



- **COVID-19 is a health and economic crisis, with governments facing tough policy trade-offs.**
- **Failure to manage the health aspect can lessen economic costs in the near term but worsen the economic damage in the longer term.**
- **A strong, early response – robust, transparent disease surveillance, balanced use of social restrictions, strengthened preparedness of the health system and targeted support to cash-strapped households and firms – will enable a faster return to normal.**

The multiple dimensions of the COVID-19 shock

COVID-19 is a rolling combination of a global health pandemic and an economic crisis, with a significant human impact. As of May 22, about 335,000 people have died worldwide, and more than 5.2 million are reported infected¹. Additional, indirect impacts – job losses in particular – stem from efforts to contain the spread of the disease. Currently, most countries have introduced various restrictions that affect more than a third of the world's population. As per the International Labor Organization (ILO), the COVID-19 pandemic is expected to wipe out 6.7 percent of working hours globally in Q2 2020 – the equivalent of 195 million jobs worldwide². In Belarus, as of May 12, official reported infections and deaths stand at 24,873 and 142, respectively.

COVID-19 is a unique, mutually reinforcing demand and supply-side shock. On the *demand* side, due to the global economic and trade disruption, countries are seeing a decline in foreign demand and a drop in commodity prices. Domestically, social restrictions, quarantines, job losses and lower remittances have contributed to a sharp fall in demand for goods and services, and extreme uncertainty has led households and firms to postpone retail and investment spending. On the *supply* side, workers are unable to come to work, while supply chain disruptions are causing shortages of inputs. The cost of capital has also increased, with banks and investors reluctant to loan funds and invest. Capital flows to developing countries have fallen by more and faster than during any previous crisis – down more than 40 percent in less than first two months of the crisis.

Real sector pressures linked to COVID-19 threaten banking and sovereign balance sheets. Sustained, severe liquidity pressures on households and firms have the potential to undermine banking sector balance sheets as debtors default, new borrowers disappear, and savings dwindle due to job losses. Public sector balance sheets are also affected, as revenues drop sharply, even as expenditure needs to mitigate the health and economic crisis rise and contingent fiscal liabilities related to firm and bank bail-outs are realized, with the result that public debt levels are sharply rising around the world. The IMF's World Economic Outlook projects growth in advanced and emerging and developing economies to fall by to 6.1 and 1 percent in 2020 respectively, with contractions projected across the globe. Should the outbreak of the virus continue longer than the six months implicit in these projections, the global recession is likely to be more severe.

Policy responses across the world

Governments across the world are also seeking to avoid a deep and prolonged recession. Long periods of weak supply and demand can lead to rising structural unemployment and lower growth as firms shed labor and refrain from making long-term investments. In the absence of vaccines, flattening the pandemic curve swiftly through testing, tracing, quarantining and physical distancing helps to save lives while minimizing strains on the health system. In many countries, the immediate policy response has focused on limiting the virus outbreak and providing treatment to the infected. Economic policies have focused on the provision of social support to cash-strapped households and firms that are seeing a sudden stop in their incomes to avoid poverty and vulnerability from rising too rapidly, and to prevent firms from falling into bankruptcy. This support has entirely fallen on the government budget and may rise over time given the fiscal costs of bailing out banks and firms. This in turn may force governments to cut back on other productive and infrastructure spending. Flattening the recession curve becomes critical, therefore, although at the cost of elevated public debt. Preventing a secondary wave of infections also helps to improve prospects of a quick economic recovery.

But simultaneously coping with COVID-19 and the economic fallout poses difficult policy trade-offs. The aggressiveness of early social distancing interventions affects economic performance in the near term but is likely to yield gains in terms of a stronger eventual recovery and can help conserve fiscal space to stimulate the economy when it will have maximum impact. Countries that have successfully flattened the pandemic curve include New Zealand, Australia and South Korea; in turn they have also been able to start gradually easing economic and social restrictions, supporting a recovery in domestic activity. In contrast, the U.K. which had only one confirmed fatality at the end of the first week of March – versus 44 in South Korea – struggled to lower the rate of daily new infections (Figure 1), resulting in over 36,000 deaths versus less

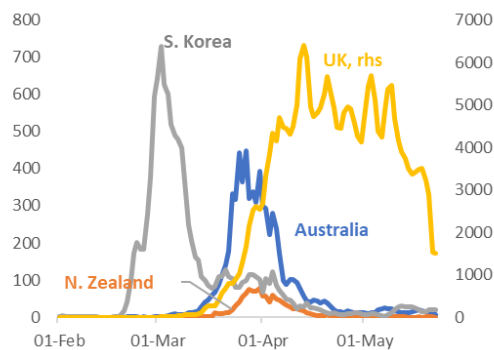
¹ <https://www.worldometers.info/coronavirus/>.

² <https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/lang--en/index.htm>.

than 300 in South Korea. The success of the latter is in part due to the swift implementation of an effective mass testing, tracing and quarantining program while overall levels of infection were still low, and targeted use of curfews in some of the worst affected cities

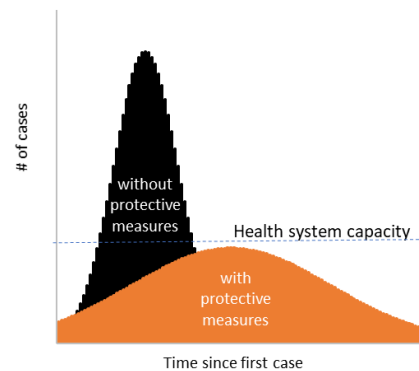
A swift and well-sequenced implementation of policy measures is needed to flatten the pandemic curves (Figure 2). For the effectiveness of the response in combatting the crisis, policies ought to be timely, time-bound, targeted and transparent. How long countries can sustain these policies – at great fiscal and economic cost – depends on country’s initial conditions, their capacities, buffers, the level of infection, and on the support from international donors. Once restrictions are eased and demand starts to recover, a fiscal boost will be much more important and impactful. However, a fiscal and monetary stimulus does not substitute for longer-term structural and regulatory reforms that would seek to normalize economic conditions and strengthen the foundations of the health and social protection systems.

Figure 1. Daily new confirmed cases of COVID-19 (rolling 3-day average): USA, Australia, New Zealand, and South Korea, as of May 22



Source: European CDC, and Our World in Data.

Figure 2. Flattening the Health Curve

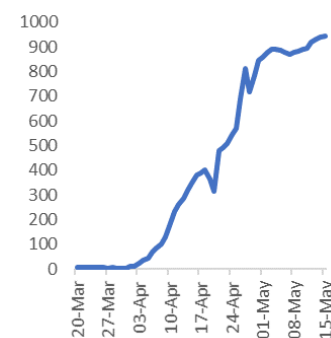


Policy options for Belarus

Unlike most European countries, Belarus, instead of imposing large-scale economic and social restrictions, has focused on: (i) testing suspect cases, tracing contacts and isolating the sick; (ii) encouraging the use of quarantine measures; (iii) increasing the capacity of the health system to cope with rising COVID-19 patients. The government has also provided rather limited economic relief to firms and households to cope with the economic impacts of the shock. This approach is expected to lead to a longer peak period of the diseases, but carries the risk of a sharp surge in community transmission that overwhelms the health system, a sharp rise in fatalities (particularly among those with comorbidities and the elderly), and prolonged economic stress as voluntary social distancing measures become widely adopted and prolonged. As Figure 3 shows, rates of new daily infections continue to remain high in Belarus.

Irrespective of the approach chosen to combat COVID-19, it is critical to strengthen support to poor and vulnerable households now to prevent poverty from rising and to protect human capital. Policy measures could include provision of short-term compensation for existing beneficiaries, increasing means-tested benefits, such as the targeted social assistance program (GASP), increasing unemployment support and improving the delivery of distance education. Rapid implementation of these measures could help reduce human suffering and contribute to social stability. Although the costs fall on the government budget, rationalization of expenditures now could help returning to normal later. Also, it is important to provide targeted support to companies which were viable before the COVID-19 outbreak rather than to continue bailing out chronically underperforming companies. Otherwise, the number of unhealthy companies will increase in both private and public sectors of the economy, narrowing the future tax base and undermining overall economic efficiency.

Figure 3: Daily new confirmed cases of COVID-19 in Belarus, rolling 7-day average



Medium-term actions will also be necessary to support the recovery once it begins. Firm, banking and household balance sheets are expected to be considerably weakened in the post-pandemic period, and will benefit from fiscal, monetary and regulatory support; the economy will also need support adjusting to the loss of competitiveness and revenues associated with the Russian “tax maneuver”. Priority areas for intervention include:

- Developing a credible medium-term fiscal reform plan that helps to mobilize resources to support the economic recovery in a fiscally sustainable manner; a reduction in wasteful, inefficient or low-productivity expenditures such

as heating subsidies or tax exemptions; strengthened debt and fiscal risk management (including contingent fiscal liabilities from state-owned enterprises and state-owned banks); and strengthened public financial management to ensure better allocation and accountability in use of scarce public resources;

- Anchoring confidence in the banking sector, to minimize risks of a banking crisis and/or capital flight, through the adoption of bank and non-performing loans resolution and deposit insurance frameworks; strengthening oversight of SOEs, SOBs and emerging high-risk segments (households); facilitating credit flow in the economy, expanding access to local currency credit in the economy (especially for small- and medium-sized firms) and supporting development of local capital markets;
- Strengthening domestic social safety nets through implementation of unemployment insurance and better targeted social assistance programs to mitigate financial and economic distress in low-income or unemployed households; strengthening of active labor market programs to help workers transition into new emerging industries/sectors;
- Strengthening of SOE ownership, oversight and governance; debt and especially operational restructuring and divestment of viable SOEs. These reforms will grow in urgency in line with increasing fiscal support needed by underperforming and highly leveraged SOEs;
- Easing the regulatory/compliance burden or regulatory restrictions that increase opportunities for firms in hitherto protected segments of the economy; strengthening of anti-monopoly institutions.

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