Covid-19: From shock to recovery
Growth in the EBRD regions slowed to 2.6 per cent in 2019, in line with slowing global growth.

Global growth has been slowing since 2017, with stark decelerations in the eurozone and China.

**Real GDP growth (per cent)**

- **World**: 2017 - 3.5%, 2018 - 3.0%, 2019 - 2.6%
- **United States**: 2017 - 2.2%, 2018 - 2.0%, 2019 - 1.8%
- **Eurozone**: 2017 - 1.9%, 2018 - 1.6%, 2019 - 1.6%
- **Emerging market and developing economies**: 2017 - 5.6%, 2018 - 5.4%, 2019 - 5.0%
- **China**: 2017 - 6.8%, 2018 - 6.5%, 2019 - 6.2%
- **EBRD regions**: 2017 - 3.5%, 2018 - 3.0%, 2019 - 2.6%

Sources: EBRD, IMF and authors’ calculations.
The Covid-19 pandemic hit on top of this deceleration and is expected to result in a sharp contraction leading to the greatest disruption to the global economic activity since the Second World War.

**Total confirmed deaths per million people, 1 April 2020**

Sources: European Centre for Disease Prevention and Control (ECDC)
Economic impact of domestic containment measures is compounded by external shocks

Containment measures aimed at slowing down the spread of the virus affect domestic demand (due to restrictions on consumptions, people spending less) and domestic supply (as fewer people can work).

Channels through which the Covid-19 crisis could affect the EBRD regions

- Containment measures
  - Domestic demand and supply

- External shocks
  - Commodity prices
  - Trade and global value chains
  - Tourism
  - Remittances

Policy response

- Fiscal policy
- Monetary policy

Effects on firms, individuals and the economy

- Consumption
- Firm closures
- Labour markets
- Non-performing loans

Source: Authors
Economic impact of domestic containment measures
Containment measures in the EBRD regions, end-March 2020

Source: Authors. Note: Containment measures are cumulated and range from no restrictions (mildest) through border closures, school closures, bans on large gatherings, restrictions on retail, industry closures to lockdowns/curfews (most severe).
Effects are likely to be larger where services account for a larger share of GDP.

Wholesale and retail trade, transport, accommodation and food service activities as a share of GDP, 2018 (per cent)

Sources: Eurostat, OECD and authors’ calculations.
Effects may be greater where informality is higher and permanent contracts less prevalent

Most people do not have permanent contracts in Central Asia, Eastern and South-eastern Europe

Share of those employed in the last year by contract type, 2016 (per cent)

Sources: Life in Transition Survey (2016) and authors’ calculations.
Effects may be greater where self-employment is more widespread.

Share of self-employment is particularly high in the Caucasus and Central Asia.

Share of self-employment and small firm employment, 2016 (per cent)

Sources: Life in Transition Survey (2016), World Development Indicators and authors’ calculations. Self-employed (ILO definition) include members of producers’ cooperatives and contributing family worker. Small firms employ fewer than 5 people.
Firms with already high levels of debt face greater risks

Corporate domestic debt as a share of GDP, 2019 (per cent)

Sources: IMF and authors’ calculations.
Higher-risk borrowers in emerging markets face rising funding costs even as policy rates dropped.

Investors fled to the perceived safety of advanced economies, the US$ strengthened sharply.

Fiscal policy measures to avoid mass layoffs and bankruptcies aim to speed up recovery

Share of countries that implemented the following measures in the EBRD regions (per cent)

- Support to firms
- Support to individuals
- Increased social benefits
- Monetary policy
- Payment holidays
- Temp. controls

Sources: Authors. Note: As of early April 2020.
Fiscal space available to countries to finance crisis response measures varies.

Cost of borrowing in financial markets is already high in some countries such as Turkey and Ukraine.

Sources: Bloomberg and IMF.
Policy response also focused on lower interest rates, liquidity support, guidelines on forbearance

The crisis may compound the already high levels of non-performing loans in a number of countries

If protracted lockdowns, concerns about maintaining culture of paying bills on time – key market institution

Sources: CEIC, national authorities and authors’ calculations.
External shocks
Oil price dropped to levels last seen in 1999 (in inflation-adjusted terms) on weak outlook

As Russia refused to agree production cuts with OPEC and Saudi Arabia increased production.
Lower commodity prices will weigh on growth in commodity exporters but help importers

Flexible exchange rates can help cushion the shock

Most countries in the EBRD regions are net importers, but gains are likely to be modest in the presence of containment-driven restrictions on consumption / demand

Sources: International Trade Centre, UN Comtrade and authors’ calculations.
Disruptions to trade and global value chains will hurt highly integrated countries in the EBRD regions.

Many car plants around the world, including in Serbia, had to halt production due to missing parts early.

Sources: EBRD SEMED Global Value Chain Diagnostics and UNCTAD-EORA (2019).
Several economies in the EBRD regions are highly vulnerable to collapse in global tourism.

Tourism revenues exceed 20% of GDP in Georgia, Albania, Croatia, Montenegro, Cyprus and Greece.

Travel and tourism as a share of GDP, 2018 (per cent)

Sources: World Bank, World Travel and Tourism Council and authors’ calculations.
Some countries in the EBRD regions are highly dependent on remittances

Remittances are concentrated in terms of source countries (Russia, the Gulf Cooperation Council, France, Germany and Italy), making recipient countries vulnerable to large shocks hitting the sending economies.

Remittances received as a share of GDP (per cent)

Sources: Central Bank of Russia, national authorities, World Bank and authors’ calculations. From Russia to Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz R., Moldova, Mongolia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan; inflation-adjusted moving average, 2013Q4=100.
Flexible exchange rates can help to adjust to lower remittances in US dollar terms

Remittances from Russia to Central Asia and Eastern Europe (index, 2013 = 100)

Sources: Central Bank of Russia, national authorities, World Bank and authors’ calculations. From Russia to Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz R., Moldova, Mongolia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan; inflation-adjusted moving average, 2013Q4=100.
Longer-term diversification
Covid-19 crisis may lead to scrutiny of supply chains and greater focus on diversification and resilience.

China’s value added as a share of total foreign value added in exports of high-tech goods, 2015 (per cent)

Sources: OECD TiVA database and authors’ calculations.
The EBRD regions could scale up their exports in product groups with comparative advantage

Economics in the EBRD regions appear to have high revealed comparative advantage in textiles, metals, chemicals, agriculture and machinery

4-digit product lines with revealed comparative advantage (RCA≥3) by sector, share in per cent

Sources: International Trade Center and authors’ calculations. Revealed comparative advantage is the ratio of the sector share in a country’s exports to this sector’s share in world trade. Based on 4-digit HS product codes.
Potential to scale up exports in product groups with RCA where China is a major supplier globally

Hungary, Poland, Romania and the Slovak Republic have comparative advantage in motor vehicles; Jordan, Morocco and Tunisia in apparel and textiles, though with still smaller export volumes.

### China's global market share vs product groups exported with significant comparative advantage and in large volumes in the EBRD regions, 2018

**Sources:** International Trade Centre and authors' calculations. 4-digit HS codes. Bubble size indicates the absolute export volume in US$ millions. Restricted to lines with RCA≥3 and export volume of more than US$ 500 million.
EBRD countries could also expand exports of products closely related to the currently exported.

For instance, in pharmaceuticals, China’s share of total G7 imports is high for pharmaceutical components. Economies in the EBRD regions export relatively little in these exact products, but they do have important export bases in the broader pharmaceutical sector, from which they could grow and diversify their exports.

Sources: International Trade Center and authors’ calculations.
Foreign inputs are important in the exports of many EBRD economies.

In Central Europe, ≈45% of exports by value added are first imported in the form of inputs and components.

Domestic and foreign value added in exports as a share of GDP, 2018 (per cent)

Trade links with China are strongest in Central Asia

Economies of central and south-eastern Europe are strongly integrated with Germany’s; and economies of eastern Europe remain strongly interlinked with Russia’s.

Most important trading partner for EBRD economies, 2018/19

Sources: International Trade Center and authors’ calculations. Note: Based on exports plus imports.
Concluding remarks: Profound economic impact of containment measures and external shocks

Numerous countries in the EBRD regions and across the world have closed their borders to people, closed schools, universities, restaurants and shops, a growing number of countries have implemented lockdowns and curfews.

These measures will have a profound impact on the economy, as up to 40 per cent of consumption in advanced economies is estimated to involve public gatherings.

The collapse of tourism disproportionately impact a number of economies across the EBRD regions, economies will also be affected by a sharp drop in commodity prices, disruption to global supply chains and a drop in external demand.

The extent of economic impact will depend on the structure of the economy as well as governments’ ability to support individuals and companies affected by containment measures.

Policy response focused on lower interest rates, liquidity support, guidelines on forbearance to enable restructuring and extension of loans, repayment holidays.

Fiscal policy measures to support individuals and firms experiencing loss of income to avoid mass layoffs and bankruptcies so that speedy recovery is possible once consumption restrictions are lifted.

Fiscal space to implement such (costly) measures varies by country, some may need internationally coordinated support.

In the longer term, significant economic and social impacts are likely. For instance, the outbreak will lead to scrutiny of supply chains, including in non-tech sectors, with greater focus on diversification and resilience, which could offer opportunities.
Emerging Europe’s demographics are similar to those of advanced European countries

But public health care spending in the EBRD regions is far below that in advanced Europe, with fewer doctors per population

Sources: World Health Organization and authors’ calculations.
Although economies in the EBRD regions compare favourably in terms of the number of hospital beds.

Sources: World Health Organization and authors’ calculations.
Annex: Global recessions
Global recessions are very rare

Global real per capita GDP growth, at PPP weights, only fell below zero three times in the last 40 years: in 1981-82, 1992 and 2009.

Global real GDP growth was negative only once: in 2009, whether at PPP or market exchange rates. Population-weighted GDP growth did not fall below zero at all over this period.

Real per capita GDP growth, based on PPP weights (per cent)

Sources: IMF and authors’ calculations.
The choice of country weights has become more important over time

Emerging markets now account for around 60 per cent of world output at PPP

Sources: IMF and authors’ calculations.