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THE IMPACT OF COVID-19 PANDEMIC ON TOURISM DEVELOPMENT IN WESTERN BALKAN COUNTRIES[1]

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ABSTRACT

The COVID-19 pandemic is the cause of the global health crisis, economic downturn and financial crisis. The tourism was the most affected industry because moving and travel restrictions put in place. The purpose of this paper is to analyze the impact of COVID-19 on tourism development in Western Balkan countries. The aim of this paper is to analyze whether it exists the difference impact of COVID-19 on tourism development of Western Balkan countries. The results of research indicate that COVID-19 was the most important impact on tourism development of observed countries during this century. In 2020, the Western Balkan countries recorded the decrease of number of foreign tourists and tourism receipts, but the same time recorded the increase of receipts per tourist. At the same time, the results indicate that tourism and death rate have significant impact on the economic growth of Western Balkan countries.

KEY WORDS: COVID-19, Western Balkan countries, tourism development, economic growth.

[1] original research paper

INTRODUCTION

The pandemic of the disease called COVID-19, which initially appeared in China, represents an unprecedented health crisis in human history. The health shock caused by the pandemic initiated a supply-side shock and led to the escalation of the global economic crisis. Thus, the production capacity of the economies of countries around the world has been reduced due to (Monetary Authority of Singapore, 2022, p. 102-103): (1) declining labor supply, due to the spread of infection in the population, both due to the illness of workers and due to the quarantine of those persons who were in close contact with infected persons. In addition to a lack of supply, labor productivity has suffered as a result of school closures, as parents have been forced to work from home while still caring for their children; (2) temporary closure of jobs to reduce the spread of infection; (3) due to disruptions in global supply chains, the supply of imported intermediate inputs decreased and import prices increased, and economies were exposed to cost-side shocks and a temporary reduction in aggregate supply.

COVID-19 also caused a significant negative shock on the aggregate demand side, as growing uncertainty led to a drop in demand, a reduction in household income and their purchasing power.The pandemic has had a negative impact on aggregate demand through several channels (Monetary Authority of Singapore, 2022, p. 102-103): (1) the closure of economies around the world due to the pandemic has affected the contraction of international trade, and on that basis reduced import demand, especially in highly import-dependent economies; (2) compliance with social distancing measures has contributed to reducing the consumption of economic entities; (3) under the influence of uncertainty regarding the duration of the pandemic and the possibility of generating future revenues, the share of income of economic entities intended for savings has increased, which has contributed to a further reduction in aggregate demand.

In conditions when there is no space for further reduction of interest rates in order to stimulate aggregate demand, expansionary monetary policy had to give way to expansionary fiscal policy in order to ensure a sufficient level of macroeconomic stability. In essence, the negative shocks on the aggregate supply side and on the aggregate demand side caused by COVID-19 are fundamentally different from those caused by economic crises during the earlier period of economic history, which further complicates the application of traditional economic policy recipes and combinations of economic solutions in order to arrive at the optimal answer.

The first part of the paper will explain the economic consequences of the COVID-19 pandemic, as well as the impact of the economic structure on economic growth. The second part of the paper contains an analysis of the tourism development in the Western Balkan countries in the 21st century. After the discussion of the obtained results, concluding remarks on the impact of tourism on economic growth will be presented.

THE CONTRIBUTION OF ECONOMIC SECTORS TO ECONOMIC GROWTH

COVID-19 (2020) is a lost year for tourism on a global scale. This is all the more so because the negative effects of the COVID-19 pandemic spilled over from the health sector into all economic sectors, hitting the tourism and catering sector the hardest. Unlike previous crises, the crisis in the tourism sector caused by the COVID-19 pandemic had a global character, as there have been no cases in economic history for this sector to be affected so severely. For example, the impact of the 9/11 attacks on the United States had global ramifications, although the drop in global tourism was only transitory.

Similarly, this sector has been affected by the risk of a pandemic, namely the 2003 severe acute respiratory syndrome (SARS) and the 2015 Middle East Respiratory Syndrome (MERS), which have left no impact on global tourism due to limited (regional) impact. This immediately implies that prior research on the impact of health crises on the tourism sector is no longer valid, as they are regionally limited and offer a variety of options,especially if it keeps in mind that this health crisis has spread to the whole world at an unprecedented rate, causing enormous economic and social damage.

“The corona virus pandemic will have a long-lasting effect on tourism in the world. Travel restrictions have cost the tourism industry more than 200 billion dollars globally, not counting other travel revenues, while the airline industry, according to the International Air Transport Association (IATA), is projected to lose 113 billion dollars. Tourism contributes 10% to EU GDP;90% of SMEs in this sector employ 12% of EU employees” (Petrović-Ranđelović, Radukić, 2021, p. 155-156).

The recession in the world economy caused by the health shock has had a negative impact on all countries in the Western Balkans. The negative impact of the crisis can be observed through the structure of gross value added (GVA) by economic sectors in 2020 (Table 1).

Table 1. The structure of GVA by economic sectors, Western Balkans, 2020

Country	Economic sectors	% of GDP
Albania	Agriculture, forestry, fishing, value added	19,1
	Industry, including construction, value added	-3,6
	Services, value added	48,4
Bosnia and Herzegovina	Agriculture, forestry, fishing, value added	6,1
	Industry, including construction, value added	-1,8
	Services, value added	55,8
Montenegro	Agriculture, forestry, fishing, value added	7,6
	Industry, including construction, value added	-10,7
	Services, value added	58,0
North Macedonia	Agriculture, forestry, fishing, value added	9,1
	Industry, including construction, value added	-5,7
	Services, value added	57,0
Serbia	Agriculture, forestry, fishing, value added	6,3
	Industry, including construction, value added	-0,6
	Services, value added	51,9

Source: Authors presentation based on the data from the World Bank (2022b).

Observing the economic structure of the countries of the Western Balkans region, it could be noticed that it largely resembles the economic structure of developed Western European economies, in which the service sector dominates in the creation of GDP.

Based on the available data from the World (2022b) it was estimated that in the period from 2001 to 2008, the services sector with an average annual share in GDP of 51% was a key generator of dynamic GDP growth in the countries in the region. The dominance of the service sector in regional GDP generation continued in the second sub-period from 2009 to 2019 (average share of 53.4%). Although the service sector's percentage of GDP varies by country, Montenegro (59.4%) and Bosnia and Herzegovina (59.4%) have the highest average service sector contribution in GDP generation.

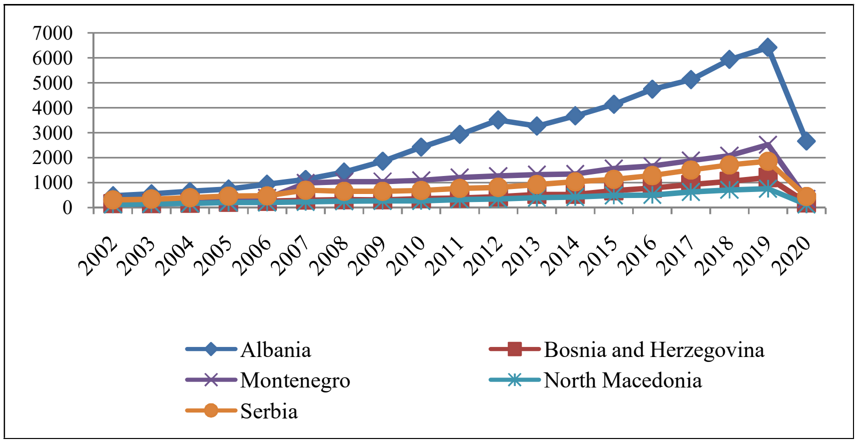
The implementation of measures to prevent the spread of the pandemic, from social distancing to the closure of enterprises, has disrupted labor supply and left a negative impact on the service sector of the region, which accounts for 75% of total employment in Montenegro and about 50% in others countries of the region. Thanks to such an economic structure and high dependence on the export of services, Montenegro and Albania have shown exceptional sensitivity to external shocks caused by the COVID-19 pandemic.

The paper will pay attention to the impact of the service sector, and especially tourism, on economic growth. This impact on economic growth depends on the attractiveness of the country or region, as well as the level of economic development (Radukić, Petrović, Stojanović, 2020, p. 230).

THE CHARACTERISTICS OF TOURISM DEVELOPMENT IN THE WESTERN BALKAN COUNTRIES

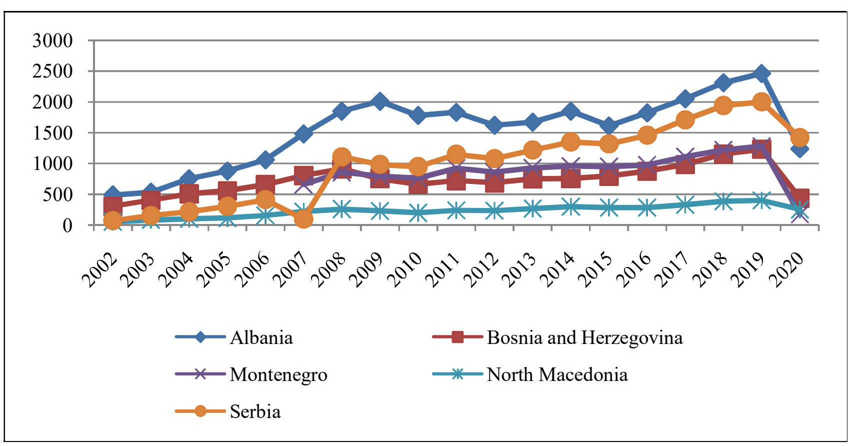
During XXI century, Albania recorded the highest number of inbound tourists and international tourism receipts while North Macedonia ranks last in the regionin terms of observed parameters. According to number of inbound tourists, Montenegro was found on the second place while Republic of Serbia on the third place.

In the period between 2002 and 2019, Albania, Montenegro and North Macedonia recorded the increase of the number of inbound tourists (Picture 1). Bosnia and Herzegovina and Republic of Serbia recorded the increase of number of inbound tourists in period between 2002 and 2008 as well as between 2010 and 2019. These countries recorded the decrease of the number of inbound tourists in 2009 as the result of economic crisis in 2008.



Picture 1.Number of inbound tourists in Western Balkan countries (in thousands)
Source: The World Bank, 2022a

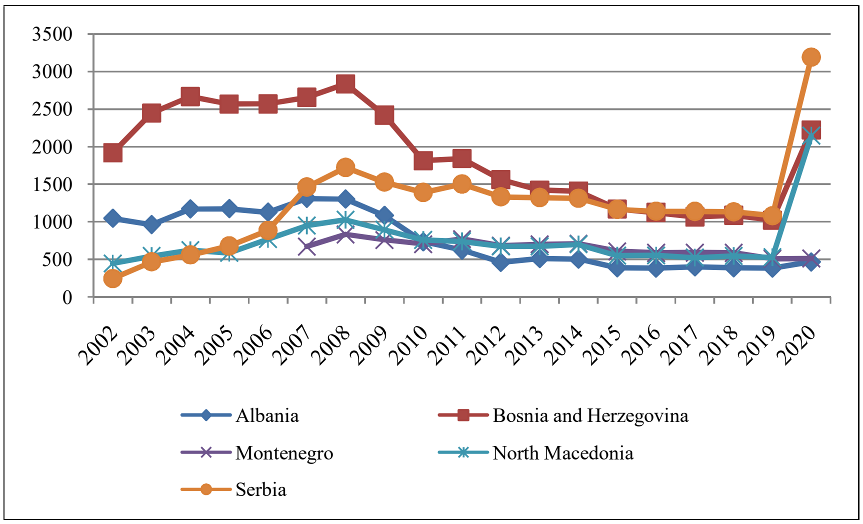
All countries recorded the cutting down of the number of inbound tourists in 2020 as result of COVID-19 pandemic. Montenegro recorded the highest decrease of the number of inbound tourists (about 86%) while Albania recorded the lowest decrease of the number of inbound tourists (about 58,5%) in 2020 in relation to the 2019. During 2020, for comparison, Albania recorded about 2,66 millions inbound tourists, while North Macedonia about 118 thousands inbound tourists.



Picture 2.International tourism receipts in Western Balkan countries (in million dollars)

Source: The World Bank, 2022a

Albania recorded the highest international tourism receipts from 2002 to 2019 while the North Macedonia recorded the lowest international tourism receipts during XXI century (Picture 2). The Republic of Serbia recorded the highest international tourism receipts in 2020. Western Balkan countries recorded the cutting down international tourism receipts in 2020. The highest decrease of international tourism receipts was recorded by Montenegro (about 86%), while the lowest decrease of international tourism receipts was recorded by Republic of Serbia.



Picture 3.International receipts per tourist in Western Balkan countries (in dollars)
Source: The World Bank, 2022a

In the period between 2002 and 2015, Bosnia and Herzegovina recorded the highest international receipts per tourist while Albania recorded the lowest international receipts per tourist in the period from 2011 to 2020. Republic of Serbia recorded the highest international receipts per tourist in 2020. In 2020, the highest increase of international receipts per tourist was recorded by North Macedonia – from 529 dollars (in 2019) to 2144 dollars (in 2020). Republic of Serbia recorded the increase of international receipts per tourist for about 194% in 2020 in relation to the 2019. The lowest increase of international receipts per tourist was recorded in Albania (about 22%). The increase of international receipts per tourist in Western Balkan countries is the consequence of the price increase of tourism services and products.

ANALYSIS OF ECONOMIC EFFECTS OF TOURISM DEVELOPMENT IN WESTERN BALKAN COUNTRIES

COVID-19 was one of the leading causes of death in the Europe. All Western Balkan countries, except Albania, recorded the increase of death rate in 2020 in relation to 2019. The Republic of Serbia recorded the highest increase of death rate in 2020 while North Macedonia recorded the lowest increase of death rate (The World Bank, 2022b).

In order to prevent an increase of the number of patients and the death rate caused by COVID-19, most countries were introduced moving and travel restrictions. Because of that, the tourism industry was the most damaged global industry. Bearing in mind the economic effects of tourism development, below, special attention will be paid to the impact of tourism on economic growth as well as the impact of the death rate on economic growth in Western Balkan countries.

Table 2.The common impact of tourism and death rate on the economic growth of the Western Balkan countries

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Sig
1	0,970	0,942	0,930	500,762	0,001
2	0,955	0,912	0,901	616,882	0,001
3	0,810	0,656	0,627	1166,631	0,001
4	0,964	0,929	0,920	405,182	0,001
5	0,833	0,693	0,675	2215,192	0,001

1 – Albania (a, b,c), 2 – Bosnia and Herzegovina (a and c), 3 – Montenegro (b), 4 – North Macedonia (a and c), 5 – Republic of Serbia (c) (a – death rate, b – number of inbound tourists, c – international tourism receipts)

Source: Prepared by the authors (SPSS Statistics 19)

In order to avoid the issue of multicollinearity, when analyzing the impact of tourism and death rate, the forward method was applied in regression analysis. The statistically significant common impact of the death rate, number of inbound tourists and international tourism receipts recorded only for Albania. The statistically significant common impact of the death rate and international tourism receipts recorded for Bosnia and Herzegovina and North Macedonia (Table 2).

Table 3.The invidual impact of tourism and death rate on the economic growth of the Western Balkan countries

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std.Error	Beta		
1	(constant)	7701,198	328,243		23,462	0,001
	b	0,920	0,099	0,914	9,294	0,001
	(constant)	2326,988	1989,454		1,170	0,259
	a	889,471	326,003	0,301	2,728	0,015
	b	0,723	0,111	0,719	6,527	0,001
	(constant)	526,726	1557,771		0,338	0,740
	a	1004,687	244,633	0,339	4,107	0,001
	b	0,476	0,106	0,473	4,495	0,001
	c	1,155	0,310	0,322	3,725	0,002
2	(constant)	-8569,592	3376,836		-2,538	0,021
	a	2522,690	356,729	0,864	7,072	0,001
	(constant)	-5320,707	2130,653		-2,497	0,024
	a	1881,628	245,665	0,644	7,659	0,001
	c	3,820	0,694	0,463	5,501	0,001
4	(constant)	25396,3	79564,206		-3,192	0,008
	b	21824,366	456,716	0,810	4,779	0,001
5	(constant)	5691,510	302,881		18,791	0,001
	c	14,155	1,215	0,943	11,654	0,001
	(constant)	-5479,386	3741,888		-1,464	0,162
	a	1278,344	427,247	0,320	2,992	0,009
	c	10,400	1,606	0,693	6,474	0,001
6	(constant)	30690,685	1072,086		28,627	0,001
	c	5,590	0,901	0,833	6,201	0,001

Source: Prepared by the authors (SPSS Statistics 19)

The results of regression analysis in Table 3 indicate that tourism has the statistical significant impact on economic growth of Western Balkan countries. The number of inbound tourists and international tourism receipts have the statistical significant impact on economic growth of Albania. Individually, the international tourism receipts has the statistical significant impact on economic growth of Bosnia and Herzegovina, North Macedonia and Republic of Serbia, while number of inbound tourists has the statistical significant impact on economic growth of Montenegro. The death rate has the statistical significant impact on economic growth of Albania, Bosnia and Herzegovina and North Macedonia.

CONCLUSION

COVID-19 in relation to the economic crisis in 2008 had significant negative consequences on the tourism development of the Western Balkan countries. While economic crisis in 2008 caused slightly decrease of the number of inbound tourists and the international tourism receipts in Western Balkan countries, COVID-19 caused huge negative effects on tourism development of Western Balkan countries. In 2020 in relation to 2019, Western Balkan countries recorded the decrease of number of inbound tourists from 58,50% (in Albania) to 86,02 (in Montenegro) and the decrease of international tourism receipts from 29% (in Republic of Serbia) to 85,94% (in Montenegro). At the same time, Western Balkan countries recorded the increase the international receipts per tourist. The highest increase of the international receipts per tourist were recorded by North Macedonia (about 305%) and Republic of Serbia (about 194%) while the lowest increase of the international receipts per tourist were recorded by Albania (about 22%). The increase of international receipts per tourist in Western Balkan countries is the consequence of a general increase in the prices of goods in economies of these countries.

Tourism as the fastest growing industry in XXI century has strong and multiplied impact on economic growth of every country. But, it impact on economic growth and economic development depend on the progress in economy of country. The results of regression analysis indicate that tourism development has significant impact on economic growth of Western Balkan countries.

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