

EU4BUSINESS: CONNECTING COMPANIES

IMPACT OF THE PANDEMIC ON EASTERN PARTNERSHIP

May 2021



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COVID-19 updated report

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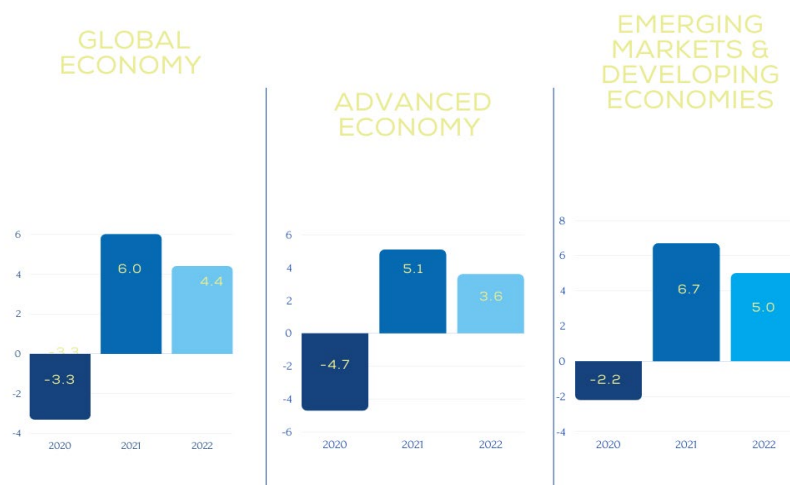
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1. GLOBAL CONTEXT

After more than one year into the COVID-19 pandemic, the world still struggles to overcome the severe damage that both, the health, and economic sector have endured. The World Bank assumes that the depth of a global recession that the pandemic has caused was surpassed only by the World Wars and the Great Depression over the past century.¹ Following the partial lift of the restrictions, improved activity and trade in the goods sector, the world economy started to slowly recover in mid-2020; however, the process has decelerated, as for the service sectors, especially for tourism, the operational environment remained adverse.² There are big uncertainties on when the world economy will return to a pre-pandemic state and how will the growth achieve sustainability. However, the recent estimations of the International Monetary Fund (IMF) on the global economic outlook have improved in comparison to 2020. According to the World Economic Outlook (WEO) report published in April 2021, after an estimated contraction of -3,3% in 2020 (1,1 points lower than estimated in October 2020³), the global economy is expected to grow by 6% in 2021 and 4,4% in 2022 (0,8% and 0,2% stronger than estimated in October 2020). Undoubtedly, such estimations consider several factors, including speed of vaccination, spreading of new variants of the virus, related restrictions, other global crisis, etc.

Figure 1: World economic outlook April 2021. Growth projection.⁴



¹ <https://openknowledge.worldbank.org/handle/10986/34710>

² Ibid.

³ <https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>

⁴ <https://www.imf.org/external/datamapper/datasets/WEO>

The impact of the pandemic differs across the world depending on the pre-existing capacity of each country's economy to respond to unexpected events and systemic resilience. Factors like preparedness of the state institutions, size of the external support, existing social and economic policies, level of social vulnerabilities, size of the informal market or digital infrastructure played an important role in determining the volume of the economic damage. Therefore, they will determine the speed of the recovery.

A difference exists across sectors as well: in the countries with particularly high dependency on tourism and commodity exports, economic impact of the pandemic was much severe. While industrial production has been gradually returning to the pre-Covid-19 level, services requiring physical contact with consumers, such hospitality sector, arts and entertainment, brick and mortar retail, continue to operate with limited scope.⁵

Commodity markets.

Following the sharp decline, commodity prices slowly have increased from mid-2020 to the first quarter of 2021, with 4/5 of commodities now above their pre-pandemic levels, contributing to the improved economic growth outlooks.⁶ Energy prices increased by 1/3 in the first quarter of 2021, quarter on quarter, despite demand for oil remaining around 5 % lower than in 2019. According to the World Bank estimations (April 2021), oil prices are expected to reach an average of \$56 for a barrel of oil in 2021, more than one-third higher than in 2020, and grow to \$60 for a barrel of oil in 2022, if the demand increases. For the non-energy commodity, prices increased by 12 % in the first quarter of 2021, quarter on quarter, following a 10% increase in the third and fourth quarter of 2020. It is estimated that non-energy prices will increase by 19 % in 2021, including a growth in prices for agricultural goods (estimated to increase by 14% in 2021).⁷

Tourism.

Tourism is one of the hardest-hit economic sectors by the pandemic. The decline in international tourist arrivals during 2020 is estimated to be between 58% and 78%, with 100 to 120 million tourism jobs at risk and around \$1,3 trillion loss in export revenue.⁸ According to the United Nations' World Tourism

⁵ <https://www.imf.org/external/datamapper/datasets/WEO>

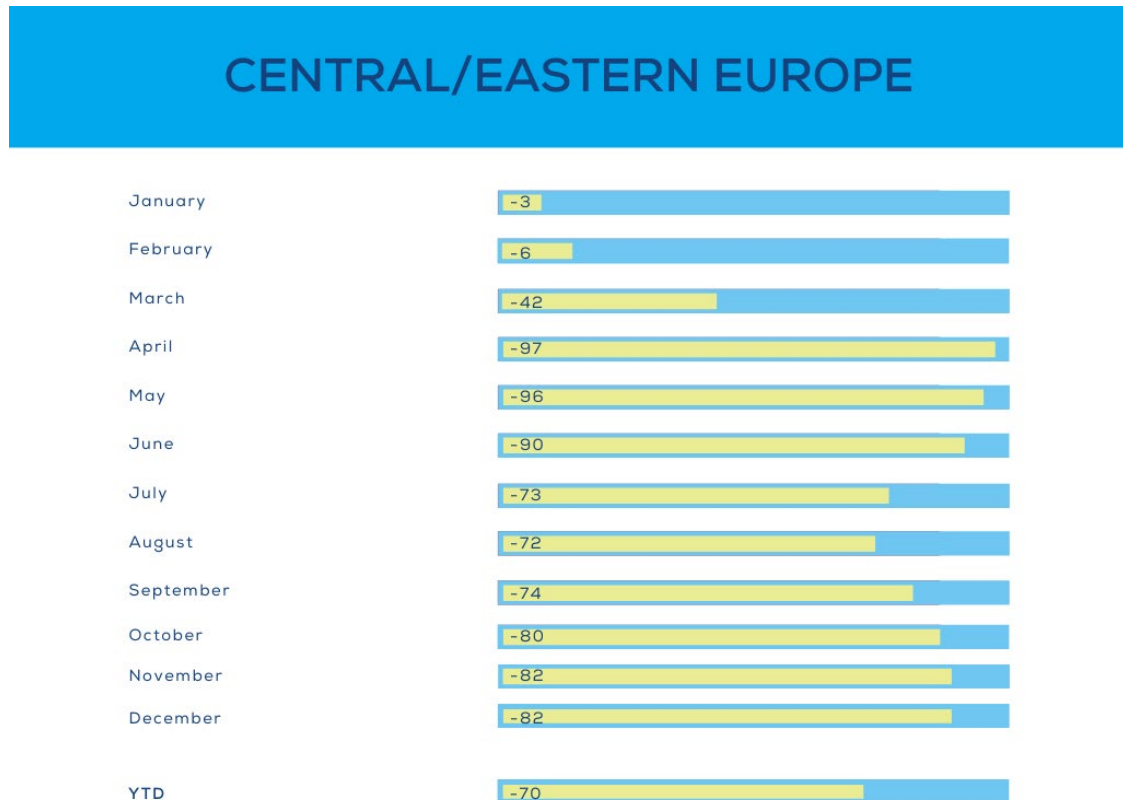
⁶ Commodity market outlook; World Bank, April 2021:
<https://thedocs.worldbank.org/en/doc/c5de1ea3b3276cf54e7a1dff4e95362b-0350012021/original/CMO-April-2021.pdf>

⁷ Ibid.

⁸ <https://www.unwto.org/news/2020-worst-year-in-tourism-history-with-1-billion-fewer-international-arrivals>

Organisation (UNWTO), in 2020, international tourism arrivals largely declined. For instance, in Central/Eastern Europe, the number reduced by 70% in 2020 and by 78% as of January 2021.

Figure 2: International tourist arrivals (UNWTO data)⁹



The crisis has demonstrated the need to strengthen the resilience and inclusiveness of the tourism sector through cooperation among stakeholders at local, national, and international levels. According to the document issued during the 112th Session of the Executive Council of the UNWTO in Tbilisi (Georgia) in September 2020, a renewed commitment from the multilateral system and the development community at large will be required to sustain the governmental efforts.¹⁰

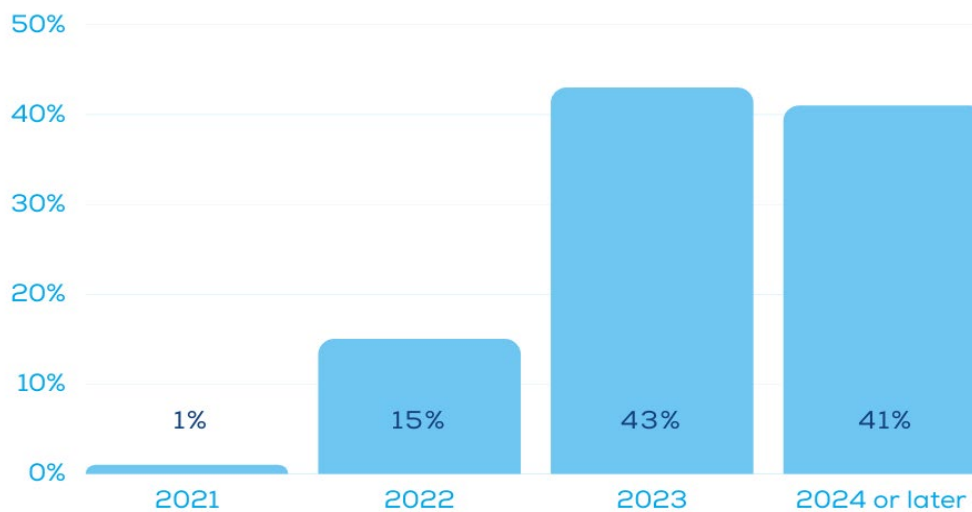
It is expected that the tourism sector will go through the longest way towards full recovery. Despite some improvements in Summer 2020, the new wave of Covid-19 worsened the recovery outlook. According to a recent UNWTO survey, most travel experts do not expect a return to pre-pandemic levels before 2023 or even 2024.¹¹

⁹ <https://www.unwto.org/unwto-tourism-recovery-tracker>

¹⁰ <https://webunwto.s3.eu-west-1.amazonaws.com/s3fs-public/2020-09/Tbilisi-Declaration-WEB.pdf>

¹¹ <https://www.unwto.org/news/2020-worst-year-in-tourism-history-with-1-billion-fewer-international-arrivals>

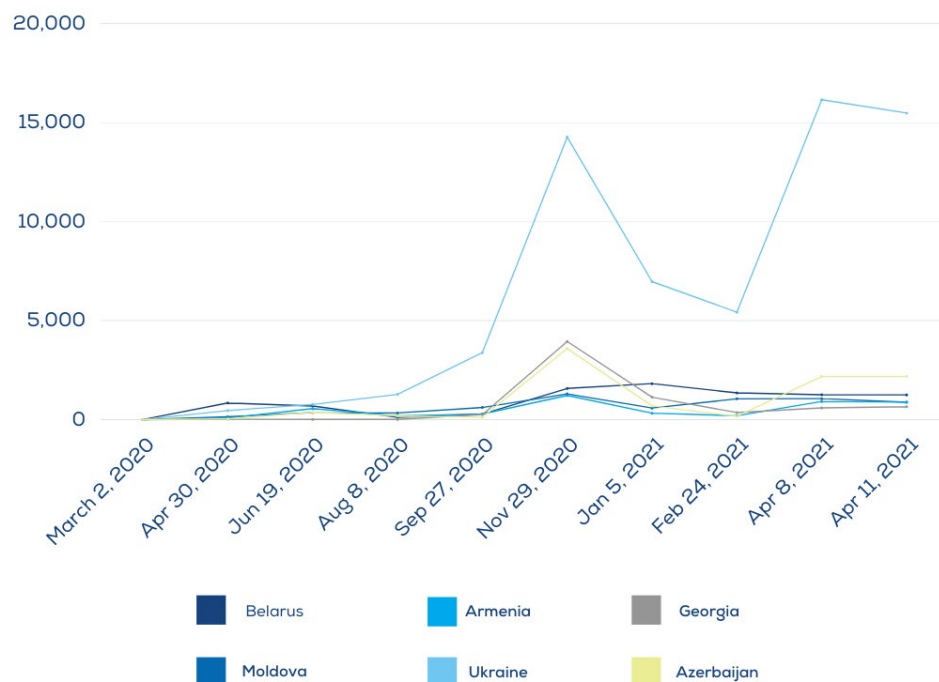
Figure 3: Survey among UNWTO Panel of Tourism Experts on the impact of COVID-19 on tourism and the expected time of recovery.¹²



2. IMPACT OF COVID-19 ON EASTERN PARTNERSHIP

The pandemic has brought far-reaching negative implications for the development of the Eastern Partnership region, exposed to several political, economic, and societal vulnerabilities. After successful attempts in containing the domestic outbreak in the first half of 2020, the number of infection cases sharply grew in the final quarter of 2020. Among other reasons, social unrest and (geo)political instability in the region (e.g. Nagorno-Karabakh conflict) have contributed to the situation.

¹² <https://www.unwto.org/news/2020-worst-year-in-tourism-history-with-1-billion-fewer-international-arrivals>

Figure 4: Daily new confirmed COVID-19 cases (rolling 7-day average)¹³

As of the beginning of 2021, the region continues facing a growing number of cases and deaths, with Ukraine registering the EaP's highest total number of deaths (24,174), followed by Moldova (3,626 deaths).¹⁴

As of April 2021, all EaP countries, except Belarus, are under a state of emergency or equivalent extraordinary regime. International travel, though permitted, is subjected to testing and quarantine conditionalities. For instance, Georgia requires isolation upon arrival, as well as a negative Covid-19 test done in the previous 72 hours before travel.

The vaccination process is going quite slow in the region (relatively higher level in Azerbaijan) due to the procurement delays and to high vaccine reluctance among the population, particularly in Georgia.

¹³ <https://ourworldindata.org/covid-cases> (consulted on April 11, 2021)

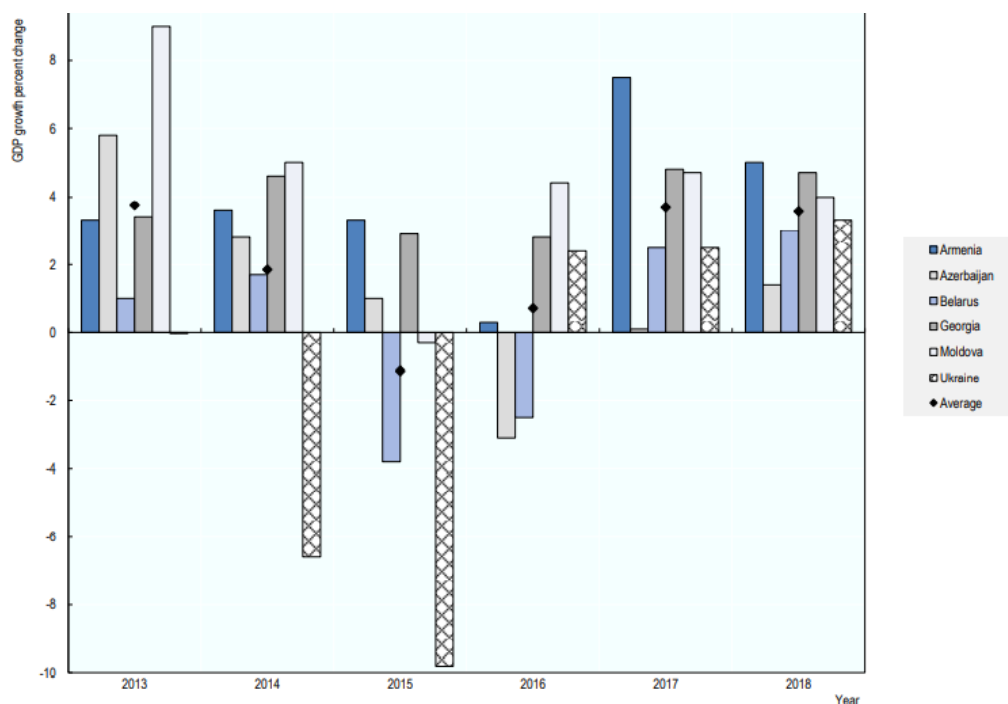
¹⁴ <https://ourworldindata.org/covid-cases> (consulted on April 11, 2021)

3. ECONOMIC IMPACT

3.1 Pre-Pandemic context.

The EaP region was hit by a series of political and economic shocks in 2014-15, leading to an economic contraction in the whole region. Since 2016, a slow recovery started. Although the speed and degree of recovery varied across the region, it progressively stabilised during 2017-18 due to, relatively improved, economic conditions and macroeconomic stabilisation efforts by some EaP governments, together with enhanced economic relations with the EU. In 2019, the region continued to experience a moderated growth rate.¹⁵

Figure 5: Real GDP growth in EaP 2013-2018 (OECD)¹⁶



Although to different degrees, the region remains heavily dependent on Russia, hence influencing trade flows. At the same time, the region made efforts to slowly diversify trade towards the EU; this trend is evident in the case of Azerbaijan, Georgia, Moldova, and Ukraine, especially because of the Deep and Comprehensive Free Trade Area (DCFTA) signed with the EU between 2016-2017.

¹⁵ SMEs Development Index, Eastern Partnership Countries 2020: [8b45614b-en.pdf \(oecd-ilibrary.org\)](https://oecd-ilibrary.org/publications/8b45614b-en.pdf)

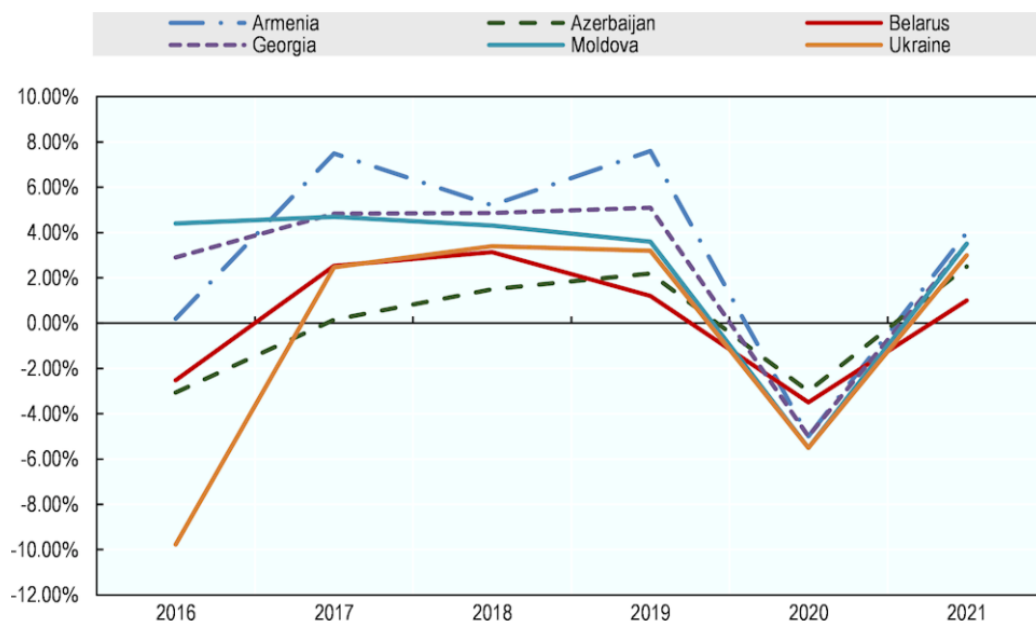
¹⁶ SMEs Development Index, Eastern Partnership Countries 2020: [8b45614b-en.pdf \(oecd-ilibrary.org\)](https://oecd-ilibrary.org/publications/8b45614b-en.pdf) p. 74

In general, the region's economy lacks competitiveness in most sectors. Small and medium-sized enterprises (SMEs) play an important role in the economies of the EaP countries but remain highly underdeveloped and largely vulnerable against economic shocks.

3.2 Impact of the pandemic on region's economy.

Throughout the second quarter of 2020, the pandemic had a bigger economic impact than the Global Financial Crisis. While in the pre-pandemic context the general government balances were negative in most of the EaP countries except Azerbaijan and Belarus, in 2020 the balance becomes negative across the whole region. The economic damage on the EaP region is further exacerbated by the collapse in oil prices, which directly hit Azerbaijan and Belarus. Its impact on trade and remittances affected also other EaP countries, particularly Armenia and Georgia.

Figure 6: GDP change in the EaP year-on-year (OECD)¹⁷



Note: Values for 2020 and 2021 are forecasts

According to the World Bank, the economy in Eastern Europe (Belarus, Moldova, Ukraine) contracted by 3,3 % in 2020, and in the South Caucasus (Armenia, Azerbaijan, Georgia) by 5,2 %, reflecting simultaneous shocks of the pandemic, escalation of armed conflicts (Armenia, Azerbaijan, Ukraine),

¹⁷ COVID-19 crisis response in Eastern Partner countries (updated on October 2020):
<https://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-eastern-partner-countries-7759afa3/#section-d1e178>

drought impact on agriculture businesses (Moldova), social and political unrest (e.g. protests in Belarus, Georgia and Armenia).¹⁸

3.3 Economic sectors.

Due to the respective governmental measures to mitigate the negative effect of the pandemic on public health, service sectors, especially related to tourism and services requiring direct contact between customers and service providers, received the highest economic hit as their revenues went down.

Most retailers and restaurants were closed for a long period of time. Online sales could not compensate for the loss, especially in the regions with underdeveloped digital services. Non-essential construction work was also affected by limited labour mobility and reductions in investment. In total, these such sectors account for 30-40% of total output of the EaP economies.¹⁹

Containment and social distancing measures had a particularly severe impact on SMEs, as demand for goods and services other than food retail decreased, causing liquidity shortages. According to early evidence of this impact is provided by a World Bank Enterprise Survey²⁰ conducted in June 2020 in Armenia, Belarus, Moldova, and Georgia, more than 50% of responding firms reported a decrease in their monthly sales compared to the previous year, ranging from 56% in Belarus to more than 90% in Moldova. The drop in revenues resulted in a higher unemployment rate (e.g. 25% of Georgian companies had reduced employment in the first half of 2020).

3.4 Regional economic outlook.

According to the World Bank estimations (April 2021)²¹, the growth in Eastern Europe is projected to be 1,9 % in 2021 and 2,7 % in 2022. By 2022, GDP per capita is expected to remain 7,4 % below pre-pandemic projections. The expected economic growth in the South Caucasus is relatively higher than it is projected for Eastern Europe – amounting to 3,1 % in 2021 and 4,2 % in 2020. GDP per capita is estimated to remain 7,0 % below pre-pandemic forecasts by 2022. However, the growth outlook is based on the assumptions that the heavy shocks of the pandemic and conflict decrease, and tourism, alongside consumer and business confidence, start to improve. The growth will also largely depend on the internal, social, and political stability in each country of EaP and on the pace of vaccinations.

¹⁸ <https://openknowledge.worldbank.org/handle/10986/35273>

¹⁹ <https://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-eastern-partner-countries-7759afa3/#section-d1e427>

²⁰ World Bank Enterprise Survey (2020): www.enterprisesurveys.org/en/covid-19

²¹ <https://openknowledge.worldbank.org/handle/10986/35273>

4. ANALYSIS PER COUNTRY

4.1 Armenia

Armenia's economy is based on agriculture, mineral exploitation, hydroelectricity (mostly foreign-owned), telecommunications, jewellery, and tourism.²² Agriculture represents 12 % of its GDP (40 % of it is livestock sector) and 28,9 % of the total workforce (World Bank, 2019), with small amount of cultivation of arable land (main crops are potatoes, tomatoes, grapes, wheat, melons, cotton, tobacco). The industry represents 24,3 % of its GDP and 17,5 % of the total workforce (metal mining being the largest contributors to export and GDP). Services (including tourism) constitute 54,2 % of GDP and 53,6 % of the total workforce.

Armenia reported the first cases of COVID-19 at the beginning of March 2020 and reached a peak in October. The pace of the new cases started to stabilise towards the end of the year. A national state of emergency continued till September, including school closures, travel bans on foreign citizens from the high-risk countries, lockdown, etc. These actions immediately affected most of the businesses in the country, leading to the complete cease or reduction of the activities for most companies, supply shocks and decreasing sales. The companies were forced to implement survival measures such as labour layoffs, reduced working hours, reduced wages, or a combination of these.

The vaccination process in Armenia is slow. The country received its first batch of AstraZeneca's vaccine (24,000 doses) only in March 28, 2021, while preparing for the pandemic's third wave.²³

4.1.1 Macroeconomic impact of the pandemic

Armenia's economy performed poorly in 2020, mostly due to the Nagorno-Karabakh war in September-November 2020²⁴ and the economic restrictions imposed in the first half of 2020 in response to the spread of Covid-19. Many businesses were converted from private to public use to produce medical or military equipment, creating an additional burden on the overall outlook of the country's economy. The risk of the pandemic continues to be exceptionally high in shelter areas for the people from conflict areas (including guest houses, hotels/hostels, schools etc.).²⁵

²² <https://santandertrade.com/en/portal/analyse-markets/armenia/economic-outline> (updated on March 2021)

²³ <https://www.rferl.org/a/armenia-covid-vaccine-astrazeneca-covax/31175978.html>

²⁴ <https://www.reuters.com/article/us-armenia-azerbaijan-coronavirus/armenia-fights-war-with-covid-19-complicated-by-nagorno-karabakh-conflict-idUKKBN27Q1YJ>

²⁵ <https://eap-csf.eu/project/impact-of-covid-19-on-labour-migration-from-eap-countries-to-the-eu/>

While Armenia's pre-pandemic growth, back in 2019, was quite positive (7,6 %), a year later the country had one of its highest real GDP contractions (-7,6%) across the region.²⁶ Services, especially trade and hospitality sector, were mostly affected (-10%), while agricultural output fell by 4%. Exports decreased by 4,4% and imports by 14,9% (in January-October 2020, compared to the same period in 2019).²⁷ According to the World Bank²⁸, the poverty rate (measured at the upper middle- income economy poverty line) is estimated to have increased to over 51% in 2020 (7 % points increase compared to 2019). Unemployment grew by 1 % year on year constituting 18,1 % in September 2020. The budget deficit rose to 5,1% of GDP in 2020 (from 0,8 % of GDP in 2019) due to increased government spending on pandemic response, military intervention and decreased tax revenues.

Figure 7: Changes in export-import (Ministry of Economy of Armenia)²⁹



4.1.2 Economic outlook

According to the World Bank's updated estimations (Spring 2021)³⁰, Armenia's economy is expected to gradually grow, reaching pre-pandemic numbers by 2023. GDP is estimated to grow by 3,4% in 2021

²⁶ <https://www.armstat.am/en/?nid=12&id=01001>

²⁷ <https://armenpress.am/eng/news/1035857.html>

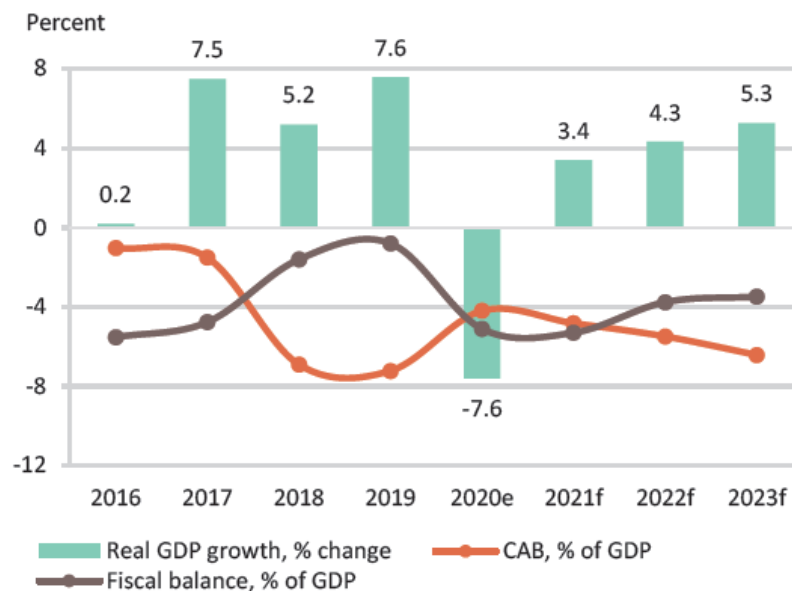
²⁸ <https://openknowledge.worldbank.org/handle/10986/35273>

²⁹ <https://www.mineconomy.am/en>

³⁰ <https://openknowledge.worldbank.org/handle/10986/35273>

and by 4,3% in 2022 given that there is no harsh outbreak of Covid-19 and/or armed conflicts in the region. Other conditions also include the general political stability and the pace of vaccination.

Figure 8: GDP growth, fiscal and current account balances (World Bank estimations, Spring 2021)³¹



4.1.3 Impact on economic sectors and SMEs

According to the UN's Social and Economic Impact Assessment (SEIA) in Armenia (September 2020)³², the impact of the pandemic differed across the country.

For instance, in communities where agriculture is a dominant sector, the economic damage of the pandemic was relatively low (according to a survey, around 40% of the respondent agricultural businesses remained non-affected by the crisis).

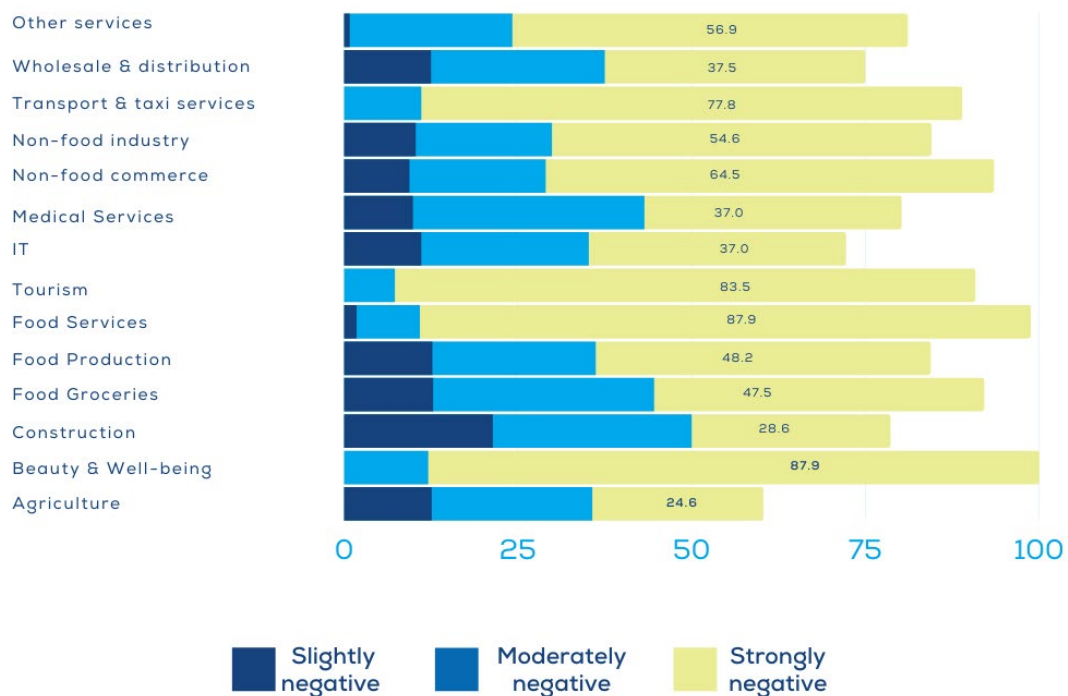
On the other hand, communities built around tourism and trade were severely affected. The business activity of 65% of non-agricultural businesses was temporarily shut down. According to SEIA, the most negatively impacted businesses in Armenia operate in tourism, food service, transport, and beauty services. Although the share of registered SMEs in these sectors is not significant, the negative impact on these sectors, particularly tourism, may have a more severe social and economic impact in the long

³¹ Ibid.

³² <https://www.am.undp.org/content/armenia/en/home/library/socio-economic-impact-assessment-of-the-covid-19-outbreak-in-arm.html>

term. Businesses operating in trade and non-food manufacturing sectors, which comprise more than 40% of the registered companies in Armenia, are also among the most affected.

Figure 9: the magnitude of Covid-19 impact on SMEs by activity field, % in sectoral total (SEIA business survey).³³



4.1.4 Impact on Tourism

The travel and tourism industry are one of the priority sectors in Armenia. It had been dynamically growing since the beginning of the 2000s (diaspora comprise the largest segment of international visitors). The overall growth rate of arrivals of tourists during the past ten years is more than 170 %, with an annual average growth rate of about 17 %. The pandemic affected the inbound tourism sector significantly, including hotels, travel agencies, transport companies, guides, and other representatives, as Armenia has been posing restrictions on international travels. The confinement measures have led

³³ <https://www.am.undp.org/content/armenia/en/home/library/socio-economic-impact-assessment-of-the-covid-19-outbreak-in-arm.html>

to a zero-income situation with the sector players being reluctant to make mass layoffs and to re-profile hotels instead.

The number of tourist arrivals in Armenia significantly decreased in 2020 compared to 2019. According to the World Travel and Tourism Council (WTTC), in 2019 the tourism sector provided 36,900 direct jobs and contributed to 137,000 jobs, accounting for 12,9 % of total employment and for more than 17 billion AMD (about \$35 million) in total monthly incomes.

It is expected that Armenia may lose about \$1 billion in GDP from the tourism and travel sector.

Figure 10: Number of international tourists (Ministry of Economy of Armenia)³⁴



The Armenian government has tried to tackle this situation by examining the experience of over forty countries, including Georgia. Among the measures taken in this field are:

- Tax exemption to tourism companies – hotels, guesthouses, transport companies, travel agencies, etc. – until April 2021.
- Subsidising at least 50 % of the salaries of employees registered in these companies

³⁴ <https://www.mineconomy.am/en>

- Subsidising at least 50 % of the monthly interest payments on credit liabilities undertaken by these companies
- Implementation of a post-crisis tax system for the tourism sector to reduce the high tax burden and ensuring rapid recovery and further growth in the sector.³⁵

4.1.5 Textile.

Compared to the tourism sector, the economic impact of the pandemic on the textile and apparel sector has been less severe. However, the negative effects have been high on women involved in this sector.

In the textile and apparel sector, the job layoff rate was the highest during March-April standing at 29 % (896 jobs), with approximately 64 % of cuts in companies with more than 50 employees. At the same time, export volumes in this sector fell significantly. This is mainly due to a high share of Armenian textile and apparel companies working for foreign brands, which consequently closed their stores worldwide because of restrictions in most countries.³⁶

Figure 11: Impact of the pandemic on economic sectors in Armenia (SEIA assessment)³⁷

Economic sector	Tourism & hospitality	Textile & apparel	Food services	Domestic trade
Magnitude of impact	High	Medium	Medium	Medium
Geographic concentration	Yerevan & those in regions focusing on international tourists	Yerevan, Vanadzor & Gyumri	Yerevan & those in regions focusing on international tourists	All regions
Impact on women	Medium	High	Medium	High
Type of affected business	All	Large	SME	SME
Economic Impact	High	Low	Medium	Medium
No of JOBS at risk	High	Medium	Medium	Low

³⁵https://hraparak.am/post/30b3904724d9689cd3fa25aa2227ff94?fbclid=IwAR3w7R_N7ULV2P9Fkbex5sCK_OV2eSJ0mNMA3j47xN9OKY3KzAemlZNIqhw (published on June 8, 2020)

³⁶ Socio-economic impact assessment of the Covid-19 outbreak in Armenian communities.

³⁷ <https://www.am.undp.org/content/armenia/en/home/library/socio-economic-impact-assessment-of-the-covid-19-outbreak-in-arm.html>

4.1.6 Government's response

The Armenian government adopted support programmes to overcome the negative socio-economic outcome of the pandemic in March 2020. By the end of the year, more than two dozen assistance programmes were adopted to reduce socio-economic consequences of the covid targeting individual businesses in overcoming projected current liquidity risks. Support was provided through refinancing, co-financing, and interest rate subsidies of the targeted loans, including some changes in tax legislation.

The government's stimulus package contains specific programmes targeting businesses in hard-hit sectors such as tourism, catering, beauty and well-being services and non-food retail. While these measures mitigate, to some extent, the immediate impact of the crisis, they do not solve persisting liquidity issues that SMEs face at the mid- and long-term.³⁸

4.2 Azerbaijan

Azerbaijan belongs to an upper-middle-income economy with rich hydrocarbon resources. Due to increased Foreign Direct Investments (FDI) to the oil and natural gas sectors, exports have been increasing since 2000, subsequently contributing to positive economic performance.

Together with its partners, Azerbaijan has built an effective model of cooperation through the construction of the Baku-Tbilisi-Ceyhan and the Baku-Tbilisi-Erzurum oil and gas pipelines that transport hydrocarbons of the Caspian Sea to international markets. Economic growth has been moderate in recent years due to the fall in the prices of hydrocarbon production. Like in other countries across the region, a weak institutional setting, a high share of the informal sector in economic activities, lack of skilled labour, high centralisation, and low liberalisation leaves Azerbaijan's economy vulnerable to external shocks such as the pandemic.

To contain the spread of COVID-19, the authorities introduced two lockdowns: the first one until May 4, 2020, the second until August, including closing of borders till the end of September. As of April 2021, the special quarantine regime remains in effect at least until June 2021. Education institutions moved to distant learning since April 5. Masks remain obligatory. Restaurants and cafes opened in February 2021. Most of other businesses and services are open, except shopping malls. In January 2021,

³⁸ <https://www.mineconomy.am/en>

the country also started vaccination (Sinovac, AstraZeneca and Sputnik V). As of April 22, 1,4 million doses have been administered. Meanwhile, the number of new infections is growing.³⁹

4.2.1 Economic impact

In 2020, the country's economy was negatively impact by different factors; in addition to the cuts in oil prices and the outbreak of Covid-19 pandemic, the armed conflict with Armenia in September–November 2020 brought high social, infrastructural, environmental, and economic costs.

The alterations between loosening and tightening lockdowns to reduce the negative health impact of the pandemic resulted in a real GDP drop at constant prices by 4,3 %; the energy sector contracted by 7 % in 2020.⁴⁰ The activities of nonhydrocarbon sectors, such as travel, tourism and hospitality and domestic trade, were dramatically reduced. The total budget decreased by 6,5 % of GDP in 2020 due to the declining tax revenues and earnings from energy sectors and increasing spending mainly on measures to reduce the negative impact of the pandemic, including defending the Azerbaijani currency, manat, at a constant 1,7 to USD (Azerbaijan adopted a fiscal response equivalent to around 3 % of GDP). The deficit was financed by its sovereign wealth fund - State Oil Fund (SOFAZ) – asset. The fund acted as a buffer keeping the anticipated fiscal deficit of 12,4 % in 2020—compared to a surplus of 9.1 % in 2019—from rising more rapidly.⁴¹

These fiscal measures only partially mitigated the negative impact of Covid-19 on the well-being of households. The hardest-hit sectors are tourism, non-food trade, and services, with a considerable impact on the economy despite their relatively low contribution to the GDP. Although the share of tourism and non-food trade in Azerbaijan's GDP is about 5 %, these sectors employ between 300,000–400,000 people. Overall, the number of unemployed people grew to 124,300 in 2020.⁴²

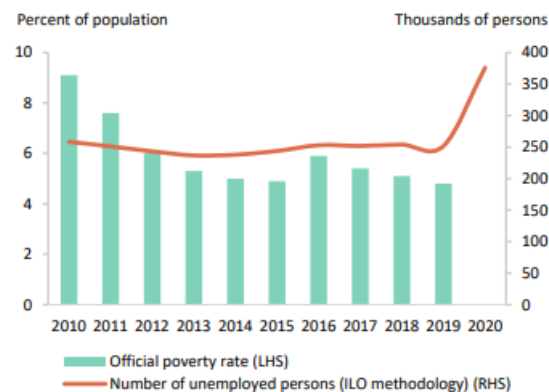
³⁹ <https://eurasianet.org/dashboard-vaccinating-eurasia-april>

⁴⁰ <https://openknowledge.worldbank.org/handle/10986/35273>

⁴¹ <https://www.gfmag.com/magazine/october-2020/azerbaijan-regional-stability-wavers>

⁴² <https://openknowledge.worldbank.org/handle/10986/35273>

Figure 12: Official poverty rate and unemployment (World Bank data, April 2021)⁴³

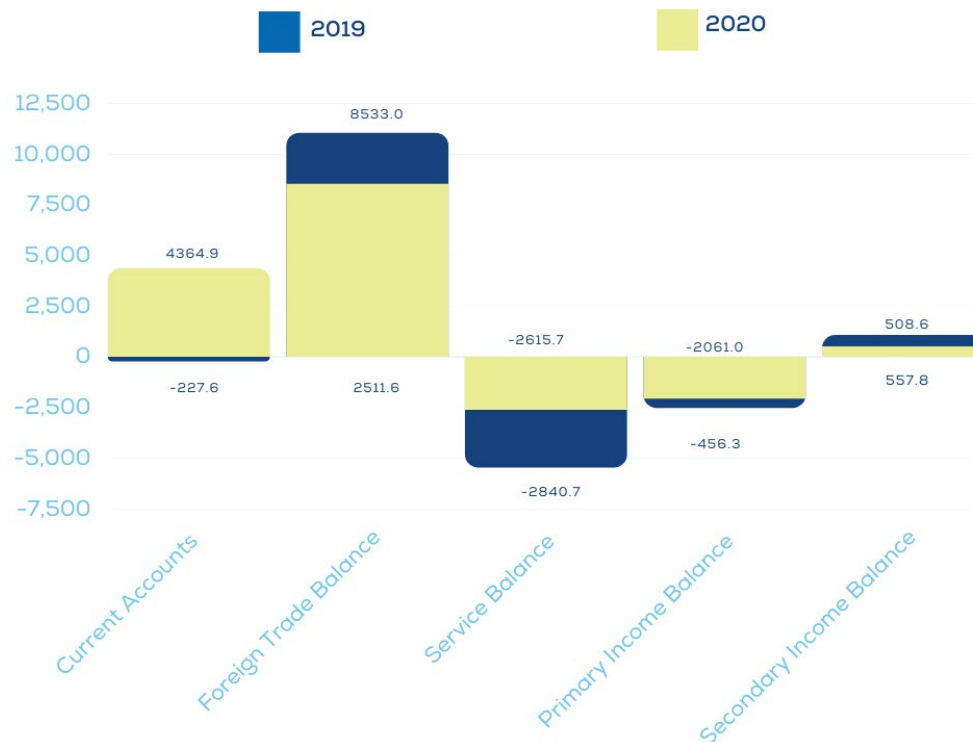


4.2.2 Current accounts

In 2020, Azerbaijan's current account deficit amounted to \$227,6M (0,5% of GDP). In external trade balance, \$8,9B worth oil-gas surplus covered \$6,4B non-oil deficit, resulting in \$2,5B worth positive balance. Commodity export in 2020 amounted to \$12,6B (36,6% less than in 2019): oil and gas export amounted to \$10,8B (-40%) and non-oil export - \$1,8B (-4,3%). Commodity import amounted to \$10,1B (11,1% less than in 2019).

Total service exchanges with the world amounted to \$8B in 2020 (\$5,4B worth of services was delivered to Azerbaijani residents, and \$2,6B by Azerbaijani residents to foreign residents (deficit increased by 8,6% amounted to \$2,8B). Out of it, the non-oil deficit was \$2,4B (up by 31.4%).

⁴³ Ibid.

Figure 13: Current account in 2020, mln.\$ (source: Central Bank of the Republic of Azerbaijan)⁴⁴

4.2.3 Impact on Tourism

In 2020, the total worth of tourism service exchanges between countries decreased 4,9 times to \$715,9M (tourism services import (\$411.7M) prevailed over export (\$304.2M)). The number of Azerbaijani citizens travelling outside of the country decreased 4,8 times, and the number of foreign visitors decreased 4 times.⁴⁵

According to the State Statistical Committee of Azerbaijan, in January-March 2021, the country received a total of 117,2 thousand visitors, 4,4 times less than in January-March 2020 (the visits made were mainly for non-tourism purposes). 33 % of the arrivals were from Russia, 27,9 % – Turkey, 16,2%, 10,6 % – Georgia, and 2,4 % – Ukraine. From EU member countries, the number of visitors decreased by 3,5 times compared to the same period in 2020, amounting to 4,3 thousand people.⁴⁶

⁴⁴

<https://uploads.cbar.az/assets/Macroeconomic%20parameters%20of%20the%20Balance%20of%20Payments%20of%20the%20Republic%20of%20Azerbaijan%20for%209%20months%20of%202020.cleaned.pdf>

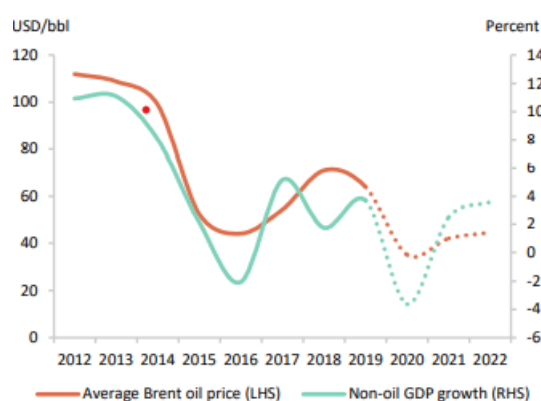
⁴⁵ ibid

⁴⁶ <https://www.stat.gov.az/news/index.php?id=4884?lang=en>

4.2.4 Economic outlook

As the energy sector represents 95 % of export earnings and 75 % of government revenue, while services and retail play a small role in the domestic economy, it is generally believed that Azerbaijan has the economic effects of the pandemic under control.⁴⁷ According to the World Bank estimations (April 2021), Azerbaijan's economy will recover gradually, reaching pre-pandemic levels by the end of 2022, supposing increased oil prices will narrow fiscal deficits and support current accounts. However, the frailty of oil markets, in addition to the uncertainty around the evolution of the pandemic, and the possibility of another regional conflict, pose high risks for the economic outlook of Azerbaijan.

Figure 14: Non-oil GDP growth and Oil price (World Bank data, April 2021)⁴⁸



4.2.5 2030 national development vision

In February 2021, the President of Azerbaijan signed a decree approving the 'Azerbaijan 2030: National Priorities for Socio-Economic Development' document,⁴⁹ which outlines the long-run strategies to overcome economic challenges. On the one hand it tackles the immediate challenges of the pandemic, while also touching upon the risks of economic fallouts due to the continuous dependency on oil. One of the priorities concerns economic diversification, including strengthening the non-oil economy and private property institutions for long-term resilience. Priority areas include agriculture and agribusiness, trade, logistics, infrastructure, and IT.

4.2.6 Key Policy Responses (as of April 2, 2021)⁵⁰

- Increased budget spending on public health by AzN 0.37 billion/about 180 million euro (0,5 % of GDP).

⁴⁷ <https://www.gfmag.com/magazine/october-2020/azerbaijan-regional-stability-wavers>

⁴⁸ <https://openknowledge.worldbank.org/handle/10986/35273>

⁴⁹ <https://en.president.az/articles/50474>

⁵⁰ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#A>

- April 2020: announced support to the affected businesses and individuals in the amount of AzN 3.3 billion/about 1,6 billion euro (4,85 % of GDP), including partial coverage of salaries, support to microentrepreneurs, temporary public jobs, subsistence and unemployment payments, pensions, targeted social assistance, energy and education subsidies, allocation of additional funds to the Entrepreneurship Development Fund.
- June 2020: amendments to the Tax Code, providing tax benefits to businesses affected by the pandemic - AzN 0.12 billion/about 59 million euro (0,2 % of GDP), including a one-year exemption from land and property tax to selected sectors - tourism, passenger road transportation, and cultural facilities.
- The 2021 budget allocated another AzN 261 million/about 128 million euro (0,3 % of GDP) for fighting the pandemic.

4.2.7 Agriculture Sector

The Agency for Agricultural Lending and Development allocated subsidies for almost 100,43 million euro⁵¹ to Azerbaijani farmers for the autumn sowing and more than 4,44 million euro for agricultural producers for summer sowing.⁵²

4.3 Belarus

The first confirmed case of Covid-19 in Belarus was reported at the end of February 2020. The second wave of the pandemic started in October 2020, reaching its peak between December 2020–January 2021 at around 2,000 cases per day. Current measures to cut the damage that the pandemic is causing are relatively limited compared to other countries in the region. These include a ban for Belarusian citizens to leave the country, social distancing and recommendations for schools and workplaces. For businesses and other organisations, the government's recommendations involve ensuring social distancing and limiting the number of participants in meetings. Wearing a mask is compulsory only in some regions. In February 2021, Belarus started producing the Russian vaccine, Sputnik V, expecting to produce enough doses to start mass vaccination at the beginning of April 2021.

4.3.1 Economic Impact

Outlook for economic growth in Belarus was weak even before the pandemic, with annual GDP growth averaging 0,5 % since 2011 (in 2019, GDP growth was 1,2 %). Following the presidential elections in

⁵¹ Exchange rate as of April 20, 2020 → 1 euro = 2,04 azn

⁵² <https://eu4business.eu/news/covid-19-weekly-digest-impact-smes-eap-june-12-2020> (published on June 12, 2020)

August 2020, the political unrest in the country created additional disruption and uncertainty in the economy. Belarus was the only country in the EaP region that did not introduce a full lockdown; therefore, the impact of the pandemic on non-tradable services was less severe compared to other countries.⁵³ The government introduced some limitations on economic activities only from October 2020, in response to the second wave of infections, which, together with subsidising lending to state-owned enterprises (about 1,6% of GDP), contributed to the prevention of a more severe recession.

However, due to strong economic ties with Russia (41% of exports, 56% of imports of goods, 31% of total FDI stock), Belarus faced adverse consequences from the gradual loss of oil price subsidies from Russia, the current oil-price shock, and its negative impact on the price of Belarus' exports of refined products. Disagreements with Russia over oil supply terms contributed to a decline of 1,9 % in real merchandise exports between January-September 2020.

The EU also imposed several waves of sanctions on the Belarusian government, including companies financing the regime.

In 2020, Belarus' real GDP decreased by 0,9% year-on-year, mainly due to a supply shock in the petrochemical sector⁵⁴. The current account deficit remained nearly balanced, as the trade surplus reached 3,2 % of the GDP. The national poverty rate also remained unchanged in 2020 at 4,8 %.⁵⁵ The fiscal balance went into recession by 1,2 % of the GDP in 2020 (first-time since 2009). Export of goods and services declined by 2% of the GDP and import by 1%.

The lack of reforms (nearly absence) in the business environment increased vulnerabilities amid the pandemic.

4.3.2 Economic outlook

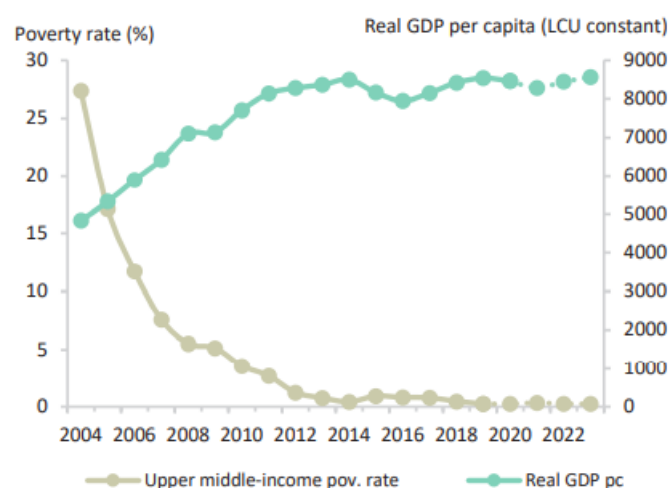
In the context of an ongoing political and structural crisis in Belarus, the World Bank estimates (April 2021) a deeper recession in 2021 (- 2,2 %) and a weak recovery in the following years. Tax increases that the country announced, to overcome fiscal deficit, is expected to damage an already struggling private sector even more, while recently introduced price controls on 'socially important goods' (the list includes frozen fish, meat, milk and dairy products, sugar, buckwheat and other goods) might result in shortages of some goods.

⁵³ <https://eap-csf.eu/project/impact-of-covid-19-on-labour-migration-from-eap-countries-to-the-eu/>

⁵⁴ <https://2020.tr-ebrd.com/countries/#>

⁵⁵ <https://openknowledge.worldbank.org/handle/10986/35273>

Figure 15: Actual and projected poverty rate and real GDP per capita (World Bank data, April 2021)⁵⁶



According to the first estimate of the National Statistical Committee of Belarus, during the first quarter of 2021 GDP at current prices amounted to BYN 36,3 billion (about 14 billion USD), 100,9% compared to the first quarter of 2020 at constant prices.⁵⁷

4.3.3 Impact in Tourism

Belarus opened its borders on July 1, 2020, and tour operators resumed operations.

A survey conducted by the restaurateurs' association confirmed that 48 % of restaurant business owners incurred losses in May 2020. A yield of about zero was recognised by 31 % of respondents and only 21 % corroborated profitability above zero.⁵⁸

4.3.4 Key policy responses (as of April 2, 2021)⁵⁹

The government's crisis-response measures in Belarus have been limited. In April 2020, the authorities announced a package of fiscal measures, which includes support for the healthcare sector, and tax relief and tax deferral measures for companies in the sectors most affected by the pandemic. It also includes payment holidays and instalments, rent payment holidays, and municipal authorities' possibility to reduce property taxes. By October 2020, 47,000 entities and individual entrepreneurs had reportedly benefited from the tax reliefs in the amount of BYN 34 million (about EUR 11 million).⁶⁰ State banks also provided state-guaranteed loans of BYN 700 million (EUR 225 million) for over 50 businesses. These

⁵⁶ <https://openknowledge.worldbank.org/handle/10986/35273>

⁵⁷ <https://www.belstat.gov.by/en/o-belstate/news-and-events/news/gross-domestic-product-in-quarter-1-2021/>

⁵⁸ <https://officelife.media/news/17654-a-quarter-of-the-restaurateurs-ready-to-leave-the-country-if-the-business-closes/>

⁵⁹ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#A>

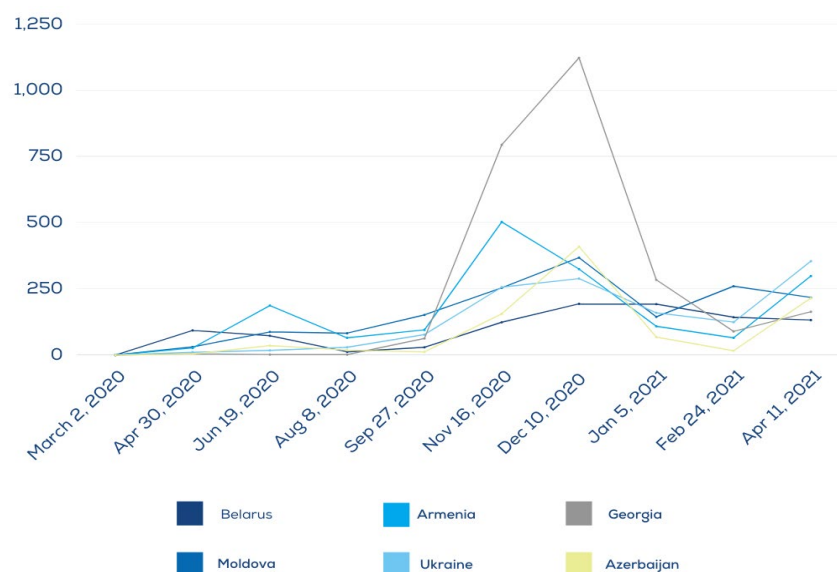
⁶⁰ <https://eap-csf.eu/wp-content/uploads/Impact-of-COVID-19-on-labour-migration-from-EaP-countries-to-the-EU.pdf>

fiscal measures have been extended until the end of 2021. However, these measures mainly contribute to state-owned enterprises, while enterprises in the private sector remain unsupported.

4.4 Georgia

The damage the Covid-19 pandemic brought to Georgia's economy is enormous. Due to timely and strict measures, such as lockdown, border closure, curfew, and regulations on social and economic activities, Georgia managed to have the lowest number of infections across the EaP region in the first half of 2020⁶¹. However, the situation dramatically changed towards the end of the year; by then the country had the highest rate of cases per capita in the region and entered among the 20 most affected countries in the world (cases per million people)⁶² following the easing of the measures. Authorities introduced a second strict lockdown between November 2020 and February 2021, leading to decreasing the number of cases. Various forms of economic activity have come to a standstill during the state of emergency and are recovering slowly since then.

Figure 16: Daily new confirmed COVID-19 cases per million people.⁶³



With political unrest, a high rate of unemployment and weak social policies, it is unlikely that the country will manage to stabilise the situation in a short time frame. Moreover, Georgia has one of the slowest vaccination processes across the region, having only 0,46 vaccination doses (counted as a single

⁶¹ [COVID-19 Campaign | EaP CSF \(eap-csf.eu\)](https://eap-csf.eu/)

⁶² <https://openknowledge.worldbank.org/handle/10986/35273> (published on March, 2021)

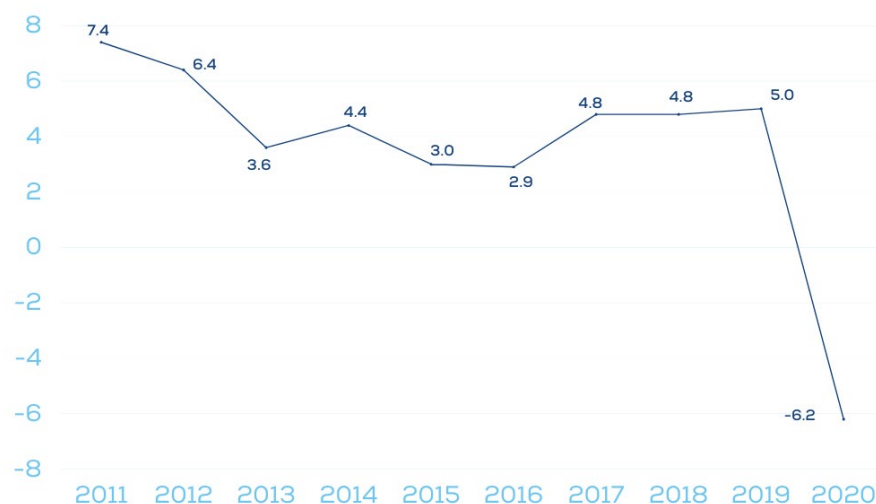
⁶³ <https://ourworldindata.org/covid-cases> (updated on April 11, 2021)

dose) administered per 100 people in the total population (as of April 10, 2021)⁶⁴ which further complicates the prognosis of the full recovery.

6.4.1 Economic impact

The pandemic and related measures, more specifically mobility restrictions, suspension of touristic activities and cut in trade or service provision, led Georgia's economy to a recession of 6,2 % in 2020. In 2020, GDP at current prices constituted 15,9 billion USD, in comparison to 17,5 billion USD in 2019.⁶⁵ The downturn mostly affected the Accommodation and Food Service Activities, including Tourism (-37,9 % in the full year of 2020, -53,1 % in III quarter, and -53,8 % in the IV quarter), Administrative and Support Service Activities (-37,9 %), Transportation and Storage (-22,3 %), Arts, Entertainment and Recreation (-18,9 %), Professional, Scientific and Technical activities (-18,4 %). Slight growth was perceivable in Mining and Quarrying (1,5 % in the full year of 2020, -15,5 % in the IV quarter), Education (3,1 %), Agriculture, Forestry and Fishing (3,6 %), Human Health and Social Work Activities (7,9 %).

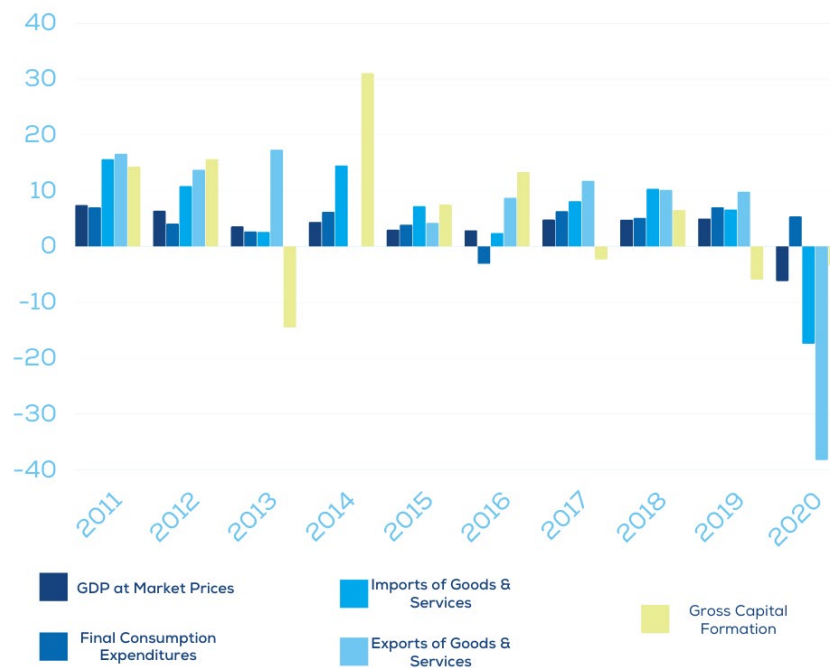
Figure 17: Real Growth Rates of GDP compared to the same period of the last year, %



⁶⁴ <https://ourworldindata.org/covid-cases>

⁶⁵ <https://www.geostat.ge/en/modules/categories/23/gross-domestic-product-gdp>

Figure 18: The contribution to the Real Growth compared to the previous year, % (by categories of use)⁶⁶



Due to poor digitalisation capacities and a consequently low ability of the country's job market to offer teleworking opportunities to its employees, income losses were severe. In the last quarter of 2020, the unemployment rate reached 20,4 % (2,8 % higher compared to the same period in 2019).⁶⁷ According to the World Bank estimate, poverty rose by 5,4 % in 2020, despite the support packages provided by the government.⁶⁸ In March 2021 the inflation level increased by 4,2% compared to the previous month, while the annual inflation level reached 7,2%.⁶⁹

The current account deficit reached 12,3 % of GDP in 2020, amounting to 2 billion USD (6.1 billion GEL).⁷⁰ For comparison, the figure was more than two times lower in 2019 (amounting to 891 million USD or 5,1 % of GDP).⁷¹ A drop of \$ 2.7 billion in tourism revenue had the most significant blow on the balance of payments. The fiscal deficit widened to 9,7 % of GDP and public debt to over 60 % of GDP.

4.4.1 Economic outlook

⁶⁶ <https://www.geostat.ge/en/modules/categories/23/gross-domestic-product-gdp> Real growth rate of GDP by categories of use

⁶⁷ Ibid.

⁶⁸ <https://openknowledge.worldbank.org/handle/10986/35273>

⁶⁹ <https://www.geostat.ge>

⁷⁰ <https://bm.ge/en/article/georgias-current-account-deficit-widened-reaching-123-of-gdp-in-2020/79129>

⁷¹ Ibid.

According to the World Bank report (ECA Economic Update Spring 2021), Georgia's economy is expected to grow by 4 % in 2021, assuming that yet another severe lockdown is not to be introduced. This will also depend on the vaccination process and restoration of external trade and investment. The fiscal deficit is expected to remain high, at around 7 % of GDP in 2021, and will narrow to reach the levels prescribed by the fiscal rule (3 % of GDP) by 2023.

Figure 19: Macro poverty outlook indicators, % (World Bank, Spring 2021)⁷²

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	4.8	5.0	-6.2	4.0	5.0	5.0
Private Consumption	5.8	7.2	-4.0	2.2	4.0	5.2
Government Consumption	1.6	5.7	11.6	0.7	-2.4	-3.7
Gross Fixed Capital Investment	1.9	-0.1	-8.3	4.4	10.5	6.8
Exports, Goods & Services	10.1	9.6	-30.2	20.9	10.0	9.7
Imports, Goods & Services	10.3	6.6	-19.2	11.5	7.3	7.1
Real GDP growth, at constant factor prices	5.2	5.1	-5.9	3.7	5.1	5.0
Agriculture	13.8	-0.6	3.6	0.7	2.1	2.6
Industry	0.2	2.7	-2.8	3.6	3.8	3.6
Services	5.8	6.4	-7.7	4.0	5.8	5.6
Inflation (Consumer Price Index)	2.6	5.0	5.3	4.0	3.0	3.0
Current Account Balance (% of GDP)	-6.8	-5.5	-12.0	-11.0	-9.4	-7.0
Net Foreign Direct Investment (% of GDP)	5.3	5.9	4.3	5.5	6.8	6.4
Fiscal Balance (% of GDP)	-2.6	-3.4	-9.7	-7.5	-4.4	-3.0
Debt (% of GDP)	41.4	41.8	62.5	62.5	61.1	59.8
Primary Balance (% of GDP)	-1.4	-2.2	-8.2	-5.7	-2.9	-1.4
International poverty rate (\$1.9 in 2011 PPP)	4.5	3.8	4.5	4.0	3.6	2.9
Lower middle-income poverty rate (\$3.2 in 2011 PPP)	15.5	14.9	17.0	15.5	13.7	11.8
Upper middle-income poverty rate (\$5.5 in 2011 PPP)	42.5	42.0	45.7	43.2	40.0	36.7

The Georgian government is working on an incentive package to attract investment. The project outlines two objectives: to encourage local production to reduce the dependence on imports and to bring global production companies from large industrial hubs, such as China, to Georgia.⁷³

4.4.2 Impact in Tourism

Countries where tourism accounts for more than 20 % of total exports have been particularly vulnerable during the economic crisis. In 2019, Georgia recorded 9,5 billion USD from exports of goods and services, of which tourism revenue amounting to 3,3 USD billion (34 % of the total), while in 2020,

⁷² <https://openknowledge.worldbank.org/handle/10986/35273>

⁷³ <https://bm.ge/en/article/quowe-will-have-an-incentive-packagequot---how-does-the-government-plan-to-attract-investment-/57847/>

tourism revenue was 0,4 billion USD.⁷⁴ Restrictions on international flights and border closures had a major impact on international tourism data. In Georgia, the number of international tourists has decreased significantly since the second quarter of 2020 (19,9 thousand average monthly visitors, compared to 506,7 thousand in the second quarter of 2019). The annual number of average monthly visitors in 2020 was 91,8 thousand, and in 2019 – 506 thousand.

Regular air traffic in Georgia resumed from February 1, 2021. However, there was no significant increase in tourist numbers. According to the National Tourism Administration of Georgia, a total of 57,728 international tourists visited the country in March 2021, which is 75% less compared to March 2019.

According to the official information of the government, 100 million GEL (around 24,5 million EUR) was spent on quarantine actions, including quarantine hotels, to ensure that both, the representatives of the sector and the people employed in the sector, maintained their jobs and incomes.⁷⁵

4.4.3 Key policy responses (as of April 2021)⁷⁶

The government implemented numerous fiscal support measures to mitigate the economic impact of the public health measures implemented during the two lockdowns in 2020 (the first in April-May, 2020 and the second Nov 20-Feb 21).

- Fiscal support provided to individuals and businesses in response to the COVID-19 pandemic in 2020 amounted to GEL 1.86 billion (USD 539 million), which is 3,8 % of the GDP in spending and revenue measures. Similar fiscal support package in 2021 is planned to reach GEL 1.247 million (about USD 361 million) – 2,3 % of 2021 GDP.

4.5 Moldova

Moldova is a small, lower-middle-income economy. Although it is among the poorest countries in Europe, it has made significant progress in reducing poverty and promoting inclusive growth since the early 2000s. The economy has expanded by an average of 4,6 % year on year in the past 20 years, driven by consumption and fuelled by remittances, the latter accounting for 10 % of GDP.

2020 has been a politically and economically challenging year for Moldova. In the middle of the pandemic, the country held presidential elections on November 1 (run-off on November 15), which

⁷⁴ https://galtandtaggart.com/upload/reports/18723.pdf?fbclid=IwAR0G3hO1nxj=EuHKHwDzf0ZB75U-JTaVb4rnocco3_qY8XFneH-0VWgR5Dv0

⁷⁵ <https://bm.ge/en/article/the-state-spent-325-mln-gel-on-quarantine-spaces--the-governments-report-/57891/>

⁷⁶ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#G>

resulted in a win by the pro-democracy candidate Maia Sandu against former pro-Russia president Igor Dodon. One of the challenges of this new government is to mitigate the economic struggles that the pandemic caused and to reform the economic structures in general.

In 2020, Moldova was simultaneously hit by the Covid-19 pandemic and one of the most severe droughts in the past two decades, which has worsened the economic outlook of the country. Moldova saw the first confirmed cases of Covid-19 in March 2020, with the number of infections rising progressively since then and resulting in a strict lockdown, including restrictions on border-crossings and limits on economic and social activities. Despite these measures, Moldova has one of the highest COVID-19 infection and death rates per population in Europe.

4.5.1 Economic Impact

Moldova's economy has been facing a severe recession since 2020. While the GDP grew by 0,9 % in the first quarter of 2020, being wholesale and retail the main growth drivers, in the second quarter of the year, it decreased by 14%⁷⁷, resulting in a reduced economic output by 7 % year-on-year. Main drivers of the decline in the GDP are households' consumption (reduced by 7 % in 2020), and investments together with de-stocking. The lockdown measures reduced trade and industrial production and agriculture production decreased by over 26 % due to a drought.

Tax revenue increased by about 0,3 % of the GDP in 2020, while spending increased by 4,1 % resulted in the fiscal deficit reaching 5,1 % of the GDP. Unemployment grew by 0,5 % in the last quarter of 2020, with the most affected sectors being trade and hospitality, agriculture, and industry. Poverty is also expected to increase from an estimated 10,6 % in 2019 to an estimated 14,2 % in 2020.⁷⁸

In the first semester of 2020, the total exports of Moldova decreased by 14 % (export of goods to EU-27 decreased by 13 %) and the total imports by 14,8 % (import of goods from EU-27 decreased by 18,7 %), compared to the same period in 2019.⁷⁹

4.5.2 Economic outlook

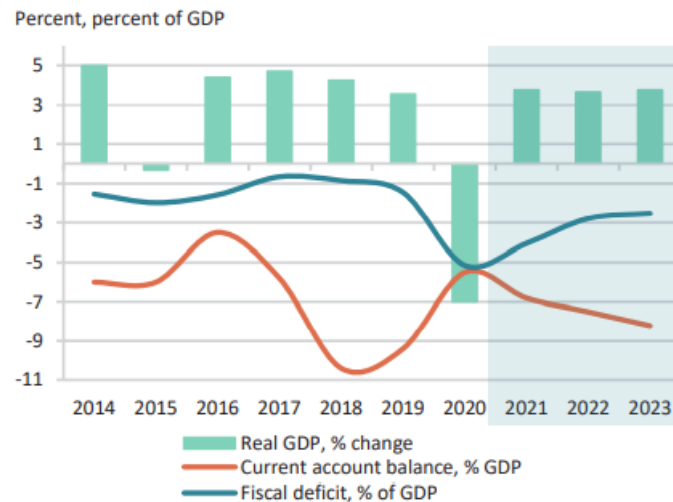
⁷⁷ <https://2020.tr-ebrd.com/countries/#>

⁷⁸ <https://openknowledge.worldbank.org/handle/10986/35273>

⁷⁹ https://www.md.undp.org/content/moldova/en/home/library/inclusive_growth/social-and-economic-impact-assessment-of-covid-19-in-the-republi.html

The World Bank estimates (April 2021) economic growth to 3,8 % in 2021, assuming a stable phase of vaccinations. Most sectors, including agriculture, are expected to start growing. Despite this, pre-Covid levels will be reached only in 2022. The fiscal deficit is expected to widen in 2021 up to 6,3% of the GDP.

Figure 20: Actual and projected GDP growth and current account balance (World Bank data, April 2021)⁸⁰



Moldova's public sector is in a relatively better financial position than others to respond to the crisis. However, its fiscal response so far has been underwhelming compared to other developing countries. The lack of effective institutions and governance gaps will hinder the effectiveness of the policy response regardless of the size of the intervention.⁸¹

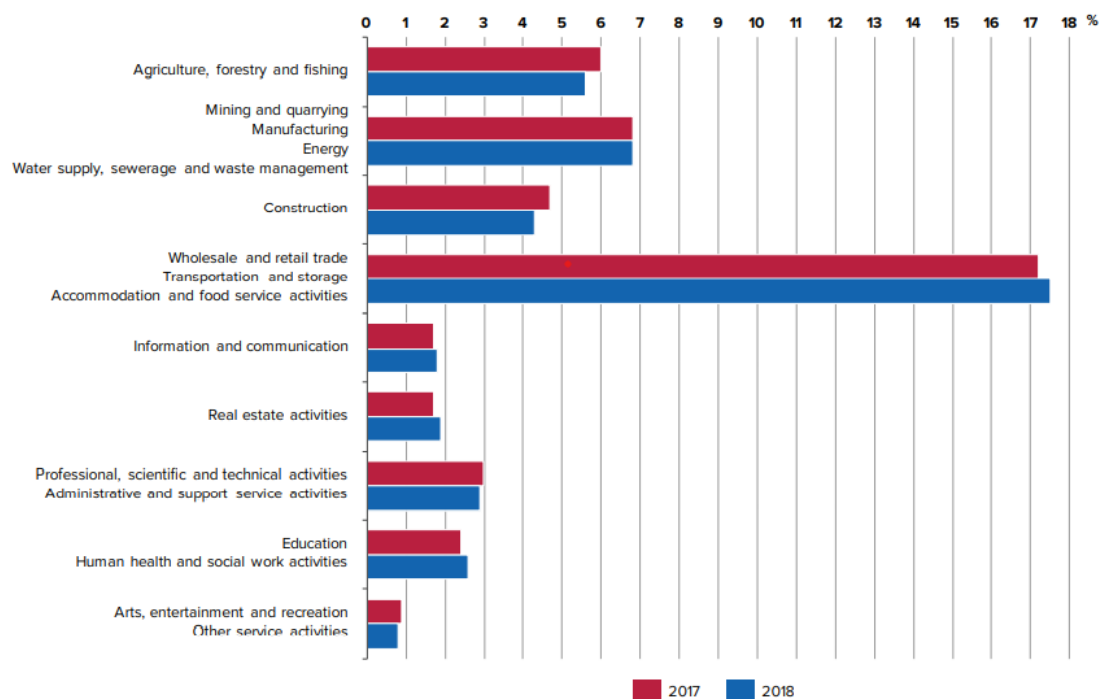
4.5.3 Impact on SMEs

SMEs are playing an important role in Moldova's economy. In terms of GDP contribution, SMEs in wholesale and retail trade, transportation and storage and hospitality sectors have the biggest shared contribution to the overall Moldovan' economy (sectors, which have been strongly affected by the pandemic).

⁸⁰ <https://openknowledge.worldbank.org/handle/10986/35273>

⁸¹ <https://www.oxfordeconomics.com/recent-releases/Republic-of-Moldova-Bracing-for-domestic-and-external-Covid-19-shocks> (published on April 29, 2020)

Figure 21: SMEs shared contribution to GDP for the total economy (UNDP, SEIA report, November 2020)⁸²



Source: NBS, latest data available are for 2018¹⁵⁶

While the reduction in mobility is similar in Moldova compared to neighbour countries, the costs of such reduction are likely to be higher in Moldova due to a high share of SMEs role in the country's non-financial business economy. These provide 70,6 % of employment and 70,7 % of value added (higher than the EU averages 66,5 and 56,3 % respectively). SMEs are likely to be affected both on the demand and supply side. A sudden drop in demand is likely to complicate the financial situation of multiple businesses, which will translate into a reduction of income and consumption.⁸³

4.5.4 Gender Impact

Women in Moldova had a pre-existing vulnerability before the pandemic, with gender equality being one of the Sustainable Development Goals of the country. The pandemic is considered to have deepened inequalities between genders, with a high impact on women both in terms of severity and duration for three main reasons:

- There has been a significant negative impact deriving from social distancing measures in the service sector, where female workers dominate. In 2019, around 70 % of female labour force participation was in the service sectors, while only 47 % of employed men worked in this sector.

⁸² https://www.md.undp.org/content/moldova/en/home/library/inclusive_growth/social-and-economic-impact-assessment-of-covid-19-in-the-republi.html p.186

⁸³ <https://www.oxfordeconomics.com/recent-releases/Republic-of-Moldova-Bracing-for-domestic-and-external-Covid-19-shocks> (published on April 29, 2020)

Women are particularly over-represented in the education, healthcare, and social work, as well as in retail trade and hotel and restaurant business, all sectors acutely affected by the pandemic.

- Increasing childcare needs due to school closures have a particularly large impact on working mothers. The female labour participation rate is among the highest in the region (85 % vs 79 % of its regional peers).
- The share of elderly women is larger than men. According to the latest statistics, Moldova has 62 men per 1000 women in the over-65 age group. This vulnerability is mitigated by the fact that men seem to have higher fatalities rates.⁸⁴

4.5.5 Agriculture

The Moldovan's economy relies heavily on agriculture (primarily cereals, fruits, vegetables, wine, and tobacco). The agriculture sector is dependent on favourable weather condition and is vulnerable to volatile markets. The sector employs about 22% of the labour force as of September 2020.⁸⁵ In the second quarter of 2020, the agricultural sector employed around 188 thousand people, with almost 5 % less than the same period last year (over 197 thousand).

The pandemic restrictions and economic hardships had a negative impact on rural farmers and small-scale food producers as they lacked access to the markets to sell their products. Restrictions on people's movement in Moldova as well as lockdowns introduced by its key partners, led to disruptions in trade (in Moldova's markets and exports alike), reducing the availability of fertilisers and seeds. Overall, the consumption of agricultural production in the hospitality sector had a negative impact, though this was counterbalanced by better sales in the retail network.

4.5.6 Key policy responses

A comprehensive fiscal package was adopted through two 2020 State Budget Amendments, following several targeted fiscal measures to support businesses and vulnerable households, such as expanding unemployment benefits and strengthening existing targeted social assistance, tax relief for sectors affected by state-imposed restrictions, delaying tax payment deadlines to mid-2020, suspending tax audits and other controls, and increasing state budget allocations to the budget emergency and health

⁸⁴ <https://www.oxfordeconomics.com/recent-releases/Republic-of-Moldova-Bracing-for-domestic-and-external-Covid-19-shocks> (published on April 29, 2020)

⁸⁵ [Social and Economic Impact Assessment of COVID-19 in the Republic of Moldova | UNDP in Moldova](#)

funds and to a mortgage guarantee program. Discussions on the 2021 Budget are underway and the draft envisages more support to the health sector.⁸⁶

4.6 Ukraine

Despite the unresolved conflict in the east of the country, Ukraine remains the largest EaP economy, generating over 45 % of the region's GDP. Industry and agriculture continue to drive the Ukrainian economy and represented 24 % and 10.2 % of GDP, respectively.

Between 2013-15, Ukraine experienced a 15.7 % contraction in GDP against the backdrop of a slowdown in major trading partners, a domestic political crisis, the Russian seizure of Crimea and the eruption of armed conflict in the east of the country. Since 2016, however, Ukraine has experienced a modest recovery supported by private consumption, with a solid increase in wages, strong consumer credit growth and high inflows of remittances. Despite the 3,3 % growth, its GDP in 2018 was still 14,4 % below the peak reached in 2008, just before the global crisis. In 2019, economic growth amounted to 3,2 %.⁸⁷

Ukraine reported the first confirmed COVID-19 case in March 2020. Starting in mid-March, the government banned international travel to most destinations for Ukrainian citizens and restricted the economic activities for most businesses requiring physical contact. Subsequently, the government also banned the export of certain medical essentials, such as surgical masks, personal protective equipment, ethyl alcohol, as well as some essential foodstuffs, no longer in force as of April 2021.

Currently, a weekend quarantine, with curfew imposed on shops, sit-in restaurants and entertainment, has been extended up until the end of April 2021 (in force since November 2020). Vaccination started in February 2021 in Ukraine.

4.6.1 Economic impact

Ukraine's GDP decreased by an estimated 4,5 %, less than its initial estimation (according to the World Bank - Fall 2020, the GDP was expected to decline by 5,5 % year on year). The country had a 6,5 % GDP decline in the first half of 2020 (-11, 4 % year on year in the second quarter of 2020). However, the economy recovered from the third quarter of the year thanks to several measures to diminish the pandemic's economic impact, including the transition from a full lockdown to an adaptive quarantine. This enabled the country's economy and services (except passenger transport) to partially return to a

⁸⁶ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#M>

⁸⁷ <https://ukrstat.org/en>

normal pace.⁸⁸ At the same time, agricultural output fell almost 12 %, also due to drought and poor harvest.

Domestic demand started to increase from the second half of 2020 thanks to recovery in real wages (compared to 0,4 % in April 2020, real wage increased by 4,8 % in June, and by over 10 % year on year).⁸⁹ On the supply side, retail and wholesale trade grew 7,9 % year on year in 2020 and made a positive contribution to the GDP.

The impact of the pandemic on SMEs sector was severe. According to the Ukrainian Chamber of Commerce and Industry, around 700,000 SMEs in the service sector have closed due to lockdown measures, causing the loss of 3,5 to 4 million jobs. It is expected that women were amongst the most affected, bearing how Ukraine's SME sector has a high proportion of women-led micro-enterprises and female employees.⁹⁰

4.6.2 Economic outlook

According to the World Bank estimations, Ukraine's economic recovery is expected to grow by 3,8 %, if the agriculture and processing industry record positive results and the vaccination campaign proceeds at stable pace.

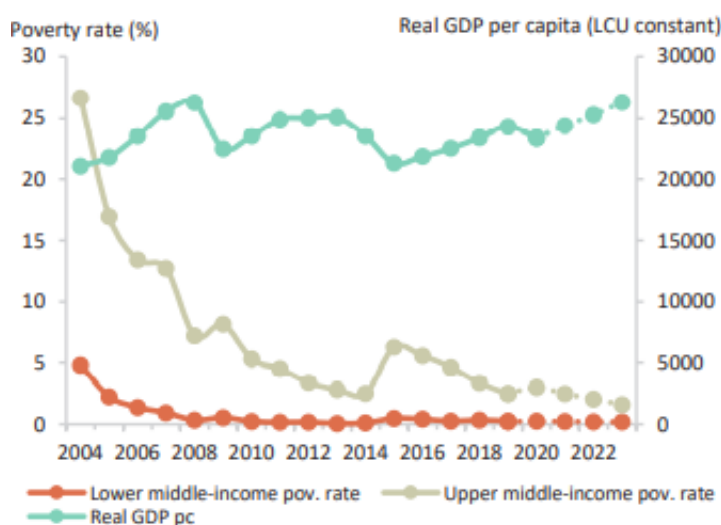
The 2021 budget targets a 5,4 % deficit. The poverty rate based on the \$5,5 a day threshold is expected to decrease to 2,5 % in 2021, akin to the level in 2019.

⁸⁸ <https://openknowledge.worldbank.org/handle/10986/34518>

⁸⁹ <https://openknowledge.worldbank.org/handle/10986/35273>

⁹⁰ <https://www.unido.org/stories/after-covid-19-shock-how-boost-ukraines-economic-recovery>

Figure 22: Actual and projected poverty rate and real GDP Per Capita (World Bank).⁹¹



Remittances inflow from migrant workers play an important role in the economies in the region – particularly in Armenia, Georgia, Moldova, and Ukraine. There has been a dramatic decrease in the remittances, that has further undercut the economic situation in the region. Ukraine, the largest recipient of remittances in the region, may suffer the most.⁹²

According to Ukraine Business Climate Survey: “A Year of Lockdown”⁹³, conducted by the American Chamber of Commerce in Ukraine, together with Citi Ukraine, the business representative named the top 3 issues that Ukraine's Government should focus on to achieve economic recovery and growth in 2021:

- implement real and effective judicial reform, rule of law, fair justice (74%),
- protect the population from COVID-19 through wide-scale testing, vaccination, and effective treatment (46%),
- and eradicate corruption (37%).

4.6.3 Impact on tourism

The tourism sector in Ukraine before the COVID-19 crisis was characterised by:

- An increasing trend since the significant decrease related to 2014 events

⁹¹ <https://openknowledge.worldbank.org/handle/10986/35273>

⁹² <https://neweasterneurope.eu/2020/07/07/the-eastern-partnership-and-russia-in-the-post-covid-world/> (published on July 7, 2020)

⁹³ <https://chamber.ua/news/rule-of-law-should-be-ukraine-s-government-1-focus-to-achieve-economic-recovery-and-growth-in-2021-new-survey-by-the-american-chamber-of-commerce-in-ukraine-and-citi-ukraine/>

- Kyiv, Odessa and Lviv being the most developed tourist destinations from the point of tourism value chain, destination management and accounting for the major portion of international tourists
- Key international markets for Ukrainian tourism being:
 - Bordering countries — Moldova, Belarus, Poland, Turkey; Europe — Germany, UK, France, Italy
 - Americas — USA, Canada
 - Asia & Pacific — China, Japan, Republic of Korea, and India; Middle East
 - Israel, UAE, Saudi Arabia

From February 18, 2021, Ukraine returned to the adaptive quarantine regime, and divided regions in four color zones: green, yellow, orange, and red. Since September 2020, air traffic has been renewed with no bans on entry to Ukraine for foreign citizens.⁹⁴

Ukraine is lagging when it comes to supportive measures for travel and tourism sector. This seriously threatens its competitiveness on the global market for the anticipated 2021 recovery. Ukraine implemented the following set of measures:

- On 13 July, President Zelensky submitted a bill ‘on amendments to the Tax Code of Ukraine on the state support for culture, tourism and creative industries’. The bill envisages the release from profit tax of enterprises and cultural grants that provide for projects and programs in the field of culture, tourism, and creative industries.⁹⁵
- New loans and liquidity support: 130 M euro⁹⁶ for interest reimbursement on existing loans to micro and small businesses, as well as credit holidays under the «5-7-9 percent» program 790 M euro to cover collateral for loans with state investment guarantees; 53 M euro to support creative industries.
- Deferring payments of existing loans and mortgages: introduction of a zero declaration and tax on capital withdrawn. Abolition of the total audit with the full implementation of software PPO.
- Tax deferral, relief, or cancellation: Payment deadline for the land tax, land rent and real estate tax due for April 2020 was extended until June 30, 2020, while the same taxes for March 2020 have been abolished.

⁹⁴ <https://covid19.gov.ua/en>

⁹⁵ <https://www.ukrinform.net/rubric-society/3063945-support-for-culture-and-tourism-zelensky-submits-bill-on-amendments-to-tax-code.html>

⁹⁶ Exchange rate as of July 1, 2020 → 1 UAH = 0.033 euro

- Wage support: Temporary unemployment benefit due to COVID-19 is paid at the rate of two-thirds of the wage for each shortened working hour but capped at the statutory minimum monthly wage (currently 4723 UAH or 150 euro).
- Increased pensions and unemployment benefits.

It is still difficult to predict how the tourism sector will recover in the upcoming years. Notwithstanding, the high proportion of domestic tourism in Ukraine's whole sector holds a better, advantageous ground to preserve it in such conditions. Digitalisation will progressively gain more importance, as they offer new opportunities for touristic professionals to carry out their work (e.g. providing consumer information, marketing, etc.).⁹⁷

4.6.4 Key policy responses

The government introduced several measures to support businesses, including:

- On May 27, 2020, the Government approved the Economic Stimulus Program for overcoming the consequences of the COVID-19 epidemic, subject to its completion.⁹⁸ The program includes following support tools: export promotion assistance, available loans, grant programs, expanding the participation of SMEs in public procurement, etc.
- Penalties for certain tax legislation violations have been cancelled for the period going from March 1, 2020 until the last day of quarantine, except for activities related to excisable goods.
- A moratorium on tax audits and inspections.
- Extension of the deadline for filing annual income and asset declarations to July 1, 2020.
- Rent on land was not accrued and paid for the month of March 2020.
- Non-residential real estate owned by individuals or legal persons was not subject to real estate tax for the month of March 2020.
- Penalties for late or incomplete payment and late filing has been abolished for the period March 1 – May 31, 2020.⁹⁹

⁹⁷ <http://www.ntoukraine.org/assets/files/EBRD-COVID19-Report-ENG.pdf>

⁹⁸ <https://www.kmu.gov.ua/en/news/uryad-zatverdiv-z-doopracyuvannyam-programu-stimulyuvannya-ekonomiki-dlya-podolannya-naslidkiv-epidemiyi-covid-19>

⁹⁹ <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U>

5. CONCLUSIONS

The COVID-19 pandemic has had a severe negative impact on the world's economy, especially on those countries under stricter lockdown measures. Countries with a high share of contact-intensive services in their economy, including tourism, have suffered the biggest impact of the restrictions. Even though there is a slow economic growth trend worldwide, it is still challenging to predict how the future will look like considering the uncertainty around the pandemic.

There are also big differences in the recovery speed among countries, depending on the pre-existing political, economic and social capacities and resilience. According to the Global Competitiveness Report (special edition 2020)¹⁰⁰ of the World Economic Forum, several common features were identified that allowed the countries to better mitigate the economic impact of Covid-19: a) advanced digitalization that helped countries to continue running significant segments of their economy remotely; b) pre-existing safety nets and financial soundness; c) balanced public health policies with economic and social policies; d) good governance and planning; e) good health system and research capacity (including the accessibility of health services by a large fraction of the population).

Bearing these in mind, the EaP counties face several disadvantages. The economic situation in the Eastern Partnership was difficult even in the pre-pandemic context. The outbreak of the pandemic placed a heavy burden on already fragile institutions, policies, and economic sectors in the region. Among others, high share of the unregulated markets, high dependency on the remittances, lack of diversification of the GDP contributors (e.g. high dependency on hydrocarbon production in Azerbaijan), added to the increased poverty level across the region. The governments' measures to mitigate the health crisis led to the full, or partial, closure of many businesses, resulting in the increased level of unemployment, while crisis response packages, did not ease pressure from businesses and households.

The low technological and digital capacities and a slow pace of skills advancements, as well as the high share of the economic sectors largely dependent on physical labour, created additional burdens for the region's economy and most likely will affect the recovery speed. To slow down the deepening existing economic and social inequalities in the region, it is important to provide additional support to workers in rural businesses and with lower up-to-date skills, as well as women and younger employees in different economic sectors.

¹⁰⁰ http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2020.pdf

Adequate social and economic support packages from the governments to the SMEs could give a short-term answer for the immediate needs of businesses. However, the countries should be encouraged to develop long-term strategies to achieve resilience against similar economic shocks that may happen in the future and create long-term support programmes for businesses.

Furthermore, it is important to put efforts in strengthening the economic sectors that are usually most vulnerable to the crisis. Supporting sectors with high potential to bring input in the countries' budget and allow to reduce the dependency on the limited income sources will also play a crucial part.

Encouraging economic openness and advancing foreign trade is an important aspect to support the small and medium businesses in the EaP. It seems that the region will need long term assistance. The role of the European Union will be crucial in supporting the economic stabilisation in the EaP region. In this context, the full potential of the economic multilateral and bilateral agreements with the EU should be explored, while other support programmes need to be developed.

Economic recovery in the EaP is estimated to be a long and slow process. However, positive trends are expected from 2022. The future economic outlook will also depend on the successful vaccination process and the assumptions that no major political, economic, or social crisis will affect the region.

6. DISCLAIMER

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