POLICY SPOTLIGHT

THE ECONOMIC IMPACT OF COVID-19 IN KOSOVO

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ABOUT POLICY SPOTLIGHT

Policy Spotlight is a publication of the American Chamber of Commerce in Kosovo (AmCham Kosovo) which aims to bring attention to different economic policies and outline the challenges for the development of such policies, in order to pave the way for addressing them. This edition places the spotlight on the overall economic impact of COVID-19 in Kosovo up to date.

INTRODUCTION

The black swan event of 2020, namely COVID-19 pandemic has taken a heavy toll on the world’s economy including that of Kosovo. In the face of a potential health disaster, the Kosovo government similar to its peers brought stringent containment measures that have frozen large parts of country’s economy. From March to May, the country has been on an almost total lockdown with outside activities being strictly forbidden. While enterprises encountered on severe difficulties to operate and deliver services, the number of jobseekers in the country surged way more than in the past. The grown economic crisis is projected to cause trouble until Q1 of 2021 that will further deepen the current account deficit (CAD), mainly due to the fall on the volume of remittances and diaspora-tourism.

This policy note aims to offer preliminary data and information on the current impact of the pandemic in Kosovo’s economic outlook, as projected by international financial institutions, state of revenue collection by Tax Administration in Kosovo (TAK), as well as studies conducted by business associations and non-governmental organizations in the country.

CURRENT CORONAVIRUS IMPACT AND FORECASTS ON KOSOVO’S ECONOMY

Before the outbreak of COVID-19 pandemic, projections on Kosovo’s economic output for 2020 were promising. Estimations made by World Bank Group (WBG), forecasted a 4% Gross Domestic Product (GDP) growth in 2020. However, taking into account the rapidly changing circumstances and conditions amid COVID-19 restrictions, the economic upswing has been undermined and the risk of economic contraction now remains high. Similar to other emerging economies, the virus is expected to have a shockingly negative impact in Kosovo’s fragile market as well.

The great uncertainty about the length and severity of the virus has pushed the country to take on immense containment measures, including restrictions on movement of people and services, travel ban, suspension of education process, shutdown of non-essential businesses and later on imposition of a national partial-lockdown. While the containment measures might have had a positive impact in curbing the spread of the virus, and preventing the escalation of health crisis, the aftermath effect on an economic shutdown for weeks might be severe. A survey conducted by AmCham Kosovo in cooperation with four other business associations in the first three weeks of the pandemic, with the

aim of measuring the impact of COVID-19 on member companies’ operations has shown concerning results. The survey revealed that COVID-19 crisis has deeply affected private sector’s ability to operate, with 39% of surveyed enterprises having been closed entirely, 30.7% working with reduced capacities and 13.8% operating with reduced work schedules, and at the same time 60% of respondents believing that COVID-19 crisis has jeopardized the survival of their business.\textsuperscript{2} Enterprises reported financial losses (77.78\%) and lack of liquidity (43.72\%) as their major concerns, followed by lack of work efficiency (39.37\%), and production capacities (26.81\%).\textsuperscript{3} Unsurprisingly, the wholesale (74.42\%) and retail trade (76.04\%) sectors are reported to have experienced the largest financial losses, as consumer demand has decreased (see fig. 1).

\textbf{Figure 1}

\begin{center}
\includegraphics[width=\textwidth]{figure1.png}
\end{center}

\textit{Source: TAK data. Calculation: AmCham Kosovo}


\textsuperscript{3} Ibid.
Although the scale of the economic downturn cannot yet be fully evaluated and quantified due to rising uncertainties and fluid events, some estimations have already been made. According to World Economic Outlook report conducted by International Monetary Fund (IMF), Kosovo’s GDP is expected to shrink by 5% in 2020, followed by a 7.5% rebound in 2021. Fiscal revenues are expected to decrease by 12% in 2020, given abrupt falls in Value Added Tax (VAT) and custom duties. IMF has also foreseen that tourism receipts are projected to decrease by about 20% in 2020 as diaspora-related travel comes to a halt in Q2 due to travel restrictions, causing heavy losses to the hospitality industry. However, since travel restrictions are announced to be fully lifted in Kosovo, then travel services might resume starting from the end of June and beginning of July, so this projection might no longer stand. In addition, IMF also noted that exports of goods will decrease by 17% due to the global recession, as Kosovo’s foreign sales are largely composed by metals. Besides this, remittances which make up around 15% of country’s GDP are forecasted to fall by 10% in 2020, as a result of the effect of the pandemic in originating countries. At the same time, Foreign Direct Investment (FDI) and other financial flows are expected to be cut by half, to 3.6% of GDP in 2020.

A less discouraging picture is projected by WBG in its baseline scenario, which expects the GDP to shrink by 4.5% in 2020, followed by growth in 2021. Exports as a whole are expected to subtract 3.4 percentage points from growth, not only because of lower services exports, but also because of a projected decline in nickel prices. WBG also expects private investment to fall because of the uncertainty and cash constraints that containment measures are causing firms and also a decline in

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6 Ibid.
real estate FDI. In addition, private consumption is projected to slip only slightly, by just 0.2 %, but government consumption is expected to grow considerably based on the budget but also due to the necessary COVID-19 response. Furthermore, the WBG estimated that budget-financed public investment is likely to decline due to limited fiscal space to respond to the outbreak. At last, several large public investment projects that were expected to advance, notably railway and road projects financed by international financial institutions (IFIs), may also be delayed.  

WBG forecasts a deep recession in Kosovo in its downside scenario, which assumes that restrictions are not lifted until the Q3 of 2020. In this scenario, exports are expected to decrease by 25.5 %, mainly because of steep nominal declines in exports of services (25.9 %) and goods (18.6 %). Net FDI is expected to decline by –8.3 % due to both lower inflows for real estate and less reinvestment of earnings because of lower profits. Investment, both public and private, is expected to suffer from the uncertainty, financing constraints, and limited fiscal space. Private consumption is also expected to subtract more from growth as employment and disposable incomes fall. On the other hand, remittances received from informal channels and FDI are expected to go down, making it more difficult to finance the CAD. For Kosovo, it is estimated that remittances will go down even more from 0.8 to 1.1 % of GDP. All these developments are expected to suppress economic growth during 2020.

The economic fallout in Kosovo has also challenged the revenue collection. According to the data issued by TAK, in the first five months the revenue collection fell deeply, where from January to May 2020, only 184 million euros were collected, which is 25 million euros less, compared to the same period last year. It is important to note that tax revenues went up before the pandemic hit Kosovo’s economy, where from January to February 2020, TAK has had an increase of more than 10%, compared with the same period on 2019 (see fig.4). However, the lower tax collection in the first five months of 2020 is no surprise, given that government has delayed the tax filing deadline initially until 30th of April and later on until 30th of June 2020. Nevertheless, the sharp drop in tax revenues might pose problems for country’s budget.

Notably, the decline in tax revenue is also directly linked with the decline in business turnover. As explained in figure 3, from end of March to May 2020, businesses have experienced major declines in turnover compared to the same period in 2019. TAK representatives have publicly stated that they would not reach the projected fiscal targets in 2020.

Since more fiscal space to deal with the effects of COVID-19 pandemic is needed, in the second week of June the Kosovo Parliament approved the Government proposal to temporary exceed fiscal deficit rules.

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8 Ibid.

9 Ibid.

By all means, it remains difficult to gauge the potential fiscal impact of the pandemic at this time, but early signs are not encouraging. The likely large revenue shortfall combined with the fiscal stimulus is expected to widen the budget deficit in 2020. Based on the estimations made by WBG, revenues are projected to plunge by 11% due to the slowdown in economic activity and the tax deferral measures. In addition, WBG noted that the fiscal deficit is estimated to reach 6.3% of GDP despite the expected 43.5% drop in capital spending, driven by both the decline in revenues and the government stimulus package, which is estimated to cost 2.8% of GDP.\textsuperscript{11} In 2020, most Western Balkan countries will

experience major shortfalls in public revenues. Compared to 2019 revenue is projected to drop more than 10% in Kosovo, and they could drop even more if containment restrictions continue into the second quarter of the year.\textsuperscript{12}

**JOBSEEKER RATE HAS INCREASED**

The sudden downturn in work has hit different sectors of the economy in different ways and the impact on jobs could be large. As a result of the shutdown of non-essential businesses, a significant number of employees found themselves out of work. Thus, this has led to a staggering increase in the number of citizens registered as unemployed at employment offices. A recent analysis conducted by GAP Institute shows that in April 2020 alone, the Employment Agency and its 34 local offices registered a total of 32,377 new jobseekers. This has increased the number of jobseekers registered for the period January-April 2020 to 37,392.\textsuperscript{13}

GAP Institute also noted that while in March 2019 the industry of wholesale and retail trade employed about 80 thousand employees, in March 2020 this number dropped to about 43 thousand. The reduction in number of workers also occurred in the construction industry, where in the same comparative period the number dropped from 21 thousand to only 10 thousand, as well as in the processing industry where there was a decrease from around 34 thousand to around 22 thousand. More precisely, since March, the number of jobseekers has increased by 31,550 or multiplied by nearly 40 times. This caused the total number of jobseekers at the Employment Agency to reach 37,392 by April 2020, an enormous increase compared to the last four-month period of 2019 when the number of jobseekers was only 6,882.\textsuperscript{14} The reduction in number of workers in wholesale and retail trade and construction is no surprise, given that these industries have the highest turnover, and have experienced the largest financial losses during these times, as explained in fig. 1.

In addition, based on the survey conducted by AmCham Kosovo and other business associations, 10% of large enterprises have declared that they downsized 30% of their workforce. The largest workforce reductions are seen in micro and small enterprises where 8.5% of micro enterprises have reduced 30-50% of their workforce, whereas 13.9% have reduced over 50% of the workforce. Similarly, 5% of small enterprises have reduced 30-50% of the workforce, whereas 7.5% of them have reduced 50% of their workforce.\textsuperscript{15}


\textsuperscript{13} GAP Institute, The Impact of the COVID-19 Pandemic on the Labor Market, June, 2020, retrieved from https://www.institutigap.org/documents/28751_covid_labor%20market.pdf

\textsuperscript{14} Ibid.

The full impact on employment is yet to be seen, however, the shrinking of the labor force could also cause demand shock because of the incapability to deliver goods and services. At the time of writing, many employees are back to work, but the already increased job uncertainty has halted consumer spending and if the trend continues, this could further impede economic recovery.

SMOOTH REOPENING OF THE ECONOMY

Kosovo’s economy has gradually began to open, while businesses had to adhere to a series of precautionary measures before restarting operations. Resuming of economic activities has come for different industries at different times, whereas the first wave of restrictive measures was alleviated as of May 4th, allowing construction and real estate, sale of motor vehicles, consultancy services and retailers to operate. The second wave of relaxation measures has started on May 18th where additional enterprises have been allowed to resume operations including; dentists and physiotherapists, hairdressers and hair salons, green markets, restaurants (take away only), call centers, museums, and urban and interurban transportation network. As of June 1st, almost all business activities have started operating, this wave included; gastronomy, taxi services, cinema and theaters, and selective opening of sports activities. Since June 8th, all movement restrictions have been lifted and also borders with countries in the region were opened.

With the full alleviation of restrictive measures, the number of infections rate has spurred again in Kosovo, and whether this negative trend will continue it remains unknown. However, health authorities have warned that if the number of cases flareup, then restrictive measures might be imposed again. At the time of writing, predictions remain unsafe.

GOVERNMENT ECONOMIC RESPONSE UP TO DATE

So far, the country has succeeded in keeping the death toll low, however, the same cannot be said for the health of the economy. Kosovo’s economic response against COVID-19 has not been very timely, and the measures taken to help business community and workers cope with the crisis during these difficult times have been pretty modest. In fact, the mitigation measures taken by the previous government aimed mostly at providing relief to the most vulnerable groups, thus shaping the financial aid more towards social assistance support, rather than business support, which is not the case with well-developed countries.

The cost of the so-called Emergency Fiscal Package was estimated to be around EUR 180 million. Additionally, municipalities based on their capacities have provided some sort of financial assistance to hardest hit sectors, for instance, the Municipality of Pristina has recently approved the decision to provide EUR 5 million financial support for small and medium sized enterprises (SMEs). It is important to note that until now, the Emergency Fiscal Package has not been fully implemented.

Employment Support
Conscious for the adverse impact of business shutdown in employment and in an effort to help enterprises deal with the crisis, the preceding government provided fiscal and financial stimulus to soften the downturn.

Eligible businesses received EUR 170 per month for each employee on their payroll for March and April. Likewise, the package has foreseen that businesses received EUR 206 for each new employee hired on a minimum one-year contract during the crisis, this measure aimed at also fighting grey economy. Frontline workers such as doctors, police officers and firefighters received EUR 300 per month during the crisis. Likewise, workers at pharmacies, grocery stores and other essential businesses received EUR 100 per month. At last, in the Emergency Fiscal Package it was also foreseen to subsidize up to 50% of rent costs for SMEs during April and May.

**Tax Policy**

Regarding tax policy, the Ministry of Finance and Transfers (MFT) in coordination with TAK has extended the deadline for tax declaration, reports and payments for liabilities and pension contributions until 30th of June 2020. Another temporary tax measure was the removal of VAT on imports of wheat and flour, as well as the postponement of payments for public utilities until end of April. Lastly, on May 18th, MFT announced that all interest on unpaid property taxes would be suspended until 2021.

**Banking and Finance**

To help ensure enough liquidity for enterprises, the Central Bank of Kosovo (CBK) in coordination with Kosovo Banking Association have decided to postpone loan repayments until April 30th and later on been extended until mid-June, for businesses and households who are facing hardships in generating income and those mostly affected by the crisis. CBK has also stated that once the requests for postponement are approved by the bank, no additional provisions to loans shall apply. The interest rate on loans for SMEs operating in the tourism sector has been cut by 50%, while the interest rate on loans for large companies has been cut by 15%. No monetary policy measures could be applied in Kosovo since the country is euroized.

In addition, provision of financial liquidity for micro-enterprises and the self-employed through certain programs of the Kosovo Credit Guarantee Fund (KCGF) in the amount of EUR 10 thousand for a period of 24 months amounting up to EUR 15 million; Increase of budget for grants and subsidies to the Ministry of Agriculture, Forestry and Rural Development in order to increase agricultural production amounting to EUR 5 million; Increase of budget for grants and subsidies to the Ministry of

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17 Ibid.

18 CBK, Statement by the Governor Mehmeti, April, 2020, retrieved from [https://www.bqk-kos.org/?id=104&l=1731](https://www.bqk-kos.org/?id=104&l=1731)

Culture, Youth and Sports in order to avoid the situation created by the public health emergency in sports and cultural activities amounting to EUR 5 million; Support to exporters in the Republic of Kosovo after the public health emergency situation ends amounting to EUR 10 million, were provided.20

INTERNATIONAL SUPPORT

To further help Kosovo deal with the economic and health consequences amid corona outbreak, the International community has offered unparalleled financial support.

The EU has approved a support package of EUR 68 million to help Kosovo navigate the COVID-19 crisis (EUR 5 million for immediate support for the health sector and EUR 63 million to support Kosovo’s social and economic recovery);

On April 2020, the European Commission proposed the use of the macro-financial assistance programme of EUR 100 million to support the Kosovar economy. The Commission’s proposal is subject to adoption by the European Parliament and the Council of the EU;

Through the Rapid Financial Instrument, the IMF executive board has approved USD 56.5 million (EUR 52 million) in financial assistance to help Kosovo strengthen its health sector and mitigate the immediate effects of the crisis on households and firms;

On May, the Council of Europe Development Bank (CEB) approved EUR 35 million in short-term financing to support Kosovo’s health sector as it copes with the COVID-19 crisis;

And lastly, WBG approved EUR 46 million in financial assistance through its International Development Association branch to support Kosovo as it manages the COVID-19 crisis and initiates its economic recovery process.21

POST-CORONA OPPORTUNITIES

The impending economic downturn has led to significant job losses and lower incomes that will increase poverty rate in the country. Amid this unprecedented crisis, Kosovo has an unprecedented opportunity to reshape its economic structure and accelerate real changes on pressing economic and societal issues, which so far have undermined progress. Crisis like corona could bring many opportunities for Kosovo’s fragile economy, therefore authorities must seize the chance and adapt policies that bring real change. On the other hand, businesses should allow themselves to reshape in a way that can help them thrive by pursuing digital transformation.

Notably, the way forward very much depends on the bold measures that the government will be willing and ready to take. In well-developed and emerging economies, the size of intervention has been pretty impressive, and Kosovo should follow the same path. Currently, the government plan for economic recovery is very ambitious, earmarking EUR 1 billion, but, whether the government will be able to inject this money in the economy remains to be seen.

CONCLUSION

Predicting the coronavirus trajectory along with the exact economic consequences of the pandemic remains a hard task, as this very much depends on the length of the crisis and the potential spread or not of the pandemic. However, what remains clear, is that the impact on Kosovo’s economy will be devastating, especially if the summer season is lost.

To tackle the immediate economic challenges and prevent further economic deterioration, a coordination among all stakeholders is required, as it will not be possible for the government to overcome this crisis alone. Challenging times like this call for resilient and strong leadership in government, business, and society itself.

AmCham reiterates that advancing the doing-business reforms will be crucial to reverse the negative economic impact caused by the pandemic and that government’s economic recovery program must highlight the addressing and resolving of issues related to the human capital by reducing the skills gap and preventing a potential wave of brain drain, improving the rule of law, and removing barriers on the free movement of goods, services and capital, address financial constraints, as well as continuous reforming of the business environment which would be a stimulus for foreign and domestic investment.
LIST OF ACRONYMS

AmCham Kosovo – American Chamber of Commerce in Kosovo
CBK – Central Bank of Kosovo
CEB – Council of Europe Development Bank
CAD – Current Account Deficit
EU – European Union
FDI – Foreign Direct Investment
GDP – Gross Domestic Product
IFC – International Finance Corporation
IMF – International Monetary Fund
SMEs – Small and Medium sized Enterprises
MFT – Ministry of Finance and Transfers
OECD – Organization for Economic Development and Cooperation
TAK – Tax Administration of Kosovo
VAT – Value Added Tax
KCGF – Kosovo Credit Guarantee Fund
WBG – World Bank Group

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