

EMPIRICAL ANALYSIS OF COVID-19 CRISIS EFFECTS ON THE WB6 REGION

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Darko Lazarov¹, Emilija Miteva-Kacarski², Misho Nikolov³

¹Faculty of Economics, Goce Delcev University, Stip, North Macedonia,
darko.lazarov@ugd.edu.mk

²Faculty of Economics, Goce Delcev University, Stip, North Macedonia,
emilija.miteva@ugd.edu.mk

³University American College Skopje, School of Business Economics and Management, Skopje, North Macedonia, nikolov@ucas.edu.mk

Abstract

The main aim of the paper is to investigate the impact of Covid-19 crisis on economic performance of Western Balkan (WB) region as well the current challenges that the region is facing with as a result of the energy crisis. To fulfil this goal, we apply comparative analysis by using key economic indicators for WB6 countries in the period before the crisis (2015-2019) and after the crisis (2020-2021). Actually, the WB6 region has positive economic trends before the Covid-19 crisis, reaching a sustainable growth rate in the medium term of around 4.0%. In the same time, positive trends have been recorded in the field of trade and investments. For illustration, the WB6 export of goods to the world has recorded yearly average growth rate of 10% in the period 2015-2019, while the annual average growth rate of export of services is much higher (12.2%) with significant positive net effect. The investments in the WB6 region has also recorded significant increasing trend in the pre-crisis period of 11.2% annual average growth rate. However, the Covid-19 pandemic significantly slowed down the economic development path of WB6 region. In 2020, the WB6 region was faced with negative average growth rate of -3.1%. The main transition channels of the crisis were through the trade sector, investments (FDIs), as well the final consumption. However, the paper concludes that the negative effects of the Covid-19 crisis on WB6 region was smaller than originally expected and more importantly the region recovers faster in the post Covid-19 period compare with EU countries.

Keywords

Covid-19 crisis, WB6 region, economic performance, pandemic economics

1. Introduction

The process of globalization provided many benefits to the Western Balkan six economies. The positive effects were felt through inflows of foreign direct investments, integration in the

regional and global supply chains, larger exporting opportunities on foreign markets, as well as, other benefits, [6].

The Western Balkan region has had positive economic trends in the period before the Covid-19 crisis by reaching a sustainable growth rate in the medium term of around 4% and exceeding the nominal GDP value of 100 billion euros in 2019, [8]. At the same time, positive trends have been recorded in the field of intra and extra regional trade, [4], as well as, in the field of investments, [1].

For illustration, the WB6 export of goods to the world has recorded yearly average growth rate of 10% in the period 2016-2019, reaching value of 115.7 billion euros in 2019, while the yearly average growth rate of export of services is much higher (12.2%) with significant positive net effect (trade surplus of 6 billion euros in 2019). The investments in the WB6 region has also recorded significant increasing trend in the pre-crisis period (11.2% yearly average growth rate of the gross fixed capital formation).

The globalization process was decelerated by the Covid-19 pandemic when countries partially or totally closed borders because of precautionary health measures, causing disruptions in supply chains and serious problems in international trade. Pandemics effect resulted in serious downfall of the global growth and contraction of the world economy, [2].

The main aim of the paper is to investigate the impact of Covid-19 crisis on economic performance of Western Balkan (WB) countries as well the current challenges that WB6 countries are facing with as a result of energy crisis. To fulfil this goal, we apply comparative analysis by using key economic indicators for six WB countries in the period before the crisis (2015-2019) and after the crisis (2020-2021).

The paper is organized as follows. In Section 2, we analyze the economic and trade performance of WB6 region before the crisis. Section 3 analyzes the economic impact of Covid-19 crisis on WB6 region. In Section 4 we investigate the current challenges that the WB6 countries are facing with due to the energy crisis and the future perspectives for the region. Finally, the paper summarizes the set of policy proposals for boosting the sustainable economic growth.

2. Economic and trade performance of WB6 region before the Covid19 crisis

The WB6 region in the period before the Covid-19 pandemic has had well economic performances, [3]. Actually, the major part of the countries from WB6 region in the period 2015-2019 recorded average economic growth rate between 3-5% which was almost double compare with the performance of the EU countries.

In the table below are presented the economic performances of WB6 and EU countries in the period before the Covid-19 crisis.

Table 1 The rate of economic growth of WB6 and EU, 2015-2019

Country	2015	2016	2017	2018	2019	Average 2015-2019
Albania	2.22	3.31	3.80	4.02	2.11	3.09
Bosnia and Herzegovina	3.09	3.15	3.17	3.74	2.83	3.20
Kosovo	5.92	5.57	4.83	3.41	4.76	4.90
Montenegro	3.39	2.95	4.72	5.08	4.06	4.04
North Macedonia	3.86	2.85	1.08	2.88	3.91	2.92
Serbia	1.81	3.34	2.10	4.50	4.33	3.21

European Union (EU)	2.31	2.01	2.81	2.07	1.82	2.20
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Source: Authors' calculation based on World Bank database

The economic growth of WB6 countries in the period before the crisis were driven dominantly by the final consumption (private and public), investments, especially FDIs, as well as, export of goods and services.

For illustration, the annual average growth rate of export of goods and services in the period 2015-2019 is significant. Kosovo and Serbia had the highest average growth rate of export of goods and services of 9.77% and 8.94%, respectively.

Table 2 Export of goods and services (annual % growth)

Country	2015	2016	2017	2018	2019	Average 2015-2019
Albania	0.97	11.34	13.24	4.03	2.64	6.44
Bosnia and Herzegovina	9.78	9.37	11.82	7.04	0.42	7.69
Kosovo	1.84	10.38	20.02	9.07	7.55	9.77
Montenegro	5.74	5.94	1.79	6.89	5.80	5.23
North Macedonia	8.48	9.08	8.35	12.81	8.88	9.52
Serbia	9.28	12.01	8.23	7.50	7.67	8.94

Source: Authors' calculation based on World Bank database

On the other side, Montenegro has recorded the highest average growth of services, especially tourist services that are substantial part of the total export and GDP of the country. The number of international tourists that visited Montenegro recorded annual growth of 13.3% in the period 2015-2019.

The second factor that determed the economic growth of the WB6 region in the period before the crisis were investments, especially FDIs. Actually, the WB6 countries in the period 2015-2019 had substantial increase in the field of investments, especially in Montenegro and Serbia which have recorded growth of investments of 15.33% and 11.26%, respectively. In both countries the investments growth was primarily driven by the FDI inflows.

In the table below are presented the annual growth rates of investment in WB6 countries in the period before the Covid-19 crisis.

Table 3 Gross capital formation (annual % growth)

Country	2015	2016	2017	2018	2019	Average 2015-2019
Albania	3.18	0.31	4.37	0.60	1.78	2.05
Bosnia and Herzegovina	2.97	12.42	11.38	4.42	6.35	7.51
Kosovo	10.03	16.37	0.58	7.01	-1.59	6.48
Montenegro	7.97	26.01	26.87	12.54	3.24	15.33
North Macedonia	8.27	12.53	-2.20	1.67	9.51	5.96
Serbia	5.83	1.18	11.11	20.78	17.42	11.26

Source: Authors' calculation based on World Bank database

The economic growth before the crisis has had positive impact on the unemployment rate in the WB6 countries. The most significant decrease of unemployment rate has been recorded in Bosnia

and Herzegovina, from 28% in 2015 to 16% in 2019 (12 percentage points), and in North Macedonia, from 26% in 2015 to 17% in 2019 (9 percentage points).

The lowest unemployment rate in 2019 was achieved in Serbia (10%) and Albania (11.5%), which compare with the unemployment rate in EU is higher by 3.5% and 5%, respectively.

Table 4 Unemployment rate, total (% of total labor force)

Country	2015	2016	2017	2018	2019
Albania	17.19	15.42	13.62	12.30	11.47
Bosnia and Herzegovina	27.69	25.41	20.53	18.40	15.69
Kosovo	32.84	27.49	30.34	30.38	26.00
Montenegro	17.55	17.73	16.08	15.19	15.13
North Macedonia	26.07	23.72	22.38	20.74	17.26
Serbia	17.66	15.26	13.48	12.73	10.39
European Union (EU)	10.03	9.12	8.14	7.27	6.69

Source: Authors' calculation based on World Bank database

One part of the tendencies for decreasing the unemployment rate in WB6 countries before the crisis was a result of emigration towards EU, but dominantly it was a result of job creation and the growth of the employment rate.

3. Economic impact of Covid-19 crisis on WB6 region

The Covid-19 pandemic significantly slowed down the economic development path of WB6 region. In 2020, the WB6 region has recorded negative average growth rate of -3.1%.

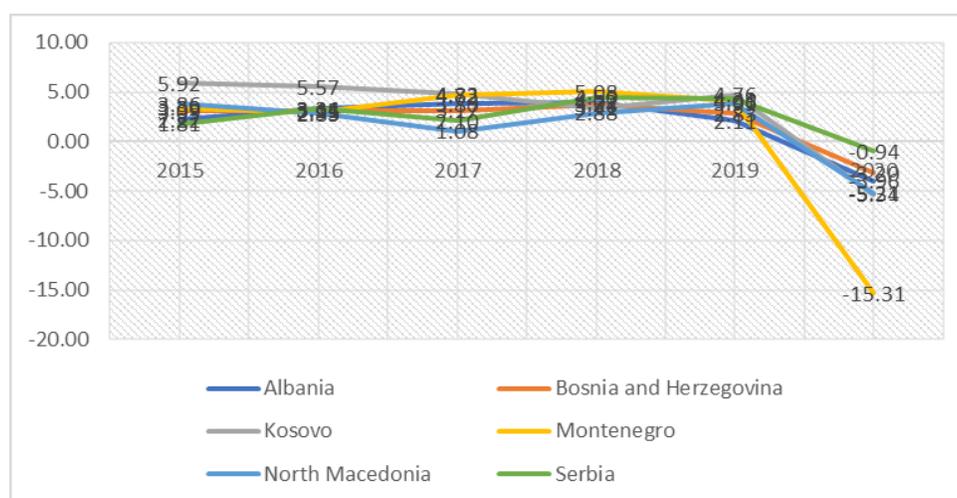


Figure 1 The economic growth rate trends, 2015-2020

The figure above shows that the highest decreasing trend of the real GDP from -15% in 2020 was recorded in Montenegro. This is due to the country's economic structure where tourism as a sector with larger relative share was the most devastated sector in the period of the pandemic. The second worst result in the WB6 region has had North Macedonia which was largely due to the fall of export sector as a result of the disruption of global supply chains, transportation problems and decreasing of the EU demand.

On the other hand, Serbia was a country with the lowest decrease of GDP in 2020 (-0.94%). It was largely due to good economic policies of the Serbian government in the part of vaccination, stimulation of the domestic economy through government support programs, policies for attracting FDI which were providing results in times of crisis, [8].

In the table below is presented the economic performance of the WB countries before and in the period of Covid-19 crisis.

Table 5 The rate of economic growth, 2015-2019 and 2020

Country	Average growth rate (2015-2019), %	Growth rate in 2020, %
Albania	3.09	-3.96
Bosnia and Herzegovina	3.20	-3.20
Kosovo	4.90	-5.34
Montenegro	4.04	-15.31
North Macedonia	2.92	-6.1
Serbia	3.21	-0.94
European Union (EU)	2.20	-5.96

Source: Authors' calculation based on World Bank database

The negative growth rates were accompanied with negative trends both in the intra-regional export among WB6 countries (-5.6%) and extra WB6 export to the world (-5.5%).

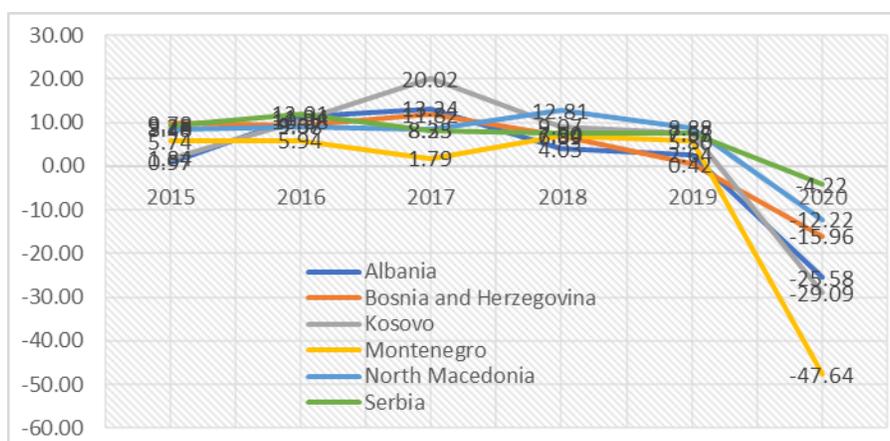


Figure 2 Export of goods and services (annual growth, %) 2015-2020

The biggest fall in the export of goods and services of 47% records Montenegro, largely due to fall of export of the tourist services as a dominant exporting sector. In 2020 Montenegro recorded fall in the number of tourists for almost 10 times, from 2.5 million foreign tourists in 2019 to only 350.000 foreign tourists in 2020. The fall in the export of goods also recorded Albania, Kosovo from 2.58% and 29.9% respectively.

At the same time, North Macedonia with a fall in export from 16% is a country with second biggest export fall in 2020. These negative tendencies in most of the countries are due to the significant fall of the export of the foreign companies that have large share in the export of the WB6 countries. In the table below are presented the comparative analysis of WB6 export performances of WB6 countries before and in the period of Covid-19 crisis.

Table 6 The growth rate of export of goods and services, 2015-19/2020

Country	Average (2015-2019), %	2020, %
Albania	6.44	-25.58
Bosnia and Herzegovina	7.69	-15.96
Kosovo	9.77	-29.09
Montenegro	5.23	-47.64
North Macedonia	9.52	-12.22
Serbia	8.94	-4.22

Source: Authors' calculation based on World Bank database

Negative tendencies were also recorded in the field of investments (domestic and foreign).

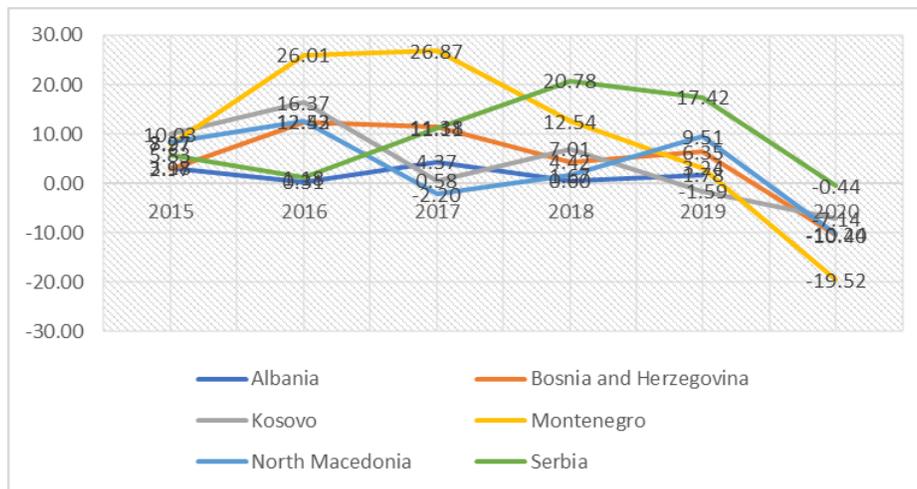


Figure 3 Gross capital formation (annual % growth) trend, 2015-2020

Actually, the WB6 countries were recorded negative growth rate of investments of -5.3% in 2020. The biggest fall of investment was recorded in Kosovo (-17%), while in North Macedonia and in Bosnia and Herzegovina were recorded 10% fall of investments.

On the other hand, Serbia was a country which succeed in balancing the negative crisis effects in the field of investment due to the pro-active policy in attracting FDI, improved investment terms for domestic investors, as well as, significant capital investment of the government.

4. Current challenges and future economic perspectives of WB6 region

The WB6 countries has a strong growth rebound in 2021 with a broad-based bounce back in economic activity after the Covid-19 crisis in 2020. In 2021, the growth rate in WB region has reached 7.4% after a contraction of 3.2% in 2020.

Several WB6 countries at the end of 2021 succeed in compensating the losses from 2020 reaching the levels of GDP as before crisis. The biggest growth of real GDP in 2021 recorded Montenegro (13%), Kosovo (10.5%), Albania (8.5%), while North Macedonia had the lowest growth rate of 4%. Serbia is a country with the best net-effects in the period 2020-21 which confirms that this country fought the crisis most successfully. Namely, Serbia has had the lowest fall of GDP in 2020 of -0.9%, while in 2021 country recorded growth rate of 7.4%.

Table 7. The rate of economic growth, 2020-2022, and 2023-2025e

Country	2020, %	2021, %	2022, %	2023,% e	2024,% e
Albania	-3.5	8.5	3.2	2.2	2.5
Bosnia and Herzegovina	-3.1	7.5	4.0	2.8	3.2
Kosovo	-5.3	10.5	3.1	3.7	4.2
Montenegro	-15.3	13.0	6.9	3.4	3.1
North Macedonia	-6.1	4.0	2.1	2.7	2.9
Serbia	-0.9	7.4	3.2	2.7	2.8

Source: Authors' calculation based on World Banka database

The main source of growth in 2021 were the private consumption which was the most vulnerable in the Covid-19 period in 2020, the recovery of tourism sector which was the most devastated sector during the crisis as well the export recovery due to the return of the world demand for WB products.

The economic recovery in 2021 was associated with significant job creation, helping to reverse some of the adverse impacts of the Covid-19 pandemic. Actually, more than 227,300 new jobs were created in 2021 in the WB6 countries which contributed for achieving the historical high percent of the working-age population (45.8%).

However, the war in Ukraine that started in the first part of 2022 has disrupted the speed of economic recovery of WB6 region through a host of transmission channels such as trade, increasing price of energy, inflation, remittances and international finance. The economic growth in 2022 was significantly low as a result of internal and especially external risks such as the war conflict in Ukraine, investment risks, geopolitical tensions, disruption of trade, less favorable financing conditions to refinance debt, global inflation and other risks, [4].

Policy makers in WB region need to set priorities aimed towards policies for boosting resilience and sustainable growth. Some policy proposals are: 1) Prudent fiscal policies due to limited space and high public debt: weigh costs and benefits of new temporary spending and taxation measures in response to inflation surge; keep them targeted to vulnerable households and firms; strengthen collection and improve tax compliance. 2) Support private sector growth through structural reforms by reducing regulatory costs; (strengthening competition policy; (easing firm restructuring/exit; and strengthening the rule of law. 3) Rebuild human capital by education system reforms; supporting labor market participation through employment support and re-skilling workers; and 4) Accelerate energy security and transition by fostering regional integration of energy markets; energy efficiency and renewable energy investments; operational efficiency programs for poverty reduction.

The above proposed policies are expecting to boost the economic growth of WB6 countries in the period 2023-2024. According to the official forecasting from the relevant international economic institutions, the WB6 region is expected to grow between 2-4% in the next several years, [7].

Conclusion

The paper investigates the economic impact of Covid-19 pandemic on Western Balkan six countries, the post-crisis recovery and the current challenges that the WB6 region are facing with as a result of energy crisis.

The results of the comparative analysis in the pre-crisis period (2015-2019) showed that the average growth rate of WB6 countries were higher than the average EU growth rate. Actually, the

major part of the countries from WB6 region in the period 2015-2019 recorded average economic growth rate between 3-5% which was almost double compared with the average growth rate of the EU countries (2.2%).

The positive economic trends in the period 2015-2019 were broken down by the Covid-19 crisis in 2020. The WB6 region has recorded negative rate of economic growth of -3.1%, accompanied with negative trends in the intra-regional export within WB6 region of -5.6% and negative export rate to third countries of -5.5%, as well as negative growth rate of investments of -5.3%. However, the comparative analysis shows that the negative effects of the Covid-19 crisis on WB6 region were smaller than originally expected which is result of the anti-crisis economic measures implemented by the national governments, as well as, relatively well performance of the Serbian economy during the crisis. In the same time, there is significant intra-regional trade potentials that were used during the crisis.

After the initial economic recovery of the Western Balkan six economies from Covid-19 crisis that happened in 2021 when was recorded average growth rate of 7.4%, Russia-Ukraine conflict caused new global economic crisis caused by the imposing measures from EU to Russia, dramatic increase in the prices of the energy flowed by the price increase in all products, new disruptions in the supply chains and shortages and lack of some necessary intermediate inputs. The main risk is a further increase of energy, natural gas and oil prices, to which all economies are exposed, and which affect the inflation. High prices of fertilizers also affect the rise of prices of agricultural and food products. Inflation reduces the purchasing power of the population, which will be reflected in the reduction of personal consumption, which is the main component of the GDP of WB economies.

Finally, the paper summarized a set of policy proposals for boosting resilience and sustainable growth in the near future. Some of those policies are prudent fiscal policies, private sector support, rebuilding human capital, and investment in renewable energy and regional integration of energy markets.

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