemics will continue to be the main driver of any political measure. The Government needs to give high attention to the vaccination campaign, given that the first doses of COVID-19 vaccine are expected at the beginning of this year. The already existing vaccination strategy must be applied efficiently, but it has to be doubled by an information campaign, especially since an anti-vaccine current is soaring. In this context, the new party AUR might have an important influence, especially that its growth was also due to pronounced inclination toward dissatisfaction with anti-COVID measures.

At the same time, the post-COVID economic reconstruction will be a major challenge for which the Government will have to find solutions. Prime Minister Cîțu has already promised that he and his team will do everything for the economy to recover in 2021. One of the means for doing this is the absorption of the EU funds. In this respect, the Government has to finalize the Resilience and Recovery Plan, required by the European Commission. The NLP Government has launched the project in public debate, but both USR-PLUS and UDMR want changes and completions in infrastructure, development of new technologies, digitization and the green transition. On the other hand, SDP has threatened that the Government will introduce austerity measures during this year. According to the SDP leader, the European Commission is alerted by the increase of Romania's public debt, therefore the Cîțu Government will be forced to take fiscal consolidation measures. On the other hand, the probability of populist measures, meant to further affect the budget deficit, is reduced, which is a good signal for international markets and investors. NLP and USR-PLUS are committed to gradually taking steps towards fiscal consolidation. Still, there is no consensus on the scope and precise timing of short-term measures, given the economic and health challenges posed by the

pandemic, according to analysts. The extension of such indecisions has negative effects on the long term, given that Romania has a problem with a low capacity of collecting revenues to the state budget, on the background in which salaries and pensions are a large destination of these revenues. One of the main challenge for the Government would be to ensure the stability of the economic environment and to enhance predictability for the fiscal policies.

# **Forecasting Serbia's internal politics in 2021: dilemmas and prospects**

**Institute of International Politics and Economics**

**Belgrade**

***Summary:** To perform the efficient forecast of political occurrences within a single polity is a tremendously hard effort, and quite often its outcomes are not trustworthy. On another hand, a huge empirical experience recently accumulated within the corps of social sciences is fruitful in deriving views on potential developments with increased accuracy. By deploying a method of near-history occurrences related to a specific presumption, some patterns of what will happen over the course of the incoming year, could be identified. This will be applied to this analysis which seeks to forecast political scene in Serbia for this year and will propose several factors that will influence on what might happen in the next 12 month period.*

## **Identifying the on-sight settings**

Eruption of the COVID-19 pandemic has spread across the globe, leaving no single country immune to disease and its consequences. Not only the public health was endangered, but the economic performance of almost all countries was enormously disrupted. In 2020, Serbian political stage was shaken by several major occurrences, such as the parliamentary elections which were held in the midst of pandemic, violent protests, and constant accusations by the opposition parties which deemed anti-COVID-19 governmental measures as “inadequate, disproportionate, late, and illegal”.

Last year's protests, for instance, have erupted as a direct consequence of anger exposed by the part of the public, after Serbian President Mr. Vučić announced that the new lockdown might be re-introduced, in wake of the then incoming second wave of the pandemic. Suspects against the health authorities over the numbers of infected and total deaths caused by the pandemic, in the weeks before the elections, have further contributed, and in the beginning of July, a series of severe and violent antigovernmental protests occurred in Serbia's capital. Despite dominant victory of the leading Serbian Progressive Party (SNS) in the National Assembly, the process of government constitution was unusually slow. At the time the new Government sworn before the Parliament on October 28, Mr. Vučić announced that its mandate will be limited to April 2022 latest, when, according to what he said "the new electoral cycle will be held". Serbia entered 2021 with a focus to massive immunization process which started in the middle of January, focusing the eyes of the public towards the next steps the Government will undertake to "normalize" everyday lives of its citizens.

### **Involving the dependant variables**

Based on all-known relevant facts, a total of three variables could be involved into this analysis. The following three will in the most direct sense, affect the internal political stage in Serbia in the coming period: political stability concerns, potential constitutional changes, and Kosovo issue. These issues will be presented and an assessment of their possible manifestation will be provided.

- a. With vast cases of turmoil within the last several decades, Serbia can't be classified into a "politically stable" group of countries. Despite numerous democratic practices and enhancement of the conditions that direct political processes towards dialogues, the violent practices could not be rectified over the course of short period, which is why almost each year, Serbia sees some form of severe turmoil in various forms. It especially



becomes visible when the elections are on the agenda or any major occurrence over which the domestic public is easily divided. Having this logic in mind, one could derive a conclusion that such a continuation is likely to occur within the scope of this year. However, there are several reasons why it is highly unlikely that major turmoil will occur during this year. First, 2021 is not an electoral year in Serbia at any level, thus, no direct confrontation among the major political actors will occur. On another hand, the opposition parties will keep insisting that electoral process is undermined and unfair, subject to involvement of the EU Parliamentary envoys who will have role of “moderators” within these talks. It could be expected that some rules and procedures for the upcoming regular presidential, and early parliamentary elections might be adjusted to provide the full participation of oppositional parties that boycotted previous year’s electoral process. This concern will intensify at the end of the year being that the elections are set to be held in April next year. The second factor which will “secure” the political stability is the looming end of the COVID-19 pandemic. It is expected that major political subjects will lower down tensions that might arise in relation to full lockdown or any other restrictions that might be imposed.

Third, both opposition and parties that form the Government will orient towards the upcoming electoral year of 2022. What opposition asserts is that the electoral process’ fairness is below the level imminent to usual democratic practices, which could bring (again) all the stakeholders to the table to discuss the electoral dynamics. Thus, an assertive rhetoric from both sides, which could create severe turmoil could only be expected next year in the months ahead of elections.

b. In its modern history, Serbia has changed 14 constitutions. In no case, this was the amendment of the previous version, but every single adoption of the constitution presented an entirely new act which regulated political life. The current constitution was adopted after the state union between Serbia and

Montenegro ceased to exist in May 2006, leaving the constitutional *vacuum* in Serbia until the newest constitution adopted in November 2006. During the last year, constitutional changes were among the priorities of the internal agenda. In December, the Government has proposed to the National Assembly, constitutional changes that tackle judiciary branch of governance and prosecutors' system, which was the condition Serbia committed to, during the EU accession process. The rationale for constitutional changes posits that according to the 2006 Constitution, the executive and legislative branches are given wide jurisdiction to elect the judiciary officials, which might potentially impede their independence and lead to politicization of their work.

Serbian Government elaborated that legislature and the executive have the ability to control judiciary decisions, which is incompatible with the independence and autonomy of the judiciary; that could consequently undermine the system of separation of powers in Serbia. The Government, therefore, proposed to amend Article 4 so as to “that the relationship between the three branches of governance is based on mutual *verification* and not control”. Constitutional amendments in Serbia are changed by at least the two third majority of MPs in the Serbian Parliament, except in rare cases such as the perambulatory changes, or any changes concerning human rights, for which plebiscitary vote is needed. In any case, it is hardly likely that referendum vote will be scheduled for this year, but the conditions set for the EU accession process are going to be fulfilled, which could alleviate tense relations with Brussels.

c. Kosovo issue seems to remain a never-ending story for official Belgrade for more than two decades on, and there is no single reason this “practice” will spill over into the year ahead of us. After the NATO bombing of then FR Yugoslavia, international military and civilian security presence was established in southern Serbian province, under the auspices of the UN, and in line with the relevant UN Security Council resolutions. The process got complicated when in 2008 Kosovo Albanians self-proclaimed their

independence, which further worsen regional problems across the Balkans, and created a new security concern for Serbia. Last year, representatives of both sides met in Washington to discuss prospects for further cooperation which would alleviate tensions and provide peaceful coexistence. The then US President, Mr. Trump sponsored a memorandum which concretized means for deeper cooperation, while the two sides committed themselves not to undertake any campaign for recognition or recognition withdrawal. While it seemed to the domestic public that Kosovo issue might be finally resolved for the midterm period, the USA elected a new administration, which increased anxiety over whether the position of official Washington towards this problem will remain. Constant internal political crises of legitimacy of the institutions within Kosovo and Metohija, along with corruption, and failure of provision of basic services, are setting this issue on the top of internal politics agenda in Serbia. Continuation and the first outcomes of the trials before the Kosovo Specialist Chambers & Specialist Prosecutor's Office in the Hague will be closely monitored by the Serbian authorities, and will also shake domestic debates in political arena.

### **Easy forecasts for 2021:**

#### **Will the year end as a stalemate of internal politics in Serbia?**

All the relevant political actors in Serbia will be focused to finalize massive immunization against the Coronavirus in the first quarter of the year. Being that no major challenges are expected, it is highly likely that the coming period will set a stage for stalemate of internal politics, bringing it to a quite inert status. The most expectable scenario is that the political stability will keep its *status quo* with insignificant changes in the internal dynamics. Out of all identified variables, only developments of how the Kosovo crisis will evolve in 2021, will remain the toughest to predict, as

the whole complexity of the process will be dominantly influenced and directed by external (f)actors.

# **The most important political events awaiting Slovakia in 2021**

**Peter Csanyi**

***Summary:** The most important aim of Slovakia in 2021 will be restoring trust and joined forces to cope with the crisis. Besides, it will be necessary to continue in some trends that were started last year: the remedies in the justice system and the achievements in the fight against corruption. At the same time, we cannot forget to mention the drawbacks Slovakia will have to work on this year, including manipulation, lies, and egotism that have plagued society. Regarding the economic situation, the baseline scenario for further development of economic and epidemiological situation in Slovakia assumes that the ongoing second wave of COVID-19 will be longer than that of spring and will last from the end of the third quarter of 2020 till the middle of the second quarter of 2021. Economic losses of the Slovak economy according to the results of this year can range from 8 to 11% of GDP, what can be a big challenge for the country.*

## **Changes in justice system and the fight against corruption:**

In March 2020, Mária Kolíková, a long-time advocate for justice reform and a member of For the People, a junior partner in the coalition government, became the new justice minister. She prepared a detailed plan to clean up the courts. The government program declaration includes solutions to the most serious problems of the rule of law and there is a chance that if they are carried out, they can really contribute to increased public trust, not just in the judiciary, but also in other institutions. Boosting faith in state institutions is one of the thorniest challenges for the new government.

Experts welcomed the proposals for greater transparency, reforms of the Constitutional Court, a new system for electing the General Prosecutor and the creation of a new High Administrative Court that would deal with disciplinary matters concerning judges and prosecutors. The European Commission has criticized Slovakia for its state of judiciary. It is not surprising that Slovakia has problems with its state of judiciary and corruption. Therefore a judicial reform and fighting corruption is one of the main goals of the new Justice Minister, Mária Kolíková.

Some “efforts” have been undertaken in recent years to improve the quality and efficiency of the Slovak justice system and have started to show some results, but the reality was so far from the political leaders’ resolution to do it. The current government is hoping that new laws will help stop criminals selling off their property while awaiting trial and root out judicial corruption. The legislation targets three areas of the country’s judicial and law enforcement system which Justice Minister Mária Kolíková has said need to be strengthened.

The first involves closing off criminals’ means of disposing of their property. Justice Minister Mária Kolíková is convinced that Slovakia needs a functioning law on forfeiture of property and there cannot be a repeat of the situation where different authorities pass responsibility from one to another while the perpetrator gets rid of property in plain sight through speculative transfers.

Currently, law enforcement authorities have the power to take over the administration of forfeited property. However, Kolíková believes this should be changed, saying that the primary task of law enforcement institutions is to uncover criminal activities and prosecute those behind them, not deciding what to do with criminals’ property. As part of the new legislation on forfeiture, a new body, the Office for Administration of Forfeited Property, would take over this task. The new institution would begin operating in August next year. Under the new laws, it would be possible to sell certain types of forfeited property without the consent of the owner. Finally, at the end of September, the cabinet has given the green light to the judiciary reform, submitted by Justice Minister Mária Kolíková.

The Slovak government program declaration includes solutions to the most serious problems of the rule of law. Although the COVID-19 pandemic have made everything more complicated, there has already been taken several steps to increase public trust in the judiciary as well as in other institutions.

The government continues in its effort to fight corruption in the country: Aside from facing charges of accepting bribes, Special Prosecutor Dušan Kováčik has been charged with founding, masterminding and supporting a criminal group, misuse of powers of a public official and jeopardizing classified information. The chief of the Special Prosecutor's Office was detained along with high-ranking police officer, who has been charged with the same crimes.

Besides, the National Crime Agency (NAKA) has been carrying out some operations. The action code-named “Gale” was carried out at the end of October 2020. Representatives of the judiciary were detained: among them are judges, including judges of the Supreme Court, as well as a well-known lawyer. Officially, it has not been announced in which case the operation, code name “Gale”, refers to a similar operation “Storm”, carried out by the NAKA in March 2020, when 13 judges were arrested.

The detainees include former vice-president of the Supreme Court Jarmila Urbancová, Supreme Court judge Jozef Kolcun and former vice-chairman of the District Court in Bratislava, Katarína Bartlaská. Businessman Zoroslav Kollár, who appeared on the mafia lists, as well as judges Jarmila Urbancová and David Lindtner, are prosecuted in custody. They were detained during the mentioned Operation “Gale”: focused on the corruption at Bratislava-based courts. They are all charged with accepting bribes and trying to interfere with the independence of the courts.

This seems to be only the beginning of positive changes in the Slovak justice system and should continue in 2021 to bring back the rule of law to the country.

## **Combat the disease and the protection of the Slovak economy**

What to expect from the government? Governmental actions aimed to combat the spread of the disease will be marked by periods of intensification and extenuation of restrictions of business activity, the level of social isolation and mobility of citizens. Within the scope of such measures, the government will not impose a curfew and announce a general ban on the use of jobs by company employees. Some forms of restriction of business activity, which significantly affect the economy, will continue until the end of the second quarter of 2021, and will also cover economic activity at the beginning of the second half of the next year. The beginning of economic recovery is possible during the second half of 2021, and the level of GDP growth next year will not exceed 5%.

In fact, the ongoing situation is embedded in the base governmental scenario called “Crisis Scenario No. 2: Slower Recovery”, envisaged in May this year by the “Stability Program of the Slovak Republic for 2020-2023”.

The effective vaccine against COVID-19 is expected to be publicly available in the Slovak Republic in spring 2021, and its widespread use will begin probably only at the end of first half of this year. Given the effectiveness of the vaccine and the general level of vaccination of the population, a certain level of restriction of business activity is likely to persist during the winter of 2021-2022, which will delay the return of the economy to pre-crisis level (2019) until the end of 2023.

In the event of a crisis scenario, if the vaccine proves ineffective, the functioning of the economy in the periodic waves of the COVID-19 pandemic is possible. The amplitude of economic “fluctuations” will be gradually smoothed out as the economy (businesses and consumers) reach a certain level of adaptation to functioning in a pandemic. The return to the pre-crisis level in this case will be much longer and will be possible only in the medium term. The development of the crisis scenario highlights the problems of public finances, which cannot be solved within the framework



of the current government strategy and, first of all, will threaten the stability of the banking system of the Slovak Republic.

Already in the conditions of the epidemic, Slovak critical infrastructure facilities (energy, communications, transport, industry, emergency response units, dispatching services) have introduced a shift, contactless working method between working groups, established a system of continuous testing and detection of COVID-19 carriers, introduced permanent anti-epidemiological measures to disinfect people and premises. At present, this allows to ensure the continuity of energy supply, industrial production and supply of basic consumer goods, which is a necessary condition for stabilizing the economy.

The Slovak government expects to provide a significant financial stimulus to the economy in the next few years through the use of EU assistance funds that the Slovak Republic can receive under the new EU budget for 2021-2027 and the “EU Economy Recovery Plan”. Despite the fact that, according to the estimates of these two documents, in the medium term, Slovakia can use up to EUR 18.6 billion of additional aid, up to EUR 7.5 billion of grant aid and up to EUR 6.8 billion of highly profitable long-term loans, the current government has intention to use only grant funds.

The risks of implementing the basic government scenario of economic and epidemiological situation in the Slovak Republic are the highest in the short term and are primarily due to the need to implement strict measures to limit business activity and stringently perplex the epidemiological situation in the country due to the lack or ineffectiveness of COVID-19 vaccines.

The assets of the EU assistance funds, first of all, the resource of grant assistance in the amount of up to EUR 7.5 billion are considered to be one of the main means of balancing the public finances of the Slovak Republic. The gradual return of the Slovak economy to its normal state is expected no earlier than the second half of 2021; according to the results of 2023, the pre-crisis level (2019) is unlikely to be reached.

## **Slovenian politics outlook for 2021**

**Helena Motoh**

***Summary:** After a turbulent year of the change of government and Covid-19 epidemic, the political situation in Slovenia is still very unstable. Prime Minister Janez Janša's government, which became a minority government after DeSUS party withdrew from the coalition, is struggling to keep its political power, while the opposition coalition is only slowly progressing towards their goal of passing a successful vote of no confidence against Prime Minister Janša. Several different scenarios can follow, while the outlook for Slovenian politics in 2021 will also greatly depend on the situation with the Covid-19 epidemic and the related consequences for economy and society.*

### **Background: developments in 2020**

The political developments in the previous year were very turbulent, mostly due to two factors: the change in government in the beginning of the year and the Covid-19 epidemic, which started almost exactly the same time. The government change was a result of the crisis in the minority government of Prime Minister Marjan Šarec, where disagreements about the changes of the medical insurance system brought the resignation of the Minister of Finance and subsequently also the Prime Minister Šarec in the last week of January. Despite initial prospects of snap election, new prime minister, Janez Janša, was confirmed by the same parliament in March and he formed a government coalition with New Slovenia (NSi), Modern Centre Party (SMC) and Democratic Pensioners' Party (DeSUS). The government was sworn in just a day after the epidemic was declared in Slovenia, on March 13. The new government had to immediately focus on

the epidemic, but their response was in many aspects subpar and lacking coordinated strategy, which caused a lot of public criticism. Especially the way government anti-Covid measures were communicated to public was seen as overly authoritative and at times confusing, with changes in current measure being insufficiently communicated to public, causing a lot of misunderstandings and difficulties especially for businesses and public institutions. Despite the initial issues, the first wave of the epidemic was then successfully curbed, while the government was slow to prepare for the expected autumn wave. Late reaction to the growing number of cases in the neighbouring countries (especially) Croatia during the holidays season contributed to the early rise in cases in September, leading to the rapid onset of the second epidemic wave in autumn. The long lockdown, lasting since October 2020 is one of the main topics of criticism against the government in the beginning of the new year. On top of that, a series of corruption scandals related to the purchases of medical equipment also tainted the public image of the government representatives. Firstly, suspicion of a few companies having untransparent advantages in the purchases of personal protective equipment and ventilators for mechanical breathing arose after a whistle-blower from the Agency for Commodity Reserves leaked information of the Minister of Economic Development Počivalšek and other high level government representatives intervening in the purchases. Second large-scale scandal followed in autumn, when an ill-reputed group of businessmen, connected to the leading government party and previously involved in alleged cryptocurrency scams won the tender for the purchase of rapid antigen Covid-19 tests. When in large-scale use, tests started proving their low efficiency and causing an anomaly in the normal functioning of the testing system with a large number of false positive and inconclusive results. The failure to address this issue also cause serious doubts in media and the general public about the credibility of official Covid19-statistics, which are used as a basis for the tightening or loosening of the lockdown measures. Despite the low public support of the government, the opposition parties, on the other hand, still find it difficult to secure a parliament majority for the vote of no confidence against Prime Minister Janez Janša's government. After DeSUS party left the government

in December, the position of its Members of parliament is still unclear, and the same applies for the members of the parliament of the Modern Centre party, which is still part of the coalition, but the individual support for Janez Janša's government is difficult to assess.

### **Possible political scenarios in 2021**

The situation in relation to the current government of Prime Minister Janez Janša started changing after the change in the leadership of one of the coalition parties, The Democratic Pensioners' Party (DeSUS). After its previous president, Aleksandra Pivec stepped down after being involved in an alleged corruption scandal, the elections in late November brought back the previous president, Karel Erjavec. Erjavec made it clear from his campaign onwards that one of the goals of his presidency will be for DeSUS to leave the Janša coalition and the leadership of the party made this decision in mid-December. The withdrawal of DeSUS effectively made Janša's government a minority government, but effectively still a majority one due to the support of extra-governmental extreme right Slovenian National Party. The individual votes of DeSUS Members of the parliament, however, were not univocal. One of five members of the DeSUS parliamentary group Robert Polnar, continued to support the government, but was soon excluded from the party for his insults to the party representatives. A vote of no confidence was filed by Erjavec with the support of 42 members of the parliament. The 42 consisted of the members of the parliament from three other parties that form the KUL (Constitutional Arch Coalition) – The Left, Alenka Bratušek Party and Marjan Šarec List – but with the support of only 3 out of 4 remaining DeSUS Members of the Parliament (Polnar excluded). With the 2 members of the parliament being the Italian and Hungarian minority representatives, Janez Janša's government could in principle rely on 48 votes. However, not only are DeSUS members split along this issue, but several members of the parliament from the Modern Centre Party also were rather vocal in criticism of Prime Minister Janša's policies and the domination of his Slovenian Democrats in the government coalition, which makes the

government majority also very unstable. Erjavec filed the vote of no confidence in January with the vote scheduled for January 20. Due to several covid-19 infections among the members of the parliament and the absence of any valid method on online or remote voting, Erjavec was forced to withdraw the motion. The new motion is now filed, and the vote scheduled for mid-February.

With the unstable and divided political situation, several scenarios of development are equally possible. If the vote fails, Prime Minister Janez Janša's government would most probably still have to consolidate the government majority by a restructuring of the government. With the leaving of DeSUS, the empty ministerial positions could be used to secure the support of Modern Centre Party and reward the loyalty of the New Slovenia, a solid supporter of Janez Janša's recent policies. An attempt might also be made to again try to form some sort of partnership with the opposition, an indicator of which could be identified in the recent meetings of parliamentary political parties organized by President of Slovenia, Borut Pahor, a firm, although implicit supporter of the current government. On the other hand, the current increased pressure applied by the government and its Communication Bureau on the representatives of the government (e. g. preventing them from speaking in public without explicit permission), might result in a growing dissatisfaction of the members of the parliament from Modern Centre Party and New Slovenia, resulting in some of them leaving the coalition parties parliamentary groups, effectively resulting in a government without parliamentary majority. In any case the opposition will probably continue the current campaign of votes of no confidence against individual ministers of the government. The failed vote of no confidence, on the other hand, might also lead to the restructuring of the opposition agenda in two possible directions. Another potential candidate for the Prime Minister could be sought, perhaps one that would have an easier task of attracting potential votes from the current government coalition members of the parliament.

## **Conclusion**

After a very turbulent political year and the still ongoing Covid-19 related crisis, the political situation in Slovenia is extremely unstable. The growing public dissatisfaction with the current government and the political crisis of the virtually split parliament where the opposition and the coalition have an almost equal share of votes, make the outlook of Slovenian politics in the coming year extremely unpredictable. The developments will greatly depend on the results coming vote of no confidence filed by DeSUS president Karel Erjavec. Apart from the two obvious outcomes – attempted consolidation of government power by Prime Minister Janez Janša or the opposition taking over the government, other outcomes are also possible – a progressively unstable minority government, attempts of a repeated vote of no confidence with another candidate etc.

## **Part II Economic Development Outlook**

## **Economic prospects for Albania in 2021: trying to stay afloat**

**Marsela Musabelliu**

***Summary:** In the year we left behind, besides the tragic loss of lives due to the pandemic, the next worse ramification of the later was the recession. As many countries around the world, Albania is entering the New Year with a negative balance sheet for the national economy. What is mostly concerning, is the fact that due to the uncertainty of the situation and the unknown timing for vaccines arrivals and dispatch, it is almost impossible to predict when the Albanian economy is going back to normal. However, with the data at our disposal and with the most reliable national and international projections, there are some preliminary estimations that can be presented.*

### **Official state budget for 2021 – national estimations**

In Albania, the 2021 budget has received special attention as a result of the difficult economic moment that the country is going through: it is not only the Covid-19 that is considered a hindrance of economic development, but also the earthquake of 2019 that is still on the national economic forecasts for the reconstruction process. The government displayed for the public an ambitious budget that foresees a sharp recovery of the national economy, however experts are skeptical and downplay this governmental optimism that resembles more to ‘normal’ time estimations and not after/crisis estimations. President Ilir Meta became part of this debate, who returned the draft budget for 2021 to the Parliament for reconsideration, with the main reason that it does not take into account the



consequences of the pandemic, while the ruling majority rejected the decree, considering it a baseless argument.<sup>1</sup>

Firstly, it is a budget which seems to be unrealistic, it has inflated revenues, inflated expenses, especially inflated investments. For example, in 2021 the government has predicted the best level of tax revenue collection in the history of transition, which does not happen in a normal period and let alone in a period of crisis. Revenues are projected to grow by 10% compared to 2020, with a share of 18.3% in GDP, maintaining an average of recent years. Experts say that this crisis is exacerbating economic indicators. While the government thinks that, through fiscal initiatives which reduce some obligations for small business that makes up about 90% of the total business, it will release in consumption approximately 50 million dollars. Government optimism is also based on maintaining the level of investment, reducing informality or postponing the payment of \$ 45 million for public-private partnership contracts for the future, which is about one third of the government's annual obligation for these contracts. Some experts express concern also on another stream: some elements in the budget are related to the upcoming general elections of April 25<sup>th</sup>. Official sources of the government deny critical rumors that the optimistic budget is linked to electoral goals, and say policies of tax cuts or pay rises, are a continuation of previous policies (setting aside 40% salary increase for health personnel or doubling economic assistance).

And yet, Albanian experts are critical, the ambitious budget project of the government for the recovery of the economy and its Gross Domestic Product (GDP) growth by 5.5% is seen with more skepticism and most of them predict a recovery at best after 3 or 4 years.

### **Bank of Albania (BoA) forecasts**

As the official government forecasts, BoA appears optimistic for 2021 too. According to the Governor of BoA, the new information obtained in the analysis is very close to their expectations. Recent news on vaccine

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<sup>1</sup> BalkanWeb. Përplasjet për buxhetin 2021. Retrieved from: <https://www.balkanweb.com/perplasjet-per-buxhetin-2021-ekspertet-flasin-per-voa-pa-skenar-alternativ-dhe-jorealist-qeveria-rimekemb-ekonomine/>

progress gives hope for the end of the pandemic and the return of the situation to normal during 2021. These developments increase the likelihood of gradual but continuous recovery of economic activity in the medium term, but the epidemiological situation continues to pose serious challenges to progress of the economy in the short run. The Governor also notes that the current combination of economic policies remains appropriate. Maintaining the stimulating monetary policy stance is necessary to encourage low-cost lending to the economy. At the same time, the gradual reduction of the fiscal stimulus - foreseen in the 2021 Budget and the draft medium-term budgets - balances the need to stimulate aggregate demand with the strengthening of public debt sustainability in the medium and long term - continues the BoA. <sup>1</sup>

### **International institutions forecasts**

While national economic outlooks are to 5.5-6%, international institutions via their presence in Albania such as the International Monetary Fund (IMF) and the World Bank (WB) and the European Bank for Reconstruction and Development (EBRD) give a somehow different picture for 2021. IMF expects a 4% growth and the WB expects a 5% growth and the EBRD expects a 4.5% growth. Given past experiences with projections, it is usually the EBRD that has the most accurate forecast especially in the past years (i.e. the true recession of the Albanian economy in 2020 was -8.5%, and it was only EBRD that foresaw that figure).

Assuming the pandemic is contained by yearend, in 2021 the GDP is forecasted to recover as exports, consumption, and investment begin to rebound. Further reconstruction of structures damaged by the earthquake should also boost growth, as it has in similar situations in other developing economies. Thereafter, growth will depend increasingly on private consumption, supported by the earthquake reconstruction. Private and public investment will also contribute to growth to the extent that the

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<sup>1</sup> Bank of Albania. Retrieved from:

[https://www.bankofalbania.org/Shtypi/Njoftimet\\_per\\_shtyp/Fjala\\_e\\_Guvernatorit\\_Sejko\\_ne\\_konferencen\\_per\\_shtyp\\_per\\_vendimmarjen\\_e\\_politikes\\_monetare\\_16\\_dh\\_jetor\\_2020.html](https://www.bankofalbania.org/Shtypi/Njoftimet_per_shtyp/Fjala_e_Guvernatorit_Sejko_ne_konferencen_per_shtyp_per_vendimmarjen_e_politikes_monetare_16_dh_jetor_2020.html)

government continues reforms to improve the business environment and invests in infrastructure. Services, led by tourism, and construction are expected to be the main growth drivers by sector.<sup>1</sup>

Key economic indicators for Albania

ALBANIA	2017	2018	2019	2020e	2021f	2022f
Real GDP growth (percent)	3.8	4.1	2.2	-8.4	5.0	3.9
Composition (percentage points):						
Consumption	3.7	3.9	2.6	-5.2	2.8	4.4
Investment	-0.2	1.0	-1.1	0.2	1.2	0.8
Net exports	0.3	-0.8	0.7	-3.4	1.0	-1.3
Exports	4.0	1.0	2.0	-12.6	6.6	1.7
Imports (-)	3.7	1.8	1.3	-9.2	5.6	2.9
Consumer price inflation (percent, period average)	2.0	2.1	1.4	2.0	2.5	2.8
Public revenues (percent of GDP)	27.7	27.6	27.4	26.6	27.0	27.6
Public expenditures (percent of GDP)	29.8	29.4	29.3	35.1	32.6	30.9

Source: Word Bank, Albanian office.<sup>2</sup>

Recessions in EU countries, which are Albania’s main trading partners and FDI and remittances sources, supply chain disruptions, travel limitations and social distancing measures were taking a heavy toll on key economic sectors, including tourism and manufacturing. The crisis increased poverty through higher unemployment. The normalization of the global economy will have a significant impact on the shape of the recovery of the Albanian economy.

Rating agency Moody’s has warned over the relatively low degree of diversification, as well as weaknesses in the area of rule of law and control of corruption. In 2021, salaries for doctors, nurses and laboratory

<sup>1</sup> Ibid.

<sup>2</sup> World Bank Group. *Western Balkans Regular Economic Report No. 18*. Retrieved from: <https://openknowledge.worldbank.org/bitstream/handle/10986/34644/153774.pdf>

technicians for primary and secondary public health services will be raised by 40% and for teachers in the pre-university system by 15%.<sup>1</sup>

### **Sectorial prospects**

For Albania, the recovery is expected to begin by early spring, although uncertainties are looming, especially for January and February 2021. Most sectors had started to recover in the second half of 2020 and are expected to continue with a positive trend. Almost all export groups forecast to have activities with growth in 2021; these figures are supposed to be stronger for the automotive industry (due to the opening of new factories), agricultural products and metal building materials, reflecting the highest demand in regional markets. The oil industry expects the same levels as in 2020, while the most problematic sector remains that of textiles and footwear, which is expected to suffer the decline in orders from foreign partners, mainly from the Italian buyers. It appears that this situation is pushing the largest group of exports into thinking of diversifying into markets other than Italy (hoping for the German market), or thinking about changing the production model and at least try to become more efficient.

Agriculture, construction and real estate are projected to have a positive year again. The processing industry is optimistic for the most part, especially beverage and food producers, wood processing, construction support sector. Less optimistic are paper processing, recycling, non-ferrous metals. Dependent on the pandemic ongoing, retail trade is the most unpredictable sector, as operators claim that consumption is currently focused on essential basket products (mainly food and beverage) and that of basic services.

For 2021 however, the biggest hope remains the recovery of tourism; this is the area that until 2019 was booming and then was hit hard by the pandemic. Albania continues to be the preference of many foreigners and tour operators claim that pre-bookings are at the same levels as in 2019.

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<sup>1</sup> BNE – ItelliNews, (2021, January 5<sup>th</sup>). Retrieved from: <https://www.intellinews.com/outlook-2021-albania-199302/>

But everything will depend on the spread of Covid-19 in the first half of 2021, and by vaccination process.<sup>1</sup>

According to a recent survey among Albanian businesses 40% of Albanian firms predict debt reduction in the first half of 2021, 58% of firms in Albania state that they delayed payments to their suppliers. The lack of digitalization of Albanian businesses has made 77% of the subjects have real difficulties to carry out the work activity remotely or online. Although there is still no official figure, according to business associations due to the pandemic in the country are closed about 40,000 entities, mainly small and medium.

### **Conclusions**

The economic severity of the pandemic's impact on Albania will be dragged into 2021 with more unknown variables. If the Covid-19 crisis prolongs, providing further wage or otherwise subsidies will be challenging to materialize, given the limited fiscal space. What is expected besides the strict economic predictions is also the bitter side of the elections cycle happening in April 25<sup>th</sup> which will coincide with three months on injecting liquidity in the market by not only the election process but also financial showcases of money-for-votes streams. And after the elections all sectors, all communities and all individuals will be left to their own devices, as it has happened in the past.

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<sup>1</sup> MonitorAL. Editroial. (2021, January 7). Shpresa per nje vit me te mire. Retrieved from <https://www.monitor.al/numri-i-ri/>

## **BiH and its economic development outlook for 2021**

**Zvonimir Stopić**

*Summary: Bosnia and Herzegovina is heading for yet another insecure and challenging year (2021), in which it will have to find further ways and means to start recovering from the economic crisis caused by the coronavirus COVID-19 pandemic. After being seriously hit by the pandemic crisis, the measures taken by the authorities aimed at softening the impact of the pandemic are in the meantime being assessed by many as not effective as they were expected to be. In this briefing we will take an outlook on the possible economic developments in Bosnia and Herzegovina for the year 2021.*

### **General economic and significant sectors overview**

The International Monetary Fund (IMF) for the year 2021 projected the Real GDP (% change) at -6.5 and had projected the Consumer Prices (% Change) at -0.8. Inflation in Bosnia and Herzegovina has been negative in year-on-year terms since April 2020, as a consequence of a decline in transport, clothes and footwear prices, and the entity governments' decisions to restrict margins on certain products during the emergency situation. As a response to the corona crisis, the governments have adopted a set of measures aimed to mitigate the impact of the crisis on individuals and firms. Risks to the projection are weighted on the downside, related to the potential resurgence of the epidemic, a possibly slower-than expected recovery in the main export markets in the Eurozone, and uncertainty about progress in terms of implementation of the country's structural reform agenda. The economy sectors which took the hardest blow in 2020 were retail, manufacturing, transportation and accommodation. The

unemployment rate in Bosnia and Herzegovina, among the highest in Europe even before the crisis, has moved up sharply due to the corona crisis and is unlikely to start falling quickly in 2021 without reforms.

Projection of investments, which were to contract by 13.3 % in 2020, for the 2021 are set to be increased by 9.6 %, and then further expanded by 12.9 % in 2022. Meanwhile, half of the foreign investors in the country have either cancelled or delayed investment plans for Bosnia and Herzegovina due to the corona crisis. According to data provided by the Foreign investment promotion agency of Bosnia and Herzegovina (FIPA), 40 % of investors have delayed plans for investments, while 10 % already completely cancelled them. Still, several projects are expected to progress in 2021. In the energy sector, in November 2020, Bosnia and Herzegovina and Serbia signed a joint statement on the launch of construction of three joint hydropower plants (HPP) on the Drina River. The deadline for construction of all the three plans — Buk Bijela HPP, Foča HPP and Paunci HPP — is six years, with the projected investment that will reach € 200 million. The three HPPs will have a total capacity of 180 MW. Republika Srpska has set up a special company to build the Buk Bijela HPP and two other hydropower plants, while another company was set up to carry out the project. Serbia holds a 51 % stake in the company, HES Gornja Drina, while Republika Srpska owns the remainder. Turkish company Cengiz Insaat Sanayi ve Ticaret is expected to build a stretch of pan-European Corridor Vc that is estimated to cost around € 208 million. The Turkish company will build the 5.5 km stretch from Poprikuša to Nemile within 42 months. Bosnia and Herzegovinan car upholstery manufacturer Boxmark Leather, a unit of Austria's Boxmark Holding, launched the construction of a new production facility in the northeastern town of Lukavac in November 2020.

As the corona crisis severely negatively influenced the airline industry around the world, Sarajevo airport terminated its contact with Fly Bosnia and Herzegovina, set up in 2017, due to unpaid debts in November. However, the airline's owner, the Al Shiddi Group has since announced that it has leased three jets and will restart flights. Bosnia and Herzegovina

and Herzegovina's two stock exchanges, the Sarajevo Stock Exchange (SASE) and the Banja Luka Stock Exchange (BLSE), will continue have tiny trading volumes in comparison to EU countries, with rare major events such as the initial public offerings, etc.

### **Budget and debt outlook**

The budget for Bosnia and Herzegovina has not been prepared yet. This is not a surprise as the Bosnia and Herzegovinian authorities are notorious for their huge delays in drafting budgets. The budget for 2020 was adopted at the end of July 2020. Meanwhile, the two entities have already drafted their budget frameworks for 2021. In the Federation of Bosnia and Herzegovina, the government adopted a budget framework setting the revenue at 8 billion BAM (little over € 4 billion), with the of 5.06 billion BAM (around € 2.6 billion). Republika Srpska adopted its budget plan for 2021 in mid-December, setting the spending at 3.795 billion BAM (little less than € 2 billion). Bosnia and Herzegovina's state-level government analyzed the sustainability of the country's public debt, which stood at 31.4 % of GDP in 2019, rose in 2020, and is expected to further rise 2021. Decline of the public debt is expected in the following two years. However, the fiscal council has not provided further details.

A new International Monetary Fund (IMF) deal is expected to be concluded in 2021, but so far politicians have failed to agree on the letter of intent needed to initiate the procedure for the loan deal. Bosnia and Herzegovina's state-level government has not yet adopted the budget for 2021.

### **Macroeconomic outlook**

In the year 2020, due to the coronavirus (COVID-19) pandemic, Bosnia and Herzegovina faced its worst recession in 25 years. However, there are some indications that it could bounce back in 2021. The country will rely on domestic demand to start exiting the recession in 2021. The



World Bank has projected that the country's economy will contract by 4% in 2020, but should return to 2.8 % growth in 2021, supported by sectors oriented to the domestic market. The European Bank for Reconstruction and Development (EBRD) expects that Bosnia and Herzegovina's economy will contract by 5% in 2020 and then expand by 3% in 2021. The IMF was significantly more pessimistic in its economic forecast for Bosnia and Herzegovina, setting the contraction at 6.5 % in 2020 due to the corona crisis. Although the economic growth in 2021 should be robust at 5 %, it will not fully compensate for the decline in 2020. In 2022, GDP should expand by 3.5 %, according to the IMF.

Bosnia and Herzegovina's central bank had a moderately pessimistic projection that the economy will contract by 4.6 % in 2020 and grow by 2.7 % in 2021. In 2022, it should speed up growth to 3 %. The central bank noted that the slow recovery will occur due to the severity of the second wave of the coronavirus and due to the lower than expected effect of the state aid. Private consumption is expected to contract by 5.3 % in 2020 and rise by 2.7 % and 2.2 % in 2021 and 2022 respectively. Government spending is seen rising by 4 % in 2020. The growth should slow down to 2.8 % in 2021 and to 0.7 % in 2022. Consumer prices turned to a decline in 2020, partly due to the low oil prices, and are expected to decrease by 0.8% by the end of the year, reversing the 0.7 % annual inflation in 2019. Consumer prices should turn to 0.4 % growth in 2021. Bosnia and Herzegovina's current account gap is predicted to expand to 4.4 % of GDP in 2020 from 3.6 % in 2019. It is expected to expand further to 6.1 % of GDP in 2021. Despite the corona crisis, Bosnia and Herzegovina's financial sector remains stable, although banks' net profit has declined.

## **Conclusions**

Following a sharp contraction this year, the economy is seen rebounding in 2021, as domestic demand revives and as the gradual easing of Covid-19 restrictions globally supports the external sector. That said, further waves of the virus and the subsequent renewal of lockdown

measures cloud the outlook. The worst hit sectors of the economy in 2020 were retail, manufacturing, transportation and accommodation. Significant budget input is awaited with the new International Monetary Fund (IMF) deal expected in 2021, but so far politicians have failed to agree on the letter of intent needed to initiate the procedure for the loan deal and state-level government has not yet adopted the budget for 2021. Public debt that stood at 31.4 % of GDP in 2019 was rising in 2020, and is expected to further rise 2021, only to start falling in the following two years.

# **Bulgarian economic outlook for 2021**

**Evgeniy Kandilarov**

In 2020, the world economy entered one of the most difficult economic situations since the last 74 years. It was unprecedented in its geographic scope and the scale of government and central bank responses. Although COVID-19 will continue to be a key factor in 2021, the rapid vaccination process hopefully will gradually help the transition to a post-pandemic economy. That is why the world is looking towards 2021 with caution, but also with hope.

Obstacles to the growth of the global economy, including the Bulgarian economy, in the short term, include the same lockdowns in early 2021, over-prudence of business and consumers, declining fiscal support and the burden of rising public and private debt. However, the opening of economies and the emerge of vaccines will gradually unleash a new wave of travel and service costs.

The coronavirus (COVID-19) pandemic has significantly affected the Bulgarian economy, which is seen going into recession in 2020. According to international financial institutions, the economy could contract by more than 4% in 2020.

However, the economy is expected to rebound in 2021, posting robust growth. According to the International Monetary Fund (IMF), the economy will expand by 4.1% in 2021 before slowing to 2.5% in 2022.

The World Bank is slightly more pessimistic. It revised its expectations for the pace of recovery of the Bulgarian economy in 2021. The number fell to 3.3%, which is in line with the forecasts of other local and international financial institutions. Expectations are deteriorating over the summer in almost all Central and Eastern European countries due to the second, stronger wave of coronavirus since the autumn of 2020, which

again led to restrictions on economic activity. The World Bank is expecting acceleration of the pace of recovery in 2022, and according to the institution in Bulgaria the growth should reach 3.7%.

Together with the revaluation of GDP growth for this year the expected economic downturn has been revised as well from -6.2% in June to -5.1% at the end of the year. The experts point out that the improvement was due to the weaker-than-expected negative economic effect of the crisis in Bulgaria and Europe.

***Annual change in GDP in%***

	<b>Bulgaria</b>		<b>Eurozone</b>	
	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>
Ministry of Finance	-3	2.5	-	-
World Bank	-5.1	3.3	-	-
Raiffeisen Bank International (RBI)	-3.9	3.3	-	-
International Monetary Fund	-4.0	4.1	-8.3	5.2
ING Think	-4.5	3.4	-7.3	3.5
Wiiw	-5.1	1.7	-8.5	5.8
European Commission	-5.1	2.6	-8.7	6.1
Unicredit Bulbank	-6	3	-8	5
Bulgarian National Bank	-5.5	4	-	-

According to the categorization of the World Bank, Bulgaria enters into a common region with Central and Eastern Europe, Western Balkans, Armenia, Georgia, Azerbaijan, Central Asia, Russia, Turkey. According to the World Bank forecast, the regional economy will grow by 3.3% in 2021

- the rate is down by 0.4 percentage points compared to June due to the reactivation of COVID-19 and the interruptions caused to the business. Nevertheless as it was mentioned already the forecasts for the Bulgarian economy are that it will shrink by 4.3 percent in 2020, which ranks the country among the better performing half of European countries. Most economic analyzes show that 2021 can be a good year for the economies of the countries in the region, including Bulgaria. Of key importance, of course, will be the pace at which these countries vaccinate their populations.

Regarding Bulgaria, the OECD predicts that its economy will decrease by 4.12% in 2020, which will put the country behind Canada, Slovenia and Estonia. Over the next two years, the GDP expects to recover by 3.31% and 3.71%, or at a faster pace than that of Sweden, Australia, the Netherlands and the United States.

At the same time the calculations of the ING Think are that in 2021 and beyond, the Bulgarian economy will return to its previous levels of growth with an expansion of 3.3% for this year and 3.9% for next year. The main drivers of growth will be construction and investment, supported by European projects. ING expects deflation for the first time in 4 years for the end of 2020 and the beginning of 2021, against the background of low oil prices and slowing consumption. In the second quarter of 2021, inflation will begin to rise in the range of 1.5-2% and up to 3% in 2022. The parliamentary elections, which are likely to be scheduled for March, are key to widening the budget deficit from 0.2% in November to 3% in December. For 2021, the government has proposed and parliament approved a deficit of 3.9 percent of GDP. Again the ING experts recall that this includes a minimum 5% increase in pensions and at least a 10% increase in public sector wages, as assessed by the bank as a conservative forecast for growth of 2.5 percent and a lower budget deficit of 3 percent.

The European Commission (EC) has the most pessimistic forecast that Bulgaria's economy will contract by 5.1% in 2020 and only partially recover in 2021, expanding by 2.6%. It will fully recover in 2022 when GDP should grow by 3.7%, the EC says.

<b>Indicators</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP growth (% , yoy)	3,7	-5,1	2,6	3,7
Inflation (% , yoy)	2,5	1,2	1,4	1,8
Unemployment (%)	4,2	5,8	5,6	5,0
Public budget balance (% of GDP)	1,9	-3,0	-3,0	-1,4
Gross public debt (% of GDP)	20,2	25,7	26,4	26,3
Current account balance (% of GDP)	5,2	3,5	4,0	4,4

*Source: European Commission*

If current trends are maintained, sometime in early 2022 Bulgaria will reach a full recovery from the crisis at least at the macroeconomic level. But some sectors may take longer - for example, international tourism is likely to recover more slowly (although vaccines will help to overcome the fear of traveling abroad faster).

However 2021 will be a year of economic recovery around the world and in particular in Bulgaria. But the recovery will not be smooth and even - for some sectors, 2021 begins with a new closure (restaurants, malls, tourism, etc.). It is therefore critical that anti-crisis measures continue, although the economy as a whole will recover. It sounds paradoxical - anti-crisis measures during recovery, but in fact it is logical in an asymmetric crisis and varying degrees of recovery of individual sectors.

In 2021, the economy is expected to benefit from a rise in external demand, which will be backed by the recovery of Bulgaria's most

important trade partners. Moreover, Bulgaria has preserved its external competitiveness despite a tightening labour market.

Meanwhile, inflation in Bulgaria should be close to 0.5% in 2020 due to the coronavirus pandemic, but is expected to speed up to 2.4% in 2021, according to the IMF.

At the same time, the expectations regarding the investments in the country are for strong investments in 2022-2023, not so much in 2021. On the one hand, in 2020 there was a serious construction of gas pipelines - this will continue in early 2021 with the gas connection with Greece, but then this investment activity will end. So there is a basic effect that is negative. On the other hand, public investment is usually delayed around elections, and private investment will also wait to see what happens. Thirdly, there are no prospects for projects funded by the European Rehabilitation Fund to start soon - although it would be useful to support recovery by launching projects quickly.

The economic recovery in 2021 will not be enough to return to pre-crisis levels within a year. There has been a gradual recovery in production since July 2020, but the return to growth is far away.

Both exports and consumption are expected to contribute positively to the expansion of Bulgaria's economy over the next two years. Unfortunately, international supply chains have not yet fully recovered. The transport sector is emerging as a major loser in the crisis. It will take several years to restore. The longer-term damage is in aviation. Recovery in this sector is expected by 2024. As for tourism - the other sector that suffered great damage due to the pandemic, the data show that the summer season in Bulgaria ended relatively well thanks to Bulgarian tourists. For the winter expectations are rather skeptical given the travel restrictions and reserves of Bulgarians to winter tourism.

With regard to unemployment, the data show that the dismissal of workers in December is certainly less than what we witnessed in March and April. The BNB data on the financial condition of Bulgarians show that the pandemic has not shaken household finances - bank deposits are

growing against the background of the crisis - by 8.5% per year. Consumer behavior is changing, in the crisis months it is concentrating on essential goods, and less important goods such as clothing and equipment remain in the background and this is a clear trend. Fear of income and jobs will determine consumer behavior this year. The government's measures are now better accepted.

At the same time, with the economic recovery in 2021, wages in Bulgaria are expected to grow again, and the growth rate will accelerate in the coming years due to catching up, as well as due to demographic factors and labor shortages. The wages of everyone involved in the coronavirus pandemic response, including in the state administration, will be hiked by 30% as of 2021. The minimum wage will also be increased, to BGN650 from BGN610.

Bulgaria's recovery will also be supported by significant EU funds under various programs from the EU's Multiannual Financing Frameworks for 2014-2020 and 2021-2027, as well as further EU support schemes, such as the Recovery and Resilience Facility. According to the forecasts, Bulgaria could be eligible for EU funds totaling nearly €30bn between 2021 and 2027.

## **Conclusion**

Many sectors of the Bulgarian economy have been severely affected by the restrictions and the pandemic and, despite the government's support measures, the economy will struggle to recover to the pre-crisis levels in 2021. At the same time in 2020 Bulgaria joined the Exchange Rate Mechanism (ERM2) in July and this is expected to push the country to make further reforms that would secure the stability of the financial sector.

The country plans a budget deficit of 5% in 2021, with the government projecting economic growth of 2.5%. Critics say the government didn't sufficiently take into account the coronacrisis when drawing up the budget, and revisions may be needed. Political instability and the coronacrisis have negatively affected investments in the country



with no major projects expected to be launched by private investors in 2021.

Finally a slow recovery is expected in 2021. For the first time in over four years, the end of 2020 and beginning of 2021 will probably bring negative inflation rates. Despite the expected acceleration of economic activity this year and next the outlook remains highly uncertain, however, and growth could be weaker than envisioned if the pandemic takes longer than expected to fade, external financing conditions tighten, or geopolitical tensions escalate.

## **A preview of 2021 key economic events in Croatia**

**Valentino Petrović**

***Summary:** Late November of 2020 marked another set of restrictive measures being introduced by the Government in Croatia in order to contain the coronavirus outbreak, but this time the Government decided to close bars, cafes, restaurants, gyms, sporting facilities, fairs. On 8<sup>th</sup> January, the restrictions were prolonged to last until the end of the month. In the meantime, a major earthquake struck Sisak-Moslavina county and caused further damage as well as the need to reshuffle the state's budget. The Government intervened with HRK 120 million and many neighboring countries and the European Union member states offered their help and support. With 2020 finally being behind us, the Prime Minister and the Minister of Finance have not been rewarded for Christmas; rather they are about to encounter further headaches.*

### **Introduction**

On 8<sup>th</sup> January, the Croatian Government decided to extend the restrictions that were introduced at the end of November to contain the COVID-19 outbreak and to mitigate the potential risk of having couple of thousands new coronavirus cases each day as a result of holiday gatherings. The restrictions are now mandated to last until the end of January and the public is still unsure on the criteria necessary to consider the measures relaxation. At first, many were questioning the timing of this decision due to a fact that most of other European countries have introduced restrictive measures several weeks or even a month before Croatia. Others were arguing that restrictions should not be nation-wide; rather they have to take into account regional and sector specificities. The only ban that was

eventually lifted was the one regarding free movement and traveling from one county to another, as a consequence of late December earthquake in Sisak-Moslavina county.

However, it appears that the health situation is slowly stabilizing with lower number of infections and hospitalizations. The Minister of Health, Vili Beroš, recently commented: “The pressure on the healthcare system is gradually easing. The lower numbers point to the responsibility of Croatian citizens as well as to the full logic of our measures”. Nevertheless, he warned not to relax given the possibility of the third wave of the pandemic. Still, Croatian people will hardly relax due to a recent earthquake and constant ground-shakings. Many have lost their homes and public property has been demolished, giving additional headaches to the Prime Minister and Minister of Finance on how to stabilize the county’s economy when the damage caused by both major earthquakes, Zagreb and Sisak-Moslavina county, is by each day more and more financially demanding.

### **A Look at Economic Indicators**

We shall begin this outlook by providing several interesting facts about Croatian economy in 2020 that were published only a few days ago by National Bureau of Statistics and were referenced in Croatia Week portal. According to the data “Croatia exported HRK 101.6 billion worth of commodities in the first eleven months of 2020, a decrease of 2.3% compared with the same period of 2019, while imports fell by 9.2% to HRK 156.2 billion (...) In January-November 2020, compared with the same period of 2019, the foreign trade deficit was reduced by 19.7% to HRK 54.6 billion”. It is also worth noting that Croatian export to European countries also decreased if we differentiate between the European Union partners and non-EU countries. Thus, exports to EU member states dropped by only 0.2% to HRK 70.95 billion, while export to non-EU countries was estimated to drop by 6.8 billion to HRK 30.65 billion. The EU import also fell by 8.9%, but overall, it holds at HRK 125.67 billion. The problem of high import dependency was also highlighted by the Minister of Finance,

Zdravko Marić, who said that regardless of current economic trends and circumstances some major shifts have to be made in order to change the structure of the country's economy. Nonetheless, Marić said that 10% decline of GDP in third quarter of 2020, as it was reported by National Bureau of Statistics, is expected, however, domestic consumption fell somewhat more than it was projected.

However, Croatian agricultural sector seems to have benefited during the COVID-19 crisis, according to consulting firm Smarter. The firm reports that "Croatia ended the year with an increase in the value of agricultural production, with excellent results of crop production and record-high disbursements of various forms of aid to farmers while reducing the foreign trade deficit". Furthermore, the data from National Bureau of Statistics confirms positive trends in Croatian agriculture with "agricultural production in 2020 increased by 4.7% from the previous year, or from HRK 17.9 billion to 18.8 billion, while net value added and productivity rose by nearly 10%.", as referenced in Croatia Week portal. Arguably, the agricultural sector still has more than enough room for improvement, yet it is necessary to adapt all the sector's resources to nurture further economic growth. For example, the Smarter's report underlines that the level of self-efficiency stands at 70%, while there is export potential in several agricultural sectors that has not been exploited.

### **The Position of Private Sector**

Perhaps the most vocal opponent of the Government at this stage is private sector. Understandably, the entrepreneurs were shocked when the Government announced that Christmas benefits and salary raises for public sector are unquestionable, while at the same time many entrepreneurs have already lost their jobs, have restricted working conditions, or they are facing with minimum net wages for themselves as well as their employees. Thus, the often-debated reform of public sector gets even more heat considering the fact that many offices have successfully transformed their businesses during the COVID-19 crisis towards the long-awaited online

model of providing services. Yet, the people in Croatia should not hold their breath and hope that such model can be long-term. Unfortunately, various studies have concluded that citizens have widespread perception of corruption and nepotism in public sector, therefore, it is easier and more convenient to preserve “face to face” system, rather than online model, to keep on with such praxis in public administration, especially on local and regional level. Figuratively speaking, we have to avoid the simplicity of manichaeian understanding that public sector is either productive or not. In order to tackle such reform in upcoming years, one has to understand that there is a lot of grey area that needs to be taken into account which makes the reform impossible to deal with overnight.

Probably we will not have to wait for a long time to see the effect of the latest aid package that the Government introduced at the end of November to support private sector. Prime Minister Andrej Plenković once again summarized that his Government managed to keep 630.000 jobs and helped more than 100.000 companies during the “first halftime” of the coronavirus battle. When referring to the upcoming period, he said that the Government will continue with the measure of monthly allowance in amount to HRK 4.000 per worker during the lockdown and exemption from payment contributions which would overall estimate around HRK 470 million. The second measure will continue to help businesses with their fixed costs such as the costs of rent, utilities, accounting and bookkeeping services etc. in case if their turnover in December shows a decline of at least 60% compared to last 2019 December. This will cost around HRK 250 million. Lastly, the Prime Minister announced a new package of COVID loans that will estimate HRK 1.3 billion and is targeted directly to help small and medium enterprises. With these measures, the Prime Minister emphasized, the goal is to help primarily those who are affected the most by the restrictive measures.

### **Instead of Conclusion: The Need for EU Money**

Since it was obvious that economic crisis is at our doorstep, everyone including the members of the Government, put their faith in money coming from EU funds. Many economic analysts commented that without this money Croatia would not be able to endure the crisis and that EU membership is finally proving its worth. From the EU Resilience and Recovery Facility, a cornerstone of €750 billion worth EU Next Generation fund, and instrument created to help member states in recovering from economic and social damage, Croatia expects around €9.6 billion, while from the EU Solidarity Fund Croatia already got €88.9 million in August aimed at post-earthquake reconstruction of Zagreb and surrounding areas. The overall amount of help estimates €683.7 million. However, regardless all the help Croatia can get, the core problem can only be solved within Croatian borders with much-needed reforms and further institutional development.

# Prospects of the Czech national economy in 2021

Ladislav Zemánek

*Summary: Prospects of the Czech economy are ambivalent this year. On one hand, overcoming of the 2020 recession and a rise of the GDP is broadly expected, on the other hand, however, a wide array of negative features from the past will likely to remain unresolved and preserved, and the transformation of the hegemonic paradigm and attitudes towards both the society in general and the economy in particular as a consequence of the novel coronavirus crisis will affect the performance of the economy and economic processes in a negative way.*

## **The political class and the market economy**

The unexpected situation and extraordinary state of affairs have had an impact on the position of the elites in numerous liberal democratic states. Recently, the liberal democratic elites have been shattered by several grave problems which are to be addressed. Not later than 2008, a protracted crisis of the Western liberal democratic model commenced, outlooks of this system becoming uncertain, thus disproving essentially the Fukuyama's thesis about an alleged end of history and the final global triumph of the liberal democracy.<sup>1</sup> Former growths and falls of both the Western economies and the Czech one took place on the background of the overall declining trajectory entailing stagnation and radical economic changes such as negative interest rates or quantitative easing. It is clear as day that the elites have failed to cope with the 2008 economic crisis, rising indebtedness leading to a dangerous vicious circle or the migration crisis.

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<sup>1</sup> Fukuyama, F. *The End of History and the Last Man*. New York 1992.

Moreover, they have destabilised values and traditional social and economic patterns.

In order to divert people's attention from these flaws and failures, political as well as media elites have started to disseminate fear and hysteria regarding the epidemic. In the Czech Republic, the political class paralysed the economy, subjugating it to the arbitrariness of the political decisions and, which is even more serious, of the non-elected actors' ones. It is very probable that in the months to follow, the existence of such a quasi-state, quasi-nationalised economy will not disappear and the free market will remain suspended. Some industries will be devastated and random closures and openings will inevitably impact primarily self-employed persons and domestic small and medium-sized enterprises which are naturally more vulnerable and weaker than transnational corporations. Given the competitive struggle taking place within the political class and the oncoming autumn Parliamentary election, the economic subjects will be exposed to stronger uncertainty accompanied by frequent political interventions into economic processes. Since the epidemic is far from being defeated in both Europe and the Czech Republic and owing to the dominant paradigm according to which the disease has to be eliminated through restrictions, lockdowns and state interventionism, the expansive subsidy and compensatory policies will be carried out. It will be further deepening the state debt, thus endangering the rating of our country which might result in a debt spiral. The question is whether the establishment can deal with these challenges or whether a substantial social change is about to come. It is beyond any doubts that a smaller, open and export-orientated country, heavily dependent on the external factors and economies, such as the Czech Republic can hardly thrive if its economy is inhibited by state restrictions, the market is distorted by political directives and subsidies and the public finances suffer from endless indebtedness in the long term.



## **Not obeying restrictions**

The line of reasoning presented above is not to deny or play down the serious health risk the virus poses but to point to mismanagement of the crisis in our country, the absence of a clear vision and comprehensive strategy and misuse of the grave situation for particular interests. These are frequently related to the uncertain position of the current liberal democratic elites and some industries, first and foremost the pharmaceutical industry. Given the absence of a strategy, the political leadership will likely to continue ruling haphazardly and, at the same time, will tend to increase state expenditures to maintain the social stability which exists indeed irrespective of the economic slump. The absence of such a strategy will also deepen public mistrust of the state authorities, undermining its legitimacy. Proof of such an assertion is obvious attempts to circumvent the Government's restrictions and decrees which are not typical of the state administration or public institutions but especially of the private subjects and the private sector as such. For instance, the re-introduced obligation of wearing masks or social distancing is not obeyed in many cases. It is caused not only by an increasing indifference towards the epidemic and its spreading but also by the need for keeping sources of livelihood. If the state policy does not change substantially, a grey economy will expand. It seems that a combination of limited, local, targeted restrictions, protection of the endangered groups of people and open economy might be the right path in our specific context. The fight against the coronavirus epidemic has to have many faces, differing in individual countries and regions. But a comprehensive, serious strategy is needed. At the moment, it is lacking in the Czech Republic.

The Czech economy works and will work not thanks to the state anti-crisis measures but despite them. According to the OECD December prediction, the rise of the GDP will be 1.5 per cent in 2021, the Czech National Bank expects an increase of 1.7 per cent.<sup>1</sup> While these predictions

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<sup>1</sup> See <http://www.oecd.org/economy/czech-republic-actively-support-business-and-employment-to-strengthen-covid-19-recovery.htm> and <https://www.cnb.cz/en/monetary-policy/forecast/>.

are conservative, the Ministry of Finance is much more optimistic, expecting the rise of 3.9 per cent.<sup>1</sup> The problem is that the 2021 state budget approved at the very end of December is based on this figure and notwithstanding the optimistic scenario the budget brings a deficit of 320 billion CZK (12.3 billion EUR). Not only due to the excessive optimism but also due to additional tax changes, the deficit will probably be not lower than 400 billion CZK (15.4 billion EUR), i.e. more than 7 per cent of the GDP, which is unprecedented in the post-socialist period. Positive development of the state debt related to the GDP, which was decreasing gradually in the 2010s and amounted to 29 per cent to the GDP in 2019, turned to its opposite last year. The indebtedness will be deepening and will exceed the threshold of 40 per cent.

### **Artificial hibernation of the economy**

Generally, the current crisis has preserved structural defects of the Czech economy as a whole, spontaneous economic development being suspended. Some economists – the former Czech President Václav Klaus among them – warn that a substantial part of the national economy has been put into a state of artificial hibernation as a result of subsidies, compensations, the *Kurzarbeit* system (short-time working when private employees reduce working time and salary, the reduction in salaries being compensated by the State).<sup>2</sup> These tools will be applied in the months to follow regardless of the pre-election struggle or alternation of the executive as the opposition supports these policies as well. These tools prevent a rise in the unemployment, bankruptcy of the private companies and related social consequences indeed. That is the reason why the Government has resorted to them. However, under such circumstances, the private subjects become dependent on state support, losing their autonomy. Moreover, as soon as the support is concluded, these will start going bankrupt which will

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<sup>1</sup> For greater detail see <https://www.mfcr.cz/en/statistics/macroeconomic-forecast/2020/macroeconomic-forecast-september-2020-39480>.

<sup>2</sup> Compare with an analysis published by the Václav Klaus Institute at <https://www.klaus.cz/clanky/4668> (in Czech).

have a serious impact on the banking system as banks are in a position of creditors.

The overall situation would further worsen in case the interest rates increase. The massive state subvention programmes will curb a rise in unemployment. The problem is that the Government thus contributes to the labour shortage which is a long-term phenomenon in our country. The Czech Republic has had a very low unemployment rate. At the beginning of the last year, it amounted to a mere 3.0 per cent, being the lowest in the European Union. In December, unemployment increased to 4.0 per cent. The future development heavily depends on policies the Government will adopt. If the political leadership decides to continue spending public resources on massive subsidies and compensations, the number of the unemployed will not change considerably. No matter how positive it seems to be, it will deepen the severe structural problem of the labour shortage and inefficient resource allocation.



*Table: The unemployment rate in 2020*

*Source: tradingeconomics.com, Ministry of Labour and Social Affairs*

Whereas the beginning of the last year was characterised by the high inflation rate running to 3.7 per cent, the current tendency is declining. If the decrease continues, the target defined by the Czech National Bank as to the inflation rate will be met, being set on 2 per cent. Even though the

interest rates remain positive, they are and will likely to be negative in fact in 2021. The central bankers do not exclude the possibility of a prospective increase in the interest rates but it will depend especially on the inflation development. In case of its rise, the interest rates could be increased, nevertheless, such a scenario is not probable, also taking a gradual strengthening of the Czech currency into consideration. The following months, therefore, will likely not to bring radical changes as far as the inflation, interest rates and the EUR to CZK exchange rate are concerned.

## The ‘reformists’ and Estonian economy

### E-MAP Foundation MTÜ

In 1994, when the *Estonian Reform Party* was founded by Siim Kallas, a former high-profile Estonian Communist functionary, the country had already been shown a politico-economic direction that eventually helped it to reach the level of a developed state. Due to a number of revolutionary reforms implemented by Prime Minister Mart Laar (*Pro Patria*) from October 1992 to November 1994, Estonia’s pace in the process of dismantling the post-Soviet economy overpassed many countries in the neighbourhood. The national currency – the *kroon* – was reinstated and then successfully adopted by the economy, the easy-to-understand flat tax-based fiscal system was introduced, and the Russian troops that used to be stationing on the Estonian soil since the USSR’s collapse were kindly sent back home.

Siim Kallas, however, wanted to establish a mainstream party, which would be based on centre-right liberal values, strict fiscal discipline, and perpetual reforms-oriented political mentality of constant positive change. The idea was accepted by the society in general, but the ‘reformists’ had to wait for its first premiership until January 2002, when Siim Kallas himself ‘toppled’ the second cabinet of Mart Laar to get into a governmental coalition with the nominally leftist *Centre Party*. Nineteen years later, the ‘reformists-centrists’ Government has been appointed by President Kersti Kaljulaid to run Estonia once again, and the country’s Prime Minister’s family name is still Kallas. This time it is Kaja though, the daughter of Siim.

This is, perhaps, where some *quasi*-nostalgic sentiments should be substituted by a more comprehensive look on what the new Government is planning to implement in 2021, economic reforms wise. For the

‘reformists’, it is not only about justifying the party’s name, but, presumably, the story should also be about the country’s economic strategy from a long-term perspective. Some of the main clusters, where quite a bit more strategy is urgently required, were outlined by President Kaljulaid in her speech on inauguration of this governmental coalition:

First and foremost, the people of Estonia expect the new government to focus on containing the virus and ending the crisis so that our grandmothers and grandfathers no longer die from coronavirus. [...] Our tourism sector and the related economy are in a dire state and await clear, effective solutions in order to get back on their feet once the virus curve flattens out. [...] The Estonian e-state requires investment to ensure that e-services continue to be accessible and their use secure. Estonia must protect its role as the leading shaper of the digital society; the export potential of our start-ups is limitless. [...] Estonia’s regional development is extremely uneven. [...] And, most importantly, nothing will protect the Estonian language, culture and customs more effectively than ending the segregation of children within the education system.<sup>1</sup>

Most definitely, the two major parties ‘listened’ to the President, and, in a relatively generic manner, all these urgent priorities found their places in the coalitional agreement<sup>2</sup>. The obvious (and very expected) lack of the document’s specificity can be speculatively explained by the coalitional partner’s strong desire to have some ‘space’ for a quick political *manoeuvre* closer to any kind of elections, be it the upcoming presidential, local, or parliamentary. Then, of course, there will be a situation when nobody is anybody’s ‘friend’. However, until that particular point in time, the newest

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<sup>1</sup> Kersti Kaljulaid, ‘President’s speech on inauguration of new coalition: The sun has just risen’ in *ERR*, 26 January 2021. Available from [<https://news.err.ee/1608086506/president-s-speech-on-inauguration-of-new-coalition-the-sun-has-just-risen>].

<sup>2</sup> ‘Uue valitsuse prioriteetidid: Reformierakonna ja Keskerakonna koalitsioonilepe’ in *ERR*, 24 January 2021. Available from [<https://www.err.ee/1608084442/uue-valitsuse-prioriteetidid-reformierakonna-ja-keskerakonna-koalitsioonilepe>].

Government of Estonia started working from 26 January 2021<sup>1</sup>, having a common hope to ‘survive’ until March 2023. The ministerial line-up, as argued by Prime Minister Kallas, provides for “a balance between men and women and between experience and novelty”<sup>2</sup>.

Indeed, the Government has plenty of new faces, and when *Postimees TV* had announced its new series ‘Minister in the Crossfire’ to interview the holders of the ministerial portfolios in the Kaja Kallas-led cabinet, the country’s community of political commentators immediately started looking forward to watch all of these. The information on the Government-driven prospective actions is urgently needed to be understood and then debated on, because, together with the **Prime Minister herself**, the cabinet has **other six Ministers who have no prior experience of holding any governmental portfolio**<sup>3</sup>.

In regards of the economics-focused group of Ministers, it is represented by the following politicians: Minister of Finance – Keit Pentus-Rosimannus (*Reform*), Minister of Economic Affairs and Infrastructure – Taavi Aas (*Center*), Minister of Foreign Trade and Information Technology – Andres Sutt (*Reform*), and Minister of Health and Labour – Tanel Kiik (*Center*)<sup>4</sup>. Out of them, only Minister Sutt, a highly experienced banker who entered the *Riigikogu* for the first time in March 2019, is a neophyte for the Government. Justifying her choice of Keit Pentus-Rosimannus for the key ‘Finance’ portfolio – she is the country’s former Minister of Environment (2011-2014) and Foreign Affairs (2014-2015) – Prime Minister Kallas noted that Pentus-Rosimannus was participated in the latest coalitional talks and, more than a decade ago, was involved in the

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<sup>1</sup> ‘Kallas and Ratas to sign coalition agreement on Monday’ in *ERR*, 25 January 2021. Available from [<https://news.err.ee/1608084898/kallas-and-ratas-to-sign-coalition-agreement-on-Monday>].

<sup>2</sup> Kaja Kallas as cited in ‘Kallas: We tried to put together a balanced government’, *ERR*, 24 January 2021. Available from [<https://news.err.ee/1608084472/kallas-we-tried-to-put-together-a-balanced-government>].

<sup>3</sup> Meinhard Pulk, ‘New government brings gender balance’ in *Postimees*, 25 January 2021. Available from [<https://news.postimees.ee/7163800/new-government-brings-gender-balance>].

<sup>4</sup> Pulk.

process of “fixing the 2009 (crisis – ed.) budget and getting it ready for the switch to the euro”<sup>1</sup>.

Appreciating the fact that the new Government usually need a couple of months to get accustomed to their roles and the common scope of responsibility, the country will, probably, live the same period in the absence of ground-breaking ideas on effective reforming the pandemic-affected economy. What is more or less forecasted, apart from the coalition having to stay still and monitor how many people will eventually decide to withdraw their funds from **the second pillar of Estonia’s pensions ‘basket’** (this semi-reform was extensively discussed in the briefs throughout 2020), the Government will have to say something on the **fuel excise duty by spring 2021**. The new coalition made an agreement to have a ‘tax peace’ that “would apply equally to direct and indirect taxes”<sup>2</sup>.

In the meantime, there will be some *routine*, which will keep the economic cluster of the cabinet being preoccupied with. For example, the Ministry of Finance and its new chief will carry on the process on establishing “requirements for service providers that offer investment opportunities, in crowdfunding projects or crypto assets”<sup>3</sup>, which was commenced by the previous Government. Minister Aas, acting within the framework of his ‘Economic Affairs and Infrastructure’, will be concentrating on smaller projects in the context of highway development, because “large-scale procurements is [considered] not reasonable”<sup>4</sup> at this moment. Finally, on a larger scale of both infrastructural development and political ‘headache’, the Government will have deal with a number of

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<sup>1</sup> ‘Kallas: We tried to put together a balanced government’.

<sup>2</sup> ‘New government to decide fuel excise duty future in spring’ in *ERR*, 22 January 2021. Available from [<https://news.err.ee/1608083176/new-government-to-decide-fuel-excise-duty-future-in-spring>].

<sup>3</sup> ‘The Ministry of Finance will start regulating the field of crowdfunding and crypto assets’ in *Rahandusministeerium*, 19 January 2021. Available from [<https://www.rahandusministeerium.ee/en/news/ministry-finance-will-start-regulating-field-crowdfunding-and-crypto-assets>].

<sup>4</sup> ‘Minister: Smaller projects more reasonable for highway development’ in *ERR*, 28 January 2021. Available from [<https://news.err.ee/1608088885/minister-smaller-projects-more-reasonable-for-highway-development>].



issues associated with the *Rail Baltica*'s continuation as a 'live' initiative. As reported, Estonia, together with Lithuania and Latvia, expresses its determination to secure significant EU-issued funds to push the project into a more visible being. The point is that the *Rail Baltica* "was expected to receive EUR 1.4 billion from the [EU's] long-term budget under a July deal among EU leaders, but the European Parliament is putting up a fight over earmarking funding for any specific project or group of countries"<sup>1</sup>. Politico report that when the EU "clinched the EUR 1.8 trillion budget and recovery package last July, [the entity's] leaders also agreed to earmark €1.4 billion 'for the completion of missing major cross-border railway links between cohesion countries to support the functioning of the Single Market' — understood to be a reference to *Rail Baltica*, following strong lobbying from Baltic leaders"<sup>2</sup>. However, the European Parliament is "opposing the idea of earmarking money for any specific project, despite backing the Baltic railway project itself", because, in accordance to the rules of the *Connecting Europe Facility*, "the money has to be awarded through a competitive procedure"<sup>3</sup>. Arguably, for the Rail Baltica, 2021 is a key year for making the whole initiative more tangible – after all, there is still a plan that it starts operating from 2026, saving plenty of time in passengers and goods deliveries within the region (see *Map 1* for details)<sup>4</sup>. Therefore, these procedural discrepancies and misunderstandings will need to be urgently solved to allow the process moving on.

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<sup>1</sup> Paola Tamma, 'Baltics threaten to hold up EU coronavirus recovery fund over rail project' in *Politico*, 22 January 2021. Available from [<https://www.politico.eu/article/baltics-threaten-to-hold-up-eu-coronavirus-recovery-fund-over-rail-project/>].

<sup>2</sup> Tamma.

<sup>3</sup> Tamma.

<sup>4</sup> 'Portal: Estonia may block EU COVID-19 plan over Rail Baltica funds dispute' in *ERR*, 27 January 2021. Available from [<https://news.err.ee/1608087427/portal-estonia-may-block-eu-covid-19-plan-over-rail-baltica-funds-dispute>].

**Map 1:** Travel times between potential stops on the railway



**Source:** Rail Baltic Estonia

Certainly, by the end of the year, provided that the pandemic will be gradually easing its firm grip on the economy, the Government will be able to deliver. Even the second cabinet of Jüri Ratas, being constantly shaken by multiple internal crises, managed to complete “68 per cent of the tasks set out in the government programme for the period that the [G]overnment spent in office”, as it has just been reported. Talking on the outgoing cabinet’s performance, the country’s President Kaljulaid noted that “[w]e also owe to our former governments the fact that we are able to spend quite a lot in this crisis, and even take out loans”<sup>1</sup>. As Estonians usually say, there can never be too much sarcasm.

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<sup>1</sup> Kaljulaid.

## Greek Economy Outlook for 2021

George N. Tzogopoulos

*Summary: The continuation of the pandemic makes predictions almost impossible about the course of the Greek economy. Nevertheless, the effort of the government to facilitate recovery is being intensified and will significantly be based on European funds. Greece has the opportunity to benefit not only from the standardized National Strategic Reference Framework (NSRF) but also from the EU Recovery Fund while is also receives sums from instruments such as the Unemployment Risks in an Emergency (SURE). Greece has already submitted its draft plans to the European Commission and hopes to start absorbing funds throughout the year. This essay presents the governmental priorities as well as calculations per category – as they have been presented by relevant Greek Ministries.*

On 11 January 2021, Prime Minister Kyriakos Mitsotakis visited Lisbon. As Portugal has taken over the Presidency of the Council of the EU, Mitsotakis seeks to coordinate actions with his Portuguese counterpart Antonio Costa. Both Greece and Portugal have similar priorities and share the same interests, among other things on accelerating their recovery via the EU Recovery Fund. As Mitsotakis said in the press conference, €32 billion have been earmarked for Greece and approximately the same amount has been allocated to Portugal – with a slightly different ratio between loans and grants. The two countries have already submitted their draft proposals to the European Commission. As far as Greece is concerned, the total package, including its participation in the Multiannual Financial Framework, will amount to approximately €72 billion. This is

what Mitsotakis publicly announced after the end of the July 2020 EU Summit in Brussels. The €32 billion sum to be released from the EU Recovery Fund is divided in just over €19 billion in grants and approximately €12.5 billion in loans. This sum will be disbursed on terms that are more flexible than the existing National Strategic Reference Framework (NSRF) that allows an EU member-state to receive structural funds.

The post-COVID-19 recovery of Greece will significantly be grounded in the allocation of EU funds. Greece already benefits by the temporary Support to mitigate Unemployment Risks in an Emergency (SURE) and has received €2.7 billion in loans. Looking towards the future and starting with the NSRF, which will cover the period from 2021 until 2027, public expenditures are expected to amount to €26.7 billion and European contributions to rise to €21.2 billion. Within this context, regions will be able to absorb a significant part of the funds. This differs from previous reference frameworks as the new one aims at facilitating decentralization. The proposed distribution in € amounts (public expenditures) is the following: Eastern Macedonia and Thrace: 604.933.191, Central Macedonia: 1.363.116.124, Western Macedonia: 373.042.135, Thessaly: 524.275.431, Epirus: 403.288.795, Northern Aegean: 373.042.135, Southern Aegean: 357.360.855, Crete: 534.357.651, Ionian Islands: 272.219.935, Central Greece: 403.288.795, Western Greece: 594.850.970, Attica: 2.025.044.839 and the Peloponnese: 388.165.465.

On the whole, Greece's NSRF is structured around five main objectives. The first is digital transformation and economic competitiveness (20.3 percent of funds), the second focuses on the environment, energy and civil protection (26.1 percent of funds), the third concerns with transportation and broadband networks (15.3 percent of funds), the fourth focuses on employment, education and social protection (31.9 percent of funds) and the fifth touches upon urban development (5.3 percent of funds). In meeting these objectives, Greece is placing special emphasis on agri-nutrition, renewable energy sources, logistics, and recycling. The country

is expected to receive €3.5 billion from the ongoing NSRF in 2021 and the payment in advance for the year (0.5 percent) as well as some sums to be released for new projects that cannot be currently calculated.

Since its accession to the EU in 1981, European funds have contributed to transforming Greece. While for decades the latter had faced bureaucratic difficulties in absorbing those funds, it did recently improve its performance. The Development Ministry announced in January that Greece had come sixth among the member-states in 2020. Specifically, absorption rate in 2020 reached 62 percent, with total expenditures of €11.6 billion, while the execution rate of the public investment program was 100 percent. Looking at several programs of the new NSRF, the € amounts (public expenditures) per each is the following as Secretary General of Public Investments Dimitris Skalkos has outlined in an interview: Competitiveness-Entrepreneurship-Innovation Program (4.117.370.989), Digital Transformation Program: 637.898.862, Environment, Energy, Climate Change Program: 3.769.210.516, Transport Infrastructures Program: 2.313.798.223, Human Resources, (Continuing) Education Program: 4.410.656.859, Civil Protection Program: 756.956.959, Fair Developmental Transition Fund: 1.617.716.955, Fishery and Sea Program: 468.744.879, and Technical Assistance Program: 433.944.275. Greece has already sent its draft to the European Commission as it is also the case for the EU Recovery Fund.

With reference to the EU Recovery Fund, Greece expects to receive a deposit of 4.16 billion in €2021. According to Greece's general plan, as it has been presented by Deputy Finance Minister Theodore Skylakakis, the attribution of grants will be allocated in the following sector: Green energy (€6.2 billion that accounts to 38 percent of total), digital transformation (€2.1 billion that accounts to 13 percent of total), employment and social cohesion (€4.1 billion that accounts to 25 percent of total) and private investments (€4 billion that accounts to 24 percent of total). €3 billion will also be released from other European instruments such as React-EU, the Just Transition Fund, and the European Agricultural Fund for Rural Development. The React-EU, for instance, will offer to Greece

€1.7 billion in 2021 and approximately €500 million in 2022. Loans from the EU Recovery Fund will be used, Greece's plan suggests, to strengthen additional reforms. The aim will be to reduce the output gap of the national economy, increase the possibility of new investments, and provide cheap credit opportunities to Greek companies which are experiencing an asymmetry at the Eurozone level.

On the whole, Greece hopes to accelerate energy transition by achieving connectivity among islands, installing smart energy meters, and achieving the upgrade of buildings. The country plans to implement urban reforms to better manage the usage of land as well as to carry out flood control and irrigation works through public-private partnerships. It also intends to take initiatives on reforestation and on biodiversity protection but the national plan does not include more details. As far as digitalization is concerned, Greece wants to pre-install optical fibers in buildings and facilitate the transition between households and businesses. Greek highways are expected to be equipped with 5G networks while cloud and digital services will be a priority for the public sector including the Unified Social Security Fund (EFKA), e-justice and smart cities.

In the sector of employment and social cohesion the national plan, as presented by Deputy Finance Minister Skylakakis, makes a reference to the promotion of active and passive labor market policies. A priority of the government is to realize a new pension reform that will allow higher auxiliary pensions of circa 25-30 percent. The newspaper *To VIMA* on Sunday has reported that young people to subscribe to the Greek social security fund will automatically be part of the new scheme. According to EFKA data, the pandemic led to a reduction of social security revenues worth of €1 billion that was largely covered by European funds (€900 million). The situation looks grim, however. The proportion is that for each pensioner only 1.3 employees exist.

Last but not least, private investments will deal with the battle against tax-evasion, the introduction of transparency and the strengthening of smart industry. The management of non-performing exposures and loans in the banking sector will also be linked to private investments. At the

writing, Greek banks need to deal not only with the existing problem that has been somehow managed in the previous years but also with loans that will hardly be served due to the disruption of economic activity during the pandemic. The question is whether the ongoing crisis will lead to a relaxation of supervisory rules. The Greek government and the Bank of Greece are examining not only the prolongation of the ‘Hercules’ plan but also the establishment of a bad bank. Following the first phase of the ‘Hercules’ plan, estimated amounts for non-performing exposures reach €8.9 billion for Alpha Bank, €6.1 billion for Eurobank, €3.9 billion for the National Bank of Greece and €15.7 billion for the Piraeus Bank.

### **Conclusion**

The COVID-19 pandemic has caused a dramatic recession in Greece, only one decade after the outbreak of the debt crisis. While the government is providing subsidies to people affected by the two rounds of lockdown, it also endeavors to crystallize its plan for the post-COVID-19 recovery. The EU will release funds to support member-states and Greece hopes to use them in order not only to leave the pandemic behind but also strengthen the national economy in sectors such as green energy, digitalization and social cohesion. Sums to be given by the EU recovery Funds – both grants and loans – will complement the existing NSRF. The existing opportunity creates mild optimism but also requires a careful and transparent management. Maladministration is the main reason why Greece entered the 2009-2010 debt crisis weak and unprepared.

# Hungarian economy in 2021: challenges and responses

Csaba Moldicz

*Summary: According to the World Bank, global economic growth is expected to increase by 4.0 percent in 2021, assuming widespread vaccine rollout. The global economic environment for Hungary – after the 4.3 percent GDP contraction in 2020 in the world economy – seems more favorable now. The main question is what economic steps the Hungarian government will take to accelerate the economic recovery in Hungary. This briefing first looks at the global and the European economic forecasts for 2021 and the Hungarian GDP growth outlook, then examines how these trends affect the Hungarian economy. In the analysis we use the forecasts of the OECD, IMF, the European Commission, Fitch Rating, Morgan Stanley and Hungarian research institutes. The briefing also discusses the differences between the 2008-2009 Global Financial Crisis and the Coronavirus-induced economic crisis, which helps us understand why the recovery will be different this time.*

## **1. The global environment**

The decline in world economic growth was less severe than expected over 2020 for two reasons; economic recovery in the second half of the year was more robust in China, and the crisis was less pronounced than previously forecast in several advanced economies. However, we must add that decline in GDP was steeper in most developing countries. The geographic distribution of growth losses around the world is favorable for the Hungarian economy, as economic ties with China have grown stronger over the past few years and the benefits of these improving ties were seen in Hungary's 2020 trade data. (We have previously pointed out that trade



with China grew rapidly in 2020, while other trade relationships suffered and contracted). The World Bank forecast a Chinese economic growth of 7.9 percent for 2021, which we believe can lift Hungarian and Chinese relations to a higher level. Given the fact that a political deal was reached between the EU and China on the Comprehensive Investment Agreement, it can boost investment relations too. According to the European Commission, Germany's projected GDP growth this year will be 3.4 percent. The increased demand from Germany will give an additional boost to the Hungarian economic development.

Growth in the Euro Area is expected to be 3.6 percent in 2021, which is less than the 7.4 percent in 2020. As Hungarian growth is dependent on demand from the Euro Area, especially Germany, the recovery of economic activity in this area will boost the growth of the Hungarian economy in 2021. Globally, there are two main risk factors that pose a threat to future economic development and must be taken into account when assessing Hungary's economic outlook:

- The inflationary impact of the global stimulus could push inflation in Hungary to a level where monetary policy decisions become necessary, which could slow economic growth.
- Growing public debt could trigger a series of sovereign debt crises, worsening global financing conditions and thus limiting the room for maneuver in the Hungarian economy.

## **2. GDP forecasts for 2021**

The average of GDP growth rates forecasts for both 2021 (4.0 percent) and 2022 (4.8 percent) are favorable for the Hungarian economy, however they also conclude that the loss in growth could most likely only be compensated by 2022. As the key issues of economic development are concerned, different aspects are stressed by the forecasting institutions and agencies. Growing public budget deficit, deteriorating current account balance, high unemployment rate, and weakening currency are mentioned in the analysis of the *GKI Zrt*, whose forecast is more negative than the average of forecasts.

	2021	2022
European Commission <sup>a</sup>	4.0	4.5
OECD <sup>b</sup>	2.6 – 4.6	3.4
GKI <sup>c</sup>	3.7	-
IMF <sup>d</sup>	3.9	4.0
Fitch Ratings <sup>e</sup>	4.9	6.9
Morgan Stanley <sup>f</sup>	3.9	6.0
Századvég Group <sup>g</sup>	4.2	4.5
MNB (Central Bank of Hungary) <sup>h</sup>	3.5-6.0	5.0-5.5
Average of the forecasts	4.0	4.8
Source: (a) European Commission, 2020 Autumn Forecast, (b) OECD 2020 December Forecast, (c) GKI December Forecast, (d) OECD 2020 October Forecast, (e) The report was released in January 2021. (f) Morgan Stanley's report was released in January 2021. (g) Századvég 2020 December Forecast (h) MNB Inflation Report 2020, December.		

On the other hand, the *Századvég Group* emphasizes in its analysis that the growing public deficit can be explained partly by falling budget revenues and partly by growing public expenditures. We should add that these tendencies are inherent parts of any economic crisis, the real question is whether the government will be able to create solid economic foundations to deal with these problems. It seems that the growing public debt cannot be avoided in any of the countries, including Hungary. In this respect, the country's financing situation is stable due to the precautionary measures taken in recent years, which is reflected in the latest Moody's credit rating, which was set at Baa3 with a positive outlook (from stable) in September 2020.

The *European Commission's* analysis highlights that the cautious behavior of households and businesses could possibly negatively affect consumption and investment in 2021. In addition to downside risks, the assessment also points to upside risks to the forecast associated with further policy support measures.

The *MNB* released its quarterly Inflation report in December 2020. The report highlights that the magnitude of the GDP decline is similar to that seen after the Lehman Brothers' collapse in 2008. However, it also asserts that the structure of the decline and the responses of economic policymakers are different, so the recovery will also take a different form. The labor market adjustment has been minimal in contrast to the dramatic rebuilding during Global Financial Crisis (2008-2009). Credit markets can still function properly - thanks to the loan moratorium introduced by the government - and the countercyclical measures of the public budget could support the Hungarian economy. The analysis concludes that the changed conditions allow for more room for maneuver and the economy will recover faster in 2021 and 2022. Moreover, growing domestic demand will contribute to a faster recovery, unlike during the 2008-2009 crisis. A harbinger of a fast recovery is the investment ratio, which could remain relatively strong in 2020, the second highest in the EU (25.5 percent in terms of GDP), although half of the GDP losses came from investment. The MNB estimates that labor market conditions will deteriorate during the second wave of closures, but the target of full employment will be close again by 2022. As for wage expansion, the report concludes that wage dynamics will be lower in the coming years, but real wages will grow in 2021 and 2022.

### **3. Summary**

The outlook for the Hungarian economy is favorable for 2021, although the biggest downside risk is uncertainty about the proper introduction of the vaccine. If the vaccination program does not start soon and reach the critical level, it is likely that a third wave of the Coronavirus pandemic will occur, which would lead to a new lockdown and a decline in economic activity. This is the reason why all the above forecasts are associated with uncertainties and basically all assume that the vaccination programs will be properly implemented. We could see that the Hungarian economy reacted differently than in 2008-2009 and we can also add that unlike the Global Financial Crisis, this crisis was not caused by the failure

of economic policy but by an external event. The positive side of this crisis is that the economic structures have remained intact and when the recovery comes, it could be faster than in any post-war period.

One worrying element in this picture is the amount of stimulus given by governments around the world, which has the potential to create strong inflationary pressures in the world economy. And rising world inflation could also hit the Hungarian economy, where the consumer price index has been above the EU average in recent years.

The other aspect to which close attention ought to be paid in the future is the rise of public debt. Public debt in Hungary was successfully cut back in the last ten years, while public debt in GDP was 80.2 percent in 2010, it was reduced to 65.4 percent in 2019. The stimulus measures of the last year might have increased this figure by 10-15 percentage points. According to the Ministry of Finances, this indicator was 81.2 percent in 2020. The Ministry obviously adheres to the goal of “debt reduction” as the Ministry expects to drop the topic of public debt in 2021 already.

The Ministry of Finance released its forecast for the period 2020-2024 at the end of December 2020. According to the document, the Ministry expects 3.5 percent GDP growth for 2021 and 5.4 percent for 2022. This latter figure would be the highest after the economic and political transition in 1990. Dynamic growth will recur in the second quarter of 2020, the analysis maintains. The Ministry is not alone with its optimism, as Fitch Ratings estimated the Hungarian growth rate to be 4.9 percent in 2021, and 6.9 percent in 2022. The forecast was released in the second week of January December along with the analysis of Morgan Stanley, which forecast 3.9 percent GDP growth for 2021 and 6.0 percent for 2022.

# **Latvia: the main prospects and challenges of 2021**

**Nina Linde**

## **Introduction**

Last year 2020 the world has faced a severe challenge that hit every country. It was not possible to forecast such a widespread Covid-19 and all the consequences it brought as it is never possible to predict something uncontrollable by its nature. However, Latvia is fighting the virus as the whole world does, and it is needed to make a prognosis regarding the future of the country's economy in the nearest future. 2021 is going to be a year of recovery after Covid-19 crisis. However, the first half of the year is going to be under restrictive measures, so the improvement of the economic situation is more likely to happen in the second half of 2021.

In general, the Latvian economy suffered less other European countries as measures taken by the government were less strict and friendlier for the maintenance of the economy. Nonetheless, as a result of the pandemic, several significant issues need to be fixed in 2021: vaccination schedule, export recovery, reduction of unemployment, an increase of the consumption among the population, decrement of the government deficit and as a result debt ratio. Besides, the introduction of the mandatory minimum state social insurance contribution rate may negatively impact Latvian economy in 2021.

There is great hope for 2021 not only from the economic point of view but regarding every aspect of the life of society.

## **Tax reform and its consequences**

In December 2020, the Parliament approved the changes in the state budget and taxes for 2021, which put Latvian entrepreneurs in the weak

position. In general, local entrepreneurs will practically be forced to cope with the challenges posed by the government in the conditions of the crisis caused by Covid-19.<sup>1</sup> According to the changes, the mandatory minimum state social insurance contribution rate (SSICR) was introduced and it was determined that ensuring its amount is the duty of the employer. The minimum amount of the SSICR will be EUR 170, while the minimum wage in the country will be EUR 500.

The law does not provide an opportunity for the contributor to plan its activities in relation to the minimum overall SSICR burden on the company, nor does it offer to introduce the minimum SSICR gradually, both in terms of the effective date and the expected amount of contributions. The consequences of the introduction of mandatory social insurance will be significant and, unfortunately, negative for the economy of Latvia in 2021.

The law approved by the Parliament does not offer a solution for the participation in the social insurance system also of those persons who are of working age and to whom none of the categories of exceptions provided by law would apply. This will encourage undeclared work and the shadow economy, leaving current envelope wage earners in the shadows and not participating in taxes and social budgeting. New companies in the market are rarely able to generate income in the first years of work, therefore, it will be a huge pressure for entrepreneurs to pay a monthly insurance. Moreover, a lot of entrepreneurs, who have a transparent business will go bankrupt as for many micro enterprises and small businesses the amount of the minimum social contribution is too expensive.

In addition, the Parliament has taken a step closer to increasing the competitiveness of Latvian companies, at least in the Baltic region - by reducing the SSICR rate by 1%. However, the proposed reduction is insufficient to ensure Latvia's international competitiveness, therefore the

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<sup>1</sup> Latvijas Tirdzniecības un rūpniecības kamera. (02.12.2020). Nodokļu reforma bez uzņēmēju atbalsta. Available at: <https://www.chamber.lv/lv/content/jaunumi/4902>

government's plan to further reduce the labor tax burden by 1 June 2021 plays a crucial role.

### **Savings rate in Latvia**

In 2021, consumer spending might significantly grow. The reason for it not only the elimination of the restrictions but also because people saved more money in 2020 and will be ready to spend more this year. In comparison with September 2019 Latvians saved approximately 4% more in September 2020 (20,76% and 24,63% respectively).<sup>1</sup> Besides, the investment market should benefit from the strengthening of the private sector and the construction of *Rail Baltica* (greenfield rail transport infrastructure project to integrate the Baltic States in the European rail network)<sup>2</sup>. Export recovery is likely to take longer as Latvia's main export markets are expected to recover more slowly and exports of travel services will not reach pre-Covid levels in the forecast horizon. Overall, according to the European Economic Forecast, GDP is projected to grow by almost 5% in 2021, which should return the economy almost to the level that it was at the end of 2019.<sup>3</sup>

### **State spending and deficit**

The general government deficit is forecasted to increase from 0.6% of GDP in 2019 to 7.5% of GDP in 2020. The intense decline was due to the economic plunge and temporary incentive measures, especially in the field of health care and business support. The drop in tax revenues indicates a lower consumption rate and job losses.

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<sup>1</sup> CEIC DATA. (2021). Latvia Gross Savings Rate. Available at: <https://www.ceicdata.com/en/indicator/latvia/gross-savings-rate>

<sup>2</sup> Rail Baltica official website. Rail Baltica – Project of the Century. Available at: <https://www.railbaltica.org/about-rail-baltica/>

<sup>3</sup> European Commission. (November 2020). European Economic Forecast. Available at: [https://ec.europa.eu/info/sites/info/files/economy-finance/ip136\\_en\\_2.pdf](https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en_2.pdf)

State spending is still growing on measures taken in response to Covid-19 pandemics and increasing unemployment expenses. The influence of the measures is predicted at approximately 4% of GDP. Deferred taxes, which are questionable to be collected in 2021, and past tax reliefs are around 0.5% of GDP. Social and employment support measures equal around 0.5% of GDP. Besides, support for various sectors and the provision of loan guarantees are estimated at 3% of GDP. All in all, these expenditures accounted for 8% of Latvian GDP.

In 2021 the government budget deficit is estimated to decline to 3.5% of GDP, because of the elimination of the majority of the Covid-19 restrictive measures. The 2021 budget introduces new measures to enhance revenues and expenditures, which usually have a neutral influence on government balance. The social security contribution rate reduced by 1% in 2020 (-0.3% of GDP) and the income tax exemption threshold raised (-0.1% of GDP).<sup>1</sup> On the contrary, the establishment of a minimum mandatory social contribution and an increase in micro-enterprise tax are projected to add approximately 0.3% to GDP. The government-owned energy company is expected to return a higher dividend of 0.3% of GDP. Salaries and wages increase as well as minimum social benefits for health care workers account for most of the rise in spending.

According to the CEIC data, Latvian debt to GDP ratio was 42.9% in June 2020 (the latest available data), which is 5.4% more than in the corresponding period of 2019 (37.5%).<sup>2</sup> The main reason for such an increase is the GDP drop and government deficit. However, it is estimated that debt ratio will be reduced in 2021 and 2022, mainly because of the recovery of the economy (decline of the governmental debt, a partial reduction in the large monetary resources accumulated in 2019 and 2020).

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1 The Baltic Course. (27.11.2020). Social security contributions in Latvia to be cut by 1 pp in 2021. Available at: <http://www.baltic-course.com/eng/legislation/?doc=161033>

2 CEIC DATA. (2021). Latvia Government Debt: % of GDP. Available at: <https://www.ceicdata.com/en/indicator/latvia/government-debt--of-nominal-gdp>



## **Summary**

2021 have to be an intense, precise, and fruitful year to improve Latvian economy, which is still influenced by the Covid-19 pandemic. The main priority for the first half of the year is to complete the vaccination. After that, it would be possible to eliminate restrictive measures and recovery of the country's economy.

The big challenge for Latvian economy is the introduction of the mandatory minimum state social insurance contribution rate, which may have a significant negative impact on the micro-enterprises and small businesses in Latvia. Due to this change, a plethora of enterprises are at the risk of bankruptcy in 2021 or will be forced to switch their activity to the shadow economy. Both options will make a negative influence of the economy of Latvia in general.

Latvians had more saving last year, because of the crisis situation. It is predicted that this year consumption of the population will increase and, therefore, stimulate economic growth. However, export recovery is not going to be a fast process as many countries, trade partners of Latvia, faced much more severe consequences of the Covid-19 crisis. Even with these difficulties, the GDP rate of Latvia is projected to grow by 5% in 2021, which is almost the pre-Covid level.

State deficit has significantly increased in 2020, so there is a necessity to reduce it in 2021. For this reason, the Latvian government will take serious measures to eliminate unemployment rate, enhance revenues and expenditures, cancel restrictive measures, and debt ration of the country.

## **An outlook of Lithuania's steps towards a higher added value economy**

**Linas Eriksonas**

On 20 January the European Commission released the opinion on the draft budgetary plan of Lithuania for 2021. The EC has flagged up two issues to keep the economy planners busy for the rest of the year. Firstly, the Commission brought to attention that Lithuania's general deficit in 2020 would exceed the 3 per cent of the GDP Treaty reference value. However, a decision to place a Member State under the Excessive Deficit Procedure was not be taken "in light of the assessment of all relevant factors created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact". Secondly, the EC noted that based on an ad hoc forecast plan, the Lithuanian economy would contract by 1.8 per cent in 2020 and expected to grow by 2.9 per cent in 2021. The Commission, therefore, recommended Lithuania this year "to pursue, when economic conditions allow, fiscal policies to achieve prudent medium-term fiscal positions and ensure debt sustainability while enhancing investment to fulfil the expected economic development scenario".

However, the worsening economic situation adversely impacting the labour market might put at risk of fulfilling the scenario upon which the forecast was made. As of January, 16.1 per cent of the workforce has been registered as unemployed; the EC forecast indicated that the unemployment rate was to reach 9 per cent in 2020. Though some of this unemployment is short-term, there is a real danger that the rising unemployment will continue until the economy restructures and adjusts to the new normal under the quarantine and the period that would follow it.

Below is an outlook of some of the main steps planned in the key policy areas and the initiated projects that aim to facilitate the country's transition towards a higher added value economy over the next few years

The new government that came to power at the end of last year has confirmed the ambition inherited from the previous government to make Lithuania “a higher added value-producing country” that “according to the parameters of economic innovation would compete with the leading European countries in this field”. The government's programme boldly declared that “we are committed to achieving a major economic breakthrough, moving to a higher economic added value than the economic value that is now. We will promote productivity growth and increasing foreign direct investment, expand digitization and implement a public open data policy.” To that end the four-year programme defined several indicators to achieve, namely, to increase until 2024 the current level of productivity from 75 per cent to 85 per cent of the EU average, to increase the share of high-value technology production from 3,6 per cent to 7 per cent of GDP and, more modestly, to increase the ranking of Lithuania in the Global Innovation Index from the 40th to 35th place.

The concrete indications of what the country's economic policy could be focused on could be gleaned from the policy briefs of the respective ministries. Three ministries are directly responsible for the policy areas which have the utmost relevance for the state of the economy, namely the Ministry of the Economy and Innovation in charge of industrial policies, the Ministry of Energy responsible for the policies governing fuel, electricity, thermo-energy production and supply and the Ministry of Transport and Communications overseeing the functioning of the transportation system and the development of all-mode transport infrastructure as well all other state-owned infrastructures covering transport, transit and logistics, post and electronic communications.

The three ministries provide the institutional framework for defining the prerequisite policies for putting particular enablers in place to facilitate the economic actors generating high value-added outputs. One such enabler is the increasing capacity to unleash the innovation potential across

multiple sectors and local value chains by connecting the local entrepreneurial talent with the markets globally. In practical terms, the Ministry of the Economic and Innovation aim to achieve that by stimulating the entrepreneurship in the regions, attracting investment in high-value generating segments of the economy and supporting export initiatives. The energetic new Minister Aušrinė Armonaitė reiterated that “we already need to find ways of encouraging long-term growth, increasing economic and social resilience and preparing for digital restructuring - for this it is important to encourage exports and, at the same time, attract investment. If Lithuania does not want to remain in the middle-income trap, we need to refocus on the creation of high-added value and digital and innovative industry, and to work towards more collaboration between science and business”.

Another enabler for increasing and sustaining the high value-added economy is the availability of affordable energy sources at competitive prices for consumers and enterprises. Lithuania aims to achieve it by continuous diversification of energy sources (first of all, the increased renewable energy generation, storage and a balanced transmission), deleveraging the dominant energy providers' position and looking for new innovating ways to manage the energy supply chain, including saving the costs on energy storage, transmission and more value from its use. The maintenance of Klaipėda Liquefied Natural Gas (LNG) terminal, which stores 3,9 TWh worth of gas annually, is one of the critical issues that has occupied the government. The floating terminal is rented until the end of 2024, and the evaluations will be carried about alternatives to the existing solutions to generate more value from operating the terminal. The Minister of Energy Dainius Kreivys has vehemently stated that "our aim is to ensure the efficient terminal operation and the best price for consumers, but this can only be achieved by completely depoliticizing the process of determining the minimum quantity and by entrusting it to that regulator".

The construction of the gas interconnection Poland-Lithuania (GIPL) to be completed by the end of this year will significantly contribute to the energy system. GIPL will connect the natural gas transmission systems of

Latvia, Estonia and Finland with the EU system, making Lithuania an essential node in this emerging new regional, transnational gas transmission system. Simultaneously, a 700 MW electric interconnector "Harmony Link" connecting Lithuania's and Poland's grids will be started to be constructed under the Baltic Sea.

An essential step towards making the transmitted energy more effective is introducing smart electric meters implemented by the state-owned enterprise that owns and operates all electrical and heating businesses in Lithuania. The consumers will also benefit from the liberalization of the energy market. The individual energy users consuming more than 1000 kWh electricity per year will be required to choose an energy provider independent from the electricity grid owner this year.

The third enabler that the government will address through the Ministry of Transportation is the efficient planning and implementation of the large transportation projects that would ensure the multi-modal transportation nodes and enable a new generation of the communication network. The most important project is the construction of the transnational railway line "Rail Baltica". The project on the Lithuanian side should be completed by 2026 and would require almost 2 billion euros. Another infrastructure project essential for the economy is the electrification of the main railway line that connects Vilnius with the port city Klaipėda. These infrastructure projects will be complemented with the development of the 5G network, which the government plans to deploy nation-wide by 2025.

However, the enablers face the challenge of the structural weaknesses of the economy. According to the country risk ranking provided by the French international credit insure Coface, Lithuania's business default risk is assessed as corresponding to the category A3 ("satisfactory"), yet the economy suffers from several weaknesses; Coface has identified five.

Firstly, it is a tight labour market characterized by a shrinking workforce (caused by the emigration of skilled young people and the ageing society) and high structural unemployment, which has been

exacerbating during the pandemic. Secondly, a sizeable part of the economy remains unaccounted depriving the budget of a certain amount of the tax revenue; Coface refers to it as “underground economy” corresponding to some 26 per cent of GDP. Thirdly, there is a high-income disparity between the capital and the regions, particularly in the northeast parts of the country, where poverty persists. Fourthly, the limited value-added exports (mineral products, wood, agricultural produce and food, furniture, electrical equipment) contribute to the negative trade balance. Fifthly, competitiveness suffers from insufficient productivity gains.

When considering whether the government's immediate plans for the development of critical infrastructures and strengthening the capacity for innovation can outweigh the economy's structural weaknesses as noted above, the following observations could be made.

Firstly, the development of the large infrastructure projects will undoubtedly raise the local demand for the skilled workforce and might stem the country's economic migrants' outflow, especially given the high barriers of a free movement of people across the EU quarantine measures. Secondly, the shadow economy could be indirectly tackled due to the decrease of energy costs for consumers and small businesses. It can achieve that by disincentivizing the activities that contribute to the shadow economy by removing some of the causes for that – the high cost of labour due to the relatively low productivity levels in the sizable segments of the economy. Thirdly, by tackling the shadow economy, the state can simultaneously decrease the income disparity, contributing to a more distributive economy model that can lower poverty and release more productive workforce into the economy. Thirdly, the added value of products might increase due to the further digitalization of the services and innovative technology deployment as part of the extensive development of critical infrastructure and communication networks. If pursued in a complimentary manner, the combined efforts could lead to the creation of the systemic preconditions for overcoming the existing deficiencies of the economy and contributing to the country's transformation from the economy dominated by high energy costs and low labour costs to the

economically advanced country with lower energy costs and higher earnings spread across the society more evenly.

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## **Montenegrin economic outlook for 2021**

**Milika Mirkovic**

***Summary:** Like the previous year, 2021 will be marked by high uncertainty in the economy. Since the Montenegrin economy is open and import-dependent, it is also more sensitive to external shocks and risks. Certainly, further expansion or potential containment of the pandemic will affect trends in tourism, and thus indirectly on trends in traffic and trade. Also, the completion of the started investment projects, primarily the completion of works on the highway and other projects for the improvement of traffic and tourism infrastructure will affect the trends of investments and domestic demand. However, in addition to the expected favourable economic developments in 2021, major challenges relate to the fiscal economy and public debt growth.*

### **Positive GDP growth rates are expected**

Economic trends in 2021 will primarily depend on the epidemiological situation in Montenegro, but also in the countries with which Montenegro has the greatest economic cooperation. The crisis caused by the pandemic during the previous period showed the sensitivity of the Montenegrin economy, as most of it is generated from the services sector. Therefore, the revival of the tourism sector is one of the significant challenges this year. However, the revival of tourism was primarily determined by course of the pandemic, and the prospects for its recent containment are not the most optimistic. As vaccination of the population has not started, and the start is still uncertain, this may put additional pressure on trends in the tourism sector. The already poorly developed winter tourism this year will be below the levels from previous years. The pandemic affected a significant reduction in the number of tourists during



the winter holiday and holidays at the beginning of the year, which represented a significant impetus for the development of winter tourism. Additionally, mountain tourism will make a low contribution to economic growth due to the poor epidemiological situation. On the other hand, although there is a high degree of uncertainty regarding restrictions and measures related to international traffic, more favourable trends in tourism can be expected during the summer season. It is expected to gradually re-establish airlines with many European countries, which will have a positive impact on the transport and tourism sector. Anyway, the further course of the pandemic will affect the trends in tourism, which will further affect the export of services and the foreign trade balance.

The completion of the first section of the highway is expected this year, which is a delay of one year. Namely, the opening of the highway can be expected in the fourth quarter 2021. As most of the project was realized during the previous years, the completion of this infrastructure project will not generate significant investment growth, which will be reflected in the import of raw materials. On the other hand, this year is expected to increase activity in the construction sector and the continuation of investment projects in the tourism sector, which will affect the growth of imports of goods. Compared to the previous year, the import of goods will be affected by the growth of the number of tourists who make up a significant part of the demand during the summer tourist season. In this case, it can be expected an increase in imports, primarily of food products.

Compared to the previous year, FDI growth is expected, especially in the tourism sector, but also in the energy sector. According to World Bank estimates, FDI is expected to account for 6.5% of GDP in 2021. The expected more favourable economic trends in 2021 compared to the previous year will have positive effects on the labour market, so employment growth and falling unemployment can be expected. According to European Commission projections, the unemployment rate will be at the level of 16.6%, while employment will increase by 2.3%. This employment growth is due, in addition to the expected favourable economic trends, to a very low base from 2020.

In general, according to the projections of international institutions, the Montenegrin economy will record positive growth rates this year. After a high decline in the previous year, due to a lower base in all sectors of activity, but also a gradual recovery this year will contribute to growth rates ranging from 5% to 7%. Namely, according to World Bank estimates, the Montenegrin economy will grow at a real growth rate of 6.9%<sup>1</sup> in 2021, while the European Commission has projected a slightly lower growth rate of 6.8%<sup>2</sup>. On the other hand, according to International Monetary Fund (IMF) projections, the real GDP growth rate will be at 5.5%<sup>3</sup>, while the lowest growth rate is projected by the EBRD (5.0%)<sup>4</sup>. However, although high growth rates are expected (mainly due to the low comparative base in 2020), no significant economic improvement can be expected this year and the situation is close to that of 2019. Negative growth rates are expected in the first quarter, while the recovery of the economy can be expected in the other three quarters of 2021.

### **Continuation of support to companies in the first quarter of 2021**

A large number of companies faced business difficulties during the previous year. Although various support packages were passed to companies, some still faced problems. Any risk of insolvency remains in 2021. In part, the problem will be solved in a short period of time through new support measures adopted at the beginning of the year, which relate to the first quarter of 2021<sup>5</sup>. Namely, during the first three months, the implementation of measures implemented during the previous year will

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<sup>1</sup> World Bank Group (2020) Western Balkans Regular Economic Report No.18 - An Uncertain Recovery, Fall 2020

<sup>2</sup> European Commission (2020) European Economic Forecast, Autumn 2020, Institutional Paper 136, November 2020

<sup>3</sup> <https://www.imf.org/en/Countries/MNE>

<sup>4</sup> European Bank for Reconstruction and Development (2020) Transition Report 2020-21 – Country Assessment for Montenegro

<sup>5</sup>

<https://www.gov.me/ResourceManager/FileDownload.aspx?rId=423505&rType=2>

continue, such as wage subsidies, postponement and rescheduling of income tax payments, reduction of the lease price of state-owned premises and postponement of payment of these obligations. Also, some measures have been innovated and new ones introduced which are related to support for new employment through the release of certain fiscal obligations, support measures for entrepreneurs and micro-enterprises that are currently in the most difficult business situation through tax reliefs (reliefs in the payment of VAT). In addition to the above, during the next quarter, additional measures will be implemented to support tourism and catering and agriculture and fisheries. According to Government of Montenegro estimates, the total direct and indirect financial impact of these measures is around EUR 163 million, which is around 3.5% of estimated GDP for 2020.

### **Beginning 2021 without a state budget**

The economic crisis, but also the change of government in Montenegro during 2020, reflected on the developments in the fiscal sector. Namely, Montenegro entered this year without a budget. The Budget Law for 2021 has not been adopted, so temporary funding will be applied during the period until the budget is adopted. According to the Law on Budget and Fiscal Responsibility, temporary financing is applied, which implies monthly allocation for budget units determined on the basis of the amount of one twelfth of actual expenditures in the previous fiscal year. The budget is expected to be adopted by the end of the first quarter of 2021. As the concept of temporary financing is previously known and as defined in the legislation, it should not have significant consequences for the functioning of the entire fiscal system if not applied for a long time. However, temporary funding can affect the functioning of state institutions through constraints and difficulties in implementing activities for which it is necessary to pre-allocate budget funds (define budget items). In that case, during the first quarter, i.e. until the adoption of the budget, only the narrow functioning and realization of the basic activities of all institutions can be expected. Any extraordinary activity aimed at improving the quality of the functioning of institutions will be limited and slowed down. In that case,

the whole system can suffer until the budget is adopted. Also, the reorganization of public administration and the reduction of the number of ministries compared to the previous year may represent an additional limitation in the implementation of temporary funding in the coming period.

In any case, in 2021 there will be high pressure on public finances. The decrease in tax revenues during the previous year (especially VAT revenues) due to the decline in economic activity and spending on support measures to companies in the previous and this year created significant difficulties for public finances. With the growth in economic activity this year will be recorded and increase tax revenues. Although the opening of the highway is expected this year, a significant impact on budget revenues will not be felt, as the frequency of traffic in the fourth quarter is significantly lower. One of the great challenges of the economy is public debt, which at the end of 2020 increased by EUR 0.75 billion by issuing bonds on the international capital market. Additional pressure may be provided by guarantees given on loans (debt with Exim Bank for the purchase of ships) and which can be activated in case of non-payment of debt. According to World Bank estimates, public debt with guarantees will amount to 97% of GDP in 2021.

## Macedonian economic developments in 2021

Gjorgjioska M. Adela

*Summary: The Macedonian economy in 2021 will be conditioned by a set of interconnected developments. Firstly, it will be affected by the continuing impact of the coronavirus pandemic and the cost-effectiveness of the economic response measures taken in 2020 and 2021. Secondly, it will depend on the Government's broader economic strategy - its operationalization and its possible effects on economic reality. Thirdly, it will be strongly correlated to global, European and regional economic trends in 2021. The performance of the economy as a whole will continue to be circumscribed by pervasive corruption as well as by the absence of a professional public administration which is able to play a developmental role. Combined with the underlying neoliberal logic, which remains the key organising principle, these influences suggest that the developmental capacity of the state is likely to remain locked, in spite of some efforts by the Governments to spur economic development in 2021.*

On the 20th of December 2020 the Parliament adopted the Budget for 2021. It projects a GDP growth of 4,1% and a budget deficit at 4.9%. Total revenues of the 2021 Budget are projected at 212.6 billion denars whilst expenditures are projected at 247.5 billion denars. As pointed out by Minister of Finance Besimi, the Budget's three main priorities will be 1) the health sector, 2) the economy and preserving job stability, 3) rule of law and integrations.<sup>1</sup> Moreover, he added that the Budget will have a

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<sup>1</sup><https://finance.gov.mk/2020/12/20/%D1%81%D0%BE%D0%B1%D1%80%D0%B0%D0%BD%D0%B8%D0%B5%D1%82%D0%BE-%D0%B3%D0%BE-%D1%83%D1%81%D0%B2%D0%BE%D0%B8->

developmental component as capital investments will be higher by 26,2% compared to the 2020 Budget. According to the Minister of Finance, this is also the country's first medium-term budget, which is based on three platforms: a) 2021-2025 fiscal consolidation, with a focus on reducing the budget deficit to 2% by 2025, which is below the Maastricht criterion; b) Strategy for Economic Recovery and Accelerated Growth, aimed at doubling the growth by 4-5% in the coming period and c) 2021-2025 Public Investments Plan, aimed at increasing the share of investments in the total expenditures and improving their execution.<sup>1</sup> Based on the Budget's forecasts, growth will double in the coming five-year period, from 4,1% in 2021, 4.6% growth in 2022, 5.2% in 2023, 5.6% in 2024 and 5.9% in 2025. What is more, the Government expects that the average economic growth rate will stabilize to 5.75% annually in the period 2026-2030.

These figures however are likely to prove to be too optimistic, in view of the continuing economic consequences of the pandemic, as well as its influence on deflation, reduction in consumption, investment and demand, all of which are likely to impair the forecast of 4,1% growth in GDP. Furthermore, the fiscal economy will be constrained by the high growing public debt. In 2020, the four economic packages introduced in response to the pandemic incurred an increase of the public debt of over 1 billion euros, or nearly 11%. This will influence the ability of the Government to rely on further loans in 2021, especially in view of the planned focus on fiscal consolidation in the 2021-2025 period. What is more, the country faces a heavy debt repayment schedule of 836 million euros in 2021 (in addition to the 837 million euros at the end of 2020), which may bring the public debt to over 70% of GDP by the end of 2021.<sup>2</sup> An additional cause of concern stems from the way in which the country's public debt (which has been rising exponentially in the past 10 years) has been spent. That is, debt

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%D0%B7%D0%B0-2021-%D0%BF%D1%80%D0%B2%D0%B8%D0%BE/

<sup>1</sup>ibid

<sup>2</sup><https://www.fitchratings.com/research/sovereigns/fitch-revises-outlook-on-north-macedonia-to-negative-affirms-at-bb-15-05-2020>

has not been channeled towards the funding of structural and capital investments. As a result, large gaps remain in infrastructure, technology and education, which suggest that the country's economy still lacks the solid foundations which are the necessary preconditions for economic development.

### **Planned Economic Reforms**

In January 2021 the Government adopted a Programme for Economic Reforms for the period 2021-2023, which contains the macro-economic forecasts and the Budgetary planning for the next three years.<sup>1</sup> Moreover, the Programme includes the structural reforms that will be pursued in the next three years such as reform of the energy and transport markets, development of the agriculture, improvement of the business environment and reduction of the grey economy, support for research, development and digital transformation, regional economic cooperation, improvement of education and skills, social protection, inclusion and healthcare.<sup>2</sup>

The biggest challenge with regards to the Programme for Economic Reforms will be its implementation in practice. The success of any economic reforms depends on good public governance, most notably on accountability, transparency, efficiency, effectiveness, responsiveness and the rule of law. In the Macedonian context the slow and inadequate efforts to reform and strengthen public governance are likely to stifle the progress in the implementation of structural economic reforms in 2021.<sup>3</sup> The biggest challenge will come from the absence of a responsive and efficient governmental apparatus, which is able to interact with a competitive market in order to play a stabilizing role and achieve the best possible economic results. The Government's slow pace in implementing public administration reform in the previous years, suggests that it will be

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<sup>1</sup> <https://vlada.mk/node/24015>

<sup>2</sup> <https://vlada.mk/node/24015>

<sup>3</sup> [https://china-cee.eu/wp-content/uploads/2020/07/2020p05\\_North-Macedonia.pdf](https://china-cee.eu/wp-content/uploads/2020/07/2020p05_North-Macedonia.pdf)

insufficiently prepared to coordinate and stimulate productive economic activities, to implement capital investments, as well as to stimulate the educational and technological progress necessary for the attainment of economic development in 2021. Thus, in the absence of broader political reforms it is difficult to be too optimistic about the economic potency and practical implications of the Programme for Economic Reforms as well as the broader developmental forecasts for 2021.

An additional obstacle to the successful implementation of economic policy and achieving economic development is the high level of corruption in the country. The latest Corruption Perception Index by Transparency International report, placed N. Macedonia on the 106 position with a score of 35 points (on a scale of 1-100).<sup>1</sup> This is 2 points lower than the score of 37 marked in 2019 and 2018. In comparison to other countries in the region, N. Macedonia is at the very bottom alongside Albania (with 35 points) whilst Bosnia Herzegovina, Serbia and Montenegro had a score of 36, 39 and 45 points respectively.<sup>2</sup> The perception of high corruption is detrimental to the economy as a whole. It presents an obstacle to the successful implementation of planned economic policies, including the development of human resources and the advancement of technological and innovation activity necessary to accelerate productive economic activity. It also acts as a risk factor deterring both domestic and foreign investors from participating in the Macedonian economy. In turn, this

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<sup>1</sup> <https://www.transparency.org/en/cpi/2020/index/mkd>

<sup>2</sup> <https://www.dw.com/mk/%D0%BA%D0%BE%D1%80%D1%83%D0%BF%D1%86%D0%B8%D1%98%D0%B0-%D0%B2%D0%BE-%D1%81%D0%B2%D0%B5%D1%82%D0%BE%D1%82-%D0%BC%D0%B0%D0%BA%D0%B5%D0%B4%D0%BE%D0%BD%D0%B8%D1%98%D0%B0-%D0%B8-%D0%B0%D0%BB%D0%B1%D0%B0%D0%BD%D0%B8%D1%98%D0%B0-%D1%80%D0%B0%D0%BD%D0%B3%D0%B8%D1%80%D0%B0%D0%BD%D0%B8-%D0%BD%D0%B0%D1%98%D0%BB%D0%BE%D1%88%D0%BE-%D0%B2%D0%BE-%D1%80%D0%B5%D0%B3%D0%B8%D0%BE%D0%BD%D0%BE%D1%82/a-52117630>



blocks the country's integration in the global supply chains and stifles its overall economic activity and potential. In view of this set of underlying factors, it is difficult to justify the optimism of the Government, which projects a GDP growth of 4,1% following a negative GDP growth of -5% in 2020. It is likely that the forecasts are based on planned large scale privatizations some of which have already been hinted at by the Government. Thus, it is likely that in 2021 steps will be taken for the privatization of several large state-owned companies including the Post office, the Railways, as well as the factories "Eurokompozit", "Kolska" and "TEC Negotino".

The combined challenge of managing a growing public debt and the economic shock of Covid19, is likely to put a heavy strain on the Macedonian economy in 2021. Whilst the Government has introduced some plans and programmes for spurring economic growth it remains to be seen if and how these will translate from theory into economic practice and what the compounded effect will be on the Macedonian economy. However, the likelihood of their successful translation into practice will be severely curtailed by the pervasive corruption and the absence of adequate public governance mechanisms in the country. Thus, as neoliberalism continues to be the key organizing principle, the Government's two key roles are likely to remain as the sourcer of debt and as the mediator of new privatizations of public/state property. Therefore, it is to be expected that the state and its economic institutions in 2021 will once again miss on the opportunity to play a developmental role.

## **Polish economic outlook for 2021**

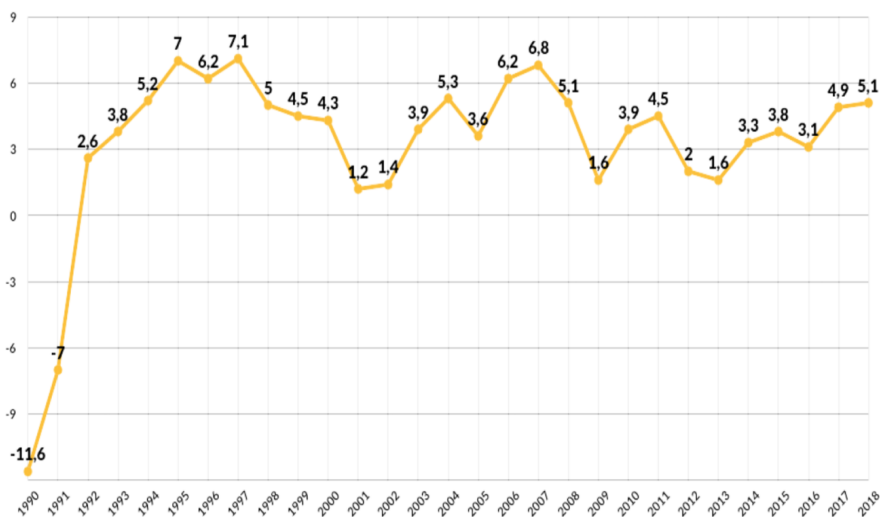
**Joanna Ciesielska-Klikowska**

***Summary:** In 2021 Polish economy will remain under the influence of fighting the effects of COVID-19 pandemic. This makes economists' forecasts ambiguous. Experts, together with the government, hope that there will be a rebound in the level of GDP, while increasing the dynamics of economic growth. Undoubtedly, however, in the coming months there will be an increase in unemployment, as well as an increase in prices, in particular electricity and garbage disposal, which will strongly affect the household budgets of average Polish families.*

### **The most important economic indicators**

The year 2020 has passed under the slogan of fighting the epidemic, in its health as well as economic, social and political dimensions. The pandemic had a huge impact on Polish economy, which fell into recession for the first time since the political transformation in 1989/1990. Although the Central Statistical Office has not yet published the complete data for 2020, today it is already known that the GDP level has decreased by about 3.5% compared to 2019 (4% increase).

## Poland's GDP dynamics in the years 1990-2018 (in %)



Source: Central Statistical Office

Experts indicate that in 2021, Poland's GDP will increase more than it fell last year. The average forecast shows a rebound close to 4.1%. However, economists are not unanimous on this - some point to an increase of 3%, while others expect an increase of even 5%. Monika Kurtek, chief economist of Bank Pocztowy, expects a GDP rebound of only 3%. In her opinion, such a low GDP growth will be related to the slow process of vaccinating citizens and the ensuing subsequent wave of the pandemic in February / March 2021, which will also turn into the maintenance of a severe lockdown.

The economists of ING and Santander banks, who forecast GDP at the level of at least 4.5%, are much more positive in this regard. The largest Polish bank, PKO BP, goes further in its forecasts. The chief economist, Piotr Bujak, is hoping for a growth of 5.1%.

## Banks' forecasts of the economic situation in Poland in 2021

Name of the bank	GDP growth	Unemployment rate	Salaries increase	Inflation	Interest rates
PKO BP	5.1%	5.4%	5.6%	3.1%	0.1%
Bank Pocztowy	3%	6.8%	3.1%	2.5%	0.1%
Santander	4.6%	6.4%	3.9%	2.4%	0.1%
ING	4.5%	6.2%	5.4%	2.8%	0.1%
City Handlowy	3.7%	7%	4.3%	2.4%	0.1%

Source: money.pl

Although the fight against COVID-19 is not over yet, we may assume that the coming months of 2021 will be a time of economic rebound and a return to the path of growth. Experts point out that one should be cautiously optimistic and count on the improvement of the country's economic situation. At the same time, they agree that Polish economy will also face many challenges, which will certainly include an increase in unemployment and an increase in the so-called "gray zone", where people who have lost their jobs as a result of the pandemic will find illegal employment.

In fact, economic forecasts indicate that - compared to current statistic - unemployment at the end of 2021 will be higher and wage increases will be lower. However, these should not mean huge changes. The Ministry of Family and Social Policy, whose competences also include the labour market, estimates that in November 2020 the unemployment rate was 6.1% and that it has remained at this level since June last year. At the same time Ministry forecasts that at the end of 2021, unemployment will remain around 6.3%.

Economists do not share the optimism of the authorities and indicate that unemployment will rise to even 7% at the end of the year. Piotr Kalisz, chief economist at Citi Handlowy bank, emphasizes that Poland is currently in a recession and that “the labour market is lagging behind in a long period of weak demand”. Piotr Bujak from PKO BP, though, points out that the problems in the labour market will be temporary - after the seasonal increase in unemployment at the beginning of the year, the increase in demand for labour due to the economic rebound until the third quarter 2021 will be so large, that there will be no wave of layoffs that workers fear most.

Yet, the employees can count on an increase in their earnings. The average level of wage growth can fluctuate in a fairly large range - from 3% to even 6%. This is very important considering that inflation has been rising - recently it reached 3.4%. Still, forecasts for 2021 predict a decline in inflation to the level of 2.6% for the entire year. If so, the forecasted inflation will be compensated by wage increases.

The level of interest rates should also be mentioned here. Recently, the National Bank of Poland (*Narodowy Bank Polski*, NBP) has reduced interest rates to the lowest level in history. Even at the beginning of 2020, the main rate was 1.5%, but in January 2021 it is only 0.1%. The aim is to stimulate the economy and ease the situation of borrowers, especially those who have taken loans to buy their houses/apartments. A housing loan is one of the most popular banking products in Poland, where buying an “own flat” is treated as an expression of thrift, concern for the future and stability. Currently, there are over 2,300,000 active housing loans, of which the average value is PLN 270,000 (EUR 56,700). The typical duration of a home loan is 25-30 years.

For many average borrowers, lowering the interest rates means a smaller monthly instalment, on average by nearly PLN 200 (EUR 43). This favourable situation may change with the economic recovery. However, economists do not expect a change in NBP rates in the next 12 months. This means that both the interest rate on loans and deposits should not change.

## **Increase in electricity prices and waste disposal**

In January 2021 increases in electricity prices were introduced. This is due to the approval of new tariffs by the Energy Regulatory Office. This year Poles will pay an average of 3.5% more for electricity. Statistically, each household will pay PLN 150 (EUR 34) more for the entire year. However, new tariffs are not everything. The Energy Regulatory Office also introduced a “power fee”. This is a payment for the readiness to secure the power supply. It is to ensure energy security by guaranteeing a constant electricity supply. In terms of the amount of the power fee, the Office differentiated households into four groups:

1. households consuming less than 0.5 MWh/year will pay 1.87 PLN more per month (EUR 0.40),
2. those with consumption from 0.5 to 1.2 MWh/year will pay an additional PLN 4.8 (EUR 1),
3. those consuming 1.2-2.8 MWh/year will pay 7.47 PLN more (EUR 1.62),
4. and for the households consuming over 2.8 MWh/year, the bill will increase by PLN 10.46 per month (EUR 2.27).

Other electricity consumers, i.e. companies or factories, will pay PLN 0.0762 (EUR 0.0165) per kWh of electricity consumed between 7.00 and 22.00 on working days.

The fees, theoretically small, will surely bring an increase in product prices, and therefore will be largely responsible for maintaining inflation.

Yet, the new waste collection fee will hit citizens’ pockets even harder. Today, the fees are set by local governments. Their amount in some communes, for the first time, will depend on the amount of water used, and not on the number of people in the household as before. The communes explain this controversial way of calculating the fee by the need to “seal” the fee collection system.

Communes introducing this system of settlements emphasize, that - from the moment when municipalities took over the obligation to settle all costs related to the collection and management of waste - each year the

system has lost several thousand inhabitants, while the amount of waste has increased. Therefore, the current fee is to depend on the water used by a person per month - on average 3m<sup>3</sup>. Depending on the commune, the price for the garbage collection is to be from PLN 8 to PLN 12.5 per 1 m<sup>3</sup> of water (EUR 1.7 to EUR 2.7). Thus, one resident will pay for garbage collection on average from PLN 24 (in city of Tarnów) to even PLN 37.5 (in Warsaw) monthly.

However, not all municipalities have decided to charge waste collection bills for water used. Some local governments stayed with the fee calculated for each inhabitant, but chose to increase them as well. On average, in scale of the whole country, citizens will pay about PLN 30 (EUR 6.5) for the collection of segregated waste per month. Charges for unsorted waste will be twice as high.

### **Conclusions**

Summing up, it should be stated that the economic situation of Poland at the start of 2021 is relatively good, taking into account the pandemic and possible crisis. Economists agree that there will be an economic rebound in the coming months, although their assessments differ. If unemployment remains at a relatively low level, despite the second lockdown that has been taking place since November, Poland has a chance to quickly recover from the recession.

However, a lot depends on the speed of vaccination of citizens (the government ensures that, with continuous supply of vaccines, it is able to vaccinate about 3.5 million citizens a month) and on financial support from the European Union and its recovery program “Next Generation EU”. In this context, crucial will be the first months of 2021 (i.e. preparing economic recovery plans by governments, approving by the European Commission, launching the allocation of funds). The real inflow of funds will therefore be visible at the end of 2021. Then the individual European economies, including the Polish one, will move forward in full swing.

## **Outlook for 2020: three threats for Romanian economic growth**

**Oana Cristina Popovici**

***Summary:** The economic growth this year is strongly depending on the management of the public deficit, the success of the vaccination campaign and the absorption of European funds. The main directions of the fiscal-budgetary policy for this year are fiscal consolidation and maintaining support for the private environment. Romania needs to start the macroeconomic correction in 2021 for reducing the structural budget deficit, but measures have to be implemented gradually, over a reasonable time horizon, for not disturbing the economic growth.*

The economic evolution is expected to gradually recover in 2021, especially since the advent of COVID vaccines. However, experts consider that the pace of the economic recovery will be decided by the enhancement of the economic recovery programmes and the authorities' role in shaping their effectiveness. In this context, the prospects for Romania are generally positive, following the large package of EU financing of over EUR 80 billion, according to the experts from Moneycorp, the largest payment institution in Europe.

The economic relaunch would be noticed starting with the second quarter, according to several economists. The first quarter of 2021 will be quite similar to the last quarter of 2020, as the economic recovery is affected by the second wave of the pandemic, which attracted new restrictions imposed by the authorities to limit the spread of the virus. The specialists consider that the evolution of the vaccination would have a great impact, as a vaccination rate of more than 60% of the population could lead to an almost normal functioning of the economy, comforting people and the business environment.



However, an economic recovery seen in a GDP increase by 4.5% is forecasted for the whole year, according to the National Commission for Strategy and Prognosis. The Fiscal Council in Romania has a more reserved estimation, stating that the economic growth could be between 2.5% and 4.5%. Still, the recovery to pre-crisis levels is expected only in 2022. Usually, both internal and external institutions' forecasts for the Romanian economy range between 1.4% to 4.9%, which reflects the uncertainty regarding the evolution of the economy. Most companies (61%) surveyed by Moneycorp expect to reach the same level of turnover in 2019 only in 2022, and 15% estimate that they will recover in 2021, according to the Barometer carried out at the beginning of December 2020. The same survey indicate that the recovery will be asymmetric, with sectors which will see an increase in activity, such as online commerce, courier services, construction, electro-retail services and the activity of restaurants and hotels, once with the progress of the vaccination campaign. On the other hand, other sectors will have mild progresses, such as the industry and the agriculture (which would fully recover the 2020 losses), the events sector, tourism and transport. The demand in these sectors continues to be affected by the actual context and there is a high need of access to finance.

Moreover, specialists consider that it will be very difficult to respect an economic growth forecast. Romania has the delicate responsibility of keeping the fragile balance between economic growth and budgetary consolidation. At this moment, the huge pressure on the budget deficit raises significant questions about the ability to continue to support the economy. While in other countries the corrections of the budget deficit will come as a normal consequence of the reduction in non-permanent spending which were enhanced by the pandemics, the structural deficit in Romania (including permanent expenses) was high even before the health crisis. The European Commission had started the excessive deficit procedure in March 2020, as a result of exceeding the target in 2019, shortly before the outbreak of the pandemic. Although tax rules in the European Union (EU) are suspended in 2020 and 2021, macroeconomic correction must start in Romania this year.

In a letter addressed to the new Minister of Finance, the European Commission states that the problem of the deficit in Romania is not the exclusive result of the health crisis. In addition, although the Commission did not take any action under the excessive deficit procedure in last autumn's assessment, it will propose measures in the spring of this year, if necessary. It is clear that the state budget for this year will have to reflect measures for reducing the deficit, but in such a way as not to affect the economic recovery. In the absence of fiscal consolidation, it is difficult to maintain the same relationship with international institutions and rating agencies, according to the Prime Minister Florin Cîțu. However, analysts consider that such a measure is not an easy one, given that it must be implemented gradually, but not over a long period of time, so that the financial markets lose their patience and induce a financing crisis. The aim is to bring the budget deficit below 3% of GDP up to 2024, in order to create the necessary conditions for accessing the Exchange Rate Mechanism 2 for adopting euro.

The draft budget will reach the Parliament at the end of January and will be characterized by great constraints, in order to fall below the deficit threshold of 7% of GDP, according to the statements of Prime Minister Florin Cîțu. The last official data indicate that the budget deficit after 11 months in 2020 hit 8% of GDP. The intention of the Government is that the fiscal policy to have a stimulating effect in the first part of this year and to move to a neutral policy in the second half of the year. For the moment, no measures with the aim of inducing fiscal consolidation were announced, except for capping of the salaries and benefits of employees in the budgetary sector at the level of December 2020 and freezing of some pensions and social benefits. The support for the private sector continues through a number of facilities provided since the beginning of the pandemic, and the state will continue to pay the allowance granted during the period of temporary suspension of the employment contract and to settle a part of the salary of the employees kept in work until the end of June. The measures for supporting the small and medium sized enterprises will go on and a scheme of state aid for providing financial support for

Hotels, Restaurants, Cafes (HoReCa) will be approved and promoted. In Romania, more than 90% of companies are operating in the SME sector, therefore ensuring such programs will be extremely important for shaping the economic recovery.

However, neither the deficit of 7% of GDP in 2021 will not be easy to achieve, especially if the final deficit in 2020 will exceed 9.5% of GDP, according to the National Bank of Romania' (NBR) officials. NBR representatives recommend a credible medium-term correction program (3-4 years), with massive support from European funds to finance deficits.

Therefore, given the practically non-existent fiscal space and under the auspices of measures for consolidating public finances, the economic growth will strongly depend on the absorption of European funds. To this end, there is a need for a resilience and recovery program that will allow the launch of projects that can be easily financed from European resources. By spring, the Government must provide such a plan. According to specialists, the absorption of EU funds is the main challenge of the Government for this year and some of them doubt the capacity to access all the grants provided, given that the mechanism that is to be used is still heavy and highly bureaucratic. Moreover, a great inertia has been created for years. However, the Government ensures that the Minister of European Funds managed to achieve performance during 2020, Romania absorbing more money in a year than the average for the current financial cycle, while the 2021-2027 Partnership Agreement together with the Operational Programs were proposed to the European Commission long before the actual start of the programming period, which was a fulfilment for Romania.

In the market, the increase of mergers and acquisitions started in the second half of 2020 will continue in 2021, as both strategic and financial investors have substantial capital resources that allow them to grow and diversify. According to analysts, the largest transactions will take place in the sectors that have become the big winners of the COVID-19 pandemics, such as health services, technology, retail, consumer goods, but also energy and logistics. With large capital resources at their disposal, investment

funds are exploring opportunities in the energy and health sectors. In addition, retail and consumer goods companies will also remain among the favourite acquisition targets in 2021. Moreover, Romania is the only country in the EU that reported a positive annual dynamics of productive investments in the first three quarters of 2020, including during the state of emergency. However, the Foreign Investors Council draw the attention that almost 40% of the foreign investors in Romania estimate to see both a decrease in their invested capital and in the employment plan for the next 12 months. The fiscal consolidation measures have to pay attention in shaping a business environment attractive to investors.

# **Economic forecast for Serbia in 2021**

**Ivona Ladjevac**

***Summary:** Due to massive government intervention in the form of allocating 12.5% of GDP to support the economy and the population during the Covid-19 pandemic in 2020, all macroeconomic indicators in Serbia have been changed. Previous economic forecasts and plans have become largely invalid, and new plans and forecasts assume more modest economic goals than in the previous period. The economic growth of 6%, a slight increase in imports and strong growth in exports are predicted. The reduction of the fiscal deficit from 9% to 3% is estimated, which is more unfavorable than in the period before the pandemic, when Serbia generally did not have a budget deficit. The Government of Serbia takes all plans and forecasts with reservations, due to the unpredictable future course of the pandemic.*

*The Covid-19 pandemic in 2020 had a strong effect on all macroeconomic parameters in Serbia, although the indicators are significantly better than in many more developed European countries. All previous economic forecasts and plans have become largely invalid, and the basis for new development programs and forecasts has changed greatly.*

## **Economic growth and its drivers**

Economic policy measures, specifically the injection of 5.8 billion euros (12.5% of GDP in 2020), have managed to limit the adverse effect of the pandemic crisis and minimize the economic downturn. According to the estimates of the RS Statistical Office, Serbia's GDP fell by 1.1% in 2020. The decline in industry was avoided, and the decline in merchandise exports was only 2.3%. What is even more important for the future period

is that a greater decline in investment and consumer confidence has been prevented, while production capacities, labor force and a favorable macroeconomic perspective have been preserved.

A dramatic increase in Serbia's GDP cannot be expected in 2021 as Serbia did not have a sharp drop in economic activity in 2020. In addition, preventing dramatic consequences will contribute to the rapid return of GDP to pre-crisis levels during 2021. According to the projection of the National Bank of Serbia (NBS), GDP growth in 2021 is estimated at 5.5% to 6.0%, while sustainable growth of about 4% is expected in the medium term future. According to the Ministry of Finance, GDP growth will be 6.0%.

The growth will be driven entirely by domestic demand, both private and government consumption, while the contribution of net exports will be negative. Personal consumption growth of 5.4% means that this aggregate will have the largest share in GDP and will contribute to the growth of economic activity with 3.8 percentage points. In 2021, investments will be the second most important component in terms of a positive contribution to GDP growth. They are expected to increase by 13.3%, i.e. contributing 3.0 percent to GDP growth. Within investments, infrastructure projects are expected to have the largest contribution of 5.5%. Government spending will record a slight increase of 0.4% in 2021, primarily due to the high base from the previous year caused by a significant increase in health expenditures.

From the production perspective, an increase in the created gross domestic value is expected in all sectors, except for agriculture, which is based on the assumption of an average season. The service sector, which was most affected by the pandemic in 2020, will play the role of the dominant driver of growth in 2021.

### **Fiscal projections in the period 2021–2022**

The high deficit in 2020, of about 9% of GDP (table 1) is a consequence of the pandemic and socio-economic measures taken by the

Government of Serbia. These are lower indirect taxes and huge expenses ensuing from support measures for economic entities and procurement of medical equipment. The fiscal strategy of the Ministry of Finance envisages a reduction of the deficit to 3.0% in 2021 (40.4%:43.4%). In the medium term, the fiscal deficit is expected to return to the level of about 1%, which the Ministry considers sustainable.

Table: Projections of public revenues, expenditures and debt (% of GDP)

	2019	2020	2021	2022
Public revenues	42,1	40,3	40,4	40,5
Public expenditures	42,3	49,2	43,4	42,1
Public debt	52,9	59,0	58,7	57,9

Source: Ministry of Finance

The Ministry of Finance of Serbia predicts a decrease in public revenues in 2021 and 2022, compared to 2019 and previous years, but also a slight increase compared to 2020 (table 1). This will result from the transferred tax liabilities from 2020 to 2021 and 2022. Payment of income tax on the basis of tax deferral in 2020 will have a temporary effect on the balance in 2021 and 2022.

Public debt also increased significantly in 2020 from 53% to 59% of Serbia's GDP, and is expected to decrease very gradually in 2021 and 2022 (table 1).

## **Inflation**

The National Bank of Serbia estimates that in 2021 inflation will be slightly higher than in previous years - 2.4% on average, but this growth will be temporary and still in the lower level of the target inflation range.

The main reason that was taken into account during the assessment was the announced increase in electricity prices, and partly the increase in oil prices on the world market, which will also raise the prices of petroleum products on the domestic market.

The Executive Board of the NBS has set a target rate of total inflation for the period from January 2021 to December 2023 in the amount of 3%, with a tolerance of  $\pm 1.5$  p. p.

### **Interest rates**

In February 2021, the NBS decided to keep the reference interest rate at 1%.

Interest rates on the primary government securities market have been declining rapidly for more than a decade. From an average of 12% in 2012, they were reduced to about 2.5% in 2020, and in 2021 an additional smaller reduction to about 2% is projected. J.P. Morgan announced the decision to include dinar bonds of the Republic of Serbia in the bond index J.P. Morgan GBI-EM index from June 30, 2021, which should contribute to the recognition of Serbia as a safe and favorable investment destination.

Interest rates on (newly approved) loans to the private sector have also been reduced by 2021, although these are relatively high interest rates in general. Interest rates on corporate loans are 3.2%, but on retail loans are 8.5%.

### **Socio-economic measures in 2021**

The Government of Serbia managed to prevent a larger number of the unemployed thanks to assistance measures, first of all, payment of the minimum for three months to micro, small and medium enterprises, deferral of taxes and contributions, application for cheap loans of the Development Fund. Despite that, there is a realistic expectation that unemployment is likely to rise in 2021, after the expiration of subsidies for minimum wages and other support measures. In February 2021, the



government again approved the payment of a half of the minimum wage for March, April and May, provided that beneficiary companies do not lay off workers. However, as this is a significantly smaller amount than in 2020, and the end of the epidemic and the normalization of economic flows are not in sight, it is certain that the unemployment rate cannot remain at single digits.

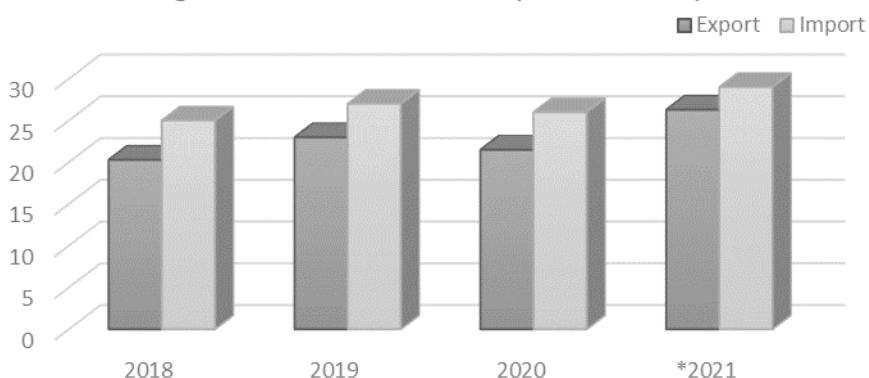
In addition to the fight against unemployment, the Serbian government plans to increase pensions and salaries in the public sector, as well as to increase the minimum wage. According to the Economic Reform Program for 2021-2023, the social component of the budget for 2021 has been improved by better targeting of social assistance programs and greater allocation for health and education activities.

### **Foreign trade**

It is interesting that in 2020, Serbia had a smaller trade deficit than usual. It was 4.2% instead of the projected 5%. The reason for this is that exports have proven to be relatively resilient to imports. Exports decreased by 2.3% while imports decreased by 3.4%, mainly due to reduced demand for imported products, but also periodic supply difficulties. And hence the reduction of the deficit in 2020.

In 2021, a strong recovery of exports of 9.6% is expected. Its growth is projected based on the launch of new production capacities as a result of FDI from the previous period. Exports of certain agricultural products are also expected to increase. It is estimated that in 2021 exports will exceed 26 billion USD, significantly more than in 2019 when it amounted to a maximum of 23 billion USD (figure 1).

Figure 1. Serbian trade (billion USD)



An increase in imports in 2021 is also projected, but not significant one compared to the period before the Covid-19 crisis, 29 billion USD instead of 28 billion USD in 2019 (figure 1), or 13.3% more than in 2020. The projection of import growth in 2021 is based on the projection of growth in domestic demand and the continuation of imports of medical equipment.

In terms of geographical distribution, the decline in exports in 2020 was relatively evenly distributed across countries, so the same is expected with the projected increase in 2021. The exception is China, with which exports as well as imports continued to grow during the pandemic. In 2020, imports from China approached imports from Germany (Germany 13.6%; China 12.5% of Serbian imports). The reason for this is the rapid growth of imports of medical equipment, so it is expected that in 2021 China as an import partner of Serbia will overtake Germany.

## Conclusion

All of these projections include, to some extent, continuing economic challenges related to the Covid-19 pandemic. Nevertheless, all forecasts remain sensitive to uncertainties regarding the course and duration of the

pandemic, possible additional aid to the economy, as well as a number of other unforeseen circumstances.

# Slovakian economic outlook for 2021

Martin Grešš

## Overview<sup>1</sup>

*The Slovak economy entered a recession in 2020 due to an unexpected coronavirus pandemic. We note that this recession should not be as deep as expected and that the recovery of the Slovak economy is likely to take place as early as 2021. This means a faster return to the pre-crisis level of 2019, which should be reached in the second half of 2021. In its baseline forecast scenario, the NBS (2020) expects a successful suppression of the spread of the virus with the gradual release of anti-pandemic measures. Probably the most key factor in the complete end of the pandemic will be the expansion of the planned vaccination as much as possible in 2021 (the Ministry of Health assumes that at least 3 million people will be vaccinated). The key to the recovery in 2021 is the sufficient expansion of vaccination among the population. The second wave of the pandemic in the end of 2020 again required some restrictions on economic activities, especially in the area of services. Gradually, however, the epidemiological situation should begin to improve and the stringency of measures until the successful general expansion of vaccination in the first half of 2021 (after vaccination of the population included within the various phases of the vaccination plan for Slovakia, vaccination of the rest of the population should take place since April 2021 – UVZSR, 2020). Only then can a more significant recovery of the Slovak economy be expected.*

## Economic development in 2021

The Slovak economy contracted by about 6% in 2020. After a rebound from the bottom, a dynamic recovery should take place in 2021 and GDP growth should accelerate above 5%. In this and the following

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<sup>1</sup> Data in this part are extracted from NBS (2020) if not indicated otherwise.

years, economic growth is expected to reach 5.6%, with a slight slowdown to 4.8% in 2022 and 3.7% in 2023. However, uncertainty persists stemming from further epidemiological developments.

In the short term, in addition to the pandemic, the end of the transitional period following the United Kingdom's withdrawal from the EU should have an impact on economic development. As their mutual trade will be governed by the rules of the World Trade Organization (WTO) from January 2021, cumulatively, this could deteriorate the growth of the Slovak economy in the next two years by about 0.3 percentage points.

With the situation improving in 2021, investment is expected to resume in case of favorable financial conditions and growing demand. The overall investment demand should be supported by the increased absorption of the EU funds from the current program framework as well as the start of the absorption of funds from the recovery program. In the medium term, investment in the automotive industry as well as funding from the EU structural and reconstruction funds will have a positive impact. Investment in the automotive industry will first be reflected in an increase in investment and, at the end of 2023, in an increase in the productive capacity of the economy. Both of these factors could add a cumulative 0.9 percentage points to the growth of the Slovak economy. Investment in the automotive industry is spread mainly over the years 2022 and 2023. The total volume of investment could reach the pre-crisis level at the turn of 2021 and 2022.

As for Slovakia's foreign trade relations, in 2021 foreign demand should continue to grow in a dynamic trend, which should be reflected in further growth in the export performance of the Slovak economy. Brexit is expected to have a slight negative effect on foreign trade.

In terms of the production capacity of the Slovak economy, we assume a significant deterioration of the cyclical position, when in 2020 the economy produced almost 6% below production capacity (production gap as a percentage of potential GDP). The first wave of the pandemic caused the historically highest cyclical outage in the second quarter of 2020. After

a partial recovery during the summer months, domestic and foreign demand was expected to decline again at the end of 2020 due to the second wave of the pandemic, which will be reflected in a further short-term deterioration. In the years 2021 and 2022, the gradual return of the Slovak economy to its equilibrium and subsequent continuation of expansion is expected. This could result in a positive production gap, which should be reached as early as 2021.

A more significant improvement in the employment and wages is not expected until the second half of 2021. In addition, a more significant slowdown in price growth is expected. The main reasons include a decline in regulated energy prices and weaker consumer demand. Acceleration of price development is expected only with a more dynamic recovery of economic activity in 2022. However, there is still a negative risk of a pandemic spreading and an assumption about the timing of the introduction of vaccination. On the other hand, we can also identify positive risks. Positive risks include the possibility of concluding a trade agreement between the United Kingdom and the EU, which does not anticipate the forecast for the euro area, fiscal incentives, including Euro funds, and the effective implementation of the EU Recovery Fund. In addition, with the start of the economy in the coming years, more dynamic wage growth is also expected in the private sector. Also, slightly higher inflation should contribute to faster nominal wage growth through collective bargaining. In the case of job creation, the successful widespread implementation of the vaccine should significantly restore economic activity, leading to more robust job creation, especially from the second half of 2021. In the medium term, the labor market should gradually rebalance. The use of opportunities to work relatively safely during a pandemic, such as working from home and introducing and enforcing measures against the spread of the disease on the way to or from work, could also help to alleviate the decline in labor supply. In case of a longer duration of the pandemic, the labor supply may increase the facilitation of retraining and the transfer of employees, especially from the services sector to less affected sectors, as stated by the NBS (2020).

The fall in energy commodity prices in world markets over the past year has created a space for a decline in consumer energy prices. This should be mostly reflected in regulated electricity and gas prices in 2021, with energy prices accounting for almost half of the overall slowdown in inflation this year. In general, low HICP inflation is predicted and expected throughout 2021. Regulated energy prices are expected to fall more sharply at the beginning of the year in response to their price developments in 2020. Weaker consumer demand, slower wage growth and low import prices should dampen net inflation.

### **Predictions of development of basic macroeconomic indicators in 2021**

This part is based on the data provided by NBS (2020). Since the exceptional situation with the corona virus pandemic in 2020 and possible recovery from the crisis in 2021, we decided to include also estimated data for 2020 to better compare the differences between the developments in 2020 and forecasts for 2021.

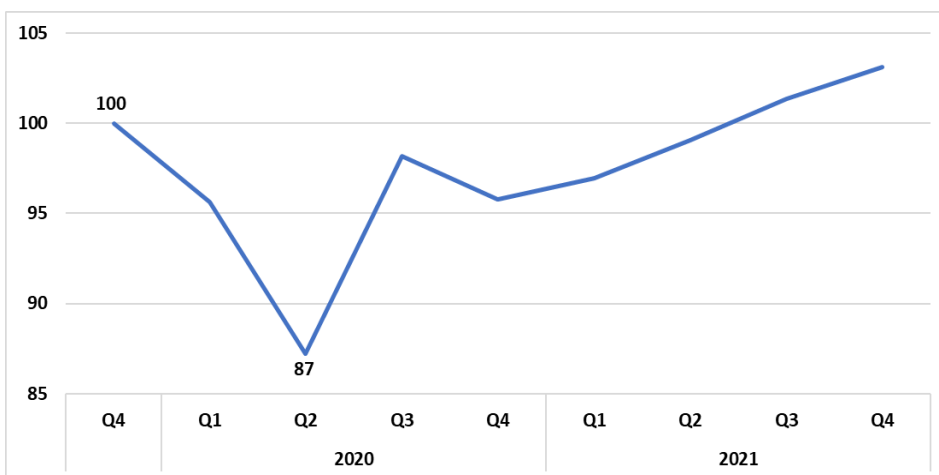
Figure 1 shows the development of the GDP with fourth quarter of 2019 set at 100. After the fall in the GDP in 2020, the projected GDP should increase in 2021 and reach the precrisis level in the third quarter of 2021 and even surpass it in the fourth quarter of 2021.

Because of the slump in the consumer demand together with decreased energy prices, the inflation in 2020 decreased from the precrisis level of 2.8 in 2019 and should reach 0.3% in the first quarter of 2021 (figure 2). The decreasing trend from 2020 should reach its bottom in this quarter and since the second quarter, the inflation should slightly increase to 0.9%. However, this development will be in line with the development of the real GDP, when the GDP should increase by 1.4 and 3.1% in third and fourth quarter of 2021 compared to a base fourth quarter of 2019. Therefore, the real GDP development should surpass the rate of inflation.

Unemployment rate (figure 3) increased in 2020, however it is projected to increase even further in the first two quarters of 2021 reaching 8% in the second quarter. However, due to possible positive improvements in pandemic situation, the rate is projected to decline in the second half of 2021, but not reaching the precrisis level of the end of 2019.

External trade relations (figure 4) should also improve with projected increase in the value of both exports and imports through the whole year 2021. Numbers also show (NBS, 2020) that the intra-EU exports should compose 46.7-47.5% of total Slovak exports with an increasing trend, while the intra-EU imports should compose 27.2% of total Slovak imports in all four quarters of 2021.

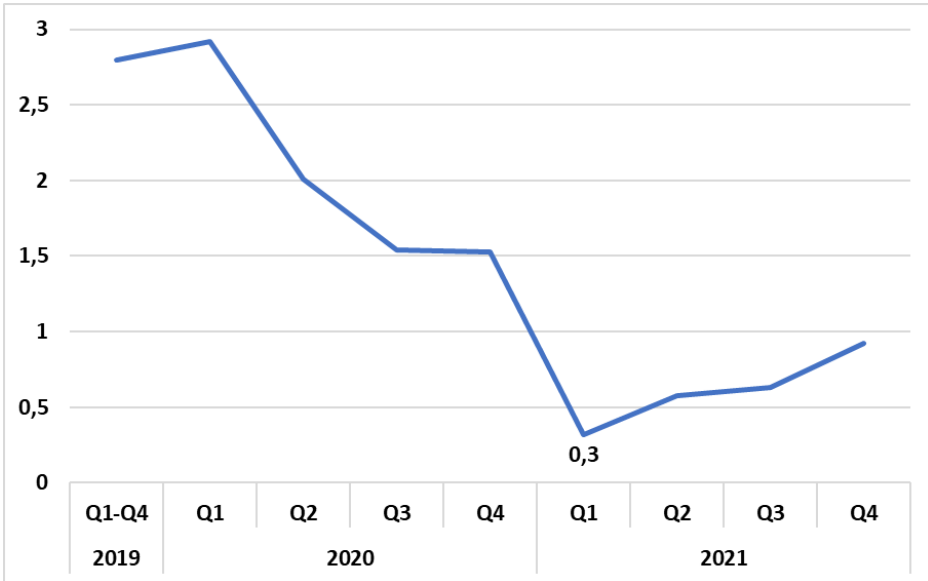
**Figure 1 GDP predictions, current prices, indices, Q4 2019 = 100**



*Source: NBS (2020); calculations by author.*

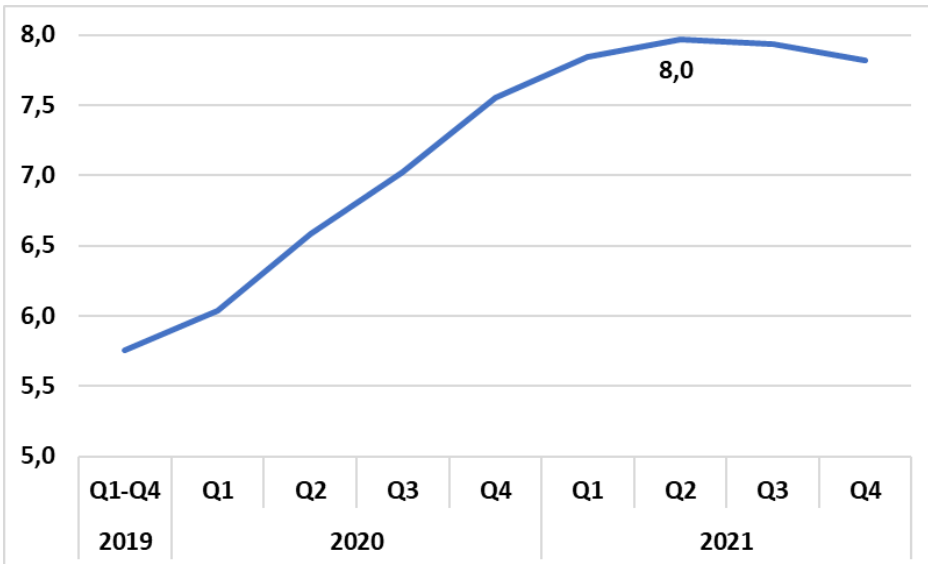


**Figure 2 Inflation (HICP) predictions, growth, year-on-year, %**



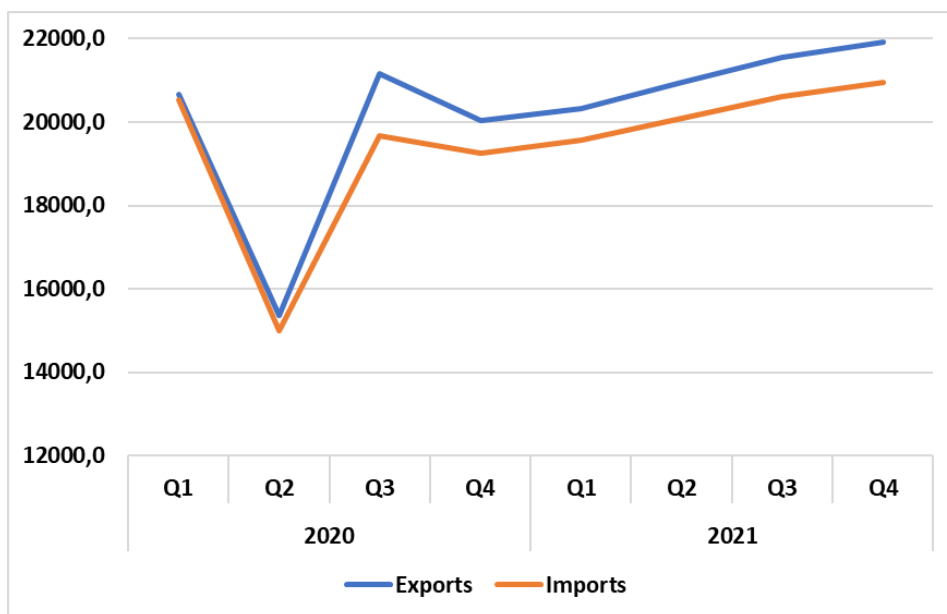
*Source: NBS (2020); calculations by author.*

**Figure 3 Unemployment predictions, rate, %**



*Source: NBS (2020); calculations by author.*

**Figure 4 Export and import predictions, ESA 2010, million EUR**



*Source: NBS (2020); calculations by author.*

## **Conclusion**

Based on the predictions and availability and willingness of Slovak population to vaccinate themselves, the economic development in 2021 is predicted to return to precrisis level of 2019 at least in the GDP growth, which is projected to be higher in third and fourth quarter of 2021 than in fourth quarter of 2019. Inflation (HICP) should reach the lowest level in first quarter of 2021 and should remain below 1% for the whole year, which is well below the average inflation of 2019 at 2.8%. Because of rather significant increase in the unemployment rate in 2020 due to the pandemic situation, unemployment is expected to increase to 8% (which was reached in 2017 from an all-time high of 19% in 2000) and than slightly decline. However, we note, that the precrisis levels of 5.8% of 2019 will not be reached in 2021. Positive development is projected also for external relations with the values of both exports and imports increasing in all four quarters of 2021.

Overall, the year 2021 should be a year of economic recovery and another boost for the Slovak economy in case the pandemic situation improves significantly and no more radical measures will have to be imposed (such as complete lockdown of the economy) compared to 2020.

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# Slovenian economic outlook for 2021

Tina Čok

***Summary:** The Covid-19 pandemic, combined with stringent health and protection measures, severely impacted economic activity in 2020 and will continue to shape it at least in the first quarter of 2021. Stringent measures to contain the spread of the coronavirus have led to a sharp decline in economic activity, both globally and in Slovenia, as non-essential service activities ceased and other service activities were curtailed in the second and last quarters of 2020 and in the second quarter also the industry. This report takes into account the latest forecasts of economic growth in Slovenia for 2021 prepared by the national institutions of the Chamber of Commerce and Industry (CCI), the Institute for Macroeconomic Analysis and Development (IMAD) and the Bank of Slovenia. CCI and IMAD prepared their forecasts before the outbreak of the 'second wave'. A comparison of the accuracy of the forecast between the institutions in the past showed that the Bank of Slovenia was among the most accurate in forecasting real GDP growth and consumer price growth in the periods studied.*

## **Significant negative impact**

### **of Covid-19 pandemic on economic activity growth**

A comparison of the latest forecasts of economic growth in Slovenia for the period 2020-2023 show a marked negative effect of the Covid-19 pandemic on the growth of economic activity in 2020, with the median forecast of domestic institutions at -7.2% and foreign institutions at -7.4%. Economic growth is expected to recover gradually over the remainder of the forecast period, with the median forecast of all institutions at around 3.9%.

The forecasts suggest that economic activity will begin to recover in 2021 as containment measures gradually fade, but is not expected to return to pre-pandemic levels until 2022 or, in a worse-case scenario, by the end of 2023. The depth of decline in 2020 and recovery in 2021 and 2022 will vary widely across EU countries, depending on the course of the epidemic and the severity of containment measures, as well as differences in the structure of economies and domestic policy responses.

Estimates for Slovenia suggest that due to epidemiological conditions in winter, severe restrictions will ease only gradually, delaying recovery towards the second quarter of 2021. The recovery will be gradual and differentiated by individual activities, with some restrictive measures maintained in Slovenia and among trading partners. The pace of recovery will continue to be critically influenced by the epidemiological situation, the pace of vaccine deployment, and the responsiveness of policy through measures to mitigate the impact of the epidemic and boost the economy. Government support is expected to remain crucial to create the conditions for a gradual economic recovery by maintaining labor market support measures and kick-starting public investment, for which European funding also be available.

### **Negative impact of the pandemic on consumption aggregates**

Despite the recovery of most activities in the third quarter of 2020 with the release of most health protection measures, economic activity in the first nine months remained 6% below the level of the previous year.

Available forecasts of economic growth show that the smallest decline in economic growth in 2020 is forecasted by the CII at -6.5%, followed by the IMF and IMAD forecasts at -6.7%. The Bank of Slovenia's forecast of -7.6% is 0.2 percentage points below the median of all forecasts for 2020. For 2021, IMAD and the CCI forecast the highest economic growth at 5.1% and 5.0%, respectively. The forecast of the Bank of Slovenia is 1.8 percentage points below the median of all forecasts for the

observed year and, at 3.1%, slightly below the lower limit of the forecast range of the other institutions.

The negative effect of the pandemic is also reflected in the forecasts for consumer price growth, where the median of the forecasts of domestic and foreign institutions is 0.1%. For the rest of the forecast period, the median forecast of all institutions reflects a gradual increase in consumer prices, which is in line with the expected recovery in economic activity. In 2021, the highest inflation rate is forecasted by the CCI at 1.9%, which is 0.5 percentage points higher than the median of all forecasts for the year under review. The Bank of Slovenia's forecast of 0.9% is 0.5 percentage points lower than the median of all forecasts. Thus, with a moderate economic recovery, which is expected to be delayed until spring 2021, inflation will gradually increase in 2021 and 2022. In addition to a further increase in food prices, higher growth in energy prices is likely to contribute to this after a sharp decline in 2020, and higher growth in service prices in 2022 in connection with the economic recovery.

Government financial support will play an important role as a buffer against economic fluctuations and will also address future development challenges to the extent possible. In 2021, growth in international trade and investment is expected, particularly in planned government construction projects, further growth in residential investment and, with some delay, investment in equipment and machinery. Private consumption will also increase with growth in disposable income, and the savings rate will gradually decline but will remain high due to the uncertainty of future developments. Government consumption growth will remain similar to 2020.

The recovery of the labor market will be postponed to the second half of 2021, assuming a slow improvement, due to the aggravated epidemiological situation and the current closure of many activities. Government measures, especially in the first half of 2021, are expected to continue to mitigate the negative labor market and will only gradually be withdrawn.

**The epidemiological situation  
remains the greatest risk factor for economic growth**

The biggest risk to the realisation of the proposed forecasts remains the epidemiological situation in Slovenia and its main trading partners, as well as a gradual and well-designed withdrawal of mitigation measures. However, there is also some chance that economic growth will be higher in 2021. A prolonged and more extensive second wave with tighter restrictive measures, as well as possible new waves of infection and the associated renewed closures of economies, pose the greatest risk to a stable recovery in the future. A prolonged continuation or reintroduction of strict containment measures would further affect service activities, and in the case of a larger closure of activities, the consequences would also be felt in industry. Too rapid a withdrawal of containment measures could lead to an increase in unemployment and difficulties for a greater number of economic operators in carrying out their activities, given the tightening of the economic situation. The liquidity problems of some companies could turn into long-term insolvency, which would increase the number of bankruptcies. The banking sector could be affected by the increase in non-performing loans. Overall, this would also affect a slower general recovery in the country. In the event of a rapid lasting improvement in the epidemiological situation or a faster availability and widespread introduction of a vaccine, there is also the possibility of a faster recovery than expected.

Stocks are expected to remain unchanged next year, which, combined with this year's decline, will make a positive contribution to GDP growth. Exports and imports are also expected to recover in 2021. At the same time, growth in trade in goods will recover more quickly, while trade in services, especially related to travel and leisure, will not return to normal until the spread of the virus is more permanently contained.

**Recovery will vary greatly depending on the activity**

A rapid recovery is expected in construction, where investment growth will be stimulated by additional EU funds from the Recovery Plan

and Resilience Mechanism and is expected to exceed pre-crisis 2019 levels this year. Manufacturing is also expected to recover relatively quickly, linked to the recovery of trading partners and the resulting growth in foreign demand. It will reach 2019 levels in 2022. However, the recovery of services, which were relatively more affected by the epidemic crisis, will be slower. In 2021, certain measures (wearing masks and physical distancing) and restrictions on public gatherings are still likely, which will make it difficult to fully normalise the operation of businesses, especially in travel, catering, leisure, sports and cultural services. On the other hand, services more related to construction or economic activity in general (e.g. architectural design and consultancy services) will recover more quickly to pre-crisis levels. Growth in value added in public services will be moderate and mainly due to the strengthening of the level of health and social care capacity.

### **Conclusions**

The start of the recovery in economic activity will be delayed until the spring months at the beginning of 2021 due to the increasingly evident continuation of the deteriorating epidemiological situation. In 2022, the recovery will continue and most consumption aggregates will reach pre-crisis levels. The recovery will thus be limited over the next two years due to the continued fight against the epidemic and ongoing uncertainty, but will be supported by large financial packages agreed at EU level, increased public investment and state aid to businesses and residents, and monetary stimulus. However, the rapid introduction and widespread dissemination of an effective vaccine or rapid progress in treatment would significantly improve the prospects for higher economic growth in 2021.



## **Part III Social Development Outlook**

# Daunting prospects of the Albanian society in 2021

Marsela Musabelliu

*Summary: For the second year in a row, Albanian society is entering a New Year with the main problems of the one left behind. As 2020 started with the terrible consequences of the late-November earthquake, 2021 starts with the main problem of 2020 - namely the social ramifications of the pandemic. As new cases continue to spiral upwards, frustration and hardships are spiraling as well. The economic difficulties as consequence of the recession, the uncertainties for decent healthcare services, stagnation of labor market and most of all the fear of the unknown - meaning not knowing when this all will end – increase exponentially anxiety and bitterness throughout the society.*

## **Hopping for a swift and massive vaccination process**

The first challenge that arises is securing the vaccine. While some countries of the world have already started the vaccination process by preparing detailed plans for how it will be managed; as of end January, 2021 there is no clear or publicly expressed plan by the authorities in Albania to do so. So far, the country has become part of the alliance that aims to coordinate the process and make an equal distribution of the vaccine in all countries. In addition to the alliance, expectations are that Albania will receive donations from various allies. On the other hand, the possibility of direct negotiations with any of the vaccine companies to ensure the required quantity is not excluded. The biggest challenge remains securing the quantity of vaccines which then paves the way for the mobilization of the national vaccination network.

However, as days go by, one matter is becoming obvious, the vaccination process will take more time than it was initially hoped. The

first batch of vaccines arrived in Tirana with a large media coverage but a limited number of vaccines, considering that is not even known when the rest will be available, it is taken for granted that time is not on Albanians' side. It is known and accepted fact that poorer countries will benefit later on in time, and Albanian citizens are not even relying on it for the short run.

### **Healthcare**

The mistrust on a swift vaccination process, is also linked to the same mistrust in the healthcare system. This attitude is only amplified in times of health crises as the pandemic; there are thousands of families who claim that they had to spend exuberant amounts of money for their beloved one infected with Covid-19; and they also witnessed the harsh reality of the out-of-pocket spending in public hospitals. A case that shocked the public opinion at the very start of 2021 was a bribery scandals on the main Covid-19 hospital in Albania. A janitor in this hospital was caught taking bribes at about six thousand Euros from the family of a patient who later died (it is important be reminded here that the per capita GDP of Albania is around 4,500 Euros per year, so that amount is extremely high for an average family). As the general anger and fury was channeled on all social media platforms, the government portrayed it as an isolated case. Yet, Albanians know that it is not, if a cleaning lady, with evidently not much power inside an institution, can make it that happen, what about the rest, the ones higher in the hierarchy. If there is a sector that needs scrutiny, funding and governmental attention is healthcare, and still for Albanian this “dream” has not been materialized and is not going to, even in 2021.

### **Demographic trends**

Migration is a phenomenon that affects the lowest income countries and all segments of the population, but the educated tend to emigrate more in Albania, especially in the last decade. In January 2021, the Organization for Economic Co-operation and Development (OECD) released some disturbing data: Albania is officially fourth in the world for increased the emigration of skilled citizens, preceded only by Liberia, Bhutan and

Moldova. Albania has been affected for decades by the massive emigration of the population, whose curve is not mitigating, but the departure of the educated and skilled citizens is at alarming levels.

While 2020 was a year with restrained demographic mobilization, especially due to the travel restrictions imposed by the most important migration destinations of Albanians (Italy, Germany and Greece) in 2021 the slow pace of migration will probably keep the same rhythms. While the European Union (EU) countries will continue massive vaccination process for their citizens, it is quite unlikely that they will host other nationals. While trying to go and work abroad becomes less of an option for Albanian, staying in their home country will become the new short-term plan for them; but, staying in their home country, with limited job opportunities and apparent economic decline could come as boomerang of discontent, especially for the young generation.

### **Labor market and informality**

There are a series of unknown territories that Albania will face during 2021, most of which are the legacy of 2020, however there are legacies that go deeper in time. A recent report by the International Labor Organization (ILO) found out that 57% of the workforce is working in informality; the undeclared employees are led by agriculture, trade and construction. When excluding agriculture, informality in the labor market is estimated at 32.2%, essentially one out three Albanians is paid in cash for the monthly salary, with no legal or financial safety net. Furthermore, experts believe that this worrying phenomenon is further exacerbated by the pandemic crisis. Official national statistics reported as employees 1.2 million people, of whom were reported to pay social and health insurance from the General Directorate of Taxes, only 782 thousand people. Thus, there are more than 400 thousand Albanians in estimation that did not benefit from the financial support packages of the government in 2020, and by all considerations are the most marginalized of the working force.

## **Education**

Some very 'conservative' estimates for a few selected EU countries consistently indicate that, on average, students will suffer a learning loss in the course of 2021. It is also suggested that Covid-19 will not affect students equally and it has already had profound consequences in education and will exacerbate existing learning issues and inequalities in the region. Reduction in maximizing potential negative impacts requires aggressive policy responses. According to a study by European Commission (JRC technical report) the switch from offline to online learning is likely expected to exacerbate existing educational inequalities. More vulnerable students, such as for instance those from less advantaged backgrounds, are especially prone to fall behind during this emergency period. These students are less likely to have access to relevant learning digital resources (e.g. laptop/computer, broadband internet connection) and less likely to have a suitable home learning environment, and for Albanian pupils and students this an overspread burden, especially in the low-income and rural areas. There are hundreds of thousands of Albanian families that cannot afford to purchase the necessary technological devices for online learning, and for many, this struggle will continue along all academic year of 2020-2021. It is only hoped that come next fall, classes and auditoriums will be operational again.

## **Probable social unrest**

At the end of April, Albania will hold a key election process and its outcome will define one of the big unknowns of 2021. The ruling party is fighting for a third term in government, while the opposition is seeking a return to the post of Prime Minister after eight years. The elections are a key moment both for the Prime Minister who can set a new precedent in post-1990s pluralist Albania by taking three consecutive terms, and for the opposition leader who has the chance to be tested in the direction of the government cabinet. It remains to be seen what the election result will produce however what history teaches us is that pre or post electoral disputes have been translated into social unrest, sometimes with fatalities. As in 2021 the stakes are high, so it is supposed to be the involvement of

extremist of one political force or the other. Depending on the outcome, it usually the losing side that takes actions into the streets, and most likely this time around will happen as well. Yet again, as it happened in the past, if the political agitation will pour on the streets of Albania, it will still be for power and by power.

### **Conclusions**

At the dawn of 2021, what is needed the most is optimism, yet this optimism is hard to find for Albanians.

As all predictions are based on a great deal of unknown, the biggest one being the trend of the pandemic and its consequences. The behavior and the tendencies of the society as whole will be shaped or altered depending of the severity of Covid-19. The general frustration and what the experts of the World Health Organization (WHO) are naming ‘pandemic fatigue’ is an expected and natural reaction to the prolonged nature of this crisis, the associated inconvenience and social hardship. If we add to the above the preexisting harsh conditions of the Albanian society, the outcome is a clear rocky path for 2021 in Albania. In hoping that the voices of reason will prevail and diligent safeguarding will be the new normal, the entire society is enduring yet another challenge with perseverance and strength, because being strong is the only choice they have.

# BiH social development outlook for 2021

**Zvonimir Stopić**

*Summary: In order to create a framework for predictions of any significant direction that the Bosnia and Herzegovina's society may take in the year 2021, in this briefing we will take a look into the societal trends occurring around the turn of the year. We will focus on two of the most important social topics: the COVID-19 pandemic outlook along with vaccination plans and continuing migrant crisis in the country.*

## **Covid-19 pandemic current overall trend and expected vaccine distributions**

The COVID-19 pandemic protection measures are still present in Bosnia and Herzegovina and the number of newly infected cases has been showing a positive dropping trend in January. In mid January the number of new cases went under 200 daily which is the lowest rate since September 2020. On January 19th, 300 new cases were reported on the territory of Bosnia and Herzegovina, alongside 23 deaths caused by the corona virus infection. There are 553,57 active cases on 100,000 citizens and the weekly number of new cases is 61,79 on 100,000 citizens. Although Bosnia and Herzegovina still has one of the highest death rates in the region, the healthcare institutions are clinging towards optimism after new trends in January that show that the introduced partial lockdown measures had shown effect.

According to the data of the Ministry of Civil Affairs of Bosnia and Herzegovina, since the start of the COVID-19 pandemic, 118,383 people had been infected, out of which 88,071 had recovered and 4,509 had died due to the corona virus. Here is the table with the numbers divided in territories, as released on January 19<sup>th</sup>:

	<b>Confirmed cases</b>	<b>Tested</b>	<b>Deaths</b>	<b>Recovered</b>	<b>Active cases</b>
<b>B&amp;H</b>	118383	568743	4509	88071	18939
<b>RS</b>	38983	176057	1969	25345	4805
<b>FB&amp;H</b>	76417	380633	2393	60304	13720
<b>BD</b>	2983	12053	147	2422	414

The head of the Council of Ministers of Bosnia and Herzegovina Zoran Tegeltija has announced that the first shipments of the corona virus vaccine will be arriving to the country at the end of January. However, the Ministry of civil affairs is unable to confirm the date of arrival of this first vaccine shipment. In the meantime, the partial lockdown measures will be effective until February 1st the earliest. Through the international supply mechanism COVAX, the state of Bosnia and Herzegovina had ordered 1.230,000 vaccine doses – 20 % from the amount planned - out of which 800,000 will be distributed in the Federation of Bosnia and Herzegovina, 400,000 in Republika Srpska and 32,000 in Brčko district. The vaccine will be produced by Pfizer and the price of a single vaccine dose will be \$ 10 or free of charge for priority groups. The first ones to be vaccinated, according to Tegeltija, will be health workers, people over the age of 65, people suffering from chronic illnesses and people living and working in retirement homes.

Simultaneously, Branislav Zeljković, the director of the Institute for public health of Republika Srpska announced the arrival of Russian vaccine Sputnik V to that entity by the end of February, with vaccination starting at the beginning of March. This vaccine had not been approved by the Agency for Drugs and Medical Supplies, nor the World Health Organization or European Medicine Agency. It is possible to distribute it in Republika Srpska as there is a possibility of interventionist vaccine



import that can be approved only by the entity's Ministry of Health, as Bosnia and Herzegovina does not have a national Ministry of Health. The authorities of Federation of Bosnia and Herzegovina do not plan to order the Russian vaccine as their Ministry of Health does not have the legal option of direct negotiation with the vaccine producers. Parliamentary representative Denis Zvizdić has thus put forward a notion in the Parliament to make direct negotiations possible, stating that the COVAX initiative may take too long to distribute the vaccine to Bosnia and Herzegovina. Representative of Pfizer in Bosnia and Herzegovina has stated that they have thoroughly informed the authorities about their product and are prepared and ready to start direct negotiation of the distribution of their vaccine. Željko Komšić, member of the Bosnia and Herzegovina Presidency has called upon Zoran Tegeltija and Anikica Gudeljević, the minister of Civil Affairs of Bosnia and Herzegovina, to settle the confusion and delay of vaccines to the country. Ankica Gudeljević had a meeting with the European Union ambassador in Bosnia and Herzegovina Johan Sattler, asking him to speed up the process of vaccine acquiring to the country, to which he replied by saying that Bosnia and Herzegovina was one of the first to apply and definitely won't be the last to receive the vaccine shipment. In the meantime, Kanton Sarajevo government had stepped up on their own to speed up the process of acquiring the vaccine directly, with a resolution on January 16th. So far, no other canton reported that they will go into similar venture separately.

### **Migrant crisis standstill**

#### **and expected continuation of the problem**

Harsh Bosnian winter is continuing for about 9,000 migrants, out of which around 3,000 are estimated to be living in dozens of locations outside of refugee and migrant centers, mostly in improvised forest camps and abandoned buildings. Although since 2018, when Bosnia and Herzegovina became an established migrant route, the European Union had sent financial support of € 89 million through the International Organization for

Migration (IOM), the migrants outside of centers are mostly relying on help by Bosnian volunteers and local inhabitants. 77 % of the help funds so far had been spent on humanitarian help (essential goods), 14 % for the establishment of refugee centers while 9 % went to local institutions, operative and administrative costs. Eight refugee centers had been established with a joint capacity of 7,830 beds, but meanwhile two - camp Bira definitely and camp Lipa temporarily after a fire in December 2020 - had been closed. More than 1,100 personnel are directly employed to work on the general migrant problem related organization.

Zehida Butorac Odošić, a local activist from Velika Kladuša in Unsko-sanski kanton, a territory which is over capacitated by migrants, says that the problem just continues to get worse, especially after several recent protests from the locals inhabitants and authorities who refuse to take in any more migrants. She says that she finds it incredible that the world is very aware of this problem but still the people are freezing in cold forests.

With this in mind, also there is no further initiative from the local authorities to open new camps, especially after closing camp Bira near Bihać and not giving in to the EU and international community protest and pressures to reopen it. Also, after the fire in camp Lipa in December, the local authorities in Konjic refused to accept the 700 migrants transferred to Bradine in their territory. A specific case is Republika Srpska, whose authorities had declined any sort of plans for help to the migrants in their territory and nothing implies that will not continue to do so.

As for additional help, the European Union delegation has stated that further funds are planned accordingly with needs expressed by the authorities in Bosnia and Herzegovina. Also, the expenditure is monitored through European Union procedures with regular inspections so the aid will be spent transparently and with reports for all transactions. But also the European Union has warned authorities in Bosnia and Herzegovina that the refusal to resolve issues connected to the migrant crisis in the northwest of the country may affect the aspirations and negotiations of Bosnia and Herzegovina entering the European Union. The latest open appeal came on

January 12th from Amnesty International and several other humanitarian organizations, while on January 18th the ambassadors on the USA and Great Britain had called upon the authorities in Bosnia and Herzegovina to coordinate their response to the migrant crisis and justly distribute the responsibility throughout the country.

### **Conclusion**

It is expected that the number of corona virus infections and death will continue to have a positive trend towards ending the pandemic, especially because of the mass vaccination planed starting from the end of January earliest. However, this timing is not fully reliable as it depends upon the overall worldwide COVAX distribution system dynamics. Thus, direct negotiations with the vaccine manufacturers are expected, as is the case with Sputnik V in Republika Srpska and in Kanton Sarajevo. This will lead to sooner gradual relaxation of pandemic introduced measures and slow return of social gatherings and everyday activities. The migrant crisis persists and there seems to be no real initiative for solving it so we may expect for the current trend to continue and get worse. As more people come in the country more will be forced to live outside as, not only there are no new refugee centers being established, but some could be closed due to the protests and pressure by the locals. International humanitarian organizations, as well as embassies of the USA and Great Britain had appealed for immediate resolution of the problem, while the European Union authorities implied the issue may have affect for Bosnia and Herzegovina aspirations to join the European Union. Both the pace of resolution of the coronavirus and migrant crisis will continue to have impact on various political, economic and social aspects of Bosnia and Herzegovina's development in 2021.

# **Outlook of the social challenges for Bulgaria in 2021**

**Evgeniy Kandilarov**

After the past year, which in every respect was extremely difficult for all societies around the world, for Bulgaria the prospects for the coming 2021 are no less challenging at all. The pandemic of COVID-19 put to a great test not only the health and life of all the Bulgarians, but also the normal functioning of the main social structures and basic social systems, which in turn puts at risk the sustainable development of Bulgarian society as a whole. The main social challenges facing Bulgaria in 2021 do not differ significantly from those existing in the past year.

First of all, both in the whole world and in Bulgaria, the main social threat remains the same and it is related to the infection of COVID-19, which has taken the lives of already 8651 people so far. It seems that this social threat has not gone away at all, especially given the emergence of new strains of the virus, which are many times more contagious, and in many countries in Europe this has led to a new and even larger wave of newly infected cases. Although the spread of the new strain in Bulgaria is still limited, experts predict that a new strong wave is coming in the country, which will hit Bulgaria in the coming months.

One of the great hopes associated with controlling the pandemic, both globally and for Bulgaria, is the progress made in creating effective vaccines that could limit the spread of the virus. From this point of view, the Bulgarian government and health authorities rely heavily on the prospect of mass vaccination of the population in the amount of not less than 70% of the population. At this stage, however, the achievement of this plan is not at all certain, as opinion polls show that up to now 2/3 of Bulgarian society either directly refuses to be vaccinated due to the

presence of all sorts of fears and concerns, or prefers to wait to see the effect from vaccination before undergoing such.

The percentage of people who are afraid of vaccination is close to 30% of the population and the main fears are related to the unusually short deadlines for the development of the vaccines, which raises fears related to the lack of enough data on the long-term safety of the vaccines. The fact that the first vaccines against Covid are based on a new technology using mRNA also raises suspicion among many people. Of course, along with these well-founded and logical concerns, there are all sorts of conspiracy theories that take part as well. For example, about 16% of Bulgarians believe that the coronavirus vaccine will put chips in people in order to control them. Another theory that scientists strongly refuse, but it has a serious impact on many people, is that coronavirus vaccines based on mRNA technology will alter human DNA. In any case, there are fears and worries in society, which calls into question the voluntary mass vaccination of the population within a short period of time.

This, in turn, outlines the prospect in 2021 of one of the main social systems in the country - the health care system. It is about to continue to function in extreme circumstances, which, however, creates a natural risk of its collapse due to the long period of full mobilization, leading to overstrain and gradual decrease of the human resources available to this system. Signs of such a collapse have been seen many times in recent months, when in many cases a lot of Bulgarians have failed to receive adequate medical care due to the chaos in the health care system and in the emergency medical care system due to overcrowding and lack of enough medical staff. Moreover, the emergency situation in which the health system operates during a pandemic creates huge problems related to the ability to provide adequate medical care to people suffering from a number of other medical problems, chronic diseases and so on. Many of them also lost their lives in the last year, not due to coronavirus infection, but due to the inability to receive adequate and quality medical care, because of the fact that the entire medical resource of the country is focused on dealing with the COVID-19.

Another significant social problem that arises is that in the circumstances thus created, in 2021 the state and society will most likely continue to be subjected to new highly restrictive measures (like partial of full lockdowns) related to all public activity and social events, which aim to limit and reduce the number of infected. However, this in turn creates serious social risks related to at least three socially significant issues. Without ranking them in order of importance these are: the education system, the issue of unemployment caused by the forced closure and restriction of economic activity of entire industries, mostly related to service sector, and last but not least it is the issue related to the general psychological condition of the population placed in an extremely frustrating environment which is leading slowly but steadily to some forms of deviation from the normal and well-functioning social organism.

In 2020, all levels of education, not only in Bulgaria but also around the world, have changed radically, and the impact on the students of all ages is yet to be seen. According to many experts, in the distance form of learning the assimilation of the study material is extremely low – research shows about 15%. Another concern of social psychologists is that the distance learning in schools and universities can have a fatal long term consequences, as online learning could lead to total illiteracy among students. According to sociologists, keeping children at home for a few more months will make it significantly more difficult for parents and will practically ruin the school year for students up to grades 4-5. Another extremely negative effect of online learning is the reported serious growth of children with myopia due to the long-term use of electronic devices. Phones are especially dangerous because children approach the screen right in front of their eyes. This way both the visual system and the nervous system are extremely stressed. However, it seems that the distance learning will continue to develop in the education system in Bulgaria in 2021 and potentially more children will be officially educated at home. At the same time the positive effect was that the pandemic has accelerated a number of educational processes. First of all, it opened the way for digitalization, for the more efficient use of electronic devices, for information technologies -

as a method, a means, a way of pedagogical interaction. This also showed the need for digital skills for both teachers and students.

Another serious social challenge in 2021 will be the problem of unemployment and income of the population, which will potentially increase the number of people at risk of poverty.

More than 400 thousand people are newly registered unemployed in the labor offices in Bulgaria since the beginning of the pandemic. This is shown by the latest data from the specialized labor market monitoring of the National Statistical Institute and the Employment Agency, which has been done since February 2020. Only for one week from January 11 to 17 2021, 7,600 people registered with the labor offices, and the number of people employed at the same time is twice less - only 3,600 people. Although formally all the measures to preserve employment that the state government proposes will continue to function, unemployment continues to rise. The number of unemployed people at the beginning of 2021 is not distributed proportionally throughout the country, but is significantly higher as a percentage of the population in smaller cities. In the capital and large cities, the labor market is much calmer and remains far from the critical rates during last spring. This snapshot can show several things. For example, that the measures to maintain employment such as 60/40 and 80/20 in tourism, or the "Save me" program, which pays 75% of the salaries of closed companies, etc., do not work in small towns. The more serious problem is that the number of the employed remains very low. For the week from 4 to 10 January 2021- the first working days in 2021 there are only 240 new employees. This shows a steady downward trend in employment and it seems that for the time being in 2021 the gap between the number of unemployed and employed will continue to unfold.

Data is still expected on how the pandemic has affected wages in the last months of 2020. If wages have fallen below an average of BGN 1,200, it will mean that we have a new blow to the labor market. However, the branches that have suffered the most and will continue suffering in 2021 can definitely be seen, including the tourism sector, the restaurants and pubs, as well as all those employed in the culture sector, the private

educational and language schools, and others. According to the government's decision, the minimum daily unemployment benefit is BGN 12 (EUR 6) and the maximum is BGN 74.29 (EUR 37).

Anticipating the sharp impoverishment of part of the population, the government decided to use as certain small compensation an increase in the minimum wage and the minimum pension. From the first day of 2021, the minimum wage became BGN 650 (EUR 325) – BGN 40 (EUR 20) more than last year. The minimum pension for people who are about to retire is already BGN 300 (EUR 150) instead of BGN 250 (EUR 125), as it was before.

In conclusion, another significant social trend should be noted, which seems to be developing in the current 2021 year. It is related to the growing psychological tiredness and tension in society caused by the forced long social distance and restrictive measures leading to the lack of any opportunities for easing of the stress and social tension such as all kind of sport activities, free travel and tourism, cultural events such as theater performances, concerts, exhibitions, as well as public scientific or socio-political events. To this we must add the lack of opportunities for normal social communication in restaurants, bars, nightclubs, etc. Many social psychologists note that the prolonged restriction of social life leads to the accumulation of psychologically negative phenomena such as stress, fear, apathy, alienation as well as anger. All this leads to an increase in the level of risk of social tension, which will possibly lead in 2021 to a new wave of protests against the government, civil disobedience and other manifestations of tension, which can affect both government and prospects for business development and investment as a long term consequence.



## **A preview of 2021 key social events in Croatia**

**Valentino Petrović**

***Summary:** In this paper we will provide a brief analysis of social circumstances surrounding the December Sisak-Moslavina county earthquake, including the recent announcement of early-summer 2021 start of reconstruction, funded mostly through EU grants. In the meantime, it was revealed that many buildings constructed after 1995 have suffered damage and the question of responsibility of those who led the process of post-war reconstruction has risen.*

### **Introduction**

In this year perhaps the two main social issues in Croatia will remain the same as they were during the December of 2020 when the country has faced with the rising number of COVID-19 cases and the Sisak-Moslavina county earthquake. If we look back at some better and more peaceful times in modern Croatian history, we could argue that 2020 was specific due to its every-day media focus on coronavirus and socio-economic consequences of both Zagreb and Petrinja earthquake. As far as 2021 is concerned, the situation has not changed and it appears that it will stay the same at least during the rest of winter months and spring. In the first twenty days of the new year, Croatian news are overflowed with reports and media coverages from Sisak, Petrinja, Glina and other areas damaged by back-to-back earthquakes. Recently, the only silver lining is that the situation with COVID-19 has stabilized and Croatia is now among those countries with fewer new cases almost every day. However, the restrictive measures will remain until the end of January when the Civil Protection Directorate, led by Davor Božinović, Vili Beroš, Krunoslav Capak and Alemka Markotić, will consider the possible relaxation. The public has been told that the goal

is to have 300 new cases on 100.000 citizens during the two-week period. Such numbers should imply positive signals from epidemiological perspective and, yet, the people are anxious in waiting for their favorite restaurants, cafes and meeting-places to re-open.

### **The Solidarity Once Again Showed**

But the wish list of citizens in Sisak-Moslavina county is somewhat different. What they want at this moment is a safe place to stay, with rooftops over their heads and minimum requirements needed for at least some degree of what can be called “a normal life”. Back on 29<sup>th</sup> December, when the major earthquake happened, many people across Croatia, including sportspersons, have reacted immediately and offered a temporary place to stay for victims of earthquake. Furthermore, many young people went to the destructed locations in order to help with the management of the earthquake’s remains and during the clean-up process of streets, squares and backyards. The solidarity has been further recognized when hotel companies Valamar and Jadran accommodated around 400 victims and offered their services in the upcoming period. Goran Fabris, the President of the Management Board of Jadran, located in Crikvenica, commented: “Mostly, our invitation was accepted by people whose apartment buildings has collapsed or been damaged. Although we try to accommodate them as best as we can, it is obvious that they are not comfortable being away from their damaged houses, and that they cannot wait to return home”. In 2021, the Government will be required to find both short- and long-term solutions on how to deal with the social aspect of the current situation due to the fact that many elderly people refused to leave their damaged homes and still have not been provided with necessary arrangements to even contact the public services.

### **The Government Efforts in Mitigating the Damage**

Tomo Medved, Deputy Prime Minister and person installed as a chief of the Civil Protection Directorate’s branch that coordinates post-

earthquake activities, highlighted the role of his “task force” and explained the efforts undertaken by the Government during the last couple of weeks: “We have distributed 52 tonnes of food, 25.263 hot meals, 5.774 meals for operative forces. Considering the consequences of the earthquake, we have provided 892 psychological services, held a meeting with the National Centre for Psychological Trauma and other providers of psychological help”. Regarding further accommodation of the earthquake victims, Medved said that a total of 507 housing containers have been installed with more than 650 temporary housing units “had been connected to the electricity grid”. However, many have asked why did it take a week for the Government to decide whether such branch of the Civil Protection Directorate is actually needed. Also, the question was why the state of catastrophe at the area of Sisak-Moslavina county was not declared a day or two days after the earthquake when the magnitude of damage has already been evident. According to Prime Minister Plenković, the Government was waiting to have enough information from the field on the proportions of the earthquake. Nevertheless, from this point of view, it appears that the Government was simply buying some time to react since it obviously was not prepared and the services were not well coordinated. Of course, the natural catastrophe such as earthquake is impossible to predict, but due to March experience when earthquake struck Croatian capital, one could understand what are the procedures and chain of command in establishing the safety perimeter and taking care of the endangered people.

### **The Curious Case of Ivo Žinić**

Unfortunately, it has taken more than twenty years for the state to reconsider the consequences of post-war reconstruction of Sisak-Moslavina county. When it was revealed that houses, built only twenty years ago, were largely affected by the earthquake, the opposition parties wanted to know more details regarding the history of reconstruction process that took place after 1995 and was led-by then-governing Croatian Democratic Union (HDZ). It was quickly revealed that major responsibility for post-war reconstruction was lying in the hands of current Sisak-

Moslavina county governor, Ivo Žinić. Both Plenković and Minister of Construction, Physical Planning and State Property, Darko Horvat, refused to give any comments on Žinić; again, due to the lack of information and the fact that many reconstruction companies from that time are no longer involved in the business. Only a week after, another affair involving the governor's name has surfaced. Apparently, Žinić has a house in Glina that was given to him by the state in 1995 and has lived there ever since. After the Homeland War ended, the state had decided to use thousands of spare houses to provide a temporary accommodation for war refugees and the Žinić family was among them due to his military service as a Homeland War veteran. In 1998, the Constitutional Court ruled that the state needed to give these houses back to their former owners or buy them. The Žinić house was then bought by the Agency for Transactions and Mediation in Immovable Properties (APN). In 2000, however, the APN has signed a rental agreement with Ivo Žinić according to which Žinić had to pay the rent of only HRK 100. Eight years later, the house was transferred from APN to the administration unit within then-Ministry of Regional Development, the very same ministry in which Žinić was employed.

### **Conclusion**

As it was underlined several times by members of the Government, the reconstruction of damaged properties will take place as soon as possible, perhaps in early summer, as it was recently said by Regional Development and EU Funds Minister, Nataša Tramišak. The money designated for that purpose will come mostly through EU programs. Tramišak said that the funds are already available, but the EU operational programs are not yet finalized. Furthermore, the grant from the EU Solidarity Fund needs to be used within 18 months of the date on which it was allocated. In case if the beneficiary state does not use the whole amount, the remains of the grant need to be paid back. An impetus definitely strong enough for the state to take the full responsibility for the reconstruction, but this time with more light on the process.

# Prospects of social development in 2021

Ladislav Zemánek

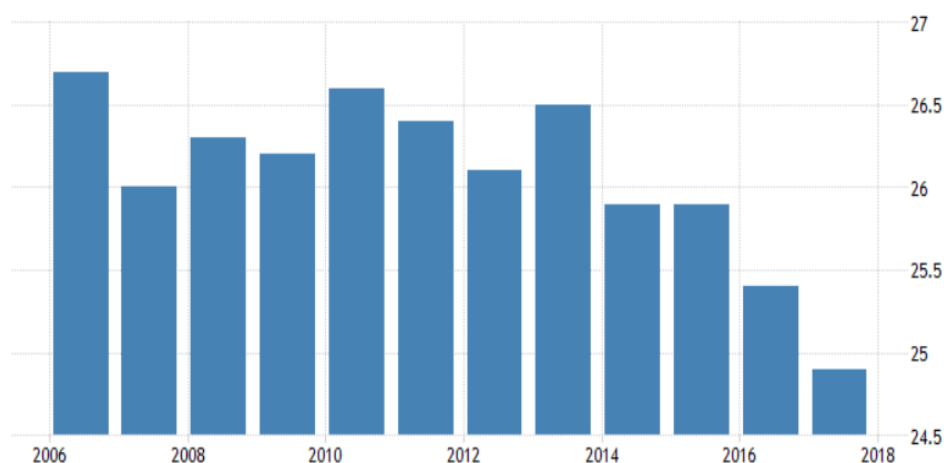
*Summary: Social inequalities will be one of the important questions in 2021, especially with respect to the novel coronavirus crisis and its economic implications which are narrowly interconnected with the social (in)equality. In the analysis, I will inquire into the current state of income inequality and the risk of poverty, taking into account possible future development. Subsequently, I will demonstrate on concrete examples that the political elites will endeavour to preserve social stability and high socio-economic equality.*

Over a long period, the Czech society has been very egalitarian, the roots of which lay in the processes of the nation-building in the 19th century. The so-called Czech national revival was advanced by the bourgeoisie as the ruling upper classes were predominantly of the German/Austrian origin or identifying with the German-speaking milieu and supranational culture of the Austrian Empire. The modern Czech nation was therefore connected with the middle or lower classes, being of an anti-elitist character. This historical development has influenced significantly the culture, mentality as well as the economic life of the society. The socialist period (1948–1989) followed these traditions which have survived to this day, irrespective of the economic and social transformation in the 1990s. Not by coincidence, the Czech Republic belongs to the countries with the least income and property inequalities in Europe.

## **Among the most equal countries**

The Gini coefficient represents the income (wealth) inequality within a specific social group. If using it for an income inequality assessment in a

comparative perspective, one concludes that the lowest values apply to the Czech Republic, adjacent Slovakia, and Iceland.<sup>1</sup> The Scandinavian countries which are generally considered to be pioneers and models of the modern welfare state with a high level of the socio-economic equality and redistribution of income and wealth are more unequal than our country is. Moreover, from the table below follows that economic inequality was decreasing in the past years, especially after 2013. The most recent value of the Gini index equals to 24.9 (0.0 represents perfect equality, while 100.0 implies perfect inequality), thus lying in the first quarter of the range.



*Chart 1: Gini index in the Czech Republic*

*Source: tradingeconomics.com, World Bank*

The present Czech society is characterised not only by a very low income inequality but also by low figures regarding poverty. According to the data presented by the Eurostat, the number of people at risk of poverty is 9.6 per cent in our country, being the lowest in the European Union (the

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<sup>1</sup> These figures come from an analysis conducted by the Eurostat, the statistical office of the European Union. For more information see

[https://ec.europa.eu/eurostat/databrowser/view/ilc\\_di11/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_di11/default/table?lang=en).

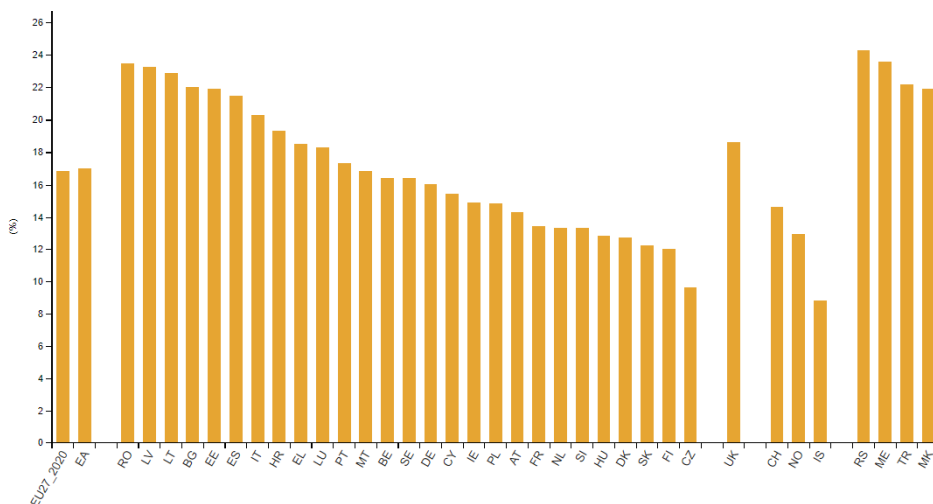
Similar data have been presented by the World Bank:

<https://data.worldbank.org/indicator/SI.POV.GINI>.

EU average amounts to 16.8 per cent).<sup>1</sup> The rate shows the relative poverty which differs depending on the level of incomes in the individual country. In the Czech Republic, the relative poverty threshold equals approximately 12 000 CZK (462 EUR), nevertheless, the social security system and social benefits are so robust that the insecurity of livelihood is utterly low. The current crisis has changed virtually nothing in this regard and the generous social transfer and state support for a great part of the society will likely to continue irrespective of the rising indebtedness. This year, the socio-economic life will remain restricted but the share of the people at risk of poverty will not increase substantially, notwithstanding the possibility of a decrease in the real wages. Not surprisingly, some groups will be exposed to the risk of poverty in a higher degree than others. It applies primarily to the self-employed persons, the unemployed, lone parents or employees working in high-risk industries such as the hospitality, tourist industry and other services. In a long-term perspective, graver social consequences might be, nevertheless, produced by the Fourth Industrial Revolution, further digitalisation, automation and use of artificial intelligence than by the coronavirus epidemics.

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<sup>1</sup> This statistics is based on the at-risk-of-poverty rate representing the share of people with an equivalised disposable income below the at-risk-of-poverty threshold set at 60 per cent of the national median equivalised disposable income after social transfers. For greater detail see [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Income\\_poverty\\_statistics#At-risk-of-poverty\\_rate\\_and\\_threshold](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Income_poverty_statistics#At-risk-of-poverty_rate_and_threshold).



*Chart 2: At-risk-of-poverty rate (2018) in the European countries plus Turkey*

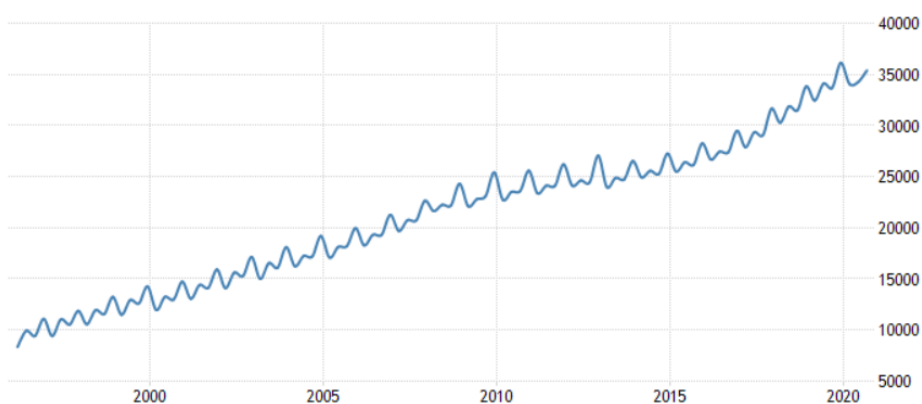
*Source: Eurostat*

### ***Actual measures***

The Czech Republic's Government has approved some economic measures which will preserve a high level of income and wealth equality. Let's focus on chosen relevant measures that will be implemented in 2021. The minimum monthly salary has been increased to 15.200 CZK (approximately 585 EUR). Similarly, the so-called guaranteed salary, which is set in case of chosen jobs and industries by the legislation, has been raised. For the first time, the average state old-age pension exceeds the threshold of 15.000 CZK (577 EUR), increasing by 5.8 per cent in comparison with the last year. In addition, the old-age pensioners have been granted with extraordinary payments within the framework of the expansive anti-crisis fiscal policy adopted by the current cabinet. This benefit was paid off to all persons obtaining state pension, be it the old-age, invalidity or widow's/widower's one. Hence, it applied to 2.89 million people (more than 27 per cent of all inhabitants of the Czech Republic), amounting to 14.5 billion CZK (558 million EUR). These extra payments were criticised to be a populist, politically motivated decision, the aim of which was to hold the support of the pensioners in relation to the



Government and its coalition parties. Negative stances towards further benefits for the pensioners were adopted not only by some opposition actors but also by a majority of citizens. The Prime Minister Andrej Babiš justified this step referring to problems the pensioners have been exposed to. However, the ongoing crisis has no negative impacts on the financial situation of this part of society as the state pensions belong to the obligatory expenditures. The pensioners together with state employees are the most stabilised and protected part so argumentation presented by the Government is not convincing whatsoever. Such a policy can, on the contrary, lead to a sense of injustice and inequality among a substantial part of the Czech society which will suffer from uncertainty and further state interventionism in the months to follow.



*Chart 3: Development of the average monthly salary (in CZK)*

*Source: tradingeconomics.com, Czech Statistical Office*

Aside from the rise in the minimum salary and state pensions, one may mention the introduction of the progressive tax of 23 per cent regarding the natural person's income tax (the lower rate is 15 per cent). Earlier, there was a „solidary surcharge“ but from the now on, the higher rate applies not only to incomes from employment or enterprise but also to those from a lease or capital assets in case they exceed the yearly limit equalling 48th the amount of the average salary. In addition, a wide array

of social benefits has been increased, for instance, child benefits or housing benefits designated for the low-income people. The low-income self-employed persons earning less than 1 million CZK (38 462 EUR) per year might save on income tax and obligatory monthly payments on social security and health insurance, paying only a fix lump fee. The lawmakers have also decided to decrease the limit of interest which can be deducted from the tax base of those who repay a mortgage. Whereas the limit amounted to 300 000 CZK (11 538 EUR) per year until the end of the last year, since this January it is reduced to a half. This measure will impact on the affluent people with high monthly instalments. An increase in the basic taxpayer discount will positively influence primarily low-income people.

### **Realising social-democratic paradigm**

The concrete examples mentioned above are to demonstrate that the political leadership wants to preserve social stability, high socio-economic equality and a considerable redistribution of resources amid the crisis. Nevertheless, such egalitarian policies can cause a decline in labour productivity, thus hampering the overall performance of the economy. If the tendency towards equalising of salaries continues, it will undermine the principle of merits and, paradoxically, equality can turn into a sense of injustice, entailing both serious economic and social consequences. The graph below depicts that the risk of decrease in productivity is imminent, especially in case the State goes on paying massive compensations and subsidies and maintaining the economy in an „artificial hibernation“.



*Chart 4: Productivity index reflecting the real labour productivity per hour worked*

*Source: tradingeconomics.com, Eurostat*

From the aforesaid follows that the political elites will be confronted with negative side effects emerging from the long-term assertion of egalitarian policies rather than with rising inequality or poverty. This hypothesis is valid in case the present state policy and social security system remains unchanged. It would not be a great exaggeration if one concludes that the political leadership has put into practice the social-democratic values and principles in the Czech Republic. It is not a coincidence that the traditional left-wing parties have found themselves in a deep crisis. In fact, their programme has been fulfilled and new forces will replace them. The crucial question is whether the realisation of the social-democratic ideals brings about stagnation and decline, or not.

## A year of Estonian social protection?

### E-MAP Foundation MTÜ

As of 1 February, 44,978 people in Estonia have been diagnosed with the COVID-19<sup>1</sup>. This is a bit less than 3.5 per cent of the country's total population<sup>2</sup> at about the same point in time. From the other side, the *Estonian Health Board* managed to test 781,871 people so far<sup>3</sup>, and it is around 60 per cent of all residents, which is a very impressive figure in itself. In social terms, however, it can only mean that a very significant segment of the society had to face the pandemic-associated challenges from the 'first row', either via becoming infected, or being tested, or losing a job, or losing a person they knew. Most definitely, all societies globally will be requiring to go through some kind of a 'damage control' after the COVID-19 is over, if ever.

The society of Estonia is not an exception in this regard, and '**social protection**' is something that it urgently needs. Therefore, when the country's major media source, *Postimees*, decided to initiate a new TV series 'Minister in the Crossfire', the programme's inaugural interview was conducted with Signe Riisalo, the newly appointed Minister of Social Protection. Definitely, a good timing for that. The essence of the interview can be outlined in the following blocks. **Firstly**, Minister Riisalo noted that Estonia "lacked a central capacity for planning and analysis in terms of how to compensate for population decrease and aging, while maintaining opportunities for self-realisation and keeping the state sustainable", therefore the country needs "boost [its] capacity for analysing data and

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<sup>1</sup> 'Coronavirus in Estonia: All you need to know' in *ERR*, 9 March 2020 (regularly updated). Available from [<https://news.err.ee/1061575/coronavirus-in-estonia-all-you-need-to-know>].

<sup>2</sup> 'Main indicators' in *Statistics Estonia*. Available from [<https://www.stat.ee/en/find-statistics/main-indicators>].

<sup>3</sup> 'Coronavirus in Estonia: All you need to know'.

future scenarios”<sup>1</sup>. Translating this expression from political language into English, it can mean that the new Government will be attempting to comprehensively convert the data on societal development into a powerful analytical tool of political economy. A noble intention, to say the least. Counting the births and the deaths is not enough to make a proper policy out of it.

**Secondly**, in Estonia, there could be a much better framework established for taking care of relatives. Minister Riisalo underlined that “[c]are for loved ones is a painful and multifaceted topic”, and “[p]eople usually sacrifice personal development, interests and hobbies and concentrate on caring for loved ones or making enough money to pay someone else to do it”<sup>2</sup>. In this respect, the new Government is visualising “an important avenue for development” to be eventually able to offer “innovative home care services that allow people to stay independent for as long as possible”<sup>3</sup>. This exercise will require plenty of funds, and Minister Riisalo admitted that “[w]e are spending quite a lot of money irrationally” by not helping people in time, until they start seeking “institutionalised care”<sup>4</sup>, which is more expensive by default. Thus, in 2021, there is a chance to see some Government-pushed initiatives on redesigning existing insurance schemes, engaging local governments and non-governmental entities into the process, and easing off the role of “next of kin” who, at the moment, bear the lion share of the expenses (about 80 per cent of the needed funds).

However, in respects, there will be no good beginning without a census, and the Government is planning to go ahead with the already approved plan on conducting the **Population and Housing Census in 2021**. In December 2020, Liina Osila was appointed to be the project manager,

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<sup>1</sup> Signe Riisalo as cited in Aimar Altosaar and Toomas Kask, ‘Signe Riisalo: We spend a lot of money irrationally’, *Postimees*, 28 January 2021. Available from [<https://news.postimees.ee/7166639/signe-riisalo-we-spend-a-lot-of-money-irrationally>].

<sup>2</sup> Riisalo in Altosaar and Kask.

<sup>3</sup> Riisalo in Altosaar and Kask.

<sup>4</sup> Riisalo in Altosaar and Kask.

and *Statistics Estonia* has the institutional responsibility to operationalise the process. Even though the census moment is going to be at 00:00 on 31 December 2021, the preparations will be under way throughout the year. Mart Mägi, Director General of *Statistics Estonia*, noted that the census has a special significance for the country, because for the first time most of the necessary data will be gathered from state databases:

The Population and Housing Census is a priority for Statistics Estonia, and we have been working for its success for more than ten years. Adding to our team at such an important stage of the census a project manager who is results-driven and has great leadership experience is a gift for all those involved.<sup>1</sup>

Arguably, in terms of forecasting and social development, the census-generated data will be of immense importance for the Government to better understand the situation on societal integration in the country. More specifically, it can be associated with the eventual transfer of **the entire Estonian schooling system** on the Estonian language platform. The country-wide debate on this particular issue is about three decades long. During one of the latest rounds of negotiations between the *Reform* and the *Centre* parties, before the current coalition was formed, the ‘education’ became a buzzword once again. It is a well-known fact that the ‘reformists’ are pushing for an educational policy that could be “making Estonian accessible to all, starting from [k]indergarten level”<sup>2</sup>, but this approach is very different with what the ‘centrists’ have been aiming at before the latest governmental crisis. Now, in order to continue being in the Government, they have to be lot more ‘accommodating’ to the new Prime Minister’s

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<sup>1</sup> Mart Mägi as cited in ‘Population census project to be headed by Liina Osila’, *Statistics Estonia*, 28 December 2020. Available from [<https://www.stat.ee/en/uudised/rahvaloenduse-projekti-asub-juhtima-liina-osila>].

<sup>2</sup> ‘Coalition talks: Reform wants more funding for Estonian in kindergartens’ in *ERR*, 19 January 2021. Available from [<https://news.err.ee/1608078067/coalition-talks-reform-wants-more-funding-for-estonian-in-kindergartens>].

party on many issues. Therefore, the *Centre* party's high-level representative during the coalitional talks, Mailis Reps, who has been holding the Education-focused ministerial portfolio on three different occasions, noted that “the provision of extra funds for study in Estonian does not mean an end to Russian-language schools” and that the new Government “will create additional opportunities, and strengthen opportunities in pre-primary education [...] [but] [a]s of today, no mass closure of any school is planned or on the table”<sup>1</sup>. In her turn, Prime Minister Kaja Kallas responded with the following statement:

If all kindergarteners study in Estonian, meaning they will not have a problem [with the language], there will be no problem in choosing an Estonian-language school from that point. [...] We agreed on an action plan for education in Estonian, which starts from pre-primary education and lasts until the end of upper secondary school.<sup>2</sup>

Evidently, if there is such an existing action plan on ‘unifying’ the country’s educational system under one linguistic ‘roof’, during 2021, the society should be expecting to get engaged into yet another round of fierce debates on this revolving issue that simply does not want to go away. At the moment, the current situation is as follows: the Estonian language, which represents the mother tongue for the vast majority of the country’s population, holds the constitutional status of the state language. However, in a number of areas where the Russian language is the *lingua franca* for the majority of residents (some of those are in the suburbs of Tallinn and the eastern parts of Estonia), there are some schools that still continue some of their instructional activities using the Russian language.

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<sup>1</sup> Mailis Reps as cited in ‘Coalition talks: Reform wants more funding for Estonian in kindergartens’.

<sup>2</sup> Kaja Kallas as cited in ‘Coalition talks: Reform wants more funding for Estonian in kindergartens’.

Objectively, since this is a question that does not have a straightforward answer given by any governmental coalition from 1991, this is not going to be about an agreement between political parties any more. The time has arrived for the society-wide decision – are we talking about a social ‘contract’? – to be made once and, preferably, forever, so this issue will no longer **a)** be a barrier for genuine integration between different linguistic groups in Estonia; **b)** be a driving factor for political populism and extremism. In the meantime, the Integration Foundation (*Integratsiooni Sihtasutus*) started offering to the Estonian language learners the opportunity of practicing the state language via chats with volunteer mentors. As reported, the initiative has already been able to gather 130 native speakers of the Estonian language who agreed to dedicate plenty of their free time for the cause<sup>1</sup>. The task of the programme was clarified by its executive, Ave Landrat, who noted that

The [...] program[me] started last spring, and has united 885 people for the purpose of learning and practicing the Estonian language. 410 volunteer mentors have been helping 475 Estonian language learners to improve their language skills via virtual conversations. Regular communication in Estonian has helped many language learners to improve their language skills and overcome the language barrier. The positive feedback from the participants encouraged us to continue the program this year as well.<sup>2</sup>

Considering the policy drive described above, the country’s societal development in 2021 is likely to be leaning towards establishing a more unified as well as cross-cultural foundation to bring Estonia forward as a more cohesive socium. Be it with the relentless help of a volunteer who

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<sup>1</sup> ‘Integration Foundation offers online Estonian practice with native speakers’ in *ERR*, 27 January 2021. Available from [<https://news.err.ee/1608087592/integration-foundation-offers-online-estonian-practice-with-native-speakers>].

<sup>2</sup> Ave Landrat as cited in ‘Integration Foundation offers online Estonian practice with native speakers’.



becomes a mentor of the Estonian language, or via presenting and legalising a less populist political vision on the schooling system – all positive efforts will definitely be counted. Estonia is one and only, and it is worth keeping it reasonable and cohesive as a multi-faceted society of people who are genuinely unified by the idea of the country's independence and prosperity.

## The Greek society in 2021

George N. Tzogopoulos

*Summary: Approximately one year after the outbreak of the COVID-19 pandemic the Greek society is desperately looking for light at the end of the tunnel. The vaccination of citizens started in the end of December and is being continued. While the rhythm had been slow in January, early February signs create some optimism about reaching the target of the European Commission to vaccinate 70 percent of the population by the end of the summer. The fight against the pandemic will significantly impact on Greek society. Numerous citizens are expected to express their anger for the economic calamity – when lockdown measures are lifted – by participating in demonstrations against the government. The determination of the government to impose restrictions on demonstrators and the alleged indifference of Prime Minister Kyriakos Mitsotakis to keep social distancing measures could be an additional factor causing social tensions.*

The fight against COVID-19 will be the priority for the Greek government and citizens throughout 2021. This fight will determine not only the future political course of the governing New Democracy party but also the level of confidence of ordinary people to its ability to deliver. The new year has started with an ongoing fatigue and frustration within the society that is somehow linked to the inconsistency of the governmental approach in the battle against the virus. While citizens do not generally consider the government as responsible for the problem, they cannot easily understand the arbitrary character of some measures taken that are frequently reconsidered and readapted without clear scientific explanations. At the same, time Prime Minister Kyriakos Mitsotakis arguable gives the impression of being distant from citizens and their

lockdown drama. In a remarkable case, he was criticized for breaking social distancing rules and joining a big lunch on the island of Ikaria on 6 February 2021. International media such as *The Guardian*, *Euronews*, *The New York Times* and *Politico Magazine* produced stories on the Ikaria visit and exposed the behavior of the Premier.

In the last days of 2020, the Greek government announced its plan for the vaccination of the population against COVID-19. According to the then announcement, Greece would receive (in due time) 4.7 million Pfizer/BionTech doses, 7.1 million AstraZeneca doses, 4.7 million Johnson & Johnson doses, 4.7 million Sanofi doses, 1.8 million Moderna doses, and 5.3 million Curevac doses. Obviously, this plan will have to be reconsidered as Sanofi later announced that it would not be ready this year. The vaccination process in Greece is divided in three phases. The first includes medical workers and personnel working in nursing homes, rehabilitation centers and critical governmental agencies. The second encompasses citizens over 70 years old and patients who would be vulnerable to COVID-19 infections, and then citizens from 60 to 69 years old. And the third phase contains all other citizens over 18 years old. Greek citizens wishing to be vaccinated can use their personal details on the website: [emvolio.gov.gr](http://emvolio.gov.gr) and confirm the proposed appointment by sending an SMS to 13034. Citizens not familiar with new technologies can either visit relevant governmental agencies or pharmacies.

Greece offers its citizens the possibility of issuing a vaccination certificate by using their personal data on the website: [gov.gr](http://gov.gr). Prime Minister Kyriakos Mitsotakis has proposed the broad usage of similar certificates to allow travelling without risks. In particular, he told the European Commission that the adaptation of a common understanding for the acceptance of vaccination certificated in all member-states of the EU would be a critical step accelerating the return to normality. Mitsotakis also referred to his proposal in his speech during the 17+1 virtual Summit of 9 February 2021. In his words, Greece launched the idea which can be also a tool to enable travel to resume and tourists to visit either China or to come from China to Europe. At the beginning of February, Greece signed a

relevant agreement with Israel that recognized vaccination certificates issued in these two countries.

As far as the vaccination rhythm is concerned, data presented in *The New York Times* tracker on 19 February 2021 exhibit that 634.036 people in Greece had been already vaccinated. This means that 5.9 out of 100 citizens had been already vaccinated. Israel tops the list (79.7 percent) followed by countries (EU member states) such as Malta (11.9 percent), Denmark (7.7 percent), Poland (6.7 percent), Romania (6.6 percent), Slovenia (6.5 percent), Lithuania (6.4 percent), Slovakia (6.3 percent) and Spain (percent). The European Centre for Disease Prevention and Control shows that (by 19 February 2021) 4.2 percent of the Greek population had already received the first shot. Numbers are higher in Malta (9.7 percent), Denmark (5.8 percent), Poland and Slovakia (5.3 percent), Finland (5.2 percent), Ireland (5.1 percent), the Netherlands (4.5 percent), Sweden (4.4 percent) and France (4.3 percent). Cyprus, Lithuania, Hungary and Romania had the same performance with Greece.

The majority of Greek citizens appears positive in taking the COVID-19 vaccine. Specifically, a December 2020 Pulse survey demonstrates that 67 percent of respondents wanted to be vaccinated and 29 percent did not want to. Also, 36 percent of respondents said they would take the vaccine as soon as possible, 21 percent after 2-3 months and 24 percent at a later stage. 15 percent replied they would never take it. The same company organized a poll with the same questions in January 2021 that presented a more favorable trend vis-à-vis vaccination. An additional 8 percent of respondents expressed its determination to be vaccinated (74 percent) and an additional 11 percent said it wanted to take the first jag as soon as possible (74 percent). Despite these encouraging findings the vaccination process will be long. According to *Politico Magazine* (29 January 2021) 30 percent of the Greek population is projected to be vaccinated by the end of the summer. The projected percentage is higher in comparison to that of other EU member states, however. It only follows that of Malta (56 percent), Denmark (33 percent), Poland (32 percent) and Romania (31 percent). The European Commission hopes for reaching a 70 percentage by

the end of the summer but the objective seems ambitious according to the current vaccination pace and the daily number of doses. *Politico Magazine* writes that Greece needs 54,509 daily doses per day in order to catch the target set by the European Commission by 22 September 2021.

Looking at the vaccination pace in Greece in the first two weeks of February 2021, it witnessed an impressive rise. Greek official statistics exhibit that the number of jags (either first or second dose) rose from 293,817 on 1 February to 526,369 on 13 February. Excluding the Sunday of 7 February, the average number of jags given per day was 43,864 – still lower than the required number according to *Politico* but much higher than the previous calculation of the magazine. With reference to the first jag, the number increased from 247,215 to 371,462 in the same period. Concerning the second jag, the number rose from 46,566 to 154,907. Obviously, these statistics generate new optimism.

The most important challenge for the Greek government is to rely on the fast rhythm of the vaccination process and manage the natural fatigue of people with a safe reopening of the national economy. The economic consequences of the pandemic will possibly lead to demonstrations, strikes and social instability when lockdown measures are to be lifted. Citizens, who are experiencing serious losses and are suffering by unemployment, will hardly look at scientific studies or statistics. By contrast, they will perhaps externalize their anger and disappointment against the government that has attempted to manage the pandemic failing to offer persuasive explanations about its policy of continuously opening and closing the economy from November 2020 onwards. On the whole, the government has not taken qualitative or tailored-made measures but has preferred to employ a horizontal approach that is particularly painful for small and medium size enterprises. Its passion in limiting demonstrations, which has been criticized by the main opposition SYRIZA party, will be perhaps be another reason for social tensions in the coming months.

## **Conclusion**

The vaccination process will continue throughout 2021. The more doses Greece receives – in line with the relevant plan of the European Commission – the faster citizens are vaccinated. While *Politico Magazine* was rather pessimistic about the speed of the unprecedented operation in the end of January, new February data showcase a rising trend in the number of daily jags. In parallel with public health, the recovery of the economy is prioritized by the Greek government. Numerous citizens have been dramatically affected by lockdown measures and others suspiciously regard the determination of the government to restrict the rights of demonstrators by passing stricter laws in parliament. In the interim Prime Minister Kyriakos Mitsotakis has been criticized for not abiding by social distancing measures he is imposing to citizens. The potential ability of the government to manage the anger of citizens by heralding the post-COVID-19 era and guaranteeing economic recovery will decide the extent to which social reactions will be controllable in the aftermath of the lockdown lifting.

# Social issues in Hungary: An outlook for 2021

**Csaba Moldicz**

***Summary:** The year 2021 presents Hungarian society with numerous social challenges. As we understand, the economic crisis caused by Covid-19 had a huge negative impact on the Hungarian labor market last year and dealing with these consequences will be one of the most important social issues in Hungary. Although the Hungarian labor market showed a relatively strong resilience to the external shock, the need for change is unmistakable and the crisis will trigger a long-term adjustment process, which is not only about the recovery of unemployment and employment rates, but also about the way jobs will look like in the future. Looking at the job advertisements, we can already see the contours of the transformed Hungarian labor market too. We will also see that sectoral adjustment has already begun in the labor market, indicating a shift towards higher value-added segments.*

*Another topic which the social briefing will discuss this week is the readiness of citizens to participate in the fight against the pandemic. From our point of view, following the rules has been important in the first phase of this fight, but now entering a new phase, the willingness of citizens to be vaccinated is becoming even more crucial. At the same time, it is equally important for the government to ensure the supplies of vaccines needed to start mass vaccination. As the EU seems to be slow, this problem also needs proactive steps to be taken by the Hungarian Government.*

## **1. Willingness to get vaccinated against the Coronavirus**

Several surveys have been conducted to assess vaccination in Hungary. One of these surveys was conducted by the Hungarian Statistical Central Office (HSCO), and has been carried out repeatedly in recent months to gauge people's willingness to be vaccinated. The surveys began

in the last week of November 2020 and have been repeated every week since. As a result, we now have the results of six surveys. Originally, the percentage of those who did not want to be vaccinated was 36 percent, which dropped to 29 percent in mid-January, while the percentage of those who did want to be vaccinated increased from 15 percent to 27 percent. What we need to understand at this point is that even this higher number is extremely low by international standards. <sup>1</sup> The highest percentages favorable to vaccination are found in China (88.62 percent), according to an international survey that included 19 countries. The lowest percentage of vaccination supporters within the countries mentioned in the survey was in Russia, at 54.85 percent. Although we are aware that the two surveys are not directly comparable, vaccination readiness in Hungary is extremely low and is a worrying problem.

If we take a look at other responses in the HSCO survey, we can see that the proportion of unsure or hesitant people has decreased in these six weeks, but not nearly enough to get broad sections of society to vaccinate in order to achieve the so-called "hoard immunity" and thus stop the spread of the pandemic in Hungary.

Table 1. The willingness of Hungarians to get vaccinated (%)				
	Opposes vaccination	Doesn't know	Maybe	Willing to get a vaccination
November 30-December 6, 2020	36	21	28	15
January 4-10, 2020	29	12	32	27
Source: HSCO				

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<sup>1</sup> Jeffrey V. Lazarus, Scott C. Ratzan, Adam Palayew, Lawrence O. Gostin, Heidi J. Larson, Kenn-eth Rabin, Spencer Kimball & Ayman El-Mohandes: A global survey of potential acceptance of a COVID-19 vaccine. <https://www.nature.com/articles/s41591-020-1124-9>



In the same survey, we can see that the unemployed, young people, and people with primary or secondary education are more likely to refuse vaccination, while people over 65 and people with tertiary education are more likely to be vaccinated. The figures also tell us which strata of society need to be targeted with appropriate information about vaccines to convince them.

Similar trends can be seen in the Századvég Group's survey, which included 1,000 people in its latest survey in January 2021. The Group conducted a survey in November, December 2020, and January 2021. According to the results, 34 percent of respondents are sure they will get vaccinated, which is a significant increase from the 16 percent in November. Adding in the percentage of those who would be willing to get vaccinated against Covid-19, we can see that around 60 percent of the Hungarian population is willing to get vaccinated.

	People who are certain that they would like to get vaccinated	People who maybe would like to get vaccinated	People who are maybe would not like to get vaccinated	People who are certain that they would not like to get vaccinated	Doesn't know, doesn't give a response
November 2020	16	26	22	30	6
December 2020	24	25	28	30	3
January 2021	34	28	13	22	3
Source: Századvég Group					

From our point of view, 60 percent or so would be enough to achieve "herd immunity," which is a starting point for restarting social life and the

take-off of the Hungarian economy. However, the Hungarian government needs to thoroughly inform and launch an efficient campaign to reach this point. As we understand it, besides ensuring the country's vaccine supply, the second most important social issue is the implementation of a broad vaccination program this year to stop the pandemic.

It is interesting that the lowest numbers of "willingness to vaccinate" are to be found in Eastern Europe (Russia, Poland, Hungary), which can be explained more by low confidence in the ruling political power, less by ignorance of vaccination programs among the population. It is worth mentioning that this region has a long history of very successful compulsory vaccination programs from before 1990.

## **2. Labor market trends in 2021**

As far as labor market indicators are concerned, the Hungarian labor market performed relatively well last year, as we pointed out in our December briefing,<sup>1</sup> but the question remains how the labor market will develop and what structural changes will take place in 2021. In this respect, the number and sectoral distribution of job vacancies is an indicator of the future. In 2020, there were 20 percent fewer job advertisements in Hungary than in the previous year, but the number of applicants increased by 26 percent. In terms of the sectoral distribution of job advertisements, the number in catering and tourism fell by 61 percent, while job advertisements in agriculture, education, engineering, and the IT sector were essentially unaffected by the Covid- 19 crisis.

This finding is consistent with the actual transformation of the labor market. There are 26 percent more engineers working in the labor market in January 2021 than in January 2020, and the same is true for science

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<sup>1</sup> According to latest data, we had 26 thousand less jobs in November 2020 than in the same month of the previous year, while the employment rate (70.2 percent) remained the same between September-November 2019 and September-November 2020. (The deepest point was 68.6 percent in March-May 2020.) The unemployment rate was 4.1 percent in November 2020, which is higher by 0.7 percentage points than in the same month of the previous year.

(+20.0 percent), construction (+16.3 percent), agriculture (+10.0 percent), and retail trade (+8.0 percent). In other words, clear changes can also be seen in the structure of the labor market, which on the one hand reflects the flexibility of the labor market, and on the other hand, shows the growing importance of segments with higher added value. In our view, the trends will continue in 2021, even if the pandemic is stopped. In this case, the growing demand for workers in catering and tourism will contribute to a relatively high demand in the labor market. In our estimation, the public sector job losses that began in 2017 with the modernization of the public sector will continue in 2021, albeit at a slower pace. Analysts often overlook the fact that the number of public employees was reduced from the 211 thousand in 2017 to 84 thousand at the beginning of 2020. Since then, a slight increase – about 3 thousand more jobs – has been observed. In our view, recent changes in the labor market only support these government efforts.

### **3. Summary**

Social development in 2021 will depend on how quickly normality can return to the economy and other areas of life. The Hungarian Prime Minister stressed in an interview (22 January 2021) that as long as the mass vaccination of the Hungarian population cannot begin, the restrictions in social and economic life will remain. From our point of view, it will be crucial whether the Hungarian government will be able to secure vaccines in large quantities. Given that the European Union seems slow to respond to this challenge, the Hungarian government has broken ranks in the EU and begun negotiating with China and Russia to purchase large quantities of vaccines on its own. Hungary was the first EU member state to grant emergency approval for the Sputnik V vaccine. According to media reports, Hungary has already signed a contract to buy 1 million vaccines. It is very likely that Hungary will be able to buy Chinese vaccines and thus accelerate the vaccination program. After that, normality can also return to the labor market.

# **The trends and forecasts for Latvian main social indicators in 2021**

**Nina Linde**

## **Introduction**

During the first half of 2021, the government will continue the fight against Covid-19 pandemic. Immunization of the population is the main priority for this period. However, there are several obstacles for the citizens' vaccination, one of them is the absence of an appropriate, realistic, and efficient plan of vaccination.

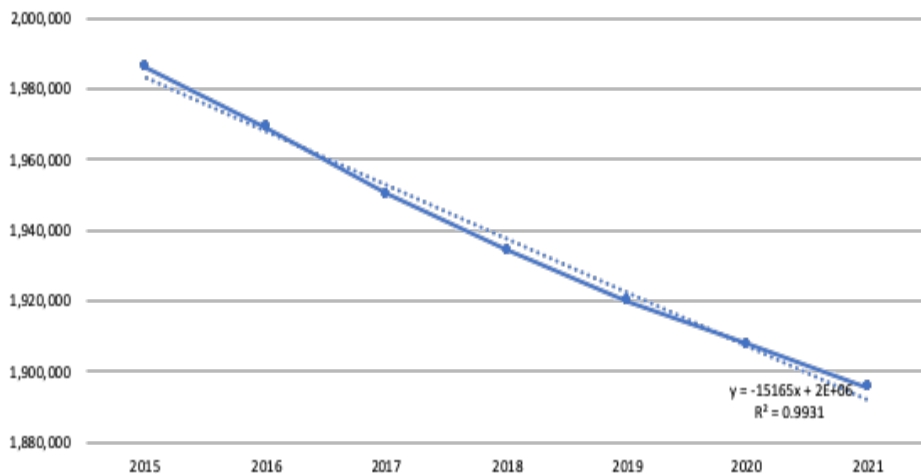
Demographic situation in Latvia is worsen yearly, the population is decreasing and ageing, the government need to introduce long-term measures.

The unemployment rate can increase this year up to 10% due to the tax reform, leaving a lot of entrepreneurs and their employees without work. Latvians believe that this year will not bring significant positive changes in the financial situation, most people think that it will remain unchanged.

National minimum monthly wage (gross) has been increased in Latvia from EUR 430 to EUR 500 in 2021. However, it is still less than this indicator in the neighbour Baltic countries and EU average minimum wage rate.

## **Demographic situation**

In Latvia, one of the most significant issue for the future years is the population decrease due to natural reasons and migration. The forecast of the Institute of Economics of the Latvian Academy of Sciences for 2021 is the following:



*Figure 1*

### **Population of Latvia, 2015-2021**

Source: Table developed by the author using Central Statistical Bureau of Latvia data and calculation results

According to the forecast for this year the Latvian population is going to decrease again. At the same time, the problem of ageing population is rising more and more sharply every year. The long-term measures should be introduced by the government to improve the situation and attract people from abroad. This issue cannot be solved in one or two years, therefore, short-term measures will be inefficient in this situation.

### **Covid-19 current situation and perspectives**

The start of 2021 remains slow due to continuing restrictions and unfavourable trade conditions. However, consumer sentiment is steadily improving, job losses are limited and relatively soft containment measures in 2020 in comparison with other EU countries will support the V-shaped consumption pattern. One of the main reasons for it is the stable mood in the society, conscious behaviour of Latvian citizens, and restrictive

measures that allow to maintain and improve the Latvian social economic situation.

The situation with Covid-19 is ambiguous in Latvia. On the one hand, the first Covid-19 vaccines are already in the country. The first ones to receive the vaccines are medics working with Covid-19 patients and employees of the Emergency Medical Service. On the other side, the number of positive tests is still growing. The forecast for the first half of 2021 is not so optimistic as most probably it will have a similar social economic situation as the second half of 2020. However, the second half of 2021 should improve the social economic position of Latvia as the vaccination have to be completed and restrictive measures will be lifted.

Regarding the vaccination tender, Latvia should receive 424,000 vaccine doses from AstraZeneca, 98,000 vaccine doses from BionTech/Pfizer, 63,000 vaccine doses from CureVac and 42,000 vaccine doses from Moderna. The problem is that two of the vaccines are already approved by EMA<sup>1</sup> but the vaccine from AstraZeneca, which was purchased in larger quantities, is yet to be approved. One more issue arose is the unclear vaccination plan provided by the Ministry of Health.<sup>2</sup> These issues negatively influence the vaccination rate and are the significant barriers for a successful fight with Covid-19. Due to the reasons mentioned above, Prime Minister of Latvia expresses no confidence in the Minister of Health. As a result, Prime Minister signed an order dismissing the Minister of Health Ilze Vinkele.<sup>3</sup> One day later, the new Minister of Health Daniel Pavluts was confirmed for this position.

## **Unemployment rate forecast 2021**

During the spread of Covid-19 in 2020, the unemployment rate increased very rapidly by 2% and about 20,000 new unemployed were

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<sup>1</sup> European Medicines Agency

<sup>2</sup> LETA. (05.01.2021). Latvia's Covid-19 immunization plan based primarily on AstraZeneca vaccines. Available at:

<https://www.leta.lv/eng/home/important/C0A001BA-4642-4F76-AEB4-92C5B755CEC0/>

<sup>3</sup> Apollo. (07.01.2020). Pabriks iecelts par veselības ministra pienākumu izpildītāju. Available at:

<https://www.apollo.lv/7149940/pabriks-iecelts-par-veselibas-ministra-pienakumu-izpilditaju>

registered. Currently, the unemployment rate in Latvia is 7,7%. According to the Ministry of Welfare forecast, this year unemployment rate can rise but should not exceed 10%.<sup>1</sup> This increase in the number of unemployed has several major reasons. First of all, the introduction of mandatory minimal insurance payments of not less than EUR 170 per month, will force a lot of micro and small enterprises to start the insolvency procedure as this amount is large for young enterprises, which are working without profit. Secondly, deferred tax payments should be paid by companies this year. However, for a big part of enterprises, it is still impossible, so some of them could make their business in the shadow economy, while others again will be forced to go bankrupt.

In December 2020 a survey regarding the financial forecast for 2021 among the population of Latvia was conducted<sup>2</sup>. It was attended by 1,003 respondents aged 18 to 74 years. In Latvia, only 19% of the population expect the financial situation to improve next year. At the same time, the survey concludes that 42% of Latvians expect their financial situation to remain unchanged next year, and 39% think that the situation will get worse. So, only one-fifth of Latvians believe in the improvement of the situation in 2021, while almost half of the respondents claim that there will be no significant changes or improvements this year or it will get worse. The results are not unexpected as Latvia is still on the peak of the Covid-19 second wave with a set of restrictive measures and a poorly developed vaccination plan.

### **Minimum monthly wage and salary increase**

From the 1<sup>st</sup> January 2021 the national minimum monthly wage (gross) has been increased by 70 euros. In 2021 the national minimum

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1 Latvijas Vēstnesis (17.12.2020). 2021. gadā minimālā alga – 500 eiro. Kāda būs stundas likme? Available at:  
<https://lvportals.lv/skaidrojumi/323008-2021-gada-minimala-alga-500-eiro-kada-bus-stundas-likme-2020>

2 Latvijas Zinas. (24.12.2020). Latvijā 19% iedzīvotāju nākamajā gadā sagaida finansiālās situācijas uzlabošanu. Available at:  
<https://lz.lv/p/latvija-19-iedzivotaju-nakamaja-gada-sagaida-finansialas-situacijas-uzlabosanos-50704>

salary is EUR 500 per month.<sup>1</sup> At the same time, the minimum wage for one hour of work will change. It is important to note that the national minimum wage has not been revised for three years (since 2018, it is 430 euros per month). According to the data of the Central Statistical Bureau<sup>2</sup>, 138.1 thousand employees (15,5% of the employed population), including 112.7 thousand in the private sector and 22.6 thousand in the public sector, had a monthly income in the amount of the minimum monthly wage (430 euros) or less. The basis for determining the minimum wage is normal working hours, which are 40 hours per week / 8 hours per day.

However, this amount is still less than minimum wage in the neighbour countries (Estonia – EUR 584<sup>3</sup>, Lithuania – EUR 607<sup>4</sup>), and less than European average minimum wage (EUR 1227<sup>5</sup>) more than twice.

At the same time, the rate of mandatory state social insurance contributions has been decreased by 1%. To be more exact, from the previous 35.09% to 34.09% - by 0.5% for both employers and employees. Thus, the contribution rate will be 23.59% for the employer and 10.50% for the employee, which will make average household income slightly higher and reduce tax burden of employer.

## Summary

Population decrease is the problem that need to be addressed firstly and the result of the measures that can be introduced by the government will be seen only in the long-term perspective.

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1 LSM.lv (08.01.2021). NVA vadītāja: Kolektīvo atlaišanu skaits pērn četrkārtšojies; bezdarba līmenis šogad pieaug. Available at: <https://www.lsm.lv/raksts/zinas/ekonomika/nva-vaditaja-kolektivo-atlaisanu-skaits-pem-cetrkarsojies-bezdarba-limenis-sogad-pieaug.a388149/>

2 CSP [Central Statistical Bureau of Latvia], June 2020. Available: <https://www.csb.gov.lv>

3 Republic of Estonia Tax and Customs Board. (28.12.2020) National minimum wage rates. Available at: <https://www.emta.ee/eng/business-client/income-expenses-supply-profit/income-tax-withheld/national-minimum-wage-rates>

4 Countryeconomy.com (2020). Lithuania National Minimum Wage. Available at: <https://countryeconomy.com/national-minimum-wage/lithuania>

5 Eurostat. (07.2020). Minimum wage statistics. Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum\\_wage\\_statistics#Variations\\_in\\_national\\_minimum\\_wages](https://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum_wage_statistics#Variations_in_national_minimum_wages)



The Latvian government is trying to provide the most efficient tools for Covid-19 pandemic, among others there are not only restrictive measures for citizens but also ensuring of the proper functioning of the related institutions, the building of the accurate immunization plan, and constant readiness for the changes. Even though society is getting more and more tired, people continue to listen to the state and show highly conscious behaviour.

The increase in the unemployment rate can take place in 2021. Tax reform may cause a rise in the number of unemployed people in Latvia from 7,7% to 10%. This is a significant burden for the state budget, so the question of the efficiency of the reform may be raised if the forecast comes true.

The national minimum monthly wage has been increased in Latvia by EUR 70 and now is EUR 500. This rate has not grown for the last three years, so this is an important step for the improvement of quality of life among Latvians. However, the minimum wage in Latvia is still lower than it is in two other Baltic countries (Estonia – EUR 584, Lithuania – EUR 607) and significantly lower than EU average minimum wage rate, which is EUR 1227. At the same time, the rate of mandatory state social insurance contributions has been reduced by 1% (0,5% for employee and 0,5% for an employer), which may slightly help to improve the economic situation in the country after Covid-19 crisis.

## **An outlook of the impact of COVID-19 on the labour force in Lithuania**

**Linas Eriksonas**

The continuing COVID-19 pandemic has raised the alarm bells concerning the potential risks of the increased income inequality and the worsening economic and social situation of a large part of society that can affect the country's poverty level. The calculations offered by the Ministry of Social Security and Labour at the end of the year indicated that the income quintile share ratio (the S80/S20 ratio), which is a measure of the inequality of income distribution, might reach 5,8 to 5,9 per cent. It means that the proportion of total income received by the 20 per cent of the population with the highest income (the top quintile) will be almost five times higher than the 20 per cent of the population with the lowest income (the bottom quintile).

The analysis of the income data of the population (using the open data made available by the State Social Insurance Fund Board for the period from 2010 onwards) has shown that Lithuania reached the lowest level of the income inequality for the observed period in January and February last year - just before the pandemic reached the country. The impact of the pandemic's first wave was immediate – in only two months (March – April) the S80/S20 share dropped by 8,6 per cent and reached the level reported in 2014. The situation improved towards the end of the pandemic's first wave, yet further worsened when the second wave arrived in October. By the start of the new year, 16,1 per cent of the workforce was out of work. Unemployment has increased during the first pandemic year by 7,4 per cent.

Below is an outlook of the potential adverse socio-economic impacts that the pandemic can cause during the continuing second wave and the

subsequent periods. It will try to explain the main factors that have exposed the labour force's vulnerabilities, indicating the areas for public governance in tackling the challenges ahead.

The World Bank's "Poverty and Shared Prosperity 2020" report concludes that after each significant epidemic, the Gini coefficient (used to measure income distribution among a population by plotting the population percentile by income on the horizontal axis and cumulative income on the vertical axis on the Lorenz curve) increases about 1,5 points during the subsequent period of five years. Such impacts have been observed in the cases of all the previous epidemics such as H1N1 in 2009, Ebola in 2014 or Zika in 2016. Yet since those pandemics primarily affected the developing countries in Asia, no prior record exists on the pandemics' impact on the industrially advanced economies in Europe. Due to the higher employment rates and the larger share of the higher paid jobs, the income inequality in the highest income countries might be even more felt and exacerbated.

Lithuania's income inequality has been one of the largest in the EU and has reached its peak in 2014 – at that time, the Gini index stood at 7,5 per cent. The situation had started to change during the period 2018-2019 when the Gini index dropped to 6,4-6,2 per cent due to rapid development of the domestic consumer market. The research into the potential factors affecting such persistent level of a relatively high-income inequality has shown that one of the key drivers is an unequal distribution of labour income especially in the group of self-employed workers. As reported by different studies, the self-employed are over-represented in both the upper tail and the lower tail of the income distribution, and quarter of all self-employed workers in Europe are in situations characterised by economic dependence, low levels of autonomy and financial vulnerability.

In the third quarter of 2020, about 11,4 per cent of Lithuania's total labour force was self-employed. There is also a notable gender aspect that characterizing this group of workers. 14,8 per cent of the overall male labour force are in self-employment while this figure is twice as lower in the case of females (8,6 per cent).

The self-employed survey in Lithuania has shown that only half of them are content with the working conditions and their situation. Almost 40 per cent indicated that they experience periods of difficulties, including financial challenges. When asked why they chose self-employment, 18,9 per cent reported that they could not find a paid job or the former employer asked them to become self-employed (2,6 per cent of the respondents), 13 per cent did not give any reasons, while 10 per cent stated that they chose to become the self-employed because of the flexible time or unsuitable working conditions. Only 21,9 per cent of the respondents indicated that self-employment is a usual practice in their economic activity. Thus, 80 per cent of the self-employed chose this form of work not because of the economic reasons but because of social necessities that the present labour market cannot solve otherwise.

The self-employed in Lithuania constitute two groups: those who have a license to carry out individual activities according to a business certificate and those carrying activities based on a so-called self-employment certificate issued by the tax authorities. The self-employed conditions are rather precarious that provide a low level of social guarantee (if any) and high level of risk. The state taxes them at the same level as the business entities. The advantages are few and limited in scope and with little or any effect to help grow individual enterprises into business entities.

During the period 2017-2019, the number of self-employed (using business certificates) have been steadily rising by 13 per cent on average. The most popular self-employment fields for those working on business certificates have been a non-food related trade, construction work, residential premises rental, hairdressing, beauty industry, and cleaning services. The most frequent fields for working on self-employment certificates were passenger transportation and taxi services, hairdressing salons and other beauty parlours, education and private tutorship, activities of insurance agents and brokers, mail order or internet sales, activities of advertising agencies. The rise of the platform economy in transportation, food delivery, accommodation and other rental services over the last few years has undoubtedly contributed hugely to cities to the growth of the self-

employed manual workers. However, the pandemic has most severely disrupted these activities.

Despite being hardest-hit by the imposed quarantine measures which put most of their activities to a halt or severely limited their activities pushing some of them out into the grey zone of the economy where individual activities are being carried out under the increased costs and risks to public safety, the support measures have not been adequate. As reported by Eurofund in its annual surveys, a quarter of all self-employed workers in Europe are in situations characterised by economic dependence, low levels of autonomy and financial vulnerability. The self-employed workers are twice as likely as employees to suffer from poverty and social exclusion – social ills threaten over a quarter of the self-employed in some countries.

While two-thirds of the EU Member States have taken into account that the self-employed are one of the groups disproportionately affected by the lockdowns and introduced effective measures early in the crisis, the previous government in Lithuania lacked such resolve and no effective measures were put in place for the self-employed. Business grants and loans (some non-repayable), the extension of short-time work schemes and unemployment benefits to cover the self-employed, as well as the deferral of liabilities such as social security or tax and loan payments for the periods more extended than the duration of the lockdowns are the examples of the measures taken by some other EU states. Until now, the self-employed support was limited to a one-time payment amounted to 260 euros per person and the deferred tax payments for the quarantine duration under the condition that their income does not exceed 642 euros before taxes.

The new government is aware that there is a need to tackle income inequality by increasing the value generated by the self-employed, effectively turning them into entrepreneurs and creators of jobs long-term, and by supporting the small and medium enterprises (SMEs) which face the risk of laying down part of the workforce, which might end up as unemployed or partially self-employed. Hence, the strategy is to support the self-employed and the SMEs not so much in the individually affected

sectors of the pre-COVID economy but more so in those sectors that show the potential of growth by attracting entrepreneurial talent, skilled labour and investments.

As of January, the micro-enterprises and other SMEs can qualify for the one-time government subsidies equal to 25 per cent from the income taxes paid last year if their monthly turnover decreased on average by 30 per cent from November 2020 to February 2021. There are 94 thousand of such companies in Lithuania. Further, the companies will be able to get the loans at a reduced rate by up to 1,69 per cent depending on the loan's size and the applicant's status. A particular support measure is planned to be introduced in February, and it will be primarily targeting the self-employed. The Ministry of the Economic and Innovation announce the plan to offer the self-employed the subsidies based on the same principle, the amount of income taxes paid, as applies to the SMEs' case, only the percentage will be higher due to the lower average incomes of the self-employed persons. By linking up the size of the support measures to the level of taxes paid from the revenue generated, the government aims to help the self-employed and the small companies stay afloat during the pandemic while at the same time incentivising them to look for growth opportunities.

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5. Eurofund, “Living, Working and COVID-19”, 28 Sept. 2020, updated 6 Nov. 2020, <https://www.eurofound.europa.eu/publications/report/2020/living-working-and-covid-19>

# Montenegrin social development outlook for 2021

Vojin Golubovic

*Summary: Social events in 2021 in Montenegro seem to be quite determined by the events of the previous year. The combination of social, political and economic factors and policies from 2020 will largely determine the topics that will occupy the social scene of Montenegro in the coming year. First of all, it refers to the divisions in society that will not significantly subside during this year, and which are quite artificially provoked and imposed on the Montenegrin people. First of all, divisions over national identity, religious affiliation, and language affiliation will dominate a significant part of the public scene. Especially, if it is known that in 2021 a regular Census of the population is planned, which is held every ten years, and which would cover all these conflict issues. On the other hand, the COVID-19 virus pandemic will certainly mark the social picture of Montenegro in 2021, not only because it is a universal problem that affects all countries, but also because of the new administration's unwillingness to show capacity for fighting the Coronavirus. What is certainly an indispensable part of all social issues is the living standard of citizens, which probably will not be able to be significantly improved given all the problems facing the state.*

## **Rising nationalism**

The strengthening of nationalism during 2020 seems to be a clear consequence of artificial divisions that please politicians because they represent a new form of social control, or at least an easier way to avoid a fundamental social problem, such as living standards, environmental protection, non-selective law enforcement, the rule of law, etc.



Political events from the previous year that woke up Serbian nationalists in conjunction with religious protests organized by the Serbian Orthodox Church (SOC) have introduced enormous social and national intolerance in Montenegro. Since the awakened national passion is hard to die, it is possible to expect that the issues of the national identity of the people in Montenegro will be in focus. Thus, nationalism can be expected to replace somewhat religious issues because nationalism itself is a substitute for religion in secular societies. However, it seems that the combination of the two (nationalism and religion) will be on the way to achieving the same goal in Montenegro during 2021 - increasing the participation of Serbs in the total population, which should finally be shown by the Census of population that should be conducted by the Directorate for Statistics of Montenegro - MONSTAT.

It seems that this is a more important issue for Serbs in Montenegro than living standards or any other rational social issue. This could be proved by the attitude of Serbian officials (including Serbian president) who have repeatedly stated that the change of government in Montenegro and the participation of Serbian parties in government is not as important as the forthcoming Census of population. In fact, the change of government is important only from the aspect of providing a political basis for the campaign, which should result in the dominance of Serbs within Montenegrin population. Of course, the fact that in 1991 there were only about 9% of Serbs in Montenegro, and that in the process of assimilation of Montenegrins, Serbs reached almost a third of the total population in the previous census was not enough to stop the story of "vulnerability" of Serbs in Montenegro. Therefore, nationalistic Serbian structures in Montenegro will try to impose this issue as burning one in 2021.

So, this imposed question will dominate the social scene of Montenegro because, as one prominent Montenegrin linguist says, both nationalism and religion function according to the same pattern, they both require faith in something imagined or invented, they do not tolerate dialogue and their truths are dogmas, they provoke the same intensity of emotions and distortions of the mind, both can be linked to fanaticism

whose product is hatred and conflict. Therefore, nationalism and religion often act together in the name of the nation and God. In addition, the SOC helps such a situation and divisions in society between the enlightened people and those it can manipulate. Hence, it could be expected that this religious organization would play a more significant role in denying the Montenegrin language, supporting Serbian linguistic nationalism, as well as in combating the alleged endangerment of Serbs.

### **Postponement of the population Census?**

An important issue is the maintenance of the Census itself. Namely, the Census was supposed to be held in April, but the big question is whether it will happen. There are several reasons for not holding the Census in April. First of all, the fact is that the new government has not yet been able to adopt a budget for 2021, so no budget has been set for MONSTAT, nor for a complex project such as the Census. In addition, the new government, despite announcing that there will be no political revenge, and that there will be experts instead of politicians at all positions, is still changing its intentions, so that the current director and deputies of the National Statistics Administration will probably be removed in March. Politically suitable people are expected to take over their positions. The time for organizing the Census is short, so it is a more realistic estimate that, if there is one at all this year, the Census will take place in October<sup>1</sup>. Additionally, the heated division between Montenegrins and Serbs could be hampered by delaying the census. Some proposals went in the direction of abandoning the question on the language, religion and nation, but it is unlikely that the new government will allow this, given that it came to power on the wings of Serbian nationalism.

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<sup>1</sup> The usual dates for maintaining the census are April or October.

## **Coronavirus pandemic - weakness of the new government**

One of the main topics in the rest of the world - the Coronavirus pandemic, will be somewhat less relevant in relation to the above mentioned nationalistic issues in Montenegro in 2021. However, the mere fact that the pandemic is widespread and has taken many lives in Montenegro will put some focus on it. In particular, the situation appears to be further complicated by the inability of the new health administration to procure vaccines, on the one hand, and the fact that, probably due to political issues (local elections) or economic issues, the same administration has fully liberalized entry into Montenegro. Some countries in the region have started vaccinations, and Montenegro is unlikely to start until February. Even if the vaccination starts soon, it will be reserved only for selected population groups in the initial phase. Therefore, the problem with the epidemic is likely to continue.

## **Living standards in 2021 and other important issues**

Finally, it seems that the standard of living of citizens, as the most important issue in countries under normal circumstances, will not worry the current government too much, nor the people who will have fun with other "games". One can expect a sporadic story about the increase in salaries of employees in the education or health sector, but the initial speech of the new Prime Minister, full of threats of dismissal, salary cuts, etc., speak enough in favor of the new government's attempts to impose other social issues. Issues that affect living standards will need to be avoided. In any case, the pandemic will have significant consequences on total employment, and consequently on the living standards of Montenegrin citizens in 2021.

Also, one can expect a somewhat greater commitment to environmental issues, and at least officially a more significant fight against crime and corruption in order to send a picture of progress towards the EU. It is possible to expect a ban on further construction of mini-hydropower plants, for example, as well as new arrests of people who were involved in

corrupt practices during the previous government. However, rather it looks like it will all be plain decor. However, essentially not much will change on this issue either, because the new government has taken over the mechanisms of action of the previous one. Nepotism related to new government, as well as secret and suspicious actions are already visible. So, it seems that corruption is a systemic and intrinsic problem of Montenegrin society.

So, in Montenegro during 2021, we can expect those social issues that do not have much to do with reason, because, as Karl Popper notes in his work “The opened society and its enemies”, nationalisms “have a strong affinity with the revolt against reason and the open society. Nationalism appeals to our tribal instincts, to passion and to prejudice, and to our nostalgic desire to be relieved from the strain of individual responsibility which it attempts to replace by a collective or group responsibility”.<sup>1</sup> Therefore, Montenegro will certainly not be an open society in 2021, but a society of division, lack of reason, lack of individuality and personal responsibility, but also a society that must begin to face essential issues if it wants to develop.

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<sup>1</sup> Poper, K. (1962) *The Open Society And Its Enemies*, Plato, Fifth edition, 1966, p.252

## Macedonian social developments in 2021

Gjorgjioska M. Adela

*Summary: The coronavirus pandemic exacerbated many of the preexisting ills of Macedonian society including its economic deprivation, inequality and political corruption. Moreover, it revealed the deeply corrosive impact of neoliberal policies, which in the post-socialist period brought about the privatizations of public services such as healthcare, education and social security; leaving much of the population in vulnerable and precarious conditions during the health crisis. As the pandemic continues into 2021 it is likely that it will cause further deteriorations in the economic and human security of the large majority of the population. At the same time the rift between the political establishment and the public is likely to expand, leading to growing social discontent or apathy with various possible socio-political implications. Finally, as health and economic anxieties continue, they are likely to put extra pressures on the country's already fragile social fabric.*

In May 2020, in the early months of the pandemic, the World Bank forecast that the poverty rate will increase from around 17% in 2019 to around 20-23% in 2020, or from 55,000 to over 130,000 citizens, which would be the highest rate since 2015, when poverty was at 23%.<sup>1</sup> By the autumn of 2020, one quarter of Macedonian citizens lived in poverty. According to the latest data provided by the State Statistical Office, 455.600 or 21,9% of the population live in difficult conditions.<sup>2</sup> The poverty rate is the highest (45,3%) in households with two adults and three

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<sup>1</sup><http://documents1.worldbank.org/curated/en/752041603299573175/pdf/An-Uncertain-Recovery-North-Macedonia-Country-Note.pdf>

<sup>2</sup> The analysis has been performed within the framework of the Laeken indicators, a set of common European statistical indicators on poverty and social exclusion, established at the European Council.

or more children, followed by households of single parents with children (42,8%). Unemployed and economically inactive people are amongst the most vulnerable social categories, with a poverty rate of 33,2% and 33,9% respectively. The poverty rate is the lowest amongst retirees (2,2%). Organized by gender, women are worst affected than men with 22,5% of women and 21,4% of men living in poverty.<sup>1</sup> Whilst official figures do not include specific information on the social and economic effects of COVID-19 on children, UNICEF has described them as “the hidden victims of the pandemic.”<sup>2</sup> The analysis published in August 2020 found that an additional 16,000 children in North Macedonia are likely to live below the poverty threshold, more children are reported to be victims of domestic violence and more children are at risk of falling further behind in learning due to the COVID-19 pandemic. Moreover, it estimated that the relative child poverty rate will increase from 29.3% to 33.3% in the coming period.<sup>3</sup> Such figures suggest that the Government's economic support packages had only a limited success on cushioning the socio-economic effects of the pandemic. What is more, the support provided as part of the four government support packages largely relied on short-term support to ameliorate the immediate shock of the pandemic.<sup>4</sup> However, it did not provide the economic safety net necessary to remove people from the poverty trap. In view of these factors, it is to be expected that the poverty rate will continue to increase in 2021.

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<sup>1</sup><https://www.dw.com/mk/%D1%80%D0%B5%D1%87%D0%B8%D1%81%D0%B8-%D0%BF%D0%BE%D0%BB%D0%BE%D0%B2%D0%B8%D0%BD%D0%B0-%D0%BC%D0%B8%D0%BB%D0%B8%D0%BE%D0%BD-%D0%B3%D1%80%D0%B0%D1%93%D0%B0%D0%BD%D0%B8-%D1%82%D0%BE%D0%BD%D0%B0%D1%82-%D0%B2%D0%BE-%D1%81%D0%B8%D1%80%D0%BE%D0%BC%D0%B0%D1%88%D1%82%D0%B8%D1%98%D0%B0/a-55453198>

<sup>2</sup><https://www.unicef.org/northmacedonia/press-releases/children-risk-becoming-hidden-victims-covid-19-pandemic>

<sup>3</sup><https://www.unicef.org/northmacedonia/press-releases/children-risk-becoming-hidden-victims-covid-19-pandemic>

<sup>4</sup> <https://china-cee.eu/2021/01/18/north-macedonia-economy-briefing-economic-developments-in-2020/>

In addition to the direct threat to health, the coronavirus had multiple other negative impacts on the well-being of individuals and households across the Macedonian society. It affected the work opportunities, causing an increase of unemployment and an increase in the number of economically inactive individuals.<sup>1</sup> By the third quarter of 2020, unemployment was 16,5% whilst employment decreased from 47,1% to 46,6% as a result of the passivization of the active workforce. Around 26,500 people stopped actively searching for work due to Covid19.<sup>2</sup> What is more, the pandemic reduced the income from other sources, especially the remittances from the Macedonian economic migrants in the EU. As the coronavirus pandemic continues to affect the economies across Europe in 2021, it is also likely to continue its negative indirect and direct effects on the Macedonian households and their economic security.

Furthermore, by adding extra pressure to the healthcare, education and social security systems, the pandemic took an additional toll on the most vulnerable social categories. It is estimated that 40,000 pupils had limited access to the educational system, which had shifted to distance learning, adding extra pressures to both teachers and parents. Moreover, family violence was reported to have increased during the COVID-19 lockdown and curfews, with children being nearly 10 percent of the victims.<sup>3</sup> Overall mental health started to deteriorate, as anxiety, depression and stress intensified as a result of the compounded pressures of the pandemic. The longer the pandemic extends into 2021, the more likely it is that it will result in the continuation and increase of such negative social externalities, with numerous adverse effects on society as a whole.

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<sup>1</sup> <http://pubdocs.worldbank.org/en/419241590709526138/WBRER17-08-Poverty-%D0%9C%D0%9A.pdf>

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<sup>3</sup> <https://www.unicef.org/northmacedonia/press-releases/children-risk-becoming-hidden-victims-covid-19-pandemic>

## **Social distrust in institutions rises**

Levels of social distrust in institutions had already been low before the onset of the pandemic. However, they further deteriorated as the pandemic unraveled and exposed various aspects of the state's governance incapacity. According to a survey conducted in December 2020 the citizens marked the Government's response to the pandemic with 2,9 on a scale from 1-5.<sup>1</sup> Moreover, 28,3% of the citizens gave the lowest grade (1) to the Government's economic support measures. The majority of respondents (60,5%) think that the health authorities lack the capacity to manage the vaccinations for Covid19 in a timely and an effective manner. Directly related to this is the high skepticism amongst the citizens with regards to the vaccinations: 40,9% stated that it is not at all likely that they will take the vaccine. Combined with those who have stated that it is not likely, that percentage amounts to 58,6%. An additional indicator of the low level of social trust in institutions is the high social perception of corruption. The latest Corruption Perception Index by Transparency International published in January 2021, placed N. Macedonia on the 106 position with a score of 35 points (on a scale of 1-100). This is 2 points lower than the score of 37 marked in 2019 and 2018. Alongside Albania the country has the lowest score in the region (with 35 points) whilst Bosnia Herzegovina, Serbia and Montenegro scored 36, 39 and 45 points respectively.<sup>2</sup> The figures suggested that the country is at best stagnating in the fight against corruption, which has multiple adverse effects on various areas of social life, from the provision of social services, to the economy and the rule of law. This state of affairs is indicative of the continuously low levels of trust in the institutions of the state, which was only further diminished as a result of the coronavirus pandemic and is likely to continue its downward trend throughout 2021.

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<sup>1</sup>[https://mcms.mk/images/docs/2020/Akutelni\\_opshtestveni\\_prashanja\\_-\\_dekemvri\\_2020\\_-\\_stavovi\\_na\\_javnosta\\_mcms.pdf](https://mcms.mk/images/docs/2020/Akutelni_opshtestveni_prashanja_-_dekemvri_2020_-_stavovi_na_javnosta_mcms.pdf)

<sup>2</sup> <https://www.transparency.org/en/cpi/2020/index/mkd>



The coronavirus pandemic compounded the multidirectional threats to individual and collective well-being across the Macedonian society in 2021. It led to a decrease in the living standards and an increase in the economic and social vulnerabilities of the large share of the population. Major positive shifts are not to be expected in 2021, as the welfare state necessary to address these concerns remains fractured, underfunded and disorganized. The high levels of social distrust are likely to influence the vaccination process in the country, leading to new challenges to the healthcare system and to the handling of the pandemic as a whole. As a result of the combined health, economic and social crisis, the overall social anxiety, economic and human insecurity are likely to remain high throughout 2021. Moreover, as the rift between the political/economic elites and the broader population continues to rise, it is likely to lead to social discontent and/or political apathy in 2021. Finally, the broader social insecurity is likely to cause new social frictions, fragmentations and conflicts (including those along ethnic lines), which may further erode the already fragile social fabric in the country.

## **Poland 2021 outlook on social issues**

**Joanna Ciesielska-Klikowska**

***Summary:** The coming months will bring several important events related to the social situation, mostly due to the coronavirus pandemic. Certainly, one should expect the continuation of layoffs in the sectors most affected by the pandemic, i.e. in: gastronomy and hotel industry, fitness industry, tourism and entertainment. At the same time, employment in production companies, logistics and transport may remain at the same level as in the beginning of 2020, or it can even increase by 4-5% per year. The issue of migration of foreign workers to Poland will also be significant, as it will contribute to the change of the demographic and migration landscape. Yet, how large the group of migrants is may be shown on the basis of the census that will take place in the spring. Its results will certainly bring many interesting conclusions about the overall condition of Polish society. Hence, what will social affairs in Poland look like in 2021?*

### **Situation on the labour market**

The year 2020 was marked by the COVID-19 pandemic, which severely affected many aspects of life - including the social one. Forecasts made in the spring of last year were quite pessimistic in terms of the labour market and possible economic collapse. Fortunately, the forecasts of a large increase in unemployment in the wake of the epidemic have not come true. The year 2020 ended with the registered unemployment rate at the level of 6.1%. Meanwhile, 2021 is likely to see an increase in unemployment, particularly in the first quarter of the year, to around 7.3 - 7.5%, according to government forecasts. But the average for the whole year is to be only slightly higher than last year – app. 6.3 - 6.7%.

Factors contributing to increasing the number of unemployed people will certainly include:

- unpredictability of the course of the pandemic,
- persistence of a sense of uncertainty among entrepreneurs,
- unexpected government decisions, usually made with only limited dialogue with the entrepreneurs,
- restricted freedom of economic activity,
- low level of state and private investment.

The above factors will be overlapped by the diminishing state aid, due to budgetary limitations. After the general support programs that came into force in Poland in spring 2020, subsequent versions of the so-called “Anti-crisis shields” were limited to specific industries, leaving some enterprises linked by interdependencies, with closed sectors of the economy without any help. If the Polish government does not revise the economic support programs under the “Anti-crisis shields” and does not take into account all sectors of the economy, it will be difficult to talk about the possibility of Polish entrepreneurs rebounding the current level of earnings and investment opportunities. The hotel, tourist, catering and fitness industries are already planning a departure from restrictive regulations, complaining that the state aid is insufficient and that it is granted with a delay of several months. If a mass strike and sabotage of lockdown regulations does occur, Polish society may face a serious health and social crisis in 2021.

It should also be remembered that public support provided to enterprises was primarily aimed at maintaining jobs. Therefore, 2021 will be a verification to what extent companies are able to keep up the level of employment at the previous stage. The labour market is still protected against a large increase in unemployment by the continued good export results and the shortage of experienced workers, resulting from the aging of the society or migration outflows.

## **Changing demography of Poland**

In fact, in recent years Poland has faced groundbreaking changes in the area of migration from and to the country. These changes will play an increasing role in social and economic development this year as well.

The two decades of the 21st century prove that migration flows are an important part of the transformations taking place in Poland. Since joining the European Union in 2004, Poland has experienced an outflow of almost 1.5 million (mostly young) people who left in search of professional development opportunities in Western European countries. It is 9% of all professionally active people.

On the other hand, the 2014 war in Ukraine and the consequential economic crisis resulted in increased interest in working in Poland on the part of Ukrainian citizens. It is estimated that the number of Ukrainian immigrants residing in Poland improved from about 0.2 million in 2014 to 1.7-2 million in 2020. The importance of the influx of economic immigrants for the Polish economy is evidenced by studies showing that in 2013-2019, the work of immigrants added an average of 0.5% to the growth of Polish GDP. It is thanks to these inflows that the Polish labour market does not yet feel the negative impact of demographic changes on the labour supply, although they are becoming more and more intense.

It is worth realizing that the current demographic transformation is unique in the recent history of the country - first of all, Poland has never experienced the effects of a fall in fertility far below the replacement of generations; secondly, from at least the mid-nineteenth century, Polish lands were characterized by a tendency to a negative migration balance. Meanwhile, the latest demographic forecasts assume that Poland has become a country with a positive migration balance for good.

Of course, one should be aware that perhaps with the depletion of the migration potential from Ukraine, Poland will not be as easy to attract new immigrants as in recent years. However, there are many factors increasing the chances of maintaining the advantage of immigration over emigration in 2021:

- return of some Polish emigrants due to Brexit,
- slowdown in economic development of Western European countries,
- exhaustion of the potential of emigration from Poland (ever older people do not risk emigration),
- declining labour supply forcing employers to look for employees also outside Poland.

Therefore, in the coming months, Poland will undoubtedly face problems analogous to the dilemmas of most developed economies. The aging of the society will increasingly reduce the number of potential employees, and at the same time increase the potential of the influx of economic immigrants.

### **National census 2021**

Much of the demographic data is now mere assumptions. However, many remarkable statistics on the social situation in Poland will be available in just a few months, thanks to the National Population and Housing Census. The census will be carried out from April 1 to June 30, 2021. Currently, organizational and preparatory works are still in progress, but it is already known that the census will be fully implemented using the interactive census form available on the website of the Central Statistical Office. The census obligation will cover:

- natural persons permanently residing or temporarily staying in apartments in Poland,
- natural persons who do not have a place of residence (homeless),
- buildings and other inhabited rooms that are apartments in Poland,
- collective accommodation facilities and other inhabited non-residential premises.

As part of the national population and housing census, data will be collected on the following issues:

1. demographic characteristics of people,
2. economic activity of people,
3. level of education,
4. disabilities,
5. internal and external migrations,
6. ethnic and cultural characteristics of the inhabitants,
7. the degree of kinship within households,
8. condition and characteristics of the housing stock  
(apartments and buildings).

The planned census of population and housing will be a compulsory survey, carried out on the basis of the census acts. At the same time, it will be the largest statistical activity that is undertaken in Poland in recent years (the last census was organised in 2011), and its main goal will be to conduct a comprehensive social review, to find challenges and opportunities that are currently facing Polish demography and social policy.

## **Conclusions**

Undoubtedly, 2021 will be full of changes on the labour market. We can expect continuation of layoffs in sectors most affected by the pandemic, both due to administrative restrictions and a change in consumer behaviour. At the same time, employment in production companies, logistics and transport may remain at the level from the beginning of 2020 or even increase by 4-5% per year. A smooth flow of workers between services and production is not always possible, so it will be one of the factors of increasing unemployment, which will remain at an average of 6.3 - 6.7%.

At the same time, the issue of the aging of population, a low birth rate and the increasing inflow of workers from abroad, mainly from Ukraine, will remain a challenge. Taking into account that there are approximately 16.5 million professionally active Poles, Ukrainians constitute at least 12% of the additional workforce in the country. However, how big the overall group of migrant workers is, will become clear only after carrying out the national census, which will allow to assess the general condition of Polish

society – including the issues of education, disability or economic activity of Poles. The census will be a key source of social data and an important predictor of future events.

## Romanian social development outlook for 2021

**Oana Cristina Popovici**

***Summary:** The revenues of the population are going to be affected by the fiscal consolidation intended by the Government, who has already capped the wages in the public sector. In the private sector, wages depend on the companies' activity, affected by restrictions and weak external demand. The increase of several revenues, such as children allowances and pensions, are closely monitored. The vaccination campaign is one of the priorities in the first part of the year, with the aim of ensuring the resumption of normal activity. An increased attention should be provided to reducing pollution, as infringement procedures are triggered against Romania since last year.*

The volatility of the health situation influenced by the pandemics and Romania's high dependence on external partners in Europe which continue to face difficulties will have a high impact on social developments this year. The citizens' welfare is connected to the decisions of the Government related to the state budget, which is intended to be finalised at the beginning of February. The budget is going to be built on a deficit of 7% of GDP, which means that the Government intends to perform a fiscal consolidation, but without slowing down the economy. Fiscal policy remains stimulating in the first half of the year, and will move to a neutral fiscal policy in the second half. Official forecasts envisage an inflation level of 2.5% by the end of the year, with an exchange rate that will not suffer high volatilities.

Until the adoption of the state budget, the expected measures, although not envisaging austerity, are meant to ensure the survival of the economy. Therefore, analysts expect that wages in the public sector to be capped, but not cut, at least until the effects of the pandemics are surpassed.



The salaries, allowances and bonuses of the public employees are already capped from January 1, 2021, since the salary law in the public sector is under examination for checking its efficiency. Until the analysis of the effects and implications on the wage law is ready, employees' income remains at the level of December 2020. Besides wages, other revenues are going to be frozen, such as dignitaries' allowances, bonuses, compensations, food allowances, merit indemnity, the minimum inclusion income, military pensions and vacation vouchers, while the increase of teachers' salaries is postponed for January 1, 2022. On the other hand, child benefits will increase by 20% in 2021, in two tranches, in January and August, and not by 40%, as previously announced. At the beginning of the year, the Government approved the extension of the support for the technical unemployment and the flexible work schedule until the middle of the year. The pension point, based on which the final pension is calculated, will be raised by 8% starting with September (which would mean almost EUR 24 extra). It is the largest increase in a calendar designed by the Government for the following 4 years. At the end of this period, pensions would be almost 50% higher than now. At present, Romania has among the lowest pensions in the European Union (EU), meaning that 20% of the seniors are at risk of poverty, according to European statistics.

In addition, the minimum wage in the economy will increase to a gross level of RON 2,300 (EUR 472.3). The net increase is, however, very low (EUR 8.4), which has raised the complaints of trade unions, who expected a raise up to RON 2,400, given that in Romania productivity is half the EU average, while wages are only a quarter of the average salary. The raise in the minimum wage is supposed to exceed the inflation rate, while ensuring a better life for Romanians, but taking care to keep jobs and protect the entrepreneurial initiative, according to Prime Minister Florin Cîțu. The Minister of Labour stated that the increase was adopted and is available for the whole country although the representatives of the employers called for the freezing of the minimum wage in the economy to the current level, at least for the first months of next year, arguing the difficult situation that certain economic sectors is facing. At the same time,

the Prime Minister, the Minister of Labour and the representatives of the social partners agreed to conclude, in the first half of this year, an Agreement to establish a mechanism to increase the minimum gross wage in the economy for the next four years.

Long-term restrictions are likely to continue to affect employment, especially in leisure services and the manufacturing industry, according to an analysis of UniCredit Bank. In addition, since wage negotiations will take place mainly in the first quarter of this year, which continues to be a period marked by restrictions and weak external demand, a much lower wage growth than in previous years is expected. This will further hamper consumption, provided that there has already been a significant reduction in households' plans to make large purchases.

The employees are optimistic about 2021, almost half of the respondents in a survey among more than 800 persons who interacted with job platforms during January declaring that there is no reason to worry this year. However, more than half (54%) of employees are considering changing jobs in 2021, and 28% even took practical steps in this direction. A significant number of candidates are determined to follow retraining courses in order to find a better job and improve their earnings. The intentions to work abroad or to open a business are among the lowest in the last years, continuing the trend that shaped the market in 2020. Among the largest fears it comes first the possibility of not finding a job, while 10% of the respondents are afraid of dismissals in the company they work for or a possible closure of the employer's activity.

In the meantime, the vaccination campaign is continuing. The Government plans to immunize over 13 million persons in 6 months and until present, over 235,000 vaccine doses have arrived in Romania. As compared to other countries, where vulnerable persons were the first to get the vaccine, Romania programmed the vaccination campaign in phases, based on the main sector of activity. Therefore, in the first phase of the vaccination campaign, the health and social workers were targeted. A quarter of all employees in Romania are eligible for the second stage of the vaccination campaign against COVID-19, which include the population at

risk and workers working in key, essential areas, such as central government, education and the food industry. The second phase is also intended to cover people over the age of 65, and people with chronic diseases, regardless of age. In the last phase, the whole population is going to be immunised. All people will have access to vaccination, but the actual phasing is required by the rhythm and the schedule of vaccine doses delivery. The third phase, planned for April, could start sooner according to the Prime Minister Florin Cîțu, if the vaccine producers will comply with the delivery plan. For the moment, the volume of requests for a vaccine exceeded the number of available doses. However, a survey on the subject of pandemics at the beginning of January showed that almost 40% of respondents do not believe in the effectiveness of anti-COVID vaccines based on the information they have so far, but more than a third agrees to be vaccinated.

The resumption of several activities depends on the success of the vaccination campaign. The education continues to be one of the most affected sectors, since courses are carried out online once with the break of the second wave of COVID-19. Most schools in Romania will be open from February 8, starting with the second school semester, depending on the infection rate in each locality. Even in the worst-case scenario, with an infection rate of over three cases per thousand inhabitants, the kindergarten and primary school children will continue to physically go to classes, as compared to the actual situation, when all activities are online. Children with health problems will have the opportunity to follow their studies online.

Another priority for this year should be better monitoring and actions for reducing pollution. The European Commission warnings dates from last year, when infringement procedures were issued due to air pollution and massive deforestation. Romania must provide a plan of measures for controlling pollution, given that there are serious problems in cities such as Bucharest, Iasi and Brasov, where the amount of dust exceeds the norms allowed by the European Commission on a daily basis. For the moment, there are two infringements against Romania regarding the air quality in

Bucharest, one related to the dust problem, another related to the pollution with nitrogen oxides. The newly elected mayor of Bucharest requested a deferment of the decision, informing Brussels about the tangible measures of the new administration, already taken or going to be implemented, in order to reduce pollution, stating that any consistent measure in this direction means feasibility studies, design, financing, execution. If measures are not implemented, Romania risks going to the European Court of Justice and paying huge fines.

## **Serbian social outlook for 2021**

**Ivona Ladjevac**

***Summary:** Promotion of liberal legal legislation, the possibility of reintroducing mandatory military service, the elections of the new Patriarch of the Serbian Orthodox Church, local social activism, ongoing problem of neglected youth are the factors that will shape the social outlook for 2021. The stakes will rise due to the early parliamentary elections in 2022.*

### **Introductory notes**

In 2020 Serbian officials believed that 2021 would be the first post-covid year. However, the beginning of the year 2021 is against their expectations: the number of newly infected with Covid 19 on a daily basis in Serbia kept an ascending line. Under such conditions, only solution for successful fight against the virus will be broad national immunization program.

Yet despite the pandemic social life in Serbia continues. The following are five social events that are very likely to be crucial in shaping social life in the year 2021: I) promotion of liberal legal legislation; II) the possibility of reintroducing mandatory military service; III) the elections of the new Patriarch of the Serbian Orthodox Church; IV) social activism; V) ongoing problem of neglected youth.

## **Promotion of liberal legal legislation**

In the last days of January, Serbian media were shaken by the confession of a young and popular actress regarding alleged rape accusations by her acting instructor. The alleged rape happened nine years ago in an elite private acting school. Soon after, almost a dozen girls came forward with similar accusations of sexual molesting. The trial is still in its infancy but public pressure is enormous to pass a severe conviction. The significance of this event is much greater than a single trial. The actual idea is to create a legal precedent that would enable the creation of a law on rape without physical coercion, emphasizing the importance of explicit consent. That would be a continuation of promoting liberal agenda within the Serbian legislation having in mind the already existing law on domestic violence which is characterized as a radically feminist one. Another law from the same value package that is expected to come into force soon is the Law on the same-sex partnerships. These two laws will provoke great outrage from the majority conservative Serbian people, especially when it comes to the law on the same-sex partnership because conservatives believe that the legislators mock the Constitution of the Republic of Serbia by replacing the word marriage with the word partnership. (The constitution explicitly states that marriage is the institution between male and female).

## **The possibility of reintroducing mandatory military service**

Mandatory military service was suspended in 2010 by pro-Western, liberal political parties in a very controversial and undemocratic manner, without consulting the public which did not have the opportunity to express their opinion in a referendum. The newly appointed minister of defense said that the possibility of reintroducing mandatory military service is being seriously considered. In addition to confirming rumors that the Serbian army has a problem with insufficient human resources (especially in reserve), this announcement has sparked a heated public debate. Conservative and nationalist circles welcome this idea and look forward to

the return of mandatory military service with great enthusiasm. On the other hand, liberal circles with the support of pro-western liberal media (TV stations N1 and NovaS as well as Soros' funded daily newspaper called „Today“ (srb. *Danas*)) are waging a fierce campaign against even the very mention of this idea. Their main argument are scandals that struck the Serbian army in the early 2000s, in which several recruits, unfortunately, lost their lives. In addition, they are frightening the public with possible new wars which, according to them, would emerge as a consequence of the reintroduction of mandatory military service. The most famous argument, which is constantly being repeated like a mantra is: "We don't want our children to go to war." But when you take look at public opinion polls in Serbia on this topic, you will see that those young people born after 2000 who will serve in the army if this idea comes into force mostly support the idea. This is just one example of the growing conservatism among the Serbian youth. In fact, the age group that opposes this idea the most consists of those people who are born in the 60s because that generation mostly took part in the wars of the 1990s. Anyhow, the question of mandatory military service creates a severe rift in Serbian society.

### **The elections of the new Patriarch of the Serbian Orthodox Church**

Due to the death of Patriarch Irinej in November 2020 and along the Article 45, paragraph 1 of the Constitution of the Serbian Orthodox Church that "the election of the Patriarch shall take place at a session of the Holy Assembly of Bishops, extended and active vicar bishops, no later than three months from the day the patriarchal throne is vacated", the Serbian Orthodox Church has to organize election no later than in February 2021.

For the election, there is another condition that must be met and it is regulated by the Constitution's Article 43 which stipulates that the quorum, i.e. the minimum number of bishops present at the election is at least two thirds of the total number of members of the Holy Assembly of Bishops,

which is in today's case at least twenty-nine of the forty-three diocesan and vicar bishops is necessary, which represents a two-thirds majority.

Apart internal regulations that must be followed, special requirement is imposed by the epidemiological situation. The appointment could be postponed if the overall epidemiological situation worsens which would prevent from archbishops attending the meeting.

The election procedure is such that the archbishops first choose three candidates from among themselves, then the names chosen are placed in the gospel, and one of the three envelopes with the name is chosen by a monk who is considered by others as a great man of faith.

It is expected that new Patriarch will be highly educated a person, person of a virtue and a faith.

### **Social activism**

The overwhelming majority in the Serbian Parliament is pro-governmental. In fact, the only opposition in the Parliament consists of several independent MPs. However, the grass-roots political activity is more vibrant than ever. Various political movements are organizing petition signings, civil initiatives, and protest on many different political topics. The most dominant are topics related to environmental protection, specifically: the protection of small mountain rivers, air quality, drinking water quality in some places in the north of the country, protection of the river embankment on the Sava River, as well as the protection of certain water sources near Belgrade. On the right side of the political spectrum, protests against the media appearances of the president of the Serbian Academy of Sciences and Arts, who has very liberal views on the issue of Kosovo and Metohija, which can be interpreted as a renunciation of the territorial integrity of the country, are noted. Moreover, there are occasional protests against the settlement of migrants which are happening periodically, with each new wave of the migrant crisis. Furthermore, there are various rallies expressing support for Serbs living in the region. What unites both sides of the political spectrum in their social activism is



fundraising for the treatment of sick children through voluntary contributions, most often via text messages. Great successes have been achieved recently, given the purchasing power of the Serbian population. Almost all children whose lives were directly at risk received money for adequate treatment abroad. Yet despite numerous local activity this energy fails to be channeled into an organized political force that would enter parliament and act as a serious opposition to the government.

### **The ongoing problem of neglected youth**

By the end of the year 2020, Serbian freelancers, youth mostly, faced with the introduction of new tax policy. Namely, in December 2020 the tax administration has started issuing tax returns to freelancers claiming approximately 50% of their annual income. Freelancers organized quickly and started protesting right after New Year and Christmas. After several small protests and a large protest in a front of the National Assembly of the Republic of Serbia, the Government was forced to start negotiations with representatives of freelancers, although at first, opposed any kind of negotiations. After several meetings government came up with the proposal which offers only minor corrections to the existing tax policy regarding freelancers. This proposal was quickly rejected by the freelancers. At the moment it is unclear what is the status of this problem. The government did not offer a new solution but it has stopped further attempts to collect taxes. Freelancers are waiting for the government's move to take their next step. In the meantime, two sides are waging war via media statements. The government may be deliberately delaying the solution in order to solve the problem immediately before the 2022 elections and thus collect political points.

### **Conclusion**

These five factors will shape social life in Serbia in 2021. The stakes will rise because the president announced early parliamentary elections no later than April 2022. It is expected that the government will make a trade-

off between populist solutions (in order to win the elections) and the promotion of liberal values to preserve the very fragile support it receives from the EU.

# Slovakian social development outlook for 2021

**Kristína Baculáková**

*Summary: The year 2020 was marked by the coronavirus pandemic in the social field as well. Cultural and social life was almost completely stagnant. The government subordinated its decisions to current needs, so in many cases there were no more vigorous reforms than might have been expected after the elections. The beginning of the new year is not yet in a better light. The pandemic is getting worse despite a few weeks of lockdown (even with strict measures since 31 December). Nevertheless, some changes can be announced in several areas, namely:*

## **Changes in pensions and pregnancy benefits**

As every year, the valorization of pensions can be expected in 2021. Although this year's budget options will not look predictable given the current unfavorable situation, pensions will nevertheless be valorized by 2.6%. However, the amount of the minimum pension will remain the same. The changes brought by the new law, which came into force on 1 January, will also lead to a change in the retirement age of citizens born in 1957-1965. Every insured person who brought up children had a reduced retirement age by six months for each child brought up compared to the retirement age of a childless insured person born in the same calendar year. The law stipulated the method of compensating the pension rights of insured persons who had already retired and their upbringing was not taken into account for the purposes of determining the retirement age. Compensation will be paid in the form of a lump sum. The law addresses the long-standing retirement gap of women born in specified years, where disadvantage occurred precisely because the upbringing of children was not

adequately taken into account. An interesting feature of the law is a one-time, new compensation for veterans of the anti-communist resistance, in the form of lump sum of 1989 euros, which will be paid already in January.

In 2021, future mothers will also significantly improve their income. From the 12th week of pregnancy, a pregnant woman will be entitled to the so-called pregnancy allowance. The conditions for obtaining entitlement to a pregnancy allowance are essentially identical to the conditions for obtaining maternity allowance. This means the woman needs to be insured to be able to get the allowance. However, a significant change is the right to an allowance for female students - which is different from the maternity benefit. Until now, the students, as they were not working, were not entitled to maternity benefit after the birth, only to parental allowance. The new law reflects this fact and thus allows pregnant students to partially compensate for the increased costs during pregnancy. Pregnancy allowance, as well as maternity allowance, is provided for days. The amount of the pregnancy allowance is 7.12 euros per day. Therefore, if the month is 31 days long old, the pregnant woman will be paid 220.72 euros. This amount can be compared to the parental allowance. Originally, the changes to the law were supposed to come into force as early as January, but for the comments of the Social Insurance Agency, the changes will not come into force until April this year.

### **Education reform**

The old year brought a case of plagiarism of the highest political figures, which both created pressure to change the law and the process of awarding academic degrees. The new amendment to the Act also includes the Declaration of Invalidity of the State Examination or its Part, the Declaration of Invalidity of the Rigorous Examination or its Part, the Withdrawal of a Scientific-Pedagogical Title or Artistic-Pedagogical Title, a Proposal for Dismissal of a Professor and Resignation of an Academic Title. The most important part of the amendment is clearly the paragraph on final theses, while proceedings on the withdrawal of the title can be

initiated against a person who has demonstrably not prepared the final work independently or misappropriated the subject matter of another person's intellectual property protection, and in doing so obtained an advantage which affected the proper completion of the study or the fulfillment of the conditions for admission to this study. An issue that has been much discussed is the withdrawal of titles already acquired. Due to the sensitivity as well as the difficulty of proving, the procedure for the withdrawal of titles will not apply to titles obtained before 1.1.2021 and the withdrawal procedure must subsequently be initiated within 5 years of its acquisition.

The year 2020 also brought the creation of a long-term plan for education reform by 2030. From the new year, its individual priorities should gradually begin to be met, including the introduction of compulsory pre-school education and tackling the lack of pre-school facilities, promoting inclusive education and desegregation, opening textbook market or a jump in teachers' salaries.

Education reform will also greatly affect universities. The aim of the Minister of Education is to reduce the number of universities in Slovakia with the intention of increasing the quality of scientific research and improving the employment of graduates in practice. At the same time, schools should not disappear, but should be merged in larger, more complex and more competitive institutions. The system of financing higher education institutions should be set up with performance, based on science and research activities. Teachers should also have performance contracts. However, the question remains that higher education in Slovakia is ready for such a change. Several universities in Slovakia do not have established workplaces where it is possible to carry out research at the highest level, or do not have the necessary technologies, networks or finances. It is therefore unrealistic to expect area-top outputs. The hourly range of teaching at the university also remains to be considered. Teaching and learning is the primary goal of universities, along with research. It is therefore not right to look at university teachers purely as researchers.

## **The rebirth of the creative industries**

In 2020, culture was one of the most affected sectors. Artists had to stop practicing their professions almost overnight, and many got into existential problems. The Ministry of Culture has issued support for artists and workers in the cultural and creative industries. However, in addition to rescue financial compensation, the Ministry of Culture has revitalized the Platform for Cultural and Creative Industries, which brings together professionals working in culture and the creative industries as well as affiliated institutions such as universities, which play a key role in research. So far, almost 70 organizations have confirmed membership in the Platform, which launched its first online discussion in December 2020. Through specific activities, the platform will point out the contribution of cultural and creative industries to various areas of society, from the economy, through employment, culture, tourism to the environment. Due to the broad focus of the cultural and creative industries it will also focus on several topics related to the support and development of culture and creativity, entrepreneurship and innovation, sustainable development of regions, education (with emphasis on arts education) and also development in the social field and other spheres.

In addition to the platform, a satellite account will also be available, which will combine valuable data on individual subsectors of the creative industry, so to speak, in one place. It will be possible to monitor long-term developments and trends in individual areas, which have not yet been numerically mapped in Slovakia. Such mapping is particularly important for the proper setting of support policies. This has proved to be crucial, especially nowadays. Although artists and workers in the creative sector were seriously affected the lockdown, only a very small percentage of them registered for the financial help provided by the ministry. For the most part, this involved the demotivation of the actors themselves, who did not feel sufficient interest from the government for the creative sector. At the same time, Slovakia lags behind in comparison with other European countries in the support of culture and creative industries, although the capital Bratislava and its surroundings represent one of the most significant points

on the map of employment in the creative industries in the EU. The new platform responds to these negative trends and its effort in the new year is to activate support and coordination activities between the various actors of the cultural and creative industries.

At the beginning of the pandemic, Slovakia naively hoped that the restrictions and the disease would disappear in a month or two, later these positive prospects were carried throughout the summer. The occurrence of cases was sporadic and the economy, tourism, culture began to function again in a more limited mode. However, the arrival of winter rapidly worsened the situation and brought more lockdowns. Nevertheless, the arrival of the vaccine also means hope for the new year that the situation will start to improve. Therefore, it is to be hoped that there will be not only a recovery of the economy, but also of social life and culture. However, this process will only be gradual.

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# Slovenian social development outlook for 2021

**Helena Motoh**

***Summary:** After ten months of the Covid-19 epidemic with two prominent waves thereof in spring and autumn, all different aspects of society are marked by its effects and its development will significantly influence the outlook for Slovenian society in 2021. With the numbers of newly infected slowly decreasing in the last stretch of the second epidemic wave, the future developments are still partly unclear. How effective Slovenian society will be in addressing the adverse effects of the epidemic will depend primarily on how well two aspects of the epidemic management will be handled, namely, the strategy of the gradual easing of the lockdown and the success of the vaccination programme.*

## **Background: Covid-19 epidemic in 2020**

With Covid-19 spreading to Europe in late winter and early spring, Slovenia felt the effects of epidemic surge in neighbouring Italy. First larger outbreaks in Lombardy and Veneto coincided with winter school holidays in Slovenia. The return from Italian ski resorts brought first Covid-19 cases and soon in-country transmission started as well. Epidemic was declared on March 12, when the number of active cases was nearing 100 and the peak reached on April 6 with just over 600 active cases in the country. The maximum number of daily deaths was around 5 per day. The lockdown was progressively tightening from mid-March to late April when the government started a gradual loosening of the measures. The end of the epidemic – which turned out to be the end of the first wave only – was declared with the end of May. In the first wave epidemic caused great damage among the elderly population, especially the residents of the nursing homes, which – together with the staff in the nursing homes – made



for a third of all Covid-19 cases and almost 80% of all Covid-19-related deaths. After government being late with measures to prevent the spread from the summer outbreak in Croatia, the second wave of the epidemic started early in autumn and worsened by October. Schools were gradually closed in October and stricter lockdown imposed at the end of October with unprecedented measures such as the night-time curfew put in place. What currently seems as the peak of the ongoing second wave of the epidemic was reached in the second week of January – after the temporary loosening of the lockdown measures during the Christmas and New Year’s holidays. At that time the number of active cases was just under 25,000 and average of daily infected rose as high as 2000. The effects of the two waves of the epidemic and the subsequent lockdown measures were detrimental for many segments of the society. The closing down of especially small businesses, especially in the badly hit tourism and hospitality industry, caused unemployment, which was not adequately recorded by the official statistics because these were mostly contract workers and self-employed workers. Cultural industries were also badly affected due to the almost complete closure of all indoor and outdoor venues as well as public gatherings. Many institutions closed with their staff forced to change occupation or seek unemployment benefits. Education system suffered as well, especially gravely during the second ongoing lockdown with an unprecedented long closure of primary schools, secondary schools, and universities, as well as other education institutions (music schools etc.). The long period of the distant learning posed challenges which the society was not prepared for. Among most obvious problems there were the organisation of the distant learning system and a struggle to provide all schools, as well as all pupils and students with adequate equipment to be able to participate. Some areas in Slovenia as well as people from the most underprivileged social groups are still not entirely included in the system, which means that the social gaps are widening progressively with the duration of the educational lockdown. With long lockdown time, all kinds of other societal problems also started worsening, a recorded increase in domestic violence and increased psychological issues. So far, despite a number of successive “corona-packages”, i.e. government packages of

measures to manage the adverse consequences of the Covid-19 epidemic, these failed to address the growing societal issues, related to the epidemic.

### **Loosening of the lockdown measures**

With the infection numbers finally going down from mid-January onwards, there is a growing optimism that the epidemic situation in the second wave is about to improve. On January 8, just before the epidemic peaked again, the government presented a five-stage plan of tightening or loosening the anti-epidemic measures. The plan was initially welcomed in media and general public with quite some criticism, since the previous plan of this type was almost entirely overrun by government measures and thus abolished soon after its adoption. The plan, presented on January 8, is structured in 4 stages: black, red, orange, yellow and green. The black (i.e. worst) stage of the epidemic is reached, when the average number of daily infections in the previous 7 days exceeds 1350 and the number of hospitalised Covid-19 patients is above 1200. Red stage is reached when the average number of daily infections in the previous 7 days goes below 1350 and the number of hospitalised below 1200. The transition from red to orange stage is marked by the average number of daily new cases below 1000 and the number of hospitalized below 1000. Yellow stage is reached at the average number of daily infections in the previous 7 days below 600 and the number of hospitalised below 500. The situation returns to green stage when the average number of daily cases drops below 300. The loosening of the lockdown measures is scheduled accordingly. Reaching the red stage means the return of the first three years of primary school, allowing of necessary lab practice for students, opening of museum, galleries and libraries and opening of the mechanics' shops and similar businesses. In orange stage primary schools open for all pupils and secondary schools open for last year students, while faculties are allowed the classes and exams of up to 10 people. Public gathering of up to 10 people is allowed. The yellow stage launches the re-opening of secondary schools for all students and re-opening of student dormitories, as well as the lifting of the night-time curfew. Green stage brings the lifting of all

other lockdown measures except for the closing of bars and nightclubs – with unclear instructions as to when these are supposed to open. So far, red stage is reached in all statistical regions of the country, with periodical drops back into the black stage, which caused a lot of confusion especially in schools.

### **Vaccination prospects**

Slovenia took part in the organized EU purchase of vaccines against Covid-19 from several different producers. The first package of vaccines that arrived in Slovenia were produced in cooperation of US company Pfizer and German BioNTech. Followed by another package in last days of December, the vaccine that needs to be stored at very low temperatures, was first administered to the residents of the nursing homes. Apart from these, medical staff and the oldest strata of the population was vaccinated. Following few successive packages of Pfizer-BioNTech vaccine, a smaller package of US Moderna vaccine also arrived. In mid-January the government together with the National Institute for Public Health presented the nation vaccination plan. Plan was based on the promised 900,000 doses of Pfizer-BioNTech vaccine and a further package of 900,000 that Slovenia applied for in the EU tender. Moderna vaccine was presented as having a mostly supplementary role in the national vaccination programme, mostly due to the problems cause by protectionist regulations of US for the export of vaccines that made the supply of Moderna vaccines unreliable for the EU market. Slovenia allegedly ordered an additional 100,000 doses, but the timing of their delivery is still unclear. When the programme was presented, the third producer, Astra Zeneca was still thought of as the solution for two problems of the vaccination programme – the availability of a large number of doses and the transport problems with Pfizer-BioNTech vaccine. Slovenia ordered almost 1,4 million doses of Astra Zeneca vaccine and the easier storage requirements of this vaccine would allow also for the vaccination of (especially elderly) people with various mobility issues who cannot come to the medical institutions for the vaccination. Just days after the vaccination programme was presented, however, Astra Zeneca

announced an unexpected decrease in its supplies to EU, while at the same time Pfizer-BioNTech also lowered their supply numbers for the next weeks. Successful realization of the plans to vaccinate at least 60% or 70% of the population and reach enough herd immunity to stop the spread of Covid-19 is thus still very unpredictable.

### **Conclusion**

The developments of the Slovenian society, badly hit by the effects of the Covid-19 epidemic in many of its aspects, greatly depend on the successful strategy of loosening the lockdown measures – especially the opening of schools and other public institutions – and of the success in stopping the spread of the virus, to which the vaccination campaign will importantly contribute. The success of the vaccination campaign is still unclear, though, especially due to several issues with the supply of the vaccines in the next weeks.

## **Part IV Outlook for External Relations**

## **Albania's 2021 foreign policy and the paths forward**

**Marsela Musabelliu**

The internal political streams in Albania will highly influence behavior and discourse in foreign policy during 2021 - mostly because of the general elections to be held in late April. As it often happens, when in need of national support in the electoral campaigns, all major political parties evoke the international actors at one point or the other. Having an endorsement or even some kind of sympathy from a powerful foreign nation is portrayed as pillar of legitimacy from any internal political force, and in 2021 there appears to be no difference. The distinction however in the months to come, will be the ability to secure vaccines, as in Albania all are well aware of the fact that the vaccination process will be as swift as Albania's strategic partners will have the benevolence to assist.

The major struggle in 2021 will mostly be on realizing which foreign country or international institution will help Albania in receiving the Covid-19 vaccine, and as seen since early January this is not a an easy task. Developed countries are competing amongst each-other on which will have the most of the doses first, and with regards to developing countries the only option left is to wait.

### **The one-man-show**

The New Year, found Albania with a new Minister of Foreign Affairs. The former Minister of Defense, Olta Xhacker, took the position with a cabinet reshuffling of ministerial posts declared at the very end of December 2020 by Prime Minister (PM) Edi Rama. However, for Albanians it is a well-known fact that the only protagonist in terms of external relations is Rama himself. In December of 2020 the PM would state in a press conference: "*Albania may be a small country but we wanted to do great things.*" Albania's PM since day one in power has been at the center of every decision and inclination in relation to other countries. In his words, Albania's brilliance at the helm of the OSCE is a great lesson for

how much Albania can achieve, and a lesson of what is about to come with Albania's presence in the Security Council of the United Nations in 2022. Rama is rushing to attract foreign friends so that he can cement his win in the upcoming elections and in doing so he is making himself the pivotal figure of every endeavor outside of Albanian borders. The sense of protagonism is obvious and but the question remains, do the interests of the leader and the interests of the country intersect? – Many political analysts argue that all foreign policy endeavors initiated by the PM are mainly self-serving and intrinsically linked to his grasp of power internally. Furthermore, his meetings with foreign leaders are mostly publicized as personal achievements of Rama rather than the performance of Albania internationally.

### **Turkey and Albania in a strategic partnership**

Rama started 2021 with a state visit to Turkey on the 6<sup>th</sup> of January and was received with the highest honors in Ankara. He was accompanied by most of the Ministers of his cabinet and a strategic partnership agreement signed by Rama and Erdogan; it is considered as the latest step of deep understanding between the two leaders. The Turkish President, pledged a 60 million Euros donation, the construction of a hospital in Fier, the creation of Turkish university in Tirana, the restoration of a mosque in Shkodra and several other deals and lastly, and importantly the creation of a High Council of Bilateral Cooperation was declared. It is argued amongst International Relations experts that this was mostly a trip in order to gain favors (be this political or otherwise) from Erdogan prior to the elections rather than aimed at achieving deeper cooperation with Turkey, which is present already and extensively in Albania. Whatever the outcome will be, it is obvious that Rama made Turkey a priority in his and Albania's foreign agenda for 2021.

### **Greece and the integration path**

While Rama's trip to Turkey was a state visit in itself, two days later in Greece he held informal meeting in a more homely environment. At a luncheon in Mitsotakis' private home, which was also attended by Foreign

Affairs Minister Nikos Dendias, the two leaders reviewed Greek-Albanian relations, discussed developments in the Balkans, the European accession prospects for Albania, and of course the pandemic. Yet, the Greek media noticed that Rama is playing a double game, since it was from Turkey that Rama expressed his discontent to the European Union in not supporting the Western Balkans on the vaccine track. Still, in 2021, this quite bizarre gambling with Greece and Turkey will most likely continue.

### **Frictions with Russia**

It appears that tensions run high and in the front of foreign affairs with starting the year, especially with declaring of a Russian diplomat *Persona Non Grata*, after his noncompliance with anti-Covid regulations in Albania. While an official declaration of the Russian Embassy in Tirana stated that this action will not be left without a response, the state of affairs with Russia is at an all-time-low. Another stance also revealed friction between the two, the declarations of Rama in which the PM labeled an offering from the Russian side of some Covid-19 vaccines, as a ridiculous provocation.

### **China and Albania, a history repeating**

As it happened in the first days of identifications of the first Covid-19 cases in Albania, the authorities did not turn to China for help – the same is happening in this stage of the pandemic. As of end of January 2021 the Albanian government did not even ask for help in Beijing, making it clear that they will stay in deal only with Pfizer or the next option AstraZeneca. It is distressing to see this from the perspective of the citizens this kind of lack of flexibility, all they want is a vaccine, and it doesn't matter where it is from.

This behavior with China from Rama's side is noticeable to all, it remains only to see what will happen in the next (virtual) "17+1" High Level Summit, what signals will Albania be sending and what will be the shape of receptiveness from the Chinese side.



### **The European Union (EU): it is all about the vaccine**

While in every other year the main topic with regards to the EU would be Albania's accession to the union, this time around the only point of reference remains the vaccination process. Rama publicly expressed his discontent for the EU in several declarations. Albania is in a very unfavorable position when it comes to obtaining vaccines, and the usual "helping hand" is nowhere to be seen. To that regard, Rama stated that - *as a person i felt indignant and as a European i felt ashamed* - the EU has opened a divide gap in Europe which is absurd and morally unacceptable decision-making, but also politically incomprehensible, he added. Rama going against the EU is almost a first, being the path to Albania's integration the priority on the foreign policy agenda for 2021. As some politicians in France and Germany reminded the PM of the conditions that Albania has to fulfill and not deal with animosity, it is our argument that in the months to come these type of tones and accusations will circle the podiums of all.

### **The United States**

The only unchangeable variable in Albania's relations to foreign nations will be the United States (US). It has been, it is, and is going to be an ever-present actor in the scene. As the US Ambassador is involved in the electoral campaign, Justice Reform, Electoral Reform and hold talks with all main political forces in the country, it is only expected that the final "blessing" for the next elections will have to come from Washington.

### **What if...**

In the (unlikely) event of a new political ruling force after April 2021, some scenarios might slightly change, however, as the first months of every government in Albania are more about pledges rather than actual deeds, with summer ahead what will remain is autumn, and most likely in those months all will remain on the level of good will and commitments.

## **[Instead of conclusions]**

### **Will Albania embrace multilateralism 2021?**

Rama's new appointee in managing the Ministry of Foreign Affairs when accepting the job, stated that multilateral approach, based on principles on conflict prevention and peacebuilding, is on top of Albania's main priorities as a candidate for a non-permanent seat on the United Nations Security Council for 2022-2023. But, is Albania indeed embracing multilateralism? - Small countries usually do not have the luxury of having few allies, in times of crises this element becomes more important than ever. Having the ability to secure favors and good partnerships from a diversified number of countries becomes imperative, but not in Albania apparently – case in point the outreach (or better the lack thereof) of Albania's diplomatic endeavors in securing many sources of vaccine. As dogmatism is prevailing, and a well-defined "Cold War Mentality" is shadowing any political move outside of Albania's borders, this time around the cost are much higher than before, because lives are at stake. For 2021 it is our argument that this trend will continue all year long, independently of which party wins the elections. If Rama wins again, he will continue on this path because it is a continuity of what he has claimed and acted upon; and if the right-wing wins, they will not have enough clout or cemented power to do differently. Whatever the outcome will be, Albanians are now hostage of an obstinate political management that sees foreign relations as mean to an end. At a time when pragmatism is needed the most, it is nowhere to be found.

## **BiH external relations outlook for 2021: The basic premise**

**Zvonimir Stopić**

***Summary:** The external relations of Bosnia and Herzegovina rely heavily on the developments of its domestic politics, which more often than not continue to be a source of forces which are pulling this country in uncoordinated and different directions. This has been the case since the Dayton Accords, signed in late 1995, and will continue to be so in the foreseeable future. Currently, Bosnia and Herzegovina is positioned between more active Serbian and somewhat passive Croatian regional factors, which are politically electrifying Bosnia and Herzegovina from both the inside and the outside. On a wider scale, Bosnia and Herzegovina, or better to say, its entities, are relying on support of different foreign powers which, for now, no matter of their declarative attitude, help maintain the continuous political deadlock.*

### **The Dayton Accords**

Constitutional crisis in Bosnia and Herzegovina basically lasts ever since this country was patched back together in the late 1995. Effectively ending the devastating war that raged since 1992, in which 100,000 people lost their lives and over 2 million were forced to leave their homes, the “Dayton Accords” reached in Dayton, Ohio, in November, and then signed in Paris in December by the presidents of Serbia, Croatia and Bosnia and Herzegovina, Slobodan Milošević, Franjo Tuđman and Alija Izetbegović, respectively, created a constitutional framework needed for Bosnia and Herzegovina to function. Although this constitutional framework, which established and defined two entities (the Republika Srpska and the Federation of Bosnia and Herzegovina), three constituent peoples (Bosniaks, Serbis and Croatians), one district (Brčko), ten cantons, and a

three-member presidency, was successful in bringing order to the level on which basic institutions can function, it completely failed, however, in eliminating the animosities between the three Bosnia and Herzegovina's main ethnicities, which spill over literally every aspect of Bosnia and Herzegovina's society. In short, the Dayton Accords, along with the Bosnia and Herzegovina's constitution, as it turned out, created a status quo between the major powers within the country, which for the past two and a half decade inadvertently both helped make lines between the three largest ethnicities thicker and push the country in a continuous overall developmental standstill.

### **The solutions**

The Dayton Accords, or better to say the failure to adequately amend the provisional constitution created in Ohio and Paris, created a situation for Bosnia and Herzegovina in which each of the three constituent peoples' leaders, ask for a different thing. Milorad Dodik, with his proposition to create a completely new state in the Western Balkans, the independent Republika Srpska, based on the right of self-determination, takes the lead. Dodik's solution for Bosnia and Herzegovina's problems not only call for the complete redefinition of the Dayton Accords, but also demand from the international community to basically condone many acts of ethnic cleansing and genocide undertaken over the Bosnian population on the territory of present day Republika Srpska. Dodik's solution also brings Serbia into play, which during the leadership of Aleksandar Vučić, although indirectly, often signaled signs of support for such or similar ideas. Further more, Serbia's ongoing discussions with Kosovo over Kosovo's independency, or better to say over the conditions of Serbia's failure to hold Kosovo, also do steer some political circles within Serbia in a certain direction of thinking that Serbia could in the near future alleviate the loss of Kosovo with acquiring the territory of Republika Srpska. Such thinking, if nothing else, make the whole idea of independent Republika Srpska, dangerous, to say the least. Following Dodik in a somewhat milder and less frequent tone, Dragan Čović, the the *de facto* representative of the

Croatians, calls for redefining the Dayton Accords by adding another independent Croatian entity, similar to the other two that currently exist. This solution would force Bosnia and Herzegovina to completely redefine its political definition, making it a federation, which no doubt would in future lead to calls for further divisions, such as the one Dodik is making today. The last involved party, today represented by Bakir Izetbegović, hope to redefine the Dayton agreement in way that would return Bosnia and Herzegovina to the pre-war state, which, if other two leaders would be asked it is precisely that, a “pre-war state”.

Considering the current internal situation, neither of these three internally driven solutions, in a shape currently conceived by the three involved parties, are particularly viable. The whole situation gets even more complicated because in order to make any sustainable structural changes, due to the very fragile level of peace in Bosnia and Herzegovina, the international factors will have to be involved. Out of the interested outside factors, Serbia and Russia take the lead when it comes to opposing any changes. Speaking in front of the TV cameras (Televizija Prva) on December 18th, Serbian President Vučić stated that the proposed changes of the Dayton Accords request “that the Republika Srpska does not have the entity powers for which the Serbian people fought for and achieved in the war conflict.” Vučić’s statement is further encouraged by the attitude of Russia, which was blatantly visible during the visit of Russian Foreign Minister Sergei Lavrov to Republika Srpska in December 14th, when he stated that the Dayton Accords are “the foundation of the functioning of Bosnia and Herzegovina”, that “the equality of the three constituent peoples and the two entities must be respected,” as well as “that any attempt to demolish Dayton can cause the most serious risks and consequences”. Vučić and Lavrov speak the truth. Serbs did fought for Republika Srpska, and changing the Dayton Accords does bring many risks. However, the methodology of Serbian warfare on the territory of present-day Republika Srpska, which includes genocide and ethnic cleansing, together with the obvious status quo that in the long run benefits Republika Srpska and help maintain Bosnia and Herzegovina’s overall dysfunctionality, makes both

of their statements, as well as the official attitudes of Serbia and Russia, lacking. When it comes to Croatia, its Prime minister Andrej Plenković (speaking in the United Nations in September and Zagreb in December) and President Zoran Milanović (speaking on the Croatian Radio-television in December), both hold the attitude that the solution for Bosnia and Herzegovina's lies primarily in reaching an agreement within Bosnia and Herzegovina. The international community and Croatia, as Plenković stated, can be of help.

The United States, without which the Dayton Accords and the end of hostilities in Bosnia and Herzegovina would not be accomplished, is focused on further preservation of peace. However, the United States are also much aware that "peace at any price" is not possible any more, which was already confirmed by the the new United States President Joe Biden. On December 14th, he made the attempt to present the Dayton Accords' 25th anniversary as an "opportunity for all to consider the possibility of a brighter future and decide again on the difficult but necessary steps to build a fully functional Bosnia and Herzegovina for all its citizens." The European Union, to which Bosnia and Herzegovina declaratively aspires to enter, is for now the main and most positive factor of internal change within the country. Although, not without problems of its own. As far as the European Union is concerned, Bosnia and Herzegovina itself needs to find strength to make the necessary changes from within, so that it can become a more functional part of Europe, which circles us back to the discussion of permanent internal dysfunctionality that prevents change in the first place. In short, in order to become a more functional state and a part of Europe, Bosnia and Herzegovina itself needs to find a way to make (constitutional) solutions happen. However, in order to make these solutions, Bosnia and Herzegovina, as it seems, needs to be a part of Europe, because the country proved its inability to achieve such a feat by itself numerous times.

## **Conclusion**

Although the Dayton Accords weren't envisioned to be the final solution for Bosnia and Herzegovina, but only a chance for peace, during which new and more adequate solutions for the overall functioning of the state could be made, these accords, along with the constitution based upon it, for the past quarter of the century ended up being the only solution. In the meantime, boiling animosity between the three constituent peoples created a situation in which any attempt to adjust the constitution in order to make something in Bosnia and Herzegovina better, is overshadowed by a high possibility of the manipulation attempts of the constitutional changes by all involved parties. The complete redefinition of the Dayton Accords, the secession of Republika Srpska or the Bosnia and Herzegovina's "ascension" to the European Union, all of which depend on both the internal and international factors, are risky ventures which in a split second can stir up the ghosts of Bosnia and Herzegovina's frozen war. Putting aside the very low probability that political actors in Bosnia and Herzegovina can reach any solutions in the near future, as well as the very high probability that some of those solutions can be reached at all, the very idea of the solutions will shape how Bosnia and Herzegovina's will act and look on the international level in the year 2021.

## **Outlook of the Bulgarian international relations in 2021**

**Evgeniy Kandilarov**

When analyzing the prospects of Bulgarian foreign policy in 2021 year, the following should be taken into account in the first place.

**The Balkans and the Black Sea region**, to which Bulgaria belongs, continue to be a field of conflict of geopolitical interests and mutual restraint between the global players on the international stage. This predetermines the dynamics of the processes in this region, often stimulated by external interests. Against this background, the EU's presence remains rather passive. An extremely determining foreign policy factor for Bulgaria is also NATO membership. In 2020, NATO continued to be shaken by internal problems. That is why in 2021 it will be crucial for the Alliance to strengthen the Euro-Atlantic relationship after the election of the new American president Joe Biden. The expert concept "NATO 2030: United in a New Era" has developed guidelines for the future development of the Alliance, based on further confrontation with Russia and systematic competition with China. This is in fact a concept of a new Cold War against both countries. This was reflected in the approach to strengthening NATO's Northeast Flank, the Black Sea region and especially the Eastern Mediterranean, as well as the decision to deploy US medium-range and short-range missiles in Europe and the Asia-Pacific region.

Although parliamentary elections are coming up in Bulgaria in the spring of 2021, which means a new government, the main directions and priorities of Bulgarian foreign policy over the past more than ten years actually remain unchanged. That is why the formation of a new cabinet is unlikely to have a significant impact on the country's international policy.

Of course, in the first place, Bulgarian foreign policy is a direct function of Bulgaria's membership in the **European Union and NATO**.



From this point of view, however, it should be emphasized that the Bulgarian position on many issues of international politics is not showing any specific own vision but is rather in support of the leading countries in both organizations. When it comes to the European Union, Bulgaria strictly adheres to the positions of Germany, and in regard of NATO, without a doubt, the Bulgarian government stands firmly behind the positions and the interests of the United States. As this is a constant feature of Bulgarian foreign policy, it is likely to remain the same in 2021. This gives the Bulgarian Diplomatic Society reason in its annual report for last year to sharply criticize the Bulgarian government, concluding that Bulgaria does not seem to have a national vision, development strategy and foreign policy priorities and initiatives or, if any, they are without their own appearance and profile. The reason for such a conclusion is the fact that the Bulgarian position does not differ in any way from the common positions within the EU and NATO.

Another reason for criticism of Bulgaria's international policy so far is the fact that the country is not actively involved in the work of the **European Union** Institutions, standing aside from the main political debates. Formally On January 20, 2021, with a Decision of the Council of Ministers, the Annual Program for the participation of the Republic of Bulgaria in the decision-making process of the European Union in 2021 was adopted. The Council of Ministers also adopted a Six-Month Program with the priority topics for the Republic of Bulgaria during the Portuguese Presidency of the Council of the European Union (January 1 - June 30, 2021) in various areas. Yet regarding Bulgaria's membership in the EU, the most important priority for the Bulgarian government in 2021 will be the opportunity to receive and utilize the *"largest package of incentives ever financed from the EU budget."* Thus, the European Commission has defined the multiannual financial framework 2021-2027 in combination with the Next Generation EU recovery instrument, which will run until the end of 2024. The first payments from this fund, in fact from its main component, such as the Recovery and Sustainability Mechanism, are expected at the beginning of the third quarter of 2021. The future Bulgarian

government will receive as much money as no other before. Under the multiannual financial framework 2021-2027, 16.7 billion euros are to be provided for Bulgaria, and another 12.4 billion euros are added to them under the recovery plan (of which 9.2 billion are gratuitous). These over 29 billion euros are more than all the funds that Bulgaria has so far negotiated from the EU budgets. What comes out is that the future Bulgarian cabinet will have a solid financial resource, the largest for Bulgaria's 14-year membership in the Union.

Regarding Bulgaria's participation in **NATO**, the draft Program for the Defense Capabilities of the Armed Forces until 2032, which was adopted by the government this week, states that the contribution of the Republic of Bulgaria to building a reliable deterrent potential and effective defense capabilities of NATO by 2032 is in three main areas: fulfillment of the Allied commitment to increase defense spending to 2% of GDP; development and investment in modern defense capabilities and achievement of the agreed Capability Objectives for Bulgaria within the NATO defense planning process and contribution to current operations, missions and other activities and commitments of the Alliance. With regard to the last Bulgarian national contribution in 2021 and next years will focus primarily on NATO's adapted forward presence in the Black Sea and on the participation of combat-ready formations in NATO initiatives.

It should be noted here that Bulgaria's bilateral relations with the leading global players are in fact a function of geopolitical processes and oppositions.

On the first place the relations between Bulgaria and the **United States** so far and in 2021 as well, will be remain mainly in the field of security. Last year the two countries signed a ten-year "Roadmap for Defense Cooperation". In addition, Bulgaria purchased eight F16 fighters from the United States and, last but not least, a Maritime Coordination Center was established in the port of Varna in the Black Sea which was considered is an important step towards greater NATO and regional cooperation in the Black Sea region. From this point of view regardless of the new US administration, relations between the two countries in 2021

will continue to be of paramount importance for Bulgaria in terms of its Allied commitments to NATO, as well as in terms of strategic opposition in the Balkans and the Black Sea region.

It is through the prism of Bulgarian-USA relations that Bulgaria's relations with **Russia** and China must be considered. Here the Bulgarian position is traditionally associated with the deterrence of Russia (mainly in the field of energy and the implementation of the gas pipeline "Turkish Stream", subject to US sanctions). The constructive component of relations with Russia last year was in terms of gas supplies, offset by a demonstrative political strain on relations through the periodic expulsion of Russian diplomats. At the same time the already cited government program for the defense capabilities of the Bulgarian Armed Forces clearly states that the Black Sea region will retain its conflict potential, and no settlement of frozen conflicts is expected. The main warning is that the Russian Federation will strive to sustain changes after 2014 in its favor military-strategic balance in the Black Sea. Without directly mentioning Russia as a strategic rival of Bulgaria, the text of the program makes a very clear suggestion in such a direction. On the one hand, it is emphasized that the Russian Federation will use hybrid attacks to slow down the Euro-Atlantic integration of the countries of the Western Balkans. On the other hand, the fact that the Russian Federation and China will seek to ensure a lasting presence in the region is highlighted as a threatening trend. All this shows that in 2021 Bulgaria's policy towards these two countries will most likely maintain the same trend of restraint and opposition.

Here comes the place of **China**, as the Bulgarian government clearly emphasizes the growing economic and military potential of China leading to the growing influence of Beijing globally and opens challenges to NATO. This position explains why for the last years obviously Bulgaria stays away from Chinese interests in Europe - economic, investment, political. It is unlikely that 2021 will significantly change this situation.

In this context, we must mention that in 2021 Bulgaria will hold the presidency of the “**Three seas Initiative**”, whose main goal is geopolitical and is related to the containment of Russia (and China in the economic

sense). Bulgaria could not remain isolated from such a regional project, taking into account the benefits of developing transport and communication infrastructure in Eastern Europe. At the same time, it is an instrument in the geopolitical confrontation and does not lead to a de-escalation of tensions between the EU and Russia, and also creates additional dividing lines within the EU.

Finally, it must be said that one of the most important and priority areas of Bulgarian foreign policy in 2021 will remain the region of the **Western Balkans**. Blocking the start of EU membership talks in the Republic of Northern Macedonia (and Albania) has become Bulgaria's most visible foreign policy event in recent years. The firm approach in defending the Bulgarian conditions (implementation of the Treaty of Friendship, Good Neighborliness and Cooperation, to be guaranteed by the adoption of a detailed roadmap; non-deviation from the so-called language clause in the Treaty; withdrawal of claims for "Macedonian minority" in Bulgaria, recognition of objective historical facts and cessation of falsification of Bulgarian history) found a predominantly positive response among the Bulgarian public and support among political forces. Internationally, however, a number of problems emerged: Bulgaria's position remained misunderstood in the EU and in the Balkans and Bulgaria became isolated on the issue. In Northern Macedonia itself, anti-Bulgarian sentiment and hate speech escalated sharply. It should be borne in mind that postponing the implementation of the European perspective for the countries in the region does not meet the long-term interests of Bulgaria. From this point of view, in 2021 Bulgaria will continue to actively negotiate with the Republic of Macedonia, seeking an opportunity for compromise.

In conclusion, it should be noted that all forecasts related to international relations in 2021 are extremely risky due to the unpredictable development of the coronavirus pandemic. The outlined directions of the Bulgarian foreign policy for 2021 are rather sustainable tendencies, which will most likely be maintained during the year but also could be changed to some extent.

## **A preview of 2021 key foreign policy events in Croatia**

**Valentino Petrović**

***Summary:** In this paper we shall discuss the foreign policy occurrences that took place in 2020 and will continue on to have major influence in 2021. With new American administration underway, the expectations in Croatia are high, especially because of Joe Biden's knowledge of this area's modern political history. The situation in the European Union is also to be analyzed. The vaccine manufacturers have proclaimed that would not be able to meet the contractual obligations and Prime Minister Plenković spoke of it as vaccine hijacking. We shall also discuss the intention of Croatia to proclaim an Exclusive Economic Zone in the Adriatic Sea, an attempt which was deemed to be controversial from Slovenian perspective, but it happened to be well-recognized by Plenković's counterpart, Janša.*

### **Introduction**

In this paper we shall present the preview of what we consider the key foreign policy events that are about to happen or have already been suggested in the last couple of weeks, taking into account the late December Sisak-Moslavina earthquake, the so-called vaccine diplomacy, and the recently established understanding between Croatian and Slovenian governments regarding Zagreb's intention to proclaim an Exclusive Economic Zone (EEZ) in the Adriatic Sea. Due to the fact that these events are directly or indirectly related to the Croatian membership in the European Union, we shall briefly discuss the relations between the Croatian Government and Trump's administration in light of early October visit by Secretary of State Mike Pompeo, as well as the Croatian expectations from the newly elected President Joe Biden.

Even though the United States have always been considered a partner, which they most certainly are, we have yet to see the concrete results of Mike Pompeo's meetings with Croatian decision-makers last October. When the visit was announced, both politics and media were discussing topics such as Croatian entry to the Visa Waiver Program and the elimination of double taxation for Croatian companies. Four months after, nothing has happened, although Croatia was assured that it has fulfilled all the necessary steps and requirements for either of these services. However, after Joe Biden's inauguration, we can only hope that political as well as economic relations with the US will find a new course, whereas Trump's administration seemed to have no particular interest in this area. According to the latest statistical data "Croatian export to the US has been growing solidly and constantly, with trade totaling \$649 million in 2019, including \$461 million worth of Croatian exports, up 14% on 2018. In the first nine months of 2020, Croatian exports reached \$370 million".

### **The US or EU Approach**

The question on who is Croatia's most reliable and, to that extent, necessary partner in international and foreign affairs portfolio was discussed more than a year ago during the presidential election debate between then-President Kolinda Grabar Kitarović and center-of-left candidate Zoran Milanović. Due to her past, work experience and, perhaps, her education, Grabar Kitarović argued that the US should be perceived as number one ally that Croatia currently has. Milanović countered by saying that the European Union is the "greatest agent of peace"; thus, it has to be considered as our closest ally and partner. With the benefit of hindsight, Milanović's argumentation has proven to be the right one, as membership in the European Union was a key aspect of Croatia's 2020 and 2021 bouts against coronavirus and two major earthquakes. Of course, one cannot disregard the military cooperation between the US and Croatia and the importance of US donations in military equipment; therefore, we could say that the US remains our closest partner when it comes to modernization of

defense capabilities. However, when it comes to economic cooperation and political importance, it is quite reasonable to say that Croatia should focus more on benefits it can secure as the youngest member state of the European Union.

Nevertheless, the European Union membership should not be taken for granted. As it was the case with Croatia during its pre-accession period, and today, when efforts are pointed into a direction of enlargement on the Western Balkan countries, we must not simply relate to the EU accession as a one-way process that demands of candidate countries to fulfill only the formal criteria. Rather, we have to understand the very nature of the European values such as freedom, democracy and the rule of law that each candidate country chooses to implement and uphold with the assistance of other member states and European institutions. Furthermore, the European Union itself needs to pose a question whether some member states have been safeguarding these very values and, if not, what did it do to help them adhere to the principles once defined in foundation treaties.

### **Foreign Assistance**

With these last few sentences in mind, we could say that many Croatian citizens were skeptical about the membership once Croatia finally joined the European Union. They did not see the purpose of joining such supranational organization that will dictate much of our domestic policies and processes. To put it more straightforward, the people wanted something in return. Unfortunately, it took a global health pandemic and two severe earthquakes for people to start believing that the European Union, with all of its flaws, is still our best option and our closest partner. Except for money prepared through the EU Next Generation fund and EU Solidarity Fund, Croatia did receive material assistance independently from certain member states and non-EU countries as well. German Ambassador Robert Klinker recently visited the town of Lekenik where he presented his country's donation of 40 housing containers. He underlined that Germany is "providing relief aid from several levels: at level of the federal government,

through its states and also through the EU Civil Protection Mechanism. For instance, the states of Baden-Württemberg and Bavaria have provided the quake-affected areas with assistance from their fire-fighting societies”. The Canadian Ambassador Alan Bowman visited the towns of Petrinja and Glina and provided financial support that has been sent to Red Cross Croatia, while Japanese Ambassador Misako Kaji also visited Petrinja and held a meeting with mayor Darinko Dumbović to exchange experiences and ideas on post-earthquake reconstruction.

### **COVID-19 – Vaccine Diplomacy or Vaccine Hijacking**

Another aspect of foreign policy worth looking upon on both national and European level is the COVID-19 vaccine distribution. Prime Minister Andrej Plenković spoke on the vaccine diplomacy that has turned into vaccine hijacking due to that fact that vaccine manufacturers recently said that they will not be able to meet the contractual demands of the arranged delivery to the European Union. When asked whether the Government is looking for other solutions to acquire vaccine, i.e., independently from other European Union member states, the Prime Minister commented that it was a joint agreement and strategy adopted by the member states not to contact other manufacturers themselves. Plenković added that some countries are paying more per dose than what the EU has paid which was not part of the initial agreement. It was 22<sup>nd</sup> January when AstraZeneca said “it would not meet its contractual delivery commitments to the European Union because of unexplained ‘reduced yields’ in its European supply chain. That came a week after US group Pfizer said it was also cutting early delivery volumes of its vaccine produced with German firm BioNTech”. This scenario would seriously undermine the European Commission efforts and Ursula von der Leyen’s plan to inoculate 70% of adults by the end of August. In Croatian context, this could potentially signal a red light even though the Prime Minister was blunt regarding the second shot of the vaccine: “You have heard the epidemiologists, the deadline is 21 days...There will be no danger that someone who received the first shot does not receive the second one in time”, Plenković said.



## **An Exclusive Economic Zone in the Adriatic Sea**

The last section of this paper will discuss the Croatian initiative to proclaim an Exclusive Economic Zone (EEZ) in the Adriatic Sea, a news that sparked in December and was introduced to Croatian public by Minister of Foreign and European Affairs, Goran Grlić Radman. The idea was soon endorsed in Croatian Parliament, however, members of opposition have argued that the Government would not be courageous to do so, if Italy had not decided to declare an EEZ themselves. Grlić Radman underlined that “compared with the existing Ecological and Fisheries Protection Zone, the Exclusive Economic Zone provides for two more rights – the right to build artificial islands and the right to use power of the sea, sea currents and wind”. On 19<sup>th</sup> December, the foreign ministers of Croatia, Italy and Slovenia held a trilateral meeting to discuss “operational modalities and priority areas” for cooperation in the Adriatic Sea. The Slovenian Government led-by Janez Janša was heavily criticized by its own opposition for accepting such solution that would see Slovenia being left without access to the open sea, especially after the arbitration process on maritime borders and Croatian refusal to accept the Court’s decision.

## **Conclusion**

When discussing various government’s portfolios, we could say that foreign affairs is expected to project a highest level of stability and predictability for two main reasons. First, the paragraphs above have shown that Croatia is widely dependent on the European Union at least in terms of political stability and economic assistance; thus, we could predict further convergence in line with EU’s decision-making. Second, the Croatian Government is led-by Andrej Plenković who is well-known for his pro-European approach and has already gained influence in European People’s Party. With the new US administration underway, we could only hope for reaffirmation of Euro-Atlantic values and mutual assistance in times of need.

# Prospects of Czech external relations in 2021

Ladislav Zemánek

*Summary: The foreign policy of the Czech Republic will be influenced by domestic politics and external pressure significantly. It is an inevitable consequence of the frictions stemming from the transformation of the global order. In this analysis, I will therefore focus on the interactions with China and Russia as these are the main engines of the emergence of a new model of international relations.*

## **The Czech-Russian relations frozen**

The Czech-Russian relations will remain at a freezing point in the months to follow. Many political actors have undermined the mutual relationship and, similarly, the highest leadership does not favour normalisation in a short-term perspective. President Miloš Zeman is the major exception, pursuing a pragmatic attitude towards Russia. Rudolf Jindrák, the Director of the Foreign Department, Office of the President of the Czech Republic, was appointed the commissioner for consultations with Moscow last year. He will endeavour to find ways how to contribute to reverse the negative trajectory, re-opening bilateral communication which has been virtually stopped after several affairs that took place over the last two years, and consequent escalation of tension. The Government led by the Prime Minister Andrej Babiš will find itself under intensifying pressure from the so-called „democratic bloc“<sup>1</sup> and different lobby groups from NGOs and media which will complicate any attempts at pragmatic policy towards Russia free of prejudice and ideologic burden. The PM

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<sup>1</sup> The self-proclaimed „democratic bloc“ comprises of two coalitions including the Civic Democratic Party (ODS), Christians Democrats (KDU-ČSL), the Mayors and Independents (STAN), the Pirate Party and TOP09 party.

largely pursued a consensual and non-confrontational foreign policy in the past but given the declining public support for his ANO movement before the autumn Parliamentary election, his latitude will be more and more narrow. The foreign policy has never belonged to his priorities as the PM's strong point has been domestic politics. In view of the fact that Andrej Babiš' political position has been deteriorating and this tendency will likely not to change significantly in the next months, he will focus on the domestic agenda and inner political struggles even more. As a result, the foreign agenda and external affairs will be under stronger influence of radical liberals and exponents of the Euro-Atlantic partnership and pro-Western orientation.

Anti-Russian statements appeared at the highest political echelons. In connection with January demonstrations in some Russian cities, the Ministry of Foreign Affairs Tomáš Petříček and the Deputy Prime Minister Jan Hamáček criticised the Russian side openly, speaking about alleged brutality, repressions and suppression of civil rights. Interestingly, both these representatives are members of the Social Democratic Party, the minor partner of the ANO movement in the cabinet. Such stances indicate that influence of the liberal elements within the party, the support of which fluctuates around 5 per cent needed for getting through to the Chamber of Deputies, grows stronger. Another example of interference into internal affairs of other country and of the anti-Russian agenda is an appeal made by the Chairman of the Senate Committee on Foreign Affairs, Defence and Security, and unsuccessful candidate for President of the Republic Pavel Fischer who calls for annulment of the bilateral Agreement on friendly relations and cooperation signed in 1993. While this document laid foundations for building mutual relations in a new, post-socialist period and after the establishment of the independent Czech Republic and Russian Federation, Pavel Fischer replicates US/NATO narrative about the alleged threat the Putin's Russia poses to the „free world“, aiming to negate positive effects of the Czech-Russian cooperation. In the following period, the only powerful actor defending the rational policy in this regard will be President Zeman who is aware that potential benefits of the cooperation

and partnership between Russia on one hand and the European countries on the other outweigh risks markedly. Whereas both chambers of the Parliament can be dominated by the anti-Russian forces after the October election (especially in case the Communist Party fails and the ANO movement loses its former hegemonic position), the executive will be exposed to an influence of the highest representative of the Republic whose mandate lasts up to 2023.

The official Czech policy must coincide with pragmatic actors within the EU – Angela Merkel’s Germany or Emmanuel Macron’s France who refused to impose further sanctions on Russia in January. The Czech Republic should side with the long-term German position, even more, that our country is heavily dependent on this Western neighbour. Warming of the European-Russian relations would bring about multiple economic stimuli and the Czech Republic would capitalise on closer German-Russian collaboration (a successful launch of the Nord Stream 2 project could be a step in this direction). The Czech political representation should rather follow the example of Josep Borrell, Vice-President of the European Commission, who is to hold talks with the Russian counterparts in February, than wage ideologically motivated campaign.

### **Paradoxes of the liberal intolerance**

The assertion of independent and self-confident policy is both desirable and necessary, nevertheless, sometimes it is better to follow others, especially when it comes to moving forward in conformity with the objective development trajectories. The Czech political elites should overcome their provincialism as well as outdated conceptions of the alleged superiority of the Western liberal democracy and universalism of the „Western values“. They should accept the rise of Eurasia, renounce the dogma of the „eternal“ Euro-Atlantic partnership and focus on reforming the European integration project in accordance with reshaping of the international order as promoted by the non-Western powers, based on multilateralism, solidarity, multipolarity, plurality and inclusiveness.

Concurrent processes of globalisation and regionalisation are typical features of the transformation of the global order, being manifested, among others, by the formation of manifold (macro)regional entities including FTAs and other integration projects.

Seemingly, some Czech political actors will be opposing to the EU-China Comprehensive Agreement on Investment (CAI), concluded in December 2020 after eight years of negotiations. This applies particularly to the parties of the „democratic bloc“ which might defeat the present government coalition and take over the executive power. It should be emphasised that those forces which undermine the Czech-Russian cooperation, enforce the same hostile policies in relation to China similarly. Being predominantly liberal, they praise the EU and „free Western world“. Paradoxically, opposing the CAI, these radically pro-European actors will adopt an anti-European stance. The Czech „democratic camp“ will criticise the CAI as a tool of China’s penetration of the European countries and very likely to hamper the ratification process. The same stand has been taken on the Belt and Road Initiative which is one of the engines of the interconnection, integration and development of the vast Eurasian area stretching from the Atlantic to the Pacific, from Europe to East Asia. Even though the liberal radicals from politics, NGOs and media will be assaulting positive projects such as the BRI, CAI or 17+1, there will be relevant actors, primarily from business, who can comprehend the great benefits of these initiatives as well as the enormous potential stemming from China’s opening-up.

### **A strategic tender and external factors**

This kind of clash has already appeared in connection with a tender for the construction of the new nuclear unit at the Dukovany power plant in Moravia, the Czech Republic. It is the oldest Czech nuclear power plant covering approximately 20 per cent of the total electricity consumption. The question of its expansion has been discussed for a long period and the decision on the final model of the tender has been postponed several times,

especially because of politicisation of the topic as proven by interventions of the US side which is utterly interested in the tender. Whereas five tenderers have been known so far – CGN (China), EdF (France), KHNP (South Korea), Rosatom (Russia) and Westinghouse (US) – as a consequence of external pressure and domestic political struggles, the Minister of Industry and Trade Karel Havlíček announced in January that neither Chinese nor Russian companies would likely to be allowed to participate in the tender. There is a possibility that Chinese and Russian subjects could attend under the condition that they play a minor role as suppliers within a consortium led by a company based in the EU or NATO country. Given the strategic significance of the tender, the Government will look for support across the political scene and it means the only thing – discrimination of the Chinese and Russian companies.

It is beyond any doubt that the parties of the „democratic bloc“ will reject the CGN and Rosatom. At the moment, the liberal forces have a majority in the Senate, therefore, the upper chamber will be the major opponent of the non-discriminatory, transparent, fair tender based on the market principles in which any qualified candidates could take part irrespective of their origin. Not surprisingly, the Senate Committee on Foreign Affairs, Defence and Security, led by the abovementioned Pavel Fischer, appealed to the Government for the exclusion of both CGN and Rosatom. There will be a conflict between the Parliament and the cabinet on one hand, and business as well as trade unions on the other. An alliance consisting of representatives of enterprises and trade unions has been already formed, calling for the participation of Chinese and Russian subjects in the tender. If the pragmatic attitude is overshadowed by (geo)political interests and the tender is discriminatory, it will harm the Czech Republic's relationship with China and Russia. And it is not in accordance with our national interests.

## A system of signals for 2021 and a foreign policy context

E-MAP Foundation MTÜ

### Estonia

Objectively, the process of foreign policy making represents the formulation of strategic narratives based on specific symbols or signs that are understood in diplomacy. In China, for example, the transition from Hu Jintao to Xi Jinping was featured by a particular type of messages projected through to the international community (for example, the conceptualisation of the Chinese Dream and the announcement of the Belt and Road Initiative). In the United States, the Donald Trump-Joe Biden change of administration formulated another lot of diplomatic signs (an idea for the USA to return back to the international system, for instance). The most recent change of Government in Estonia, while being less ground-breaking if compared to the aforementioned two examples, has already managed to create plenty of new strategic narratives, having sent **a few important signals** to the country's international partners.

**Firstly**, the inaugural call made to a foreign leader by the newly appointed Estonian Prime Minister Kaja Kallas (*Reform*) was made to Sanna Marin, Prime Minister of Finland<sup>1</sup>. Describing its northern neighbour as a “dear relative and close friend”, Kallas also noted that

[i]n addition to limiting the spread of the pandemic, it is first and foremost important to strengthen relations with our closest neighbo[u]rs and allies, to move towards climate neutrality, to prioritise digital development, and to resolve the economic crisis and move towards fiscal

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<sup>1</sup> ‘Kallas makes first foreign leader call to prime minister of Finland’ in *ERR*, 27 January 2021. Available from [<https://news.err.ee/1608087220/kallas-makes-first-foreign-leader-call-to-prime-minister-of-finland>].

balance. We will definitely work together for these goals in the European Union as well.<sup>1</sup>

It would have been just a *routine* conversation using very common generic words, had the relations between Finland and Estonia not been challenged by the insulting words of the former Estonian Minister of the Interior, Mart Helme (*EKRE*), which were addressed directly to Prime Minister Marin. In December 2019, Helme noted that, in Finland, “a salesgirl has become prime minister and some other street activist and uneducated person has also become a member of the government”<sup>2</sup>. Some cumbrous apologies, sent from the Estonian side to the Finnish Prime Minister, were accepted in Helsinki, but the ‘aftertaste’ was still there. There is a hope in Estonia that the issue is over – at least, the country’s new Prime Minister did her best to heal the ‘wounds’ of populism-driven absurdity.

**Secondly**, contrary to a rather high level of international anticipation, Estonian President Kersti Kaljulaid decided to withdraw her candidacy that she put forward in October 2019 for the position of Secretary General of the *Organisation for Economic Cooperation and Development* (OECD). It was already known that she got through to the second round of one of the toughest contests in international politics, thus the announcement was even more surprising. President Kaljulaid spoke on the topics:

The OECD is a consensual organisation, and the main aim was to choose for the next Secretary General the candidate, who has the widest support. Consultations with different OECD member states have led to the conclusion that for several countries me taking the position after the

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<sup>1</sup> Kaja Kallas a cited in ‘Kallas makes first foreign leader call to prime minister of Finland’.

<sup>2</sup> “‘Reds’ trying to destroy Finland, says Estonian interior minister’ in *ERR*, 16 December 2019. Available from [<https://news.err.ee/1014332/reds-trying-to-destroy-finland-says-estonian-interior-minister>].



end of my term as President of Estonia would not be the best solution in these turbulent times. Therefore, I will withdraw my candidacy.<sup>1</sup>

Attempting to translate the aforementioned presidential decision from the Estonian language to the language of strategic narratives, it will be worth noting that the Estonian President's candidacy was treated very seriously by the rest of the contenders. As it was reported by *Forbes*, President Kaljulaid underscored that “[i]t was the first time a representative from the small Baltic country was running for an international position ‘of such weight and as a country’”, adding that “she wanted to run for Secretary-General in order to advance the OECD’s digital approach – from digital IDs to digital taxation and the protection of data”<sup>2</sup>. Most definitely, together with the difference that Estonia was making as a non-permanent member of the UN Security Council (UNSC) in 2020, the ‘digital’ message has been delivered on the highest international level. At the same time, locally, the withdrawal of the President’s bid for the OECD’s post can mean that her “move leaves the way open for a potential second term for Kaljulaid as [P]resident”<sup>3</sup>. Speculatively, if she ever wants to be re-elected as President, Kersti Kaljulaid can, in principle, count on the ‘social democrats’ and the *Reform Party* factions as well as some of the members of *Pro Patria* in the *Riigikogu*. This situative ‘union’ can get the current President closer to ‘collecting’ a two-thirds supermajority out of 101 members of the Estonian parliament. There will still be a need for some votes from the ‘centrists’, as it is going to be nothing short from political science fiction if the *EKRE* (the President’s main antagonist) faction decide to cast any vote in her support.

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<sup>1</sup> Kersti Kaljulaid as cited in ‘Kersti Kaljulaid withdraws OECD candidacy’, *ERR*, 26 January 2021. Available from [<https://news.err.ee/1608086893/kersti-kaljulaid-withdraws-oecd-candidacy>].

<sup>2</sup> Kersti Kaljulaid as cited in Stéphanie Fillion, ‘OECD leadership race tightens with 5 candidates left including 2 women’, *Forbes*, 26 January 2021. Available from [<https://www.forbes.com/sites/stephaniefillion/2021/01/26/estonias-president-kaljulaid-withdraws-from-oecd-leadership-race/>].

<sup>3</sup> ‘Kersti Kaljulaid withdraws OECD candidacy’.

**Thirdly**, as argued, the newest governmental coalition's appearance may generate a few surprises if their ideas on foreign policy, for example, are to be compared to the country's former Governments. It is known that "Estonian foreign and security policy is not made by one government", since "it is a broad consensus among officials, diplomats, the military and the political establishment"<sup>1</sup>. There is a likelihood that Prime Minister Kaja Kallas will be restoring such a tradition. However, keeping in mind that the coalitional agreement had a note for Estonia to "prioritize a geopolitical European Union and support the strengthening of a common foreign and security policy of the European Union", there is a question on whether or not Estonia has a clear answer to a question on what "a geopolitical EU mean for the new government and for Estonia's foreign policy"<sup>2</sup>. More specifically, if the EU will be making an attempt to "pursue a third way in foreign policy alongside China and the US"<sup>3</sup>, then what would be Estonia's take on such a situation?

The process of answering this range of important questions, will clarify plenty on the country's strategic policy narrative for 2021 and beyond. For example, some of the most influential members of Estonian political elites expressed their dissatisfaction with how the latest visit of Josep Borrell, High Representative of the Union for Foreign Affairs and Security Policy, to Russia was arranged and implemented. One of the Estonian Members of the European Parliament, Riho Terras (Pro Patria) noted the following:

Judging by the topics under discussion, Borrell finds that there are more important topics in communication with Russia now than Navalny and claims that nobody has demanded new sanctions. This is not true.

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<sup>1</sup> Martin Hurt and Piret Kuusik, 'Putting Meat on the Bone: Foreign and Security Policy in the New Estonian Coalition Agreement' in *ICDS*, 2 February 2021. Available from [<https://icds.ee/en/putting-meat-on-the-bone-foreign-and-security-policy-in-the-new-estonian-coalition-agreement/>].

<sup>2</sup> Hurt and Kuusik.

<sup>3</sup> Hurt and Kuusik.

What Borrell is doing now is reducing Europe's unity and integrity in the eyes of Russia.<sup>1</sup>

In a significant addition, the EU's common vision on cooperation with China is yet to be established as well. Therefore, in the context of the upcoming virtual 17+1 summit between China and 17 Eastern and Central European countries, Estonia will be represented by the country's new Minister of Foreign Affairs, Eva-Maria Liimets<sup>2</sup>. Elaborating on the topic, *Politico* looked at the situation from another angle – “Lithuania and Estonia confirmed that neither their president nor prime minister would attend, calling into question China's continued ability to woo the Baltic states as loyal members of the 17+1”<sup>3</sup>. In a way, the EU's apparent inability to ‘craft’ some sort of commonality in terms of how to treat the 17+1 framework in the grand-scheme of China-EU interrelations, makes it very challenging for many Member States to formulate a sounding system narrative on China. In the case of Estonia, for example, the country's outgoing Minister of Foreign Affairs, Urmas Reinsalu (*Pro Patria*), was very open in expressing his sincere scepticism about the 17+1 and all sorts of events that are arranged within the framework: “I have made it no secret that my preference would be to communicate with China not in the 17+1 format, but in the European Union format, and to demonstrate the unity of the West”<sup>4</sup>.

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<sup>1</sup> Riho Terras as cited in ‘MEP: Borrell's Moscow visit was ‘master class in pandering’’, *ERR*, 6 February 2021. Available from [<https://news.err.ee/1608100210/mep-borrell-s-moscow-visit-was-master-class-in-pandering>].

<sup>2</sup> ‘Liimets says Estonia to attend 17+1 meeting with China’ in *ERR*, 4 February 2021. Available from [<https://news.err.ee/1608097300/liimets-says-estonia-to-attend-17-1-meeting-with-china>].

<sup>3</sup> Stuart Lau, ‘Baltic vs. Beijing: Lithuania, Estonia snub Xi's eastern summit’ in *Politico*, 5 February 2021. Available from [<https://www.politico.eu/article/xi-jinping-eastern-summit-lithuania-estonia-snub-china/>].

<sup>4</sup> Urmas Reinsalu as cited in ‘Reinsalu sceptical about participation in China's 17+1 initiative’, *ERR*, 21 January 2021. Available from [<https://news.err.ee/1608080446/reinsalu-skeptical-about-participation-in-china-s-17-1-initiative>].

**Finally**, for 2021, it is going to be Estonia's second year to be spent in the UNSC enjoying its high-profile status of a non-permanent member of the body. Provisionally, apart from getting directly involved into a daily *routine* business of the world's most important but rather dysfunctional diplomatic platform, the country is likely to continue pushing for the UN's structural reform (“[t]he world has undergone considerable changes since the founding of the UN, however, the structure and working methods of the Security Council have remained the same”), “increasing the transparency of the veto procedure and restricting it in certain cases”, strengthening “the ties between the Security Council and the UN General Assembly, including ensuring a prompt and substantive reporting by the Security Council”, and continuing “a cybersecurity discussion among the members of the Security Council with the aim of raising their awareness of cybersecurity norms and how to apply existing international law in cyberspace”<sup>1</sup>. While punching well above its weight, a small country can deliver big time.

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<sup>1</sup> ‘Estonia in the UN Security Council’ in *Välisministeerium*. Available from [<https://vm.ee/en/activities-objectives/estonia-united-nations/estonia-un-security-council>].

## Greek foreign policy for 2021

George N. Tzogopoulos

*Summary: The last semester of 2020 was particular difficult for Greek foreign policy but ended with the decision of the Turkish government to withdraw 'Oruc Reis' vessel from disputed waters of the Eastern Mediterranean. As a result, Athens and Ankara resumed discussion in the format of exploratory talks on 25 January 2021. The evolution of Greek-Turkish relations will dominate in Greek foreign policy calculations in the new year. The possibility of a breakthrough is limited but the restart of talks itself constitutes a positive development that has been welcomed by the international community, which expects from the two sides to peacefully solve their differences. While diplomats will engage in discussions at the technical level, Greece and Turkey will have an opportunity to construct a more positive agenda, even if thorny issues remain unsolved, for example in the context of the multilateral dialogue for the Eastern Mediterranean that the EU has proposed.*

The evolution of Greek-Turkish relations will be the main issue of interest for Greek foreign policy in 2021. The withdrawal of the Turkish 'Oruc Reis' vessel from the Eastern Mediterranean in December 2020 opened a new window of opportunity for Athens and Ankara to resume dialogue. This dialogue is being conducted in the context of exploratory talks. Exploratory talks did resume on 25 January 2021 indeed. The Greek delegation held discussions in Istanbul with the Turkish one. It was the first time the two sides met after 2016 when the 60<sup>th</sup> round – and until January 2021 the last one – had been organized in the Greek capital. According to media information, the two delegations will meet in Athens in due time in

their effort to continue exchanges. Both the EU and the US have welcomed the resumption of exploratory talks.

The restart of exploratory talks itself is positive because it can perhaps contribute to the reduction of tensions. In the absence of those talks for almost five years, Greek-Turkish relations entered a phase of misunderstandings that culminated in the standoff of the second half of 2020. The format of the exploratory talks allows the Greek and the Turkish delegations to informally exchange views. The aim is to reach common ground at the technical and diplomatic level in order for the political leadership of the two countries to make decisions. Historical experience suggests that this common ground can be achieved at the technical and diplomatic level. The choices of political leaders are not always on the same line, however.

Greece is hoping for calmness in its neighborhood. Its current priority is to place the virus under control and work on the post-COVID-19 economic recovery. Tensions with Turkey, especially of the extent of the last months of 2020, cause turmoil that can occasionally be uncontrollable. Under calm and stable conditions, Greece is able not only to concentrate on the management of the pandemic but also elaborate on the modernization of its armed forces. In last days of December 2020, for instance, Greece and Israel finalized an agreement to open a new international flight training school in the city of Kalamata. And in January 2021, the purchase of Rafale fighters from France was sealed. French Defense Minister Florence Parly also made an offer to sell a new generation of frigates that might be arguably co-produced by the two countries.

On the whole, two schools of thought prevail in the Greek political discourse. The first, where Prime Minister Kyriakos Mitsotakis adheres to, suggests that dialogue with Turkey is a necessary component of Greek foreign policy. The second, where former Prime Minister Antonis Samaras belongs to, considers dialogue an anathema as long as Turkey provokes and threatens Greece and hopes for the implementation of sanctions in order for Turkey to change its behavior in the Eastern Mediterranean. It should be mentioned, however, that exploratory talks were normally evolving during

Samaras' tenure as Greece's prime minister from 2012 until 2015. Although the general foreign policy of Turkey is currently different in comparison to those years, it is questionable what way he would follow as acting premier.

Exploratory talks, as the lemmas denote, is not a formal type of dialogue but an informal discussion process that can possibly lead to formal dialogue. This is where the problem begins. The agenda of Greece differs from that of Turkey. While Greece is prepared to discuss the delimitation of the continental shelf and the exclusive economic zone in the Aegean and the Eastern Mediterranean as well as the breadth of territorial waters, Turkey pushes for a wider agenda. This includes the militarization of some Aegean islands, the sovereignty of some Aegean islets, the breadth of airspace and issues of search and rescue. If there is a convergence of interests, the two countries can either agree politically on a type of solution or refer their dispute to the International Court of Justice. No Greek government will give in and accept the Turkish comprehensive list of demands. For its part, Turkey will hardly be prepared to discuss maritime zones only. The likelihood of an impasse is high according to publicly available resources.

In the scenario that Turkey accepts formal dialogue to focus on maritime zones only, a compromise between the two countries will be required. This compromise, which will be possibly finalized at the International Court of Justice, will cause waves of reaction in Greece – even before the relevant announcement is made. Samaras has already given an interview to the Sunday edition of *Kathimerini* in which he clearly expresses his disagreement with the resumption of exploratory talks. Whether this disagreement is a firework or can lead the right-wing MPs of New Democracy to challenge Mitsotakis' foreign policy capacity will be seen. As far as Greek media are concerned, they have downplayed the importance of dialogue throughout 2020 in a manner that cannot be easily reversed.

Another interesting question is how the restart of Greek-Turkish exploratory talks will impact on regional developments. The EU has

already started preparations for the so-called multilateral dialogue for the Eastern Mediterranean. While seven actors, namely Greece, Cyprus, Italy, Israel, Egypt, the Palestinian Authority and Jordan, have already established the East Med Gas Forum, the European approach is more holistic and considers the participation of Turkey a prerequisite for the promotion of successful solutions in the Basin. The possibility of a multilateral dialogue is theoretically promising but wars in Syria and Libya as well as the Cyprus Question render the process particularly difficult. Nevertheless, talks on cooperation under the EU umbrella will certainly contribute to a better understanding among countries in the Eastern Mediterranean. Such a positive agenda will play a role of reconciliation in spite of severity of existing problems.

From the moment exploratory talks resumed, Greece can hardly play the card of sanctions against Turkey at the EU level – with the exception of the Turkish violations of the Exclusive Economic Zone of Cyprus. Brussels as well as the international community – including all members of the UN Security Council – expect from Athens and Ankara to solve their differences in a peaceful way and via dialogue. The current situation requires a delicate and careful management by the Greek side. A failure in the launch of formal dialogue due to Turkey's insistence on its demands could perhaps create the impression that Greece derailed the process. Greece needs not only to adamantly support its positions but improve its public diplomacy tools in order for its partners to be well aware of its cause.

## **Conclusion**

Following six months of serious disagreements that could have led to a military incident in the Eastern Mediterranean, the beginning of 2021 finds Greece and Turkey prepared to start dialogue in the context of exploratory talks. The resumption of those talks in Istanbul on 25 January and the commitment of both sides to continue the process in Athens generates hopes. What matters, at first, is the reduction of tensions between two NATO member-states that can be a source of regional instability. The



resumption of exploratory talks, of course, can hardly guarantee success. The recent Istanbul round was the 61<sup>st</sup> one and all previously held 60 rounds had failed to yield fruitful results. It is particularly difficult for Athens and Ankara to solve their differences due to diverging mindsets and contradictory agendas. Trust can hardly be restored and time is required. Throughout 2021 Greece is expected to engage in rounds of exploratory talks with Turkey but also focus on the modernization of its armed forces. A new type of cooperation with Ankara and other regional countries is possible, even if the most difficult issues remain unsolved.

# Hungarian foreign policy for 2021: An outlook

Csaba Moldicz

*Summary: We cannot assess the full extent of the economic, political, and social damage left behind by the global pandemic as of yet, however, we do know for certain that foreign policy is in flux right now, as the key parameters of the global order have been altered – directly or indirectly – by the Coronavirus. Clearly, the instruments of Hungarian foreign policy need to be recalibrated in this new, shifting environment. In this Foreign Policy Outlook, we consider the challenges that Hungarian foreign policy may face in 2021 in U.S.-European-Chinese-Russian relations, with two themes, vaccine diplomacy and U.S.-China relations remaining the essential elements for understanding 2021 foreign policy.*

## 1. The new American foreign policy

The new Biden administration has made it clear early on that it will pursue different policies than the Trump administration has between 2017 and 2021, but we do not know the details yet. It is clear that the Biden administration wants to strengthen transatlantic relations, unlike the Trump administration, which has pressured allies on many fronts (NATO funding, forming and pushing a common platform against China and Russia). Although the contours of this new policy are not clear as of now, there are reasons why the Obama foreign policy cannot simply be restored.

- First, the Biden administration has made it clear that the policy of preserving and spreading Western values (exporting democracy) is one of the administration's top priorities. The question is how credible this policy can be, when taking into consideration the

political turmoil before and after the American elections. This will be a crucial question when it comes to European support for this policy. In our view, significant gestures from the American side may be needed to convince Europe of the real change in US foreign policy.

- Secondly, China's economic rise has accelerated over the last year, moreover, the resilience of the Chinese economy has been astonishing by international standards, so China's relevance in trade and investment in Europe is increasing, which means that there is no going back to Obama-era in economic terms either.

Hungary needs to rethink its US strategy due to the Biden administration's new priorities. Not only because the Hungarian government rooted for Trump in the election, but more importantly because Biden is likely to line up for the debate "rule of law" between Hungary and the European Commission. However, in our view, a pragmatic approach can be found, particularly considering that the Biden- administration continues to support the Three Seas Initiative and does not downgrade the region as the Obama- administration did. (The Three Seas Initiative is important for Hungary to ensure North-South connectivity and energy supplies.) At the same time, we are aware that Hungarian and American relations could go downhill fast unless there is a significant policy shift either in Hungary or the United States.

## **2. The European Union**

Even though the debate on the EU budget and Recovery Plan now seems to be settled, we expect the "rule of law debate" to come up a few more times in 2021. In a recent interview, Věra Jourová, Vice President of the European Commission for Values and Transparency hinted to the German newspaper Der Standard that EU funding for both Hungary and Poland could be blocked if the countries do not respect the Rule of Law Mechanism of the EU. According to the political deal reached in December 2020, the disbursement of EU money from the budget and the stimulus

package (Recovery Plan) will be linked to the Rule of Law Mechanism. However, sanctions can only be imposed once the European Court of Justice has ruled on the legality of the mechanism, which will take several months. In our view, despite the fact that this agreement has been reached, the Hungarian government will likely remain under fire in 2021.

Another debate that will most likely dominate relations between Hungary and the EU is the introduction of the vaccine in 2021. Here the Hungarian government is on the offensive, as it heavily criticizes the slowness of the EU and praises the speed of the United Kingdom. The criticism is not only about the problems with the roll-out with the vaccines but is also a counter-offensive to the critics who earlier complained about Hungary breaking the ranks of the EU when it started negotiating with Russia and China to secure the vaccine supply for the Hungarian population. According to arguments by the Hungarian government, the failure of the European Commission to secure vaccines for the EU shows that there is plenty of room for member states to maneuver. This debate brings us to an important dividing line between member states, as the EU's approaches seem to be different in these countries. According to the Hungarian vision, the EU should function as an integration in which the nation-states play the key role, while the other concept emphasizes the importance of supranationalism. In our view, this difference of opinion will not disappear so quickly, and for this reason, we can expect further debates between the European Union and Hungary in 2021.

Germany will have a new chancellor in 2021, because the federal election will be held in September 2021. Hungary's position - both economically and in terms of foreign policy - also depends on German relations. In our opinion, there is a possibility that Hungary's room for maneuver will be limited by the interaction of the new American president and the new German chancellor if they decide to return to the pre-Trump global order.

### **3. Russia**

Bilateral relations between Hungary and Russia have remained relatively stable over the past year and we expect further cooperation in many areas, which are not free of tensions. Although the EU Foreign Affairs Minister decided to suspend sanctions against Russia over the detention of the opposition leader Alexei Navalny, the issue will be discussed in 30 days, which means that Hungarian and Russian relations will be put to the test, in which case Hungary's support for sanctions would be necessary.

We should add that timing is important as Hungary has just bought Russian vaccines for one million Hungarian citizens and the vaccines are to be delivered in the next three months. In our view, it is very unlikely that Hungary will refuse to cooperate with, and be on a collision course with Russia. We should also remember that Hungary reached a political agreement on the continuation of gas deliveries from Russia during the Hungarian Foreign Minister's visit to Moscow on 22 January 2020. The long-term contract, which would have expired in October 2021, has been in place for 26 years. Technical details remain to be discussed, but this seems to secure Hungary's gas supplies for the long term. At the same time, the opening of the Turkstream pipeline will (slowly) worsen Ukraine's geopolitical position.

### **4. China**

As we highlighted in our December Briefing, Hungarian-Chinese trade relations - unlike most of Hungary's other trade relations - grew strongly in 2020, and this potential can be exploited in 2021 as well. Foreign relations are excellent at the moment but could be put to the test by remaining or even growing tensions between the US and China. The Belt and Road Initiative cooperation and the 17+1 regional cooperation platform seem to be less important for the partners, as they have well-functioning bilateral channels that can facilitate cooperation infrastructure without being slowed down by multilateral solutions. Both countries

support multilateral solutions such as the EU- China Comprehensive Investment Agreement. In this case, a political deal has been reached by the end of December 2020. As the technical details are to be finalized during 2021, the road to the signing of the agreement may be bumpy. Hungary is interested in signing the agreement as China invested the most in Hungary in 2020. The continuation of Chinese FDI inflow can be one of the key elements for the restart of the Hungarian economy in 2021.

It is a fundamental interest of Hungarian foreign policy to expedite the import of available, efficient Covid-19 vaccines into Hungary. China's role could be key in this Hungarian effort. Hungarian authorities gave the green light to Sinopharm's vaccine and purchased five million doses of the vaccines, enabling the vaccination of 2.5 million Hungarian citizens.<sup>1</sup>

## **5. Summary**

To sum up, we can conclude that ensuring the supply of vaccines has become a new foreign policy goal, and this goal will very likely determine Hungary's foreign policy in 2021, as the Hungarian foreign minister put it a few days ago: "Currently, about 100 people die in Hungary every day with a coronavirus infection, while the damage to the Hungarian economy amounts to 10-15 billion forints a day." It is obvious that containing the pandemic in 2021 will be high on the agenda of Hungary's foreign policy. Globally, the risk remains that "vaccine diplomacy" will turn into "vaccine war".

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<sup>1</sup> The rapid authorization procedure relies on a new regulation according to which Covid-19 vaccines can be imported from outside the EU and the United Kingdom, Norway and Iceland to Hungary if the vaccine was granted approval in at least one EU member state or EU candidate, and was used by one million people at least.

# **Latvian foreign policy prospects and relations with EU, US, China in 2021**

**Nina Linde**

## **Introduction**

Pandemic crisis has highlighted challenges of a new level both to individual countries and international organizations, and to the principle of multilateralism in general. In 2021 it is expected that already existing global challenges like globalization process, rivalry between the great powers, populism, and doubts on effectiveness of international organizations, will rise. Under such circumstances, cooperation and synergy in all possible formats and at all levels is vital to reach Latvia's policy goals. In 2021, Latvian foreign relations will evolve around the four largest power centers – the European Union, the United States of America, China, and Russia, and try to resolve topical issues like Covid-19 crisis and facilitate long-term foreign policy priorities.

## **Impact of COVID-19 on multilateralism**

### **and increased interest in international organizations**

Strengthening multilateralism is one of the primary interests of Latvia's foreign policy. The COVID-19 crisis has revealed the potential and opportunities for the multilateral system and international organisations in addressing the consequences of the pandemic. At the same time, the crisis has proved that global organisations such as the United Nations and the World Health Organisation (WHO) must undertake reforms to boost their effectiveness [1]. Despite some challenges imposed by recent crisis, Latvia believes in multilateral order and the goal for 2021 year is to increase country's participation in international organizations. The Ministry of Foreign Affairs will steer and coordinate Latvia's preparations for elections to a seat of a non-permanent member of the

United Nations Security Council for the term of 2026–2027. A major step in the implementation of Latvia's foreign policy interests and raising the country's profile internationally is Latvia's election to the UN Entity for Gender Equality and the Empowerment of Women, also known as "UN Women", from 2021 to 2025.

**Continued fight with disinformation  
and the development outlook of economic relations**

One of the main issues in present-day international relations is the struggle for values and influence in a digital world. With its efforts and work in the European Union, the United Nations and other formats, Latvia has become known as one of the countries in the world actively seeking solutions to the spread of disinformation and other challenges in the digital environment on the basis of open society values such as freedom of speech and of the internet. This year Latvia continues to tackle and refute disinformation spread by Russia and draw the attention of the international community to the problem. In 2021 Latvia also stands up for closer cooperation between the European Union, NATO and other international partners both at the practical level and in safeguarding our common international values and principles.

On a priority basis, economic relations of Latvia are and will be built with partner countries in the European Union, the OECD and other external partners like China. The Foreign Economic Policy Coordination Council approved the profile of a preferred foreign investor and set the main criteria for investors – 1) based in a member state of the European Union, NATO or the OECD, 2) a sound financial position, 3) no risks identified in current activity. The Ministry of Foreign Affairs and the Embassies in association with Latvian Investment and Development Agency intend to organize this year targeted seminars to attract investors.



## **Participation of Latvia in NATO 2030 process**

Addressing the COVID-19 crisis has imparted additional significance to cooperation between the EU and NATO, especially coordination on the matters of disinformation and strategic communication. In view of the increasing relevance of new technologies and artificial intelligence and challenges they pose, it is expected that cooperation between the European Union and NATO could also be enhanced in that area in 2021. In NATO 2030 process, special attention will be paid to the strengthening of the Allies' political unity and the consultation process, while stressing the need to ensure that the Alliance stays strong militarily. [2]

The meeting of NATO Ministers of Foreign Affairs to be held in Riga in March 2021 will contribute significantly to the Allies' consultation process. This will be the first meeting following the inauguration of the United States President at which the United States Secretary of State will meet other Allies in the NATO format. By organizing this meeting, Latvia will provide a contribution both to the strengthening of the transatlantic link and raising awareness among the Allies on security challenges in our region and the need to further reinforce collective defense measures.

## **Transatlantic cooperation will focus on 5G security**

The United States of America is Latvia's strategic ally. Latvia has always cooperated successfully with both Republican and Democratic Presidents and Administrations. In 2021 Latvia will seek close cooperation with the newly-elected United States President and his Administration to jointly pursue strategic goals and reinforce the transatlantic relations between the EU and the United States. Latvia plan strengthen the ties with the U.S. Congress with a view to a broad and permanent political support for the strategic partnership with the United States of America.

As Latvian Ministry of Foreign Affairs points out, "in 2021, we shall strengthen the relationship with the new U.S. administration to promote the bilateral political dialogue and the U.S. economic presence in Latvia" [3].

Latvia plans to work on a visit at the highest level in 2022, when Latvia and the United States will mark 100 years since the establishment of diplomatic relations, notably, to promote United States investment in Latvia and contacts between businesses.

Also, cooperation between United States and Latvia will be built around 5G security issues. The joint declaration on 5G security has strengthened bilateral relations between Latvia and the United States and created additional opportunities for cooperation with Latvian companies related to 5G networks. Work on the 5G security declaration and implementation of the European Union toolbox on 5G cybersecurity will continue at the national level in 2021.

### **Relations between the European Union and China will develop around trade and climate change**

The relationship between the European Union and the People's Republic of China is full of challenges and remaining one of strategic importance. Latvia as well as the European Union in their dialogue with China, maintain the need and argue for full adherence to norms internationally recognised by the UN and WTO regarding international law, human rights, the rule of law, and international trade.

While firmly backing its values and interests, Latvia considers it appropriate to strengthen the European Union's dialogue with China in dealing with global challenges such as climate change and international stability. China's announcement of September 2020 on its commitment to achieve carbon neutrality by 2060 demonstrates that the country is prepared for a more constructive approach on climate goals. The European Union as well continues on its course to becoming a climate-neutral union of countries by 2050, and reduce greenhouse gas (GHG) emissions by at least 55% by 2030 compared to 1990, surpassing the current ambition of at least 40%. The current task of the competent ministries in Latvia is to actively follow the European Union's climate policy. Latvia will continue emphasizing that transition to climate neutrality should be as inclusive as

possible and fair both within the European Union and concerning other countries worldwide. The EU's Green Deal initiatives are expected in a number of fields in the coming years. Therefore, here lies a big potential for cooperation of both countries.

Latvia's relations with China are being built bilaterally and in the framework of the European Union-China cooperation, in the 17+1 forum of cooperation between the Eastern and Central European countries and China, as well as international organisations in the United Nations system. Ministry of Foreign Affairs in Latvia voiced a position, that the relations can be characterised as pragmatic, seeking possibilities for cooperation where it is mutually beneficial. [4] The "17+1" cooperation should serve the practical interests and needs of partner countries rather than being a platform for broader strategic ambition.

### **Summary**

The COVID-19 crisis confirmed that multilateral diplomacy is a vital element in global cooperation, especially in the field of health care. Therefore, the strengthening of multilateralism and improving the effectiveness of international organisations, so as to ensure predictable functioning of the international environment based on respect for international law, have a place of paramount importance in Latvia's foreign policy.

Also, Latvia will continue to advocate close and mutually complementary cooperation between the European Union and NATO. In the time when the world has been shaken by the COVID-19 pandemic, NATO retains its role of the safeguard of Euro-Atlantic security and stability. The NATO 2030 process was launched to ensure the Alliance's ability in the next decade to decisively address both current and future challenges.

Another Latvia's priority is to strengthen the resilience of the European Union and transatlantic partners against disinformation and

foreign influence operations, including the ability to identify, analyse and counter disinformation campaigns and targeted influence operations.

The external relations with Latvia existing partners will be maintained – transatlantic cooperation with U.S. will be continued also with new administration with special focus on 5G security this year. The Latvian-Chinese relations can be characterized as pragmatic, seeking possibilities for cooperation where it is mutually beneficial and will be strengthened in terms of trade and investment, as well as with new focus on climate change and carbon-neutral economy in 2021 and upcoming years.

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## **An outlook of Lithuania's value-based foreign policy**

**Linas Eriksonas**

Lithuania has entered the New Year with a new government, formed at the closure of the last year, which declared a new ambitious foreign policy of actively pursuing value-based diplomacy in the region and well beyond – in Europe and globally. The Minister of Foreign Affairs Gabrielius Landsbergis, who is also the Chairman of the governing Homeland Union-Lithuanian Christian Democrats, opened the diplomatic season in January by giving a series of interviews to the influential European media outlets. He used the opportunity to comment to the international audiences on the value-based approach in Europe's international relations as perceived by Lithuania's new foreign policy.

Firstly, he emphasized the EU political community's moral duty in defending, endorsing and standing by for the people in Russia to have their unhindered say in the presidential elections, which are due later this year. "We, Europeans, ought to defend their right to decide their future", - boldly stated the new head of Lithuania's diplomacy. Secondly, he maintained that Lithuania and two other Baltic countries feel responsible for bringing the case forward about the people of Belarus's right to have free and fair elections. Thirdly, he touched upon the EU-China Comprehensive Agreement on Investment, suggesting that the EU needs to embrace a value-based foreign policy and scrutinize this case from the perspective of the European values.

Below is a brief outline of Lithuania's value-based foreign policy and the values which underpin it. It also tries to explain how this approach has emerged and became prevalent and manifest in concrete policy initiatives.

Until recently, the Lithuanian foreign policy was primarily informed and guided by the rational approach in international relations, which is

referred to in scholarly literature as neoclassical realism. This approach is based on the assumption that the states should strive for security by seeking to maintain the current balance of power among the competing states. It is further argued that the state should balance both against a hegemonic power if it threatened the stability of the system and against the revisionist states if they aimed to weaken the hegemonic power relationships and the stability of the system. Being a small state, which has been perennially concerned in self-security in what has been a geopolitically unstable region, Lithuania followed the realist approach in supporting the allied powers in maintaining the status quo in the post-Soviet space. However, the situation had irreversibly changed after the annexation of Crimea by Russia and the military conflict's escalation in eastern Ukraine. At that point, the status quo of the post-Cold War balance of power in the region became lost and with it the relevance of the rational approach in international relations.

The new foreign policy, which has been in the making for some time, gaining the momentum with the recent political upheaval in Belarus and the currently unfolding events in Russia, turned for insights to an alternative school of thought - the social constructivist approach in international relations. According to this reasoning, the self-security cannot be achieved by the balance of powers alone but needs to be supplemented by a clearly defined pro-active role of the state of the state system. A well-defined and strongly manifested state identity is vital for expressing such a role. The state identity has to reflect the internal perception of such role by the domestic audiences, the expectation of other state actors, and their domestic audiences' perceptions. Moreover, the state role should be continuously promoted. Thus, the foundational values that underpin the very existence of the state have become the vital instruments for formulating Lithuania's role in the world.

Lithuania being a parliamentary republic with a directly elected president is a mixed type of democracy where the executive power is shared by the Government and the President with the main power invested in the people's representatives – the Seimas. Since the principle of separation of powers is not established directly in the Constitution and can only be

derived in the subsequent jurisprudence, it is the Constitutional Court that defines the universal principles of a democratic law-governed state – the core values of the Republic of Lithuania.

Lithuania's Constitution's preamble states that the Republic of Lithuania is based on the legal tradition and constitutionalism. It declares that the statehood was achieved through the actions that presupposed Lithuania's people's proactive involvement in upholding their rights, who "staunchly defended its freedom and independence". According to the preamble, the state established by the will of the Lithuanian nation embodies "the innate right of the human being and the Nation to live and create freely in the land of their fathers and forefathers", "striving for an open, just, and harmonious civil society and state under the rule of law". In the jurisprudence, the Constitutional Court has explicitly defined, based on the preamble, that Lithuania's eternal constitutional values, inspired by the constitutional traditions, are independence, democracy and the rule of law. Additionally, by deriving from the preamble, the Constitutional Court defined that Lithuania's ethos is to strive to implement the universal values and the actions that support. Further, the Court in its jurisprudence and commentaries explained that, for example, the country's membership in the European Community and NATO is an expression of the values formulated by the Constitution's preamble.

According to the legal experts on constitutionalism, the preamble has legal implications and is assigned normative significance, thus becoming a source for value-based policies. Since the constitution does not contain provisions for amending the preamble unlike the rest of the legal act, the preamble becomes the unamendable clauses defining the eternal constitutional values, representing the *raison d'être* of the state.

The previous government's programme from 2016 contained the first commitment to international relations based on democratic values and mentioned the strengthening of value-based links with the EU Eastern Partnership countries Ukraine, Georgia, and Moldova, aspiring to join the EU and NATO. By value-based politics, Lithuania understands the international political actions that follow the values as defined by the

Constitution's principles. Thus, when the political turmoil started in Belarus after the presidential elections, Lithuania's value-based foreign policy precepts turned into the concrete actions – the support for independence, democracy and the rule of law in Belarus. The new government declared the value-based foreign policy as the guiding principle of its conduct in international relations. The government's programme has listed among its success indicators the following statements: "Lithuania is an important entity for change by extending the area of freedom and democracy in our region and beyond"; "Lithuania's growing voice in strategic decision-making in the European Union"; "Maintaining and strengthening a sustainable transatlantic relationship", "Targeted development of Lithuania's soft power"; "Renewing the activities of the Ministry of Foreign Affairs in the context of the 21st century to meet the challenges of a tailored, efficient and intelligent diplomatic service". It indicates that Lithuania aims to assume the role of a very active member of the international community, concerned with promoting its values in regional politics and global affairs.

The Coordination Council on Foreign Policy convened by President Gitanas Nausėda on 15 January to discuss and define the main priorities and objectives for Lithuania's foreign policy in 2021 concluded by agreeing to pursue the proactive approach in support of democracies, human rights and liberties. The main focus that the Council agreed upon was on aligning the positions of the EU Member States towards the authorities in Russia and Belarus and the preparations for the EU Eastern Partnership Summit this year to strengthen Ukraine, Moldova and Georgia's aspirations to start the preparatory process for joining the EU and NATO.

"We are a country that defends democratic values, human rights and freedoms, national sovereignty and territorial integrity, and we strongly support the Euro-Atlantic aspirations of the Eastern partners. Foreign policy priorities require a coordinated and coherent approach by all institutions active in the field of foreign policy", - stated the President, thus confirming the consensus on the value-based approach in foreign policy.



His position was shared by the Speaker of the Parliament Viktorija Čmilytė-Nielsen, who also emphasized the parliamentary diplomacy's role in achieving Lithuania's foreign policy objectives. She mentioned that Lithuania's parliament has maintained the relations with the legislators from more than 50 countries and has delegated its members to eleven joint parliamentary assemblies that are important instruments for more direct and efficient international politics, especially when it comes to the issues of civil society and freedom.

In his address to foreign ambassadors on 25 January, Lithuania's President summarized the key priorities for Lithuania's foreign policy for this year discussed with the Coordination Council. Those include ensuring secure and safe neighbourhood, implementing ambitious Eastern Partnership policy agendas, strengthening the transatlantic link, cooperating with NATO, and enhancing multilateralism and presence in international organizations.

“We are witnessing how the international order, based on rules and principles, is being seriously challenged, shamelessly broken or simply ignored. I sincerely believe it is worth every effort to preserve it”, - the President said. The President pointed out the area of security and defence, adding that European security, as well as Lithuania's security, depended on a strong transatlantic bond. He confirmed that Lithuania would continue to allocate more than 2 per cent of GDP for defence and aim to increase it up to 2.5 per cent by 2030.

Lithuania's value-based foreign policy comes into play at the time when the largest ally in defence and security arrangements, the United States, finds itself at the crossroad of its foreign policy that can impact the hierarchy between major powers. It creates momentum for re-defining Lithuania's role in international relations. Lithuania's foreign policy assumes that the value-based approach will prevail and become a norm.

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# Montenegrin external relations outlook 2021

Milika Mirkovic

*Summary: In this year, it could be expected the continuation of the external policy that was conducted during the previous period, i.e. the commitment to improve relations with regional countries, the continuation of the EU integration process and the improvement of relations with non-EU countries. Also, Montenegro's active participation in international events is expected, which can contribute to greater visibility and indicate that Montenegro is a reliable partner and a country that cultivates friendly relations with the rest of the world, but also the establishment and improvement of various bilateral agreements and cooperation.*

## Continuation of the EU integration path

As the strategic commitment of Montenegro is to join the EU, during this year it could be expected the continuation of activities in the direction of EU integration. During the previous year, the last chapter on competitiveness was opened, so that all negotiating chapters are opened, among which the three chapters are temporarily closed. To this end, during 2021, intensification of activities and work on reforms could be expected, where special emphasis will be placed on reform processes within the chapters related to judiciary and fundamental rights (chapter 23) and justice, freedom and security (chapter 24).

Within these two chapters, the implementation of a large number of interim measures is needed, which are mostly related to the harmonization of the system with examples of good international practices and European conventions in the field of judicial system and protection of fundamental rights<sup>1</sup>. In this case, one of the important fields is the fight against

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<sup>1</sup> <https://www.gov.me/naslovna/vijesti-iz-ministarstava/237624/Kordic-Imamo-realnu-sansu-da-Crna-Gora-2025-godine-dosegne-okvir-za-clanstvo-u-EU.html>

corruption. Montenegro has limited progress on previous year's recommendations in this field, as it assessed in the last Progress Report for Montenegro prepared by European Commission<sup>1</sup>.

However, work on reforms in these areas may face some difficulties, as some disagreements have already occurred between the decisions and planned steps of the Montenegrin government and the EU. Namely, the Montenegrin government's announcement of changes to prosecutorial legislation<sup>2</sup> has provoked strong reactions from the EU. Proposing amendments to the Law on the State Prosecutor's Office and the Prosecutor's Office for Organized Crime and Corruption are not in accordance with the progress with reforms in the chapter related to justice, as Montenegro already has bodies and mechanisms in place to ensure judicial and prosecutorial independence and accountability. However, the course of the new government is pro-European, although these disagreements or disagreements on similar issues can be expected in the coming period. However, this will not affect Montenegro's foreign policy and EU orientation.

Certainly, the speed of closing the chapters and harmonizing the Montenegrin system with the EU system depends not only on Montenegro's ability and commitment to implement reform processes, but also on the political situation in the EU and the EU's attitude towards the rest of the world. A slowdown in the overall EU integration process has been observed over the past two years and the reason for it could be found on the EU side. Certainly, there are positive signals and attitudes about EU enlargement policy, but one of the challenges that may affect the whole process may be the crisis caused by the pandemic, as well as the further course of the pandemic in 2021. The focus of the Portuguese presidency of EU during the first half of the year is economic and social recovery, i.e. realization of

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<sup>1</sup> European Commission, Progress Report for Montenegro 2020  
[https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/montenegro\\_report\\_2020.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/montenegro_report_2020.pdf)

<sup>2</sup> The draft Law on the State Prosecutor's Office for the Fight against Organized Crime and Corruption envisages the abolition of the Special State Prosecutor's Office

five priorities related to: (i) strengthening Europe's resilience, (ii) promotion confidence in the European social model, (iii) promotion of sustainable recovery, (iv) speeding up a fair and inclusive digital transition and (v) reaffirming the EU's role in the world<sup>1</sup>, which does not include EU enlargement to the Western Balkans. And in the second half of the year, when Slovenia will hold the EU presidency, the focus will be on the social and economic consequences of the pandemic. Therefore, although the EU is focused on the Western Balkans counties, and although Portugal and Slovenia have positive views and support EU enlargement, no significant progress can be expected in this direction this year.

### **Relations with neighbour countries: Better relations with Serbia**

One of the important issues of external realities is the relationship with neighbouring countries. During the previous period, Montenegro had very good cooperation with all Western Balkan countries, while relations with Serbia deteriorated during 2020. However, although the previous year was marked by strained relations and tensions with Serbia in various fields, these relations can be expected to improve this year. The easing of tensions over the Law on Free Religion, as changes passed by Montenegrin parliament in which the Serbian Orthodox Church is satisfied, but also the fact that there are pro-Serb political parties in the Government may indicate to the improvement of politically relations between Montenegro and Serbia in the coming period.

One of the issues that remains open concerns the decision to expel the Serbian ambassador from Montenegro. A solution to this issue can be expected soon, but not a withdrawal of the decision on the expulsion of the Serbian ambassador to Montenegro. The appointment of a new ambassador can be expected rather than the withdrawal of this decision. Certainly, by resolving the issue of ambassador, one can expect organizing official visits at the state level.

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<sup>1</sup> <https://www.consilium.europa.eu/en/council-eu/presidency-council-eu/>

## **Relation with China**

Montenegro's participation in the Ninth 17+1 Summit of Leaders of China and the countries of Central and Eastern Europe indicates the continuation of good relations between China and Montenegro. Precisely, one of the important events in strengthening cooperation and mutual communication between European countries and China, especially in the post-crisis period, is this event. Therefore, good relations between Montenegro and China can be expected in the coming period.

Cooperation between Montenegro and China has been assessed as very good a number of times before, at various events. Since the establishment of diplomatic relations in 2006, the two countries have cultivated friendly relations. Through participation in various events, the assessment of good relations is confirmed. In that case, the continuation and commitment of Montenegro for further improvement and strengthening of relations with China can be expected this year as well, so that both sides would benefit through joint activities. Montenegro has significant development potentials that it can valorise and use through cooperation with China. Improving cooperation and strengthening ties with Chinese companies and institutions Montenegro can have significant benefits in economic cooperation, tourism, science and education, increasing exports of goods and services and other. Therefore, Montenegro's support for the "2021 Cooperation between China and CEECs Beijing List of Activities" can be expected, which aims to promote the sustainable and steady development of China-CEEC Cooperation.

## **Montenegro and other non-EU countries**

An important issue within the external relation policy is the relations with others, non-EU and non-regional countries. One of the issues that arises is the attitude towards Russia and the position on the issue of sanctions that Montenegro has already imposed on Russia, since there are political parties which consists a new government that oppose sanctions. However, although there are supporters who advocate the lifting of the

sanction, they are not expected to be lifted in the coming period. Since Montenegro is striving towards the EU, it will follow the decisions, but also the rules of the EU.

Montenegro had very good and strong cooperation with Turkey during the previous period. The friendship between the two countries was confirmed during the pandemic period, when Turkey showed great solidarity through donations to Montenegro. This year can be expected to continue good relations and intensify cooperation. Turkey has achieved a significant share in the total inflow of foreign direct investments during recent years, so it could be expected continued cooperation in the field of economy in the coming period.

In addition, when it comes to relations with the USA, it is possible to expect attempts to establish good cooperation by the majority of the political public. Still, it seems that the victory of Mr Biden was less suited to the new government in Montenegro, as some of the parties that make up the new government openly supported the rival candidate. However, it is difficult to expect that relations between the two countries will be significantly improved or worsened this year.

Therefore, this year Montenegro will continue its foreign policy and fulfilment of international obligations as in previous years, regardless of the change of government that took place last year. The emphasis of external relations will be on further improvement of relations with the region, but also the continuation of activities in the field of EU integration. However, no major progress is expected in the field of EU integration during 2021. Also, it is expected to continue cooperation and improve relations with China, given the great potential for cooperation, which can be of significant benefit to Montenegro to valorise its untapped resources in various fields.

## Macedonian external relations outlook for 2021

Gjorgjioska M. Adela

*Summary: The trajectory of Macedonian external relations in 2021 can be delineated by examining its recent directions and destinations, as well as the underlying forces that are guiding them. Following the elections in July 2020 and the continuation of the SDSM-DUI governing coalition, it is to be expected that the strategy and tactics pursued by the current political establishment will remain unchanged.<sup>1</sup> As the (mis)management of the coronavirus pandemic remains in the spotlight, the country's foreign relations are likely to be assessed in direct correlation to it.*

In 2021 the country's foreign policy will be assessed in direct correlation to its (mis)management of the coronavirus pandemic. At the end of 2020 and the beginning of 2021, the issue of the supply and provision of Covid19 vaccinations became reflective of the foreign policy led by Zaev's government. Namely, in spite of guarantees given by the Health Minister in early December that the vaccination process will commence in early January 2021, by the end of the month it became clear that the country will face severe delays in receiving the first supplies.<sup>2</sup> Since the orders (for Pfizer and Astrazeneca vaccines) made through the COVAX system and the EU could not be delivered, the state turned to the Chinese company Sinopharma to secure a new contract for the delivery of the first batch of 200,000 necessary vaccines.<sup>3</sup> This meant that the Chinese vaccines will be

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<sup>1</sup><https://intellinews.com/old-partners-sdsm-and-dui-reach-deal-to-form-north-macedonia-s-new-government-189931/?source=north-macedonia>

<sup>2</sup> <https://seenews.com/news/n-macedonia-to-get-first-batch-of-pfizers-covid-19-vaccine-in-feb-726439>

<sup>3</sup><https://www.dw.com/mk/%D1%84%D0%B8%D0%BB%D0%B8%D0%BF%D1%87%D0%B5-%D0%BD%D0%B5%D0%BC%D0%B0->



the first to arrive in the country during the month of February. In reaction to this development Zaev gave a statement which is indicative of the overall foreign policy approach pursued by his Government: “I would like to confirm that we have spoken to our strategic partners - NATO and Washington - and we have confirmed that the supply of vaccines from China is not a geopolitical issue, but a sovereign right of each country.”<sup>1</sup> The Prime Minister’s statement illustrates the broader servility of the Government’s foreign relations, which against the backdrop of the coronavirus pandemic manifests itself as recklessness and disregard for the health and well-being of the population. This state of affairs is further elucidated by contrasting developments in neighbouring Serbia, the country with the second highest vaccine roll-out in Europe in January 2021.<sup>2</sup> On a social level, the stark difference in the vaccination outcomes in the two former Yugoslav states, will continue to find its expressions in renewed criticisms of Zaev’s Government.

Against the backdrop of the coronavirus pandemic, the EU accession process will remain a key foreign policy issue in 2021. Following the Bulgarian veto in November 2020, the pathway to opening accession negotiations between N. Macedonia and the EU remains blocked. This was confirmed in mid-December with the adoption of the conclusions of the EU’s Committee of Permanent Representatives (COREPER). In response to this the Macedonian Government stated that the country “will continue to build good neighborly relations and implement European standards” although the “European values and expectations of our citizens have been

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<sup>1</sup><https://sdk.mk/index.php/makedonija/sad-i-nato-razbiraat-deka-morame-dakupime-vaktsini-od-kina-reche-zaev/>

<sup>2</sup><https://www.euronews.com/2021/01/27/serbia-has-second-fastest-covid-19-vaccine-rollout-in-europe-thanks-to-china>

betrayed” with the decision.<sup>1</sup> Foreign Minister Bujar Osmani stated: “The European process should not entail the blackmail of any country of Europe or the Western Balkans”. Moreover, he added that “support from European countries is the best way to renew enthusiasm and trust in the process. And supporting and accelerating the integration process is the best way to improve relations between neighbours”.<sup>2</sup> The Government’s rhetoric suggests that it will remain committed to the EU integration process and will thus continue adopting a constructive approach aimed at overcoming Bulgaria’s hurdle: “We remain committed to the dialogue with Sofia and the search for a mutually acceptable solution. We are ready to clarify certain dilemmas if necessary, but our positions are known and publicly confirmed: We are Macedonians who speak Macedonian language. Macedonian identity cannot be discussed and cannot be negotiated”.<sup>3</sup>

Moreover, the Macedonian government informed that it had proposed a first draft of an Action Plan to their Bulgarian counterparts, which includes projects between the two countries that can enhance cooperation in various fields (economy, infrastructure, culture, education, etc.)<sup>4</sup> In mid-January Sofia responded with its own Action Plan, which has not yet been disclosed publicly. According to diplomatic sources it includes projects related to railways, highways, and investments of Bulgarian companies in N. Macedonia and the opening of branch campuses of Bulgarian universities in N. Macedonia. Moreover, it allegedly includes specific requests with regards to history textbooks.<sup>5</sup> It is yet to be seen whether the Action plan will be approved by both countries and how its contents will be received by the Macedonian (and Bulgarian) public. The untangling of the current deadlock will also depend on the status of the ongoing discussions within the Joint History Commission between N.

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<sup>1</sup> <https://vlada.mk/node/23577?ln=en-gb>

<sup>2</sup> <https://www.euractiv.com/section/enlargement/news/north-macedonia-slams-bulgarias-blackmail-in-eu-entry-process/>

<sup>3</sup> <https://vlada.mk/node/23577?ln=en-gb>

<sup>4</sup> <https://vlada.mk/node/23577?ln=en-gb>

<sup>5</sup> [https://www.euractiv.com/section/politics/short\\_news/bulgaria-is-trying-to-change-tactics-with-skopje/](https://www.euractiv.com/section/politics/short_news/bulgaria-is-trying-to-change-tactics-with-skopje/)

Macedonia and Bulgaria.<sup>1</sup> The outcome of this process however is also highly uncertain and contentious as Bulgaria continues to use its asymmetrical position in order to push through its own nationalist interpretation of history, at the expense of Macedonian history and identity. Some have ascribed Bulgaria's intransigent nationalist position to the current Bulgarian government's need to distract the attention of the domestic population away from its corruption allegations, street demonstrations and economic downturn.<sup>2</sup> In view of this, the outcome of the April 2021 Parliamentary elections in Bulgaria may have a bearing also on its position towards the Macedonian EU accessions trajectory.

In parallel to the ongoing negotiations with Bulgaria, it is to be expected that the Macedonian foreign policy will continue to align with the foreign policy of the EU. The decision to join the EU's sanctions regime against Nicaragua in early 2021 is illustrative of this.<sup>3</sup> Officially titled "Decision to introduce restrictive measures with regards to the situation in Nicaragua", the decision includes a copy of the original decision on the sanctions reached on May 4th 2020 by the Council of the European Union".<sup>4</sup> This suggests that as an aspirant member of the EU, N. Macedonia is taking active steps to align its foreign policy more closely with the Common Foreign Security Policy of the European Union. Additionally, in 2021 the Government is likely to continue following the foreign policy decisions of the USA. Statements given by the Minister of Foreign Affairs in front of the Parliamentary Committee of Foreign Affairs in late 2020 are indicative of this tendency: "In the broader international context, the strategic partnership with the USA remains one of the key pillars of our diplomacy, as an inseparable part of the overall state

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<sup>1</sup> <https://balkaninsight.com/2020/10/16/bulgaria-north-macedonia-fail-to-move-history-dispute-forward/>

<sup>2</sup> <https://www.euronews.com/2020/12/08/bulgaria-s-block-on-north-macedonia-s-bid-to-join-eu-massively-endangers-europe-s-security>

<sup>3</sup> <https://www.europeansanctions.com/region/nicaragua-2/>

<sup>4</sup> <https://dejure.mk/zakon/odluka-za-voveduvanje-na-restriktivni-merki-soglasno-odlukata-znbp-2020-607-na-sovetot-od-4-maj-2020-godina-za-izmenuvanje-na-odlukata-znbp-2019-1720>

strategy”.<sup>1</sup> It remains to be seen what foreign policy path steps the Macedonian diplomacy prioritize in 2021 if and/when divergencies appear between the foreign policy acts of the EU and the USA.

The coronavirus pandemic is likely to continue exposing the by-products of the foreign policy pursued by the SDSM-DUI Government. In the first months of 2021 this will find its expression in the Government’s handling of the vaccination process. As the year unfolds it will also expose the capacity of the state and its diplomatic service to use foreign policy as an instrument for domestic governance, and especially ameliorating the various consequences of the pandemic. Against the backdrop of the health crisis, the country’s foreign policy is likely to remain on the same path focused on EU and NATO membership. Thus, the foreign policy decisions taken by the SDSM-DUI Government are likely to be in close alignment with the foreign policy decisions taken by the EU, NATO and the USA. The opening of EU accession talks will remain conditional on developments with neighbouring Bulgaria. At the same time however any resolution of the dispute, which is done at the expense of Macedonian history, language and identity is likely to cause a public backlash domestically. In the short to medium term this may affect the legitimacy and the stability of the Governing coalition. In the long term it could have with far-reaching consequences for the country and society as a whole.

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<sup>1</sup><https://www.mkd.mk/makedonija/politika/osmani-pred-pratenicite-eu-zgreshi-shto-go-odlozhi-pochetokot-na-pregovorite>

## **Poland 2021 outlook on foreign policy**

**Joanna Ciesielska-Klikowska**

***Summary:** When analyzing the calendar of the Polish President, Prime Minister and the Ministry of Foreign Affairs, it is difficult to find specific international agenda for 2021. Indeed, politicians from Warsaw indicate that in recent months foreign policy has been relegated to the background, giving way to domestic issues, and above all to the fight against the COVID-19 pandemic. However, the state as such will, after all, practice foreign policy. It is therefore worth considering which directions will be significant in the coming months, and which of them will be treated marginally.*

### **Relations with the United States**

Relations with Washington have been the most important direction of Polish foreign policy for past five years. Thus, the changing US administration and the assumption of power by Joe Biden, who was clearly not a favourite for the Polish ruling camp, will be a serious challenge for Warsaw. On the other hand, the concerns that are visible in the Law and Justice Party's reaction to the US election result may turn out to be exaggerated and premature. In fact, in areas such as policy towards the post-Soviet space, Poland has more in common with Biden's White House than with predecessor's administration.

Whether the good condition of Polish-American relations will continue in 2021, will depend primarily on Poland's ability to adapt to new circumstances. Yet, the perspective of Polish-American relations during Biden's presidency should be considered on two levels: on the level of values, and on the level of interests and politics.

1. On an ideological level, it is expected that Warsaw's relations with Washington will become less cordial and possibly even tense. Biden perceives the transatlantic relations in terms of a community of values from which, in his opinion, countries such as Poland break away (during the campaign, Biden described Poland, Belarus and Hungary as totalitarian states). Warsaw can therefore expect criticism for breaking the rule of law, and for its approach to issues such as freedom of speech and the rights of LGBT community.

2. However, depending on how Poland plays its cards, this discrepancy may not translate into the level of political interests. In material terms, Biden administration's policy towards Warsaw is likely to be a continuation of Donald Trump's policy, particularly in the areas of security and defense, as well as energy and regional cooperation in Central and Eastern Europe.

Yet, there may be some accent shifts here. When it comes to security and defense, for Warsaw there are two aspects of fundamental importance - first, the continuation of the US presence in Poland as part of the European Initiative of Deterrence and Enhanced Forward Presence; second, the continued purchase of US military equipment. Since Biden was in fact the architect of the US military presence in Poland and the strengthening of NATO on the eastern flank of the alliance during the Barack Obama administration, there is no reason to believe that Polish-US military cooperation will suffer.

If the Polish side wants to maintain this community of interests, Biden will certainly not object. A springtime NATO summit is likely to be a good time to discuss these issues. If a face to face meeting is possible despite pandemic restrictions, NATO summit would indeed bring the first opportunity for both Presidents to talk. The Chancellery of President Duda already today expresses hopes that the meeting will take place in this formula. The alliance's summit is therefore intended to be crucial stimulus for talks - here it will turn out whether the Polish-American goals in foreign policy are still common, or whether they are starting to diverge.

## **Relations with Germany**

Relations between Poland and Germany, although marked by a difficult history, and sometimes even mutual misunderstanding, are today relatively correct and will remain on highest level of importance, just as transatlantic relations. Good personal contacts of Polish and German politicians and excellent economic relations are a big plus - Germany is Poland's most important trade partner.

However, it should be remembered that there is a fairly wide catalogue of challenges to be overcome in mutual relations in coming months, such as:

- future role of Germany and Poland in the EU,
- construction of the Nord Stream 2 pipeline,
- mutual attitude to Russia,
- issues of Polish minority in Germany.

Poland's undisguised skepticism for German federalist ideas for Europe in recent years may cause frequent tensions between Berlin and Warsaw. There may be basically two problems in the near future:

1. The awaiting position of Poland in the EU and the fact that Poland will not be a supporter of German interests at all costs. It can be assumed that the attitude of Warsaw to Berlin will become more and more assertive as the political and economic strength of Poland increases. Both countries, along with the successive strengthening of Poland's position in Central and Eastern Europe, will become more and more competitors.

2. Poland's active foreign policy in the area of the Three Seas Initiative, and raising German interest in this project, despite previous passive attitude. Berlin's support for the Three Seas Initiative undoubtedly makes it more valuable. However, the reasons for such an attitude are still unclear, but may include: involvement of the US in this project and the related desire to "overtake" Washington; excessive, from the point of view of Germany, strengthening of Poland's position in the region, which today appears to be the natural leader of the Three Seas Initiative; fear of losing

German influence in the region and fear of weakening the EU on its eastern flank.

Nevertheless, the climate for bilateral cooperation is good. The jubilee of the 30th anniversary of the Polish-German Treaty on Good Neighbourhood and Friendly Cooperation will provide an opportunity for in-depth discussions on the future of bilateral relations. Its celebrations, scheduled for June, will bring an intensification of contacts on many levels and a chance to find back common values.

### **Relations with the countries of the Visegrad Group and Three Seas Initiative**

2021 also marks the 30th anniversary of the establishment of the Visegrad Group and Poland is to continue its presidency of the V4. The Visegrad Group in Polish foreign policy is perceived in terms of a significant identification element and an example of honestly practiced diplomacy. In the coming months, the development dynamics of the V4 group and its impact on the structure of the EU (inclusiveness, inhibition of the process of the formation of various small groups) will continue. From the perspective of Warsaw, this integration of Eastern European countries, and thus the V4 group, is a perfect example of an effective EU convergence policy.

Undoubtedly, Poland will animate the organization of V4 coordination meetings before the summits of the European Council. Poland and other members of the V4, as “defenders of the cohesion policy”, are popular among representatives of other small Member States, which has a direct impact on building Poland’s position in the EU.

Three Seas Initiative will be crucial as well. It is to be continued and developed, since its measurable effects are already visible due to creation of the Three Seas Fund. Poland plays an important role in the development of the Three Seas Initiative, but cooperation with external actors such as the United States will be essential. Due to the significant socio-cultural



diversity of the Initiative countries, it is almost impossible to maintain a permanent policy. Therefore, the development of transport infrastructure (the so-called “north-south corridor”) is of key importance, as all Member States will benefit from it, regardless of the current political turmoil of individual countries. Therefore, Polish diplomacy should lobby the thesis that the main goal of the Initiative are infrastructure and economic benefits, without a broader geopolitical aspect and without expressing pro-Western or pro-Russian inclinations. In the perspective of Warsaw, the development of infrastructure would make CEE independent, thus increasing the energy and national security of the countries of the region, and as a consequence the security of Poland itself.

### **Great absentees in foreign policy agenda**

The agenda for this year, however, does not give the answers regarding the strategy towards several other key actors in the international arena. The European Union, of which Poland should be an important member, remains a great absentee in political plans. In recent years there have been no initiatives on the part of Warsaw that would be considered by other European capitals or Brussels. Undoubtedly, Poland could play the role of a vital player, animating relations between East and West Member States of the Community, but for years there has been no idea, means and patience to fulfill this task.

Undoubtedly, Polish foreign policy also keeps the eyes almost closed to the events in the Russian Federation and Belarus. Neither the Chancellery of the President, the Prime Minister nor the Ministry of Foreign Affairs are currently working on a plan that foresees possible scenarios for the development of the situation. Even if the current authorities consider Vladimir Putin and Alexander Lukashenka to be authoritarian rulers, they should also set the path for the development of relations with these politicians. To follow the proverb that “friends should be kept close, but enemies even closer”, it would seem crucial to define the strategy of Polish foreign policy towards neighbouring states in the East,

envisaging many possible scenarios for the expansion of the situation there. This would allow Poland to prepare for a possible political change and would make it possible to emphasize the importance of the region for Polish diplomacy. In fact, being a keystone between East and West is the declared goal of Warsaw.

## **Outlook for 2021: embracing predictability in Romanian foreign policy**

**Oana Cristina Popovici**

***Summary:** Romania's external policy continues to be driven by the principles adopted as an EU and NATO member and involved by the Strategic Partnership with the United States of America (USA). Several aspects are expected to shape the evolutions of this year: the implementation of the Euro-Atlantic Centre for Resilience in Bucharest responding to NATO requests of securing against any type of threats, the potential accession to the Schengen area, the support for the Republic of Moldova, more openness for bilateral economic collaboration with different countries and securing against COVID-19 through coordinated vaccination in EU and in the region.*

Romania intends to keep its predictability in the field of foreign policy, but with increased responsibilities in the major bodies where it activates. Therefore, the major lines of the external policy, drawn by the EU and NATO membership and the Strategic Partnership with the United States of America, will continue to be pursued and to shape Romania's further decisions in the international context. In addition, Romania intends to have a more active and creative presence in the relations with the strategic partners and with the other countries, as well as within the bodies where it activates.

Briefly, within NATO, Romania will continue to advocate for strengthening the collective defence dimension. Greater attention needs to be paid to the Eastern flank and the strategic Black Sea region, which are exposed to security developments. Romania is especially interested on monitoring the security in this area, given the increase of the Russian military presence and intensifying hybrid actions. Therefore, Romania supports efforts to implement measures for strengthening NATO's

deterrent and defence stance in the Black Sea region, consolidating the coherence of the Eastern Flank, and closely monitoring further security developments in the region in the view of avoiding prolonged conflicts in the Black Sea area, which have the potential to generate instability and reactivate. Therefore, at the beginning of December, during the meeting of foreign ministers from NATO member states, Romania announced its intention to establish and host a Euro-Atlantic Centre for Resilience. Resilience is a priority topic in the next period, within the North Atlantic Alliance.

After the announcement of the launch decision in December, the Minister of Foreign Affairs stated that the Euro-Atlantic Centre for Resilience in Bucharest will operate, in the first phase, as a national institution under the Ministry of Foreign Affairs. The Centre is open to the participation of other EU and NATO countries and partners wishing to join the initiative, to coordinate actions and good practices. Therefore, the Centre is designed as a platform for integrating resilience approaches and is structured on three pillars: risk reduction through anticipation and adaptation, creation of good practices and research cooperation. The Centre will promote an integrated strategic approach to achieving cohesion around the concept of resilience and will identify both vulnerabilities and pragmatic solutions in this regard. Romania's decision also comes after in 2016, NATO member states decided to commit to increasing Allied resilience to any threats, including hybrid ones.

As an EU member state, Romania is determined to support solidarity and unity. As a consequence, Romania intends to firmly reject anti-European discourse and maintain citizens' confidence in common policies. In addition, Romania encourages the European path of the states in the region, those in the Western Balkans, as well as those within the Eastern Partnership that have signed association and free trade agreements with the EU. A high priority is given to the relationship with the Republic of Moldova. In this regard, Romania is ready to support Republic of Moldova's interests within the EU, and to provide direct and firm

assistance for the Moldovan's authorities for the rapprochement with the EU, until integration.

In addition, Romania targets the Schengen area and envisages high chances for a potential accession this year. Romanian Prime Minister stated, at the beginning of the year, that it is fully prepared to enter the Schengen area, following a discussion with officials in the Netherlands. In addition, the Government has approved a memorandum on the completion of the Cooperation and Verification Mechanism, which establishes an ambitious timetable for both the Government and the Parliament with measures meant to achieve this goal by the middle of the year. According to the Prime Minister Florin Ciu, it is a political commitment of the governing coalition. Priority steps to complete the Cooperation and Verification Mechanism based on the recommendations, especially the legislation in the field of Justice, have been assumed through a memorandum. The Minister of Interior requested the acceleration of the discussions on the accession of Romania and Bulgaria to the Schengen area at the informal Justice and Home Affairs Council meeting in January. The accession to the Schengen area is a major objective for which Romania has made considerable efforts so far. Romania contributed to joint efforts for migration management, through consistent participation in the activities of the FRONTEX Agency, through the relocation of persons in need of international protection as a result of search and rescue missions in the Mediterranean Sea, respectively by initiating bilateral cooperation documents with frontline states in terms of migratory pressure.

The COVID-19 pandemic is also haunting the area of foreign policy, in the context in which the EU Member States decided to act together for limiting the spreading of the virus. The Romanian Minister of Foreign Affairs reiterated the need for the creation of a mechanism to support neighboring states in procuring anti-COVID vaccines, stressing the importance of solidarity and the fact that the EU's health security depends on that of the wider region. He also stressed the need for the EU to support partner countries in the field of strategic communication to combat misinformation about the fight against the pandemic and vaccination

against COVID. Romania has also joined the initiative of some EU member states on the development of a European mechanism for the access of Eastern Partnership' states to the anti-COVID-19 vaccine. As regards the certificates that proves an anti-COVID-19 vaccine, the discussions are in progress at the EU level. Romania's position is to establish a mechanism that would avoid any discriminatory approach, given the limited population access to the COVID-19 vaccine and the voluntary decision on vaccination. The aim is not to raise barriers against people's freedom of movement, conditioning it by this certificate.

There is a large opening towards cooperation with foreign business environments. According to the Chairman of the Foreign Policy Committee of the Chamber of Deputies, Romania's strategic partnerships and representation in countries such as the USA, Germany or Japan should be a priority in the following period, in order to deepen, strengthen and diversify the relationships and to enhance business opportunities. For example, a recent meeting between the officials in Romania and Italy on the topic of bilateral cooperation led to the decision to apply new approaches for boosting economic recovery, adapted to the new conditions generated by the pandemics. The Romanian-Italian trade was significantly affected by the pandemic crisis in 2020, after it hit the highest historical value in 2019. In this context, the measures initiated by the Romanian Ministry of Economy aim to reduce red tape and to create a stimulating climate for companies. The Romanian Minister expressed his openness for a constructive dialogue with the Italian business community in Romania. Therefore, in the next period, online meetings will be organized for analysing various proposals for reducing bureaucracy and improving economic relations, while discussing suggestions from the business environment regarding the interactions with the Romanian public administration. Other similar proposal for increasing cooperation with the business community in different countries were launched since last year, in the context of cooperation with USA and France.

The Strategic Partnership with the USA has been substantially developed in the last period from the perspective of the security dimension,

Romania appreciating the increased US military presence in the context of security challenges at the Black Sea. However, a stronger economic bilateral cooperation is envisaged, both as regards trade and investment. The Romanian Minister of Foreign Affairs showed conviction regarding the deepening and diversification of the bilateral relationship with the new US Administration in all areas of common interest. Recently, the Romanian Minister of Foreign Affairs pleaded for an American economic presence as consistent as possible in Romania and in the region, besides the military presence. There is already an increase in American interest in investment, and Romania is making efforts to confirm this trend and produce beneficial results for both parties. Romania also targets the inclusion in the Visa Waiver Program, which would allow Romanian nationals to travel without a visa in the US. At present, Romania has a refusal rate of 10%. When the rate falls below 3 percent, it will enter the Visa Waiver program, which allows travel of up to 90 days without visas. Efforts in this direction have been made in the last year, targeted towards improving the rule of law system in order to apply the law equally and no longer tolerating organized crime, corruption and human trafficking.

## **Foreign policy predictions for the Republic of Serbia during 2021**

**Ivona Ladjevac**

***Summary:** Although the foreign policy of the Republic of Serbia has been largely shaped by its strategic objective of becoming an EU member, for years the country has also been interested in nurturing more proximate political and economic relations with a variety of actors, ranging from the Russian Federation, over the People's Republic of China, to the United States of America. Such balancing policy might somewhat resemble the multi-vector approach seen across the post-Soviet space, where smaller states take part in the 'bargaining' process with the regional powers in order to secure more pleasing outcomes. However, the Republic of Serbia is not a post-Soviet country, but instead ranks among the "leading candidates" in the European Union accession agenda. Although its balancing and multi-vector approach has at times been lacking clarity, the Republic of Serbia has throughout certain periods - such as the current anti-COVID inoculation process - been successful, by the virtue of its developed cooperation with various global powers. Having in mind the protraction of the pandemic and its well targeted "COVID-19-diplomacy", the foreign policy of the Republic of Serbia will likely remain multi-polarly engaged during 2021, for at least two reasons: to improve its perspective in reducing the devastating effects of the current pandemic and to advance its economic and other political interests.*

### **Pursuing strategic priorities**

Since the early 2000s, the Republic of Serbia has been engaged in the European integration process, strategically aiming to accede to the European Union. Although the Union represents the chief economic and political partner of Serbia, and the country has for years been an EU



associate country, the accession process, which started in 2014, has already surpassed in duration the lengthy Croatian membership negotiations. Likewise, since the early 2019, Serbia has been granted to initiate negotiations in only two thematic chapters, which can be attributed not only to the perceived insufficient progress in improving the functioning of institutions in “fundamental” domains (rule of law, judiciary, anti-corruption agenda etc), but also due to the suspended dialogue between Belgrade and Priština. Apart from that, the EU’s focus on the stabilization part of the enlargement agenda has encouraged stabilocratic trends in the Western Balkans, both in Serbia and elsewhere. Likewise, the EU’s reluctance to deepen cooperation with other neighbors (like North Macedonia) has also been discouraging for the region’s European perspective. Even though EU membership has remained the strategic political goal, the overall dynamics in EU-Serbian relations has for years been slow-moving and without much enthusiasm. Although the adoption of the revised enlargement methodology was supposed to provide a new impetus to the deficient accession negotiation process in the Western Balkans, the COVID pandemic, combined with political challenges, has prevented the enlargement policy from improving its peripheral status among EU priorities during 2020.

While pursuing its EU membership goal, another chief strategic objective of the Republic of Serbia has been to preserve its sovereignty claim over the breakaway province of Kosovo and Metohija. For over a decade, Belgrade and Priština authorities have been engaged in a dialogue, aimed towards the “normalization” of mutual relations. The dialogue has been moderated by the EU, which as a supranational actor doesn’t have a unified stance towards the Kosovo’s secession, even though a vast majority of its member-states did recognize the unilateral act of Priština back in 2008. On the other hand, cooperation with international actors like Russia and China has been facilitated by the fact that these countries, with veto-holding rights in the UN Security Council, have not opted to recognize the “Republic of Kosovo” and have supported Serbia’s stance on that issue. Apart from political cooperation, both China and Russia have over time

assumed a more prominent role in Serbia's energy, transport and industrial sectors. Over years, Serbia has abstained from aligning with the EU Common Foreign and Security Policy on issues which included restrictive measures against Russia and China, which has attracted criticism not only from the EU as its chief strategic partner, but also from the USA, which officially considers the mentioned countries to constitute its "rival powers". In addition, during the Trump administration, an agreement on economic normalization between Belgrade and Priština was brokered, which, despite its broad formulations, demonstrated an elevated US interest for the region.

Bearing in mind the two strategic foreign political priorities, the authorities in Serbia have for several years been engaged in a balancing policy with the mentioned international powers. Those activities might somewhat be comparable to the multi-vector approach, which has been applied across the post-Soviet region. For example, countries such as the Ukraine have in earlier decades been attempting to participate in the 'bargaining' process with the EU and Russia in order to increase their economic or political gains. However, such multi-vector intentions require a tactical and comprehensive planning, especially in situations where such aspirations tend to be prolonged, rather than just short-term or temporary. Likewise, in the eyes of the partners, pursuing multiple courses might bring into question aspects such as credibility and sustainability. However, there are obvious differences in the case of Serbia: firstly, it is not a post-Soviet country, secondly, it is included in the EU enlargement agenda, and thirdly, the Belgrade-Priština dialogue has been taking place for years, under EU mediation.

Although this balancing approach has at times been lacking articulation, coherence and greater strategic precision, the escalation and the unfortunate course of the COVID pandemic has revealed the benefits of multiple partnerships for Serbia. During the early course of the pandemic, when the EU temporarily banned the export of much needed medical equipment, the Serbian authorities turned to China and other non-EU countries for assistance. Likewise, owing to its diversified diplomatic channels, Serbia has not only been one of the rare countries to inoculate its

population with anti-COVID vaccines from multiple producers (China, Russia, the United States, the UK/EU), but has been doing so at one of the fastest rates since the start of the global immunization campaign. The authorities have also announced the preliminary approval for the manufacturing the Covid-19 Sputnik V vaccine in Serbia, which might ensue towards the end of 2021. Apart from that, the country has also been engaged in its Western Balkans through donations of its vaccine supplies to North Macedonia, Montenegro and Bosnia-Herzegovina, which is important for at least three reasons: the humanitarian aspect, the regional cooperation domain, and the European integration process.

### **Conclusion**

Having in mind that the COVID pandemic remains a chief current challenge which affects all aspects of economic, political and social developments, it seems very likely that the Republic of Serbia – in spite of being a small state - would continue pursuing its multi-vector engagement during 2021, aiming both to reduce the negative effects of the pandemic, and to advance its chief economic and political interests. At this moment, the balancing process reflects the intention of Serbia to pursue its main foreign political priorities: the normalization of relations with Priština, the EU accession process and improving the perspectives for regional cooperation, all of which are mutually connected. Having in mind the protraction of the pandemic and its success in the domain of “vaccine-diplomacy”, apart from improving its perspectives for limiting the devastating effects of the crisis, Serbian foreign policy would also continue to be largely shaped by its EU membership aspirations, despite the challenges in that regard. Provided that additional progress in fundamental domains is recorded during 2021, the lengthy Serbian EU accession process might also benefit from the application of the revised enlargement methodology, thus providing some additional impetus to the partnership between the two sides.

## **Slovakian external relations development outlook for 2021**

**Juraj Ondriaš**

As was the case in 2020, it is expected that the main priority of the foreign policy of the Slovak Republic in 2021 will be connected to dealing with the COVID-19 pandemic. While this is primarily a matter of domestic policy, it has a vital foreign policy component, notably obtaining vaccines against COVID-19. This diplomatic effort will mostly take place within the framework of the EU, which should therefore remain the main arena for Slovakia to pursue its national interest. As a small country, Slovakia would have a difficult time obtaining vaccines on its own amid competition with larger and richer countries, whereas as an EU member state, the country can rely on the greater clout of the EU as a whole. For that reason, Slovakia supports the common approach of the EU [9]. Therefore, Slovakia is not in favor of vaccines which have not been cleared by the European Medicines Agency (EMA).

Among the vaccines certified by the EMA, Slovakia ordered 208 000 doses of the Pfizer-BioNTech vaccine, 12 000 doses of the Moderna vaccine, and also the AstraZeneca vaccine, developed below, as all three vaccines have been authorized for use in the EU [13]. While the merits of other vaccines (mainly Sputnik V) were also debated in the media, there was no serious debate on using non-Western vaccines in Slovakia – not even after the news that the three aforementioned vaccine producers will not meet their vaccine delivery targets for the EU. For example, in the case of Slovakia, the country was supposed to get 360 000 doses of the AstraZeneca vaccine, but this number was later revised downward to 210 000 doses, which should arrive on February 7<sup>th</sup>. Slovakia was not among the EU member states that reacted strongly to the delay of vaccine deliveries by AstraZeneca and other providers to the EU, with the Minister of Health, Marek Krajčí, simply declaring that the EU will put pressure on AstraZeneca to fulfill its obligations, and the results will have to be seen

[12]. Such a mild response may be due to the fact that, apart from the risk of running out of vaccines, the pace of vaccination in Slovakia, which started on December 26<sup>th</sup> with the Pfizer-BioNTech vaccine, has been disappointingly slow, similar to the situation in several other EU countries. On a more positive note, it must be said that Slovakia is not only a buyer, but also a provider of equipment to combat the pandemic – as proven by the example of Slovenia, which used a test by Slovak company MultiplexDX to determine the presence of the British mutation of COVID-19 [11]. Another important role for the ministry will continue to be the monitoring of the evolution of the pandemic situation in other countries. Related to this, Slovakia supports the earliest possible introduction of COVID-19 certificates, which should include information on any COVID-19 tests and vaccines taken by the holder, to enable free movement within the EU. This should be a more desirable alternative to travel bans and restrictions or the bureaucracy linked to travel permits [2]. Given the high number of Slovak citizens living and working in border areas, notably around the capital city of Bratislava, such a position makes sense for the country.

Slovakia's membership in the EU will have bearing on another important issue facing the country in the new year, which is Brexit. Negotiations on the final deal between the EU and the United Kingdom, meant to take effect after the transition period, i.e. at the end of 2020, were expected to be one of the dominant issues for the EU and its member states in the previous year. However, this took a back seat after the pandemic hit. While a deal was thrashed out on December 24<sup>th</sup> 2020, 2021 will show what effects the deal will have. Slovakia supported the deal, as it was afraid of a hard Brexit which would have occurred otherwise [3]. The main reason for Slovakia's support was vulnerability to the economic consequences of a hard Brexit, due to the strong links of the Slovak economy to the British one. These links, are exemplified by the Jaguar Land Rover automobile manufacturing plant, which only started production in 2018. This plant is one of the "big four" carmakers in Slovakia which contribute to making the car industry the driver of the economy of Slovakia (representing 49.5% of

industrial output in Slovakia in 2018), with the country being the largest producer of automobiles per capita in the world, with over 1.1 million car produced in 2019 [8], before the pandemic. Due to the pandemic, production fell by 20% [14], so there is a desire to avoid any further economic disruption, such as a hard Brexit or disadvantageous deal.

Another reason would be the social consequences relating to Slovak workers and students currently living in the UK. These expatriate Slovaks would have lost benefits pertaining to EU citizens in the country. After losing job and study opportunities in the UK, these workers and students may have had no choice but to return to Slovakia, exacerbating the economical and social situation in the country and putting a strain on Slovak welfare programs. Though these fears have been allayed thanks to the deal, the increased difficulty of maintaining trade relations between the two countries remains a worry. Therefore, the Ministry of Foreign Affairs took on a role of informing entrepreneurs of the conditions and evolving situation of commerce between the EU and the UK after Brexit [4]. Similarly, other ministries are informing on their specialized aspects, of Brexit, such as the Ministry of Health explaining health insurance for Slovaks living in the UK [1]. This approach will continue until all the issues have been smoothed out. But Slovakia has another reason to keep a close watch on the situation in the UK – the rise of nationalism accompanying Brexit in the UK was also felt by the Slovak expatriate community. This was seen most recently in Sheffield, where flyers warning locals about Slovak immigrants have appeared [10].

One other aspect of EU policy, in which Slovakia takes a special interest, is EU enlargement in the Western Balkans. Since Slovakia shares a common communist past and other aspects of culture with these countries, it sees itself as well qualified to contribute to the enlargement process by offering know-how based on its own experiences. After the enlargement process had stalled in 2020 due to the French veto of October 15<sup>th</sup> 2019 on opening talks with North Macedonia, as well as due to the pandemic redirecting resources and attention elsewhere, there is hope that the new year can put EU enlargement back into greater focus. Following this

priority, Slovakia, along with the Czech Republic, vetoed the European Council conclusions of the on enlargement on December 16<sup>th</sup>, because of a perceived attempt by Bulgaria to disrupt the accession of North Macedonia by injecting bilateral disputes into the conclusions. Slovakia and the Czech Republic saw this Bulgarian initiative as being an obstacle to swift and smooth enlargement. While Slovakia has long declared the Western Balkans to be a priority region for Slovak foreign policy, this is a rare example of Slovak diplomacy going beyond the level of declarations and taking a practical step to enforce its views [7]. The spat with Bulgaria is therefore an issue that Slovak diplomacy will have to navigate in the new year. Already on January 11<sup>th</sup>, minister Korčok set the tone in a conversation with the European Commissioner for Neighbourhood and Enlargement, Olivér Várhelyi. Korčok emphasized that the EU accession process should not be hindered by disputes between EU member states and candidate countries. He also expressed the hope that a compromise will be found in the first months of the new year, as well as an expectation for a more dynamic and trustworthy process of enlargement for 2021, showing that Slovakia expects this issue to remain a priority for the year [5]. This was reiterated by the deputy minister, Martin Klus, in separate videoconferences with the chief negotiators of North Macedonia and Albania on January 20<sup>th</sup>. Klus emphasized the political and economic reforms that both Balkan countries have made, as well as those that they still have to make. As is usual during such discussions, he pointed out Slovakia's experiences with its own accession process and offered to share these experiences and the expertise gained from them. He also expressed satisfaction at the North Macedonian decision to open an embassy in Slovakia, which would make cooperation on EU accession simpler [6].

In general, Slovakia's foreign policy priorities and goals reflect the pro-Western orientation of the country, exemplified by its attempts to be seen as a staunch and reliable EU member state. This shows itself as working within the EU on the COVID-19 vaccination program, as opposed to buying vaccines without EMA certification on its own, or as toeing the EU line on Brexit to ensure the best possible relationship between the EU

and the UK. However, Slovakia has shown itself to go even further than the EU on enlargement, in the name of spreading EU or Western values through reforms in the candidate countries. This is in line with the strongly pro-Western policy of the current Slovak center-right government, according to which Slovakia is firmly anchored as a Western country. According to this policy line, the Slovak government is mistrustful of non-Western centers of power which are perceived to have an interest in the Western Balkans to the detriment of EU interests and Western values. Such a narrative is also likely to be behind the government's reluctance to consider alternative vaccines to those certified by the EMA, even despite the problems with delivery of those vaccines.

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## **Slovenian foreign policy outlook for 2021**

**Tina Čok**

***Summary:** In many respects, the direction of Slovenian foreign policy in the coming months depends on the stability of its current government. For some months now, the opposition, united in the so-called group of Constitutional Arch Coalition, has been trying to hold a vote of no confidence and replace the current government, which took over the leadership of the country after the resignation of the previous Prime Minister Marjan Šarec. Since the appearance of Prime Minister Janez Janša, Slovenia has become more closely aligned with the so-called Visegrad countries. However, the role Slovenia wants to play in this group is not yet clear. Friendship with the Visegrad group may partly influence Slovenia's EU presidency in the second half of 2021. As the stability of the current government is rather questionable, relations with the new US administration and the newly elected President Joseph Biden will also depend on future domestic political developments. The long unresolved issue of Croatia's compliance with the arbitration award and its new push to declare an exclusive economic zone in the Adriatic also remain on the foreign policy agenda for 2021.*

### **Friendship with the Visegrad Group and EU Presidency**

These days, three months have passed since the initiative of economist Jože P. Damijan to form a coalition that would oppose Janez Janša's third government. The supporters and initiators of the so-called Constitutional Arch Coalition cited the defence and preservation of freedom of expression and political activity, the independence of the media and the judiciary, the protection of human rights and equality before the law, solidarity, social cohesion and environmental sensitivity, tolerance and culture as reasons for forming the coalition. They accuse the current government of deliberately destroying and undermining these by abusing

key institutions based on autocratic methods and attempting to redefine constitutional norms, sow discord and jeopardise the country's international position. Also the countries of the Visegrad Group are often accused by the members of the European Union of the above-mentioned methods of destroying the foundations of society and the state, in particular the disregard for the rule of law, minority rights, gender equality and sexual orientation.

On 1 July 2021, Slovenia will assume the Presidency of the Council of the European Union for a period of six months. The key content-related task of the presidency country is to manage the work of the Council, particularly by directing the legislative work of the EU and formulating the joint positions of the Council regarding talks with the European Parliament as the co-legislator, as well as with the European Commission. The presidency must ensure compliance with legislative procedures and impartially direct harmonisation among the Member States. It is expected to act as an honest and neutral broker that does not emphasise its own national interests but strives for common solutions. The Presidency of the Council of the EU takes place within the framework of the Council's 18-month program and is carried out in cooperation with three Council Presidencies. Slovenia will again work together in the trio with Germany and Portugal.

The EU Presidency must pursue the common objectives of European policy. No country sets its own programme, but sets long-term objectives in cooperation with the other two countries and the other EU institutions and draws up a joint 18-month work programme and priorities. On the basis of this programme, each of the three countries prepares its own more detailed six-month programme. This mechanism of common direction cannot be substantially shaken by the content of a country's program, but the country can give it a personal colour and choose priorities of its presidency.

Current trio's main tasks include dealing with the effects of the new coronavirus pandemic, restoring the normal functioning of European societies and recovering national economies. Foreign policy priorities

include an ambitious policy towards the Eastern and Southern neighbourhoods, reaffirming the European perspective of the Western Balkans. The priorities of the Slovenian Presidency six-month program are currently being prepared, but it is expected that the main agendas will include the enlargement of the European Union to the Balkans and the convergence of positions between the Western and Eastern EU member states. The second Slovenian Presidency comes at a time of great change in the EU, a time of (post)epidemic and, above all, a time when the current government has relativised Slovenia's traditional commitment to EU core values and the EU core group, as it increasingly relies on and cooperates with the Visegrad Group countries, especially Poland and Hungary. Due to the Covid-19 epidemic, the lack of staff and the turn towards the Visegrad Group, the Slovenian Presidency is increasingly talking about holding as many presidencies as possible by video conference, in other words having a so-called Zoom presidency.

The pitfalls Slovenia may face during its presidency are challenges in the international community, relations with China, unresolved issues with the US, between the EU and Africa, and European-Russian relations. European challenges certainly include the attempt to reform the EU. In addition, Slovenia faces many other challenges: cross-border workers, the European minimum wage, a green Europe, a European way of life with governance and, above all, the reunification of the EU, which is currently very fragile.

### **Diplomatic issues with the United States and Croatia**

With the outgoing Donald Trump government, the Janša government lost an ideological ally. Over the past year, Slovenia accelerated the consolidation of relations with the United States, which had previously been considered neglected. The highlight of bilateral relations was US Secretary of State Mike Pompeo's visit to Slovenia in August. Given Trump's ideological affiliation, it is not clear which side the Slovenian government will take, according to some previous statements, if newly

elected president Biden really forms an alliance of liberal democracies. The Prime Minister Janša is certainly aware that good relations with the United States are a necessity, but the consequences of too much dependence on the United States can also be seen in relations with China, where the Slovenian government has closed its doors in some areas of business.

For many years Slovenian foreign policy was considered monothematic. Arbitration prevailed and later the question of the implementation of the arbitral award. The new government pushed arbitration aside in the name of its foreign policy goals, hoping that time would solve the problem. In late 2020, Italian and Croatian diplomacy took advantage of this lull and agreed to declare exclusive economic zones in the northern Adriatic. Given the rich experience in relations with its southern neighbour, one can conclude that Croatia is trying to declare its exclusive economic zone in a way that circumvents or relativizes the arbitration award.

Croatia may insist on denying the arbitration award, as it has not paid any political price for its stance so far. If Slovenia exerts pressure in the coming years, such as vetoing accession to the Schengen area, it will be opting for a risky move in the European context. There is no sign that a different political context on either side of the border will lead to major shifts, so we can expect the arbitration saga to continue with more or less intensity in the coming years.

Croatian and Italian decision-makers pushing for a new solution to the Adriatic borders by respectively declaring exclusive economic zones, made Slovenia not an equal partner and likely to lose no matter how the deal turns out. Although Croatia does not yet recognise the arbitration award, it is legally valid for Slovenia, so it is implementing it. This also means that it agrees that it cannot extend jurisdiction at sea to encroach on the borders of its territorial sea. Therefore, it would be difficult to say that the intended proclamation of Croatia's exclusive economic zone interferes with the arbitration award on the border between Slovenia and Croatia in today's international situation, which is very different from the situation in 2003, since Slovenia is already implementing the award. Since the

arbitration award applies to Slovenia, Slovenia cannot participate in the extension of jurisdiction in the Adriatic. However, if it were to accept Croatia's thesis that the arbitration award is not valid, it would have to reintroduce the internal legal mechanism for declaring its own maritime zones. Especially since a possible hypothetically different solution to the border issue in the future would hardly circumvent the legal decisions of the arbitration award, according to which the Slovenian territorial sea does not border the high seas.

### **Conclusions**

While Slovenia's foreign policy in recent years has been considered extremely monothematic, concerned mainly with the arbitration agreement on its border with Croatia, the new government has revitalized its diplomatic relations by forging new alliances both inside and outside the European Union. In addition to a close friendship with the Hungarian leader and a public show of support for the former US President Donald Trump, Slovenia redefined its foreign policy in the Middle East this month with an official visit to Israel. However, as the stability of the ruling coalition has wavered considerably in recent months, and it is not yet entirely clear whether the political alternative has enough support to vote no confidence in the government, it is difficult to predict how diplomatic arrangements will develop in the coming year.

