

Economic Growth Performance and Economic Activities in Kosovo During the Covid-19 Pandemic in Kosovo

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The paper addresses economic growth and developments of economic activities during the Covid-19 crisis in Kosovo. After the last war, Kosovo continues to remain among the countries with a low level of development and a high rate of unemployment. The low level of economic growth and the high rate of unemployment remain among the main economic challenges for solution. The importance of the paper consists in addressing economic issues and processes including developments in economic activities during the Covid-19 crisis in Kosovo. Kosovo was affected by Pandemia Covid-19 starting from March 2020. Undoubtedly, the Covid-19 crisis has had effects on economic processes, affecting the activity of various sectors of the economy. The main purpose of this paper is to analyze the performance of economic growth and economic activities during the Covid-19 crisis in Kosovo. In order to achieve the objectives, the analysis method is mainly used, tabular and graphic separately, comparative method, analyzing in dynamics the issue related to economic activities in the Republic of Kosovo. Through this study, the results and recommendations given are considered to be considered by policy makers in the Republic of Kosovo.

Keywords: economic growth, economic activities, economic processes, Covid-19

Introduction

Economic growth represents the increase in the real gross domestic product of a country and the change in the production capacity of the country. In this paper, the main objective consists in the analysis of the progress of economic activities in Kosovo during the Covid-19 pandemic, as well as the actions in fiscal policy and the impact on economic activities. In the framework of this study, the analysis method and the comparative method are mainly used to achieve the objectives by dynamically analyzing the issue related to the gross domestic product and other macroeconomic indicators. The research questions of this study include:

- What is the progress of economic activities in Kosovo?
- What is the action and impact of fiscal policy on economic activities in Kosovo?

Through this study, the conclusions and recommendations given can be served and taken into consideration by those interested in their field. In order to answer the questions posed by the questionnaire, it was possible to review the scientific literature, but also important governmental documents (reports, publications) of the institutions of the Republic of Kosovo.

Literature Review

According to Curtis and Irvine (2021), macroeconomic theory and models emerged from an earlier major

financial collapse and crisis followed by the depression years of the 1930s. Although today's economies are larger and more complex, they still operate on the same basic principles. An important indicator in the economy of a country is the gross domestic product (GDP). The most important economic indicator in the system of national accounts is the gross domestic product (GDP), which represents the performance of a country's economy in a certain period (Kosovo Statistics Agency, 2023). Gross domestic product (GDP) is the market value of all final goods and services produced within an economy in a given period of time (Mankiw & Taylor, 2012). This definition has four parts (Matthews, 2005):

- Market value.
- Final goods and services.
- Produced within a country.
- In a given time period.

This global macroeconomic indicator, in a more real and objective way, expresses the level of economic development or non-development of each country. In economic theory, we still do not have a clear definition of what we should understand by economic development. In other words, economic development expresses the achieved level of productive forces of the national economy for a certain period of time (Limani, 2013). Economic development has a dynamic, not static character, it always affects the quantitative and value changes of material goods, services, i.e. the permanent increase of the gross domestic product (GDP) and the living standard of the population and the general standard of the country. Economic growth is considered one of the central macroeconomic stabilizing objectives (Ahmet, Sulo, Dhori, Stefan, 2002). Economic growth represents the overall increase in the production of an economy (Case, Fair, & Oster, 2021). Economic growth is the increase in production, production capacities, and all other components of an economy. Therefore, economic growth is considered as the ability of a country's economy to produce more goods and services for consumers (Ahmet, Sulo, Dhori, Stefan, 2007). Economic growth represents the growth of the real gross domestic product of a country and the change in the production capacities of the country (Riinvest, 2005). This is due to the fact that economic growth is closely related to the standard of living of the population of a country. An important indicator of the standard of living would be the output per capita of the population. It is considered an improvement in the standard of living of the population of a country when each individual, over time, has at his disposal more goods and services to consume than before.

The Methodology Used

For the finalization of this paper, the submitted material has support including local and foreign literature, as well as reports and publications from the Kosovo Agency of Statistics, which address issues related to activities in the tourism sector and the effects on the economic processes of the Pandemic Covid-19. Also, in this paper the local statistical source, method of analysis and synthesis, tabular and graphic separately, comparative method, etc. are used.

Results

The gross domestic product is taken as the most general macroeconomic indicator through which the dynamics of economic development is expressed. The most important economic indicator in the system of national accounts is the gross domestic product (GDP), which represents the performance of a country's economy in a given period (Kosovo Statistics Agency, 2020). According to Curtis and Irvine (2021), in an economy with

a growing population and labour force, growth in real GDP is necessary to maintain standards of living. The following table reflects the gross domestic product (GDP) in Kosovo including the period 2019-2021.

Table 1

Gross Domestic Product in Kosovo

Years	Gross domestic product (billion euros)
2020	6.772
2021	7.958
2022	8.594

Source: Kosovo Statistics Agency (2021a, p. 7; 2022a, p. 7). Law No. 08/L-193, On Budget Allocations for the Budget of the Republic of Kosovo for 2023.

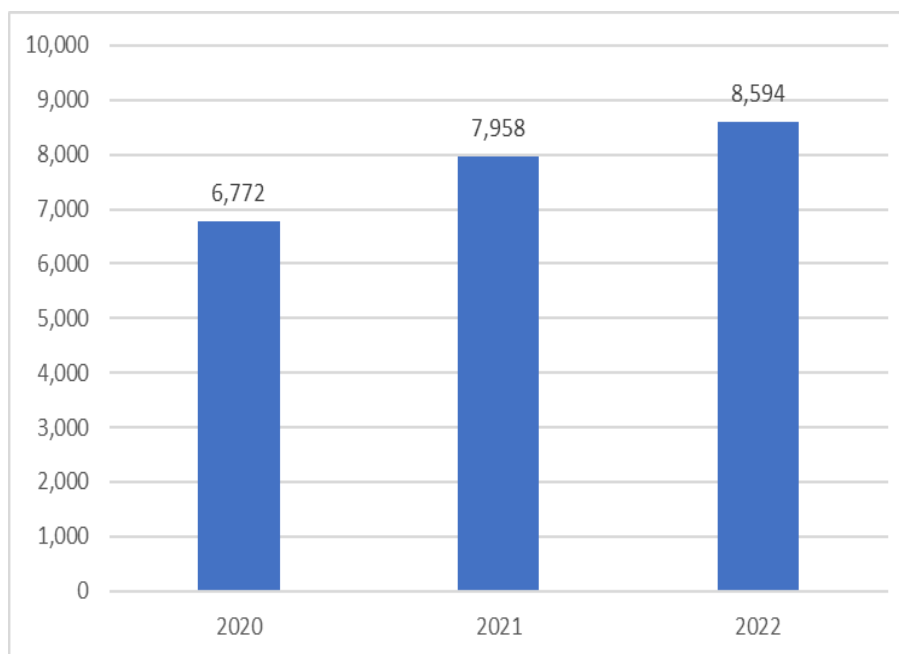


Figure 1. Gross domestic product in the period 2020-2022.

From the table, on the progress of the GDP, in the period 2020-2022, it can be seen that the value of the GDP had a growth trend in 2021 compared to the previous year 2020. During the period 2020-2022, the gross domestic product had an upward trend from 6.7 billion euros in 2020 to 8.5 billion euros in 2022.

Economists and policymakers care not only about the economy's total output of goods and services but also about the allocation of this output among alternative uses. The national income accounts divide GDP into four broad categories of spending (Mankiw & Taylor, 2012):

- Consumption (C)
- Investment (I)
- Government purchases (G)
- Net exports (NX).

Thus, letting Y stand for GDP, $Y = C + I + G + NX$. GDP is the sum of consumption, investment, government purchases, and net exports. This equation is an identity—an equation that must hold because of the way the variables are defined.

The existence of periods of economic decline and growth is present in economic flows. Based on this, the key moment to identify an economic cycle is the determination of the recession phase, i.e. the determination of the period when economic activity is declining. It should be noted that not every economic downturn can be characterized as a recession. In this context, momentary declines such as economic declines for short-term periods are not considered economic recession. So, we are dealing with the stage of economic recession only when the real GDP falls during two consecutive calendar quarters. What causes economic recession? The period of economic recession affects firms and consumers to reduce the level of their expenses. As a consequence of this, the level of production, profits of companies decrease, the level of unemployment increases, etc. When did the economy enter the phase of economic recession? Is the economy in the phase of recession? Questions that can be encountered and asked by anyone are considered. As for the economic effects affected by the Covid-19 Pandemic, this issue requires looking at and analyzing the main macroeconomic indicators, such as gross domestic product (GDP).

Table 2

Real GDP Growth Before and During the Covid-19 Pandemic (in Percentage)

Nr.	Economic activities	The quarters 2019				The quarters 2020			
		I	II	III	IV	I	II	III	IV
A	Agriculture, forestry, and fishing	(0.23)	(0.31)	(2.87)	0.14	(0.15)	(1.74)	0.58	0.31
B, C, D, and E	Extractive industry, processing, electricity, gas, steam, and air conditioning supply, water supply, training and waste management activities, rehabilitation	(2.10)	6.67	7.90	4.68	4.12	19.80	6.70	8.37
C	Manufacturing industry	2.01	10.60	6.86	2.73	6.39	20.95	6.66	10.87
F	Construction	12.86	6.85	3.46	1.87	(12.40)	(47.08)	(16.77)	(16.05)
G, H, and I	Wholesale and retail trade, repair of vehicles and motorcycles transport and storage, accommodation and food service activities	2.45	6.53	5.13	4.19	0.39	(24.40)	(16.89)	1.92
J	Information and communication	2.99	2.18	(0.95)	1.95	1.47	29.60	3.65	9.01
K	Financial and insurance activities	10.14	22.39	11.78	4.85	5.72	(6.71)	(3.67)	25.26
L	Real estate activities	0.22	3.62	0.98	0.99	1.17	4.29	2.81	1.60
M and N	Scientific, professional, and technical activities; administrative and support services activities	1.39	8.95	7.03	3.94	4.20	(16.39)	3.30	6.17
O, P, and Q	Public administration and defense; compulsory social insurance; education; health and social work activities	0.47	(1.12)	1.02	4.50	(0.10)	4.73	3.59	7.75
R, S, T, and U	Arts, entertainment, and recreation; activities of production of household goods for own use and other services	1.68	8.76	(18.72)	(35.76)	(26.84)	4.64	3.67	4.89
	Gross value added	1.78	5.05	4.00	3.11	0.20	(6.35)	(4.21)	3.43
	Net taxes on products	15.28	0.18	5.87	7.49	5.94	(22.35)	(19.44)	(10.88)
	Gross domestic product	4.24	4.13	4.38	3.94	1.31	(9.28)	(7.25)	0.72

Source: Kosovo Statistics Agency (2021b, p. 6); author calculation.

The table reflects the real GDP growth according to economic activities, where it can be seen that the economic activity up to the third quarter of 2019 had a trend of growth, with a trend of slight decline in the fourth quarter of 2019 and the first quarter of year 2020, especially with the beginning of the Covid-19 pandemic, the trend of GDP decline is observed, where in the second quarter of 2020 it was -9.28 percentage points, while in the third quarter it was -7.25 percentage points. The Covid-19 pandemic has also affected economic processes

and activities in Kosovo. Since the real GDP growth in 2019 was a figure of 4%, the beginning of the Covid-19 pandemic in Kosovo had its effects on the economy, affecting the economic decline, separately in the second quarter of 2020 and the third quarter of 2020, where the decline in economic activities was in different sectors of the economy, the biggest decline in economic activities was in construction, trade, scientific, professional and technical activities, including the tourism sector (gastronomy) as a result of restrictive measures to protect against the Covid-19 pandemic, in the period of Q1 and Q3 2020, etc.

The following table reflects the real GDP rate in Kosovo in the period 2020-2022.

Table 3

GDP Real Growth Rate in Kosovo in the Period 2020-2022

Years	2020				2021				2022			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
GDP real growth rate in %	0.26	-12.73	-7.73	0.10	4.12	16.77	14.53	6.36	4.54	2.89	3.26	3.55

Source: Kosovo Statistics Agency (2022b, p. 3; 2023, p. 5); author calculation.

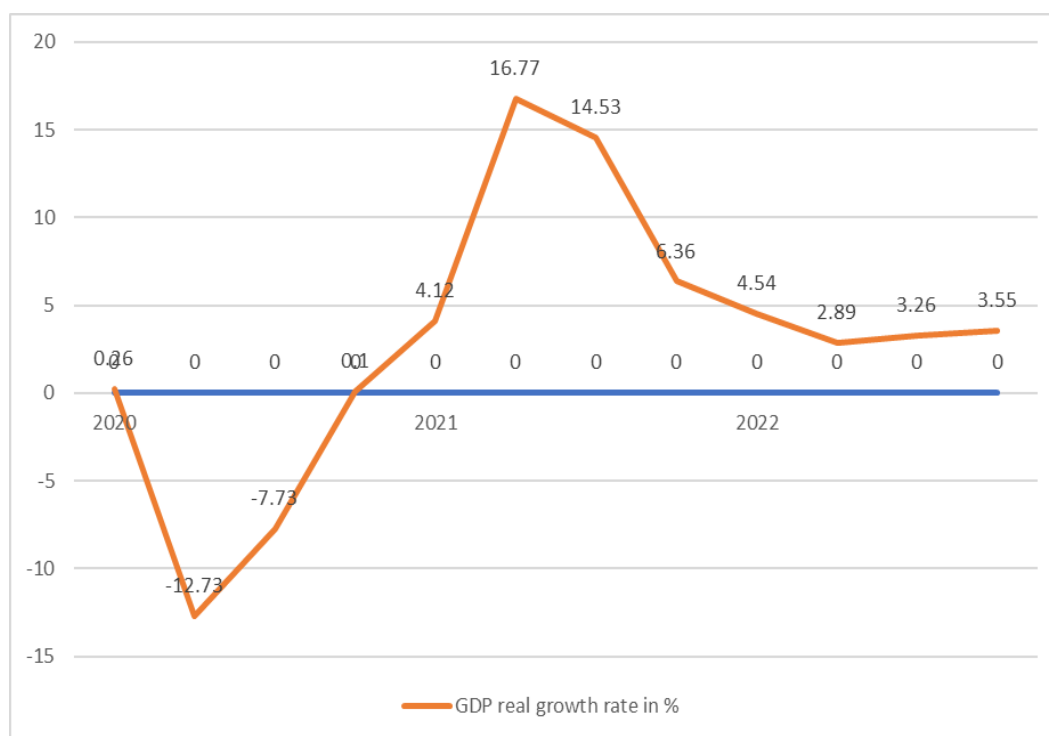


Figure 2. GDP real growth rate in Kosovo in the period 2020-2022.

The growth rate of the economy represents the rate at which the real GDP grows (Dornbusch & Fischer, 2000). Economic growth is never achieved at a constant growth rate. The table and graph reflect the trend of the real GDP growth rate in Kosovo during the period 2020-2021 and 2022. The real GDP growth in 2020 in Q4 was 0.10%, this is as a result of measures and restrictions in the economy with the beginning of the Covid-19 pandemic, while at the end of 2020 and in 2021 with the removal of measures and restrictions in the economy (opening of the economy) it is also reflected in economic growth trends with an increase in 2021 in Q4 to 6.36%. In 2022, the GDP growth rate in the fourth quarter was 3.55%.

The following table shows real GDP growth (percent) in the countries of the Western Balkans.

Table 4

Real GDP Growth (Percent) in the Countries of the Western Balkans in the Period 2020-2022

	2020	2021	2022
Albania	-3.3	8.9	4.8
Bosnia and Herzegovina	-3.0	7.4	4.0
Kosovo	-5.3	10.7	3.5
North Macedonia	-4.7	3.9	2.1
Montenegro	-15.3	13.0	6.1
Serbia	-0.9	7.5	2.3

Source: World Bank Group (2023, p. 6).

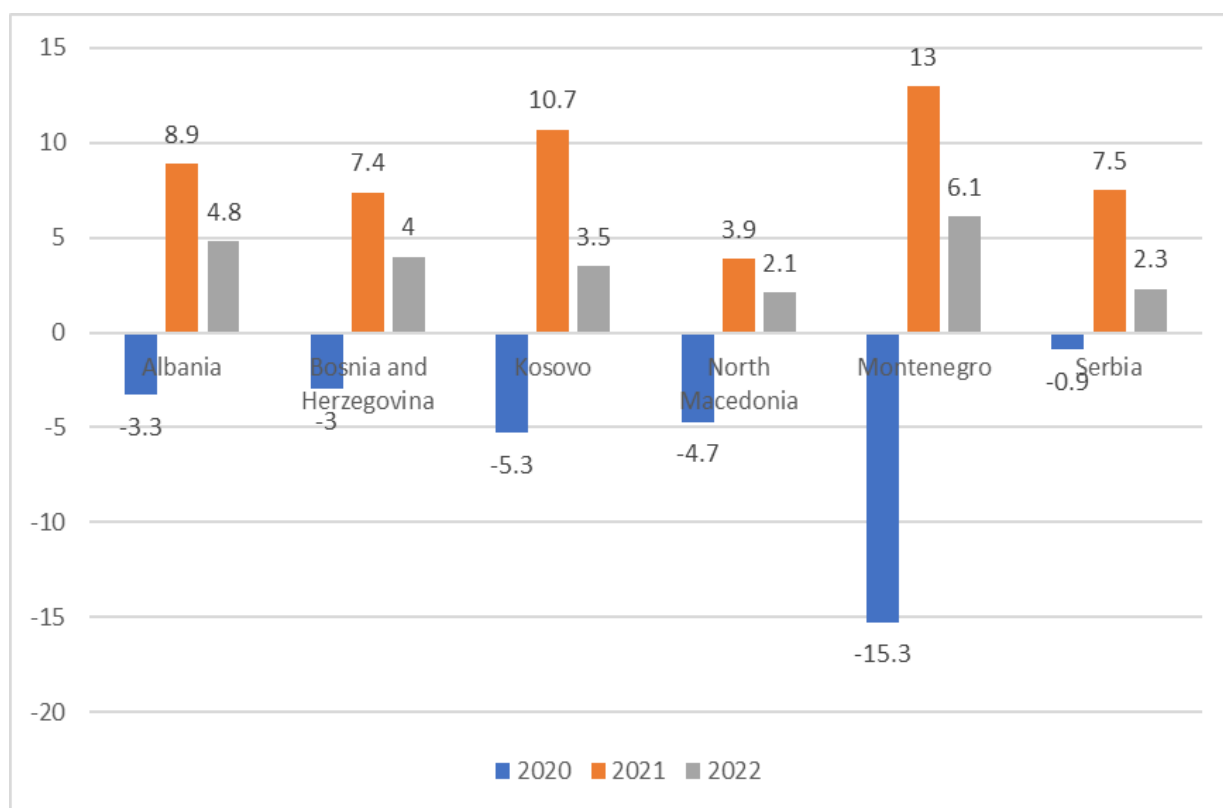


Figure 3. Real GDP growth (percent) in the countries of the Western Balkans.

Based on the data in Table 3 and Figure 3, in 2021 compared to the previous period, a higher trend of GDP growth is observed in all the countries of the region. The countries of the Western Balkans and Kosovo during 2020 as a result of the Covid-19 Pandemic had an economic growth trend, while during 2021 after the removal of restrictive measures and the opening of the economy, they had an economic growth trend, having a slower growth trend during the year 2022.

The low trend of economic growth in Kosovo, taking into account the unemployment rate and the high trade deficit, in such an economic situation in the country, the decision-makers should orient the fiscal policy as an instrument of the implemented economic policy for the economic development of the country.

Gross domestic product (GDP) is considered the best measure of a country's economic activity. Gross domestic product is the totality of final products and services realized in a country for a certain period of time

(Koka, 2014). GDP is the basic measure of economic activity. The private sector and economic activity remain the generator and carrier of economic development. The following table shows the number of registered enterprises according to economic activities.

Table 5

The Number of Enterprises Registered According to Sections of Economic Activities Before and During the Covid-19 Pandemic

Nr.	Sector of economic activity	2019				Total 2019	2020				Total 2020
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	
A	Agriculture, forestry and fishing	121	0	0	0	121	0	0	257	140	397
B	Mining and quarrying	15	2	0	0	17	0	1	9	7	17
C	Manufacturing	277	479	294	497	1,547	363	309	302	354	1,328
D	Electricity, gas, steam and air conditioning supply	7	5	9	5	26	6	2	3	14	25
E	Water supply, sewage, waste management and remediation	9	9	10	6	34	5	5	5	4	19
E	Construction	232	247	245	221	945	213	328	231	268	1,040
G	Wholesale and retail trade, repair of motor vehicles and motorcycles	596	590	572	602	2,360	590	488	597	728	2,403
H	Transportation and storage	80	76	77	77	310	85	74	73	72	304
I	Accommodation and food service activities	240	359	275	265	1,139	270	191	282	275	1,018
J	Information and communication	152	149	155	165	621	137	107	174	180	598
K	Financial and insurance activities	19	17	16	21	73	15	8	13	27	63
L	Real estate activities	22	18	25	15	80	22	18	23	34	97
M	Professional, scientific and technical activities	253	236	197	232	918	225	189	235	286	935
N	Administrative and support service activities	130	151	135	145	561	133	104	103	142	482
O	Public administration and protection: compulsory social protection	5	5	3	4	17	5	3	5	8	21
P	Education	38	36	44	28	146	34	20	30	39	123
Q	Human health and social work activities	52	59	67	49	227	58	38	65	66	227
R	Arts, entertainment and recreation	55	50	77	61	243	41	27	56	46	170
S	Other service activities	101	167	178	173	619	109	121	130	178	538
	Total	2,404	2,655	2,379	2,566	10,004	2,311	2,033	2,593	2,868	9,805

Source: Kosovo Statistics Agency (2021c, p. 8); author calculation.

In 2019, the number of enterprises registered according to sections of economic activities was 10,004 enterprises, while in 2020, the number of enterprises registered according to sections of economic activities was registered in total 9,805 enterprises, having a slight decrease in terms of the number of registered enterprises compared to 2019.

Table 6

The Number of Enterprises Extinguished According to Sections of Economic Activities Before and During the Covid-19 Pandemic

Nr.	Sector of economic activity	2019				2020			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A	Agriculture, forestry and fishing	25	28	-	38	29	9	5	3
B	Mining and quarrying	1	2	-	-	-	-	1	78
C	Manufacturing	30	46	58	48	43	9	33	40
D	Electricity, gas, steam and air conditioning supply	-	-	2	1	-	-	-	-
E	Water supply, sewage, waste management and remediation	4	2	1	2	-	-	-	-
E	Construction	39	39	32	29	42	14	18	6
G	Wholesale and retail trade, repair of motor vehicles and motorcycles	164	150	137	159	146	46	93	307
H	Transportation and storage	26	32	26	28	32	15	24	-
I	Accommodation and food service activities	51	20	31	26	20	10	16	2
J	Information and communication	17	27	12	37	34	7	24	2
K	Financial and insurance activities	3	2	1	6	-	4	6	-
L	Real estate activities	1	1	17	2	1	1	1	-
M	Professional, scientific and technical activities	22	22	16	25	22	8	27	-
N	Administrative and support service activities	8	18	5	12	14	5	16	-
O	Public administration and protection: compulsory social protection	1	2	17	2	-	3	3	-
P	Education	3	8	13	9	4	3	6	-
Q	Human health and social work activities	8	9	22	11	11	3	10	1
R	Arts, entertainment and recreation	12	2	-	7	4	-	2	-
S	Other service activities	26	37	-	49	28	9	25	1
	Total	441	447	390	491	430	146	310	440

Source: Kosovo Statistics Agency (2019, p. 9; 2021d, p. 19).

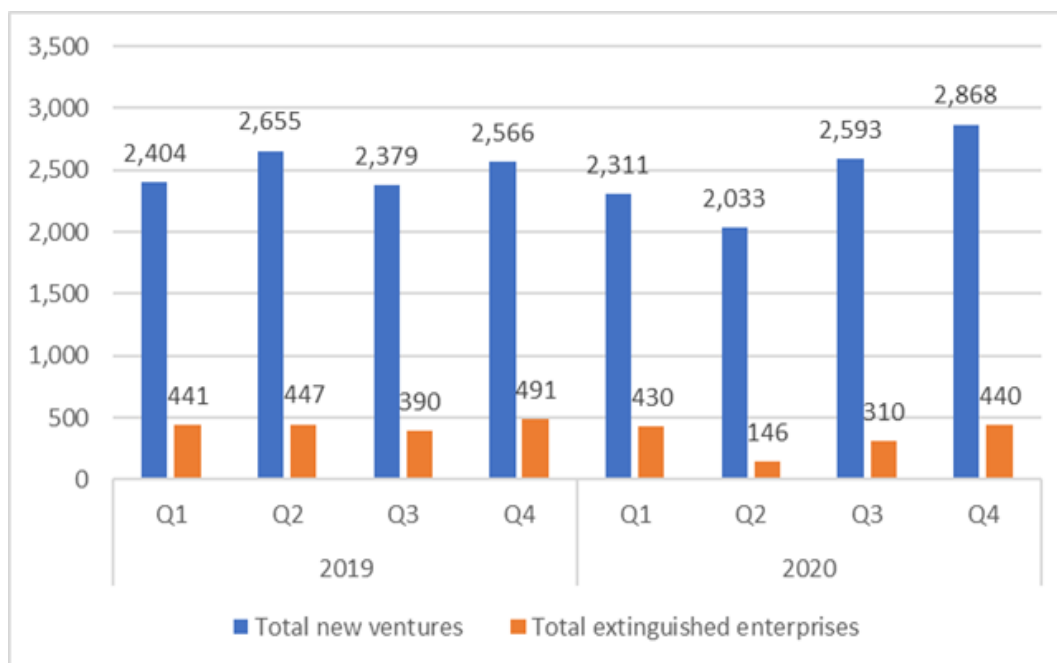


Figure 4. The number of registered and defunct enterprises by quarter.

As for the number of enterprises extinguished according to the sections of economic activities, even during the year 2020 there were enterprises that had stopped economic activity.

Conclusion

Economic growth is considered among the main macroeconomic objectives of the country's government. In post-war Kosovo, private capital was mainly focused on service activities, and very little on productive ones.

The progress of the real growth of the gross domestic product with a single-digit rate is considered insufficient in reducing the high rate of unemployment and the high trade deficit. The fiscal reforms applied so far have proven to be relatively efficient. In this regard, given the dynamics of economic flows in the country, there has undoubtedly been a lack of stimulation with measures and instruments of the economic policy implemented in the orientation of private capital in the productive sector.

Participation of activities in GDP, in this context remains low participation of hotels and restaurants in GDP where in Q4 of 2020 was 4.89%.

Decision makers through relevant measures within economic policies should pay more attention to promoting activities in the tourism sector and generating new jobs from this important economic sector.

In the framework of the work and analysis we have done regarding the impact and effect on the economy of the Covid-19 Pandemic in Kosovo, we present some of the conclusions and recommendations:

- Until the beginning of the Covid-19 pandemic, throughout the years, Kosovo had a single-digit GDP growth rate, which remains insufficient to alleviate economic and social problems, such as the high unemployment rate.
- The Covid-19 pandemic also in Kosovo has affected economic processes and activities. The beginning of the Covid-19 pandemic in Kosovo had its effects on the economy, affecting the performance of GDP, separately in the second quarter of 2020 and the third quarter of 2020, the decline of GDP was -9.28 percentage points and -7.25 percentage points.
- Through the measures and facilities within the framework of economic policies-fiscal policy, act in the creation of conditions and promotion of economic activities.

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