
ECONOMIC CHALLENGES AND POLICY RESPONSES TO THE COVID-19 CRISIS IN ALBANIA, SERBIA AND NORTH MACEDONIA

Merita Bakiji

South East European University, Skopje, Republic of North Macedonia, mb22289@seeu.edu.mk

Abstract: The outbreak of Covid-19 in some cases looks similar to that of SARS. This is how it is described in some literature. Similar to any other crisis, Covid-19 also caused a great economic and global destabilization. It started as a health crisis, but the flow and continuity also affected the socio-economic aspect and for this reason in this paper only the economic aspect of the impact of Covid-19 will be analyzed.

This paper will focus on clarifying the economic challenge in the face of Covid-19, specifically for the Western Balkans region, not excluding the political responses of these countries to mitigate the created situation. The countries that have been included in the research, due to their status as developing countries, have experienced a deep recession as the aftermath of the pandemic and for this reason they have experienced rising unemployment rates, rising inflation, imbalances in aggregate supply and demand etc. Compared to developing countries, developed countries were more prepared to implement comprehensive packages to calm the situation they were in, although even in developing countries government intervention was strong. In these cases, it happens that the implemented policies favor more people with formal jobs, and less those with informal jobs. For example, wage subsidies or enterprise loans are intended only for formal sector firms. So, they continue to fight the economic consequences and continue to find ways to recover the economy. The various subsidies to some extent may have had a positive effect on the restoration of the earlier situation, but also the various financings and aids from the world institutions have helped the economy of the Western Balkan countries not to experience an economic collapse or destruction. We will enumerate some of the anti-crisis measures implemented by the governments of countries such as North Macedonia, Albania and Serbia, comparing and analyzing how these political responses have helped and improved the economy of the country in question. For these phenomena and others similar to them, we will also paraphrase models and theories that have an impact on the crises of recent years in order to make a connection between previous crises and the Covid-19 crisis and see what do these theories propose for the overcoming and recovery of certain economies.

Keywords: Covid-19, economic challenges, unemployment, policy responses

1. INTRODUCTION

Every country in the world, as well as the countries of the Western Balkans, during the spring of 2020, were forced to fight with Covid-19 by imposing some restrictions that would block the country's economic activity. These restrictions make it possible to quickly see negative changes in the economy. Since then, the first departures of workers from their workplaces in many industries around the world began (UNDP, Economic Impact Assessment of COVID-19 in Bosnia and Herzegovina, 2020, p. 59).

The layoffs resulted in an increase in the unemployment rate, which was present in almost every country in the world. These dismissals came as a result of the closure of business activity by entrepreneurs. Entrepreneurship, on the other hand, represents an essential factor of production. It acts in direct connection with economic growth, therefore various evidences have drawn conclusions that entrepreneurship is considered as a "powerful engine and driving force of a country's economy" (Bakiji, 2021, p. 300).

Although almost every industry has been affected due to COVID-19, but among the sectors that suffered the most losses are: the stock market, the financial market, manufacturing, agriculture, international trade, the global value chain and the travel industry, which are considered as pillar for the economic development of a country. Significant losses in these sectors are accompanied by uncertain economic environments as well as health-psychological uncertainty. These conditions lead to an increase in the level of unemployment and as a result, the level of savings and investments decreases and the level of poverty increases. For this reason, we say that COVID-19 brings negative effects both in health and in the economy (Kai Pan, Xiao-Guang Yue, 2021, p. 1667).

The main action that businesses should take in these situations was to halve the number of workers. Because the business ceased its operations, 20-50% of the staff was reduced. These actions on the part of the business were necessary in order to overcome the business crisis. Those who remained at work were only the main personnel. There was not enough work for all the employees and therefore some employees were forced to leave the workplace. The new staff then also faced other complex challenges due to the lockdown (Al-Fadly, 2020, p. 637).

So, during that period many people around the world became unemployed, some others were downsized. There were those who did not leave but continued with reduced wages and only a small percentage remained unchanged.

2. THE ROLE OF THE STATE IN ECONOMY-CLASSICAL AND KEYNESIAN THEORY

At a time when countries face crises, state aid is useful for the economy. As happened during the crisis of 1929-1933, where the intervention of the state resulted in the revival of the economy. Liberal economists are against this intervention because they believe that market mechanisms enable economic equilibrium. While Keynesians are supporters of the idea of state intervention.

Similarly, in the next crisis of 2007-2009, the intervention of the state helped the economies to come out of the depression. State measures in fiscal and monetary policy were present in all countries of the world. The state helped businesses with favorable loans and reduced taxes (Pollozhani, MIKROEKONOMIA, 2014, p. 429).

An example given by the USA shows the situation when during 2009, in January of the same year, President Barack Obama took office as President of the country, at a time when the economy was suffering from a deep recession, he together with the advisors of he proposed a significant stimulus package to boost aggregate demand. The logic of this plan is entirely Keynesian: as the economy plunges into recession, the government with this stimulus package would act as the last savior. This package would cost the government \$800 billion and would include several tax cuts and increased government purchases. Regarding this plan, economists were divided in their beliefs. Supporters of Obama's plan argued that spending increases were better than tax cuts. Despite these, others were skeptical as according to them, the package is not enough given the size and severity of the recession (Mankiw, 2019, p. 312).

Classical economists (Adam Smith) estimate that the state should not implement discrete fiscal policies, they should not change tax rates or public spending, because these actions make the automatic stabilizers themselves. According to them, with the action of automatic stabilizers, strict fiscal policy rules should be set which would prevent political manipulations. Contrary to the classics, Keynesians do not overestimate but support discrete fiscal policies. According to them, automatic stabilizers are important but insufficient for the stability of economic flows. Stimulating aggregate demand through discrete fiscal policies can be an efficient tool for creating new jobs. (Pollozhani, HYRJE NË EKONOMI, 2016, pp. 349-350).

3. METHODOLOGY

For the realization of this work, the following scientific methods were used:

a. The method of analogy - this method has been used to draw attention to the current situation in the economies of the Western Balkan countries.

b. Literature analysis method - this method helped to find adequate literature, relevant articles and reports related to the issue in question.

c. The observation method - this method was used to collect statistics about the coronavirus itself, as well as the impact it had on the economy of the countries, especially for the countries that were included in the research.

4. ALBANIA

Statistics and reports from the World Bank show that Albania is the most optimistic country that can recover quickly, while Montenegro and Serbia will achieve such a thing more slowly (WESTERN BALKANS REGULAR ECONOMIC REPORT-Subdued Recovery, 2021, p. 10).

The same situation is also in Albania, where as a result of the crisis experienced by Covid-19, the unemployment rate increased, even calculating the unemployment rate from the Quarterly Labor Force Survey - Tr.4.2020-Tr.4.2021.

| Age | Sex | Q1.2020 | Q2.2020 | Q3.2020 | Q4.2020 | Q1.2021 | Q2.2021 | Q3.2021 | Q4.2021 |
|------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 15 + | Total | 11.4 | 11.9 | 11.6 | 11.8 | 11.9 | 11.6 | 11.3 | 11.4 |
| | Male | 11.0 | 12.0 | 11.4 | 11.7 | 11.7 | 11.8 | 10.9 | 11.0 |
| | Female | 11.9 | 11.9 | 11.8 | 12.1 | 12.1 | 11.3 | 11.7 | 11.8 |
| 15-64 year | Total | 11.9 | 12.5 | 12.1 | 12.3 | 12.6 | 12.1 | 11.6 | 11.9 |
| | Male | 11.5 | 12.6 | 11.9 | 12.2 | 12.4 | 12.3 | 10.9 | 11.4 |
| | Female | 12.4 | 12.4 | 12.3 | 12.5 | 12.9 | 11.8 | 12.4 | 12.4 |
| 15-29 year | Total | 20.0 | 21.4 | 20.7 | 21.7 | 23.3 | 19.9 | 19.9 | 20.6 |
| | Male | 19.9 | 21.9 | 20.3 | 21.3 | 22.5 | 20.1 | 19.3 | 20.3 |
| | Female | 20.2 | 20.8 | 21.4 | 22.2 | 24.4 | 19.6 | 20.7 | 20.9 |

| 30-64 year | Total | 9.2 | 9.1 | 8.8 | 8.5 | 8.3 | 9.1 | 9.5 | 9.0 |
|------------|--------|-----|-----|-----|-----|-----|-----|-----|-----|
| | Male | 9.4 | 9.1 | 8.8 | 8.8 | 8.5 | 8.4 | 9.3 | 8.8 |
| | Female | 8.9 | 9.1 | 8.8 | 8.1 | 7.9 | 9.8 | 9.8 | 9.4 |

Source: INSTAT

Anti - covid financial packages

The Albanian Government has made available through Normative Acts and Decisions of the Council of Ministers:

PACKAGE 1- Support for Small Business and Citizens

Measure 1- financial aid for employees in business entities with annual income up to Lek 1,400,000, for the period after the cessation of economic activity.

Measure 2- Doubling of the payment for individuals who benefit from economic assistance payment.

Measure 3- Doubling of the payment for individuals who benefit from unemployment income payment.

PACKAGE 2- Support for entrepreneurship and Employers

Measure 1- Subsidy for current+retired employees in businesses with an income of 14 million+ Lek closed by the orders of the Ministry of Education and Culture.

Measure 2- Support for those dismissed from work in the period March 1-May 17

Measure 3- Subsidy for all employees of businesses with income below 14 million Lek.

Measure 4- Subsidizing the war wage for employees of accommodation structures in the tourism sector.

Measure 5- Support for employees of the Ballshi Refinery (Employees with a salary below Lek 100,000/month).

Measure 6- Financial assistance for economic assistance applicants, who are applicants and have not been selected by the economic assistance scoring system¹. (<http://financa.gov.al/raporte-per-covid-19/>)

The Council of Ministers has approved two Sovereign Guarantee instruments for a total amount of 26 billion Lek.

- **Sovereign Guarantee I in the amount of 11 billion Lek**
- **Sovereign Guarantee II in the amount of 15 billion Lek²** (<http://financa.gov.al/raporte-per-covid-19/>)

5. SERBIA

Although Serbia had a strong impact from COVID-19, however, due to the macroeconomic health that accompanied it, at the beginning of the crisis, it was expected that the decline of Serbia's GDP would be lower compared to the level of GDP of other countries (COVID-19 Socio-Economic Impact Assessment, 2020, p. 45). It was found that businesses could recover quickly even though the economy in Serbia was hit hard. This severe blow to the economy was mitigated due to the strong macro-economic environment as well as the distinctive structures of the Serbian economy and its relatively lower integration into global supply chain networks. Enterprises showed short-term flexibility through relatively quick operational and financial adjustments (UNDP, COVID-19 Socio-Economic Impact Assessment, 2020, p. 10).\

| SERBIA | Unemployment rate % | Employment rate % |
|---------|---------------------|-------------------|
| Q1/2020 | 9.7 | 48.7 |
| Q2/2020 | 7.3 | 48.2 |
| Q3/2020 | 9.0 | 49.9 |
| Q4/2020 | 9.9 | 49.7 |
| Q1/2021 | 12.8 | 46.3 |
| Q2/2021 | 11.1 | 48.3 |
| Q3/2021 | 10.5 | 50.0 |
| Q4/2021 | 9.8 | 50.0 |

Source: P3C³ (<http://www.stat.gov.rs/en-us/oblasti/trziste-rada/anketa-o-radnoj-snazi/>)

According to the data from the table, we see that unlike 2020, in 2021 in the same quarter, we have an increase in the unemployment rate and on the other hand, we have a decrease in the employment rate.

Measures of the government of republic of serbia

The Government of Serbia took supportive measures aimed at alleviating the negative impacts of the crisis, which measures were welcomed by the business sector and turned out to be beneficial for a good part of the businesses.

These measures were aimed at alleviating the issue of liquidity in businesses. As a result of the crisis, about 75% of companies stated that they faced difficulties with their financial obligations. The measures that were used more by businesses were the measures that had to do with the payment of minimum wages and the postponement of taxes. On the other hand, loans backed by government guarantees have not been used by a large part of businesses. How effective were these packages or support measures for companies that needed them, but the OECD estimates that the most effective intervention measure was wage relief, followed by debt moratoriums, while the least effective measure was tax relief (UNDP, COVID-19 Socio-Economic Impact Assessment, 2020, p. 42).

6. NORTH MACEDONIA

Similarly, in the Republic of North Macedonia there was an increase in the level of unemployment. According to the data of the State Statistics Agency, the labor force in the Republic of North Macedonia numbered 943,004 people during 2021, of which 795,087 were employed, while 147,917 people were registered as unemployed. The activity rate in this period was 56.0, the employment rate 47.2, while the unemployment rate was 15.7. Below are presented the data on the employment rate and the unemployment rate for the year 2020-2021.

| Viti | Active working population | Total | Employer | Unemployer | Activity rate | Employment rate | Unemployment rate |
|----------|---------------------------|--------|----------|------------|---------------|-----------------|-------------------|
| 2020 | 1685589 | 950858 | 794909 | 155949 | 56.4 | 47.2 | 16.4 |
| 2021/I | 1685564 | 943964 | 793121 | 150843 | 56.0 | 47.1 | 16.0 |
| 2021/II | 1681862 | 945412 | 795271 | 150141 | 56.2 | 47.3 | 15.9 |
| 2021/III | 1681911 | 945158 | 796681 | 148477 | 56.2 | 47.4 | 15.7 |
| 2021/IV | 1681863 | 937482 | 795276 | 142206 | 55.7 | 47.3 | 15.2 |
| 2021 | 1682800 | 943004 | 795087 | 147917 | 56.0 | 47.2 | 15.7 |

Source: (https://www.stat.gov.mk/pdf/2022/2.1.22.05_mk.pdf)

Anti-crisis measures of the government of North Macedonia

List of approved measures (only measures that help local business will be highlighted):

1. Financial support of wages for workers for the months of February and March 2021, 1.9 billion denars with the involvement of about 60,000 workers per month. The financial support will be in the amount of 14,500 to 21,776 denars per monthly salary for workers.
2. Interest-free loans for enterprises in the fields of tourism, crafts, catering, transport, industry for the organization of events, private health institutions, etc., through the Development Bank of North Macedonia.
3. Financial support for 120 radio broadcasters in the amount of 50 million denars for the year 2021. With this measure, 120 radio broadcasters, radio and television stations that have an active license to broadcast radio and television programs will be exempted from the annual license fee.
4. Financial support for international carriers, support for companies whose total number of employees is about one thousand and which are registered in the register of carriers registered by the Ministry of Transport and Communications, which carry out regular international transport or free of passengers.
5. Financial support from 3,000 to 10,000 euros for companies that have a decrease in income in 2020 by more than 50% compared to 2019.
6. Credit guarantee scheme in the amount of 307.5 million denars. This measure will create a new line of credit guarantee in the amount of 5 million euros.
7. Extension of the grace period for the payment of obligations for loan users from the "Kovid 2" credit line at the Development Bank until the end of 2021⁴. (<https://finance.gov.mk/2021/02/16/pakoja-e-pestee-masave-anti-krize-per-ringjalljen-dhe-zhvillimin-e-ekonomise/?lang=sq>)
8. Financial support through the establishment of the Fund for the support of export companies in the amount of 615 million denars, which will be established through the Development Bank of North Macedonia.
9. Removal or reduction of customs fees for 31 raw materials and meat. The fiscal implications of this measure are 228.2 million denars.
10. Support for micro, small and medium enterprises, also for private health care institutions through co-financed assistance for technological development for accelerated economic growth in the period of covid - through the Fund for Innovation and Technological Development in the amount of 369 million denarius.

11. Financial support for tobacco producers in order to prevent the consequences of restrictions on transport and trade, as well as the decline in the consumption of tobacco products worldwide. The value of this amount is 307.5 million denars for 2021.

12. Exemption from contractual obligations, more precisely exemption from payment of fines for companies that have signed contracts with Local Self-Government Units, and they provide a clause for payment of fines for problems during implementation

7. CONCLUSION

Although the most developed countries were more capable and more predisposed to implement packages and emergency measures to mitigate the newly created situation, while in developing countries, the attempts and efforts of the governments to help the country's economy were quite serious. It happens that in such cases those who have been favored the most by these implemented policies are precisely the people with formal jobs, while the informal sector remains distant, who had to rely on self-reliance to overcome the crisis. So, the various aids or reliefs served only the enterprises of the formal sector. Even unemployment insurance or severance pay is only available to formal sector workers. Therefore, a significant part of the labor force in the informal sector does not have the opportunity and access to government stimulus measures. Governments of different countries presented and took different measures to prevent the collapse of the economy. Financial aid from the state for both businesses and the employed and unemployed according to some businesses is not enough.

REFERENCES

- Al-Fadly, A. (2020). IMPACT OF COVID-19 ON SMES AND EMPLOYMENT. *ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES*, 8, 629-648.
- Bakiji, M. (2021). ENTREPRENEURSHIP AND THE ROLE OF WOMEN ENTREPRENEURSHIP IN ECONOMIC GROWTH. *KNOWLEDGE – International Journal*, Vol.45.1, 299-302.
- (2020). *COVID-19 Socio-Economic Impact Assessment*. Serbia: UNDP.
- Kai, P., & Xiao-Guang, Y. (2021). Multidimensional effect of covid-19 on the economy: evidence from survey data. *Economic Research-Ekonomska Istraživanja*, 1658-1685.
- Mankiw, N. G. (2019). *Macroeconomics*. New York: Worth Publishers.
- Pollozhani, P. (2014). *MIKROEKONOMIA*. Tetovë: Arbëria Design.
- Pollozhani, P. (2016). *HYRJE NË EKONOMI-PËR JURIST DHE SHKENCAT TEKNIKE*. Tetovë: Arbëria Design.
- UNDP. (2020). *COVID-19 Socio-Economic Impact Assessment*. Serbia: UNDP.
- UNDP. (2020). *Economic Impact Assessment of COVID-19 in Bosnia and Herzegovina*. Bosnia and Herzegovina: UNDP.
- (2021). *WESTERN BALKANS REGULAR ECONOMIC REPORT-Subdued Recovery*. World Bank Group.

http://www.instat.gov.al/media/8492/atfp-t1-2021_press-release.pdf

<https://financa.gov.al/raporte-per-covid-19/>

<https://www.stat.gov.rs/en-us/oblasti/trziste-rada/anketa-o-radnoj-snazi/>

https://www.stat.gov.mk/pdf/2022/2.1.22.05_mk.pdf

<https://finance.gov.mk/2021/02/16/pakoja-e-pestee-masave-anti-krize-per-ringjalljen-dhe-zhvillimin-e-ekonomise/?lang=sq>