

Resilience to the Covid-19 shock in the EBRD regions¹

The Covid-19 pandemic is placing countries' health care systems under unprecedented strain. Domestic containment measures aimed at slowing the spread of the virus—such as closures of schools, restaurants and shops, lockdown and curfews—weigh on domestic supply and demand. The economic impact of these measures is compounded by related external shocks (drops in commodity prices, value chain disruptions, a collapse in tourism and a possible fall in remittances). Many governments have pledged large-scale fiscal support to individuals and firms experiencing temporary loss of income and have provided additional liquidity to the financial system. Fiscal space to implement such policy measures varies by country.

The resilience of economies to the Covid-19 shock reflects the strength of their health systems, the structure of output and labour markets, the extent of exposure to various external shocks, availability of fiscal space and the ability of the financial system to absorb a rise in non-performing loans. These considerations are summarised on a map and in the table below.

Resilience of the health care system. Public-sector health spending in the EBRD regions is far below that in advanced economies, with typically fewer doctors per populations, in particular in the lower-income economies.

Resilience of product and labour markets. Domestic containment measures weigh on domestic demand (as people stay at home and spend less) and domestic supply (as fewer people are working). Demand-side effects are likely to be larger in countries where retail services account for a larger share of GDP (as in Lithuania, Poland, Cyprus, Montenegro and Turkey). Effects are also likely to be larger where temporary restrictions on work result in significant income losses: for instance, if only a small share of those employed are on permanent contracts (as in Central Asia, the Caucasus and the southern and eastern Mediterranean). People in the informal or semi-formal sectors tend to be harder for the governments to reach out to as part fiscal packages.

Resilience to external shocks. The disruptions caused by the Covid-19 pandemic resulted in sharp drops in commodity prices, interruptions in value chains, a collapse in tourism, and will likely result in a fall in remittances. Lower commodity prices will weigh on commodity exporters in the EBRD regions, notably Central Asian economies, Azerbaijan and Russia. Economies highly integrated in supply chains, in particular in Central Europe and the Baltic states, are vulnerable to such disruptions in the short run. Tourism revenues exceed 20 per cent of GDP in Croatia, Georgia, Cyprus, Greece, Albania and Montenegro. Remittances account for over 25 per cent of GDP in the Kyrgyz Republic and Tajikistan.

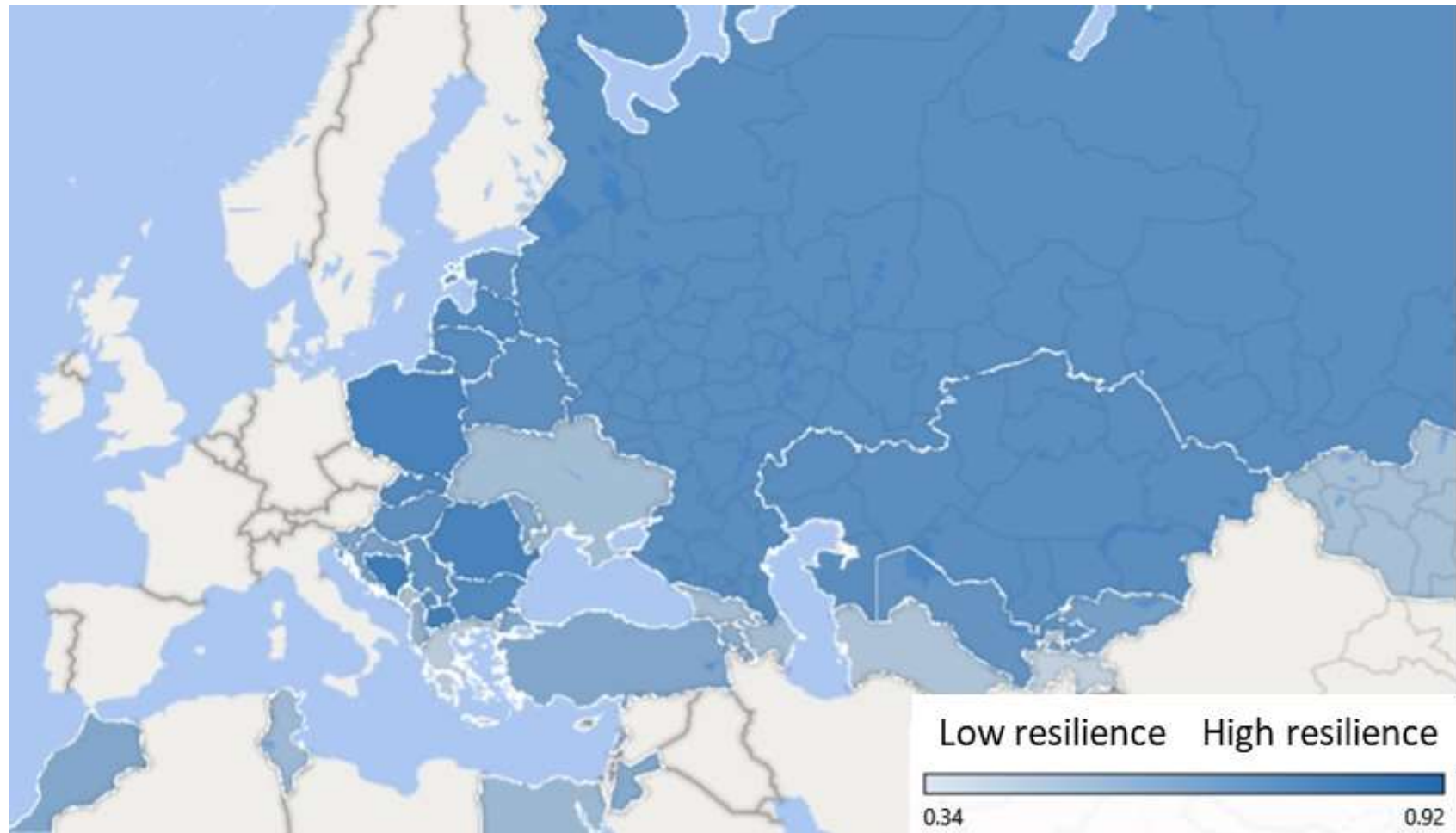
Policy space. Countries' ability to implement fiscal measures to support vulnerable individuals and companies will depend on existing levels of debt and fiscal deficit as well as the cost of borrowing in the market. Fiscal space is already limited in many countries, in particular in the Caucasus, Central Asia and the southern and eastern Mediterranean. External financing needs are already high relative to reserves in several economies. Financial systems may also come under greater pressure in countries with already high levels of non-performing loans.

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Table 1. Resilience to the Covid-19 shock in the EBRD regions

		Resilience of health care system		Resilience to domestic disruption		Resilience to external shocks				Policy space		
		Public sector health expenditure as a share of GDP	Physicians per 100,000 people	Retail service shocks	Labour market shocks	Commodity prices	Global value chains	Tourism	Remittances	Fiscal policy space	External financing resilience	Strength of financial system
Central Asia	Kazakhstan	moderate	high	high	moderate	low	high	high	high	high	high	high
	Kyrgyz Republic	moderate	moderate	high	moderate	moderate	high	high	low	moderate	moderate	high
	Mongolia	moderate	high	high	high	low	high	moderate	high	low	low	moderate
	Tajikistan	low	moderate	high	low	low	high	high	low	low	moderate	low
	Turkmenistan	low	moderate	high	low	low	high	high	high	low	high	high
	Uzbekistan	moderate	moderate	high	high	moderate	high	high	high	moderate	high	high
Central Europe and Baltic States	Croatia	high	high	moderate	moderate	high	high	low	high	moderate	high	high
	Estonia	high	high	moderate	high	high	low	moderate	high	high	low	high
	Hungary	high	high	high	high	high	low	high	high	moderate	high	high
	Latvia	moderate	high	moderate	high	high	moderate	high	high	high	low	high
	Lithuania	high	high	low	high	high	low	high	high	high	low	high
	Poland	high	moderate	low	high	high	moderate	high	high	high	high	high
	Slovak Republic	high	moderate	high	high	high	low	high	high	high	low	high
Slovenia	high	high	moderate	high	high	low	moderate	high	moderate	low	moderate	
Eastern Europe and the Caucasus	Armenia	low	high	high	moderate	moderate	high	moderate	moderate	moderate	moderate	high
	Azerbaijan	low	high	high	low	low	high	moderate	high	moderate	high	moderate
	Belarus	moderate	high	high	high	high	high	high	high	moderate	low	high
	Georgia	low	high	high	low	high	high	low	moderate	moderate	low	high
	Moldova	high	high	high	high	high	low	high	moderate	low	low	high
	Ukraine	moderate	high	high	moderate	high	low	high	moderate	low	moderate	low
South-eastern Europe	Russia	moderate	high	moderate	high	low	high	high	high	high	high	moderate
	Bulgaria	high	high	moderate	high	high	moderate	moderate	high	high	high	moderate
	Cyprus	moderate	moderate	low	moderate	high	high	low	high	low	low	low
	Greece	high	high	moderate	low	high	high	low	high	low	low	low
	Romania	high	moderate	high	high	high	moderate	high	high	high	low	high
	Albania	moderate	low	high	moderate	high	high	low	high	moderate	moderate	high
	Bosnia and Herzegovina	high	high	moderate	moderate	high	high	high	moderate	high	high	high
	Kosovo	moderate	low	high	moderate	high	high	high	moderate	high	low	high
	Montenegro	moderate	moderate	low	moderate	high	high	low	moderate	low	moderate	high
	North Macedonia	high	high	moderate	high	high	moderate	high	high	high	moderate	high
Serbia	high	high	moderate	moderate	high	moderate	high	high	moderate	high	high	
Southern and Eastern Mediterranean	Egypt	high	low	moderate	low	high	high	moderate	high	low	high	high
	Jordan	high	low	high	low	high	high	moderate	moderate	moderate	low	high
	Lebanon	high	moderate	high	low	high	high	moderate	moderate	low	high	moderate
	Morocco	high	low	high	low	high	high	moderate	high	moderate	moderate	high
	Tunisia	high	low	moderate	low	high	moderate	moderate	high	moderate	low	moderate
	Turkey	high	moderate	low	moderate	high	high	moderate	high	moderate	low	high

Map 1. Resilience to the Covid-19 shock in the EBRD regions



Annex.

Table 2. Variable sources and definitions

Measure	Definition	Sources
Public sector health expenditure as a share of GDP	Low if public sector health expenditure below 2 per cent of GDP in the latest available year (2014-2017); moderate if between 2 and 4 per cent.	World Bank, World Health Organization
Physicians per 100,000 people	Low if fewer than 150 beds per 100,000 in the latest available year (2014-2017); moderate if between 150 and 250.	World Health Organization
Retail service shocks	Low if wholesale and retail trade, transport, accommodation and food service activities services exceed 25 per cent of GDP in 2018; moderate if they are between 20 and 25 per cent.	Eurostat, OECD, national authorities
Labour market shocks	Low if less than 50 per cent of those employed in the last year had permanent written contracts in 2016, moderate if between 50 and 75 per cent.	Life in Transition Survey III
Commodity prices	Low if the net trade balance in gas and oil or coal and ores exceeds 5 per cent of GDP in 2018; moderate if between 1 and 5 per cent.	International Trade Centre, UN Comtrade
Global value chains	Low if global value chain linkages exceed 30 per cent of GDP in 2018; moderate if between 15 and 30 per cent.	UNCTAD EORA
Tourism	Low if tourism and travel direct and indirect contributions account for over 20 per cent of GDP in 2018; moderate if between 10 and 20 per cent.	World Travel and Tourism Council
Remittances	Low if remittances exceed 25 per cent of GDP in 2019; moderate if between 10 and 25 per cent.	World Bank
Fiscal policy space	Low if gross general government debt exceeds 100 per cent of GDP in 2018 or net borrowing exceeds 5 per cent of GDP or government bond yields exceed 10 per cent; moderate if debt between 50 and 100 per cent or net borrowing between 3 and 5 per cent or government bond yields between 5 and 10 per cent (EUR/USD).	Bloomberg, International Monetary Fund
External resilience	Low if short-term reserve coverage below one year of external financing needs (short-term debt plus current account deficit) in 2018/2019; moderate if between 1 and 2 years. Assumed to be high for Euro area countries.	CEIC, International Monetary Fund, World Bank
Strength of financial system	Low if non-performing loans exceed 20 per cent of total loans in 2019 or latest; moderate if between 10 and 20 per cent.	CEIC, National authorities

Note: Where data points are missing, these are interpolated based on data for similar economies.