

COVID-19: Economic impact and mitigation measures

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Prolog: Joseph Brodsky's Poem - **Don't leave the room!**

(Written 1970 in Russian, widely quoted in Central Asia now)



“Don't leave your room,
don't commit that fateful
mistake.
Why risk the sun? Just
settle back at home

Source: <https://www.pushkinhouse.org/blog/2020/3/24/tom-de-waal-brodsky-virus>

Agenda

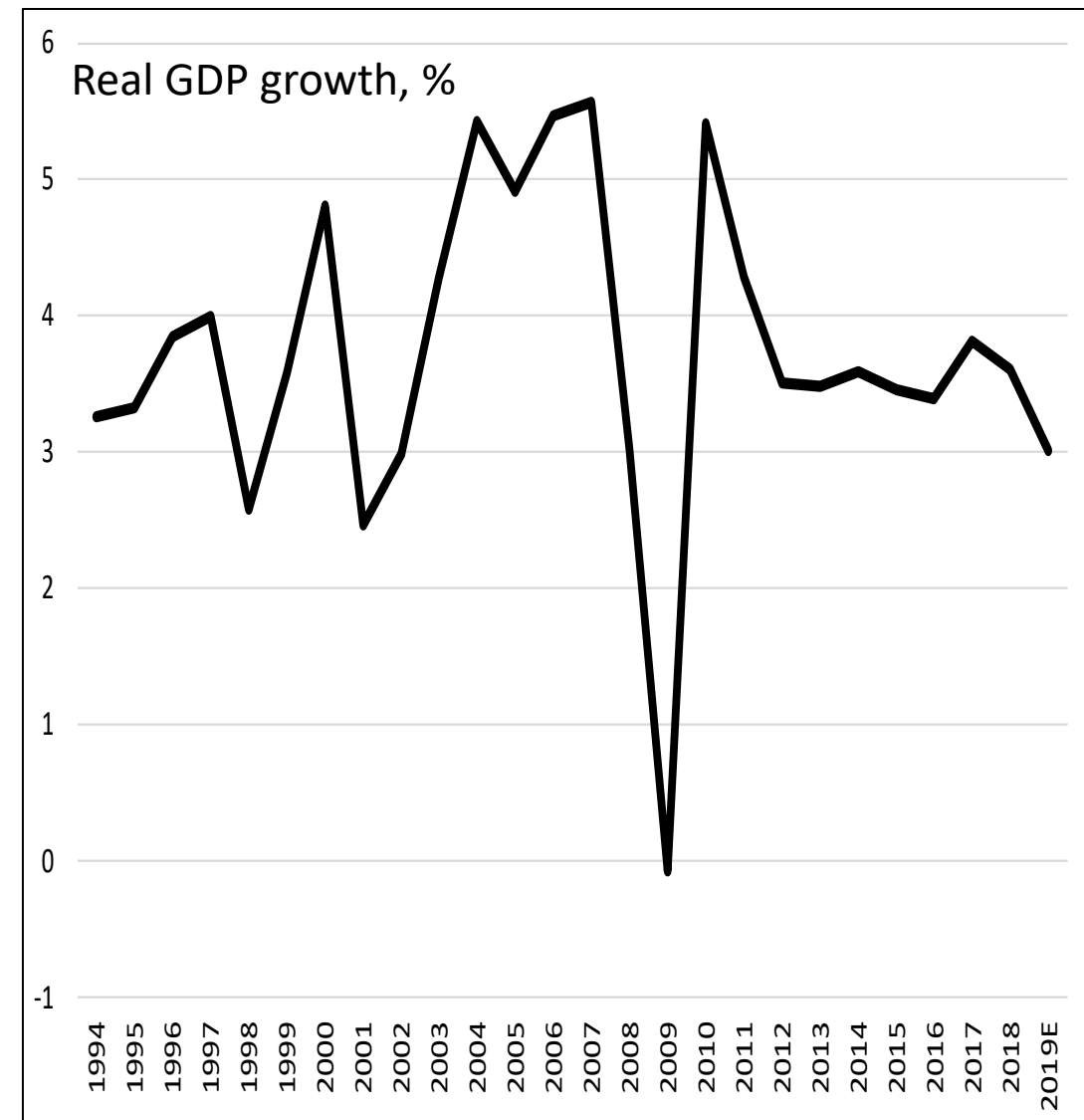
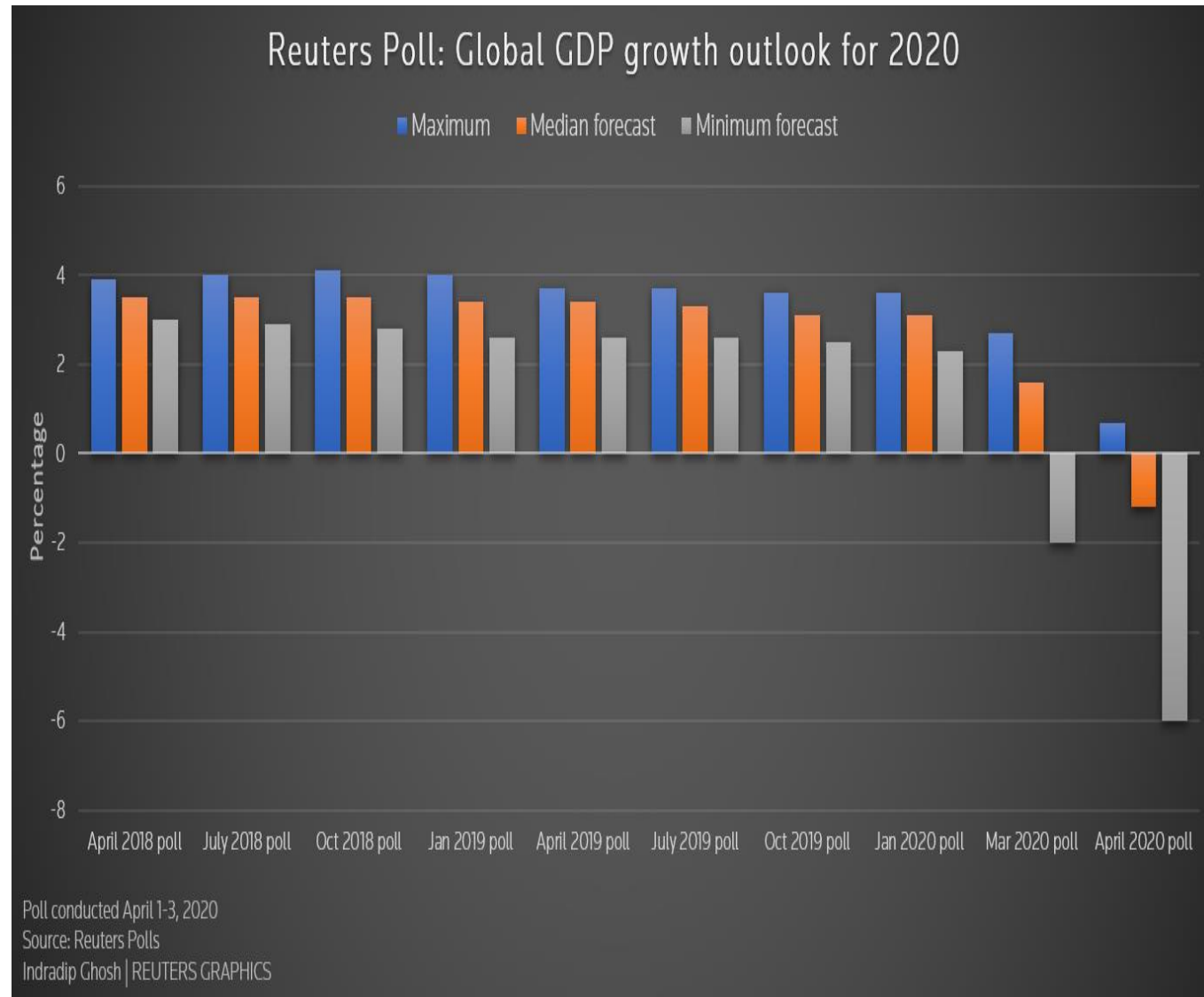
- I. Views on the evolving global economic crisis
- II. Reactions by leading economies
- III. The impact on CAREC countries
- IV. Most vulnerable parts of the population in CAREC
- V. Fiscal and monetary space in the CAREC region
- VI. Responses by CAREC countries

I. Views on the evolving global economic crisis



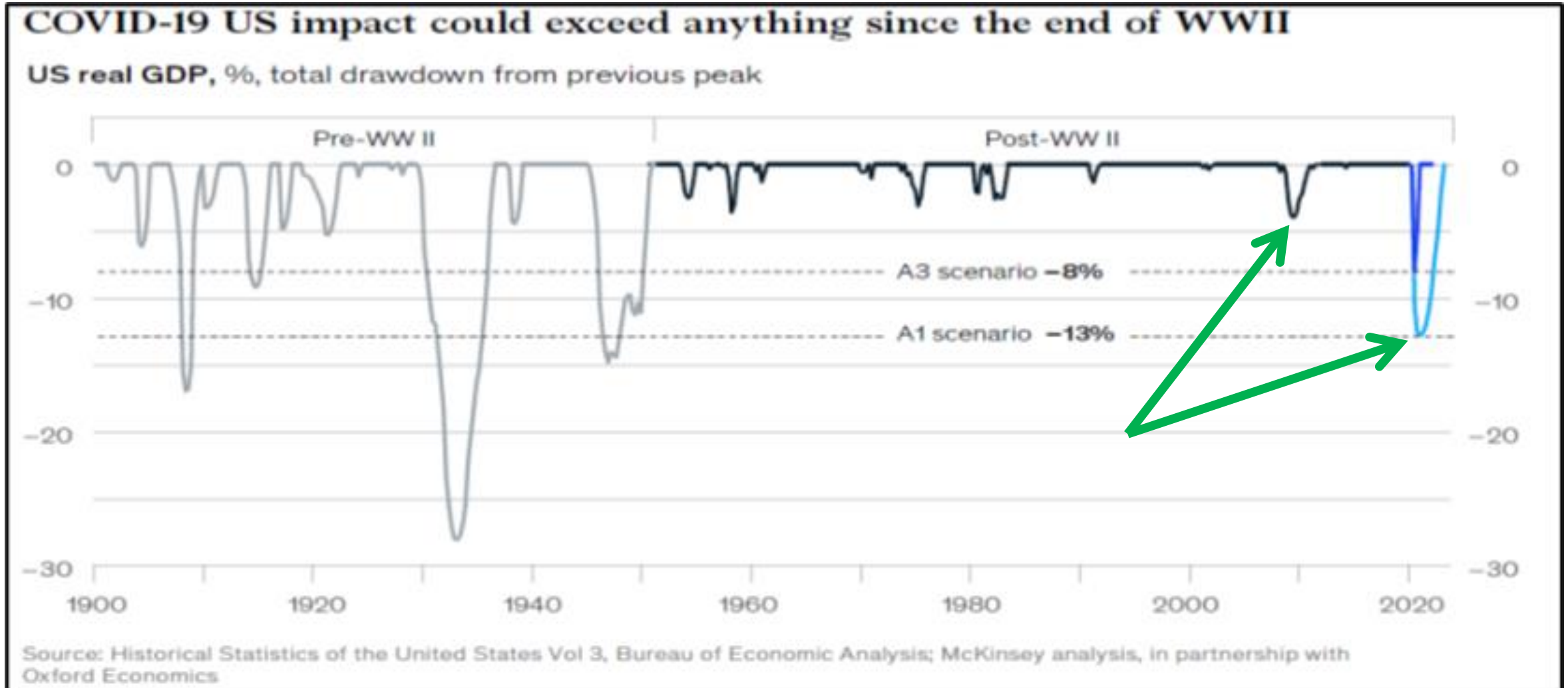
Source: antenne.at

2020 Global GDP contraction definitely worse than in 2009

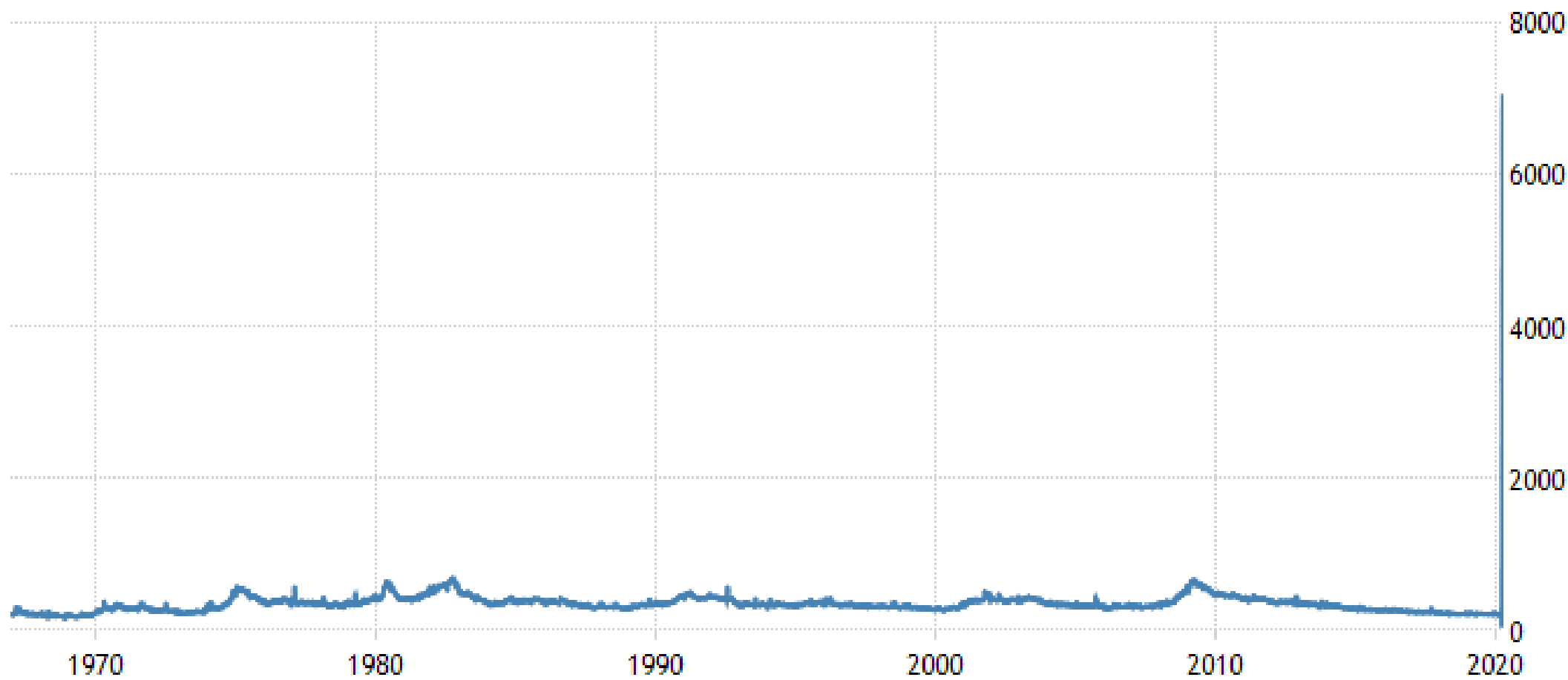


Source: IMF, WEO database

McKinsey: Impact on US GDP worst since WW2

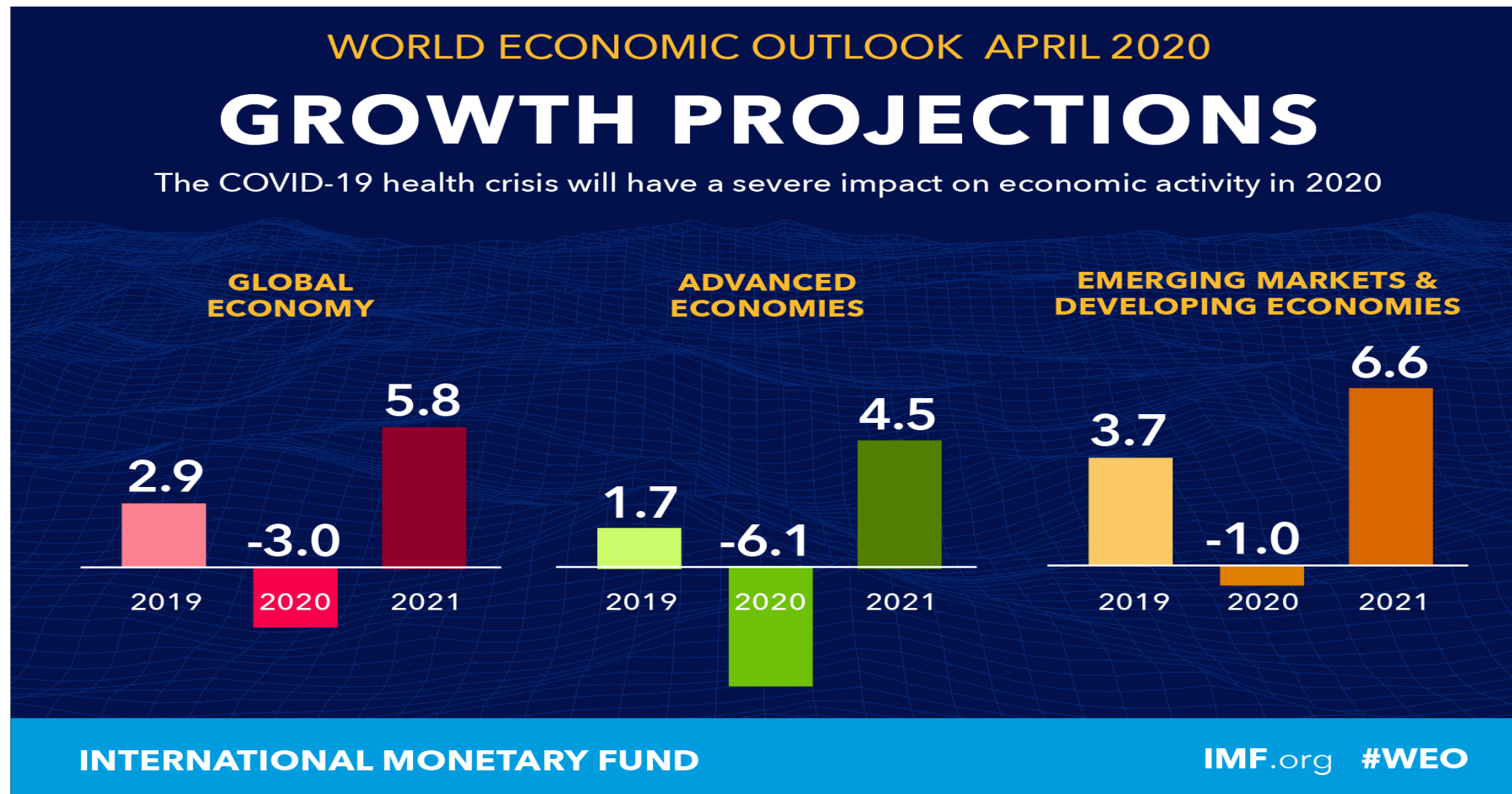


United States Initial Jobless Claims, thousand



SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | U.S. DEPARTMENT OF LABOR

Prospects according to the IMF



Famous student of economic crises, Carmen Reinhart:



“... 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.**”

Source: <https://www.project-syndicate.org/commentary/covid19-crisis-has-no-economic-precedent-by-carmen-reinhart-2020-03>

II. Reactions by leading economies



Central bank actions take three forms

- Reducing interest rates on safe assets by **lowering rates** paid by the central bank on its own liabilities and by buying more government bonds to push down their yields at various maturities, an action also known as **quantitative easing** (QE).
- **Lending freely** to banks, other financial institutions, foreign central banks, and even nonfinancial institutions with sufficient collateral.
- In their capacity as financial sector supervisors (or working with supervisory agencies), **encouraging financial institutions to extend credit to firms adversely affected by the crisis.**

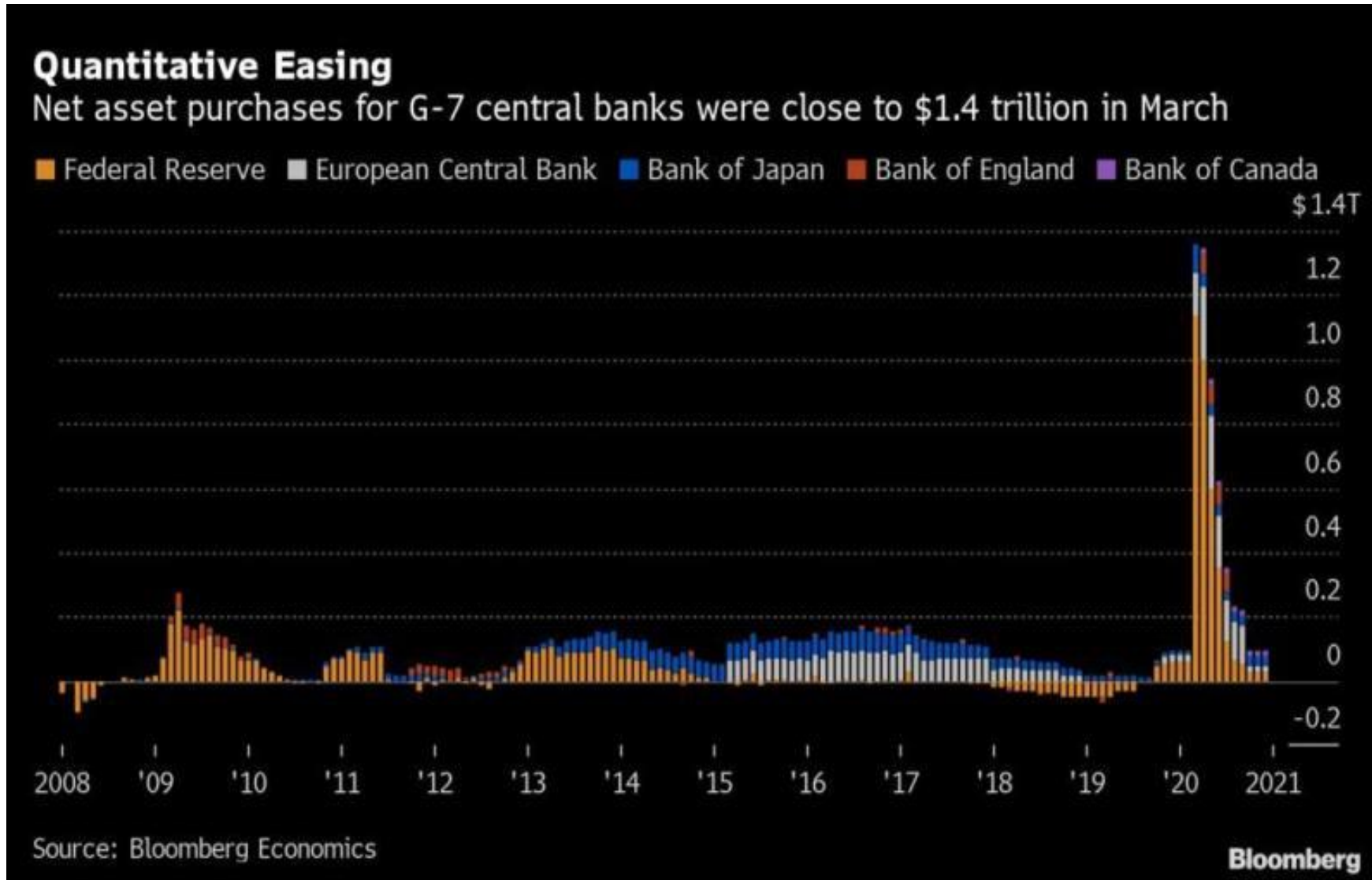
Actions of major central banks – every day something new

1-Feb	China
2-Feb	China
6-Feb	China
7-Feb	China
16-Feb	China
19-Feb	China
25-Feb	China
1-Mar	China
1-Mar	Japan
2-Mar	Euro area
3-Mar	UK
3-Mar	USA
9-Mar	USA

11-Mar	UK
11-Mar	USA
12-Mar	Euro area
12-Mar	USA
13-Mar	Japan
13-Mar	China
15-Mar	USA
16-Mar	Japan
17-Mar	USA
17-Mar	UK
18-Mar	Euro area
18-Mar	USA
19-Mar	USA

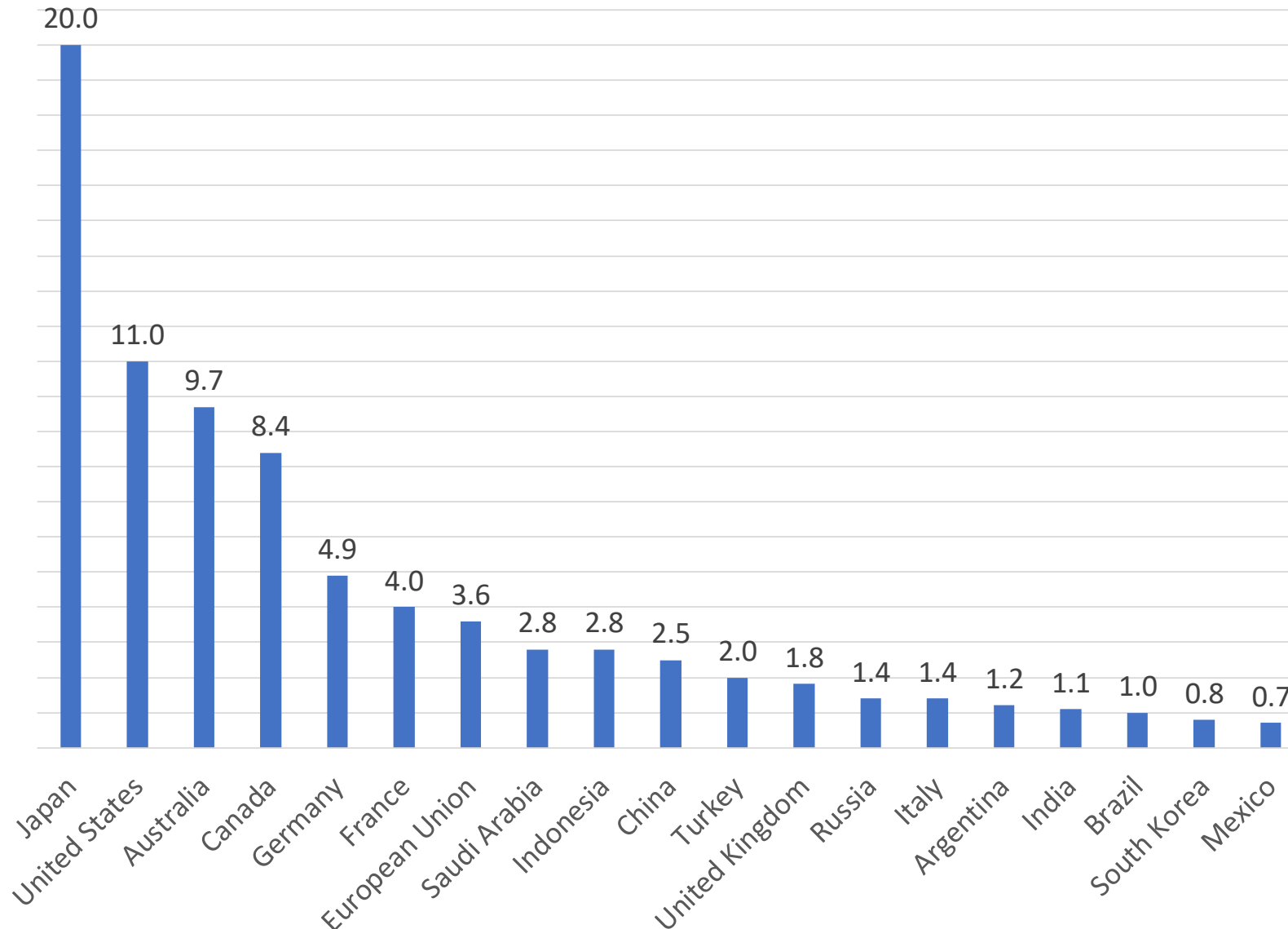
19-Mar	UK
19-Mar	Euro area
20-Mar	Euro area
20-Mar	USA
22-Mar	USA
23-Mar	USA
24-Mar	Japan
24-Mar	UK
24-Mar	USA
26-Mar	USA
26-Mar	UK
27-Mar	USA

Unprecedented quantitative easing



PBOC: Liquidity injection into the banking system via open market operations, including RMB 3 trillion in the first half of February and 170 billion in late-March; expansion of re-lending and re-discounting facilities by RMB 1.8 trillion (combined about \$0.7 trillion)

G-20 Fiscal packages, % of GDP



Definitions, measures and time horizons vary among countries, and programs still develop.

Therefore the numbers in the chart are only rough estimates which also may change over time.

Fiscal measures include

- Spending on healthcare equipment, hospital capacity and R&D
- State loans and loan guarantees, interest payment subsidies
- Equity stakes and nationalizations (e.g. Tui, Renault, Alitalia)
- Tax reductions and deferrals, waived social security contributions
- Looser regulation such as looser insolvency laws
- Employment retention support
- Expanded access to short-term work subsidies
- Support of wages and rents for small merchants
- Direct financial support for microenterprises and self-employed
- Expanding unemployment benefits, extension of periods
- Paid sick leave for infected
- Transfers or cash handouts to quarantined households, families with children, the elderly and other vulnerable population groups

III. The impact on CAREC countries



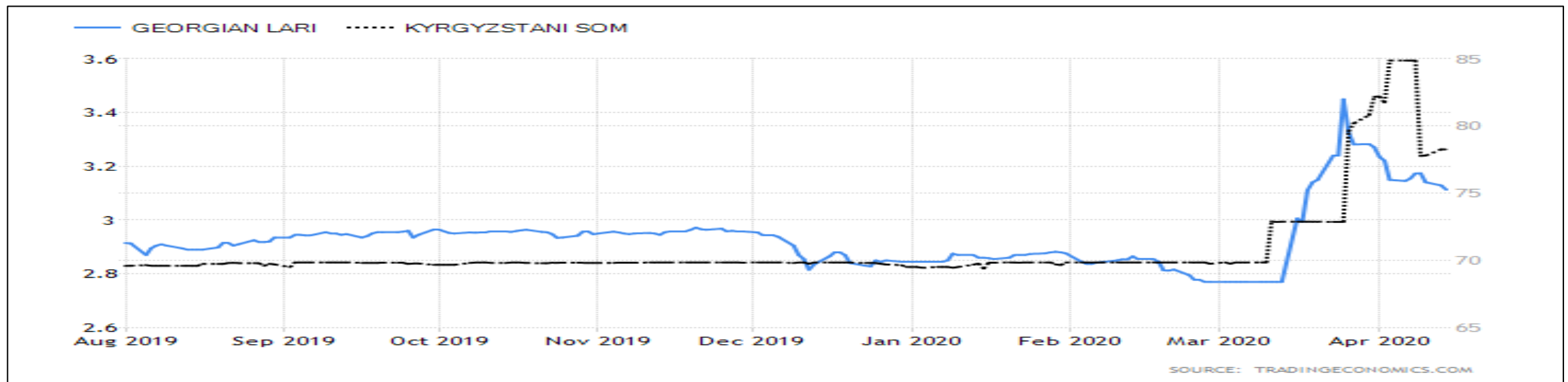
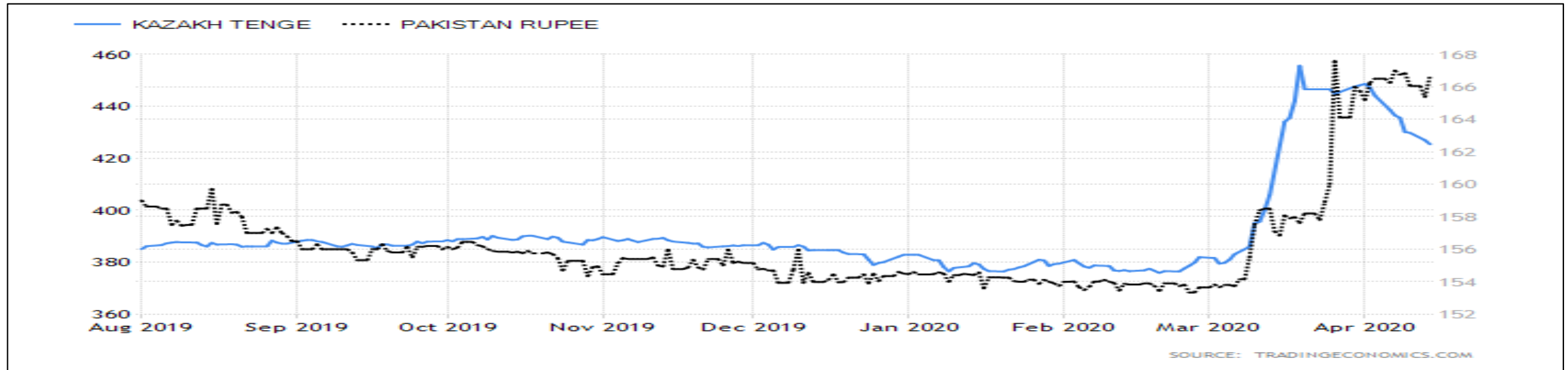
Source: <https://cabar.asia/en/the-corona-crisis-in-central-asia-economic-impact-of-the-pandemic/>

CAREC countries' resilience against the crisis

	<i>Resilience of health care system</i>		<i>Resilience to domestic</i>		<i>Resilience to external shocks</i>			
	Public sector health expenditure as a share of GDP	Physicians per 100,000 people	Retail service shocks	Labour market shocks	Commodity prices	Global value chains	Tourism	Remittances
Georgia	high	high	low	high	high	low	high	high
Kazakhstan	moderate	high	high	moderate	low	high	high	high
Kyrgyz Republic	moderate	moderate	high	moderate	moderate	high	high	low
Mongolia	moderate	high	high	high	low	high	moderate	high
Tajikistan	low	moderate	high	low	low	high	high	low
Turkmenistan	low	moderate	high	low	low	high	high	high
Uzbekistan	moderate	moderate	high	high	moderate	high	high	high

Sources: EBRD Regional Economic Prospects April 2020, <https://www.ebrd.com/what-we-do/economic-research-and-data/rep.html>

CAREC countries face depreciation of their currencies.



Growth forecasts: V-shaped (a lot will depend on measures)

(based on moderate scenarios, pandemic peaks in the second quarter 2020)

	2019E	2020F	2021F
	average ADB/WB/IMF		
Afghanistan	3.0	-1.3	3.9
Azerbaijan	2.2	-0.6	1.5
PRC	6.1	1.9	8.1
Georgia	5.1	-1.3	3.8
Kazakhstan	4.5	-0.5	3.6
Kyrgyzstan	4.5	0.1	5.3
Mongolia	5.1	2.3	4.9
Pakistan	3.3	-0.1	2.0
Tajikistan	7.5	2.5	4.7
Turkmenistan	6.3	3.9	6.1
Uzbekistan	5.6	2.7	6.4
Simple average	4.8	0.7	4.5

2020F			2021F		
ADB	WB	IMF	ADB	WB	IMF
3.0	-3.8	-3.0	4.0	3.3	4.5
0.5	-0.2	-2.2	1.5	2.2	0.7
2.3	2.3	1.2	7.3	7.7	9.2
0.0	0.1	-4.0	4.5	4.0	3.0
1.8	-0.8	-2.5	3.6	3.0	4.1
4.0	0.4	-4.0	4.5	3.5	8.0
2.1	2.4		4.6	5.1	
2.6	-1.3	-1.5	3.2	0.9	2.0
5.5	1.0	1.0	5.0	3.7	5.5
6.0		1.8	5.8		6.4
4.7	1.6	1.8	5.8	6.5	7.0
3.0	0.2	-1.1	4.5	4.0	5.0

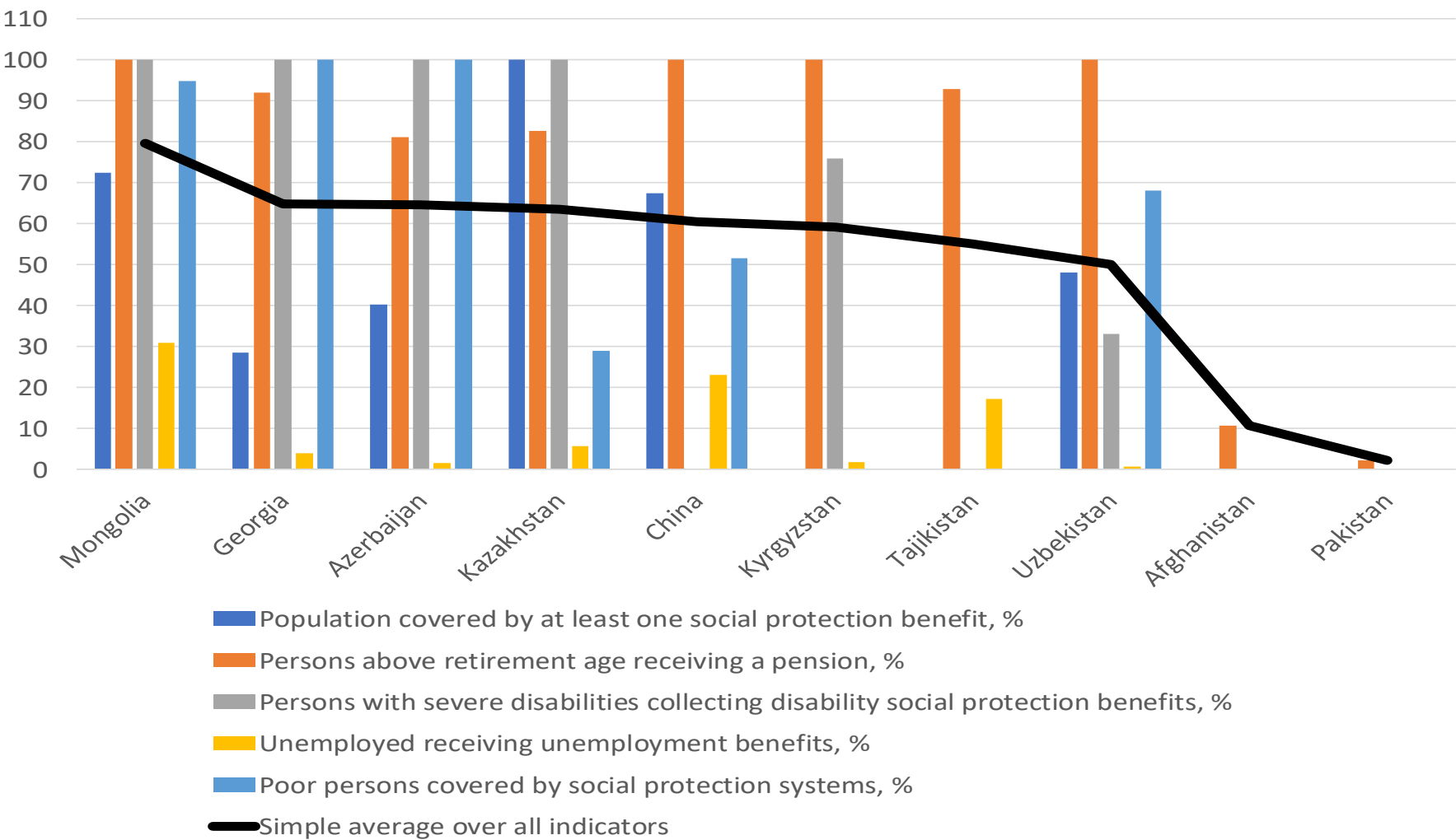
Sources: <https://www.adb.org/publications/asian-development-outlook-2020-innovation-asia>,
<https://openknowledge.worldbank.org/handle/10986/33477> , <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

IV. Most vulnerable parts of the population in CAREC



Source: socialplatform.org

Population covered by social protection, %, latest available

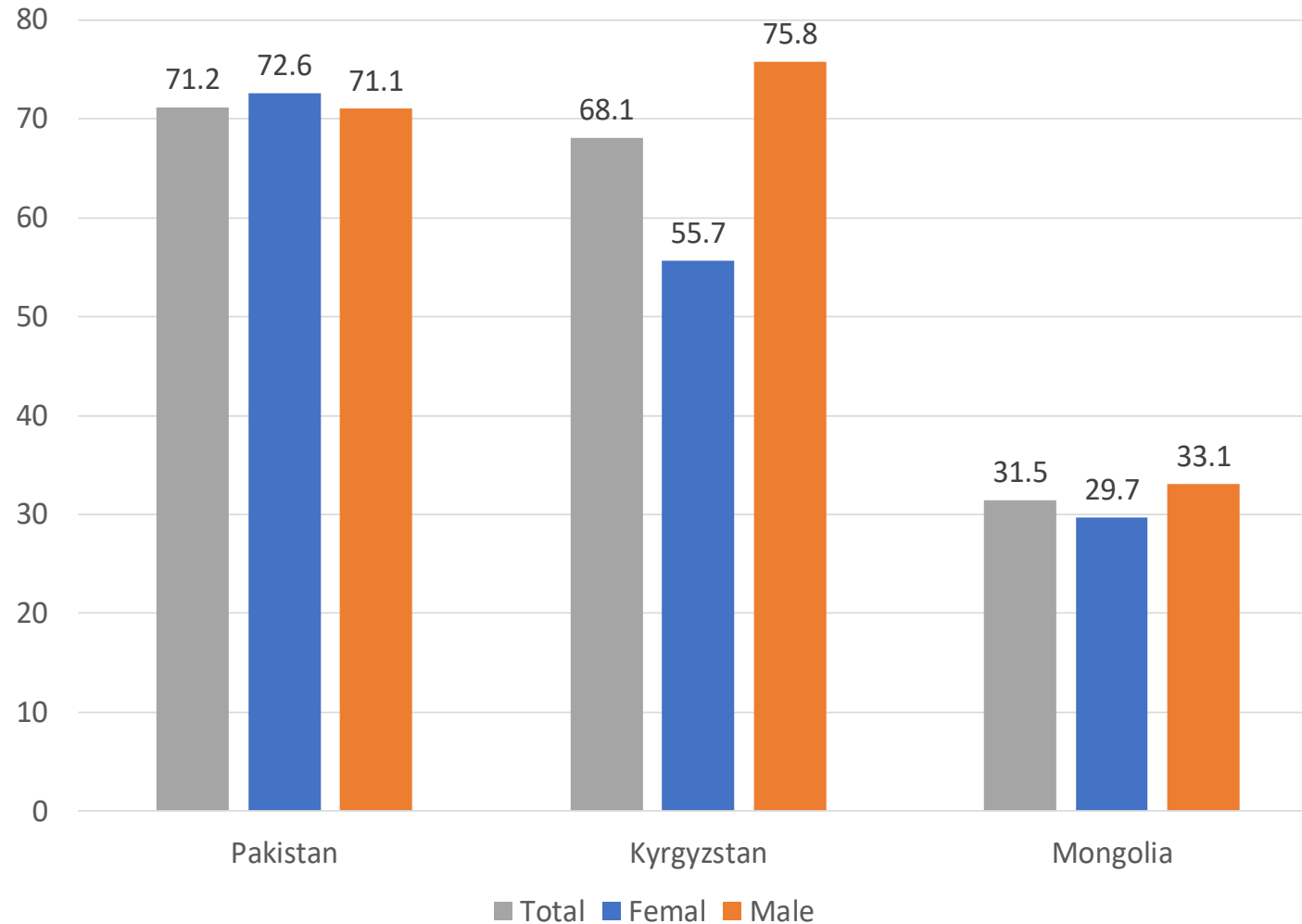


Data availability for vulnerable parts of the population is low in the CAREC region, which by itself is an indication of poor protection.

Unemployment benefits look especially problematic.

There is no data for Turkmenistan
Source: ILOSTAT

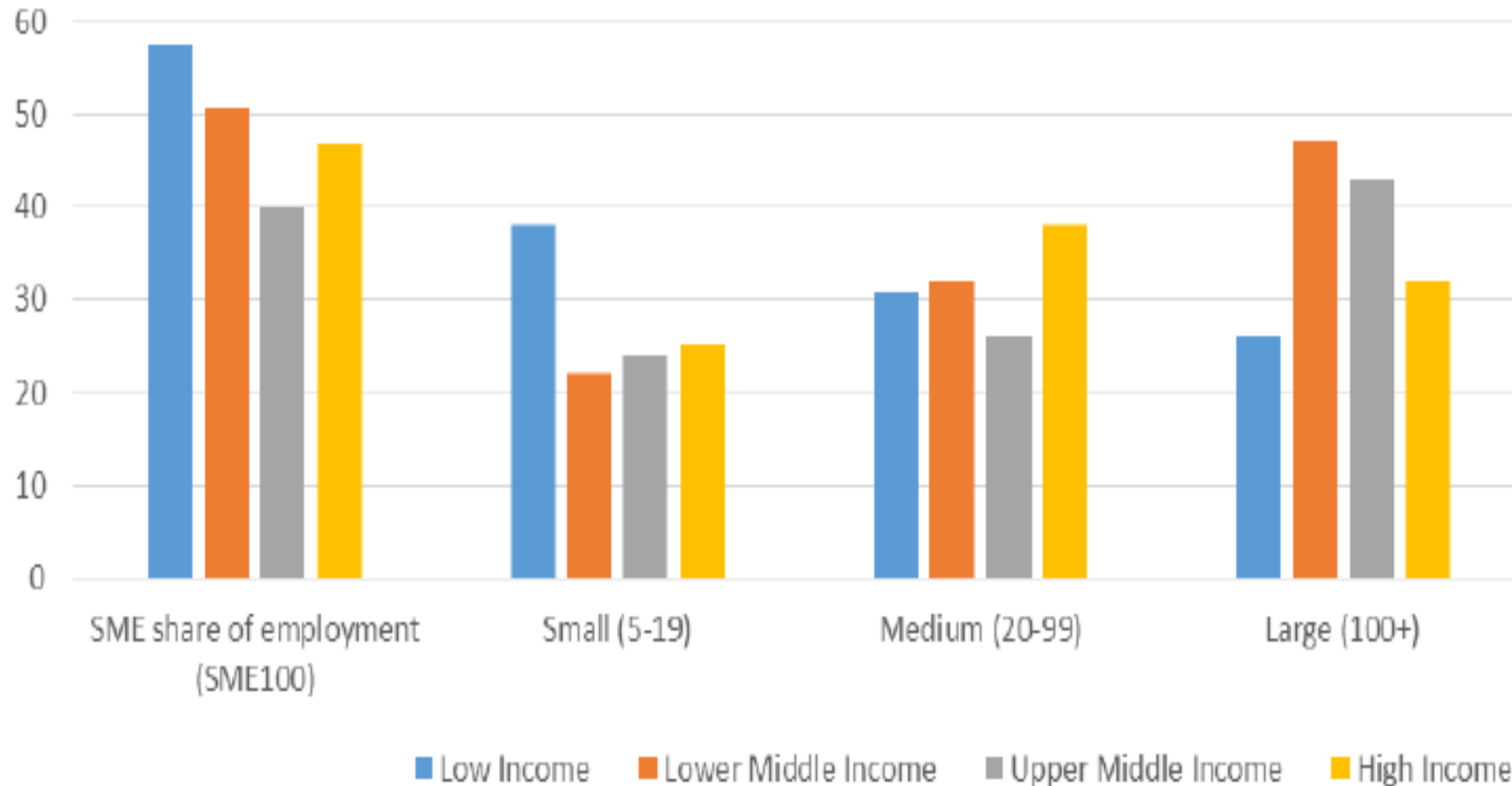
Informal employment in non-agricultural sector, %, 2018



There are data only for 3 CAREC countries in the ILOSTAT data base.

However, it can be assumed that informality is rather high in most CAREC countries.

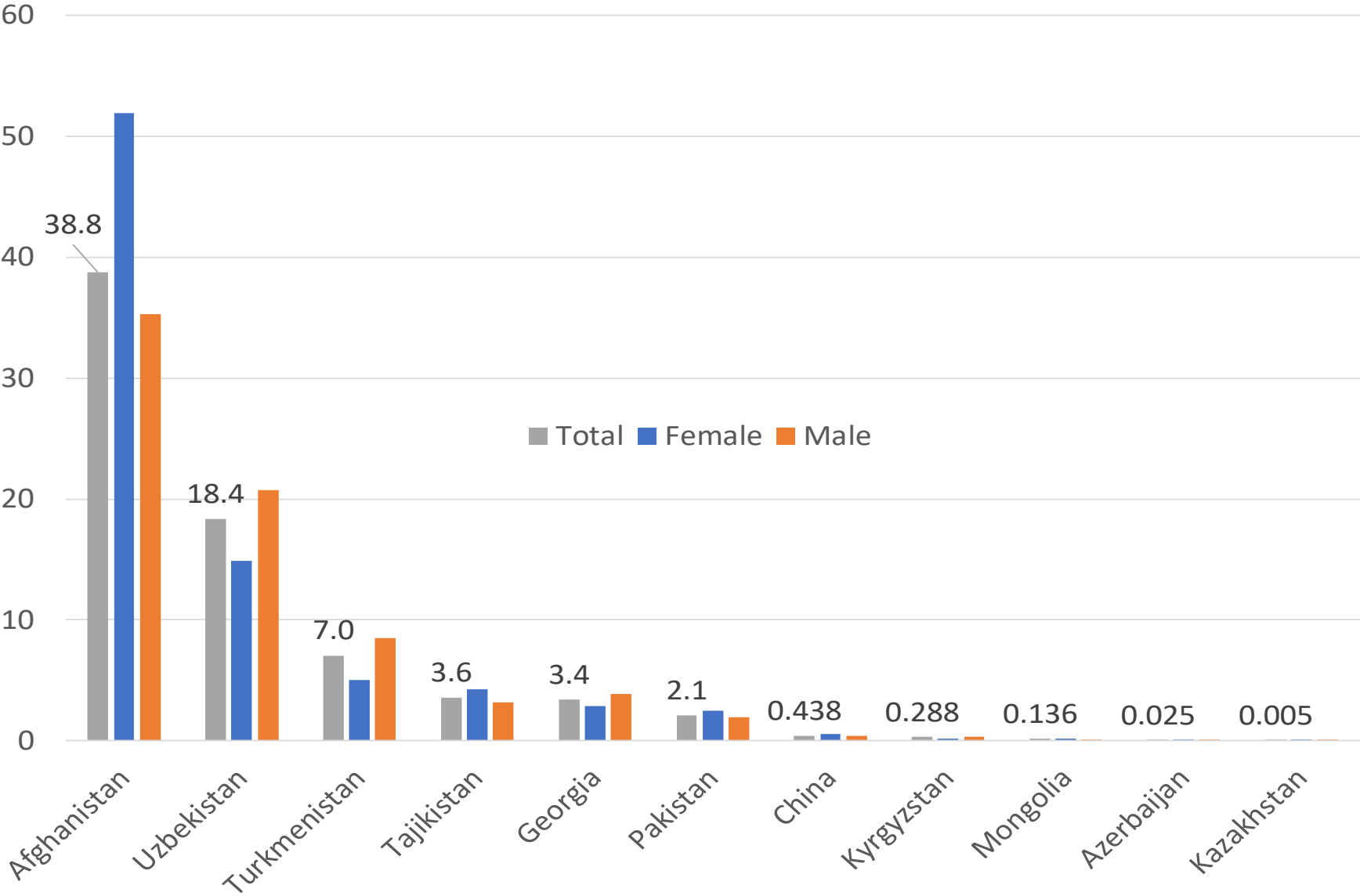
SME share in employment by size and income group, %



There is little detailed data for the CAREC region, but in most countries especially Micro and small SMEs' account for a large share of employment.

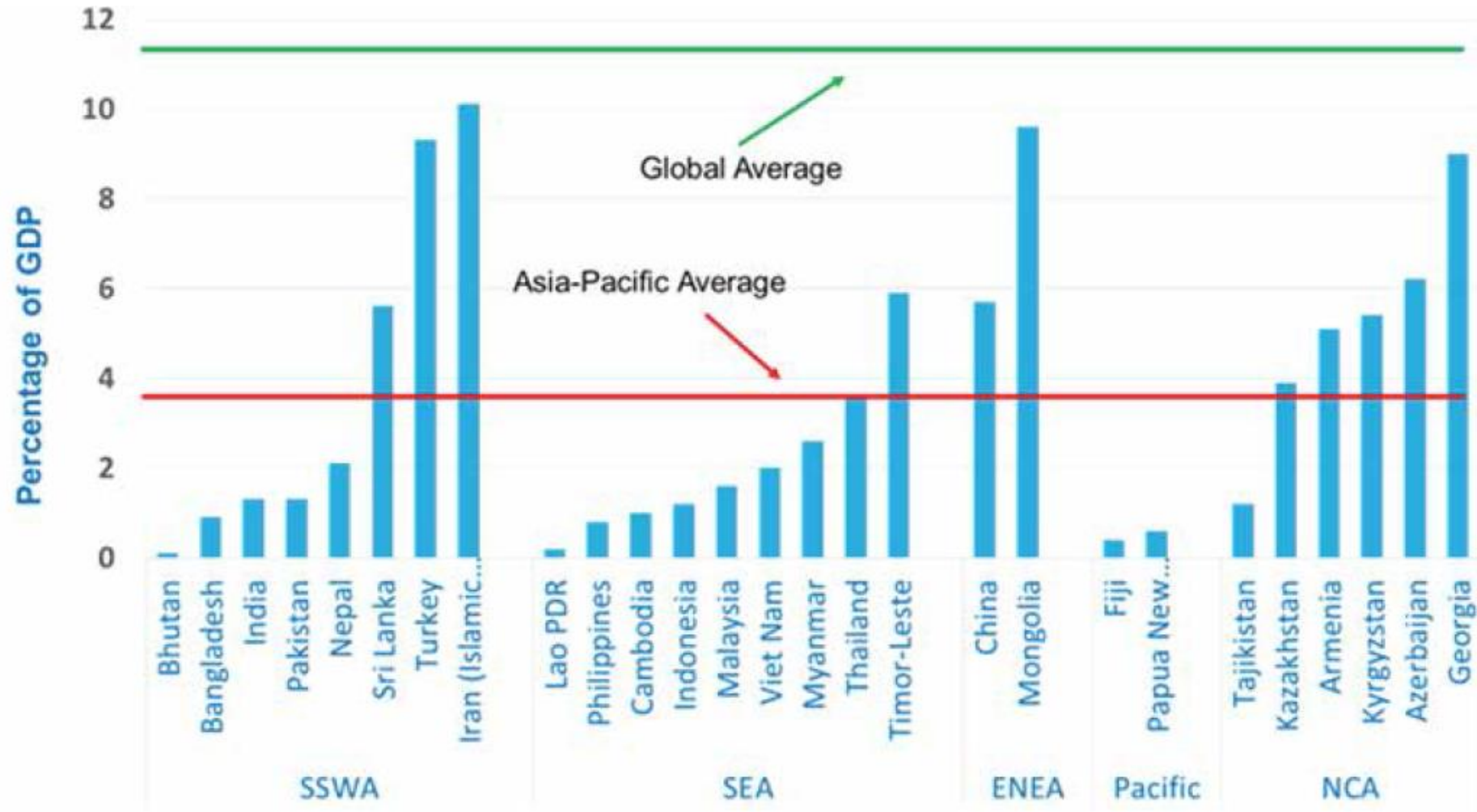
They are among the most vulnerable by lockdowns.

Employed living below US\$1.90 PPP, %, latest available



A high poverty ratio usually coincides with low social protection.

Spending on social protection, %



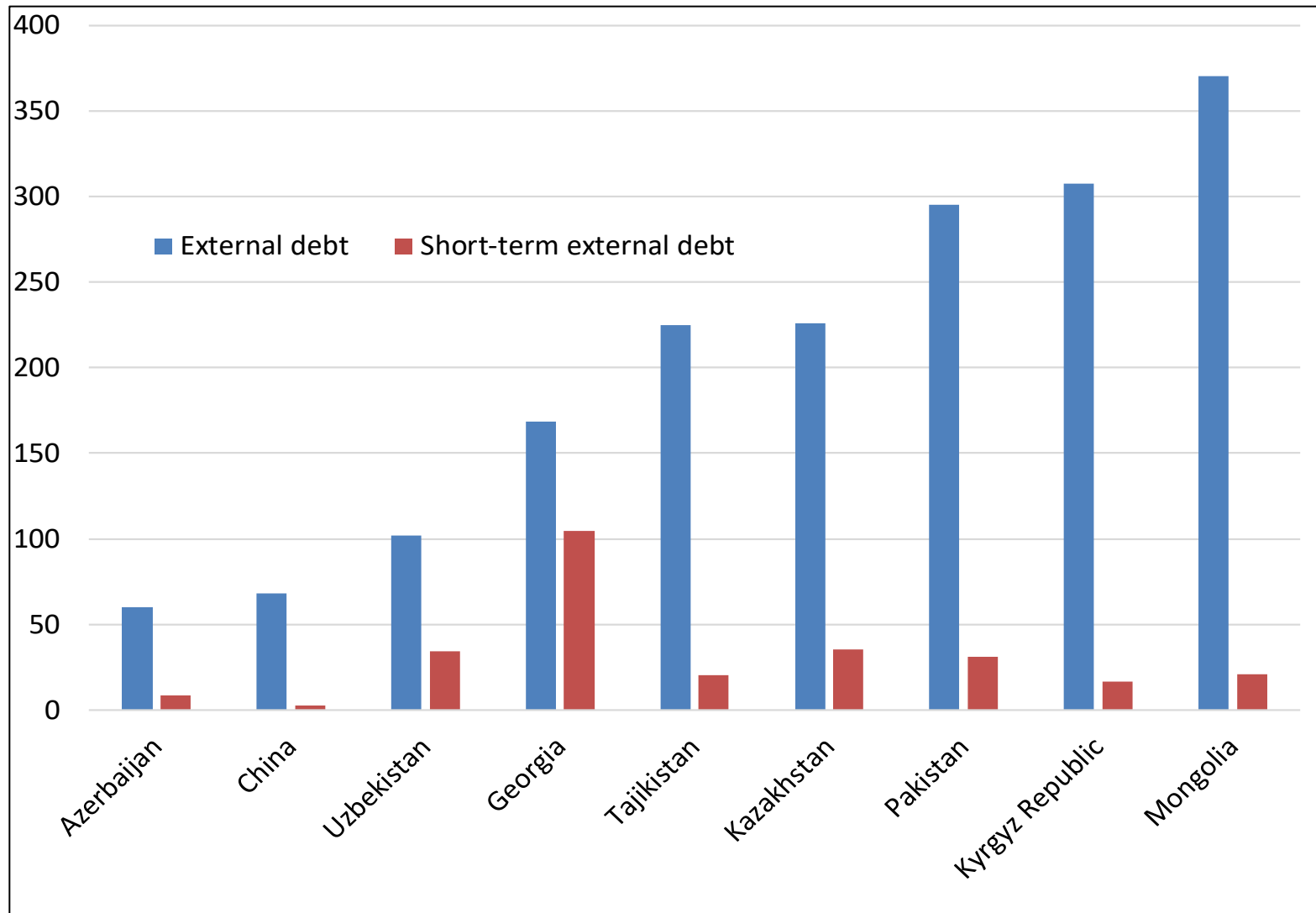
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V. Fiscal and monetary space in the CAREC region



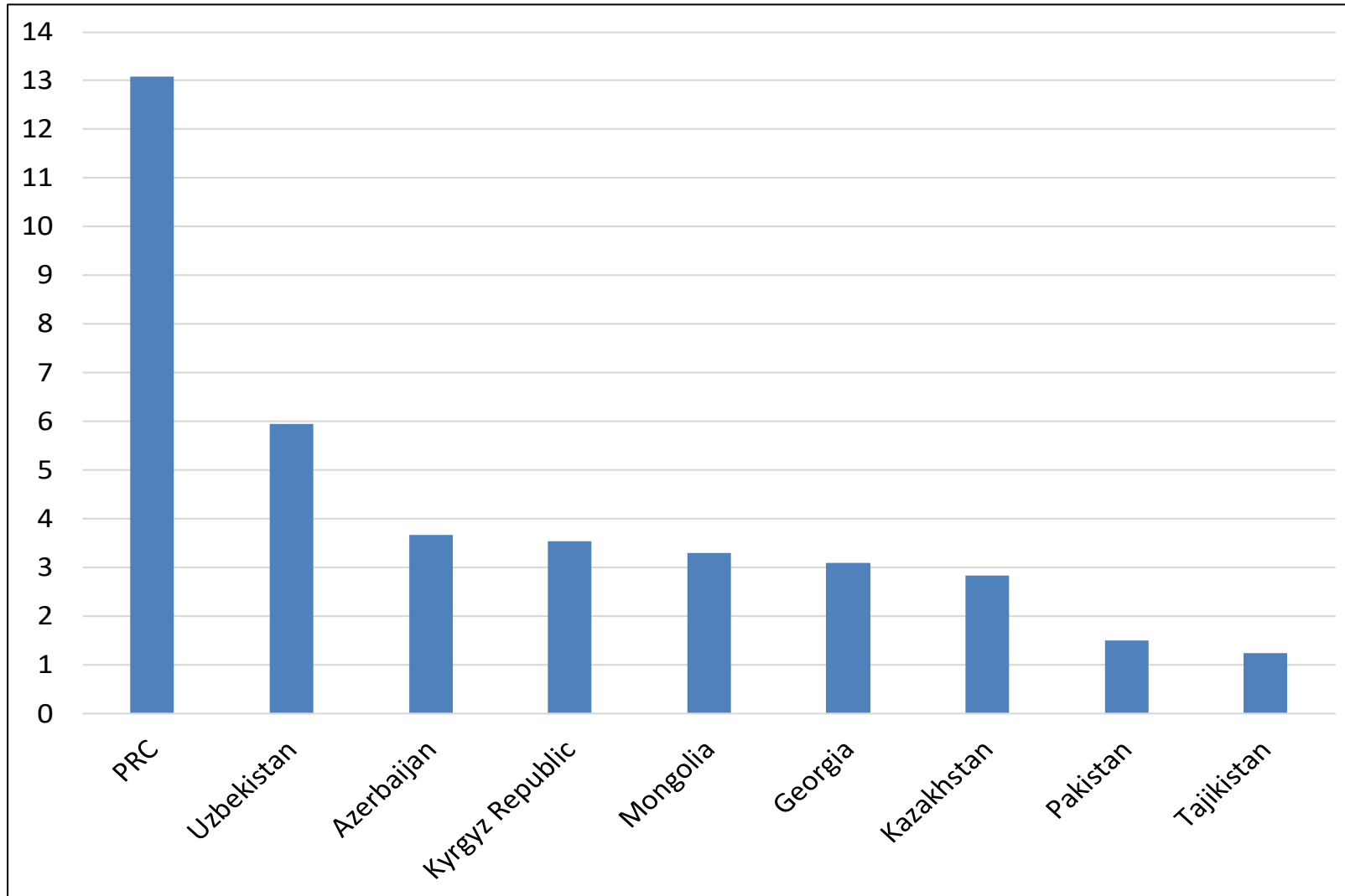
External debt, 2018, % of exports of goods and services



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.**

International reserves, 2018, months of imports



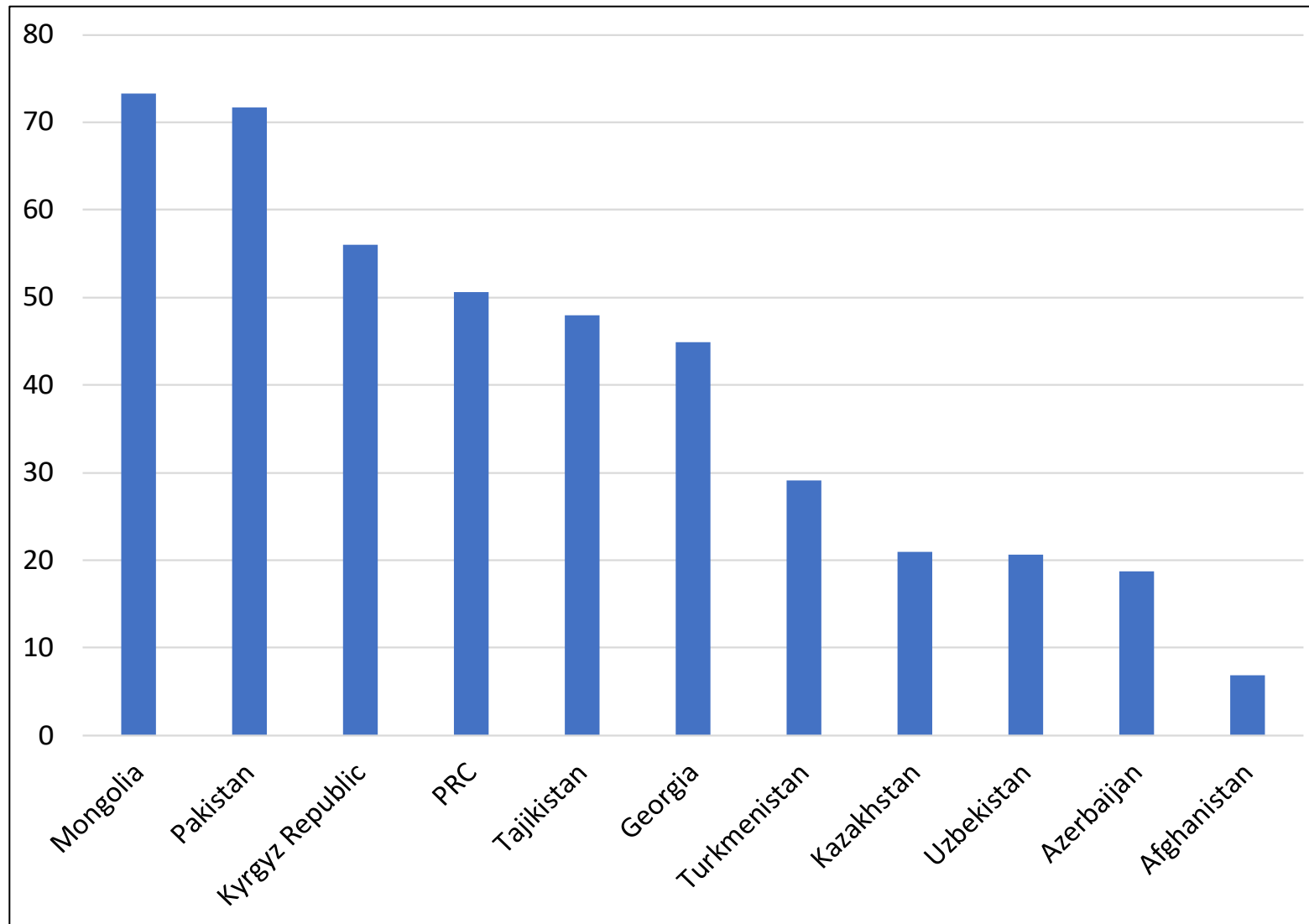
The level of international reserves of the CAREC countries is relatively solid, except for Pakistan and Tajikistan.

However, if low dollar inflows because of low commodity prices and declining remittances and outflows of hot money accelerate depreciation, countries could run into quite difficult positions in the middle-term.

Space for monetary easing is therefore limited.

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

General government debt, 2018, % of GDP



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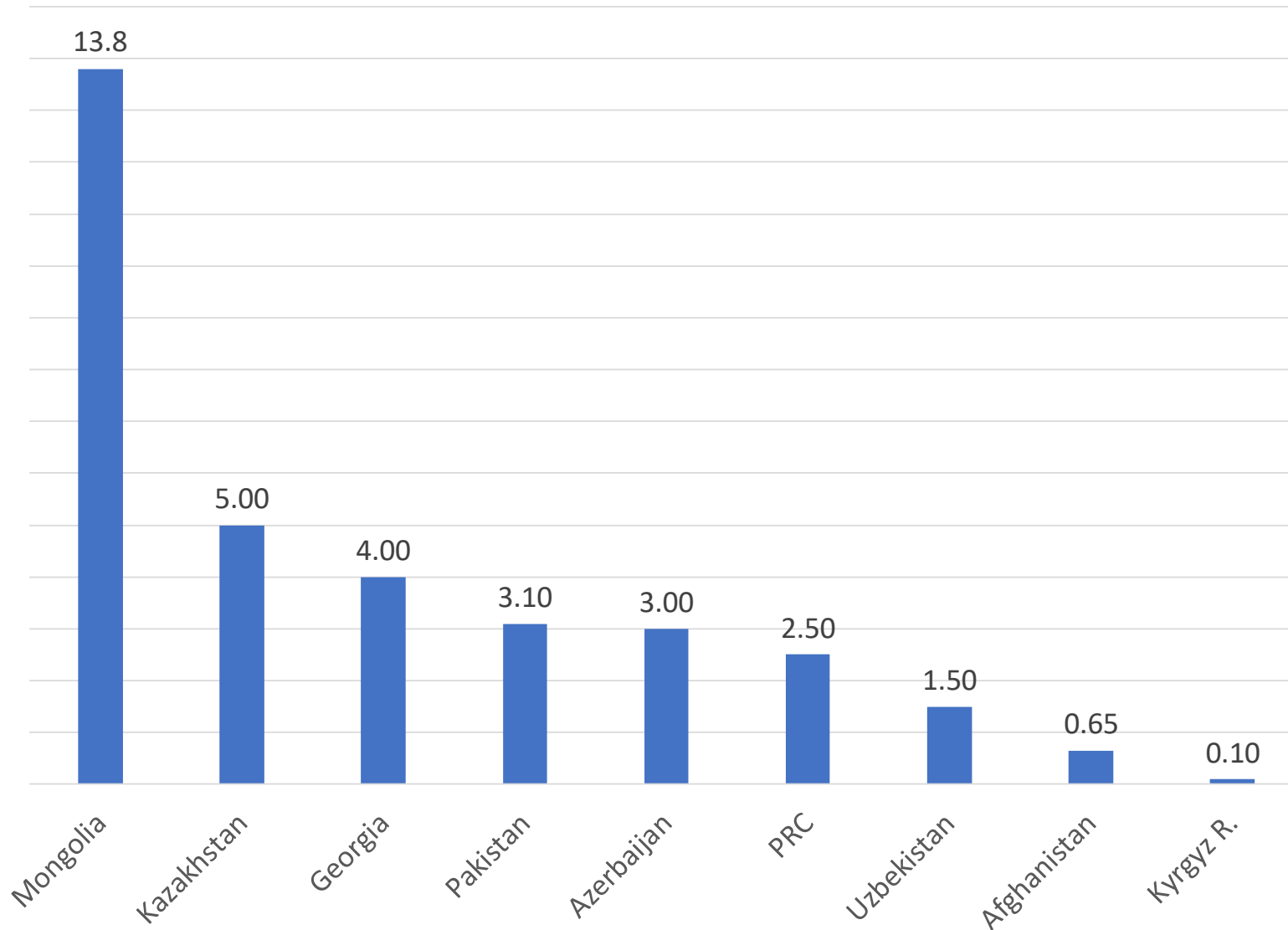
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VI. Responses by CAREC countries



Source: <https://cabar.asia/en/the-corona-crisis-in-central-asia-economic-impact-of-the-pandemic/>

CAREC countries' fiscal packages, % of GDP



Definitions, measures and time horizons vary among countries, and programs still develop.

Therefore the numbers in the chart are only rough estimates which also may change over time.

There are no data for Tajikistan and Turkmenistan.

CAREC policies

	Afghanistan	Azerbaijan	PRC	Georgia	Kazakhstan	Kyrgyz R.	Mongolia	Pakistan	Tajikistan	Turkmenistan	Uzbekistan
Spending on healthcare equipment and hospital capacity	●	●	●	●	●	●	●	●		●	●
Special payments to health care workers			●			●	●				●
State loans and loan guarantees to businesses, interest payment subsidies		●	●	●	●		●	●			●
Tax reductions and deferrals for businesses or population, waived social security contributions		●	●	●	●		●	●			●
Support for micro or small enterprises		●	●	●	●		●	●			
Looser regulation such as looser insolvency laws			●	●			●	●			
Employment retention support		●	●				●	●			
Public works to support employment		●	●					●			●
Financial support for self-employed			●								
Expanding unemployment benefits, extension of periods		●	●	●			●	●			
Paid sick leave for infected			●		●						

Source: Compiled by the CAREC Institute from various sources

CAREC policies (continued)

	Afghanistan	Azerbaijan	PRC	Georgia	Kazakhstan	Kyrgyz R.	Mongolia	Pakistan	Tajikistan	Turkmenistan	Uzbekistan
Transfers or cash handouts to quarantined households, families with children, the elderly or other vulnerable population groups			●	●	●		●	●			
Providing a food safety net for the most vulnerable			●	●				●			
Central bank policy rate cuts			●				●	●			
Liquidity support to banks			●	●			●		●		
Extention of loan/interest repayment periods		●	●	●	●		●	●			●
Loosening loan risk classifications			●								
Intervention on foreign exchange market				●	●	●					
Establishing a support fund collecting private donations		●	●	●			●	●			●
Approaching development partners for help	●		●	●		●	●	●	●		
Mutual help given within CAREC		●	●		○		●	●			●

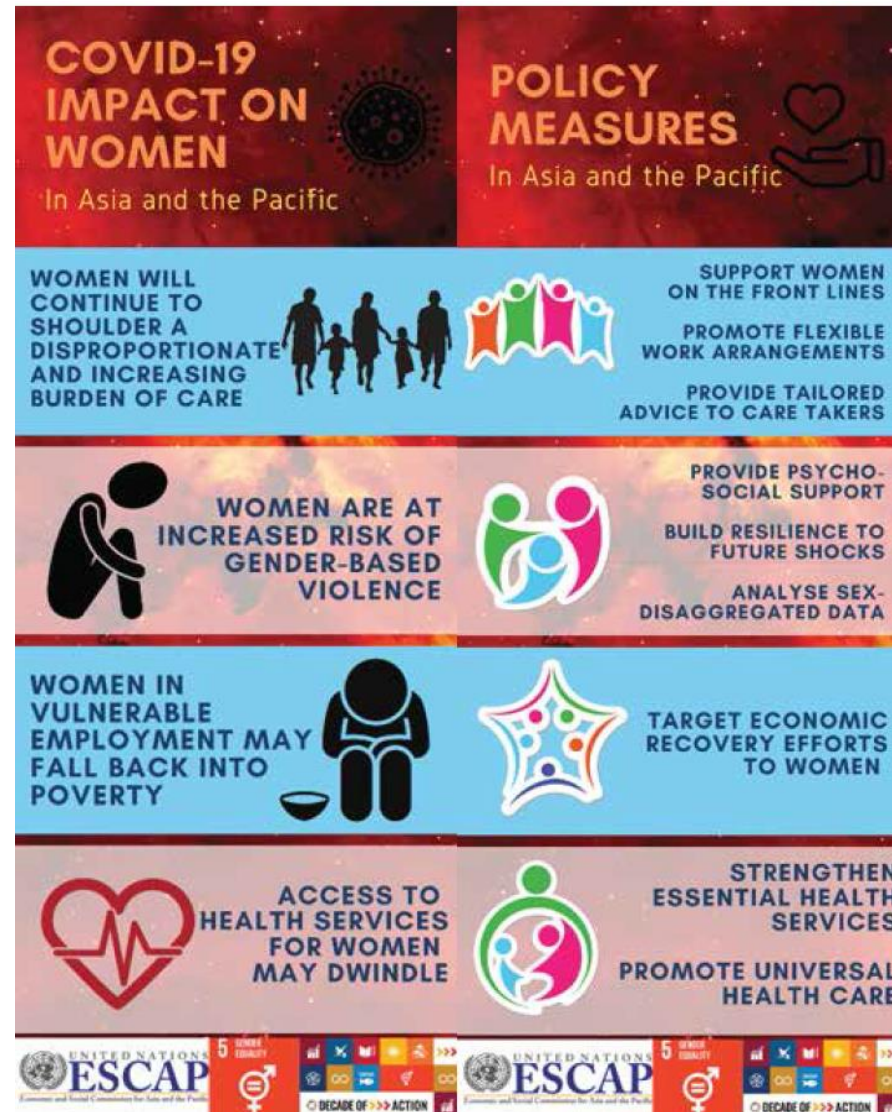
Source: Compiled by the CAREC Institute from various sources

General recommendations

- **Increase health related expenditures**, emergency procurement of Covid-19-related medical supplies.
- **Ensure supply of essential items** including food and medicine.
- **Support the most vulnerable parts of the population.**
- **Prepare and implement best combinations of monetary and fiscal easing** for broader impact and stimulus to a wide range of businesses, especially SMEs.
- **Incentivize workers retention** through additional policy measures including tax breaks, debt rescheduling and cost sharing schemes related to employee expenditures.
- **Explore all international options available** through the World Bank's USD 14 bn fast track financing plan, IMF's USD 50 bn Rapid Fund facility, ADB's USD 6.5 bn Initial Response package, ERBD's Euro 1 bn Covid-19 response facility, IsDB's USD 2 bn response package, and other options.

The economy is important, other measures too

(e.g. special protection of women)



**Looking forward to a fruitful discussion and
to humanity prevailing over covid-19!**

