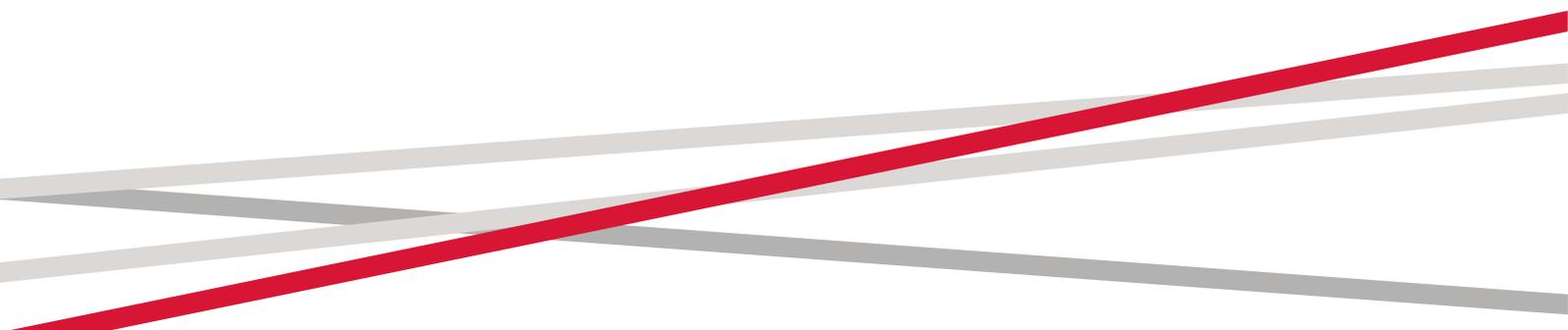


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The impact of the COVID-19 pandemic in Eastern Europe | Key points from the 2020 SITE Development Day Conference

After having been relatively mildly affected in the first wave, Eastern Europe is currently in the midst of the second wave of the COVID-19 pandemic with much higher levels of infected and dead compared to the spring. This health crisis not only has economic consequences, but also has contributed to political instability in parts of the region. This policy brief shortly summarizes the presentations and discussions held at the SITE Development Day 2020 Conference, focusing on the consequences of the COVID-19 pandemic in Eastern Europe. For a more detailed account of the conference, please visit our website.



A Swedish Government Perspective

The conference started with the Swedish Minister of International Development Cooperation, Peter Eriksson, discussing the current situation in Eastern Europe with a particular focus on the partnership with Sweden.

According to Minister Eriksson, Swedish foreign policy in general, and foreign aid policy in particular, has historically paid too little attention to Eastern Europe. He has therefore emphasized that Swedish aid should be used to promote democracy and human rights in the region. As the pandemic has exacerbated global anti-democratic trends and intensified existing inequalities, international support and cooperation have become more essential than ever.

Minister Eriksson mentioned several priority areas of Swedish aid policy in the region, such as the fight against corruption, economic reforms for poverty alleviation, gender equality, and media freedom. Emphasizing the importance of the latter, Minister Eriksson mentioned education for journalists and financial support for small independent media as important Swedish efforts in the region. He stressed that the protection of pluralistic media is also a military security matter, as countries like Georgia and Ukraine have been targets of foreign disinformation campaigns. The importance to support democracy and civil society was also illustrated by the case of Belarus, where all ongoing projects in partnership with the state or state-affiliated organizations have been suspended. The Swedish government has successfully implemented regional projects in energy efficiency and water purification, although Minister Eriksson underlined that the need for measures to slow down climate change is intensifying.

The important role of European Union membership was also mentioned. Minister Eriksson argued that the incentives created by

potential EU membership have been the main drivers of democratization, modernization, and poverty reduction as well as progress towards greener economies in the region.

In response to the pandemic, Sweden, as well as the European Union, have increased aid transfers to Eastern Europe. Minister Eriksson underlined, though, the need to not only support immediately affected sectors and outcomes, as the pandemic has many serious spillover effects in other areas already in need of help prior to the crisis.

The economic outlook for the region

The second section of the conference provided a current account of the economic situation in the region by two speakers from different sectors.

Alexander Plekhanov, director for Transition Impact and Global Economics at the European Bank for Reconstruction and Development (EBRD), shared results from an EBRD survey on the impact of the pandemic. The survey was conducted in August and covered 8 emerging economies in Eastern Europe and 6 more advanced countries for comparison.

Analysis of the survey responses shows that the impact of the crisis is very broad. The share of respondents that had lost their job was 15% in emerging economies, and almost twice as high in advanced economies. Many factors contributed to this gap. One affected area was tourism, with international tourism being particularly important in many emerging economies, and hard to replace with increased domestic tourism. The outbound relative to inbound tourism for countries like Sweden and the UK equals a factor of 3 and 2 respectively, while the corresponding in emerging economies is often below 1.

Compared to the 2008 financial crisis, the economic impact over the first five months of the pandemic was at similar aggregate levels, but more unequal across socio-economic groups. For instance, job losses were higher among the young



and those with lower income and with less education. Yet, the overall impact in emerging economies was 10% less unequal than in advanced economies due to differences in the structures of economies and the feasibility of working from home.

Fredrik Rågmark, the CEO of Medcover, a healthcare and diagnostics services provider operating in the region in the last 25 years, provided insights from a business perspective.

Similar to Minister Eriksson, Rågmark argued that, for Medcover, the biggest change in the region over recent years has been related to EU integration, and in particular to Poland becoming an EU Member. Rågmark noted that the change was not limited to Poland: all the countries in the region are on a trajectory of change but at different stages. In his mind, the biggest difference between the emerging Eastern Europe and the West is that people have higher expectations about the future in the East.

Rågmark recognized that corruption has been a major challenge for the region in attracting business and investors, but also that it has gotten significantly better in recent years. The EU integration process has been essential there, as membership and continued support relies on institutional reforms to improve governance and ensure political accountability. Recognizing the risk that governments lose incentives to continue reforms once membership is secured (currently exemplified by the policies in Hungary and Poland), Rågmark yet emphasized that the European Union has been extremely successful in improving the business climate in the region and should receive more recognition than it often does.

As for the COVID-19 crisis, Rågmark argued that Plekanovs description was very representative of what he has seen in Eastern Europe. Medcover experienced a drastic falloff in late March when people were not allowed to visit the hospital unless they had acute symptoms. When countries re-opened in the summer, the company had a strong rebound of replaced demand from the

lockdown. Also, Medcover has contributed significantly to the testing effort across the region. Due to the challenges associated with the skyrocketing demand for PCR testing, many countries in Eastern Europe that previously only allowed the public sector to treat inpatient COVID-19 cases, have opened up ambulatory services to the private sector. In terms of scaling up testing capacity, the private sector has been very important. Medcover is now a major provider of PCR-testing in Ukraine and Poland, and the single largest provider in Romania.

Economic Policy Responses to the Crisis: Regional Experiences

In this section, experts from the FREE network provided brief overviews of the current situation in their respective countries, as well as the major developments during the year.

Belarus

The Academic Director of BEROC, Kataryna Bornukova, provided an alarming description of recent developments in Belarus. Even before 2020, the prospects of the Belarussian economy did not look great. As relations with Russia started to worsen, the year began with shortages in the oil supply which contributed to GDP contraction already in the first quarter. When the pandemic hit Belarus in the spring the government neglected its severity. Initially, no measures of economic relief were introduced and there are valid suspicions that the official COVID-19 statistics were inaccurate. Eventually, the government created incentives for state-owned companies to keep up output, slowing down the GDP contraction in the second quarter. However, these measures are now a source of financial risk for the whole country as the state has accumulated huge inventories and substantially increased public debt. Unfortunately, during the second wave, policy responses are still lacking and the ongoing political crisis worsens the situation as it hampers



economic development through increased uncertainty and lowered public trust.

Poland

As for Poland, Michal Myck, director of CenEA, argued that development during the crises has been mixed both in terms of the pandemic itself and government response.

While infections were at low levels during the first wave in April, they increased sharply during the second wave at the end of October. Similar to Belarus, there have been significant political developments over the year such as the presidential election campaign and the “Women’s Strike”. Myck suggested that these events have complicated a clear strategic response to the virus. During the summer, the government shifted its attention away from preparations for the second wave, towards the July elections. The first wave was met by fiscal and monetary stimulus packages. Although employment and growth have not fallen that much relative to neighboring countries, Myck argued that Poland will be left with a significantly higher level of public debt and other challenges when the pandemic is over.

Georgia

Giorgi Papava, Center Head at ISET-PI, explained that the Georgian government declared a state of emergency and lockdown in March, despite the low number of infections at the time. From April to June, the economy then experienced a 13% drop in GDP. After the economy re-opened at the end of June, it has shown a slight recovery over the summer. Unfortunately, it was followed by a sharp increase in infections in the autumn. This second wave was not met by similar restrictions until after the elections at the end of November, again suggesting the role of politics in the pandemic response in the region. In terms of economic impact, the most severe blow for Georgia was the sharp decline in tourism affecting many sectors including hospitality and food services, construction, arts, entertainment, and recreation.

Ukraine

Olena Sholomytska, Senior Researcher at KSE, explained how Ukraine, like most other countries in the region, experienced low reported infection rates in the spring, though high detection rates and low levels of testing may suggest that real infection rates were higher. The summer was followed by a sharp increase in infections and the situation has worsened since then. The economy saw a 7.5% drop in GDP in the second quarter, partly due to a strict lockdown policy, followed by a slight recovery in the third. The Ukrainian government has introduced various monetary and fiscal measures for both households and firms including cash allowances for self-employed, small firms, and people with temporary pay cuts, as well as long-term financing for banks up to 5 years. Currently, the government is reluctant to enforce stricter measures to prevent the second wave of infections mainly for political reasons. Ukrainians are becoming less afraid of the virus and more discontent with the restrictions, so the government is concerned about taking an unpopular decision.

Russia

Natalya Volchkova, Director at CEFIR at NES, explained how Russia, after a relatively calm summer, was hit by the second wave in October as the number of infections and COVID-19 deaths reached their highest levels since the onset of the pandemic. As far as economic performance is concerned, monthly indicators of economic activity show a sharp decline at the beginning of March and a slight recovery since then. However, when looking at month-on-month comparisons, economic performance is significantly lower in every month throughout 2020 compared to 2019.

The support measures introduced during the spring and summer constituted 3.7% of GDP. While most stimulus was allocated to the corporate sector (2.1%) households also received a significant amount of support (1.6%). The measures targeted to help household income included: cash transfers to families with children;



increased unemployment benefits; 2019 tax-return for self-employed; extra payments to medical specialists; and credit restructuring and penalty-free payment deferrals for COVID-19 infected. The support dedicated to the business sector included: tax and credit payment deferrals; bankruptcy moratorium for 6 months; reduction in property tax: and subsidies to backbone enterprises. The support measures are expected to increase GDP growth by 1.8 percentage points by boosting household consumption, corporate inventory, and investments.

Latvia

Sergej Gubin, Research Fellow at BICEPS, described the epidemiological impact of the pandemic in the spring as hardly noticeable in Latvia. Although, the country currently has the 3rd lowest COVID-19 mortality rate in the EU, infections and mortality have increased quite dramatically during the fall.

While the restrictions introduced in the spring did not include a strict lockdown or a mandatory mask policy, the government closed borders, schools, and kindergartens. Following the second wave, the restrictions adjusted to including a mask policy, open borders, and 5-12 graders on distance learning.

The economic policy response has included downtime benefits for employees of firms with a reduction in turnover of 30% or more, temporary tax reliefs, and sick leave benefits for parents with young children on distance learning. The drop in GDP for 2020 is projected to be 7% and unemployment is expected to increase by 7.7%.

The implications of the pandemic for gender inequality

It is widely known that the pandemic has had catastrophic consequences for health and economic activity. Many experts, though, have also expressed concerns about its impact on gender equality and the welfare of women. On the

health side, men and women have been shown to be equally susceptible to infection, however among those that get infected women have significantly lower mortality rates than men. Monika Oczkowska, Senior Researcher at CenEA, showed that about 40 % of deaths in Poland were women, which is very similar to Western European countries, whereas excess mortality has been particularly high among men in older age groups.

The pandemic has also impacted gender inequality through the labor market. In countries like Ukraine and Georgia, the pandemic has significantly worsened pre-existing inequalities. In the latter, the number of registered unemployed increased by 16 000 in the second quarter, and among them, 90% were women, according to Yaroslava Babych, Policy Center Head at ISET-PI. Also, among the 44 000 workers that lost their employment during lockdown in the spring a vast majority were women. Partly, the reason for this is that the restrictions affected sectors that were predominantly female such as restaurants, cafés, and retail, as well as arts and entertainment.

In Belarus, a country with relatively high female labor force participation, the impact on gender inequality changed over time. In the Belarussian labor market, women are highly concentrated in the hospitality and public sector, and men in the industrial sector. After the first wave in the spring, women were worst affected, both in terms of unemployment and loss of income, which was largely driven by the impact on the hospitality industry. Over time men became more affected as the industrial sector took a hit, whereas women benefitted from steady employment within the public sector. The gender distribution in the Ukrainian labor market is similar to the Belarussian. Women are concentrated in sectors that are economically vulnerable to the crisis but also in those that are critical for everyday life such as the health and education sectors. In other words, in these countries some women are at high risk of losing their job while others, that are less at



risk of an economic shock, often are particularly likely to be exposed to health shocks.

From a more positive perspective, the crisis has also brought about structural changes to the labor market that could potentially improve gender equality. In Russia, workplaces have started to provide more flexible working conditions which have enabled more women to work remotely from home.

One serious consequence of the crises is an increase in domestic violence as the pandemic has exacerbated things that are known to increase conflict and violence within households. Maria Perrotta Berlin, Assistant professor at SITE, argued that mobility restrictions have increased the time spent with family members, increased isolation from social networks and support organizations, and increased stress caused by economic insecurity. According to the international ombudsman of Russia, the number of distress calls relating to intimate partner violence has increased by 150% during the pandemic, compared to an estimated average increase of 60% in Europe during the same time.

Political implications in the region with a special focus on Belarus and Russia.

The final section of the day focused on political developments in Russia and Belarus in the times of the COVID-19 pandemic, two countries with close historical, political and economic ties. SITE invited two experts on the politics in respective countries: Elena Panfilova, Founder of the Center for Anti-corruption Research and former Chair of Initiative Transparency International – Russia, and Artyom Shraibman, founder of Sense Analytics, a political consultancy in Minsk and nonresident scholar at the Carnegie Moscow Center.

Panfilova gave a comprehensive narrative of the recent political developments in Russia related to the onset of the pandemic. Panfilova argued that the political response to the pandemic in Russia

changed over time. In the spring, the government and political elites had a relatively active response and clear communication with the public. However, when the second wave started in September the government largely stayed silent. According to Panfilova, the reason for this is that Russian politicians started to anticipate the important 2021 regional elections and that they found it hard to communicate with the public without challenging their future political interests as the crisis response had been met with much discontent. This discontent, Panfilova argued, had to do with Russia's vertical system of accountability being very ineffective in dealing with a horizontal problem such as COVID-19. The response system would have needed help across the political spectrum and would have benefited from more transparency to fight the pandemic; instead, the government continued to restrict political freedom and civil rights.

Reacting to the introduction by Panfilova, Shraibman argued that there is no historic example of a situation where the response to similar situations have differed so much between the Belarusian and Russian governments. The Belarusian regime's response, in contrast to the Russian, was close to non-existent in the first wave and this continued up until the autumn when the government started to introduce restrictions in response to the second wave of infections.

The pressure of the pandemic has revealed the weaknesses and flaws of governments around the world and not least in Belarus. Although there are several reasons for the political crisis such as the stagnation of the Belarus economy, Shraibman argued that the mismanagement of the pandemic became the tipping point.

Shraibman explained how the Belarus regime has always tried to sell a paternalistic identity and has presented itself as a stable and fair welfare system that cares for the poor and the vulnerable. The mishandling of the COVID-19 pandemic shattered this identity in the eyes of the public. The rhetoric and state-level deception during the first wave irritated a lot of people as the state-owned media



outlets often accused the sick of being weak and ridiculed people for wearing masks. As many Belarusians saw relatives die and doctors started to contradict the narrative of the state, people were reminded of the Soviet government's concealment of the Chernobyl disaster.

These developments created stress on the Belarusian society right before the presidential elections in August since the frustration that had been accumulated was channeled into political activity. During the pandemic, people learned how to organize and coordinate crowdfunding initiatives to support doctors and similar initiatives. This self-organization infrastructure transferred to the opposition campaign and is now used to support victims of political repression.

During the second wave, the government started exploiting the crisis to restrict political freedom. For instance, independent observers were not allowed to observe electoral polls, and political prisoners were not allowed to meet with lawyers. These and similar actions have further aggravated the political discontent with the regime in the country. Shraibman concluded that groups in society that previously have been apolitical now have become politicized, as they have personally experienced the repressive measures previously targeted primarily to the Belarusian opposition.

Concluding Remarks

As in previous years, the Development Day conference offered us an opportunity to invite a diverse group of experts, politicians, and practitioners to discuss a current and important topic in the area of development and transition. The different perspectives highlighted the multifaceted impact of the COVID-19 pandemic on Eastern Europe, as well as the continued engagement of Swedish society in the region. Unfortunately, the pandemic also prevented us from meeting in person this time, but we hope that next year we will be able to meet again at the Stockholm School of Economics.

List of participants

Peter Eriksson, Minister for International Development Cooperation, Sweden.

Alexander Plekhanov, director for Transition Impact and Global Economics, EBRD.

Fredrik Rågmark, CEO Medicover, Sweden.

Kataryna Bornukova, Academic Director BEROC, Minsk, Belarus.

Michal Myck, Director CenEA, Szczecin Poland.

Giorgi Papava, Center Head at ISET-PI, Tbilisi, Georgia.

Olena Sholomytska, Senior Researcher KSE, Kyiv, Ukraine.

Natalya Volchkova, Director CEFOR at NES, Moscow, Russia.

Sergej Gubin, Research Fellow BICEPS, Riga, Latvia.

Lev Lvovskiy, Research Fellow BEROC, Minsk, Belarus.

Monika Oczkowska, Senior Research Economist CenEA, Szczecin, Poland.

Yaroslava Babych, Head of Macroeconomic Policy Research Center ISET-PI, Tbilisi, Georgia.

Aleksandr Grigoryan, Associate Professor American University of Armenia, Yerevan, Armenia.

Olga Kupets, Policy Professor KSE, Kyiv, Ukraine.

Maria Perrotta Berlin, Assistant Professor SITE, Stockholm, Sweden.

Artyom Shraibman, founder of Sense Analytics and nonresident scholar at the Carnegie Moscow Center.

Elena Panfilova, Founder of the Center for Anti-corruption Research and former Chair of Initiative Transparency International – Russia.





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Olofsgård's primary research areas are political economy, development and applied microeconomics, and he has published widely in both economics and political science journals. He has also been a visiting scholar at the research department of the IMF and done work for among others the World Bank, USAID and the Swedish Parliament.



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The Forum for Research on Eastern Europe and Emerging Economies is a network of academic experts on economic issues in Eastern Europe and the former Soviet Union at BEROE (Minsk), BICEPS (Riga), CEFIR (Moscow), CenEA (Szczecin), KEI (Kiev) and SITE (Stockholm). The weekly FREE Network Policy Brief Series provides research-based analyses of economic policy issues relevant to Eastern Europe and emerging markets. Opinions expressed in policy briefs and other publications are those of the authors; they do not necessarily reflect those of the FREE Network and its research institutes.