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ECONOMIC IMPACT OF COVID-19 PANDEMIC ON THE HOSPITALITY SECTOR IN KOSOVO

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ECONOMIC IMPACT OF COVID-19 PANDEMIC ON THE HOSPITALITY SECTOR IN KOSOVO

This report provides a brief summary on potential economic costs on the hospitality sector in Kosovo. The travel and tourism industry, which is part of the hospitality sector, is one of the sectors most hit by the current pandemic crises. This is also confirmed by the UNWTO, which states that the global industry is estimated to incur losses up to 50 billion USD¹. Moreover, accurate estimations are impossible to be drawn for now, due to uncertain trajectory of the pandemic crises. Taking into consideration these uncertainties, the objective of this report is not to evaluate the costs of the pandemic crises in the hospitality sector in Kosovo but rather to provide a broad estimation on potential impact.

The analysis in the report are based on the official statistics from the Kosovo Agency of Statistics (KAS), specifically from the 'Results of the Structural Business Survey 2018', as well as partly based on the 'Tourism Supply Side Survey' of the Promoting Private Sector Employment (PPSE) project. The impact is limited to the hospitality sector, which according to KAS includes 'Accommodation and food service activities'² – based on the NACE classification. This sector includes accommodation and food and drinks provider units, which can be referenced under HoReCa. This sector has been heavily impacted due to the pandemic crises, primarily due to 'lockdown' measures as well and halt of tourism.

Summary of the sector size

According to KAS, the total number of active enterprises in 2018, in the hospitality sector is **3,683**. This represents over **10%** of the overall number of active SMEs in Kosovo. The contribution of the sector in Kosovo's GDP is estimated at around 1.3%. This accounts for around **EUR 86.5 million** of turnover. There almost **14,000** people employed and self-employed in this sector, accounting for around 3.7% of the total number of people employed in Kosovo. The average monthly wage in the sector is **EUR 254**.

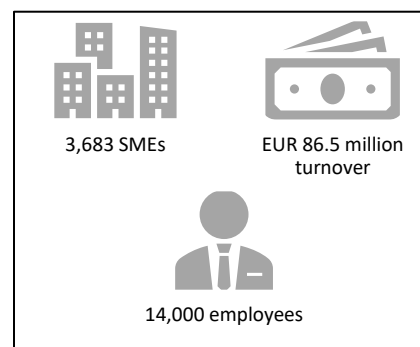


Figure 1. Summary of sector size

Methodology of estimations

The following estimations are based on the official data by the KAS (presented above) and through calculations of the PPSE's Tourism Supply Side Survey³. Specifically, the distribution of income during months as well as the share of seasonal and full-time employees is based on the Tourism Supply Side Survey, while the data on sector turnover and employees is derived from the KAS data. To estimate the economic impact, it is assumed that enterprises within this sector will terminate their economic activity for a period of **two months**. This assumption is based on a potential length of 'lockdown' timelines. However, other estimations can be done depending on the duration of the crises. The following graph presents the seasonal income distribution in the sector of accommodations and food and drinks providers⁴.

¹ <https://www.unwto.org/impact-assessment-of-the-covid-19-outbreak-on-international-tourism>

² KAS, Economic Statistics: Results of the Structural Business Survey 2018.

³ PPSE, Tourism Supply Side Survey 2018.

⁴ Author calculations based on the data presented in the Kosovo Tourism Supply Side Survey 2018.

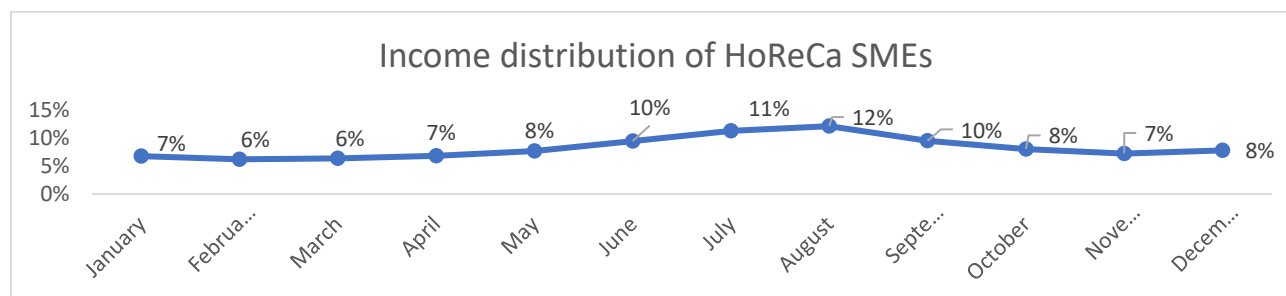


Figure 2. Income distribution of HoReCa SMEs

The graph above shows that early months of the year are generally 'low season' of the SMEs in this sector. If it is assumed that business activity will be terminated during April and May, based on the above data the sector could lose around **15%** of the annual turnover. This represents a significant share, moreover, the hospitality sector impacts other interlinked sectors (i.e. supply chains), where the impact is estimated close the total impact of the hospitality sector itself⁵.

With regards to the type of employees, since the sector is considered with seasonality, it is characterized also with seasonal employees. Around **14%** of the total number of employees in the sector are assumed to be seasonal, who are employed by SMEs during peak season – between June and September. Based on this, it can be argued that the share of employees affected due to pandemic crises is around **86%** of total sector employees.

Estimation of pandemic economic impact in the sector

It must be noted that the estimations provided in this report cannot be accurate, considering that the impact and duration of the crises is unknown for the moment. The aim of this report is to present a broad estimation on potential impact, which can be utilized by policy makers and other organization to plan for support measures. Furthermore, findings are presented based on multiple sources and assumptions.

A two months economic termination of the hospitality sector can have the following impact in Kosovo:

- More than **12,000**⁶ employees are inactive, at risk of losing their jobs and without income.
- The people employed in the sector would lose a total amount of over **EUR 6 million**⁷ in wages.
- **3,683 SMEs** are directly impacted with costs of around **EUR 13 million**⁸ loss in turnover.
- Due to inactivity of the hospitality sector, further impact in interlinked sector could be more than **EUR 10 million**.

⁵ The estimations on indirect and induced impact of the tourism sector are used by PPSE internal assessment analysis and are based on the multipliers published by WTTC (World Travel & Tourism Council).

⁶ This number is derived from the total number of employees 14,000 multiplied by the share of full-time employees (86%) – thus excluding seasonal employees.

⁷ 12,000 employees earning with an average monthly wage of EUR 254 for 2 months.

⁸ Around 15% of EUR 86.5 million total sector turnover is generated during April and May.

Potential Support measures

The Organization for Economic Co-operation and Development (OECD) recommends governments to take the following economic measures:

- a. People: short-term employment schemes, reduced requirements to benefit from unemployment insurance, cash transfers to the self-employed and support to the most vulnerable; and
- b. Firms: charges and tax payment delays, temporary VAT reductions or deferrals, enhanced access to working capital through credit lines or state guarantees, special support packages for SMEs, especially those in services and tourism.

On the other hand, the World Travel and Tourism Organization (WTTC) has proposed three vital measures to all governments to support businesses in the travel and tourism sector:

- a. Financial help must be granted to protect the incomes of the millions of workers in the sector facing severe economic difficulties.
- b. Governments must extend vital, unlimited interest-free loans to global Travel & Tourism companies as well as the millions of small and medium sized businesses as a stimulus to prevent them from collapse.
- c. All government taxes, dues and financial demands on the travel sector need to be waived with immediate effect at least for the next 12 months.

The regional countries have undertaken some economic measures to mitigate the economic downturn due to COVID-19.

Regional experiences - North Macedonia

The Development Bank of Northern Macedonia will support micro, small and medium-sized enterprises with a EUR 5.7m fund. Depending on the number of employees, companies will be able to obtain interest-free loans, with a six-month grace period and a two-year repayment period, as follows:

- micro-enterprises (up to 10 employees) can get a loan of EUR 3,000 to EUR 5,000;
- small enterprises (between 10 and 50 employees) can receive a loan of 10,000 to 15,000 EUR;
- medium companies (between 50 and 250 employees) can get a loan from EUR 15,000 to EUR 30,000.

The government will subsidize payroll contributions for April, May and June 2020 in the tourism, transport and hospitality sectors, as well as for other affected companies. The subsidy for an employee will reach 50% of the average wage paid in 2019, with some conditions for companies.

Companies that have earned profits as a result of business operations in 2020 will be required to return subsidies for contributions of up to 50% of their pre-tax profits. Furthermore, subject to the same conditions above, enterprises from the tourism, transport and hospitality sectors, as well as for other affected companies, will be exempt from corporate income tax advance payment in April, May and June. It will ensure uninterrupted entry and transit of cargo vehicles.

Work in factories and larger plants should be reorganized in shifts, i.e. up to four shifts if necessary. In addition to the above, the Ministry of Finance of North Macedonia announced the following measures and recommendations:

- reduction of the statutory default interest for 50% and amendment of the period for which the National Bank of North Macedonia prescribes the reference interest rate;
- reduction of the penalty interest for public duties from 0.03% to 0.015%; and
- recommendation for reducing the prices for maintenance of fiscal cash registers up to 50% to the providers of such services.

Regional experiences - Albania

Albania will support the private sector through the Sovereign Guarantee instrument in the amount of ALL 11 billion (USD 100 million). This amount will go as a guarantee for companies that face problems in paying the salaries for their employees during these months., where they will find it harder to find payroll sites for months of service work. This guarantee or short-term loan will ensure that each family has enough income to sustain itself during this hard period.

The Central Bank of Albania lowered its base interest rates from one per cent to 0.5 per cent, but said it will not forgive interest payments, which will be added to the total value of any loan.

The government promised it will pay the salaries of about 60,000 employees of small businesses or self-employed people, which will cost about 1.57 billion leks (13 million euros). It will also temporarily double monthly social benefits for about 70,000 very poor families at a cost of 340 million leks (about 2.8 million euros).