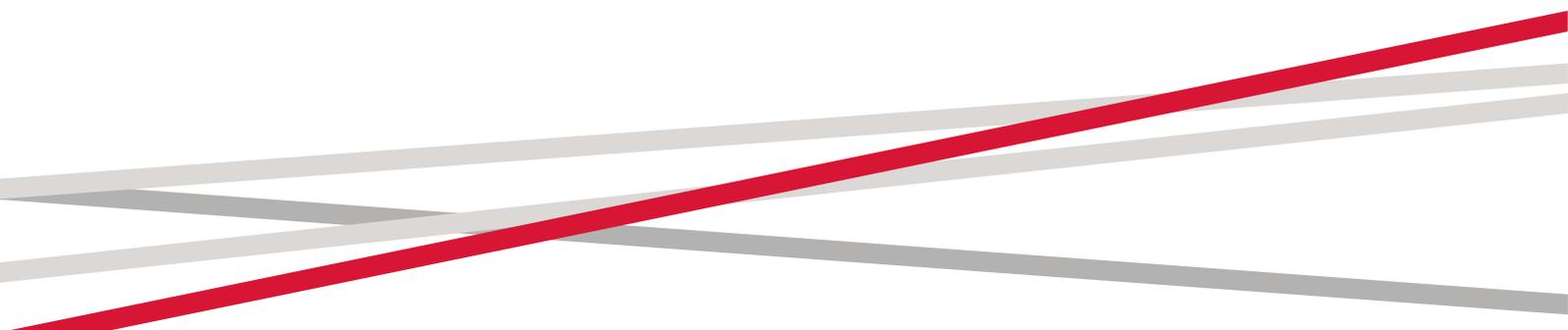


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## **Laissez-faire Covid-19: Economic Consequences in Belarus**

Despite its traditional paternalistic role, the Belarusian government chose minimal reaction to the Covid-19 pandemic. No meaningful economic or social measures were taken in response to the pandemic. We explore a unique dataset to document how major Covid-related shocks affected the earnings of Belarusians in 2020. We utilize the differential timing and sectoral effects of the shocks to identify the impact of Covid-19 on individual socioeconomic outcomes. Not surprisingly, we find that Covid-related shocks increase the probability of an income reduction. This effect is most pronounced for those employed in the private sector. In the absence of a social security net, vulnerable groups had to cope with the economic consequences of the pandemic on their own.



Belarus had its first official case of Covid-19 registered on February 27 and its first death on March 31. At first, the increase in newly registered cases was slower than in most other countries, but at the beginning of April Belarus started to catch up. The peak of the first wave was recorded on May 18 with 943 new daily cases. According to the official statistics, the second wave started in September 2020 and was much more severe than the first one, reaching 1,890 new daily cases by the end of December.

Belarusian authorities did not undertake any substantial interventions, such as lockdowns, to fight the spread of the pandemic. Nevertheless, there were several other key mechanisms through which Covid-19 affected the Belarusian economy. The population's reaction to the risks of contamination led to a substantial fall in mobility that resulted in decreased sales in retail and services requiring physical interaction. For example, sales in the restaurant industry decreased by 20% in 2020. Lockdowns in major international trade partners such as Russia have led to a decrease in demand for Belarusian exports of goods and transportation services. In the face of these economic challenges, the government focused its attention on supporting full employment and production in state-owned enterprises while ignoring the rest of the economy.

In this brief, we present evidence of the economic effects of Covid-19 in Belarus. We employ a unique dataset on socioeconomic outcomes collected by BEROc to study how individuals are affected by Covid-related shocks in mobility and exports. In order to isolate the effects of these shocks on the well-being of Belarusians, we exploit their timing and sectoral differences.

## Measuring Covid-related shocks

Figure 1 depicts changes in the Yandex self-isolation index which measures the use of Yandex services, including Yandex traffic monitoring and customer mobility compared to the average pre-pandemic day (Yandex DataLens, 2021). Individual everyday mobility started to decline in mid-March, and as the first wave of the pandemic gained momentum, mobility reached its lowest point at the end of April. It started to decline again in November-December 2020 following the second wave.

**Figure 1.** Yandex self-isolation index in Belarus, 2020

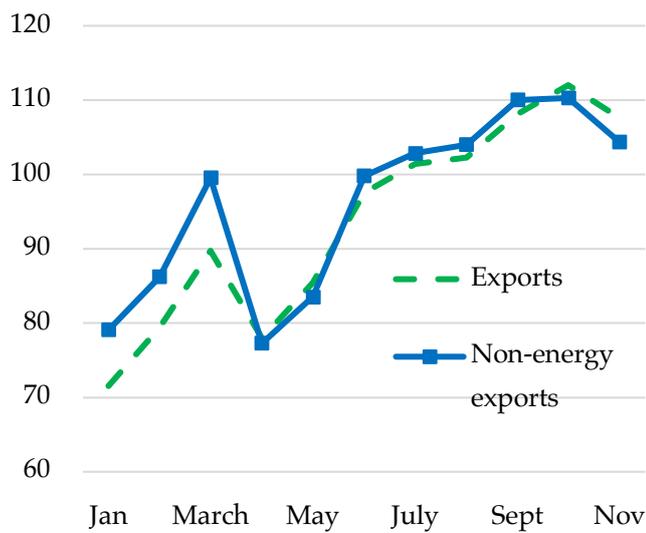


Source: Yandex. The average value during 24 Feb-8 March 2020 set to 100. Seven-day rolling average.

Belarus is a small and open economy with Russia as its main trading partner. The lockdown in Russia that lasted from the end of March until mid-May along with the spring lockdowns in Europe caused a major contraction in external demand for Belarusian goods. Figure 2 shows total physical exports and non-energy physical exports in 2020. The largest difference between total and non-energy exports can be observed in January, February, and March during which Russia and Belarus had an oil-supply dispute. To focus on the effects of the pandemic we use non-energy physical exports to approximate Covid-related exogenous shocks to the economy.



**Figure 2. Physical export indices, Belarus**



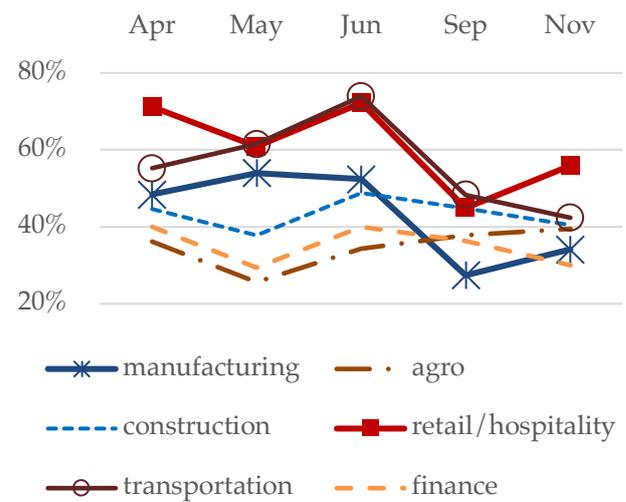
Source: Belstat. December 2019=100.

## Income dynamics

To measure the impact of Covid-19 on Belarusian society, **BEROC**, in cooperation with the marketing and opinion research company **SATIO**, conducted a series of online surveys representative of the urban population of Belarus (Covidonomics, 2021). The five waves of the 2020 survey were carried out on April 17-22, May 8-11, June 8-15, September 11-16, and November 25-30.

Respondents were asked about recent changes to their income, and also to specify the reasons for income reduction (if this was the case), including depreciation of the ruble, salary cut, furlough, etc. Figure 3 depicts the percentage of individuals who reported an income reduction in the previous month for reasons other than currency depreciation by sector of employment. The income reductions peaked in April-June, with the situation relatively stabilizing by September.

**Figure 3. Income dynamics by sector**



Percentage of respondents reporting income reductions in the previous month for reasons other than currency depreciation, Source: BEROC/SATIO data

The fact that the share of respondents reporting termination peaked at 2.9% in May indicates that firms did not use employment reduction to adapt to the pandemic environment. A big share of respondents employed in the service sector reported domestic demand contraction (fewer orders/clients) as a key factor for their income reduction. The industries that took the hardest hit were hospitality-retail and transportation. In early spring, manufacturing appeared to be one of the most affected industries. However, as exports started to recover in June, the share of manufacturing workers that reported an income reduction decreased significantly, becoming one of the lowest across industries.

## Identifying the effects of Covid-19 shocks

In this section, we estimate the probability of facing a reduction in individual income as well as the likelihood of being furloughed due to the Covid-19 pandemic.

In 2020, the Belarusian economy suffered due to the oil-supply dispute with Russia, the Covid-19 pandemic, and the national political crisis. To isolate the effects of Covid-19 from those driven by



the oil dispute and the political crisis, we add interactions between Covid-related shocks and dummies indicating industries affected by those shocks. This implies three interactions with different binary indicators: exports and manufacturing, exports and transportation, and mobility and hospitality/retail.

To estimate these effects, we use a fixed-effects probit regression controlling for sector of employment, education, age, and gender.

**Table 1.** Probability of income reduction and furlough

VARIABLES	income reduction	furlough
(Self-isolation index * retail&hospitality)	0.00587*	0.00741
(Export * manufacturing)	0.0398***	0.0450***
(Export * transport)	0.0203	0.0440**
Private sector	0.370***	0.107
Female	0.0703	0.377**
Observations	3,982	1,195
No.of respondents	987	291

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: Own estimates from BEROC/Satio data. Controls include age, sector of employment, and education level.

Table 1 shows that individuals employed in the hospitality and retail industry face higher risks of an income reduction due to decreased mobility caused by self-isolation behavior. A 10-percentage-point increase in the self-isolation index is associated with a 1.3 percentage point increase in the probability of income reduction for those employed in the retail and hospitality industry. The interaction term between exports and the manufacturing dummy also appears to be statistically significant for various specifications. A 10-percentage-point decline in physical volumes of exports is associated with a 8.6 percentage point increase in the probability of income reduction for manufacturing workers.

Notably, the private sector employment coefficient shows strong statistical significance which highlights the choice of the authorities to support SOEs, with little to no support for the private sector. Being employed in the private sector increases the probability of facing an income reduction by 7.9 percentage points.

## The gender dimension

Despite concerns that women experience larger economic losses due to consequences of the pandemic (Dang and Nguyen, 2021; Alon et al., 2020b), we do not find a statistically significant effect of gender in our sample. In particular, our results offer no evidence of women being more likely to experience an income reduction during the pandemic, similar to findings in Germany (Adams-Prassl et al. 2020c).

While job losses were uncommon during the Covid-19 crisis in Belarus, being furloughed was one of the most common reasons for an income reduction (11.3% of respondents reported being furloughed in May). We also investigate the separate channels through which individuals lose income due to the Covid-related shocks. Notably, the only channel of income reduction that is more prevalent among women than men is through furlough. This finding is consistent with Adams-Prasslet al. (2020a) who argue that this discrepancy can be explained by gender differences in childcare responsibilities.



## Conclusion

Belarus is close to unique in having almost no government response to the Covid-19 pandemic. Despite the absence of lockdowns and other restrictions, the Belarusian economy has experienced several Covid-associated shocks. Due to the economy's openness to trade, it was seriously affected by export contractions. Belarusians have voluntarily reduced their mobility to minimize health risks which has affected the hospitality and retail industry.

We utilize the differential timing and sectoral impact of Covid-related shocks to estimate the pandemic's effect on the socioeconomic outcomes of individuals. By using a unique dataset, we find evidence that the pandemic increased the likelihood of income reductions for Belarusians, mainly due to the effects of decreased mobility and fall in exports. We also find that those employed in the private sector were more likely to suffer from negative shocks, reflecting the policy choice of the Belarusian government to only provide economic support to the state sector. Finally, we show that, while women are as likely as men to see their income reduced, they are significantly more likely to be furloughed.

Many Belarusians saw their well-being deteriorating as a result of the Covid-19 pandemic. In the absence of unemployment benefits and other social protection mechanisms (Umapathi, 2020), those economically affected had to bear the cost of the shocks on their own.

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