3. Special section: The impact of the Coronavirus on CESEE economies

3.1. CENTRAL AND EAST EUROPEAN EU MEMBER STATES

BULGARIA

by Rumen Dobrinsky

Bulgaria was one of the last European countries to report a coronavirus infection, and so far the number of cases detected is limited. Immediately after the first case, the authorities introduced measures to restrict the spread of the infection, such as a ban on mass public events, including theatrical performances, cinema and sports events. Hospitals were locked down and most universities were shut. In fact, the arrival of the coronavirus coincided with a big second wave of seasonal flu, which had resulted in the temporary closure of schools. The biggest risks are associated with the deplorable state of the Bulgarian public healthcare system. A series of counterproductive reforms and lack of investment have led to its dilapidation, the degradation of health care and the departure of medical personnel. In recent years, the protests of public healthcare workers have become chronic. Private health care of better quality is available, but unaffordable to the majority of the Bulgarian population. As to the economic implications, the most visible direct negative effects will include a drop in revenue from tourism and transportation services. Disruptions to trade with Italy (a major trade partner) will also have a negative effect, but trade links with China are limited. However, the secondary effects related to reduced economic activity worldwide, and especially in the EU, could be significant.

CZECH REPUBLIC

by Leon Podkaminer

The Czech public health system is better organised, managed, staffed and funded than elsewhere in the region. It should thus be able to cope with events as they unfold – unless, of course, they assume apocalyptic dimensions. The very high level of internationalisation of the Czech economy could prove troublesome now: the severance of Germany's trading links with China could magnify the problems of the Czech export sector – and thus of the economy as a whole.

ESTONIA

by Sebastian Leitner

As a small, open economy with exports of goods and services accounting for a 75% or so share of GDP, Estonia will be hit by the likely downturn in trade activities in Europe. The impact via direct exports to the worst-hit countries – China and Italy – will be rather small, since only about 1.3% of goods exports are destined for the former country (and even less for Italy). Nevertheless, the indirect effects will be felt via reduced demand from Scandinavian exporters, first and foremost Sweden. In particular, the electronics sector is likely to be hit not only by reduced demand, but also by problems with delivery from the Asian producers of components. However, if the coronavirus spreads to the Scandinavian region, and if trade-inhibiting policy measures are introduced, then many more industrial sectors could face production and export problems. Estonia is, moreover, rather vulnerable due to its high share of tourism income. It is to be expected that in the near future there will be fewer tourists, both foreign and domestic. Possible restrictions on travel to/from Finland and Sweden could sharply reduce the income of the accommodation and catering sector. Another factor will be reduced consumption in general, if people are cautious and more likely to stay at home. Moreover, spending on consumer durables is particularly likely to fall at times of uncertainty. The first temporary school closure occurred in the first week of March. In general, the Estonian health system should be relatively well equipped to handle the coronavirus cases. In order to reduce the labour market impact of negative economic effects, the Estonian government may support short-time working arrangements, as is the case in German industrial sectors. There is enough room for manoeuvre to allow fiscal policies to support the economy via, for example, public investment and tax deferrals. However, the Estonian government is likely to wait for an EU coordinated policy move, instead of proceeding unilaterally.

CROATIA

by Hermine Vidovic

Croatia confirmed its first case of coronavirus at the end of February. Health checks were introduced for people coming from Northern Italy, and several locations were set up for quarantine. At the time of writing, the borders are open, but it has been announced that additional epidemiological teams and health inspectors will be deployed on the borders, if necessary. Croatia’s economy may be affected in two ways. First, it is heavily dependent on tourism, which accounts for about 17% of GDP or more than half of total goods and services exports. This differs significantly from most other EU-CEE countries, where services exports account for a much smaller share of total exports. Thus, depending on how long the virus lasts – especially in Italy, which is one of the main countries of origin for visitors to Croatia – there could be a far-reaching impact on the country’s economy. The sectors affected most would be accommodation, restaurants, transport and travel agencies. A reduction in earnings from tourism would have a negative impact on private consumption, which has recently been one of the main drivers of economic growth. Tourism also plays an important role in offsetting the large trade deficit, and has contributed to current account surpluses in recent years. The second way in which the economy may be affected is through trade. Trade integration with Italy is very high: Italy is the main export destination for Croatian goods and the country’s second most important partner in terms of imports. Trade with China is insignificant, and is almost exclusively restricted to imports.

HUNGARY

by Sándor Richter

According to the ‘international preparedness for pandemic’ rankings, Hungary occupies one of the best positions among the countries of Central and Eastern Europe.[23] Thus, formally the institutional system is in place to face the epidemic. Whether it will be able to deal with the challenge in real life, however, is an open question.

Between 2005 and 2017, public expenditure on the healthcare sector as a percentage of GDP decreased, and at the end of that period was about 2 percentage points lower than the EU average.[24] The healthcare system has long been underfunded, with many hospitals in a desperate state in terms of both buildings and equipment. Not infrequently, hospital patients lack an adequate supply of good-

[23] Raiffeisen Research (2020), ‘Special CEE: Coronavirus economic exposure’, 6 March, p. 4.

[24] Portfolio.hu, 3 March 2020.

quality food, while sanitary products for patients are sometimes provided by their relatives. Doctors and nurses have long been underpaid. Waiting times for medical examinations and treatment are often extremely long.

Since 2011, low wages and unresolved institutional (and other) problems have led to a mass exodus of doctors and other highly trained personnel. It is typical for the younger generation of doctors to emigrate, which leads to a high average age of practising doctors. The vacancies in hospitals and the shortage of specialists and GPs have been a cause for concern for many years, and it could now become a very serious problem, should the coronavirus epidemic spiral out of control.

Sectors that could be particularly affected include tourism, electronics and automotives. First, Hungary is an important tourist destination. Revenues from tourism are the most important item in foreign trade in services, enjoying a very positive balance. The anticipated losses may be mitigated somewhat by fewer Hungarians travelling abroad, with a corresponding upturn in domestic tourism. Second, for electronics, the lack of essential components and parts normally imported from China could lead to delays and bottlenecks in production and in the delivery of devices produced in and exported from Hungary. Third, Hungary's car sector is large and its exposure to trade with the German automotive sector is extremely high. Should the coronavirus hit Germany's car sector, the secondary impact on Hungary may be enormous.

Finally, trade links with China are important, with much greater weight on the import side: trade turnover amounts to close to 6% of GDP. Trade with Italy is similarly important, but there the trade is much more balanced.[25]

LITHUANIA

by Sebastian Leitner

Of the three Baltic States, Lithuania's exports of goods and services accounted for the highest share of GDP (76%) in 2018. However, its production is less bound up with global value chains than that of other CEE countries. The export-oriented production of electronic and electrical appliances is less important than in Estonia and Latvia, while petroleum, petroleum products and downstream industries like chemicals predominate. These sectors are likely to be hit by a general slowdown in external demand; the sharp decline in oil prices is not likely to have a positive quantitative effect on demand for the sector's products. Since production is rather energy intensive in the Lithuanian economy, and since energy claims a large share of the household consumption basket, the declining oil price is likely to result in consumer price deflation. This might result in even greater restraint in private investments in the medium turn. The transport sector is expected to be hit by lower trade volumes in general, and also by reduced transit trade bound for Russia – not only from EU countries, but from around the world, including Asia. This will particularly affect cargo volumes in the ports of Lithuania. As in all other countries, we expect a decline in consumer sentiment to have a temporary negative impact on household consumption. Health care spending in Lithuania, both per capita and as a share of GDP, is among the lowest in the EU. Thus the health system is generally well equipped, but it could reach capacity fairly rapidly if there is a sharp rise in the number of coronavirus cases. Given that Lithuania has a relatively low level of public debt (35% of GDP), the government has enough wiggle room to allow fiscal policies to support the economy, through public investment and tax deferrals, for instance. However, it is likely to wait for a coordinated EU policy plan, rather than go it alone.

25 Raiffeisen Research (2020), 'Special CEE: Coronavirus economic exposure', 6 March, p. 4.

LATVIA

by Sebastian Leitner

Although Latvia is also a small, open economy, its 60% share of exports in GDP is somewhat lower than in most other EU-CEE countries. Exports of machinery and electrical equipment are likely to be most affected, since production depends on imported inputs from Asian countries. However, a general downturn in external demand in the Baltic region will definitely also affect the most important Latvian export sector, which is wood and wooden articles. In the case of services exports, tourism is an important economic activity in the Riga region, which will be hit by a reduction in bookings. In the first week of March, the most important carrier in the Baltic States, the Riga-based Air Baltic, not only cancelled flights to Italy, but also sharply reduced its flight schedule for the coming two months. The transport sector is expected to be hit by lower trade volumes in general, and by reduced transit trade bound for Russia – not only from EU countries, but also from around the world, including Asia. This will particularly affect cargo volumes in Latvian ports. As in all other countries, we expect a decline in consumer sentiment to have a temporary negative impact on household consumption. Although Latvia ranks quite high (17th) in the Global Health Security index, health expenditure both per capita and as a share of GDP is lower than in most other EU countries. Thus the health system is generally well equipped, but it could reach capacity rather rapidly, if there is a steep rise in coronavirus cases. Given the relatively low level of public debt (36% of GDP), the Latvian government has enough room for manoeuvre to allow fiscal policies to support the economy via, for example, public investment and tax deferrals. However, it is likely to wait for a coordinated EU policy plan, rather than taking steps on its own.

POLAND

by Leon Podkaminer

The authorities are beating the coronavirus drum hard, primarily through the government-controlled media. The intention is to burnish the tarnished image of President Duda ahead of the forthcoming election (10 May). The law on infectious diseases was recently revised, extending the authorities' administrative powers quite radically. So far, the number of cases confirmed is fairly low and the healthcare system seems to have been able to cope (though shortages of some equipment and pharmaceuticals have surfaced). But in general, the Polish healthcare system was in disarray before the coronavirus struck – and remains so. Aside from chronic underfunding, a recent rash 'reform' has led to a shortage of medical personnel (with those who remain severely overstretched), silly procedures, heavily indebted hospitals, etc. This does not bode well for the future, should the number of cases confirmed or suspected increase even moderately.

ROMANIA

by Gábor Hunya

The authorities have made similar preparations as in other countries, and they are confident of being able to tackle the emerging problems. The current minister of health and the leader of the department coordinating action against coronavirus are well respected and trusted. But the frequent changes of government and the recent corruption charges against a former minister of heath suggest poor organisational standards in the healthcare system. Hospitals have recurrent problems with disinfection and shortage of medicines. Romania ranks last but one in the Euro Health Consumer Index 2018, which covers 25 countries, and it has the lowest per capita healthcare expenditure in the EU. The country allocates 5.2% of GDP to the health service – again, the lowest in the EU.

Romania has a large economic exposure to Italy, which is Romania's second largest export and import partner, with shares of 11.5% and 9.5%, respectively. Italy is also the fourth largest investor in Romania, with 9.5% of the stocks in 2018. Thus, the disruption of trade would seriously affect thousands of companies and workplaces. China is Romania's sixth largest import partner (with a 5.3% share of imports), but exports are much smaller (only 1% of the total). A large part of the imports consists of inputs to products assembled in Romania.

Italy hosts around 1.3 million Romanian migrants, many of whom regularly travel back and forth. The Romanian authorities have asked the diaspora not to return home for the Orthodox Easter holidays (17-20 April). Blue Air, Romania's largest airline by the number of passengers, has said it will cut back flights. Tourism is of more minor significance for Romania than the movement of migrants.

SLOVENIA

by Hermine Vidovic

Slovenia confirmed its first case of coronavirus in early March. All public healthcare institutions have received guidelines on how to treat anyone suspected of being infected with coronavirus in primary health care and hospital. It is expected that checks on passengers arriving at Ljubljana airport will be introduced, as well as controls on the border with Italy. The government has announced a stimulus package worth a billion euro to mitigate the impact of the coronavirus on the economy. It includes both short- and long-term measures, such as tax deferrals, state guarantees and credit lines. Slovenia could well be hit by the coronavirus, particularly trade and tourism. Hotels are daily reporting cancellations and fewer bookings. Depending on the duration of the virus spread, it could also affect the summer season, which has become an important economic factor in recent years. Tourism accounts for 12% of GDP. Apart from tourism, trade integration with Italy is very high: it is Slovenia's second most important trading partner, accounting for almost 12% of exports and 14% of imports. Trade relations with China are negligible. Finally, transhipment volumes at the port of Koper, Slovenia's sole commercial port, are likely to be affected – in particular, container cargo and vehicles.

SLOVAKIA

by Doris Hanzl-Weiss

As Slovakia is one of the most open countries in the region – with its ratio of goods and services trade to GDP standing at 189% in 2019 – it would suffer particularly badly from a slowdown caused by the coronavirus. Imports of goods from China are important (6.3% of total imports – in third place, behind imports from Germany and the Czech Republic), whereas exports to the Chinese market are smaller and account for only 2.1%. Imports of goods from Italy have a 3.4% share, while exports are quite substantial, at 4.6%. Transport and travel (tourism) are important in terms of services exports, where they each hold a share of one third of services. Several preventive measures have been taken in the meantime. Slovakia's preparedness in terms of the healthcare system seems to be not that good. Healthcare expenditure reached 6.74% of GDP in 2017, which is below the EU average. A reform of hospitals was not adopted in December 2019. There is a shortage of doctors and nurses (as many have left to work abroad).

3.2. WESTERN BALKANS

ALBANIA

by Isilda Mara

No country is immune and no country is well prepared to deal with the new pandemic.[26] In terms of population structure, COVID-19 has been particularly affecting the age group 65+. In Albania, the population aged 65+ is estimated at 14.7% in 2020 (compared to 23.3% in Italy) – among the lowest of the European countries. Given that, we might expect the impact on the population to be less severe than in other countries where population ageing is more pronounced. Nevertheless, there are a number of structural drawbacks in Albania. Government spending on health does not exceed 4% of GDP[27] (or at least it did not between 2010 and 2017). In per capita terms, Albania has the lowest number of doctors and nurses – less than half the EU27 average.[28] The first 'patient zero' with COVID-19 in Albania was registered on 9 March – an Albanian man returning from Florence, a region of Italy that was not identified as a red zone at the end of February. Taken together, Italy and Greece host a community of Albanians that stands at more than 1 million. There is an influx into Albania of more than a thousand people a day from Italy and Greece. The risks of COVID-19 being spread are high, given the considerable mobility between the neighbouring countries. The response of the Albanian government has been swift: all flights and connections with Northern Italy – including maritime connections – have been suspended. Thousands of families risk being separated, with some members in Albania and others in Italy. It is highly probable that the COVID-19 emergency will have a domino effect on Albania's economy, given that Italy is one of its main economic partners. Italy has 27% of Albania's FDI stock, and in 2019 it was one of the main countries sending FDI to Albania. Close to half of foreign enterprises operating in Albania are Italian, and as of 2018 they accounted for 45% of all enterprises. Trade volume with Italy amounted to 48% of exports and 25% of imports in 2019. China is also an important partner, especially as concerns imports, with a share of 9.2% in 2019. The textile and garment industry is where Italian-Albanian cooperation is most intensive, and the sector is also an important source of employment. The shutdown of activity at a number of enterprises in Northern Italy will also affect a large section of the Albanian community working and living there. Consequently, there may well be a negative impact on the flow of remittances, if the COVID-19 emergency in Italy is prolonged. Italy was already close to recession prior to the COVID-19 emergency, and, if extended through much of 2020, the economic fallout would certainly also retard the Albanian economy.

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26 The Global Health Security Index released on October 2019 pointed out that overall 'countries are not prepared for a globally catastrophic biological event, including those that could be caused by the international spread of a new or emerging pathogen or by the deliberate or accidental release of a dangerous or engineered agent or organism'. Source: Global Health Security Index 2019, page 44. https://www.ghsindex.org/wp-content/uploads/2019/10/2019-Global-Health-Security-Index.pdf

27 http://apps.who.int/nha/database/ViewData/Indicators/en

28 Eurostat: Health personnel by NUTS 2 regions [hlth_rs_prsrg]; Nursing and caring professionals [hlth_rs_prsns].

BOSNIA AND HERZEGOVINA

by Bernd Christoph Ströhm

In response to the looming COVID-19 epidemic, BiH has introduced some precautionary measures, including an intensification of border controls and an increase in medical supplies. The central government has further advised schools to cancel trips to countries and regions with reported COVID-19 cases. Border police at the country's airports have been instructed to collect the contact details of people arriving from Iran, Italy, China and South Korea. At the beginning of March, the Bosnian carrier FlyBosnia also cancelled its Sarajevo–Rome flights to prevent the spread of coronavirus. However, the federal structure of BiH could create difficulties for the central government in effectively handling a COVID-19 outbreak, since both entities within the country have their own decentralised health ministries and healthcare systems. The uncertainty caused by the possible COVID-19 pandemic is also having an adverse effect on goods imports and exports between BiH and Italy, South Korea and Japan: these declined in the first two months of 2020, compared to the same period last year. In particular, exports from BiH to Italy dropped during this period by about EUR 8.4 million. Exports to China, however, increased slightly.

MONTENEGRO

by Bernd Christoph Ströhm

Montenegro's Public Health Institute has issued recommendations for employers, colleges and schools, in order to facilitate the creation and development of prevention and treatment plans in the event of a coronavirus epidemic. The government has further announced the establishment of quarantine facilities in the Danilovgrad and Niksic municipalities, and at the former military base of Zoganje, near the town of Ulcinj, in case of a COVID-19 epidemic within the country. Especially the establishment of the quarantine zone near Ulcinj could severely damage tourism, since that is one of the country's most popular destinations. To reduce the risk of infection, Montenegrin airports have temporarily suspended flights to Northern Italy. Passengers from China and Italy arriving at the airport are routinely checked by the border police for COVID-19 symptoms. The coronavirus outbreak in China could slow down the progress of the Bar–Boljare motorway construction project, since about 800 Chinese workers engaged on the project are currently at home in China – and even if they return to Montenegro, they will not resume work immediately. The Health Ministry has furthermore announced that the 393 Chinese workers from the Chinese company CRBC who are currently working on the Bar–Boljare motorway project are being closely monitored.

NORTH MACEDONIA

by Bernd Christoph Ströhm

Government preparations for a potential COVID-19 epidemic are well in hand. The Health Ministry has enforced procedures in line with the recommendations of the European Centre for Disease Prevention and Control and the World Health Organization, including the quarantining of travellers who test positive for coronavirus. At land borders, the Border Patrol is instructed to carry out heightened control checks on travellers who have been in countries with a high COVID-19 infection rate (in particular, Italy and China). Moreover, the authorities are conducting the thermal screening of passengers on all incoming flights at both Skopje International Airport and Ohrid Airport. The government has advised citizens against travelling to Italy and other countries with a high incidence of COVID-19. Following a huge upsurge in purchases of hygiene and disinfectant products in February/March, the government has urged retailers not to exploit the panic of citizens by raising the prices of certain products. Especially North Macedonia's service and tourism sector will likely suffer from the uncertainty caused by COVID-19. Shoe and textile companies that cooperate with Italy, as well as companies involved in the automotive sector, may experience a decline in demand and exports.

SERBIA

by Richard Grieveson

Serbia confirmed its first case of coronavirus in early March. Increased controls have been put in place for travel to and from China and Italy, and further measures are possible. Tourism accounts for around 7% of GDP, below the CESEE average (of around 10%). Net energy imports accounted for around 5% of GDP in 2018, so Serbia should benefit from the decline in the oil price. Like most of Southeast Europe, Serbia has a fairly high level of trade integration with Italy (9.4% of GDP for exports and imports combined in 2019). The knock-on effects from economic dislocation in Italy are therefore likely to be quite significant for Serbia. Total trade with China accounts for 4.5% of GDP, but is almost entirely composed of imports. As a result, the fallout from China is likely to be largely a supply shock. In February, Fiat Chrysler halted production in Serbia in direct response to the coronavirus, saying that it could not get access to necessary parts from China.

KOSOVO

by Isilda Mara

The downside effects of COVID-19 on Kosovo's economy are likely to be largely indirect, rather than direct, because of the exposure of its main economic partners – i.e. Germany, Switzerland, Italy and Albania – to the economic fallout. As in other Western Balkan countries, health expenditure is exceptionally low in Kosovo – only around 2% of GDP in 2017.[29] The quality of the healthcare services – proxied by the number of health professionals at the disposal of the population[30] – suggests inadequate coverage, especially in rural areas. So far, Kosovo has not recorded any patients infected with COVID-19, but it can only be a question of time. The government has interrupted all transport connections with Italy until the first week of April, but the risks of contamination remain high. In terms of trade relations, exports from Kosovo go mainly to European countries. As concerns imports, the downside risks are higher, since there is a dependence on both China – which has a 10% share of Kosovo's imports – and other European countries, especially Germany and Italy. The slowdown in imports is very likely to curb consumption and consequently growth. Also the tourism sector may be negatively affected, given the disruption of mobility with Italy (and some other European countries), especially if the downside effects are protracted.

29 https://ec.europa.eu/eurostat/statistics-explained/index.php/Enlargement_countries_-_health_statistics#Public_expenditure_on_health

30 https://ask.rks-gov.net/sq/agjencia-e-statistikave-te-kosoves/add-news/statistikat-e-shendetesise-2018

3.3. CIS AND UKRAINE

BELARUS

by Rumen Dobrinsky

The spread of the coronavirus infection in Belarus has so far been limited, mostly due to the relatively low international mobility of the population. The Soviet-type healthcare system in the country is, in principle, well developed; however, the quality of care has been deteriorating due to lack of investment. Thus, it is not clear how the system would endure a powerful shock in the event of a mass epidemic. The negative implications for the Belarusian economy are mostly related to secondary effects, such as the sharp fall in oil prices (refined oil is a major export item for Belarus) and possibly reduced import demand from the country's main trading partner, Russia. The Belarusian current account balance may also be negatively affected; this could put extra pressure on the currency, which was already being dragged down by the plunge of the Russian rouble.

KAZAKHSTAN

by Alexandra Bykova

Kazakhstan's general preparedness for epidemics is rather weak, according to the Global Health Security (GHS) Index, which ranks it 83rd out of 195 countries; only three CESEE countries rank lower, and its score is only slightly above the global average. According to the GHS assessment, Kazakhstan underperforms in terms of the detection of diseases, but has above-average performance in their prevention. Currently, the government's response to the coronavirus threat focuses on prevention. This includes travel restrictions, medical checks at the border, and a 14-day quarantine or monitoring of persons entering Kazakhstan, depending on the country of origin. Passenger transportation from China was suspended relatively early on, at the beginning of February. Since 8 March, there has been a ban on the citizens of China, Iran and South Korea entering Kazakhstan.

The indicators on the physical capacity of the health system in Kazakhstan are comparable with OECD averages. Towards the end of 2018, there were 53 hospital beds and 40 doctors per 10,000 inhabitants. However, the quality of health care has suffered for years from rather low funding by international standards: according to WHO data for 2017, health expenditure amounted to 3.1% of GDP. Ongoing modernisation of the health system is slow and relies partly on international assistance (the recent EBRD confirmation that it will finance the construction of new hospitals being one example). The high prevalence of chronic conditions – especially cardiovascular and respiratory disease – is responsible for higher mortality rates and lower life expectancy than are to be found in other countries with the same income level, according to a 2018 OECD assessment. That could place an additional strain on the health system of Kazakhstan in the event of an outbreak.

The spread of coronavirus and the resultant production disruption in China have triggered the downward movement of global commodity prices, on the back of lower demand expectations. Since the export of mineral products accounted for 72.8% of Kazakhstan's total merchandise exports in 2019, this has weighed negatively on oil export revenue expectations for 2020. The oil price crash of 9 March that followed the collapse of the OPEC+ agreement on additional cuts in oil production seriously challenges the economic growth prospects of Kazakhstan this year. A decline in the volume of exported commodities as a result of possible lower demand for raw materials could amplify the negative impact.

Consequently, the worsening of the financial performance of large enterprises in mining and metallurgy will drain revenue flow to the budget and the National Oil Fund throughout the year. Simultaneously, the possible spread of the coronavirus in Kazakhstan could necessitate additional expenditure on disease prevention and health care. The difficult fiscal conditions will be accompanied by high depreciation pressure on the tenge in the aftermath of the oil price slump.

Significant vulnerabilities also arise due to Kazakhstan's high level of trade integration with China, Italy and South Korea – the countries currently worst hit by the outbreak, if measured by the number of recorded coronavirus cases. Those countries generate about a third of Kazakhstan's foreign trade, with almost equal shares of exports and imports. Apart from the country's export-related difficulties, the possible disruption of imports could have a negative economic impact. Any delay in the supply of imported goods from China, especially those with no domestic substitutes, could lead to shortages and rising prices. On 2 March, the violation of phytosanitary requirements led to a temporary ban being imposed on fruit imports from China. This could further accelerate food price inflation, which was already high even before the coronavirus outbreak. Delays in the supply of capital goods from China and South Korea could hamper infrastructure projects and the modernisation of production facilities through delays, higher investment costs and the possible 'economic contagion' effect for local partners. Such service sectors as transport and trade will be affected by disruptions to external activity. The national railway company, Kazakhstan Temir Zholy, reported a 39% decline year on year in container cargo transportation in February 2020. Additionally, the travel restrictions imposed will reduce cross-border shuttle trade by individuals (estimated at USD 2.5 billion in 2019) and could affect this source of personal income.

As a reaction to the oil price shock of 9 March, the government and the National Bank of Kazakhstan issued a joint statement announcing measures to maintain macroeconomic and social stability. The fiscal policy will reportedly be adjusted to meet social obligations. The budget, based on an oil price of USD 50–55 per barrel, is to be revised and 'non-priority' expenditure will be cut. Some investment projects will also be put on hold. Administrative control will be introduced to contain the prices of socially significant products, to avoid layoffs and ensure the timely payment of wages. It is intended to create additional public-works jobs. Large state-controlled companies have been asked to make foreign currency purchases only for their current needs, to coordinate these with the National Bank, and to postpone their investment projects. Measures to maintain banking-system stability will be introduced soon. To prevent the acceleration of inflation, the National Bank increased the policy rate to 12% on 10 March, and will carry out foreign exchange interventions to stabilise the tenge. At the end of January 2020, the assets of the National Oil Fund amounted to USD 61.1 billion. International reserves were put at the same time at USD 29.3 billion, consisting of 67% gold – a safe asset in an unstable global environment. All this offers Kazakhstan enough financial space to counteract the current economic shocks with expansionary fiscal policy, and to support the tenge with currency interventions.

MOLDOVA

by Gábor Hunya

Europe's poorest country has limited means to resist an epidemic crisis. The country allocates only 4.4% of GDP to health care – lower than any country in the EU. Local health authorities have said that the country has prepared a 'pandemic plan', and it has imposed stricter border-crossing checks. A strong WHO office provides continuous support to the health authorities. Italy has been one of the main emigration destinations in recent years: it has a Moldovan population of some 130,000, and unofficial migrants also travel regularly between Moldova and Italy. Italy has an 11.4% share in Moldova's exports and a 6.8% share in its imports. China's share is 0.7% of exports and 10.4% of imports. The country has no significant tourism. But many people may want to return for the upcoming Orthodox Easter holidays (17–20 April) and they could import the virus. The temperature of people arriving is measured at the airport, but not at land border stations. People giving false information about their country of origin and their address in Moldova could present a major risk in identifying the contacts of potentially infected persons, according to local media reports.

RUSSIA

by Vasily Astrov

In Russia, the spread of the coronavirus has so far been contained, not least thanks to timely warnings and outright restrictions on cross-border travel with those countries most affected by the virus, such as China, Iran and Italy. However, Russian oil exports to China dropped by around one third at the start of 2020, resulting in a 4% overall export decline. Whether lower export volumes will be sustained in the remainder of the year is, however, questionable: Russia has opposed further oil production cuts, and this has brought down the OPEC+ deal and effectively sparked a price war on the global oil market.

The main risk for the Russian economy in this context is the plunging oil price: at the time this report was finalised (9 March 2020), the price was already approaching USD 30 per barrel, and may well drop further. The effects of this are likely to be twofold. First, the Russian rouble has been depreciating in line with the oil price decline, and that will boost inflation in coming months. In these circumstances, the central bank will abstain from its easing cycle pursued so far, and may even revert to policy tightening. Second, and more importantly, given the shortfall in fiscal revenues, the sovereign National Welfare Fund will be likely used to finance the budget deficit rather than the national projects, especially those that rely heavily on investments. Instead, the government priority will be social spending and possibly 'rescue packages' for those sectors most vulnerable to the coronavirus shock, such as travel, transportation and catering. All in all, the impact of the coronavirus even in the 'mild scenario' will be a drop in real GDP growth of around 1 percentage point this year.

UKRAINE

by Olga Pindyuk

As of 10 March 2020, only one COVID-19 case has been registered in Ukraine. However, given the large flows of tourists and labour migrants between Ukraine and the EU (including Italy), an increase in the number of cases is likely soon. Ukrainian airports and border checkpoints continue to take the temperature of new arrivals, but according to the WHO this measure does not help slow the spread of the coronavirus. The government has undertaken a series of preparations, such as establishing 2,000 isolation rooms in infectious disease wards throughout the country; taking delivery from the WHO of COVID-19 testing kits for about 950 people; and starting training programmes for medics, first responders, police and local authorities. But these measures are likely to be insufficient if there is a large-scale outbreak. As the recent measles epidemic showed, the country's healthcare system lacks the resources to respond to emergencies of this ilk.

The vulnerability of Ukraine's economy to the effects of the coronavirus is limited by its low level of involvement in global production chains; thus, one of the main channels for crisis transmission is likely to be through commodity prices. On the one hand, the economy will benefit from lower energy prices; on the other, a significant plunge in the prices of agricultural commodities and iron ore could wipe out the gains.

Remittances from abroad – an important source of external financing for the country – are not significantly affected at the moment, as Italy accounts for only a small share of remittances (4.4% in 2018). However, if the economic fallout from the virus becomes more pronounced in Poland and the Czech Republic, Ukraine could be severely affected through the remittances channel.

A significant risk is capital flight, which is aggravated by rising political uncertainty. The yield on government bonds has already started to increase recently, and the national currency has depreciated by 4% over the past two weeks.

3.4. TURKEY

by Richard Grieveson

At the time of writing, Turkey has no confirmed cases of coronavirus. However, many neighbouring countries do, and so the chances of this situation lasting look slim. The land border with Iran was closed and flights between the countries were suspended in February. And in March, the border with Iraq was closed. This is more serious from an economic perspective: Iraq is Turkey's ninth biggest trade partner, with bilateral trade equivalent to 1.5% of Turkish GDP in 2019 (Iran, by contrast, accounts for less than half of that).

Turkey is not as vulnerable as some other parts of CESEE to the economic fallout from the virus. As a net energy importer, it stands to gain a lot from the collapse in the price of crude oil. This should also significantly curtail inflation, which is still in double digits. By CESEE standards, Turkey is also not very economically integrated with either China or Italy.

There are two key areas of potential vulnerability for Turkey. The first is tourism, which accounts for over 10% of GDP. Turkey has pitched itself as a 'coronavirus-free' destination for tourists, which could limit the impact for now. However, it seems very unlikely that this will last. Even if Turkey reports just a few cases, many tourists may cancel their plans, irrespective of the number of cases at their destination.

The second big risk is general capital flight in a 'risk-off' environment. Coronavirus comes at a time of escalating international tensions related to Turkey's involvement in Syria. This could lead to a further depreciation of the lira, with negative knock-on effects for macroeconomic stability and growth.