PMCG UKRAINE

COVID-19 in Eastern Europe and Central Asia: Case Studies of Ukraine, Georgia and Albania

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 way, and it is useful to look at these different responses to identify good practices. In this issue, we will be looking at the case studies of Ukraine, Georgia, and Albania, including an analysis of the fiscal measures these countries have taken and an overview of the economic forecasts for 2020 and 2021.

The three countries had different pre-pandemic conditions (2019) in terms of healthcare, governance, and economic prosperity. Georgia ranked the highest on the World Bank's Government Effectiveness indicator among the three, while Albania was close to the average and Ukraine performed the worst in this respect. According to the Global Health Security Index, Ukraine also had a relatively worse health system, scoring lowest on the Global Health Security Index, while Georgia and Albania performed like a median country. All three countries had relatively similar GDP per capita in 2019 (in PPP terms), albeit Ukraine lagging behind the other two.

Table 1 : Pre-pandemic conditions in Georgia, Albania and Ukraine, in terms of health, governance and economic prosperity

Indicators	Ukraine	Georgia	Albania
Government effectiveness (percentile rank)	39.90	76.92	50.48
Global Health Security Index (score 0-100)	38.0	52.0	52.9
GDP per capita, current USD (PPP)	13 341	15 637	14 495

Sources: The World Bank's Worldwide Governance Indicators (WGI); 2019 Global Health Security Index; The World Bank's database;

Table 2 : Performance of Georgia, Albania and Ukraine in terms of virus containment and lockdown stringency (as of 10.12.)

Indicators	Ukraine	Georgia	Albania
Total cases	881 727	178 953	46 061
Total deaths	14 981	1 657	965
Total cases per million	20 161	44 860	16 006
Total deaths per million	343	415	335
Average stringency	66.7	69.7	68

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

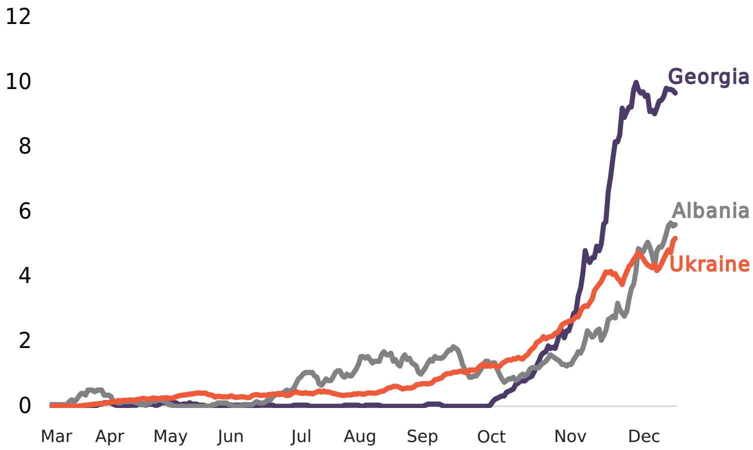
As of December 10th, COVID-19 has developed differently in the three countries. It is noteworthy that the Georgian case was considered a success story approximately 2 months ago, however, the situation has worsened so drastically that now it is leading in terms of total cases per million by a large amount among the three. Ukraine and Albania have similar results in terms of total deaths per million, at about 340, performing worse than the worldwide average (approximately 260), but significantly better than countries in the region of Eastern Europe and Central Asia (approximately 440). Georgia, with 415 deaths per million, is closer to the regional average. It is also worth noting that Ukraine has performed relatively better considering its pre-pandemic indicators in health and governance.

Over the past two months, the epidemiologic situation has been worsening rapidly, and none of the three countries have reached the peak of the virus yet. While daily cases and deaths are on the rise in all three countries, at the moment the situation in Georgia is far more severe than in Ukraine and Albania.

Despite having similar deaths per million in total, the pattern of distribution of these deaths has been quite different for the three countries. Georgia experienced initial success, with daily cases and deaths both close to 0 until the second half of September. However, since then there has been a rapid increase in the virus spread, leading to Georgia performing worse than Albania and Ukraine in total. In Albania, a slight rise of daily deaths was evident in March, declining and stabilizing on low levels in April. From July to October, Albania experienced moderate number of daily cases, albeit higher than the two other countries. This could be explained by them opening the border to international visitors. Since October, the numbers have been on a rise. As for Ukraine, the daily deaths have been stable and low, but not close to zero, since May. This has caused an accumulation of the total deaths, however, they have been spread out over the period relatively smoothly. Just like in Albania, the numbers started to rise in October in Ukraine as well.

"While daily cases and deaths are on the rise in all three countries, at the moment the situation in Georgia is far more severe"

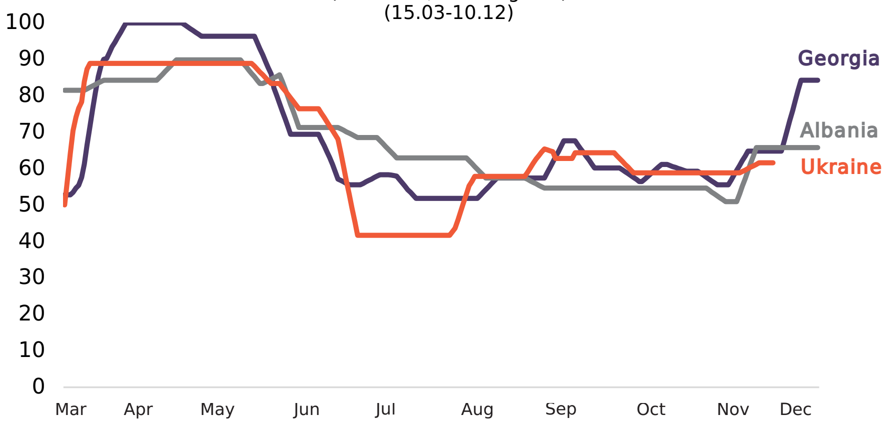
Daily new deaths per million people (smoothed)
(15.03-10.12)



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

"Ukraine managed relatively adequate performance in terms of the virus spread, even with the lowest average stringency level among the three and with a month-long period of relatively lower stringency in July"

Government Response Stringency index (smoothed)
(0=lowest, 100=highest)
(15.03-10.12)



Source: Oxford COVID-19 Government Response Tracker; ourworldindata.org

As mentioned already, Georgia had initial success in curbing the virus in the short-term, mainly attributed to the fact that Georgia employed the strictest possible measures over the 2-month of national emergency, which paid off in the short-run in terms of the virus spread.

Georgia's example illustrates that initial stringency cannot guarantee success in the medium-term and that the countries need to always stay on guard. However, most countries do not have the luxury to be able to put their economies through the same harsh measures that were taken in the spring lockdowns.

Ukraine managed relatively adequate performance in terms of the virus spread, even with the lowest average stringency level among the three, and with a month-long period of relatively lower stringency in July.

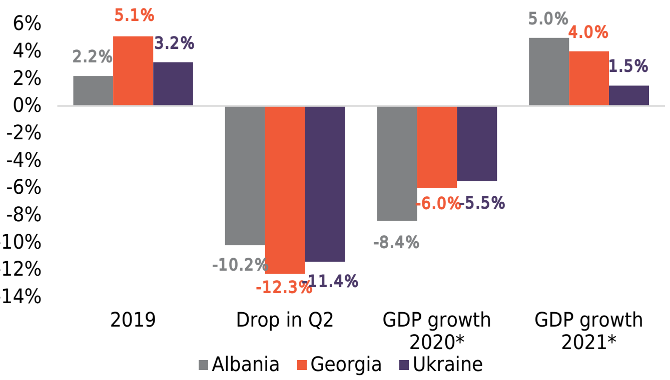
To support their respective economies, each of the selected countries rolled out fiscal stimulus and support packages. The packages for each country differed in terms of target groups and size. The World Bank, in its report “COVID-19 and Human Capital” (released in September 2020), overviewed the expenditure-side and revenue-side measures deployed by each country. On the expenditure side, support measures included increased health spending, 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. Albania and Ukraine have adopted all four 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, Georgia has allocated **5.3%** of its GDP to the first stimulus package, while for Albania the corresponding percentage is **2.8%**, and for Ukraine, it is **1.7%**. Apart from the initial packages, the countries continue to support the economy by extending existing mechanisms, with Ukraine and Georgia already introducing additional anti-crisis packages for businesses and citizens affected by the new lockdowns.

On the monetary side, the National Bank of Albania cut its monetary rate from 1% to 0.5% in March, which is the lowest interest rate in Albania´s history. Since March, the National Bank of Georgia (NBG) and the National Bank of Ukraine (NBU) cut its interest rate three times, with the NBU cutting from 11% to 6% and the NBG cutting from 9% to 8%. Each of the central banks introduced various liquidity support measures, in order to support the stability of the financial sector.

	Initial Stimulus Package (as a % of GDP)	Monetary Policy Rate	
		March 2020	December 2020
Ukraine	1.7%	11%	6%
Georgia	5.3%	9%	8%
Albania	2.8%	1%	0.5%

Real GDP growth rate dynamics



Sources: World Bank: “Human Capital and COVID-19”; State Statistics Offices of Georgia, Albania and Ukraine

“Low share of tourism and the relative resilience of exports are the main reasons why Ukraine’s GDP drop is set to be relatively lower in 2020”

It is interesting to observe macroeconomic performance and forecasts in 2020 and 2021. Based on World Bank’s report, the GDP of Albania and Georgia, two countries with a large share of tourism in their economies, are set to decline by 8.4% and 6% in 2020, respectively, while Ukraine’s decline is relatively lower, at 5.5% (This forecast is in line with PMC Ukraine’s latest forecast of 5.7% decline in 2020). A high share of tourism, and stricter lockdown, is the main reason why Georgia registered the highest decline in Q2 of 2020 (-12.3%) among the three countries. The low share of tourism, and the relative resilience of exports, are the reasons why Ukraine’s drop is going to be lower in 2020 among the three countries. However, Albania’s and Georgia’s economies are also expected to rebound faster, with 5% and 4% projected growth in 2021, with Ukraine’s projected growth lagging at 1.5% (This forecast is rather pessimistic compared to PMC RC Ukraine’s latest forecast of 3.1% growth in 2021, in the event of the baseline scenario). It is also worth noting that Albania is facing a “twin crisis”, as it is also trying to recover from the devastating earthquake in November 2019.

Looking at other macroeconomic indicators, the World Bank forecasts that Georgia and Ukraine will experience higher inflation compared to Albania in 2020 (5.3% and 4.8%, compared to 2%). Georgia will start to move towards its target of 3% gradually, with an expected inflation of 4% in 2021, and Albania will start also move towards its target of 3% gradually, with expected 2.5% in 2021. Ukraine’s inflation is close to the target of 5% already. Gross fixed capital investment is projected to fall by 12.4% for Georgia and by 15% for Ukraine in 2020, Georgia set to recover faster in 2021. Albania, contrarily, is expected to experience a modest growth in its investment in 2020, which could be explained by increased post-earthquake capital expenditures. Meanwhile, Georgia and Albania have higher current account deficit than Ukraine. Ukraine, in fact, is projected to have a positive current account balance of 1.5% of GDP. Albania and Georgia also experience higher fiscal deficits in 2020 compared to Ukraine. While Ukraine’s and Georgia’s level of the national debt is close to the 60% threshold, Albania faces an even tighter fiscal situation, with its debt to GDP ratio at 81.3% both in 2020 and 2021.

	Inflation		Investment*		Current Account balance*		Fiscal Balance*		Debt*	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Ukraine	4.8%	5.0%	-15.0%	8.2%	1.5%	-1.9%	-5.0%	-3.0%	62.0%	58.9%
Georgia	5.3%	4.0%	-12.4%	13.8%	-10.7%	-8.0%	-8.5%	-5.3%	59.8%	57.3%
Albania	2.0%	2.5%	1.6%	3.1%	-11.90%	-10.1%	-8.5%	-5.6%	81.3%	81.3%

* - 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 determining relative success of the country in tackling the healthcare and economic crisis, such as the virus spread, stringency of the lockdown measures, the size of the stimulus packages offered, tourism’s contribution to the economy and many others, 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. 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 concerning the number of infections rising again over the past couple of months 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 level of testing, which varies both from country to country and over time.

The Georgian case is the best example to illustrate this rapid-changing environment. Georgian experience also illustrates that while stringency can contain the virus spread in the short-term, it can prove to be ineffective in the medium-term. Conversely, Ukrainian example shows that lower average stringency, and weaker pre-pandemic conditions of the country are not good predictors of the country’s performance in terms of the virus spread.

Basic Economic Indicators in Ukraine	2016	2017	2018	2019	2020 Q1	2020 Q2
Nominal GDP (bln hryvnia)	2 385	2 984	3 561	3 975	846	868
GDP per Capita (USD, PPP)	11 148	11 871	12 629	13 341	-	-
GDP Real Growth (%)	2.4%	2.5%	3.4%	3.2%	-1.3%	-11.4%
Yearly inflation (%)	13.9%	14.4%	10.9%	7.9%	2.9%	2.4%
Exchange rate (hryvnia/USD)	25.6	26.6	27.2	25.9	25.0	26.9
FDI (BOP net inflows) (bln USD)	3.8	3.7	4.5	5.9	-1.5	1.3
Unemployment Rate (%)	9.7%	9.9%	9.1%	8.6%	8.5%	9.8%
Gross external Debt (bln USD)	112.5	115.5	114.7	121.7	120.3	122.8

*preliminary data