Economic Brief

Covid-19 and the Economy

Prospects, Shocks, and Measures

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In order to save lives and secure most urgent necessities for millions of people, it is important to concentrate on fast-track measures to contain the pandemic and mitigate its adverse impact on livelihood and economies. However, debates have also begun about potential trajectories and the duration of the economic recovery. All hope for fast recoveries, but there are concerns about double dip recessions or, worse, protracted economic stagnation. There are also debates about how the current crisis can be an incentive to secure more sustainable development in the future. These discussions have implications for the design and timing of mitigation measures.

The Covid-19 pandemic causes simultaneously supply and demand shocks. However, it is more demand than supply shocks. While the authorities need to ensure that businesses can survive the initial onslaught of the crisis by providing emergency support, bridging loans, etc., they also have to think about helping demand to recover, especially in the medium to longer term. This includes thinking about low-income parts of the population and about the most vulnerable. This is important from an ethical point of view, but also because transfers to these parts of the population have the highest multiplier effect since none of the transferred money will go into savings but will be spent for food and other necessities. Reviving investment is also a major task, and governments can support this by various programs. Doing so, they should especially encourage investment in sectors crucial for future development and wellbeing such as the health system, education, the digital economy and green energy.

This economic brief attempts to discuss scenarios for economic developments and recoveries with a focus on the CAREC region, and also give some overview of measures taken by the authorities to mitigate the consequences of the Covid-19 pandemic. The final chapter provides general recommendations that perhaps can serve as a checklist when formulating programs for mitigating the economic consequences of the pandemic.

I. Prospects: V or L or W?

The baseline scenario is V

The covid-19 pandemic has the world still in its grip. In some countries, the pandemic slowly recedes while in others it is at the outset. The economic consequences of the pandemic are of a severity not seen since WWII, measures to mitigate them are unprecedented as well. No one knows yet exactly how the pandemic further develops and no one knows exactly the future path of economies worldwide. However, most major institutions predict in their baseline scenarios a V-shaped development, that is they forecast a sharp slow-down in 2020, followed by a decent recovery in 2021. The baseline scenarios by ADB/WB/IMF for the CAREC region are shown in Table 1. All of them are V-shaped.

Table 1: Real GDP forecasts, % yoy: all V-shaped

	2019E	2020F	2021F	2020F			2021F		
	average ADB/WB/IMF			ADB	WB	IMF	ADB	WB	IMF
Afghanistan	3.0	-1.3	3.9	3.0	-3.8	-3.0	4.0	3.3	4.5
Azerbaijan	2.2	-0.6	1.5	0.5	-0.2	-2.2	1.5	2.2	0.7
PRC	6.1	1.9	8.1	2.3	2.3	1.2	7.3	7.7	9.2
Georgia	5.1	-1.3	3.8	0.0	0.1	-4.0	4.5	4.0	3.0
Kazakhstan	4.5	-0.5	3.6	1.8	-0.8	-2.5	3.6	3.0	4.1
Kyrgyzstan	4.5	0.1	5.3	4.0	0.4	-4.0	4.5	3.5	8.0
Mongolia	5.1	2.3	4.9	2.1	2.4		4.6	5.1	
Pakistan	3.3	-0.1	2.0	2.6	-1.3	-1.5	3.2	0.9	2.0
Tajikistan	7.5	2.5	4.7	5.5	1.0	1.0	5.0	3.7	5.5
Turkmenistan	6.3	3.9	6.1	6.0		1.8	5.8		6.4
Uzbekistan	5.6	2.7	6.4	4.7	1.6	1.8	5.8	6.5	7.0
Simple average	**4.8**	**0.7**	**4.5**	**3.0**	**0.2**	**-1.1**	**4.5**	**4.0**	**5.0**

Note: The IMF forecasts global GDP to contract by 3.0% yoy in 2020 and to recover by 5.8% in 2021; the prognosis for advanced economies is -6.1% and +4.5% for 2020 and 2021, respectively, for emerging markets and developing economies -1% and +6.6%.
Sources: ADB, Asian Development Outlook April 2020; WB, Europe and Central Asia Economic Update, Spring 2020: Fighting Covid-19; WB, South Asia Economic Focus, Spring 2020; WB, East Asia and Pacific Economic Update, April 2020; IMF, World Economic Outlook, April 2020

The danger of L

The V-shaped recoveries of the baseline scenarios come however with critical preconditions. ADB's April 2020 Asian Development Outlook assumes that the outbreak in major economies will "come under control in 3 to 6 months and that activity will gradually return to normal"[1]. However, the outlook also states that "Growth could underperform … as the pandemic poses downside risks. Outbreaks could worsen in more countries, and containing them could take longer than currently projected."[2] The World Bank's April 2020 "East Asia and Pacific Economic Update" baseline scenario foresees a "severe slowdown followed by a strong recovery", but there is also a "lower case scenario" with a "deeper contraction followed by a sluggish recovery"[3]. The International Monetary Fund's (IMF) April 2020 World Economic Outlook baseline scenario envisages the pandemic to "fade in the second half of 2020, allowing for a gradual lifting of containment measures"[4]. However, the IMF emphasizes the high forecast risk and warns that the pandemic could be more persistent than assumed. It is telling that all three institutions talk about downside scenarios, but none of them speaks much about an upside one.

Even under the most optimistic assumptions about the duration of the pandemic, V-shape recoveries will not occur without bold actions by the authorities. As is said in the World Bank's "Fighting Covid-19" report: "During these difficult times, it is important for policy makers to act decisively to save lives and invest in their public health systems; but also minimize the economic cost by strengthening the safety net for the most vulnerable; supporting the private sector through short-term credit, tax breaks, or subsidies; and being prepared to lower interest rates and inject liquidity to restore financial stability and boost confidence."[5]

[1] https://www.adb.org/publications/asian-development-outlook-2020-innovation-asia
[2] ibidem
[3] https://openknowledge.worldbank.org/handle/10986/33477
[4] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020
[5] https://openknowledge.worldbank.org/handle/10986/33476

If the pandemic is more protracted than assumed, if the volume of government interventions is too little, if actions by the authorities are not decisive enough or the timing is not appropriate, this could lead to bankruptcies of many businesses with lasting consequences for employment and production. Then, L-shaped economic trajectories with a steep contraction followed by long-term economic stagnation are the likely result.

Debt

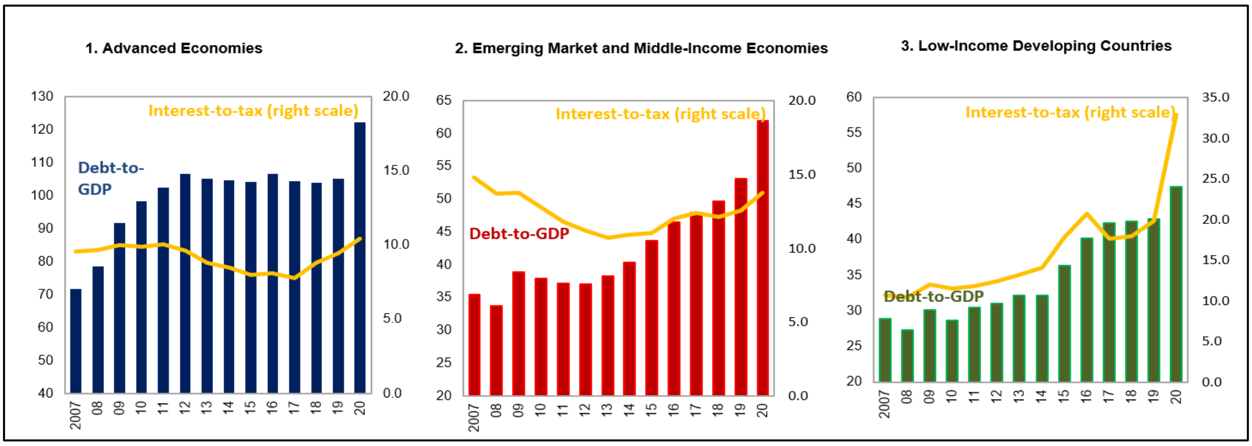
There are famous economists which are not very much concerned about the spike in public debt which the government measures to fight the Covid-19 will cause. Paul Krugman writes in the debt chapter of his article "The case for permanent stimulus": "…not that long ago, policymakers were obsessed, or claimed to be obsessed, with the dangers posed by high ratios of debt to GDP. But those concerns were misplaced, and a look at the arithmetic of debt in an era of low interest rates suggests that permanent stimulus is entirely doable[6]." And referring to Japan's example of sustained very high levels of public debt: "Japan's policy of permanent stimulus has surely contributed to the nation's ability to maintain more or less full employment despite the weakness of private demand. Japan has at no point experienced the kind of mass unemployment and suffering that North America and Europe experienced for years after the 2008 crisis and may be about to suffer again. In other words, at this point Japan doesn't look like a cautionary tale; it almost looks like a role model."

While this statement is controversial, the pro and contra of such policies can be discussed for major economies that are able to print money to support them. For most emerging markets, including in the CAREC region, they are off the table. Public debt levels in emerging markets and low-income countries are at 50-60% of GDP much below the ones in the advanced economies at 100-120% of GDP (Exhibit 1). However, the interest service on this debt is projected to be only about 10% of tax revenue in advanced economies, but about 14% in emerging markets and as high as 33% in low-income countries.
Moreover, a substantial part of public debt in emerging markets is vis-a-vis non-residents, usually in foreign currency. Some data for the CAREC region: in the Kyrgyz Republic, 82% of public debt were owed to non-residents in 2019, in Tajikistan 76%, in Kazakhstan 35%, in Pakistan 29%.

Exhibits 2 and 3 show public and external debts, respectively, for the CAREC region. Both public and external debt are high in Mongolia. Public debt is also high in Pakistan and to some extent in the Kyrgyz Republic. External debt is substantial in Georgia, Kazakhstan and the Kyrgyz Republic. Pakistan's external debt doesn't look too bad in Exhibit 3, but GDP alone is not an appropriate measure for the severity of external debt. The foreign currency for its service must be earned. Pakistan's external debt equals to about three years of exports of goods and services of. Afghanistan and Tajikistan don't look too badly either in Exhibit 3, but they are low income countries, which could run into severe difficulties to purchase much needed supplies in the time of crisis.

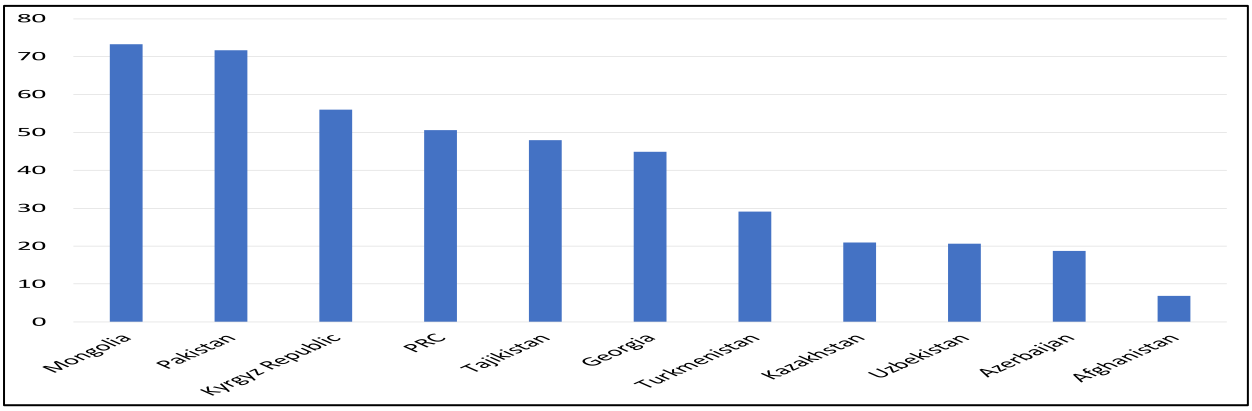
[66] https://voxeu.org/content/mitigating-covid-economic-crisis-act-fast-and-do-whatever-it-takes

Exhibit 1: General government gross-debt-to-GDP and interest-expenditure-to-tax-revenue ratios, %



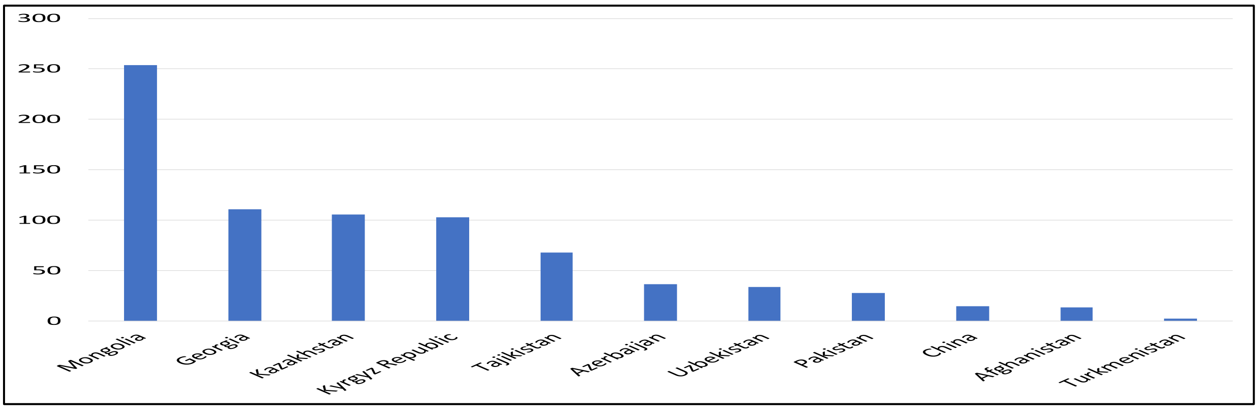
Source: IMF, Fiscal Monitor April 2020

Exhibit 2: General government debt in the CAREC region, 2018, % of GDP



Source: IMF, WEO database

Exhibit 3: External debt in the CAREC region, 2018, % of GNI



Source: WB, World Development Indicators

For the oil and gas exporters Azerbaijan, Kazakhstan and Turkmenistan, the slump in oil and gas prices erodes a substantial part of their tax receipts directly, and by adding to the contraction of the economy indirectly. One option for these countries to prop up tax revenue is to let their currencies depreciate: budget expenditures are mostly fixed in nominal terms in national currency. Higher inflation resulting from currency depreciation would nominally increase flows on which taxes such as VAT and profit taxes are based. However, the effect might be not very large in times of economic contraction. The bill would be paid by the population via falling real incomes. For companies with earnings predominantly in local currency, it would become more difficult to service their external debt. Azerbaijan, Kazakhstan and Turkmenistan have sovereign wealth funds, which can support the budget and the exchange rates to a certain extent, but their means are limited as well and also meant for future generations.

If the Covid-19 crisis is not to result in a L-shaped protracted stagnation and if lives shall be saved, countries with high public or external debts and low-income countries, for which purchasing of required health supplies is a big balance of payments burden, need support and debt relief.

Support from International Financial Institutions

A large number of International Financial Institutions and Development Partners are making financing available for the fight against the Covid-19 pandemic.

The IMF is providing emergency financial assistance via the Rapid Credit Facility (RCF), the Rapid Financing Instrument (RFI), with a joint volume of about USD 100 billion, and debt relief grants financed by the Catastrophe Containment and Relief Trust (CCRT). As of 26 April, emergency financing totaling SDR 6.8 billion (USD 10 billion) has been approved.[7]

Afghanistan and Tajikistan applied for debt relief under the IMF's Catastrophe Containment and Relief Trust (CCRT) facility and got support from IMF staff for the relief of a total of SDR 10 million (USD 14 million) of repayments due during 2020-2022. The IMF Board is expected to approve. This is relief for disbursements under an Extended Credit Facility (ECF) made between 2011 and 2016 and equals about 1.1% of outstanding public and external debt, which are almost identical in Afghanistan. Afghanistan has also requested emergency financing under the Rapid Credit Facility (RCF).

Tajikistan got support from IMF staff for the relief of a total of about SDR 20 million (USD 27 million) of repayments due during 2020-2022 for disbursement under an ECF made between 2010 and 2012. This is about 0.6% of outstanding public debt and 0.7% of public external debt. Tajikistan has also requested financing under the RCF.

The IMF approved disbursements of USD 1.4 billion under the Rapid Financing Instrument (RFI) to Pakistan. It also approved the disbursement of USD 80.6 million to the Kyrgyz Republic under the RFI plus USD 40.3 million under the Rapid Credit Facility (RCF). Pending IMF Executive Board approval, Georgia could receive USD 200 million to cope with the COVID-19 pandemic after IMF staff reached an agreement with the Georgian authorities for the completion of the Sixth Review under the Extended Fund Facility (ECF).

The World Bank Group is deploying up to USD 160 billion in long-term financial support over the next 15 months, including a USD 14 billion fast-track package[8].

[7] https://www.imf.org/en/News/Articles/2020/04/17/pr20168-world-bank-group-and-imf-mobilize-partners-in-the-fight-against-covid-19-in-africa
[8] https://www.worldbank.org/en/news/factsheet/2020/02/11/how-the-world-bank-group-is-helping-countries-with-covid-19-coronavirus

Active or already approved WB projects in the CAREC region, USD million (1 project in each country, only in Pakistan 2): Pakistan 210, Afghanistan 100, Uzbekistan 95, Mongolia 27, Kyrgyz Republic 12.2, Tajikistan 11.3. [9]

The International Financial Corporation (IFC) provides USD 8 billion in fast-track financial support to private companies[10].

On 13 April 2020, ADB announced a USD 20 billion package. The package triples the USD 6.5 billion assistance announced on 18 March 2020. The package includes about USD 2.5 billion in concessional and grant resources. Some USD 2 billion will be made available for the private sector.[11]

Active or already approved ADB projects in the CAREC region[12]:
COVID-19 Emergency Response, CNY 130 million, PRC; Health
COVID-19 Emergency Response, USD 1 million, Mongolia; Health
COVID-19 Emergency Response, USD 2 million, Pakistan; Health

The EBRD announced that it targets coronavirus financing of EUR 21 billion through 2021.[13] The Islamic Development Bank committed to USD 2.3 billion[14]. The Asian Infrastructure Investment Bank (AIIB) provides funds under its COVID-19 Crisis Recovery Facility of up to USD 10 billion[15].

The G20 have suspended debt repayments for the 77 poorest countries for an estimated USD 12 billion due between 1 May 2020 and the end of 2020[16]. The G20's Global Preparedness Monitoring Board's (GPMB) also set a target of USD 8 billion to be collected from countries, international organizations, the private sector, philanthropic institutions, and individuals for the fight against the pandemic. USD 1.9 billion have been reached. Saudi Arabia, as the holder of the G20 Presidency, pledged USD 500 million on 24 April 2020.[17]

Others provide assistance as well.
Not all of the pledged money might actually flow to the countries in need and some of it perhaps not in time to have the largest effect. If it will be too little, a number of economies might struggle for a prolonged period of time. However, if the international community lives up to the promises and if programs are adjusted in line with emerging needs, this would be an extra-ordinary example of international solidarity, which will strongly improve the prospects to overcome the pandemic and its economic consequences.

[9] https://maps.worldbank.org/#
[10] https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/covid-19
[11] https://www.adb.org/news/features/adbs-20-billion-covid-19-pandemic-response-frequently-asked-questions
[12] https://www.adb.org/projects
[13] https://www.ebrd.com/news/2020/ebrd-targets-coronavirus-financing-of-21-billion-through-2021.html
[14] https://www.isdb.org/news/the-islamic-development-bank-group-strategic-preparedness-and-response-programme-for-the-covid-19-pandemic-allocates-us-23-billion-to-member-countries
[15] https://www.aiib.org/en/news-events/news/2020/AIIB-Doubles-COVID-19-Crisis-Response-to-USD10-Billion.html
[16] https://g20.org/en/media/Documents/G20_FMCBG_Communiqué_EN%20(2).pdf
[17] (https://g20.org/en/media/Documents/G20_PR_Combat%20COVID%2019_240420.pdf)

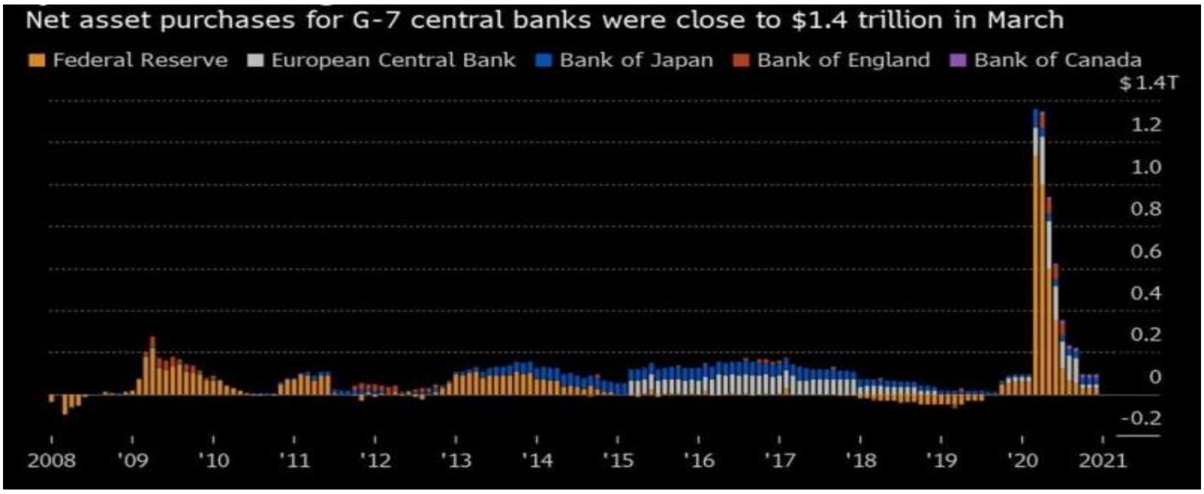
Insufficiently carefully and properly designed interventions might cause W

There is also the danger of double dip (W) outcomes. Firstly, there could be second waves of the pandemic if quarantine and other containment measures are lifted too early. Even if done properly, minor second waves of the pandemic are likely.

Secondly, phasing out the initial support measures too early or not supplementing the initial measures could cause a second wave of recession.

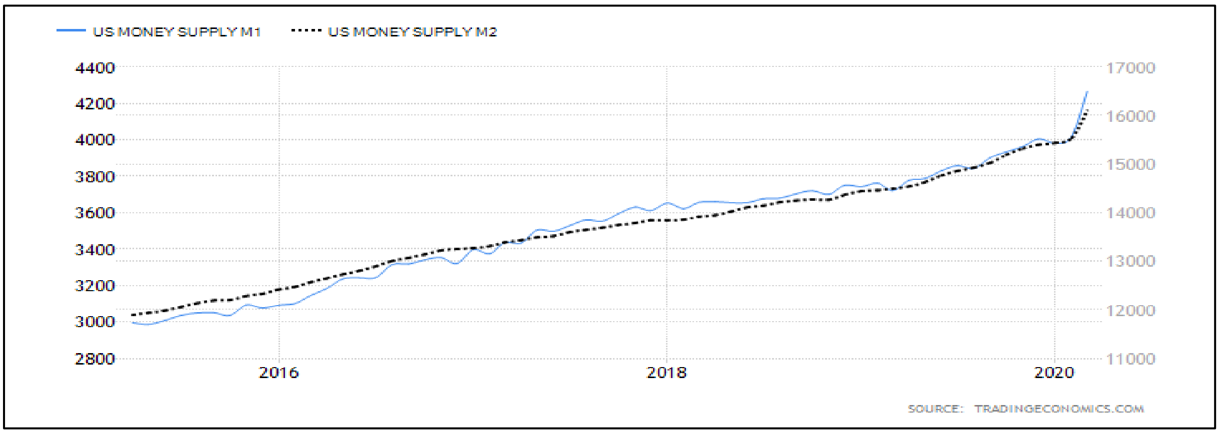
Thirdly, the liquidity poured into markets could cause short-term spikes in economic activity and in prices of certain goods and assets, followed by a bust when the loose policies are reversed or bubbles collapse. The liquidity scarcity currently felt and counteracted by central bank measures such as rate cuts, unprecedented quantitative easing (Exhibit 4), swap lines and others is caused by a sharp slowdown in the velocity of money because payment chains are disrupted along with production and consumption, and payments are delayed. Exhibit 5 shows the jump in the volume of money in the US in March. There is not only a sharp increase in short-term bank deposits (M1), but also in more long-term ones (broad money, M2). As soon as payment chains are largely restored, the velocity of money will re-increase. It might be rather difficult then to sterilize the huge excess liquidity.

Exhibit 4: Quantitative easing



The Peoples Bank of China poured by via several facilities a total of about USD 0.7 trillion into the market
Source: Bloomberg Economics

Exhibit 5: Money growth in the USA, USD billion



Source: TradingEconomics

In order to avoid double dip recessions, the volume, targeting and timing of crisis mitigation measures and of exit strategies are of utter importance. Global outcomes will be shaped by the major economies, the CAREC countries will be affected via demand for their export products, commodity prices, capital flows and remittances. Within this framework, the CAREC countries must try do their best for their own economies.

II. Demand or supply?

Inventories are full

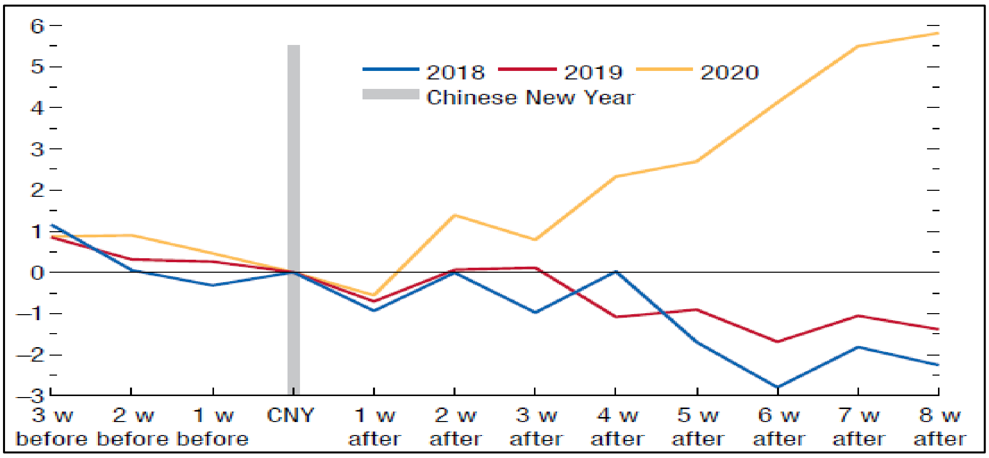
The pandemic exposes economies to severe supply shocks. Lockdowns disrupt production and supply chains, or at least reduce productivity. Businesses are bankrupted and employees are losing their jobs. Migrant workers cannot reach their workplaces due to travel restrictions. This reduces supplies and the potential output.

However, the crisis is caused more by demand shocks than by supply shocks. Although sometimes compared to war, this is after all not a real war (or only one against a virus). While there are some similarities there are also huge differences. The production apparatus is physically largely intact, workers are not hugely displaced, and in all tragedy the death toll is much lower. This is also not like the supply shocks in the 70ies when oil prices sharply increased. Currently the opposite is true. Crude Oil WTI futures even fell to minus USD 38 per barrel on 20 April, a novum in history. Other resources are cheap as well.

In principle, production could resume relatively quickly, if containment measures are successful, lockdowns lifted and not too many companies gone out of business. However, inventories for many goods are full. Exhibit 6 shows Chinese oil inventories as an example. For the USA, such headlines can be read as “COVID-19 wreaks havoc on inventories. Just when retailers had pared down thanks to a busy holiday season, merchandise is piling up again.”[18] US retail sales were 6.2% lower in March 2020 than in March 2019. Exhibit 7 shows the slump in retail sales in the PRC.

[18] https://www.retaildive.com/news/covid-19-wreaks-havoc-on-inventories/575795/

Exhibit 6: Chinese oil stocks, percentage point change in inventory fill as a share of inventory capacity



Source: IMF, World Economic Outlook, April 2020.

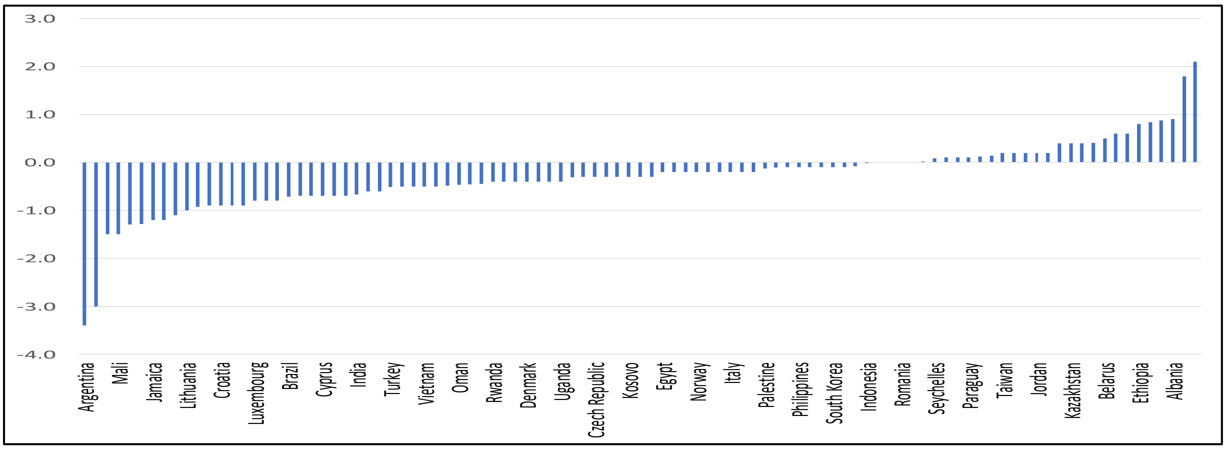
Household expenditures sharply decline because of the crisis. According to the National Bureau of Statistics of China, per capita expenditures fell by 8.2% yoy nominally in Q1 2020 in the PRC, and 12.5% yoy inflation adjusted. Food and housing expenditures were still 2.1% up nominally, but there were double digit slumps in all other expenditure categories, reaching from minus 10.2% for health care and medical services to minus 36.1% for education, culture and recreation[19].

Exhibit 7: Retail sales in the PRC, % yoy

Source: TradingEconomics

[19] http://www.stats.gov.cn/english/PressRelease/202004/t20200420_1739771.html

Exhibit 8: Change in annual inflation rates*, percentage points, March vs February 2020



* Economies worldwide (99) for which March 2020 inflation rates are already available
Source: Trading Economics, author's calculations

As the result of full inventories, inflation rates are decreasing, except for commodity exporters that saw their exchange rates strongly depreciate. Out of 99 economies globally, for which March data are already available, 69 registered a decline in inflation, 4 saw their inflation rates unchanged, and the remaining 25 had rather moderate increases (Exhibit 8).

Also, food prices fell globally. The FAO Food Price Index averaged 172.2 points in March 2020, down 7.8 points (4.3 percent) from February. The fall in prices was most pronounced for vegetable oils and sugar, bit the other sub-indices also registered lower values in March[20]. However, this does not exclude price spike in places with disrupted supplies.

Among the six CAREC countries that have already published March inflation data, the PRC and Georgia recorded 0.9 and 0.3 percentage points declines in March vs February, respectively, Azerbaijan, Kazakhstan, the Kyrgyz Republic, saw a 0.2, 0.4, 1.8 percentage points increase, and Mongolia's inflation rate remained unchanged despite currency weakening.

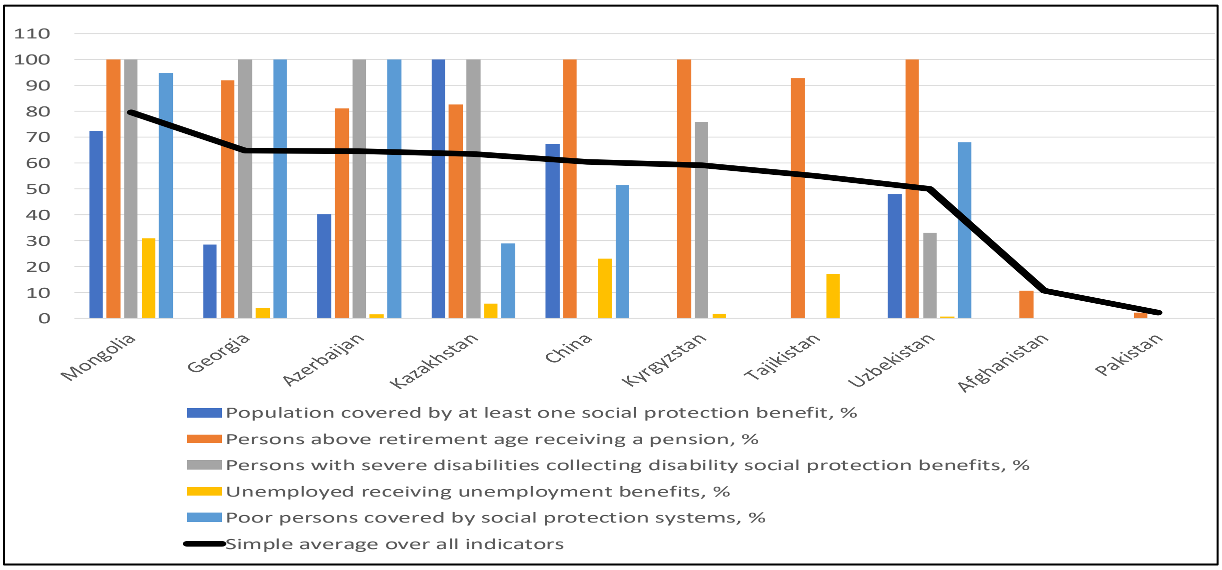
The decreasing inflation rates indicate weak demand and full inventories. Even if consumption recovers relatively fast after the lifting of lockdowns, it will take considerable time to empty inventories and bring production back to full capacity.

Falling incomes

With reduced economic activity incomes also decline. In the PRC, real per capita incomes decreased less than expenditures in Q1 2020, but substantially. According to the National Bureau of Statistics, per capita incomes grew by 0.8% yoy nominally in the first quarter of 2020, a decline by 3.9% adjusting for inflation. Net incomes from social transfers grew 6.8% yoy nominally, net incomes from property 2.7% yoy, incomes from wages and salaries by 1.2%. Net business incomes fell nominally as much as 7.3% yoy[21]. Social transfers account for not less than for 18% of per capita in the PRC, otherwise the fall in incomes had been substantially larger.

[20] http://www.fao.org/worldfoodsituation/foodpricesindex/en/
[21] http://www.stats.gov.cn/english/PressRelease/202004/t20200420_1739771.html

Exhibit 9: Population covered by social protection, %, latest available



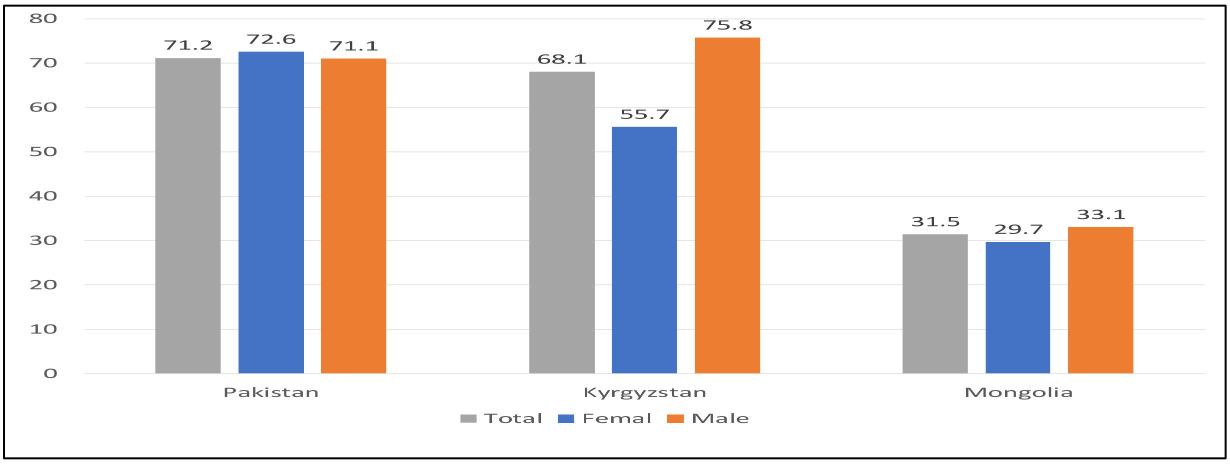
There is no data for Turkmenistan
Source: ILOSTAT, author's calculations.

With increasing production there will also be a renewed rise in incomes, but they might remain below previous levels for quite a time. In some CAREC countries, the role of transfers is much lower than in the PRC and the social protection network is much less developed. Populations are therefore more vulnerable and income losses due to lockdowns could be much more severe. Data availability about social protection is low in the CAREC region, by itself an indication of rather poor protection. Exhibit 9 intends to give at least some impression about the state of affairs. Unemployment benefits look especially problematic.

Particularly vulnerable to losing income from lockdowns are informal workers. Also here data availability is poor. Exhibit 10 shows data for three countries, with the share of informality in Pakistan and the Kyrgyz Republic in the non-agricultural sector as high as about 70%. There is anecdotal evidence in other CAREC countries that among persons registered as self-employed informality is high as well.

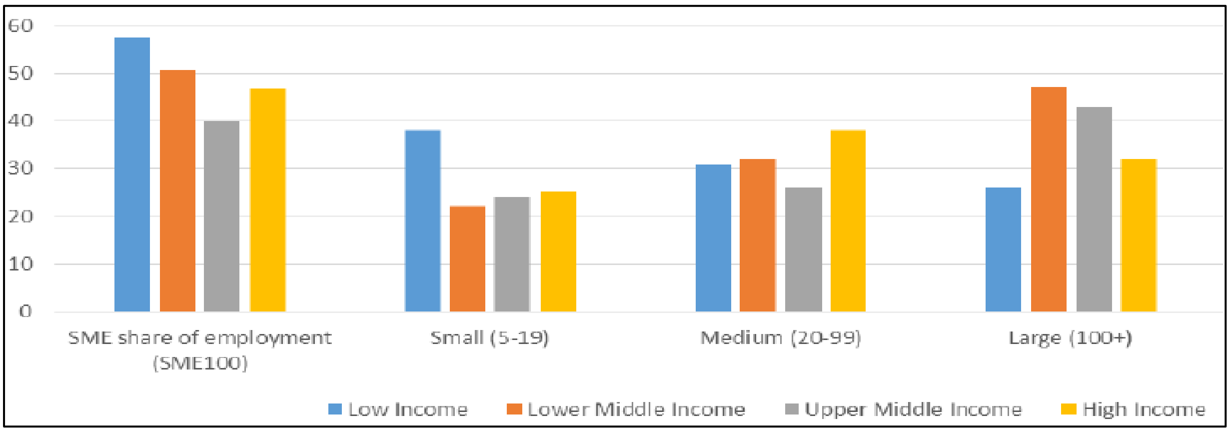
There is also little detailed data for the CAREC region about micro, small and medium enterprises (MSMEs), but in a number of countries especially micro and small enterprises account for a large share of employment. Exhibit 11 provides evidence that in low income countries especially small businesses play an important role. MSMEs are among the most vulnerable from lockdowns.

Exhibit 10: Informal employment in the non-agricultural sector, %, 2018



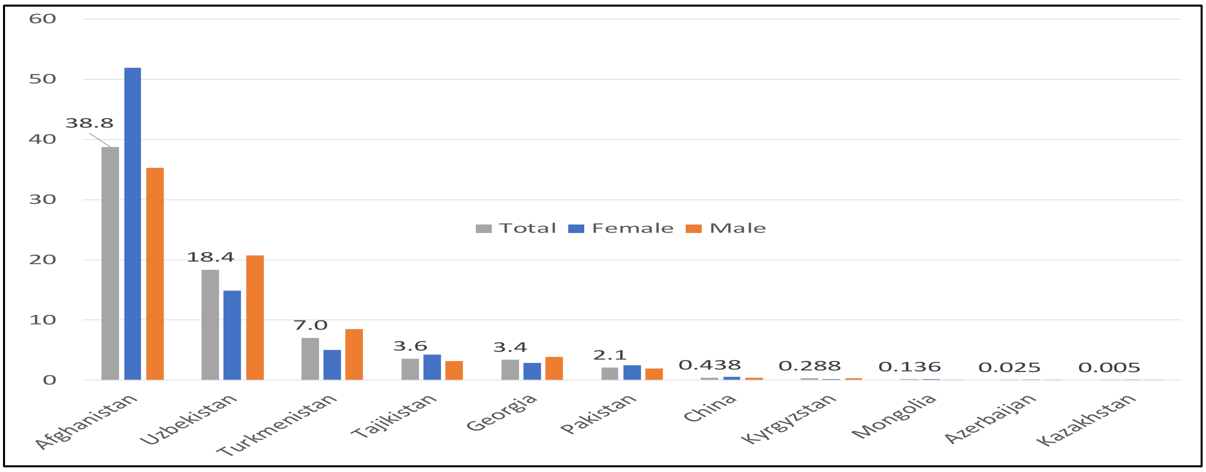
Source: ILOSTAT, author's calculations

Exhibit 11: SME share in employment by size and income group, %



Source: World Bank Group, Ruchima Kumar, Targeted Financing for SMEs, 2017

Exhibit 12: Employed living below US$1.90 at Purchasing Power Parities, %, latest available



Source: ILOSTAT, author's calculations

Poverty (Exhibit 12) is also an indicator for income vulnerability during lockdowns since high poverty ratios usually coincide with low social protection.

In order to restore demand quickly after the lifting of lockdowns, governments have to support incomes for some time, especially in countries with a high number of informal and day workers, a high number of vulnerable MSMEs, and weak social protection. This is not only required to protect the livelihood of those affected but has also a strong effect on aggregate demand as such transfers would be immediately spent. Precondition for a positive outcome is however that supplies such as food or ingredients such as flour are indeed available and there is no scarcity because of import difficulties due to disruptions or insufficient foreign exchange, as has been reported for some countries.

Contraction in investment now, high quality investment in the future?

With inventories full, demand weak, supply of equipment difficult and uncertainty high, investment in fixed assets is contracting sharply. Judging from the experience in the PRC, the decline to be seen in the second quarter 2020 globally will be severe. Fixed investment fell 16.1% yoy in Q1 2020 in the PRC, according to data from the National Bureau of Statistics. Investment by state-owned enterprises fell by 12.8% yoy, private investment by 18.8% yoy. The largest decline was in manufacturing of textiles (-37.1% yoy), the smallest in mining (-3.2% yoy). The only industry that saw a small increase in investment was the Supply of Energy, Gas, Water (+2% yoy).

Some governments, including in the PRC, have front-loaded investment, particularly in infrastructure to provide employment and multiplier effects for the economy. Investment in construction thus fell relatively more moderate at 17.6% yoy in Q1 in the PRC, compared with 27.2% yoy for equipment.

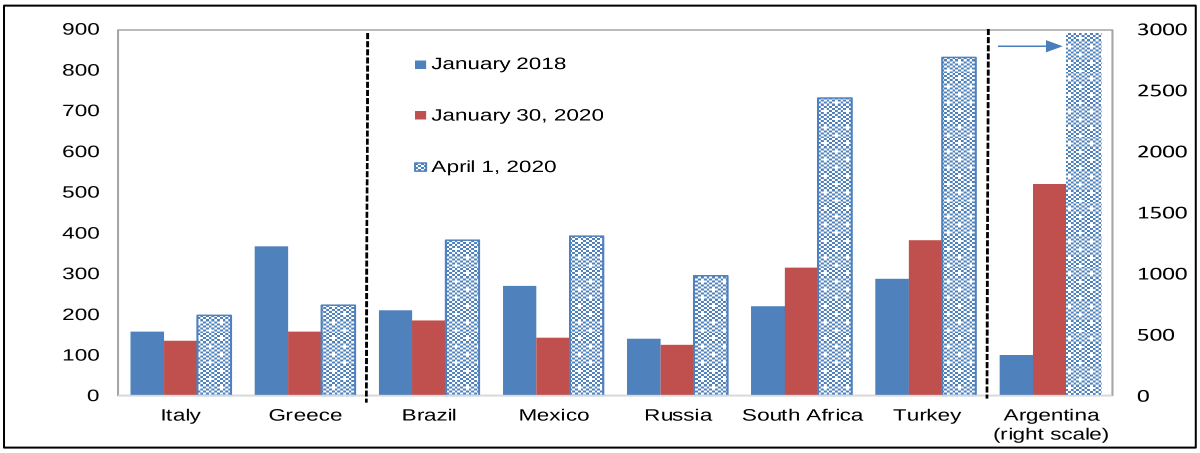
Public investment will have to play an important role for economic recovery. Many voices call for using this opportunity to induce high quality investment, including by cooperating with and incentivizing the private sector. Investment should support sustainable future development by prioritizing such sectors as the green economy, digitalization, education and the health system.

In the medium to longer-term there might be opportunities for the CAREC countries to attract more foreign investment as soon as the flight to safe havens (for very low returns) is going to revert. Exhibit 13 depicts how much more countries regarded as relatively risky have to pay in yields on their bonds than safe haven destinations. The difference sharply increased after the crisis stroke.

When the world overcomes the Covid-19 pandemic and things quiet down, the capital which flow out of emerging markets will become less risk-averse again and come back. The Institute of International Finance estimated that USD 83 billion left emerging markets in March 2020 alone[22]. On top, there is the huge liquidity poured into markets, which will search for investment opportunities. If CAREC countries prepare well, they will be in the position to finance themselves on international capital markets at much better conditions than they can get now. Bond issues, which have been postponed currently, for example by issuers from Uzbekistan or delayed IPOs as in Kazakhstan, can be placed then. Preconditions for attracting Foreign Direct Investment should also improve. CAREC countries should prepare projects especially in green economy, water, agriculture and other areas of sustainable development, seek support from development organizations and involve the private sector.

[22] https://www.iif.com/Publications/ID/3841/Capital-Flows-Report-Sudden-Stop-in-Emerging-Markets

Exhibit 13: Sovereign spreads*, basis points

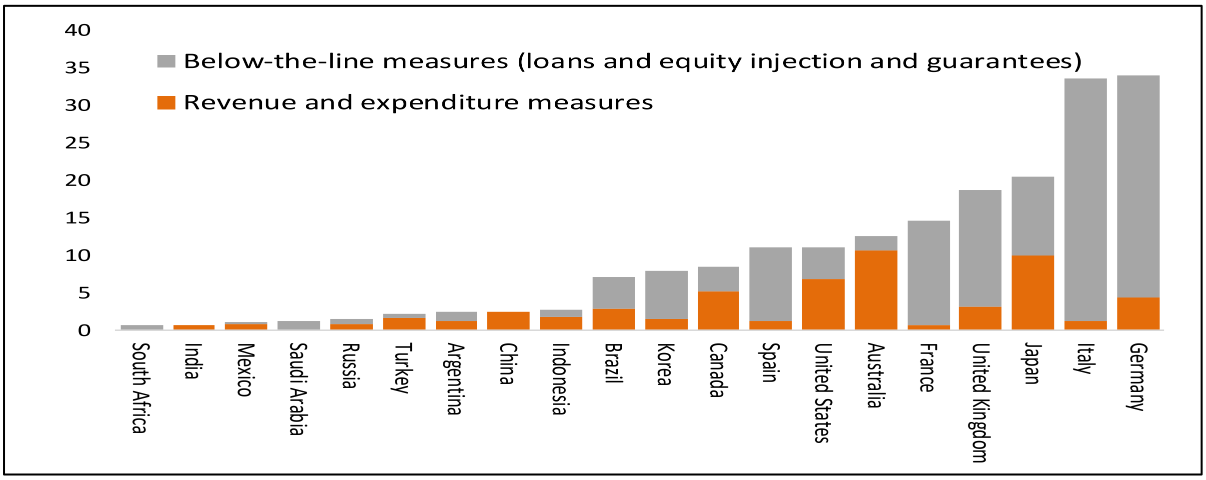


* Spreads for Italy and Greece refer to their sovereign yields over German bond yields, whereas the spreads for other countries are over the US Treasury bond yields.
Source: IMF, Fiscal Monitor April 2020

III. Measures

As unprecedented as the current crisis is, so are the response measures. Exhibit 4 above gives an impression about the quantitative easing under way. Exhibit 14 below gives an impression about the magnitude of fiscal responses of the G20 countries. There are different definitions and permanently new developments[23][24]. Headline figures, which usually include below the line measures, might exaggerate how much money is actually flowing. However, it is clear that programs are massive.

Exhibit 14: Fiscal Responses by the G20 countries, % of GDP

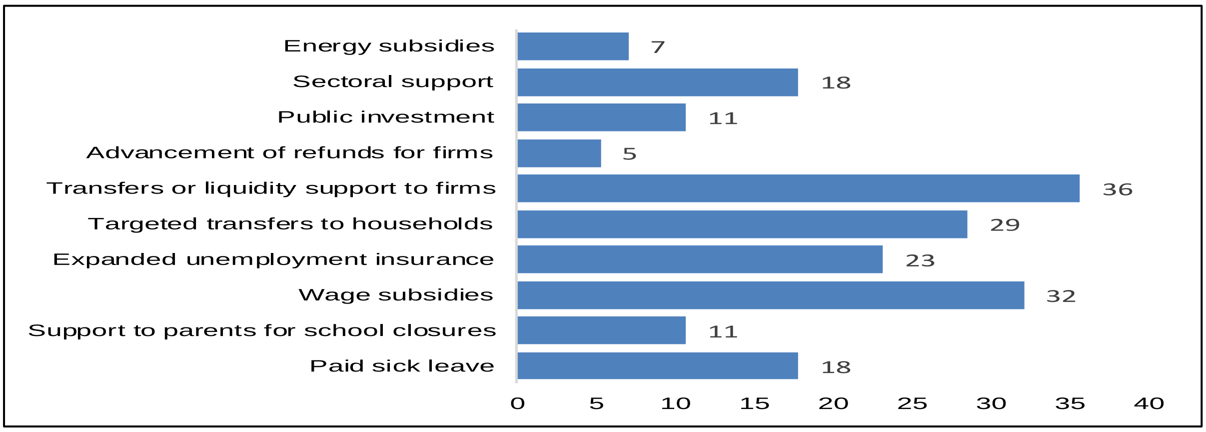


Source: IMF, Fiscal Monitor April 2020

[23]The U.S. is restarting a coronavirus relief loan program for small businesses totaling an additional USD 320 billion, after the first round of funding was exhausted in just 13 days. (https://www.bloomberg.com/news/articles/2020-04-24/small-business-relief-program-restarts-monday-with-320-billion?srnd=fixed-income&sref=Fv9bXRdD)

[24] The Eurogroup endorsed an agreement on three important safety nets for workers, businesses and sovereigns, amounting to a package worth EUR 540 billion on 9 April 2020 and called for the package to be operational by 1 June 2020. (https://www.consilium.europa.eu/en/press/press-releases/2020/04/23/conclusions-by-president-charles-michel-following-the-video-conference-with-members-of-the-european-council-on-23-april-2020/)

Exhibit 15: Percent of economies with fiscal support measures, spending measures by type

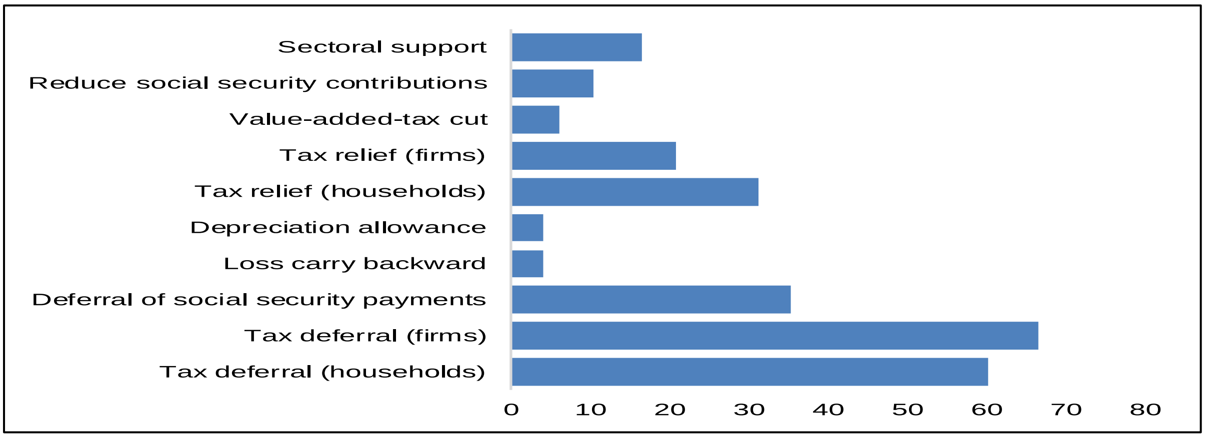


Source: IMF, Fiscal Monitor April 2020

Some of the fiscal measures which the countries resort to are on the spending side such as subsidies for businesses and transfers to households, some on the revenue side such as tax relief or tax deferrals. Exhibit 15 shows the percentage of countries that apply the respective measures [25]. Most popular are liquidity support for firms and wage subsidies, least popular advancement of refunds to firms and energy subsidies.

On the revenue side, tax deferrals both for firms and households and deferrals of social security contributions are applied by the largest number of countries, whereas relief measures are rather rare (Exhibit 16).

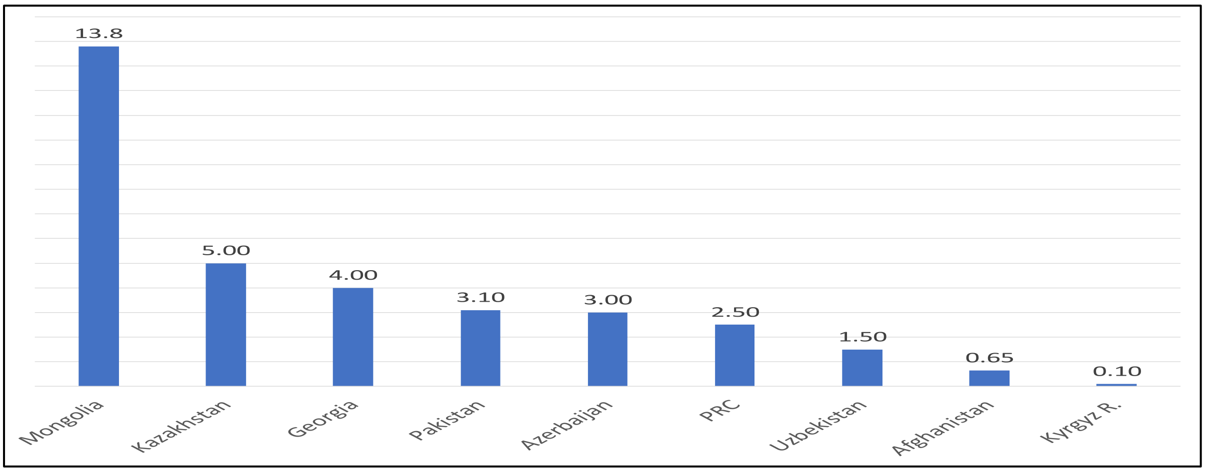
Exhibit 16: Percent of economies with fiscal support measures, revenue measures by type



Source: IMF, Fiscal Monitor April 2020

[25] Based on the announcements by national authorities, the IMF policy tracker and IMF staff estimates. The tracker includes 193 economies.

Exhibit 17: CAREC countries' fiscal packages, % of GDP



Source: Compiled by the author from IMF, Covid-19 policy tracker; News

CAREC countries' fiscal packages are substantial as well (Exhibit 17). For the Kyrgyz Republic and Afghanistan, the packages are smaller but, as mentioned above, there is commitment by international organizations to step in and there is hope for more. Tajik authorities have also approached international organizations including the IMF, the World Bank and Asian Development Bank for financial support. In Turkmenistan, budget spending is revised in support of health care measures, and reportedly foreign exchange is set aside for the purchase of needed health supplies, but no formal package has been announced yet. Turkmenistan's President also recommended to strengthen the domestic private sector in response to the coronavirus outbreak[26].

The CAREC countries have adopted a whole range of measures, both fiscal and monetary, similar to the ones other countries went for. Exhibit 18 attempts to give a rough overview. All 11 CAREC countries increased spending on healthcare. Tax deferrals or reductions or waived social security contributions along with the extension of loan repayment periods are the second most common measures (eight countries). Then follow state loans, guarantees, interest subsidies to firms, support for MSMEs, and expanding or prolonging unemployment benefits (seven countries). Transfers and cash handouts to the population are also widespread (seven countries). Other measures are adopted by a lower number of countries but are of high importance as well. Five countries engaged also in mutual help within the region, and Kazakhstan pledged help if needed.

[26] https://turkmenportal.com/blog/26541/prezident-turkmenistana-poruchil-srochno-razrabotat-mery-po-podderzhke-chastnyh-predpriyatii

Exhibit 18: CAREC countries' measures

	Afghanistan	Azerbaijan	PRC	Georgia	Kazakhstan	Kyrgyz R.	Mongolia	Pakistan	Tajikistan	Turkmenistan	Uzbekistan	Number of countries with these policies
Spending on healthcare equipment and hospital capacity	●	●	●	●	●	●	●	●	●	●	●	11
Special payments to health care workers		●	●			●	●				●	5
State loans and loan guarantees to businesses, interest payment subsidies		●	●	●	●		●	●			●	7
Tax reductions and deferrals for businesses or population, waived social security contributions		●	●	●	●	●	●	●			●	8
Support for micro or small enterprises		●	●	●	●	●	●	●				7
Looser regulation such as looser insolvency laws			●	●			●	●				4
Employment retention support		●	●				●	●				4
Public works to support employment		●	●					●			●	4
Financial support for self-employed		●	●		●	●					●	5
Expanding unemployment benefits, extension of periods		●	●	●	●		●	●			●	7
Paid sick leave for the infected			●		●							2
Transfers or cash handouts to quarantined households, families with children, the elderly or other vulnerable population groups			●	●	●	●	●	●			●	7
Providing a food safety net for the most vulnerable			●	●		●		●			●	5
Central bank policy rate cuts			●		●		●	●			●	5
Liquidity support to banks			●	●	●		●					4
Extention of loan/interest repayment periods		●	●	●	●	●	●	●			●	8
Prudential requierements loosened			●	●	●	●	●					5
Intervention on foreign exchange market				●	●							2
Establishing a support fund collecting private donations		●	●	●			●	●			●	6
Approaching development partners for help	●	●	●	●		●	●	●	●		●	9
Mutual help given within CAREC		●	●		○		●	●			●	5

Source: Compiled by the CAREC Institute from various sources

It is difficult to estimate how much money under these and other measures is already disbursed, and how much more is available under current programs. There is also a multitude of complex issues for their practical application, of course, and we will know only later how efficient the one or the other was. New programs are still worked out and existing ones revised.

However, it is obvious that altogether this is a huge and impressive effort by the CAREC countries to overcome the crisis.

IV. Recommendations

From the analysis of potential outcomes, and from generalizing what has already been done by CAREC countries and others, some general recommendations can be derived that can perhaps serve as a checklist when designing programs, although it might often be difficult to follow them, at least at the same time. The brief attempts below to summarize some of them.

- Spend immediately on health care to save lives and contain the pandemic.
- Organize food supplies for the ones most urgent in need.
- Provide communications between the rural areas which produce food and the urban areas which consume it.
- If not already done so, urgently work out comprehensive plans of action, possibly together with international organizations addressing key areas of vulnerability.
- While ensuring that systemically important companies can survive, focus strongly on more vulnerable segments of the work force, including the unemployed, underemployed, informally employed, daily wagers, returning home migrant workers and the poor outside any social protection system.
- Work out programs for the self-employed, and micro- and small companies and small traders to ensure their survival during the worst period of crisis.
- Find a suitable mix of monetary and fiscal measures not to weaken currencies too much while keeping fiscal spending financeable.
- Exchange rate interventions in support of local currencies in support local currencies should be calibrated carefully, taking into account how much reserves for market interventions can be spent. In case of a fixed exchange rate regimes, the authorities need to determine at what level the exchange should be kept so that the difference between official rates and informal rates don’t become too large; some degree of flexibility could also be considered in support of market mechanism for exchange rate determination.
- Find a suitable mix of revenue and spending measures to keep administration as simple as possible, but to reach the one in need, through smart targeting of economic packages.
- Find a suitable mix of relief/subsidies/transfers and support to be repaid in order to spend as much as needed but preserve financial sustainability.
- Adjust volumes and timing of plans to avoid double dip recessions or protracted stagnation. Keep flexibility in revival plans to revise plans as the trajectory of the pandemic and the economic consequences become more evident.
- Re-capitalize health care systems, with radical reforms of the programs for professional development, improvement in infrastructure and greater coverage of populations.
- Start spadework on a region-wide information exchange and response system to deal with pandemics.
- Be prepared to attract foreign investment when risk-aversion on global markets recedes through working out projects along with improving the investment climate.
- Prepare measures and plans that support aggregate demand in the short run and potential output in the long run, but also strengthen sustainable and green investment, including in the health systems to be more resilient in case of epidemics in the future. If feasible, cooperate with development partners and involve the private sector.