The Impacts of COVID-19 on the Real Sector of Economy and Anticrisis Measures Effectiveness in the Republic of Armenia

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Abstract
In response to the economic and social impact of COVID-19 pandemic, the Government of Armenia launched the anti-crisis support economic and social programs, which level of effectiveness are questionable, despite the fact that they contributed to averting the deep economic recession and avoiding grave social challenges that might have emerged. Thus, in order to face more serious challenges in the future, it is necessary to reconsider the scope of anti-crisis measures, allocations and the scope of their beneficiaries. One of the most effective ways to overcome such economic crisis could be the provision of sufficient liquidity into the economy, which could help avoid a sharp decline in both aggregate supply and aggregate demand, otherwise the economy would inevitably enter a long-term downturn. As we can see, the volume of these injections in Armenia was far from sufficient, as a result of which the deep decline amounting to -7.6% was registered.

Keywords: anti-crisis measures, coronavirus pandemic, economy

JEL Classification: H12

1. Introduction
The openness of national economies and the globalization of world economic processes contributed to the fact that in the shortest possible time any manifestation can rapidly spread economic instability in one country and around the world, and taking more and more complex forms, turn into a global economic crisis. Their seriousness and the negative consequences of the crises on each national economy largely depends on the economic policy conducted by the given state and the anti-crisis policy efficiency[4, p.4].

The new coronavirus pandemic, called COVID-19, originated in Wuhan, central China's Hubei province, in late 2019 and has spread rapidly to more than 200 countries in Europe, Asia, the United States, and Africa (McKibbin W. J., Fernando R 2020). On January 30, 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 as a global emergency, given the risk it poses to public health (Nicola M., et al, 2020). In fact, the rapid spread of the virus led to the new coronavirus becoming an unprecedented global infection in the first three months of 2020, and on March 11, 2020, the WHO announced the COVID-19 outbreak global pandemic. However, some experts believe that although the COVID-19 virus is highly contagious, in many cases, its death rate is still no higher than that of any seasonal flu (Weder di Mauro B 2020).
As early as March 2020, it was clear that COVID-19 would cause a global crisis that could be contagious both economically and medically (Baldwin R., Weder di Mauro B., 2020). Indeed, the coronavirus pandemic, along with the health crisis, caused an economic crisis, disrupting the normal course of the world economy and causing it to stagnate, which in turn provoked uncertainties about the expected further effects of the pandemic on the world economy (Salisu A. A., et al.).

In most places, whereas the incidence of the virus is still prevalent, Governments face the difficult choice between public safety and reviving the economy. This is particularly prominent in countries with workforces comprised largely by informal workers, where (rather than whereas) countries lack in capacities to economically balance the effects of the lockdown, and with the vulnerable and marginalized communities bearing the negative impacts of the economic and the health losses.

Naturally, the levels of economic decline varied from country to country, depending on the nature of the economy, the impact factors and level of the pandemic, the nature of the restrictions applied, the scope of support measures and targets. In particular, the average decline in Central and East Asia in 2020 was -2.9%, and the decline in global GDP was -3.1%. As for the European countries, the level of economic decline in some countries was quite high. Thus, in the United Kingdom in the second quarter of 2020, there was a sharp decline of -21.7%, and in France, where the lockdown measures were considered the most severe, GDP fell by -13.8% after a decline of -5.9% in the previous quarter. In the second quarter of 2020, GDP in Italy, Canada, and Germany also fell sharply by -12.4%, -12.0%, and -9.7%, respectively, compared to -5.4%, -2.1%, and -2.0% in the previous quarter. In Japan, where restraint measures were relatively mild, GDP shrank by -7.8% in the second quarter of 2020 from 0.6% in the previous quarter (International Monetary Fund (2020)World Economic Outlook, April 2021. Available from https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021).

It is clear that the longer and more severe the restriction measures, the higher the risk for regional economies. Realizing this, the countries were trying to ease the general restrictions as soon as possible. Against the further mitigation context, in the summer of 2020, targeted (localized) restrictions were already applied in several countries to mitigate the negative impacts on the economy as much as possible. However, already in the fall of 2020, some countries around the world returned to strict national restrictions from time to time to mitigate the negative effects of the second wave of the pandemic before the launch of large-scale vaccinations.

Because of COVID-19 crisis governments around the world were operating in a context of radical uncertainty, and faced with difficult trade-offs given the health, economic and social challenges it raises. More than half of the world’s population has experienced a lockdown with strong containment measures –the first time in history that such measures are applied on such a large scale. Stringent containment measures and non-pharmaceutical interventions were effective in containing the spread of the coronavirus disease (COVID-19) and limiting fatalities, ensuring that the medical systems around the world were not overwhelmed[3]. It should be noted that the coronavirus itself is not as terrible for the economy, as the steps that almost all countries in the world have to take to protect themselves from it. While the lives saved have laid the foundation for a resumption of growth in the medium term [2] the Great Lockdown resulted in large short-term economic losses and a decline in global economic activity not seen since the Great Depression[1]. Beyond the health and human tragedy of COVID-19, the latter caused global economic challenges for almost all
countries of the world. It should be noted, that the regional and local impact of the crisis is highly asymmetric within countries. Some regions, particularly the more vulnerable ones, such as deprived urban areas, have been harder hit than others. Certain vulnerable populations, too, have been more affected. In economic terms, the impact of the crisis is differing across regions, at least in its initial stages. Differentiating factors include a region’s exposure to tradable sectors, its exposure to global value chains and its specialisation, such as tourism.

It should be noted that the stock market situation was directly affected by external factors, as was the case with the 2008 global financial crisis. The stock market fluctuated sharply in response to the news of COVID-19 outbreaks in the United States from mid-February to early March 2020. The further fluctuations recorded in March-April 2020 were related to the policy decisions made by the US Government regarding the spread of the pandemic, which primarily concerned monetary and fiscal policy measures. The stock market fell sharply in early 2020, reaching their lowest level in March. In March 2020, the US stock market stopped trading four times in just ten days, which has been unprecedented since 1997 (Zhang D., et al., 2020).


2. Data and Methods

The Republic of Armenia, like many countries around the world, has been seriously affected by health and economic challenges due to Covid-19 pandemic. In the early stages of the pandemic, there was a sharp increase in the number of COVID-19 cases in our country, with a fairly high level of infection per capita. The situation was fraught with negative consequences for the economy of the country. The first negative signals were seen on February 24, 2020, when the Government of Armenia decided to suspend land communication with the Islamic Republic of Iran for two weeks. This period coincided with the pre-holiday period of Nowruz celebrated by Iranians, when a large number of Iranian tourists usually arrive in Armenia, the number of which, according to some estimates, averaged between 25 and 45 thousand people from mid-March to early April. This, indeed, had already a certain negative impact on such sectors of our country’s economy as tourism, trade and services. Naturally, this was only one of the directions in which the pandemic affected the Armenian economy. This was followed by the fall in international commodity prices, export restrictions, and the forced lockdown of the economy.

The first confirmed case of coronavirus infection in Armenia was registered on March 1, 2020, after which the cases began to increase quite sharply. On March 16, 2020, the Government declared a two-month state of emergency, which was later extended three times until September 11, 2020. At the same time, the Government imposed a number of restrictive measures, including the mandatory wearing of masks, self-isolation, curfew, closure of
schools, and the ban on the arrival of foreign nationals from high-risk countries. Fines were imposed for violating the requirements of the state of emergency.

Due to the economic impacts caused by the pandemic, for the first time since 2009 a grave decline was registered in the Armenian economy. According to the press release of the National Statistical Committee of Armenia, in 2020 the volume of Armenia's gross domestic product amounted to 6 trillion 183 billion 742 millionAMD (about 12 billion 645 million USD) when a 7.6% economic decline was registered(Central Statistics Committee of the Republic of Armenia (2020). Gross domestic product 2020 [statistics]. Available from https://armstat.am database). This was the sharpest decline in the country’s economic activity since 2009. At the same time, according to quarterly data, the deepest decline was recorded in the second quarter of 2020 amounting to 13.7%, when the general economic restrictions were applied.

At the same time, the trade and service sectors contributed the most to the economic downturn with 5.02 percentage points, industry with 0.27 percentage points, construction -0.41 percentage points, agriculture with 0.48 percentage points( Statistical Committee of the Republic of Armenia (2020). Social-economic situation in Armenia 2020 [statistics]. Available from https://armstat.am database). In the peak of the lockdown, in April 2020, the economic activity fell by 16.4% compared with the previous year. At the same time, the decline in construction was 51%, in the trade sector - 33%. Though during the summer months, the economic activity gradually began to recover, but as of August, the latter was 9.8% lower than in the same period last year.

In 2020 according to the annual results, the mining industry increased by 12.0%, the processing industry decreased by 3.4%, the accommodation and catering organization by 45.1%, the retail and wholesale trade by 11.7%, the information and communication sector increased by 6.2 %, while financial and insurance activity by 7.8%( Statistical Committee of the Republic of Armenia (2020). Social-economic situation in Armenia 2020 [statistics]. Available from https://armstat.am database).

Due to the spread of the economic effects of the pandemic, at the end of April 2020, the Government of Armenia revised the key indicators of the 2020 state budget. In particular, the state budget deficit was increased from 160.7 billion AMD to 324 billion AMD. In addition, the previously projected 4.9% economic growth forecast was reduced to 2%. Two months later, according to the July data of the Central Bank of Armenia, instead of economic growth in Armenia, a 4% decline was forecasted, and later, according to the Central Bank’s forecast, the decline was to reach 6.2% by the end of September. However, the actual economic downturn exceeded the forecast by 1.4%.

In response to the economic and social impact of COVID-19, the Government of Armenia launched the anti-crisis support program amounting to 150 billion USD, which constitutes about 2.3 % of Armenia’s GDP. The anti-crisis package included 25 measures aimed at alleviating the socio-economic problems caused by the pandemic crisis. Taking into account the impact of the economic consequences of the pandemic on the Armenian economy and the restrictions, the anti-crisis measures were divided into three main directions:

- Subsidizing loans for 2-3 years to provide short-term assistance to affected organizations;
- Providing direct subsidies to businesses to support jobs;
- Provide one-time compensation to vulnerable groups, including those who have become unemployed, families with or expecting children, micro-enterprises after the outbreak of COVID-19, as well as support for utility expenses.

Volumetric distribution of anti-pandemic measures in Armenia in 2020 as of April 25, had the following image.

- 25 billion AMD (0.38% of GDP) for economic programs,
- 25 billion AMD(0.38% of GDP) for social programs,
- 80 billion AMD (1.22% of GDP) for long-term development programs,
- 20 billion AMD(0.31% of GDP) - reserve funds for redistributions in case of necessity.

Although the total budget of the anti-crisis package was initially set at 150 billion AMD (about 313 million USD), as of September 10, 2020, the Government had spent 163.4 billion AMD (340 million US dollars or 2.5% of GDP) - 13.4 billion AMD more than the approved initial support volume[4 p.99].

Measures to support enterprises included mitigation of liquidity risks through co-financing of loans through refinancing, as well as interest rate subsidies. Entrepreneurs could apply for soft loans to be able to provide salaries and pay for equipment, raw materials, as well as taxes, duties, and utilities. The maximum amount of financial support for the business sector for one organization was 500 million AMD(about 1 million USD).

An additional program was introduced for SMEs operating in the fields of tourism, agriculture, food and manufacturing, which allowed them to receive loans in the amount of 2.5 to 50 million AMD, with a six-month privileged period, without interest rates for the first two years, and with the application of 12% interest rate from the third year. As of mid-May, loan application amounting to 17 million USD were approved for 744 entities.

Special measures to support other areas were also adopted. Although the sector of agriculture was not considered to be directly affected by the pandemic due to the lack of compulsory restrictions and social distance requirements, agricultural companies suffered significant losses due to the sharp decline in demand for their products, which in turn caused serious financial difficulties for organizations and individuals engaged in the field. In view of this, the Government of Armenia approved a specific support program for agricultural organizations and cooperative farms in the form of interest rate subsidies and co-financing mechanisms. In addition, a special measure was adopted, under which grape producers, wine and brandy companies had the opportunity to apply to banks for soft loans, the interest rates for which would be fully subsidized by the Government.

The anti-crisis measure adopted by the Government to support transport companies in the tourism sector aimed to support the repayment of 75% of the debt on current loan interest rates for the period from April 2020 to March 2021.

Further, to promote the entrepreneurship sector, the Government promoted entrepreneurship in IT sector through interest-free one-time grant loans to help individuals start their own businesses. To encourage job retention, the Government of Armenia adopted a wage subsidy program, in the frames of which enterprises with 2 to 50 employees received one-time grants to pay the salaries of every fifth employee (support for enterprises with less than five employees was equal to the ration between the monthly salary fund and thenumber of employees). At the same time, a similar measure was introduced in May for enterprises with up to 100 employees, provided that the latter have not laid off their staff since February 2020.

The Government of Armenia also adopted social assistance measures, such as one-time payments amounting to 68,000 AMD(approximately 140 USD) for low-income citizens who lost their jobs between mid-March 2020 and June 1, 2020. The anti-crisis measures provided additional financial support to pregnant women, low-income families, students, and citizens who worked in areas significantly affected by the crisis (including hospitality industry, tourism, and retail).

As part of employment assistance, the Government of Armenia also approved an additional assistance package to create 1,000 temporary jobs in agriculture.

On April 13, 2020, the Government began to gradually reopen the economy, allowing certain sectors to resume operations, including industry and construction. One week later, the activities of the wholesale-retail trade, information-communication services, professional-administrative spheres resumed. Restrictions on free movement were lifted in May, restaurants and cafes, parks and beauty salons reopened, and public transport was fully restored. However, the state of emergency remained in force until September 11, 2020. After, it was replaced by a quarantine regime, which was extended until January 11, 2021. This allowed the Government to continue to implement safety measures and restrictions in the field of public health against the pandemic.

3. Results and Discussion

The effectiveness of the anti-crisis economic and social measures implemented by the Government of the Republic of Armenia to overcome the socio-economic impacts of the pandemic can be assessed through the following three criteria:

- financial allocations volume and GDP ratio,
- Stakeholders circle,
- Efficiency and ease of organization.

As about of the volume of anti-crisis measures announced by the Armenian government amounted to 163.4 billion AMD, the ratio of which to the country's GDP is 2.5%. If we consider only the actual support without banking loans, the latter is much lower. Indeed, these measures made it possible to partially neutralize the initial effects of the crisis by solving certain economic and social problems, but the volume of the latter was obviously small enough to speak about the complete neutralization of the economic consequences of the pandemic. For comparison, this figure was much higher in most post-Soviet countries, for example, Estonia - 8%, Lithuania - 4.7%, Georgia - 7.1%, Azerbaijan - 4%, Belarus - 4%. And if we compare with developed countries, where in some cases this index exceeded 20%, the difference is more obvious. These figures make it impossible to speak about the high efficiency of anti-crisis measures.

Another criterion for assessing the effectiveness of anti-crisis measures is the involvement of the circle of beneficiaries of anti-crisis measures. In this regard, it should be noted that many areas affected by the pandemic, economically affected organizations and many low-income families were left out of the scope of these programs. The restricted economic sectors covered
a much larger numbers of potential beneficiaries than those of the Government-approved economic response measures to the pandemic. It is true that this framework had been regularly reviewed by the Government, but nevertheless a certain circle of businesses and citizens were left out of the support programs. In particular, the families supported by family members working abroad did not benefit from any support measures while such families are especially numerous in many regional settlements of Armenia.

The above-mentioned problems are a consequence of the fact that from the very beginning, prior to the adoption of the anti-crisis measures by the Government, the spheres which have undergone crisis impact were not thoroughly and comprehensively analyzed. Neither has the circle of all vulnerable groups of businesses and population in terms of the impacts of the crisis been identified.

And finally, the third criterion by which the effectiveness of the Government's anti-crisis measures can be assessed is the efficiency and ease of the latter. In this regard, there have been a number of problems. First of all, it should be noted that since March 16, 2020, the economy has been in a forced lockdown, the population was self-isolated, but the main measures of anti-crisis support were adopted only in April. As for the accessibility of these measures, rather complex procedures established by the Government should be mentioned. On the other hand, the shortcomings of the online support platform for the implementation of the programs, have significantly reduced the effectiveness of the anti-crisis measures. In particular, the scope of activities of the online support platforms was quite complex, to use them required to download large amounts of data, the requirements of which in some cases were quite incomprehensible to the beneficiaries. Moreover, serious technical problems emerged due to the significant workload of the latter, which often created a number of difficulties for the beneficiaries. Therefore, it was necessary to simplify the online application procedures as much as possible and to provide the population with a more user-friendly platform with technical assistance.

Given the above mentioned, the level of effectiveness of anti-crisis measures in Armenia are questionable, despite the fact that they contributed to averting the deep economic recession and avoiding grave social challenges that might have emerged.

4. Conclusion

The main feature of the crisis caused by the Pandemic is the emergence of a dual shock, both in terms of supply and demand. This is truly unprecedented for the global economy, resulting in an unusual amount of economic turmoil and unpredictability of future developments. Naturally, the levels of economic decline varied from country to country, depending on the nature of the economy, the impact factors and level of the pandemic, the nature of the restrictions applied, the scope of support measures and targets.

As for Armenia, the effectiveness of the anti-crisis economic and social measures implemented by the Government to overcome the socio-economic impacts of the pandemic, which was assessed through the following three criteria: financial allocations volume and GDP ratio, stakeholders circle, efficiency and ease of organization of Assistance is rather low, despite the fact that they contributed to averting the deep economic recession and avoiding grave social challenges that might have emerged.

Thus, in order to face more serious challenges in the future, it is necessary to reconsider the scope of anti-crisis measures, allocations and the scope of their beneficiaries. One of the most
effective ways to overcome such economic crisis could be the provision of sufficient liquidity into the economy, which could help avoid a sharp decline in both aggregate supply and aggregate demand, otherwise the economy would inevitably enter a long-term downturn. As we can see, the volume of these injections in Armenia was far from sufficient, as a result of which the largest decline amounting to -7.6% in the region was registered in Armenia.

Based on the above-mentioned, it is quite obvious that in order to overcome the effects of the Covid-19 economic crisis and increase the effectiveness of anti-crisis measures, it is necessary to clearly define the specific goals of these measures, as well as develop clear criteria for choosing the main directions of anti-crisis measures. In our view, the following can be the main directions:

- Stimulation of the real sector of the economy,
- Support for job maintenance,
- Promotion of general demand,
- Financial support to companies affected by the crisis,
- Ensuring access to credit resources,
- Improvement and expansion of the state guarantee system,
- Protection of the internal market and national producers,
- Increasing the level of social protection of the population,
- Development of scientific and technical potential and the human capital.

References


