



**FRIEDRICH NAUMANN  
FOUNDATION** *For Freedom.*

Western Balkans



**Valdrin Lluka**

# **THE IMPACT OF COVID-19 ON THE ECONOMY OF KOSOVO**

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# Contents

Foreword	2
The impact of covid-19 on the Economy of Kosovo	4
Measures taken by the government	8
Sensible measures to overcome the crisis	11
Tax policy	14
Investment	14
Summary	18

# Foreword

The Corona crisis has kept the world on tenterhooks for a good year now.

A highly contagious virus – initially downplayed in many places – developed rapidly into a global pandemic, plunging societies and their economies into deep crises and forcing them to make far-ranging restrictions and cuts.

The unexpectedly rapid production of effective vaccines has brought the containment and – hopefully – management of this pandemic within reach. However, the challenges for the state, the economy and society are and will remain enormous. It is already clear that the impact of this crisis goes deeper than the financial crisis of 2008/09.

Governments have had to take on substantial additional debt to maintain structures – especially in the health-care system – to provide bridging aid and to support companies financially.

This paper, "The Impact of COVID-19 on the Economy of Kosovo", provides a detailed overview of the development of the Kosovar economy during the pandemic, the measures taken by the government to contain or manage the crisis, and an assessment from a liberal perspective that is as clear as it is well-founded, and characterised by special expertise.

The author himself was his country's Minister for Economic Development until the beginning of 2020.

He notes: "The key to stability in times of pandemic is acting fast."

And that is exactly what was lacking: measures were initiated too late, laws and emergency packages were passed too late.

In addition, the political framework conditions were anything but optimal. Kosovo had a succession of three governments last year and consequently government policies tended more towards populist than sustainable measures.

However, the author always remains fair in his assessments and proposals, and thus the entire text becomes a prime example of serious analysis that deserves to be widely read.

## **Michael Roick**

Head of Western Balkans Office  
Friedrich-Naumann-Foundation for Freedom



# The impact of Covid-19 on the Economy of Kosovo

The economic implications of COVID-19 in Kosovo have caused problems across many business sectors as they have in many parts of life. At the start of the pandemic in March Kosovo, like other countries in the region, adopted very severe measures by completely shutting down the private sector for almost two months. These measures were reasonable for the time, considering that the alternative might have found the health system unprepared for overload by COVID-19 patients, which would have been very costly in human lives.

According to the World Bank, Kosovo is expected to have negative growth of 8.8% in 2020, with the most significant impact on diaspora-driven service exports, investment, and private consumption. A deeper economic decline will be prevented by the increase of remittances from the diaspora and base metal exports, which are continuing to grow.<sup>1</sup>

Kosovo's economic growth of around 4.4% in 2019, and similar growth in previous years, was based mainly on consumption and public spending. While public spending has been hit by reduced collection of taxes due to business inactivity, consumption has suffered a smaller impact for several reasons. First and foremost, public sector wages are a large contributor to consumption, with almost 30% of the total jobs in Kosovo being in the public sector, where average wages are considerably higher than in the private sector.

In 2017, the average wage in the private sector was €348 per month, while in the public sector it was €493.<sup>2</sup> There has been no interruption of salary payments to public servants.

In addition, the diaspora is another large contributor to consumption, through ever-increasing remittances that enter the economy annually. Thanks to the strong economies in countries such as Germany and Switzerland, where the majority of the Kosovar diaspora resides, Kosovo saw a 13% increase in remittances in 2020 compared to 2019, in response to the increase in unemployment caused by the pandemic, bringing the total amount to around €900 million, or about 13% of GDP, and keeping the aggregate demand stable.

While consumption and public spending have been kept at a similar level to that of 2019, Kosovo has seen a huge drop in investment and exports. With a large trade deficit, limited exports, and increasing imports, the negative effect on the economy is limited. Current exports of products are at around 340 million euros while imports are at 4 billion euros. However, the picture changes with the export of services, which have been hit the hardest and where the value increases to 1.7 billion euros. This includes domestic tourism, hotels, and many call centres that serve foreign companies, where employment has flourished for the past five years.

<sup>1</sup> [The World Bank Kosovo press release - October 22, 2020](#)

<sup>2</sup> [Radio Evropa e Lirë](#)

2019

## **EXPORTS 340 million IMPORTS 4 miliard**

The economic decline of Kosovo has put stress on tax collection as well. To keep up with government spending and keep the economy going, the decrease in the budget will be matched by an increase in public debt. Fortunately, Kosovo has one of the lowest public debts in Europe at 18.17% of GDP, although unfortunately even a small debt will increase public debt as a percentage of GDP due to the small size of the economy.

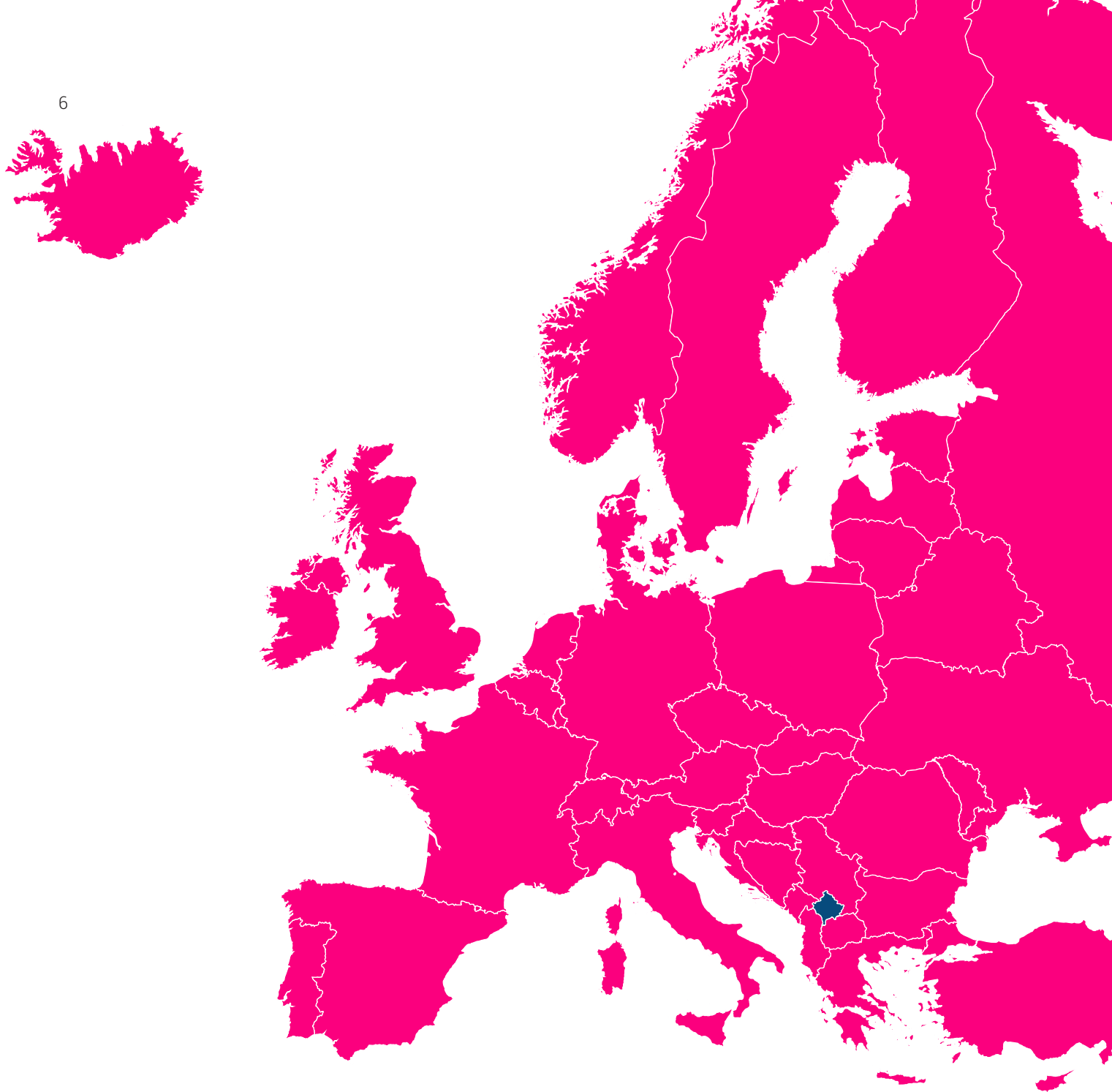
The increase in public spending, the decline of tax collection, and the decline of foreign direct investments will oblige the Government to increase the public debt. Eventually, this may lead to an increase in taxes, which would further hurt the consumer, private sector, competitiveness, and attractiveness to FDI.

The shortfall in budget will also further slow down regional integration due to the slowdown in capital investment in roads, railway, digital highways, and all related areas, putting further regional cooperation and development at risk. In a pessimistic view, the lack of regional development could create more problems with youth emigration toward European Union countries which are opening doors for different skills, leaving the region with an unskilled workforce.

On the positive side, after the pandemic, many European companies will take the opportunity and use the momentum to increase investments and outsource business processes toward this region to take advantage of the low-cost labour force. This will have a direct impact on GDP, not just as an investment itself but also because such investments are export-oriented, therefore increasing exports, increasing employment, and expanding the budget with more taxes.

# **18.17%**

**one of the lowest public  
debts in Europe**







## Measures taken by the government



**50%** of the rent cost for businesses

Realistically speaking, policy and fiscal measures undertaken until now, unfortunately, have been more populist decisions than effective measures for the Kosovo economy. Kosovo has had three different Governments since February 2020, creating lots of obstacles to proper assistance for citizens and businesses during the pandemic. None of the Governments in power has had a sufficient majority in parliament to push forward meaningful policies, which would have required a substantial amount of money, to keep the economy going.

The proposal of the previous Government through an emergency fiscal package in March 2020 included many mechanisms to assist the economy and citizens, such as direct wage subsidies, guaranteed loans, rent subsidies, access to finance for SMEs, tax delays, and restructuring loan repayments.<sup>3</sup> However, the measures undertaken through the fiscal emergency package were limited to direct wage subsidies of €170 per month for two months for those in employment, and 50% of rent costs for businesses. The government also tried to incentivise businesses to get out of the grey economy. To all those employers who provide a new one-year contract to an unregistered employee, the government offered a two-month wage subsidy of €204 per employee per month.

The Central Bank of Kosovo has contributed by delaying the payment of loans for all clients for up to 3 months without penalties, while tax payments have been deferred with the same practice.

These measures had a very limited impact on economic recovery due to the small size of the subsidies, causing many businesses to suffer and many people to register for social assistance. The sectors that were hit the hardest were gastronomy, tourism, export-oriented manufacturers, and retail: the sectors that generate the greatest number of jobs on an annual basis.

## Gastronomia, turizmi produktet e eksportit dhe shitja me pakicë.

However, the current Government has proposed a new Law on Economic Recovery which consists of a larger assistance package to citizens and businesses.

The main components of this Law will:

<sup>3</sup> 19th government meeting - Approval of Emergency Fiscal Package

**1.**

Enable citizens to withdraw up to 10% of their pension fund;

**2.**

Set up a fund that will pay up to 4 months with €300/month for those that lost their jobs due to the pandemic;

**3.**

Set up a 200 million euro fund to help businesses with grants;

**4.**

Remove VAT for raw material even when production is for the local market;

**5.**

Cover 50% - 80% of collateral via the credit guarantee fund to ease access to loans for businesses;

**6.**

Postpone tax payments for up to 2 years; and

**7.**

Allow the government to tap into the deposits generated by the Kosovo Privatisation Agency.<sup>4</sup>

This legislation has only recently been approved, following ten failed attempts since July 2020, and the effects are yet to be seen; however, while the legislation itself is promising, the time to execute all these payments is very limited, which will limit the success of the policy as well.

<sup>4</sup> Draft Law on Economic Recovery - Government of Kosovo



# Sensible measures to overcome the crisis

## BUSINESS OPERATIONS LIQUIDITY

Kosovo's economy cannot regain its 2019 position while focusing on subsidising only minimum salaries. While direct payments to citizens are good and relatively easy to implement, their effects are limited. In times of crisis like this current one, businesses experience stress on the demand side due to a lack of clients. This pushes businesses into production and supply stress as well, initiating a vicious cycle of demand - production - supply stress. While many people have been obliged to stay in isolation, many companies have stopped paying salaries, leaving most citizens to live on a monthly budget of €170. This is very easily spent just on food and, potentially, medication, while not fulfilling citizens' basic needs. On the other hand, businesses suffer long term damage.

*So far the policy measures taken by the Government of Kosovo have not been appropriate and have not been implemented to the best interest of the economic engine - the private sector.*

leaving most  
citizens to live  
on monthly  
budget of

# 170€

A more favourable policy would see the Government guaranteeing loans for all businesses that demonstrate stress in the cash flow for operational expenses caused by the pandemic, such as payroll, energy, or other similar costs. This loan would be distributed through commercial banks and would be guaranteed through the Kosovo Credit Guarantee Fund which is already functional.

**THIS WOULD BRING MULTIPLE  
BENEFITS, SUCH AS:**

# 1.

The banking system would continue to be stable, strong, and to expand, contributing to the budget of Kosovo through increased tax collection.

# 2.

Workers would get their salaries in full and as consequence, demand would remain stronger in many key sectors (except consumer goods in luxury and similar items) and savings would increase due to isolation and safety. Savings would help to speed up the post-pandemic recovery of the economy.

# 3.

Income tax would be collected, so there would be a minimal negative impact on the budget.

# 4.

Online retail business would be strengthened due to the cash on hand

# 5.

Because the loans are returnable, few capital investments would have to be sacrificed, as investment could be returned to them at a later stage.

# 6.

Unemployment would not be as high as it is with the actual policies.

An operational loan would be for a period of three years, with no interest, and with a grace period of 6 months, and if repaid in full within one year would attract a grant of the value of 20% of the loan. The faster the loan is returned, the higher the grant, thus incentivising proper behaviour.

The cost to the government would be the interest, the grant, and potentially, default loans. Considering that Kosovo has around 30,000 active businesses, the total investment would not exceed 300 million euros, assuming that the cost per worker would be set at around the yearly wage, or about €3,500.



## Tax Policy

Expansionary fiscal policy is the answer to the current situation created by COVID-19. Because Kosovo uses the euro as its main currency, it does not control its own monetary policy mechanism, which could ease the burden through an expansionary monetary policy such as lowering interest rates and increasing money supply. Otherwise, increasing subsidies and lowering taxes in some fields would help the private sector, employment, and overall aggregate demand. Kosovo is in a good position in terms of low public debt, only around 18.17% last year. This will increase this year, but still remain lower than that of most European countries.

## Investment

In addition to business liquidity and tax policies, the government must focus on medium-term policies that will help with the faster recovery of the economy. Such policies include being more competitive in attracting foreign direct investment, improving access to new markets for export growth, expanding investments in renewable energy, and privatising key publicly owned assets.



# In fierce competition with Serbia & North Macedonia

After COVID-19, the landscape of doing business will shift into a more efficient, lower-cost gear. European Union businesses need to get back on track quickly and there will be severe competition over who is gaining what in the marketplace. The need to operate in a lower cost environment and to outsource parts of business processes will be inevitable and the most convenient area for EU businesses will be the Western Balkans.

The Government of Kosovo is in fierce competition with other countries in the region, mainly Serbia and North Macedonia. Even though Kosovo offers one of the best and most favourable tax policies, it needs to be competitive with subsidies in order to attract FDI; a proper plan, therefore, on how to target foreign investors, what to offer, and how to subsidise, should be part of the economic recovery agenda.

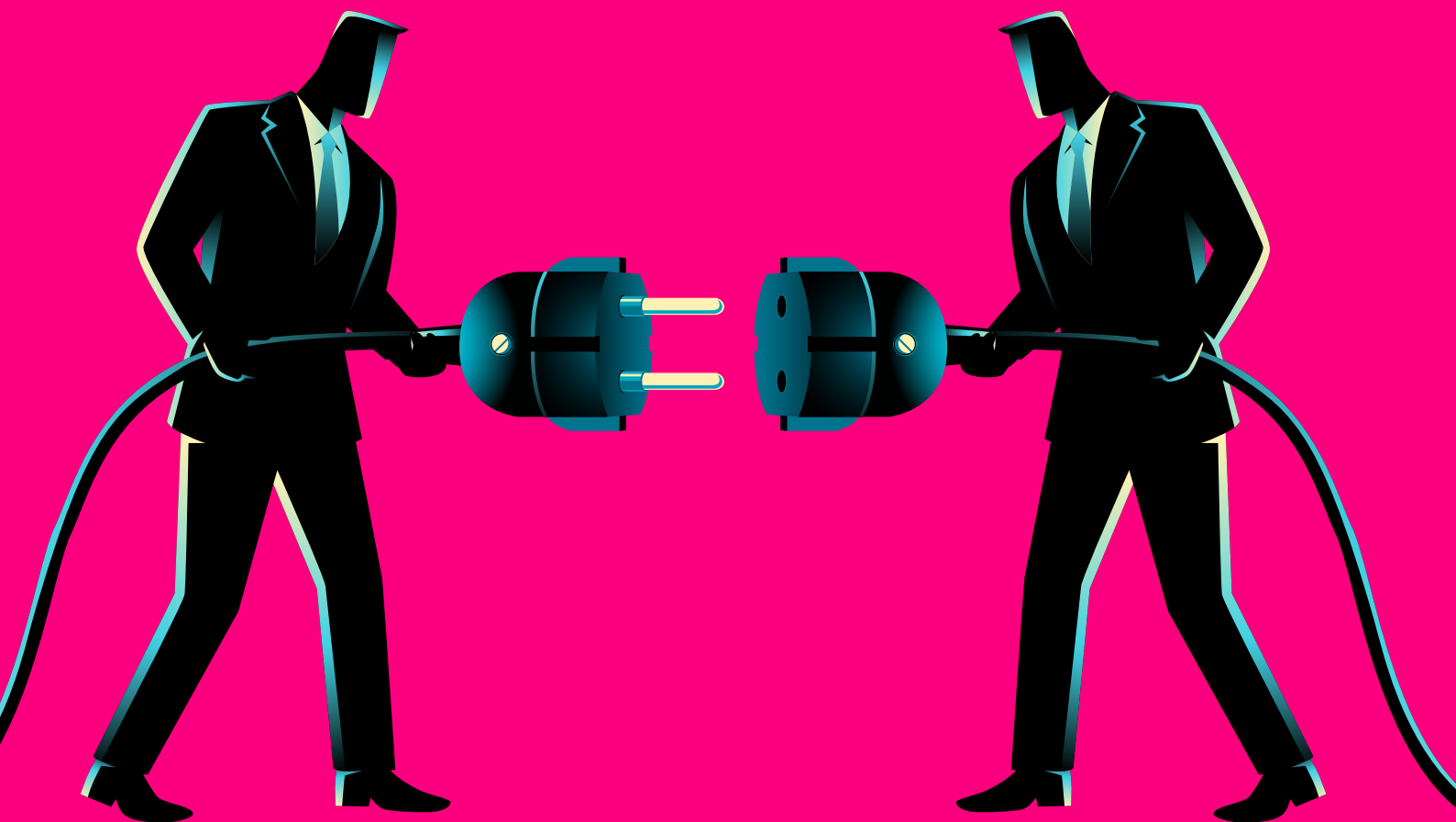
An increase in Foreign Direct Investment means an increase in exports as well, because those that invest in Kosovo and other Western Balkan countries usually produce and serve the European market. The Government of Kosovo should also anticipate stimulating local businesses with incentives for exports. In addition to export subsidies, a proper market finding program should be part of the economic recovery agenda.

Energy demand will be stable and growing. Plenty of capital will be available for renewable energy projects as a result of missed projects in other sectors that slowed down during COVID-19. The government of Kosovo has the capability and the opportunity to increase the number of licenses for wind and solar plants to attract foreign capital and generate economic activity and employment through energy production. It will serve well to fulfil EU criteria on renewable energy while helping the economy to recover faster.

## Stimulating local businesses

Finally, Kosovo has two major assets with a large impact on the economy, namely Telecom of Kosovo and the Trepça mine (one of the largest lead and zinc mines in Europe). Both these assets are currently state-owned. Their performance is extremely bad due to nepotism and the impact of politics. They are overpopulated with employees, therefore they are managed very inefficiently.

However, the telecommunication and mining sectors have seen positive growth during 2020, mainly due to the increase of digitalisation of businesses and of the export of metals. Privatising these enterprises would help Kosovo attract foreign capital while also enhancing their performance and their overall impact on the economy.





# Summary

While the Government of Kosovo had a good economic recovery plan on paper, it has not been able to execute it fully, with the largest portion yet to be executed. The key to stability in times of pandemic is acting swiftly. Governments around the world were quick in distributing subsidies in cash to both citizens and businesses, intending to maintain liquidity and keep money flowing in their economies.<sup>5</sup> Kosovo, on the other hand, failed to pass the Law on Economic Recovery ten times, eventually passing it at the eleventh attempt on 4 December, 2020. This legislation is intended to temporarily change key economic laws, with their restoration to their original base due on 31 December, 2020. If this holds, the passing of the Law gives the Government of Kosovo 26 days to spend 365 million euros. Such a mission is almost impossible and will create innumerable inefficiencies during the distribution of funds and, most importantly, will not have the desired effect on the economy.

However, creating the possibility for citizens to withdraw 10% of their pension fund, distributing wages to those that have lost their jobs, and increasing the liquidity of businesses through subsidised loans and grants, will help increase aggregate demand in the economy and gradually increase the speed of the already slowed economic engine.

<sup>5</sup> [OECD - Tax and fiscal policy in response to the Coronavirus crisis](#)



Valdrin Lluka is an executive with more than 15 years of experience in public and private sector development, management, management consulting and leadership development. He currently serves as an executive at Solaborate, a tech company specialized in hardware and software for telemedicine, tele-education and video conferencing.

Lluka was a scholar of Kosovo American Education Fund (KAEF) and holds an MBA degree from the University of Minnesota, Carlson School of Management (2007 – 2009) and BA degree in Economics and Information Systems from the American University in Bulgaria (2002 – 2005).

Valdrin Lluka served as the Minister of Economic Development in the Government of the Republic of Kosovo (2017 – 2020), responsible for the development of the energy, mining and ICT sectors and the supervision of all public enterprises in Kosovo.

Before he was nominated as a Minister, Lluka led a chain of production facilities on fresh and processed food products, employing more than 200 employees and exporting 100% of its production (2015 – 2017). Earlier on, he worked for Deloitte, Carlson Consulting Enterprise and mobile virtual network operator Z mobile (2005 – 2010).

During his professional experience in public sector, Lluka demonstrated ability to develop, implement, and oversee innovative promotional activities to attract foreign investment into Kosovo and promote local products abroad through the Kosovo Investment and Enterprise Support Agency, a Government Agency under the Ministry of Trade and Industry where he served for 4 years as the General Director (2011 -2014). Lluka led the National Council of Economic Zones as appointed by the Cabinet of the Government of Kosovo and served at several economic development boards in and outside of Kosovo.

Lluka volunteered as the co-chair of the Kosovo American Education Fund (KAEF) Committee (2014 – 2017) and is currently serving as the member of the KAEF Committee. KAEF is dedicated to the long-term economic development of Kosovo through the education of its people. KAEF provides up to 8 graduate fellowships per year to promising Kosovars for top-level master's degree at select U.S. universities.

Lluka is married and has two children.

**Valdrin Lluka**

