

# Effects of Covid-19 Pandemic in Personal and Family Savings in Albania

Elona Fejzaj<sup>1</sup>, Ilir Kapaj<sup>1</sup> & Ana Mane Kapaj<sup>1</sup>

<sup>1</sup> Agricultural University of Tirana, Faculty of Economy and Agribusiness, Tirana, Albania

Correspondence: Elona Fejzaj, Faculty of Economy and Agribusiness, Tirana, Albania.

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## Abstract

The coronavirus outbreak, Covid-19, began in December 31, 2019 in Wuhan, China and quite quickly was spread in 212 countries and territories around the world. In Albania the first cases of Covid-19 were confirmed in March 2020. Covid -19 pandemic emergency has transformed into a worldwide financial emergency, putting in danger the wellbeing, occupations and salaries of millions of individuals around the planet. Coronavirus devastatingly affects the monetary security and prosperity of families. Since March 2020, the world economy has shed more than 13.3 million positions – 55% of them lost by ladies – setting off broad joblessness and sharp decreases in family incomes. Albania has been hit by two crushing stuns with hardly a pause in between: The November 2019 earth quake and the Covid-19 pandemic in spring 2020 that has frozen huge pieces of the economy. These stuns rule ongoing financial turns of events and the close term viewpoint for the economy. The main objective of this study is to investigate the impact that Covid-19, has had in personal income and also in the way that Albanian react in this situation related to family savings. To fulfil this objective, primary data are collected for the Tirana commune and its surroundings. In order to administer a considerable amount of data, a number of 1500 randomly selected individuals have been directly interviewed. From the data analysis we have concluded that most of the independent factors that we have chosen are significant in the three models. Also from the survey we have seen that the majority of the have changed their way of thinking related to personal and family savings. And as the main reason form this, they have listed the pandemic situation.

**Keywords:** Covid -19 pandemic, Albania, financial emergency, personal income, family savings

## 1. Introduction

Coronavirus Pandemic situation affected Albania as well as other countries. In Albania, the all-out number of COVID-19 cases was at first generally low, following the solid control estimates forced by the Government. Nonetheless, they have since expanded essentially. As in each country around the globe, the regulation measures, nonetheless, have interfered with the typical working of the economy and wellbeing administrations as individuals couldn't go to work, huge pieces of the beneficial area confronted closures and boundaries shut for movement and the travel industry. Likewise, Albania has stood up to exceptional difficulties, making it more delicate for the monetary plunge. The pandemic follows the serious tremor that crushed the country and its economy in November 2019. Albania's economy's solid dependence on the travel industry and close exchange relations with Italy, which has been one of the hardest hit nations on the planet, have driven the nation to be profoundly helpless against this extraordinary emergency. Albania is confronting numerous outer and home-grown stuns that compound the circumstance Simultaneous stuns on request, supply and financing will put the spending plan and equilibrium of instalment under developing tension. Indeed, even in Albania as in other countries, Covid Pandemic has influenced the measure of income saw by people and families. Especially families with low degree of income, have discovered more challenges in confronting ordinary costs set off by different costs like those for wellbeing and prescriptions. Although the number of Covid-19 cases in Albania had begun to stabilize by mid-December, by January 2021, the situation had worsened again. Although the daily average of new cases dropped to a low of 185 on January 4th, this was most likely due to fewer testing during the holiday season, as the situation rapidly rebounded to over 800 cases per day. With 971 active Covid-19 cases per 100,000 people, Albania is currently ranked 15th in the world. As of January 31, a total of 1380 people had died as a result of the outbreak, equating to 46 deaths per 100,000 people.

## 2. Literature Review

The Covid -19 wellbeing emergency has transformed into a worldwide financial emergency, putting in danger the wellbeing, occupations and salaries of millions of individuals around the planet. As per the report of OECD, the exacting regulation estimates received by numerous nations first 50% of 2020 to level the ascent in infection put a considerable brake on generally financial and social exercises. The breakdown in absolute hours worked, and the decrease in investment, has not been found in peacetime since the Great Depression. Following its underlying episode in the city of Wuhan in China in late 2019, the new Covid – liable for the Covid -19 sickness – quickly turned into a pandemic as it spread to most nations and regions across the world.

Continually as per this report, the effect of the pandemic and control estimates prompted an extreme constriction in monetary action as numerous individuals couldn't go to work and organizations could presently don't work. The family pay was hit by the Covid -19 pandemic coming about into rising imbalance as the low-income families appear to endure the most as far as business. (European Commission, Erste Group Research)

The fall in all out long stretches of work catches both the adjustment in the quantity of individuals at work yet in addition any decrease in working hours of the week for those specialists still busy working. In that capacity, the fall in absolute hours gives a thought of the complete effect of the pandemic on business. As the Covid spread around the globe and work environments shut, a large number of labourers lost part or the entirety of their salaries. Regardless of whether actually working, numerous labourers needed to acknowledge more limited hours as well as pay cuts in various businesses like aircrafts, retail and convenience, food administrations, or the material and article of clothing areas, which are exceptionally feminized areas.

During a financial withdrawal, people commonly request less products and ventures, making complete yield decline, joblessness to increment, and individual pay to diminish. Notwithstanding, individual pay has carried on abnormally during the downturn brought about by the Coronavirus Disease 2019 (Covid-19) pandemic (Congressional Research Service).

Coronavirus devastatingly affects the monetary security and prosperity of families. Since March, the economy has shed more than 13.3 million positions – 55% of them lost by ladies – setting off broad joblessness and sharp decreases in family incomes. (Jeffrey Hayes, C. Nicole Mason, Heidi Hartmann, and Erin Weber)

Albeit progressing research is evaluating the monetary repercussions of COVID-19, a large portion of these investigations are centred on the macroeconomic and monetary effect of the Covid. Effect on public economies is then converted into financial effect on people, including utilization and neediness rates (top-down approach). While this methodology isn't relied upon to supplant large scale level investigations that can all the more likely catch the association across areas and nations or the impact of macroeconomic amassed, it can supplement it by giving a lot better gauges of the distributional effects. It can likewise better record for families' adapting limit, the part of individuals' reserve funds, and the higher flexibility of multi-work families. (Amory Martin, Maryia Markhvida, Stephane Hallegatte, Brian Walsh)

As indicated by an examination about the impact of Covid on low pay households (Jonathan Buzzeo, Kate Alexander, George White-Smith and Becci Newton) essentially all interviewees had seen a decrease in their family pay since the beginning of the pandemic. Several of these were furloughed on 80% of their ordinary compensation, with few managers making up the leftover 20% to cover them. Preceding the pandemic, interviewees burned through the majority of their pay on essential living expenses, specifically food, energy bills, transport and lodging.

Notwithstanding most seeing some decrease in family pay because of an adjustment in conditions, generally they had kept on gathering these essential expenses. It was not unexpected to have decreased outgoings somewhat, because of the lockdown restricting individuals' capacity to burn through cash on trivial things, recreation exercises and going out for beverages and suppers.

Albania has been hit by two crushing stuns with hardly a pause in between: The November 2019 quake and the Covid-19 pandemic in spring 2020 that has frozen huge pieces of the economy. These stuns rule ongoing financial turns of events and the close term viewpoint for the economy. Development decelerated from 4.1 percent in 2018 to an expected 2.2 percent in 2019. In the principal half of 2019, dry spell had effectively cut energy creation. (Gordana DJUROVIC)

As per a Report about Covid assessment in Albania, there is an undeniable decrease in pay sources like conventional compensation/wage, and easy-going (day by day) work and settlements from migrants' individuals. An ascent is seen in the class of joblessness and families accepting guide from associations. The fundamental necessities of the family were not completely met during the prohibitive estimates weeks. Numerous individuals didn't completely meet the

fundamental requirement for food, sanitizers and facemasks, cleaning cleansers, cleanliness sets and web access costs.

The principal impacts of the pandemic were obvious in the families' life. Two months of isolate acquired abatement the kinds of revenue for families, an expansion in joblessness and every day easy-going work and a decline in the settlements. These startling impacts are heavier on families that help their living with non-manageable pay.

### 3. Coronavirus Information in Albania

Since containment measures were implemented over the summer, the number of Covid-19 infections has risen dramatically in the Western Balkans, with most economies experiencing a record number of cases in October. Governments across the area responded by enacting tighter sanitary regulations and reinstating containment measures similar to those implemented earlier in the year.

Western Balkan governments responded by buying medical equipment and drugs, turning medical centers into specialized Covid-19 centers and concert and sport stadiums into temporary field hospitals, raising medical staff salaries, and extending work hours to protect their fragile health systems. In addition, there were lockdowns and partial lockdowns in the area.

Economic activity has come to a halt as a result of the containment steps and external shocks. In the second half of the year, the initially optimistic economic outlook for 2020 (projected GDP growth of +2.5 percent to +4%) turned into a significant contraction (European Commission, 2019). GDP is expected to fall across the country, though at varying rates, ranging from -2.5 percent to -12 percent (Figure 1).

The recent decrease in tourism activities has had a significant impact on countries that rely heavily on tourism (between 50 percent -70 percent compared to 2019). Suspended remittances are having a negative effect on GDP in some countries. Supply chain disruptions had a negative impact on international trade and industrial development. Unemployment rates have begun to grow again, with just a few countries maintaining 20 percent unemployment.

Covid-19 has also had a major impact on business communities in the Western Balkans, posing a danger to the region's SMEs and self-employed. Governments in the region responded with economic stimulus packages to help companies offset losses (e.g., loan incentives, wage subsidies) and people spend more (e.g. temporary VAT reduction). These assistance packages invariably lead to consequent fiscal deficit and growth of debt.

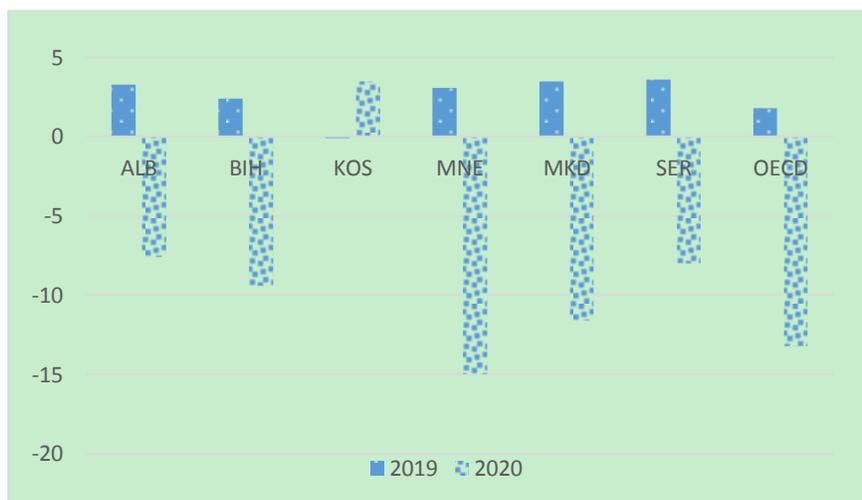


Figure 1. Gross Domestic Product (GDP) at constant prices (year-on-year percentage change)

Source: OECD report



Figure 2. Personal consumption (annual percentage change)

Source: OECD report

In 2020, the Western Balkans region is projected to enter a recession, with all six countries expected to see negative growth as they deal with the economic consequences of the Covid-19 pandemic. According to the World Bank's latest Regular Economic Report (RER), regional growth in the Western Balkans is expected to range between -3 and -5.6 percent, based on a baseline scenario and a worst-case scenario in front of the pandemic's high absence of certainty.

The baseline scenario states that the spread in Europe slows down enough by the end of June, allowing containment measures to be lifted by the end of June and a constant recovery to begin in the second half of 2020. The worst-case scenario assumes that the epidemic persists and that containment measures can only be lightened at the end of August, with economic activity recovering only in the fourth quarter of 2020.

The amount of the recession depends on the duration of the pandemic in Europe. With a difficult possibility of forecasting the economic future depending on the pandemic situation in the region is pretty sure that the lives of people and everything concerning them from taxing health care to personal and familiar situation are seriously affected.

The recession in all Western Balkan countries will be driven by a significant drop in both domestic and foreign demand during the pandemic. Travel restrictions and social distancing measures have a particularly protracted impact on tourism and services, the latter accounting for around 50 percent of total employment in five countries in the region and 75 percent in Montenegro. Supply-side disruptions and lower demand further affect many manufacturing sectors, while liquidity constraints and acute uncertainty stifle investment.

The main risk for the Western Balkans is that a prolonged pandemic, as well as a deeper recession in the European Union, could make the unfolding economic crisis difficult to handle.

### 3.1 Economic Overview

The economy is expected to contract by 7.5 percent in 2020 (compared to 2.2 percent in 2019), owing to the country's reliance on tourism and remittances. Furthermore, the earthquake in November 2019 had a negative impact on economic activity, especially in the first quarter of 2020. By the end of 2020, the fiscal deficit was expected to increase to about 7% of GDP, and the public debt to slightly more than 80% of GDP.

Albania's economy contracted by 10.2 percent in the second quarter of 2020, followed by a 3.5 percent y-o-y contraction in the third quarter. The recession was triggered by a drop in spending, private and public consumption, as well as a 35 percent drop in exports.

This decrease can be explained by Albania's large share of exports to Italy (48 percent), which experienced a significant decline of nearly 18 percent in the second quarter of 2020.

However, the recession was slowed by a 4.1 percent year-on-year increase in spending as a result of recent building projects in the recovery period after the earthquake.

With a 27 percent fall, trade, transportation, and hospitality services, all essential divisions of Albania's economy, contributed significantly to the recession. The tourism industry, which accounts for more than 20% of Albania's GDP, was one of the worst hit by the pandemic.

In July 2020, it was discovered that the number of international visitors had declined by 61.5 percent compared to the previous year.

The labor market in Albania has deteriorated, with 34 000 jobs lost and the unemployment rate that by 0.6 percent to 12.5 percent. The third quarter saw a slight boost, with 12.1 percent, as market conditions changed. In the midst of the crisis, the European Commission agreed to start talks with Albania about joining the EU.

At the start of the pandemic, the Albanian currency, had depreciated by nearly 7%. The currency has since improved, with an average cost of ALL 123.7 per euro in Q4 2020, just 1.9 percent higher than the previous year's annual average of 2019.

Albanian CPI inflation rose from 1.4 percent in 2019 to 1.9 percent in 2020 Q2, but then fell to 1.1 percent in December 2020 due to the weakening of ALL against EUR and a sharp rise in food prices.

According to World Bank estimations for Albania growth is projected to accelerate slightly to 3.4–3.6 percent by 2020, as labour income gains is thought to be fuelling private consumption. For Albania the impact of the slowdown in global growth is expected to contain net local exports. Investment will also contribute to growth, incentivized by public projects and—assuming continued progress on structural reforms in the judicial and financial sectors—private investment. Over the medium term, fiscal consolidation will continue, as the Government further reduces expenditures on the wage bill, goods and services, and transfers to social insurance beneficiaries and local governments. A gradual fiscal consolidation, combined with continued economic growth, should eventually lower the debt-to-GDP ratio to 60 % of GDP.

On the other hand, Word Bank experts warn that the country's economic prospects are vulnerable to significant downside risks. Lower demand from foreign trade partners may constrain growth, worsen labour market conditions, and increase poverty. Preserving macro-fiscal stability is crucial to supporting sustainable growth, which includes continuing to streamline expenditures, increasing tax revenues, and managing fiscal risks from public-private partnerships. Further, fostering inclusive growth requires the creation of better conditions for private sector development, including improving business environment and increasing financial access, energy security and human capital.

#### 4. Results of the Study

##### a. Data representativeness

We have focus this study in Tirana, the capital of Albania. During the survey we have been very careful about the representativeness of the collected data in relation with the population of Tirana. The total population of this city is 906,000 (INSTAT 2020) and the sample size for this study is 1500 respondents.

Table 1 shows the gender, age and education structure of the survey respondents compared with Tirana population. Tirana is the capital and largest city in Albania, and we have chosen this city to conduct the study. Most of the study sample matched the Tirana population, with a marge error of 5%. Men are slightly overrepresented in this study, and in Albania it is more common for men to take the most important decisions in the house especially related to the income distribution, particularly for older generations.

Table 1. Demographic structure of the sample and population in Albania

		Survey respondents (%)	Tirana Population (%)
<i>Gender</i>	Female	47.8	50.6
	Male	52.2	49.4
<i>Age</i>	-30	9.2	8.7
	31-40	13.0	15.0
	41-50	36.4	29.4
	51-60	27.0	32.0
	61 up	14.4	14.4

<i>Education</i>	Elementary	7.4	8.2
	High school	35.2	30.2
	University/College	40.0	46.0
	More	17.4	15.6

Source: Author data

As it can be seen from the table above the sample is representative and can be used for a generalization of the results in the population of Tirana.

The main objective of this study is to investigate the impact that Covid 19, has had in personal income and also in the way that Albanian react in this situation related to family savings. In order to reach this objective in Tirana commune and its environs, primary data is collected. We were careful to make sure that an equal ratio between males and females was chosen and other social factors were taken into consideration. Direct interviews with 1500 randomly selected individuals were conducted to obtain the data. The main question that were addressed are related with personal and family income, possible changes in the income level within the last year, expenditures related to health and technology and level of savings.

Based on survey, the people perception towards family savings have changed. The majority of the in interviewers have increased their savings during this last year. On the other hand the expenditures towards food have been lightly increased, whereas as the respondents have answered, they have decreased the expenditures on the luxury goods.



Figure 3. Perception towards conscience of savings and expenditures

Source: Author data

As it can be seen from the Figure 4 below the most of the people that have been part of this survey have stated that their saving has changed, increased during this period. As main reasons for this they have stated, the insecurity for the future, the lockdown and the closure of the borders.

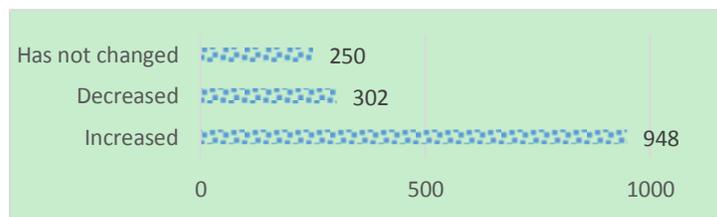


Figure 4. Level of savings

Source: Author data

We have used econometric models to identify potential factors that affect levels of savings. Our research approach is to analyze the relationships between savings and hypothetical determinants using a variety of models to see whether and/or how often their findings are compatible. The basic model we have used to investigate the determinants of the level of savings is classical multiple regression and multinomial models. We may obtain useful knowledge of different types through them, as discussed in detail below.

The classical multiple regression models in matrix form are when Y is the dependent variable and X is a matrix of k independent variables or factors:

$$\text{Dependent variable} = f(x) + e$$

Where f(x) is a function that explains the relation between variables, based on coefficients, one for each independent variable and one free parameter (constant). We have used linear regression model. The linear model can be used to calculate percentage estimates of how much the dependent variable Y will change in response to unit changes in the independent variables. Each coefficient indicates how much the dependent Y is expected to change in percentages if the corresponding variable X increases by one unit while the other variables remain constant. The sign of the coefficient shows the relationship between variables, negative or positive.

We have analyzed the factors that have affected the changes in the savings of Tirana population, based also on the Covid 19 situation in Albania as in all over the world. For one model of the study we have assessed the variable “Conscience of savings” as the dependent variable and for independent variables we have chosen, “Personal Income”, “Family income”, “Education”, “Infection status” and “Age”. According to the measurement of each of the variables, table below, we have evaluated the logistic model as the best model for this estimation.

Variable	Status in the model	Measurement
Conscience of savings	Dependent	Dummy
Personal Income	Independent	Quantitative
Family income	Independent	Quantitative
Education	Independent	Quantitative
Infection status	Independent	Dummy
Age	Independent	Quantitative

#### 4.1 Results of the Model

For the first model, where dependent variable is “Conscience of savings” and independent variables are, “Personal Income”, “Family income”, “Education”, “Infection status” and “Age”, we have got the following results:

	p-value	
Personal Income	0.0003	***
Family income	0.0000	***
Education	0.07	*
Infection status	0.013	**
Age	0.35	

\*\*\*significant for 99%

\*\*significant for 95%

\*significant for 90%

Sum squared resid	2935.83	S.E. of regression	7.37
R-squared	0.46	Adjusted R-squared	0.43
F	6.38	P-value(F)	0.00

The model is statistically significant in general (P-value (F) = 0.00). No significant collinearity between model variables (as determined by the variance inflation factor-VIF test) and no heteroscedasticity in the error term (as determined by White's test).

For the second model we have used as dependent variable "Increased conscience for expenditures" and as independent the same variables as in the first one.

<b>Variable</b>	<b>Status in the model</b>	<b>Measurement</b>
Increased conscience for expenditures	Dependent	Dummy
Personal Income	Independent	Quantitative
Family income	Independent	Quantitative
Education	Independent	Quantitative
Infection status	Independent	Dummy
Age	Independent	Quantitative

For the second model we have got the following results:

	p-value	
Personal Income	0.0000	***
Family income	0.007	***
Education	0.5	
Infection status	0.0028	***
Age	0.029	**

\*\*\*significant for 99%

\*\*significant for 95%

\*significant for 90%

Sum squared resid	755.83	S.E. of regression	4.7
R-squared	0.50	Adjusted R-squared	0.43
F	5.8	P-value(F)	0.00

Model 3

<b>Variable</b>	<b>Status in the model</b>	<b>Measurement</b>
Level of savings	Dependent	Quantitative
Personal Income	Independent	Quantitative
Family income	Independent	Quantitative
Education	Independent	Quantitative
Infection status	Independent	Dummy
Age	Independent	Quantitative

For the last model, where “Level of saving” is the dependent variable, we have got the following results:

	p-value	
Personal Income	0.031	**
Family income	0.043	**
Education	0.07	*
Infection status	0.013	**
Age	0.15	

\*\*\*significant for 99%

\*\*significant for 95%

\*significant for 90%

Sum squared resid	375.3	S.E. of regression	2.73
R-squared	0.61	Adjusted R-squared	0.54
F	6.38	P-value(F)	0.00

## 5. Conclusions

The first effects of the pandemic were visible in the families' life. The first months (March/May 2020) of quarantine resulted in a decrease in the main sources of income for families, an increase in unemployment and daily casual work and a decrease in the remittances. These unexpected effects are heavier on families that support their living with non-sustainable income. Around 68% of participants look at their future employments effected by the Covid-19 and express concern about the unemployment, which subsequently has impact in their families.

Based on the survey results, the people perception towards family savings have changed. The main trend of the results was that the people have tent to increase their savings during this last year. On the other hand the expenditures towards food have been lightly increased, whereas as the respondents have answered, they have decreased the expenditures on the luxury goods. 63.2% of the interviews have confirmed that their savings have increased during this last year. Savings have increased and as the main reason for this is the decrease of the personal or family expenditures. People tend to be more careful on their expenditures, but also a negative impact on the expenditures has had the restrictions set up by the government. These restrictions have been within the country but also outside Albania, due to the lockdown and the closure of the borders.

From the data analysis we have concluded that most of the independent factors that we have chosen are significant in the three models. Also from the survey we have seen that the majority of the have changed their way of thinking related to personal and family savings. And as the main reason form this, they have listed the pandemic situation.

Therefore, we have to say that there are several limitations to our study. The degree of subjectivism is present when we refer to interviews when people are not always straightforward and clear and this may influence results and conclusions. Also this brand new pandemic situation with a lot of unknown variables and impact on the entire life of people, facing them with various economic and social problems, still demands further studies.

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