



Benefits and Costs of Economic Integration Albania-Kosovo: A Perspective from SAM and Macroeconomic Modeling

by: Altin Tanku, Lorena Skufi, Esida Bujupi

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Motivation

Kosovo and Albania are naturally in symbiosis & statistics show there is room for more integration...

The study aims:

- To fill the gap in well-structured empirical studies that evaluate, analyze, and discuss the potential benefits of increasing the scale of integration between economies
- To evaluate the economic effects of Albanian-Kosovo integration

Outline

- Literature on Albania-Kosovo economic integration
- Methodology and shock selection
- Results of impulse response functions
- Conclusions

Literature on Albania-Kosovo economic integration

Over 2014 – 2022 there are 144 agreements and other cooperation initiatives within the framework of European and region (Dhimolea, 2023)

The lack of co-integration of the region is considered “*A lost opportunity*” (Sanfey & Milatovic, 2018)

Convergence is conditioned by: size of economies, efficiency in production, capacity utilization, fragmentation of labor and capital markets (Fullani & Tanku 2014), including historical factors (Peci et al., 2020)

Benefits of economic integration may arise from: economies of scales, capital formation and investment, human capital mobility, higher competition, proper institutions (Lawrence et al., 2014)

Regional economic integration can generate a positive effect on GDP up to 2.5% or 6.7% comparing respectively to EFTA or EU (WB , 2020; Mulabdic & Ruta, 2018)

Trade in tradable products has the potential to double (ACIT, 2020; Riinvest & GAP, 2020)

Methodology

Our approach consists of combining well-known economic theory & empirical approaches

We employ:

- Social Accounting Matrix (Liço, 2018; Authors' calculation)

What are the impacts in aggregate demand and in inputs?

- Semi-Structural models (Skufi et al., 2024; Bujupi & Kiçmari, 2018)

What are the impacts of these developments in midterm in key macroeconomic indicators and macroeconomic equilibrium?

Shock selection

We assume a hypothetical positive shock equal to 1% of GDP in the final demand of a given sector

Based on literature we select three sectors:

- Trade: counting for 85% of total transactions (WB, 2020; ACIT, 2020; Riinvest & GAP, 2020)
- Services: mainly tourism (WB, 2020; Lawrence et al., 2014)
- Energy: a key sector for market integration in the WB6, especially referring to Kosovo, Macedonia and Albania (WB, 2020; Sanfey & Milatovich, 2018;)

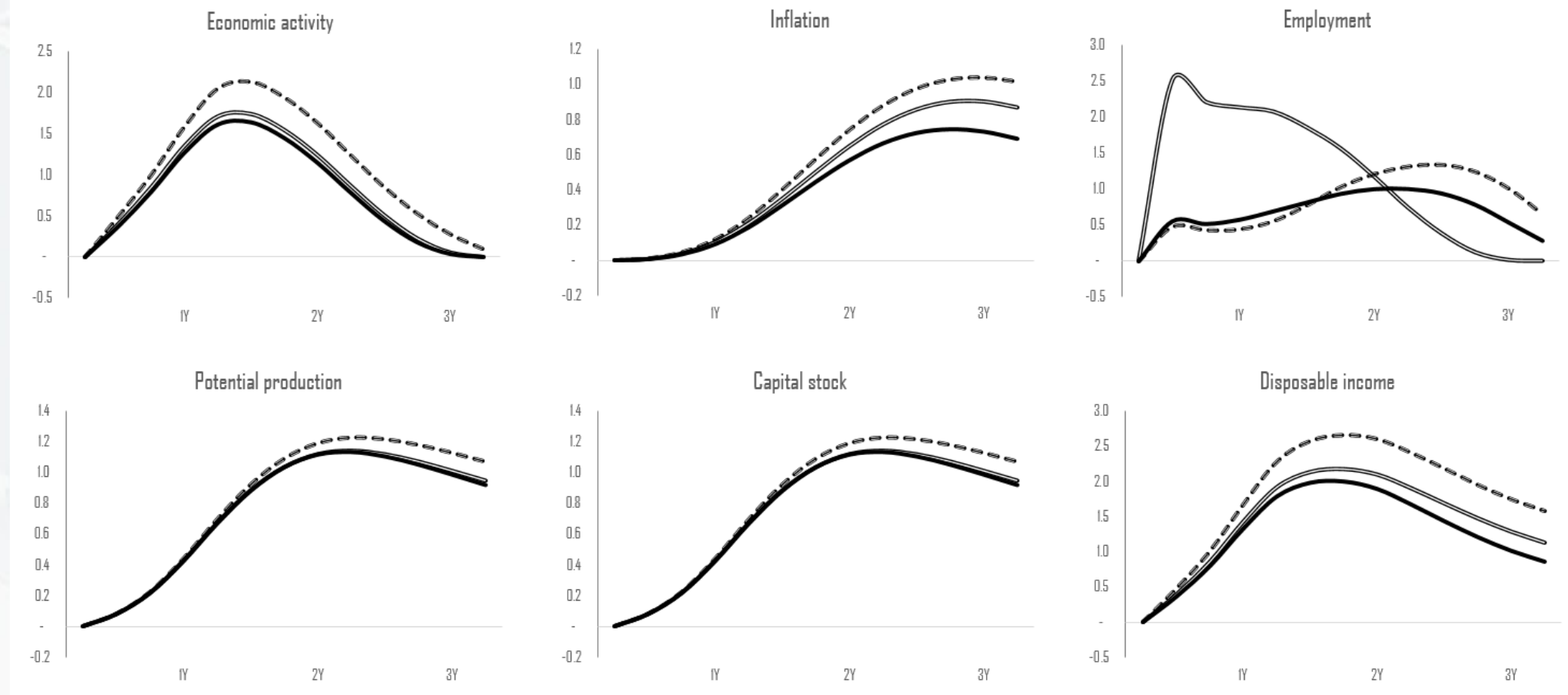
Results: Multipliers

	GDP	Imports	Labor Demand	Capital
(in currency unit)				
Albania				
Energy	1.25	0.70	0.26	0.52
Trade	1.38	0.59	0.30	0.69
Tourism	1.48	0.43	1.35	0.69
Kosovo				
Energy	1.21	0.32	0.25	0.69
Trade	1.30	0.30	0.21	0.61
Tourism	1.49	0.48	0.42	0.27

Results: Initial conditions

	Consumption	Investments	Exports	Imports	Labor Demand
(in percent)					
Albania					
Energy	0.28	0.85	0.25		0.48
Trade	0.27	1.13	0.27		0.55
Tourism	0.33	1.13	0.36		2.49
Kosovo					
Energy	0.26	0.93	0.14	0.19	0.32
Trade	0.24	0.86	0.25	0.10	0.35
Tourism	0.46	0.78	1.55	0.24	0.42

Results: Albania IRFs

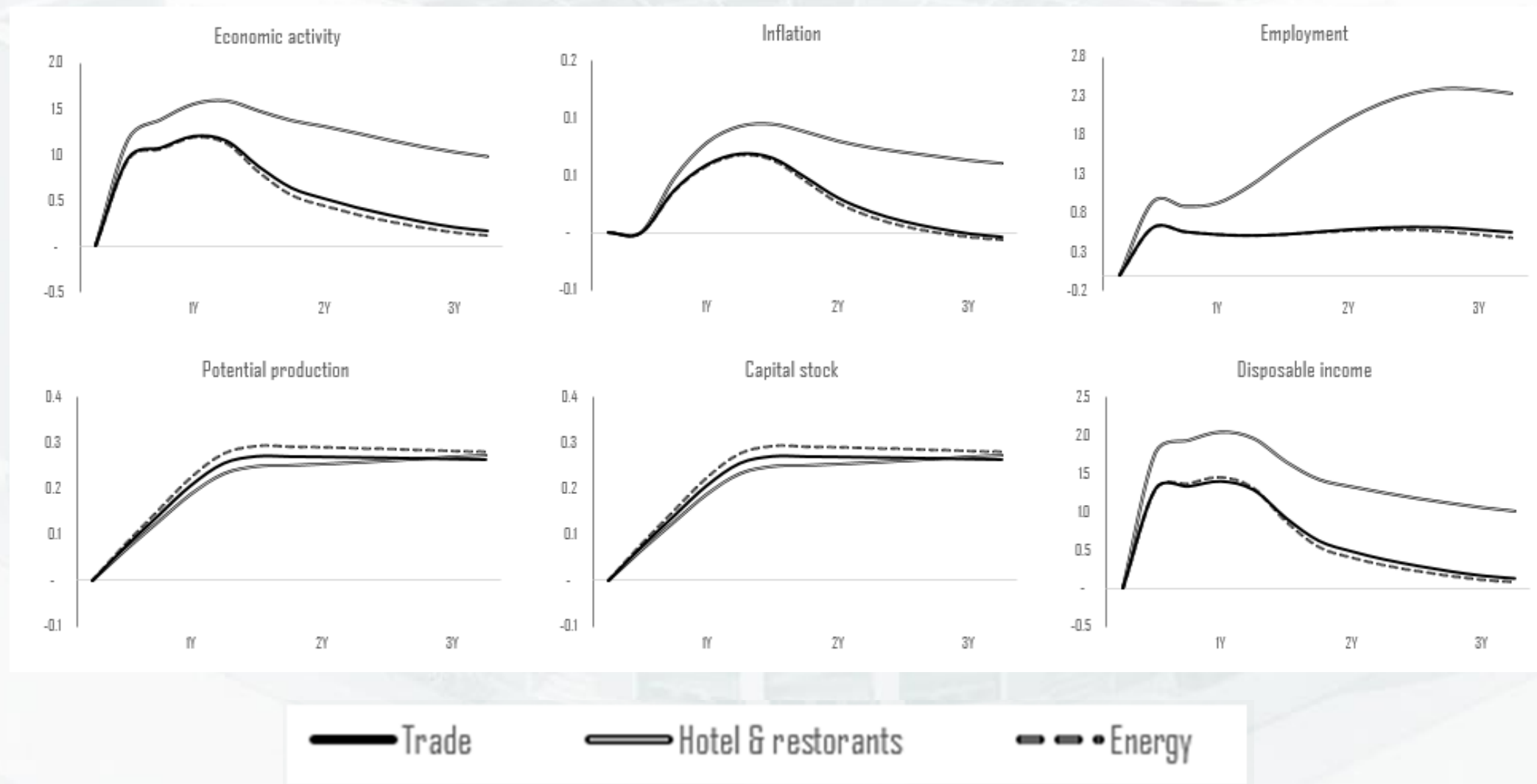


— Trade

== Hotel & restaurants

- - - Energy

Results: Kosovo IRFs



Conclusions

Higher final demand in energy, trade and tourism demand more production factors: labor and capital

Thus, it is needed mobility of labor and free movement of capital flows

The results indicate that the integration between the Albania and Kosovo brings benefits and generate a little bit of inflation pressures

Thus, monetary policy reaction is needed

Central banks in both economies have the necessary legal and regulatory framework to address the potential adverse side effects of integration

Thus, attention to financial stability and potentially tighter prudential measures should not be neglected

The results may be rescaled according to alternative assumptions

Thus, the study provides the opportunity to be employed in further analysis in the future



THANK YOU!

Iskufi@bankofalbania.org