Economic Brief

The Covid-19

Government Measures to Mitigate the Economic Impact

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Government Measures to Mitigate the Covid-19 Economic Impact

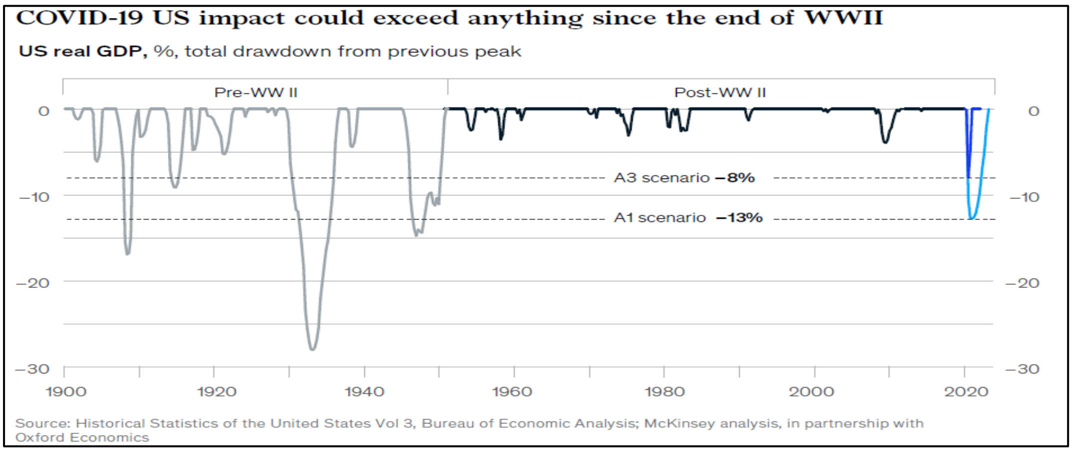
The consequences of the Covid-19 pandemic are grave, both for daily life and for the economy. Governments all over the world try to come up with programs to limit the damage the virus is causing. This article attempts to give some overview of measures taken by CAREC countries to support their economies and limit the economic hardship for people and businesses. The situation is evolving very fast and contours of emerging challenges are just becoming visible. This brief might miss some of them, and the list below of measures taken is far from complete. However, the article aims to provide a flavor of the possible scenarios of significant downside risks, and what policy responses governments have been able to come up with. This can perhaps provide some guidance to CAREC governments in preparing and implementing policy responses to mitigate the economic impact of the emerging crisis. It shall also give an impression of the global economic background under which governments have to act. Finally, the conclusions call for cooperation among CAREC countries.

The situation is dire: views on the evolving global economic risks

While it is still early days to assess the full economic consequences of the Covid-19 pandemic, many well-known think-tanks and economists warn that the global economy is in a very serious situation.

McKinsey, for example, projects real GDP contraction in the USA of up to 13% in 2020, much more than during the Great Financial Recession in 2009 and what has been seen since WWII (Exhibit 1). McKinsey considers nine scenarios all together, the scenarios A1 and A3 that are shown in the exhibit are rather moderate ones based on partially effective government interventions to contain the virus.

Exhibit 1: Covid-19 impact on US GDP far worse than the 2009 financial crisis



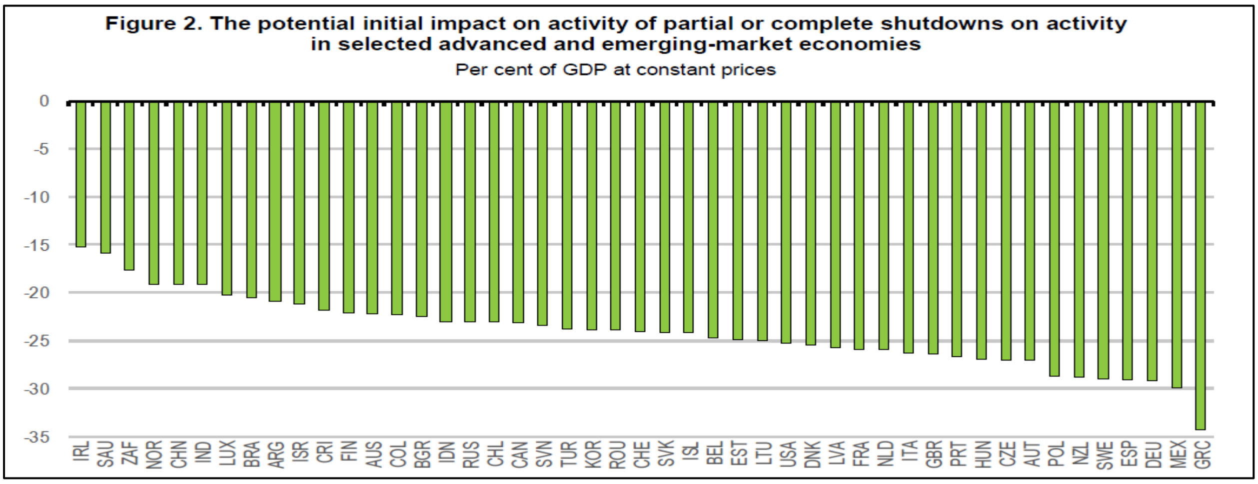
Source: McKinsey[1]

The OECD published a note that states "that the initial direct impact of the shutdowns could be a decline in the level of output of between one-fifth to one-quarter in many economies, with consumers' expenditure potentially dropping by around one-third. Changes of this magnitude would

[1] https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Safeguarding%20our%20lives%20and%20our%20livelihoods%20The%20imperative%20of%20our%20time/Safeguarding-our-lives-and-our-livelihoods-The-imperative-of-our-time-final.ashx

far outweigh anything experienced during the global financial crisis in 2008-09."[2] Exhibit 2 illustrates the outcome for the OECD member countries. While these estimates look very drastic, warnings from an organization, such as the OECD, need to be taken seriously.

Exhibit 2: Covid-19 impact on a range of countries according to the OECD note



Source: OECD, "Tackling Corona Virus (Covid-19)"

Famous economist and student of the history of economic crises, Carmen Reinhart, wrote in a recent publication: "Not since the 1930s have advanced and emerging economies experienced the combination of a breakdown in global trade, depressed global commodity prices, and a synchronous economic downturn. True, the origins of the current shock are vastly different, as is the policy response. But the lockdown and distancing policies that are saving lives also carry an enormous economic cost. A health emergency can evolve into a financial crisis. Clearly, this is a 'whatever-it-takes' moment for large-scale, outside-the-box fiscal and monetary policies."[3]

Also, IMF Managing Director Kristalina Georgieva declared in a statement following a G20 Ministerial Call on the Coronavirus Emergency on 23 March 2020 that the crisis could be worse than in 2009. "… the outlook for global growth: for 2020 it is negative—a recession at least as bad as during the global financial crisis or worse. But we expect recovery in 2021." [4] At the same time, she emphasized that decisive action is needed. "We strongly support the extraordinary fiscal actions many countries have already taken to boost health systems and protect affected workers and firms. We welcome the moves of major central banks to ease monetary policy…advanced economies are generally in a better position to respond to the crisis, but many emerging markets and low-income countries face significant challenges. They are badly affected by outward capital flows, and domestic activity will be severely impacted as countries respond to the epidemic."[5]

The Impact on CAREC countries: experience of the Great Financial Crisis

There were different circumstances in different CAREC countries in 2009, some countries had quite high growth rates despite the global standstill. Exhibit 3 depicts global real GDP growth in 2009, and

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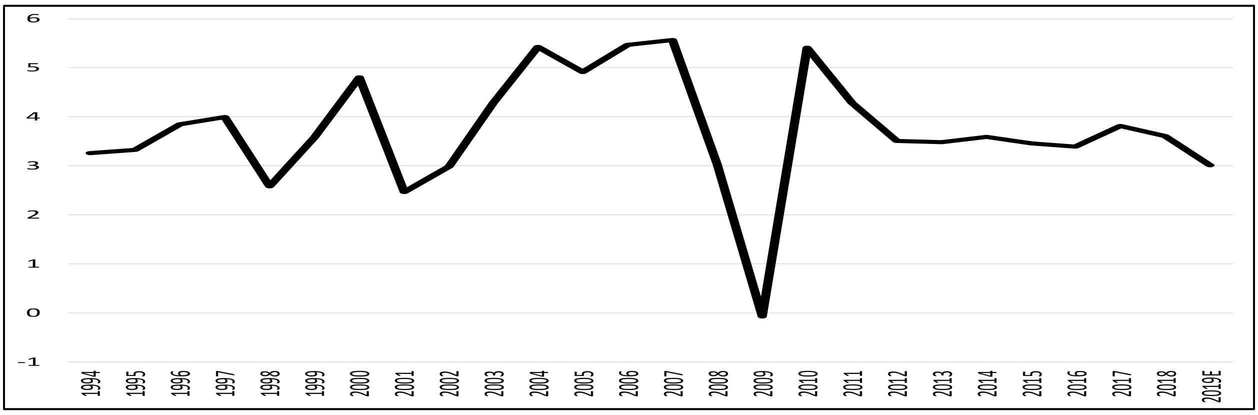
[2] https://read.oecd-ilibrary.org/view/?ref=126_126448-kcrc0cs6ia&title=EVALUATING_THE_INITIAL_IMPACT_OF_COVID_CONTAINMENT_MEASURES_ON_ECONOMIC_ACTIVITY
[3] https://www.project-syndicate.org/commentary/covid19-crisis-has-no-economic-precedent-by-carmen-reinhart-2020-03
[4] https://www.imf.org/en/News/Articles/2020/03/23/pr2098-imf-managing-director-statement-following-a-g20-ministerial-call-on-the-coronavirus-emergency
[5] ibidem

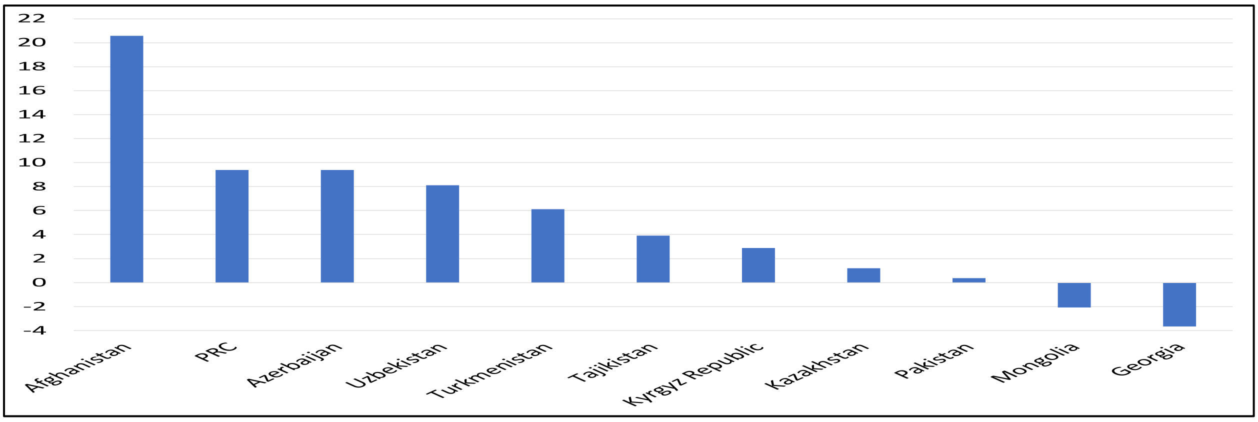
exhibit 4 shows growth in the CAREC countries. Now, in most CAREC countries former growth models have been exhausted, at least in part, and need to be modified. While there is progress in moving towards more diversified economies with stronger institutions, the process is still in its nascence. The CAREC countries enter the current crisis with substantially lower growth rates than was the case for the 2008-2009 crisis. Commodity prices are less likely to recover as strongly as was the case that time. GDP growth is thus likely to slump more than in 2009 in the CAREC region and to recover more slowly.

Exhibit 3: Global GDP growth, constant prices, % yoy



Source: IMF, WEO database

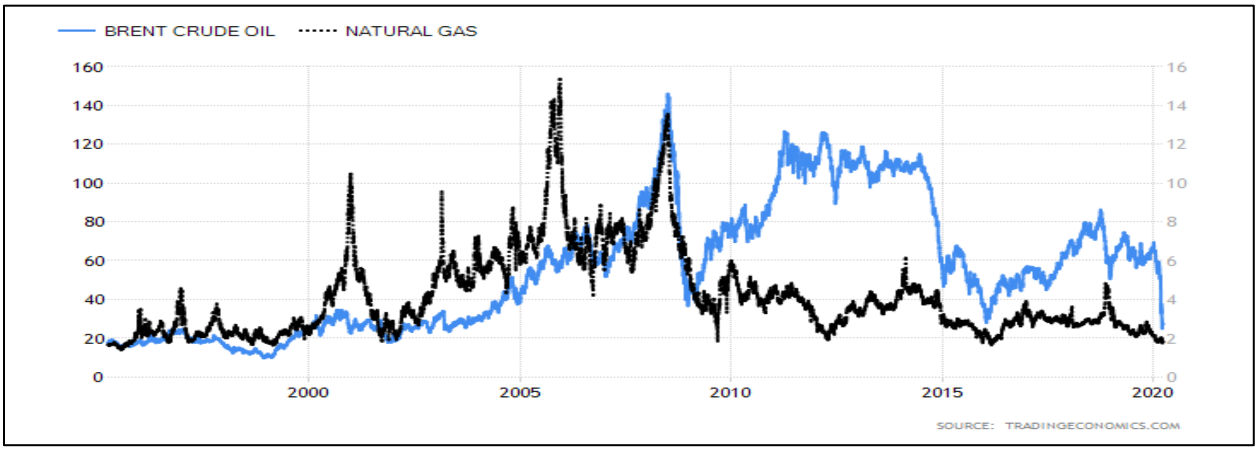
Exhibit 4: GDP growth in CAREC countries in 2009, constant prices, % yoy



Source: IMF, WEO database

Commodities are major export products of several CAREC countries, and commodity prices are a main transmission mechanism from the global economy to the CAREC region. Oil prices are lower now than in 2009, even unadjusted for inflation (Exhibit 5). Natural gas prices are low as well. Copper price readings are as low as in 2016, those of cotton almost down to 2009 levels (Exhibit 6).

Exhibit 5: Oil and gas prices



Source: TradingEconomics

Exhibit 6: Copper and cotton prices

Source: TradingEconomics

Monetary policy responses in major economies

The Covid-19 pandemic not only affects consumption and disrupts production, but also delays payments. As a result, the velocity of money slows, which causes liquidity shortages. To counter liquidity scarcity, and to support securities markets, the major global central banks have eased monetary policy further from already loose policies pursued since 2009. Exhibit 7 gives an overview of measures taken by the US Federal Reserve, the European Central Bank and the Peoples Bank of China.

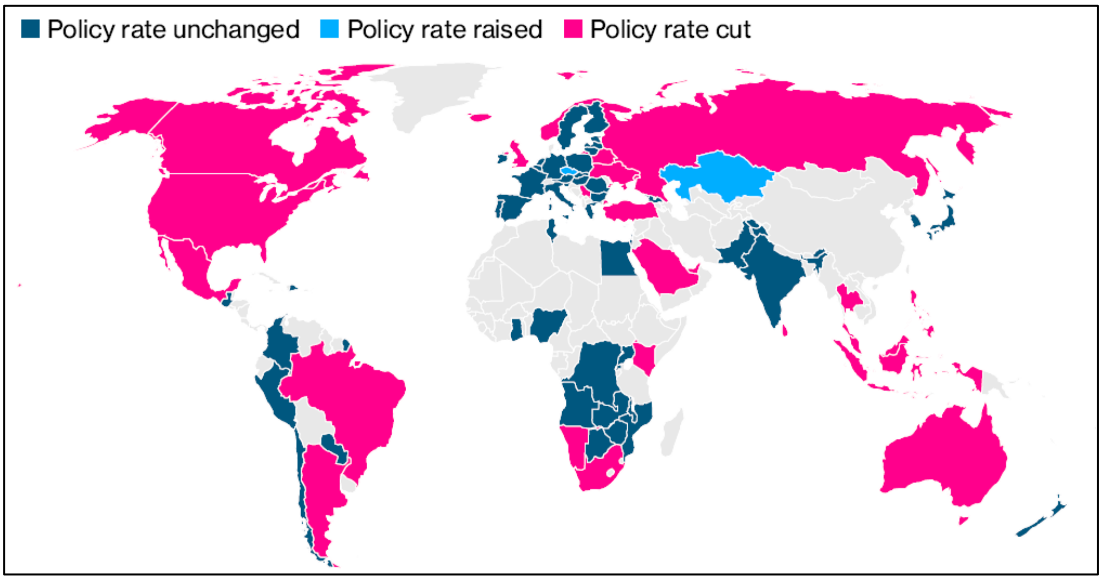
Exhibit 8 shows movements of central bank policy rates globally in response to the pandemic. The red color, meaning rate cuts, covers a large part of the world. The map also gives an impression how fast things move. The map was made on 13 March. Since then, a new wave of rate cuts took place. Many more countries reduced their rates, including Mongolia, Pakistan, India, many Middle East and African countries such as Egypt, Ghana, Kenya, Latin American countries such as Mexico, Honduras, and others.

Exhibit 7: Monetary easing

ECB	FED	PBOC
- Bold & generous TLTRO terms with average rate below MRO plus an interim TLTRO round for immediate liquidity - EUR120bn QE envelope till end-2020 on top of monthly EUR20bn QE pace - temporary capital & operational relief to banks - PEPP EUR750bn plus informal drop in the 33% issuer limit	- 150bp rate cut - Restart of QE to the tune of USD700bn - USD1.5tn of supplementary liquidity injections in the repo market to backstop liquidity in the Treasury market - three-month credit in U.S. dollars on a regular basis and at a rate cheaper than usual arranged among G6 central banks - Instalment of commercial paper funding facility - Further increase in QE purchase - Liquidity swaps with major central banks - Money Market Mutual Fund Liquidity Facility	- 10bp cut to the policy rate (Loan Prime Rate) - Liquidity injection through open market operations: RMB1.7tn in early February. - Liquidity injection through medium-term lending: RMB300bn in total over February and March. - Liquidity injection through reserve requirement ratio cut: RMB550bn, with cut between 50-200bp depending on banks. - Credit support: RMB350bn provided by policy banks, RMB300bn earmarked loans from PBOC to banks.

Source: Allianz, Covid-19: quarantined economics[6]

Exhibit 8: Central bank policy rate movements



Source: Bloomberg[7]

Unprecedented global fiscal easing

In order to keep the economy running despite lockdowns, to support health systems and other critical infrastructure and to mitigate the adverse economic shocks for businesses and households, governments are resorting to large fiscal packages. Below are measures taken by major countries with a big global influence.

[6] https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/economic-research/publications/specials/en/2020/march/20200320_Quarantined_Economics.pdf
[7] https://www.bloomberg.com/news/articles/2020-03-13/charting-the-economy-central-banks-tremble-at-crash-of-markets

In the PRC, the first country to be affected by the Covid-19, an estimated RMB 1.3 trillion (1.2% of GDP) of fiscal measures have been approved and are being implemented[8]. RMB 116.9 billion (USD 16.7 billion) were allocated by governments at all levels by 13 March[9]. RMB 103 billion (USD 14.7 billion) are earmarked for supporting basic livelihoods of people living in poverty[10]. Special bonds in the amount of RMB 1.02 trillion (about USD 144 billion) were issued on 19 March to help finance infrastructure projects[11]. Updated tax guidelines were unveiled with 17 new policies[12]. USD 71.3 billion in insurance fees have been cut[13]. Service charges of ports have been lowered by 20%[14]. Credit support of over RMB 1.25 trillion (USD 180.4 billion) has been pledged[15].

The PRC is also the first country on its way to overcome the epidemic. The PRC has accelerated measures needed to better make up for the damage brought about by the crisis in the longer-term such as shortening the negative list for foreign investment, increasing the volume of foreign trade loans, stepping up investment in "new infrastructure" and further reforming the bond market, aiming at opening additional financing channels for the real economy.

Exhibit 9: Fiscal measures by major EU countries

	EU	Germany	France	Italy	Spain
Total stimulus	€37bn	€150bn (5% of GDP)	€45bn (2% of GDP)	€25bn (1.4% of GDP) + further €20bn likely	€17bn (1.4% of GDP)
State loans & guarantees	€28bn in loans to SMEs via the EIB, further ESM-backed loan facility discussed	€550bn in loans via KfW & unlimited if needed, €50bn for self-employed, export guarantees (€153bn)	€300bn in guarantees, unlimited if needed, €2 solidarity fund for the self-employed	€5bn (further increase under discussion)	€100bn, €400m credit line for tourism sector
Tax deferrals		Easing rules to defer taxes, reduce prepayments, suspension of penalties and late-payments	€35 for one month tax deferral plus help with loan rescheduling, tax rebates	Tax suspension	€14bn in tax relief for SMEs and self-employed
Looser regulation	Looser EU state aid, fiscal rules & banking regulation	Looser insolvency laws			
Equity stakes / nationalizations		TUI has reached out for state support	Support announced for Renault & PSA	Nationalization of Alitalia	

Source: Allianz, Covid-19: quarantined economics[16]

The measures taken by major EU countries have a magnitude of 1.4% to 5% of GDP and range from loans and guarantees over tax deferrals and looser regulation to state support for major companies (Exhibit 9).

The magnitude of USA's measures is even higher. The USD 2 trillion (10% of GDP) "Coronavirus Aid, Relief, and Economic Security Act", adopted on 27 March, provides for transfers to households, extended unemployment insurance, food assistance, incentives for firms to maintain employees on payroll, loans and grants for businesses, funding for hospitals and health care infrastructure, transfers to state and local governments, and deferral of payroll tax obligations. Federal student loan

8 https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#C
9 http://www.globaltimes.cn/content/1182617.shtml
10 https://news.cgtn.com/news/2020-03-15/China-strengthens-fiscal-support-for-poor-people-hit-by-epidemic-OSc6LaPd5K/index.html
11 http://en.people.cn/n3/2020/0321/c90000-9670893.html
12 https://news.cgtn.com/news/2020-03-11/China-updates-tax-cut-guidelines-to-combat-COVID-19-OLwODiAc92/index.html
13 https://news.cgtn.com/news/2020-02-20/China-to-cut-insurance-fees-to-help-firms-weather-coronavirus-period-OeXSMOnVRu/index.html
14 https://news.cgtn.com/news/2020-03-10/China-slashes-port-service-fees-to-bolster-logistics-chain-OJPxaOnuzC/index.html
15 http://en.people.cn/n3/2020/0321/c90000-9670893.html
16 https://www.allianz.com/content/dam/onemarketing/azcom/Allianz_com/economic-research/publications/specials/en/2020/march/20200320_Quarantined_Economics.pdf

obligations have been suspended for 60 days and tax filing deadlines have been delayed.[17] Before, the country adopted a USD 8.3 billion "Coronavirus Preparedness and Response Supplemental Appropriations Act" and a USD 104 billion "Families First Coronavirus Response Act", which together provide 0.5% of GDP for health care, sick leave, small business loans, and international assistance.

Japan's two emergency packages total JPY 446 billion (0.1 percent of GDP). The packages include measures to contain the spread of the virus and enhance preparedness of the healthcare system, aid to households such as enhanced paid-leave and compensation to working parents affected by the school closure, subsidies to firms who maintain employment during the scale down of operations. The deadline for tax return filing and payment of personal income tax, gift tax, and consumption tax (for the self-employed) was extended from mid-March to mid-April. Tax payments for people and businesses negatively impacted by the Covid-19 outbreak are deferred. Japan's packages are comparably small. However, in addition, the JPY 26 trillion (about 4.8% of GDP) December 2019 stimulus package is being used to counter the economic slowdown.[18]

South Korea's measures amount to 0.8% of GDP. The packages include: health care measures: prevention, testing, and treatment costs, and loans and support for medical institutions; measures for households: transfers to quarantined households, employment retention support, consumption coupons for low-income households, and emergency family care support; measures for firms: loans and guarantees for business operation, and support of wages and rent for small merchants; measures for local communities: local gift certificates and local government grants for costs of responding; revenue measures: consumption tax cut for auto purchases; tax cuts for landlords who reduce rent for commercial tenants; VAT reduction for the self-employed; and tax payment deferral covering a broad range of taxes for small businesses and the self-employed in medical, tourism, performance, hospitality, and other affected sectors.[19]

Looming economic crisis and CAREC countries' responses

The CAREC member countries have also taken measures to support their economies through various approaches, including direct financial support, tax and fee reductions, and monetary policy measures (see the text below and table 1).

The volume of announced programs is estimated to reach from 1% to over 3% of GDP for most CAREC countries, although definitions may vary of what is new money, what is redirected money and what is acceleration of programs needed also independently from Covid-19. Now, efficiency of further program design, quality of execution and implementation speed will decide of how big their impact will be.

Measures include[20]:

The Afghan government plans to disburse USD 25 million[21] from a special fund, the Azerbaijan government to spend USD 591 million[22] and the Kyrgyz Republic considers using USD 120.9 million[23] available from the IMF to mitigate the impact of the coronavirus epidemic on the economy.

[17] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U
[18] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#J
[19] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#K
[20] Measures are now adopted daily as the situation develops fast. Please forgive, if the brief misses some measures or doesn't describe them 100% correctly.
[21] https://wadsam.com/afghan-business-news/afghan-government-provides-50000-testing-kits-for-coronavirus/
[22] https://news.az/articles/politics/146772
[23] https://24.kg/english/

In Georgia, private companies and individuals are able to make donations in national currency to help the poor and disadvantaged get through the coronavirus crisis thanks to a StopCov foundation created by the government on 23 March. A total of 15,500,000 GEL (about $4.67m/€4.22m) has been accumulated in the StopCov fund.[24].

In Azerbaijan, the authorities have announced support to affected businesses in the amount of AZN 1 billion (1 percent of GDP). They increased spending on public health by AZN 8.3 million. The government has provided USD 5 million to the Covid-19 Fund as part of the WHO's Strategic Preparedness and Response Plan[25].

Most countries attempt to support markets with critical medical supplies such as face masks, test kits, and medical equipment such as respirators, secure enough food supplies and stabilize prices.

The Kyrgyz Republic and Uzbekistan offer special subsidies for frontline medical workers during the epidemic.[26][27] Kazakhstan and Uzbekistan try to stabilize employment through more infrastructure investment, and through online recruitment. Special payments are to be given during emergency in Kazakhstan for those who went on unpaid leave in connection with the state of emergency.[28]
Pension recipients of all ages are to receive April payment in advance in Georgia[29].
In Azerbaijan, mobile customer services are provided free of charge to subscribers over 65[30].

The Government of Georgia decided to defer payment of property and income tax by four months for hotels, restaurants, tourist agencies and tour operators [31]. This will benefit about 18,000 companies and 50,000 employees. and leave more than GEL 100 million financial resources in this sector. Moreover, instead of VAT returns of GEL 600 million (about USD214.67million) due to a planned tax reform twice as much shall be returned to private businesses. The Georgian banking sector will defer repayments of loans for three months for individuals and micro, small and middle-sized businesses.

Tajikistan and Afghanistan have begun to work on Emergency Response and Health Systems Preparedness Projects with the World Bank. [32] The World Bank offered EUR 45 million in support of Georgia's ongoing reforms in areas critical for inclusive economic growth and also assist in the country's efforts to mitigate the economic impact of the Covid-19 pandemic[33].

[24] https://agenda.ge/en
[25] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#A
[26] https://akipress.com/news:637819:Doctors_involved_in_fighting_coronavirus_to_get_paid_extra/
[27] http://uza.uz/en/society/resolution-adopted-to-support-medical-workers-27-03-2020
[28] https://www.kazpravda.kz/en/news/society/special-payments-to-be-given-during-emergency-in-kazakhstan
[29] http://gov.ge/index.php?lang_id=ENG&sec_id=288&info_id=75748
[30] https://azertag.az/en/xeber/Azerbaijan_sets_up_Fund_to_Support_Fight_Against_Coronavirus-1444875
[31] https://agenda.ge/en/news/2020/782
[32] http://documents.worldbank.org/curated/en/274761585067722387/Project-Information-Document-Tajikistan-Emergency-COVID-19-Project-P173765
[33] https://agenda.ge/en/news/economy

Table1: Initiatives taken by CAREC countries

	GEO	KAZ	MON	PAK	UZB
Packages	The government announced a GEL 1 bn (2% of GDP) support package on March 13.[34] Paying GEL 3 mn (USD 1 mn) to subsidize loans of small hotels;[35]	KZT 1 trn (1.5% of GDP) will be allocated under the “Employment Roadmap”. At least 300 bn tenge (USD 750 mn) to be allocated to support domestic entrepreneurs and create new jobs;[36] Transfers to the budget from the National Oil Fund will increase.	MNT 12 bn (0.03% of GDP) of additional health spending; MNT 17 bn (USD 6 mn) spent from the State Fund and additional MNT 20.6 bn (USD 7.5 mn) earmarked;[37]	PKR 1.2 trn relief package (3.1% of GDP); relief to daily wage workers (PKR 200 bn), cash transfers to low-income families (PKR 150 bn), financial support to SMEs (PKR 100 billion).[38] Redirecting USD 40 mn of nonutilized funds, finalizing another approx. USD 600 mn emergency package;[39]	Anti-Crisis Fund of UZS 10 trn (1.5% of GDP) for: funding for healthcare; increasing the number of low-income families receiving social benefits; providing assistance to businesses via interest subsidies; financing public works to support employment.[40]
Tax cuts and fee relieves	Deferring taxes for companies/staff in the tourism industry for four months;[41] VAT to be waived on pharmaceutical goods;[42]Exempting up to 600 SMEs from lease payments for three months;[43]	Some categories of SMEs possibly exempted from taxes;[44] Producers of Agri goods to be exempted from land taxes.[45]	Pending for parliament approval: tax exemptions on several imported food items; one-time tax exemption in case of rental payment decrease;[46]	Waiving the transaction charges on RTGS customer transfers;[47] Exempting diagnostic support and health safety items from all taxes;[48] Exempting import duty on medical equipment;[49]	Providing tax holidays to industries most affected by the epidemic.[50]
Mone-tary policy	The National Bank of Georgia conducted several interventions in the fx market.[51]	Base rate raised to 12.0%, expansion of the corridor to +/- 1.5 p.p;[52] FX interventions conducted;[53] Lowering the interest rate on the credit from the current range of 13-15 % to 6 %.[54]	Cutting of policy rate by 100 bps to 10%; corridor narrowed to ±1 p.p.; reserve requirement reduced by 200 basis points to 8.5%. Principal and interest payments on consumer loans deferred for three months;[55]	Cutting of policy rate by 75 bps to 12.5% and then further to 11.0%;[56][57] “Temporary Economic Refinance Facility” to stimulate investment in manufacturing. “Refinance Facility for Combating COVID–19” to support hospitals.[58]	Providing grace periods for the principal repayment of loans;[59]

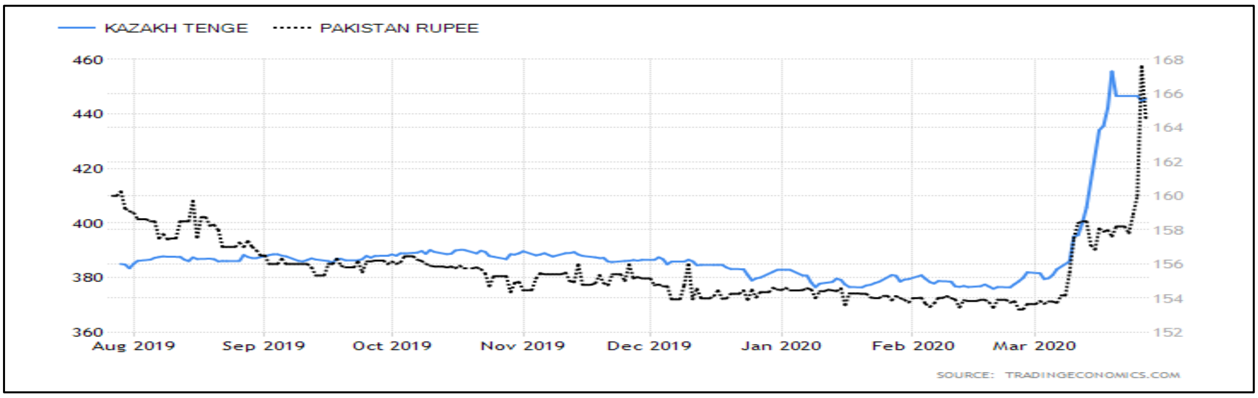
Source: Compiled by the author based on multiple sources (see footnotes)

[34] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#G
[35] http://georgiatoday.ge/news/19914/Anti-crisis-Plan%3A-Govt
[36] https://www.kazpravda.kz/en/news/economics/what-is-done-to-stabilize-economy-in-kazakhstan-the-president-said; https://primeminister.kz/ru/news/pravitelstvo-utverdilo-paket-antikrizisnyh-mer-1725048
[37] http://mongolia.gogo.mn/r/162326
[38] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#P
[39] https://www.brecorder.com/2020/03/20/581864/pakistan-redirects-40mn-non-utilized-funds-to-fight-coronavirus-pandemic/
[40] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U
[41] http://gov.ge/index.php?lang_id=ENG&sec_id=288&info_id=75563
[42] http://gov.ge/index.php?lang_id=ENG&sec_id=288&info_id=75459
[43] http://georgiatoday.ge/news/20022/SMEs-to-be-Exempted-from-Lease-Payments-for-Three-Months-
[44] https://www.kazpravda.kz/en/news/economics/tax-holidays-may-be-provided-to-businessmen-in-kazakhstan
[45] https://www.afghanistansun.com/news/264348004/kazakhstan-outlines-plan-to-shelter-economy-from-covid-19
[46] http://mongolia.gogo.mn/r/162292
[47] https://www.brecorder.com/2020/03/18/581171/sbp-introduces-string-of-measures-to-mitigate-coronavirus-crisis/
[48] https://www.thenews.com.pk/print/632245-to-combat-coronavirus-fbr-exempts-diagnostic-support-health-safety-items-from-taxes
[49] http://download1.fbr.gov.pk/SROs/20203201932245185SRONO.235of2020dated20.3.2020.pdf
[50] https://www.pv.uz/en/news/measures-defined-to-support-population-and-economic-sectors
[51] https://menafn.com/1099885223/National-Bank-of-Georgia-conducts-another-currency-intervention
[52] https://nationalbank.kz/cont/PR%20march%202020.pdf
[53] https://nationalbank.kz/cont/%D0%9F%D0%A0%2015032020%20%D0%B0%D0%BD%D0%B3.pdf
[54] https://www.afghanistansun.com/news/264348004/kazakhstan-outlines-plan-to-shelter-economy-from-covid-19
[55] http://mongolia.gogo.mn/r/162317
[56] http://www.sbp.org.pk/m_policy/2020/MPS-Mar-2020-Eng.pdf
[57] https://www.rferl.org/a/pakistan-cuts-interest-rates-sets-6-billion-to-offset-economic-impact-of-virus/30507290.html
[58] http://www.sbp.org.pk/press/2020/Pr-17-Mar-20.pdf
[59] https://uzreport.news/finance/central-bank-of-uzbekistan-urges-banks-to-provide-companies-grace-period-on-loans

Fiscal versus monetary easing

The CAREC countries face some specific challenges. Several CAREC countries are net commodity exporters and, hence the fall in commodity prices is expected to have strong a negative impact on their economies. Others are indirectly affected through lower remittances from Russia and Kazakhstan. In countries with largely freely floating exchange rates, currencies are experiencing a sharp weakening against US dollar (see Exhibits 10 and 11). Pakistan is a large net oil importer, but nevertheless saw its currency weaken due to lower cotton prices and hot money outflows. The country is in an IMF program (Extended Fund Facility), rising imbalances due to the current crisis could complicate to meet the program's targets. Countries such as Georgia and the Kyrgyz Republic, for which exports of services such as tourism play a large role, suffer as well. CAREC countries are left with little room for monetary easing, if they don't want further depreciation of their currencies. Kazakhstan has even increased its policy rate to defend the tenge (Exhibit 8, table 1). A number of countries intervened to support their currencies.

Exhibit 10: Kazakhstani tenge and Pakistani rupee versus the USD



Source: TradingEconomics

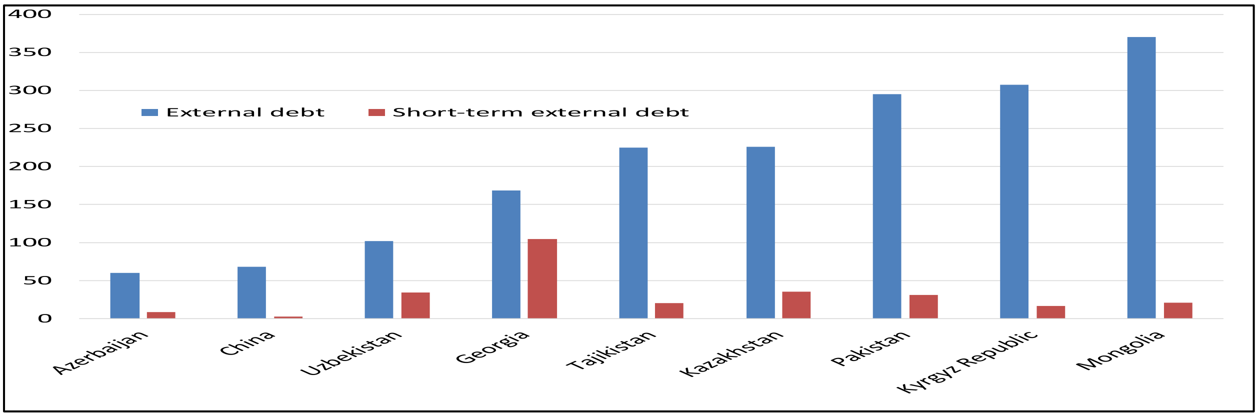
Exhibit 11: Georgian lari and Kyrgyz som versus the USD

Source: TradingEconomics

Weaker exchange rates not only fuel inflation, but also increase foreign debt service (usually denominated in dollars) in national currency terms, a substantial problem for entities not fully hedged by foreign currency earnings. Short-term external debt is only in Georgia very substantial, but total external debt is quite high throughout the region (Exhibit 12).

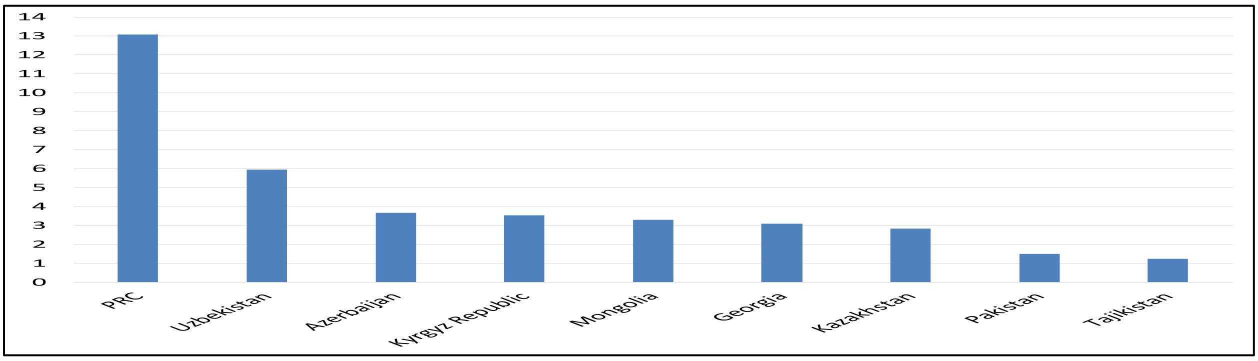
For some countries a significant part of external debt is intracompany debt owed to foreign direct investors, which mitigates related risks to some extent. The level of international reserves of the CAREC countries is relatively solid, except for Pakistan and Tajikistan (Exhibit 13). However, if low dollar inflows because of low commodity prices and declining remittance accelerate depreciation, countries could run into quite difficult positions in the middle-term. Weaker currencies could support export-led growth though, but this would come at the cost of much higher inflation resulting in lower real incomes of the population and contracting consumption, higher import prices for goods critical to upgrade production capabilities, and also for medical equipment.

Exhibit 12: External debt, 2018, % of exports of goods, services and primary income



There are no data for Afghanistan and Turkmenistan
Source: IMF, International Debt Statistics

Exhibit 13: International reserves, 2018, months of imports



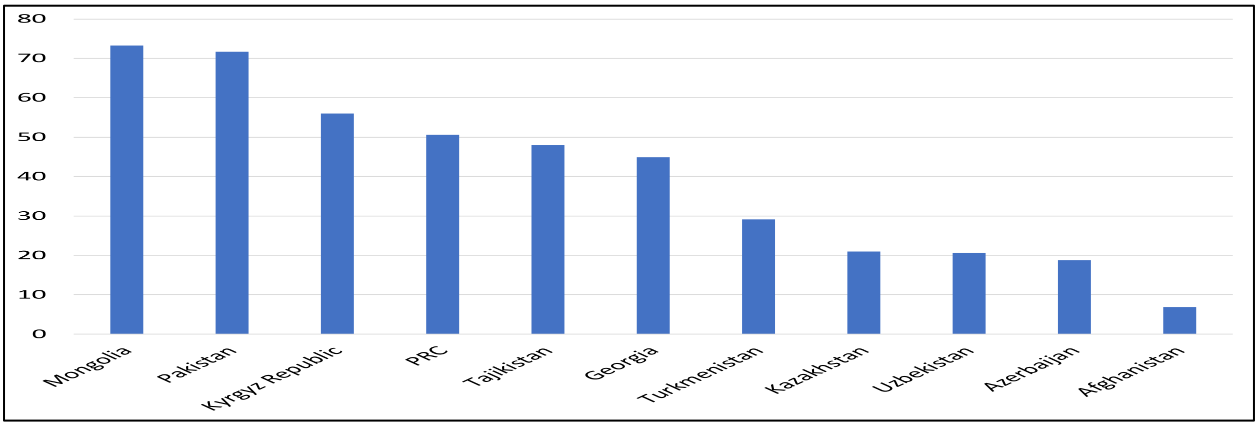
There are no data for Afghanistan and Turkmenistan
Source: IMF, International Debt Statistics

Monetary loosening by the central banks that control global liquidity is important to ease the current situation. For CAREC, fiscal measures are in general preferable over monetary easing, if any affordable. Not only do they put currencies less under pressure, they also reach the ones in need of support better. Not every business or household has outstanding loans or security holdings, which would be affected by monetary policy, even in the most developed countries. In the CAREC region, the percentage of the banked population is still a lot lower.

The fiscal position of some CAREC countries is relatively favorable in international comparison as their public debt is relatively low (Exhibit 13). Kazakhstan and Azerbaijan possess large sovereign wealth funds. However, government debt is high in Mongolia and Pakistan, and to some extent also in the Kyrgyz Republic. The drop in oil, gas and copper prices strongly impacts government revenues in Azerbaijan, Turkmenistan, Kazakhstan and Mongolia, which might find themselves in less solid financial circumstances than before.

Some countries might resort to help from international organizations, and some are already talking with them. All major development institutions announced large support packages: The IMF is making available about USD 50 billion through its rapid-disbursing emergency financing facilities and announced to be ready to disburse also more.[60] The World Bank and IFC adopted a USD 14 billion package for fast-track financing.[61] The ADB introduced a new USD 6.5 billion assistance package and has intensified bilateral cooperation to support member countries in their fight against the virus[62]. The EBRD unveiled an EUR 1 billion emergency coronavirus financing package[63]. Other organizations have put forward programs as well.

Exhibit 13: General government debt, 2018, % of GDP



Source: IMF, WEO database

Conclusions

The CAREC countries have adopted a whole series of programs to mitigate the impact of the Covid-19 pandemic on their economies. These programs range from direct support of businesses and households, over securing critical medical and other infrastructure to monetary policy measures and also to more long-term policies in order to secure decent performance after the crisis.

However, the global pandemic still unfolds and sever economic consequences for the world economy are projected. If the severity of the impact on the CAREC region increases, more measures might be needed. Unprecedented fluctuations in commodity prices, stock markets, oil prices, currencies, capital market and global supply chains are bound to cause serious disruptions in most CAREC economies. Significant economic downturn can potentially intensify social tensions, with prolonged and serious consequences.

At the G20 Ministerial Call on the Coronavirus Emergency on 23 March, OECD Secretary General Angel Gurría urged G20 leaders to act and "to

- Recapitalise health and epidemiological systems;
- Mobilise all macro-economic levers: monetary, fiscal, and structural policies;

[60] https://www.imf.org/en/News/Articles/2020/03/04/sp030420-imf-makes-available-50-billion-to-help-address-coronavirus
[61] https://www.worldbank.org/en/news/press-release/2020/03/17/world-bank-group-increases-covid-19-response-to-14-billion-to-help-sustain-economies-protect-jobs
[62] https://www.adb.org/what-we-do/covid19-coronavirus
[63] https://www.ebrd.com/news/2020/ebrd-unveils-1-billion-emergency-coronavirus-financing-package.html

- Lift existing trade restrictions especially on much needed medical supplies;
- Provide support to vulnerable developing and low-income countries;
- Share and implement best practices to support workers and all individuals, employed and unemployed – particularly the most vulnerable;
- Keep businesses afloat, particularly small and medium-sized firms, with special support packages in hardest hit sectors such as tourism."[64]

Except for the PRC, CAREC countries are not among the G20. Their resources are much more limited. The CAREC countries have to tailor their measures according to their specific possibilities, needs, structure of economy, features of their legal systems. However, many of Mr. Gurría's points are most likely valid also for CAREC countries.

General recommendations for policy responses for CAREC countries derived from what other countries worldwide do are:

1. The focus should be on dealing with health crisis by using regional experiences and best practices. Any economic stimulus package depends on the early control of the health crisis. Increasing health related expenditures, emergency procurement of Covid-19-related medical supplies including protective gear for medical workers, easing trade controls for such equipment, restrictions on movement of populations, ensuring supply of essential items including food and medicine to wider populations and collaboration in global research in prevention and cure.

2. Prepare and implement best combinations of monetary and fiscal easing for broader impact and stimulus to a wide range of businesses, especially SMEs.

3. Incentivize workers retention through additional policy measures including tax breaks, debt rescheduling and cost sharing schemes related to employee expenditures.

4. Explore all international options available through the World Bank's USD 14 billion fast track financing plan, IMF's USD 50 billion Rapid Fund facility, ADB's USD 6.5 billion Initial Response package, ERBD's Euro 1 billion Covid-19 response facility, IsDB's USD 2 billion response package, and other options.

[64] http://oecd.org/coronavirus/en/