Economic trends in times of pandemics: Kosovo case

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ABSTRACT

This paper aims to address the effects of the pandemic on the economy and investments in the region - focus Kosovo, compared to the countries of the Western Balkans. CoVid-19 has caused economic shocks worldwide, where many people have lost their jobs, and this has created a negative chain effect on the economic structure in Kosovo as well. The economy consists of a structure in which participate many parties that are interconnected in a chain with each other such as: state institutions, companies (manufacturing, trade, services, etc.), employees, suppliers, local and international financial institutions, potential customers, investors, etc., any disconnect in this chain causes a negative economic reaction which will have long-term implications for business recovery. Also, Foreign direct investment in Kosovo is one of the main determinants of the country's development, due to the pandemic many planned investments have been re-oriented in other directions. This study also aims to identify the economic situation and the level of investment decline for this pandemic period, aiming to identify - as proposals - measures to be taken in order to improve the situation and stimulate a debate on the economic situation in times of pandemic.

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Introduction

The pandemic has caused major disruptions in all economic sectors, the world will not be the same as it was before the pandemic, but to see the exact effects of its impact on the economy - but not only that, a longer period must pass. long after the pandemic. The consequences of CoVid-19 along with the economic ones are those of psychological-social nature that have disrupted the rhythm of life of people around the globe, related to this we come to the conclusion that this pandemic has changed the approach of people to family, relatives and society in general and all this then has great economic implications because the spheres of life are profiled in a particular sector of an economic field, for example there is a decline in personal care, animal care, electronic products, other luxury products, visits to restaurants, declining tourism, etc.

Globally, the economic sectors most affected by the pandemic are the alcohol industry, the tobacco industry, followed by luxury goods - accessories and jewelry, gold and silver, the printing industry, daily newspapers, books, etc.

Globally, the only industry that can grow, according to experts, is the food industry, because people locked in their living quarters, due to very harsh measures during the period 2020/21, begin to consume more food, in the impossibility of attending restaurants, these measures, at the beginning of 2022, have begun to be eased, but the economic effects will be observed for a very long time. As a result of the pandemic, a large number of businesses have gone bankrupt, and the same are in liquidation proceedings, because they could not afford the costs that in many cases were higher than the profit realized from their business activity. Especially, the pandemic had negative impacts on SMEs and economies in transition including Kosovo (Kugi et al., 2020; Krasniqi et al., 2021; Millaku, et al. 2022; Ziberi et al., 2021; Gashi et al., 2021).

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Kosovo has a transition economy, which means an underdeveloped economy, and is highly dependent on foreign investment, remittances, agriculture, etc. The productive sector in Kosovo is very much related to the financial sector, because many companies operate by borrowing money from banks, a minimal number, have solved this issue through self-financing. The services sector, has many employees, and pandemic restrictions have had a very large negative impact in this area, and at the same time have caused you difficulties until, even in the survival of some service businesses, in addition to all this Kosovo has fundamental political problems. There is no political and governing stability, as a result, due to this situation, there has been reluctance in Kosovo for foreign direct investment.

Political problems produce a chain effect on civic well-being, which is then related to the country's economy, from this uncertainty, many young people leave the country, this will be a factor with great impact on economic development, because they will appear shortage of manpower, for professionals and experts in many economic fields in the country, all this problematic will affect the increase of costs for companies in the country. The sectors most affected by the pandemic in Kosovo, are gastronomy, financial sector, construction sector, production, agriculture, tourism, etc. Although struck by the pandemic, the agricultural sector is estimated to be able to recover faster than other sectors, as demand for agricultural products will be growing.

The study's objective is to identify the economic situation and the level of the decline of economic indicators, in times of pandemics, in Kosovo, compared to other countries in Western Balkans. As a country in transition, Kosovo has been severely attacked by the Covid-19 pandemic. Within the pandemic period, there has been a decline in consumption, investment, and trade developments as a chain. There is an increase in unemployment while inflation is increasing. This low performance in a chain manner has caused a rise in poverty in countries. Therefore, this paper aims to identify some measures that need to be taken in order to improve the economic situation as much as possible in a short period of time.

Literature review

Relating with empirical research of data, from relevant national and international institutions, on the impact of the Covid-19 pandemic on economic development trends in Kosovo and the Western Balkans, we come to the question: Which's of the economic indicators have declined in these countries during the pandemic period? Through the elaboration of this question, the indicators that have helped the decline of these economic indicators, such as consumption, foreign direct investment, domestic capital investment, domestic trade development, and those from import / export, free movement of people, and equity, and remittances. From the processing of these data, it is noticed that in all these indicators, there has been a decline, and the same have had an impact on the decline of economic indicators. Regarding consumption, Kosovo, like most of the Western Balkan countries, depends heavily on imports of products from other countries, and in addition to declining trade developments, rising unemployment, purchasing power has fallen, and this determines the decline in consumption. . Foreign direct investment has declined globally, and this has implications for Kosovo as well. Domestic capital investments have declined, due to the reorientation of funds in the face of the Covid-19 pandemic, the impossibility of free movement of people and capital has had a negative impact on remittances of citizens from the outside world. All these are related to a negative trend in economic developments. For this work we are based on verified data of national and international institutions, combining them with scientific literature.

In this paper, several types of sources have been used with the sole purpose that the paper reflects a reality based on data from relevant international institutions based on data from the World Bank, which predict an economic downturn in Kosovo, then consulted scientific literature by experts in the field of economics and finance who specify that the economic world in general consists of two poles, one producing and the other consuming (Bundo Sh.2010), if we analyze this determinant emphasized by economic experts, this interconnection of two poles cannot be realized without a freedom of movement of manufactured products and potential consumers who are in different countries as possible, this restriction of movement of goods and products has been imposed by the CoVid pandemic 19.

Depending on the economic development of a country depends the well-being of the population of that country, the engine of economic development are different businesses, and they are the main cell of economic development of the country (Limani M.2012), in Kosovo and beyond in the Balkans, Europe and the World, businesses have been hit in some fatal or devastating cases, because many businesses due to pandemic constraints have not invested in innovation for business development, innovation in business is the basis of its development (Duro H. & Marinko H. 2018), some businesses have gone bankrupt and are in liquidation proceedings, which then in a chain reaction affect the decline in purchasing power, The available purchasing power in an economy depends on current income (Philip K. & Kevin LK 2018).

In Kosovo, according to World Bank documents, due to the pandemic, a decrease in consumption of up to 3% is forecast, this decrease will be reflected in a chain way in all types of businesses, whether manufacturing, commercial or service (hotel, gastronomy in general, by including cafes, confectionery's, small, medium-sized restaurants, hotels, motels, etc.), this means that the outlay of consumer products from gastronomy will be reduced to a maximum, because the austerity measures to stop working in gastronomy due to the crowding of people have been effective for a long period during 2020/21.

Investments are very important determinants of economic development because they as a material factor are directly expressed in the increase of production capacities (funds), and thus they provide a basis for economic development (Gender G.2005). The

pandemic has also affected capital markets, which are very important for long-term economic growth (Richard B. & Charles W.2012), which (pandemic) then with chain effects has had a negative impact on investment, preventing the expansion of production capacity, and has caused inability to increase investment and financial funds for all types of business in Kosovo and the Western Balkans, and beyond, this is reflected in the fluctuations caused in the banking system, especially in countries with economies in transition, Banks are very important for the effective functioning of the financial system and the entire economy of the country (Frederik SM & Stenly Gx.E.2009). Foreign direct investment - FDI globally has declined, and this decline has had far-reaching effects in countries with underdeveloped economies such as Kosovo and other Western Balkan countries, according to the World Investment Report, and UNCTAD, as consequence of the pandemic during 2020 Foreign direct investment globally is expected to decrease by up to 40%, due to the economic recession (UNCTAD).

The pandemic in Kosovo has closed many economic entities in the fields of production, services, trade, etc., and this has determined the increase in the number of unemployed, the biggest economic and social problem is unemployment (Horvat B.2007). The phenomenon of unemployment is pronounced around the world, but it is more prevalent in countries with economies in transition and underdeveloped economies, which unfortunately includes Kosovo, which is still suffering these consequences. Unemployment is characteristic of underdeveloped countries, because the low level of economic development does not enable employment of the active population (Limani, 2013), this then has chain effects for the entire economy, for example in Kosovo rising unemployment has affected tax collection, collection of pension contributions and other state taxes.

The Tax Administration of Kosovo, during 2020 has realized lower revenues by 7.4% less than in 2019 (<https://ask.rks-gov.net/>), also in Kosovo the pension contributions have been lower, for example Taxes and Pension Contributions, for 2020 have been lower by 30.4 million euros, which is a problem for the normal functioning of social schemes in the country, a poor functioning of these social schemes can cause social unrest with consequences unprecedented for Kosovo and other Western Balkan countries, because their economies are weaker (Sekiraga et al., 2021). Taxes are the main source of collection of public revenues with which the state meets public expenditures (Komoni S.2018), lack of state revenues determines uncertainty to the point of unrest. The state should create strategies to help companies, to cope with this pandemic crisis, The strategy should identify the goals with which the goals of the company are defined (Mustafa N, 2010), these goals should be oriented towards recovery and stability in short-term objectives and medium-term. In this regard, government institutions through relevant ministries, such as the Ministry of Economic Development, and the Ministry of Finance, should find mechanisms to help businesses to stabilize their business, and to return to customers as soon as possible, Companies need to be strongly customer focused (Philip K. & Gary A.2013).

Research and Methodology

In this paper we focus on finding the answer to the question - how much has the CoVid-19 pandemic affected the economy? - with a focus on Kosovo, comparing it with the countries of the Western Balkans. Also, another objective of the research is to identify the economic sectors that are most affected by this pandemic, where through a critical look of the authors are drawn conclusions and recommendations depending on the findings of the paper.

The design of the data processing in progress is in line with established international standards. The paper focuses on data published by international institutions, data from local institutions in Kosovo, as well as information collected in the field.

The collected data have been compared analytically and synthetically with various reports through direct access to International Reports, Documents of government organizations, Reports of law enforcement institutions, scientific literature and brochures published by international organizations.

The data from the World Bank Report, the Report of the Kosovo Agency of Statistics, UNCTAD, the Annual Reports from the Kosovo Customs, the Report from the Tax Administration of Kosovo were processed, and the scientific literature relevant to this paper was taken as a basis.

Analysis and Findings

The Covid-19 pandemic has had a negative impact on the development trends of all world economies, from the richest countries to the poorest, which have been hit hardest (Priya and Sudhakar, 2021; Faque and Hacıoglu, 2021; Bagchi and Dandapat, 2020; Ozili and Arun, 2020). The main indicators, consumption, foreign direct investment, domestic capital investment, trade, free movement of people and capital, which are related to macroeconomic indicators in Kosovo and the Western Balkans, are the subject of analysis related to the question: Which of the economic indicators, have declined during the pandemic period?

The Covid- 19 pandemic is defined as a global health crisis and the greatest challenge facing humanity since World War II, this pandemic has had a negative impact on the economies of the most developed countries in the world, this negative impact even more is great in the economies of countries in transition and those with weak economies, such is the case with the economy of Kosovo which is highly dependent on imports, investments, foreign financing, aid in the form of grants and other forms support coming from developed countries, "for 2020 the economy of Kosovo is expected to decline to -8.8% to -11.3%".

Figure 1: Economic perspective for the last two years in Kosovo; *Source:* World Bank Report(Kosovo)

The critical view of the authors is that Kosovo's economy has a very low level of development compared to other European countries, it faces several obstacles that are interrelated:

- i. with political instability,
- ii. with inefficient law enforcement,
- iii. with a low level of credibility in the country's leading institutions,
- iv. with various fiscal obstacles,
- v. with an overloaded and inefficient administration,
- vi. with corruption,
- vii. with energy barriers,
- viii. with informal economy, and many other bureaucratic obstacles in various business matters, etc.,

All these are obstacles to business developments in the country and have a negative impact on attracting potential foreign investors, "the economic world in general and countries in particular consists of two poles: the producer and the consumer",

The impact of the pandemic on the economic sphere has been observed in some of the main economic indicators in the country, such as:

- i. Consumption,
- ii. Investments,
- iii. Imports,
- iv. Exports,
- v. Employment, etc.

Figure 2: Perspective of economic indicators in Kosovo by years; *Source:* World Bank Report (Kosovo)

Consumption as one of the economic indicators - constitutes the largest weight in the development trends of the country's economies, Kosovar society is a consumer society because a large part of the products in the country are imported (the ratio of import to export is about 80% import with 20% exports representing a very large trade gap), our society is highly dependent on remittances from our compatriots in the diaspora, with the pre-pandemic time ", the factors that affect the decline in consumption are the deterioration of the financial situation of companies," the enterprise is presented as the main "cell" in the economic system of a country ", as a result of deteriorating business position we will have growth unemployment, then a chain of declining household incomes, "the strength or weakness of the production process depends on the efficiency of the company", the pandemic has a global effect in the world economy means a decrease in remittances due to the loss of jobs of compatriots in the diaspora, as a result of all this we will have a decrease in visits from compatriots, etc. Investments as one of the economic indicators - in Kosovo are some large foreign direct investment projects - railway project, projects in road infrastructure (highway), energy projects financed by international financial institutions which will be delayed in later periods and all this has a negative impact on the country's economy, "investments as a material factor are directly expressed in increasing production capacity (funds) and in this way they provide a basis for economic development." Then due to the pandemic situation, the funds provided from the country budget for some public investments will be reallocated to respond to the circumstances created by the pandemic. Remittances as a very important source for investments in the country's economy will be oriented towards consumption and will not be oriented towards other public-private sectors nor in the construction and real estate sector, as a result of this "during 2020 in Kosovo investments are predicted to decrease in the worst case up to -28.5% ",

Table 1: Consumption, Investments in Kosovo 2018 – 2020 (%)

KOSOVO	2018	2019	2020
Consumption	5.4	2.3	- 2.6
Investments	2.1	1.7	- 28.5

Source: www.worldbank.org

Import and export as an economic indicator - the import of goods in Kosovo has decreased during the pandemic and as a result the revenues generated by Customs during 2020 have decreased "Customs tax is the monetary income of the state which is paid across the border this decrease in customs tax revenues has implications for the state budget revenues and this in a chain way affects the ability of the state to support businesses attacked by the pandemic through fiscal measures.

Different states at the time of the pandemic have:

- apply traffic restrictions on people and goods,
- companies reduced production,
- some companies have not been able to withstand the restrictive measures and they have gone bankrupt,
- there are financial crises in business financing institutions,
- there have been delays in supporting businesses from the state, etc.

All these have determined the reduction of revenues for the state budget.

Figure 3: Revenues from Customs 2020 - projection, realization and difference; *Source:* www.dogana.rks-gov.net

Exports have performed better because during 2020 there has been an increase in some products that are mainly exported to countries in the region.

Table 2: Value of Imports and Exports in Kosovo (,000 euro)

KOSOVO	2018	2019	2020
Import	3,325	3,472	3,271 (- 6%)
Export	329,2	349,4	439,1 (+ 25%)

Source: *www.dogana.rks-gov.net*

Employment

Kosovo is characterized by a very young population structure, where the average age is 30.2 years, as a country in transition the economy is at a very low level of development, unemployment is characteristic of underdeveloped countries, because the low level of development economic, does not enable employment of the active population". Economic development in countries depends on imports and foreign direct investment, as a result of low economic development, the level of employment is very low, so unemployment in Kosovo even before the pandemic has been at very high levels. "The unemployment rate in Kosovo is around 25.9%", however, given that a very large number of unemployed are not registered with the employment bureau, then consequently, unemployment in Kosovo may be at the level of 30 to 35%, which is an alarming figure, and requires emergency treatment by state institutions, "the biggest economic and social problem is unemployment."

Unemployment has increased even more during the pandemic, as a result of the Covid 19 pandemic and the closure of businesses, a large part of Kosovo citizens remained unemployed, this has led to the number of citizens registered as unemployed near the employment offices to increase significantly, this is evidenced by the data in the Tax Administration of Kosovo and the Kosovo Pension Fund where in these two institutions has been identified a decrease in the payment of tax contributions and a decrease in the salary of pension contributions in Kosovo.

Tax Administration of Kosovo, during 2020 has realized lower revenues (compared to the previous year) for 37.24 million euros, or expressed as a percentage for 7.4% less than the previous year 2019.

Table 3: Revenues from the Tax Administration of Kosovo (2018/19/20)

Month	Realization by years		
	2018	2019	2020
January	51,402,067	58,887,548	67,061,652
February	27,534,521	29,536,675	30,785,532
March	28,805,608	30,772,598	20,610,646
APRIL	56,702,928	60,748,192	28,281,349
May	29,161,851	32,402,378	39,351,252
JUNE	26,327,772	26,281,527	29,880,478
July	47,891,313	58,458,632	54,305,143
August	32,766,210	38,344,982	32,030,881
September	36,135,375	36,914,062	33,857,174
October	54,944,526	60,079,481	54,274,752
November	30,235,213	33,267,597	36,250,262
December	34,891,111	38,588,195	40,350,713
In total	456,798,495	504,281,866	467,039,833

Source: *www.atk-ks.org*

Taxes and Pension Contributions for 2020 have been lower (compared to the previous year) by 30.4 million euros.

Figure 4: Taxes and pension contributions in Kosovo 2020; *Source:* www.atk-ks.org

Foreign direct investment is one of the auxiliary economic determinants, and a source of development for every economy. Investments are of "vital" importance to the economies of transition countries, which are characterized as weak economies, and are dependent on them, Kosovo is one of the countries with economies in transition, which needs a source of development, even from Foreign direct investment, this phenomenon is evident in all countries of the Western Balkans.

The COVID -19 pandemic, in addition to affecting the health sector, has also had a negative impact on the economic sector, and global investment, this impact has been observed in Kosovo and other countries in the Western Balkans region, which region is considered to be the most economically underdeveloped in Europe,

In the countries of the Western Balkans region, Gross Domestic Product (GDP) during 2020 is projected to decrease between 3.1% (according to the first scenario) to 5.6% (according to the second scenario which is worse than the first).

Figure 5: GDP forecast for 2020 for Balkan Countries; *Source:* www.worldbank.org

Covid-19 is considered by experts in the field among the three major economic shocks globally during the XXI century (terrorist acts September 2001, financial crisis 2008 and CoVid19 2019). According to the forecast of the World Investment Report, and UNCTAD, "in 2019, foreign direct investment globally was about 1.54 trillion dollars, as a result of the pandemic in 2020. Foreign direct investment globally is expected to decrease up to 40% due to the economic recession", (a figure to be treated as alarming for economies that depend on this source of development).

If the forecasts of the World Investment Report (2020), and the United Nations Conference on Trade and Development (UNCTAD), are realized, then for the first time since 2005, we will have foreign direct investment, globally, under \$ 1 trillion.

The economies of the Western Balkan countries, especially the economy of Kosovo, will be affected by these dramatic changes in Foreign Direct Investment, Kosovo during 2019 had a small increase in Investment compared to the previous year 2018, and this increase was observed in the real estate sector, mining sector, electricity and trade, while during 2019 financial services and construction sector marked a decline in these investments, while in 2020 a drastic decline in these investments is expected.

Figure 6: Investments in Kosovo and the Western Balkans; Source: International Burn Injury Database

The main investors in the economy of Kosovo come from Western countries such as: Germany, Switzerland, Great Britain, Turkey, Austria and Albania,

Kosovo has drafted the legal infrastructure - specifically Law 05 / L - 079 on Strategic Investments in the Republic of Kosovo, according to this infrastructure are defined the priority sectors for foreign investment such as: Tourism, Energy, Agriculture, Energy Efficient (EE), Renewable Resources (RES), etc., from official data during the pandemic no investor was identified who withdrew the investment, although investments have decreased, this is a good indication that the post pandemic period may good life for foreign direct investment in Kosovo.

Kosovo has realized the privatization of socially-owned and public enterprises, where foreign investors have invested a part of their private capital, as well as local companies due to financial difficulties have not had the opportunity to invest to increase and expand the activity, "*Investment is basic driving force for any business*".

Conclusions

Relating to the material elaborated in the paper, we conclude that the CoVid-19 pandemic has had a negative impact on development trends in all countries in the world which have been affected. This pandemic has had a greater impact on those countries that have underdeveloped economies and are not well off financially, such a case where the economy is in transition has Kosovo and all the countries of the Western Balkans, therefore in all these countries the covid-19 pandemic has left consequences for sustainable economic development. The data show that the economy of Kosovo has declined, the country's economic indicators such as consumption and investment have declined, unemployment has increased, imports of products have decreased in quantity and value, financial revenues from Customs and Tax Administration of Kosovo for the country's budget is smaller, many businesses are at risk of bankruptcy, in some countries political instability prevails, there is a lack of efficiency in law enforcement from the economic sphere, there is increased bureaucracy in the state administration - there is a lack of staff in work as a result of the pandemic.

Related to business activities in countries, all businesses are in financial crisis because most of them have been dependent on bank loans, tax revenues and contributions, there is a decrease, this is also observed in the pension contributions of employees. In all The countries of the Western Balkans, including Kosovo, have a decrease in Gross Domestic Product - GDP, from the processed data, foreign direct investment has also decreased globally. Due to the impact of the pandemic, the governing institutions of the country have re-oriented the funds for public capital investments to deal with the pandemic and in this way major infrastructure projects have been postponed for a future period.

All Western Balkan countries have declining foreign direct investment and this has a direct impact on the economies of these countries. These Balkan countries have common border lines and most of the export-imports are realized between these countries and as a result of the pandemic the movement of goods has decreased. The pandemic has also affected the free movement of people and goods and this has also had an impact on remittances because citizens working in the outside world have not had the opportunity to travel. The CoVid-19 pandemic has caused a de-balance in economic development trends - the true consequences

will be known in the near future after the official conclusion of this pandemic and after a professional analysis by experts in economic development trends in the world.

This paper builds some recommendations for stakeholders who can find themselves in this paper, which should be tried to implement, depending on the circumstances, the state through its state mechanisms should intervene to implement a fiscal package to help businesses that have been hit hardest by the CoVid-19 pandemic. Assistance should be implemented through fiscal packages (partly for workers' salaries, rent payments, partly for reimbursement of contributions to workers, etc.), governing institutions through legal mechanisms should enable tax and contribution reductions - while preserving the state interest - for a transitional period, then enabling the postponement of the payment of profit tax and other contributions that businesses have.

State administration, including municipalities, should be digitalized in order to eliminate bureaucracy, workers who have lost their jobs should be assisted through various grants. State institutions through the law must guarantee foreign direct investment, then the state government, as a guarantor, must issue securities which can be purchased by all interested parties, in order to increase revenues for the state. Cooperation between the countries of the Western Balkans should be increased, Kosovo should increase cooperation with EU countries and the US, and seek financial support from European and American financial institutions, presenting concrete plans that are in function of economic development, especially focus on businesses that are carriers of economic developments in countries. Businesses most affected by the pandemic should be offered favorable conditions for benefits of soft loans, grants, subsidies, etc.

The government should develop a medium and long-term strategy to support the business community in recovering from the damage caused by the Covid-19 pandemic, these strategies should have clear development objectives, and concrete steps to stimulate foreign investment. Through financial mechanisms should be realized the re-channeling of remittances of compatriots in investments, the creation of a development fund by government institutions to help the country's economy. The government should activate public investments, where possible, for major infrastructure projects in the country, all these recommendations summarized, but not only, are in function of economic recovery, and the return of the economic trend towards growth and development in Kosovo and other Western Balkan countries.

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Institutional Review Board Statement: Ethical review and approval were waived for this study, due to that the research does not deal with vulnerable groups or sensitive issues.

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