

Covid-19 Crisis and impact on EC economy and tourism of Kosovo, February - May 2020

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Abstract

As COVID-19 reaches everywhere, low- and middle-income countries are racing to respond to this massive and fast-moving challenge. Household income, especially for the poor, will be hard-hit, linked to disruptions in tourism and declining remittances. The economic impacts of the COVID-19 crisis are increasingly hitting low- and middle-income countries and the poor. International travel restrictions and the full or partial closure of businesses and industries in Asia, Europe, and North America have led to a collapse in global travel and are expected to reduce the flows of remittances. Tourism and remittances are important sources of employment and incomes for the poor, respectively. This post assesses the potential impacts of the expected reductions in these income flows by using Kosovo as a case study. The pandemic is likely to have a significant economic toll.

Keywords: Crisis, Covid-19, Kosovo, Tourism, Economy.

Introduction

From the survey we conducted with about 100 businesses (CBK), the most common form of ownership in Kosovar businesses is Individual Business (B.I) with a share of 70.3%, Ltd with 29.7% and partnerships, etc. we did not have any that answered the questionnaire.

For each month that the COVID-19 crisis persists, our simulations using Ministry of finance multiplier model for Kosovo suggest national GDP could fall by between 1.5 % and 4.0%. Kosovo is a rising star among emerging economies. Even though several reforms remain to be completed, the reform program launched in 2016 has started to bear fruit: Kosova has achieved economic growth of over 4.2% in the last two years. The tourism sector recorded its highest revenues in 2018-19, another sign of increased stability. Continued efforts aimed at improving Kosovo business climate were expected to lead to even stronger private sector growth and economic diversification in 2020 and beyond.

This progress will almost certainly be interrupted by the COVID-19 pandemic. While the government is taking actions to contain the spread of the virus—including the suspension of commercial international passenger flights, school and sports clubs

closures and a nationwide nighttime curfew, and the number of reported infections in Kosovo is currently low (29 April) compared to that of many other countries, the global economic slowdown is expected to have major knock-on effects for Kosovo. International travel restrictions are already curtailing tourism to the country. The global slowdown is likely reducing payments received from Brezovica mountains and Rugova and remittances from Kosovars working abroad. These three sources together account for 20.5% of Kosovo GDP. Thus, any disruptions to these foreign income sources will have far-reaching implications for Kosovar economy and population in this pandemic COVID-19.

The International Monetary Fund has approved a €51.6 million (US\$56.06 million) loan for Kosovo to tackle the economic crisis caused by the new coronavirus and address urgent balance of payments issues, the international lender said.

It said the pandemic will hit Kosovo's economy hard. "The economy is expected to contract by 5 per cent in 2020 as tourism receipts, remittances, exports of goods, and FDI will decrease due to travel restrictions and the effect of COVID-19 in trading partners and remittance-originating countries," the IMF said in a statement. The small Balkan country had expected to see economic growth of around 4 per cent this year. The government said it will inject €180 million into the roughly €8 billion economy to help the private sector cope with the crisis. As of late on Friday around 250 people were infected with the coronavirus in Kosovo, including seven deaths.

Pandemic COVID-19 government measures and their impact on economic life

After the presentation of the pandemic known as COVID-19 with the recommendation of the Ministry of Health and with the decision of the government number 01/09 [1] dated 13.03.2020 then the announcement of the name of the emergency with the decision 01/11 [2] dated 15.03. 2020, most economic operators have been closed except those authorized by the order of the Ministry of Economy, Employment, Trade, Industry, Entrepreneurship and Strategic Investments (MEPTINIS) number 01/04 [3] dated 20.03.2020. According to the collected data, 64.9% of businesses have been closed, 29.7% have operated with reduced hours and staff, while only 5.4% have operated normally. All these losses, or rather the non-realization of revenues, have influenced these businesses to have difficulties in their operation and liquidity in the realization of payment of obligations such as salaries, rents, loans, etc.

Seeing this situation and based on the practices of the most developed countries, the Government of Kosovo has drafted an emergency package [1] and also the CBK has drafted and issued a decision on the possibility of postponing installments. These measures have helped maintain alive and facilitating overcoming the current situation.

How much have these measures affected and how effective and welcomed have they been by Kosovar businesses from the data we have extracted from the questionnaire:

CBK decision to postpone installments

Postponement of loan installments for businesses and individuals whose incomes have fallen or spent more due to pandemics has not been supported or has not been seen as assistance to 52.9% of respondents, 3% have not yet decided to use courses

44.1 % have used it.

From this we can conclude that this measure issued by the CBK has not been adequate, has not been in good coordination with the business community, chambers of commerce, and financial operators operating in Kosovo as Banks and other IMF and thus has not resulted as mitigating measure as the interest of the months that have been postponed by the bank have shifted it in various forms to other installments which has made it inadequate.

Question posed about this issue:

“Should the government subsidize some of the interest in order to help invest and grow businesses?” 87% of respondents agreed that it was necessary to subsidize a part or all of the interest, 9% of them said they should not and 4% did not see it as necessary help. Based on that, we can say that it was a hasty decision and the government had to consult with businesses and chambers of commerce. Emergency package from the Ministry of Finance.

On 3.04.2020, the Ministry of Finance issued the decision no. 31/2020. pension contributions, etc.) Based on the data extracted from the questionnaire, 81.1% of them have applied to this extent and 18.9% have not applied.

As can be seen in the graph, only 2.7% of respondents can survive over 6 months if the situation does not improve. This gives us indications that the government, relevant ministries, CBK and all other actors that have an impact on the regulation of economic life in the country have not taken sufficient steps to cope with the situation for a period longer than 6 months and thus it is seen that 24.3% of businesses are in critical situation, 54.1% can survive a maximum of 3 months and 18.9% could mitigate up to 6 months. This makes us realize that we are in a very critical situation for the collapse of the economy. What the government should have done better, what the business managers should have done better in this critical time and not experienced before. We have given our recommendations in this paper based on our findings and analyzing best practices of other countries.

What the government should have done differently

The government when drafting the emergency fiscal plan had to consult with the business community because according to our findings 86% of respondents stated that the package was not enough (graph no. 9). The government had to draft a plan together with other actors. that regulate economic life and determine which businesses will be helped as some have been allowed to work and have benefited from the scheme which has affected that the shared budget has not been enough.

It has also had to find alternative ways to increase this budget by seeking help from international bodies by reviewing the budget.

The CBK, on the other hand, had to be clearer on how to complete the installments, it had to look at the possibility that the part of the interest on the installments that have been postponed should be fully or partially subsidized, where the survey conducted has this opinion. another 87% of respondents (Chart 7), so that businesses can be more liquid in covering other expenses, as according to our data referred to Chart 10 it is seen that 24.3% of the activities surveyed are at a critical stage and at risk

shutdown. Inadequately, only 44.1% used this opportunity to postpone the decision.

What businesses had to do differently

In order to be prepared for emergencies, businesses need to keep in mind that in their management or management they have qualified managers, ie professional managers, as this would help them create long-term policies and policies for emergencies. As can be seen from the survey, 62% of respondents are businesses that provide services. These businesses had to find alternative ways to operate using information systems in order to carry out the operation (online consulting, other online services), in bars and cafeterias it is seen that They would be able to operate the "Take Away" sales system as this was allowed by the Ministry of Commerce, and the boutiques could also use online sales and online orders so that they could operate and not be. at a loss. As can be seen from the data extracted from the questionnaire, only 13.8% have used alternative online channels.

As of April 22, 2020 Kosovo has 434 confirmed cases, and 17 deaths. With the number of people hospitalized dropping and those recovering outnumbering new positive cases, Kosovo has started to gradually ease some restriction measures in mid-April. The country remains under lockdown, but business hours have been extended and an increasing list of businesses can resume their activity provided they respect strict social distancing and hygiene measures. Schools, universities, public transport, restaurants and cafes remain closed and international travel has virtually stopped. Only repatriation flights continue, but returnees are expected to stay in quarantine for two weeks. Kosovo extended the state of natural catastrophe for another two months until June 23rd, enabling the government to continue using extended powers to deal with the situation. If the outbreak remains under control, a gradual opening is expected to continue with the government trying to a figure a way to salvage some of the forthcoming tourist season. These measures were preceded by amendments to the penal code adopted on April 18th, with harsh punishments for those breaching the lockdown or quarantine. Since detecting its first case on March 8th, due to its proximity and close links to Italy, Kosovo adopted some of the toughest restrictive measures in Europe. In urban areas, only one person per household can go out for a maximum of 90 minutes per day after applying for permission in the government digital platform, while pensioners should stay inside and will receive their pensions by post. A weekend curfew is imposed nation-wide. Small businesses, individuals affected by the pandemic measures and students will be able to hold off on rent payments for April and May according to a new normative act. For judicial and administrative procedures (except domestic violence and custody cases), the clock has been put on hold. On March 28th, Kosovo sent a team of 30 doctors and nurses to help fight against the COVID-19 pandemic in north Italy, one of the worst hit areas in the world.

Key Policy Responses as of April 22, 2020

The government will bear the interest costs. The government has also adopted tax deferral measures allowing all companies (except banks, telecommunication, public enterprises and companies in the chain of supply of essential goods) to defer payment

of profit tax until after September. Tourism, active processing and call centers – as well as small businesses with turnover of Lk14m or less – can defer payments of profit tax to next year.

Monetary and macro-financial

To address the liquidity bottlenecks of companies and individuals, the Bank of Kosovo announced a temporary [change on the provisioning requirements](#), effective from March 12th to May 31st, enabling clients to ask banks and other financial institutions to defer loan installments without penalties. On March 25th, the Bank of Kosovo [cut its key policy rate](#) -the weekly repo, by 50 basis points to a new historic minimum of 0.5 percent. The Governor announced that the banking sector is liquid and well capitalized, and the central bank stands ready to provide unlimited liquidity for as long as needed.

The Bank of Kosovo CBK [suspended dividend distribution](#) for 2019 and 2020 for banks until the end of June in order to boost capital and support lending during this period. The central bank also halved the salaries of its supervisory board and top management for the duration of the pandemic. To urge the use of internet banking and reduce the number of people requiring services in bank premises, the central bank also waived the commissions for transfers in local currency.

Exchange rate and balance of payments

Kosovo has a floating exchange rate. The Bank of Kosovo intervenes only in pre-announced purchases to boost reserves or to smooth excessive and disruptive short-term volatility. No measures regarding the exchange rate market have been announced

Hypotheses

The first hypothesis is accepted as correct, because if the pandemic lasts for more than 3 months, about 45.9% of businesses will be closed and this will cause the increase in the number of unemployed only in the interviewed businesses will remain unemployed about 228000 persons or 71% of all employees in the companies we have analyzed this will affect the demand for products.

The second hypothesis has been accepted as correct, as 87% of businesses have stated that it is necessary for the state to intervene in interest rates and for the government to pay the difference, in order to save businesses from bankruptcy. This fiscal package is temporary and very short-lived.

Conclusions

Looking at the search

In conclusion, we can say that the CBK should play a more active role in regulating the healthy economic life in the country by reviewing interest rates, interest subsidies or other forms in order to overcome the economic crisis and so that businesses can grow.

As well as businesses need to be careful in real management and do market analysis and trend analysis of the global economy and use the development of technology to create new markets to exploit these channels to reduce costs because any government package cannot be salvation it can be a help but not depend only on this resource to be able to stay in the game.

Achievements

Based on the data, it has been possible to verify the hypotheses raised, it has been possible to point out the shortcomings in the emergency fiscal packages set up by the government, as well as the shortcomings of the CBK decision regarding the postponement of this case. our businesses in managing unusual situations.

Future work on this topic

This paper has a scientific and study basis, it can be used by other institutions for various purposes, be they state or business communities, but also other researchers in order to further develop this issue. The paper has a scientific basis as it has primary primary data.

But given the situation in which the work was done, the small number of respondents (about 100 respondents who had sufficient elements for analysis) the work could be expanded in the future

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