Research

Overview of COVID-19 in Eastern Europe and Central Asia Including Case Studies of Georgia, Moldova and Serbia

Economic Outlook and Indicators

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The COVID-19 pandemic, and the ensuing economic shock, has prompted governments all around the globe to act swiftly and decisively to mitigate the health and economic impacts of the crisis. Each country has responded in its own way, and it is useful to look at these different responses to identify good practices. In this issue, we look broadly at countries in Eastern Europe and Central Asia, and present three case studies of Georgia, Moldova, and Serbia respectively, including an analysis of the fiscal measures these countries have taken and an overview of the impacts of the pandemic.

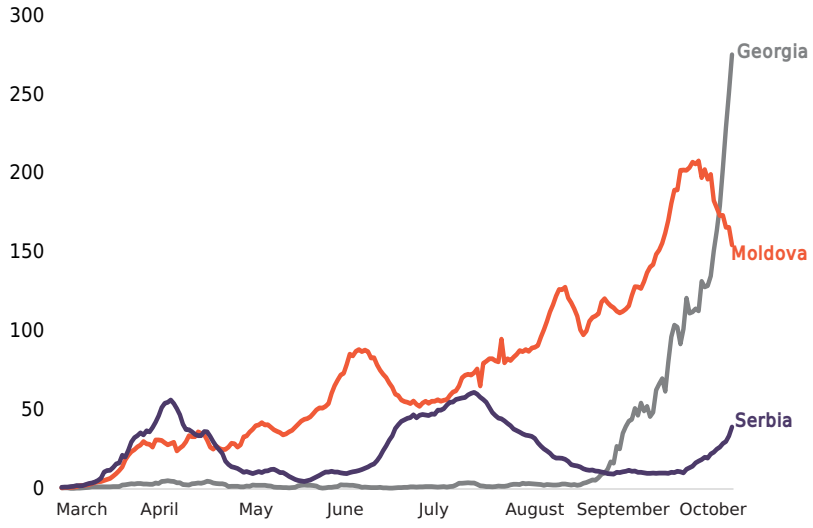
Before selecting countries for further investigation, we screened all countries in Eastern Europe and Central Asia based on three indicators. The first two were total COVID-19 cases per million people and total COVID-19 deaths per million people, both of which can be used to measure how well a given country has managed to contain the spread of the virus. The third indicator was the Oxford COVID-19 Government Response Stringency Index, which measures how harsh lockdown measures have been over time and can be used as a proxy for the economic sacrifice made by a given country to contain the virus. The index ranges from 0 (not stringent) to 100 (very stringent). We have taken the average of this index over the period of March to October for each country. The characteristics of a good response to the crisis are a low virus spread with minimal economic sacrifice. You can see how each of the selected countries performed in these three indicators in Table 1 below.

Several groups of countries with similar performance were identified by comparing the indicators of each country to the average of Eastern Europe and Central Asia: At first sight, some countries, such as Belarus, Uzbekistan, and Tajikistan perfomed best, however, there are some questions about the accuracy of the data in these particular countries. Nearly every EU Member State coped better than the average country in Eastern Europe and Central Asia in terms of virus spread, combined with lower than average stringency, except for Romania and Czech Republic. Russia, Kyrgyz Republic, Kosovo, and Bosnia and Herzegovina did worse than the regional average in all three dimensions. Armenia, Moldova, and Montenegro were the three countries with the worst performance in terms of the virus spread, however, there is no data available for government response stringency for Armenia and Montenegro. Azerbaijan, Georgia, and Kazakhstan introduced the strictest containment measures and thus recorded better results in terms of COVID-19 deaths per million. Albania, Serbia, and Ukraine performed closest to the average with regard to the virus spread and the government response.

We selected 3 countries for further analysis: Georgia, as a case study for a relatively successful response; Serbia, as a case study for a moderate response; and Moldova, as a case study for relatively unsuccessful response.

To compare the performance of these countries in terms of virus containment, we looked at the number of daily new cases per million people, from March 15th to October 22nd. Over this period, Moldova performed worse than Georgia and Serbia in this indicator, with an upward-sloping trend since March. This trendline has become even steeper since September, indicating a strong resurgence of the virus. However, in recent weeks Georgia has surpassed Moldova in new infections per million people, even though it had near to zero new infection rates until the start of September. After this period, a strong uptick in the number of daily cases is observable in Georgia. This sudden surge of the virus can be partially attributed to increased domestic tourism in August. As for Serbia, it has had two peaks of the virus spread so far, namely in the middle of April and at the end of July, and it has been successful in curbing the virus spread both times. As of October, Serbia has been managing to keep its daily infection rate per million people at a low level, with a slight uptick in past few days. Moldova has managed to bend the curve in October and has seen a decrease in number of new daily cases per million people, while Georgia is yet to experience the peak of the virus spread. The case of Georgia could become a good example of how earlier success in tackling the pandemic is not a predictor of success in the second wave, and that fighting with the virus is an ongoing struggle for all countries.

Daily new cases per million people (smoothed)
(15.03-22.10)



Source: European Centre for Disease Prevention and Control; ourworldindata.org

Table 1 : Performance of countries in Eastern Europe and Central Asia, in terms of virus containment and lockdown stringency

	Cases per million (15.10)	Deaths per million (15.10)	Average Government Response Stringency Index (01.03-13.10)
Albania	5927	156	65.4
Armenia	21686	365	
Austria	7282	101	48.4
Azerbaijan	4426	62	80.1
Belarus	9268	98	11.7
Bosnia and Herzegovina	10356	303	60.6
Bulgaria	4324	142	46.7
Croatia	6182	89	47.8
Czech republic	16497	135	47.1
Estonia	3070	52	37.1
Georgia	**4414**	**35**	**69.5**
Greece	2444	49	59.1
Hungary	4925	123	55.8
Kazakhstan	7747	115	75.3
Kosovo	8728	338	68.1
Kyrgyzstan	8033	170	74.1
Latvia	1817	23	46.4
Lithuania	2769	42	44.7
Moldova	**16597**	**392**	**66.2**
Montenegro	24712	376	
Poland	4638	94	50.8
Romania	9342	305	55.8
Russia	9595	166	64.7
Serbia	**5317**	**114**	**58.4**
Slovakia	5346	16	49.1
Slovenia	6311	77	51.4
Tajikistan	1090	8	43.9
Turkmenistan			36.2
Ukraine	6859	129	63.2
Uzbekistan	1893	16	70.8
Average	**7641**	**141**	**55.3**

Source: European Centre for Disease Prevention and Control; ourworldindata.org; PMC RC's calculations

When looking at the number of new deaths per million people, similar trends can be observed. Notably, current fatality rate in Georgia is similar to that of Serbia's during its peak. In the table on the right, the absolute numbers of the virus spread are presented.

Absolute numbers of the virus spread (as of 20.10)	Georgia	Moldova	Serbia
Total cases of COVID-19	22 803	69 568	37 536
Total deaths from COVID-19	178	1 641	783

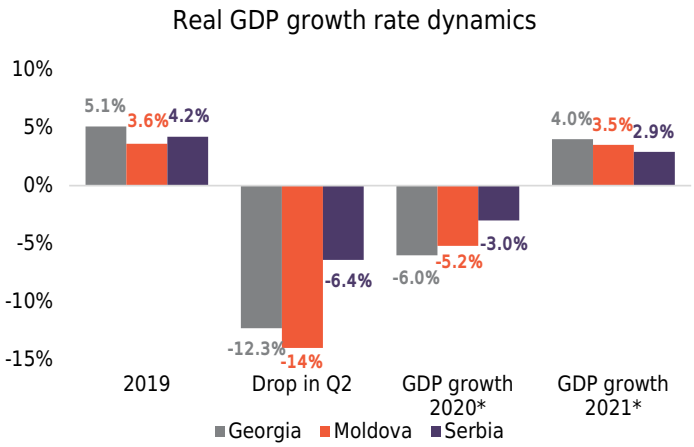
Source: worldometers.info

To support their respective economies, each of the selected countries rolled out fiscal stimulus and support packages. The packages for each country differed in terms of target groups and size. The World Bank, in its report "COVID-19 and Human Capital," overviewed the expenditure-side and revenue-side measures deployed by each country. On the expenditure side, support measures included increased health spending and support for SMEs/firms/sectors, support for vulnerable groups (e.g., low-income households, children/families, newly-unemployed people, informal workers), and employment/job support. Moldova and Serbia have adopted all three types of measures, however Georgia has not included employment or job support in its package and has instead focused more heavily on supporting newly-unemployed people. In terms of revenue-side measures, only Georgia has introduced tax cuts for households, specifically cutting income tax for eligible individuals. None of the three countries has cut taxes for SMEs/firms but all of them have adopted tax payment deferrals/credits or refunds.

While the types of support administered have been quite similar across the three countries, they differed notably in size. Indeed, Serbia has allocated **13%** of its GDP to the stimulus package, while for Georgia the corresponding percentage is **5.3%**, and for Moldova it is **2.1%**.

From a monetary perspective, the central banks of each country reduced their monetary policy rates . The National Bank of Serbia cut its monetary policy rate three times since March, from 2.25% to 1.25%, while the National Bank of Georgia also cut its interest rate three times since March (from 9% to 8%) and the Bank of Moldova cut its interest rate four times since March (from 5.5% to 2.75%). Each of the central banks introduced various liquidity support measures, while Serbia and Georgia intervened in FX markets heavily to ensure a balanced depreciation of their currencies.

	Stimulus Package (as a % of GDP)	Monetary Policy Rate March	Monetary Policy Rate October
Georgia	5.3%	9%	8%
Moldova	2.1%	5.5%	2.75%
Serbia	13%	2.25%	1.25%



Sources: World Bank: "Human Capital and COVID-19"; State Statistics Offices of Georgia, Moldova and Serbia

Looking at some macroeconomic indicators for the three selected countries, it is observable that Moldova, despite having less stringent measures in place than Georgia, still registered the highest year-on-year decline in the second quarter of 2020 (-14%). This could be explained by its smaller stimulus package and the higher spread of the virus in the country. Serbia performed best in the second quarter (-6.4%), which could be partially explained by large stimulus package it deployed, and its economy is forecast to recede by just 3% in 2020 overall.

Despite Georgia doing better than Moldova in the second quarter, the World Bank's forecast for 2020 stands at -6%, compared to Moldova's -5.2%. This could be attributed to Georgia's relatively heavy dependence on the tourism sector, which has been hit severely by the crisis. At the same time, Georgia is expected to record the strongest recovery among the three countries in 2021, with its real GDP forecast to grow by 4%, compared to 3.5% for Moldova and 2.9% for Serbia. This could be attributed to its higher growth rate prior to the crisis, and the base effect (which implies that higher growth rates are more easily achievable after a period of poor performance).

Looking at other macroeconomic indicators, the World Bank forecasts that Georgia will experience the highest inflation among the three selected countries in 2020 (5.3%), and will start to move towards its target of 3% gradually, with expected inflation of 4% in 2021. Moldova's inflation is forecast at 4.1% for 2020 and 4.4% for 2021, moving towards its target rate of 5%. The projections for inflation in Serbia are 1.9% for 2020, and 2.9% for 2021, which is close to the National Bank of Serbia's current target of 3%.

Gross fixed capital investment is projected to fall by 12.3% for both Moldova and Serbia in 2020, and by 12.4% for Georgia. Meanwhile, Georgia and Moldova have higher current account deficits than Serbia, while Georgia and Serbia have a higher fiscal deficit than Moldova. For the latter two countries, their level of national debt is close to the 60% threshold. Georgia's relatively high fiscal deficit and national debt can be explained to some extent by its relatively large fiscal stimulus packages.

	Inflation		Investment*		Current Account balance*		Fiscal Balance*		Debt*	
Basic Economic Indicators	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Georgia	5.3%	4.0%	-12.4%	13.8%	-10.7%	-8.0%	-8.5%	-5.3%	59.8%	57.3%
Moldova	4.1%	4.4%	-12.3%	7.5%	-10.0%	-9.8%	-5.4%	-2.4%	33.2%	35.1%
Serbia	1.9%	2.9%	-12.3%	10.4%	-6.4%	-6.5%	-7.6%	-2.1%	59.6%	58.5%

* - given as a % of GDP

Source: World Bank: "Human Capital and COVID-19"

A more in-depth look into the crisis responses of the three selected countries shows that there are numerous inter-related factors other than the virus spread and response stringency, such as the size of the stimulus packages offered and tourism's contribution to the economy, which are not captured in this rather simplistic analysis. The interplay of these inter-related factors makes every country's experience unique, and worthy of separate detailed examination. Nevertheless, the analysis here provides some interesting insights about the responses to the pandemic by countries in Eastern Europe and Central Asia. It is worth pointing out that the analysis presented in this issue is essentially a snapshot taken at one particular moment. As the situation is changing rapidly, especially with respect to the number of infections rising again over the past few weeks all over the world, one has to be cautious when extrapolating any insights outlined in such analysis. Moreover, the data on the spread of the virus are not flawless and depend on other characteristics such as the amount of testing, which changes both from country to country and over time.

In conclusion, it will be worthwhile to conduct case studies regarding the responses of countries to the pandemic periodically, in order to broaden our understanding of dealing with the economic crisis brought on by the ongoing pandemic.

Basic Economic Indicators	2016	2017	2018	2019	2020 Q1	2020 Q2
Nominal GDP (mln USD)	15 141.7	16 248.5	17 596.6	17 736.6*	3 780.3*	3 572.5*
GDP per Capita (USD)	4 062.1	4 358.5	4 722.0	4 763.5*	1 017.1*	961*
GDP Real Growth (%)	2.9%	4.8%	4.8%	5.1%*	2.2%*	-12.3%*
Inflation	2.1%	6.0%	2.6%	4.9%	-	-
FDI (mln USD)	1 650.3	1 962.6	1 265.2	1 267.7*	165.4*	237.8*
Unemployment Rate (%)	14.0%	13.9%	12.7%	11.6%	11.9%	12.3%
External Debt (mln USD)	4 516	5 177	5 434	5 741	5 688	6 143
Poverty Rate (relative)	21.0%	22.3%	20.5%	20.1%	-	-

*preliminary data