

Post-pandemic economic recovery: challenges and priorities

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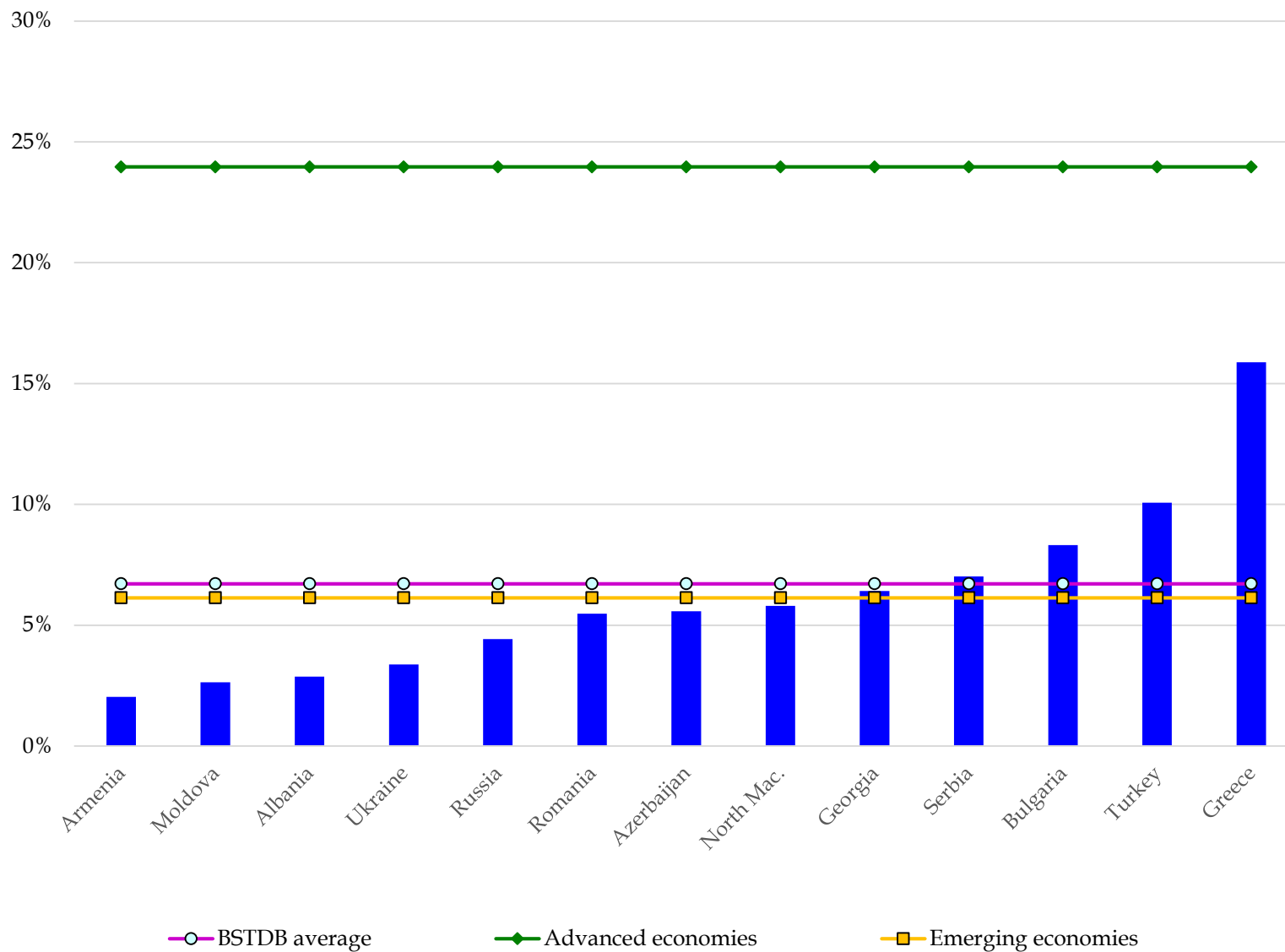
Assessment of the Impact of COVID-19

- The global economy is passing through a pandemic induced recession that led to a record contraction in the second quarter of 2020.
- Economic activity recovered slightly in Q3 of 2020, but a resurgence of the pandemic in the fall led to renewed imposition of restrictions in the fourth quarter of 2020 and first quarter of 2021.
- Going forward, recovery will depend on how long the pandemic related policies will last and what damage there will be for economic activity and public finances.
- The expectation is that as infection rates fall, there are good chances to see a recovery of economic and financial activity returning to normal within the following 12 months.
- If the pandemic lasts longer and/or fiscal and monetary stimulus is withdrawn, or can no longer be sustained, there is likelihood of a negative demand shock which increases uncertainty, destroys production capacity, lowers prices, reduces private consumption and investment, and increases unemployment, with recovery slower and protracted.

Economic Impact of Covid on BSTDB Member States

- All but one of the countries in the Black Sea region experienced contractions in 2020, the exception being Turkey which had marginally positive growth.
- The direct impact of Covid-19 on BSTDB Member Countries appears manageable, and developments up to now show that they have the capacity to absorb the shock.
- Member State governments were able to undertake mitigating measures that reached nearly 7% of GDP, a figure higher than the 6% of GDP average for Emerging Markets.
- Supportive policies included liquidity provision for banks, support measures for businesses, financial assistance to employees and pensioners, and additional public spending.
- As was expected, central banks used and will continue to use all instruments at their disposal to stimulate economies and protect the financial sector, while governments are and will surely run large deficits and experience growing debt levels - not only has spending surged in most countries, but revenue receipts have declined as well.

BSEC Government Pandemic Support Measures, % of GDP



Sources: IMF Fiscal Monitor & Database of Fiscal Policy Responses to Covid-19

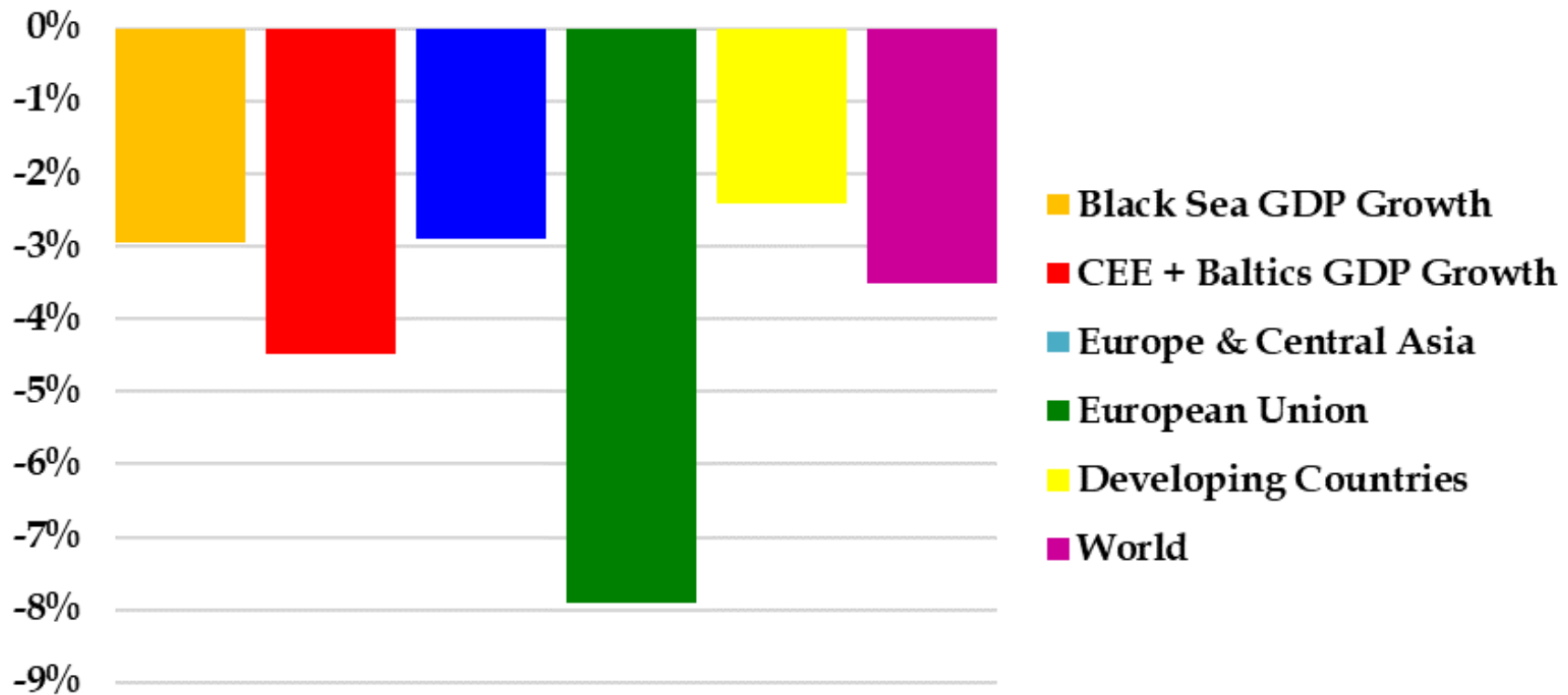
Macroeconomic Impact on Regional Economy

- The Regionwide average outturn for 2020 was a contraction in real GDP of -2.9%. In this respect, it has proven milder than the sharp decline observed in 2009 in the aftermath of the 2008 global financial crisis.
- The collapse in demand outweighed supply shortages and any related price rises. Commodity prices, particularly for oil and gas, fell significantly in the second quarter and recovered only partially in the second half of the year. As a result, inflation rates fell in most BSTDB Member Countries, and overall, the average annual rate of inflation fell to under 5%.
- The current account balance for the Region fell to -1.0% of Regional GDP, a very small 'worsening' driven mainly by the weaker performance of commodity exporters (especially energy and steel) and countries that have large service sectors in areas such as tourism, shipping, and logistics.
- The change in fiscal balances and the rise in public debt figures were much sharper:
 - ❖ budget deficits averaged -5.3% of GDP, and
 - ❖ public debt levels jumped 7.4% from 34.3% of GDP to 41.7%.

BSTDB – Key Economic Indicators for 2020

| | Real GDP Growth | Inflation | Cur Acct Bal / GDP | Budget/ GDP | Public Debt/ GDP | FDI/ GDP |
|------------|-----------------|-----------|--------------------|-------------|------------------|----------|
| Albania | -6.5% | 1.6% | -10.4% | -6.0% | 82.0% | 3.5% |
| Armenia | -7.8% | 1.2% | -6.2% | -5.4% | 66.3% | 1.6% |
| Azerbaijan | -4.3% | 2.8% | -1.0% | -2.4% | 47.8% | 3.5% |
| Bulgaria | -4.1% | 1.7% | 1.7% | -3.0% | 24.0% | 0.7% |
| Georgia | -4.9% | 5.2% | -8.9% | -7.8% | 56.3% | 5.0% |
| Greece | -9.9% | -1.2% | -6.6% | -9.3% | 208.1% | 2.0% |
| Moldova | -8.2% | 3.8% | -7.3% | -5.5% | 36.0% | 1.7% |
| Romania | -3.9% | 2.6% | -4.9% | -9.7% | 39.8% | 0.8% |
| Russia | -3.1% | 3.4% | 2.1% | -4.6% | 21.0% | 0.8% |
| Turkey | 0.4% | 12.3% | -5.4% | -3.7% | 34.5% | 0.9% |
| Ukraine | -4.8% | 2.7% | 4.4% | -7.5% | 65.4% | 0.1% |

Economic Impact of Pandemic on Regional Economy



Source: National Statistical Agencies, World Bank & IMF

Perspectives of Regional Economy

- Currently, the Bank expects real GDP growth in the Region on the order of +3.0%.
- The massive fiscal stimuli and quantitative easing programs succeeded in restoring confidence in markets and maintained demand at a reasonable level. It is hoped that these measures will continue to support activity and will provide support for the recovery in 2021 and accelerate gradually thereafter.
- The Black Sea Region also faces several challenges:
 - ❖ With deficits and debt levels having risen everywhere while wealth generation has declined, questions arise about how countries will work their way out of these imbalances and how they will unwind their borrowings.
 - ❖ Weak investment not only reduces present growth, it constrains longer terms potential output. Insufficient investment may result in capacity constraints, reduced productivity, over-reliance on antiquated or inefficient processes with potentially permanent unfavorable impact upon economic activity.
- Regional cooperation and policy coordination can help Member States to facilitate economic activity and to fulfil their potential by tackling common challenges involving common goods.

Changing Role of MDBs

- The onset of the Global Covid 19 pandemic in 2020 and the economic downturn it created has increased demand for development bank financing.
- MDBs responded to the crisis by rapidly increasing the mobilization and deployment of financial resources, providing targeted assistance to some of the neediest countries and sectors, and offsetting, to a degree, some of the worst effects of the sudden financial shortfall.
- Post-crisis, many governments need- or may chose- to reduce budget imbalances and debt levels, as recovery takes place. However, fiscal consolidation often comes at the expense of public investment.
- In this context, demand for the presence of MDBs, and their resource mobilization and risk mitigation products, appears to be playing an increasingly important role.
- Uncertainty is driving a fair portion of the demand for the presence of MDBs- namely, the provision of risk management and mitigation products that (i) facilitate non-governmental sources to undertake public investment, and (ii) bridge public sector mandates and private sector needs.

Impact of COVID-19 on BSTDB and Response Actions

- During this extraordinary period, the Bank is maintaining contacts with clients and primarily has focused on the outstanding portfolio, with regular reviews, and the performance of various stress tests.
- BSTDB is committed to make a ‘best effort’ to continue supporting its clients and Member Countries. The Bank has been in regular consultations with its clients to determine priorities and find best ways in which it may provide the support that our Member Countries and businesses need.
- The Bank concentrated efforts on assisting private firms including SMEs, the most vulnerable segment of companies, and to provide various products in support of trade activities.
- In addition, the Bank continues to consider the provision of assistance, to the extent feasible, to municipalities, utilities, manufacturing, medical facilities and pharmaceutical companies being on the front line of the fight against Covid-19.
- For the future, BSEC Region investment needs in energy efficiency and renewable energy will increase in the coming decade, suggesting that MDBs will necessarily be protagonists in mobilizing resources for climate related investments.