

# An Overview of the Pandemic Impact in the Economy of Albania

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## *Abstract*

*A second strong wave of this global pandemic declared by World Health Organization, is hitting most countries in the world. The situation becomes even more grey if we analyze the economic consequences that the pandemic has caused and what is expected to happen. These consequences will continue at least in the medium term, but possibly in the long run period if we consider the increase of the public debt, and governmental expenses as a response to this pandemic situation. In this paper I will try to highlight what is expected to happen in the Albanian economy, referring GDP growth, unemployment, inflation, interest rates and the situation of the tourism sector. The deterioration of the current situation of pandemic, as a consequence of the second wave happening, will cause a deeper economic recession, so we should prepare for even worse scenarios, compared the ones that are forecasted by World Bank and the National Bank of Albania. The elections that will be held in April 2021 will affect the government expenses and the collection of taxes will be affected with the changes in the fiscal policy, which means much more uncertainties for the near future.*

*Keywords: pandemic, GDP growth, inflation, unemployment, tourism.*

*JEL Classifications: O11, E24, E52.*

## 1. Introduction

This global pandemic declared by World Health Organization, which began in Wuhan, China, has expanded throughout the globe. The number of infected people and casualties is increased rapidly, referring to the data as of November 2020.

Nowadays the most important thing is the people's health but the economic consequences of this Covid-19 pandemic are significantly affecting their lives. Although there is very much hope to find a "solution" to the pandemic in the spring of next year, we know that its economic consequences will last much longer. Decisions taken by the government to protect against the frightening spread of the pandemic have worsen a number of macroeconomic and financial indicators, in particular the increase in the level of public debt.

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In this paper I cannot predict figures on how the pandemic will affect, as I think it will take time to have data to analyze the impact of this crisis. I will try to analyze the most direct effects of this pandemic on the Albanian economy. I would like to mention that Albania before the start of the pandemic was hit at 26 November 2019 by a strong earthquake of 6.4 richter, which, referring to the great damage it caused, shook the country's finances. This earthquake followed the earthquake of 21 September 2019 of 5.6 richter which caused some considerable damages. The pandemic Covid-19 was the second blow in just a few months to our economy, an economy that continues to be fragile even though 30 years have passed since the political changes of the 1990s.

In the last quarter of 2019, the macroeconomic indicators deteriorated significantly. Damage caused by the earthquake required time to recover, at least 4-5 years. The EU and international donors approved a package of grants, loans and funds for development projects in a value of 1.15 billion euros at the donors' conference organized by the EU in Brussels in February 2020.

Meanwhile, the economic situation before the fall of the fourth quarter of 2019, was relatively stable. The GDP growth rate in the last 3 years was above 3%; the unemployment rate for the first time after years had begun to fall, reaching a 11,46% in 2019; inflation continued to be kept below the level of 2%; Public debt fell below 70% of GDP in 2017, to reach 65.5% in 2019 (35.24% domestic debt and 30.26% external debt).

This article focuses on the impact of the pandemic on the main macroeconomic indicators mentioned above, involvement of interest rates and fiscal incentives, as well as the impact on the tourism sector as one of the sectors most affected by the Covid-19 situation.

Certainly, after the end of this pandemic, it would be very important to statistically process the data to draw some lessons learned, because with this “pandemic thing” the uncertainty about the future has increased even more. The dynamics of the economic consequences of this pandemic are very different from that of financial crises or bubbles that have occurred in the past.

## 2. Literature review

The pandemic hit both developed and developing countries. Research by Baldwin and di Mauro (2020) explains that the US, China, Japan, Germany, Britain, France, and Italy are all in the top-ten most affected by the disease. These 6 big countries count 60% of the world supply and demand (GDP), 65% of world manufacturing,

and 41% of world manufacturing exports which means that the impact in the world economy and the economy of other countries is of the great importance. Fernandes (2020) estimates that GDP growth could decline by 3-5% in a mild scenario depending on the country, with a cost of about 2-2.5% of global GDP growth for each additional month of shutdown. While service-oriented economies will take the larger hits, countries such as Greece, Portugal, and Spain (that are largely reliant on tourism) will be more affected by this crisis.

Wren-Lewis (2020) suggests that the COVID-19 estimates reduction in economic growth, coming as a result of reduced labor supply, higher production cost, higher temporary inflation, and reduced social consumption.

A research of Blundell and Machin (2020) found that in UK based on LSE-CEP Survey of UK Self-employment May 2020, the self-employed have been hit particularly hard by the Covid-19 crisis, with approximately three quarters reporting less work in April 2020 than usual. The largest reductions in self-employment hours and income are the lower-income and older individuals.

This is identical to the results of (Adams-Prassl, Boneva, Golin & Rauh, 2020) who find out that workers in alternative work arrangements – which includes many of the self-employed - are more vulnerable to the crisis. This study is based on the data from UK, USA and Germany. The women and workers without a college degree in US and UK are significantly more likely to already have lost their jobs, while younger individuals are significantly more likely to experience a fall in their earnings. The future scenario is bleak with many workers expecting to lose their jobs over the next months.

Referring to Letzing (2020) countries such as US, UK, China, Australia, Canada, and Malaysia have already reduced their benchmark interest rates in order to boost up the economy, however, economists think it won't be enough.

The tourism industry is the most affected, as there are travel bans and border closures. According to UNMTO (2020) it is forecasted a decrease of 20% to 30% (300 to 450 US\$ billion) in tourist arrivals (in international tourism receipts) in 2020. They predicted that these numbers are likely to increase as the spread of coronavirus increases. Actually, the spread of coronavirus is increased significantly and the second wave of pandemic is affecting much more the tourism and the countries economy worldwide, but especially the countries where this sector has a great impact.

### 3. Analysis for the consequences of pandemic in Albanian economy

The first impact of the pandemic in economic terms is to reduce the level of production. This is explained by three main factors: (1) the cessation of work as a result of lockdown; (2) the decline in demand as individuals will have less money in their hands (a reduction in income) as a result of the cessation of work or part-time work; (3) problems caused in companies by the suppliers who themselves suffer from the problems mentioned above.

There will be delays in supplies of raw materials and other products. Albania has a considerable number of tailoring businesses which are automatically affected by the lack or delay of the raw materials. Meanwhile, since these businesses have a high number of employees, as well as working in a chain process, they have a higher risk of being infected by Covid-19. These companies have a higher probability of immediate closure of work, or continuation with a reduced number of employees which means working under capacity.

Reducing the level of production will directly affect the reduction of the country's GDP. Meanwhile, there is a significant increase in government spending, especially in two directions: investments and health expenditures as part of the tools used to cope with the emergency situation country is facing, as well as expenses for solidarity packages- dedicated to the payment for the job loss (known in our country as “the war wage”) and for business support.

Meanwhile, the reduction of business activity and fiscal incentives (mainly by tax exemption or deferral of their payment) used during the pandemic period also reduce the revenues collected from taxes. As a result, there is a significant increase in public debt.

The forecast for GDP growth rate was adjusted after the November 2019 earthquake, because of the large damages it caused. This is also evident in the GDP growth rates for 2019, when for the first three quarters the GDP growth rate was 2.37%, 2.56% and 4.17%, while after the earthquakes of September 2019 and then November 2019 this rate for the fourth quarter reached -0.10%, significantly reducing the GDP growth rate to 2.2%, the lowest in the Western Balkan region, in contrast to the previous year. This is evident in the Table 1, where it can be seen that for the year 2018, the GDP growth of Albania is 4.1% (ranked after Montenegro and Serbia, slightly higher than the average for Western Balkan countries), while the following year it ranks the last (much lower than the average for Western Balkan countries).



**Table 1. GDP growth rate for Western Balkan countries**

	Albania	Bosnia& Hercegovina	Kosovo	North Macedonia	Montenegro	Serbia	Western Balkan
<b>2018</b>	4.1%	3.7%	3.8%	2.7%	5.1%	4.4%	4%
<b>2019</b>	2.2%	2.6%	4.2%	3.6%	4.1%	4.2%	3.6%
<b>2020</b>	-8.4%	-3.2%	-8.8%	-4.1%	-12.4%	-3%	-4.8%
<b>2021</b>	5%	3%	3.7%	3.6%	6.9%	2.9%	3.5%

*Source: World Bank*

As the pandemic is continuing, the forecasts for the real GDP growth by the World Bank is at -8.4%, which is equal with the forecast for real GDP growth for EU countries. They have forecasted as well that the economic activity for Western Balkan countries will be shrink by 4.8%.

The WB had forecasted a GDP growth of -14% for Albania, meanwhile the forecast by the National Bank of Albania for the GDP growth is -12%. In fact, these prognosed figures are expected if we refer to the published data of GDP growth by INSTAT (Institute of Statistics in Albania) for the first and second quarter of 2020 in the Table 2. The WB has forecasted the real GDP growth at the level of 5% for 2021 referring to current conditions.

**Table 2. GDP growth rate for Albania**

Years	2018	2019	Q1-2020	Q2-2020
<b>GDP growth</b>	4.07%	2.24%	-2.27%	-10.23%

*Source: Instat*

We have to be prepared for even worse scenarios as the pandemic is continuing at high rates. Meantime, this is an election year (April 2021) so the expectations are for an increase in government spending.

Interest rates. In the situation of this pandemic, lowering of interest rate would support businesses in difficulty conditions and support individuals' finances. The National Bank of Albania has continued to keep the base interest rate low at the level of 0.5%, but its effect is minimal considering the fact that this interest rate has been in this level for several years. So, the National Bank did not and do not have the possibility to use the interest rate mechanism through reducing it latter, as it is already at minimal levels. Many countries in the world are facing the same situation as their interest rates were very close to 0% before the pandemic started. Meanwhile, there was an agreement between the Albanian government, commercial banks and SMEs for financing by loans the payment of employees' salaries for 3 months where the loan interest will be paid by the government. The

value of this package reached €53 million euros and supported 550 businesses, with 46,000 employees (World Bank, 2020).

*Unemployment.* Our country has suffered high unemployment rates for years. Despite the fact that the declared unemployment rates have been at the levels of 18-22% up to 2015, there have always been many doubts about these figures as only individuals who are registered at employment offices to look for a job are considered unemployed. Individuals living in rural areas and owning land are considered by authorities as self-employed in agriculture, although considerable part of them consider themselves unemployed.

As it is shown by the data in the Table 3, the unemployment rate for the period 2015-2019 has declined, reaching from 17.1% in 2015 to 11.5% in 2019. The predictions were that this trend would continue in the future.

**Table 3. Unemployment rate**

Years	2015	2016	2017	2018	2019
<b>Unemployment rate</b>	17.1%	15.2%	13.7%	12.3%	11.5%

*Source: Instat*

Meanwhile, with the pandemic happening the level of unemployment increased reaching 11.9% in the second quarter of 2020, as it is shown in the table 4. This level is expected to increase even more, as the pandemic is still present with more uncertainty as to when it can be gained control of it.

**Table 4. Unemployment rate for first two quarters of 2020**

Q1.2020	Q2.2020
11.4%	11.9%

*Source: Instat*

One of the categories that has been affected by this crisis are the self-employed, who mainly in Albania correspond to micro and small businesses, which mean mostly family businesses. From a market study survey (Leka, 2018) family business owners regularly withdraw money from their business, almost every week. This means that the daily living expenses of the family are afforded by the income from the turnover of the business. As a result, during this pandemic, closing the activity, or working part-time, in the conditions of a tight demand, affects the income for affording living expenses by these families, affecting the reduction of their quality of life.

There were supported during pandemic a number of 75,000 businesses and self-employed in a total number of 170,000 employees, with a total cost of €76 million.

*Inflation.* As it is expected in crisis and panic situations, there was a tendency for inflation to rise at the beginning of the pandemic, but then it continued with the same trend as before, as it is shown in the Table 5. Thus, the inflation has been kept under control and will be in control in the future, if there will be no change in market conditions or in the occurrence of the pandemic. The decline in consumer demand in conditions of income tightening affects the non-increase of prices. Individuals are tightening their purchases as they save a portion of their income to cope with difficult situations that they may face in the ongoing pandemic. This is evident if we refer to the fact that there has been an increase in citizens' deposits during the first 9 months of 2020 (8.2% for deposits in Albanian Lek, and 5.6% for deposits in foreign currency). Albanian society, in its culture is a saving society. Although the level of GDP per capita is among the lowest in Europe (4,473euro per capita for 2018), again even in crisis' times like that of 2007, there was an increase in the level of savings deposits.

**Table 5. Inflation rate trend**

Oct. 19	Nov. 19	Dec. 19	Jan. 20	Feb. 20	Mar. 20	Apr. 20	May 20	Jun. 20	Jul. 20	Aug. 20	Sept. 20
3%	1.4%	1.1%	1.5%	1.2%	2.1%	1.9%	2.1%	1.8%	1.4%	1.3%	1.5%

Source: Instat

*Impact on tourism.* Albania for years identifies tourism as one of the priority sectors to focus, referring to geographical position and climatic conditions of the country. The focus has been to develop both coastal and mountain tourism as it has great potential to be exploited. Also, the focus of the tourism strategy is its transition from a seasonal tourism to a year-round tourism.

In recent years there has been an increase in the number of tourists and revenues from tourism, as it is shown in the Table 6.

**Table 6. Arrivals of foreign citizens 2014-2019**

Description	2014	2015	2016	2017	2018	2019
<b>Total</b>	3,672,591	4,131,242	4,735,511	5,117,700	5,926,803	6,406,038

Source: Instat

Tourists in Albania come mainly from neighboring countries in the Balkans region and from Italy. Thus during 2018 the weight of the number of tourists referring



INSTAT was: Kosovo (35%), Northern Macedonia (11%), Greece (9%), Montenegro (6%) and Italy (7%).

One of the fiscal incentives used in the tourism sector has been the reduction of VAT from 20% to 6% on June 2017.

In the period 2013-2017 the expenditures of foreign tourist in our country were at 13.3% of GDP. Meanwhile, the contribution to tourism-related activities in GDP has been shown in the Table 7.

**Table 7. Contribution of tourism in GDP**

<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>2.5%</b>	<b>2.8%</b>	<b>2.7%</b>

*Source: Instat*

With the outbreak of the pandemic, a significant decline in the number of tourists was expected. This is the expected effect in tourism of an almost complete lockdown from the middle of March to the end of May, while the free opening of the borders of our country in the following period was influenced by the reduction of the movements for the citizens of the countries of the region and the EU under the influence of pandemic risk. The decline in the number of tourists has a very big impact, especially in the services and transport sector.

During 2020 we have a significant decrease in the number of foreign citizens entering Albania. For the period January-September 2020 this number has decreased by 61.1% compared to the same period of the previous year. During July and August 2020 (which coincide with the peak of the touristic season in Albania) we had a decrease of 67.1% and 63% of foreign citizens who entered Albania. Meanwhile, Kosovo is the country with the lowest decline in the number of citizens who entered Albania, with a decline of 52.4% in July and 53.2% in August 2020, while Spain with the largest decline respectively with 88.6% and 89.9% compared to July and August 2019.

During the period July to September 2020, tourism in our country was moderately supported by the movement towards Albania of tourists from Kosovo, who as I mentioned above make up about 35% of the total number of tourists in our country and had the lowest decline, as well as the increase in the number of domestic tourists who used to go for tourism to foreign countries in previous years. The number of Albanian residents who had left the country for the first 10 months of 2020 has decreased by 50.3% compared with the same period of 2019.

## Conclusions

The first impact of the pandemic in economic terms is to reduce the level of production through (1) the cessation of work, (2) the decline in demand and (3) problems caused by the company's suppliers. As the pandemic situation happened after the earthquake that hit Albania on November 2019 which caused many damages, the GDP growth rate declined from the fourth quarter of 2019, with a negative value. The expectations for GDP growth for 2020 are at the level of -12% to -14%.

One mechanism that should be used by the National Bank in these conditions, would be the reduction of the interest rate, in order to support the business activity and the finances of the individual. But the interest rate was too low at 0.5% before the beginning of the pandemic so this mechanism could not be used. As it is expected in crisis and panic situations, there was a tendency for inflation to rise at the beginning of the pandemic, but then it continued with the same trend as before. Thus, the inflation has been kept under control, at the level of 1.5%.

One of the categories that has been affected by this crisis are the self-employed, who mainly in Albania correspond to micro and small businesses, which mean mostly family businesses. As it is expected the level of unemployment has been increased to 11.9% during this crisis and it is expected to be increased at least up to the summer of 2021, if the vaccines for COVID-19, will be effective.

This pandemic caused a great negative effect on tourism, as the tourism has an important weight in the economic development of our country. Significant decrease in the number of foreign tourists by over 60%, affected two important sectors such as transport and services, and the gross product of the country as well. Actually, with the constraints on the movement of citizens in almost all countries this sector is continuing to experience great difficulties.

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