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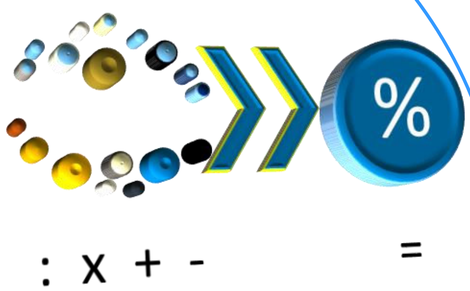
REPORT



IMPACT OF THE PANDEMIC ON SECTOR C AND PROPOSED MEASURES

Prishtina 2020

Introduction

Apart from its impact on health, the Covid-19 pandemic has also had detrimental effects on the global economy. The economic damage caused by the COVID-19 pandemic is observed in the partial cessesation of manufacturing activities and particularly in the ranking of demand with consumers not buying products other than food and essentials.

According to the World Bank regular economic report on the Western Balkans, Kosovo's economy was estimated to experience a growth of about 4% during 2020. However, due to the turn of events brought about by the pandemic, the country's economy is foreseen to suffer a decline of 4.5%.[1]

This Report analyses the data of the processing industry in terms of turnover, employment, exports and imports for the months of March, April and May 2020 as compared to 2019.

The purchasing power is lost in certain economic sectors due to the pandemic, which in turn leads to a disbalance between supply and demand.

The pandemic has caused a financial crisis in the manufacturing sector, particularly in the wood and furniture sectors, given that demand (purchasing power) in times of crisis, in this case regarding furniture, is minimal. Despite this, not all sectors of the global economy will be affected equally by the crisis. Some industries, such as the pharmaceutical, chemical and personal care industries have experienced a significant productivity growth.

The economic crisis now prevalent in the world is not limited to any particular sector; rather, it has affected all economic sectors in every country. To maintain jobs, business continuity and company liquidity, a package of emergency measures is being implemented, but it does not suffice to overcome the economic crisis.

[1] World Bank, Regular economic report on Western Balkans: Spring 2020

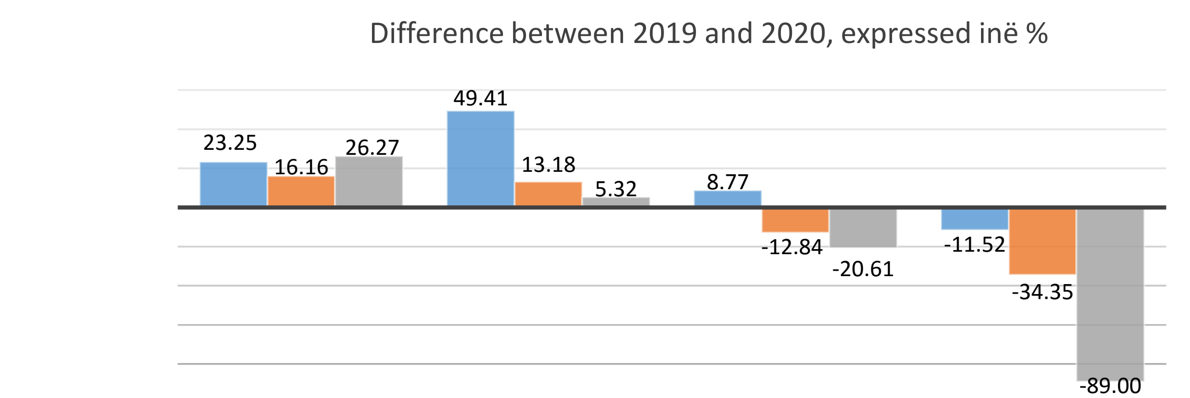
Overview of situation in the processing industry Sector C, January - April 2019/2020

This overview of the situation in Kosovo's processing industry is based on the analysis of business data using the measurement indicators of exports, imports and turnover. The analysis of such data points out that state institutions must design programs or strategies aimed at economic development and citizens' welfare even after the pandemic situation.

1. **Differences in exports, imports and turnover in the first four month of 2019 and 2020**

The disturbance of the value and demand of consumers is confirmed by the decline of the turnover value, exports and raw material imports.
Exports, imports and turnover showed a significant decline in March and April 2020 as compared to 2019.

Figure 1. Difference between 2019 and 2020 in exports, imports and turnover during January, February, March and April, in percentage



	Janar, 2019/2020	Shkurt, 2019/2020	Mars, 2019/2020	Prill, 2019/2020
Eksporti	23.25	49.41	8.77	-11.52
Importi	16.16	13.18	-12.84	-34.35
Qarkullimi	26.27	5.32	-20.61	-89.00

Source: TAK, processed by MTI/DI

Exports in January and February increased significantly compared to 2019, while in March the growth was low with a difference of 8.77% compared to 2019. The Covid-19 pandemic has resulted in reduced exports, with a decline of 11.52% in April 2020 as compared to 2019.

In January and February of 2020, imports increased by up to 16% compared to 2019, while in March 2020 they decreased by 12.84% compared to 2019, with the decline reaching 34.35% in April.

Turnover is one of the main indicators that shows the implementation of activities and the business development trend, including both exporting businesses and such that do not export or importing businesses.

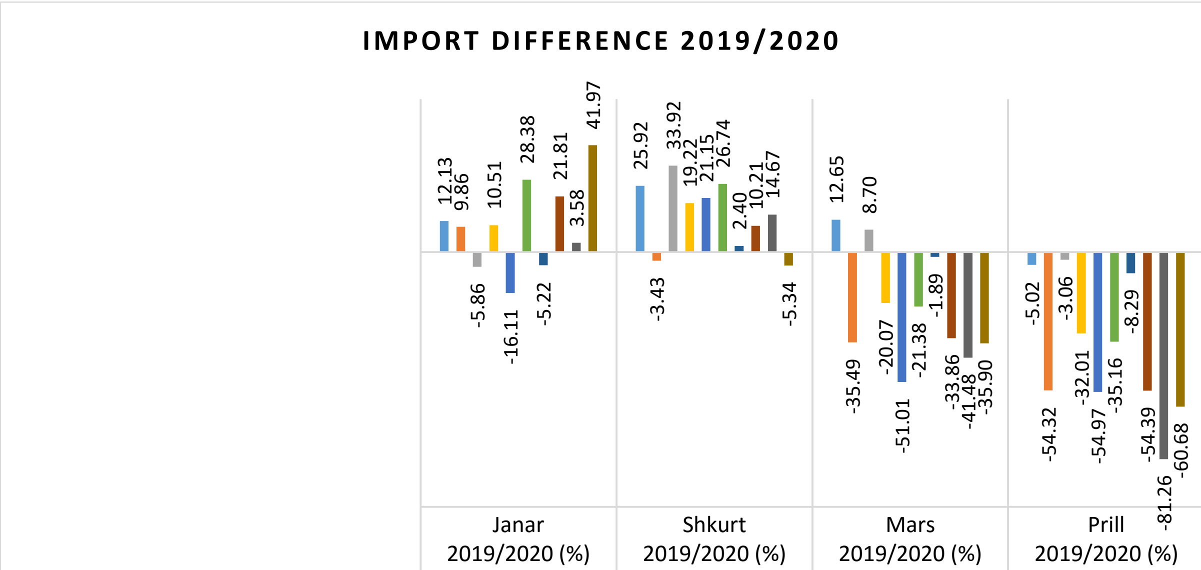
Figure 1 shows that businesses experienced a slight increase of turnover (5.32%) in February 2020 compared to the same month of 2019. On the other hand, they suffered a turnover decline of 20.61% in April, which was further deepened in April reaching 90%.

1.1 Difference in imports, January - April 2019/2020

Data on the imports difference between 2019 and 2020 for the four-month period of January – April show that a large decrease in processing sectors was recorded in March and April 2020. Thus, March 2020 saw a decrease of 12.84% compared to 2019, while the decline tripled in April, reaching 34.35%.

Comparison of imports data for April 2019 with the data for April 2020 shows that the most significant decrease was recorded in the subsector of "Footwear" (-81.26%) from 3.58% in January 2019/2020. A significant decrease in imports was also recorded in the subsector of "Basic metals and metallic article" (-60.68%) from 41.97% in January 2019/2020. The subsector of "Textiles and textile articles" marked a decline of -54.39% compared to a positive difference in imports of 21.81% in January 2019/2020.

Figure 2. Difference in imports between 2019 and 2020 for January, February, March and April



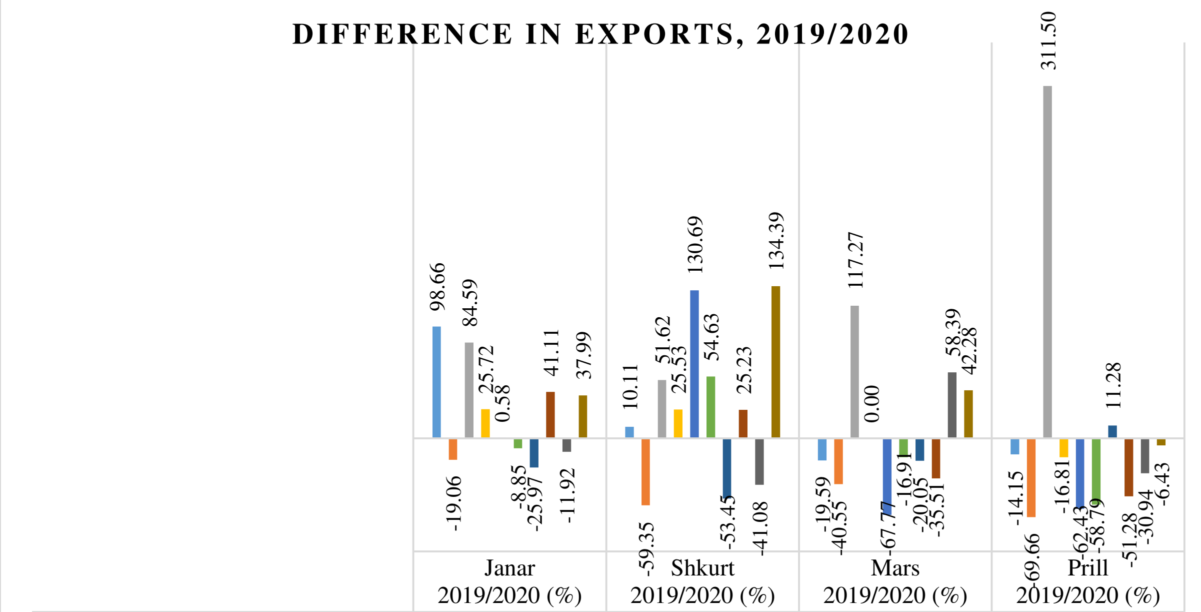
	Janar 2019/2020 (%)	Shkurt 2019/2020 (%)	Mars 2019/2020 (%)	Prill 2019/2020 (%)
4. Ushqime të përg. Pije dhe duhan	12.13	25.92	12.65	-5.02
5.Produkte minerale	9.86	-3.43	-35.49	-54.32
6.Produkte të industrisë kimike	-5.86	33.92	8.70	-3.06
7.Plastikë,gomë dhe artikuj prej tyre	10.51	19.22	-20.07	-32.01
8.Lëkurë dhe artikuj prej tyre	-16.11	21.15	-51.01	-54.97
9.Druri dhe artikuj druri	28.38	26.74	-21.38	-35.16
10.Letër dhe artikuj prej letëre	-5.22	2.40	-1.89	-8.29
11.Tekstil dhe artikuj tekstili	21.81	10.21	-33.86	-54.39
12.Veshëmbathje të këmbëve	3.58	14.67	-41.48	-81.26
15.Metale bazë dhe artikuj prej tyre	41.97	-5.34	-35.90	-60.68

Source: TAK, processed by MTI/DI

1.2 Difference in exports, January – April 2019/2020

Comparison of export data in the processing industry subsectors for the period January-April 2019/2020 shows a large decrease in the subsector of "Prepared foods, beverages and tobacco", from 98.66% to -14.15%. A significant decrease in this period was also recorded in the export of "Textile and textile articles", from 41% in January 2019/2020 to -51.28% and of "Leather and realted products", from 0.58% to - 62.43%, albeit the noted increase of exports by 130.39% in February. However, as revealed by the comparison of processing industry data for 2019/2020, not all subsectors were affected by such decline. Thus, the exports value in the subsector of "Chemical industry products" rose from 84.59% in January to 311.50% in April. The comparison also shows an increase in the subsector of "Paper and paper products", from -25.97% to 11.28%, in April 2019/2020.

Figure 3. Difference in exports between 2019 and 2020 for January, February, March and April



	Janar 2019/2020 (%)	Shkurt 2019/2020 (%)	Mars 2019/2020 (%)	Prill 2019/2020 (%)
4. Ushqime të përg. Pije dhe duhan	98.66	10.11	-19.59	-14.15
5.Produkte minerale	-19.06	-59.35	-40.55	-69.66
6.Produkte të industrisë kimike	84.59	51.62	117.27	311.50
7.Plastikë,gomë dhe artikuj prej tyre	25.72	25.53	0.00	-16.81
8.Lëkurë dhe artikuj prej tyre	0.58	130.69	-67.77	-62.43
9.Druri dhe artikuj druri	-8.85	54.63	-16.91	-58.79
10.Letër dhe artikuj prej letëre	-25.97	-53.45	-20.05	11.28
11.Tekstil dhe artikuj tekstili	41.11	25.23	-35.51	-51.28
12.Veshëmbathje të këmbëve	-11.92	-41.08	58.39	-30.94
15.Metale bazë dhe artikuj prej tyre	37.99	134.39	42.28	-6.43

Source: TAK, processed by MTI/DI

1.3 Difference in turnover, January - April 2019/2020

In addition to exports and imports, the turnover value overview is also an indicator of the situation across sectors for the comparison periods January-April 2019 and January-April 2020.

The months of March and April 2020 showed a significant turnover decrease in the processing industry subsecotrs compared to 2019. If we take the total of all the processing subsectors, an increase of 26.5% is noted in January 2020 as compared to January 2019, while a smaller increase of turnover value by 9.2% was observed in February 2020 as compared to 2019.

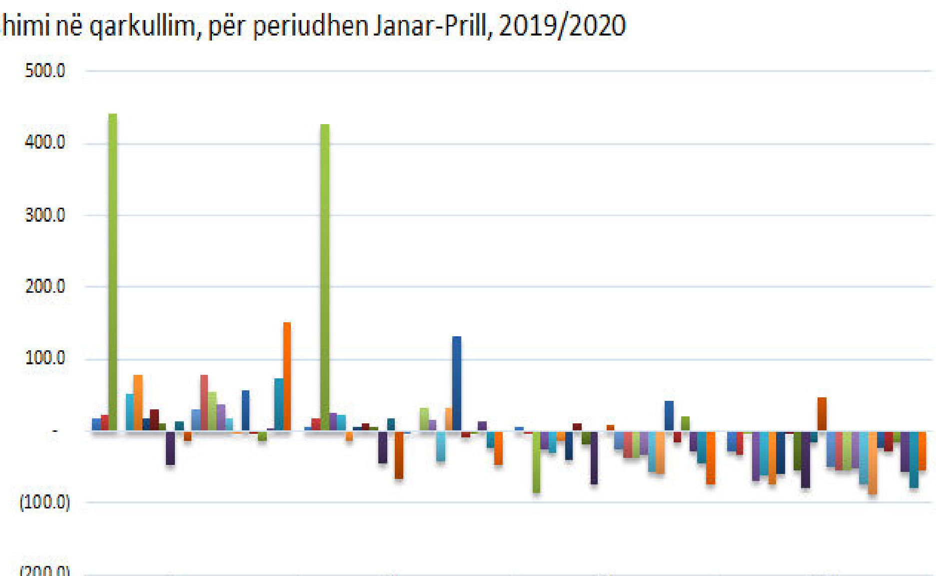
Decreased turnover value was recorded in the processing industry subsectors in the two subsequent months of March and April. The value of turnover decreased by 17.52% during March 2020, compared to March 2019, while the decline deteriorated to 42.65% in April.

The data presented in Figure 4 show that the “Manufacture of tobacco products” subsector had the largest share in decreasing the turnover value. The turnover value difference of this subsector was 442.5% in January 2019/2020 and 427.93% in February. It decreased to -85.84% in March, while April recorded a slight increase compared to the difference in the previous month, i.e. -1.03%.

Another sector affected by turnover decline is the “Repair and installation of machinery and equipment” subsector, under which the 2019/2020 difference in January was 150.9%, while a decrease of -73.05% and -55.05% was noted in March and April respectively.

The “Manufacture of leather” subsector experienced a turnover value decrease from 78.5% in January to -73.35% in April 2019/2020. Immediate decline in this subsector was also observed in February (-14.07%) and in March (-12.79%). A similar decrease in the turnover value was recorded in the subsector of “Manufacture of non-metallic mineral products”, from 79.7% in January to -53.59% in April 2019/2020.

Figure 4. Difference in turnover between 2019 and 2020 for January, February, March and April



	Janar 2019/2020 (%)	Shkurt 2019/2020 (%)	Mars 2019/2020 (%)	Prill 2019/2020 (%)
10 Përpunimi i produkteve ushqimore	17.0	6.62	5.68	-28.48
11 Prodhimi i pijeve	23.1	17.88	-0.03	-33.57
12 Prodhimi i produkteve të duhanit	442.5	427.93	-85.84	-1.03
13 Prodhimi i tekstilit	1.0	25.89	-26.16	-69.48
14 Prodhimi i veshjeve	52.0	22.56	-30.42	-61.86
15 Prodhimi i lëkurës dhe produkteve prej lëkurë	78.5	-14.07	-12.79	-73.35
16 Prodhimi i drurit dhe i produkteve të drurit dhe të tapës	18.1	6.92	-39.81	-58.91
17 Prodhimi i letrës dhe produkteve prej letrës	29.6	11.35	11.56	-4.75
18 Shtypja dhe riprodhimi i mediave të incizuara	11.7	6.20	-17.77	-53.59
19 Prodhimi i Koksit dhe produkteve të rafinuara të naftës	(47.1)	-44.27	-74.99	-78.41
20 Prodhimi i produkteve kimike	12.9	17.00	2.33	-15.80
21 Prodhimi i produkteve bazë farmaceutike dhe preparateve farmaceutike	(14.3)	-66.17	7.94	46.61
22 Prodhimi i produkteve të gomës dhe të plastikës	29.4	-0.11	-25.26	-49.29
23 Prodhimi i produkteve minerale jo metalike	79.7	2.09	-37.96	-53.59
24 Prodhimi i Metaleve	54.5	32.23	-38.00	-54.13
25 Prodhimi i produkteve të fabrikuara metalike	38.0	16.45	-33.29	-51.63
26 Prodhimi i kompjuterëve, produkteve elektronike dhe optike	17.1	-42.20	-56.16	-74.40
27 Prodhimi i pajisjeve elektrike	(3.2)	33.36	-58.71	-87.97
28 Prodhimi i makinerisë dhe pajisjeve p.k.t.	56.1	132.73	43.56	-23.10
29 Prodhimi i mjeteve motorike, rimorkio dhe gjysmë rimorkio	(0.3)	-7.68	-15.26	-27.45
30 Prodhimi i mjeteve tjera të transportit	(13.5)	-3.00	19.87	-16.92
31 Prodhimi i mobilieve	3.6	13.52	-27.25	-57.20
32 Prodhimi tjetër p.k.t	74.6	-23.49	-45.81	-79.62
33 Riparimi dhe instalimi I makinerive dhe pajisjeve	150.9	-46.01	-73.05	-55.05

Source: TAK, processed by MTI/DI

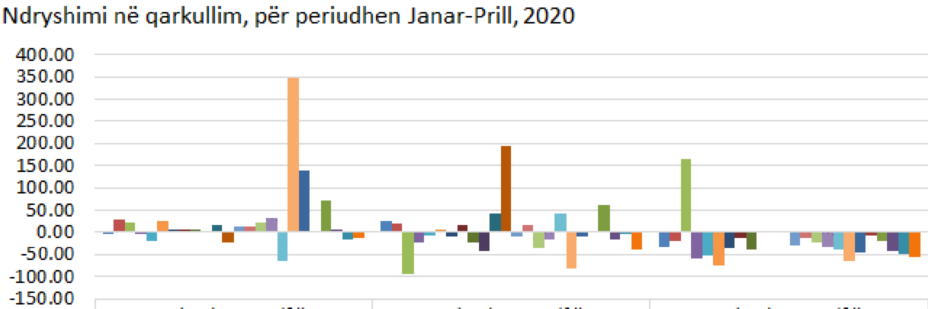
1.3.1 Difference in turnover, January - April 2020

Turnover is one of the indicators showing the functioning of a sector. Therefore, Figure 5 shows the turnover change of the processing industry subsector for the months of February, March and April 2020. Data analysis across these four months of 2020 gives an overview of the situation in the sectors at the beginning of the year, prior to the outburst of the Covid-19 pandemic and over the two subsequent months affect by the pandemic.

The largest positive change among the NACRev2 processing subsectors between March and April was noted in the “Manufacture of tobacco products” sector (164.82%), while the difference between February and March the difference was - 93.42%. In addition to the subsector of tobacco, which recorded an increase of over 100%, the “Manufacture of chemical products” and “Manufacture of basic pharmaceutical products and pharmaceutical preparations” also experienced growth, respectively 1.50% and 3.72%.

Overall April has seen a sharp drop in turnover in the processing subsectors. Among the sectors with the highest decrease compared to March are: “Manufacture of leather and related products” with a decrease of 74.35%, followed by “Manufacture of electrical equipment” (65.42%), “Manufacture of textiles” (58.91%), “Repair and installation of machinery and equipment” (55.58%), “Manufacture of wearing apparel” (52.94%), “Other products n.e.c.” (49.44%), “Manufacture of machinery and equipment” (45.55%) and “Manufacture of furniture” (42.41%) etc.

Figure 5. Difference in turnover between 2019 and 2020 for January, February, March and April



	Ndryshimi në (%) Janar/Shkurt	Ndryshimi në (%) Shkurt/Mars	Ndryshimi në (%) Mars/Prill
10 Përpunimi i produkteve ushqimore	-0.07	24.70	-32.29
11 Prodhimi i pijeve	28.27	17.58	-21.25
12 Prodhimi i produkteve të duhanit	22.90	-93.42	164.82
13 Prodhimi i tekstilit	-2.37	-24.40	-58.91
14 Prodhimi i veshjeve	-18.64	-6.67	-52.94
15 Prodhimi i lëkurës dhe produkteve prej lëkurë	26.79	5.07	-74.35
16 Prodhimi i drurit dhe i produkteve të drurit dhe të tapës	4.67	-10.24	-36.26
17 Prodhimi i letrës dhe produkteve prej letrës	6.10	15.97	-13.86
18 Shtypja dhe riprodhimi i mediave të incizuara	6.40	-23.04	-40.35
19 Prodhimi i Koksit dhe produkteve të rafinuara të naftës	2.23	-44.02	0.16
20 Prodhimi i produkteve kimike	16.27	40.92	1.50
21 Prodhimi i produkteve bazë farmaceutike dhe preparateve farmaceutike	-23.28	193.71	3.72
22 Prodhimi i produkteve të gomës dhe të plastikës	12.22	-9.74	-29.58
23 Prodhimi i produkteve minerale jo metalike	13.25	15.34	-14.09
24 Prodhimi i Metaleve	23.66	-35.66	-24.45
25 Prodhimi i produkteve të fabrikuara metalike	31.70	-15.81	-31.77
26 Prodhimi i kompjuterëve, produkteve elektronike dhe optike	-64.77	42.62	-38.40
27 Prodhimi i pajisjeve elektrike	346.06	-80.12	-65.42
28 Prodhimi i makinerisë dhe pajisjeve p.k.t.	137.47	-11.12	-45.55
29 Prodhimi i mjeteve motorike, rimorkio dhe gjysmë rimorkio	3.66	3.79	-7.01
30 Prodhimi i mjeteve tjera të transportit	69.78	60.97	-19.85
31 Prodhimi i mobilieve	5.14	-15.96	-42.41
32 Prodhimi tjetër p.k.t	-18.07	-1.78	-49.44
33 Riparimi dhe instalimi I makinerive dhe pajisjeve	-12.87	-38.10	-55.58

Source: TAK, processed by MTI/DI

Subsidization of interest rates for processing industry subsectors (Sector C)

Based on the dicussions and analysis of documents from other countries, “Facilitating access to finance” is among the main economic recovery measures. In order to further scrutinize this measure, this document focused on the Government Program 2020-2023 sub-measure “Subsidization of interest rates for certain sectors based on a strategic plan prepared by relevant stakeholders."

Many EU countries are preparing or have already implemented specific schemes using financial instruments to combat the negative effects of Covid-19 on the economy and job preservation.

Interest coverage schemes are often used by governments of other countries in times of crisis or even to promote the development of certain sectors.

Data at the the processing industry level10-33 from previous years assist in the orientation of financial support to certain subsectors of the processing industry.

- **Manufacturing subsectors have a “multiplier effect” on job generation**

One of the main indicators analyzed in this Report and which is of particular importance is employment, considering that Sector C – Processing industry participates with 10.03%[2] in the employment scale by economic activity. If we take into account other factors, it may be said that the processing subsectors have a “multiplier effect” on job creation in other sectors.

Out of the total processing industry enterprises, micro enterprises dominate with 85.5%, followed by small enterprises with 12.65%, medium enterprises with 1.74% and large enterprises with 0.15%.

Subsidization of loans to cover the interest of enterprises (3,396 enterprises) at a level of 75% for 5 years would cost the Kosovo budget EUR 50,110,404.00. On the other hand, loan coverage for 5 years for 50% of the enterprises in the processing industry sector (2,264 enterprises) would cost the Kosovo budget EUR 33,406,936.00.

Proposals regarding forms of covering such loans are listed below:

- Consider linking the Credit Interest Coverage Fund with the Kosovo Credit Guarantee Fund;
- Reach agreements with banks specifying the terms and criteria for enterprises applying for loans through this Fund;
- In agreement with banks, consider options for lowering interest rates and extending loan repayment periods.

[2] Report, Sector C-Processing Industry 2018, MTI – Department of Industry

- **The following proposals could be integrated into the economic recovery strategy or measures**

  - Provide liquidity support to enterprises facing liquidity shortages. Such support may be provided through public guarantee schemes and tax exemptions.[3]

  - Establish a financial support fund (consisting of two parts: grants and loan interest coverage) to assist in the recovery of the processing industry sectors.

  - Another option is to introduce the loan interest coverage component as part of the Kosovo Credit Guarantee Fund.

  - Provide tax deductions (for the pandemic period and 6 months thereafter) for the processing industry sector.

Application of incentives for increasing the demand, such as:

- Lower loan interest rates for households from current rate of 6.8% to 3 %;

- Allow the use of a percentage (10 to 20 %) of the pension trust from the employee contributions part.

[3] Report on the comprehensive economic policy response to the Covid-19 pandemic https://www.consilium.europa.eu/en/press/press-releases/2020/04/09/report-on-the-comprehensive-economic-policy-response-to-the-covid-19-pandemic/