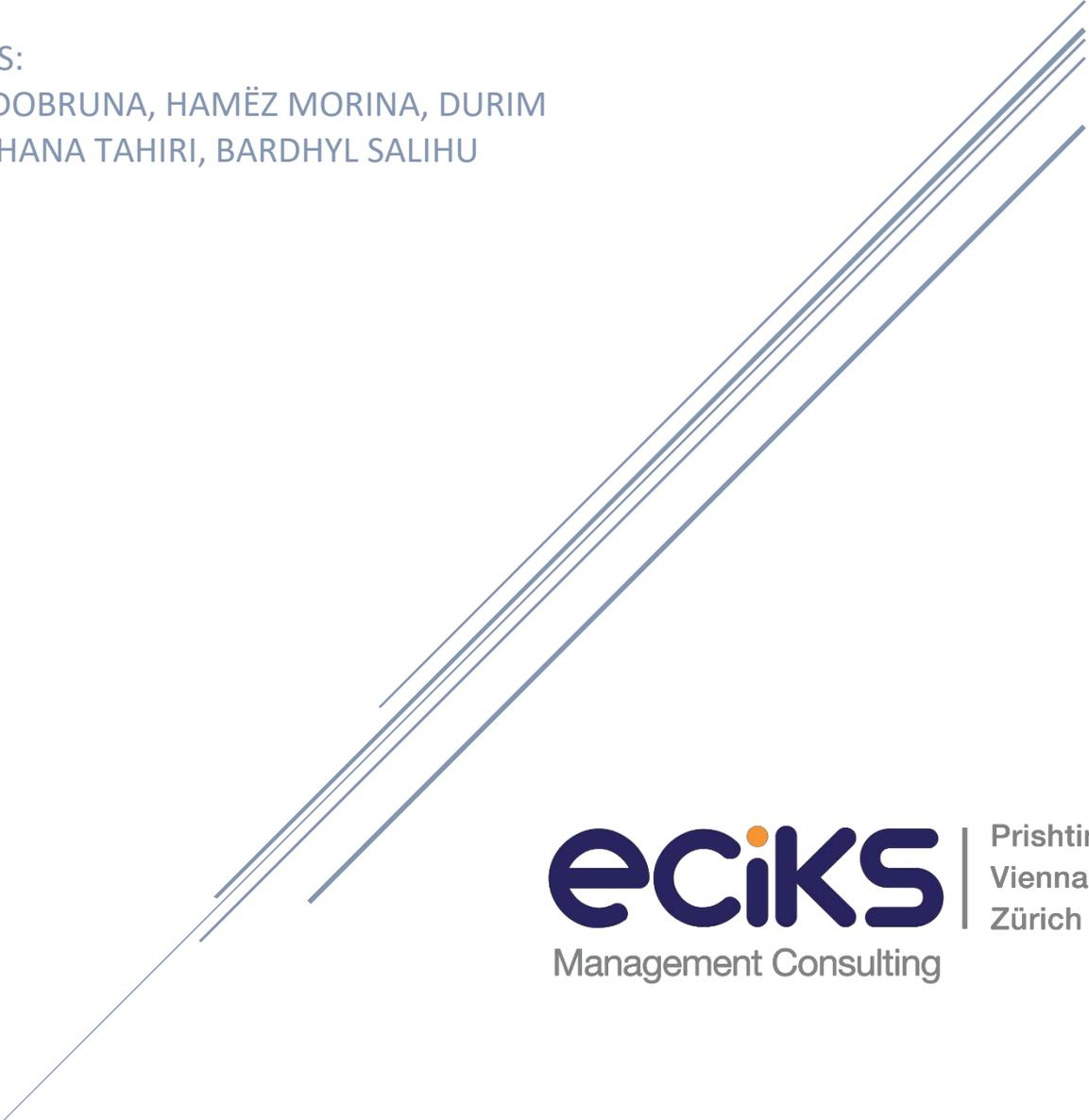


# WHITE PAPER ON ECONOMIC MEASURES IN KOSOVO AGAINST COVID-19

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## **1. Global dimension of the crisis**

The spread of Corona virus (COVID-19), combined with the drastic fall in the price of oil and the downturn in stock markets, can bring the world economy to a new recession. After it began in China and spread in other powerful world economies such as USA, EU, Japan and South Korea, this crisis is causing serious economic damage. OECD experts estimate a potential global economic downturn of 0.5% to 1.5%.

Preventing the fast contagion of the virus to avert a collapse of health institutions due to the overwhelming number of patients remains the main challenge.

The crisis is injuring both supply and demand, thus causing a decrease in economic activity and investments. In times of crises, investments make way for savings. Without investments and a sufficient movement of capital, economic activity falls. The fall in economic activity leads to greater unemployment, lower tax revenues and smaller budgets.

These developments are directly linked to expectations and psychological factors. Every intervention on the part of state stakeholders must, therefore, take into account these specifics and aim at increasing trust in the economic system and the legitimacy of state institutions.

## **2. Developments in Kosovo**

Kosovo is one of the last countries in Europe to be affected by this virus. This is a result of, among other things, Kosovo citizens' inability to travel abroad freely. Kosovo's economy is not very intertwined with international value chains, therefore a global recession, as in the past, is likely to spare the country. However, this is not cause for being unvigilant because a recession can occur due to internal developments. The measures undertaken by the government for the limitation of public activities with the aim of containing Coronavirus are welcome. On the other hand, limiting internal economic activity, though indispensable, may have serious consequences for the economy and in particular for the private sector, which is already subject to many challenges.

The sectors which are directly affected are transportation, hospitality, tourism, services and production to a certain extent. The closing of borders and the inability of diaspora to visit the country for spring and summer holidays will adversely affect local consumption. Bearing in mind that local consumption is one of the pillars of economic growth in Kosovo, any fall will impact economic growth and push the country towards a recession.

As was pointed out above, the state of the private sector, even without the consequences of this crisis, is already dire. According to various ECIKS studies, more than half of private

enterprises are in a permanent risk of insolvency due to limits to market access and financing. Furthermore, about 50% of them see no opportunities for growth as a result of market circumstances, whereas 70% have seen no revenue growth in the past three years.

The temporary closure of many activities will further increase the financial burden for these enterprises and worsen their situation because they will be unable to generate revenues during this period, whereas they will continue to incur costs. As a result, enterprises will be forced to let workers go, which can cause further social problems. In addition to this, enterprises face other ongoing expenditures, including those related to public services, loans, rents and tax obligations. This situation can lead many enterprises to bankruptcy, which can then in turn increase unemployment and poverty.

### **3. Necessary measures**

To counteract these scenarios, the government of Kosovo and all economic and political institutions in the country must, in addition to health and other already-known measures, undertake the following measures, aligned with the concept of timely, targeted and temporary:

1. Forge government-opposition political unity to increase the legitimacy of state institutions and enable the easy enforcement of all measures.
2. Prevent the transformation of this crisis into an economic one, which may have long-term consequences for the economy in general, entrepreneurship and unemployment in particular.
3. Provide an emergency fund with a considerable amount of 50 million euros at the very least, to ensure private sector liquidity and facilitate access to finance through the expansion of scope and responsibilities of the Kosovo Credit Guarantee Fund.
4. Postpone the payment of taxes (VAT, taxes on profit, etc.) for all private enterprises in the affected sectors while these measures are in effect, without applying penalties.
5. Waive the obligation for the said enterprises to pay taxes on employee incomes while these measures are in effect.
6. Restructure debts and loans for all private enterprises in the affected sectors, in cooperation with the banking sector and the Kosovo Credit Guarantee Fund, while these measures are in effect.
7. Ensure a sustainable supply of food, medication and raw inputs in cooperation with production and trade enterprises.
8. Increase state reserves, basic consumption products, hygiene, medications, gas, oil and its derivatives.
9. Maintain price stability by tackling artificial and illegal price increases. However, to the extent that price increases are inevitable and due to sharp changes in supply and demand in local or international markets, such inevitable increases should be permitted to avoid product shortages.

10. Kosovo's financial sector is deemed sufficiently stable. However, should a crisis of trust in financial institutions present itself, then the government of Kosovo and the Central Bank of Kosovo, in cooperation with the European Central Bank, must ensure the full liquidity of the country's economy.

ECIKS will continue to monitor the situation and consider and propose further measures in accordance with new developments. In conclusion, it's valuable to note that the people of Kosovo have been tested with crises and know how to maintain tranquility and dignity in difficult moments. Our private enterprises have exceptional capacities to absorb crises because they are able to adapt and optimize, reduce and temporarily suspend their cost-incurring activities. Therefore, any support that is provided to them will be given back manifold in the future.