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THE FACTORS INFLUENCING GROSS DOMESTIC PRODUCT GROWTH IN THE POST-PANDEMIC PERIOD: THE CASE OF KOSOVO

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Abstract: *This paper examined the factors that influenced the Gross Domestic Product growth (GDP) in the post-Covid-19 period in Kosovo. This paper explored the impact of consumption, remittances, exports, imports, and inflation on Kosovo's GDP growth using fixed effects regression analysis with data from various secondary sources to analyze their impact from Kosovo's perspective. The results demonstrated that consumption, remittances, and exports had a statistically significant influence on GDP growth during the post-pandemic economic lockdown stage, whereby imports and inflation had a little inverse relation. Further, the Hausman test statistics on the adequacy of the fixed-effect model selection represent a superior performance compared to the random effect model. The paper is the first that extensively explores the impact of these factors that drove GDP growth in the post-pandemic period in Kosovo's economy. The novelty of this paper is that it recognizes the response of governments to the pandemic and accurately identifies the macroeconomic factors that influenced GDP growth.*

Keywords: *GDP; Consumption; Remittances; Export; Time Series Models*

INTRODUCTION

Following the 2020 economic lockdown, most economies and international institutions concentrated on economic recovery. Economic growth in most countries fell sharply in the second quarter of 2020 due to the Covid-19 pandemic, rebounded significantly in the third quarter, and has been mainly positive after that. Even if they are reduced, the worldwide economic consequences continue to increase. World Bank's economic forecasts were very pessimistic for most countries, particularly Western Balkan countries, including Kosovo. World Bank economic growth predictions were so volatile due to disturbances in labor markets, production, supply chains, and disruptions in global energy, shipping, and transportation constraints. However, after economic growth fell, the economy began to breathe confidence and compared with the negative economic growth rate, most countries are experiencing very positive rates. Overall, industrialized economies have made progress in vaccinating increasing proportions of their inhabitants, improving the potential of a long-term economic rebound.

What caused the highest economic growth ever recorded in Kosovo, also in many other countries, especially in the Western Balkans, makes it more difficult to predict and measure the fact of compared to negative economic growth rates in 2020, positive changes in consumption, supply chain disruptions, large diaspora arrivals in the country, very high recorded inflation, or high turnover of goods and government expenditures. Through the various stages of the pandemic-related health and economic crises, governments responded with several policy initiatives that often attempted to balance competing policy objectives.

Compared to 2020, Kosovo's economy is recovering from its deepest recession in a decade, driven by improved vaccination rates, renewed mobility, policy actions, and tremendous diaspora support. After shrinking by 5.3 percent in 2020, real GDP is projected to grow by 7.5 percent in 2021. The government's reaction through the fiscal policy to the pandemic provided relief to cope with the consequences of this crisis, exclusively for households and businesses and managed to mitigate the impact of the pandemic. Following a strong revenue recapture, the fiscal policy stance was tightened to an almost balanced position in 2021 by a deficit of approximately 8 percent of GDP in 2020. Nevertheless, government action failed any significant effect, and its impact on the economy was not reflected. However, the strong financial support that filled this gap was the remittances from the diaspora. Thanks to financial stability, the banking sector continued with a steady increase in net credit to the private sector. Inflation in 2021 is projected to have risen to more than 5 percent (year on year) due to higher energy and food prices, which returned to their pre-pandemic levels. The banking sector has been generally resilient, with strong capital and liquidity reserves and low non-performing loans (IMF 2022).

Therefore, based on the issues raised above, the research aims to analyze the determinants that influenced real GDP growth after the lockdown in the context of Kosovo's economy. This research will be of interest to many young researchers and policymaking structures. The research uses secondary data structured and presented according to the standard format defined by IFM, including the period before, during, and after the lockdown, to evaluate and eliminate dilemmas about determinants through the econometric approach. To achieve this premise, research at the initial stage has structured research questions to create a correlative and unique approach between research questions and hypotheses. Therefore, the research questions are:

RQ1: What was the effect of remittances on consumption growth and their correlation with real GDP growth?
RQ2: What impact did Export/Import have on real GDP growth during the Covid-19 period?
RQ3: What was the impact of inflation on real GDP growth during this period?

The hypotheses presented in the framework of this research are continuously related to the research questions presented and the substance of the study and are as follows:

H_1: There is a significant positive correlation between consumption and real GDP growth.
H_2: There is a significant positive correlation between remittances and real GDP growth.
H_3: There is a significant positive correlation between exports and real GDP growth.
H_4: There is a significant negative correlation between imports and real GDP growth.
H_5: There is a significant negative association between inflation and real GDP growth.

The study thus aims to contribute in several aspects, starting with the expansion of the scientific literature where these determinants are investigated and their effect, on the other hand, provides original empirical evidence in the scenario of Kosovo economy through a dynamic approach and finally, gives important inputs for policymaking structures. The research is structured in the flow logic, starting with the introduction. In the second part, the literature background is presented. The third part contains the specified data and model, the fourth part includes the analysis and the findings, and the final part is with conclusions.

THEORETICAL REVIEW

Covid-19 is a worldwide health problem in the entire world. The increased case of Covid-19 proved to have quite an important influence on the economy globally which may have affected stability (Susilawati *et al.* 2020). The Covid-19 pandemic that the UN has established affects transportation, tourism, trade, health, and other sectors. Numerous states take the 'lockdown' policy to prevent the further spread of Covid-19, so economic activities are hindered and pressure the world's economy (Keuangan 2020). Things were different back in 2015 when the United Nations accepted 17 Sustainable Development Goals (SDGs) to improve people's lives and the natural world by 2030. It was arguably one of humanity's finest moments the whole planet signed up. Many national budgets were flush with funds. Governments agreed on ambitious treaties, including the Paris climate agreement, the Sendai Framework on disaster risk reduction, and the Addis Ababa plan for financing development (Naidoo and Fisher 2020). The analysis is relevant in the current revisions on the economic influence of pandemic-prevention efforts.

Similarly, the set-up examination was used to evaluate a variety of lockdown lifting outlines (moving to the so-called 'Phase-2'), highlighting the complexity for legislators in striking the right balance between contagion spread and economic revitalization (Spelta *et al.* 2020). Governments worldwide are taking measures to support the economic sectors and mitigate the adverse impact of the pandemic. These measures vary across countries, and their implication is something that will be understood over time. The whole range of consequences of the Covid-19 for the energy sector is still evolving and is difficult to predict (McCarthy *et al.* 2020).

The results prove that relaxing lockdown measures harm the pandemic. Furthermore, despite the negative impact of prolonged lockdown measures on health and the economy, countries must decide on the best timing and strategy for exiting such measurements to safely return to normal life with minimal loss of lives and the economy, taking into account the capacity of their economic and health systems. Instead of focusing on health, a more holistic strategy that considers the economy is recommended (Shimul *et al.* 2020). GDP is expected to improve quickly to pre-Covid-19 levels by 2021 since the immunization program is expected to relieve a relaxation of Covid-19-related limitations. The predicted action is further encouraged by the substantial fiscal and monetary policy measures already been proclaimed. Supplementary out, the pace of GDP evolution is expected to slow as the boost from these factors fades.

Meanwhile, the economic prospect appears to be extremely negative. It is dependent on how the pandemic spreads, the actions are taken to preserve public health, and how households, businesses, and financial markets react to these developments (Lea 2021).

The consumption dynamics are worth emphasizing, for they are informative about the nature of shocks that we introduce into our model. Interpreting the Covid-19 shock as a large temporary decline in TFP in a neoclassical growth model, the investment would experience a sharp contraction mirroring households' desire to smooth consumption. In contrast, the data shows a drop in consumption that roughly imitates the decline in GDP (Buera *et al.* 2021). The liberalization of capital movements and people worldwide, especially in Europe, has reconfigured international financial flows. For this reason, specialists and researchers are focused on the importance of various financial flows and their efficiency in achieving ambitious goals for sustainable development. Associative analysis of the effects of remittance and foreign direct investment on economic growth and sustainable development is gaining ground (Jushi *et al.* 2021).

The remittances migrant workers send to their countries of origin are included among the factors with an established link with economic development and revenue inequality at home. Different from their hidden effects, some empirical records suggest remittances have positive links with economic growth and inequality, while others suggest the opposite. Despite their profound impact on economic activity, the literature shows remittances have different effects on economic growth and inequality. Chowdhury (2016), Etonam Adetou and Fiodendji (2019), and Adams and Cuecuecha (2013) state that not only do remittances affect economic progress, but they also influence the financial system and institutional quality, reduce poverty and increase human and physical capital investment in developing countries (Bajra 2021). Durguti *et al.* (2020), using a combined approach of econometric models to assess the degree of impact of remittances on economic growth for the Western Balkan economies, support the argument that there is an important positive association between these two parameters. This study further emphasizes that these remittances impact the financial industry, where some of these funds remain the financial potential for lending to the private sector.

Moreover, Durguti *et al.* (2021), using the dynamic approach to evaluating panel data through Arellano-Bover/Blundell-Bond estimation in the first difference, confirms the positive existence of an impact between these two parameters. In recent years, the literature on financial development, public finance, and other areas has substantially improved; however, remittances are among the most neglected sources with significantly larger resource inflow that may serve the purpose of reducing environmental degradation. The literature on export diversification and education is also limited, with conflicting findings Zafar *et al.* (2021).

METHODOLOGY

Data Source

The research data sample is composed of quarterly data on GDP growth, consumption, remittances, exports, imports, and inflation in the context of the Kosovo economy from $2019Q_1$ to $2021Q_4$, which in total are 12 observations. The sampling data were gathered from the Kosovo Agency of Statistics, the Central Bank of Kosovo, and the Tax Administration of Kosovo

(TAK), covering the interval from 2019 to 2021. The motivation for selecting this timespan is to examine the consequences before, during, and after the pandemic lockdown. Table 1 shows the variable categorization, description, and predicted results for each parameter.

Table 1: Variable Descriptions and Data Source (Source: Authors' selection)

Variable	Denominations	Acronyms	Data Source
Dependent Variable	Real Gross Domestic Product	R_GDP	Kosovo Agency of Statistics
Explanatory Variables	Consumption	Cons	Tax Administration of Kosovo
	Remittances	Rem	Central Bank of Kosovo
	Export	Exp	Kosovo Agency of Statistics
	Import	Imp	Kosovo Agency of Statistics
	Inflation	Inf	Kosovo Agency of Statistics

The predictor variable of the econometric equation was constructed based on the research questions and the overall goal of this study. Considering that our study aspires to provide insight into the linkages underlying economic expansion and a variety of macroeconomic and financial parameters, with a special emphasis on the possible significance of remittances in lengthy growth, we utilize GDP growth as a proxy. A ratio of this type could estimate the change in the market value of all commodities and services produced inside a country's boundaries over a year. GDP growth is a commonly used measurement in evaluating a country's economic growth (Bergheim 2008).

Specification of the Econometric Model

Numerous previous empirical studies have attempted to identify the determinants of economic growth. Nevertheless, as emphasized in these studies, growth theories are open-ended. Hence the diversity of theoretical views makes it difficult to identify the most effective growth-promoting policies (Moral-Benito 2009). As a result, since the study is constructed on time-series statistics, the technique employed is random effects and fixed effects estimation. Based on the previous literature and statistics available for our sample, the following growth model is specified:

$$\text{Economic\_growth}_{it} = \alpha + \beta_1(\text{Con}_{it}) + \beta_2(\text{Rem}_{it}) + \beta_3(\text{Exp}_{it}) + \beta_4(\text{Imp}_{it}) + \beta_5(\text{Inf}_{it}) + \varepsilon_{it} \quad \text{.....(1)}$$

Whereby $\text{Economic\_growth}_{it}$: signifies the dependent variable. The explanatory predictors chosen are as follows: Con_{it}: signifies consumption level during the observation period, Rem_{it}: represents remittances, Exp_{it}: exports, Imp_{it}: imports, and Inf_{it}: signifies inflation. The error term is ε_{it} and the regression parameter is β. The paradigm impedes the constant of the predictors' factors from being comparable across the units (i) and the period (t).

Descriptive Statistical Analysis

The descriptive analysis includes the values shown in Table 2 for minimum, maximum, mean, standard deviation, skewness, and kurtosis. STATA software was used to calculate the values. The presented results show that the mean value of real GDP is 1.767 billion euros, followed by consumption, which is 1.719 billion euros. Comparing the average value from the observed data, it can be seen that they have remittances where their mean value is 248 million euros. The two parameters that are considered very vital for the economy of a country are export/import; where based on the empirical analysis, it is seen that the mean value of import is 1,082 million euros, while exports have a mean value of 552 million euros which shows us that the economy of Kosovo has a negative trade balance. Furthermore, finally, inflation has a mean value of .02 percent. Table 2 provides detailed statistics for all other variables investigated in the analysis.

Table 2: Summary of Descriptive Statistics (Source: Authors' calculation)

Variables	R_GDP	Cons	Rem	Exp	Imp	Inf
Minimal	1,404.00	1,482.07	184.70	230.52	783.75	-0.0033
Maximal	2,100.58	1,998.95	311.50	1,125.14	1,680.51	0.0643
Mean	1,767.35	1,719.27	247.94	551.68	1,082.81	0.0208
Std.Dev	215.98	162.48	42.49	15.63	61.35	0.0202
Skewness	-.27561	.07715	.03123	1.0331	.98539	.68655
Kurtosis	2.0083	2.0333	1.9013	2.4623	3.3923	2.7685
Obs	12	12	12	12	12	12

The dispersion of data from Table 2 is observed to be around close to the null value (0), which proves that the statistics are symmetrically rightly (Bulmer 2003). On the other hand, kurtosis outcomes reveal that we have positive values due to differences. According to authors Balanda and MacGillivray (1988), a rise in kurtosis is connected with the progress of the likelihood mass from the dispersion sides to the centers with its axis.

Diagnostic Tests for Multicollinearity

In the research framework, the correlation analysis was applied to investigate the degree of association across real GDP growth as a predictor variable with determinants known as explanatory parameters such as consumption, remittances, exports, imports, and inflation. In addition to giving us information about the impact between them, this analysis is also a diagnostic test on the multicollinearity of the data. From Table 3, it is noted that all observed determinants have a positive association with real GDP growth. At the same time, we can conclude that the data do not have a multicollinearity problem since all determinants have a moderate association with the predictor variable. The problem with multicollinearity can be considered if we have a coefficient with the greatest value of 0.7.

Table 3: Correlation Analysis and VIF (Source: Authors' calculation)

	R_GDP	Cons	Rem	Exp	Imp	Inf	VIF	1/VIF
R_GDP	1.0000							
Cons	0.4882	1.0000					3.69	0.271315
Rem	0.5930	0.6105	1.0000				3.38	0.295530
Exp	0.4644	0.1738	0.4526	1.0000			1.05	0.953241
Imp	0.4480	0.5868	0.5847	0.3478	1.0000		1.02	0.92455
Inf	0.4630	0.2010	0.1401	0.7148	0.7001	1.0000	3.53	0.282980
						Mean Value	**2.53**	

However, in addition to removing any remaining doubts regarding the data's multicollinearity issues, we used VIF analysis in the study. Table 3 illustrates that no parameter has a value larger than 3.69, while the mean value of the analyzed parameters is 2.53, which is less than the significant value of estimated $\alpha \leq 0.05$. This evidence validates the premise that the applied data do not display multicollinearity.

RESULTS AND DISCUSSION

This section presents the results of some diagnostic tests that are considered very important before performing regression analysis. Random and fixed effect regression analysis was performed to analyze the impact of consumption, remittances, exports, imports, and inflation on real GDP growth. Based on the model's suitability in this research, the Hausman test is used, where the result is 18.34, which means that the basic hypothesis (H_o) is rejected. The alternative hypothesis (H_a) is accepted. In this context, the random-effects model is excluded as the fixed effects model is more appropriate. Table 4 presents the detailed results generated by the econometric analysis. The alpha constant R^2 is 0.6658 (see Table 4, R^2-squared = 0.6658), which shows us that the defined variables explain about 66.6 percent of real GDP growth, while the rest is explained by other variables, which are not involved in research.

On the other hand, the F statistic value is 22.59 (*ρ-value=0.005*). At the test level of 5 percent, all applied variables have a value lower than F≤10 and, as such, offer us indications of stability on model suitability. Finally, two tests (χ-heteroscedasticity - ρ-value=0.406 and Durbin-Watson 2.151) prove that the applied data have no heteroscedasticity and serial correlation problems.

Table 4: Estimation Results (Source: Authors' calculation)

	Model 1		Model 2	
	Coefficient	P>|z|	Coefficient	P>|z|
_constant	-96.642	0.691	-41.673	0.887
Consumption	1.0655	0.000	0.7597	0.009
Remittances	0.4340	0.090	1.5093	0.006

Export	0.8685	0.000	0.6992	0.049
Import	-0.4809	0.111	-0.2114	0.644
Inflation	-16.2813	0.346	-13.5617	0.566
Observation number	12	-"-	12	-"-
Diagnostic tests				
R^2- squared	0.6536	-"-	0.6658	-"-
Adj R^2- squared	0.5987	-"-	0.5252	-"-
Hausman test	-"-	-"-	18.34	*ρ =0.105*
Wald chi2& F-test	128.82	*ρ =0.000*	F(5,4) 22.59	*ρ =0.005*
χ-heteroscedasticity	7.69	ρ =0.406	-"-	-"-
Durbin-Watson	2.151	-"-	-"-	-"-

Note. (***), (**), (*) significant respectively at 1, 5, and 10 percent. Model 1 is a Random Effects, and Model 2 is Fixed Effects.

Based on the empirical evidence provided in Table 4 (coefficient β and statistical significance ρ) for consumption is positive 0.7597 and statistically significant at 1 percent since the value ρ=0.009. From this, we can conclude that consumption has a positive impact on real GDP growth in the context of Kosovo. This means that a 1 percent increase in consumption will affect a 0.75 percent increase in real GDP. These results are supported by previous studies but are also fully consistent with the authors Manzoor and Shoukat's (2020) study, which is based on econometric results, argues that consumption growth is considered a prime driver in the past lockdown period in the real GDP growth. However, it is worth noting that our findings are in full accordance with the study conducted by Buera *et al.* (2021), where it is concluded that any reduction in consumption will affect the real reduction of GDP. The result proves the verification of the hypothesis (H_1).

Remittances from the migration, which have reached their peak, are another deciding factor that has directly affected the expansion of consumption. Remittances have a constructive coefficient of 1.5093 with a significance level of 1 percent (with *ρ=0.006*). This result verifies the hypothesis (H_2). These findings indicate that the rise of the level of 1 percent of remittances directly affects the real GDP of 1.51 percent. The empirical findings are constant with studies conducted before the onset of the pandemic but also with studies conducted during and after the lockdown, such as Mayer and Shera (2017), Comes *et al.* (2018), Etonam Adetou and Fiodendji (2019), Kajtazi and Fetai (2022) where they argue that remittances have a confident influence on real GDP growth. Furthermore, the evidence contradicts the outcomes presented in this study, where they claim that remittances have an adverse influence. Authors who support this perspective are Jongwanich and Kohpaiboon (2019), Jawaid and Ali Raza (2014), Craigwell *et al.* (2010), and others were contradicted, who stated that remittance inflows harm GDP growth.

Furthermore, the last variable in the research that has shown to be significant in real GDP growth is export. Table 4 (see the export coefficient) shows that the coefficient β is 0.6992 with ρ=0.049. These findings confirm hypothesis (H_3), which shows that export growth affects real GDP growth. In other words, any increase at the level of 1 percent of the export level will affect the GDP growth of 0.69 percent, respecting the principle of ceteris paribus. These findings support the neoclassical theory, which argues that any increase in exports is related to economic

growth. This theory is supported by Yaghmaian and Ghorashi (1995), Ali *et al.* (2022), and Durguti *et al.* (2020).

On the other hand, there are controversial arguments regarding the impact on economic growth in the context of exports and imports, which oppose our findings. Thus, the study conducted by the authors Saaed and Hussain (2015) on the Tunisian economy showed that exports and imports have a unilateral correlation. Also, the author Fullerton *et al.* (2012), analyzing the correlation between these two factors, have argued that imports have a more crucial role than exports in economic growth. At the same time, the last two variables, import and inflation, have turned out to harm real GDP growth, in econometric terms, statistically insignificant. These results suggest that imports through the observed time did not have any significant impact, identically also inflation. Furthermore, therefore, they do not have any pronounced importance to analyze and discuss.

CONCLUSION

The study's overarching goal was to examine the association between consumption, remittances, export, import, and inflation with GDP growth, particularly in post-pandemic economic lockdown, in the Kosovo economy. Kosovo is a consumption economy with a huge negative trade deficit. Even though the export had constructive variation in 2021, the trade balance is more adverse due to import increase, increasing by 16.1%, compared to 11.5% in 2019. We conclude that economic growth indicators between a strict lockdown and a full opening-up of economic activity are strictly dominated by the remittances and their influence on consumption. The primary objective was to discover the correlations and assess how these factors influenced GDP. The study employed secondary data from 2019 to 2021, dynamic techniques via random and fixed effect regression. The research also used a variety of diagnostic tests in terms of achieving more coherent and systematic results. For the perceived sample, the outcomes reveal that GDP growth is determined by the factors directly connected to consumption and significant to variation in export and import. The research also examined the effect of remittances on GDP growth, its influence on negative economic growth in 2020, and its correlation with past pandemic economic lockdowns that started in the last quarter of 2020 and 2021. Remittances in the world represent one of the major international financial resources, which sometimes exceed foreign direct investment (FDI) flows. For centuries, there have been heated debates on the sources of economic growth in emerging economies and why some countries reflect strong economic growth compared to others (Dietmar and Adela 2017). However, this research and other author studies (Bajra 2021) show that remittances influence consumption and economic growth. According to the IMF Annual report for Kosovo, Kosovo Government Economic Recovery Measures, both in 2020 and 2021, has a determinant impact on the indicators we analyzed in this study and the GDP growth of Kosovo.

Exports of Kosovo have a determined increase in 2021. This is the case as the strong growth in goods and services exports is projected to be offset by the growth in the value of goods imports. The recovery of economic activity explained the widest trade deficit in 2021 by the MFI. The trade deficit of goods expanded to 45.7% of GDP in 2021, from 38% of GDP in 2020 and 40.3% of GDP in 2019. In particular, the increase in imports of goods reflected the

recovery of native consumption, investment claim, and higher commodity prices. According to the analyzed data, exports of goods increased by 47%, from a small base, led by base metals and furniture. Inflation in 2021 increased from higher energy and food prices. According to the MFI, increased communication tariffs also played a role. According to the analyzed data, inflation has harmed real economic growth. Consequently, inflation has also increased consumption, as, with the increase of inflation, the purchasing power decreases since more money is spent on purchasing the same products.

Policymaking Implications

Policymaking mechanisms may benefit from research on macroeconomic policy redesign, particularly in policy allocation of remittances and the business division that exports its products. The research shows how diaspora inflows affect consumption, respectively, the domestic economy's structure and economic growth. Diaspora inflows lead to the distribution of factors of production. Foreign investment is also affected by remittances. The Government of Kosovo should build policies for diaspora investments and create advantageous conditions for the diaspora to stay in Kosovo. On the path of balanced growth, diaspora inflows are not predictable to increase further, and thus the convergence of *per capita* income for the domestic economy will stop. Continuous convergence requires the diversification of growth sources. As diaspora-led growth will gradually decline, Kosovo needs to use large diaspora inflows to close even physical and social infrastructure gaps to create stronger conditions for new sources of growth.

Policymakers ought to design development policies that boost and support the activity of export-oriented industries. Long-term reforms in the export sector, with such developing infrastructure, will increase the technical and financial support for potential businesses and, in particular, enhance exports. Policymakers of Kosovo should create advantageous conditions for businesses. Since the national market is quite limited, it should focus on producing products that replace imported foodstuffs and increase export opportunities. Given that the structure of the world economy is changing as a result of the pandemic shock, the supply chains for many countries have also changed. Kosovo needs to take advantage of the gaps created in supply chains by increasing exports by creating advantageous conditions, and restraining exporters.

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Statement on the welfare of animals:
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